

# Inflation, uncertainty, and risk of recession in EA and Lithuania

Tomas Reichenbachas<sup>1</sup>

<sup>1</sup>Lietuvos bankas

treichenbachas@lb.lt

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The views expressed herein are solely those of the author and do not necessarily reflect the views of the Bank of Lithuania or the Eurosystem.

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## ■ Uncertainty still looms ahead

- Covid-2019 pandemic
- Supply constrains
- russia-Ukraine war
- Surge in energy prices

## ■ Inflation rises to 40-year high

- Rising food and energy costs drove inflation, but it is spreading into core inflation

## ■ Economy is sending mixed signals

- Falling real incomes
- Stagnating economic growth
- *But* still low unemployment and rising nominal wages

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# Inflation (1)

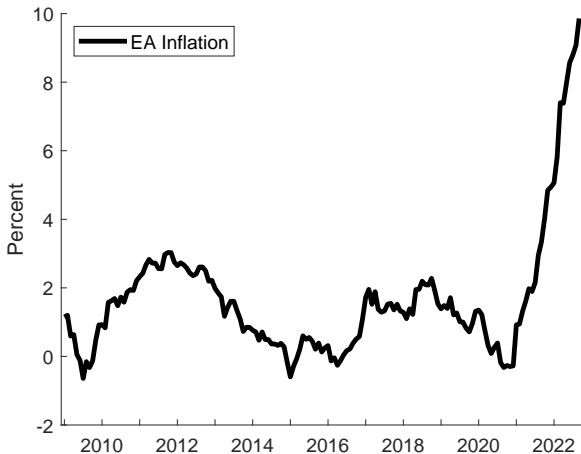


Figure 1: EA Inflation

Source: Eurostat

Note: The black line denotes EA inflation. The red lines denote inflation across EA countries.

# Inflation (2)

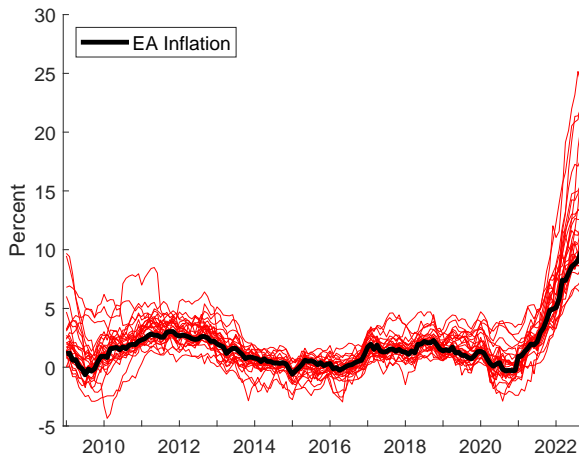


Figure 2: EA Inflation

Source: Eurostat

Note: The black line denotes EA inflation. The red lines denote inflation across EA countries.



# Inflation (3)

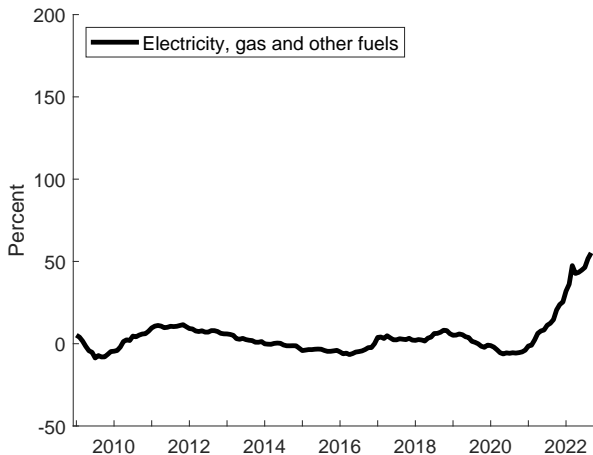


Figure 3: Inflation (Electricity, gas and other fuels)

Source: Eurostat

Note: The black line denotes EA inflation. The red lines denote inflation across EA countries.

# Inflation (4)

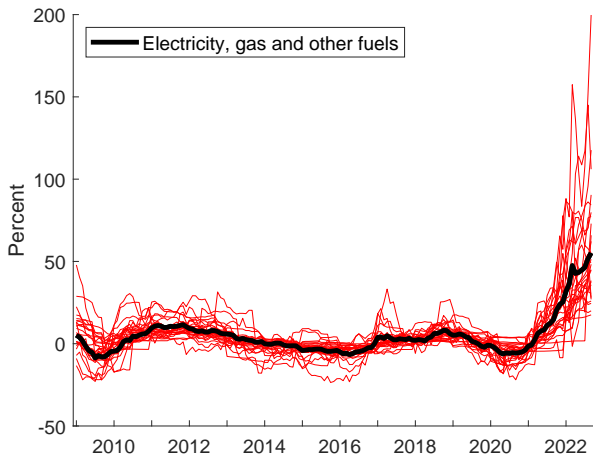


Figure 4: Inflation (Electricity, gas and other fuels)

Source: Eurostat

Note: The black line denotes EA inflation. The red lines denote inflation across EA countries.

# Gas prices

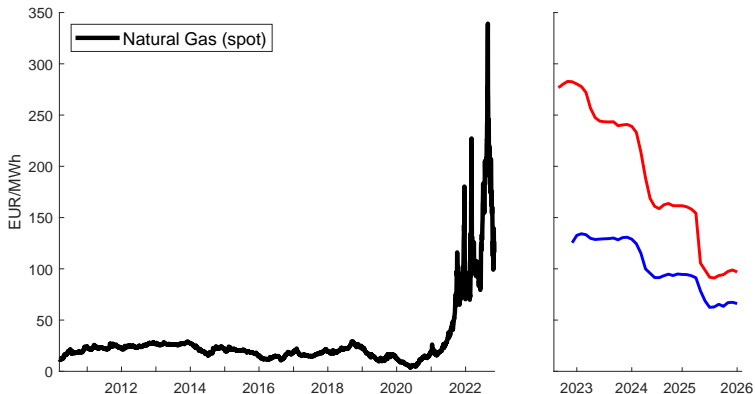


Figure 5: Gas prices

Source: Refinitiv

Note: The black line denote spot price. The red line denotes future price curve at the time of the projections. The blue line denotes current (Nov 4) future price curve.

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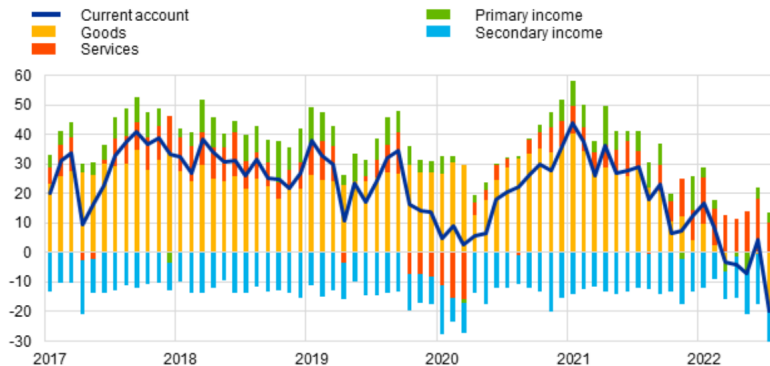
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## Euro area current account balance

(EUR billions unless otherwise indicated; working day and seasonally adjusted data)



Source: ECB.

# ECB staff produce macroeconomic projections (September)

## Table

### Growth and inflation projections for the euro area

(annual percentage changes)

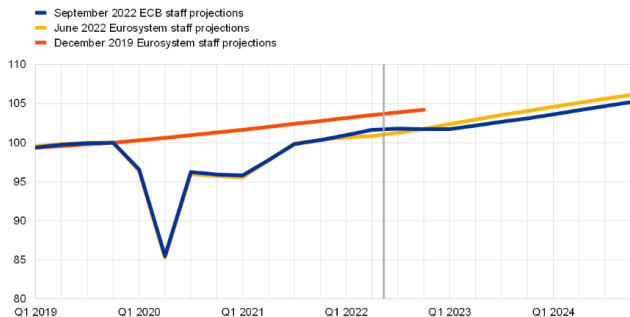
	September 2022				June 2022			
	2021	2022	2023	2024	2021	2022	2023	2024
<b>Real GDP</b>	5.2	3.1	0.9	1.9	5.4	2.8	2.1	2.1
<b>HICP</b>	2.6	8.1	5.5	2.3	2.6	6.8	3.5	2.1

Notes: Real GDP figures refer to seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications due to data releases after the cut-off date for the projections.

# ECB staff produced macroeconomic projections (September)

## Euro area real GDP

(chain-linked volumes, Q4 2019 = 100)



Notes: Data are seasonally and working day-adjusted. Historical data may differ from the latest Eurostat publications due to data releases after the cut-off date for the projections. The vertical line indicates the start of the current projection horizon.

# Macroeconomic projections for Lithuania

	September 2022 forecast <sup>a</sup>			June 2022 forecast		
	2021	2022 <sup>b</sup>	2023 <sup>b</sup>	2021	2022 <sup>b</sup>	2023 <sup>b</sup>
<b>Price and cost developments (annual percentage change)</b>						
Average annual HICP inflation	4.6	18.3	8.4	4.6	15.2	4.6
<b>Economic activity (constant prices; annual percentage change)</b>						
Gross domestic product <sup>c</sup>	4.9	2.1	0.9	4.9	2.1	3.4
Private consumption expenditure <sup>c</sup>	7.3	1.0	-0.8	7.3	5.4	3.8
General government consumption expenditure <sup>c</sup>	0.6	0.3	0.0	0.6	1.5	-1.3
Gross fixed capital formation <sup>c</sup>	7.0	3.0	3.4	7.0	4.1	3.5
Exports of goods and services <sup>c</sup>	15.9	6.4	1.6	15.9	7.4	2.9
Imports of goods and services <sup>c</sup>	19.4	7.5	1.3	19.4	9.8	2.8
<b>External sector (percentage of GDP)</b>						
Balance of goods and services	4.2	-1.3	0.9	4.2	-1.9	-0.9
Current account balance	1.3	-6.6	-2.1	1.2	-4.5	-3.8
Current and capital account balance	2.7	-4.7	-0.2	2.7	-2.5	-1.8

<sup>a</sup> The macroeconomic projections are based on external assumptions, constructed using information made available by 22 August 2022, and other data and information made available by 31 August 2022.

<sup>b</sup> Projection.

<sup>c</sup> Adjusted for seasonal and workday effects.

<sup>d</sup> National accounts data; employment in domestic concept



- **This is one of the biggest terms-of-trade shock in modern history**
  - Europe had stable trade surpluses for a decade but the current events have tipped it into an external deficit unseen since the launch of the Euro.
  - For energy-importing countries, an increase in energy prices leads to a transfer of income and wealth abroad.
  
- **Policy response**
  - Fiscal policy - to help most affected firms and households *"to weather the storm"*
  - Monetary policy - to avoid wage-price spiral (US 80s)
  - Structural policies - to empower the green transition

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- **Higher inflation will likely last well into next year, if not longer**
- **The risk of a Euro-area recession is increasing**
  - *Bloomberg poll*: Respondents in survey see 60% chance of downturn in next year
- **Global Economic Uncertainty will remain high**
  - We are in the new era: the war, de-globalisation, climate change, etc.