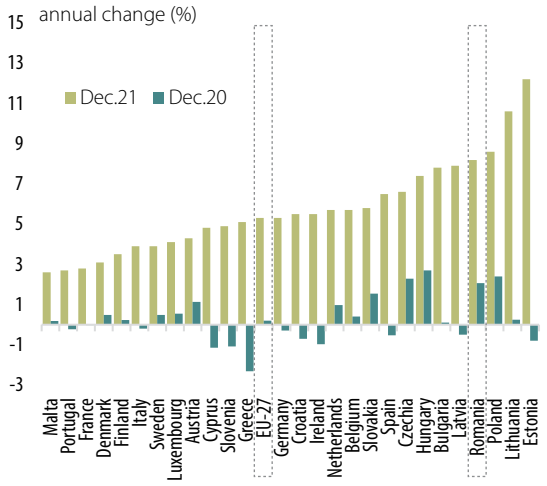
Box 1. Inflation resurgence – a global phenomenon

Inflation in Romania has embarked on the sharp upward trend that consumer price dynamics recorded globally in 2021. For instance, price surges were reported in the US, where the annual growth rate increased by 5.7 percentage points (to 7 percent) in December 2021 versus end-2020, as well as in the euro area, where the annual HICP inflation advanced strongly into positive territory (to 5 percent at end-2021, from -0.3 percent in December 2020). Price increases were even sharper in several countries in the region, 2021 ending with inflation rates of 6.6 percent in Czechia, 7.4 percent in Hungary and 8.6 percent in Poland, up from 2-3 percent in the same year-ago period. Lithuania and Estonia even posted two-digit inflation rates (Chart A).

Chart A. Inflation rate in Europe

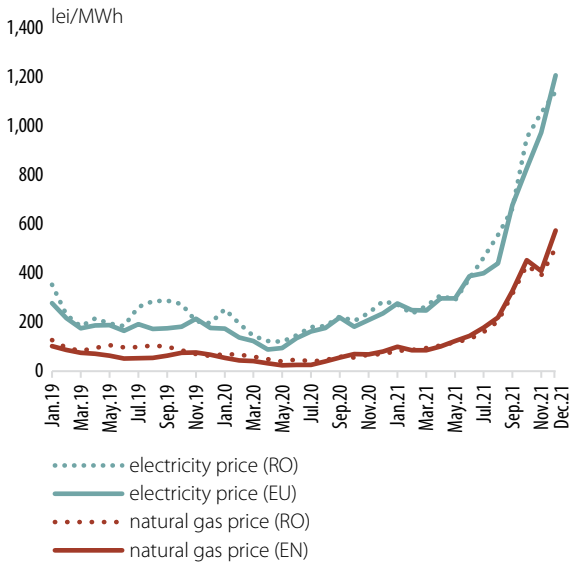


Note: At country level, the indices are calculated based on the national methodologies (CPI); the EU-27 average uses the HICP.

Source: Trading Economics, OECD, Eurostat, national statistics

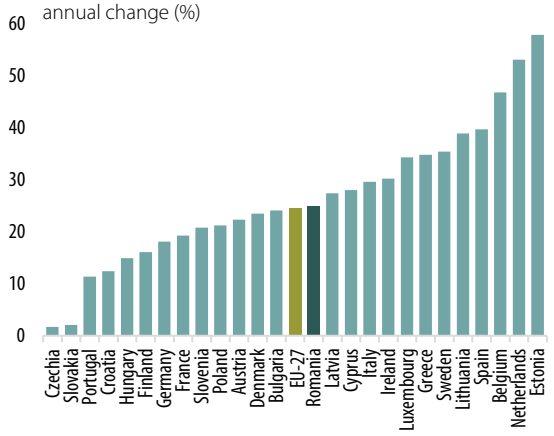
Despite the multiple influences (disruptions in production and supply chains, higher commodity prices, particularly of agri-food items, the recovery of losses incurred during the periods most affected by the pandemic containment measures, in a favourable demand context supported, *inter alia*, by the unwinding of pent-up demand), the shock in the energy market stands out as the main explanatory factor. In the first part of the year, the shock was mostly related to the growth in crude oil prices, in correlation with the reopening of economies, while in the second part of the year, the determinant factor, especially in Europe, was the exponential increase in electricity and natural gas prices. Behind the latter development stand the rise in demand, due to the gradual resumption of activity, in an environment fraught with a series of supply issues (the long winter in the previous year, the limited gas storage levels, the lower production from renewable energy sources, etc.) and the faster transition to green economy (mainly in Europe). The role of the significantly upward trend in energy prices in relation to the inflation resurgence is highlighted by the fact that this component accounted for approximately half of the advance in the annual inflation rate in the euro area. Considering the size of price movements in this segment, most European countries adopted in this period different measures to protect consumers, with a limited duration of implementation and aiming to cover particularly the cold season period, when heating bills are higher.

Chart B. Energy commodity prices



Source: Bloomberg, OPCOM, Romanian Commodities Exchange

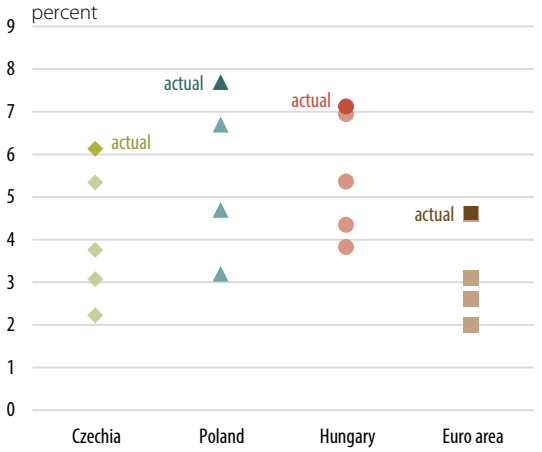
Chart C. Energy inflation rate in Europe, December 2021



Note: "Energy" includes electricity, natural gas and liquefied natural gas, heating, coal, motor fuels and other solid fuels.

Source: Eurostat

Chart D. Revision of forecasts on the annual inflation rate for 2021 Q4 during 2021



Note: Forecasts are expressed as annual changes of quarterly averages.

Source: ECB, national central banks

Given that the magnitude of the shock was similar, the EU energy markets being strongly integrated (Chart B), the heterogeneous developments in the annual energy inflation rate at European level (Chart C) can be ascribed to several factors, such as the different size and speed of the pass-through of wholesale price changes into consumer prices, which depend on the price-setting mechanism or the price composition, the share of energy component in the CPI basket, as well as on whether prices of electricity and natural gas delivered to households are administered or not. Moreover, there are differences between the consumer protection measures implemented in most countries: in some states, the support measures have a direct impact on consumer prices (for instance, by way of cuts in taxes and fees), while in other countries, they consist in social transfers (to vulnerable, low-income households) and are thus excluded from the CPI/HICP calculation (according to Eurostat).

While the energy crisis was predominantly seen as temporary when it broke out, the succession and magnitude of price increases have more persistent effects on the main macroeconomic variables than initially assessed. Specifically, the size and number of shocks that hit the energy markets in 2021 were the main cause of the successive revisions in inflation forecasts made by central banks (Chart D).