

THE CAUSES OF LOW INFLATION IN THE EURO AREA

As this graph of the week illustrates, falling oil prices are a major explanation for the low levels of inflation seen recently, although weak economic activity has also played a role. The depreciation of the euro against the dollar from the second half of 2014 to mid-2015, partly the result of diverging monetary policy stances, by contrast, has had a significant positive impact on inflation in the second quarter of this year. As the statistical effect of falling energy prices fades and the economy recovers, there should be greater upward pressure on inflation. Both short- and long-term inflation expectation measures point to a gradual rise in inflation towards its historical average in the coming years.

Estimation on the factors affecting annual Harmonised Index of Consumer Prices (HICP) inflation

