

# Economic perspectives for a post- COVID Era

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# Pre-pandemic, long-term factors pressed upon growth potential and uneven institutional quality undermined resilience



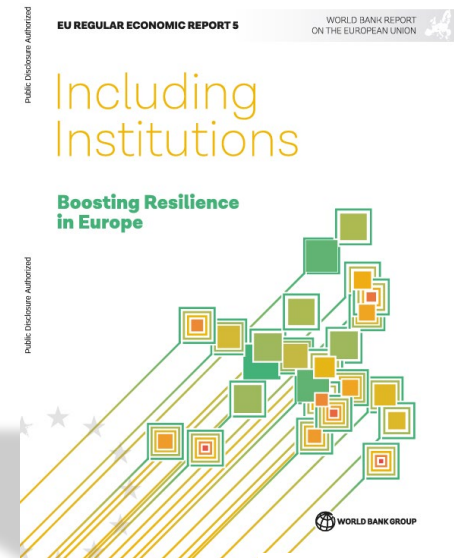
**Structural constraints** weighing on growth potential prior to the pandemic:

- **Productivity lull** across the EU.
- **Rapidly aging population**, with migration accentuated trends in some countries
- **Slow shifts in nature of work and skills affecting labor *quality*** and the need to keep pace with innovation



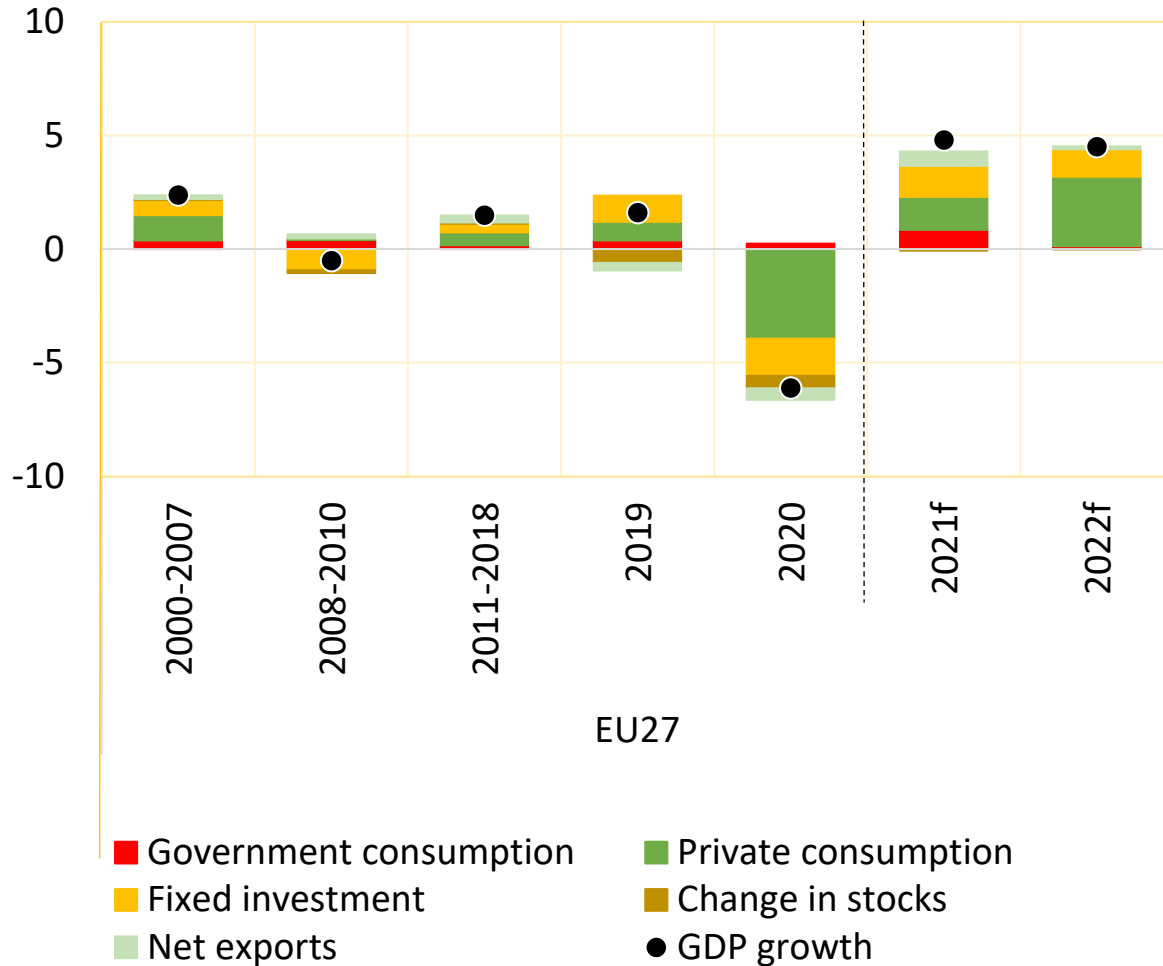
## Quality of institutions

set the stage for the ability of countries to absorb, adapt and recover from crises and to protect poorer households (WB, 2019).



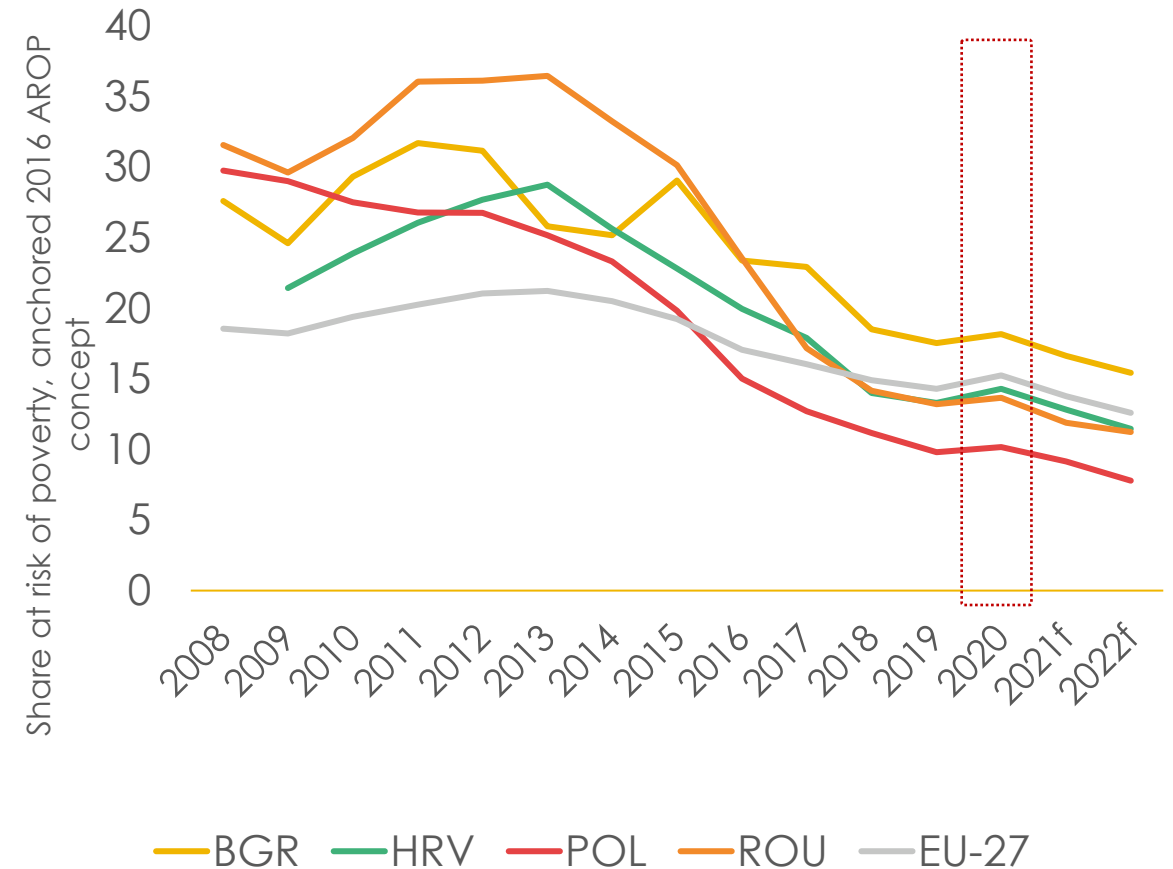
# Despite unprecedented government response, COVID-19 brought the largest recession in the EU since WWII; income convergence halted and poverty rose

*Contribution to GDP growth, expenditure side*



Source: World Bank calculations using Eurostat, Ameco data, World Bank calculations

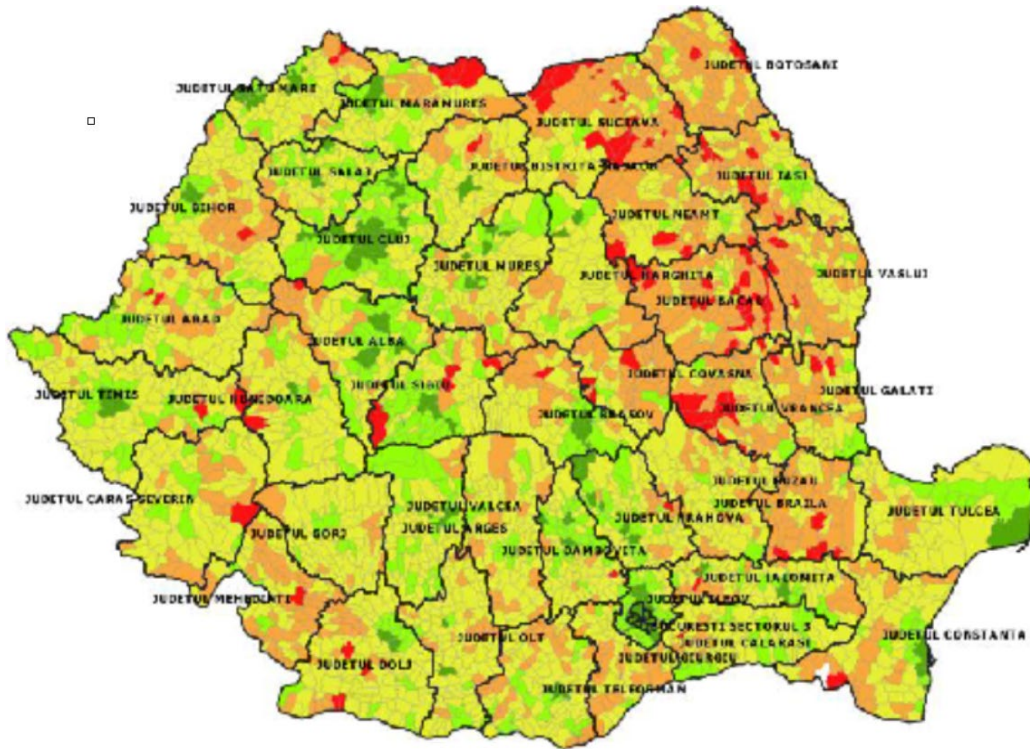
*Share of population at risk of poverty, using pre-pandemic thresholds*



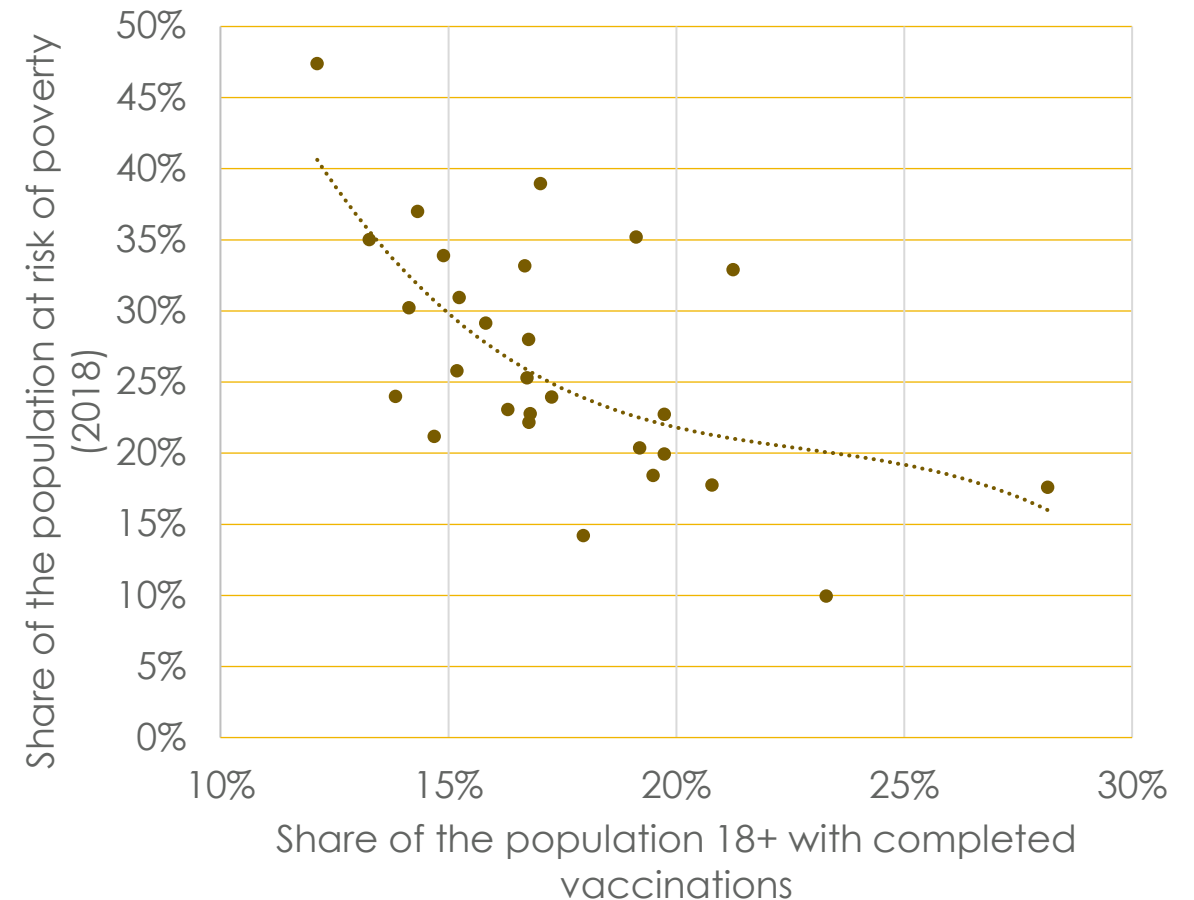
Source: WB Staff calculations using AMECO Summer 2021, 2016 anchored AROP line and EU-SILC micro-data.

# Recovery faces multiple risks: vaccine uptake uneven within country

*Vaccination rates (18+) by county in Romania, August 2021*



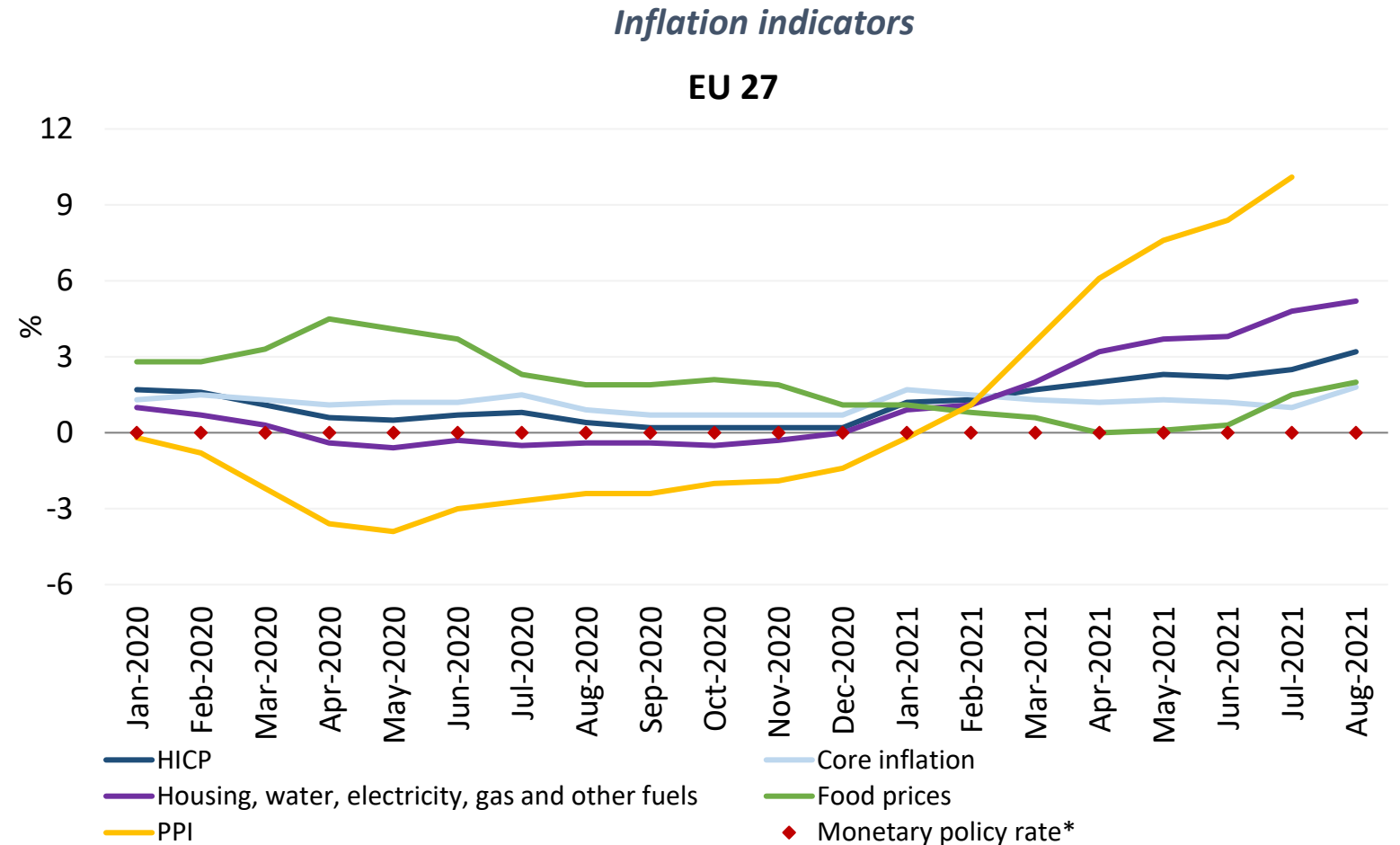
*Vaccination rates (18+) by district in Bulgaria, Sept 3rd 2021, compared to share at risk of poverty*



# Recovery faces multiple risks: inflation

## Inflation—diverse price dynamics:

Core inflation slowing, producer prices markedly on rise reflecting supply chain bottlenecks, rising energy prices, food prices creeping up.

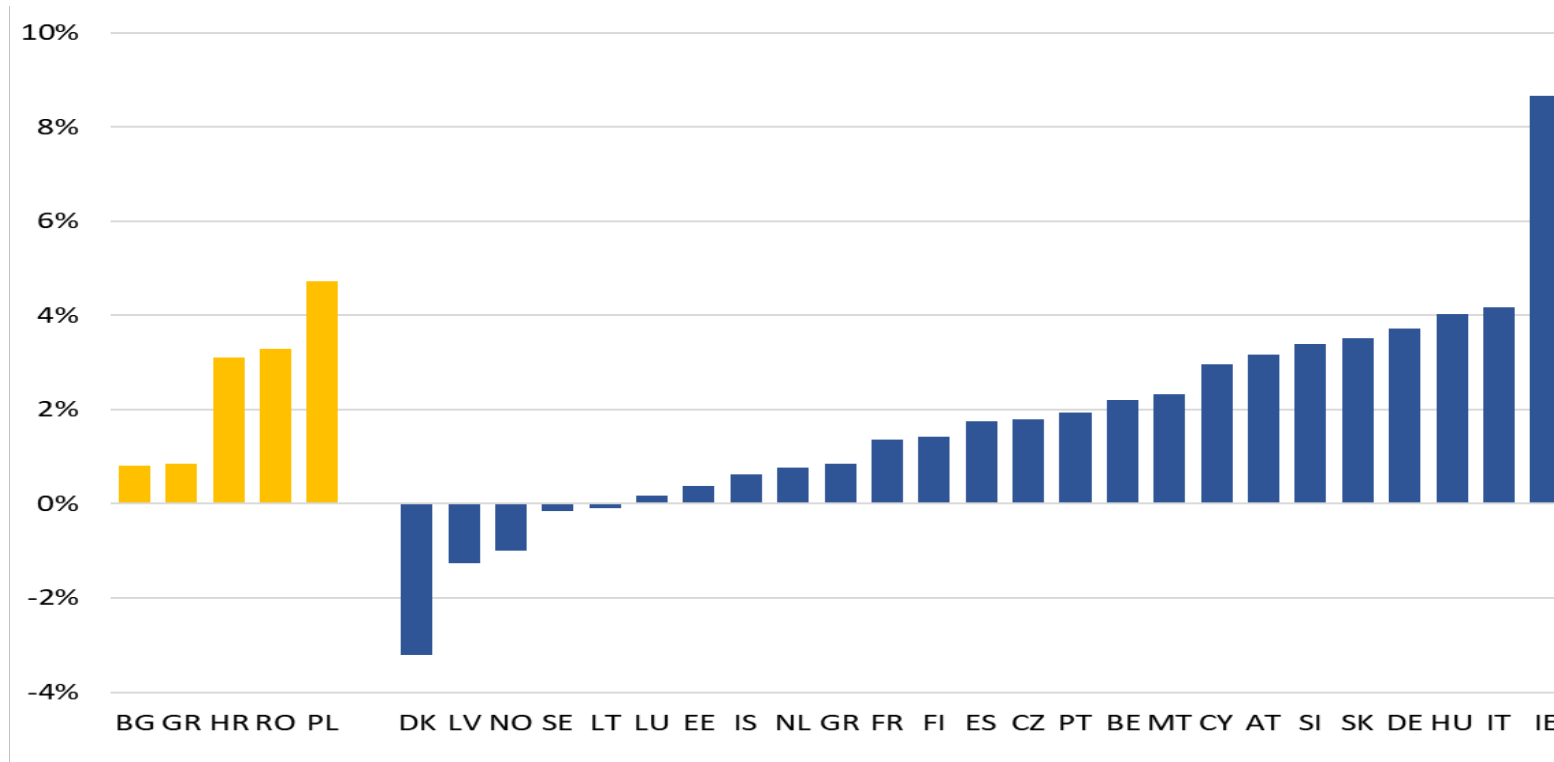


Source: Inflation indicators from Eurostat (prc\_hicp\_manr, sts\_inpp\_m). Note: \*ECB's monetary policy rate, HICP excluding energy, food, alcohol and tobacco, consumer price index and PPI expressed as annual rates of change (m/m-12)

# Recovery faces multiple risks: financial sector

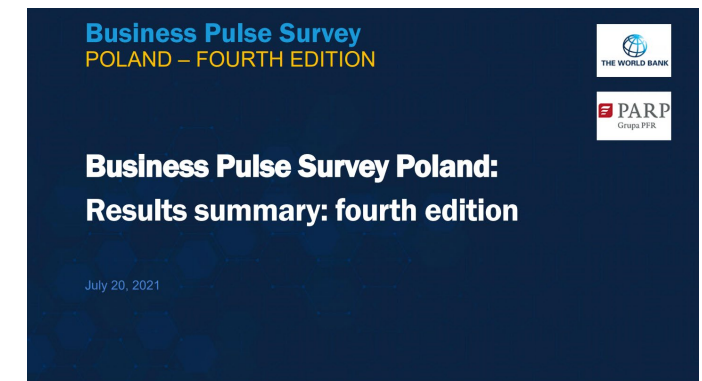
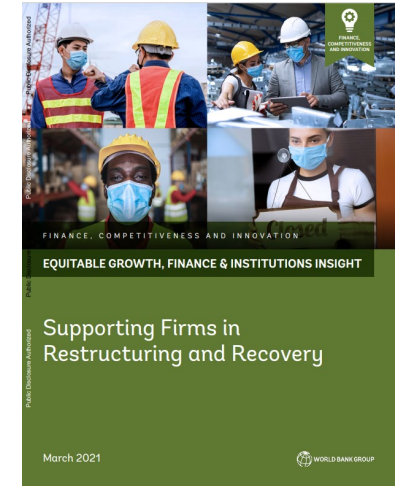
Although NPLs continue to be broadly stable, credit risk has increased

*Increase in share of loans in Stage 2 from Mar 2020 to Mar 2021, in percentage points)*



# Recovery faces multiple risks: real sector

- From broad-based support to firms to increased public support **targeted to viable firms**
- **New drivers for firms' distress or insolvency**
  - Business model no longer viable post-pandemic
  - Debt accumulated during lock-downs (plus moratoria)
  - Hard to identify non-viable businesses
- **Importance to consider who should be bailed out and who should not**, and to adapt arrangements for efficient and effective restructuring as needed.



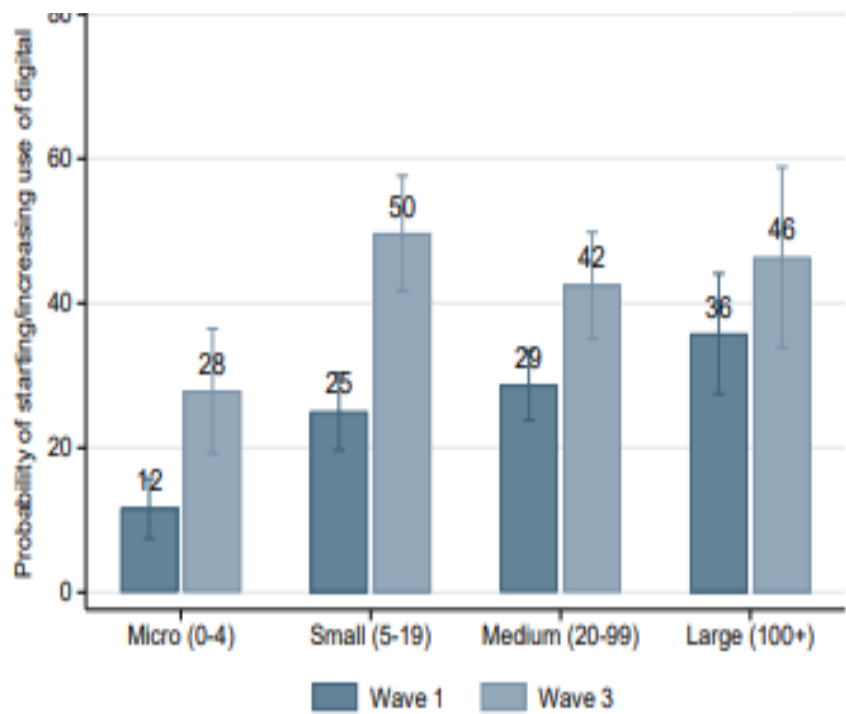
# Resilience and pace of digital adoption by firms a silver lining of the crisis



Many firms responded to the crisis by increasingly relying on innovation and using **digital technologies**.

Adoption of technology *could* increase **productivity** if this momentum sticks and is complemented by organizational changes.

*Predicted probability of increasing use of digital technologies in Poland, by size*



Transactional



Informational



Operational

## Digital technologies vary in their contributions to Europe's Triple Objective

|                        |   |   |   |
|------------------------|---|---|---|
| Competitiveness        | + | + | + |
| Market inclusion       | + | + | - |
| Geographic convergence | + | - | - |

Source: World Bank Pulse Firm Survey Poland and Europe 4.0

# Advancing the green and digital transitions—key to boosting the recovery and increasing the *quality* of growth

**NextGenEU** is an opportunity with significant resources for **green and digital priorities**

**Efficient and effective resource utilization** will be paramount to ensure countries' green and digital ambitions are met, and that the resources feed into an **equitable recovery**.

Varied levels of national **institutional readiness to step up and deliver on green, digital and inclusion agenda** will necessitate targeted institutional and capacity building.

