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Economic and Financial

Topic 1: Alarmed by the global inflation rate, and urging towards universal action

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Introduction:

The world has been suffering from a global increase in inflation, from Japan to Turkey to the United States, all have felt the squeeze of rising prices. This will give an understanding to the reasons for this situation and what can be done to fix it. After the worldwide COVID-19 pandemic compounded with the war in Ukraine, this has created a perfect storm that has led to rising energy prices, and which then snowballs into rising prices for the consumer leading to inflation. The UN has not committed to central action to deal with rising inflation, central banks around the world have implemented radically different methods. This has turned into a patchwork system of different policies and situations. Most Central banks have raised interest rates to try and suppress the rising inflation and at time of writing it seems to have started to take effect, as inflation has fallen most places for the first time in months.

Definition of Key Terms:

1. **Interest Rates**: The amount charged over and above the principal amount by the lender from the borrower[1]. This slows economies by raising the cost of borrowing money. The opposite can happen if interest rates are lowered. This is
2. **Central Banks**: is a national bank that provides financial services for the nations government and implements monetary policy and printing currency
3. **European Central Bank (ECB)**: The European Central Bank (abbreviated ECB) is the bank that regulates the Eurozone therefore creating the monetary policy of the European Union (EU)[2], exceptions are made for countries in the EU without the Euro for example Denmark has the Krone and its own Central Bank. The Danish *Nationalbanken* is always following ECB however in their implementation of policy.
4. **United States Federal Reserve (The Fed or Federal Reserve)**: The Fed is the Central Bank of the United States and creates the monetary policy of the United States. They are

[1] https://www.bankofengland.co.uk/knowledgebank/what-are-interest-rates
[2] https://european-union.europa.eu/institutions-law-budget/institutions-and-bodies/institutions-and-bodies-profiles/ecb_en

highly influential in the financial market and Central Banks follow the Fed very closely.

5. **Bank of Japan (BoJ)**: The Bank of Japan is the Central Bank of Japan
6. **Deflation**: is when prices fall and value of money increases, this can lead to high unemployment and decreases in economic activity and demand

Background Information:

The COVID-19 Pandemic broke out in 2019. Countries all went into lockdowns as COVID-19 ravaged the world, this created a supply chain crisis. Bottlenecks were created as too many goods were being produced however these goods could not get to where they needed to be thereby creating a shortage of many products. This along with the blocking of the one of the most vital arteries of global trade, the Suez Canal for six days in 2021, created a large mountain of demand without a supply chain that could quickly catch up, this would in turn lead to large price hikes.

While this was all happening to deal with the lockdowns and the economic fallout of l keeping everyone at home for months. Governments and Central Banks begin to print copious amounts of money to finance their economic stimulus packages. The goal of these stimulus packages aimed to keep the economy running because people were spending less money, so it was an injection of liquid capital into the economy. This capital needed to be financed and the U.S. Treasury at behest of the Fed would begin to print a before unprecedented amount of money. Since January of 2020 to October of 2021 80% of all U.S dollars ever printed were printed in that almost two-year window[3]. This is a hitherto unprecedented amount of money and has only devalued the United States Dollar and will lead to higher inflation and raise prices on every good from Milk to Cigarettes.

Then in February of 2022 the Russian Federation invades Ukraine, this receives massive international condemnation and caused western nations to lay sanctions on Russia. This in turn caused Russia to stop selling natural gas to the EU. This is highly problematic for the EU and especially for nations like Germany, who's policy of appeasement with Putin left them especially

[3] https://techstartups.com/2021/12/18/80-us-dollars-existence-printed-january-2020-october-2021/

dependent on Putin. This caused energy providers to go into a panic as there was suddenly not enough natural gas to produce energy for its citizens. Germany who was already in the process of closing its few remaining nuclear reactors continued to close them down worsening the energy situation. The French however rely on a large number of nuclear reactors, 70% of their energy is produced by nuclear therefore independent on Natural Gas from Russia. This is however caused uncertainty about if there are enough power causes energy prices to skyrocket causing more inflation in the Eurozone. This brings us to time of writing, Christmas of 2022 where EU inflation sits at 10%[4], U.S inflation is at 7.11%[5] and BoJ inflation is at 2.8%[6].

Major Countries and Organizations Involved:

The Central banks of some of the largest countries in the world are the largest players in the fight against inflation. They have wildly different approaches. Let us start with the largest central bank in the world, The Federal Reserve. With a net worth of 143T Dollars it is the largest bank in the world. The Federal Reserve was slow to call the current inflation crisis a recession, however when they finally acknowledged the abnormal inflation, they acted quickly raising interest rates higher than they have been since before 9/11. With this higher interest rate, they hope to slow the economy and lower inflation.

The European Central Bank is the regulator of the Euro and the Eurozone in the European Union. The ECB is led by a rotating system of voting rights on the governing councils with six executive board members at its head. The goal of the EBC is to provide a stable Euro so that European economies can grow. This was achieved by providing cheap credit to whoever wanted it, and it has been unwilling to let this policy go. The ECB has been responding to rising inflation slowly, like the Fed in the United States, the ECB has believed that after the aftershocks of COVID-19 wore off the inflation rate would fall again down to their two percent target or even below that. This however has not occurred, and the ECB has been forced to accept that this was not just a transitory period as they once believed[7]. Then the ECB began raising interest rates at an unprecedented rate from fifty basis points (0.5%) to seventy-five basis points (0.75) in one hike.

[4] https://ec.europa.eu/eurostat/documents/2995521/15265536/2-30112022-AP-EN.pdf/bbfcf655-d7fb-c928-3f54-29b9c808209c
[5] https://www.usinflationcalculator.com/inflation/current-inflation-rates/
[6] https://www.bloomberg.com/news/articles/2022-12-22/japan-s-inflation-speeds-up-raising-risk-of-more-boj-shocks?leadSource=uverify%20wall
[7] https://www.gisreportsonline.com/r/eurozone-inflation/

The ECB wishes for a two-fold solution, one where inflation occurs yet they can still provide cheap loans with low interest rates to keep a growing European economy.

The Bank of Japan is the second largest central bank in the world. It however has some radically different challenges compared to the ECB or the Fed. Japan for an exceptionally long time has struggled with deflation. In the 1990s a bubble was created in land prices which meant that land was worth much more than it should be, then the bubble popped in 1998 and prices have continued to fall since then[8]. The Japanese who have had an ultraloose lending policy therefore welcome the rising inflation rate. This will help them combat deflation and help fix their economy. Therefore, the BoJ is the only major central bank that has not raised interest rates in face of rising inflation due to the fact the Japanese are only ever so slightly above the goal of 2% inflation at 2.8%.

Relevant UN Resolutions:

The UN has not attempted to solve the issue of inflation due to it being the role of central banks and it is exceedingly difficult to create a standardized rule set because every nation is different.

Previous Attempts to Solve the Issue:

Most banks have followed the Fed’s example and raised interest rates faster than any time in recent memory. The BoJ however has not raised interest rates and kept an ultra-loose loaning policy. This has helped the Japanese combat deflation. The raised interest rates of the Fed and the ECB are doing the job as inflation numbers have fallen in the U.S for the first time in months. The same is to be said for the ECB however that us mostly due to the fall in inflation of energy prices.

Possible Solutions:

[8] https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiDhtiT7Zn8AhUORfEDHfbcBBUQFnoECA0QAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2FFiles%2FNews%2FSpeech%2F2019%2F2019-camdessus-lecture-speech.ashx&usg=AOvVaw0ZftqnSTxfUo2aUGSreskr

For most nations, the most viable solution is to raise interest rates to slow the economy and make the interest rate fall. This is the solution of the Fed and the ECB. This however could change if a nation has been dealing with deflation like Japan, then they would welcome the rising interest rates. There isn't a real global solution to inflation due to the fact that countries situations can be radically different from one another and therefore a uniform response cannot be created centrally. Each nation will have to decide for itself and its own situation which approach is best, whether it be the raising of interest rates or allow the inflation rate to pull a nation of of deflation.

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