

# UniCredit Research Teach-in

Why QE does not lead to an outbreak of inflation

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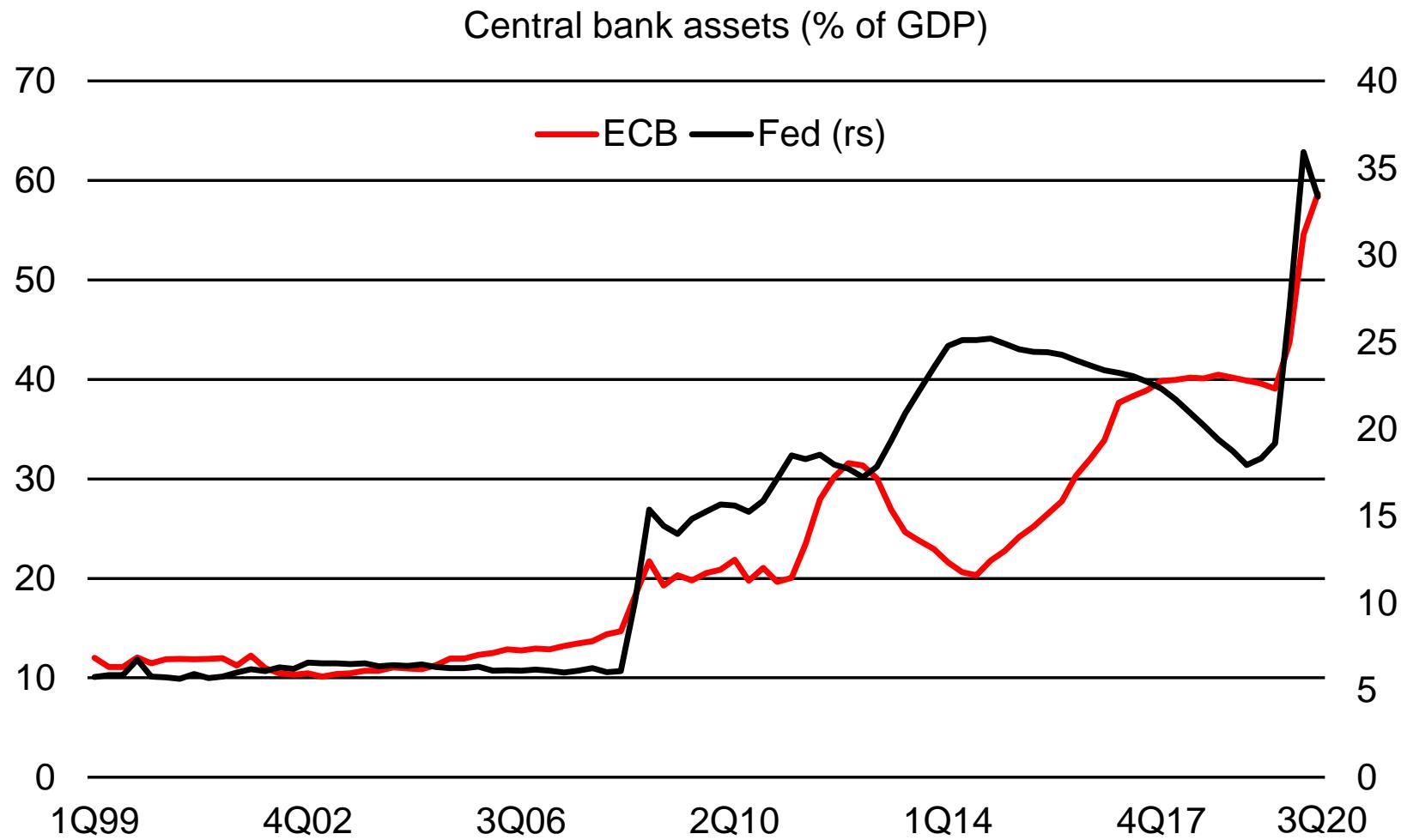
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Milan, 15 December 2020

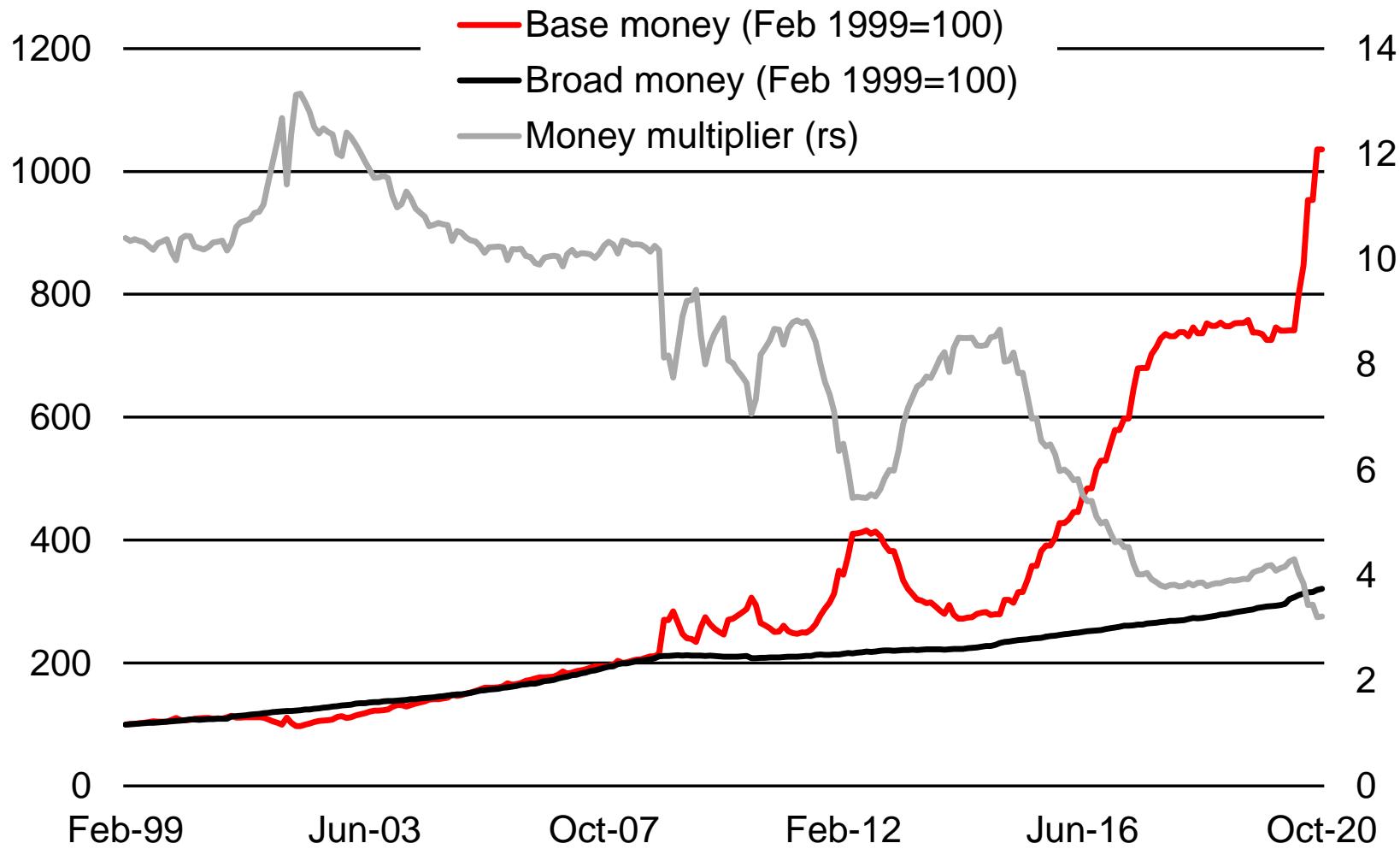
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# Big increase in central banks' balance sheets after COVID-19

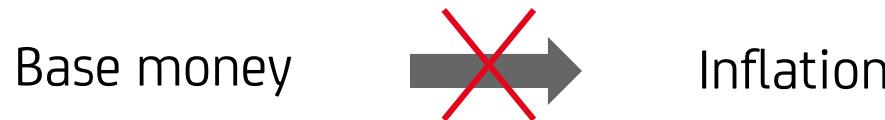


# Money multiplier collapses as broad money decouples from base money

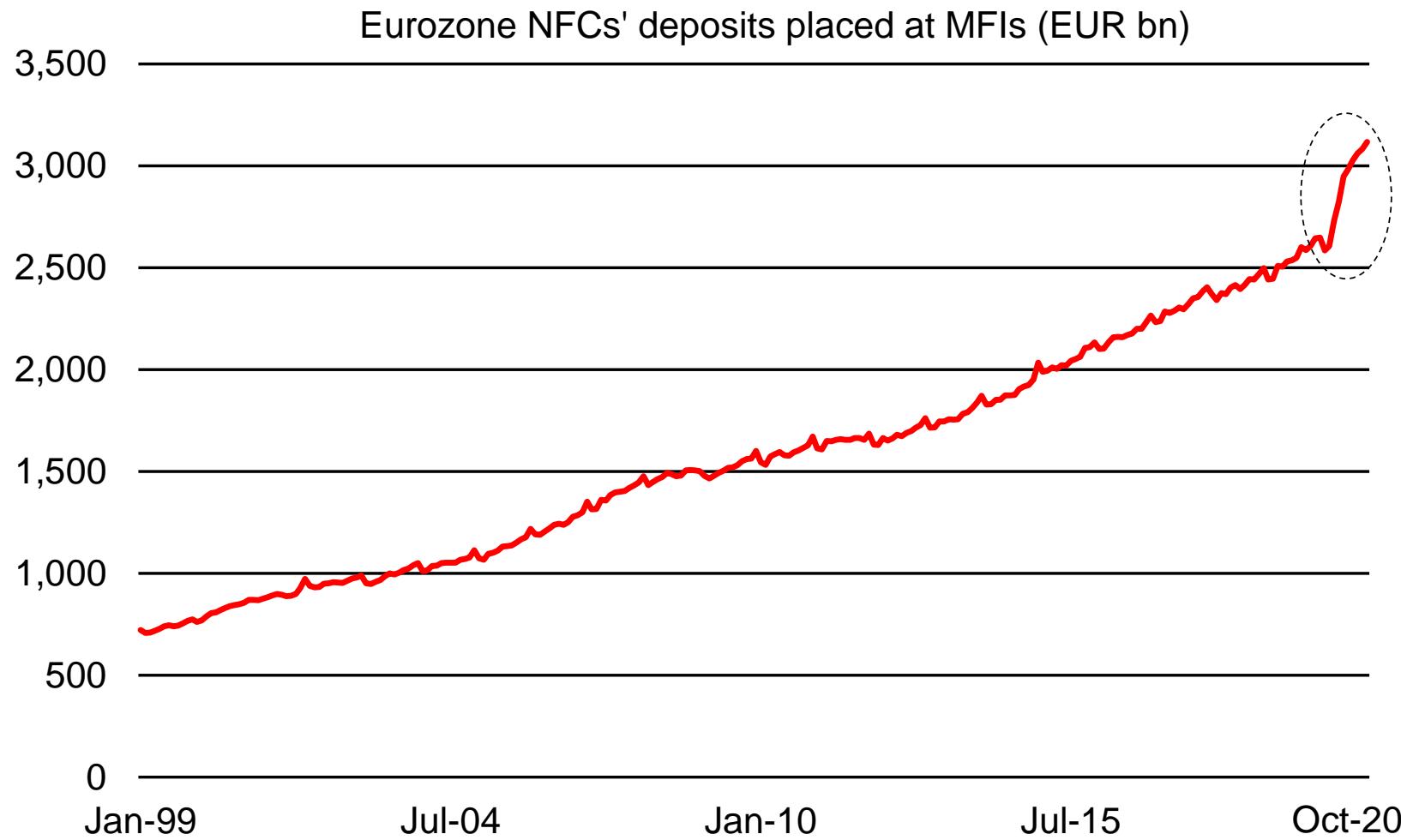


# Inflation picks up when aggregate demand exceeds aggregate supply

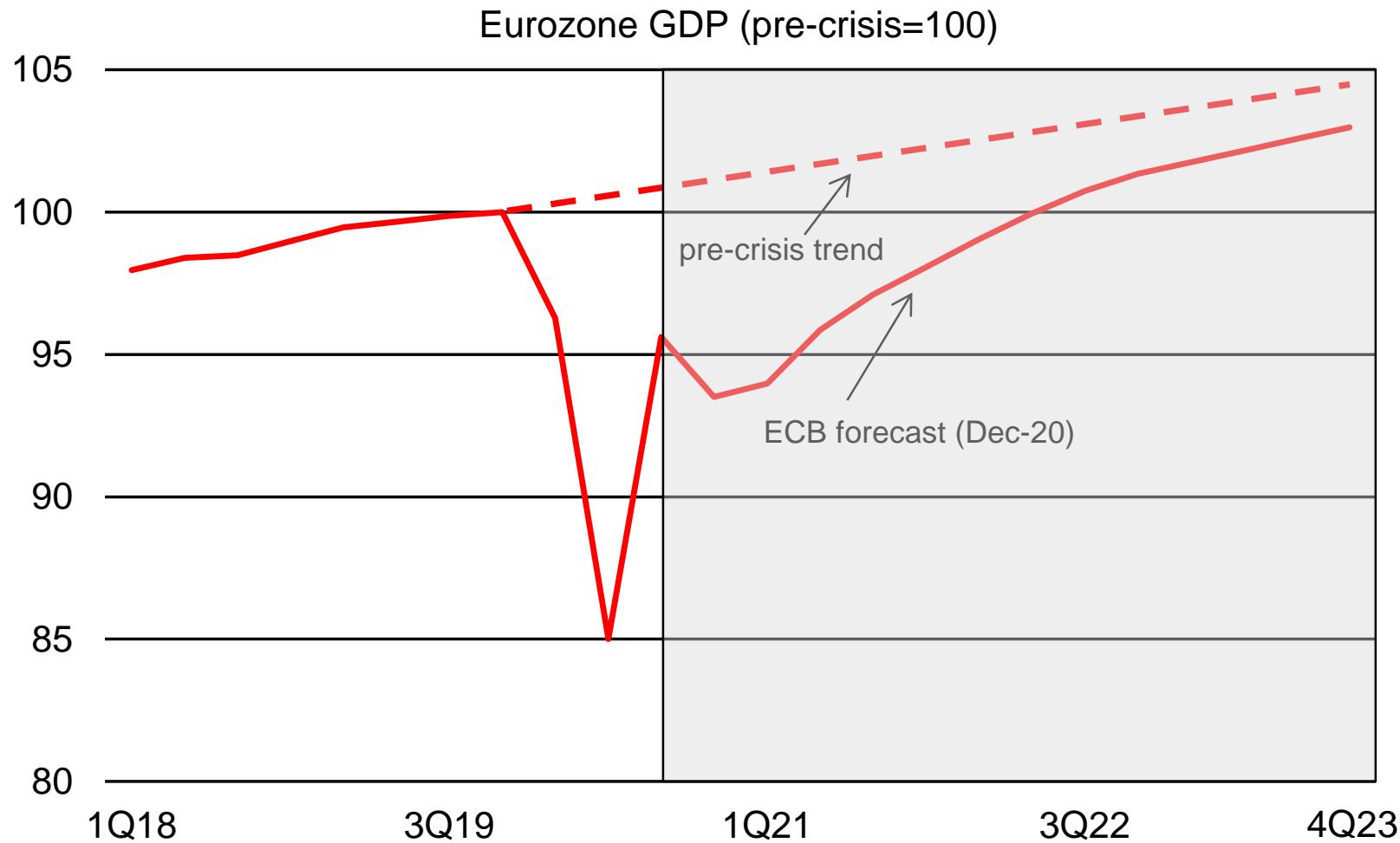
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# Liquidity-hoarding greatly reduces the effects of QE on inflation



# 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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