Rate Cycles
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Discussion
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The **WWW** of the contribution

**WHAT?** Differences and similarities among monetary policy cycles across countries (24 OECD economies) and over time (from 1970 to 2024).

**WHY?** This time (2020-24) feels different.

**HOW?** (i) dynamic factor models on an international panel to identify GLOBAL regularities. (ii) factor-augmented structural vector auto regressions to interpret them.

**AND SO, WHAT?**
1. Over time, monetary policy cycles have become more synchronized across countries.
2. Expansion phase of the cycle tends to last longer than the tightening one.
3. 2020-24 rate cycle: (i) unprecedented in both tightening and holding synchronization, (ii) increased role for global supply shocks, but global demand shocks still dominant.

Assessment: WO0000000000WW
Plan of the discussion
How many elephants can fit in a room?

1. The Good, (aka wages)
2. the Bad… (aka services)
3. …and the Ugly (aka fiscal policy)

Self imposed constraint:
Only descriptive; same statistical tools and countries (roughly) as the authors
1. Global Wage Growth

- CPI (YoY growth)
- Labour compensation per hour worked (YoY growth)
2. Global Services Inflation

In previous cycles: CPI inflation and service inflation have been highly synchronized. 2020-24: service inflation peaked one year later, and showed more persistent than CPI?
3. Global Fiscal Sustainability

Global financial crisis slow-recovery versus Pandemic fast-recovery.
Is Government Spending Inflationary?

Size of the Government Spending shock: 1% of GDP over the first year after the shock. Sample: 1890 – 2015, United States. BVAR(60).

Back of the envelope: The 6.5% of GDP increase in EA public spending in 2020 contributed [2.4%, 4%] to EA inflation in 2022-23.

Btw, is government spending a demand or a supply shock?

Looks like a demand shock in the short-run (positive comovement between inflation & output) but like a supply shock in the long-run.

Concluding Remarks

• Two possible pitfalls in our current macroeconomic thinking: i) demand shocks vs supply shocks; ii) short-run vs long-run.

• Perhaps this thinking contributed to downplay the role of structural reallocation and fiscal sustainability in the recent inflation episode?

• Lack of available evidence did not help either…

• ...however, recent research suggests that the contribution of fiscal policy to the recent inflation scare might have been overlooked.