


# UniCredit Research Teach-in

Why QE does not lead to an outbreak of inflation

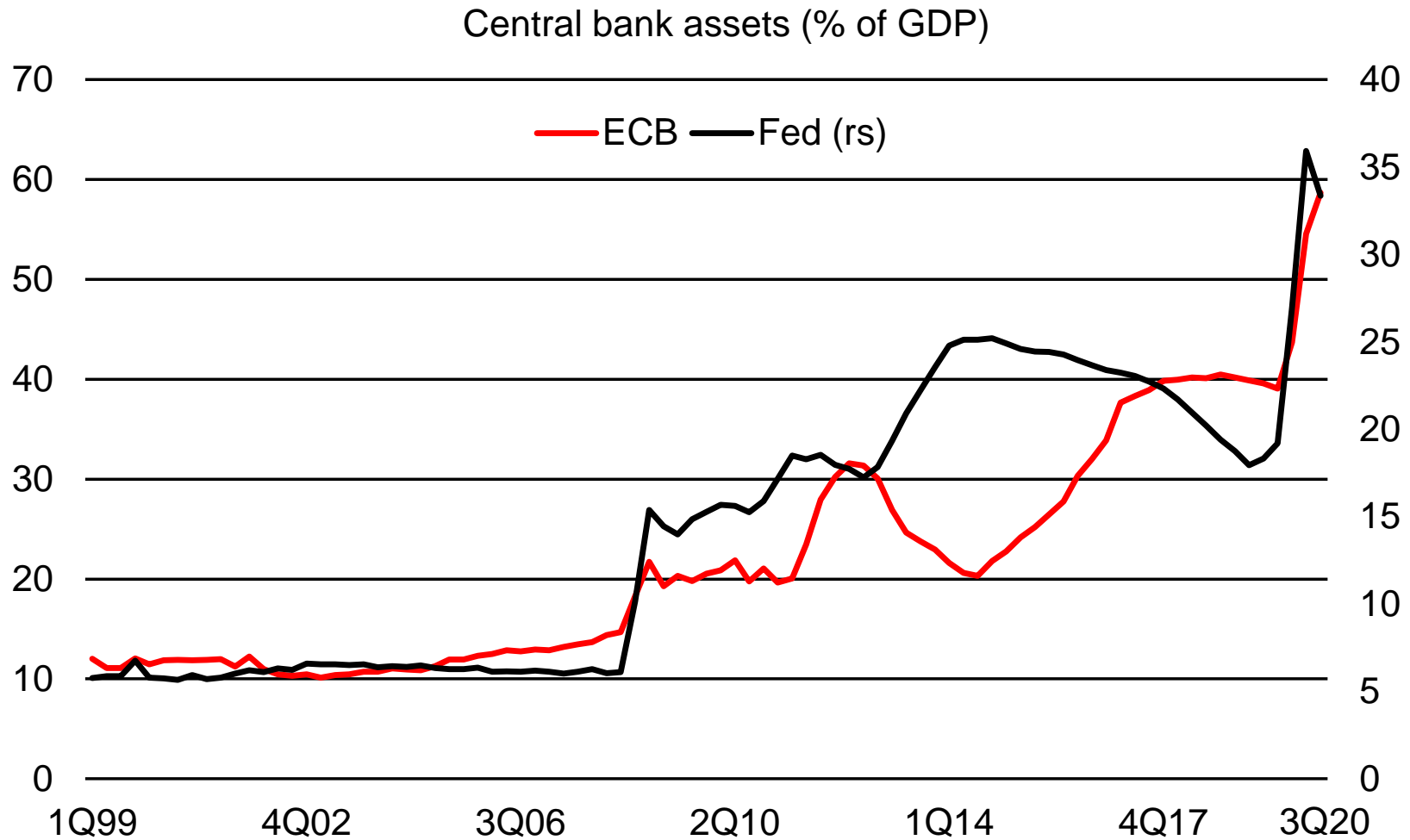
**Marco Valli**, Head of Macro Research, Chief European Economist (UniCredit Bank, Milan)

**Milan, 15 December 2020**

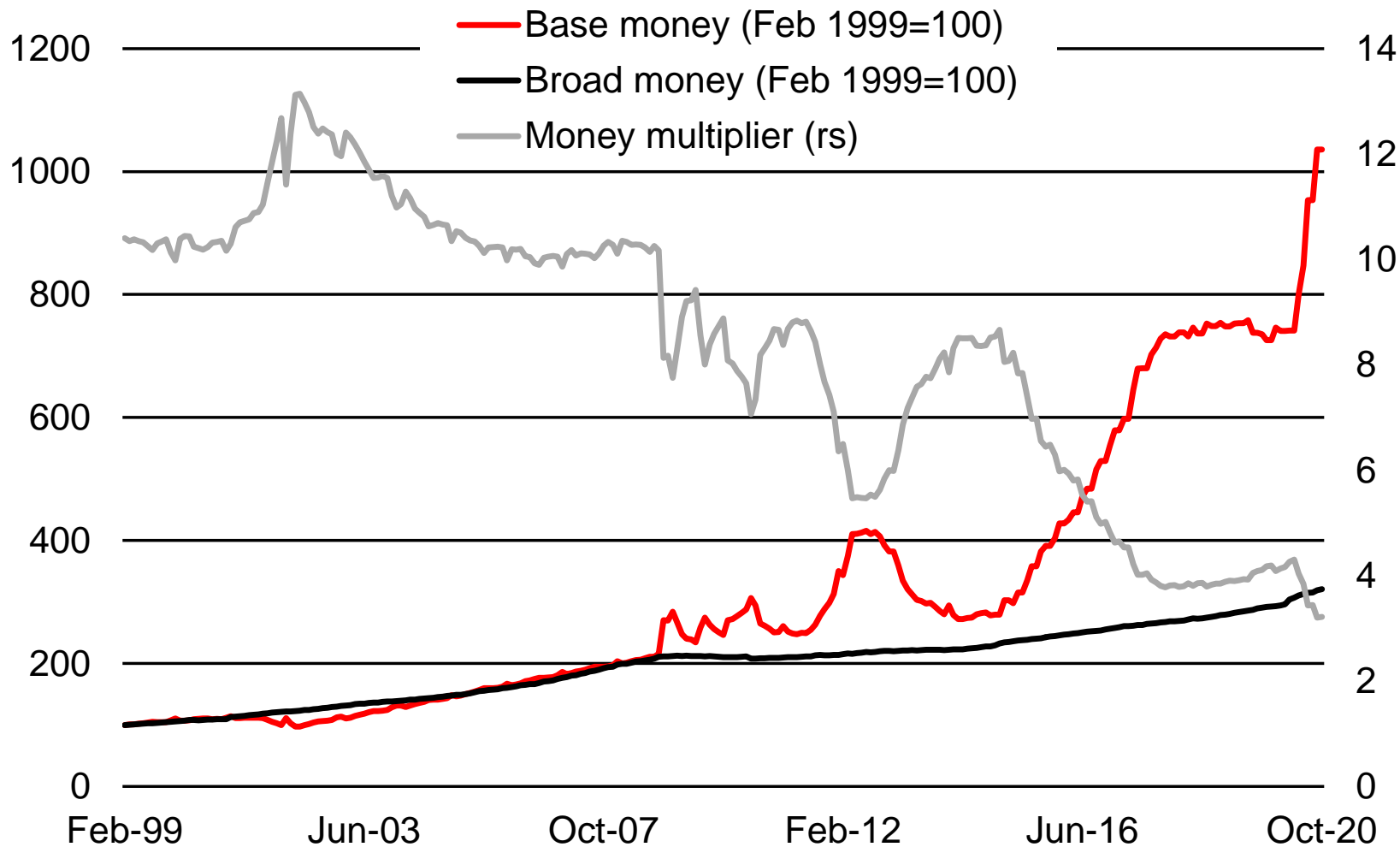
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Banking that matters. |  **UniCredit**

# Big increase in central banks' balance sheets after COVID-19



# Money multiplier collapses as broad money decouples from base money



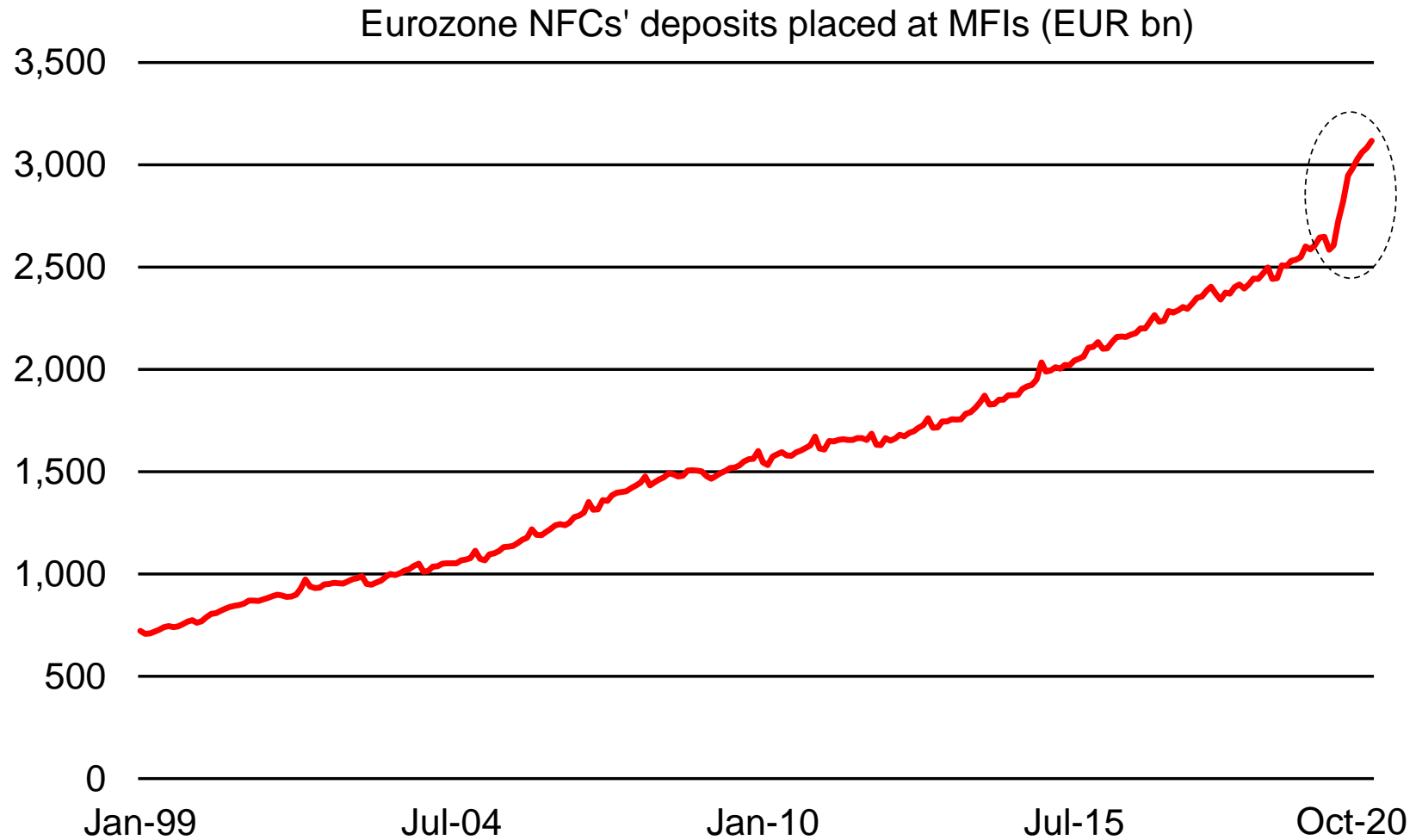
# Inflation picks up when aggregate demand exceeds aggregate supply

Base money  Inflation

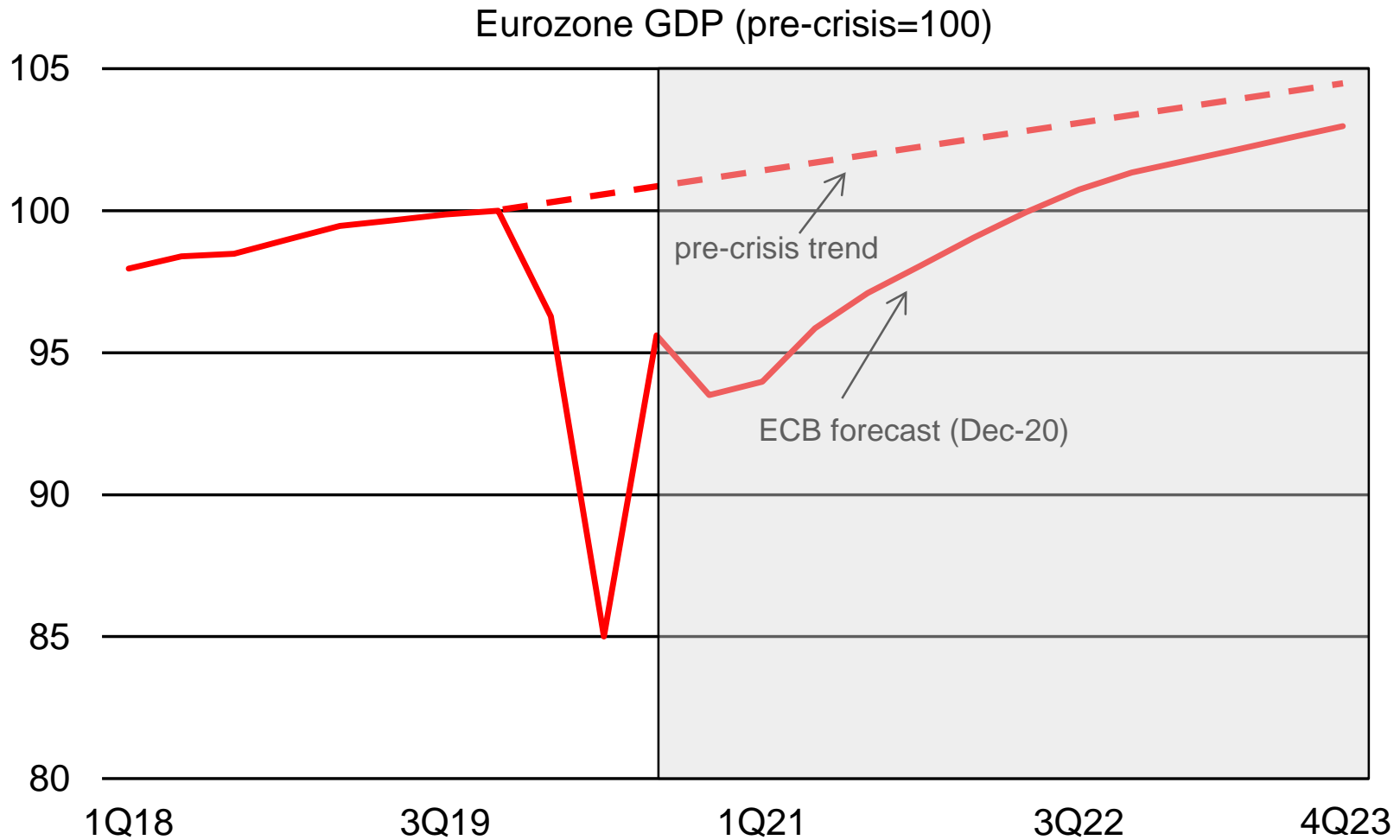
Base money  Broad money  Demand > Supply  Inflation



# Liquidity-hoarding greatly reduces the effects of QE on inflation



# Limited scope for inflation to accelerate until spare capacity is absorbed



# Conclusions

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## 1. **Transmission channels of QE**

Compression of term premium, portfolio-rebalancing effect, signaling effect

## 2. **Base money vs. broad money: the money multiplier**

Base money is created by central banks, broad money by commercial banks

The latter matters for inflation as it is more indicative of the spending capacity in the real economy

## 3. **When do we get inflation? When too much (broad) money chases too few goods and services**

Inflation is generated when aggregate demand exceeds aggregate supply on a sustained basis

## 4. **Therefore, the only way QE can cause inflation is by boosting the demand side of the economy**

No direct link between base money and inflation. Economic growth is key



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**Marco Valli**

Head of Macro Research  
Chief European Economist  
UniCredit Research

**Corporate & Investment Banking**

UniCredit Bank AG, Milan Branch  
Piazza Gae Aulenti, 4  
Tower C, I-20154 Milan  
Tel. +39 02 8862-0537

<mailto:marco.valli@unicredit.eu>

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