

MARINA TKALEC

The Institute of Economics, zagreb, Croatia

INFLATION RESPONSE TO THE COVID-19 PANDEMIC AND GOVERNMENT INTERVENTIONS: EVIDENCE FROM EU-27

Abstract:

Consumer expenditure went through major shifts during the COVID-19 pandemic, but these were not reflected in household basket weights used for measuring inflation. Using real-time credit and debit transactions for the US, we update consumer expenditure for 27 EU member states on a month-by-month basis from January 2020 to December 2023. We thereby consider expenditure changes and calculate an alternative measure of inflation—inflation with the Covid consumption basket. We find that the Covid inflation rate in May 2020 is higher than the official CPI in 25 out of 27 countries. Our fixed-effects econometric exercise suggests that government intervention to fight the pandemic tended to decrease the Covid inflation rate, by as much as 0.05 percentage points in the whole sample, and by 0.18 percentage points in the year 2022 alone. Government response, containment and health, and stringency measures were statistically significant in reducing inflation, while economic support measures proved not to be correlated with Covid inflation in the whole sample.

Keywords:

consumption basket; COVID-19; inflation; pandemic

JEL Classification: E01, E21, E31