Box 1: Response of consumer prices to an oil price increase of US$10 per barrel

In the core model of the Bank, the oil price is an important exogenous variable. A sustained increase of US$10 per barrel results in an increase in the year-on-year rate of inflation of around 0,3 percentage points in the quarter that the oil price increases. This rises to slightly more than 0,6 percentage points after four quarters. The impact on inflation then decreases slightly at the start of the second year due to base effects. Thereafter the inflationary impact resumes an increasing trend due to second-round effects which run through channels such as increased inflation expectations, and higher salaries and wages. This analysis assumes no tightening of monetary policy to counter the second-round effects.

Additional inflation in consumer prices