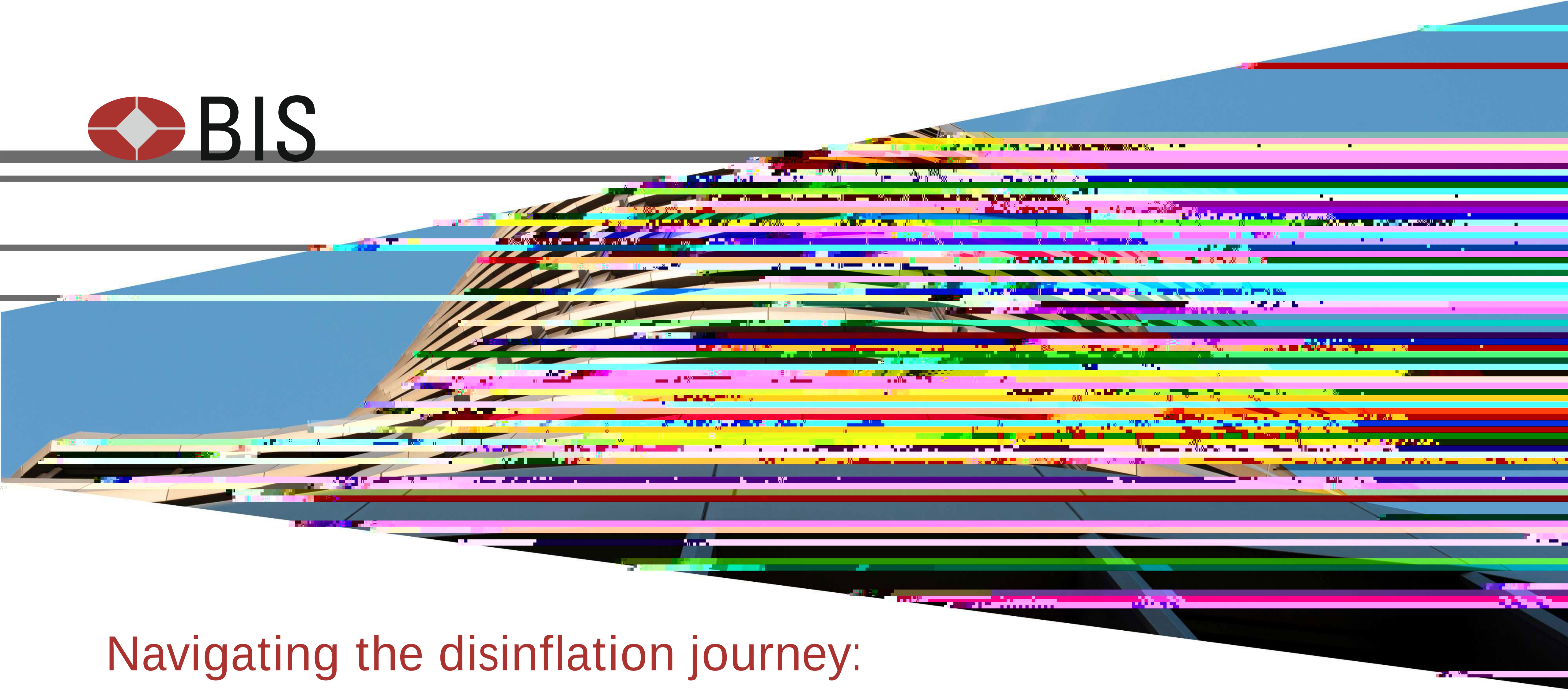


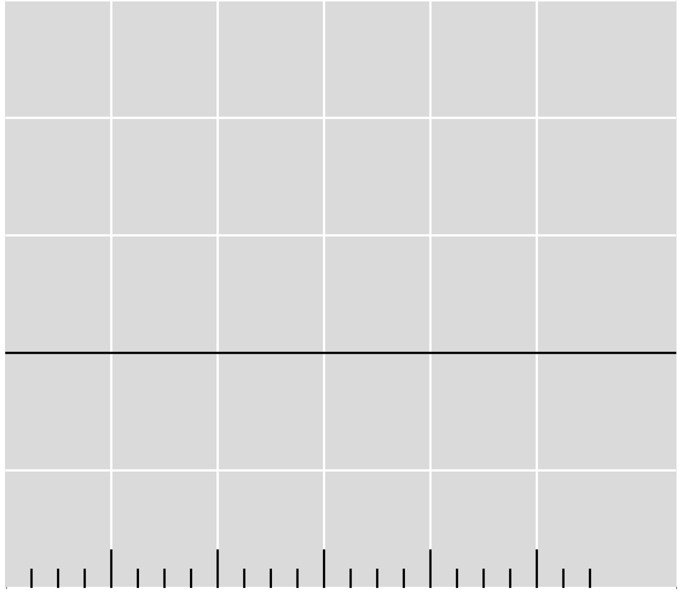
Navigating the disinflation journey: Key risks on a turbulent path

Deniz Igan

June 23, 2023

Factors that triggered the initial inflation surge weaken

Commodity prices retreat…



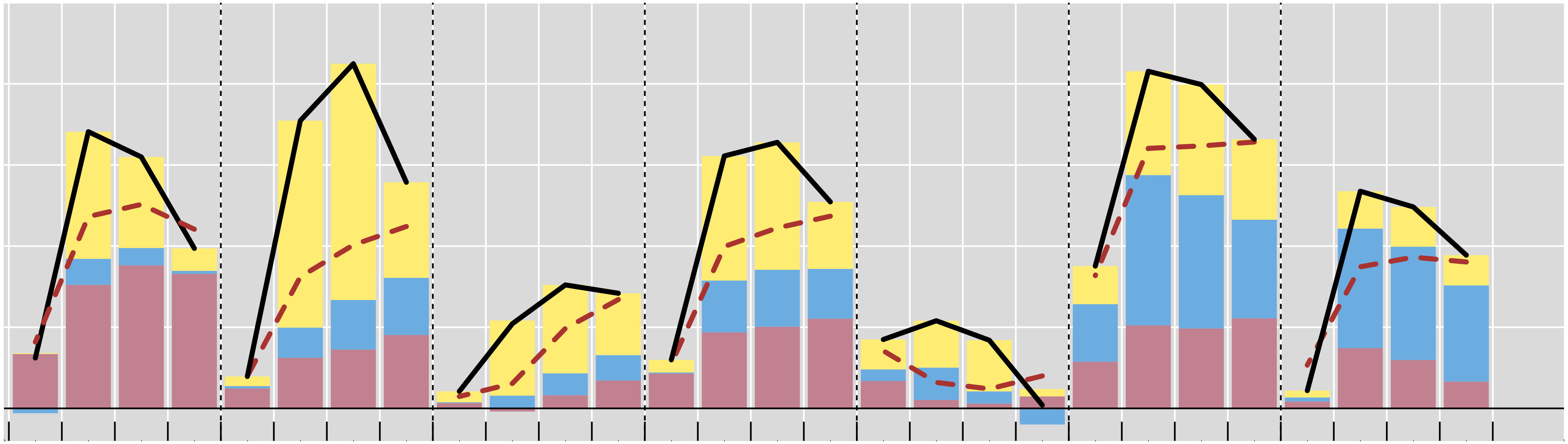
…supply chain disruptions ease…

…spending rotation starts to revert

Source: *BIS Annual Economic Report, 2023*

Headline inflation abates while core inflation proves sticky

Contribution to year-on-year inflation



Source: *BIS Annual Economic Report, 2023*

Synchronised monetary tightening lifts rates from historic lows

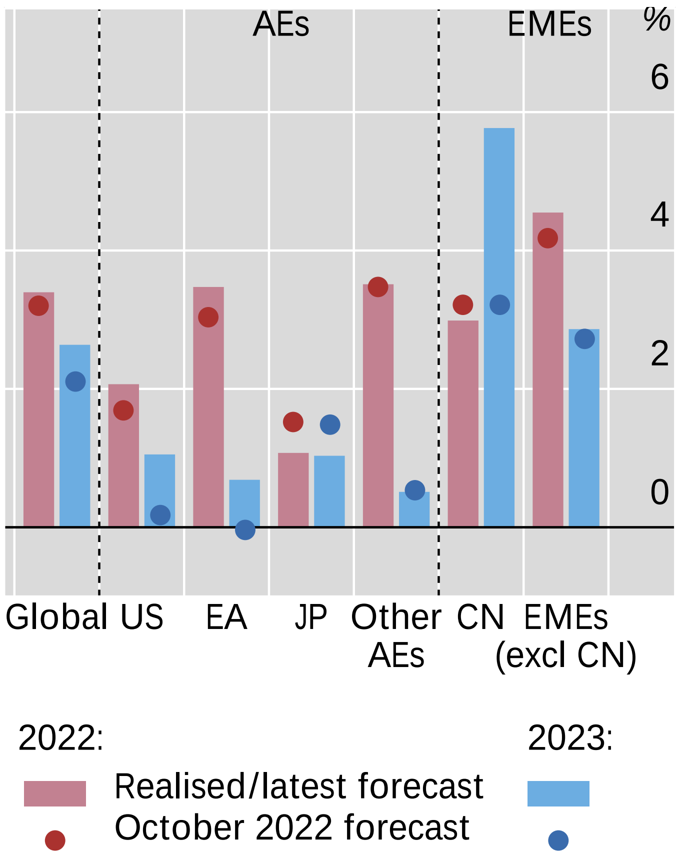
Monetary tightening episodes

Policy rates in AEs

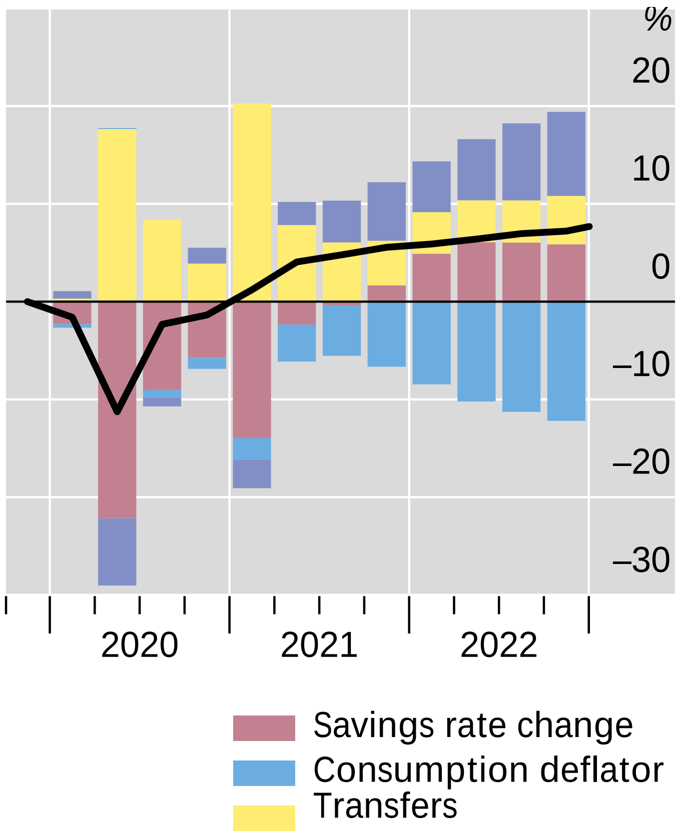
Source: *BIS Annual Economic Report, 2023*

Activity holds up better than expected, in part thanks to transfers and savings

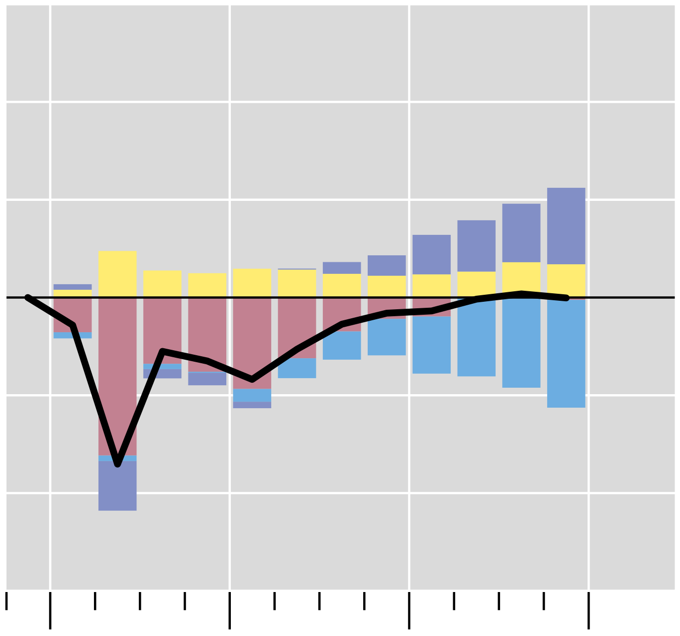
Evolution of output forecasts



Real consumption growth drivers in the United States



Real consumption growth drivers in other AEs

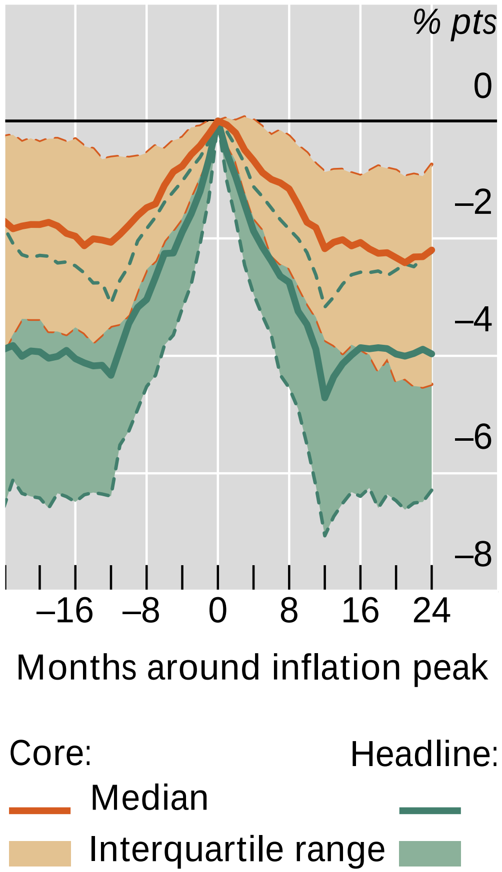


Source: *BIS Annual Economic Report, 2023*

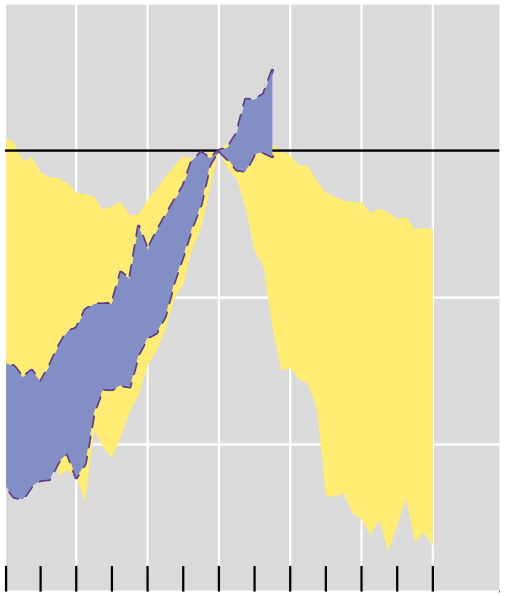
Key risk I:
Persistent inflation

Disinflation takes time

Past disinflation episodes



Services price growth



Headline inflation: 1970s vs now

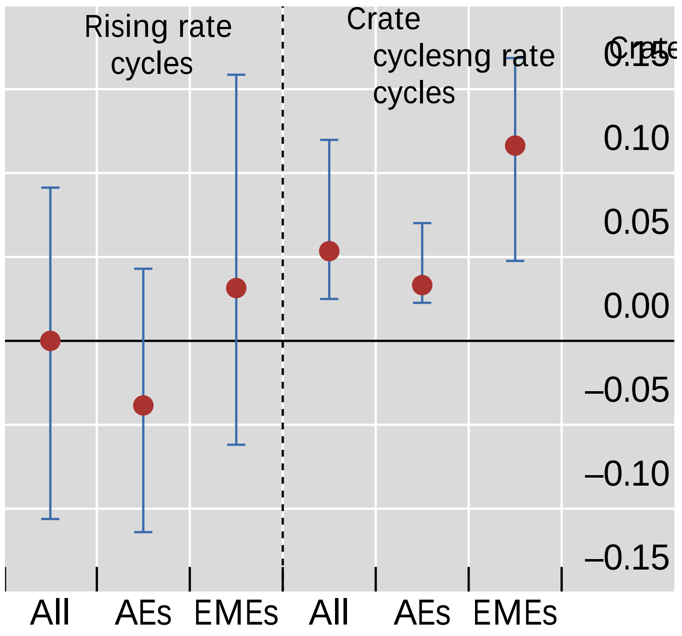
Source: *BIS Annual Economic Report, 2023*

Boxes are ticked for financial stress during monetary tightening

Stress more likely when private

Sensitivity of bank interest margins to increase in policy rates looks different

NIMs have risen with policy rates in this cycle



Rise in asset yields to date suggests scope for further rise in AEs

Debt funding costs lag adjustment to higher interest rate environment

Source: *BIS Annual Economic Report, 2023*

Thanks go to the team:

Pongpitch Amatyakul, Miguel Ampudia, Alessandro Barbera, John Caparusso, Gabriele Freo, Emanuel Kohlscheen, Nicolas Lemercier, Cristina Leonte, Ulf Lewrick, Marco Lombardi, Nikola Tarashev, Karamfil Todorov

Read the full report at bis.org