Response to the coronavirus might be proved an inflationary threat.

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Wednesday 13 May 2020

Several economists around the world are whistleblowing that the stimulus policy pack announced is enough to create an inflationary bubble in coming years. Is the fear that we are under an inflationary threat genuine or can we feel safe and continue our investment planning without distraction. Unfortunately, the answer to this question is not clear-cut.

At first, we must examine if the situation this time differs from past experiences or not. For the time being, we feel accustomed to quantitative easing programs as a means of raising the total amount of money available and ease financial conditions. Quantitative easing increases bank reserves, which do not mean that total money supply is increased.

Additionally, QE programs were not coupled with rise in fiscal deficits. In contrary, during the introduction of QE programs several western economies were struggling to reduce their deficits, and here lies the great difference in relation to past experiences.

What the central banks are doing, is buying bonds. Goldman Sachs estimates that fiscal stimulus in the USA will bring fiscal deficit to $3.6 trillion in 2020 and $2.4 trillion in 2021, a total of $6 trillion in two years. Considering that USA fiscal deficit is already around $1 trillion, this is an addition of $5 trillion. Who will buy all this new debt? The Federal Reserve will.

In this way, money created by the central banks do not heading towards strengthening banking system balance sheets, rather, they are heading towards people's bank accounts ready to be spent and create new demand. But, if we consider that much of productivity worldwide is ceased as a measure to decelerate coronavirus spreading, real consumption must decline, respectively. If today's money printing does succeed in maintaining the nominal value of consumption spending, many more dollars will be chasing a smaller amount of goods and services. The result will be inflation.

Money printing is different from QE. Money printing is inflationary. If the central bank rapidly prints a lot more currency and immediately puts it into circulation, then more money is chasing the same amount of goods and services.

Ultimately, we do not worry about monetary policy. Monetary policy is conducted independently and can reduce the pace of bonds buying in case of inflationary pressure arise. In contrary, we do worry about fiscal policy. Will the policymakers around the world be willing to increase taxes or reduce spending after the economy recovers? Unfortunately, in this case, inflation will be a political issue, not a monetary or a macroeconomic one.

Monetary policy is not able to prevent the coming inflationary pressure on its own. A combination of tax increases and spending decreases after the upcoming recovery will be proved necessary to counteract a soar in inflation. I personally doubt that policymakers around the world will be precise

enough to execute this fiscal reversal and to exhibit the required foresight and undertake the necessary political costs.

Inflation risk in the upcoming years will be higher than future inflation priced in today. As the recovery is underway, investors should start to search for anti-inflation positioning or maybe a volatility spike protection.

In conclusion, we expect that after 2021 inflation pressure will re-emerge and the anti-inflation policy can be proved dangerous for the macroeconomic environment. There is nothing specific that we can implement for the time being, but we must bear in mind that inflation will be a new medium-term risk to our investment portfolios.