

The return of runaway prices

Dealing with expensive food and energy



European Bank
for Reconstruction and Development

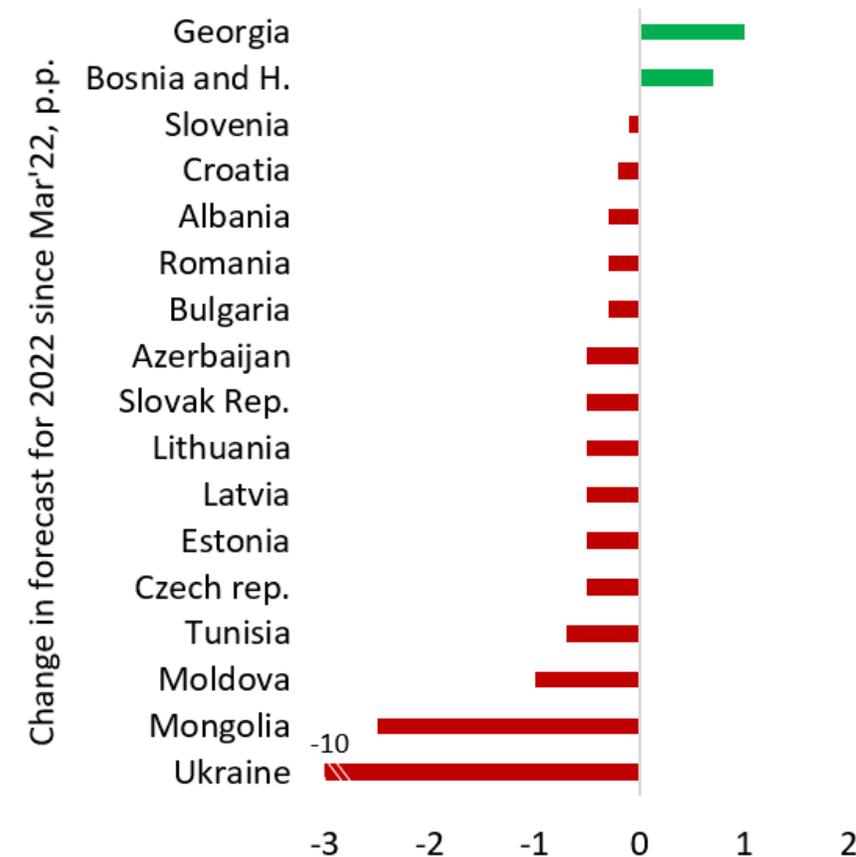
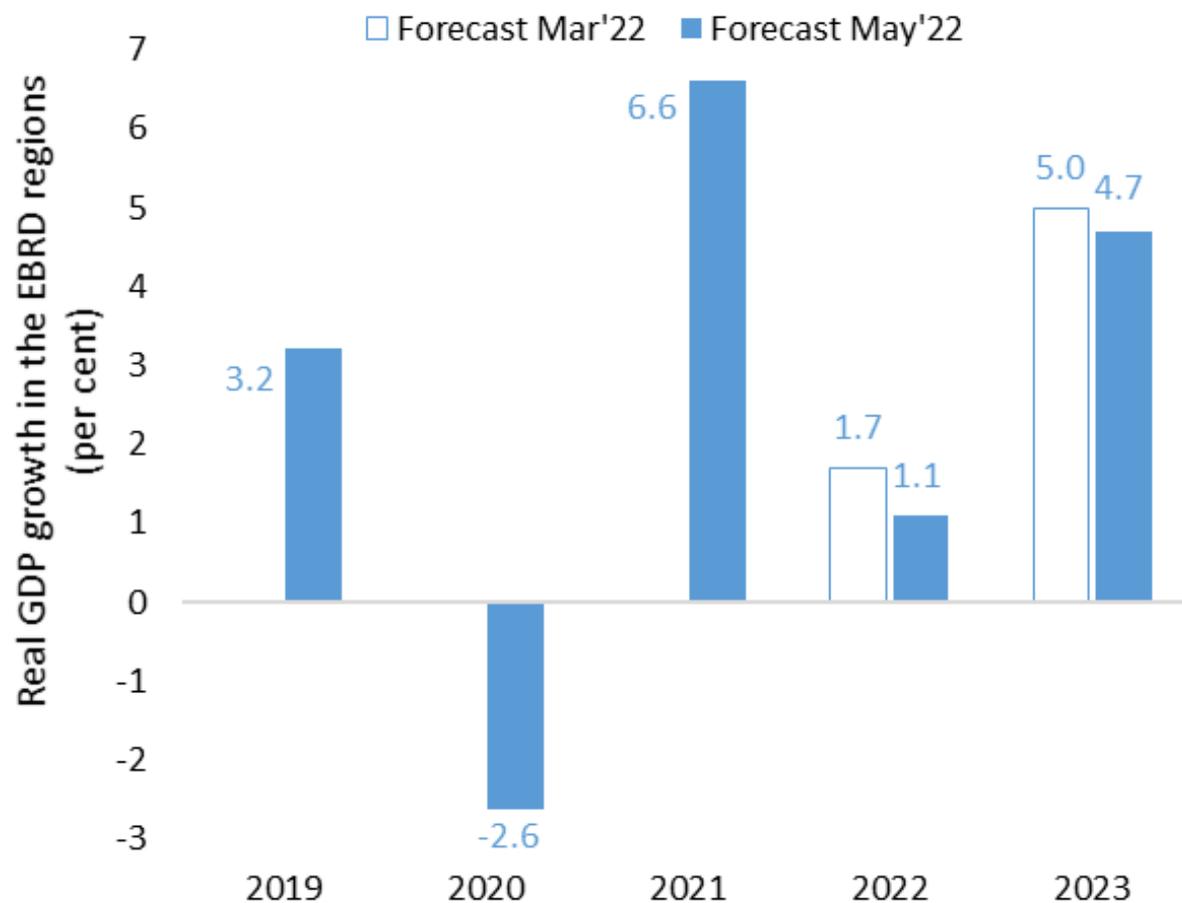
Regional Economic Prospects

May 2022



Since Mar'22, downward revision to growth: larger-than-previously expected contraction in Ukraine, rising inflationary pressures

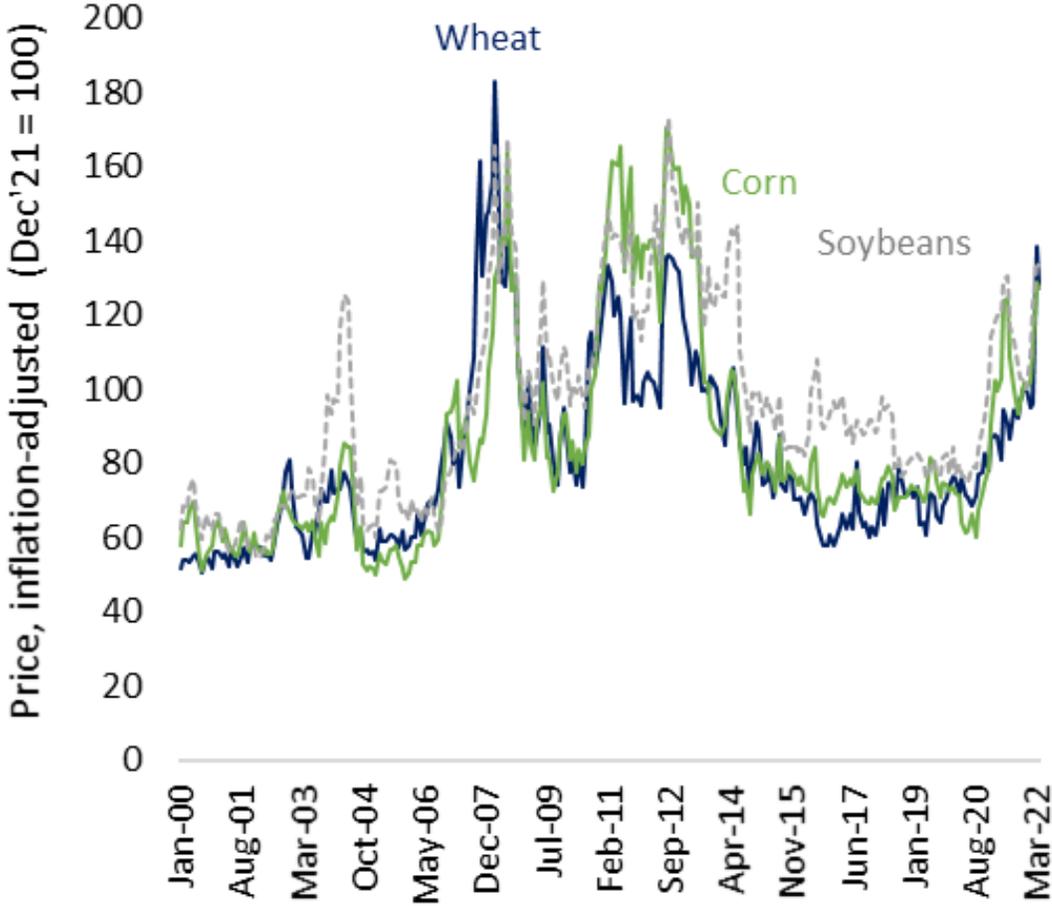
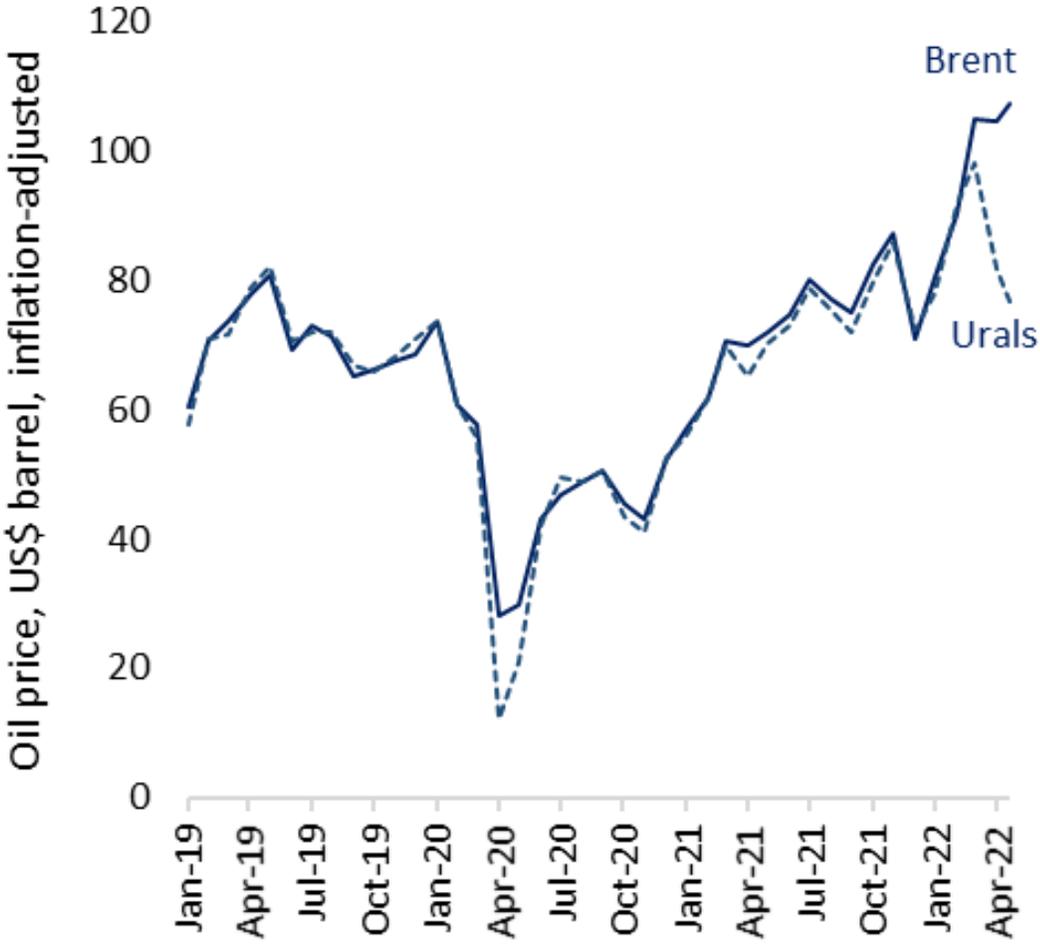
Growth in the EBRD regions to slow down from 6.6% in 2021 to **1.1% in 2022** as the war drags on, to recover to **4.7% in 2023**



Rising food and energy prices (as prices of Russian and international oil diverge)



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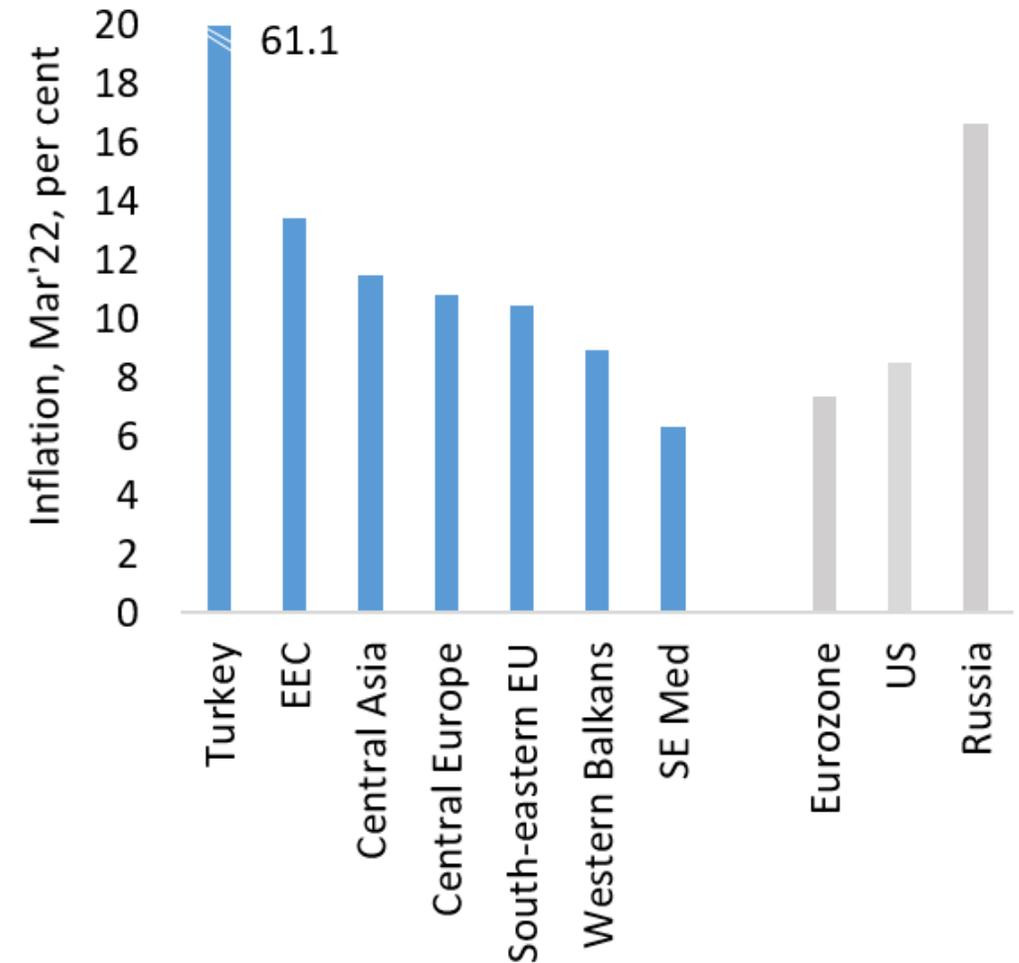
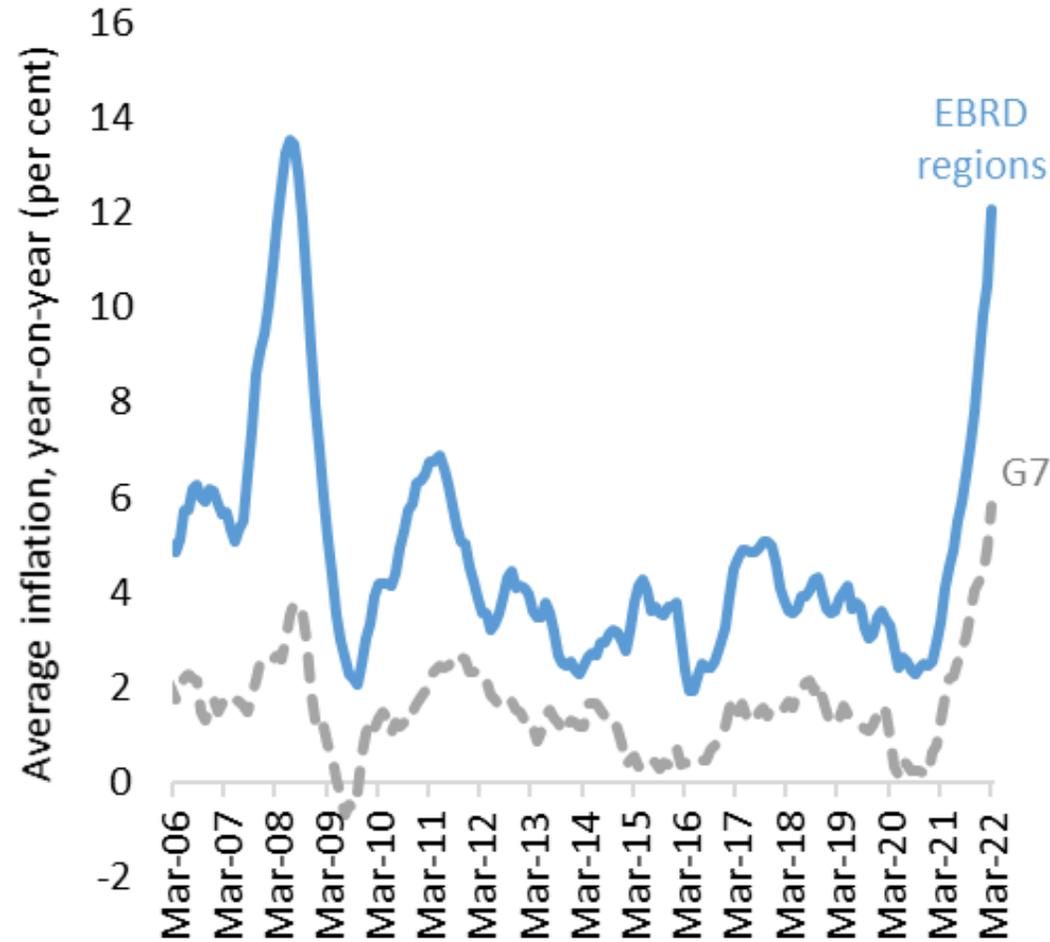
Sources: Refinitiv Eikon and authors' calculations.

Notes: Prices adjusted for US inflation.

Inflation in the EBRD regions reached 11.9% in Mar'22, highest since summer'08, and rising, leading to tighter financing conditions



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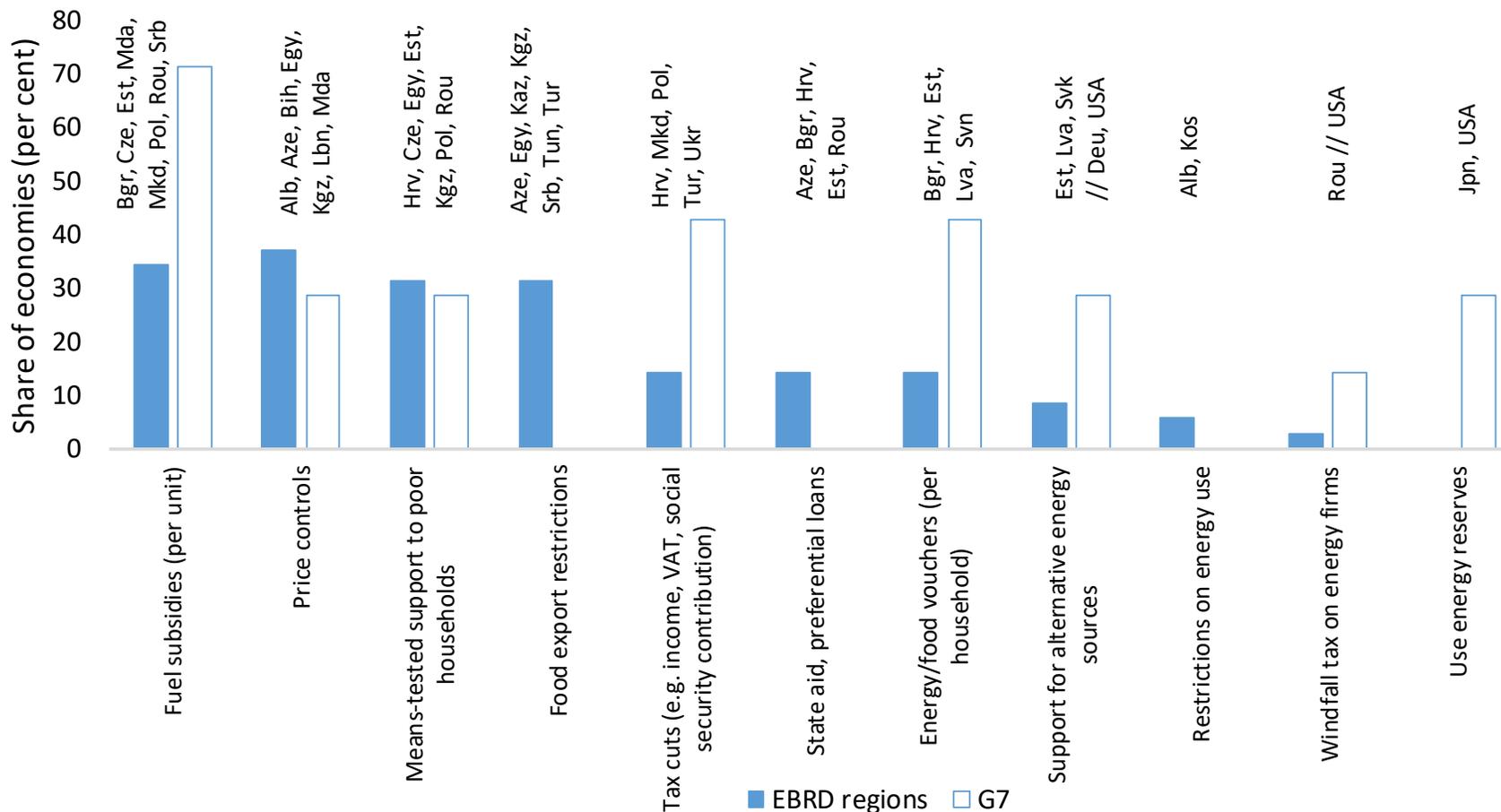
Sources: CEIC and national authorities.

Notes: Year-on-year changes. EBRD regions refers to a simple average across 31 economies, excludes Lebanon.

Economies introduced a wide range of measures to mitigate the impact of high energy and food prices on households and firms



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Poland: VAT on petrol was lowered from 23% to 8%

Czech R: reduction in the excise tax on petrol and diesel of CZK 1.5 (€0.06) per litre

Hungary: Capped prices of various food staples, fuel until 1 Jul; grain export restrictions

Poland: an allowance of up to €106 per person per year based on income, type of heating and household size

Kyrgyz R: handouts of flour; 50% discount on electricity bills (subject to a cap) to low-income households

Currencies increasingly faced pressures based on perceived fiscal and external vulnerabilities; other currencies recovered earlier losses

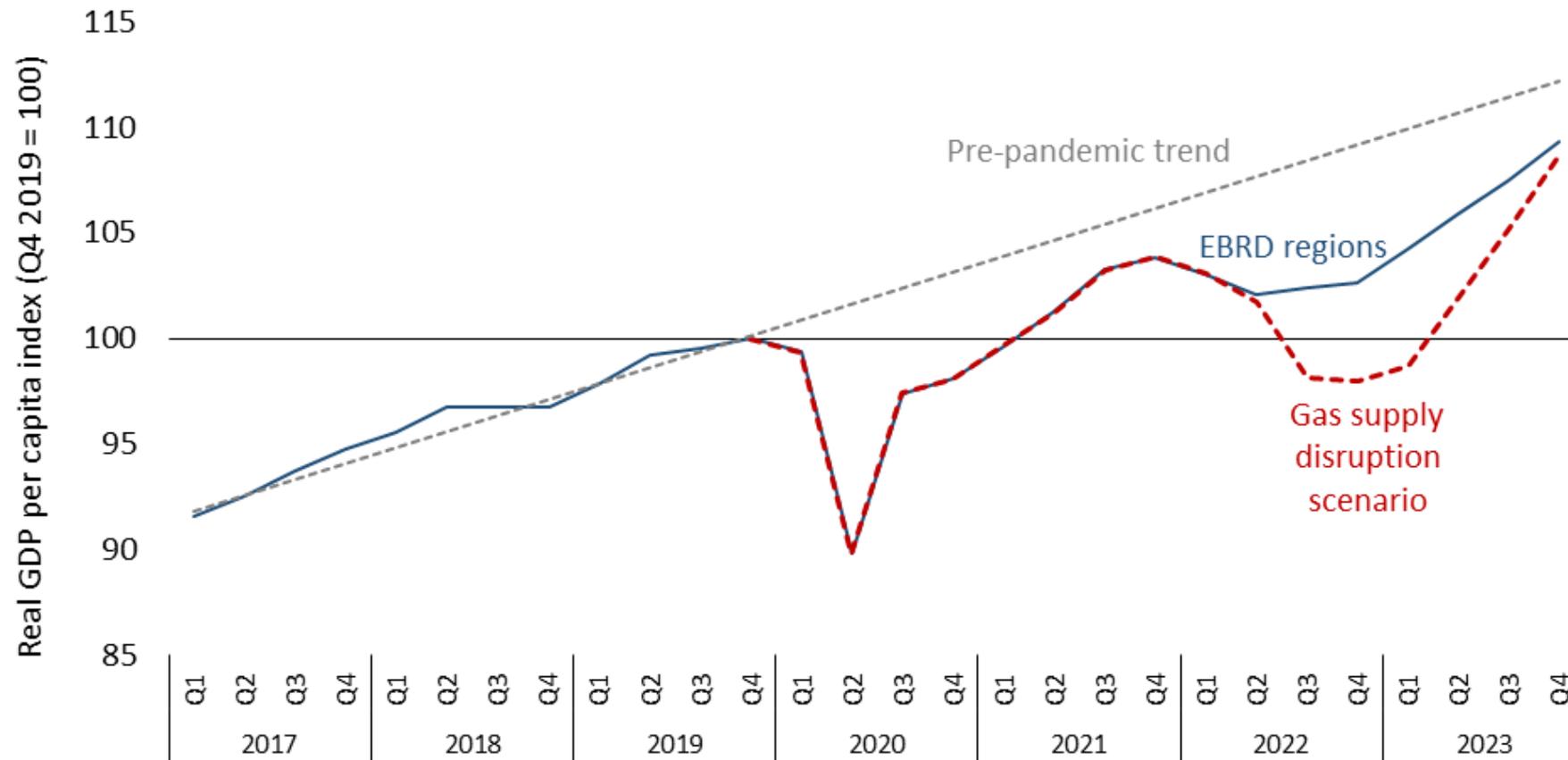


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High uncertainty: In a scenario of discontinued gas supplies from Russia, output per capita could be 2%+ lower in 2022-23

In this scenario, output per capita would dip below the pre-Covid level again for several quarters. Output gap (with respect to the baseline scenario) would close towards end-2023 on the back of investments in gas infrastructure and electrification of industry



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