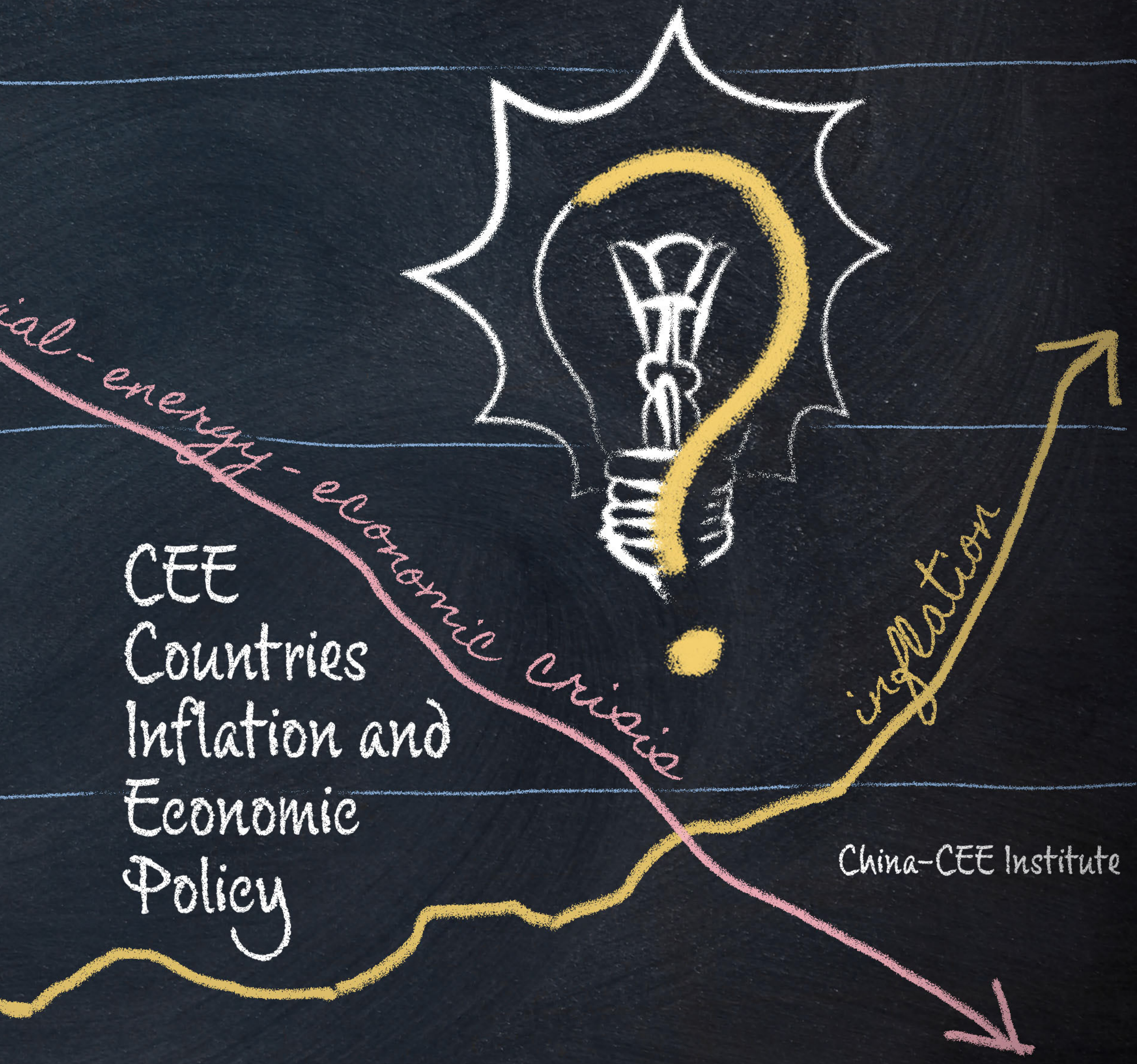

CEE Countries Inflation and Economic Policy

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Content

Inflation and Economic Policies Amid A Crisis

Marsela Musabelliu

Summary

As the European security system has been shaken, economic repercussions were the immediate aftermath, with energy and food prices rising by the day. All markets have been under duress but mostly developing economies. Albania is deeply embedded in this crisis, being highly dependent on European Union (EU) countries for imports, thus it was inevitable that the difficulties would be multifold. Inflation is at its highest peak in decades and economic policies for support are not at the same pace as the rising prices trend. The Albanian economy, its business, and its consumption model are very vulnerable to outside shocks and the past seven months have just demonstrated the extent of that vulnerability.

Introduction

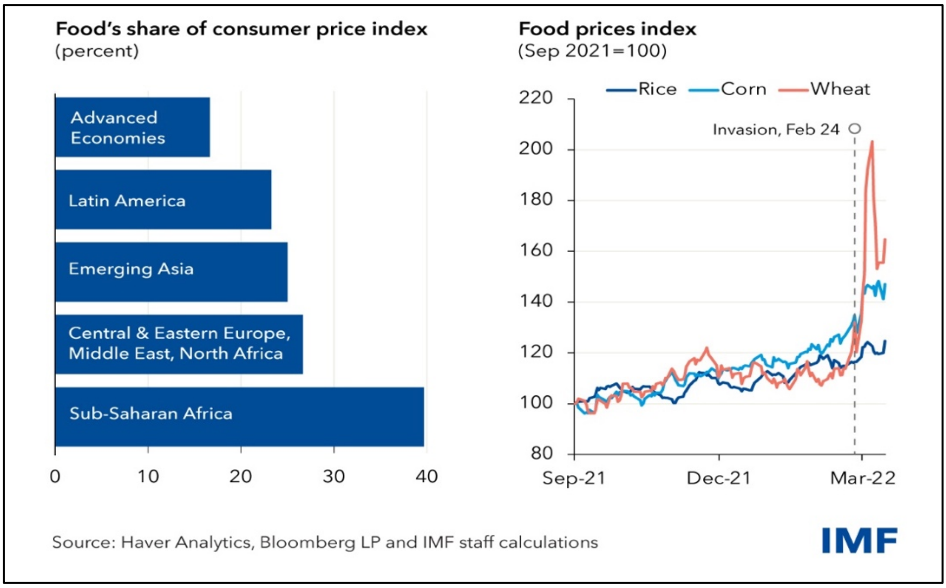
The prolonged conflict in Ukraine is triggering further and deeper disruptions to global trade, energy, and food prices, making the situation even worse, especially for low-income households in Albania.

It is a crisis that affects all, but not all in the same way. What Albanian citizens are experiencing in 2022 with the rising prices of food and everyday consumption commodities is another added burden to the already shaken financial situation of the country. While the increase in prices is overwhelming, the salaries are at the same level as one or more years prior. The purchasing power is diminished, and so is the consumption, leading to a spiral of discontent, and many times, deprivation.

Background

It is widely accepted that low-income households spend most of their income on inflation-affected items therefore, wealthy societies are less affected than the low-income by the current high inflation.[1] An analysis by the International Monetary Fund (IMF) shows how price shocks are having a worldwide impact, especially on poor households for whom food is a higher share of expenses. Food costs account for an average of 17% of consumer spending in advanced economies, but 40% in sub-Saharan Africa.[2] Consumers in countries with lower incomes spend more on food and are most affected when those prices rise.

The global average of food's share of CPI (Unit: percentage %)



Source: IMF

Albania and inflation in 2022

Beyond the above classification in major groups from the IMF, according to more targeted research by the World Bank in Albania, household consumption of food and nonalcoholic beverages has an average of 42%,

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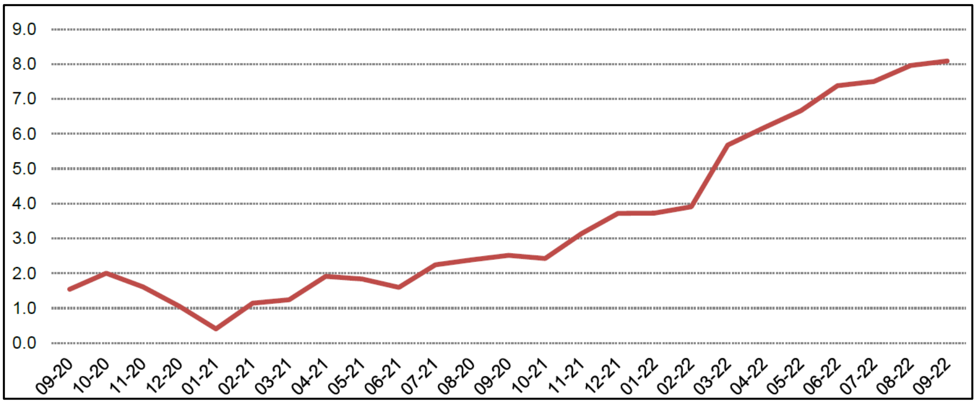
[1] Are the rich or poor hurt more by inflation? https://www.marketwatch.com/story/are-the-rich-or-poor-hurt-more-by-inflation-11664324835

[2] War-Fueled Surge in Food Prices to Hit Poorer Nations Hardest. https://www.imf.org/en/Blogs/Articles/2022/03/16/war-fueled-surge-in-food-prices-to-hit-poorer-nations-hardest

and for the poorest decile, it is 52%.[1] Thus, half of the income goes to food purchases. Furthermore, low-income individuals, who are often employed in the wide informal market in the country, are more exposed to the rising cost of living.

According to the Albanian Institute of Statistics (INSTAT), the Consumer Price Index (CPI) since the start of the conflict in Ukraine has been only increasing, at levels not witnessed in decades. As the chart below demonstrates, the pandemic years were already burdening Albanian households with inflation, but 2022 has been detrimental.

The annual rate of the Consumer Price Index in Albania (Unit: percentage %)



Source: INSTAT[2]

If we are to analyze by category and time the increase in prices, the situation unfolds as below:

Annual Change of Consumer Price Index by category (Unit: Percentage %)

[1] Western Balkans Regular Economic Report: Spring 2022. https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report

[2] The Consumer Price Index (CPI), the official measure of inflation in Albania, September 2022. http://www.instat.gov.al/media/10578/ick_shtator_2022.pdf

Groups/Categories	January	February	March	April	May	June	July	August	September
Total Inflation %	3.7	3.9	5.7	6.2	6.7	7.4	7.5	8.0	8.1
Food, and non-alcoholic beverages	**6.7**	**6.9**	**9.3**	**9.9**	**11.4**	**12.6**	**13.2**	**14.0**	**14.0**
Food	7.2	7.3	9.7	10.4	11.8	13.2	13.9	14.9	14.6
Bread and cereals	6.0	6.8	15.8	16.7	18.6	19.1	20.0	20.4	17.3
Meat	3.1	3.9	7.1	7.8	7.8	9.0	9.1	11.2	12.0
Fish	-0.5	0.1	0.9	3.6	7.2	8.6	11.4	13.7	15.1
Milk, cheese and eggs	3.0	3.3	10.3	17.1	18.4	18.5	18.2	22.3	24.0
Oils and fats	9.1	10.1	22.4	24.2	29.1	30.3	30.6	28.8	30.0
Fruits	8.5	7.0	3.6	4.6	-7.5	0.4	5.5	4.5	3.3
Vegetables included potatoes	17.0	16.4	10.5	5.2	13.0	10.3	9.5	8.6	8.5
Sugar, jam honey, syrup, sweets, etc	5.5	6.7	10.2	14.3	15.0	14.3	15.4	15.6	15.1
N.e.c. Food	2.3	3.0	3.9	5.8	6.5	7.1	7.4	7.9	9.1
Non-alcoholic beverages	1.2	1.5	3.8	4.6	6.0	5.6	5.7	6.6	6.5
Coffee, tea and cacao	1.3	1.5	4.7	6.1	6.7	7.2	6.9	7.8	7.3
Mineral water and soft beverages	1.1	1.5	2.2	2.1	4.8	3.0	3.8	4.6	5.0
Alcoholic beverages and tobacco	**2.1**	**2.1**	**4.9**	**4.3**	**5.0**	**4.7**	**5.0**	**6.2**	**6.5**
Clothing and footwear	**1.2**	**1.1**	**1.5**	**1.2**	**1.3**	**1.6**	**2.1**	**1.9**	**3.0**
Rent, water, fuel and power	**1.9**	**1.8**	**2.3**	**2.6**	**2.7**	**2.8**	**3.4**	**3.2**	**3.3**
Rent	0.9	0.8	1.0	1.1	1.3	1.6	2.4	2.0	2.0
Maintenance	4.4	4.7	5.4	7.7	7.9	8.6	10.0	10.3	11.7
Fuel and power	3.6	3.5	4.8	5.2	5.2	4.8	4.5	4.9	5.1
Furniture household and maintenance	**0.8**	**0.8**	**1.4**	**2.7**	**3.2**	**3.8**	**4.2**	**4.7**	**5.5**
Medical care	**-0.1**	**-0.1**	**0.0**	**0.6**	**0.2**	**0.3**	**0.5**	**0.6**	**0.9**
Transport	**9.0**	**10.4**	**19.9**	**22.5**	**21.7**	**26.9**	**19.7**	**19.3**	**17.2**
Purchase of transport vehicles	-2.0	-2.1	-0.8	-1.6	-1.6	-2.2	-2.9	-2.8	-2.6
Equipment operations/ transportation	13.5	15.3	26.7	30.2	29.2	36.1	25.5	24.2	22.0
Transport services	2.3	1.4	7.4	8.6	6.6	7.8	10.8	14.3	10.5
Communication	**3.3**	**3.3**	**1.9**	**0.8**	**0.8**	**0.6**	**0.7**	**0.9**	**0.9**
Recreation and Culture	**3.5**	**2.7**	**3.5**	**4.1**	**1.2**	**-0.9**	**0.2**	**5.2**	**4.7**
Education service	**0.5**	**0.5**	**0.7**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**1.8**
Hotels, bars, restaurants	**3.0**	**3.2**	**4.5**	**4.9**	**5.3**	**5.6**	**6.0**	**6.2**	**6.4**
Miscellaneous goods and services	**-0.4**	**0.4**	**0.9**	**1.0**	**0.9**	**1.0**	**1.5**	**1.9**	**2.9**
Personal care	-0.6	0.6	1.5	1.5	1.4	1.4	2.2	3.1	4.1

Source: INSTAT (author's graphic elaboration)

As seen from the above, what is weighing the most into Albanian citizens' pockets are the items that are needed the most for survival, namely food and drinks. Yet, CPI does not necessarily reflect the inflation felt by poorer strata because the index approximates the inflation felt by an average household. Those on a lower income perceive more pronounced increases in prices than what is captured by actual inflation. The World Bank again states that enduring geopolitical tensions could further dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen progress on poverty reduction. [1] According to the Bank of Albania (BoA), the supply-side shocks and the heightened uncertainty in international markets are being transmitted in elevated inflation and decelerated economic growth. In particular, foreign

[1] The World Bank Fall 2022 Report. Europe and Central Asia Economic Update on Social Protection for Recovery https://openknowledge.worldbank.org/bitstream/handle/10986/38098/FullReport.pdf

inflationary pressures have turned out to be stronger and these pressures are spreading across the economy.[1]

Government response

Prime Minister (PM) Edi Rama presented the "Social Resilience Package" in March 2022, with several points starting from the indexation of pensions in April, to the increase of the minimum wage (from the existing 256 € to 274 €)[2]. This package included around 36 million € funds to be used for the next indexation for pensions with 434 thousand beneficiaries, for 3 months (April, May, and June). Besides pensioners, some other categories were the focus, such as citizens with disabilities, all families who are currently in the economic assistance scheme, tax-free fuel for farmers, etc.[3]

In July 2022, the government allocates the amount of almost 120 million € in a contingency fund for the "Social Resilience Package" to mitigate the impact of the crisis, placed into a Normative Act. However, according to some Albanian economists, this amount will not cause too much trouble to the government because of the excellent level of income that the state budget is experiencing due to the increase in product prices. With the current rates, the government expects to collect yearly revenues of about 400 million € more than it had predicted at the beginning of 2022.[4] Perhaps, with this optimism in mind, the Minister of Finance, in July would state: "*While the whole world is facing the challenge of finding financial balance, it seems that the Albanian economy is managing to cope with the effects of*

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[1] Bank of Albania. Governor Sejko: Statement to the press conference on monetary policy decision, 5 October 2022. https://www.bankofalbania.org/Shtypi/Njoftimet_per_shtyp/Fjala_e_Guvernatorit_Sejko_ne_konferencen_per_shtyp_per_vendimmarrjen_e_politikes_monetare_05_tetor_2022.html

[2]

[3] Rama presents the Social Resistance Package to face the crisis. https://www.monitor.al/rama-prezanton-paketen-e-rezistences-sociale-per-te-perballuar-krizen/

[4] Anti-crisis package, Government almost $120 million - Government excellent income from price increases, plus $400 million in the budget. https://scantv.al/paketa-antikrize-qeveria-gati-120-milione-dollare-qeveria-te-ardhura-te-shkelqyera-nga-rritja-e-cmimeve-plus-400-milione-dollare-ne-buxhet/

this crisis". Compared to other countries in the region, but also the EU average, inflation in Albania is much lower, the minister stated. Albanian authorities claim that the low rate of inflation in the country has been influenced by the policies undertaken by the government that decided to support the neediest families and those who cannot afford the price increase.[1] However, local experts claim that inflation in Albania could very well be at double-digit, based on the annual change in CPI, because in addition to the increase in prices, there is also witnessed a deterioration of the products offered in the market - case in point: bread. There was not only an increase in the price of bread but also a decrease in weight. This has happened with other basket products as well.[2] For others, this is a direct consequence of the inability of the country to build a competitive and fair market economy. In the past decades, Albania has faced many cases of abuses, monopoly positions in the market of some important products, disturbances in the market chain, abusive prices, etc. In cases of such strong price and inflation crises, as the current one, these factors further aggravate the price situation, the purchasing power, and the consumption level of citizens and businesses.[3]

In early September 2022, the second helping instrument was released, namely the "Anti-crisis Package", from pensioners to state employees, this will support around 1.2 million Albanians. The first beneficiaries will be about 674,000 pensioners, whose pensions will be indexed by +6%. To put figures into perspective this indexation measure, calculated in the average value of pensions, means that they will receive an additional 741 ALL over the current pension. This is around 6 € per month, meaning 0.25 € per day, and a quarter of Euro per day will not make any difference for the

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[1] Minister of Finance and Economy: The policies undertaken by the government had a positive impact on the economy. https://financa.gov.al/ibrahimaj-politikat-e-ndermarra-nga-qeveria-ndikuan-pozitivisht-ne-ekonomi/

[2] Inflation in Albania is double-digit, according to the economy expert. https://euronews.al/programs/shqiperi/miremengjes/2022/05/11/inflacioni-ne-shqiperi-eshte-dyshifror-sipas-ekspertit-te-ekonomise/

[3] Energy, inflation, rising prices and the distortion of markets in the face of the new crisis. https://fjala.al/2022/07/06/energjia-inflacioni-rritja-e-cmimeve-dhe-coroditja-e-tregjeve-perballe-krizes-se-re/

pensioners. The next beneficiaries will be nearly 64,000 families with economic assistance and female heads of families with two children, with an average supplement of 7 € per month; while 90,000 citizens with disabilities will receive an additional amount of 4.5 € per month.

Meanwhile, this package also includes an increase in public sector salaries for 41 thousand employees. Among them, 10,800 employees in the State Police will receive an additional amount of 50 € per month and another 20,000 employees of the administration will receive a salary increase of 45 € per month.

The government has decided to increase the minimum wage, again, to 290 € from the existing 274 €.[1] This will be a burden in taxes for small business owners and self-employed in Albania. Rising the level of minimum wage is not the solution in economies with overwhelming informality at their core.

Furthermore, many in Albania ask why state administration employees need to benefit more than the private sector, in the end, they do not belong to the disadvantaged classes. Most probably, the upcoming local elections of 2023 need some financial booster on the side. It is widely known and accepted that state employees are a vehicle for winning elections, thus a monthly compensation to support them before the elections will not harm.

Last but not least, the total amount of the package for this stage (September), is around 53 million €. Yet, it does not seem to weigh much on the state coffers because, at the end of August, the office of the PM declared that inside the premises, there would be building a new structure. As the winning party of the tender was announced, the public learned that a garden of the Prime Ministry would cost approximately 4 million Euros.[2] In times of dire crises, apparently, there are 4 million to spare for a garden!

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[1]The anti-crisis package, this is how much the salary increase will be. From pensioners to the administration. https://kohajone.com/paketa-anti-krize-ja-sa-do-te-jete-rritja-e-pagave-qe-nga-pensionistet-tek-administrata/

[2] Rama, 4 million euros for the garden in the Prime Minister. https://www.faktor.al/2022/09/06/rama-4-milione-euro-per-kopshtin-ne-kryeministri-per-breshkat-e-tij/

Conclusion

Citizens are paying more and they are purchasing less. Because the average Albanian spends half of his/her income on the basic basket of goods, namely food, it means that this crisis is affecting the very core of survival. On the other hand, what authorities are trumpeting as assistance for the neediest, falls more into the category of a handout than proper support. The problem is even greater, considering that winter is ahead and energy prices are only rising. All indicators in the near term warn of a chilly future, theoretically and practically.

Bosnia and Herzegovina Inflation and Economic Policy

Faruk Borić

Summary

The economic policies of the rulers in an election year always have a whiff of more populist measures than in those years when there are no elections in Bosnia and Herzegovina. Local and general elections in BiH are separated, so the citizens of BiH elect someone for two years. Therefore, there is an obvious frequent tendency to grab for populist measures or to restraint when it comes to adopting unpopular measures that imply necessary belt tightening. Economists believe that the authorities in BiH reacted inadequately to rising inflation in the past period by using one-off measures. On the other hand, the authorities brag about the reduction of unemployment and announce the reduction of inflation and better days in BiH.

Introduction

The year was not promising from the start. Economic indicators were depressing. In the World Bank's "Global Outlook" report, which came out at the beginning of the year, it is predicted that in 2022 BiH will have the slowest growth of all countries in the Western Balkans and the fourth worst growth in all of Europe. The report stated that BiH will grow by three percent (3%) this year, while all other countries in the region will grow more. “At first glance, it seems that the growth of 3% is not a bad result, but we have to take into account the globally high inflation, which will eat up almost the entire growth that the BiH economy will achieve”, says media on this report noticing that globally, inflation is at the highest levels since 2008.

"In emerging markets and developing economies, it reached its highest level since 2011. Many emerging and developing economies are withdrawing policy support to curb inflationary pressure before the recovery ends," the report noted[1].

Bad and worse

After the outbreak of the war in Ukraine in February, economic indicators drastically worsened.

Already in May, the Agency for Statistics (AfS) of BiH recorded an increase in prices compared to the same month of the previous year by 14.4 percent. The average increase in prices was recorded in the sections food and non-alcoholic beverages by 22.7 percent, while alcoholic beverages and tobacco rose in price by 0.6 percent. In the housing and utilities section, the price level increased by 11.3 percent. The prices of furniture, household appliances and regular home maintenance increased by 8.1 percent, healthcare by 1.3 percent, transportation by 30.3 percent, communications by 0.8 percent[2].

As the year progressed, so did inflation. In August, the BiH AfS published a semi-annual report, according to which, on average, an annual increase

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[1]World Bank on economic recovery: BiH again the worst in the region.

https://www.nezavisne.com/ekonomija/analize/Svjetska-banka-o-ekonomskom-oporavku-BiH-opet-najgora-u-regionu/699985

[2]Inflation in Bosnia and Herzegovina: In one year, food and non-alcoholic beverages rose in price by 22.7 percent.

https://www.aa.com.tr/ba/ekonomija/inflacija-u-bih-za-godinu-dana-hrana-i-bezaalkoholna-pi%C4%87a-poskupjeli-za-22-7-posto/2623719#

in price levels of 16.7% was recorded. Food and non-alcoholic beverages are more expensive by 24.7%, alcoholic beverages and tobacco by 2.5%, housing and overhead expenses by 15.4%, furniture, household appliances and regular home maintenance by 10.4%, healthcare by 1, 6%, transport 34.2%, communications for 0.9%, recreation and culture for 8.7%, education for 0.8%, restaurants and hotels for 10.8% and other goods and services for 6.4% . The average price drop was recorded in the clothing and footwear section by 4.5%. Entity statistical institutes published individual data on inflation even earlier. According to the Statistical Office of the RS, inflation in Srpska reached 15.4% on an annual basis in July. Compared to June, prices were higher by 0.9%. Annual inflation continues to grow in the Federation of Bosnia and Herzegovina, where it reached a record 17.6% in July. According to the indicators of the Federal Bureau of Statistics, consumer prices in July 2022 increased by 0.4% on average compared to the previous month[1].

Government measures

At the same time, the Central Bank of Bosnia and Herzegovina (CBBiH) published a report in which it estimated the annual growth of real economic activity in the second quarter of 2022 at 4.2%, based on available information until mid-September 2022. All monthly data, especially retail trade, industrial production and exports, indicate that the growth of the domestic economy was also recorded in the second quarter. This expected

[1]Inflation in BiH reached a record 16.7%.

https://www.nezavisne.com/ekonomija/analize/Inflacija-u-BiH-dostigla-rekordnih-167/733298 growth of economic activity in BiH implies a real annual growth of 4.8% in the first half of 2022, the CBBH said[1].

Economic policy in BiH is mainly created and implemented at the entity level, while the State Ministry of Finance and Treasury in the Council of Ministers of BiH is actually a flow boiler mainly in charged for salaries of state administration staff, with very limited competence on economy. Therefore, all eyes are mainly focused on the first people of the executive power in the entities, Prime Ministers Fadil Novalić in the Federation of BiH (FBiH), and Radovan Višković in Republika Srpska (RS).

When asked how he plans to help companies that are struggling with rising inflation, especially when they are under pressure to increase wages for workers, Novalić replied that during the pandemic, his Government passed a set of measures that allocated about 260 million KM (132.8 million EUR) in aid to companies in this entity and that the results of this aid are visible because employment in the FBiH is higher than ever, as well as exports - which in 2021 were 800 million BAM (408 million EUR) higher than in 2019"[2]

Prime Minister Novalić added that, despite inflationary pressures, the real GDP of the FBiH in the first quarter of 2022 was higher than in the same period of 2021: "I emphasize this 'real' by purpose, which means that it has increased, even if we completely remove the effect of inflation... our priority at the moment is to protect those who suffer the most due to price increases, citizens of the Federation of BiH, not companies. We do this through increasing pensions, one-time aid to vulnerable categories, a record

[1] QUICK ASSESSMENT OF GDP AND FORECAST OF INFLATION IN THE SHORT TERM. https://www.cbbh.ba/press/ShowNews/1468

[2] Prime Minister Novalić exclusively for Bloomberg: GDP grew by one billion a year, we have the most employees ever. https://fbihvlada.gov.ba/bs/premijer-novalic-bdp-je-rastao-milijardu-godisnje-imamo-najvise-zapozennih-ikad

budget for agriculture, strengthening commodity reserves, subsidizing electricity bills and many other measures”[1].

And the Prime Minister of the RS Višković boasted about the significant macroeconomic indicators in this entity, which are successful "despite the Corona pandemic and the Russian-Ukrainian conflict that led to inflation and disruption on the world market". Višković said that the average salary in RS in June was 1,157 KM (590.8 EUR) and that the 16.8 percent increase in salaries in RS means that the Government was taking measures in the economic sphere: "GDP in the RSincreased in the first quarter of this year by 4.3 percent compared to the same period last year, which means that everything is not so dark in Srpska, as some from the opposition want to portray," Višković said.

Provisional solutions

However, not everyone accepted without criticism the government's arguments about successful macroeconomic indicators. Even earlier in the year, specialized portal pointed to the fact that Prime Minister Novalić omitted to mention that the increase in food prices contributed to the positive macroeconomic trends, as analysts highlight[2].

In a recent article by an eminent media, a journalist asked why the authorities in BiH do not limit prices (like some governments in region did and do), arguing that entity and cantonal authorities come up with *ad hoc* and provisional solutions on one-time fees, temporary and occasional monetary allocations or attempts to prevent price increases. Mostly without

[1] *Ibid.*

[2] Economic "growth": Measures of the FBiH Government or the cause of inflation? https://istinomjer.ba/ekonomski-rast-mjere-vlade-fbih-ili-uzrok-inflacije/

significant results. In the same article, one interlocutor asserted that social and economic measures require a strategy of what needs to be done, what effects they will have, as well as a plan on how to implement certain measures, and for all this, experts are needed, which neither government nor opposition does not have[1].

Furthermore, the authorities in BiH praised the record amounts of tax collected: according to the data of the Indirect Taxation Administration (ITA) of BiH, revenues from indirect taxes for the six months of 2022 amounted to 4 billion and 703 million KM (2.4 billion EUR) and are higher by 848 million KM (433 million EUR) or 22.01 % compared to the same period in 2021, when 3 billion and 855 million KM (1.97 billion EUR) were collected[2].

However, at the same time, the consumer basket of all life needs of the average, four-member family in BiH for the month of May, calculated by the Federation of Independent Trade Unions of BiH, amounted to 2,639.48 KM (1348.67 EUR) and is 145.64 KM (74.45 EUR) more expensive than the basket for the previous month. At the same time, according to the data of the FBiH Bureau of Statistics, the average paid salary is almost 1,100 KM (562 EUR), which means that the salary coverage of the consumer basket is only about 41%[3].

One research show the average salary in the BiH entity Federation of BiH in December 2018 was 914 BAM (467 EUR), and in May 2022 it was 1.110 BAM (562 EUR) while in the BiH entity RS, the salary jumped from 891

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[1]Why don't the authorities in Bosnia and Herzegovina limit prices like others? https://balkans.aljazeera.net/news/economy/2022/9/17/zasto-vlasti-u-bih-ne-ogranicavaju-cijene-kao-i-drugi

[2]Inflation in Bosnia and Herzegovina: Even the containers are empty.

https://www.dw.com/hr/inflacija-u-bih-i-kontejneri-su-prazni/a-62421506

[3]*Ibid.*

BAM (455 EUR) in December 2018 to 1.105 BAM (561 EUR) in May 2022. These are data that, if there were no complete disruption, would not be unsatisfactory. However, if we take into account the fact that, according to the data of the Federation of Independent Trade Unions of BiH, the trade union consumer basket in BiH in February 2019 amounted to 1.032 euros (2.019 KM), and in August 2022 it was almost 50 percent more, to 1,482 euros (2.900 KM), while minimum wages in FBiH (543 KM) and RS (590 KM), as well as average pensions (544 KM in FBiH, 485 in RS) are five or more times lower than those figures, then this progress is more than insufficient, journalist concluded[1].

Economic expert Admir Čavalić in same article believes that the crisis has revealed the shortcomings of both the government and the system: sluggishness, lack of innovation, focusing on particular and special interests, etc. He said that fiscal policy is the basic means of economic influence in BiH, recommended relieving the burden on the economy, but also on citizens, by temporarily abolishing excise duties on oil and oil derivatives, which is a classic example of adequate economic policy"[2].

Vjekoslav Domljan, rector of the Sarajevo School of Science and Technology (SSST) and full professor at the Faculty of Economics, says that the war in Ukraine was the trigger for record inflation, but also that the price shock is believed to be twice as strong as official statistics show.

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[1]Four years of unfulfilled promises in BiH: 'An example of the worst economic behavior'.

https://balkans.aljazeera.net/teme/2022/9/10/cetiri-godine-neispunjenih-obecanja-u-bih-primjer-najgoreg-ekonomskog-ponasanja

[2]Inflation in Bosnia and Herzegovina: Even the containers are empty. https://www.dw.com/hr/inflacija-u-bih-i-kontejneri-su-prazni/a-62421506

"Prices and wages are the main transmission mechanisms through which the external impulse, i.e. the increase in energy and food import prices, was transmitted to the domestic economy and caused an almost double reaction of domestic prices. There is no justification for the behavior of citizens who created a consumer panic that was exploited by trade and producer profiteers and caused wild prices, which the government calmly observed," is his criticism of the panicked behavior of BiH citizens.

Diagnosis and ideas

Faruk Hadžić, another economic expert very present in the media, said in one recent interview that the BiH does not have an economic goal and that it is too late for authotities to stabilize this crisis, warning that BiH is on the verge of recession. He emphasized that the diagnosis should be made first, and then move towards them. He said that experts gave concrete ideas and proposals related to economic goals that currently do not exist.

"Tendencies are always that when we have a high level of inflation, recession comes due to rising interest rates. We have warned about it before. Citizens are already getting higher loan installments with a variable interest rate. It is difficult to say to what level it will grow, but it will grow as long as inflation lasts. It will be painful to implement measures the longer we wait", Hadžić pointed out[1].

Finally, it should be noted that in the September edition of the European Bank for Reconstruction and Development (EBRD) report entitled "Regional Economic Prospects" it is stated that in 2023 economic growth in BiH is predicted to slow down to 2.3 percent. Same report from May

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[1]After inflation comes recession: "We warned about it. There is money, but..."

https://ba.n1info.com/biznis/nakon-inflacije-stize-recesija-upozoravali-smo-na-to-para-ima-ali/

said that anticipated growth percentage was about three percent. Same like the estimations of World Bank from the begining of this year, report from the beggining of the this article[1].

Conclusion

Bosnia and Herzegovina is one of the most complex countries in Europe in terms of socio-political system. Socio-political complexity is also manifested in the bulky state administrative apparatus characterized by sluggishness and inefficiency. Hence, at the start of any economic moves, reforms, including responses to crises, BiH starts with weights on its feet.

Unlike some previous global disturbances, such as the recession of 2008, the crisis caused first by the COVID-19 epidemic and then by the war in Ukraine directly affected the small BiH, which is relatively isolated from the main economic flows both in terms of quality and quantity. In the pre-election period, the authorities reached for one-time solutions, leaving the hope that inflation would somehow resolve itself. Now, after the elections, the hope remains that, unencumbered by political results, the authorities in both entities will adopt fiscal measures that will represent some sort of more systematic response to the crisis and stop the coming recession.

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[1]ESTIMATES OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT: Economic growth in Bosnia and Herzegovina will remain at 3 percent until the end of the year.
https://vecernjenevosti.ba/102157/vijesti/procjene-evropske-banke-za-obnovu-i-razvoj-ekonomski-rast-u-bih-do-kraja-godine-ostaje-3-odsto/

Bulgaria Reached A Record Inflation Rate

Evgeniy Kandilarov

Summary

Inflation in Bulgaria set a record, reaching nearly 18% in August. Data from the National Statistical Institute show that prices began to accelerate since the spring of 2021, but the biggest jumps were after February 2022, when Vladimir Putin began his war against Ukraine. Statistics show that in one year some goods, such as bread, meat, milk, oil and sugar, have increased in price by between 20 and 45%. Gaseous fuels have jumped by more than 120%, and solid fuels by about 60%. Heat energy has become more expensive by about a fifth, and motor fuels are up by about 50%. Accelerated inflation is present throughout Europe, but the price increase in Bulgaria is among the top 5 in the entire European Union in recent months. Bulgaria is almost twice ahead of inflation, which is in the Eurozone. Since the beginning of the year, Bulgarians have lost 10% of their purchasing power, according to a market survey. According to economists, people in Bulgaria are becoming progressively poorer. Inflation remains very high and the energy crisis is likely to worsen over the winter months. The expectations are that inflation on an annual by the end of the year it will become 20%.

A sharp tightening of financial conditions amid high inflation could lead to a recession in the global economy in 2023, according to the International Monetary Fund's (IMF) World Economic Outlook report released on October 11.[1]The paper makes it clear that the organization is increasing its forecast for Bulgaria's economic growth this year. For 2023, however, the

[1] https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

IMF significantly reduces its expectations for the growth of the Bulgarian gross domestic product (GDP). The IMF forecasts that Bulgaria's GDP will slow to 3.9% from 4.2% in 2021. The previous forecast predicted a slowdown in economic growth to 3.2%. For 2023, the Bulgarian economy is expected to slow down to 3%.

According to the IMF published data, the expectations for inflation this year and next year, as well as for the growth of unemployment, are also increasing. The IMF expects this year inflation in Bulgaria to accelerate faster than expected – up to 12.4% compared to 11% set in the previous forecast. In 2023, consumer price growth is expected to slow to 5.2%.[1] The current forecast foresees a slightly stronger growth in unemployment in Bulgaria – up to 5.1% this year and 4.7% in 2023, compared to, respectively, 4.9% and 4.6% in the previous forecast.[2]

Unlike the International Monetary Fund, the Bulgarian National Bank has a much more pessimistic forecast for the country's economic development. The Central Bank of Bulgaria has drastically revised downwards its forecast for the Bulgarian economy next year. BNB already expects only 0.1% growth in 2023, which is a decrease of 1.6 points compared to the institution's summer economic analysis. On the other hand, the central bank raised its inflation expectations in Bulgaria.

Thanks to the strong start of this year, which surprised the institutions, the BNB revised upwards its economic forecast for 2022 – from 1.9 to 2.8%. However, there are already indications of deterioration in the external economic environment. They are caused by the war in Ukraine, high prices of raw materials, rising interest rates and fears of natural gas shortages.[3]

According to the Bulgarian central bank, the negative trade balance and the slowdown in the growth of private consumption, as a result of the

[1] Ibidem.
[2] Ibidem.
[3]https://www.bnb.bg/bnbweb/groups/public/documents/bnb_publication/pub_mac_for%D0%B5cast_2022_03_bg.pdf

acceleration of inflation, will contribute to the lower growth. The dynamics will be only partially offset by expected stronger growth in government spending, as well as substantial stockpiling under the influence of uncertainty and price increases.[1]

One of the most significant problems for the Bulgarian economy is the **rapidly growing inflation**, which has reached **record levels**.

The official statistics show that prices began to accelerate since the spring of 2021, but the biggest jumps were indicated after February 2022, when Vladimir Putin began his war against Ukraine.

In the first eight months of 2022, inflation measured by the **Consumer Price Index (CPI)** followed a strong accelerating trend and stood at 17.7% in August 2022, according to data from the National Statistics Institute.[2]

In August 2022, compared to the previous month, the highest price increase was registered for Housing, water, electricity, gas and other fuels (+5.2%), Miscellaneous goods and services (+2.3%) and Furnishings, household equipment and routine maintenance of the house (+1.8%). The decrease was recorded in the prices for Transport (-3.8%) and Clothing and footwear (-2.3%). [3]

Food products contributed the most, as their prices rose by 1.2% over the previous month. Both processed and unprocessed food reported price increases. The rise in services prices was more broad-based, averaging 0.8% over July, while prices of non-energy industrial goods went up by an average of 0.7%, driven mostly by consumer non-durables. Among administered prices, those for central gas supply rose by 50.6% compared to July and thus had the largest contribution, prices of water supply also

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[1] Ibidem.
[2] https://www.nsi.bg/en/content/19780/%D0%BF%D1%80%D0%B5%D1%81%D1%81%D1%8A%D0%BE%D0%B1%D1%89%D0%B5%D0%BD%D0%B8%D0%B5/inflation-and-consumer-price-indices-august-2022
[3] Ibidem.

reported higher – up by 5.3%, as well as prices of letter processing services – up by 13.6% mom.[1]

Again according to the Consumer Price Index (CPI), the inflation rate since the beginning of the year (August 2022 compared to December 2021) was 12.6%, and the annual average inflation rate for the period September 2021 - August 2022 compared to the period September 2020 - August 2021 was 11.7%.[2]

According to the Harmonized index of consumer prices (HICP), in August 2022 the monthly inflation rate was 0.8% compared to the previous month, and the annual inflation rate in August 2022 compared to August 2021 was 15.0%. The inflation rate since the beginning of the year (August 2022 compared to December 2021) was 11.2%, and the annual average inflation rate for the period September 2021 - August 2022 compared to the period September 2020 - August 2021 was 9.9%.[3]

The data for September for Bulgarian economy will be released in a few days, but the expectations of economic analysts are that inflation on an annual basis will exceed 18%, and by the end of the year it will reach 20%. Just for comparison, in the Eurozone inflation is 10% on an annual basis. This means that Bulgaria is almost twice ahead of the inflation measured in the Eurozone.

These values are a record for Bulgaria. The growth of retail prices was at a similar level in 1998 – after the taming of the then hyperinflation in the country. The record price increase of the last nearly 25 years has been driven by significantly more expensive energy and some basic household goods.

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[1] Ibidem.
[2]https://www.nsi.bg/en/content/19780/%D0%BF%D1%80%D0%B5%D1%81%D1%81%D1%8A%D0%BE%D0%B1%D1%89%D0%B5%D0%BD%D0%B8%D0%B5/inflation-and-consumer-price-indices-august-2022
[3] Ibidem

Statistics show that in a year some goods, such as bread, meat, milk, oil and sugar, have increased in price by between 20 and 45%. Gaseous fuels have jumped by more than 120%, and solid fuels by about 60%. Heat energy has become more expensive by about a fifth, and motor fuels are up by about 50%.

Economic analysts expect inflation in Bulgaria to reach its peak at the end of the year, when it will reach 20 percent, and the average inflation will be above 15 percent. According to economic forecasts, there will be inflation next year as well, because Russia and Ukraine are large producers of food and fertilizers. This will put significant pressure on food prices. Again, according to economic forecasts, Bulgaria's economy will experience a "shallow" recession at the end of this year and the beginning of next year, due to the drop in household incomes, which will reduce consumption.

Exports of food, ammunition and electricity will continue to be strong and will help the recession in Bulgaria to remain small. The strong credit growth that is now being observed will support Bulgaria's economy in the next few months. The government's fiscal support measures are also helpful. The electricity price subsidy program will help curb inflation.

Conclusion

Uncertainty about gas supplies, weakening domestic and foreign demand, high inflation, as well as continued political uncertainty will lead to modest GDP growth of Bulgaria this year and the next one also.

Inflation will be a dominant topic in the coming year as well, and it will be related to the division of Europe's economy with Russia. After the end of the Cold War, many efforts were made to interconnect the economies of Europe and Russia with the idea that this would prevent war. Unfortunately, the war in Ukraine put an end to this process and the production chains can hardly be restored. The US and its allies have announced that they will isolate the Russian economy. This will be a painful process of varying duration for different sectors and countries.

Economists explain the increased inflation in Bulgaria with the accumulation of many different factors. Half of the inflation was transferred through the active exchange of goods with the EU countries, but the other half of it was due to local factors. These are problems in the energy sector, obviously, but also in the production, distribution and trade of fuels. Problems that also arise with Bulgarian food sector, since the prices of food products have risen noticeably. The small basket of the most necessary consumer goods, mainly food, rose much faster than the official statistics and by much more. In the food sector the inflation is between 40 and 60% for some goods. The political situation in Bulgaria also affects inflation.

The Bulgarian National Bank predicts longer high inflation for the country. In its latest forecast, the institution revised upwards both its expectations for the increase in the cost of living in the country this year and next. According to the economic model of the central bank, Bulgaria will end the year with 14.9% inflation, which is practically a 25-year record. For next year, the revision is up again.

The factor that will most support economic activity in 2023 is the expected uptake of National Recovery and Resilience Plan funds by both the private and public sectors. However, doubts arose about the use of this resource after the early elections on October 2, which practically show that the country may be entering a new political crisis again and a cabinet may not be formed.

Inflation Rate in Croatia and its Different Perspectives

Valentino Petrović

Summary

This article will discuss the issue of rising inflation rate that hit Croatia during summer months of 2022 and continued on in early autumn. It will present the latest data on inflation, as well as the differences between different understandings on how to measure inflation and which data to use in order to get more credible information about economic occurrences. The article will also discuss the warnings issued by the international financial institutions and the position of the Government and the domestic economic experts.

Introduction

After the inflation rate in Croatia reached its peak during this year’s July and August, a new data on prices of consumer goods and services were issued by the National Statistical Office (DZS), indicating that September 2022 marked the new record-high inflation that the country has registered ever since 1993. The Government, led by Prime Minister Andrej Plenković, is confident that the economic measures, introduced and presented to the Croatian public in early September, will successfully mitigate the consequences that the inflation bears for the nation-wide households. The Croatian crisis package, as Prime Minister argues, is analyzed and implemented in other European countries. On the other hand, when asked to comment on the new inflation data, economic analysts warn about the long-term risks, but underline that everything still appears to be under control.

The Inflation Rate and IMF Forecasts

In July and August 2022, the inflation rate in Croatia, based on the DZS calculating system, was 12.3% higher compared to the same two months in 2021. In September 2022, however, the percentage rose to 12.8% compared to last year's September, which immediately provoked alarming newspaper headlines about the magnitude of the potential crisis. What is important to note is that these calculations are based on year-on-year aggregate data. In the wake of the meetings he held with the ambassadors of the European Union (EU) members states, on the occasion of the Czech Republic presidency of the Council of the European Union, Prime Minister Plenković commented the rise of inflation rate. He sent calming and reassuring messages that the Government responded timely and consolidated situation with the economic measures mentioned in the introductory chapter that became effective on 1st October. Minister of Economy and Sustainable Development, Davor Filipović, further underlined the importance of economic package and claimed that even though the inflation rate rose to 12.8%, the numbers are still within the boundaries of those in other European countries[1]. Experts non-related to the Government, such as Goran Šaravanja, Chief Economist at the Croatian Chamber of Economy, also provided their opinion about the September data. Šaravanja said nothing unusual is happening at the moment and that the inflation rate in 2023 is expected to lower than in 2022, but the major concern of his appears to be the recession that the International Monetary Fund (IMF) forecasts to take place in Italy and Germany, two of the most important trading partners of Croatia[2].

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[1] HRT Vijesti. 2022. Filipović o inflaciji: Hrvatska ne odskače od europskih država https://vijesti.hrt.hr/gospodarstvo/filipovic-o-inflaciji-hrvatska-ne-odskace-od-drugih-drzava-10177660.

[2] Dnevnik.hr. 2022. Glavni ekonomist HGK-a o rekordnoj inflaciji: "Dogodine će biti niža, ali evo što mene zabrinjava" https://dnevnik.hr/vijesti/hrvatska/glavni-ekonomist-hgk-a-za-dnevnik-nove-tv-iznio-predvidjanja-za-iducu-godinu---747010.html.

During this year's October meeting of IMF and World Bank, the leaders of both institutions expressed their skepticism about the economic growth in 2023. Economic activity in all three major economies – Europe, China, and the United States – is already slowing down due to number of reasons. Most of all due to high energy prices that affect European countries, the COVID-19 pandemic which causes further economic downturn in China, and high interest rates in the United States[1]. Taking into account the spillover effect of the War in Ukraine which produced further disruptions in global supply chains of materials needed for industrial sector and goods stemming from agricultural sector, the projections of IMF and World Bank are that the global recession remains a possibility that needs to be addressed by national governments and central banks in a short notice. As far as Croatia is concerned, the IMF Autumn forecasts are somewhere in line with those of government representatives and economic experts. Even though the inflation rate remains high, the economic growth for this year is predicted to estimate 5.9%, which marks a rise compared to the IMF Spring forecasts, while in 2023 the growth is expected to be around 3.5%[2]. The inflation rate in 2023, according to the IMF predictions, will face a decline compared to this year's rate, which certainly gives additional boost to the Government to justify its actions in containing the inflation. However, what appears to be the problem for the country is not its domestic macroeconomic conditions, but the previously mentioned spillover effect.

Different Viewpoints on Measuring Inflation

Since inflation became the main economic topic in the country, many have pointed to the year-on year differences in aggregate data, that is, to the issue

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[1] Shalal, Andrea and Lawder, David. 2022. World Bank's Malpass, IMF's Georgieva see rising risks of global recession. Reuters.com https://www.reuters.com/markets/us/world-banks-malpass-imfs-georgieva-see-rising-risks-global-recession-2022-10-10/.

[2] Slavica, Branka. 2022. Prognoze MMF-a za Hrvatsku su pozitivne i za ovu i za sljedeću godinu. Vijesti.hrt.hr https://vijesti.hrt.hr/gospodarstvo/povecava-se-rizik-od-recesije-na-globalnoj-razini-10145611.

of how much the inflation rate has gone upwards when compared to the same month previous year. The estimation of 12.8% calculated for September 2022 is, therefore, considered as a significant rise which definitively should bring concerns to the Government. However, as described by Velimir Šonje, economic analyst and managing director of Arhivanalitika/Ekonomski lab portal, such year-on-year projections are not necessarily the most credible source of measuring inflation rates because the costs of goods and services in the current year are estimated in comparison with the costs of goods and services in the previous year[1], thus, the changes in Croatia are indeed considered significant, but they do not reflect the extent to which the inflation rate has gone down or up during 2022 or whether the country is on positive or negative inflationary trajectory. If one looks at month-on-month changes in the costs of goods and services, July 2022 marks the lowest rise since the beginning of year with the number estimating only 0.4% when compared to June 2022. Therefore, as Šonje points out, the inflation rate seems to stabilize, regardless of the fact that on the year-on-year basis it was a record-high[2]. In August 2022, the inflation rate was even lower; it marked the rise of only 0.1% when compared to July 2022. However, to make more nuanced conclusions, one would need to wait for the data that indicate monthly changes after the summer season ends.

Differences in Inflation Rate for Rich and Poor

On the other hand, there have been critiques that the inflation rate data, such as those generated from the DZS calculating system, do not represent the micro differences in inflation rates that might occur at the level of

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[1] Šonje, Velimir. 2022. Inflacija u srpnju: kako je turizam (privremeno) preuzeo inflacijski tron. Arhivanalitika.hr https://arhivanalitika.hr/blog/inflacija-u-srpnju-kako-je-turizam-privremeno-preuzeo-inflacijski-tron/.

[2] Šonje, Velimir. 2022. Inflacija u srpnju: kako je turizam (privremeno) preuzeo inflacijski tron. Arhivanalitika.hr https://arhivanalitika.hr/blog/inflacija-u-srpnju-kako-je-turizam-privremeno-preuzeo-inflacijski-tron/.

individual households, but refer to changes in the costs of goods and services as if the whole country is one household[1]. In their paper on how inflation affects rich and poor households, analysts from the Economic Institute found evidence that households that are considered poor, comprised of people in retirement, or single population, that is, population without spouses, spend more of their income (about 70%) on goods and services that cover their basic needs; however, the cost of such goods and services has gone up in the investigated period. These categories are: a) food and non-alcoholic beverages, b) housing, water, electricity, gas and other fuels, c) health, d) alcoholic beverages and tobacco. Therefore, the conclusion is that the inflation rate will be higher for the above-mentioned households, rather than rich households that spend only 48% on the listed categories and prioritize goods and services such as transport, recreation and culture, or education[2].

Conclusion

After a record-high inflation rate that hit Croatia during July and August 2022, the following September marked another record with inflation rate skyrocketing at 12.8% compared to September 2021. Even though the Government is assuring citizens that everything is under control, there is still danger of the spillover effect that may affect the country in upcoming months. However, as economic analysts argue, the inflation rate in Croatia, if looked at the month-on-month basis, is on a downward trend. But the warnings from the IMF and the World Bank are still concerning, considering the possibility of a recession in major partners of the country. Furthermore, the introduction of Euro about to happen in January 2023 will

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[1] Tkalec, Marina. 2022. Kolika je inflacija bogatima, a kolika siromašnima u Hrvatskoj? Eizg.hr https://www.eizg.hr/kolika-je-inflacija-bogatima-a-kolika-siromasnima-u-hrvatskoj/5950.

[2] Tkalec, Marina. 2022. Kolika je inflacija bogatima, a kolika siromašnima u Hrvatskoj? Eizg.hr https://www.eizg.hr/kolika-je-inflacija-bogatima-a-kolika-siromasnima-u-hrvatskoj/5950.

certainly affect the national economy as well, but it is yet to be seen in what scope.

Inflation in the Czech Macroeconomic Framework

Ladislav Zemánek

Summary

Inflation, cost of living, deteriorating standards of living as well as expanding indebtedness has been at the top of the economic agenda in the Czech Republic no later than since the beginning of the year. Inquiring into the current inflation dynamics, the briefing also pays attention to a historical overview to gain a better understanding of the ongoing processes. The analysis draws upon the data and forecasts of the Czech Statistical Office, Czech National Bank and International Monetary Fund. These indicate that the macroeconomic framework will be exposed to strong pressures, instability and negative influences at least in the year to come.

Introduction

Inflation in the Czech economy is galloping, being one of the highest among the EU member states. In September, the year-on-year inflation was higher only in the Baltic states and Hungary. The significant rise in the inflation rate has been going on since June 2021 when it amounted to 2.8 per cent. The current level is slightly below 20 per cent, nevertheless, it has seemingly stabilised, unlike many European countries that have been afflicted by rising inflation only recently. From such a perspective, the Czech Republic is ahead of others both in the inflation dynamics and the restrictive monetary policy introduced by the central bank.

Galloping inflation and restrictive monetary policy

According to the official data from September, inflation increased to 18.0 per cent from 17.2 per cent in August. It reaffirms once again that the Czech inflation is much higher in comparison with the target which is set at 2 per cent by the Czech National Bank. At the same time, however, the rate has oscillated between 17 and 18 per cent since June, thus indicating that inflation might be culminating. The available statistics show that it got out of control in mid-2021 after a period of oscillation between 1.5 and 3.7 per cent from the end of 2016 to mid-2021. From a long-term perspective, inflation has reached an unprecedented level since the beginning of this year, being comparable only with the figures in the first half of the 1990s when inflation was brought about by a comprehensive economic transformation, transition from a socialist to a capitalist economy and the integration of the Czech economy into global economic structures. As I showed in the July briefing, the 1990s inflation was, moreover, offset by a substantial rise in the standard of living, whereas the situation is completely different in the present day.[1] Besides that steep rises occurred in the periods of broader economic crises such as the Asian financial crisis in 1997–1998 and global financial crisis in 2007–2008. In the remaining years, the inflation rate did not exceed the threshold of 5 per cent apart from a single exception.

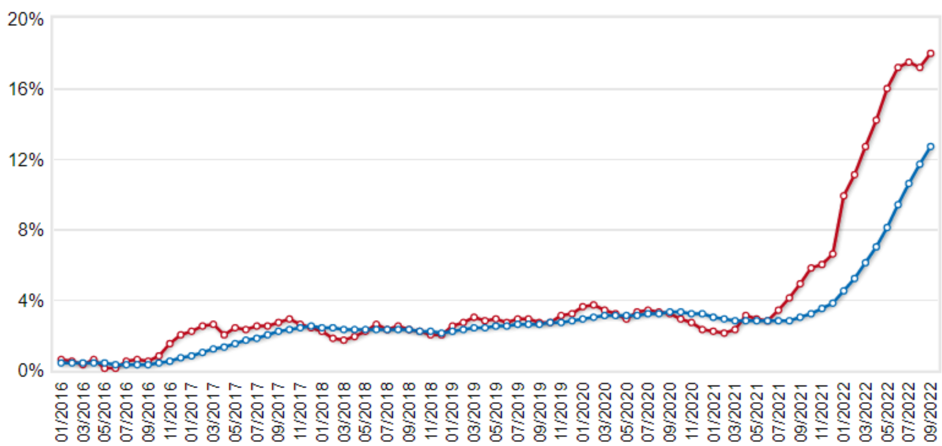

Chart 1: Inflation rate since 2016 (in %). The red line represents the year-on-year rate, the blue line depicts the average annual inflation

[1] Zemánek, L. (2022, July 20). *Inflation, Nondevelopment And Liberal Leaders' Impotence*. China-CEE Institute. https://china-cee.eu/2022/07/20/czech-republic-economy-briefing-inflation-nondevelopment-and-liberal-leaders-impotence/

Source: Czech Statistical Office[1]

Generally, inflation was not a relevant topic to discuss in the 2010s which is understandable if one looks at the average annual rates. Especially the figures from 2014–2016 are extremely low, being close to zero.

Year	**Inflation (%)**	**Year**	**Inflation (%)**
2000	3.9	2011	1.9
2001	4.7	2012	3.3
2002	1.8	2013	1.4
2003	0.1	2014	0.4
2004	2.8	2015	0.3
2005	1.9	2016	0.7
2006	2.5	2017	2.5
2007	2.8	2018	2.1
2008	6.3	2019	2.8
2009	1.0	2020	3.2
2010	1.5	2021	3.8

Table 1: The average annual inflation rate from 2000 until 2021

Source: Czech Statistical Office[2]

Despite the galloping character of the Czech inflation, the recent figures are lower in basic indicators than the summer prediction of central bankers. The Czech National Bank (CNB) expects the culmination in the second half of this year which corresponds with the present data. Core inflation – which shows the rate without seasonal effects, the impact of changes in

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1 *Míra inflace* (2022, October 15). Český statistický úřad. https://www.czso.cz/csu/czso/mira_inflace_animovany_graf

2 *Výpis ze statistického zjišťování* (2022, January 12). Český statistický úřad. https://www.czso.cz/documents/10180/132433649/Inflace_2000_2021.pdf

administered prices, adjustments of tax rules and other administrative measures – did not increase in August and September either. At the same time, it did not decrease domestic demand pressures and the strong growth in costs are continuing. The latter is closely connected with both the dramatic situation in energy markets and persisting problems in global value chains. Not surprisingly, therefore, the ongoing rise is typical especially for goods. The high rise in the case of administered prices reflects, first of all, the increasing households´ expenses on energy.

	Year-on-year inflation (in %)	
	CNB summer prediction	Actual value
Inflation rate	20.4	18.0
Administered prices	34.7	31.6
First-round impacts of changes to indirect taxes	0.1	0.1
Prices of food, beverages, tobacco	19.1	15.7
Core inflation	15.7	14.7
Fuel prices	44.1	27.2
Monetary policy-relevant inflation	20.2	17.9

Table 2: Comparison of the year-on-year inflation between CNB summer prediction and actual data from September 2022

According to the analyses conducted by the central bank, an increase in inflation will be mitigated by an easing of the dynamics of production costs, a decline in households´ purchasing power, as well as the effects of a longer-term restrictive monetary policy weakening domestic demand in the months to come.[1] From such a perspective follows that pro-inflation pressures should be related to external factors that cannot be controlled and substantially influenced by the state authorities.

Macroeconomic vulnerability

As the CNB is the main body dealing with inflation through monetary policy, the valid forecast – that was published in August – should be taken into account. Central bankers expect that after a negative performance next year, an overall recovery is to come in 2024 bringing a satisfactory level of inflation, lower interest rates as well as a stable CZK/EUR exchange rate. The inflation target is expected to be reached in the course of 2024.

	2022	**2023**	**2024**
Inflation (in %)	16.5	9.5	2.4
Monetary policy-relevant inflation (in %)	16.2	9.5	2.0
Average nominal wage (in %)	4.5	6.2	7.5
The rise in real wage (in %)	-12.0	-3.3	5.1
GDP	2.3	1.1	3.8
3M PRIBOR interest rate (in %)	6.2	5.2	3.1
Exchange rate (CZK/EUR)	24.8	25.7	25.5

The table corroborates the ongoing decrease in the standard of living which is to continue next year as well, even though at a much slower pace. The question is how fast the overall economic recovery will be, whether the Czech economy will or will not fall into recession, and whether the productive forces will adapt to the changing conditions that will probably

[1] Král, P. (2022, October 11). *Inflation picks up slightly in September 2022*. Czech National Bank. https://www.cnb.cz/en/public/media-service/the-cnb-comments-on-the-statistical-data-on-inflation-and-gdp/Inflation-picks-up-slightly-in-September-2022/

be characteristic of much higher prices of energy, volatilities emerging from geopolitical tensions as well as restructuring of the model of globalisation and international order. Unless the Czech economy is not able to transform itself in line with Industry 4.0, labour productivity and GDP will stagnate.

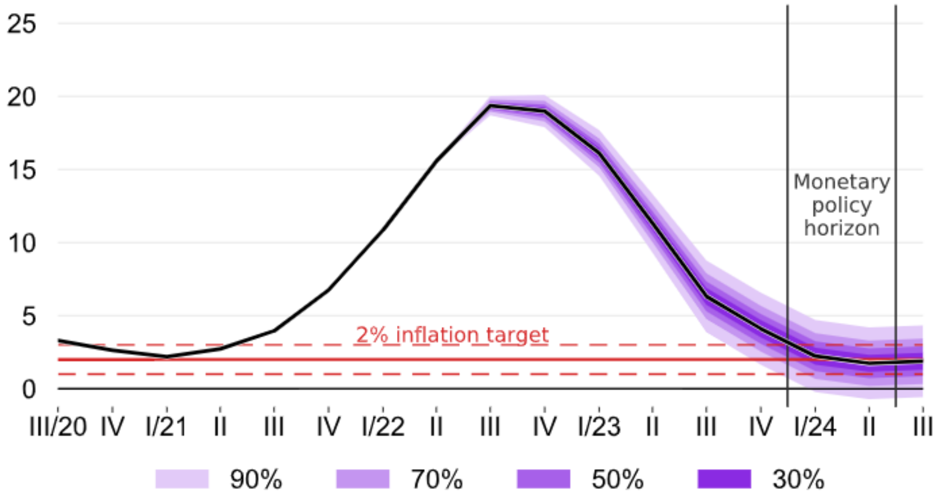

Chart 2: Forecast of inflation dynamics until 2024

Source: Czech National Bank[1]

Increasing challenges and problems of socioeconomic development are addressed by the report *World Economic Outlook*, published by the International Monetary Fund in October. It reflects the global inflation pressures, geopolitical conflicts as well as the persisting consequences of the pandemic, and all of these factors have affected economic performance in a negative way. That is why the IMF expects the decrease in global GDP that is to be among the sharpest in this century. Whereas the prediction of global inflation is 8.8 per cent in 2022, 6.5 per cent in 2023 and 4.1 per cent in 2024, the figures are less favourable as far as the Czech Republic is concerned. According to IMF projections, the inflation rate is to reach 16.3

[1] *CNB forecast – Summer 2022* (2022, August 04). Czech National Bank. https://www.cnb.cz/en/monetary-policy/forecast/. Král, P. (2022, August 05). *Inflaci se podaří zkrotit během následujícího roku a půl*. Česká národní banka. https://www.cnb.cz/cs/o_cnb/cnblog/Inflaci-se-podari-zkrotit-behem-nasledujiciho-roku-a-pul/

per cent this year and 8.6 per cent in 2023, both values being lower in comparison with the CNB forecast. As for the real GDP, unlike the period between 2004 and 2013 when it amounted to 2.5 per cent p.a. the Czech GDP is expected to equal 1.9 per cent in 2022 and 1.5 per cent in the following year.[1] In combination with a negative account balance at least in the medium term, the recent IMF report cannot boost optimism.

Conclusion

Both domestic and foreign institutions and experts expect a negative development in a wide array of fields in the following years starting from inflation and GDP growth, and ending with the state budget balance. The Czech National Bank is aware of these risks and as one of the first Western central banks has launched a restrictive monetary policy, residing in a steep rise in interest rates. The CNB´s key monetary policy rate – the two-week repo rate – was thus increased from 0.25 per cent in 2020 to 7.00 per cent in June 2022. The current Bank Board prefers the stability of the rate which was reaffirmed at the end of September when the central bankers kept the three basic interest rates – 2W repo, discount and Lombard rates – unchanged.[2] At the same time, the present level of the interest rates will probably remain maintained for a longer period given the persisting inflation pressures as well as fiscal expansionism of the governments. The latter has contributed to a situation when public finances in many Western economies are of a post-war character, albeit no war happened.[3] It poses another risk in terms of future development.

[1] *World Economic Outlook. Countering the Cost-of-Living* (2022, October). International Monetary Fund. https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

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Greece's Inflation Rate and Economic Policy

Evelyn Karakatsani

Summary

The briefing provides information concerning the status of the Greek economy in today's volatile global economic environment. It further presents latest data of inflation rates in the country and the policies of the government to counteract the phenomenon as well as create a sustainable economy and a strong welfare state, resilient to the current crisis.

Introduction

The reopening of economies, following the lift of COVID-19 restriction measures, as well as the energy crisis, resulted to the rapid increase of inflation globally. The EU member states are the most vulnerable to the economic pressures emerged. Greece, during the last months, has registered the highest inflation rates during the last two decades. In addition, the energy crisis has concurrently triggered a rally of increased prices to natural gas and oil. This combination resulted to the rapid increase in prices of basic goods and services. Due to the high inflation the income of citizens is shrinking and high prices burdens households and businesses. The government, both in EU and national level, aims to the creation of policies that will restrain the rapid increase in energy prices, as well as introduce measures that will economically support the citizens, especially the most vulnerable ones.

The rise of inflation

Greece's economy during the last years, despite the COVID-19 pandemic and energy crisis has exhibited signs of growth. The country's GDP growth rate in 2022 it is estimated to reach 5,3%, instead of 3.1% which was the initial estimation. Meanwhile the European average is 3.1%. According to the current data the GDP is expected to reach 205 bil euros. In addition, foreign direct investments recorded the highest performance in twenty years amounted to 5 bil euros in 2021. In the first half of 2022, foreign direct investment has already reached 90% of the previous year. Moreover, unemployment keeps shrinking (1). Specifically, at the end of July 2022 it reached 11.4%, which is a 12-year low. This is almost 6 points lower than 17.3% of 2019 (2).

Despite the above data, which create a restrained optimism, the rapid rise of inflation shrinks the disposable income of citizens and the profits of businesses. The rapid rise of inflation is an exogenous factor for the Greek economy and is caused mainly due to the fast reopening of the economy after the end of the COVID-19 restriction measures and the consequent disruption of demand-supply chain, as well as the Ukrainian crisis and the resulting high energy prices.

In September 2022 the country's annual consumer inflation rose to 12.0% from 11.4% in August. This is the highest percentage registered in at least the last two decades (3). The EU average inflation in August 2022 stood at 10.1%. In order to understand the rapid rise of inflation during the last year, it should be mentioned that Greece's inflation in August 2021 was 1,2% (4). Consequently, during the last months the prices mainly in energy costs and consumer goods have increased dramatically. Specifically, according to the Greek Statistic Authority (ELSTAT) the price of natural gas in September 2022 was increased by 332%, in comparison to the price of natural gas in the same month last year. Heating oil has increased 65,1% on annual basis, while electricity prices increased by 30,5%. Moreover, bread and grain price has increased by 18,4%, meat prices increased by 17,6%, dairy and eggs by 23,3% and household's consumer nondurable goods have increased by 14,6%. Furthermore, prices in transportation have also increased. Air ticket prices have increased by 58,7%, taxi prices by 32,9% and ship tickets by 25,4% (5).

EU and National Policies

The above data indicate that the rapid increase of prices affects mostly the households and burdens the monthly income of the citizens. On the EU level Finance Ministers agreed, on Friday 9 September, to act together in order to protect households and businesses from the rabid rise of prices. They also agreed to coordinate their fiscal policies with the monetary policy of the European Central Bank (ECB) (6). In addition, on 8th September ECB raised its key interest rates by 75 basis points. ECB's president, Christine Lagarde noted that "We expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period" (7). Moreover, the governments of the eurozone states are committing to allocate almost 300 billion euros, as a eurozone total, to assist citizens and businesses cope with the increase of prices and the energy crisis. The Greek government in particular, expects to spend more than 10 billion euros for this purpose (9).

The Governor of Bank of Greece Yiannis Stournaras has stated that normalizing monetary policies are not enough to counteract inflation and the energy crisis. He stressed that an energy policy that detaches electricity prices and gas prices, at least temporarily, is required, as well as acceleration in green energy investments and energy saving. He also added that it is important fiscal policies neither oppose monetary policy, nor been horizontal, in order to offer targeted support to the most vulnerable citizens (8).

Thus, the Greek government focuses the battle against inflation mainly in two different targets. The one is to restrain the rapid increase in energy prices and the other to economically assist the citizens, especially the most vulnerable ones, during this crisis. Both targets are addressed to European and national level by the Greek government.

On 9 March 2022 the Greek Prime Minister Kyriakos Mitsotakis sent a letter to the President of the European Commission Ursula von der Leyen with a six-point plan which aimed to counteract the escalation of gas wholesale market. The pact included proposals such as price cap on title transfer facility (TTF) prices, daily price guardrails, emergency price setting, a profit cap etc (10). In addition, 15 EU member states (Belgium, Bulgaria, Croatia, France, Greece, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain) singed on 29 September a declaration proposing the European Commission to impose a broad price cap on all gas imports. Germany, on the other hand is not in favour of this measure, since it might result to shortages in gas supplies (11). On 18 October, the European Commission announced new strategies, such as joint purchases of gas, to restrain surging gas prices. The strategies also included a cap which will act as an emergency tool, only when gas process surpasses a certain threshold. On the one hand this is a big step but on the other it is a compromise measure, since not all EU member states agreed to a wide-range price cap in the imported gas (12).

In addition, to the efforts in the European level, the Greek government proceeds introducing national polices to economically support the citizens and businesses. The government since the start of the crisis has introduced a variety of social measures, such as energy allowances and subsidies, as well as tax reliefs. On the 86th International Thessaloniki Fair, held in September, the PM announced 21 measures, which will support 2.3 million vulnerable citizens. In particular the PM announced that the heating allowance will be increased to 300 million and the criteria will be broadened in order for 1.3 million households to benefit. In addition, the solidarity contribution will be abolished. Mitsotakis also stated that the minimum wage will be increased from 1st May 2023 (13).

Furthermore, concerning increases in prices of supermarket products, the Ministry of Development and Investment introduced the so called "household basket" measure. Via this tool the government aims to restrain the increase in prices of 50 products. The Ministry formulated 30 categories of basic need products, such as rice, bread, meat, milk, products for personal hygiene, in order for even the most vulnerable households to have access to the goods included in these categories. The final selection of the products themselves will be made by the supermarkets and the "basket" will be updated every 7 to 15 days (14).

Conclusion

Despite the relatively optimistic growth rates of the Greek economy, the high inflation rates and the consequent increase in prices pose a new threat to the national economy. Citizens, households and businesses are expected to carry the economic burden. In a national level a variety of economic support measures are in place. However, the Ukrainian crisis is not expected to end soon, and the budget allocated to support the citizens is limited and needs to be carefully used in order not to affect the state's overall money supply. Hence, joint actions of member states in the EU level are mandatory in order to tackle the crisis across the Union.

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The Sources of Inflation in Hungary

Csaba Moldicz

In recent months inflation has become the biggest challenge facing countries. High inflation rates seem to be a worldwide phenomenon. However, in Asia (China and India) the inflation rate is much lower, while Europe seems to suffer the most from skyrocketing inflation. In response to rising inflation, the FED has raised interest rates five times since the outbreak of war in Ukraine. The spillover effects of U.S. monetary policy actions seem to threaten the development of the world economy and lead to a global economic crisis. When we look at the source of inflation, we see that it is triggered by geopolitical factors and not by economic development issues. This briefing looks at how Hungary is dealing with these challenges.

Introduction

The recent rise in prices has three causes: (1) Inflation had already accelerated before the war, due to the disruptive effects of the global pandemic and other deglobalization trends. (2) At the same time, prices rose again after February 24, 2022, when Russia attacked Ukraine. (3) The largest price jump occurred when the European Commission began imposing economic sanctions on Russia. As we can see, none of the factors are purely economic, all of them have their origin in geopolitics or global pandemic. For this reason, it is very difficult to correctly predict the inflation scenarios that Hungary or other countries will face in the coming months and next year. Of course, a cease-fire and/or the lifting of sanctions against Russia would affect inflation developments, but none of these can be predicted with high probability. The briefing compares Hungarian inflation developments with those of other European countries and takes a look at the central bank's move and the Hungarian government's actions.

An EU comparison

The EU average annual inflation rate in August 2022 was 10.1 percent, while the eurozone inflation rate was 1 percentage point lower (9.1 percent). The inflation rate in Hungary is among the highest in the EU. Only the Baltic countries exceed the inflation rate in Hungary. We have pointed out before that the closer the country is to war, the higher the inflation rate. There is one exception to this rule of thumb: the price increase in Finland seems to be less influenced by the war; it is probably due to the fact that natural gas accounts for only one-tenth of the country's energy consumption. While the Hungarian inflation rate was slightly above the EU average when the war broke out, the EU average inflation in February was 6.2 percent and the price increase in the same period was 8.4 percent. The difference was 2.2 percent, which could be explained by higher growth rates in Hungary. In August 2022, the difference was 8.5 percentage points. Since most of the price increases were caused by energy prices, countries that have fewer opportunities to diversify their energy supply are in a worse position.

Table 1. Annual Inflation rates (%) in August 2022, measured by the HICP	
Bulgaria	15.0
Czech Republic	17.1
Estonia	25.2
Croatia	12.6
Latvia	21.4
Lithuania	21.1
Hungary	18.6
Poland	14.8
Romania	13.3
Slovenia	11.5

Slovakia	13.4
Source: Eurostat. Retrieved from: https://ec.europa.eu/eurostat/documents/2995521/14698150/2-16092022-AP-EN.pdf/741bf6b2-1643-6ff0-34e7-31522ce1e252?t=1663250111863	

Hungarian data

The Hungarian Central Statistical Office has just released its first publication on consumer prices in September 2022. Prices were 20.1 percent higher in September than a year ago, the highest inflation since 1997. It should come as no surprise that the increase was fueled by surging energy and food prices. From January 2022 September 2022, prices for energy, gas, and other fuels have skyrocketed, rising 62.1 percent, and food prices have increased 35.2 percent over the same period. All other items – consumer durables: 14.7 percent; spirits, tobacco: 13.2 percent, etc. – were below the average inflation rate.[1] The data surprised the analyst because the peak of prices increases was expected to be reached by September.

Prices in the housing market have risen significantly in recent years, but this inflationary push could reduce demand and prices in this market. The main reason is that purchasing power in this segment depends on disposable income for real estate purchases, which could also shrink due to inflation and rising interest rates.

Purchases of motor vehicles also declined. This segment is also affected by inflation in times of war and pandemics. Purchases of new cars fell 9.3 percent in the first 9 months of the year (compared with the same period last year). The time a customer has to wait for the arrival of the car can also be 12 months, however, we can add that the arrival time before the pandemic was not much shorter than now.[2]

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[1] https://www.ksh.hu/gyorstajekoztatok#/en/document/far2209

[2] https://index.hu/gazdasag/2022/10/05/autopiac-elektromos-auto-uj-auto-hasznalt-auto-autoipar/

Given the recent data, it is not yet certain that the central bank will keep its promise and stop raising interest rates. The final decision will depend on later data, possible policy changes by the European Commission, and Fed decisions. At this stage, we do not see the European Commission abandoning its policy of economic sanctions. Obviously, only the willingness to negotiate with Russia would be enough to change market sentiment and dampen inflation. When it comes to FED, the rate hike will most likely put pressure on other economies and currencies as well

The exchange rate of the Hungarian currency seems to be strongly influenced by the following factors:

- Recent inflation data have affected the exchange rate. This was the case when the HCSO released its data on inflation
- Interest rates are raised by the Fed. It is uncertain what policy steps the Fed intends to take. On the one hand, the labor market data in August were weaker than expected, and on the other hand, inflation would also explain further hikes.
- As long as economic sanctions are in place and negotiations with Russia are off the table, global uncertainty will be reflected in the rise in prices
- The rise in energy prices has also had a negative impact on the current account, where the growing deficit is due to the deterioration in the terms of trade.

The question of how the central bank will respond to the recent data and the prevailing global uncertainty is critical. Although the central bank has already announced the end of its series of monetary tightening, we can see that the bank is continuing its restrictive policy. Last week, the interest rate on the two-month tender was 14.4 percent. Market reactions to this unconventional policy tool have been rather mixed.[1]

[1] https://index.hu/gazdasag/2022/10/11/20-szazalekos-inflacio-fogyasztoi-arak-aremelkedes-dragulas/

The response of the government to most recent data

According to the Ministry of Finance, the inflation is mainly due to the war, and the government wants to protect Hungarian families from war inflation. For this reason, the government has decided to maintain its policy of low energy and gasoline prices and low interest rates.[1] The Ministry stressed that special attention is paid to the elderly, pensioners, who receive additional funds to combat inflation, in addition to the 13th month pension and pension premium.

Forecasts

According to the latest International Monetary Fund forecast (published Oct. 11, 2022), the average annual inflation rate in 2022 is estimated at 13.9 percent, while the forecast for next year is 13.3 percent. The IMF forecast is very close to the central bank's forecast

Bank, which is in the range of 13.4 to 14.5 percent. Both the IMF and the MNB forecast slowly declining inflation rates in 2023. In contrast to a scenario of declining prices, the CCI forecasts inflation at 16 percent in 2023 and "only" 14.5 percent in 2022. [2]

Table 2. Inflation forecasts for Hungary (2022-2023)		
	2022	2023
IMF	13.9%	13.5%
MNB	13.5-14.5%	11.5-14.0%
GKI	14.5	16.0
Source: own compilation		

[1] https://index.hu/gazdasag/2022/10/11/penzugyminiszterium-inflacio-penzromlas-haborus-inflacio/
[2] https://www.portfolio.hu/gazdasag/20221011/itt-az-imf-friss-elorejelzese-magyarorszagrol-lefullado-novekedes-magasan-ragado-inflacio-572205#

Both the IMF and the MNB forecast slowly declining inflation rates in 2023. In contrast to a scenario of falling prices, the CCI forecasts inflation of 16 percent in 2023 and "only" 14.5 percent in 2022.

Summary

The main cause of high inflation is the war, as we could see in the detailed data. Another cause is most likely the disrupted supply chains that are still not restored after the global pandemic. The inflation, the volatile exchange rate and the increase in interest rates are products of the economic sanctions imposed on Russia. To support this statement, we should look for the regions that are characterized by higher and lower inflation rates. Japan and emerging and developing Asia appear to be the least affected by the global rise in inflation rates. The closer we get to war-torn regions, the higher inflation rates we will find. The Hungarian government helps targeted social and corporate groups to fight against the wors effects of inflation, the policy is in line with latest recommendation of the IMF.

Table 3. Consumer prices forecasts by the IMF

	2022	2023
Advanced economies	7.2	4.4
United States	8.1	3.5
Euro area	8.3	5.7
Japan	2.0	1.4
China	2.2	2.2
India	6.9	5.1
Emerging and developing Asia	4.1	3.6
Emerging and developing Europe	27.8	19.4

Latin-America and the Caribbeans	14.1	11.4
Middle East and Central Asia	13.8	13.1
Sub-Saharan Africa	14.4	11.9
Source: IMF: World Economic Outlook Countering the Cost-of-Living Crisis October 2022, retrieved from: https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022		

Record-High Rise in Inflation in Latvia

Institute of Economics at the Latvian Academy of Sciences

Summary

According to the latest data, the second highest increase in consumer prices was registered in Latvia, reaching the highest figure - 22.2% - for the first time in 30 years. The current price increase in Latvia is largely caused by global developments. In September 2022, compared to August 2022, the most significant impact on price level changes was the increase in prices for goods and services related to housing, food and non-alcoholic beverages, clothing and shoes, in the group of various goods and services, education, housing equipment, with recreation and culture-related goods and services, as well as a drop in prices for transport-related goods and services. Due to the rapid increase in the prices of energy resources, the already planned support for households and entrepreneurs to reduce excessive expenses in this heating season has been supplemented with several new measures. The Ministry of Economy (ME) indicates that of the new energy resource price reduction measures for this heating season, three measures apply to households and one to legal entities.

Introduction

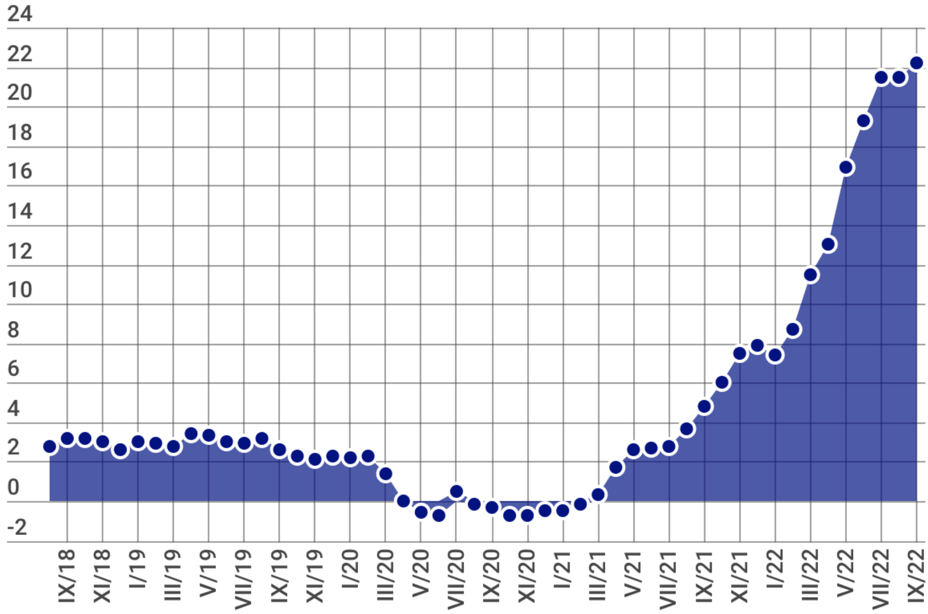
The economic recovery from the Covid-19 crisis and related factors, including the drop-in prices at the beginning of the pandemic, supply chain problems gave the initial impetus to the price increase in Latvia. Support programs made it possible to both avoid high unemployment and create savings and quickly recover consumption. Events in the European energy market related to low rainfall and weak wind power development, as well as the reduction of nuclear power capacity, played a significant role.

Russia's attack on Ukraine drastically worsened the situation and raised inflation to completely different heights. Global energy and food prices rose sharply, with previous negative supply-side shocks adding new ones. Since last year, the price level in Latvia has risen very rapidly. The rate of inflation has exceeded the peak of 2008, which was a consequence of the "overheating" of the economy, and currently the inflation rates are at a record high.

I Inflation

Latvia has registered the second highest increase in consumer prices in the European Union. The biggest impact on changes in the level of consumer prices (Figure 1) was precisely the increase in prices for food products, housing-related goods and services, as well as transport-related goods and services. In total, in September 2022, compared to September 2021, consumer prices increased by 22.2% - the highest inflation indicator since the country regained its independence in 1991.

Figure 1. Changes in consumer prices in Latvia, percentage by month compared to the corresponding period of the previous year



Data: Central Statistical Bureau of Latvia

In the group of food and non-alcoholic beverages, prices increased by 27.5% during the year. Bread (+37.1%), confectionery (+25.5%), flour and other cereals (+62.2%), pasta (+41.1%), had the most significant impact on the increase in the average price level in the group. for rice (+37.8%), breakfast cereal (+11.8%). Cheese and cottage cheese (+38.7%), dairy products (+41%), milk (+43.7%), eggs (+26.9%) and yogurt (+24.6%) became more expensive. The average price level of alcoholic beverages and tobacco products increased by 5.9% during the year.

The average price level of housing-related goods and services increased by 51.6% during the year. The most significant price increase was for electricity, thermal energy, solid fuel and natural gas. Garbage collection, materials for housing maintenance and repair, water supply, sewerage services, housing maintenance and repair services, housing management services, as well as housing rent became more expensive.

Prices for transport-related goods and services increased by 21.9% during the year, driven by a 37.4% increase in fuel prices. Diesel fuel rose in price by 45.3%, gasoline - by 28.7%, and auto gas - by 21.4%. The price increase was for maintenance and repair of personal vehicles, spare parts and accessories for personal vehicles, used cars, road passenger transport, passenger air transport, as well as new cars.

The average price level for restaurant and hotel services increased by 17.5% during the year. Food services were more expensive, including restaurant and cafe services - by 15.5%, canteen services - by 15.5% and fast-food services - by 17.8%. Prices also increased for hotel services.

In the group of various goods and services, prices increased by 15.3% during the year, which was most significantly affected by the increase in prices for personal hygiene products and beauty care products. Motor vehicle insurance, services of hairdressers and beauty salons, financial services were more expensive.

In other consumption groups, the most significant price increase during the year was for clothing, telecommunication services and preschool education.

II State support to mitigate the effects of rising inflation

The only country-wide reliefs for mitigating price increases are foreseen for energy resource price increases. Current amendments to the law on measures to reduce the extraordinary increase in energy resource prices, which entered into force on Saturday, October 1, include amendments to reduce the impact of energy resource price increases. The amended law stipulates: "The household user shall be subject to a fee reduction for the first 100 kilowatt hours consumed each month, which is determined as the difference between the average fee for consumed electricity per kilowatt hour without VAT settlement per month, excluding the fee for system services and other payments specified in regulatory acts, and EUR 0.160 per kilowatt hour without VAT."

To compensate for the increase in the price of electricity, a fixed fee of 160 euros/MWh will be applied to all households for the first 100 kWh every month, and the state will compensate the remaining difference to the market price. On the other hand, the household will pay for electricity consumption above 100 kWh according to the price specified in the electricity sales contract.

If the household user's electricity consumption exceeds 500 kWh/month, then the household user will additionally receive the support due when using electricity for heating (50% of the price exceeding 0.160 EUR/kWh, but no more than 0.100 EUR/kWh).

Support for households will be granted automatically by transferring the compensation to electricity traders. The fixed fee for the first 100 kWh will be applied to the household from October 1 this year to April 30, 2023.

What is new in the law is that the support for centralized heating will be differentiated for households. If the thermal energy tariff does not exceed 150 euros per megawatt hour, the state will compensate 50% of the increase in the cost of centralized heat supply. If the thermal energy tariff exceeds 150 euros/MWh, then the cost increase (for the part that exceeds 150 euros per MWh) will be compensated in the amount of 90%.

Also, a single natural gas price threshold is set for households - 108.7 euros/MWh. The difference between the market price and 108.7 euros/MWh will be compensated by the state.

If the household uses natural gas for heating and its consumption exceeds 221 kWh/month, then the household user will additionally receive the support due when using natural gas for heating (30 euros/MWh). For all legal users, i.e. see entrepreneurs, state and local government institutions, educational institutions, hospitals, etc. c., the state will compensate the increase in electricity costs in the amount of 50% above the electricity price of 160 euros/MWh.

From October 1 this year to April 30, 2023, legal entities will be fully compensated for the electricity system service fee, i.e., distribution and transmission tariff costs (including value added tax) of all system operators, apart from state and local government institutions and those legal entities to which the household tariff is applied (for example, house managers).

A separate support program is intended for energy-intensive processing industry merchants, compensating the increase in energy resource prices in the form of a grant (gift) for the period from February 1, 2022, to December 31, 2022.

Conclusions

In September, the inflation rate increased by 1.6%, which raised annual inflation in Latvia to new heights of 22.2%. Still the most important drivers of inflation can be found in three main groups - housing, food and transport, which make up 18.4 percentage points of the total inflation. Inflation in the other groups is gradually increasing as well. Although less pronounced, this expansion of inflation means that it will become increasingly difficult to contain the rate at which it takes place. However, the underlying trend will continue to be dictated by the further dynamics of energy prices, especially gas. In relation to gas, there are positive signals, the strength of which we will be able to assess at the end of the year, at the beginning of next year. For now, the decline in gas prices in the world leads to cautious optimism. However, in the coming months, inflation will continue to reach new levels, as in many groups, including tariffs, the current increase will continue to appear after inertia. This applies to both food and services. In addition, the beginning of next year will bring new uncertainty regarding the entry into force of the embargo on Russian oil and oil products. Therefore, the highest point of inflation is still ahead, and the uncertainty is so pronounced that only at the beginning of next year we will be able to assess the long-term inflation prospects more realistically. This can mean both long-term high inflation and unexpectedly sharp short-term deflationary periods.

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2. https://www.ecb.europa.eu/stats/macroeconomic_and_sectoral/hicp/html/index.en.html

3. https://www.makroekonomika.lv/augsta-inflacija-latvija-ko-sobrid-darit-un-ko-nedarit

4. https://www.cblgroup.com/lv/media/press-releases/2022/an-inflation-peak-is-expected-in-latvia/

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Lithuanian Inflation And Economic Policy

Justas Karčiauskas

Summary

Lithuania has been hit with the highest rate of inflation in decades, and the Government of Lithuania has been scrambling to come up with most effective economic response in order to shield Lithuania's economy and people from negative consequences of inflation. These efforts to respond to it have been hampered by the unpredictable nature of inflation and varying factors causing it. The fact that Lithuania cannot pursue its own monetary policy and is left with fiscal policy also plays a role. The article will briefly overview the current situation of Lithuania's economy with the emphasis on inflation. The main factors causing inflation, as well as the difficulties of forecasting inflation in the future will be outlined. The Government's economic policies, mainly in the form of the adjustment to the country's Budget plan of 2022 as well as the Budget Project of 2023, will be discussed.

Introduction

The last three years have presented an unprecedented amount of shocks to the global economy. It started with the COVID19 pandemic and a sharp drop in economic activity. Many countries around the world poured extra money to their economies, people accumulated lots of savings, which eventually resulted in a huge boost to global demand for all sorts of goods and services. The chains of supply started to crack, production could hardly meet the demand, which had already generated both cost-push and demand-pull conditions for inflation. Finally, after Russia's attack to Ukraine, new economic shocks in the form of skyrocketing energy prices hit the global economy. Lithuania, being an open economy and particularly vulnerable to external shocks, was hit particularly hard. All this brings us to the current environment of high inflation and business uncertainty in Lithuania.

Current economic situation in Lithuania

In September annualized inflation rate in Lithuania was 24.1 per cent (22.5 per cent according to Harmonized index of consumer prices – HICP), and it was more than twice higher than that of Eurozone in the same month – see Graph 1. The inflation rate was the second highest rate in the EU [1] and the highest in Lithuania since the year 1996.

Graph 1: Lithuania annualized monthly inflation rate[2]

[1] STATISTA, Harmonized index of consumer prices (HICP) inflation rate of the European Union in September 2022, by country; in: https://www.statista.com/statistics/225698/monthly-inflation-rate-in-eu-countries/

[2] TRADING ECONOMICS; in: https://tradingeconomics.com/lithuania/inflation-cpi

As of August, the main factors causing inflation were growing prices of housing, water, electricity, gas and other fuel, foodstuffs and non-alcoholic beverages, transportation.[1]

National Statistics department on 28th of October announced that preliminary inflation rate figures for October is 22 per cent[2] which may be an indication that inflation in Lithuania has already peaked.

Difficulties in forecasting inflation

Some economists call October a "break point" after which inflation should gradually decrease in Lithuania. They believe that the main factor driving inflation rate down will be the same as the one that had been driving it up during last few months: energy prices.[3]

As of late October, there are some more optimistic signs in energy markets. Energy prices, which have been the major factor behind skyrocketing inflation all this year, seem to have peaked and now going downwards. In October heating prices were 7.8 per cent lower than that in September.

According to Nordpool exchange, where Lithuania buys majority of its electricity, electricity prices have dropped from 555 EUR/Mwh on 1st of September to 101 EUR/Mwh in 30th October – see Graph 2. With some time lag, businesses and consumers who have not fixed their electricity prices should finally start receiving lower electricity bills.

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[1] LRT: Lithuania reports 21.1% annual inflation in August, in: https://www.lrt.lt/en/news-in-english/19/1769127/lithuania-reports-21-1-annual-inflation-in-august

[2] VERSLO ZINIOS: Spalį infliacija Lietuvoje siekė 22%; in: https://www.vz.lt/finansai-apskaita/2022/10/28/spali-infliacija-lietuvoje-sieke-22

[3] Ibid

Graph 2 – Nordpool: daily electricity prices in Lithuania, EUR/MWh [1]

There are also downward tendencies in prices of petrol/diesel as well as gas.[2]

However, some economists are puzzled by such high inflation rate. Experts point out that because of recent deflationary tendencies in energy markets and the new harvest this autumn inflation in Lithuania could be lower and that now it is driven by expectations of producers and consumers. Lack of competition in some markets of Lithuania is also a likely contributor to excessive inflation rates. Up until now, retailers have been able to transfer any increase in costs to final consumer quite easily.[3]

Another peculiar example is food prices that traditionally have a big weight in a basket of goods and services used to calculate inflation, and it has been another major contributor towards inflation in Lithuania. Some economists say this is rather strange because food prices in autumn usually go down because of the new harvest and other seasonal factors.[4]

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[1] NORD POOL: electricity prices chart, in: https://www.nordpoolgroup.com/en/Market-data1/#/nordic/chart

[2] LRT: LEA: elektros ir dujų kainos Lietuvoje mažėja 3 savaitę iš eilės, in: https://www.lrt.lt/naujienos/verslas/4/1811332/lea-elektros-ir-duju-kainos-lietuvoje-mazeja-3-savaite-is-eiles

[3] VERSLO ZINIOS: Infliacija brangus šilumai, elektrai ir maistui rugsėjį Lietuvoje pasiekė 22,5%, in: https://www.vz.lt/finansai-apskaita/2022/09/29/infliacija-brangus-elektrai-degalams-ir-maistui-rugseji-lietuvoje-pasieke-225

[4] Ibid.

Indeed, understanding and forecasting further inflation trends is rather difficult. Forecasts are changing and sometimes contradict each other. Back in August, Swedbank economist Nerijus Mačiulis said "Basically, we are left with one strong inflationary factor, which is the prices of energy resources – expensive gas and expensive electricity, while all other factors are signaling that inflation will decline rapidly,"[1]. "Price increases will be slowed or halted by weakening consumer spending. The fast price growth has not been matched by income growth, and we are seeing consumers' expectations and willingness to consume dampening," he added. However, now, in October, it became clear that inflation will not drop as quickly as had previously been forecast, and these inflation forecasts had to be revised upwards. Furthermore, it seems that even reduced purchasing power of consumers did not stop further inflation as retailers keep successfully transferring the costs onto final buyers.

In September, SEB bank economist Tadas Povilauskas admitted that "every month we see new factors [causing inflation] and we don't know if we don't see yet other different inflationary causes in October or November. At the beginning we thought that inflation will peak in February, but then the war started. Later, we thought it will be this August, but then gas and electricity prices jumped."[2]

Lithuania's Economic Policy amid record inflation rates

In September annualized inflation rate in Lithuania was 24.1 per cent, and it was more than twice higher than that of Eurozone. This high inflation is

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[1] LRT: Lithuania reports 21.1% annual inflation in August, In: https://www.lrt.lt/en/news-in-english/19/1769127/lithuania-reports-21-1-annual-inflation-in-august'

[2] VERSLO ZINIOS: Infliacija brangus šilumai, elektrai ir maistui rugsėjį Lietuvoje pasiekė 22,5%, in: https://www.vz.lt/finansai-apskaita/2022/09/29/infliacija-brangus-elektrai-degalams-ir-maistui-rugseji-lietuvoje-pasieke-225

a burden for Lithuania's businesses and citizens, and presents a conundrum to the government how best to help those both groups.

Being a member of Eurozone, Lithuania is not able to set its own interest rates and therefore cannot pursue its own monetary policy that could be better suited to its recently extremely inflationary environment. Therefore, fiscal policy – taxation and government spending decisions – is the most important tool available to Lithuanian government to deal with economic shocks, and the country's annual budgets provide the main fiscal plan.

The first attempt by the government to help reduce the consequences of record inflation was the so-called anti-inflation package – the major adjustment of the country's Budget plan for the year 2022. This package came into force on the 1st of June. The aims of the package are to reduce the adverse consequences of inflation to the most vulnerable and preserve their purchasing power. Namely, it provides for old age pensions periodic increases which are dependent on the rate of inflation, compensation of part of electricity and gas bills for households and some businesses. Furthermore, the package provides a zero VAT rate on centrally supplied heating which comes into force from the 1st of October this year. Later, in September, when the energy crisis became increasingly difficult, Seimas – the Parliament of Lithuanian – voted to extend this zero VAT rate until the end of 2023-2024 heating season.[1]

Mykolas Majauskas, an MP and Chairman of Budget and Finance Committee, said that this package, amounting to roughly 2 per cent of country's GDP, is proportionally the largest in the European Union, and supposed to reduce the negative effects of inflation, which is also [one of] the largest in the European Union.[2]

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[1] LRT: Vyriausybėje – siūlymas taikyti nulinį PVM šildymui dar du sezonus, in: https://www.lrt.lt/naujienos/verslas/4/1779183/vyriausybeje-siulymas-taikyti-nulini-pvm-sildymui-dar-du-sezonus

[2] LRT: Majauskas: Lietuvos antiinfliacinis paketas yra didžiausias Europos Sąjungoje, in: https://www.lrt.lt/naujienos/verslas/4/1673540/majauskas-lietuvos-antiinfliacinis-paketas-yra-didziausias-europos-sajungoje

Another attempt to deal with the consequences of the inflation is the Budget plan for the year 2023 will be crucial in stabilizing the country's economy next year. The project of the Budget for the year 2023 has already been provided by the government to the Seimas. Although the Parliament will vote for the Budget in late November, some important takeaways from the submitted budget project can be observed. The current budget project, before any changes that may be made during discussion in the Parliament, allocates around 812 million Euros towards compensation of part of electricity and gas bills for households with lower incomes and some businesses.

Critics point out that such increased spending will result in a budget deficit of 4.9 per cent of Lithuania's GDP in 2023, which will require further borrowing and will push national debt higher.

Conclusion

Current government's response, based on fiscal decisions, to shield most vulnerable people from the negative effects of inflation, is ambitious in terms of its size relative to Lithuania's GDP. The government also has demonstrated that it is ready to deal with inflation promptly, and is willing to change the budget plan as soon as the economic situation and economic assumptions fundamentally change. However, since the response mainly consists on increasing expenditure and reducing some of the taxes, it may itself be inflation-inducing, as it would spur demand. Nevertheless, as preliminary October's data shows, it is likely that inflation rate will start to gradually decrease and erosion of people's purchasing power will slow down. The degree of Lithuanian government's current economic policy success or failure will be more obvious after this wave of record inflation retreats. The evaluation of this economic policy will depend on the shape of Lithuanian economy with which the country will emerge from this crisis of inflation. It is likely that economists will justify this government's spending only if Lithuania remains attractive to investors with its increased national debt and higher prices.

Inflation and Economic Policy in Montenegro

Milika Mirkovic

Summary

The previous period was marked by strong price growth. The inflation rate in September was 16%, while the inflation rate in the first nine months was 11.6%. The most significant contribution to the inflation rate during the previous period is the growth of food and fuel prices. Such price trends had a significant impact on the purchasing power of the population, given the drop in real income. The growth of inflation is primarily stimulated by trends on the international market. In order to suppress the consequences of rising prices, the Government adopted a series of measures related to the reduction of excise duties, the reduction of VAT on certain products, the limitation of merchant margins on basic foodstuffs and the limitation of the price of pellets.

Introduction

Growth of prices represent a significant challenge for the economy. The trends recorded during the current year were reflected both in the purchasing power of citizens and in the operations of companies. A further rise in prices will further worsen the position of citizens. Montenegro reacted by making decisions related to limiting the prices and margins of certain products, as well as by adopting fiscal measures related to the reduction of excise duties and VAT.

Price trends in the first nine months of 2022

During the first nine months of 2022, the inflation rate recorded constant growth. According to MONSTAT data, the total annual inflation rate in

September was 16%, which is the highest price growth rate compared to previous months. The average annual inflation rate for the observed period January to September was 11.6%. The inflation rate in September was mostly influenced by the increase in food prices (primarily milk, cheese and eggs for 36.8% and bread and cereals 34.2%, oils and fats 31.9%, vegetables 31.6% and meat 18.2%) and fuel prices (annual price increase amounted to 54%). The increase in the prices of inputs and animal feed for milk production influenced the increase in the purchase price of milk from subcontractors, which ultimately affected the prices of the final product. In addition, the increase in milk prices in the countries from which Montenegro imports milk also affected the level of prices on the domestic market. Also, the trends of the price of cereals on the international market was reflected in the prices of bread and cereals. Considering the continuous increase in fuel prices on the international market during the previous period, fuel prices also increased in Montenegro. As fuel represents a significant element of the cost price of many products and services, it consequently influenced the growth of prices of other products and services, and therefore also the overall inflation rate.

The monthly inflation rate in September 2022 was 1.4%. Compared to the growth rate prices in August, it is higher by 1.2 percentage points (although it is less than the monthly inflation rate in the first part of the year). The price increase in September, compared to August, was most affected by the growth of the process of clothing and footwear (monthly inflation rate amounted to 12.1% and 4.7% receptively), as well as the price of food (prices of milk, cheese and eggs increased by 4.2%, fruit by 4.4%, vegetables by 4.1%) and prices of hairdressing services and other personal care services (6.5%). On the other hand, the prices of air transportation of passengers and accommodation services were reduced by 13.9% and 11%, respectively. This drop in accommodation prices can be explained by the end of the tourist season, so the prices were reduced due to lower demand for tourist services[1].

[1] Source of data: MONSTAT

The level of prices in Montenegro is largely determined by the trends of prices on the international market. Considering the significant volume of imports, most of the inflation is imported. The rise in prices was primarily stimulated by situation on the international market as a result of the pandemic and the war in Ukraine, which affected market instability. First of all, these events affected the international market with shortages and problems in the supply chains of food products and fuel. Also, the measures taken by the states in order to help companies overcome the crisis caused by the pandemic affected the growth of the money supply, which was inevitably reflected in the level of prices, given that the money supply was not followed by production. The combination of all these factors influenced the growth of product prices. In addition to these, the economic program that began to be implemented in Montenegro at the beginning of this year and which implies an increase in the wages of employees as a result of the change in tax policy has had an impact on the inflation rate in Montenegro. However, this increase in wages was not accompanied by an increase in productivity, and it also affected the supply of money on the domestic market, which was reflected in the increase of prices. For example, by comparing the prices in the EU zone, the trend of which is followed by the level of inflation in Montenegro, before and after the introduction of the economic program, a significant deviation in the price level can be observed since the implementation of the economic program began.

As a result of the rise in prices, the purchasing power of residents has decreased. By comparing the value of the euro in September with the value of the euro during the previous months, a decline in the purchasing power of residents can be observed. Since April, the inflation rate in Montenegro has been in double digits. Since price growth was not accompanied by wage growth, real wages fell. Real earnings in August are almost 4% lower compared to January 2022.

What measures were implemented in order to reduce the effects of inflation?

Considering the impact of price growth on the purchasing power of the population, their real income, but also the impact on business operations, during previous period, the Government of Montenegro adopted measures related to the change in tax policy, which includes the reduction of excise duty on fuel and the reduction of VAT for certain products. Namely, a decision was made to reduce excise duties by 40% based on changes to the Law on Excise Duties. After a month of application of this measure, the Government made a new decision which reduced excise taxes by an additional 10 percentage points in order to neutralize and mitigate the increase in fuel prices[1]. The decision to reduce excise duty on fuel is in place until the end of October, while its further application will be considered based on the trends of the fuel prices. On the other hand, the effects of this measures are reflected in the reduction of budget revenues.

In addition to this measure, amendments to the Law on Value Added Tax were adopted, which include the temporary abolition of VAT on flour and oil. With these changes, VAT was reduced from 7% to 0% on flour and oil and from 21% to 7% on salt. However, given that there was no mechanism to control the change (reduction) of prices by traders, the effects of this measure are questionable.

An additional measure that was adopted refers to the reduction of the merchant margin on basic foodstuffs. According to the decision, the maximum amount of margin on flour, sugar, beans and salt for wholesale stores is 5%, while the maximum margin for these products for non-retail stores is limited to 7%[2]. In addition to limiting the margin on basic foodstuffs, the Government adopted Decisions on temporary measures to limit the prices of products of special importance, which limited the price of pellets. As energy prices have been significantly increased in order to suppress the negative effects of inflation on the standard of citizens, the

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[1] https://www.gov.me/cyr/clanak/akciza-na-gorivo-niza-za-50-vraca-se-akciza-za-jahte-za-rekreaciju

[2] https://www.gov.me/cyr/clanak/vlada-ogranicila-marze-na-brasno-ulje-secer-i-so

price of pellets has been limited to EUR 320 per ton for retail stores and EUR 269 per ton for purchases from manufacturers. As the production of pellets by domestic producers exceeds the needs of the domestic market, the greater part of the production is exported. However, producers are obliged to place 15% of production on the domestic market, while the rest of the production can be exported[1].

However, controlling or limiting prices can have significant negative consequences for the economy. First of all, it can be reflected in the supply and demand for these goods and services. Determining the price below the one that is freely formed on the market can result in a limited supply of goods, which further leads to product shortages and price increases.

The trend of inflation in Montenegro in the coming period will depend on several factors. First of all, the price level will depend of energy prices level, and stabilization on the energy market, on the other hand, depends on the geopolitical situation and the war in Ukraine. In addition, the decision of OPEC+ to reduce oil production in the coming period may be reflected in the increase in energy prices due to the reduction in supply. As a result, the increase in the price of oil can also affect the increase in the price of other products, given that oil is part of the cost price of a large number of products.

[1] https://www.gov.me/cyr/clanak/ogranicena-cijena-peleta

Record-high Inflation Threatens to Plunge the Macedonian Economy into New Uncertainties

Gjorgjioska M. Adela

Summary

Macedonia's average annual consumer price inflation accelerated to 18.7% in September, from 16.8% in August. The average inflation rate for the first nine months of 2022 was 12.4%. These are the country's highest inflation rates on record.[1] Inflation rates had averaged 2,31% from 2006 until 2022. On a monthly comparison basis, consumer prices rose 1.6% in September, after picking up 1.3% in August. The price of food and nonalcoholic beverages rose to nearly 30% on a yearly comparison basis. As a result the atmosphere began resembling the 1980s, with the energy crisis and the rampant food price inflation leaving citizens struggling to afford basic products and worried about their heating bills in the coming winter. It is expected that stagflation, which was evident in the second quarter, will become more intense by the end of 2022, with a higher possibility of a recession from the beginning of next year.

According to the State Statistical Office the annual inflation rate in Macedonia rose to 18.7 percent in September 2022 from 16.8 percent in the previous month, the highest since comparable data began to be aggregated in 2006. Prices accelerated the most for food & non-alcoholic beverages (28.7 percent vs 25.1 percent in August;[2] housing & utilities (19.4 percent

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[1] Comparable data began to be compiled in 2006

[2] Food inflation in Macedonia has exceeded 20 percent in the last three months, published on 21.09.2022, available at

https://telma.com.mk/2022/09/21/inflacijata-na-hranata-vo-makedonija-vo-poslednite-tri-meseci-nadminala-20-procenti/ accessed on 21.10.2022 vs 16.9 percent); clothing & footwear (2.2 percent vs 1.3 percent); restaurant & hotels (26.1 percent vs 24.2 percent); furniture & household equipment (13 percent vs 9.9 percent); miscellaneous goods & services (12.1 percent vs 9.7 percent); alcoholic beverages & tobacco (8.5 percent vs 8 percent); health (4.7 percent vs 3.7 percent) and education (0.4 percent vs 0.2 percent). Meanwhile, inflation was steady for communication (at 0.7 percent) and cost slowed for transport (13.6 percent vs 17.4 percent) and recreation & culture (5.6 percent vs 5.7 percent). On a monthly basis, consumer prices increased 1.6 percent, following a 1.3 percent gain in August. According to Blagica Petreski from Finance Think: "Inflation is driven by supply and is predominantly imported". However, she also noted that they are already noticing pressures coming from the domestic component".[1]

In September 2022, following the example of the European Central Bank, the National (Central) Bank started publishing a new indicator of domestic inflation, the so-called "Low IMport Intensity" (LIMI) inflation indicator". The indicator is used in order to take into account the role of domestic inflationary pressures in headline inflation, which had thus far been explained primarily by looking at imported inflation.[2] Items with relatively

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Food inflation in the country also has exceeded 20 percent in the last three months, compared to the same period last year. In August, food prices in the country were higher by 25.1 percent compared to August 2021, the World Bank announced in its latest analysis of food inflation in the world, which, among other things, states that food insecurity is increasing on a global scale, in conditions where most of the countries, both poor and rich, have double-digit inflation figures.

[1] Petreski: Although the inflation is imported, there are already pressures from the domestic component as well, published on 19.10.2022, available at

https://mk.bloombergadria.com/ekonomija/makedonija/12565/petreski-iako-inflacijata-e-uvezena-vekje-ima-pritisoci-i-od-domasna-komponenta/news?fbclid=IwAR11aX7J-s68Ds6jK30eZnnD6i-8hj_-U1vGjWbyBS3R_gdaGDfdfUnTbEo accessed on 21.10.2022

[2] For this indicator, the Index of Consumer Prices is derived using information from national accounts and input-output tables in "A new indicator of domestic inflation for the euro area", published in 4/2022, available at

low import intensity are aggregated into the LIMI indicator of domestic inflation, in order to give a picture of the part of inflation that is most sensitive to domestic factors.[1] Based on the calculations, it was established that the domestic component of the total inflation is small and it participates with 11.2% in the total index of the cost of living, and covers mostly the categories relating to the services. The LIMI indicates that the current high rate of inflation is mainly imported, reflecting global supply shocks and the demand that is increasingly spilling over into the economy through high import prices.[2] The analysis also shows that there is a growth of this component in the last period, but its contribution to the growth of the total inflation is small. At the same time, in view of long-term growth in the world prices of energy and food, the analysis shows that the increase in this component is mainly a transfer effect from the increase in the prices of these categories.

Monetary response to the surging inflation

In October, the Governor of the National Bank, Angelovska-Bezoska stated that stabilizing inflation expectations is a priority for the monetary policy: "Central banks will have to manage inflation expectations in increasingly uncertain economic conditions, compounded by geopolitical factors. The longer there is high inflation, the greater the risk in terms of inflation expectations, the credibility of policies and the opening of the wage and price spiral. Therefore, it is more than certain that we are leaving the

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https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202204_07~8fbdeadb34.en.html accessed on 21.10.2022

[1] An alternative indicator of core inflation – a sub-index that includes components with low import content, published in October 2022, available at https://www.nbrm.mk/content/Alternativen_pokazatel_za_bazicnata_inflacija-podindeks__komponenti_so_niska_uvozna_sodrzina.pdf accessed on 21.10.2022

[2] Ibid

environment of low interest rates globally."[1] Accordingly, the National Bank attempted to influence inflation by raising its policy rate by 0.5 percentage points (pp), to 3.50%, after increasing it by 0.5 percentage points last month. Since the beginning of 2022, the central bank has raised its key rate five times - in April, May, June, July and September. The central bank also decided to increase the interest rate on overnight deposits by 0.5 pp to 0.95% and the rate on seven-day deposits also by 0.5 pp to 1.00%.[2] According to the European Commission (EC), the monetary policy conducted by the Macedonian National Bank is appropriate to the current conditions and challenges. "Through a gradual increase in interest rates, the National Bank contributes to the stabilization of inflation expectations, taking care not to have significant effects on economic growth and to reduce the negative impact of the health and energy crisis", the EC concluded in its annual Progress Report. The Report concluded: "During the corona crisis, the National Bank managed to maintain financial stability, to provide space for significant credit support for citizens and companies, while after the beginning of price pressures, it took appropriate measures and policies to be able to adequately answer them."[3]

However, not everyone agreed that the steps taken by the National Bank are sufficient in the current macroeconomic environment. According to

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[1] Angelovska-Bezoska for "NIN": Stabilizing inflation expectations is a priority for central banks, published on 21.10.2022 available at

https://www.nbrm.mk/ns-newsarticle-soopstenie-21102022.nspx accessed on 21.10.2022

[2] N. Macedonia's c-bank raises policy rate to 3.50%, published on 13.10.2022, available at

https://seenews.com/news/n-macedonias-c-bank-raises-policy-rate-to-350-801072 accessed on 21.10.2022

[3] North Macedonia Report 2022, published on 12.10.2022, available at

https://neighbourhood-enlargement.ec.europa.eu/north-macedonia-report-2022_en. Accessed on 21.10.2022 former Minister of Finance Trajko Slaveski, the interest rates are still very low. "This state of relatively low interest rates means that savers pay a high inflation tax," Slaveski said. He also added that "the Central Bank should pay more attention to its primary objective, that is, the price stability".[1] According to him, the Central Bank's monetary policy is seriously delayed, and in some way leads to an appreciation of the value of the exchange rate. "Whereas from 1997 until recently, we managed to maintain the fixed exchange rate of the denar, this was due to the fact that the inflation in the Republic of Macedonia was almost equal or within the inflation in the Eurozone countries, of just under two percent. We now have twice the inflation rate of the Eurozone countries," Slaveski has underlined. As a result, dairy products and meat have reached prices expressed in euros that are higher than those on the European markets. One of the immediate consequences is the appreciation of the exchange rate, as domestic goods become more expensive for interested foreign buyers. According to Slaveski this will inevitably affect the widening of the gap in the balance of payments, meaning the deficit of the balance of payments, greater debts, loss of foreign exchange reserves, etc.[2] He thus concluded that if there had been another governor, such as for instance former Governor Mr. Petar Goshev, we would have had interest rates of above 10 percent from the Central Bank, because in a previous crisis in 2008-2009, in March 2009, the interest rate of the Central Bank reached nine percent. In such a scenario, citizens would receive protection of their savings from losses caused by excessive inflation. However, higher interest rates will slow the economy and hurt businesses in the short term.

What complicates the situation further in the Macedonian context is the energy crisis, marked by low supply of electricity, and thus rising cost of

[1] Slaveski - With higher interest rates to break the spine of inflation, published on 02.10.2022, available at https://www.slobodnaevropa.mk/a/32058364.html, accessed on 21.10.2022

[2] Ibid

electricity due to the high dependence and low availability of energy imports. Since most citizens use electric heaters in winter, energy poverty is likely to spike in the coming months. “The expectations are that energy prices will remain high due to market uncertainty and the risks of further interruption of gas supply in the EU countries. The lower supply already generates energy shortages and causes upward pressure on energy prices, which will have a strong impact on the European economy,” says the head of Finance Think economic research institute Blagica Petreski.[1] According to her, despite the reduction in food prices on global markets since June 2022, further increases in energy prices indicate that price pressures could last longer compared to previous expectations.

As a result of the energy crisis and the rampant food price inflation, the autumn atmosphere in Macedonia began resembling the 1980s, with citizens left struggling to afford basic products and worried about the coming winter. It is expected that stagflation, which was evident in the second quarter, will become more intense by the end of 2022, with a higher possibility of a recession from the beginning of next year. Meanwhile, the monetary and fiscal measures are yet to demonstrate if they have any means at their disposal in order to ameliorate the plunge of the economy into new and highly consequential uncertainties.

[1] Stagflation taking North Macedonia back to the 80s, published on 26.09.2022, available at https://www.intellinews.com/stagflation-taking-north-macedonia-back-to-the-80s-257405/?source=north-macedonia, accessed on 21.10.2022

Anti-inflation Policy of the Polish Government

Konrad Rajca

Summary

Poland faces one of the highest levels of inflation in the European Union. Its level in September was 17.2 percent compared to last year. This is largely due to the increase in energy and food prices as a result of the war in Ukraine. Poland, as the country closest to the area of the conflict (as well as the Baltic countries) feels its effects more strongly. The Polish government is taking anti-inflationary measures, including the introduction of so-called "anti-inflationary shields," which include reductions in VAT and excise taxes on food, energy, fuel and other products, among others, as well as tax cuts for citizens. The Monetary Policy Council of National Bank of Poland (NBP), in turn, has lowered interest rates 11 times in a row, with the aim of reducing the amount of money on the market. However, many economists criticize the National Bank of Poland's late reactions, which could have rocked inflation. The rate cuts have drastically worsened the housing loan market. To provide relief to borrowers, the government introduced the possibility of "credit vacations"

Introduction:

In order to counteract the effects of inflation, the operation of the so-called "anti-inflation shields", which have been introduced since the end of 2021, has been extended until the end of 2022. They include, among other things, maintaining a temporary reduction in VAT rates on: food, motor fuels, natural gas, electricity and heat, fertilizers and other agricultural inputs.

Lower taxes plus a shield allowance

The extension of the shields means that until the end of 2022, VAT on basic food products will be 0 percent (reduced from 5 percent), the VAT rate on natural gas will also be zero (reduced from 23 percent, and from February 1st, 2022, from 8 percent). The 5% VAT rate on electricity (reduced from 23%) and on system heat (reduced from 23%, and from 8% as of February 1st, 2022) will be maintained. The 8% VAT rate on motor fuels will also be maintained (reduced from 23%), in addition to the sale of certain fuels being exempted from trade tax. The 0 percent VAT rate on fertilizers and certain agricultural production aids will be maintained (down from 8 percent). Excise taxes on electricity, certain motor fuels and light fuel oil will remain at levels reduced to the EU minimum.

In December 2021, as part of the Inflation Shield 1.0, excise taxes on electricity were abolished and a so-called shield allowance for the poorest households was introduced to compensate for increases in energy costs of up to euro 240 per year, which the government estimates could benefit up to 7 million people.

In an effort to mitigate the effects of inflation, the government has also increased the tax-free amount to 6,300 euros, introduced a higher tax threshold - from about 18,000 euros to 25,000 euros, eliminated the tax on pensions of up to 520 euros, lowered the income tax rate from 17 to 12 percent, reduced the flat rate for engineers, IT professions and doctors, among others. It also supports families with children through the Family Welfare Capital, which is entitled to a maximum of 2,500 euros per child for each second and subsequent child in a family between the ages of 12 and 36 months.

Tax cuts and increasing support for families are viewed positively by economists, but their effect on stopping inflation may be counterproductive. It will mitigate the effects of inflation for certain groups, but due to the influx of more cash into the market, it will not stop it. Tax cuts as part of the anti-inflation shield are evaluated similarly. Economists at Credit Agricole and mBank have published calculations summarizing the government's shield and estimating its impact on inflation this year and next year. Their calculations show that prices will temporarily fall in 2022, but in 2023 inflation will be higher than in a scenario in which there would be no government shields . According to bank analysts, for example, increases in food prices after the removal of the lower VAT rate will be higher than their reductions in early 2022. And in addition, saved household income and additional transfers in the form of the shield allowance will drive demand in the coming quarters, which will also have an impact on price increases.

11 interest rate increases

The National Bank of Poland (NBP) President Prof. Adam Glapiński stressed in October that two-thirds of Poland's17.2 percent inflation is due to external factors beyond the control of the country's monetary authorities. In his view, commodity shocks, primarily energy and food prices, are the main factor driving up inflation.

However, the NBP Monetary Policy Council decided at its October meeting, surprising many economists, to leave interest rates unchanged. Currently, the NBP's main reference rate remains at 6.75 percent all the time, with the NBP president explaining that this is "a pause in the cycle of increases, not its formal end." We are stopping the rise in prices and interest rates, we are looking at the situation, especially until November, when there will be another inflation report. And this one for the NBP is the most important document to look at the coming quarters," said Prof. Glapinski. He explained that the cycle of the last 11 interest rate hikes was interrupted for several reasons. He mentioned, among others, the "practical stopping of mortgage lending" and the expiration of energy shocks, as well as the tightening of monetary policy by the Fed and the European Central Bank. He pointed out that we will see the effects of rate hikes in a few quarters, when inflation begins to fall.

Prof. Glapiński also spoke about the risk of recession in Poland. He pointed out that incoming data confirms a gradual decline in economic growth in Poland and Europe, which he said is primarily responsible for the war in Ukraine, but also the slowdown in the economy of Germany, Poland's main trading partner. He assessed that there is no specter of recession or significant unemployment in Poland. - Poland's economic condition will deteriorate, which will have a positive impact on inflation. The growth rate will decrease, and the same will happen in our neighbors and around the world," Prof. Glapiński stressed.

The President of the NBP also said that next year the level of inflation in Poland will strongly depend on the government's decisions on inflation targets and changes in regulated prices. He admitted that social spending is also responsible for inflation, but in the current situation it is necessary, according to him.

The National Bank of Poland (NBP) has presented in June forecasts for inflation in Poland, which is expected to be around 14.3 percent in 2022. According to the NBP report, the projected economic growth is also expected to be lower, at 4.7 percent in 2022. According to the NBP, there are also symptoms of deterioration in the Polish labor market. The NBP President said he would continue to raise interest rates, if inflation does not start to fall. He also said that during his term as head of the NBP, Poland will not enter the eurozone.

Credit vacations for borrowers

High inflation influences high interest rates on loans - thus loan installments increase exponentially. This is a serious burden on many household budgets. In support of borrowers, the government has adopted a package of credit vacation solutions, which more than 500,000 borrowers took advantage of in the first week after its launch in late July. As part of the government's credit vacations, one can take advantage of the possibility to suspend repayment of 8 installments, provided that: the loan is in Polish currency, it is for real estate for own housing needs and was taken before July 1st 2022, and its repayment term must end at least 6 months after that date.

The support also applies to borrowers in exceptionally bad situations. Those of them who, for example, lose their jobs can benefit from the Borrower Support Fund. The support is up to 416 euros per month for 3 years, which totals up to about 15,000 euros. The fund allows suspension of installment payments for up to 3 years. If 100 of the 144 installments are repaid without delay, the remainder can be forgiven.

Conclusion:

Poland records one of the highest levels of inflation in the European Union. The Polish government and the National Bank of Poland are taking active measures in the form of tax cuts and interest rate hikes to mitigate its effects and lower its level, which may be conducive to achieving this goal in the short term. However, inflation has mainly external causes, mainly related to the effects of the war in Ukraine, so the impact on its level due to domestic measures is limited and difficult to predict in the future.

Evolution of Inflation and Economic Policy in Romania

Oana Popovici

Summary

Romania's inflation rate continued to grow beyond expectations, hitting 15.3 in August, the 10th highest level in the European Union (EU). As a measure of monetary policy, the National Bank of Romania (NBR) decided to increase the key interest rate and to take harsher than expected decisions. The policy manoeuvre space remains limited due to other vulnerabilities of the economy. The evolution of the inflation rate stays uncertain, under the influence of fuel, electricity and processed food prices, against the background of the war in Ukraine and the associated sanctions.

The official data on the evolution of inflation indicates that the annual inflation rate hit 15.3% in August this year, from a level of almost 15% in July, according to the National Institute of Statistics[1], after which it followed a new increase in September, reaching 15.9%, the highest level in the last 19 years in Romania[2]. The largest increase was seen in the prices of food, which rose by 18.2%, followed by those of non-food products which were higher by 16%. The services were more expensive by 8.3% as compared to August 2021. Romania ranks the 10th in the EU[3] when looking at the annual inflation rate as measured by the harmonized index of

[1] https://insse.ro/cms/sites/default/files/com_presa/com_pdf/ipc08r22_1.pdf, accessed October 6th

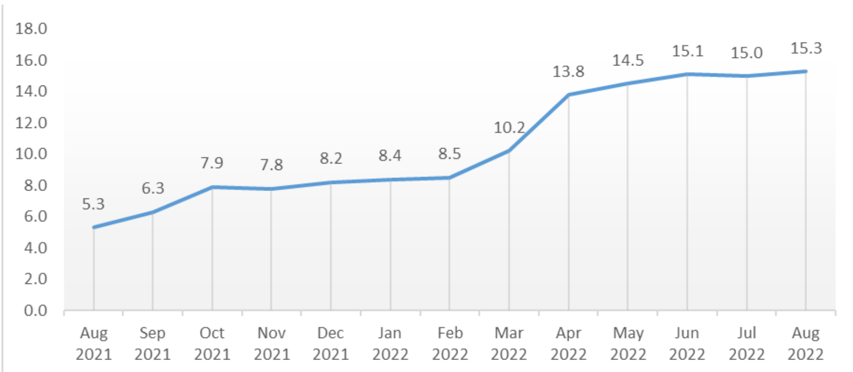
[2] https://insse.ro/cms/sites/default/files/com_presa/com_pdf/ipc09r22.pdf, accessed October 13th

[3] https://ec.europa.eu/eurostat/documents/2995521/14698150/2-16092022-AP-EN.pdf/741bf6b2-1643-6ff0-34e7-31522ce1e252, accessed October 7th

consumer prices (HICP), according to the Eurostat data for August. A year ago, in August 2021, Romania had the 6th highest annual inflation rate[1].

In fact, the evolution of the inflation was higher than expected since the beginning of the year. In an analysis of the first seven months of the year, the NBR[2] indicates that the annual rate of inflation accelerated in April-May more than expected, evidencing a sharp increase in April to 13.76%, as compared to a level of 10.15% in March. It followed a growing trend in May and stagnated in the following two months (June and July), while August brought a new increase of prices (see Figure 1).

***Figure 1**. Evolution of the annual rate of inflation[3]*



Data source: National Institute of Statistics

The experts of the NBR[4] state that the reasons for this growth are the consistent and higher than expected price increases of electricity and

[1] https://ec.europa.eu/eurostat/documents/2995521/11563243/2-31082021-AP-EN.pdf/80c7e6d5-2700-b95d-6518-1f74e1458d4f, accessed October 7th

[2] National Bank of Romania, Monthly bulletin 7/2022, p.10, https://www.bnr.ro/Publicatii-periodice-204.aspx, accessed October 7th

[3] Expresses as the consumer price index (CPI)

[4] Idem 5, p.10, accessed October 7th

natural gas, given that since April, the conditions of the price capping schemes changed. In fact, as of April 1st, a more restrictive version of the support scheme for the payment of electricity and natural gas bills for household consumers was enhanced. This situation was responsible for about half of the advance in the annual inflation rate in the second quarter of 2022[1]. Other influences, although rather modest, were the evolution of fuel prices, following the steep rise in crude oil prices in the context of the war in Ukraine and the imposed sanctions, and the raise of the price of some public utility services, primarily due to the increase in energy prices. In fact, the Central Bank governor even admitted that "60-80% of inflation in Romania is from energy prices, directly or indirectly"[2].

CORE2 inflation[3] also saw an increased trend since April, followed by a more tempered rhythm after that. It hit 11.2% in August, slightly above the forecasted level, mainly driven by increases in processed food prices[4]. Its evolution is clearly influenced by the quotations of raw materials (especially agro-food products), and the increased costs of energy and transport. NBR also states that the CORE2 inflation evolution is influenced by the blockages in the production chains, the resilience of demand in certain segments, as well as high importance of the food and other imported products in the consumption basket[5]. The increased prices of the raw materials were the consequence of the gloomy outlook for the harvest in Europe, the difficulties faced by farmers in procuring fertilizers caused by the reduction of Russian exports and the high price of natural gas, as well

[1] National Bank of Romania, Report on inflation, August, https://www.bnr.ro/Publicatii-periodice-204.aspx p.15, accessed October 10th

[2] https://www.agendaconstructiilor.ro/files/actualitatea-interna/mugur-isarescu-circa-60-80-din-inflatia-din-romania-este-din-pretul-la-energie.html, accessed October 10th

[3] The CORE2 inflation eliminates from the calculation of the total consumer price index several prices on which the influence of monetary policy is little significant or zero, such as the managed prices, the volatile ones (for example, for vegetables, fruits, eggs, fuels), tobacco products and that of alcoholic beverages. https://www.economica.net/inflatia-core2-ajustat-a-fost-de-2-85prc-in-primele-sase-luni_58260.html, accessed October 7th

[4] https://www.bnr.ro/page.aspx?prid=21537, accessed October 10th

[5] Idem 5, p.11, accessed October 7th

as the failure of negotiations on the unblocking of the grain trade in the Black Sea basin[1].

There are a lot of uncertainties which continue to surround the evolution of inflation. For example, the authorities expected the changes in the capping scheme in April, but they still predicted a lower level of inflation than what really happened. In May 2022[2], NBR estimated a 12.5% level of inflation for the end of this year and of 6.7% for 2023. More recent, in August, the Central Bank launched a new forecast, in which the inflation is estimated at 13.9% for the end of this year and 7.5% for the end of next year. The situation remains concerning due to other vulnerabilities of the economy. In the second quarter of the year, the economy has slowed its growth considerably. In the second quarter of 2022, compared to the previous quarter, the GDP increased by 2.1%, while the growth in the first quarter of 2022 as compared to the previous one was 5.2%. This time, the largest contribution to the economic growth was brought by the variation in stocks (7.3 percentage points), while the contribution of private consumption decreased significantly compared to the previous quarter. Consumption used to be the main driver of the economic growth, but the signs of its slow down are more and more visible. The turnover from trade activity in August were 2.7% higher than those in July, much lower than the growth of 6.4% in July as compared to the previous month. Annual comparisons point to a similar development[3]. The higher level of imports than of exports continues to deepen the trade deficit which further negatively influences the economic growth. NBR also warns that the latest data on high-frequency indicators suggest a sharp slowdown in economic growth in the third quarter compared to the previous interval, under the impact of the escalation of the war in Ukraine and the extension of the associated sanctions[4]. Romania also deals with large budget deficit, which also

[1] Idem 8, p.23, accessed October 10th
[2] https://ziare.com/inflatie/ins-inflatie-crestere-preturi-1760805
[3] https://economie.hotnews.ro/stiri-finante_banci-25830442-comertul-franat-puternic-august-iar-vanzarile-din-primele-8-luni-inghetat-cresterea.htm
[4] Idem 11, accessed October 10th

deepened due to the launch of several support measures for the population and companies during these difficult times. However, the financing conditions tend to roughen. Finally, Romania is economically influenced by the evolution of the economies in the rest of the EU, therefore by the monetary policies followed by the European Central Bank as well as the attitude of the central banks in the region.

On this background, at the beginning of October, the NBR decided to increase the key interest rate from 5.5% to 6.25%, after several similar changes during the last months[1]. However, the increase decided in October was the highest. A similar increase was established for the credit facility. This will clearly lead to increased interest rates for loans and will heavy the burden of the debtors. However, it is the economically advisable solution for fighting inflation. In addition, it was decided to increase the interest rate for the deposit facility as well as keeping a firm grip on money market liquidity. In this way, the intentions are to stimulate savings, while anchoring medium-term inflationary expectations.

In addition, just as important in fighting inflation is the implementation of structural reforms meant to stimulate sustainable growth. The most appropriate tool for this aim is the absorption of European funds, mainly those related to the Next Generation EU program. In order to do this, some strict targets and milestones in the implementation of approved projects should be respected. NBR states that such a behaviour is essential "for achieving the necessary structural reforms, including the energy transition, but also for counterbalancing, at least partially, the contractionary impact of the shocks on the supply side, amplified by the war in Ukraine"[2].

A NBR expert said that[3], at present, there are additional pressures as the ones faced when launching the last report on inflation, in August. This

[1] Idem 11, accessed October 10th
[2] https://ziare.com/bnr/bnr-rata-inflatie-crestere-ritm-scazut-razboi-ucraina-1764787, accessed October 7th
[3] https://www.cotidianul.ro/cristian-popa-bnr-lucrurile-nu-arata-bine/, accessed October 7th

could explain the drastic measures taken by the Central Bank, which were harsher than the market or the analysts expected. New forecasts are anticipated at the beginning of November, as NBR indicated that the annual inflation rate will probably continue to increase towards the end of the current year, although at a noticeably slower pace.

Conclusion

The medium term evolution of the inflation rate is under high uncertainty, which also cause high risks for the future development of the economy. Consumers' purchasing power and confidence, on one hand, as well as on the activity, profits and investment plans of companies, on the other hand, see negative consequences of such situation. The monetary policy decisions as well as other economic decision have a limited manoeuvring space and should be carefully considered given the other vulnerabilities of the domestic economy and the regional and global actual weaknesses, which make the financing cost high.

Serbia Economic Policy and Inflation

Ivona Ladjevac

Summary

Economic policy in the Republic of Serbia gave an adequate response to the crisis caused the coronavirus pandemic. Two years of struggle on the health and economic front gave satisfactory results. Thanks to the previously achieved macroeconomic stability, space has been created for the response of the economic policy to be adequate in scope and structure. Fiscal policy provided a comprehensive package of assistance to the economy and the population and its positive effects were reflected in macroeconomic indicators. But, with unexpected worsening of relations between Russia and Ukraine that finally led towards the hostilities, Serbia suddenly got faced with another economic challenge. There is an open question if Serbian authorities will be able to address new wave of economic turmoil.

Impacted by high-cost pressures mainly from the international environment, inflation in Serbia continued to move upward. The intensification of geopolitical tensions and less favorable agrometeorological conditions led to higher growth of food and energy products prices than expected. As the Republic Institute of Statistics recently announced, year-on-year inflation in Serbia in September 2022 was 14 percent. While electricity for households, as well as gas, rose in price by 10.7 percent in a year, solid fuels - which include coal, pellets and wood - are more expensive, according to official statistics, by as much as 49.6 percent, |while district heating has become more expensive by 1.6 percent.

Introduction

The target inflation rate in Serbia is determined by the National Bank of Serbia (NBS) in cooperation with the Government, based on the analysis of current and expected macroeconomic trends and the medium-term price correction plan on which the Government has a direct or indirect influence.

The inflation target is determined in advance, in order to define the framework for deciding on monetary policy in the medium term and to anchor inflation expectations. The decision on the inflation target is made three years in advance, until the process of nominal, real and structural convergence towards the European Union. Since that process is still ongoing, the inflation target is slightly above the quantitative definition of price stability and the level of target inflation in developed countries (2.0% or 2.5%). Thus, at the end of 2019, the target inflation rate until December 2022 was determined at the level of 3.0%, with a permissible deviation of ± 1.5 p.p.[1] It should be borne in mind that the inflation target is a medium-term goal, i.e. accomplished inflation may deviate from the target in the short term due to exogenous shocks.

The National Bank of Serbia strives to achieve the target inflation rate by changing the reference interest rate, which is applied in the implementation of the main operations on the open market. That interest rate is the basic instrument of monetary policy, and decisions on its level are made based on the analysis of the economic situation, assessment of future developments and medium-term inflation projections. When deciding on the reference interest rate, the time lag between the decision on its level and the manifested effects on the ultimate goal is important, i.e. inflation, which in the case of Serbia amounts to about a year.

Other instruments of monetary regulation have an auxiliary role - they contribute to the smooth transmission of the influence of the reference

[1] Memorandum of the National Bank of Serbia on target inflation rates until 2022, which was adopted at the session of the Executive of the Board from December 12, 2019, available at: https://www.nbs.rs/export/sites/NBS_site/documents/monetarna-politika/memorandum_ciljevi_do_2022.pdf

interest rate on the market, as well as to the development of the financial market without jeopardizing the stability of the financial system.

Serbian economic response to the international developments

Under the influence of high cost pressures mainly from the international environment, inflation in Serbia continued to move upward and in July, it was 12.8% year-on-year. Share of about 70% came from rising food and energy prices.

About 70% of inter-annual inflation was still determined by factors that monetary policy cannot influence to a large extent - food and energy prices. The key projection risks originate primarily from conflict in Ukraine due to disruptions in global supply chains and effects on the prices of energy, grains, other primary products, prices of metals, and other raw materials. Risks are also related to the domestic market - the agricultural season and the movement of government-regulated prices.

One additional domestic inflatory pressure is related to the de facto fixed fx rate of Dinar to Euro. It is not realistic to expect that the 117-118 RSD/EUR peg can be maintained indefinitely. Overall, the projection risks are perceived as asymmetric to the upside. After peaking in the third quarter, inflation will decline, returning to the target range in Q2 2023. Government measures to limit the export of grain, freeze the prices of basic food items, and reduce excise duties on fuel contribute to reducing the effects of rising world prices on the domestic market. The expected return of inflation to the target limits in Q2 2023 will be possible by the weakening cost pressures, and the effects of the previous tightening monetary measures.

Government's economic measures aimed at limiting prices of basic foodstuffs and energy sources the domestic market continue to act in the direction of alleviation of inflationary pressures and prevention greater negative effects on living standards citizens and companies business activities. Thereby, effects of reduced excise duties on petroleum products for 15–20% were neutralized by the growth of income by others fundamentals, which contributes to a lower general deficit of the state, which in the first half of the year amounted to 15.6 billion dinars and was lower by about 60% than in the same period of the previous year. It opens up space for the reaction of the fiscal policy in case of further aggravation of the energy crisis at the global level. The new medium-term fiscal plan, which is made on the basis of macroeconomic projections from the first half of this year, a decrease in participation is projected deficit of the general government in the gross domestic product at 3% this year, and then until the end of 2025 its lowering to 0.5%, which will ensure that the public debt has down ward trajectory and drops to a level of around 51% by the end of 2025[1].

From the other hand, basic inflation, which is most affected by monetary policy measures, moved as expected. It reached 7.5% year-on-year in July and to the greatest extent it reflected the further growth of inflation in the euro zone[2].

In forthcoming period, fiscal policy will, in accordance with available fiscal space, be focused on further reduction of the total of the tax burden of salaries, which additionally relieves the economy and increases its competitiveness. On the expenditure side, priority will be given to infrastructure and capital projects (state allocations for capital investments are projected to approximately 6 – 7% of gross domestic product per year), as well as pension and salary policy. Related to the later, their calculations should be conducted carefully in order to avoid their over increase that would easily lead towards higher inflationary pressures.

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[1] "Izveštaj Narodne banke Srbije", Narodna banka Srbije, https://www.nbs.rs/export/sites/NBS_site/documents/publikacije/ioi/izvestaji/ioi_08_2022.pdf, accessed on: 28/10/2022.

[2] "Trendovi Q1, Q2, Q3", Republički zavod za statistiku, https://publikacije.stat.gov.rs/G2022/Pdf/G20228003.pdf, accessed on:28/10/2022.

Despite the fact that interest rates on loans were rising during the second quarter, borrowing conditions on domestic market can still be rated as favorable from the point of view of credit support activities, and thus economic growth. Annual growth rate of non-monetary loans sector in June was further accelerated compared to March and amounted to 13.1%, with a still greater contribution from loans economy compared to loans to households. The share of problem loans in the total loans in June dropped to a new low-level so far of 3.26%, indicating that the quality bank assets did not deteriorate even after the termination implementation of state economic assistance measures and that no represents an obstacle to continued credit growth activities.

Import of energy products, primarily due to their growth price on the world market, impacted the growth deficit of the current account of the balance of payments, which is in in the first half of this year amounted to 2.7 billion euros. The import of energy products amounted to 3.1 billion euros and it is higher by 2.1 billion euros compared to the first half of 2021.

High energy imports is the key reason for revision of current deficit in gross domestic product to 9.4%. In the medium term, growth of export capacities, with an expected decrease negative effects of external demand and unfavorable of the exchange rate, should contribute to the gradual reduction of the current account deficit and conservation external sustainability.

Conclusion

Inflation in most countries continues to grow above expectations, which is primarily reflected in the increase in energy and food prices, which was additionally intensified by the outbreak of the conflict in Ukraine. In some countries, inflation growth is influenced by overheated domestic demand and factors from the labor market. In addition, although the costs of international overseas transport are falling, pressures on global inflation continue to stem from disruptions in global supply chains and shortages of certain raw materials in production. Due to such a combination of factors, inflation in many developed countries has reached multi-decade highs in recent months.

In such conditions, central banks and international institutions continue to revise upward inflation projections for the next period. Nevertheless, the majority of central banks and international institutions estimate that in the coming period, a gradual calming down of the situation on the markets of primary products can be expected, which should also result in a gradual slowing down of global inflation. Likewise other central banks, the National Bank of Serbia is focused in adjusting its policy in addressing ongoing challenges.

Slovenian Inflation and Economic Policy

Gašper Pirc

Summary

Slovenia has been often lauded as one of the most economically successful post-socialist republics and has been frequently regarded as an example of the successful transition into a capitalist and free market economy. Known for its relatively prudent state spending and anti-inflation policies, Slovenia has not experienced many economic hardships until 2008 when it was heavily affected by the global financial crisis.

Slovenia`s recovery from the economic issues stemming from the COVID-19 health crisis and its effects has been generally applauded; however, in 2022 Slovenia, much like the rest of the European Union, has been heavily affected by the war in Ukraine and its negative economic effects, including (a record) high levels of inflation. In that regard, the current Slovenian government has instigated several measures to help the citizens and businesses in the current exceptional situation as well as to improve the long-term social and economic stability of Slovenia.

Background: the economic performance and inflation in Slovenia before 2022

Since independence in 1991, Slovenia`s economic performance has been relatively strong and its economic growth steady, especially when compared to the other former socialist republic of Central and Eastern Europe.

Even as a federal subject of former Yugoslavia, Slovenia has been rather economically developed and was considered the strongest federal state in Yugoslavia. [1] However, the heavy (hyper) inflation and the economic downfall in the last years before independence have damaged its economy. [2]

Until 2022, the inflation rate in Slovenia has been rather consistent (at least in comparison with the states of the similarly developed economy) since the country`s economic stabilization in the mid-to-late 1990s, ranging from zero to around 5%.[3] However, in the past 15 or so years Slovenian economy endured difficult times, especially due to the financial crisis from 2008 until at least 2010 which was also showcased in regard to inflation (5,65% inflation rate in 2008). [4] Slovenia has been also known to pursue an anti-inflation policy that relies on capital inflow restrictions.

The relative stability of the post-independence economy in Slovenia is underlined by its generally consistently lower budget deficit (in 2021, it stood at 5,2%) in regard to the state deficits and debts among the comparable countries. [5] Government spending was understandably higher during the COVID-19 pandemic due to its immediate economic and social effects, but it has decreased since then.

Generally, Slovenia has been regarded as successful in terms of post-pandemic (economic) recovery. [6]

Ever since independence, the Slovenian economy has been oriented toward Western markets with several important investments coming in from abroad. While there has been an increase in Chinese imports in recent years, Slovenian main trading partners continue to be the member states of the European Union. [7]

The strong post-pandemic recovery was however in many regards undercut by the effects of the Russian invasion of Ukraine and the subsequent sanctions upon Russia which adversely hit the member states of the European Union on several levels.

The economic situation in Slovenia in 2022

The effects of the Russo-Ukrainian war in 2022 have directly caused a high increase in prices of energy and food well as issues in regard to the products` supply chain bottlenecks. While Slovenia currently enjoys a solid economic performance in several fields (a record low employment, low unemployment, the continuation of economic growth due to the effects of post-pandemic recovery), the war has proven to be a huge strain on state finances and the economic ability of citizens while the inflation has been hitting record heights. While recent Slovenian inflation rates weren`t as high as in some of the other member states of the EU, Slovenia has nevertheless consistently measured record-high inflation rates in the past months (in August, for example, the inflation rate was around 11%).

Consistent with the (record) high inflation rates around Europe, the prices of energy products rose nearly 40% and the prices of food more than 10%.[8]

Finally, the Slovenian state economy has also been affected by the change of government and the more socially conscious, welfare-oriented policies which introduced the distribution of some additional resources and fiscal costs for the citizens in the problematic social and economic situation; some of these have been put on hold due to the immediate issues stemming from the headwinds of high inflation and record-high prices. [9]

The measures against the high prices and the attempts to combat inflation in Slovenia

Ever since the start of the Russian invasion of Ukraine, Slovenia has firmly supported Ukraine in either a political, material or humanitarian sense. Much like the 14th Slovenian government preceding it, the 15th Slovenian government continued its support for Ukraine and has been negatively affected by the high inflation rate stemming from the conflict and its effects. As the change in government came in the first months after the beginning of the inflation crisis in Europe (the new government was confirmed and effectively began working on June 1, 2022)[10], some efforts in effect to curb the high prices have already been put in place before the inauguration of the current government. For example, the prices of (motor) fuel were regulated since May 11, 2022, and there have been some efforts to increase the spending capabilities of citizens. [11]

For the most part, the 15th government continued the price regulation policy while they also introduced additional measures (such as a dearness allowance which is set to help improve the social stability of families with children). [12]

As the Prime Minister of Slovenia Robert Golob stated in September 2022, it will be necessary to take measures worth in excess of 1,5 billion EUR to help the economy in the face of high energy costs. The actual costs are believed to be dependent upon the success of the reformation of the energy markets in Europe. The policies of the Slovenian government that were instigated in order to combat the increase in prices and general inflation are said to be manyfold and intended to improve the economic performance of families and individuals, small and medium-sized businesses as well as the state as such. [13]

Since its inauguration, the current government has introduced or continued the following measures to mitigate high inflation and increase in prices of specific products:

- direct mitigation of the high prices of energy products (including the setting of the maximum resale price of electric energy and natural gas, subsidization, and the regulation of the price of fuel)

- the reduction in import dependency and promotion of self-sufficiency along with the plan for the careful management of energy products on the state and local levels

- direct mitigation of high food prices (including subsidies for agriculture and fisheries, and the adjustment of the taxation of reimbursements of employee expenses for food)

- several exceptional allowances for individuals and households: a singular energy allowance for the socially vulnerable, the dearness allowance for recipients of child benefit

- the co-financing of electricity and natural gas costs above twice the price increase and the favorable crisis liquidity loans for the small, medium, and larger enterprises. [14]

While the focus of the government seems to have been on helping households and individual citizens, some of the measures (such as the recent confirmation of the act that allows smaller and medium enterprises to gain tax-free operational funds)[15] have also been instigated to help the general economical recovery which includes the more economically capable individuals and enterprises.

It is still a question of how the many exceptional measures will affect the general policy of the (center-)left coalition which intends to raise the prosperity of all citizens which assumes the (costly) struggle against the "poverty, precariousness and bureaucratization of the welfare state".[16] It is not hard to see then, that the current economic and political situation in the world severely affects both the economic, social, and political performance of Slovenia.

Conclusion

As a member of the European Union, Slovenia has been a recipient of most of the negative effects stemming from the economic and political clash between the EU and Russia, stemming from the Russian invasion of Ukraine. While Slovenia, in comparison to some of the states in the EU, has not been overly economically dependent upon Russia with a relatively low dependency upon Russian-based products in its energy mix, the energy and food products price increases have nevertheless heavily affected the economic capability of the state and its citizens. Partly due to its international codependence and its involvement in the European markets, Slovenia must find a way to mitigate the high prices and the corresponding high inflation.

It is believed that Slovenia generally recovered well after the economic downturn during the COVID-19 pandemic which should help with the current crisis and the transition into a “greener” future which has been one of its development goals. [17] Nevertheless, the maneuvering between social stability for most of its citizens, the state`s economic prosperity, and ecological development may prove to be difficult goals to achieve if they are not be exclusive.

[1] Source: https://www.rtvslo.si/news-in-english/slovenia-was-a-strong-economic-engine-inside-yugoslavia/323573

[2] See Mieczysław P. Boduszyński, *Regime Change in the Yugoslav Successor States: Divergent Paths toward a New Europe*. Baltimore, ML: JHU Press, 2010.

[3] See the graph at https://www.macrotrends.net/countries/SVN/slovenia/inflation-rate-cpi.

[4] Ibid.

[5] See https://www.gov.uk/government/publications/overseas-business-risk-slovenia/overseas-business-risk-slovenia.

[6] https://www.oecd.org/economy/slovenia-economic-snapshot/.

[7] Source: https://www.stat.si/StatWeb/en/News/Index/8631.

[8] Sources: https://www.oecd.org/economy/slovenia-economic-snapshot/; https://www.delo.si/gospodarstvo/novice/rekordna-inflacija-postaja-dolgotrajna/; https://n1info.si/novice/gospodarstvo/letna-inflacija-v-obmocju-evra-avgusta-rekordno-

poskocila/; https://www.sloveniabusiness.eu/hot-topics/high-growth-record-employment-and-rising-inflation.

[9] Sources: https://www.rtvslo.si/gospodarstvo/zaceti-je-veljal-zakon-ki-omogoca-mnozicno-financiranje-za-podjetnike/643365; https://www.oecd.org/economy/slovenia-economic-snapshot/; https://www.dnevnik.si/1042990221/slovenija/mesec-zagotoviti-blaginjo-za-vse-ne-le-za-pescico.

[10] See https://www.sta.si/v-srediscu/vlada2022.

[11] See e.g. https://avto-magazin.metropolitan.si/novice/vlada-odlocila-s-torkom-znova-uvedena-regulacija-cen-pogonskih-goriv-preverite-za-koliko-casa-pod-kaksnimi-pogoji/.

[12] Source: https://www.gov.si/en/news/2022-09-15-15th-regular-session-of-the-government-of-the-republic-of-slovenia/.

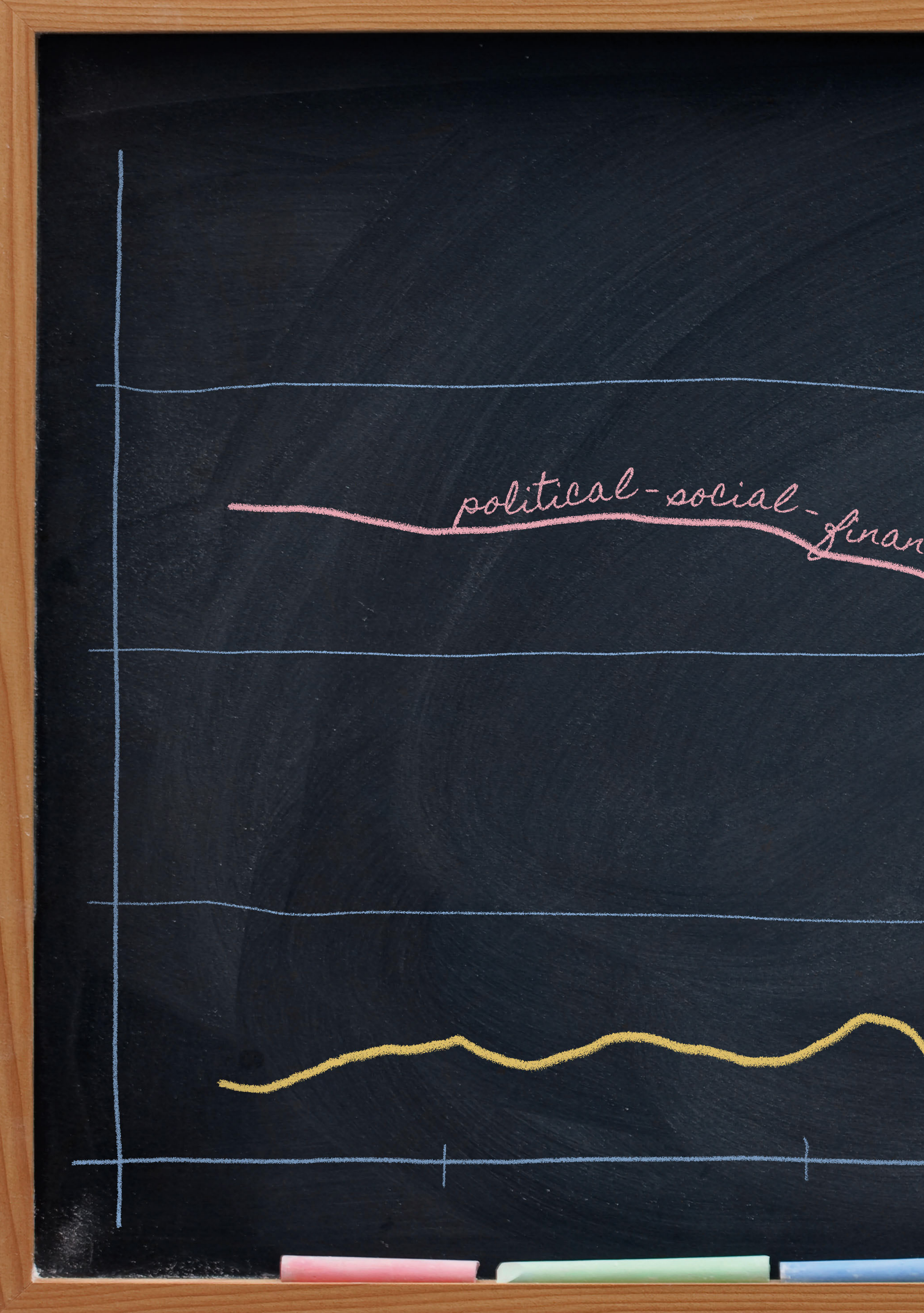
[13] Source: https://www.24ur.com/novice/slovenija/golob-in-ministrska-ekipa-z-gospodarstveniki-o-energetskih-ukrepih.html.

[14] Source: https://www.gov.si/zbirke/projekti-in-programi/ukrepi-za-omilitev-draginje/.

[15] See https://www.rtvslo.si/gospodarstvo/zaceti-je-veljal-zakon-ki-omogoca-mnozicno-financiranje-za-podjetnike/643365.

[16] https://www.dnevnik.si/1042990221/slovenija/mesec-zagotoviti-blaginjo-za-vse-ne-le-za-pescico.

[17] See the Slovenia`s Development Strategy at https://www.gov.si/assets/vladne-sluzbe/SVRK/Strategija-razvoja-Slovenije-2030/Slovenian-Development-Strategy-2030.pdf, page 32.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