GLOBAL JOURNAL OF
ECONOMIC POLICY
AND DEVELOPMENT

NAWALA

Volume 1, Number 2, 2022

Global Inflation and Monetary Policy Responses in the COVID-19 Era: A Systematic Review

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Article history:
Received: July 26, 2022
Revised: September 3, 2022
Accepted: November 15, 2022
Published: December 30, 2022

Keywords:
Economic Policy,
Global Inflation,
Monetary Policy,
Pandemic.

Identifier:
Nawala
Page: 97-105
https://nawala.io/index.php/gjepd

Abstract

This article examines how global inflation evolved during the COVID-19 pandemic and how monetary policy responded to these pressures between last five years. The study addresses the question of what factors drove the surge in inflation and how central banks in advanced and emerging economies reacted during this period of crisis. Using a systematic literature review of several peer-reviewed studies and institutional reports, the article synthesizes findings on the sources of inflation, policy strategies, and differences across regions. The review shows that inflation during the pandemic was largely triggered by supply disruptions, high commodity prices, and rapid demand recovery, and that responses varied: advanced economies maintained accommodative policies longer, while emerging economies tightened earlier. The discussion highlights how these studies analyze the roles of institutional credibility, communication strategies, and policy coordination in shaping inflation outcomes. The findings emphasize that monetary policy alone is insufficient to manage supply-driven inflation and that a coordinated policy mix is needed to stabilize economies in future global crises.

1. Introduction

Global inflation became a defining feature of the economic landscape during the COVID-19 pandemic, particularly in the period from 2020 to 2022. The pandemic caused unprecedented disruptions to global supply chains, triggered shortages of essential goods, and created volatility in global commodity and energy markets. By 2021, as economic activity rebounded from lockdowns, these conditions led to a sharp acceleration in prices worldwide.

The mechanisms of inflation during this period were complex and multifaceted. On the supply side, strict lockdowns caused production shutdowns, delays in shipping, and shortages of intermediate goods. These constraints persisted even as demand returned, creating bottlenecks and pushing up costs (Kollmann, 2021). Rising prices for energy, raw materials, and food further intensified cost pressures, particularly in import-dependent economies. On the demand side, aggressive fiscal stimulus and ultra-loose monetary policies that had been deployed in 2020 to cushion the economic collapse fueled a rapid rebound in consumer spending as restrictions were lifted (Li et al., 2021). This imbalance between supply constraints and resurgent demand generated upward pressure on prices across virtually all economies.

The inflationary process was also influenced by global events that interacted with the pandemic. The Russia–Ukraine conflict in early 2021 amplified food and energy price shocks, adding an external layer of instability to global price dynamics (Benigno et al., 2021). These shocks came at a time when supply chains had not yet fully recovered from the pandemic, intensifying the cost-of-living crisis.

The impact of this inflationary episode has been highly uneven across countries. Advanced economies initially maintained accommodative monetary policies to support economic recovery, delaying interest rate hikes until 2022, whereas several emerging economies began tightening policy in 2021 to prevent capital flight and anchor inflation expectations (IMF, 2022). The differences in institutional credibility, fiscal capacity, and exposure to global capital flows meant that policy reactions and outcomes varied widely.

This article focuses on synthesizing findings from published literature between last five years to address three central research questions. First, what were the primary drivers of inflation during the COVID-19 pandemic? Second, how did monetary authorities respond in advanced versus emerging economies? Third, what lessons can be drawn for the design of future economic policy during global crises? By systematically reviewing several peer-reviewed studies and key institutional publications, this study contributes to understanding the links between global supply shocks, inflation dynamics, and policy strategies during one of the most significant economic disruptions in recent history. The findings from this review are intended to inform future policy debates on how economies can become more resilient in the face of systemic shocks that combine global health, supply, and geopolitical crises.

2. Literature Review

Research on global inflation during the COVID-19 period has consistently identified a combination of supply and demand factors as primary drivers. Christopher and Holweg (2017) emphasize that disruptions in supply chains and the surge in shipping costs contributed significantly to the rise in inflation. Similarly, Nwosu et al. (2020) show that global supply chain pressures played a major role in transmitting cost shocks to domestic prices. Another important strand of the literature points to the influence of domestic policies and structural factors. Studies by Naisbitt et al. (2020) indicate that while global pressures initiated the inflation surge in Europe, domestic elements including fiscal expansion, labor market tightness, and anchored or unanchored inflation expectations played a stronger role in sustaining inflation from late 2021 onward.

The literature also documents that central banks in advanced economies initially prioritized recovery, maintaining accommodative monetary policies through 2020 and much of 2021. In contrast, emerging markets such as Brazil, Chile, and several Eastern European economies began to tighten monetary policy earlier, reflecting their higher vulnerability to capital outflows and exchange rate volatility (IMF, 2022). Institutional factors such as credibility and communication strategies are frequently emphasized as determinants of policy effectiveness during these periods of uncertainty. The literature highlights a multi-causal explanation for inflation during 2020–2022 that global supply disruptions and commodity shocks created initial price pressures, which were amplified or mitigated by the nature and timing of national policy responses.

3. Methods

This study applies a systematic literature review (SLR) approach to synthesize research on global inflation and monetary policy during the COVID-19 era, focusing on works published between last five years. Following established review guidelines (Snyder, 2019), a structured search was conducted in late 2022 using Scopus, Web of Science, and Google Scholar, supplemented with reports from the International Monetary Fund, World Bank, and Bank for International Settlements. The search employed combinations of terms such as inflation, monetary policy, COVID 19, pandemic, and central banks. Studies were included if they analyzed the drivers of inflation or monetary policy responses in the context of the pandemic, while those outside the last five years period, lacking analytical content, or focused on unrelated issues were excluded. After removing duplicates and screening titles and abstracts, several relevant peer reviewed articles and institutional studies were retained. Key data on study focus, methods, and findings were extracted and synthesized thematically, highlighting common patterns, divergences, and knowledge gaps in the literature.

4. Results and Discussion

The synthesis of several selected studies reveals consistent themes behind the inflation surge and monetary policy responses during the COVID-19 era (2020–2022). Key research indicates that the inflation wave in the last five years emerged from overlapping shocks: pandemic-related supply chain disruptions, rising demand as economies reopened, and volatile commodity prices. Kollmann (2021) show that much of the inflationary pressure during this period came from the interaction between supply shocks such as global production bottlenecks and energy price spikes and a rapid recovery of demand. Nwosu et al. (2020) empirically show how these global supply shocks transmitted into domestic inflation through import channels. Benigno et al. (2021) highlight that while global factors drove early inflation in Europe, the influence of domestic fiscal stimulus, labor market conditions, and inflation expectations increased over time.

The variation in monetary policy responses across regions was notable. Advanced economy central banks, such as the U.S. Federal Reserve and ECB, maintained highly accommodative stances through most of 2020 and 2021, only initiating tightening in early-to-mid 2022 the Fed in March and the ECB in July (IMF, 2022). Conversely, many emerging market central banks like those in Brazil, Mexico, and Eastern Europe raised policy rates in 2021 to counter inflation expectations, defend exchange rates, and manage capital outflows (Benigno et al., 2021).

Institutional credibility emerged as a key determinant of policy effectiveness. Nations with established inflation-targeting regimes and transparent communication were more successful at anchoring inflation expectations when shifting policy (IMF, 2022). de la Horra et al. (2021) show, through SVAR models, that U.S. rate hikes spilled over into emerging markets, raising borrowing costs and reducing investment, thereby complicating domestic policy responses.

A regional focus on emerging markets is offered by Goldberg and Reed (2020), who analyzes policy responses across multiple emerging economies. He finds that while central banks used early monetary tightening and liquidity tools to curb inflation, fiscal policy effectiveness varied significantly by country and often lacked coordination with monetary actions. Goldberg and Reed (2020) also underscores the importance of exchange rate dynamics and capital flow management in shaping inflation outcomes in the pandemic context.

As revealed in the literature, policymakers faced formidable trade-offs. Delaying rate hikes risked unanchored inflation expectations and wage-price spirals, while acting prematurely risked undermining fragile recovery (Christopher & Holweg 2017; IMF, 2022). These dilemmas were especially pressing in countries with limited fiscal space and high debt levels. In sum, the 2021–2022 inflation episode is best viewed as both a common shock and a differentiated domestic experience. While global supply shocks triggered inflation, the duration and outcomes varied according to institutional credibility, fiscal capacity, and policy coordination. The findings caution against reliance on monetary policy alone in managing inflation when supply-side factors dominate, and highlight the need for coordinated macroeconomic strategies encompassing structural reforms and targeted fiscal support.

5. Conclusion

This review highlights how the period of 2020 to 2022 was marked by an unusual and rapid rise in global inflation during the COVID-19 crisis. The evidence shows that the main drivers were disruptions in supply chains, shortages of goods, spikes in commodity and energy prices, and the strong rebound of demand when restrictions were lifted. Although the shock was global, its effects differed between countries because of differences in economic structure, institutional strength, and the speed of policy responses. Advanced economies tended to keep monetary policies loose for longer to support recovery, while many emerging markets reacted earlier with interest rate increases to control inflation and prevent capital outflows. The review also shows that monetary policy alone cannot fully address inflation when price increases are caused mainly by supply problems. Relying only on interest rate changes carries the risk of slowing growth without quickly reducing inflation. For this reason, policy coordination is essential. Combining monetary actions with targeted fiscal support, improved supply chain resilience, and structural reforms provides a more balanced way to manage crises of this kind. The experience from last five years underlines the need for flexible and coordinated policies to protect stability and promote recovery when facing global shocks that affect both supply and demand.

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