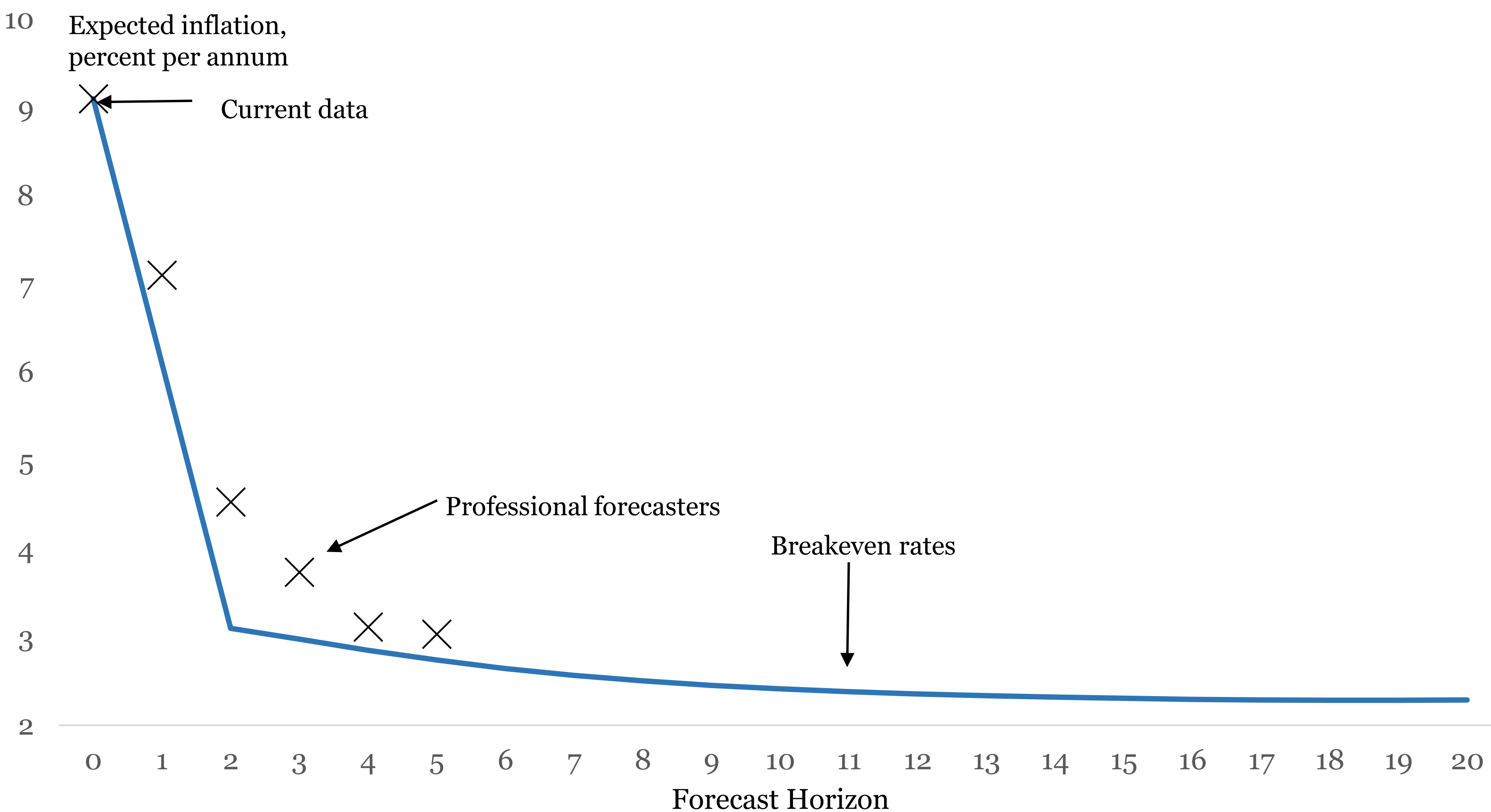
Commentary: "Inflation as a Fiscal Limit"

By Bianchi and Melosi

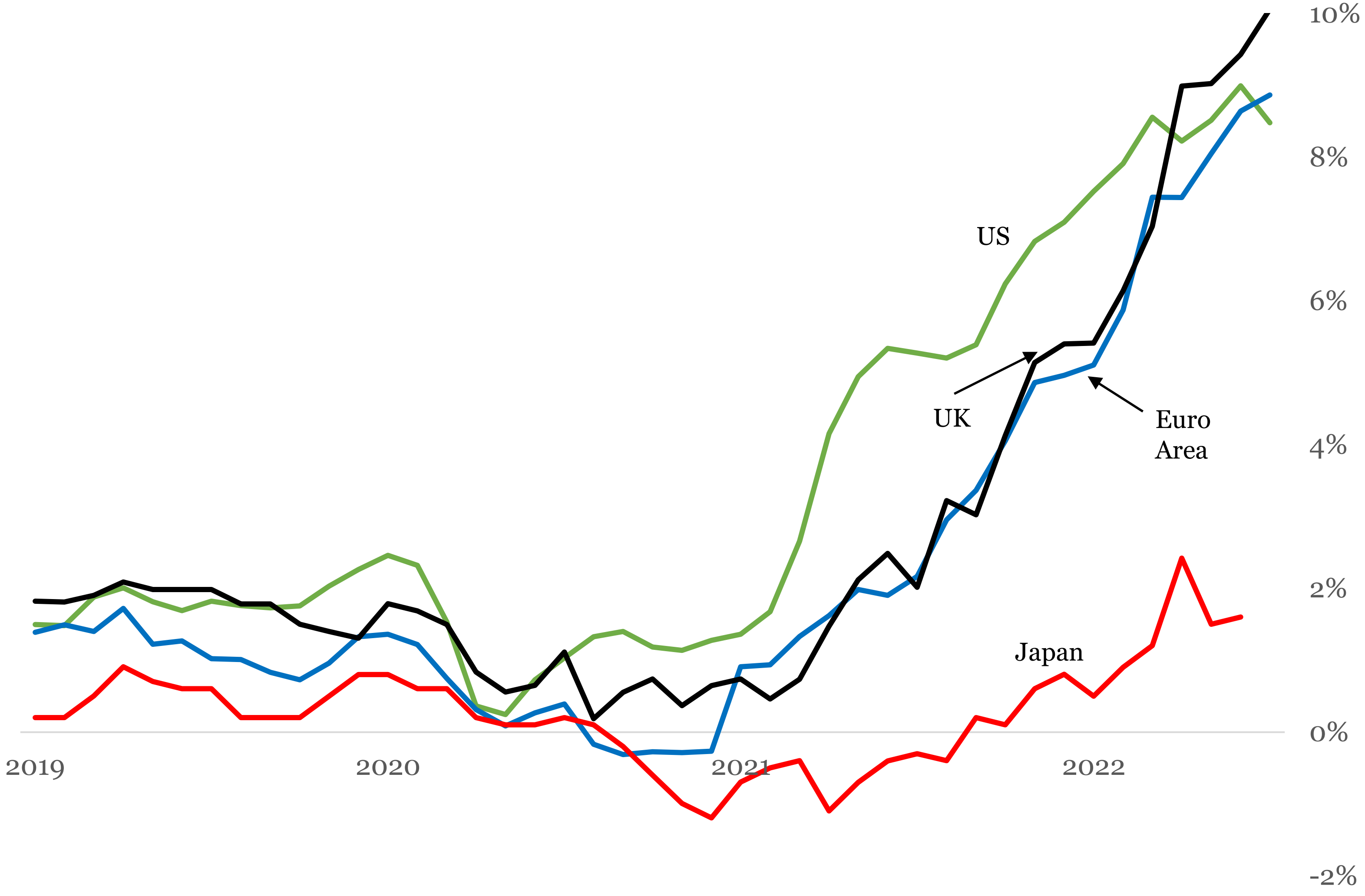
Ethan Ilzetzki, London School of Economics

Figure 1: Inflation compensation in US Treasury Yields and Professional Forecasts



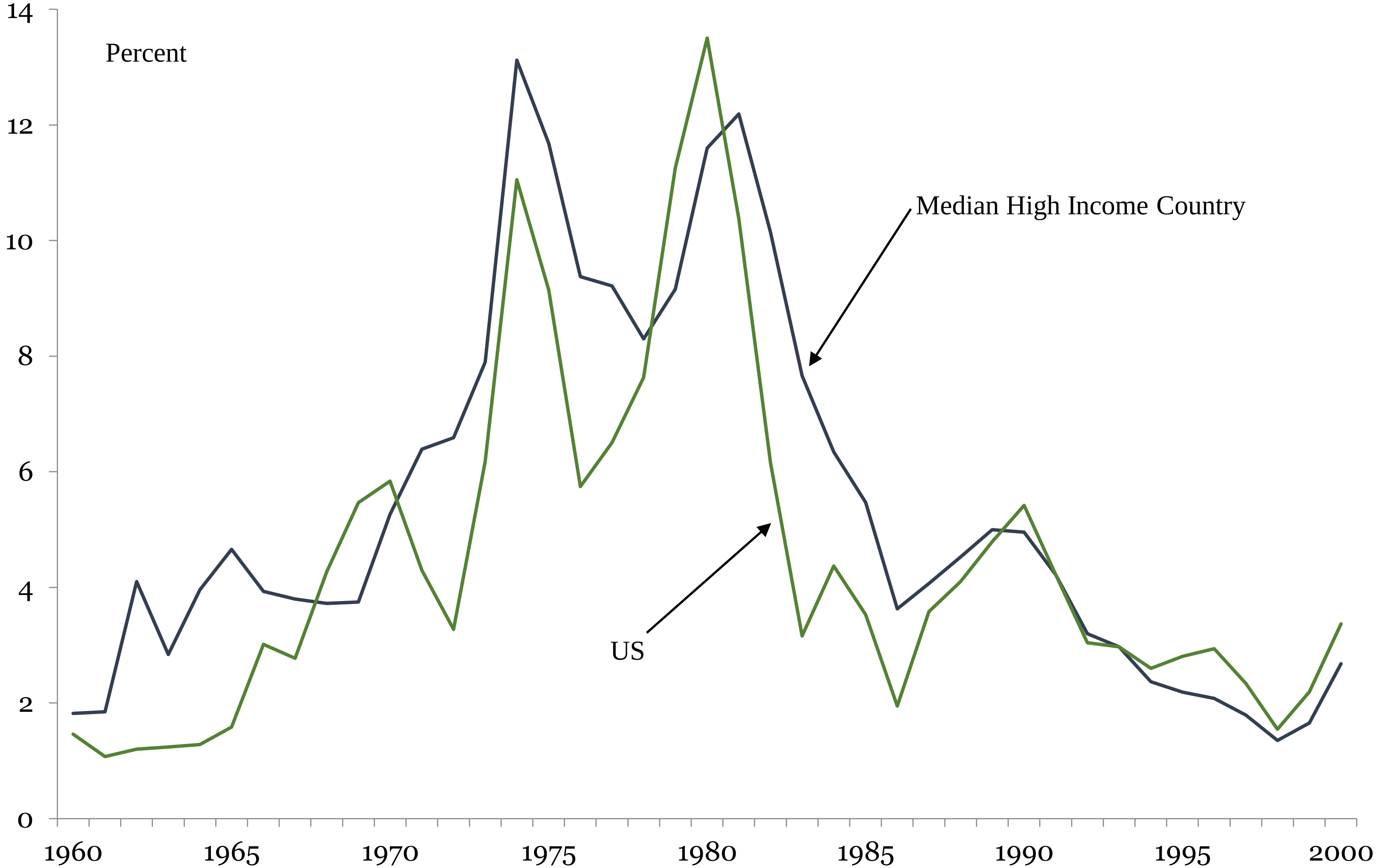
Note: Annualized inflation expectations at various forecast horizons implied by differences between Treasury and TIPS yields (on July 29, 2022). Value at forecast horizon zero gives the June 2022 year-on-year inflation rate. Values from forecast horizon 2 and above are smoothed inflation compensations at each horizon, calculated using the Gürkaynak, Sack, and Wright (2010) method. Breakeven rates may reflect a combination of liquidity differences and inflation expectations. The Xs represent the median of inflation expectations from the Survey of Professional Forecasters (Q2, 2022). Sources: Federal Reserve Board, Federal Reserve Bank of Philadelphia and the author.

Figure 2: Inflation in Four Economic Areas



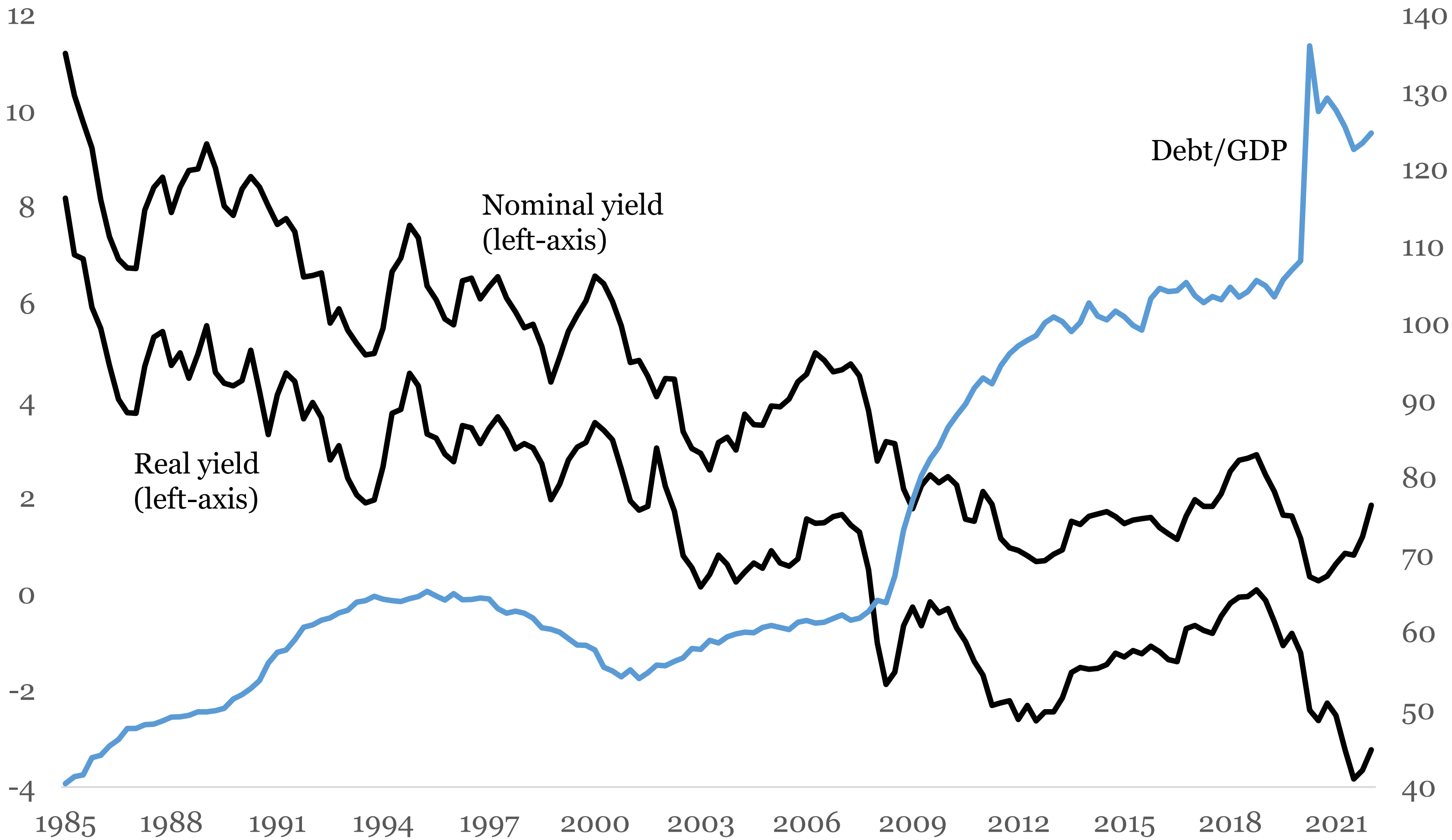
Note: Year-on-year inflation rates. Sources: U.S Bureau of Labor Statistics, Eurostat, Bank of Japan, UK Office of National Statistics.

Figure 3: 1970s Inflation in the US and the Median High-Income Country



Sources: Ilzetzki, Reinhart and Rogoff (2020), IMF World Economic Outlook, and the author.

Figure 4: US Debt to GDP and Nominal and Real Yields on 5-Year Treasuries



Note: US Debt as a percent of GDP (right axis) and nominal and real yield on 5-year US Treasuries. Real yield is the ex-ante yield, with inflation expectations taken from the Michigan survey of consumers. Sources: Office of Management and Budget, Federal Reserve Board, Survey of Consumers: University of Michigan, St. Louis Fed, and the author.