MESSAGE FROM THE WORLD'S TOP FINANCE CHIEFS

# Pain of inflation will likely reverberate around the globe

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**THE MESSAGE FROM** the world's top finance chiefs is loud and clear: rampant inflation is here to stay and taming it will take an extraordinary effort, most likely a recession with job losses and shockwaves through emerging markets.

That price is still worth paying, however. Central banks spent decades building their credibility on inflation fighting skills and losing this battle could shake the foundations of modern monetary policy.

"Regaining and preserving trust requires us to bring inflation back to target quickly," European Central Bank board member Isabel Schnabel said. "The longer inflation stays high, the greater the risk that the public will lose confidence in our determination and ability to preserve purchasing power."

Banks should also keep going even if growth suffers and people start to lose their jobs. "Even if we enter a recession, we have basically little choice but to continue our policy path," Schnabel said. "If there were a deanchoring of inflation expectations, the effect on the economy would be even worse."

Isabel Schnabel, European Central Bank board member

Inflation is near double-digit territory in many of the world's biggest economies, a level not seen in close to a half century. With the notable exception of the US, a peak is still months away. The complication is that central banks for the most part appear to have only limited control. For one, high energy prices, a function of Russia's war in Ukraine, is creating a supply shock on which monetary policy has little effect.

Copious spending by governments, also outside central bank control, exacerbates the problem. One study presented at Jackson Hole argues that half of US inflation is fiscally driven and the Fed will fail to control prices without government cooperation. Lastly, a new inflation regime may be setting in that will keep upward pressure on prices for an extended period. Deglobalisation, the realignment of alliances due to Russia's war, demographic changes and more expensive production in emerging markets could all make supply constraints more permanent.

"The global economy seems to be on the cusp of a historic change as many of the aggregate supply tailwinds that have kept a lid on inflation look set to turn into headwinds," Agustín Carstens, the head of the Bank of International Settlements, said. "If so, the recent pickup in inflationary pressures may prove to be more persistent," said Carstens, who heads a group often called the central bank of the world's central banks.

All this points to rapid interest rates hikes, led by the Fed with the ECB now trying to catch up, and elevated rates for years to come. The pain of high US rates will reverberate well beyond the nation's economy and hit emerging markets hard, especially if high rates prove as lasting as Powell now signals.

—REUTERS

## Wall Street extends losses on rate hike worries

**US STOCK INDEXES** fell on Monday on worries over the Federal Reserve's plan to keep raising interest rates in its fight against inflation even at the cost of an economic slowdown.

Fed chair Jerome Powell said on Friday the US economy would need tight monetary policy "for some time" before inflation is under control, knocking Wall Street's main indexes down more than 3%. Powell's blunt and hawkish remarks quashed hopes that the US central bank will resort to modest rate hikes after recent data suggested that price pressures were easing. Heavyweight technology and growth stocks such as Apple, Microsoft and Tesla were down between 0.6% and 1.3% in early trading, hit by rising US Treasury yields. The US two-year treasury yield, which is particularly sensitive to interest rate expectations, briefly scaled a 15-year high, while the closely watched yield curve measured by the gap between two and 10-year yields remained strongly inverted.

An inversion is seen by many as a reliable signal of an impending recession. The CBOE's volatility index, Wall Street's fear gauge, hit a seven-week high of 27.03 points. —REUTERS