The Dynamics of Large Inflation Surges

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We empirically characterize episodes of large inflation surges that have been observed worldwide in the last three decades. We document four facts. (1) Inflation following surges tends to be persistent, with the duration of disinflation exceeding that of the initial inflation increase. (2) Surges are initially unexpected but followed by a gradual catch-up of average short-term expectations with realized inflation. (3) Long-term inflation expectations tend to exhibit mild increases that persist throughout disinflation. (4) Policy responses are characterized by hikes in nominal interest rates but no tightening of real rates or fiscal balances. Our findings highlight the challenges monetary authorities face in avoiding persistent inflation dynamics following large inflation surges.

**Url:**<https://www.nber.org/papers/w30555>