
Pandemic's economic impact is easing, but new challenges emerge

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Member of the Board*

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Main subjects

1. Global context

Box: Early assessment regarding the war's economic effect

2. Romanian economic overview

Box: The transmission of price shocks via networks

3. (New) risks and challenges

4. Q (&A)

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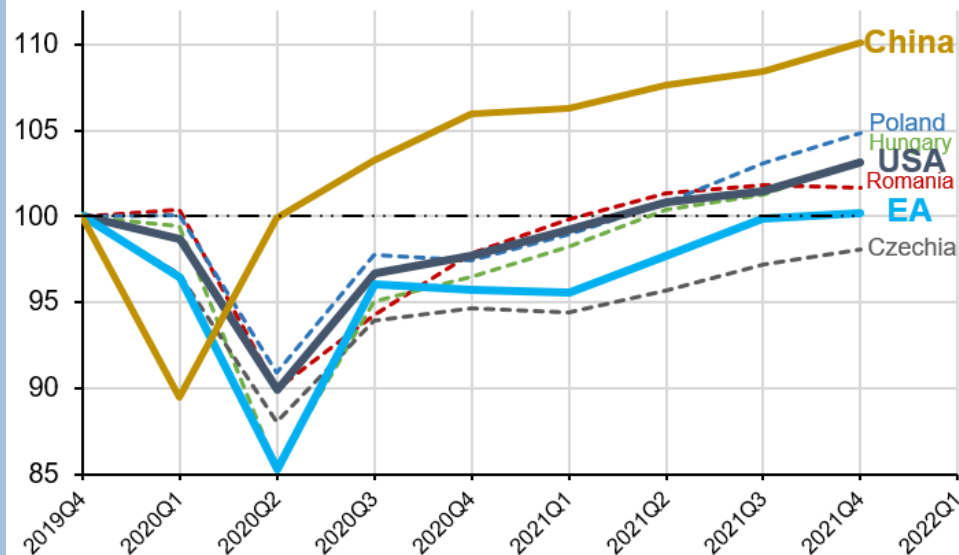
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Rapid recovery...

Real GDP

(2019Q4 = 100)



Key developments:

- The outbreak of the pandemic caused a particularly deep downturn in the beginning of 2020.
- Nevertheless, the recovery from the COVID-19 recession was much faster than what we had seen in the post-2008 era due to a series of factors, including: 'wartime-like' policy response, less severe pre-crisis vulnerabilities and a different type of shock.

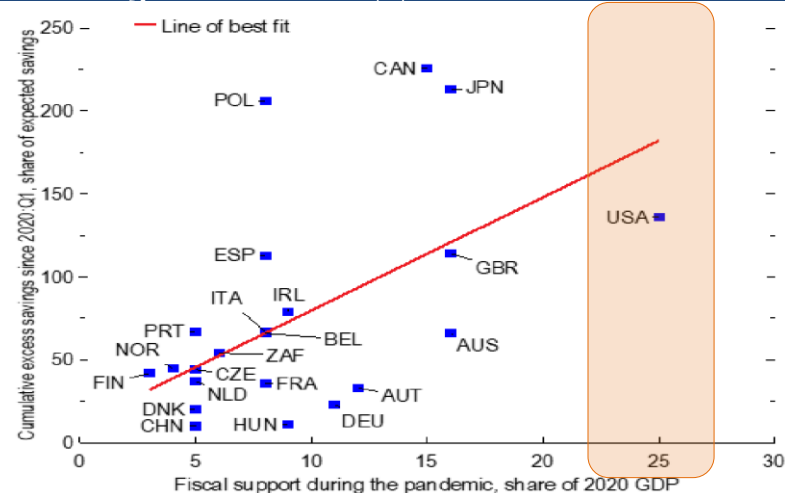
Perspective:

- After 2021's quick rebound and as re-opening boost is fading, the key economies of the world are expected to experience a broad-based and sharp slowdown owing to a series of headwinds, such as: the impact of surging inflation on real-disposable incomes, (gradually?) phasing out policy support, slowly easing supply chain bottlenecks and, more recently, due to war...

Risks & challenges:

- Not a base scenario! However, the risk of stagflation seems to be real and on the rise.

Government support and household savings during the Pandemic (%)



GDP growth, fact & market expectations

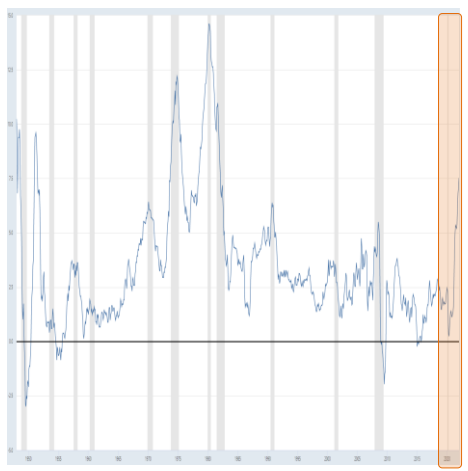
(%)

	2020	2021	2022	2023
USA	-3.4	5.7	3.6	2.4
EA	-6.5	5.3	3.8	2.5
China	1.6	8.1	5.0	5.0

...coupled with an unexpectedly strong revival of inflation

US & EA inflation rates

(YoY%)



Key developments:

- After relatively low figures in 2020, US and EA/EU consumer price inflation hit multi decade high owing to the rapidly recovering demand (helped also by large-scale policy support and excess-savings coupled with sudden shifts in consumer preferences: services -> goods), sky-rocketing commodity prices (exacerbated by the energy crisis too), supply-chain bottlenecks etc.
- Fundamental factors: relatively tight labor market (in the USA and, to some extent, in EA too), surging wages (in the USA).
- Structural factors may also play a role (de-globalization?).

Perspective:

- Inflation pressures seem to be more persistent than previously thought, triggering monetary policy normalization.

Risks & challenges:

- 70' & 80' like scenario?

CRB core commodity index

Quarterly .TRCCRBTR

Cnd, .TRCCRBTR, Trade Price, 3/31/2022, 247.6918, 328.7564, 247.6918, 325.8318 N/A, N/A

3/31/1996 - 9/30/2023 (GMT)



Inflation rates, fact & market expectations

(annual average, %)

	2020	2021	2022	2023
USA	1.2	4.7	5.2	2.5
EA	0.3	2.6	4.2	1.8
China	2.4	0.9	2.2	2.2

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Briefly: inflation pressures are expected to increase, while the growth outlook is worsening (particularly in the EU). In the case of Romania, the direct economic exposure (e.g. via trade, FDI and banking sector channels) is limited, but the indirect linkages are important.

TTF natural gas



Brent



Wheat



Pipeline infrastructure



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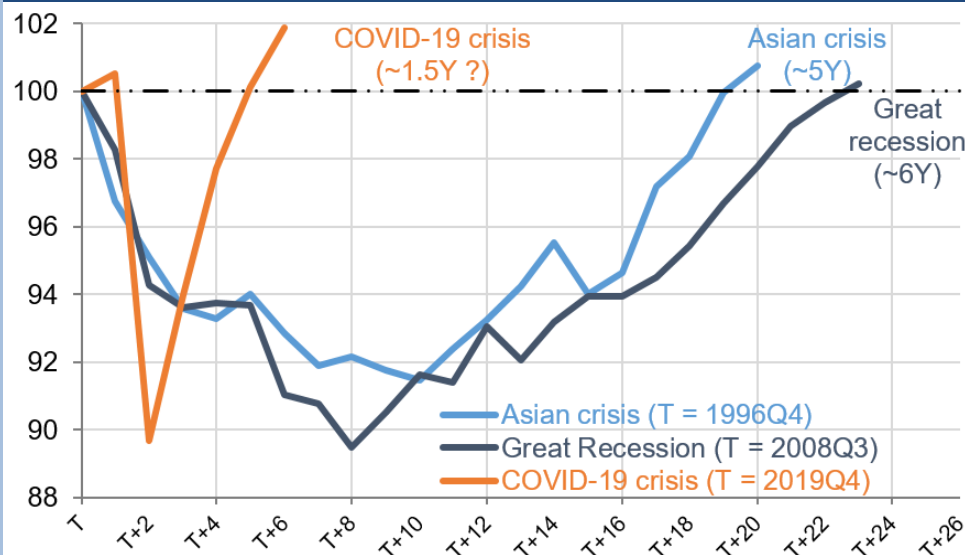
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Quick recovery characterizes the Romanian economy as well

Real GDP

(T = 100)



Key developments:

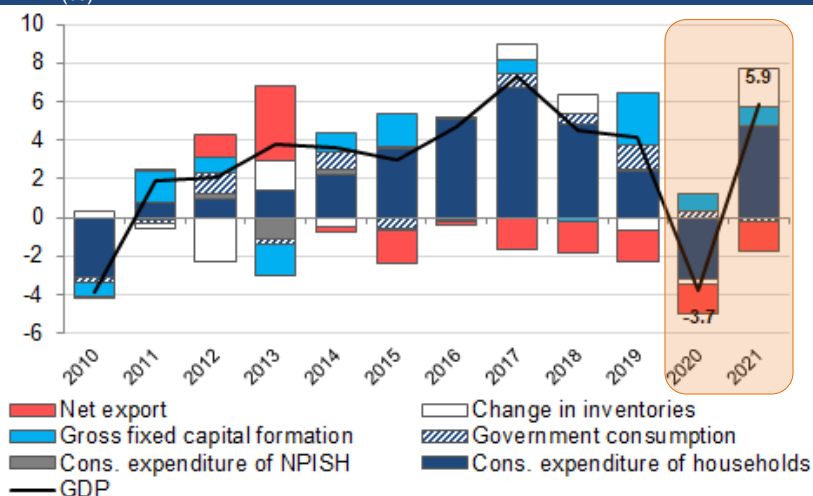
- After 2020's 3.7% fall, Romania's economy posted near 6% growth last year.
- Nevertheless, in 2021 H2, headwinds has started to weigh on growth.

Perspectives, risks & challenges:

- Similarly to other EU/CEE region economies: broad-based and significant slowdown (with some country specific challenges).
- EU fund absorption and relatively robust labor market may limit the downside risks.

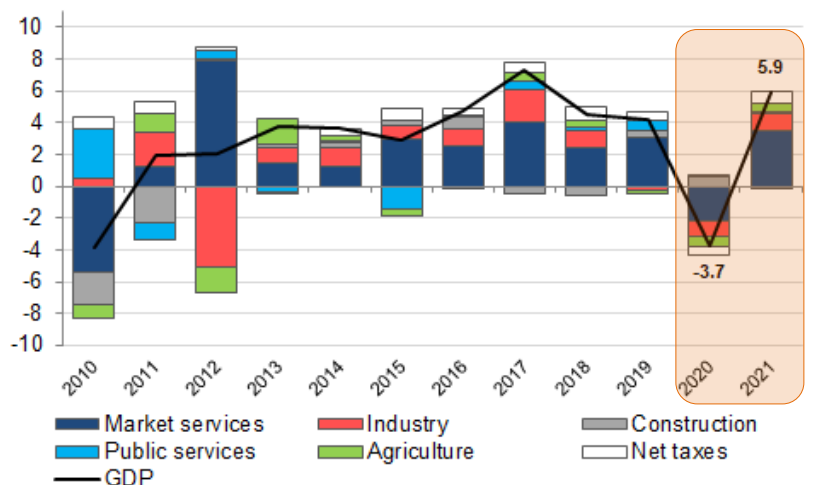
GDP growth - expenditure-side

(%)

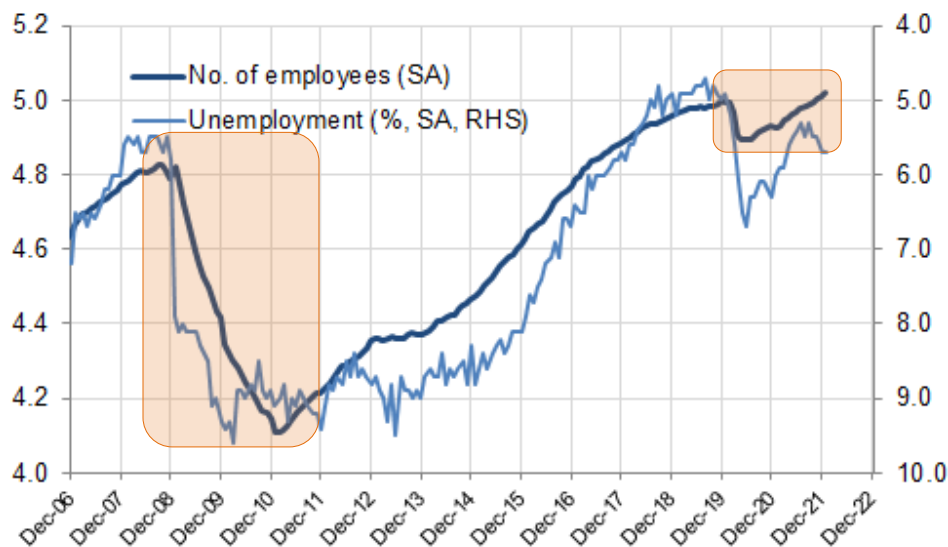


GDP growth – productions side

(%)

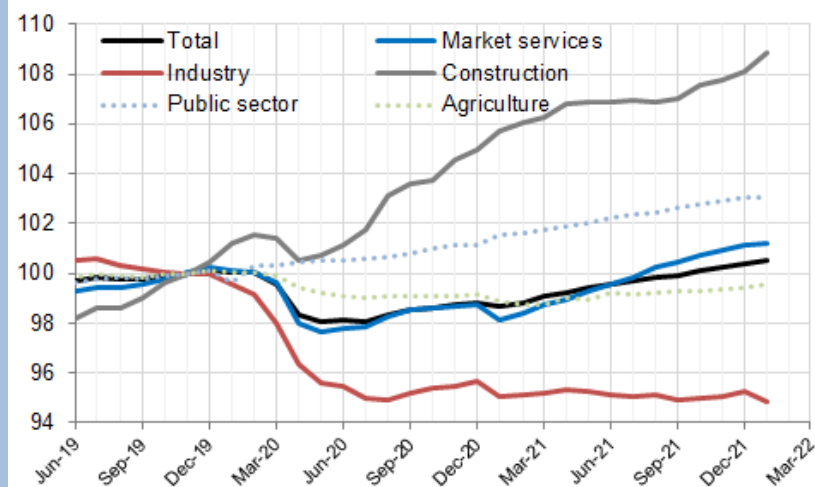


No. of employees and unemployment ratio



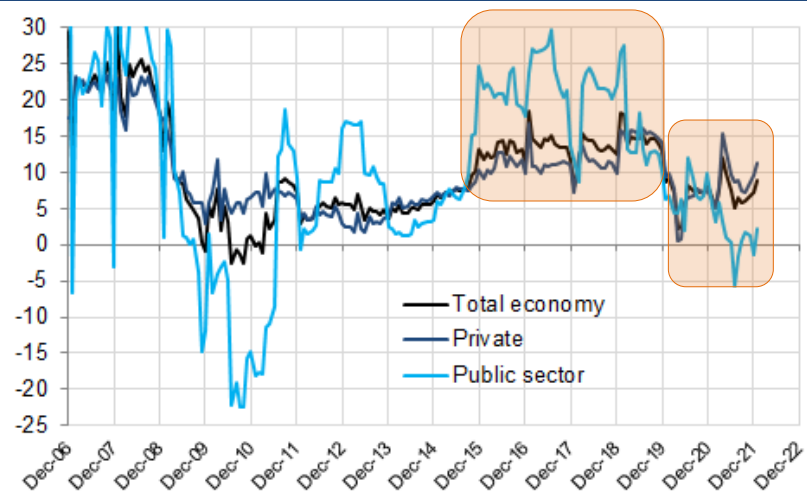
No. of employees by main economic sectors

(2019Q4 = 100, SA)



Net wages

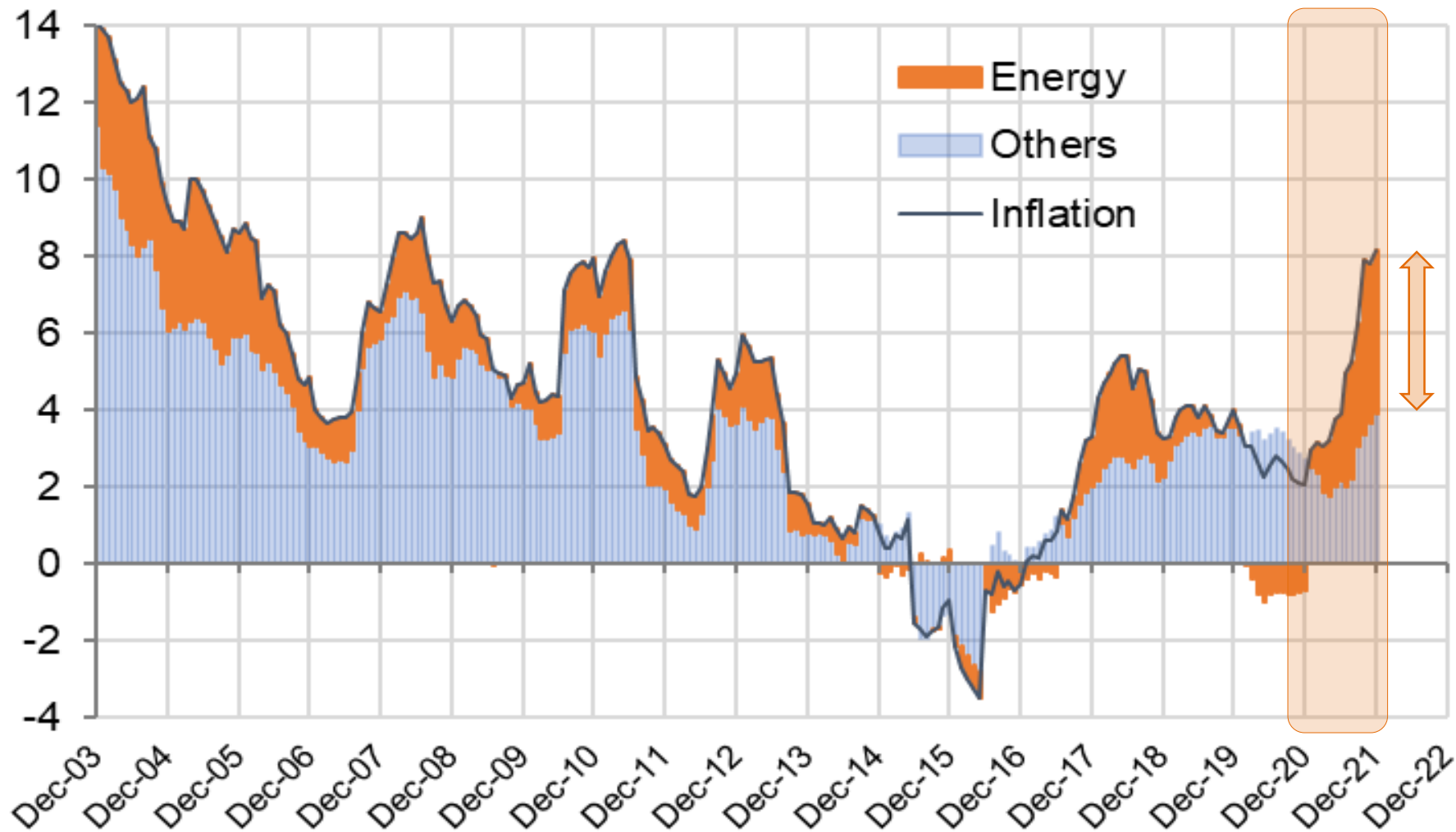
(YoY%)



Energy prices left their mark on headline inflation...

Decomposition of Romania's inflation indicator

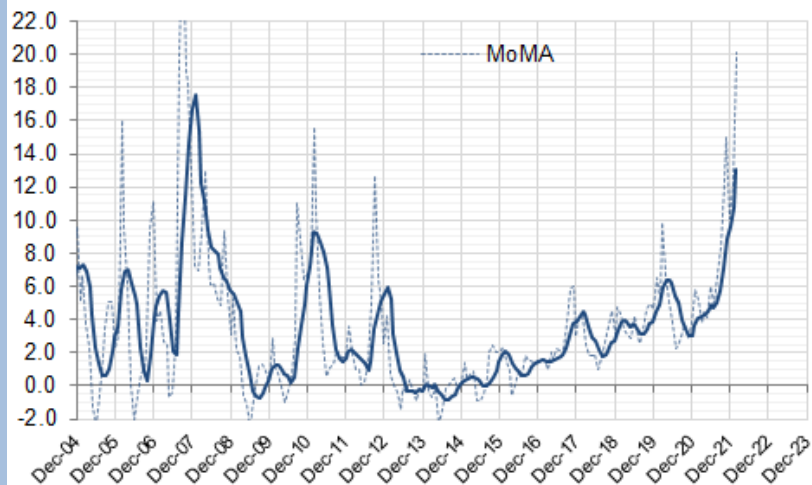
(%)



...while underlying inflation pressures have started to increase as well.

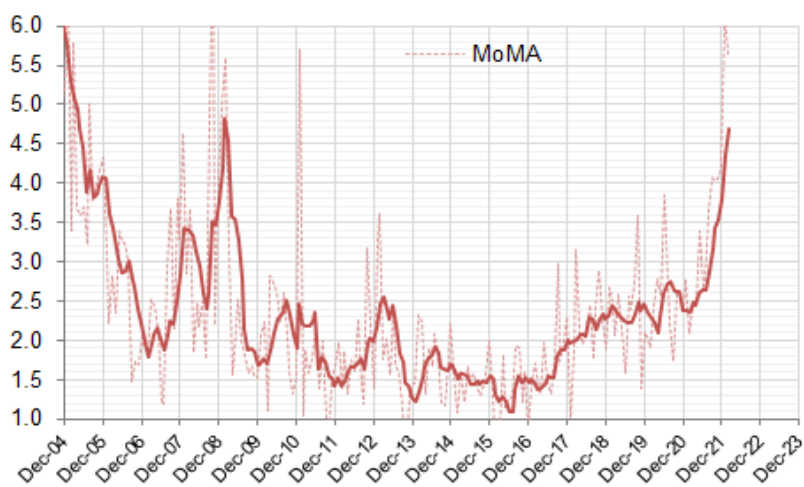
Processed food inflation

(MoMA & trend, SA, %)



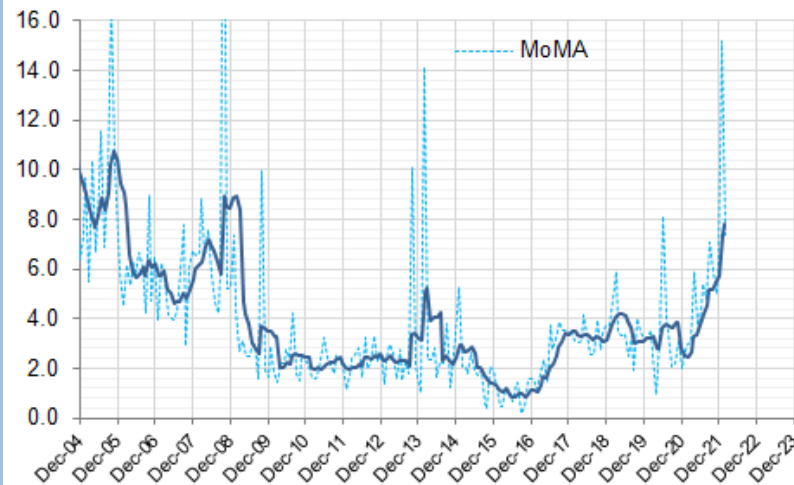
Core goods inflation

(MoMA & trend, SA, %)

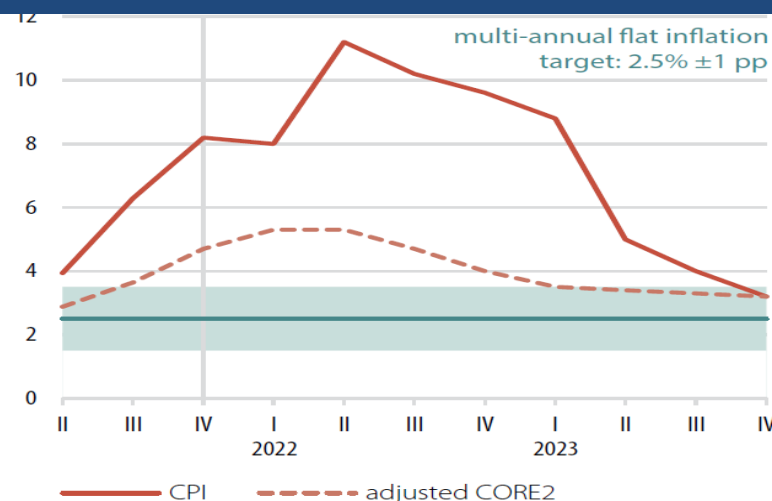


Core market services inflation

(MoMA & trend, SA, %)



Inflation forecasts (as of February)



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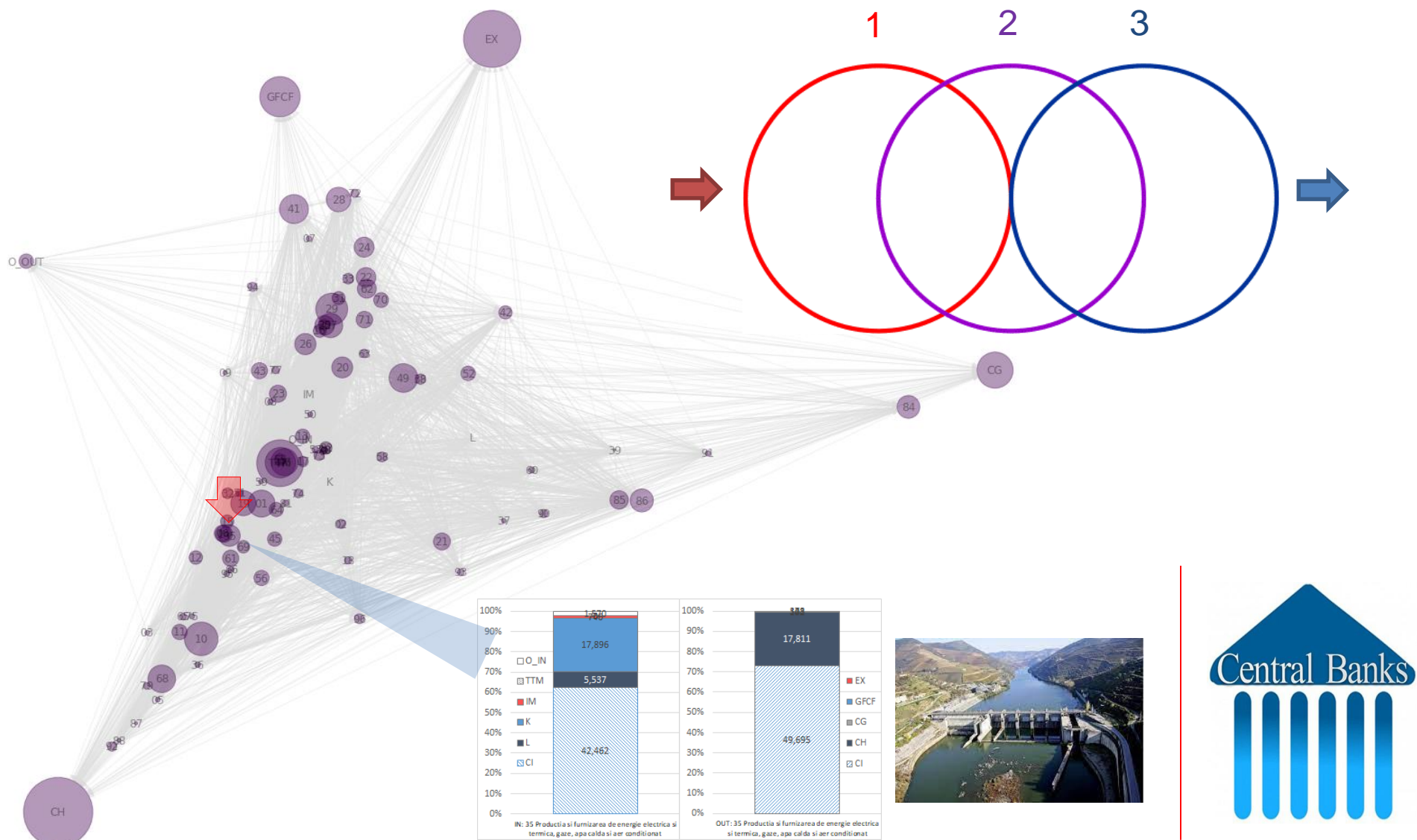
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It's difficult to fight first round cost-push inflation shocks...



Notes: the size of the bubbles represents the sectors' *in-degree* measure (e.g. the amount of products & services provided by other - supplier - sectors together with labor - L - and capital - K - inputs); the figures inside the bubbles show the sectors' NACE code; CH = households' consumption, CG = government consumption, GFCF = gross fixed capital formation (investments), EX = exports, O_IN & O_OUT = other in- & outputs; TTM = transportation and trade margins; NACE 35 sector (marked by red arrow) represents *Electricity, gas, steam and air conditioning supply*;
Source: NIS, author's calculation

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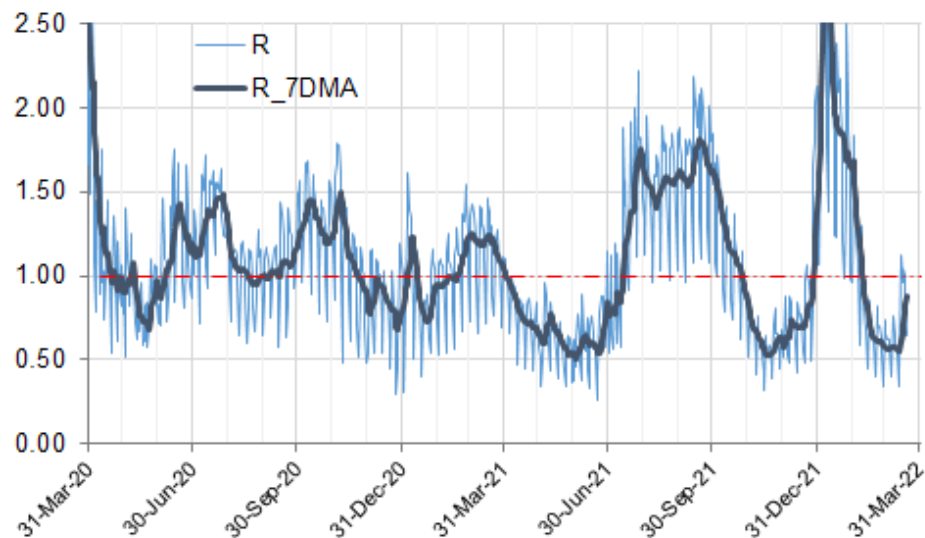
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From a central banker perspective: to find the fine-line (between fighting inflation and managing growth/financial stability risks).

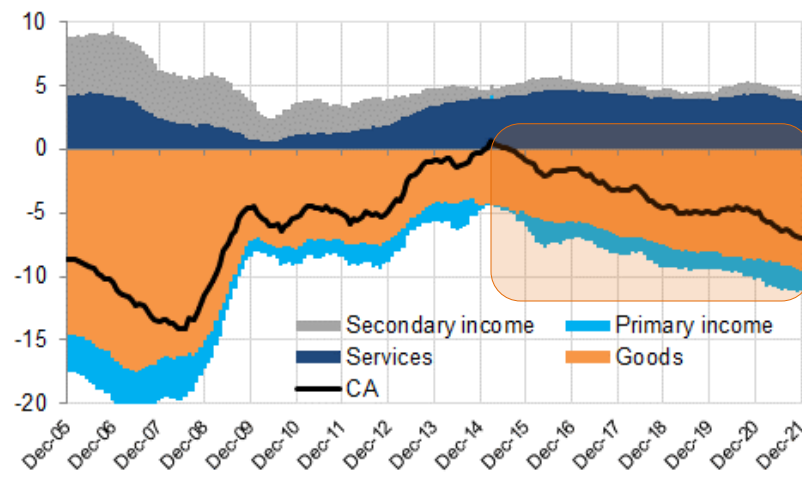
Beyond inflation, policy normalization, war... there are a series of other challenges as well

Reproduction number



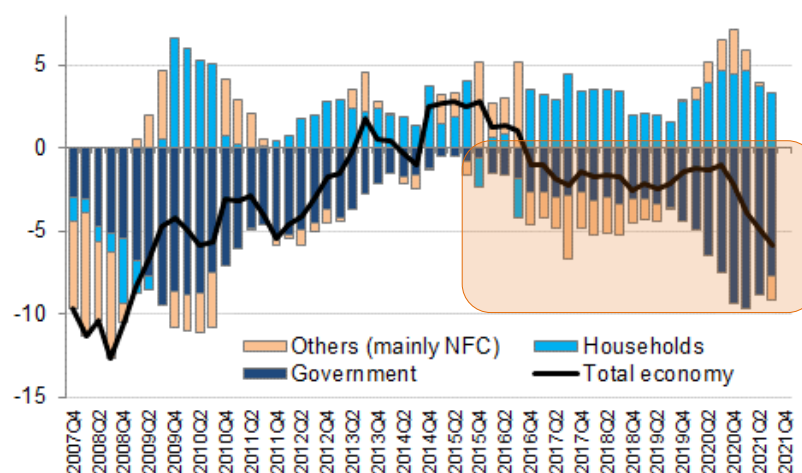
Current account balance

(GDP%, 12M rolling)



Net financing capacity of the main sectors

(GDP%, 4Q rolling)



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Thank you!