

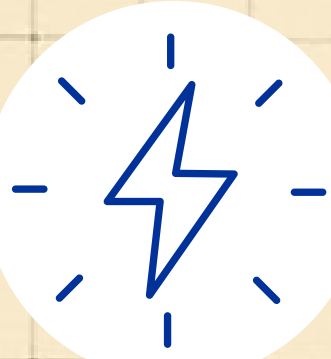
# WHY IS INFLATION CURRENTLY SO HIGH?

## 3 Main Reasons



### Our economy is reopening fast

Our economy is reopening quickly as more and more restrictions are lifted. When an economy is growing, businesses find it easier to raise prices without losing customers.

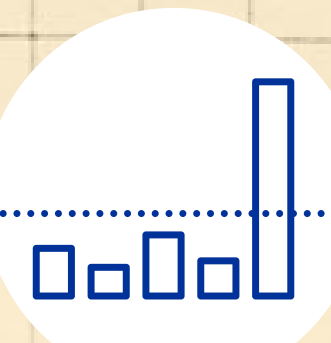


### Higher energy prices

Oil, gas and electricity have become more expensive around the world. Together with growing demand, this caused prices to rise quickly.

## 50%

half of the recent increase in inflation was due to higher energy prices



### The “Base Effect”

Prices were exceptionally low at the height of the pandemic last year. Comparing today's higher prices to those very low levels means differences will seem large. This is referred to as the “base effect” and will fade out quite quickly.



2019

The average price for a VW Polo in 2019 was 14.450€. This was more or less the same price for the past 10 years.

PRICE  
16.450€

2020

The COVID-19 pandemic starts. Demand for new cars slows down all over the world.

PRICE  
13.000€

2021

Supply chain restrictions make car components harder to procure. Production of new cars slows down

PRICE  
12.500€

2022

High energy prices start to rise up, bringing the overall costs of production up.

PRICE  
14.500€

2022

Restrictions ease up, so more and more people want new cars, but the stock of cars is low.

PRICE  
17.500€

2022

When compared to 2021, car prices see a 41% hike. This is the “base-effect”.

PRICE  
19.500€

### So what will happen to inflation next year?

We expect inflation to go down over the course of 2022. Supply will gradually catch up with demand, markets anticipate energy prices will go down next year, and base effects will drop out of the yearly price comparison used to measure inflation. However, because the pandemic was unprecedented in modern times, this recovery might also be different. It may take longer to repair the massive disruptions to supply chains. Energy prices may continue to rise, also due to the green transition.



EUROPEAN CENTRAL BANK

## What can the ECB do about all of this?

We are confident that inflation will decline in the course of 2022. Because monetary policy works with some delay, it can't help against short-lived spikes in prices. Making borrowing more expensive at a time when higher energy and fuel bills are squeezing people's incomes and companies' profits would create unwarranted headwinds for the recovery.

Our mission at the ECB is to keep prices stable, which means that we are aiming at an inflation target of 2% in the medium term.

## 2%

LEARN MORE AT:

[www.ecb.europa.eu/ecb-and-you/explainers/tell-me-more/html/high\\_inflation.en.html](https://www.ecb.europa.eu/ecb-and-you/explainers/tell-me-more/html/high_inflation.en.html)