



The resurgence of inflation Why was emerging Asia different? By Antonio Fatas

**Discussion
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BROOKINGS EM INFLATION CONFERENCE, APRIL
16, 2024

Disclaimer: The views expressed here are those of the authors and do not necessarily represent those of the IMF, its Management and Executive Board, or IMF policy.

Summary

- Key stylized fact. Muted inflation is Asia around the pandemic
 - Even relative to other EMDEs

- Why? Combination of reasons
 1. **Weak post-pandemic recovery**
 2. **Fiscal policy**
 - Less aggressive [conventional] fiscal policy
 - With [unconventional] fiscal policy
 - Price controls/subsidies
 3. **Monetary policy**
 - Less aggressive, yet
 - Well-anchored inflation expectations
 - Limited depreciation of exchange rate

Contribution

- Well known facts
- Main contribution is to put numbers and quantify some of these effects

Comment 1. Link between theory and empirics

Ball, Leigh, Mishra (2022), Dao, Gourinchas, Leigh, and Mishra (2024)

Headline Inflation = Core Inflation + Headline Shocks

Core: Underlying inflation that depends on expectations, labor market tightness.

- Measure: Weighted median. Strips out relative price shocks in any industry (not only food and energy). Also consider other measures.

Headline shocks: High-frequency, relative price shocks. COVID examples.

- Measure: Deviation of headline from core.

Comment 2. All about slack?

Table 2. Phillips Curve (Core Inflation)

VARIABLES	(1)	(2)	(3)	(4)	(5)
Unemployment Rate	-0.0870*** (0.0176)		-0.0868*** (0.0173)		-0.0867*** (0.0205)
EMDE post 2020		-0.385 (0.290)	-0.378 (0.290)		
EMDE Asia post 2020				-0.992** (0.497)	-0.775 (0.509)
EMDE LatAm post 2020				-0.396 (0.454)	-0.163 (0.458)
EMDE Europe post 2020				-0.134 (0.463)	-0.446 (0.520)
EMDE SSAfr post 2020				-0.936 (0.752)	-0.665 (0.767)
EMDE Others post 2020				0.241 (0.472)	0.0876 (0.436)
Constant	2.389*** (0.199)	1.707*** (0.100)	2.413*** (0.201)	1.707*** (0.100)	2.412*** (0.222)
Observations	3,923	3,923	3,923	3,923	3,923
R-squared	0.305	0.283	0.308	0.287	0.310
Number of Countries	78	78	78	78	78

Robust standard errors in parentheses

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

Inconsistent with some of the other stories ..

- Unconventional fiscal policy

Which can be captured through headline shocks

Figure 14. Inflation energy prices by EMDE group

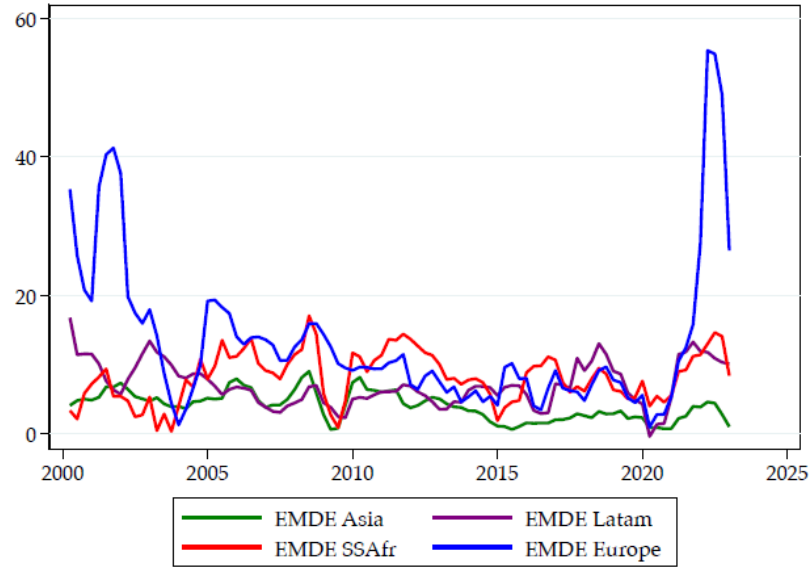
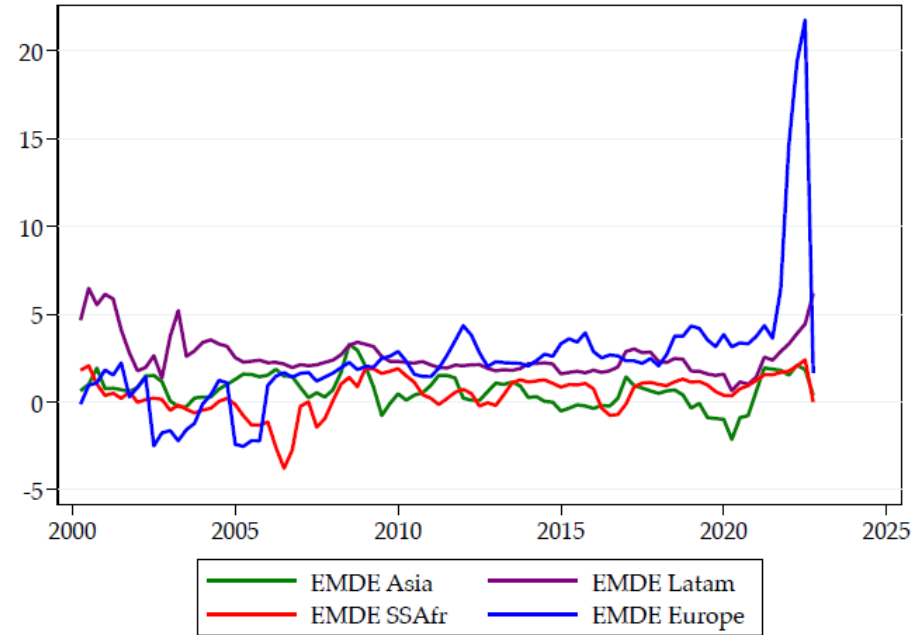
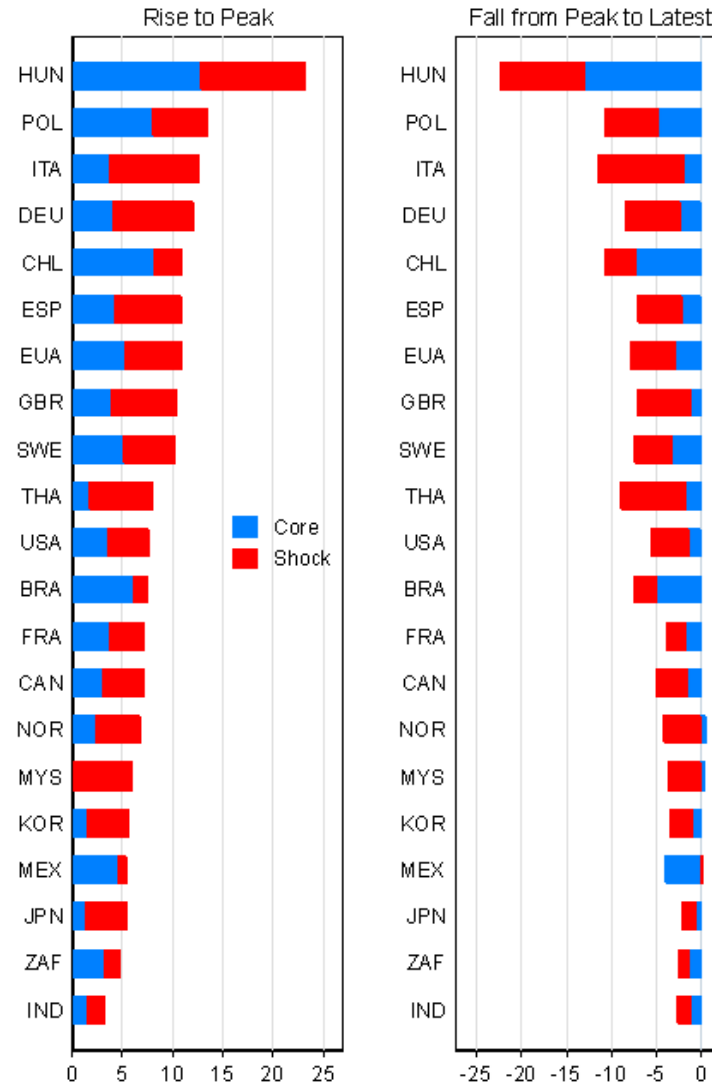


Figure 16. Estimated core inflation by EMDE group

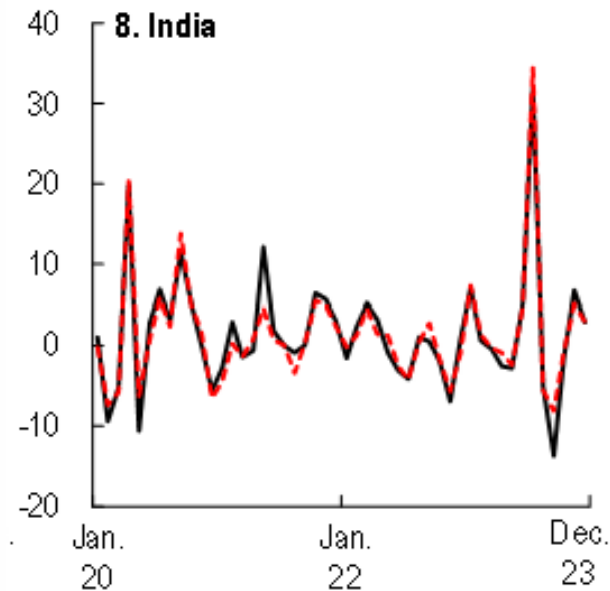


Comment 3. Unpack slack vs headline shocks .. Heterogeneity even among emerging Asia, across rise and fall

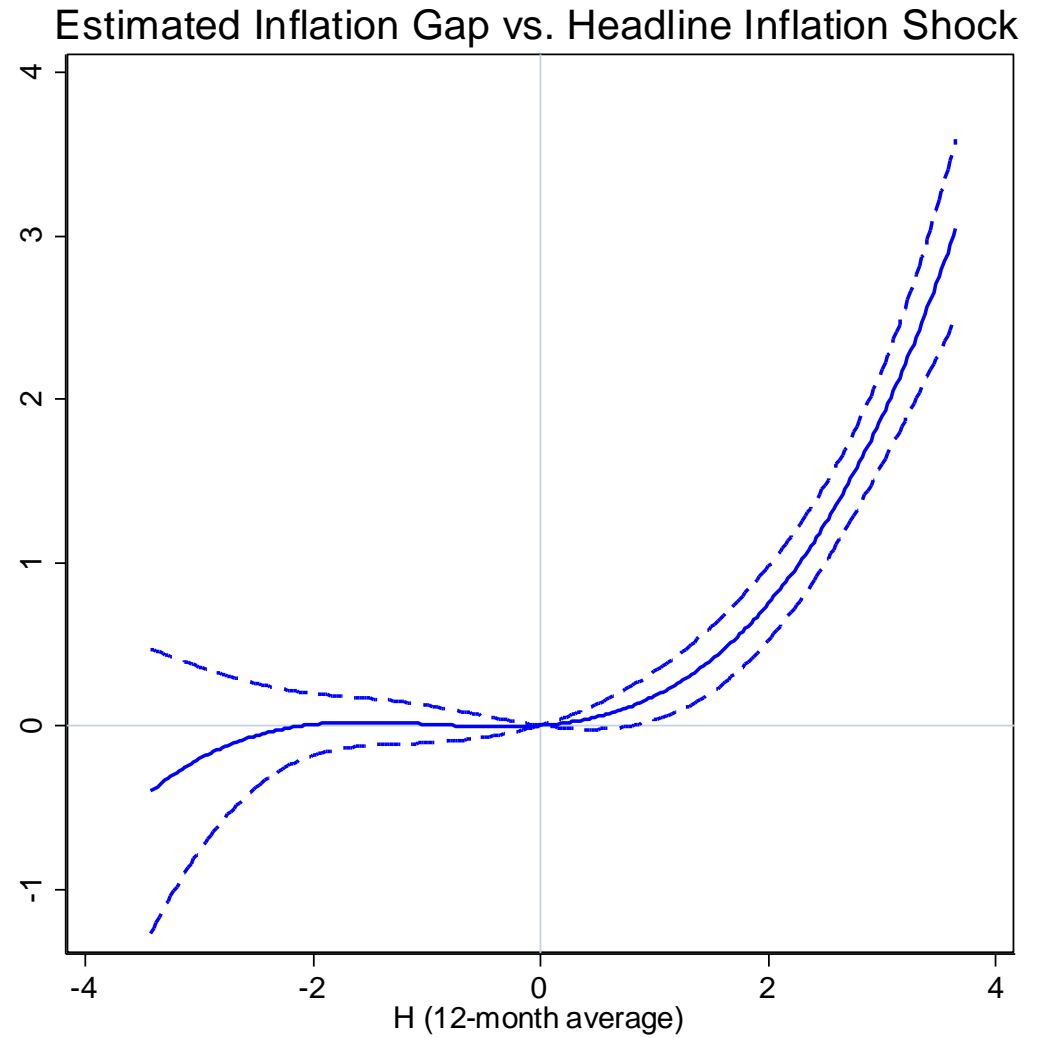
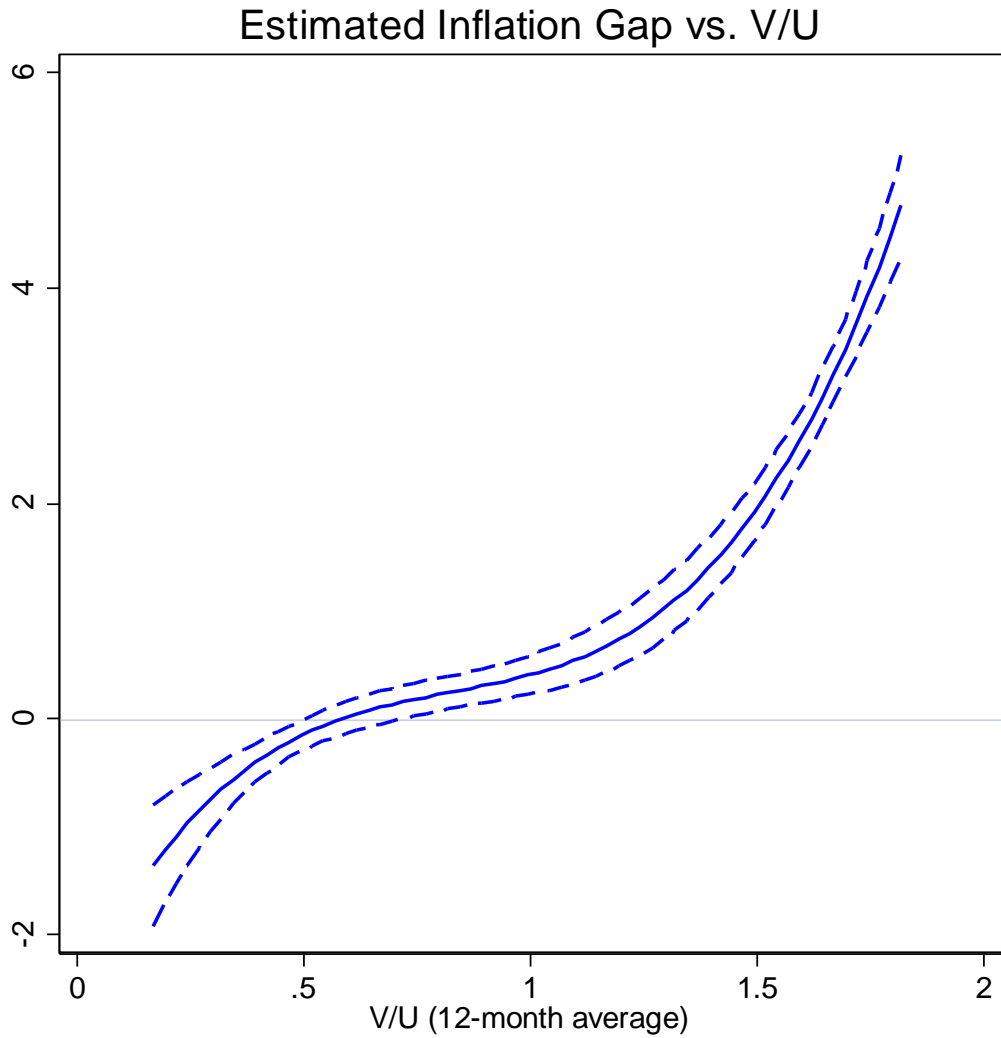


Heterogeneity in drivers of headline shocks too ..

- Energy prices and exchange rates in Malaysia
- Energy, food, and shipping costs in Thailand
- Food, supplier delivery times and backlogs prices in India



And there can be non-linearities and asymmetries



Also argued by Bernanke Blanchard (2022)

- Initially pandemic era inflation results of series of adverse relative price shocks and sectoral shortages, with strong and transient effect on inflation
- Labor market little effect on inflation early on But increasingly important
- In fact, in the case of India .. Even though output gap was negative it was closing and that contributed to inflation

In sum

- Nice paper, and important contribution especially in quantifying some of the effects

Main comments

- Putting a framework
- Unpacking heterogeneity even across Asia
- Exploring non-linearities

**Thank you
Questions?**