



INFLATION COMMENTARY, AGAIN?

2022 ended with the West's two major central banks somewhat out of step again. The Fed is slowing the pace of rate increases. Meanwhile hawks at the ECB are signaling further steps towards severe tightening, even as inflation across Europe begins to cool.

Thinking ahead, on 28 November, one of Europe's most prominent economists, Olivier Blanchard, published a piece in the FT reviving his call from 2010 for the world's central bankers to revise their commitment to a 2 percent inflation target. Back in 2010 along with Giovanni Dell'Ariccia, Paolo Mauro, Blanchard called for a 4 percent target. In light of our recent experience, Blanchard has come to view 4 percent as too high. Empirical research seems to show that 4 percent is the level at which consumers begin to get jumpy about inflation. Inflation becomes salient and with that salience, the organizing sense of price stability is lost. But a 3 percent target still seems better to Blanchard than 2. More specifically, he warns that

When, in 2023 or 2024, inflation is back down to 3 per cent, there will be an intense debate about whether it is worth getting it down to 2 per cent if it comes at the cost of a further substantial slowdown in activity. I would be surprised if central banks officially moved the target, but they might decide to stay higher than it for some time and maybe, eventually, revise it. We shall see.

Source: Chartbook

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