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European Department

Here Comes the Change**The Role of Global and Domestic Factors in Post-Pandemic Inflation in Europe****Prepared by Mahir Binici, Samuele Centorrino, Serhan Cevik and Gyowon Gwon¹**

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Abstract

Global inflation has surged to 7.5 percent in August 2022, from an average of 2.1 percent in the decade preceding the COVID-19 pandemic, threatening to become an entrenched phenomenon. This paper disentangles the confluence of contributing factors to the post-pandemic rise in consumer price inflation, using monthly data and a battery of econometric methodologies covering a panel of 30 European countries over the period 2002-2022. We find that while global factors continue to shape inflation dynamics throughout Europe, country-specific factors, including monetary and fiscal policy responses to the crisis, have also gained greater prominence in determining consumer price inflation during the pandemic period. Coupled with increasing persistence in inflation, these structural shifts call for significant and an extended period of monetary tightening and fiscal realignment.

JEL Classification Numbers:	C13; C32; C33; C53; E31; E32; E37; E58; F62
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