

# INFLATION'S RESURGENCE AND AN ECONOMIC OUTLOOK IN SIX ADVANCED ECONOMIES AFTER THE COVID-19 PANDEMIC: A COMPARATIVE APPROACH WITH THE 2008 FINANCIAL CRISIS.

## EL RESURGIMIENTO DE LA INFLACIÓN Y PANORAMA ECONÓMICO EN SEIS ECONOMÍAS AVANZADAS, TRAS LA PANDEMIA POR COVID-19: UN ENFOQUE COMPARATIVO CON LA CRISIS FINANCIERA DE 2008

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### Abstract

Crises are a part of economic cycles mainly characterized by structural changes in different economic sectors. The world economy experienced a recession in the Gross Domestic Product of 1.3% and 3.3%, in 2008 and 2020, respectively, according to the World Bank. Inflation as an economic process consists of a generalized and constant rise of prices, measured by the percent variation of the Consumer Price Index. Frequently, the term inflation is associated with developing nations and, to a lesser degree, with advanced or developed economies, except for those countries which have experienced constant devaluation of their currencies or some structural changes. "Inflation is, always and everywhere, a monetary phenomenon in the sense that it only is and can be produced due to a faster increase in the amount of money than that of production." This situation was accompanied by a slackening of the inflation rate, which was at an average of 0.5% in 2009 for the aforementioned economies. It is worth noting that, despite the implementation of asset sales according to QE, the impact on prices was unequal in some countries.

Keywords: inflation, economy, financial crisis, COVID-19, pandemic, World Bank.

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## Resumen

Las crisis son parte de los ciclos económicos caracterizadas principalmente por cambios estructurales en los distintos sectores de la economía. La economía mundial experimentó una contracción en el Producto Interno Bruto de 1,3% y 3,3%, en 2008 y 2020, respectivamente, de acuerdo al Banco Mundial. La inflación como proceso económico consiste en un alza generalizada y sostenida de los precios, medida por la variación porcentual del Índice de Precios al Consumidor. Con frecuencia, el término inflación se asocia con las naciones emergentes y en menor proporción con las economías avanzadas o desarrolladas, excepto en aquellos países que han experimentado depreciaciones sostenidas en sus monedas o algunos cambios estructurales. «La inflación es siempre y en todas partes un fenómeno monetario en el sentido de que solo es y puede ser producida por un incremento más rápido de la cantidad de dinero que de la producción». Este escenario vino acompañado de una desaceleración de la tasa de inflación, que se ubicó en promedio en 0,5% en 2009 para el grupo de economías antes mencionadas. Cabe destacar que, a pesar de la implementación de las compras de activos bajo el QE, el impacto en los precios fue desigual en algunos países.

Palabras clave: inflación, economía, crisis financiera, Covid-19, pandemia, Banco Mundial.

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## **Inflation's Resurgence and an Economic Outlook in Six Advanced Economies after the COVID-19 Pandemic: A Comparative Approach with the 2008 Financial Crisis.**

Crises are a part of economic cycles mainly characterized by structural changes in different economic sectors. The 2008 global crisis and the COVID-19 pandemic, which started towards the end of 2019, are not exceptions to this. Although both of them affected the real economy, their origins are different. The former was characteristically financial and systemic in nature, while the latter originated from sanitary concerns which paralyzed the international job market, due to the strict restrictions and confinement put in place during 2020.

The world economy experienced a recession in the Gross Domestic Product (GDP) of 1.3% and 3.3%, in 2008 and 2020, respectively, according to the World Bank. According to them, the pandemic represented "the worst recession since World War II." Due to this, monetary authorities decided to focus their efforts in decreasing interest rates and injections of funds, which had an opposite impact on prices. In detail, during the 2008 crisis, signs of deflation appeared in industrialized economies. However, since 2021, inflation has resurfaced in these economies.

Inflation as an economic process consists of a generalized and constant rise of prices, measured by the percent variation of the Consumer Price Index (CPI). This index allows for the inflationary phenomenon to be measured for a determined amount of time through the study of a specific basket of goods and services.

Frequently, the term inflation is associated with developing nations and, to a lesser degree, with advanced or developed economies<sup>1</sup>, except for those countries which have experienced constant devaluation of their currencies or some structural changes. According to Fischer's outlook and, later, that of Friedman<sup>2</sup> and Schwartz (1963), "Inflation is, always and everywhere, a monetary phenomenon in the sense that it only is and can be produced due to a faster increase in the amount of money than that of production."

The way inflation behaved in the advanced countries that make up the selected sample for this study (Australia, Canada, the USA, the Eurozone, the United Kingdom and Japan) was characterized by an average growth of 2%-3% prior to the COVID-19 pandemic. This result was reached in an environment of slow recovery observed since the 2008 financial crisis, which, after getting started in the USA, extended to Europe and Asia.

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1 This article is focused on the study of Australia, Canada, the USA, Japan, the United Kingdom and the Eurozone, cataloged by the International Monetary Fund (IMF), the World Bank, and the United Nations as advanced or developed nations.

2 Nobel Economics Prize 1976.

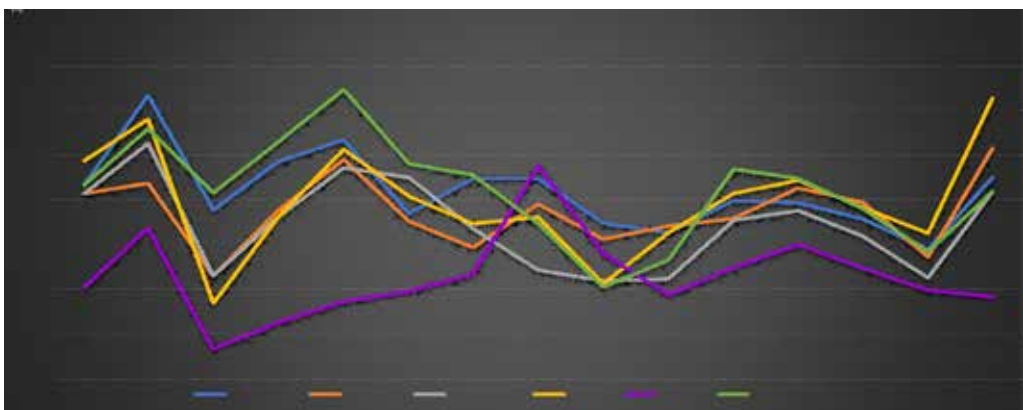
The aforementioned crisis caused an average drop of 3% in the advanced economies' GDP and a reduction to historical lows of interest rates by central banks. This situation was accompanied by a slackening of the inflation rate, which was at an average of 0.5% in 2009 (from 3.1% in 2008) for the aforementioned economies.

Faced with this situation, the Federal Reserve (Fed), the European Central Bank (ECB), the Bank of England (BoE), the Bank of Japan (BoJ), the Reserve Bank of Australia (RBA) and the Bank of Canada (BoC) injected funds through the quantitative expansion program called Quantitative Easing<sup>3</sup> (QE). This program was implemented through buying government and corporate bonds, with the objective of keeping financial costs down and, in so doing, incentivizing investments and demand of goods and services. It is worth noting that, despite the implementation of asset sales according to QE, the impact on prices was unequal in some countries.

Another objective of this incentive policy was promoting the growth of prices in order to reach the inflation goals set by the central banks, which were around 2% per year in the cases of the Fed, the ECB, the BoC, the BoJ and the BoE. However, for the RBA, this goal was in the range of 2%-3%.

According to figures provided by the International Monetary Fund (IMF), Australia's and the United Kingdom's CPIs reported similar rates, at 2.3%, prior to the pandemic (2008-2019). As for the USA, Canada, and the Eurozone, inflation rates were 1.8%/y<sup>4</sup>, 1,7%/y and 1,4%/y, respectively, under their respective inflationary goals. Japan had a different outlook, since the Japanese economy showed, on average, a behavior in its inflation rate very close to zero. In detail, the variable was at 0,4%/y in the indicated period, in other words, it tended towards deflation and was under its established goal of 2% annually.

**Graph No. 1**  
**Annual Inflation Rates 2007-2021**



Source: Personal research, using data from the IMF

<sup>3</sup> Unconventional monetary policies.

<sup>4</sup> Per year

Another element to consider concerning price behavior is the impact of QE on inflation. Graph No. 1 shows that the stimulation measures taken during the 2008 financial crisis instigated an increase in prices, even surpassing the goals established by the central banks, with Japan being the sole exception.

However, between 2013 and the first half of 2014, an increase in oil prices boosted the CPI of some advanced economies. It should be noted that, as for Japan, an increment to 8% from 5% of the VAT (April, 2014) led to the highest reported inflation rate in its economy in over 20 years. In spite of this, this behavior did not keep up over time, as prices began to descend in the following years.

In 2015, the United Kingdom, the USA and the Eurozone showed signs of deflation since these economies were still affected by the 2008 global recession, and oil prices were decreasing. One of the main factors that stimulated the price decrease was an increase in demand, which generated an increment in oil shale production in the USA ("Fracking")<sup>5</sup>. Another element that could be highlighted is Iran's return to crude oil production, after sanctions to the country were lifted.

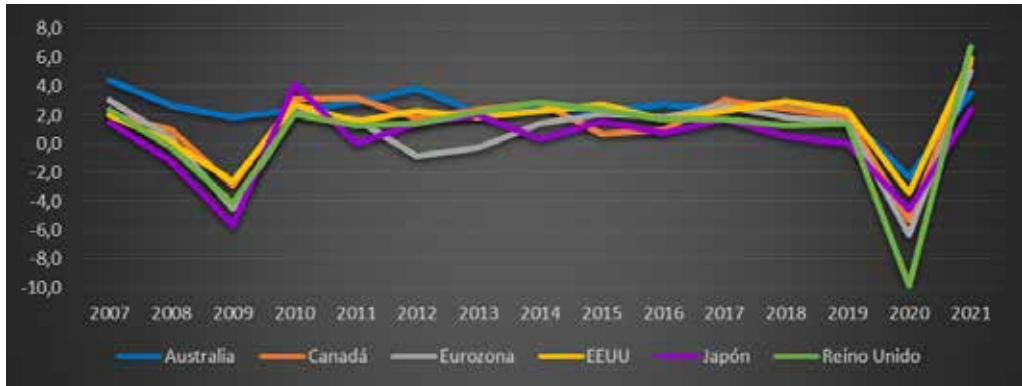
As for the evolution of the GDP, graph No. 2 shows the recessions experienced by the advanced economies analyzed in 2009, except for Australia, which showed a growth of 1.9% during that year. However, it slowed down from 2.7% in 2008. The recovery achieved in 2010 is the result of the ultra-expansive monetary policies implemented (QE) and the reduction of the central banks' referential interest rates.

During the time between 2011 and 2019, the GDP had a stable tendency, with signs of slow growth in the Eurozone and Japan. Specifically, Australia maintained an average growth of 2.6%, the USA 2.3%, Canada 2.1%, the United Kingdom 1.8%, the Eurozone 1.3%, and Japan 0.9%.

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5 It is an extraction technique in which rocks that contain oil and gas are fractured to obtain shale gas. This process is called hydraulic fracturing.

**Graph No. 2**  
**Real economic growth rate (2007-2021)**



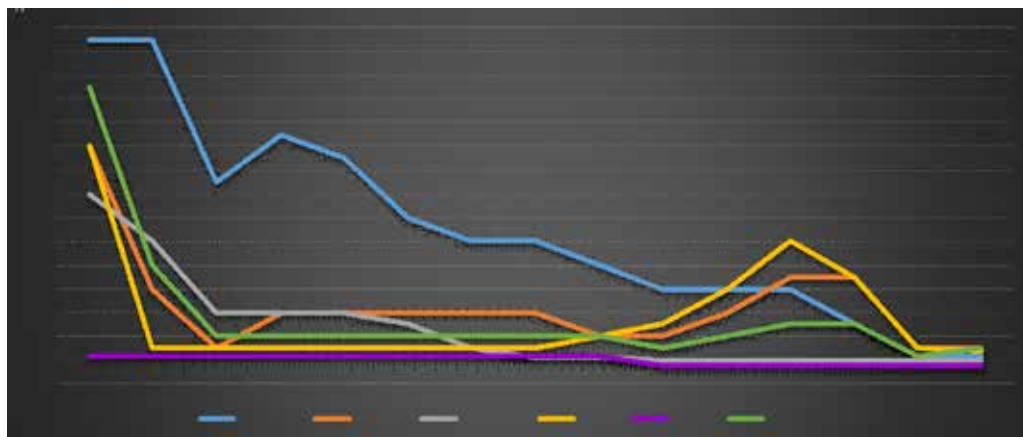
*Translation: blue, Australia; green, Canada; gray, Eurozone; yellow, USA; purple, Japan; green: United Kingdom*

Source: Personal research, using data from the IMF

In 2019, the world economy's growth was slowed down to 1.5% from 2.0% in 2018, due to more generalized aversion to risk caused by the commercial disputes between the USA and China. This situation came to be due to the implementation of mutual, commercial fees under Donald Trump's presidency. At the same time, the withdrawal of the United Kingdom from the European Union (Brexit) sped up, and the German economy slowed down, since its foreign demand was affected by the commercial conflicts. These circumstances led some organizations, such as the World Bank, the Organisation for Economic Co-operation and Development (OECD) and the FMI, to reduce their growth estimates.

In 2020, the world was affected by a pandemic that began in China at the end of 2019 and expanded across the world. This situation greatly increased aversion to risk and led the central banks towards decreasing their respective referential interest rates, just like during the financial crisis. This can be observed in graph No. 3.

**Graph No. 3:  
Monetary policy interest rate (2008-2021)**



Source: Personal research, using data from the IMF

In March, 2020, the RBA was the first central bank to reduce its referential interest rate by 25 basis points (bp), to 0.50%, in response to the pandemic. In May and November of the same year, the institution decreased the rate again, to 0.25% and 0.10%, which caused the value of money to reach its lowest point in the history of this index. The objective of this was to stimulate economic activity.

Meanwhile, the Fed carried out two reductions of credit costs in March, 2020: the first of 25 bp, to 1.25%, and the second around the halfway point of March, of 100 bp. As such, the returns of federal funds reached levels between 0 and 0.25%, which were a historical low, similarly to the 2008 financial crisis. Likewise, the BoE decreased its referential interest rate on two occasions: the first, in March, 2020, by 50 bp, lowering credit costs to 0.25%, and a week later, it was reduced by 15 bp, to 0.10%.

The ECB and the BoJ did not reduce their referential interest rates after the pandemic, keeping them unchanged since 2016, at 0% and -0.10% respectively. This was the result of deflationary pressures both regions went through in previous years. However, they carried out monetary and fiscal stimulation plans during 2020.

As for the most relevant measures taken in 2020, the following stand out: Australia implemented a stipulation package in an attempt to strengthen social security, payments to Small and Medium Enterprises (S&MEs) and subsidies for companies, among others. This program had a value of around AUD 176 billion, which was about 13.3% of the GDP.

Canada initially applied a capital injection of CAD 56 billion, which was around 3% of the GDP, credit availability for companies with a value of CAD 81 billion (including loans to S&MEs) and announced the “Large Employer Emergency Financing Facility” (LEEFF) program, financing companies with profits higher than CAD 300 billion.

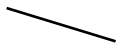
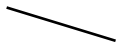
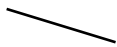
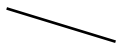

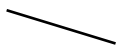
The USA announced in March, 2020, a help package, with a value of USD 2.2 trillions, to cope with the effects of the pandemic on S&MEs. This included unemployment insurance. Likewise, the Fed announced it would buy instruments for a value of USD 700 billion, with USD 500 billion destined towards the purchase of Treasury bonds and USD 200 billion towards mortgage-backed bonds. As such, it increased its balances, as well as its repo operations.

The Eurozone announced a program named Pandemic Emergency Purchase Program (PEPP), with a value of EUR 750 billion. In June, the value increased to 1,350 billion, and then again, to EUR 1,850 billion. Likewise, the European Commission approved rescue funds with a value of EUR 750 billion to help the most deeply affected countries, Spain and Italy among them.

In the United Kingdom, the BoE increased in GBP 300 billion, to GBP 745 billion, its quantitative relief program, and guaranteed loans to S&MEs of GBP 330 billion. And Japan injected capital through sovereign and corporate bonds with a value of USD 8.7 billion. For its part, the BoJ announced that it would lift restrictions on the purchase of bonds in April, abandoning the previous acquisition of JPY 80 trillion. Shinzo Abe's office announced, in April, the approval of an incentive package of around USD 1 trillion, which was equivalent to 20% of the GDP.

Despite the measures taken, the studied advanced economies shrunk by 5.3%, in average, in 2020, according to the IMF. This behavior was the result of severe restrictions and confinement, which paralyzed global economy and deteriorated the job market. Despite the aforementioned incentives, these advanced economies reported higher drops than those registered during the 2008 global recession (except for the case of Japan), as shown on the following table.

**Table No. 1:**  
**Real GDP growth rates in 2009 and 2020**

| Country        | 2009 | 2020 | Tendency   |
|----------------|------|------|--|
| Australia      | 1.9  | -2.4 |  |
| Canada         | -2.9 | -5.3 |  |
| Eurozone       | -4.5 | -6.3 |  |
| USA            | -2.6 | -3.4 |  |
| Japan          | -5.7 | -4.6 |  |
| United Kingdom | -4.1 | -9.8 |  |

Source: Personal research, using data from the IMF



However, in 2021, the effects of the fiscal incentives and the process of mass vaccination boosted the advanced economies' average GDP growth to 4.9%. It is important to note the results of the United Kingdom at 6.8%, the USA 6.0%, Canada 5.7%, Eurozone 5.0%, Australia 3.5% and Japan 2.4%, surpassing the pre-pandemic average (2008-2019). However, this growth was limited by the appearance of new strains of coronavirus during the third and fourth trimesters of 2021.

As for prices, the CPI's growth slowed down in 2020, due to lower energy prices caused by low demand. This led the Organization of the Petroleum Exporting Countries (OPEC) and its allies, Russia among them, to reduce their production quotas. However, in 2021, a change in prices tendency was observed.

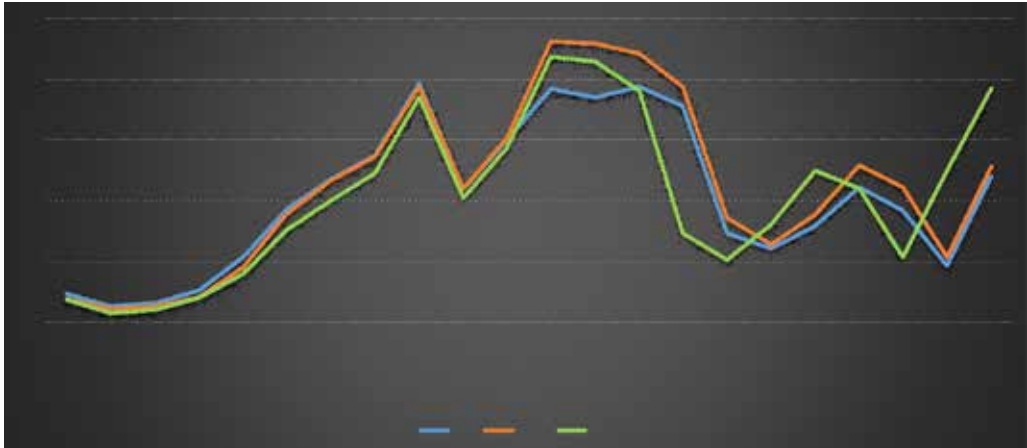
The growth of the advanced economies' CPI started to accelerate (except for Japan) since the quick recovery of these countries boosted a growing demand that turned out to be higher than the available supply, which was still affected by the imbalances brought about by the pandemic. This situation, which was intensified by the incentives implemented by central banks and governments, resulted in an increase of prices in 2021.

The imbalance between supply and demand generated scarcity, and production lines started to feel pressure. Likewise, the prices of natural resources and raw material were increased, which also resulted in increased prices for the final products. This made supply difficult due to production costs, and stores were delayed in their restocking procedures. This is known as the appearance of "bottlenecks" in the different sectors of the economy. An example of this is the low production of chips or semiconductors in Taiwan in the face of high demand of electronic devices, which affected the final goods that utilize this type of component.

At first, organizations like the IMF, the ECB and the Fed agreed that the price increase was "transitional," according to their 2021 reports. However, in 2022, they changed their minds and stated that the price increase "would be more long-lasting and persistent than originally thought." This caused the advanced economies to worry about their economic recovery, except for Japan.

Another aspect that explains the increment in the advanced economies' CPI is associated with oil quotation's growing prices, caused by a recovery in global demand and higher growth rates in industrialized countries.

**Graph No. 4:**  
**Oil Price Markers (2008-2021) Expressed in USD per Barrel**



Source: Bloomberg and OPEC

In these conditions, in the context described for 2021, the higher inflation rate forecasts became stronger in 2022. Because of this, the IMF estimated a price increase in the advanced economies to 2.8% in January, higher than its previous estimation of 1.9%.

**Table No. 2:**  
**CPI in the advanced economies**

| Country        | 2009 (Crisis) | 2019 (Pre-COVID) | 2020 (COVID) | 2021 | % Var 2021/2009 | % Var 2020/2019 | % Var 2021/2020 | Tendency |
|----------------|---------------|------------------|--------------|------|-----------------|-----------------|-----------------|----------|
| Australia      | 1.8           | 1.6              | 0.9          | 2.5  | 41.47           | -43.17          | 181.35          | ↘ ↗      |
| Canada         | 0.3           | 1.9              | 0.7          | 3.2  | 954.18          | -63.21          | 339.61          | ↘ ↗      |
| Eurozone       | 0.3           | 1.2              | 0.3          | 2.2  | 652.92          | -78.93          | 769.44          | ↘ ↗      |
| USA            | -0.3          | 1.8              | 1.2          | 4.3  | 1,438.75        | -31.13          | 243.27          | ↘ ↗      |
| Japan          | -1.3          | 0.5              | 0.0          | -0.2 | 87.38           | -105.77         | 522.22          | ↘ ↗      |
| United Kingdom | 2.2           | 1.8              | 0.9          | 2.2  | 0.00            | -52.48          | 158.52          | ↘ ↗      |
| Average        | 0.5           | 1.5              | 0.7          | 2.4  | 529.1           | -62,4           | 369.1           |          |

Source: Own calculations, using data from the IMF

As shown on the table above, the average inflation rate for the advanced economies in 2021 was 2.4%. Of special interest are prices in the USA, Canada, the Eurozone and the United Kingdom, as they were above the inflation goals of 2% established by monetary authorities. Australia reached its goal (between 2% and 3%), and Japan's rate was significantly lower than its goal.

It is worth noting that some analysts and organizations, such as the ECB (2021) agree that the growth in CPI is due to oil prices increasing. In order to quantify this claim, the correlation between the different crude oil markers, the West Texas Intermediate (WTI), the Brent, and the OPEC's prices among them, were calculated.

**Table No. 3:**  
**Pearson correlation quotient between the CPI and the future oil markers**

| Correlations CPI-WTI<br>(2008-2021) |      | Correlations CPI-Brent<br>(2008-2021) |      | Correlations CPI-OPEC<br>(2008-2021) |       |
|-------------------------------------|------|---------------------------------------|------|--------------------------------------|-------|
| USA                                 | 0.42 | USA                                   | 0.40 | USA                                  | 0.62  |
| Canada                              | 0.37 | Canada                                | 0.36 | Canada                               | 0.38  |
| Australia                           | 0.77 | Australia                             | 0.67 | Australia                            | 0.55  |
| Eurozone                            | 0.66 | Eurozone                              | 0.66 | Eurozone                             | 0.79  |
| Japan                               | 0.22 | Japan                                 | 0.21 | Japan                                | -0.27 |
| UK                                  | 0.72 | UK                                    | 0.70 | UK                                   | 0.75  |

Source: Own calculations, using data from Bloomberg and the OPEC.

Table No. 3 shows the correlations between the oil markers and the CPI between 2008 and 2021. A high and positive relationship for the advanced economies can be observed. More specifically, for the CPI and the WTI, the highest associations are: Australia, with 77%, the United Kingdom with 72%, and the Eurozone with 66%, with the lowest being the USA with 42%, Canada with 37%, and the lowest of all was Japan, with 22%. It is worth noting that the variables have a directly proportional influence. It is also important to mention that the CPI basket includes other items that can generate inflation, such as: food, beverages, services and tobacco.

Meanwhile, the relationship between the CPI and the Brent marker in the United Kingdom is positive, with 70% association, as expected due to the geographical region. Australia demonstrates a relationship between both variables of 67%, and the Eurozone, one of 66%, both lower than with the WTI. At a lower degree, the relationship between the Brent and the American CPI is 40%, with the Canadian one 36%, and a low relationship with that of Japan, with 20%, which shows that crude oil markers have a low association with the Japanese CPI, as observed in the studied periods.

As for the OPEC marker, the Eurozone showed a high relationship of 79%, which can be explained by the commercial relations of the cartel and its allies, such as Russia, when it comes to gas and oil. Likewise, the United Kingdom's CPI continues to show a high relationship between itself and the cartel's marker at 75%, which is higher than both the WTI and the Brent. Similarly, the American CPI showed its highest relationship with the OPEC marker, at 62%. Australia at 55%, less than with the WTI and the Brent. Canada at 38%, similar to other markers. However, Japan shows an inversely proportional relationship.

The estimated calculations prove that oil has a directly proportional relationship with most of the advanced economies' CPIs, with the exception of Japan, in which prices are explained by the hydrocarbon's price increase in only a small proportion.

On the other hand, more recent CPI data from the advanced economies showed a rising tendency during the first trimester of 2022. This behavior is explained by two factors: the first one is the instability caused by the pandemic, and the second, the behavior of oil prices as a result of rising demand. A third factor later became relevant: the unpredictability of the commodity caused by geopolitical conflicts, especially Russia's encroachment on Ukraine on February 23<sup>rd</sup>, 2022, as shown on table no. 4.

**Table No. 4:**  
**Inflation rate first trimester of 2022**

| Country        | Dec (2021) /y | January (2022) /y | February (2022) /y | March (2022) /y | % Var December/ January /y | % Var February/ January /y | Tendency |
|----------------|---------------|-------------------|--------------------|-----------------|----------------------------|----------------------------|----------|
| Australia*     | 3.5           | -                 | -                  | -               | -                          | -                          |          |
| Canada         | 4.8           | 5.1               | 5.7                | -               | 6.3                        | 11.8                       |          |
| Eurozone       | 5.0           | 5.1               | 5.9                | 7.5             | 2.0                        | 15.7                       |          |
| USA            | 7.0           | 7.5               | 7.9                | -               | 7.1                        | 5.3                        |          |
| Japan          | 0.8           | 0.5               | 0.9                | -               | -37.5                      | 80.0                       |          |
| United Kingdom | 5.4           | 5.5               | 6.2                | -               | 1.9                        | 12.7                       |          |
| Average        | 4.4           | 4.7               | 5.3                | 7.5             | -4.1                       | 25.1                       |          |

Source: Own calculations, with data from Bloomberg.



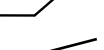



\*Available in three-month periods

As shown on the table above, an increase can be observed in the advanced economies' CPI during the first bimester (appreciated since December, 2021). On average, the price increase in February was 5.3%, and excluding Japan, 6.4%. It is worth noting that the CPI in the USA, Canada and the United Kingdom reached historical highs in the last 30 years.

In the Eurozone, prices reached highs not seen before in its history. In Australia, the CPI's behavior was similar to that of 2006. However, prices in Japan, despite increasing in February, remained under an annual 1%.

On table no. 3, the correlations between the CPI and the oil markers was shown, and a directly proportional relationship between the two variables was observed. However, it is advisable to remove the effect of volatile items from the estimation of the inflation rate, and to analyze prices in their underlying measurements. This measurement excludes the prices of gasoline, gas, electricity, some food products, tobacco, among others, as shown on table no. 5.

**Table No. 5:**  
**Underlying inflation rate**  
**first trimester of 2022**

| Country        | Dec (2021) /y | January (2022) /y | February (2022) /y | March (2022) /y | % Var December/ January /y | % Var February/ January /y | Tendency  |
|----------------|---------------|-------------------|--------------------|-----------------|----------------------------|----------------------------|---|
| Australia*     | -             | -                 | -                  | -               | -                          | -                          |  |
| Canada         | 4.0           | 4.3               | 4.8                | -               | 7.5                        | 11.6                       |  |
| Eurozone       | 2.3           | 2.7               | 3.0                | 3.0             | 17.4                       | 11.1                       |  |
| USA            | 5.5           | 6.0               | 6.4                | -               | 9.1                        | 6.7                        |  |
| Japan          | 0.5           | 0.2               | 0.6                | -               | -60.0                      | 200.0                      |  |
| United Kingdom | 4.2           | 4.4               | 5.2                | -               | 4.8                        | 18.2                       |  |
| Average        | 3.3           | 3.5               | 4.0                | 3.0             | -4.3                       | 49.5                       |   |

Source: Own calculations, with data from Bloomberg.

\*Available in three-month periods

Table No. 5 shows that the CPI's increase is explained by the rising tendency of other, non-volatile goods and services that are part of the advanced economies' corresponding baskets. In this manner, the fact that the rising behavior of the CPI is not just due to items that are considered volatile can be appreciated.

Under the aforementioned conditions, a tendency towards rising prices measured by the CPI's percent variation, which has generated concern in the advanced economies. This has, in turn, caused a decrease in purchasing power and higher aversion to risks on its duration and its impact on the economy.

As such, after the observed up-turn, three of the monetary authorities (the BoE, the BoC and the Fed) of the six advanced economies, at the end of the first trimester of 2022, took measures in order to increase their respective monetary policy interest rates, and announced that they would start the Tapering<sup>6</sup> process, with the aim of reducing the price increase in the middle and long term.

The BoE was the first central bank from the advanced economies to increase its referential interest rate to 0.25%, from 0.10%, in December, 2021, as a response to inflationary pressures. Similarly, during the first trimester of 2022, in two of its three monetary policy meetings, the organization increased the rate again, by 25 bp, up to 0.75%, surpassing the recorded rate of 0.50% in 2009, during the financial crisis.

Likewise, the BoC increased its referential rate by 25 bp, up to 0.50%, at the beginning of March, 2020. This rate is higher than that of 0.25% that the country maintained during not only the 2008 crisis, but also during the pandemic in 2020.

In the same way, the Fed adjusted the credit cost upward by 25 bp, reaching a range of 0.25% to 0.50% by mid-March, from a range of 0% to 0.25% implemented after the pandemic, similar to the rate recorded during the 2008 financial crisis.

On the other hand, the ECB, the RBA and the BoJ did not adjust their monetary policy rates during the first trimester of 2022. However, in order to face inflation, the ECB announced that it would decrease its purchase rate according to its PEPP program starting from March, and the RBA decided to put an end to its program of bond purchases for AUD 250 billion in February, 2022. In the meantime, the BoJ instead increased its debt purchases, since it was still far from reaching its goal of an annual 2%.

Due to the aforementioned considerations, it can be asserted that the 2008 financial crisis had a lesser impact on economic growth and prices in the advanced economies than the COVID-19 pandemic. However, even though the measures taken by the central banks in 2009 and 2020 were similar, their effect on the real sector was different.

In 2009, there was no sustained growth, and prices tended towards deflation. In 2021, the economy recovered, which led to pressures to increase prices starting from the first trimester of

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6 Reduction of debt purchases applied by central banks.

2021. This prompted an inflationary phenomenon not seen in over 30 years to resurface in the advanced economies, as shown in graph no. 1.

Because of this, most of the advanced economies' inflation rates were below their inflationary goals in 2009, tending towards deflation in the USA, Canada, the Eurozone and Japan. In the case of the United Kingdom and Australia, prices were close to the inflationary goals.

In contrast, during 2021 and the first months of 2022, the advanced economies surpassed the central banks' inflationary goals (with the exception of Japan), with inflation rates of a single digit. Despite its rising tendency, it has not been uniform in the studied economies. The American inflation rate was the highest, showing that the USA is the country with the highest fiscal incentives when compared to the other advanced economies.

Finally, the 2022 climate will be marked by recovery affected by persistent uncertainty and a challenging economic environment with multiple difficulties, according to the IMF. Due to this, the organization predicts lower GDP growth in 2022, of 4.4%, from the previous 4.9%. The context for this includes high debt, higher interest rates and inflationary pressures that will be corrected as the gap between supply and the demand caused by the pandemic is closed. Likewise, geopolitical conflicts will continue. This situation will maintain the turn-up of energy and basic product prices, threatening global recovery.

Under the aforementioned conditions, it is foreseen that the central banks will take more measures regarding their respective monetary policies, in order to face increasing prices. However, the appearance of new variants of COVID-19 will continue to cause concern and, possibly, new restrictions, as is the case with China. This could result in the global economy slowing down.

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