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How Will We Reduce Inflation?



In last week's [article](#), I wrote about the main culprit of inflation. Now, I will discuss how it can be reduced. First, it's beneficial to create a nice introduction.

Perhaps the most striking statement in the fight against inflation came from Russian President Putin. He seems to have addressed the issue of „coordination among economic actors,“ which I have been repeating for a long time.

Putin stated, „I want to draw the attention of both the government and the Russian Central Bank once again; it is necessary to enhance the efficiency of coordinated actions to reduce inflation.“

While reminding that the Russian Central Bank had raised interest rates to lower inflation, he expressed that it was „strange“ that corporate and consumer loans continued to increase.

He highlighted that the increase in loans contributes to the rise in inflation rates and strengthened his remarks by saying, „The negative consequences of the rapid development in the financial sector are extremely important; this is a sensitive issue.“ He then provided a prescription:

„It is clear that we must systematically fight inflation by increasing the supply of goods and services.“ (In my opinion, increasing the production in these conditions, can not combat inflation, but never mind.)

„Both the government and the Russian Central Bank need to improve the efficiency of coordinated actions.“ (Here, Putin is completely right.)

Let me remind you: The Russian Central Bank last [raised](#) the policy interest rate by 200 basis points to 18% on July 26. The inflation rate in Russia is around 9%. The Russian Central Bank aims to reduce this rate to 4%.

A call to „coordinate

In summary, a policy interest rate of 18% is

currently applied for an inflation rate set to drop to 4%. If Putin is not satisfied with this, he either views the inflation rates as incorrect or finds the economic management too loose. If Putin has begun to believe that those around him are providing him with false data, this warning suggests that changes in economic management may happen soon.

It is wise to remain alert to the possibility that everything could go off the rails at any moment in democracies that define themselves solely by elections

The bottom line: If there is a perception that inflation-related behavior is „loose“ despite a policy interest rate that is twice the inflation rate, and there is a call to „coordinate,“ especially if this is happening in a country governed by „autocracy,“ it is wise to remain alert to the possibility that everything could go off the rails at any moment in democracies that define themselves solely by elections.

So why did I write all this? Let me explain.

If we recall the effective demand function once again, it makes the explanation easier:

$$Y = C + I + G + (X - M)$$

Here, C is private consumption, I is private investment, G is public spending, and (X-M) is the difference between exports and imports.

Recipe for a soft landing

It is true that to reduce inflation, effective demand must be pulled down. However, if countries like Russia, Turkey, and others continue on the path with enormous public spending due and wrong policies, the plan will fail. Because the economic management's discourse on saving goes no further than mere recommendation.

The last parameter, foreign trade, also progresses on its own, and if the economic

management tells this as its own achievement, it leads to a deadlock.

As understood from the above equation, if only investments have stopped due to rising interest rates, stagflation can occur before lowering inflation. Even a primary school student would understand this situation, yet highly educated individuals seem to have difficulty grasping it.

Nobody in world history has written the recipe for a soft landing

To the officials claiming, „Don't worry, there will be no hard landing while reducing inflation,“ I want to remind them: Nobody in world history has written the recipe for a soft landing.

These attempts have either resulted in a rapid contraction or, because they were abandoned, returned to inflationary growth. We will soon see examples of this.

So, What is the Solution?

Rational roadmap

It will not suffice to combat inflation solely through interest rate increases and withdrawing money from the market; applying pressure on currency exchange rates will bring more significant troubles.

It is necessary to immediately halt carry trade, recognize that manipulating inflation figures is fundamentally an ethical issue, and understand that without a radical brake on public spending, failure will be inevitable.



If inflation has risen from single digits to high levels over several years, it would be more appropriate to adopt a gradual, rational roadmap instead of a shortcut plan - Emre Alkin

We cannot reach any conclusion without acknowledging that many activities, from the foreign trade regime to the tax regime, from agriculture to trade, from wastefulness to mega projects, create inflation.

Therefore, we must first accept these realities and then end the wrong practices to implement a rational, conscientious prescription that will be embraced by all segments of society.

My final warning: If inflation has risen from single digits to high levels over several years, it would be more appropriate to consider this and adopt a gradual, rational roadmap instead of a shortcut plan.

Example: In Turkey, the economic management took office in June 2023 to reduce inflation, which increased from 8% to 38% in seven years, to single digits within three years. A year later, in 2024, the inflation to rose to 75%. They made almost all the mistakes I mentioned above, but due to high interest rates and the pressure on the exchange rate, they cannot see the truth because of the praises from those who earned a 21% gain in dollar terms in 6 months.

Success is always claimed by everyone, while failure is always left neglected and orphaned. Even though I do not have a favorable opinion of him, Putin's recent statements make it clear who the real responsible party is.