

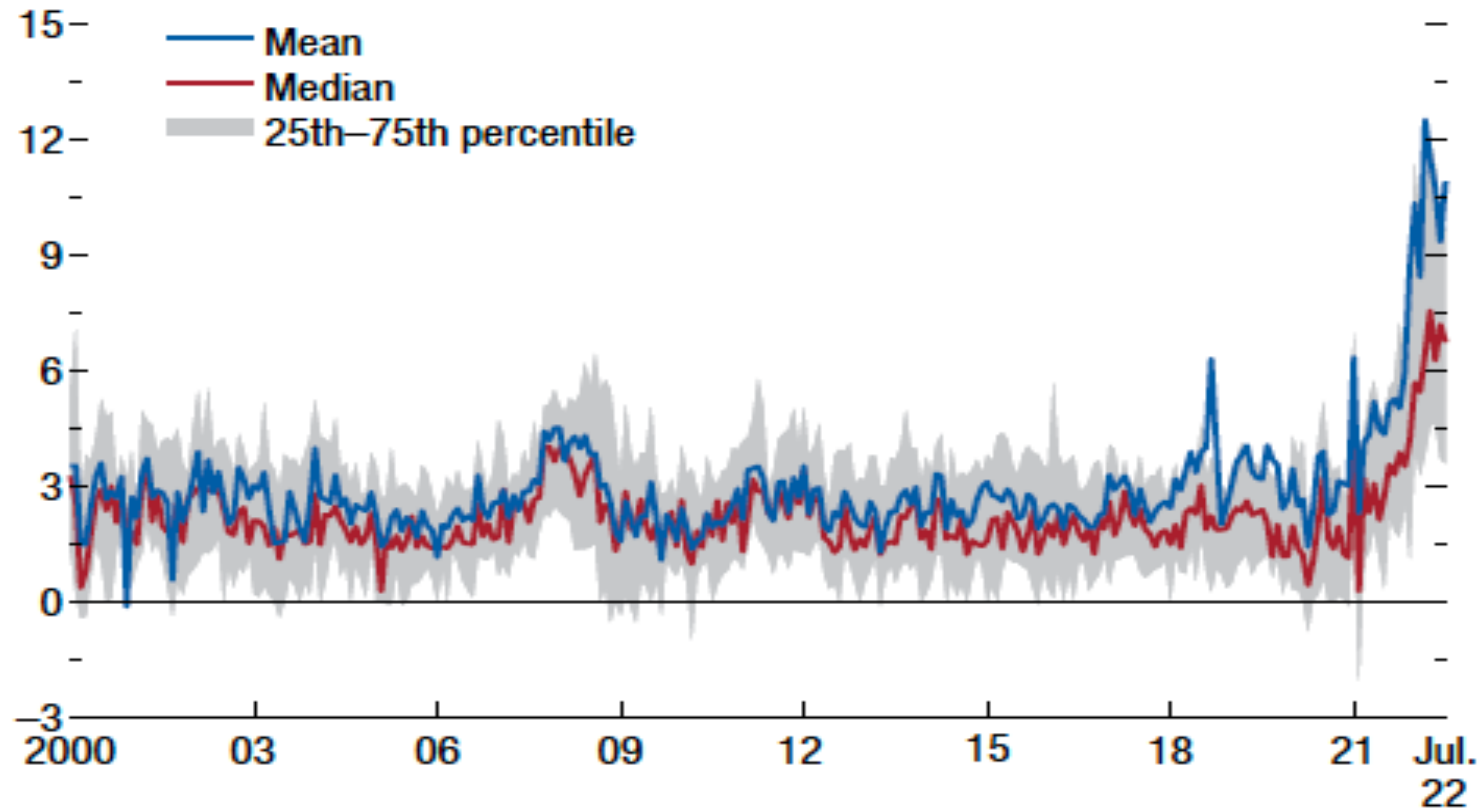
London
Business
School

Impact of the Pandemic on the International Economy

ESRI International Roundtable 2022
Tokyo

Professor Hélène Rey
London Business School

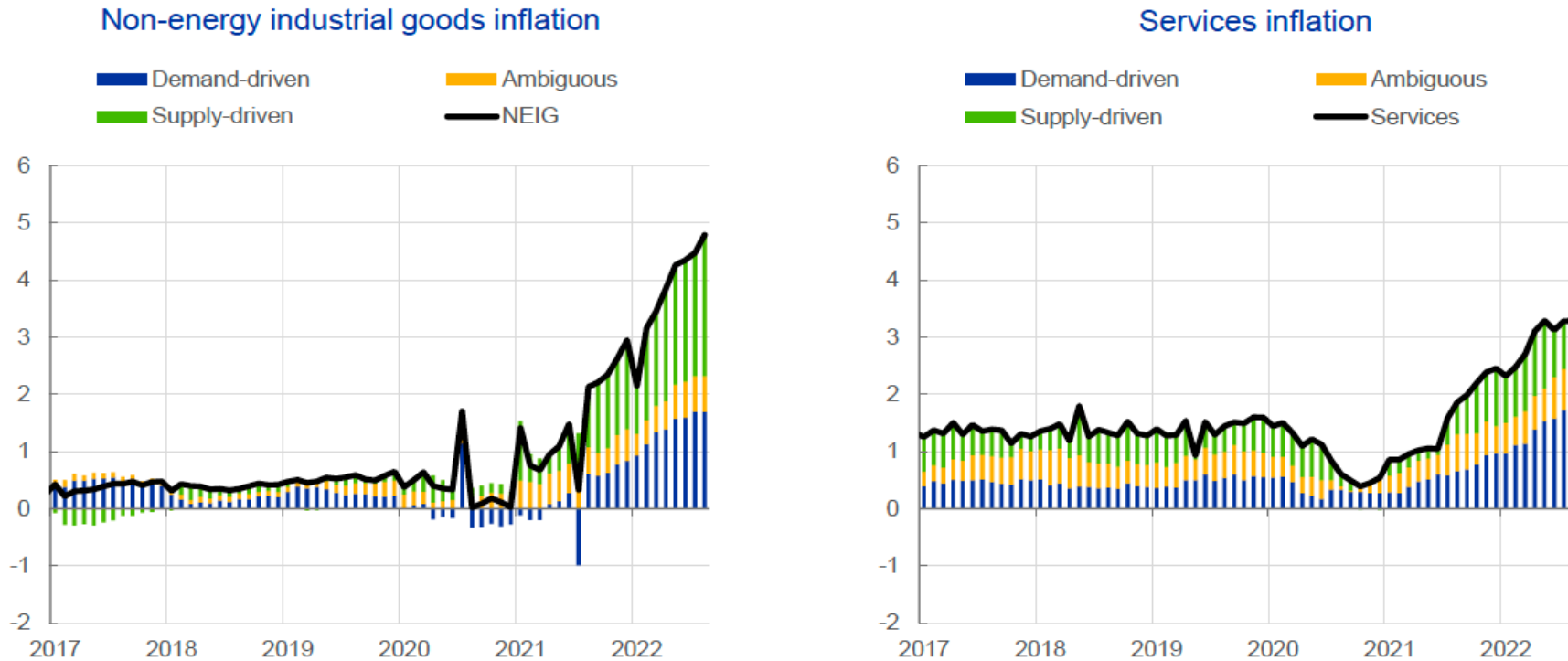
Global increase in core inflation: set of EMS and AEs



Inflation Origins

- Shift in demand toward goods and away from services
- Supply chain bottlenecks (lockdowns, shipping, energy, preference shift)
- Aggregate stimulus and post-pandemic recovery (large savings)
- Shocks to labor supply (especially in the US)
- Supply shocks to energy and food because of the Russian invasion of Ukraine

Shock decomposition of euro area inflation (annual % change, pp contributions)

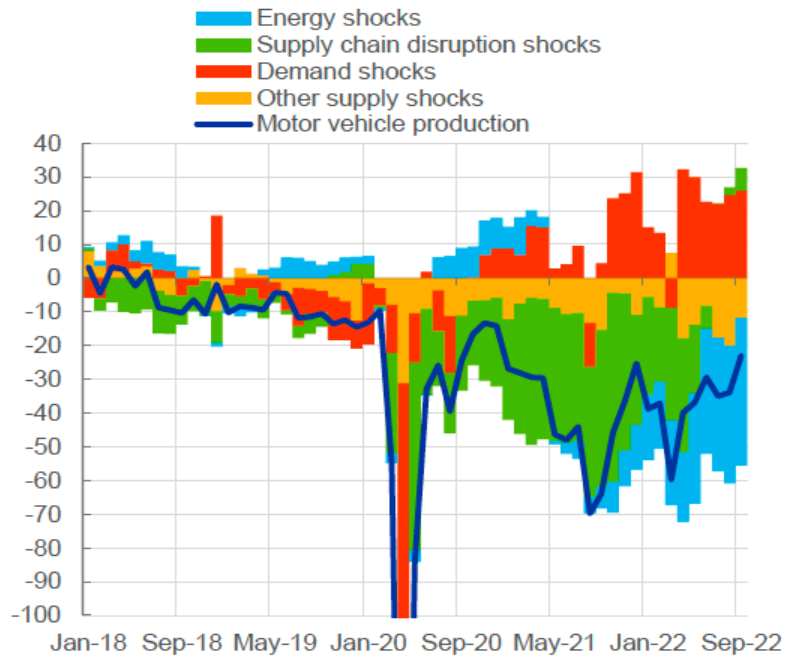


Sources: Eurostat and ECB staff calculations.

Notes: Gonçalves, E. and Koester, G. (2022): "How much do supply and demand drive inflation – decomposing HICPX inflation item by item"- ECB Economic Bulletin Box issue 7 2022 (forthcoming). Seasonally adjusted series. While price data are available for October 2022, the latest observation is for August 2022 as the turnover series used as a proxy for activity are published with some delay. Latest observation: August 2022.

Motor vehicle production – contribution of shocks

(percentage deviation from trend, percentage points)

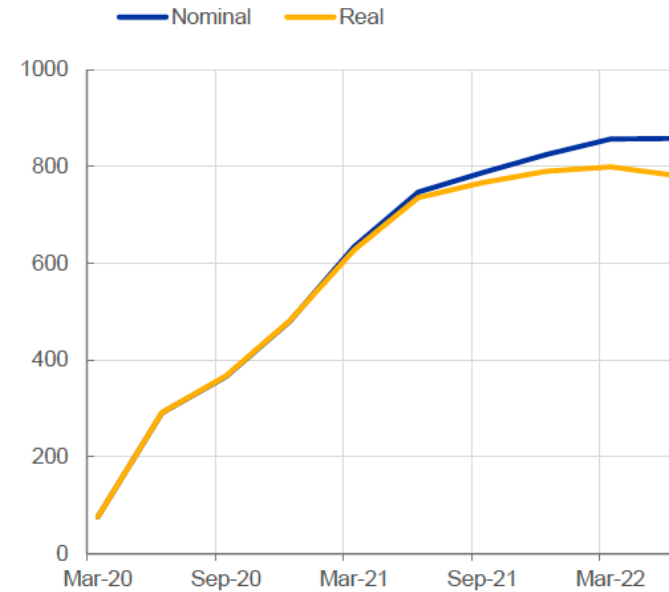


Sources: Eurostat, Markit and ECB staff calculations.

Notes: The Bayesian SVAR includes Motor vehicle production, car prices, HICP energy and PMI suppliers' delivery times. Shocks are identified using sign and narrative restriction methods. Technical details on the method can be found in De Santis, R. A. and Van der Veken, W. (2022), "Deflationary Financial Shocks and Inflationary Uncertainty Shocks: An SVAR Investigation", Working Paper Series, No 2727, ECB. Last observation: Sep. 2022.

Accumulated excess savings

(since 2019Q4; EUR bn)



Source: Eurostat, ECB and ECB calculations.

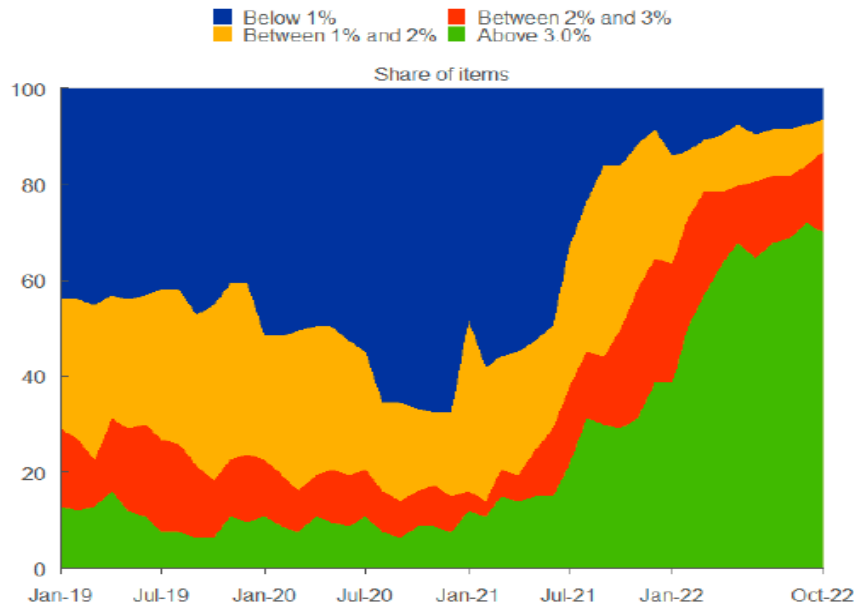
Notes: The calculations follow Aladangady, A., Cho, D., Feiveson, L. and Pinto, E., "Excess Savings during the COVID-19 Pandemic," FEDS Notes, October 21, 2022. The real stock of excess savings is the nominal stock deflated by the HICP.

Latest observation: 2022Q2.

Excess savings still large in euro area.

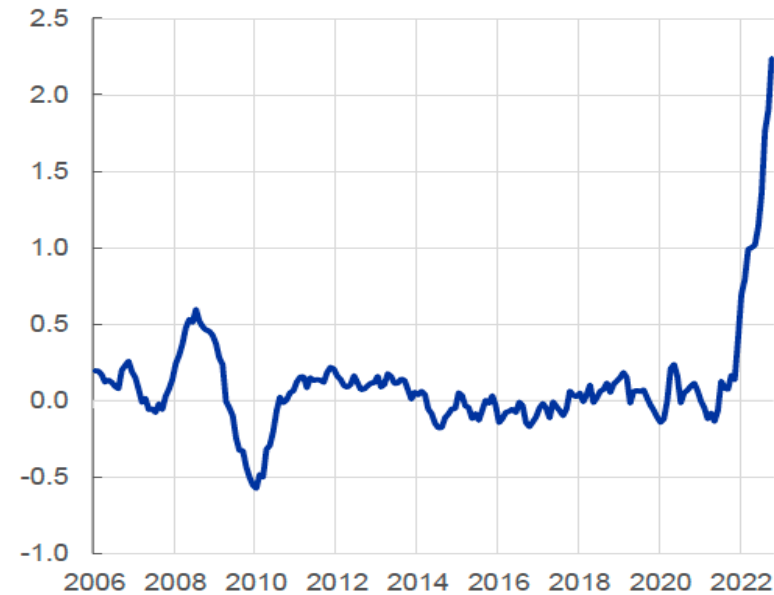
Inflation broadening in the euro area. Large inequality

Share of HICP components according to pace of change (percentage point contributions)



Sources: ECB and ECB staff calculations.
Latest observation: October 2022.

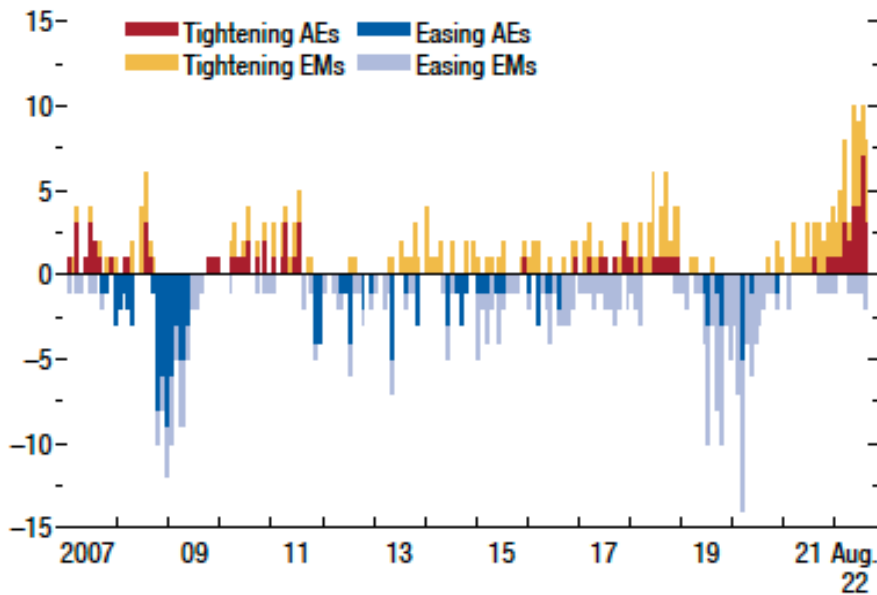
Inflation gap between the lowest and highest income quintiles (percentage points; excluding housing costs)



Source: Eurostat, Household Budget Survey, Istat and ECB calculations.
Notes: Quintile-specific inflation rates are calculated based on quintile-specific consumption baskets and are calculated excluding spending on "Rents and Owner-occupied housing costs". Weights based on the household budget survey are updated annually in line with updates of official HICP weights. See Charalampakis et al. (2022): "The impact of the recent rise in inflation on low-income households" ECB Economic Bulletin Box issue 7 2022
Latest observation: October 2022

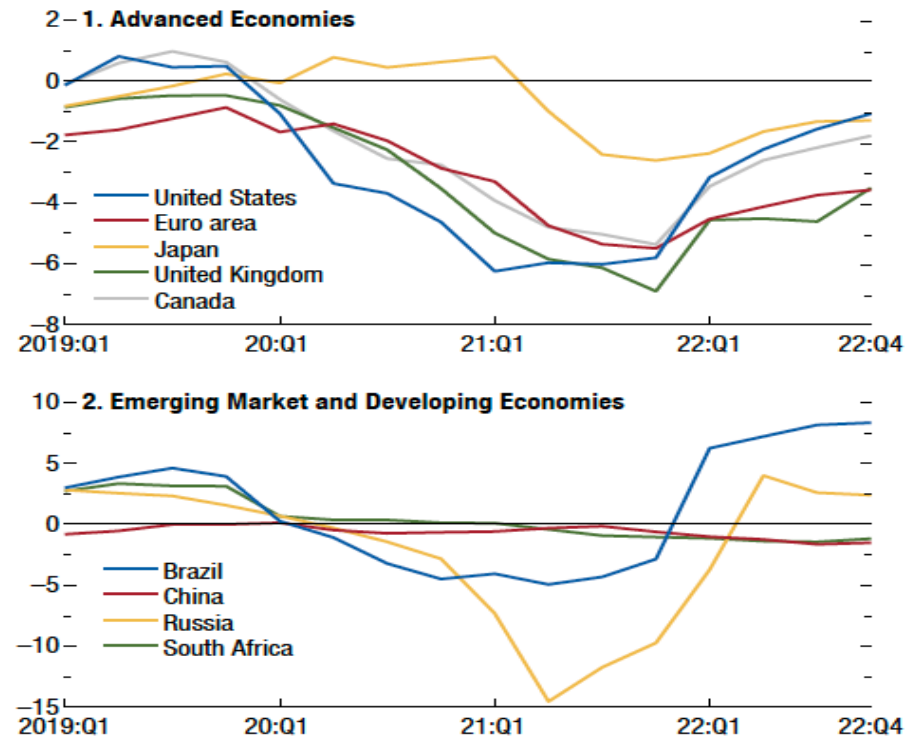
Monetary policy tightening around the world

Figure 1.2. Change in Monetary Policy Cycle among G20 Economies
(Number of increases and cuts in policy rates)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: AEs = advanced economies; EMs = emerging market economies.

Figure 1.10. Real Short-Term Rates Are Rising
(Percent)



Source: IMF staff calculations.
Note: Projection for the euro area is estimated using projections for 16 individual euro area countries. Real rate computed as short-term nominal interest rate less core inflation one year ahead.

Real Effective exchange rate of the \$: real appreciation:



Big unknowns

- Role of inflation expectations and wage price adjustments. (most countries, short run expectations close to realized inflations but longer run expectations anchored)
- Effect of pandemics, war and green transition on potential output (energy prices and carbon price effect on green and brown investments will be key)
- Real rate: Larger deficits due to increased rate payments, defense spending and green transition may drive up real rate. Real rates are trend stationary. Demographics? Productivity gains due to digitalization?
- Fragmentation: US China and role of Europe.