

Macro Roundup Article

Headline: [The Coming Doom Loop](#)

Article Link: <https://www.project-syndicate.org/commentary/federal-reserve-facing-trilemma-inflation-recession-insolvent-banks-by-nouriel-roubini-2023-03>

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Tweet: [. @Nouriel argues that that the Fed “must not delude themselves into thinking they can still achieve both price and financial stability.” He concludes, “everyone should be preparing for the coming stagflationary debt crisis.”](#)

Summary: The credit crunch caused by today’s banking stress will create a harder landing for the real economy, owing to the key role that regional banks play in financing small and medium-size enterprises and households. Borrowers are facing rising rates – and thus much higher capital costs – on new borrowing and on existing liabilities that have matured and need to be rolled over. But the increase in long-term rates is also leading to massive losses for creditors holding long-duration assets. As a result, the economy is falling into a “debt trap,” with high public deficits and debt causing “fiscal dominance” over monetary policy, and high private debts causing “financial dominance” over monetary and regulatory authorities. In a debt trap, higher policy rates will fuel systemic debt crises that liquidity support will be insufficient to resolve. Since liquidity support cannot prevent this systemic doom loop, everyone should be preparing for the coming stagflationary debt crisis.

Primary Topic: Business Cycle

Topics: Banking, Business Cycle, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post, Quote, Theory

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