

The resurgence of inflation: why was emerging Asia different?

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A few caveats

- Different compared to?
- Large variation within the group of Asia EMDE
- China and India dominate a weighted average
- China is unique, but it is part of the story
- Data coverage uneven
- We might not be done with this inflation episode

Pre-pandemic inflation

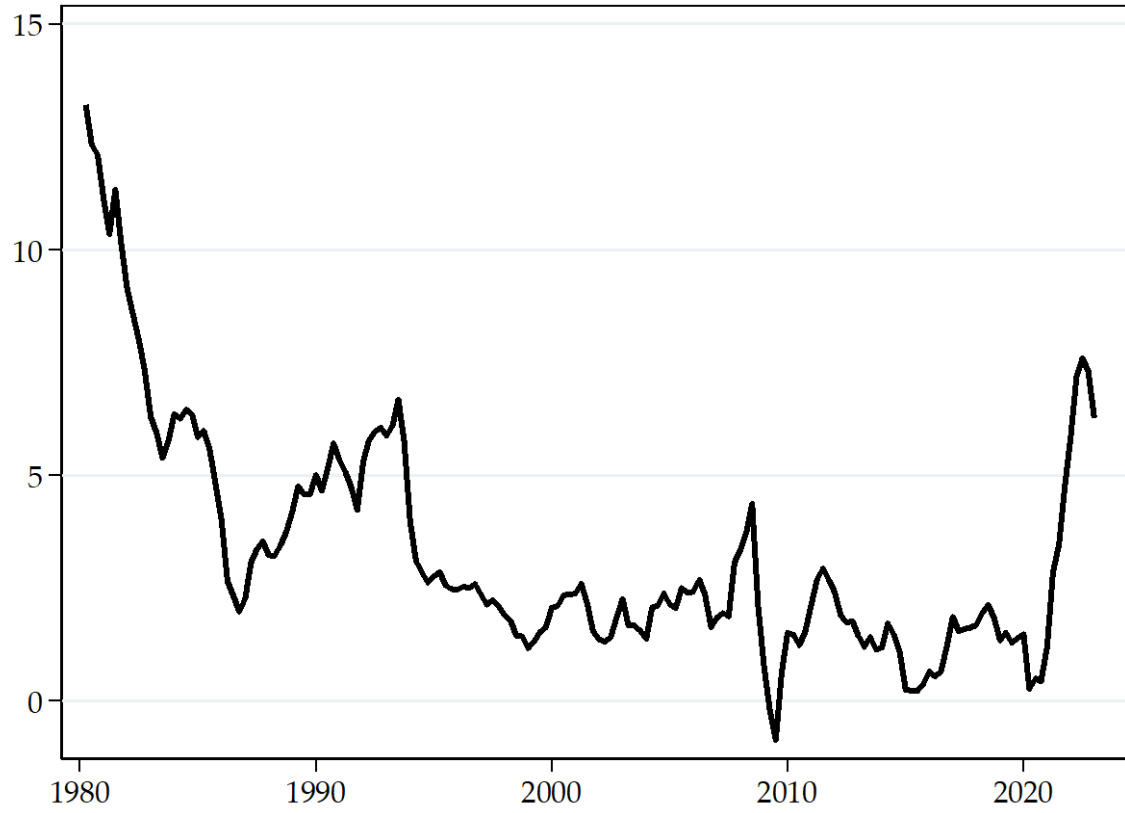
- Textbook: shocks, transmission, response and credibility of central bank
- Global factors dominate inflation (Ha, Kose, Ohnsorge, and Yilmazkuday (2023), Bajraj, Carlomagno, and Wlasiuk (2023))
- Phillips Curve “works” - for advanced and emerging (Ball and Mazumder (2019), Kamber, Mohanty, and Morley (2020))
- Inflation targeting reducing inflation and its persistence (Gerlach and Tillmann (2012))
- Below-target inflation in advanced economies post GFC
- Structural decline in inflation in Asia with “opportunistic disinflation” in 2014-19 (Garcia and Poon (2022))

The inflation pandemic shock

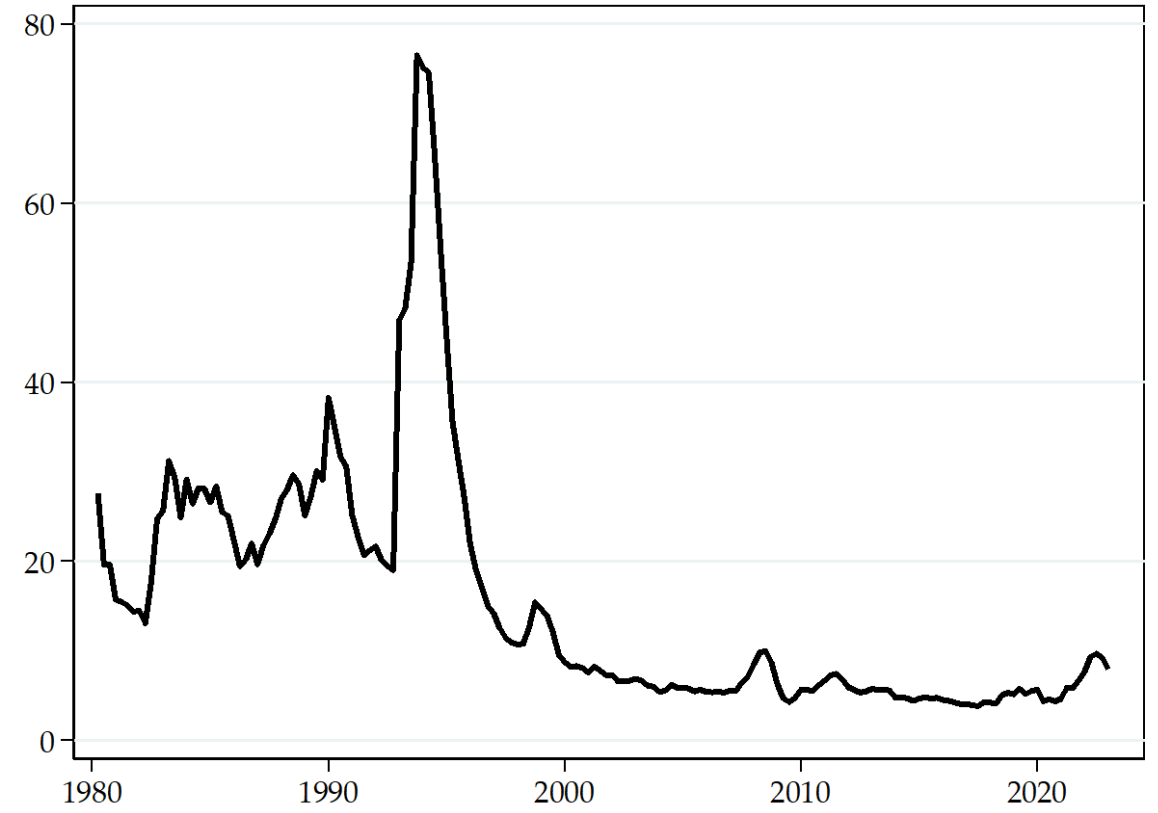
- Very large in advanced economies
- Large but not that unusual in EMDEs
- Asia EMDE by far the lowest inflation (and inflation increase) of all groups

The inflation pandemic shock

Headline Inflation. Advanced

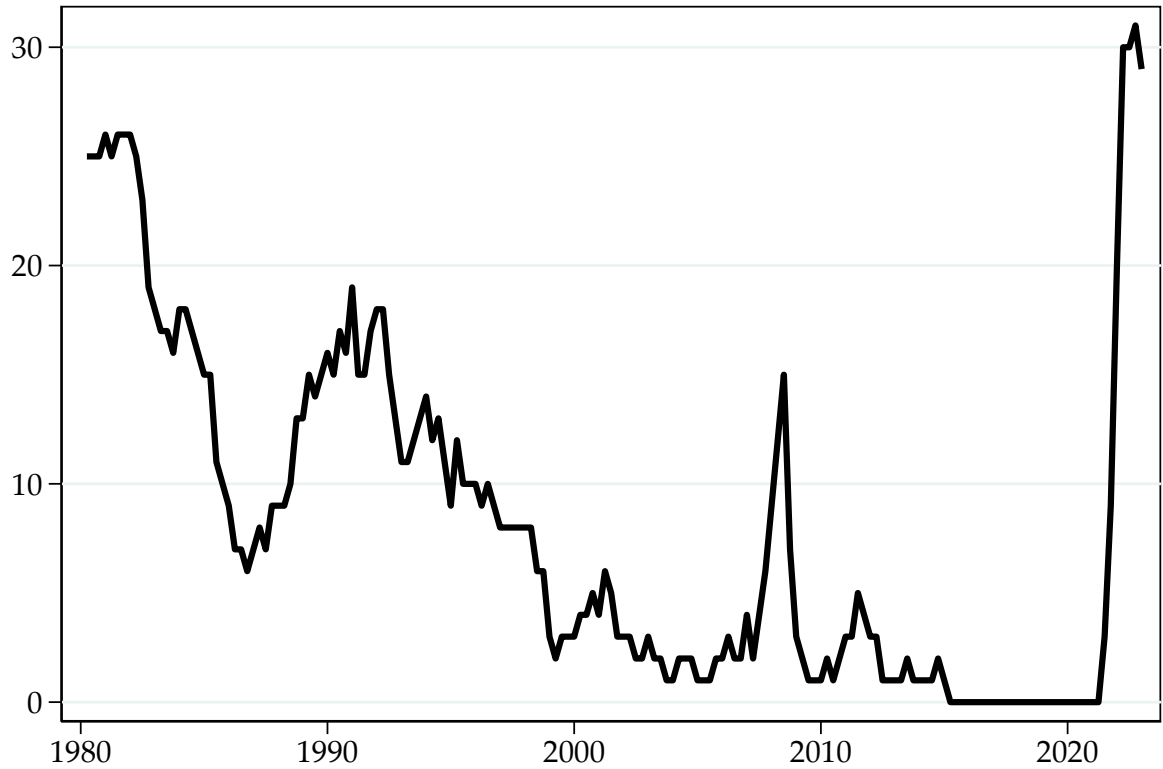


Headline Inflation. EMDEs

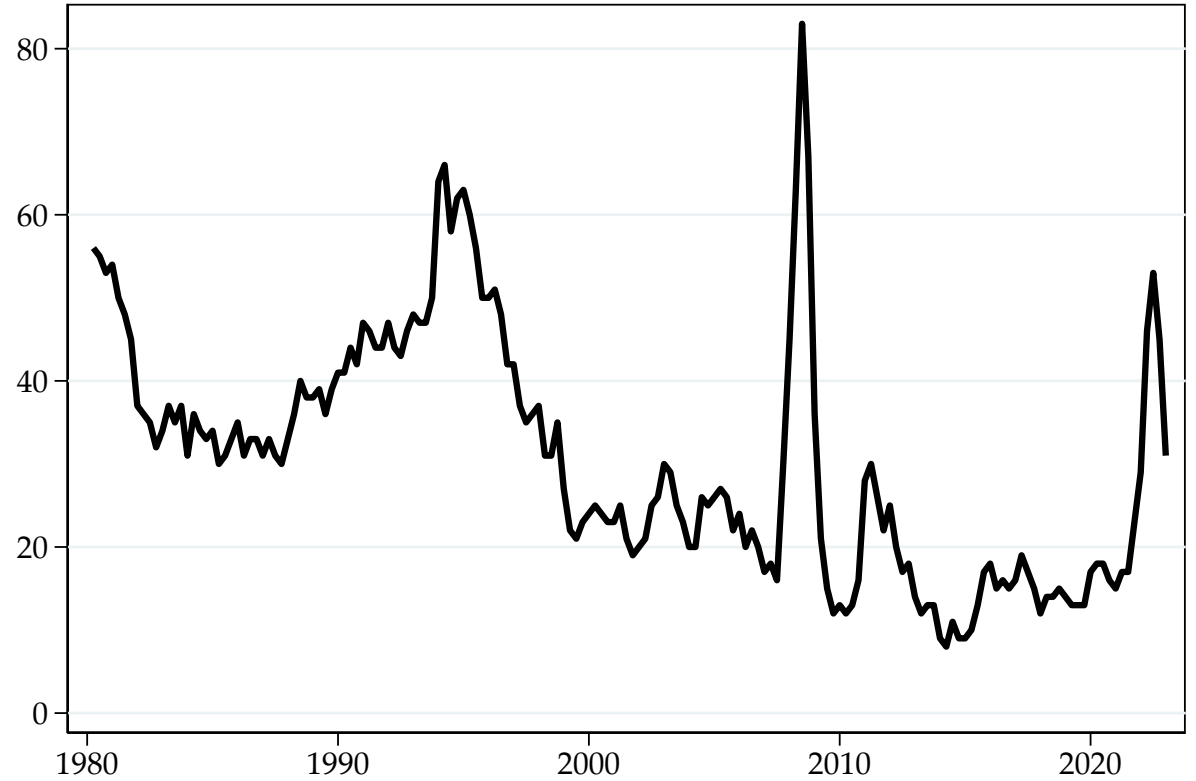


The inflation pandemic shock

Count of advanced economies with more than 5% inflation

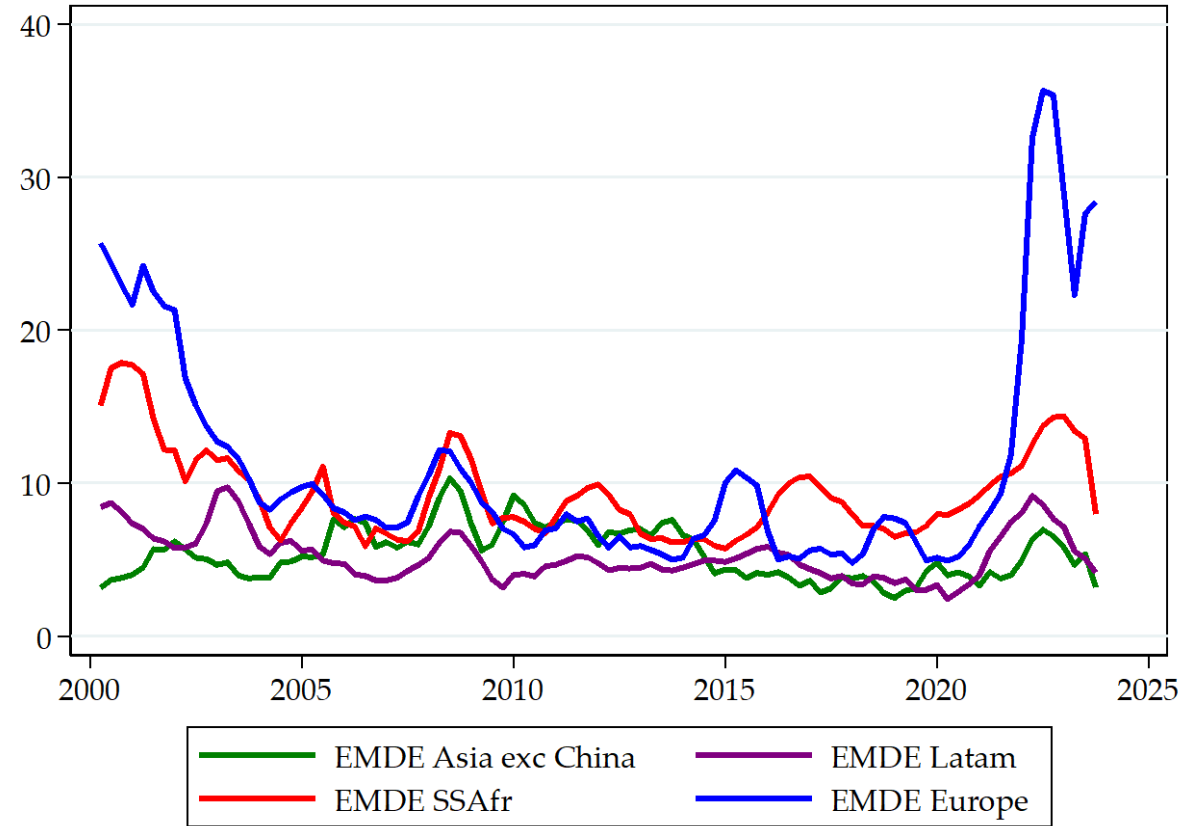
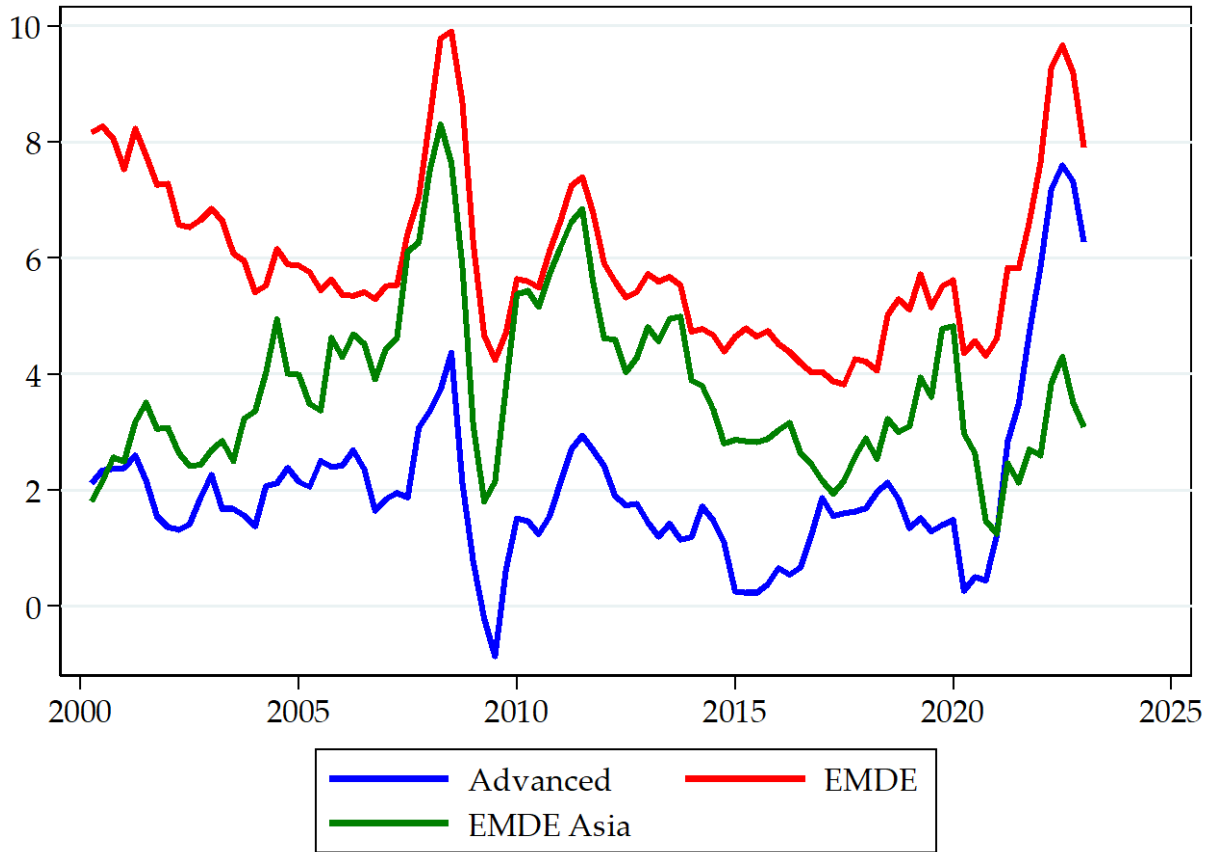


Count of emerging markets with more than 10% inflation



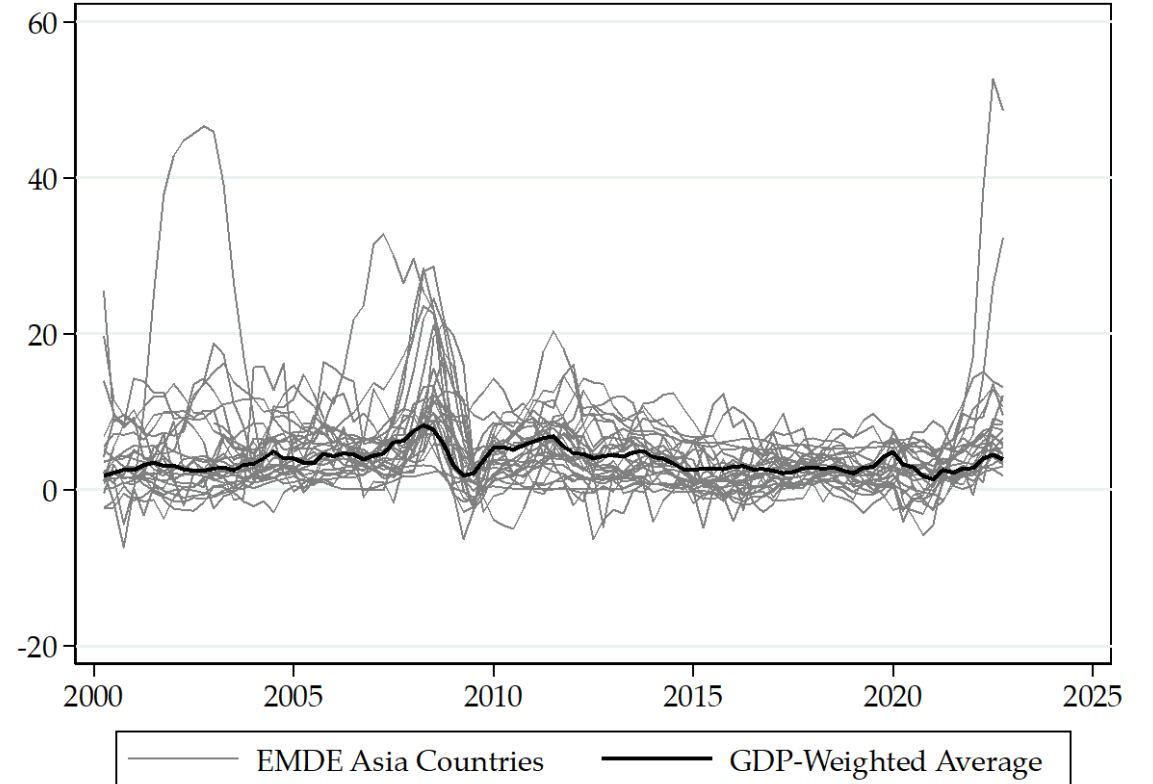
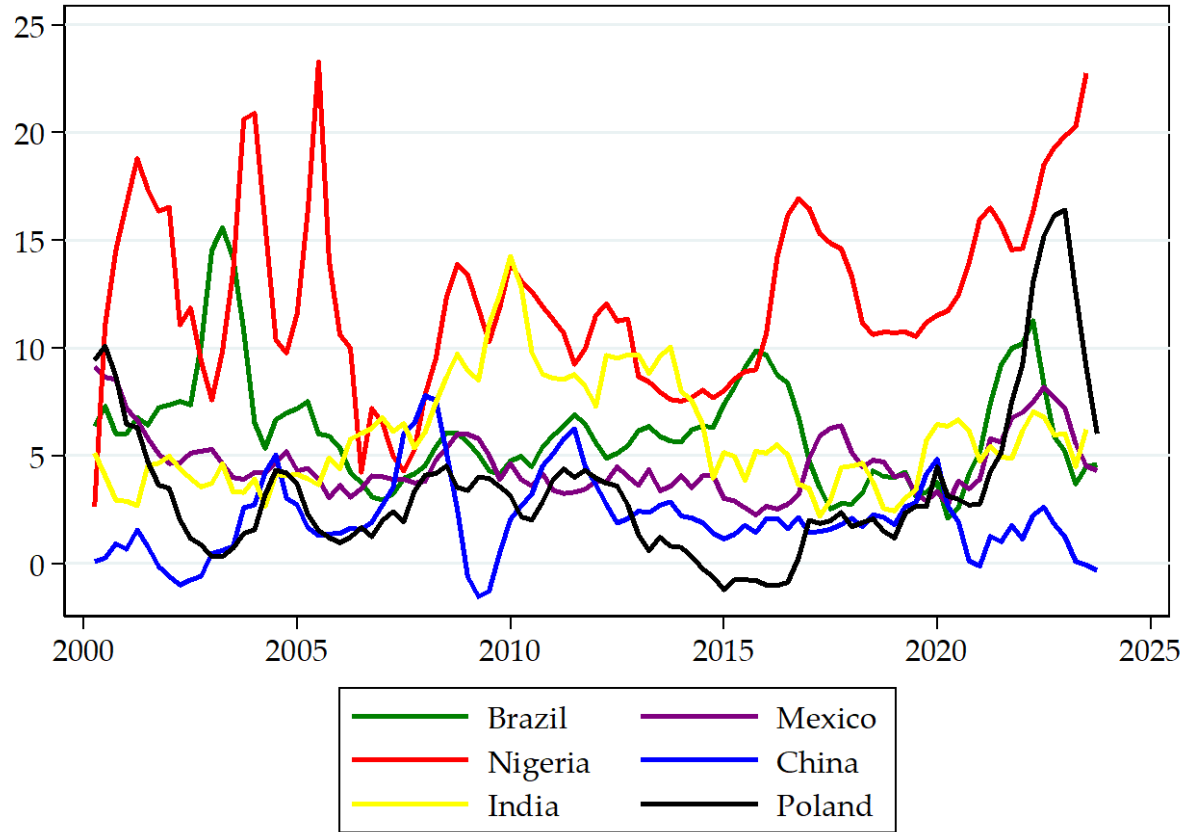
The inflation pandemic shock

Headline Inflation



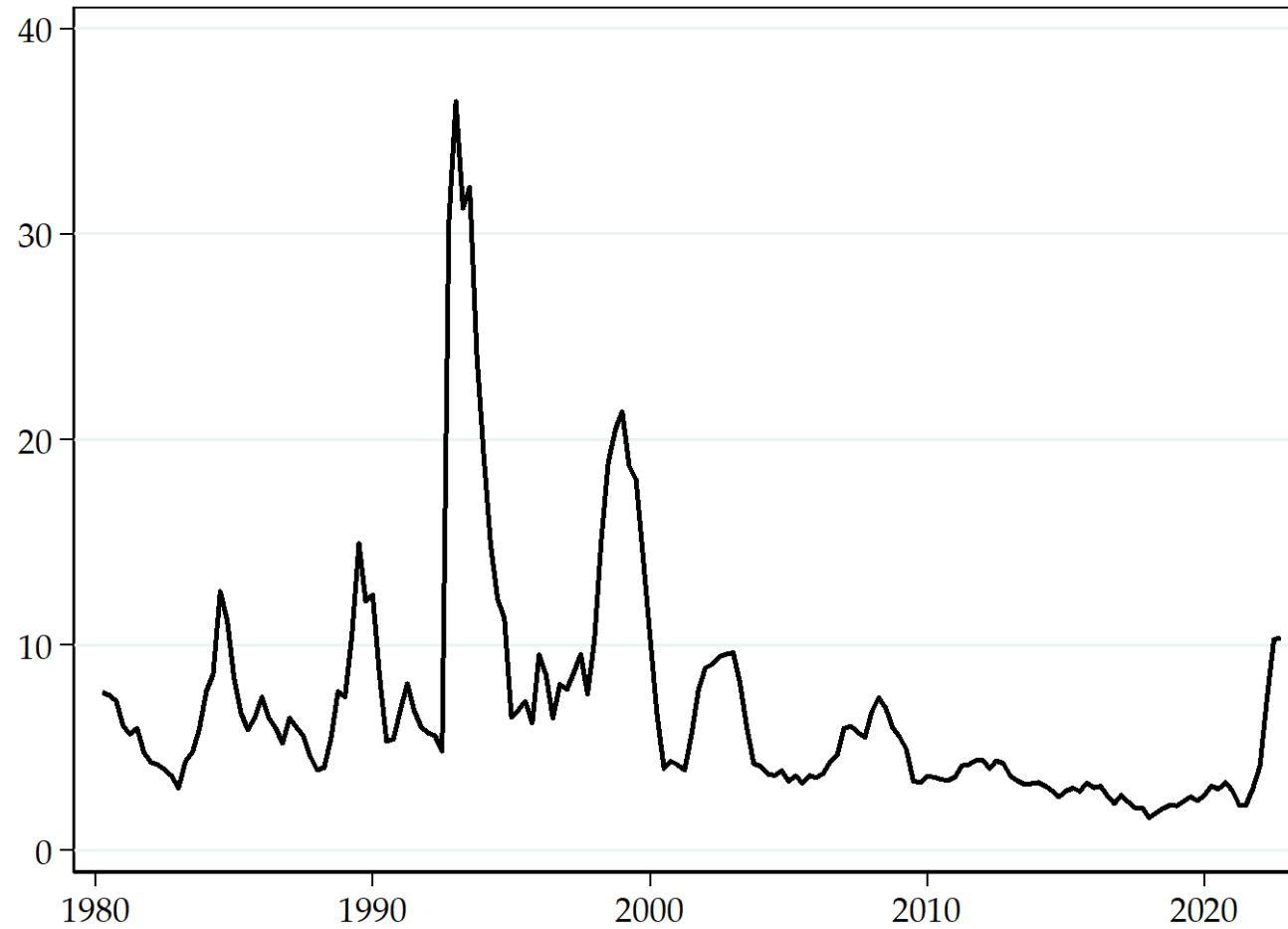
The inflation pandemic shock

Headline Inflation



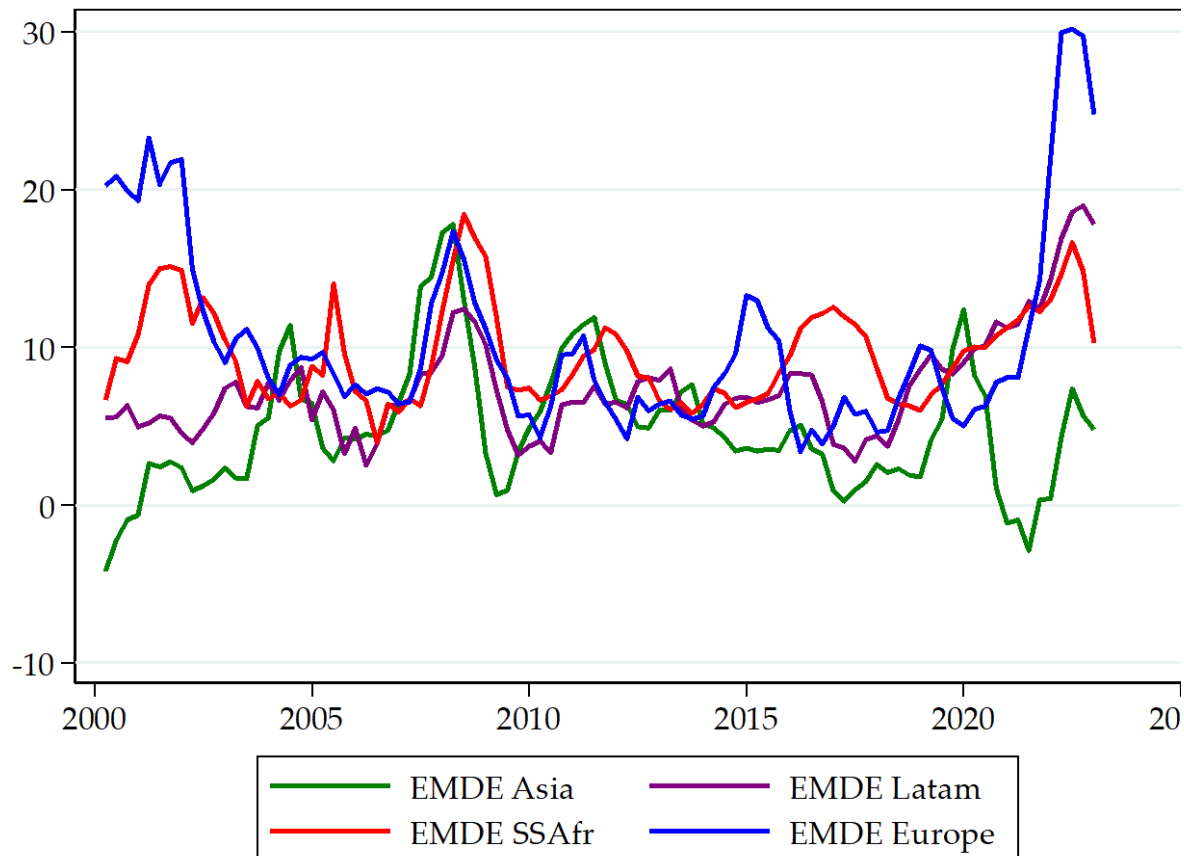
The inflation pandemic shock

Dispersion headline inflation. EMDE Asia

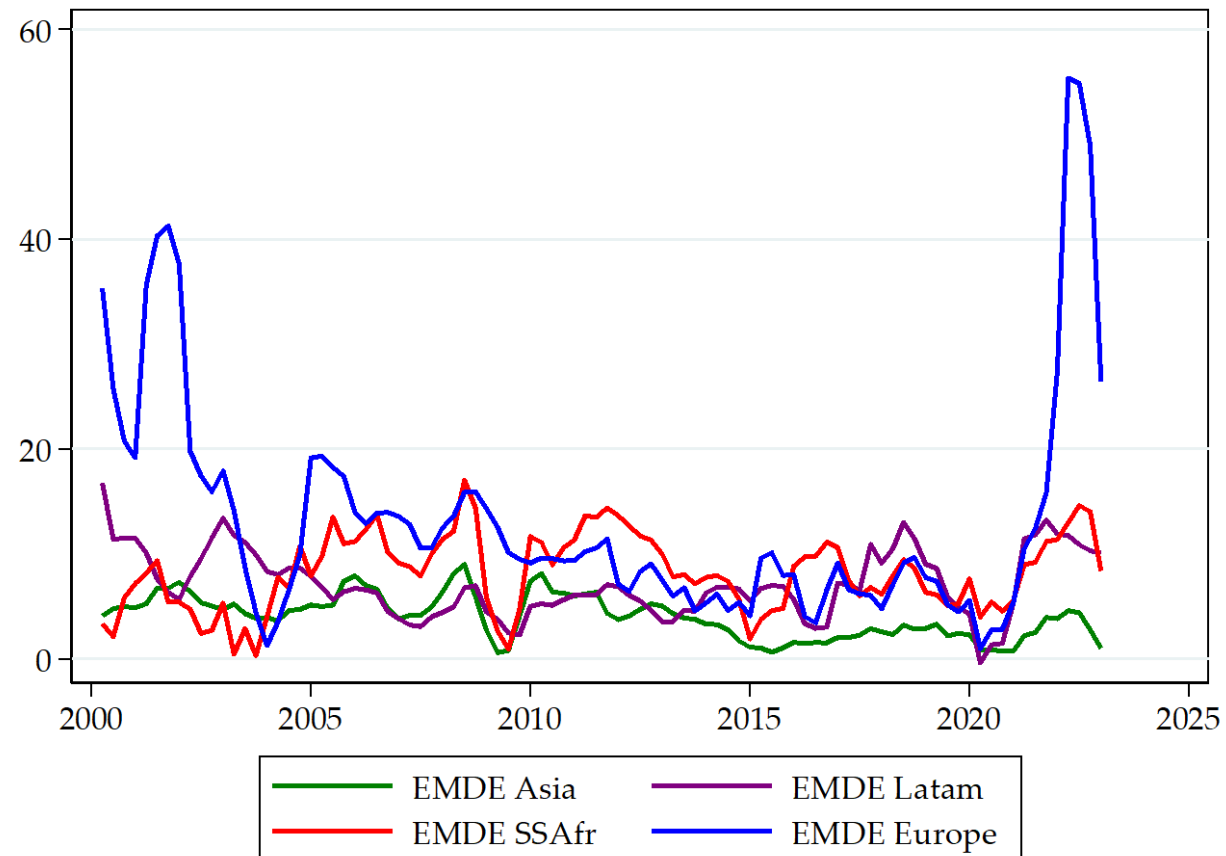


The inflation pandemic shock

Food price inflation.



Energy price inflation.



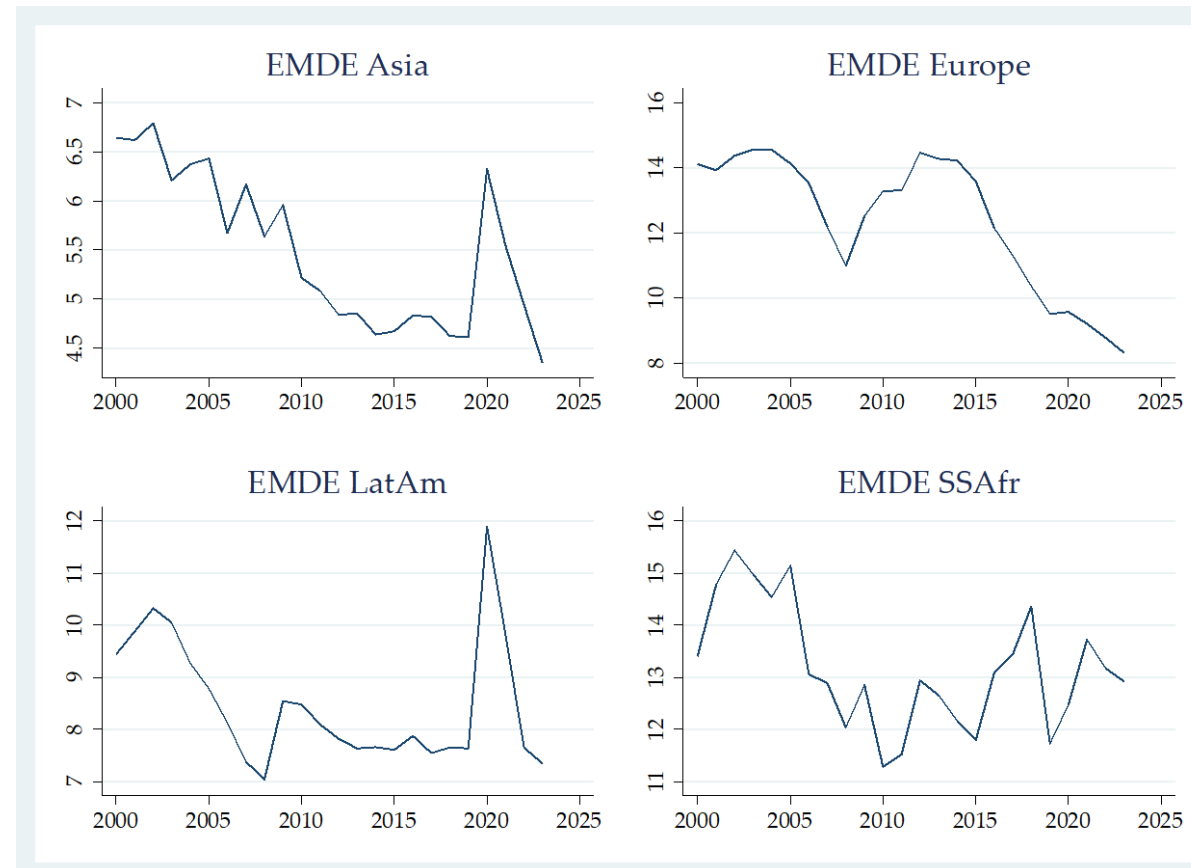
What caused the inflation pandemic shock?

- Global component larger than in previous episodes (English, Forbes, and Ubide (2024))
- Driven by supply-chain shortages and Ukraine war
- Cyclical conditions mattered. Persistence and transmission affected by strength of recovery and demand (including fiscal and monetary policy responses)
 - Fiscal policy: conventional (stimulus) and unconventional (subsidies, trade restrictions)
 - Monetary policy: interest rate response and credibility and anchoring of expectations

Cyclical conditions

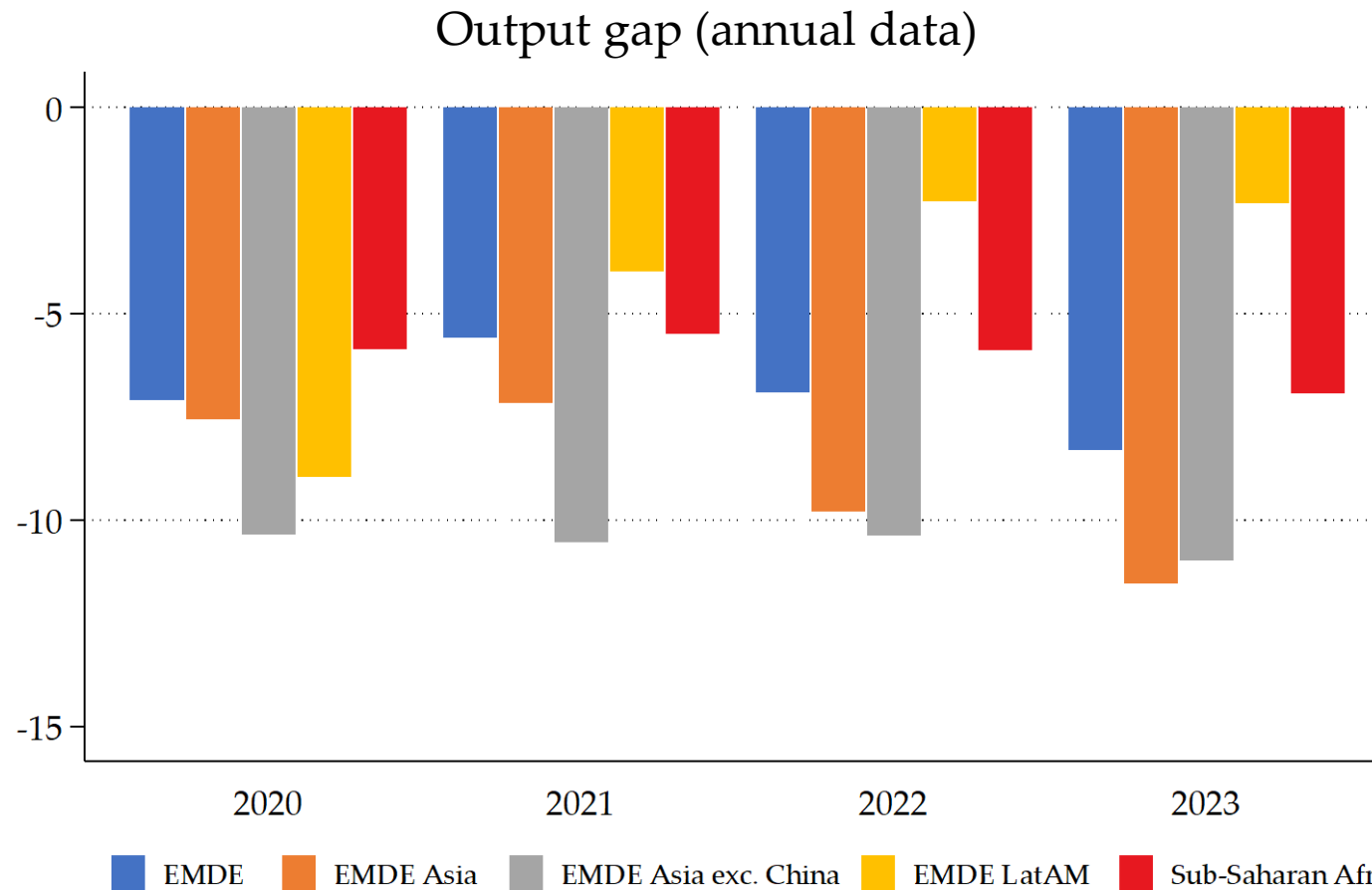
- Standard unemployment-based Phillips Curve framework difficult to fit pandemic episode

Unemployment rate



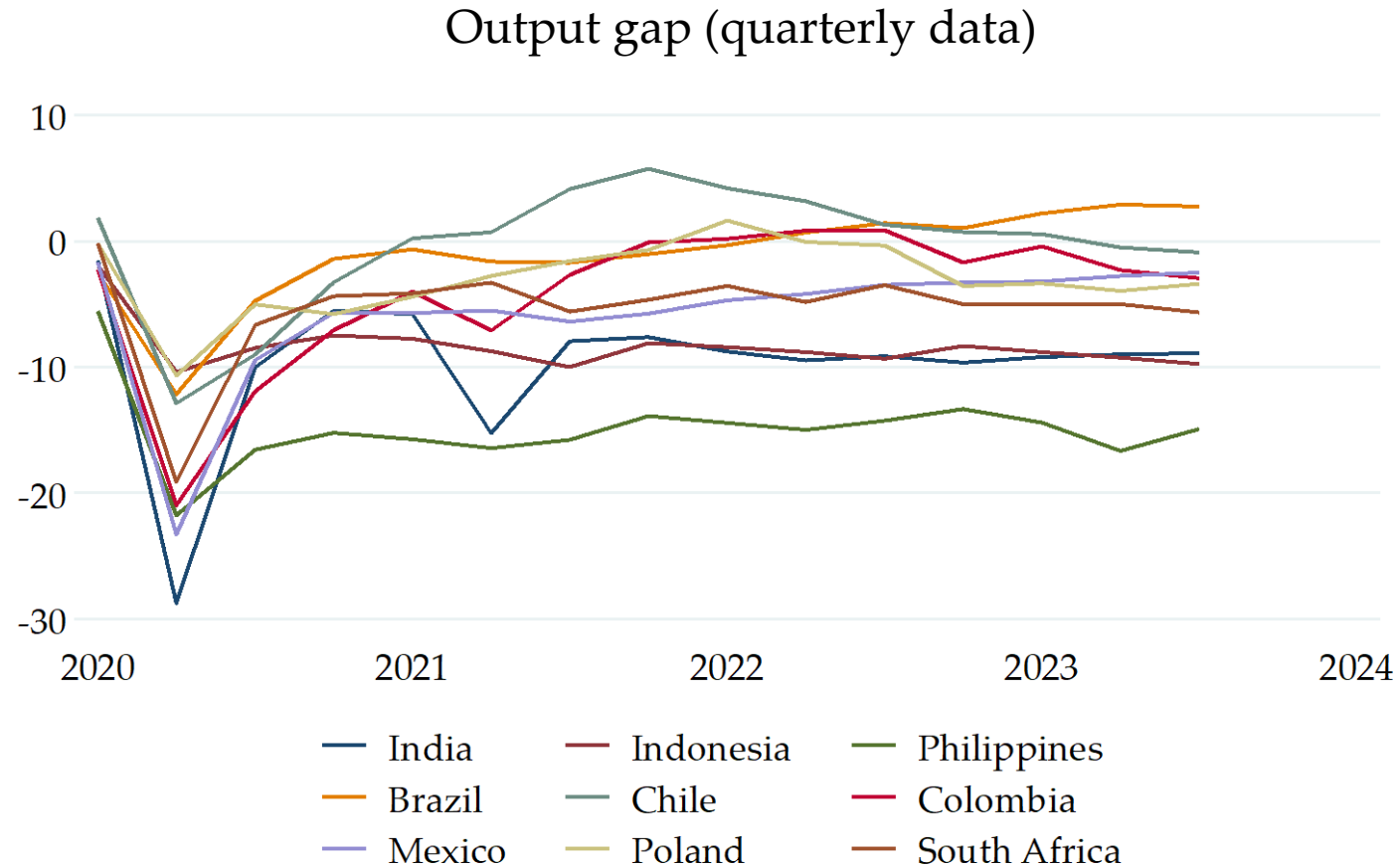
Cyclical conditions

- Output-slack measures more appropriate but require strong assumptions



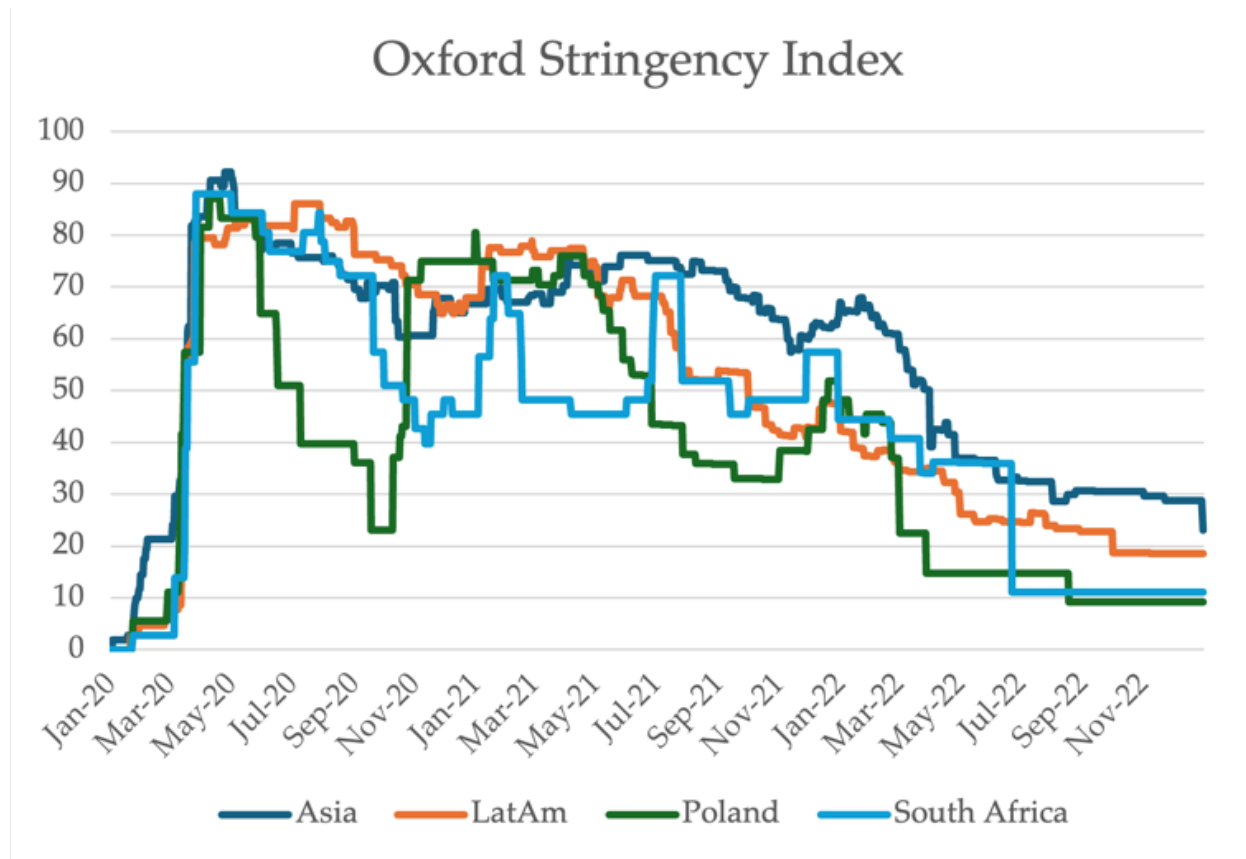
Cyclical conditions

- Output-slack measures more appropriate but require strong assumptions



Cyclical conditions

- Pandemic reopening drove recovery



Cyclical conditions

Table 1. Phillips Curve (Headline Inflation)

VARIABLES	(1)	(2)	(3)	(4)	(5)
Unemployment Rate	-0.146*** (0.0324)		-0.146*** (0.0323)		-0.105*** (0.0349)
EMDE post 2020		-0.0639 (0.602)	-0.0516 (0.561)		
EMDE Asia post 2020				-2.416*** (0.651)	-2.240*** (0.656)
EMDE <u>LatAm</u> post 2020				-1.740*** (0.501)	-1.513*** (0.500)
EMDE Europe post 2020				1.760** (0.677)	1.389** (0.661)
EMDE <u>SSAfr</u> post 2020				0.0301 (1.955)	0.420 (1.797)
EMDE Others post 2020				3.021 (2.623)	2.943 (2.634)
Constant	8.110*** (1.764)	6.839*** (1.799)	8.113*** (1.774)	6.866*** (1.818)	7.775*** (1.806)
Observations	5,249	5,249	5,249	5,249	5,249
R-squared	0.266	0.261	0.266	0.274	0.277
Number of Countries	90	90	90	90	90

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Cyclical conditions

Table 3. Phillips Curve with Output Gap (Headline Inflation)

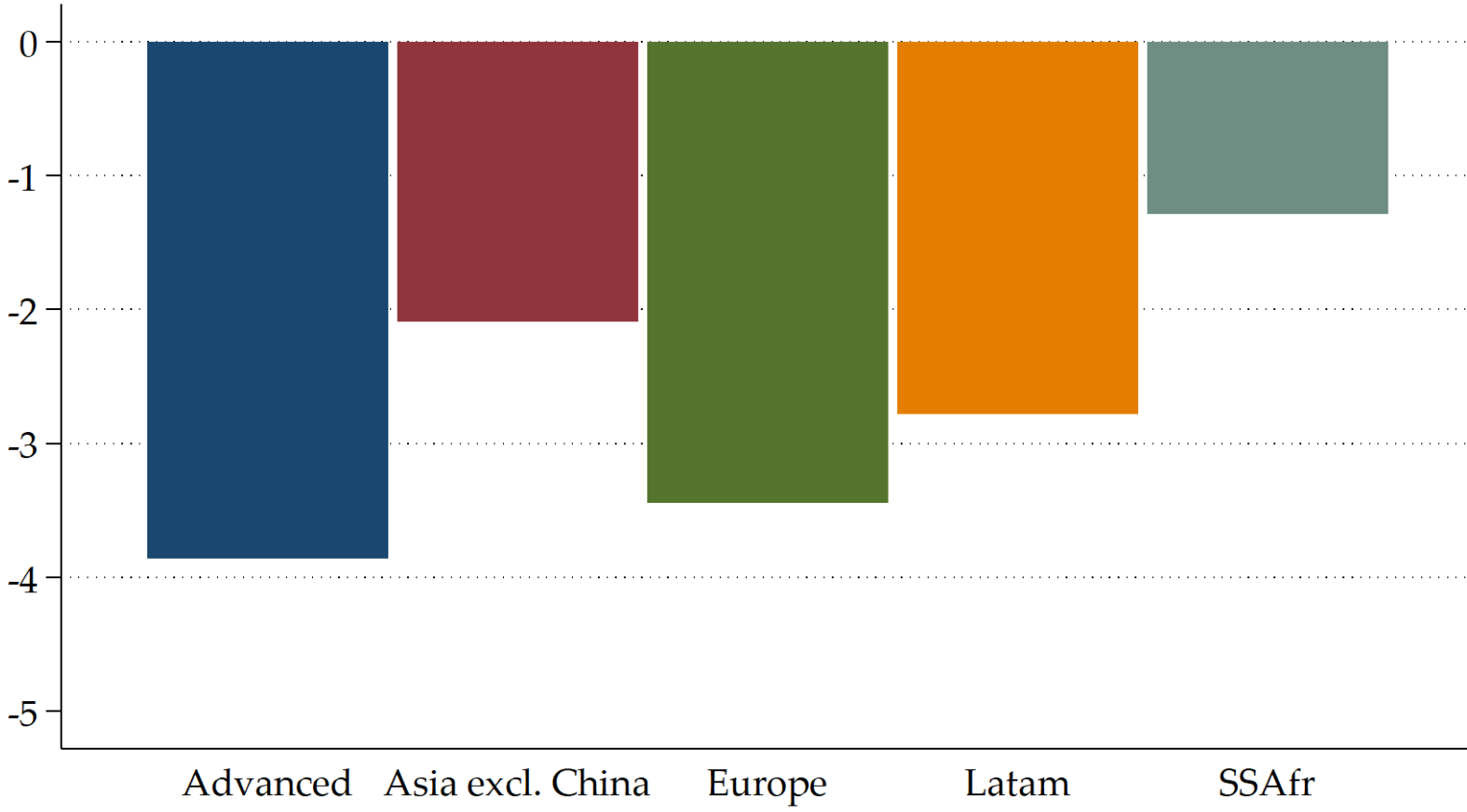
VARIABLES	(1)	(2)	(3)	(4)	(5)
Output Gap	0.161*** (0.0389)		0.189*** (0.0437)		0.0888** (0.0359)
EMDE post 2020		0.210 (1.153)	1.042 (1.151)		
EMDE Asia post 2020				-2.949*** (0.722)	-2.042** (0.831)
EMDE <u>LatAm</u> post 2020				-1.696*** (0.621)	-1.161* (0.629)
EMDE Europe post 2020				5.680** (2.652)	5.696** (2.698)
EMDE <u>SSAfr</u> post 2020				-2.191*** (0.501)	-1.850** (0.762)
EMDE Others post 2020				-1.797 (1.522)	-1.398 (1.561)
Constant	4.226*** (0.400)	2.410*** (0.420)	4.219*** (0.399)	2.409*** (0.410)	4.247*** (0.411)
Observations	3,097	3,290	3,054	3,290	3,054
R-squared	0.342	0.327	0.352	0.374	0.389
Number of Countries	59	59	59	59	59

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Conventional Fiscal Policy

Fiscal impulse (structural balance change 2019-2020)



Unconventional Fiscal Policy

Annex Table 1.3 Subsidies in Food and Energy products in 2022

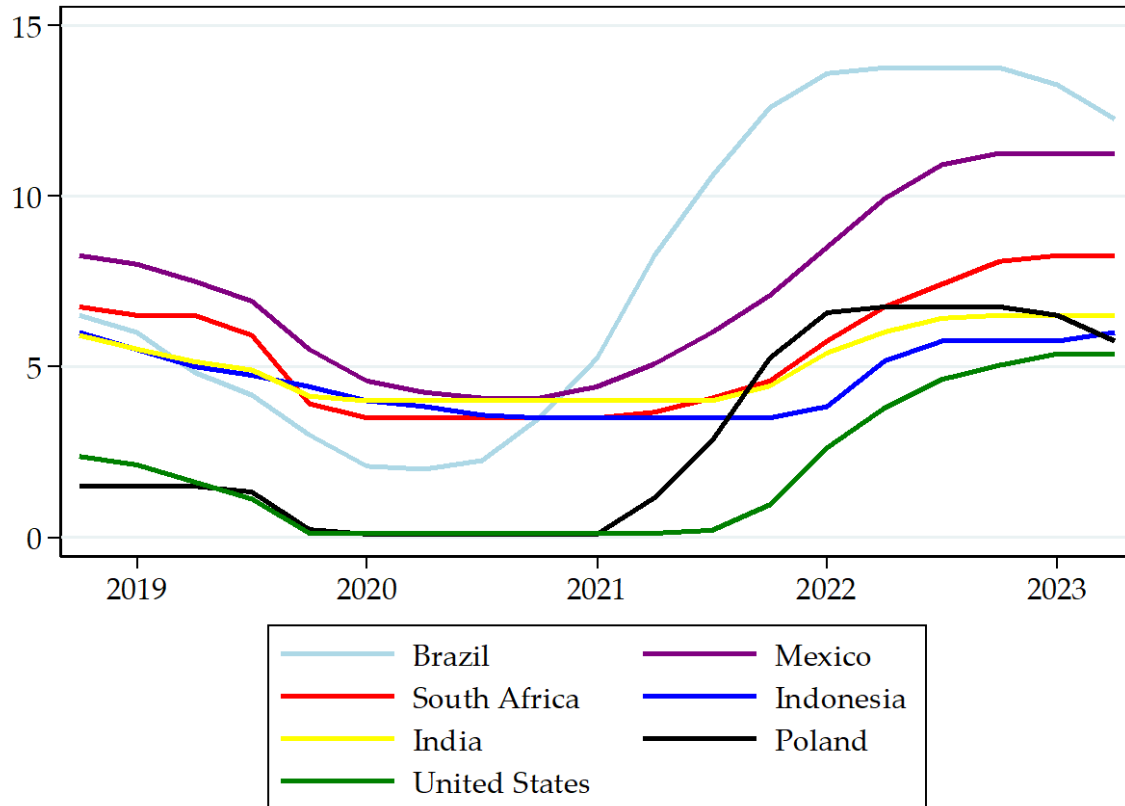
Region	Energy		Food	
	Number of subsidies	Size (% of GDP)	Number of subsidies	Size (% of GDP)
AE	16	0.06		
CCA	10	1.4	2	0.03
ED-Asia	16	0.57	2	0.94
ED-Europe	10	0.58		
LAC	44	0.76	11	0.07
MENAP	38	1.09	13	0.2
SSA	76	0.65	38	0.29

Source: IMF DEFPA country desk survey.

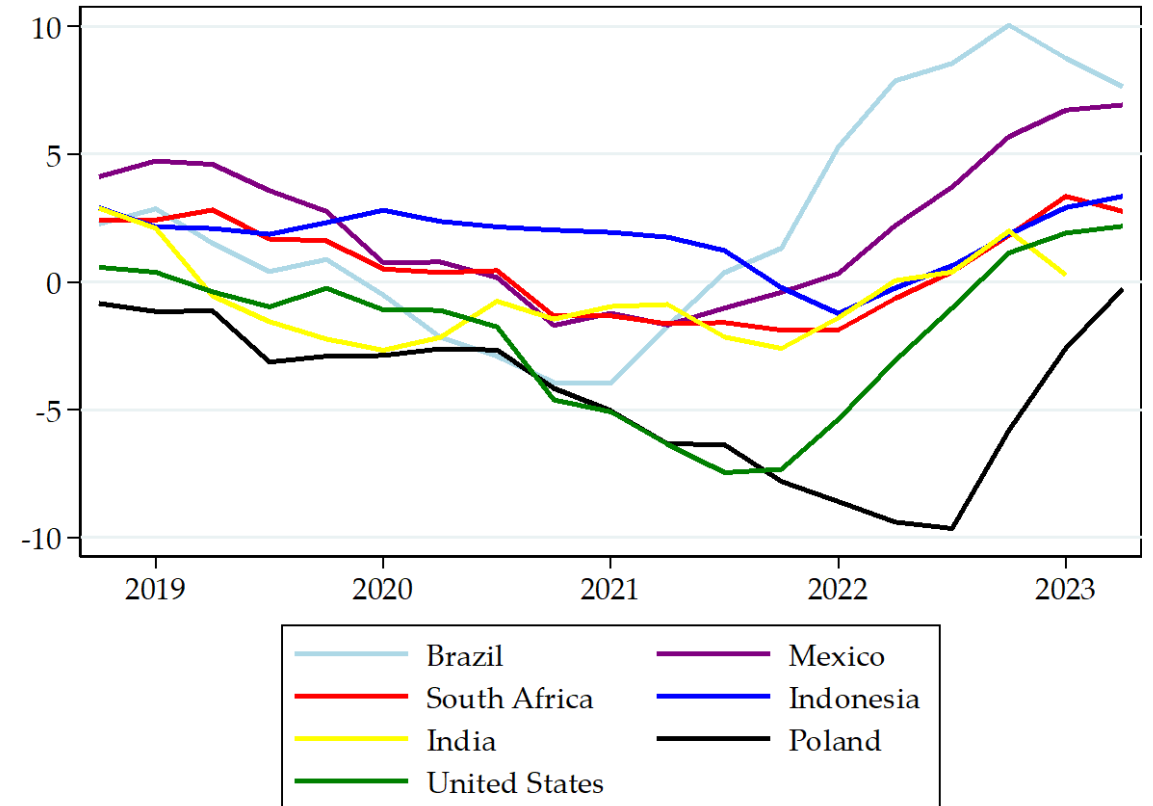
Source: Amaglobeli et al (2023)

Monetary Policy

Central bank nominal interest rate

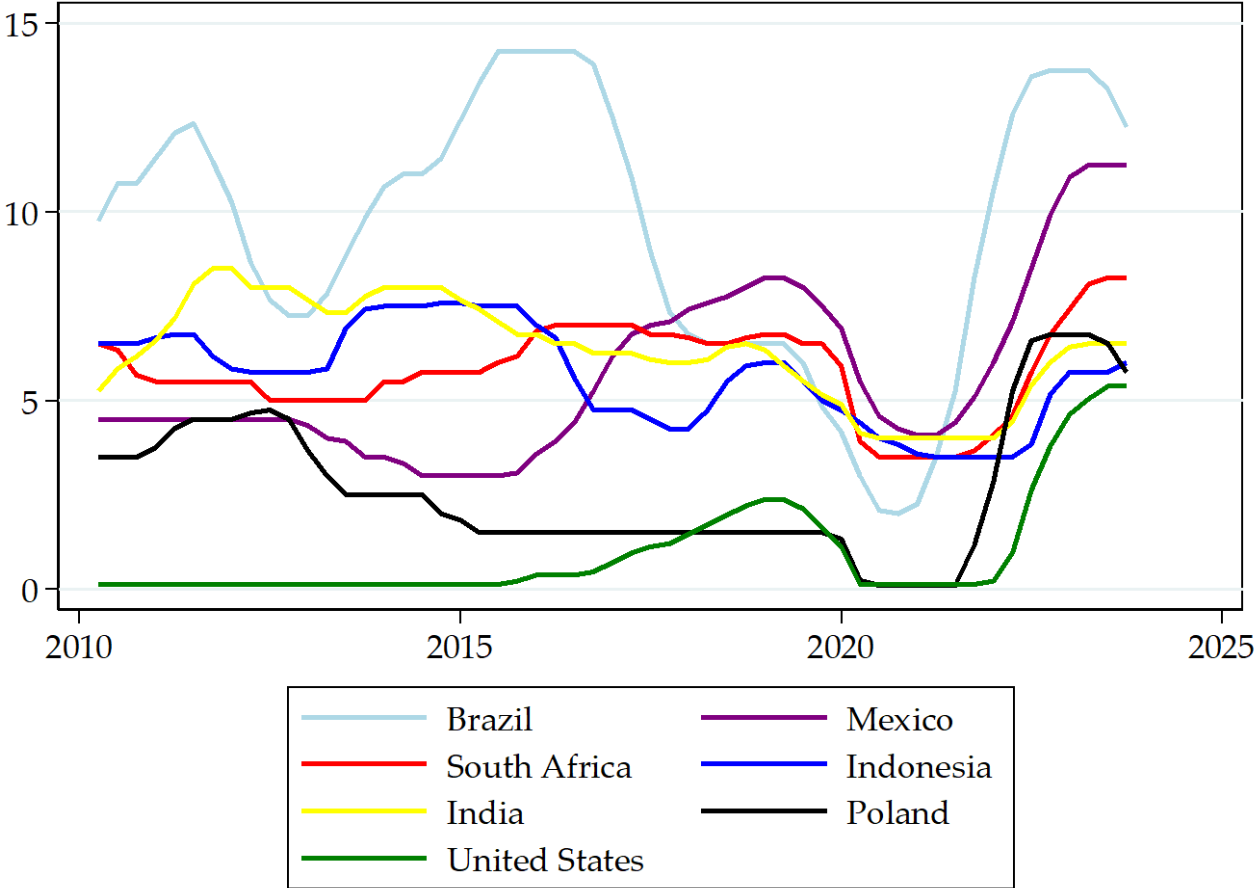


Central bank real interest rate



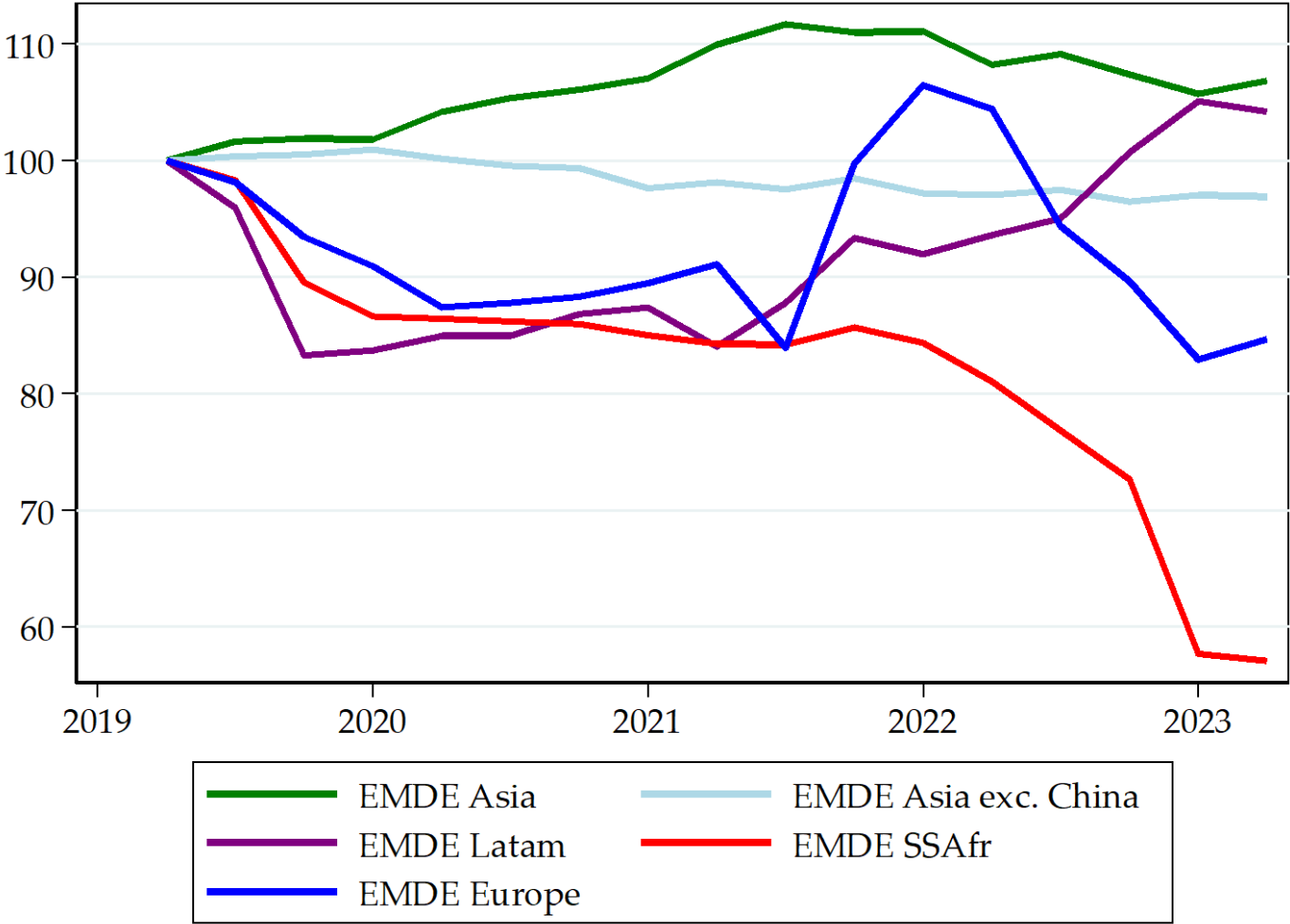
Monetary Policy

Central bank interest rates 2010-2023



Monetary Policy

Nominal effective exchange rates



Monetary Policy

Table 4. Phillips Curve with exchange rates

VARIABLES	(1)	(2)	(3)	(4)
	All	EMDE	All	EMDE
Unemployment Rate	-0.151*** (0.0319)	-0.242*** (0.0642)	-0.140*** (0.0299)	-0.308*** (0.0864)
Nominal Exchange Rate	0.0351* (0.0189)	0.648*** (0.146)		
Nominal Effective Exchange Rate			-0.474*** (0.161)	-0.596** (0.251)
Constant	9.178*** (1.982)	16.55** (6.755)	7.540*** (1.590)	19.07*** (6.885)
Observations	5,247	2,175	4,026	1,407
R-squared	0.269	0.293	0.310	0.308
Number of Countries	90	54	62	31

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Monetary Policy

Table 5. Does the history of inflation matter?

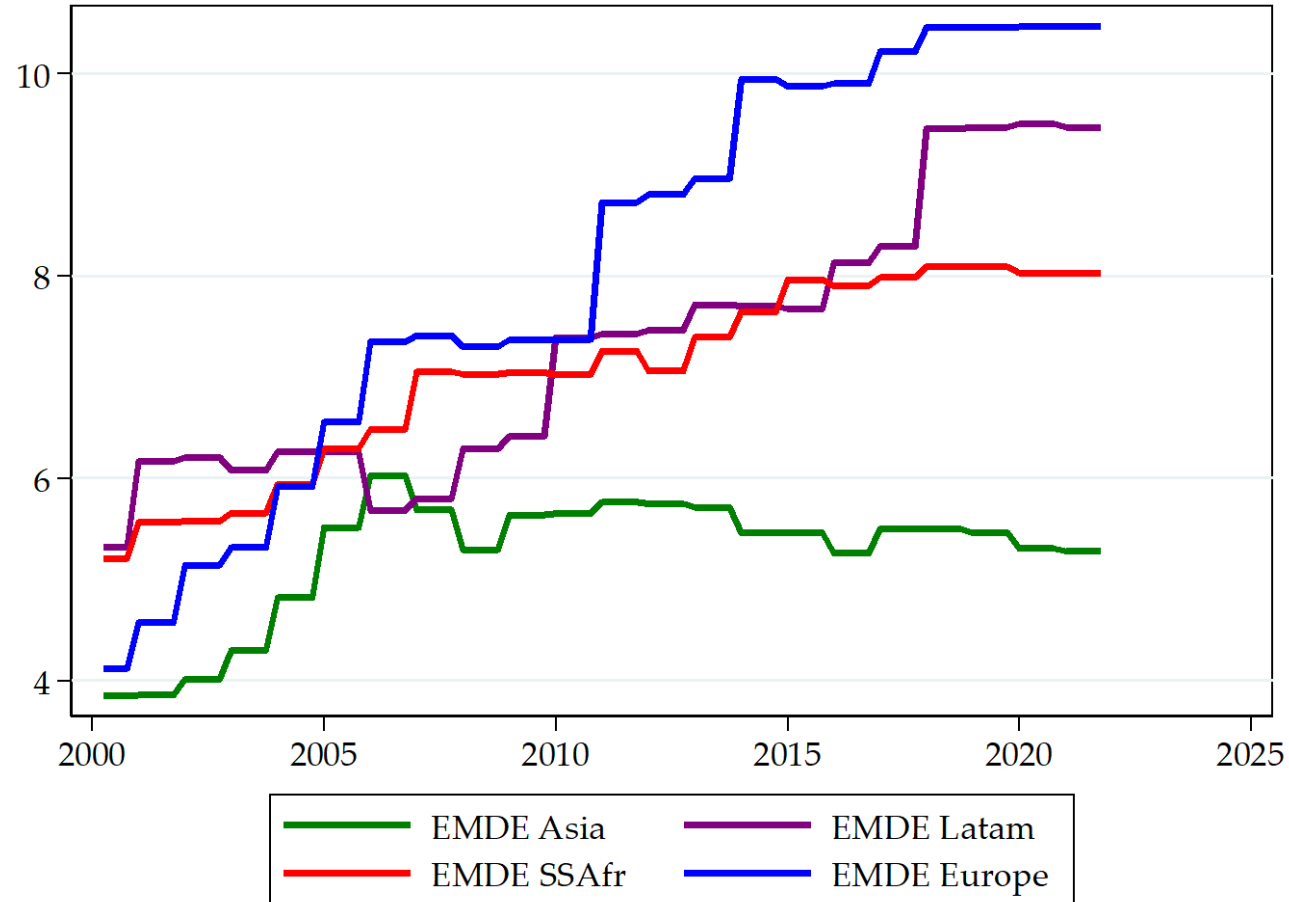
VARIABLES	(1)	(2)	(3)	(4)
	All Full	All Small	EMDE Full	EMDE Small
Initial inflation	0.982** (0.399)	0.558*** (0.170)	1.002** (0.394)	0.591*** (0.188)
Volatility Inflation	0.423 (0.288)	0.321** (0.141)	0.499 (0.313)	0.496** (0.191)
Constant	-2.234 (1.516)	-0.377 (0.508)	-3.229* (1.839)	-2.019** (0.836)
Number of Countries	174	81	137	46
R-squared	0.292	0.332	0.303	0.415

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Monetary Policy

Central bank transparency and independence index



Source: Dincer, Eichengreen, and Geraats (2022).

Why EMDE Asia inflation was lower?

- Weaker cyclical conditions
- Weaker fiscal policy impulse
- Stronger unconventional fiscal policy
- Luck (rice and pork prices)
- History and credibility of monetary policy and its effects on exchange rates