

Inflation Persistence in the Euro Area

Nektarios A. Michail* and Christos S. Savva

Abstract

Persistence in economics refers to a variable's tendency to remain near previous values unless disrupted by shocks. For inflation, persistence measures how quickly prices return to target levels after a disturbance, a theme vital for shaping monetary policy. This paper examines inflation persistence in the euro area using three different metrics and employs threshold regression to capture non-linear effects and structural breaks. It uniquely analyzes both headline inflation and its main components to provide deeper insights into price dynamics. Findings reveal that inflation persistence has significantly increased over recent years, exceeding levels seen before negative interest rates. This is especially pronounced in inelastic categories like food and energy, where shocks not only last longer but can amplify, driving higher overall inflation persistence and challenging policy effectiveness.

Keywords: Inflation persistence, time-varying, euro area, LAR, SUM, non-parametric

* Corresponding Author. Address: Economic Analysis and Research Department, Central Bank of Cyprus, 80 Kennedy Avenue, 1076, Nicosia, Cyprus. Tel: +35722714414, Fax: +35722714984.
Email: nektariosmichail@centralbank.cy,