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## Goodbye low inflation, welcome stagflation



Sources: CLAE

Worldwide there is talk of a return to the 70s with high levels of inflation, associated with the two oil shocks, simultaneously with a severe recession in 1974 and 1975, closely related to the high increases in interest rates that led to a global recession in 1982 and the debt crisis of emerging economies.

However, for the World Bank the current crisis, although it has some similarities with the stagflation of the seventies, is very different because "the improvement of monetary policy frameworks in advanced economies and many emerging economies has strengthened the credibility of central banks and helped anchor long-term inflation expectations."

The reality shows that, this year, despite the consecutive interest rate hikes promoted by the central banks of the US and the United Kingdom in the advanced countries and in emerging economies such as Turkey, Brazil, Chile and Colombia, inflation remains persistent and high showing the limitations in the mere credibility of the monetary

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authorities, since, in the presence of supply shocks and structural problems, it is very difficult to anchor inflationary expectations.

Although the stock markets happily received the annualized inflation data of the US of 7.7% to October together with the GDP growth in the third quarter of 2.6%, the problem is that for the hawks of the Fed the objective is to return to the low inflation rates of the two decades of stability of this century, Around 2%, as if nothing had happened at the level of the fragmentation of globalization, the fuel and food crises, together with the effects of the pandemic and technology on working conditions and wages.

In the financial crisis of 2008 several economists proposed relaxing the target of the inflation rate of 2% and, it turns out that now, when talking about low inflation, the rates of Switzerland and Japan with rates of 3% as of October 2022 are mentioned. They are the lowest annualized rates of the OECD countries, which on average are already at 10.5%, when the double-digit rate was considered high inflation, as prevailed in Latin America in the eighties. And of yapa, there is the case of Turkey that registers an annualized rate to October of this year of 85.5%, similar to that of Argentina.

In this way, they will have to change the standard to characterize low inflation having to raise it around 3% and start using the concept of moderate inflation, extending it to less than 10% to be able to cover the annual rates of several OECD countries. And then, recently, you would have to consider double-digit or high-inflation inflation, where most euro area countries are located.

The problem is that recipes to lower inflation, such as raising interest rates or shrinking government spending, often lead to slowing growth or causing a recession. Thus, the recession has already appeared hand in hand with high inflation since for the IMF, Russia is already in recession this year, estimates that Chile will enter the region in 2023 and expects countries that represent more than a third of world product to contract during part of this year or next. The United Kingdom would enter recession in the fourth quarter of this year while the euro area would do so in the fourth quarter of 20 In this way, they will have to change the standard to characterize low inflation having to raise it around 3% and start using the concept of moderate inflation, extending it to less than 10% to be able to cover the annual rates of several OECD countries. And then, recently, you would have to consider double-digit or high-inflation inflation, where most eurozone countries are located. 22 and the first quarter of 2023 as foreseen by the European Commission.

In this way, *mutatis mutandis* with the eighties, we would have the return to the ghost of stagflation, since Russia registers an inflation rate in October of 12.6% and, in the region,

Chile is with a rate of 12.8%. In the advanced countries, at the end of the year the United Kingdom would enter into recession with a rate of 10.1% inflation while the euro area with 10.7% inflation.

It seems that central banks did not learn the lesson of the stagflation of the seventies and eighties and continue with the same recipe in order to return to the past of low inflation, although some banks will have to say: Goodbye low inflation and welcome stagflation!

Source: <https://estrategia.la/2022/11/16/goodbye-baja-inflacion-bienvenida-estanflacion/>

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