



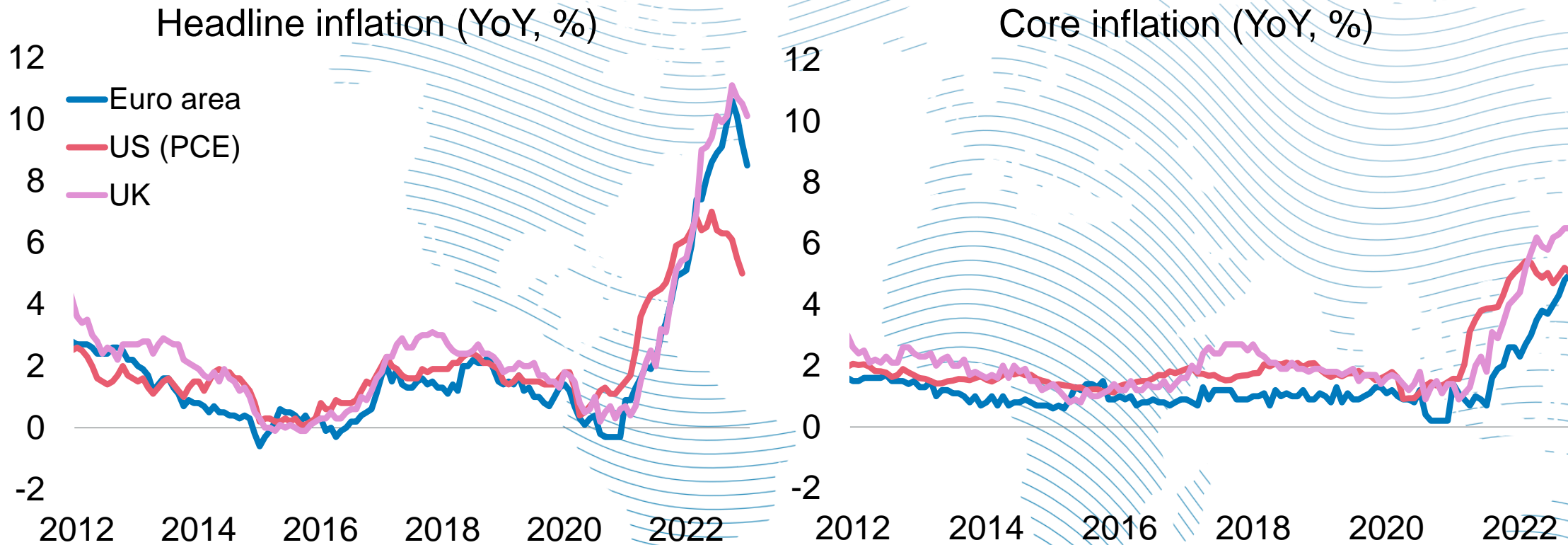
Eesti Pank
EUROSÜSTEEM

Why is inflation so high and so different in different euro area countries?

Madis Müller

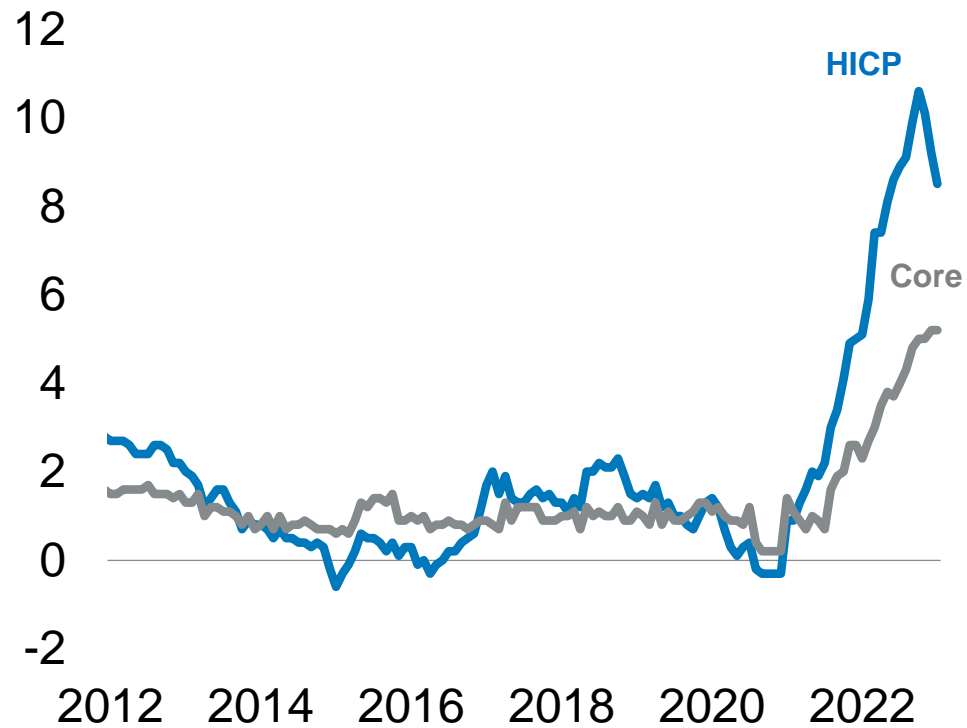
3 March 2023

Inflation soared in the aftermath of the COVID pandemic: supply and demand factors were both at play

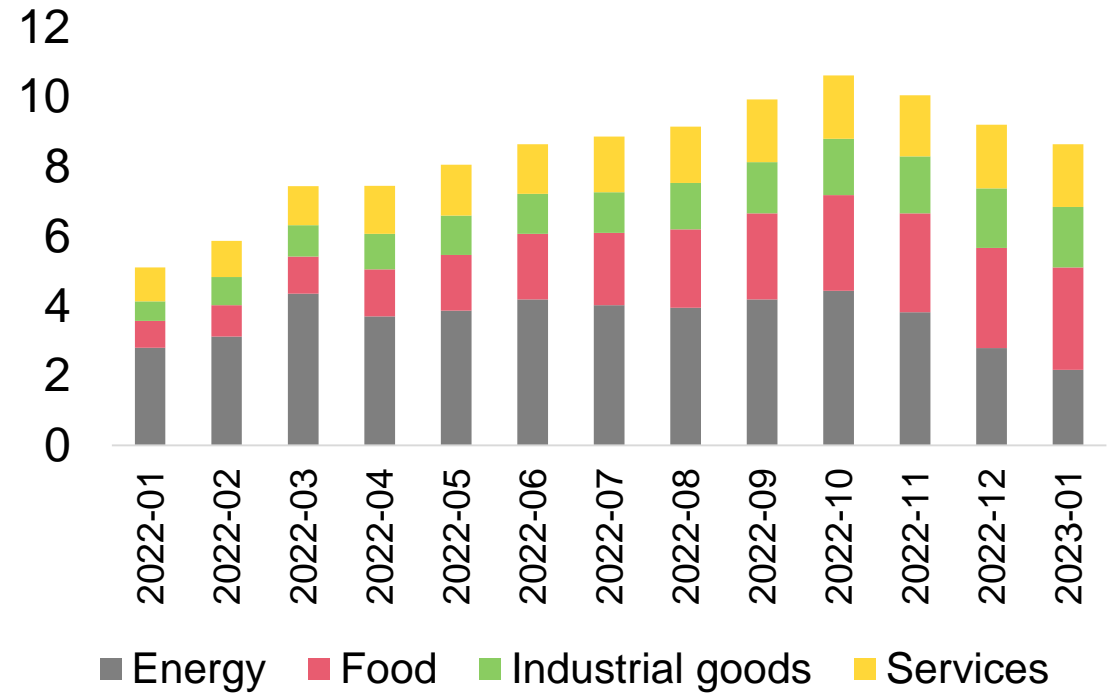


Energy and food prices have been the main drivers of euro area inflation

EA inflation (YoY, %)

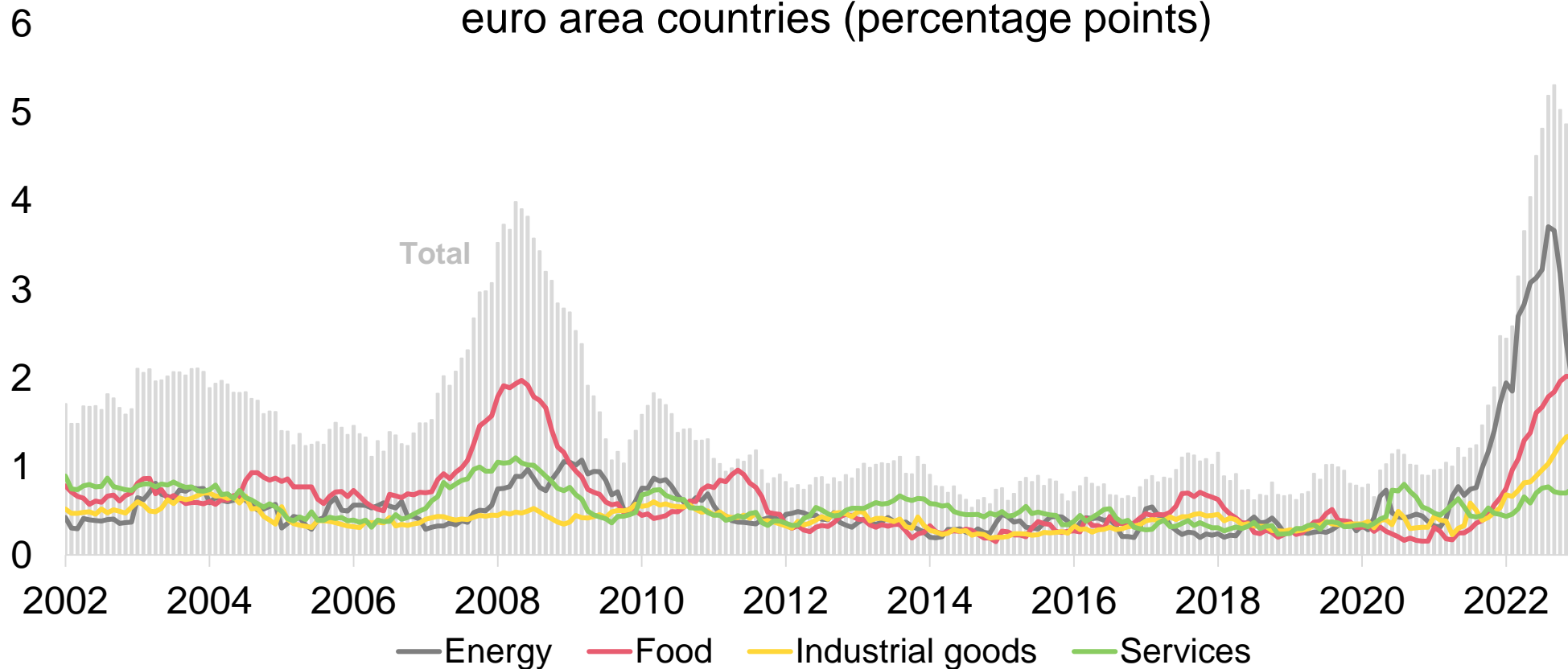


Contributions to EA annual inflation (in percentage points)



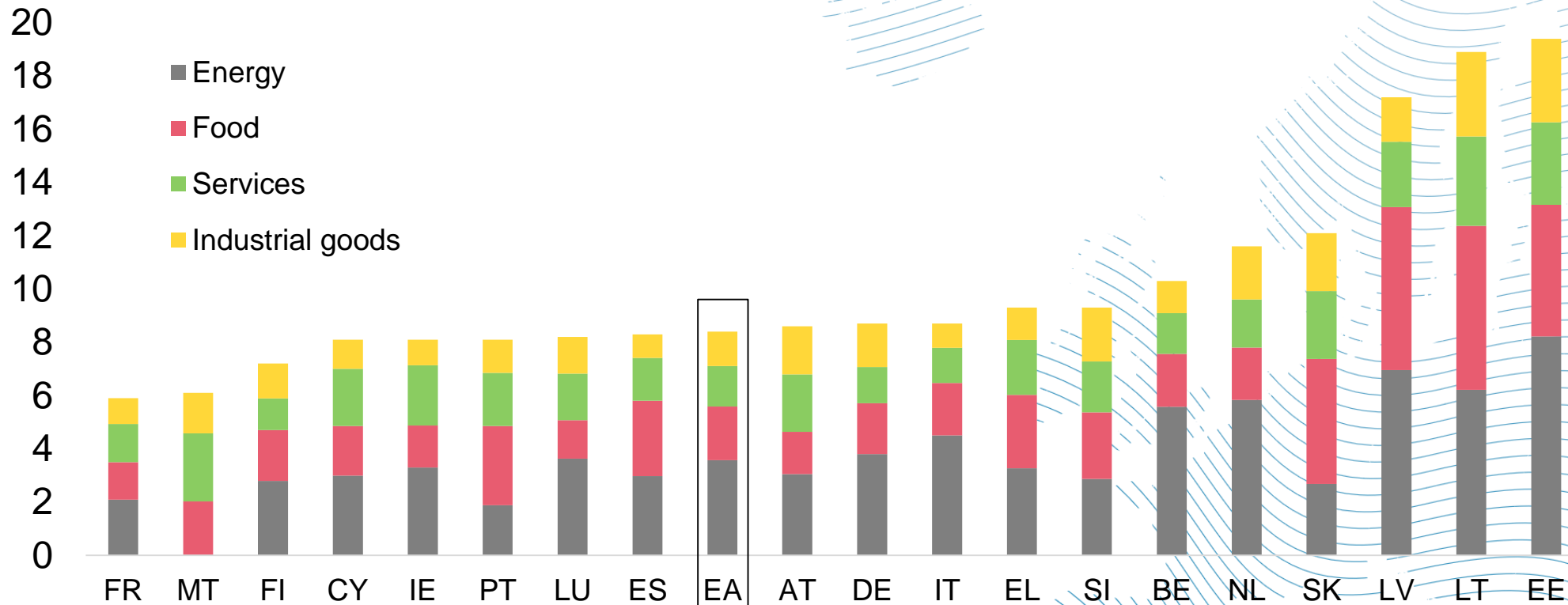
Inflation divergence has never been higher in the euro area

Standard deviation of contributions to year-on-year inflation rates in euro area countries (percentage points)



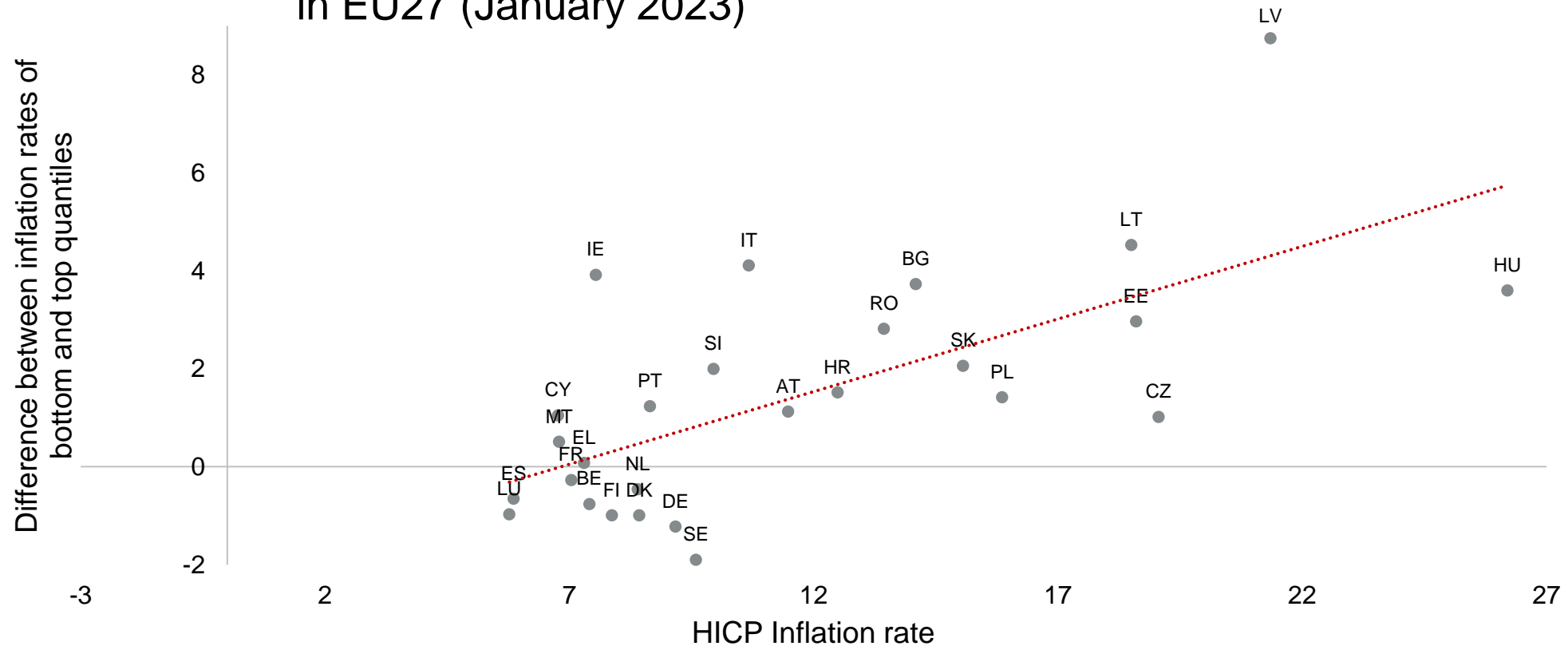
Sources of inflation divergence vary across countries while energy and food have been the main drivers

Headline inflation (annual percentage changes, 2022)



High inflation increases inequality

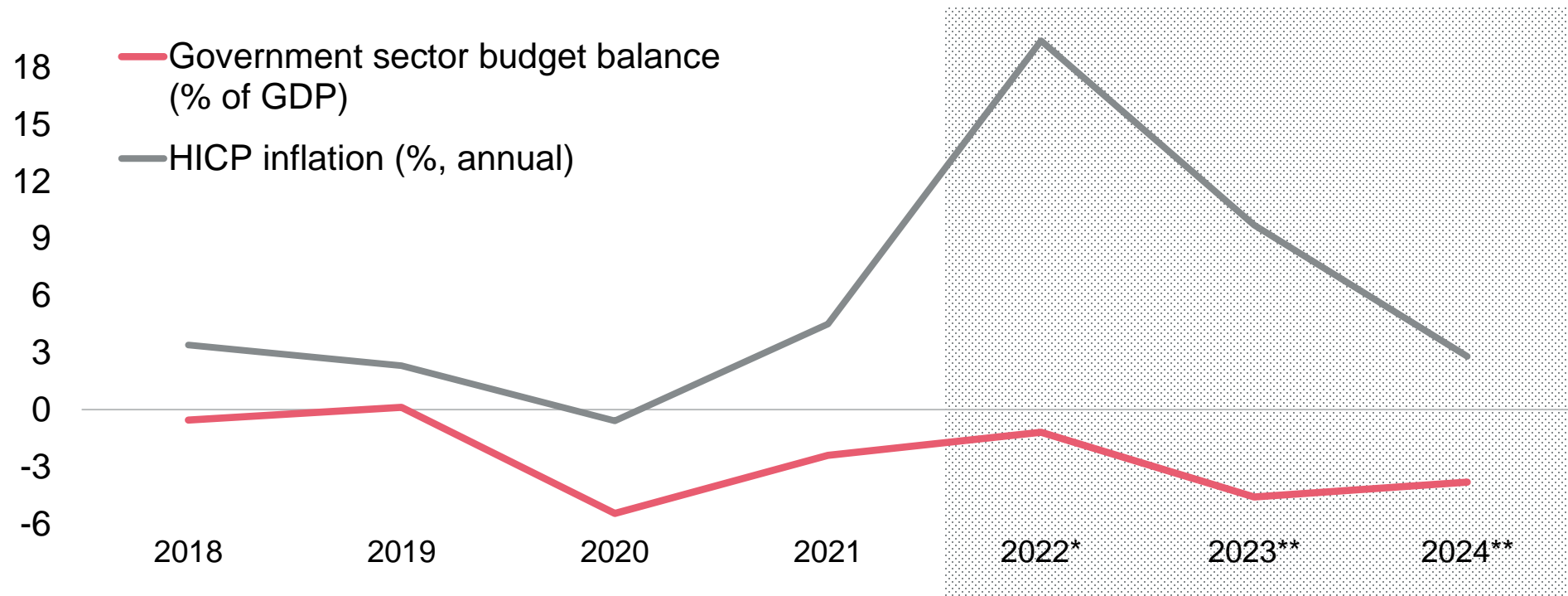
Inflation rates and inflation inequality in EU27 (January 2023)



Source: Claeys, Guetta-Jeanrenaud, McCaffrey and Welslau, 24 February 2023, Bruegel, "Inflation inequality in the European Union and its drivers"

Inflation and its impact on public finances

Estonia's budget balance and inflation

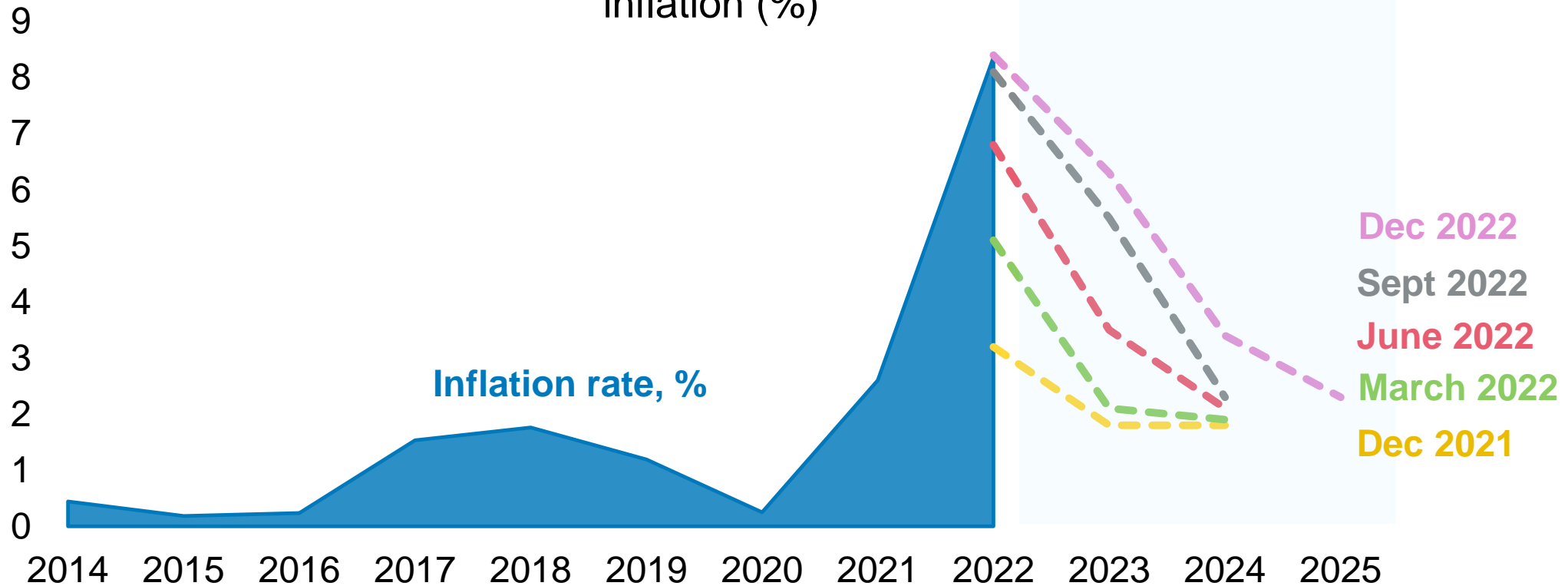


* Ministry of Finance flash estimate

** Eesti Pank's forecast (December 2022)

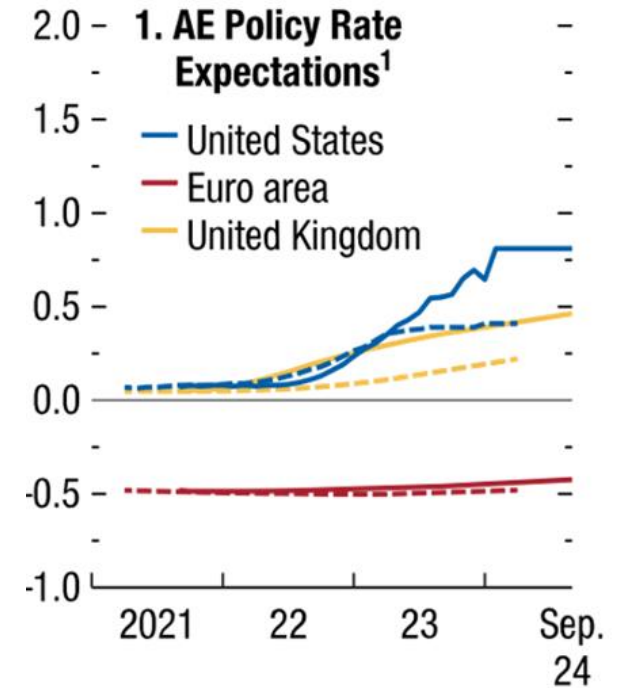
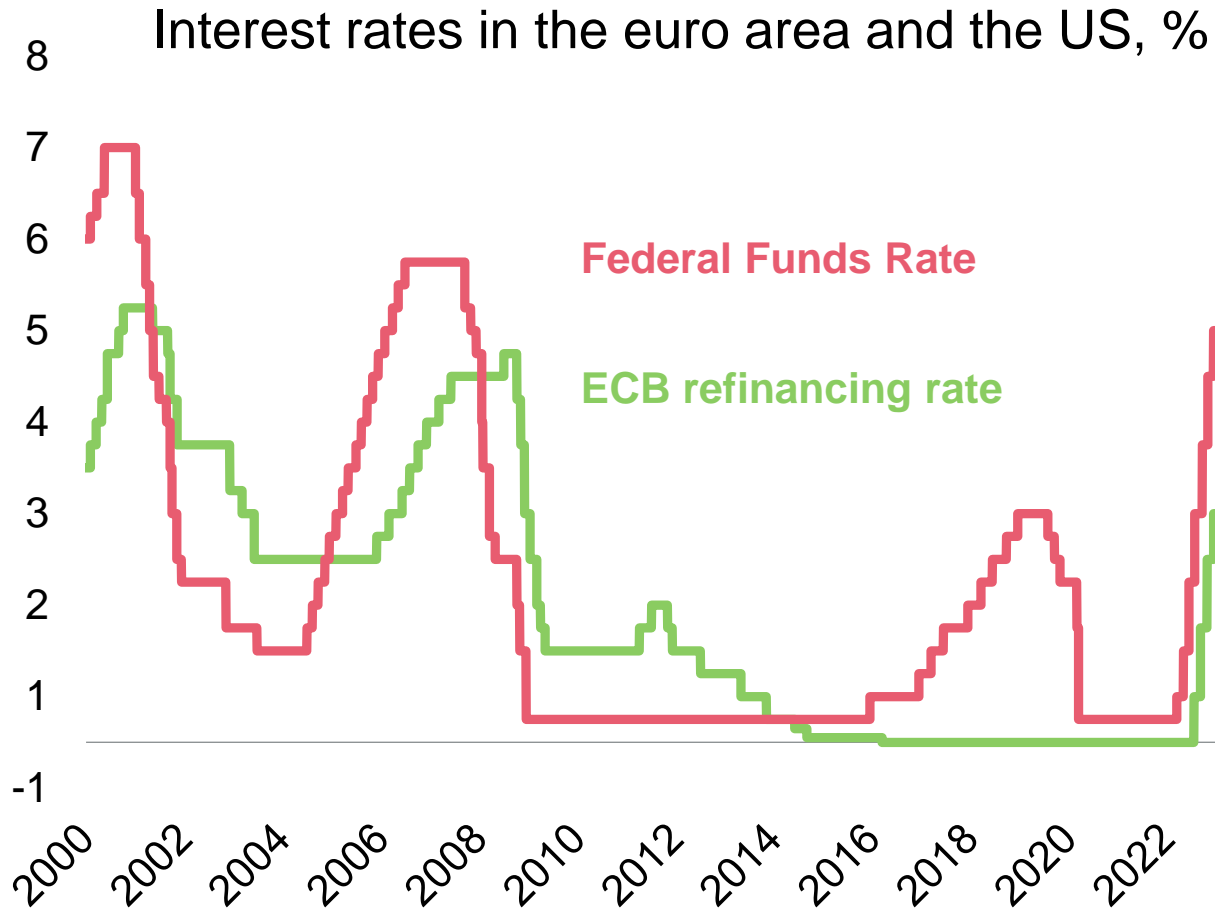
It has not been an easy task to forecast inflation lately

Eurosystem and ECB staff projections for the euro area HICP inflation (%)



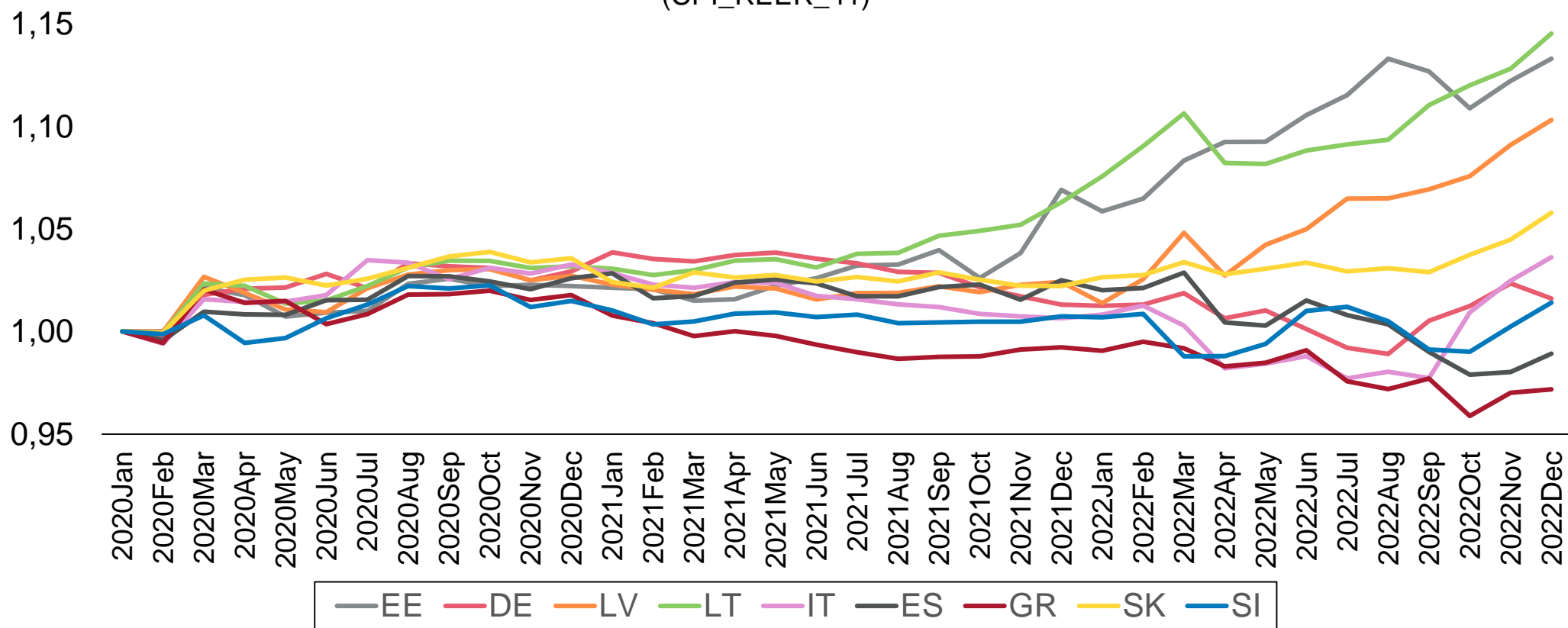
Central banks have decisively changed the course of monetary policy

A snapshot from the IMF's WEO in Oct 2021 shows how benign the interest rate expectations were at the time



Large and persistent divergences in inflation may impact the relative competitiveness of countries within the union

Harmonised competitiveness indicators 2020-2022
(CPI_REER_41)





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Thank you!