

Post Covid Inflation in Emerging Europe by Refet Gurkaynak

A discussion

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* The views expressed are those of the author and do not necessarily reflect those
of the ECB.

The paper

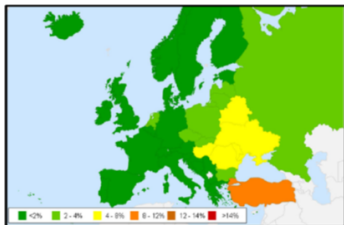
Main question: what drove the post-covid inflation surge in Emerging Europe? Main conclusions of the paper:

- Emerging European countries not very different from euro area countries.
- Post covid inflation surge was driven by external shocks, in particular the rise in energy (and food) prices.
- Cross country differences were driven by the weight of energy in the consumption basket, the energy intensity of production and the share of imported energy.
- The pass-through these shocks to core inflation was higher during this period than before the pandemic.

Inflation developments in Europe

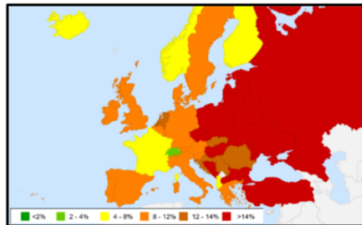
1. Inflation, December 2019

(Percent change, year-over-year)



2. Inflation, August 2022

(Percent change, year-over-year)



Sources: Baba et al. (2023). The 2020-2022 inflation surge across Europe: a Phillips curve based dissection.

My discussion

- **Important question.** The recent surge in inflation can help us better understand the inflation formation process and what the best policy responses and frameworks are.
- **Nice paper, straightforward results.** Hard to disagree with the findings.
- **But... is it the full story?** Implicit question: was there a role for policy makers to lower the impact of the shock?

Q#1: Role of other factors?

No doubt that the commodity price shock led to inflation:

Commodity price shock largest since the 70s, in particular in Europe.

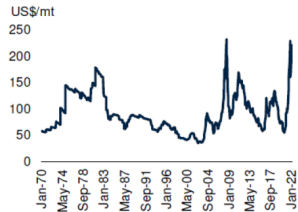
But were there also other factors at play? (taking some inspiration from the euro area and US)

- Supply bottlenecks?
- Pent-up demand?
- Interaction monetary and fiscal policy
- Role of fiscal support measures? (and does the type of measure matter?).
- See for instance Bernanke and Blanchard (2023), Arce et al (2023), Dao et al. (2023).

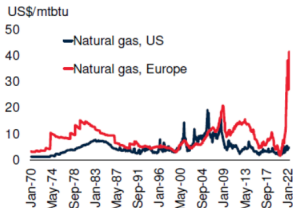
Paper could use a more comprehensive framework in its analysis.

Developments in selected commodity prices (in real terms)

A. Coal



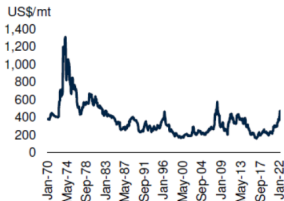
B. Natural gas



C. Oil



D. Wheat



Q#2: Why was the impact of the shock larger?

General finding: The impact of the shock was larger than in the recent period (eg higher pass through to core inflation).

Why? There may be various reasons:

- Easier to pass-through shocks when it is perceived as "fair" (See Kahneman et al (1986)).
- Non-linearities: pass-through depends on the size of shock and the backdrop (see Bobeica et al (2021)).
- Type of shock (supply rather than demand shock) (see Bobeica et al (2021)).

Q#3: What explains cross country differences?

Paper finds there are cross country differences (eg due to differences in the share of energy and food in consumption basket, energy intensity of production and the share of energy imported).

But does this explain all the variation? Other factors suggested (eg Hungary) but not systematically analyzed. Some suggestions that could be worth looking into:

- Role of central bank independence?
- Type of fiscal support measures.
- History of higher vs lower inflation: does it matter?

A look ahead

What happened since 2022? The decline after inflation peaked as interesting to study as the surge itself. Can shed light on a range of other questions:

- Policy response
- Labour and product market rigidities
- Importance of market power

In sum: an interesting paper, a door opener to conduct further analysis and research.