



OMFIF - University College London

Monetary Policy and the Return of Inflation. Questions, Charts, and Tentative Answers

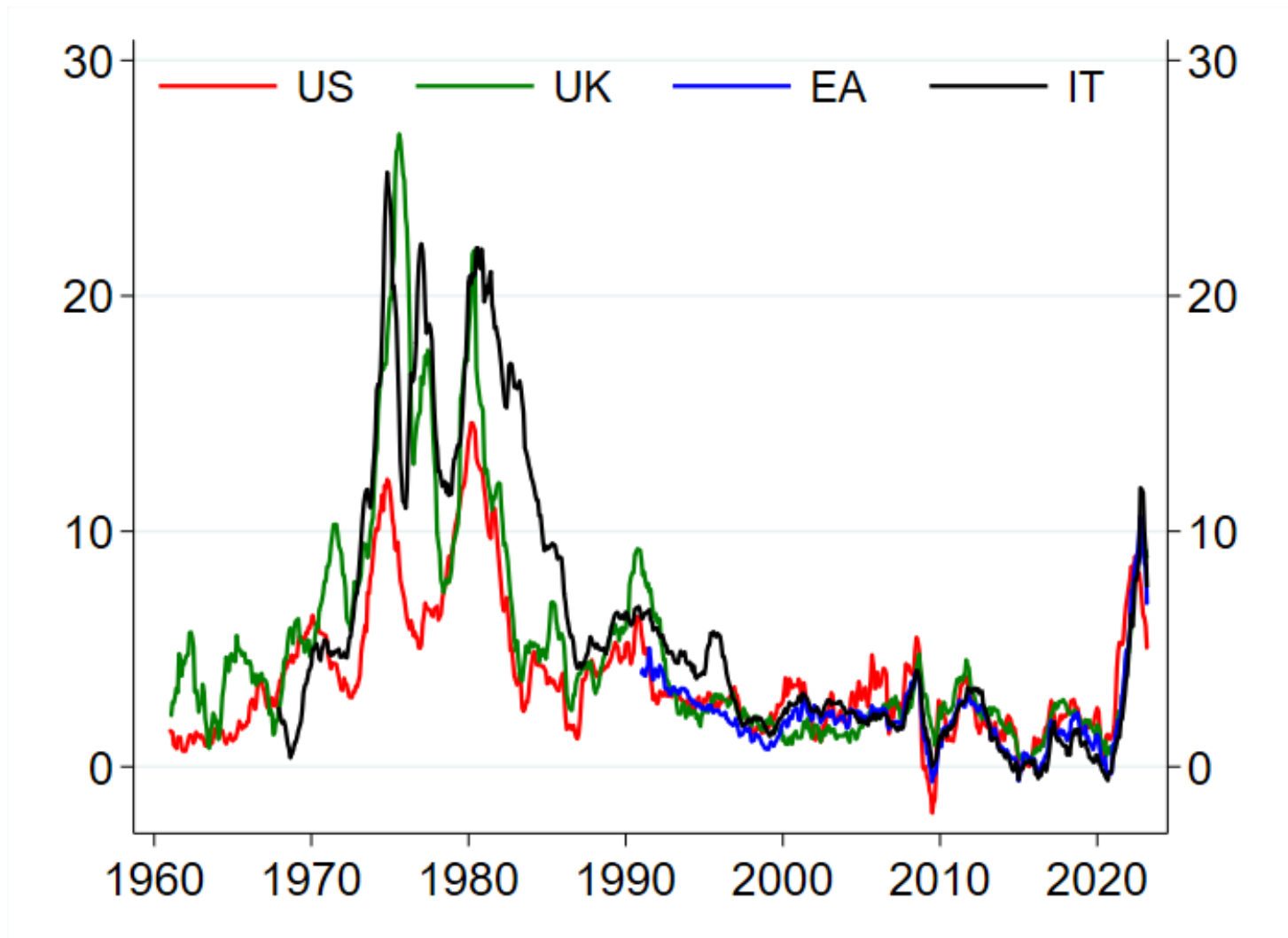
Ignazio Visco

Governor of the Bank of Italy

London, 20 March 2023

The return of inflation

(monthly data; annual percentage changes)



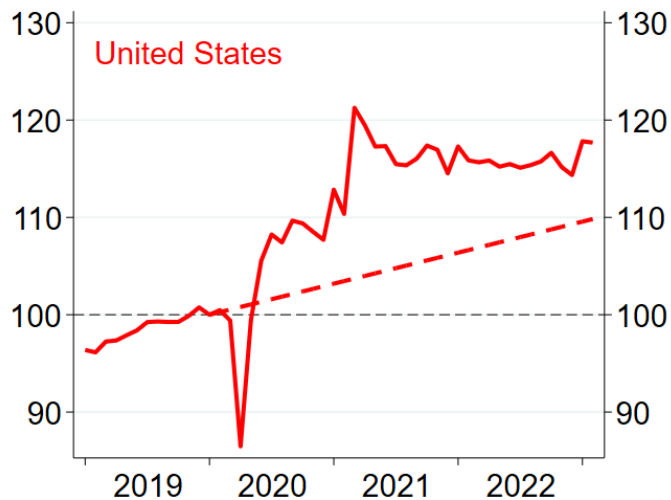
Inflation is back!

Different sources of inflation across the Atlantic

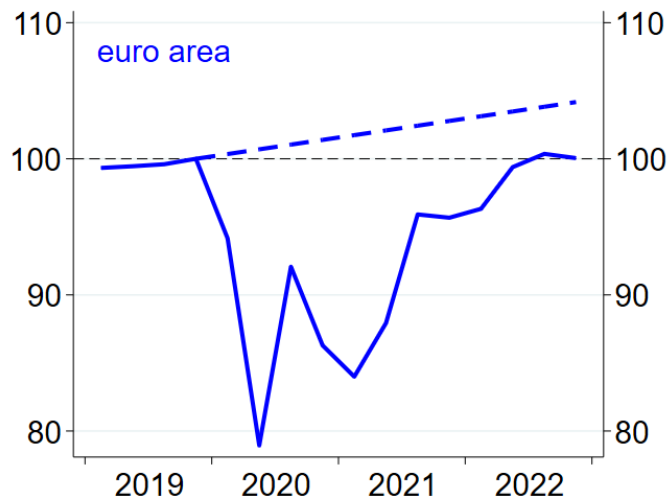
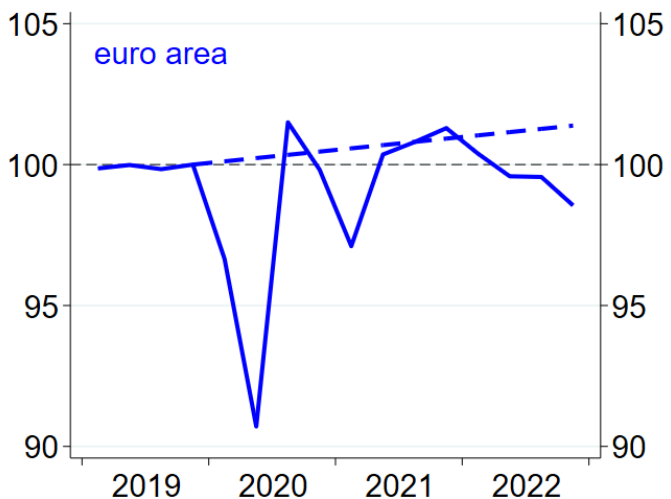
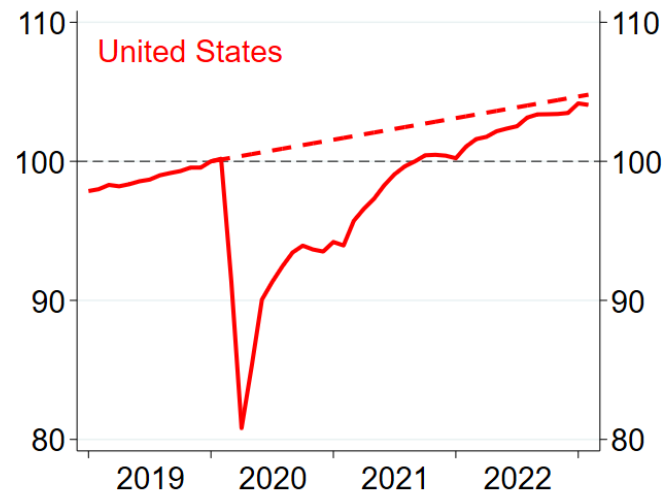
Demand in the goods and services sectors

(monthly and quarterly data; indices: Jan. 2020 / 2019 Q4 = 100)

Goods sector



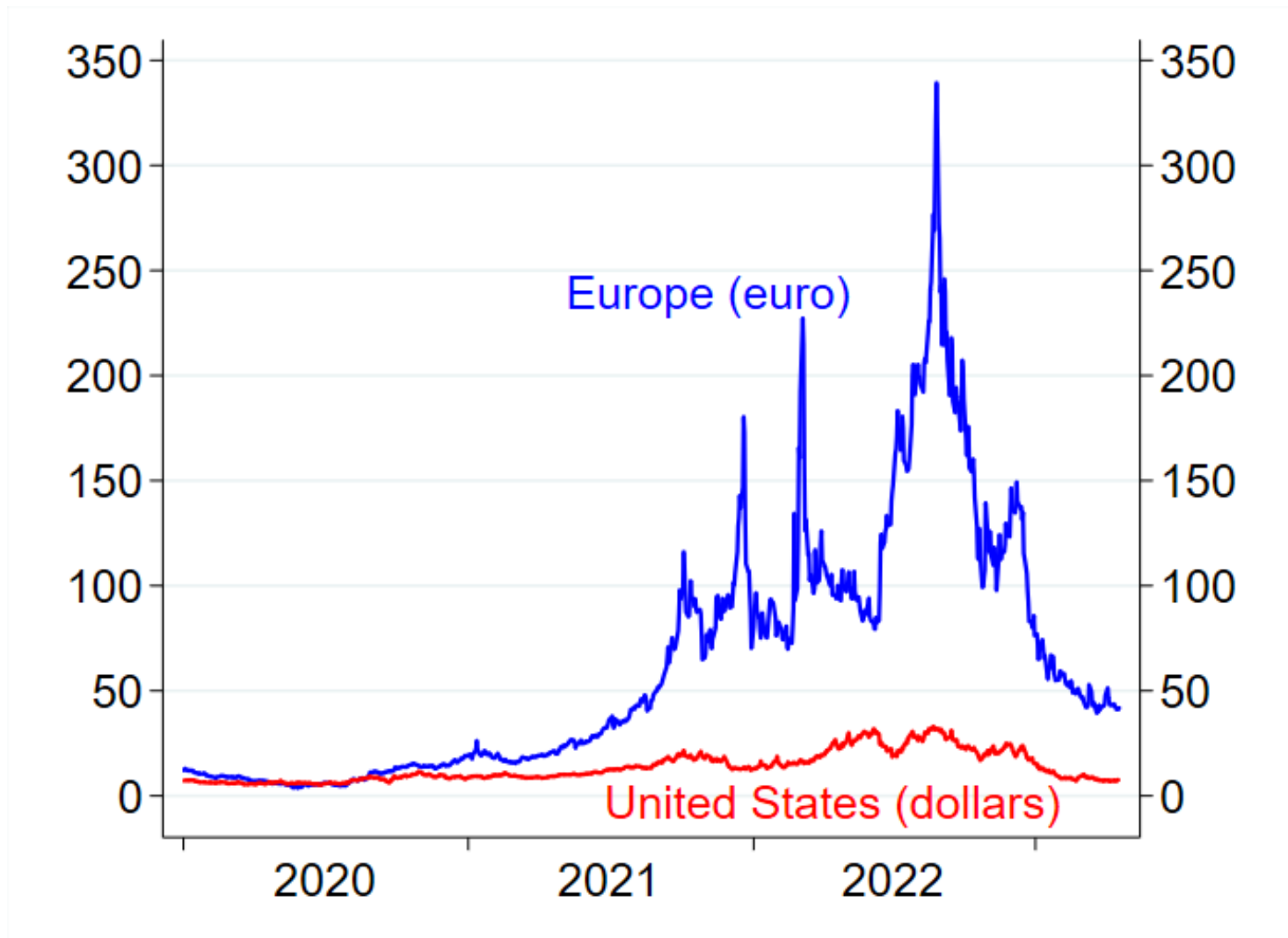
Services sector



US excess demand very high after the pandemic shock

Natural gas prices

(daily data)

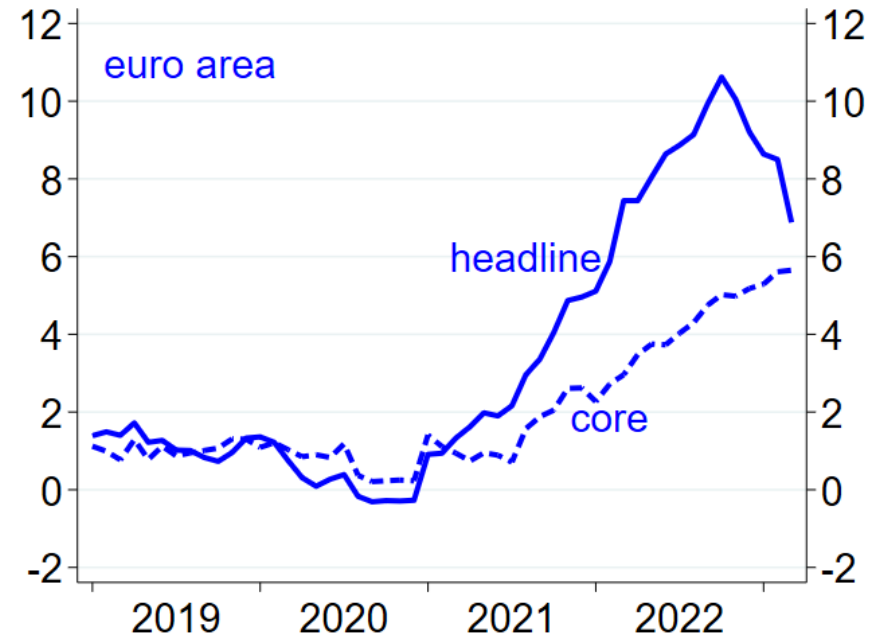
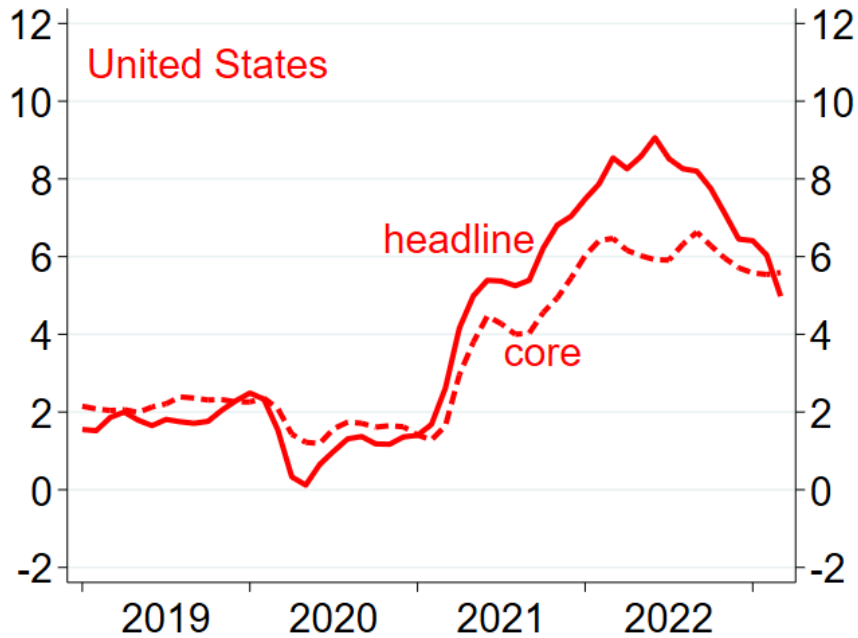


Gas prices skyrocketed in Europe

The current situation

Headline and core inflation

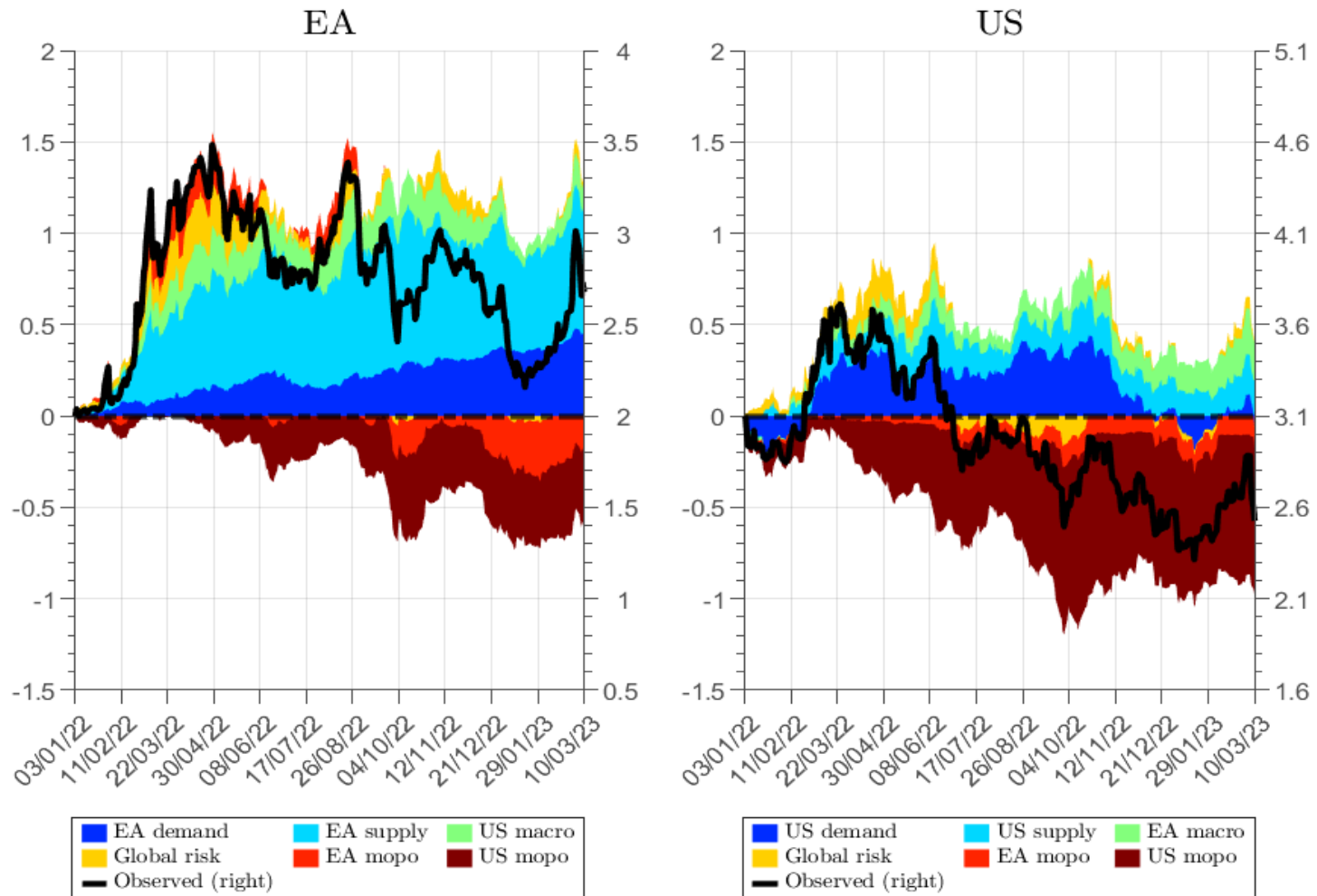
(monthly data; annual percentage changes)



Core inflation lion's share in the rise of US headline inflation; food and energy prices in the euro area

Drivers of changes in inflation expectations

(daily; percentage changes)

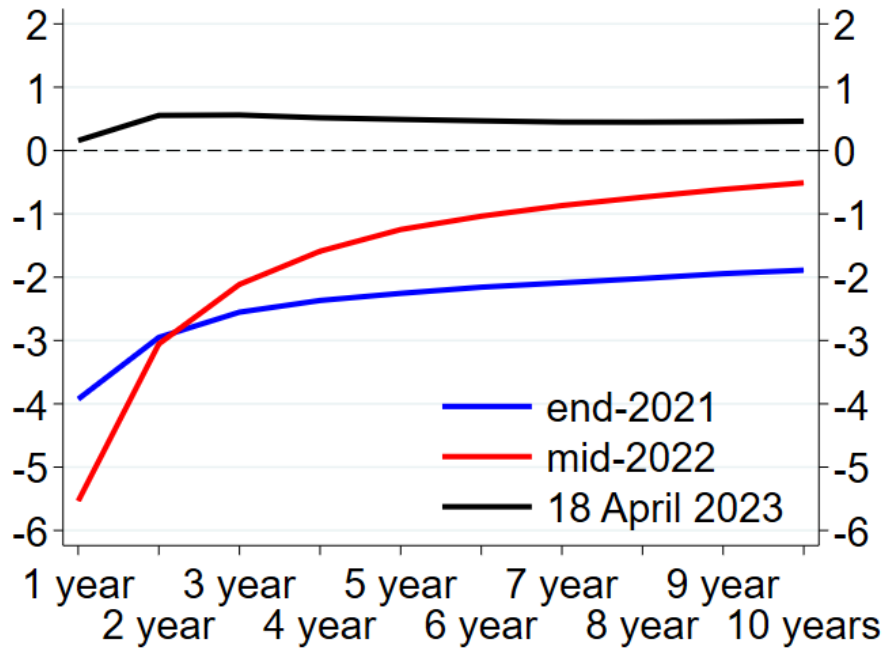


Higher euro-area medium-term inflation expectations mostly due to supply shocks; monetary policy kicking in

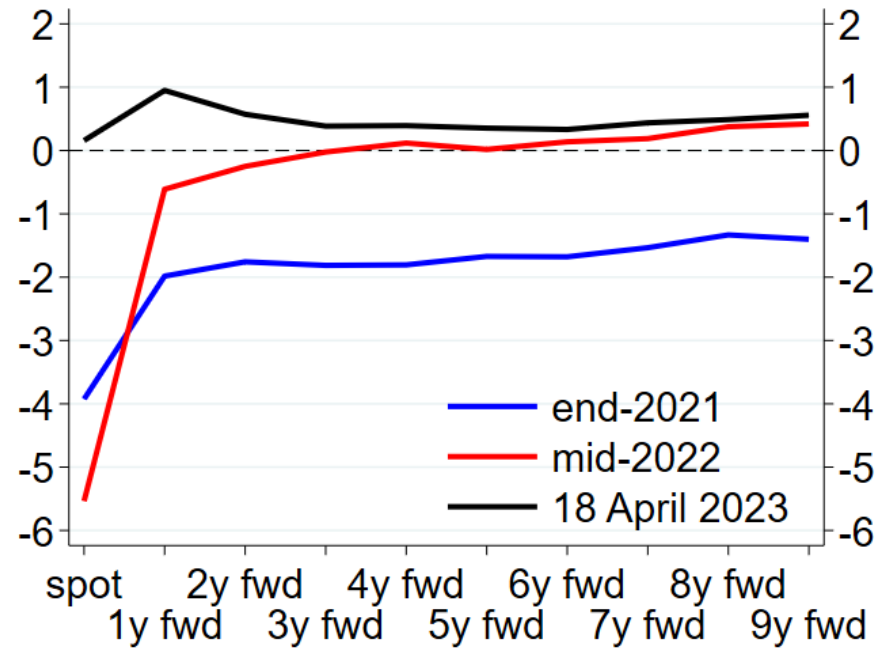
The effectiveness of the ECB monetary policy

Real interest rates in the euro area (per cent)

Term structure, spot rates



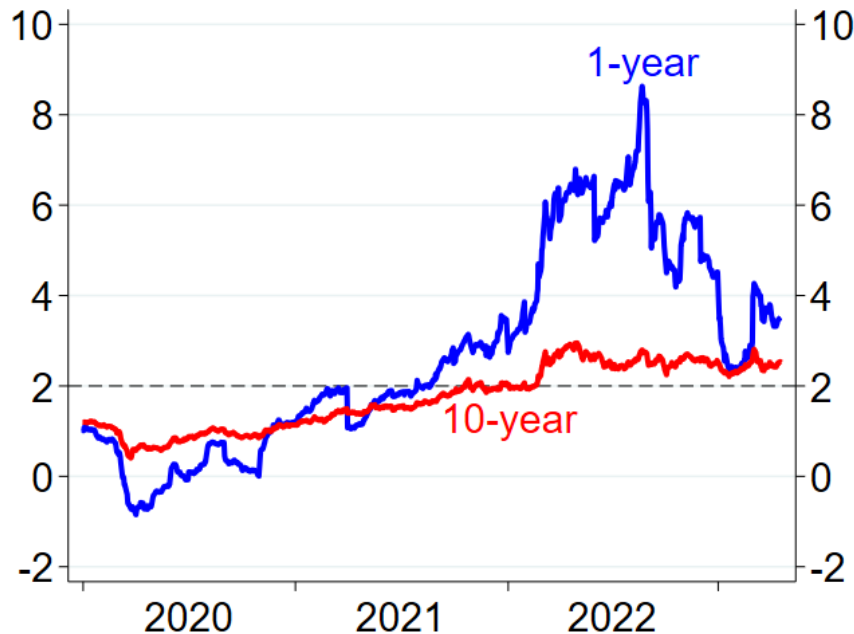
Term structure, 1-year forward rates



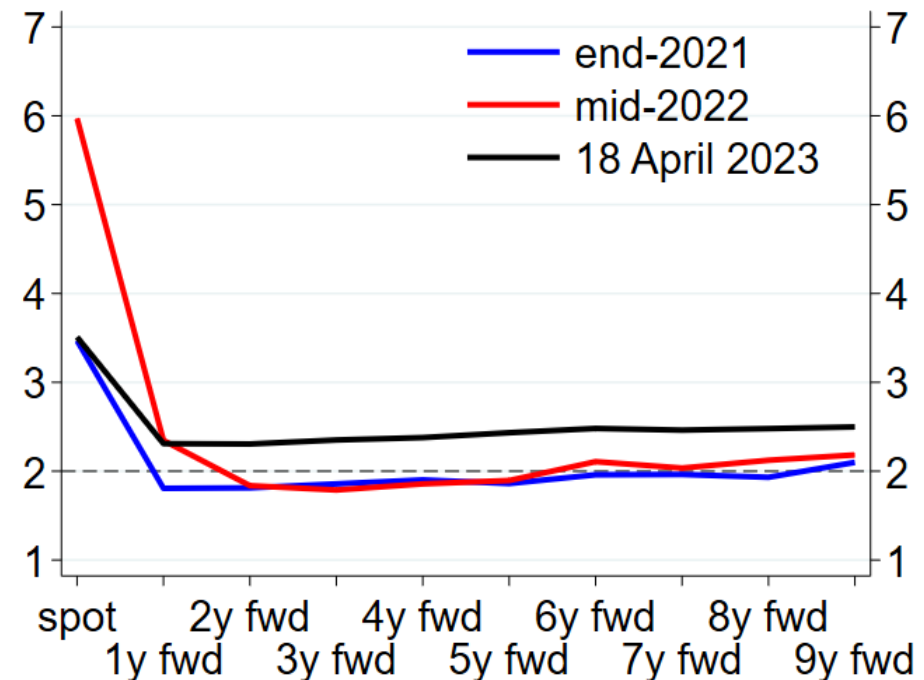
Real interest rates picking up

Market-based inflation expectations in the euro area (per cent)

Inflation-linked swaps, spot rates



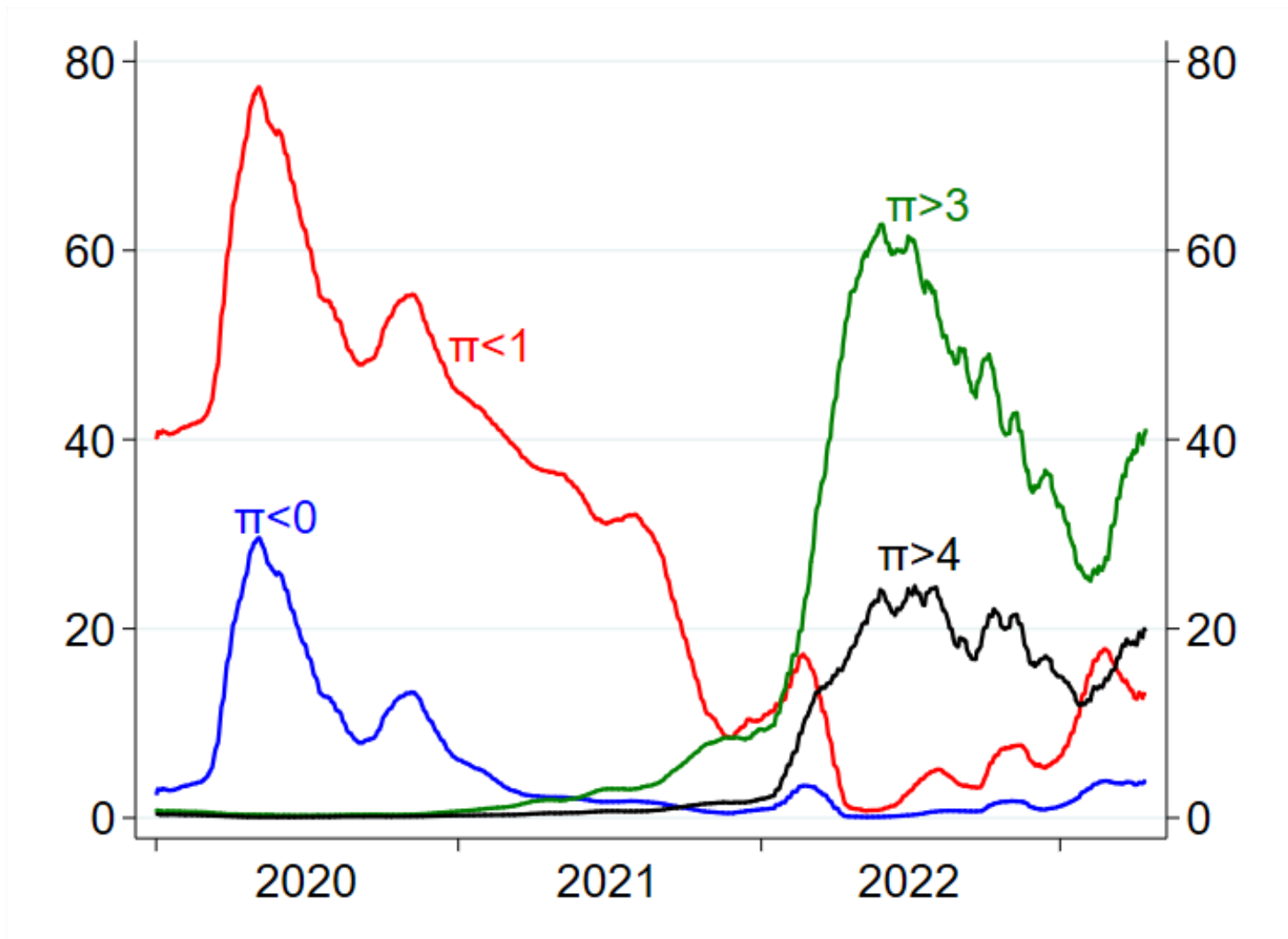
Inflation-linked swaps, 1-year forward rates



Short-term inflation expectations have fallen sharply;
longer-term anchored at price stability target

Inflation tail risks in the euro area

(daily data; per cent)

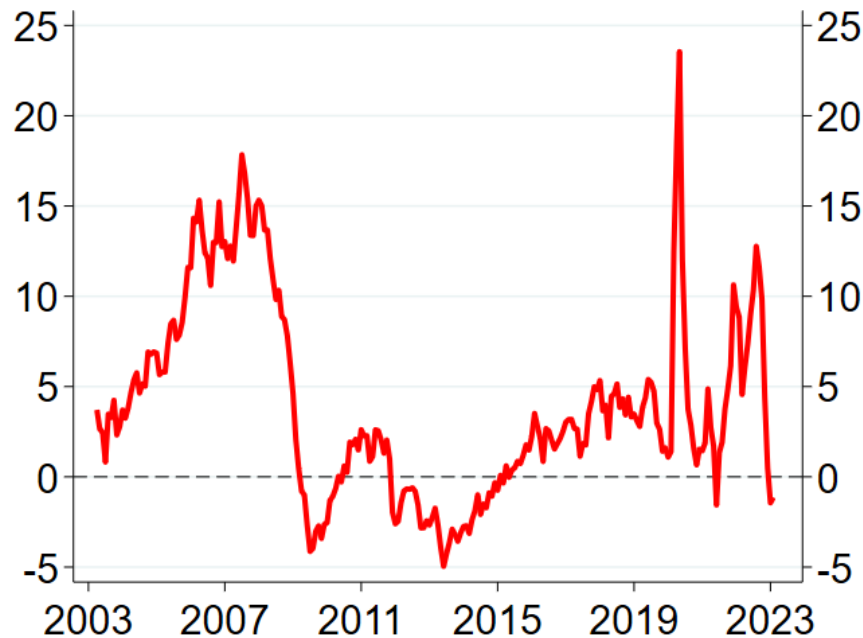


Some decline in the probability of high inflation (tail risk) over the next 5 years

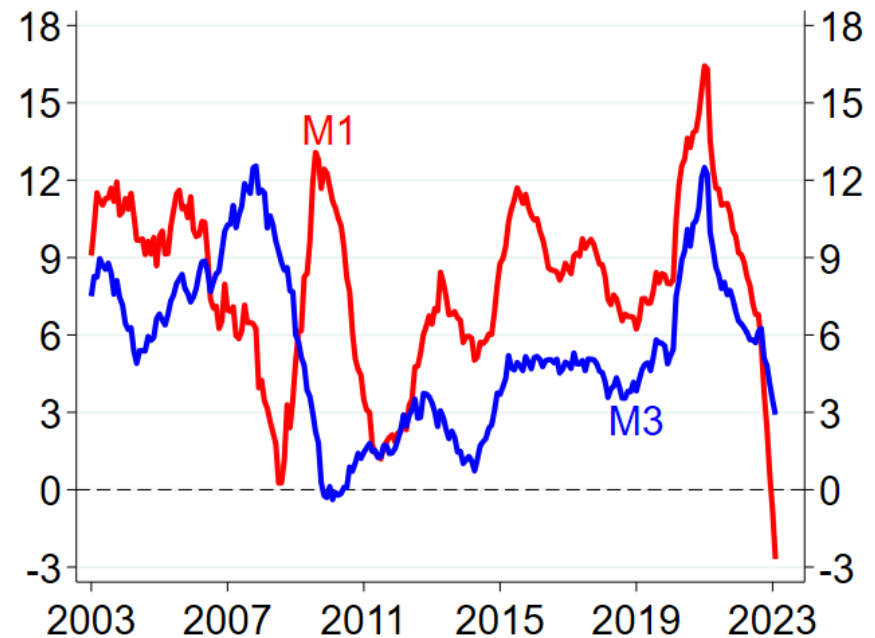
Credit and money growth in the euro area

(monthly data; 3-month and 12-month annualised percentage changes)

Credit to firms



M1 and M3

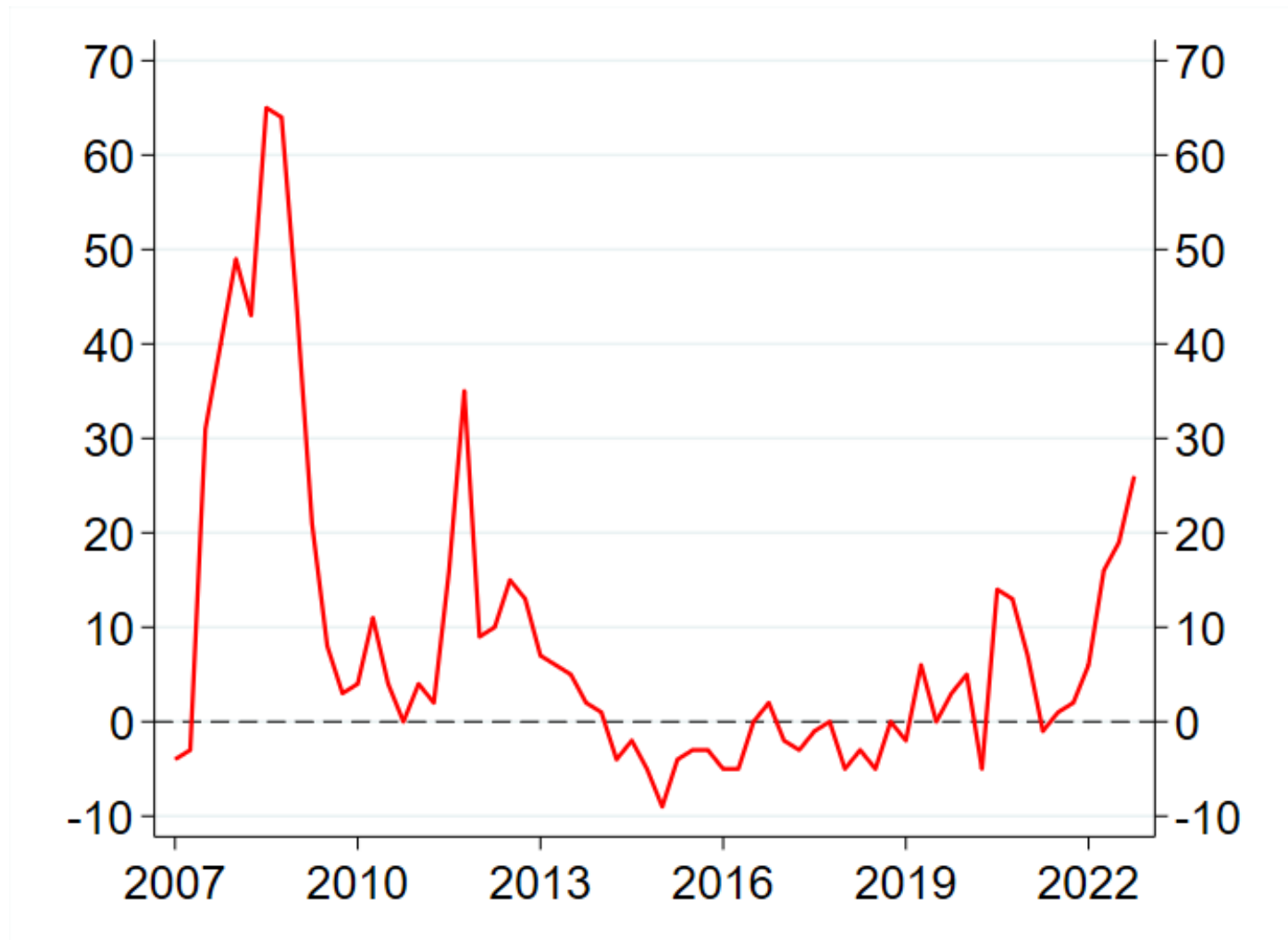


Credit and money dynamics have significantly weakened

Looking ahead: outlook and risks

Credit standards for loans to euro-area firms

(quarterly data; percentage balance)

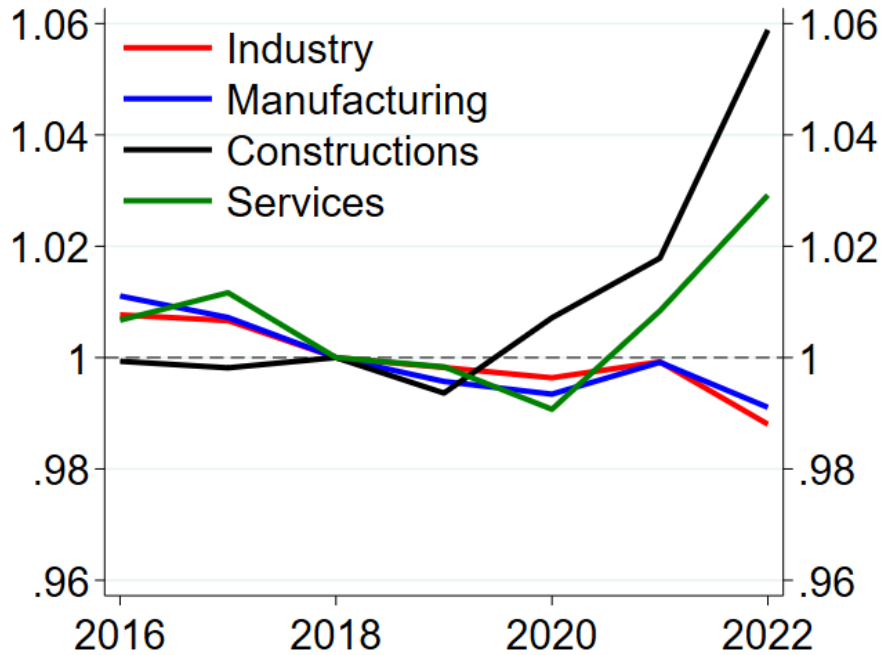


Significant tightening in credit supply conditions

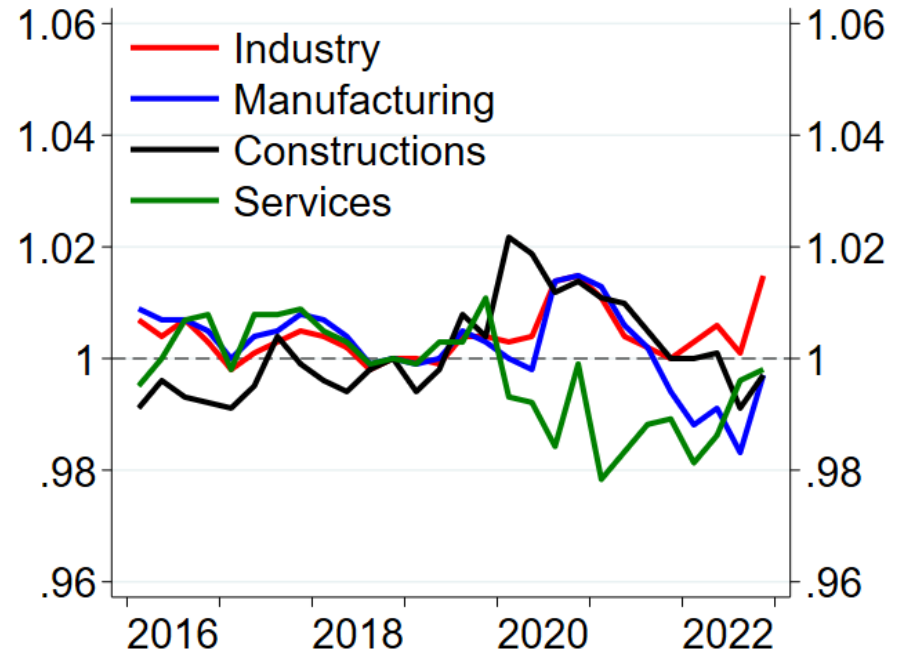
Estimates of mark-ups for Germany and Italy

(annual and quarterly data; 2018 and 2018Q4 = 100)

Germany



Italy



Past changes in profit margins. Risks of second-round effects?