The Impact of Russia-Ukraine Conflict on the Economy of CEE Countries

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Content

Stagflation with Albanian Characteristics (April)

Marsela Musabelliu

Summary

The global economy is at mounting risk of stagflation and potentially more recessions as fuel, food, and metal prices surge. Many international financial institutions are lowering forecasts for global growth and raising them for consumer prices as commodities prices are surging amid sanctions on Russia. The International Monetary Fund (IMF) is warning of the “very serious” economic consequences of this conflict. Furthermore, a Forbes report claims that professional investors are growing increasingly gloomy about the future, with the majority now predicting that stocks will fall into a bear market this year. All over the world, economies might be plagued by stagflation, meaning high inflation and slow economic growth.

This briefing is an analysis of this trend applied to the Albanian economy amidst the growing concerns about the decline of consumers’ purchasing power.

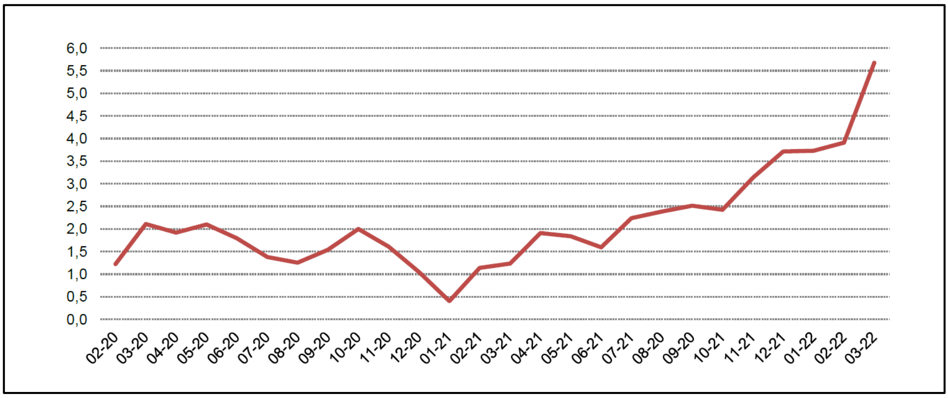
Introduction

Prices have risen sharply in March, raising the cost of living for all Albanian households, which spend an average of 45% of their spending on food. This month, almost everything has been much more expensive. This is the highest level since 2002 making so a harsh reality for all in economic terms. Moreover, it has added to mounting concerns about a sharp slowdown, surging inflation and debt, and a spike in poverty levels. The continuing conflict and sanctions could push further energy, food, and commodity prices to rise, shrinking households’ purchasing power and consumption.

Data from the first quarter of 2022

According to the Albanian Institute of Statistics (INSTAT), the Consumer Price Index (CPI) in March 2022 arrived at 108.9 against December 2020 as the reference period. Compared with February 2022 the monthly change of the consumer price index is 2.4%. The annual rate of CPI in March 2022 is 5.7%. [1]

The annual rate of the consumer price index



Source: INSTAT

Yearly rates of main groups: Compared to March 2021, prices increased the most in the group 'Transport' by 19.9%, followed by 'Food and non-alcoholic beverage' by 9.3%, 'Alcoholic beverages and tobacco' by 4.9%, 'Hotels, coffee-house and restaurants' by 4.5%. Continuing with 'Recreation and culture' by 3.5%, 'Housing, water, electricity, and other fuel' by 2.3%, 'Communication' by 1.9%, 'Clothing and footwear' by 1.5%, 'Furniture household goods and maintenance' by 1.4 %, 'Miscellaneous goods and services by 0.9%, 'Education service' by 0.7%.
Monthly rates of main groups: Compared with February 2022 prices of the 'Transport' group increased by 8.9%, followed by 'Food and non-alcoholic beverage' by 3.9%, 'Alcoholic beverages and tobacco' by 2.8%, 'Hotels, coffee-house and restaurants' by 1.3%, 'Furniture household

[1] INSTAT (20202 April 8). Indeksi i Çmimeve të Konsumit, Mars 2022. Press Release, Available at http://www.instat.gov.al/al/temat/%C3%A7mimet/indeksi-i-%C3%A7mimeve-t%C3%AB-konsumit/publikimet/2022/indeksi-i-%C3%A7mimeve-t%C3%AB-konsumit-mars-2022/

goods and maintenance' by 0.8%, 'Clothing and footwear' by 0.7%, 'Housing, water, electricity, and other fuel' by 0.6%. Going further prices of the group 'Rent, water, fuel and energy' increased by 0.44 %, prices of the group 'Alcoholic beverages and tobacco' by +0.24%, and prices of the group 'Hotels, cafes, and restaurants by +0.19%.

What does it mean in real terms?

The significant increase in prices is expected to significantly worsen the financial situation of Albanian households. Most of them stated as never before that they expect a deterioration in the financial situation of their income over the next 12 months. The most disturbing and harsh price increase is on the food group, which is essentially the most important of all. If they are analyzed deeper, the situation unfolds as follows: '*oils and fats*' increased by 22.4%; '*bread and cereals*' by 15.8%, '*vegetable*s' increased by 10.5%; '*milk, cheese and eggs*' by 10.3%, '*sugar, jam, honey, chocolate and sweets'* with 10.2% and '*meat*' with 7.1%,[1]

How do the authorities cope with this situation?

The Ministry of Finance and Economy claims that the Government has taken appropriate measures to cope with the crisis via the so-called "Resistance Package". In a statement to the Parliament, the minister argued that the government is being careful to support the neediest and take appropriate measures promptly so that this crisis has minimal effects on the overall economy. The Minister informed that the "Resistance Package" has been drafted, and helps 576,000 beneficiaries, who cannot afford the price increase, as their income is insufficient. What does this package entail – 3000 Albanian Lek (ALL), or 25 Euros per person, mostly pensioners. The Minister argues that the inflation of food prices within the total consumption basket of Albanian households in February, compared to February last year, is 6.9%. Taking into account the average consumption

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[1] Revista Monitor (2022 April 9). Shtrenjtohet gjithçka, inflacioni kërcen në 5.7% në mars, niveli më i lartë në 20 vjet. Available at https://www.monitor.al/shtrenjtohet-gjithcka-inflacioni-kercen-ne-5-7-ne-mars-niveli-me-i-larte-ne-20-vjet/

of Albanian households, this inflation is translated into the spending of 2,500 ALL per month. "*For this reason, we decided to give 3 thousand ALL per month for 3 months for all these categories of families in need* ", said the Minister of Finance and Economy. [1]

To local experts, this is not the case. Many argue that since January, the prices of basic products have increased by an average of 33%. An Albanian family in March pays for the basic products of the basket on average 1/3 more expensive than two months prior. Flour increased by 36% while bread by 17%. In addition, butter is paid almost double the price it costs in January. Even milk, yogurt, and cheese have risen in price by up to 35%, and the price of eggs increased by 76% in two months. In response to the situation, the government has set up a board to control the prices of basic food products.[2]

The same ministry while taking pride in the "Resistance Package" to be applied for three months, in April stated that the increase in the prices of food and non-alcoholic beverages will continue throughout the year. The government has set up the "price transparency board" for basket products and declares that has taken care to determine the formula for traders' margins. They also stated that in addition to the boards recently set up for fuel and food prices there will be another one for agricultural inputs. [3] Nevertheless, these boards, packages and more do not target the issue to the roots. They are just a temporary solution to a long-term problem.

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[1] Ministry of Finance and Economy of the Republic of Albania (2022 March 24). Paketa e Rezistencës, Qeveria ka marrë masat e duhura për përballimin e krizës. Available at https://www.financa.gov.al/paketa-e-rezistences-qeveria-ka-marre-masat-e-duhura-per-perballimin-e-krizes/

[2] Euronews Albania (2022 March 29). Rriten me 33% çmimet e produkteve të shportës baze. Available at https://euronews.al/vendi/ekonomi-1/2022/03/29/rriten-me-33-cmimet-e-produkteve-te-shportes-baze/?fbclid=IwAR04rke7Dx kEsW2gqP8avgeB9xKmAQ5fp61zQOtTdAeZBRPcrR3V0U5yIec

[3] HashtagAL (2022 April 4). Ministrja Ibrahimaj: Rritja e çmimeve do zgjasë përtej vitit 2022. Available at https://www.hashtag.al/index.php/2022/04/05/ministrja-ibrahimaj-rritja-e-cmimeve-do-zgjase-pertej-vitit-2022/?fbclid=IwAR 1cO8cUVfB_c6WNZIFKbNpFstkYkhsk4D3DwM42OUZlTmtLHGbtV5vUcIo

The reality of price rise for basic survival products

Prices of food in Albania are also burdened with the highest Value Added Tax (VAT) in Europe or 20%. Rising commodity prices have prompted governments in some countries to cut VAT on food but from the Albanian government, there is no such decision. After the start of the conflict in Ukraine, which caused a rapid rise in prices of fuel and consumer goods, the governments of some countries reacted with a package of measures, which included reducing the level of VAT or abolishing it for basic products. The crisis caused by rising prices has causes and consequences completely different from the usual economic crises to which Albanians are accustomed.[1] Local economists ask: Can such crises be met with liquidity injections from public institutions? - In short, no! Liquidity has value as long as the products and productive capacity of an economy are not affected. If there is a shortage of products on the market, the injected money cannot solve this problem. Rather, they may end up increasing the existing price of the products. For some local experts four are the main issues currently:

- This ongoing crisis is not a demand crisis, which can be easily resolved through fiscal maneuvers and the state budget. On the contrary, the excessive use of public funds could worsen the situation by further raising prices.
- The crisis is exposing long-term and systemic problems accumulated in key sectors of the Albanian economy.
- Hydrocarbons, energy, and agriculture continue to be non-competitive markets, technologically underdeveloped, and unable to cope with international crises.
- On the other hand, Albania's tax system, due to the inability to track the wealth of individuals, finds it impossible to provide targeted assistance to the most vulnerable of society.[2]

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[1] OraNews (2022 March 27). Ushqimet me TVSH-në më të lartë në Europë. Available at https://www.oranews.tv/ekonomi/ ushqimet-me-tvsh-me-te-larte-ne-europe-i1035667

[2] Yzeiraj, I. (2022 March 21). Çmimet janë lajmësi, problemi është gjetkë. Available at https://www.ekon.al/2022/03/21/cmimet-jane-lajmesi-problemi-

Reviewing growth forecasts

The first institution to review growth forecasts for 2022 in Albania was the European Bank for Reconstruction and Development (EBRD). In one report, they argue that energy and oil prices will slow down economic growth not only in Albania but also in the entire region. High fuel and electricity prices will hamper Albania's economic growth, which began last year after being hit by a pandemic. As of late March 2022, EBRD expects the economy to grow by 3.3% and not 3.7% as previously forecast. According to them, the Russia-Ukraine conflict has hit world markets harder since the crisis of the 1970s. [1]

The second to review economic forecasts for Albania was the Word Bank. In their spring report, it is argued that the economic impact of the conflict has reverberated through multiple channels, including commodity and financial markets, trade and migration links, and the damaging impact on confidence. The war is also causing a destabilizing wave of refugees, financial stresses in vulnerable countries, runaway inflation expectations, and food insecurity. Poverty is expected to have declined below pre-pandemic levels, despite a sluggish labor market. With regards to Albania, they forecasted previously a growth of the Gross Domestic Product (GDP) of 3.8%, in the revised outlook they consider it will be about 3.2%. For 2022, prospects are uncertain with many downside risks. Additional risks include new, vaccine-resistant Covid-19 variants, tighter global financial and trade conditions, and renewed travel restrictions. [2]

eshte-gjetke/?fbclid=IwAR3zBmx6I0UfXVzzKm1EMCKj4TTOIwtPPwSaT7mCGnAn7XT2NA_BBN RMwrw

[1] European Bank for Reconstruction and Development (2022 March 31). EBRD sees war on Ukraine causing major growth slowdown. Available at https://www.ebrd.com/news/2022/ebrd-sees-war-on-ukraine-causing-major-growth-slowdown.html ?fbclid=IwAR0kWILpAt_MtbKJB73FU2tgMZwnscDKl8qu553Q4-_ZDO8TzX7-0ELoyWU

[2] The World Bank (2022). Europe and Central Asia Economic Update, Spring 2022; Europe and Central Asia Economic Update 13. Available at https://openknowledge.worldbank.org/handle/10986/37268

Conclusion

The adversity of this situation is way more dreadful than the numbers portray. In a country where the elderly in retirement have to choose between food and medicines, and normal households can barely make it to the end of the month, the price increase of necessities is another step towards economic collapse. While the authorities inject liquidity into consumption and not to production, or at least deduct taxes, every intervention is as futile as the amount granted per person. The future, like the present, is gloomy for the economic reality of Albania, and the latest events just uncovered what was mishandled for years, namely detrimental economic policies.

Rising Food and Energy Prices: the Battle for Flour and Gas (March)

Faruk Borić

Summary

It seems that the universal response of the citizens of Bosnia and Herzegovina to various crisis situations is the purchase of large quantities of flour and the accumulation of other basic necessities. Some consider this reflex a consequence of the 1992-95 war, others think reason lies in the inability to respond in a different, more concrete way to events such as the COVID-19 pandemic or the war in Ukraine. However, the executive and legislature bodies in Bosnia and Herzegovina have responded to the rise of food and energy prices with certain measures, including the procedure for amending the Law on Value Added Tax and temporarily abolishing excise duties on fuel. Either way, the measures have yet to take effect and possibly yield concrete results.

Introduction

The war in Ukraine also had consequences in Bosnia and Herzegovina. Among other things, they refer to disturbances in the economic sphere. In particular, there has been an increase in food and energy prices. The first days of the conflict in Ukraine in stores and shopping malls throughout BiH evoked scenes we could see exactly two years ago, at the beginning of the pandemic. Then, and now, citizens bought huge quantities of flour, oil and toilet paper. In the report of the local media, one citizen said that he was afraid of rising prices, and that he was buying groceries while they were at normal prices[1]. The 25-kilogram bags of wheat flour, which were in the

[1] Citizens in BiH are buying flour in larger quantities, officials say there is no reason to fear. https://www.klix.ba/biznis/privreda/gradjani-u-bih-u-vecim-kolicinama-kupuju-brasno-nadlezni-kazu-da-nema-razloga-za-strah/220225041

greatest demand, had been sold out first. In addition to flour, pastas, rice and sugar were bought. Citizens who have fall into the psychosis of food accumulation cannot understand their fellow citizens who are ravaging the shelves[1]. The merchants immediately said that, however, there is no reason to worry, that they are in constant contact with suppliers, who say that there is enough food. This is especially true of famous flour[2].

Import from Hungary

It is to be expected that the price of wheat will continuously jump in the next period, and therefore higher prices of flour are expected, say both millers and farmers from BiH. Considering that there was also an increase in the price of fuel, that also affected the cost of production. One of the largest bakery companies in BiH, "Klas" from Sarajevo, raised the price of its half-white bread from 1.00 KM (0.5 EUR) to 1.30 KM (0.67 EUR). In a statement for the media from this company, they justified the price increase with record prices of wheat on the market, as well as delivery difficulties. “Klas” also explained that the increased price of fuel and electricity directly endangers the company's business, and that due to very dynamic changes in market, they can’t give reliable anticipation of raw materials and energy prices, and thus final products[3].

The price of flour has recently increased by 2-to-4 pfennigs (1-to-2 euro cents) per kilogram[4]. In the entity of the Federation of BiH (FBIH), a 25 kg bag of flour costs from 15 to 25 KM (7.75 to 13 EUR), depending on the

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[1] BiH citizens are buying food en masse: They are stockpiling flour, sugar and oil. https://raport.ba/gradjani-bih-masovno-kupuju-hranu-gomilaju-zalihe-brasna-secera-ulja/

[2] *Ibid.*

[3] Klas’s bread no longer costs one mark, it has risen by 0.30 KM. https://avaz.ba/vijesti/bih/725209/klasov-hljeb-vise-ne-kosta-jednu-marku-poskupio-je-za-0-30-km

[4] Possible increase in the price of flour, the price of bread is still resisting. https://freeradioprijedor.com/moguce-poskupljenje-brasna-cijena-hljeba-jos-odolijeva/

producer and type of flour[1]. In the Republic of Srpska (RS) entity, on the first day of March, a bag of special-purpose flour type 500 of 25 kilograms jumped from 26 to 28 KM (13-14 EUR), while at the beginning of the year it amounted to 22 KM (11 EUR). Flour is imported to BiH from Hungary, 312 euros per ton[2].

Fuel in the trunks

At the beginning of March, the Minister of Agriculture, Water Management and Forestry of FBiH, Mr. Šemsudin Dedić, visited flour producers in the fertile lowland north of BiH. He said that domestic companies can process sufficient quantities of wheat and offer high-quality flour that meets the needs of citizens, and that therefore there is no room for panic and the creation of unnecessary stocks[3]. A similar message was sent by edible vegetable oil producers when they were also visited by Minister Dedić a few days later[4].

After groceries, the price of fuel was announced, which caused huge crowds at gas stations throughout BiH. Numerous drivers rushed to buy fuel before the price increase. Some even poured fuel into canisters and store it in trunks[5]. Before the price increase, the gasoline cost in range from

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[1] *Ibid.*

[2] Due to the fear of rising prices: Citizens of Srpska stepped up the purchase of flour. https://bigportal.ba/zbog-straha-od-poskupljenja-gradjani-srpske-pojacali-kupovinu-brasna/

[3] Minister Dedić with flour producers in Odžak: It will be enough until the next harvest. https://www.klix.ba/biznis/privreda/ministar-dedic-s-proizvodjacima-brasna-u-odzaku-bit-ce-dovoljno-do-sljedece-zetve/220306035

[4] From "Bimal", they say that there is enough oil on the BiH market, the citizens have no reason to worry. https://www.klix.ba/biznis/privreda/iz-bimala-porucuju-da-na-bh-trzistu-ima-dovoljno-ulja-gradjani-nemaju-razloga-za-brigu/220303067

[5] Big crowds at gas stations due to the announcement of higher fuel prices, a liter will cost over 3 KM. https://www.klix.ba/vijesti/bih/velike-guzve-na-benzinskim-pumpama-zbog-najave-poskupljenja-goriva-litar-ce-kostati-i-preko-3-km/220303149

2.6 to 2.9 KM per liter (1.34 to 1.50 EUR), while after the increase, it exceeded the limit of 3 KM (1.55 EUR)[1]. Experts estimate that the price could jump up to 3.20 KM per liter (1.65 EUR)[2].

Government responses

The legislature and the executive branches, both at the level of the state of BiH and at the level of the entities, reacted in accordance with their powers, in order to try to react to price jumps. Amendments to the Law on Value Added Tax (VAT) will certainly have the most far-reaching effect. The House of Representatives (HoR) of the BiH Parliament Assembly (PA) adopted amendments to this law as a matter of urgency, which prescribe two tax rates instead of the current single 17 percent. The bill taxes the turnover of goods and services and the import of goods at a reduced VAT rate of five percent, namely medicines, flour, bread obtained from all types of flour, milk and dairy products, edible oils, edible fats of animal and vegetable origin, salt, sugar and homogenized baby food. Higher VAT rate of 22 percent will tax luxury goods such as alcoholic beverages, cigarettes and perfumes[3]. In order to enter into force, they need to receive support in the House of Peoples of the PA. The emergency session of this House is scheduled for March 16. In any case, for the VAT changes to take effect, it takes at least six months from the entry into force of the amendments to the Law. It is, among other things, because changes to the software that

[1] Big crowds at gas stations due to the announcement of higher fuel prices, a liter will cost over 3 KM. https://www.klix.ba/vijesti/bih/velike-guzve-na-benzinskim-pumpama-zbog-najave-poskupljenja-goriva-litar-ce-kostati-i-preko-3-km/220303149

[2] Oil on the stock market jumped more than 20 percent: Here are the fuel prices in BiH this morning. https://radiosarajevo.ba/biznis/kompanije/cijene-nafte-skocile-vise-od-20-posto-evo-kakve-su-jutros-cijene-goriva-u-bih/449448

[3] The House of Representatives adopted a reduction in VAT on basic groceries, here's how much. https://radiosarajevo.ba/vijesti/bosna-i-hercegovina/predstavnicki-dom-usvojio-smanjenje-pdv-a-na-osnovne-namirnice-evo-za-koliko/449805

calculates VAT are required[1]. Also, it remains unknown how much this move is a populist measure and how much a product of thoughtful action. Just few weeks before introducing changes in PA, experts warned that it is unacceptable to adopt systematic changes without a comprehensive analysis of the impact of regulations. It was also noted that a special challenge for the BiH system will be the control over goods on which lower and higher rates are charged, explaining that the room will be opened for tax evasion[2].

On the same day as the vote on amendments to the Law on VAT, the BiH PA adopted the amendments to the Law on Excise Duties in BiH, which abolishes excise duties on gas products for a period of six months[3]. The decision abolished excise duties on diesel fuel and other gas oils, kerosene, motor gasoline-unleaded, motor gasoline, heating oil, liquefied petroleum gas for the propulsion of motor vehicles, biofuels and bioliquids. After the expiration of six months, the possibility was left to the Council of Ministers (CoM) of BiH to extend the defined amount of excise duty by three months. Fuel should now be 35-to-40 pfennigs (17-to-20 euro cents) cheaper. In order for it to enter into force, it needs to be confirmed by the House of Peoples of the BiH PA also.

BiH CoM Chairman Zoran Tegeltija and entity prime ministers Fadil Novalić (FBiH) and Radovan Višković (RS) held a meeting on the current economic situation in BiH and possible harmonization of joint measures. After the meeting, Tegeltija said that it was assessed that BiH is currently facing the problem of prices on the domestic market, which will probably

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1 It takes at least half a year to reduce VAT and abolish excise duties. https://radiosarajevo.ba/vijesti/bosna-i-hercegovina/za-smanjenje-pdv-a-i-ukidanje-akcize-potrebno-najmanje-pola-godine/449888

2 Why is SNSD proposing a reduction in VAT and what is its real goal? https://www.klix.ba/biznis/zasto-snsd-predlaze-smanjenje-pdv-a-i-sta-mu-je-stvarni-cilj/220223017

3 Proposal on abolition of excise duties on petroleum products adopted: Fuel could be cheaper by 40 pfennigs. https://www.nezavisne.com/ekonomija/privreda/Ukidaju-se-akcize-na-gorivo/708330

continue for some time, and that there will be no shortage of any product, regardless of whether it is food or energy. However, Tegeltija also expressed dissatisfaction with the abolition of excise duties in the BiH Parliament in such a long run (6 months), and without coordination with other institutions such as the entity governments and the Indirect Taxation Authority's Steering Board[1]. Chairman of the CoM announced that the authorities in BiH will try to act through margins, interventions from stocks, subsidies for certain products, including energy, for the most vulnerable categories of society. FBiH Prime Minister Fadil Novalić said that the crisis requires harmonization of measures at all levels of government, and said that there is no room for panic because there is enough food and energy[2].

Conclusion

Authorities continue to repeat that there is no room for panic or accumulation of necessities, but the citizens still do not trust them, or at least not wholly. The crises they have personally experienced and the week responds from authorities, primarily the one at the beginning of the pandemic, give the citizens the right to be careful. Also, the conflicting views of power representatives in various institutions (Tegeltija vs Parliament) shows reasonable doubt on the far-reaching prudence of the taken steps.

One recently published journalistic research found that the FBiH has only 3 percent of its oil reserves in its state-owned company oil terminals – compared to those that existed in the same territory before the war in the

[1] Tegeltija: Abolition of excise directly affects the budgets of the entities. https://avaz.ba/vijesti/bih/724741/tegeltija-ukidanje-akciza-direktno-utice-na-budzete-entiteta

[2] Meeting of Tegeltija, Novalić and Višković: There will be no shortage of food and energy in BiH. https://faktor.ba/vijest/sastanak-tegeltije-novalica-i-viskovica-u-bih-nece-biti-nestasice-hrane-i-energenata/156371

former Yugoslavia in the early 1990s[1]. In addition to the fact that with its oil reserves FBiH and thus the whole of BiH could at least alleviate the turbulence at the global level, its absence is perhaps the best indicator of why any civic skepticism in the ability of long-term planning of BiH rulers is necessary.

[1] In the 17 years of OTF's operation, the Federation of BiH has only 3% of pre-war oil reserves. https://www.tacno.net/korupcija/za-17-godina-rada-otf-a-federacija-bih-ima-samo-3-prijeratnih-naftnih-rezervi/

The Impact of the War in Ukraine on the Bulgarian Economy (March)

Evgeniy Kandilarov

Summary

The war in Ukraine started at a time when Bulgarian economy was gaining momentum after the Covid 19 crisis and many companies were planning an expansion and even new investments. However, the start of the war in Ukraine on February 24 will change many of those intentions. The recent situation puts into question the current forecasts for economic growth in Europe and particularly in Bulgaria. The economic forecast was for a continued recovery (3-4% GDP growth) and a gradual slowdown in rising inflation (which reached 9.1% on an annual basis in January). Now more and more economists are warning that inflation will not slowdown in the second half of the year, and economic growth could be twice as low. The risk of stagflation (economic stagnation combined with high inflation) is also increasingly mentioned.

It is too early to make specific forecasts about all negative economic impacts of the war in Ukraine. Everything depends on the outcome of the war and how long it will last. However, the closed borders and diverted cargo flows, Europe's (and Bulgaria's) dependence on Russian gas and oil as well as the sanctions are already having negative consequences for almost everyone.

The war in Ukraine began amid rising energy prices and continuing disruptions in supply chains, which boosted US inflation to a record 7.5% in January and 5% in the Eurozone. Now the military conflict will intensify these negative effects on the EU.

Russia is Europe's largest supplier of gas and oil, so the big question is whether Putin is ready to stop exporting them. Following the Russian invasion of Ukraine, Europe has been put at risk of an energy crisis caused by the fact that most of the countries at the continent are dependent on Russian gas. Liquefied natural gas, which can travel long distances on cargo ships before being regasified, can be a potential solution if such a crisis occurs, but this solution could be difficult to be implemented. The main producers of liquefied gas are the United States, Qatar and Nigeria.

Meanwhile the lack of gas for industry would definitely hit the European and particularly Bulgarian economy. In the absence of gas there will be a process pf stagflation, ie. recession plus very high inflation.

According to an analysis of the Vienna Institute for Eastern Europe (WIIW) Bulgaria will be among the most severely affected by the sanctions and the deterioration of relations with Moscow, together with Estonia, Finland, Greece, Lithuania, Latvia, Poland and Slovakia.

In any case, the dependence of these countries on Russia as an energy supplier is greater than their dependence on Russia as an export market. This means that imports are more important than exports, so sanctions will have a very high price for them. For the last few years, Bulgaria even has the largest negative trade balance with Russia and only 4% of Bulgaria's exports are to the Russian market.

At the same time, about 90% of natural gas for Bulgaria comes from Russia. Approximately 60% of the country's fuels currently originate from Russian oil.

After the start of the war in Ukraine and the sanctions imposed on Russia, natural gas prices set a new historical record of over $ 3,000 per 1,000 cubic meters - a rise of 27%. Fears of an energy war between Russia and the West grew on Tuesday (8 March) after the United States pushed its allies to ban Russian oil imports as punishment for Moscow's invasion of Ukraine, where talks on humanitarian corridors made little progress.

Russia warned it could stop the flow of gas through pipelines from Russia to Germany in response to Berlin's decision last month to halt the opening of the controversial new Nord Stream 2 pipeline. Russia supplies 40% of Europe's gas.

Despite attempts in recent years to diversify supplies, Bulgaria is almost completely dependent on gas supplies from Russia's state company Gazprom, while its only oil refinery, owned by Russia's LUKOIL, provides over 60% of the fuel used in the country.

"At the moment we have no realistic alternatives, we are in a situation of strong dependency". With this statement to Reuters, Bulgarian Prime Minister Kiril Petkov explained why, in all likelihood, Bulgaria will ask to freeze its participation in sanctions against Russia, at least in the energy sector. *"We fully support the Ukrainian people"*, continued Petkov, *"and we have adhered with conviction to the first wave of sanctions [...], but those on gas and oil are hardly acceptable to us, both as an economic system and as a country".*

The energy issue is one of the main reasons for concern and doubts that torment Bulgaria from the very beginning of the war in Ukraine, but it is certainly not the only one.

Bulgaria is dependent on Russian gas, but at the same time it is a large producer and exporter of electricity. This allows some flexibility.

At the same time Bulgaria is working to diversify its natural gas supplies and is in talks to import bigger quantities of Azeri gas while examining options for liquefied natural gas supplied through Greek ports.

For bringing Azeri gas in Bulgaria, as well as LNG from the Greek terminal in Alexandroupolis, Bulgaria needs to complete the Greece-Bulgaria interconnector, which has been facing series of delays in its construction by a Greek company.

Fuel traders in the country claim that they can switch to imports from other countries. The point is that this means additional costs and higher prices - at least until the initial shock is overcome.

Fuels are not the only potential source of more inflation. Ukraine and Russia are the world's top exporters of cereals. Bulgaria also exports a lot of wheat, corn and sunflowers and is not directly threatened by shortages, but food prices on international markets are likely to rise further.

Imports from Ukraine are strongly dominated by raw materials and commodities. Their production will be disrupted and quantities will decrease. Bulgarian importers will reorient to other suppliers. The problems are more related to the sharp jump in their prices.

Currently the NSI reports double-digit industrial inflation - 32.6% on an annual basis in January. Banking analysts conclude that inflation in the country may not slow in the second half of the year, as most forecasts have so far.

Many Bulgarian businesses exporting to Russia and Ukraine will be also directly affected by the war. Trade will stop almost completely - except for energy supplies, which are excluded from the sanctions. Bulgaria's exports to Russia are small, about 1.2% of total exports. Exports to Ukraine are similar, also about 1.2% of GDP - so a total of 2.4% of exports. The direct impact on the Bulgarian economy will not be great. But some Bulgarian companies work as subcontractors to the EU, and the union's exports to Russia are about 4%, to Ukraine about 1.2%, which is over 5%, which is more serious and will undoubtedly have a negative effect.

Tourism will also feel the impact of the war. This year it is unlikely that there will be tourists in Bulgaria from these two destinations, and it is unclear whether there will be others who have given up due to the Black Sea's proximity to the military conflict.

On March 14th the state-owned company Bulgargaz which is the main public natural gas supplier announced that it wants a 58% increase in the price of natural gas in April, arguing that the war in Ukraine has increased natural gas prices on European exchanges.

If the State Energy and Water Regulatory Commission approves the request, prices per megawatt-hour will increase from the current 58 euros to over 92 euros, not including fees and charges.

With such an increase in natural gas prices, according to the pricing ordinance, electricity and heating prices will also rise, after a moratorium to freeze prices at the December 16 level expires on March 31. The final decision on electricity and heat prices for households will be taken by the state regulator on 1 April.

If the price of natural gas rises by more than 5%, the price of heating and hot water is also expected to change. If an increase of more than 35% is introduced, this would mean an increase in heating by between 11 and 16 percent.

Bulgargaz's contract as Gazprom's main supplier of Russian natural gas expires at the end of this year. Although there are no problems with gas flows so far, Bulgaria is definitely at risk. Bulgargaz has a contract until the end of the year and negotiations with the contractor should start in the second half of this year. In the situation of hostilities in Ukraine, this cannot happen and in practice puts Bulgaria in a state of insecurity.

Conclusion

The clearest consequence from the Ukrainian war concerns Europe's dependency on Russian gas. The EU gets about 40 percent of its total gas imports from Russia, but for Austria, Hungary and Poland, it's as high as 80 percent — and more than 90 percent in Bulgaria, Estonia and Latvia. Germany and Italy, the largest gas importers in the bloc, rely on Russia for over half and a third of their gas, respectively, so any shock in supply would have severe consequences there. The thorny questions of who exactly will suffer the most economic pain, and whether some of those costs will be shared, could trip up the bloc's ability to stay unified against Russia.

Experts are adamant that supplies cannot be replaced by liquefied natural gas from the United States, Qatar or Australia. The reason is that these countries are barely able to cover their consumption. Again, Azerbaijan cannot export more than 30 billion cubic meters of gas, which will barely cover the needs of Turkey, little of Greece and Bulgaria.

The biggest risks for the Bulgarian energy sector are the interruption of the supply not only of gas, but also of oil, nuclear fuel and hence the security of all types of supplies that affect the general prices of food and other industries.

Brodosplit Shipyard Is in Crisis. Mass Layoffs Are on the Horizon. What Are Possible Economic and Demographic Consequences for Split, Dalmatia and Croatia (July)

Laura Crnić

Summary

The Brodosplit shipyard from Croatia declared provisional bankruptcy in April 2022. This company is one in many others which were affected by a financial crisis brought on by the EU's financial and banking sanctions against Russian institutions due to Russian aggression on Ukraine. When one of the largest industrial companies in the country is near bankruptcy, it is not only their problem, but also the government's. If full bankruptcy really happens, around 1500 workers will lose their jobs and probably become a burden to the state, because they will not be able to find a new one, which is something that should be avoided in the light of the predicted recession.

Introduction

The Russian invasion into Ukraine, which started in February 2022, was a tipping point for world security, the international economy and global energy architecture. It is not possible to narrow down a war like this to one region while we live in a globalized world. The West could not let the Russian attack on Ukraine go unpunished. To condemn the aggression or Vladimir Putin's expansionist politics, western leaders announced some restrictive economic measures to target Russian financial institution and individuals. Some of the sanctions include freezing the assets of Russian companies and oligarchs in western countries and removing banks from the SWIFT for international payments. The latter is important for many companies throughout the world.

In Croatia, many companies experienced the negative side of sanctions because they are dependent on Russian capital. The Petrokemija, Fortenova group and Đuro Đaković are just some of them. However, in last few months, public interest was focused on the Brodosplit shipyard. The Brodosplit has filed for provisional bankruptcy almost 3 months ago, but the situation is getting worse. Moreover, what will happen with 1500 workers of the Brodosplit shipyard? Should they stay and pray that the company will miraculously recover or immediately find another job if they can? Is it realistic that they will find a new job?

Provisional bankruptcy or immediate bankruptcy

The Brodosplit is one of the most famous European shipyards. It was founded in 1922 by merging several smaller shipyards in Split, on a location near the airport, as well as cargo and passenger international port. Also, it is a member of the DIV Group which bought the Brodosplit in 2013. The problem is, for the state and the company itself, that the Brodosplit shipyard is in huge liquidity problems due to European sanctions against Russian banks, more accurately, against VTB Bank. The VTB Bank is a Russian majority state-owned bank with its legal address registered in St. Petersburg. The Brodosplit could not any longer receive money from two VTB loans which were necessary for the construction of the two contracted ships. The money is frozen in that Russian bank. Actually, the construction of two ships was credited by the VTB Bank from Frankfurt, but its owner is the VTB Bank from Russia. Normally, the Croatian government should act and help the company, but according to the Brodosplit's management, it didn't happen. For weeks the Brodosplit's management has not received clear answers from the government and ministries to their dramatic appeals for Croatia's national development bank and the state to step in to bridge the situation. Meanwhile, the debt kept piling up, neither workers nor suppliers were paid.[1]

On the other hand, the bad financial situation of the Brodosplit lasts longer than the Russian aggression on Ukraine. Some speculate that the management of the company is using the war for their own gain (to get money from the state). The government wanted to remind the public that the Croatian Bank for Reconstruction and Development (Croatia's national development bank), also known as HBOR, already gave just above 33 million euros in name of COVID-19 loans. Also, the government issued a state guarantee of 32,5 million euros for construction of a ship Nov. 485.[2]There is also the fact that the government made sure that the last three wages were paid to workers because company was not able to pay them by themselves.

The measures against Russia are so comprehensive that all parties and banks interested in taking over the loan are not able to do so. No one can take over loans from Russian banks because it is not allowed to have any transaction with Russian banks unless they want to be sanctioned as well.[3]

Croatia's Financial Agency (FINA) found irregularities in the Brodosplit's finances and unpaid debts older than 120 days. Afterwards, the management of the company confirmed that there is a debt towards the state

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[1]Index Vijesti (2022) "Debeljak: Ne osjećam nikakvu odgovornost za ovu situaciju, Brodosplit će preživjeti". *Index.hr*
Avaliable at: https://www.index.hr/vijesti/clanak/debeljak-ne-osjecam-nikakvu-odgovornost-za-ovu-situaciju-brodosplit-ce-prezivjeti/2377245.aspx [accessed: 9 July 2022]

[2]Jadranski Web Portal (2022) Koristi li Uprava Brodosplita situaciju s Rusijom kako bi izvukla novac od države? *Morski. hr.* Available at: https://morski.hr/2022/04/14/koristi-li-uprava-brodosplita-situaciju-s-rusijom-kako-bi-izvukla-novac-od-drzave/ [accessed: 9 July 2022]

[3]Nataša Božić (2022) "Debeljak odgovorio Ćoriću: Brodosplit je sve suprotno od onog što ste rekli". *N1 Hrvatska*
Available at: https://hr.n1info.com/video/debeljak-odgovorio-coricu-brodosplit-je-sve-suprotno-od-onog-sto-ste-rekli-2/ [accessed: 9 July 2022]

due to unpaid tax, almost 4 million euros. Therefore, the Croatian shipbuilder has filed for provisional bankruptcy in April.

The judge at the Commercial Court in Split will decide in upcoming days if the Brodosplit shipyard stays in this transitional period of provisional bankruptcy or it will immediately go bankrupt.

Consequences for Split, Dalmatia and Croatia

In general, declaring bankruptcy can help relieve a person or a company of their legal obligation to pay their debts. However, declaring bankruptcy of a huge company which employs 1500 people has far more negative aspects than positive. If the Brodosplit shipyard goes completely bankrupt, it will negatively affect both the state and the people. The GDP would decline, production, competitiveness and supply of goods and services on the market would decline, capital investment and so on. Dalmatia, but also the whole Croatia, would lose its advantage on the market because losing a big company as the Brodosplit shipyard and high volume of incoming work would hardly be replaced any time soon.

Everybody loses, not to mention shareholders. Shareholders are also affected if the company they are involved in declares itself bankrupt. They would lose money, even if the company survives at the end which is less and less probable by every passing day.

Moreover, individuals who directly depend on the company would find themselves in horrible socio-economic situation because they would face a long-term unemployment. Losing job is always a problem, but losing job in a company like that is even worse. Majority of workers in the Brodosplit shipyard are mature workers who spent all their career in that company. When they were young, it was normal to get a job and stay on the position until retirement. Additionally, it is not unusual that both of married couples work in the same company under the same conditions. Everything works all right and they are feeling safe until both of them lose their jobs in few months.

Even if, somehow, the Brodosplit shipyard do not go bankrupt, the company already owes workers a lot of money. Workers have not been able to take care about their families since April. At first, only 600 employees out of 1500 continued to show up for work, however, currently the number has fallen to 150. That is the reality for employees since the beginning of July 2022.[1]

Conclusion

The war in Ukraine fundamentally changed economy, business and financial market in Europe. The reason for that is dependence on Russia and Russian resources which turns out to be too grand to just get rid of it in times of crisis. Decisionmakers, of course, wanted to show a strong disapproval of Vladimir Putin's war and even though their intentions were nothing but honourable, imposed sanctions on Russia have some negative aspects as well.

The fact that many companies, basically overnight, found themselves in a situation in which their business began to crumble only because several years ago they had a valid assumption for that period that it is all right to be involved with Russian capital and dependent on their market in general.

Every country and company which was somehow connected to Russian market, now suffers in some way. The Brodosplit shipyard, as many other Croatian companies, had financial difficulties for years. At some point, they did not have other option than to reach out to Russian bank. The event, which is outside their circle of influence, turned their best intentions to their

[1] Hina (2022) "Brodosplit na koljenima: Proizvodnja obustavljena, radnici poslani na čekanje". *Novilist.hr.* Available at: https://www.novilist.hr/novosti/gospodarstvo/brodosplit-na-koljenima-proizvodnja-obustavljena-radnici-poslani-na-cekanje/ [accessed: 9 July 2022]

nightmare. Suddenly, their workers need to find new jobs, Split is losing an industry where 1500 people worked and Croatia is losing one of its biggest and most important industrial companies.

However, the Brodosplit shipyard is a private company. This rases an ultimate question in economics. Should the government save companies from the bankrupt if they are considered to be too big to fail? On the one hand, if the company goes bankrupt, so many people will lose a job and become a burden to the state, which is something the government wants to avoid. On the other hand, why would the state, and all its taxpayers, pay for someone’s bad choices? There is a thin line what is good or bad for the state to do in such situations.

The Ukrainian Crisis and Czech Business: Economic Losses Inevitable (April)

Ladislav Zemánek

Summary

The crisis in Ukraine has been affecting Czech enterprises both in Russia and the Czech Republic. The state agencies supporting the Czech companies abroad (CzechInvest and CzechTrade) have closed their offices in Russia and assistance from the national representative office has been reduced to the necessary minimum. Russia is among the Czech Republic´s most important trade partners beyond the EU which is amplified by Russia´s role as a gateway to other countries of the EAEU. Plenty of the Czech businesses has already withdrawn from the Russian market while others endeavour to circumvent sanctions and continue their economic activities.

Introduction

The Ukrainian crisis and related sanction measures against Russia adopted by both national and EU authorities have negative impacts on the Czech economy and companies. Entrepreneurs are concerned about future consequences on their business activities and profits. According to recent surveys, up to 90 per cent of them are already affected by the events or expect the ramifications in the near future. These are connected with problems in supply chains, decrease in demand, higher costs of production, loss of Ukrainian employees and last but not least the loss of target markets.[1] The current situation poses a further danger for the economic recovery after the pandemic crisis.

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[1] *Dopady války na Ukrajině pociťuje nebo očekává 90 procent českých podniků* (2022, March 23). České noviny. https://www.ceskenoviny.cz/zpravy/dopady-valky-na-ukrajine-pocituje-nebo-ocekava-90-procent-ceskych-podniku/2181856.

State economic agencies and diplomatic representation

The Czech state suspended support for both Czech entrepreneurs in Russia and Russian investors interested in business in the Czech Republic. Activities of two major state economic agencies have been suspended in Russia. CzechInvest was established in 1992 under the auspices of the Ministry of Industry and Trade with the aim to make the country an innovation leader in Europe. The state agency assists Czech companies to enter foreign markets, promotes national technologies, research and development, know-how and economic opportunities abroad, and last but not least, motivates foreign investors to conduct business activities in the Czech Republic. In response to the Ukrainian crisis, the agency announced that its operation would be ended in Russia. Director-General Patrik Reichl stated that there was no reason to maintain the office in Moscow taking the Western retaliatory sanction measures into consideration. The sanction regime would also define the possibilities of Russian investment in the Czech Republic, nevertheless, the state authorities have become very sceptical in this regard.[1] The same applies to the CzechTrade. The agency was founded in 1997 to support the Czech exporters abroad and boost Czech foreign trade. Both offices in Moscow and Ekaterinburg have been closed, and all business missions, including the participation in 25 trade fairs, have been cancelled.[2]

Withdrawal of CzechInvest and CzechTrade is followed by the Czech House in Moscow which was partially closed already after the Vrbětice affair that erupted in April 2021. Whereas the Czech House terminated the running of a hotel and restaurant, it continued to provide the renting of

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[1] *CzechInvest připravuje potřebné kroky k uzavření pobočky v Moskvě* (2022, February 24). CzechInvest. https://www.czechinvest.org/cz/Homepage/Novinky/Unor-2022/CzechInvest-pripravuje-potrebne-kroky-k-uzavreni-pobocky-v-Moskve.

[2] *Informace v souvislosti s invazí Ruska na Ukrajinu* (2022, February 28). Ministerstvo průmyslu a obchodu. https://www.mpo.cz/cz/rozcestnik/informace-o-situaci-na-ukrajine/informace-v-souvislosti-s-invazi-ruska-na-ukrajinu--266138/.

offices and apartments. In March 2022, the Ministry of Foreign Affairs announced the final closure of the Czech House which is the biggest state real property abroad.[1] Similarly, the Czech Centre in Moscow which is the main instrument of the Czech public diplomacy subordinated to the Foreign Ministry was closed by March. At the same time, the embassy in Russia called upon the Czech nationals to leave the country referring to the reduction of services provided by the representative office. Whereas nearly a hundred persons worked at the embassy a year ago, the staff was cut to the minimum over the last year. It is not excluded that the situation will even deteriorate given Prague expelled the deputy of Russia´s ambassador Feodosii Vladyshevskii in March. According to the Foreign Ministry, the diplomat was declared persona non grata because of „possible contacts with Russia´s intelligence services". The authorities do not hide that the expulsion was coordinated with other Western countries and aimed at „cutting down Russia´s intelligence activities in the EU".[2] Moreover, Minister of the Interior Vít Rakušan admits the possibility of the expulsion of Russia´s ambassador.[3] The mutual relations have thus been moving towards complete freezing affecting not only the political but also economic, cultural, scientific or humanitarian ones. At the present, a long-term negative tendency starting in 2014 and deepening since 2020 is culminating.

Economic losses inevitable

[1] Šídlová, T. (2022, March 02). *Potvrzeno. Diplomacie zavírá Český dům v Moskvě kvůli ruské agresi*. Seznam Zprávy. https://www.seznamzpravy.cz/clanek/domaci-politika-potvrzeno-diplomacie-zavira-cesky-dum-v-moskve-kvuli-ruske-agresi-191452.

[2] Kundra, O. (2022, March 29). *Z ruské ambasády odchází klíčový diplomat. Měl škodit vzájemným vztahům*. Respekt. https://www.respekt.cz/agenda/z-ruske-ambasady-odchazi-klicovy-diplomat-mel-skodit-vzajemnym-vztahum.

[3] *Rakušan: Vyhoštění ruského velvyslance nevylučuji* (2022, March 18). Neovlivní.cz. https://neovlivni.cz/rakusan-uprchlici-prochazeji-bezpecnostnim-screeningem/.

Even though the mutual trade exchange is not substantial, negative impacts on the Czech economic sector are unavoidable. The Czech companies exported goods worth 93 billion CZK (3.8 billion EUR) to Russia last year. Russia´s share in the Czech export amounts approximately to 2 per cent, similarly to Belgium.[1] It is quite a massive decrease in comparison with the pre-crisis figures from 2013 when the monthly trade balances equalled almost 25 billion CZK (1.02 billion EUR). According to economists, the Czech export to Russia generates around 0.9 per cent of GDP.[2] Such a figure is not too high, nevertheless, Russia (together with the US) is the most important Czech Republic´s trade partner beyond the EU. In addition, Russia´s role for the Czech exporters is strengthened by the fact that the country is a gateway to other countries of the EAEU. The following table shows the mutual trade exchange between 2018 and 2020[3]:

	2018	**2019**	**2020**
Export to Russia (billion CZK)	89.7	98.8	98.9
Import from Russia (billion CZK)	127.7	115.1	67.4
Balance (billion CZK)	-38.0	-16.3	31.5

Czech companies export especially machines, industrial facilities and electronics, including car components, motors or coachworks, but also food products. The import from Russia is dominated by crude oil, gas and other minerals. Roughly half of the Czech consumption of oil and gas is covered by Russian supplies so the expected drop in these supplies will have a

[1] Nosek, M. (2022, March 07). *České firmy zarazily obchod s Ruskem. Nejvíce utrpí strojaři a výrobci vozidel*. E15.cz. https://www.e15.cz/byznys/prumysl-a-energetika/ceske-firmy-zarazily-obchod-s-ruskem-nejvice-utrpi-strojari-a-vyrobci-vozidel-1388244.

[2] Stingl, T. (2021, April 23). *Význam Ruska pro obchod klesá, jednotlivé firmy ale může případný bojkot zabolet*. BusinessINFO.cz. https://www.businessinfo.cz/clanky/vyznam-ruska-pro-obchod-klesa-jednotlive-firmy-ale-muze-pripadny-bojkot-zabolet/.

[3] *Rusko* (2021, July 01). BusinessINFO.cz. https://www.businessinfo.cz/navody/rusko-souhrnna-teritorialni-informace/2#3-obchodni-vztahy-s-eu-a-cr.

significant impact on the consumers.[1] More than 150 Czech companies carried on business in the Russian market in 2021. Director-General of the CzechTrade Radomil Doležal warns that the sanctions will afflict particularly the mechanical engineering, nevertheless, the impact will likely be global due to restrictions imposed on payment transactions. Doležal expects the total interruption of trade exchange, entailing a „fatal slump“. Not a few companies focus on the Russian market where those export up to 90 per cent of production. In the case that such businesses do not succeed in concentrating on other markets, bankruptcies are inevitable. The CzechTrade is about to help them to find export opportunities in Kazakhstan, Kyrgyzstan, Azerbaijan and other post-Soviet countries with a strong sector of mining, engineering and energy industries.[2]

In response to the crisis and restrictions, an overwhelming majority of Czech companies have already suspended their activities in Russia. Škoda Auto, the biggest automobile manufacturer and a part of the Volkswagen Group, closed its factories in Kaluga and Nizhnii Novgorod as well as suspended export of the cars to the country despite the fact that the Russian market is the second most important for the enterprise worldwide. Last year, Škoda Auto sold more than 90,000 cars in Russia. The Ukrainian crisis affects the manufacturer not only in terms of profits from sales but also in terms of deficiency in supplies from Ukrainian subcontractors. The company has already announced that they have been forced to restrict manufacturing.[3] Activities in Russia have been suspended by Zetor, a famous Czech agricultural machinery manufacturer. Sales in Russia and

[1] Stingl, T. (2021, April 23). *Význam Ruska pro obchod klesá, jednotlivé firmy ale může případný bojkot zabolet*. BusinessINFO.cz. https://www.businessinfo.cz/clanky/vyznam-ruska-pro-obchod-klesa-jednotlive-firmy-ale-muze-pripadny-bojkot-zabolet/.

[2] Nosek, M. (2022, March 10). *Českým firmám zamrzly pohledávky v rublech. Pomoci musí vláda, říká šéf CzechTrade Doležal*. E15.cz. https://www.e15.cz/rozhovory/ceskym-firmam-zamrzly-pohledavky-v-rublech-pomoci-musi-vlada-rika-sef-czechtrade-dolezal-1388282.

[3] *Škoda Auto zastaví kvůli ruské invazi na Ukrajinu veškeré aktivity v Rusku* (2022, March 03). České noviny. https://www.ceskenoviny.cz/zpravy/skoda-auto-zastavi-kvuli-ruske-invazi-na-ukrajinu-veskere-aktivity-v-rusku/2171281.

Ukraine account for around 14 per cent of all profits. The same decision was made by the electrotechnical holding Jablotron, the leading Czech manufacturer of blowers Kubíček VHS, engineering company Žďas, a global leader in the manufacture of vertical turning lathes Toshulin, the second-largest pump producer Sigma Group, and last but not least breweries such as Pilsner Urquell Brewery, Budweiser Budvar Brewery and Staropramen.[1] Russia´s military operation in Ukraine became a reason for the withdrawal from the Russian market for Avast, a Czech cybersecurity software company that is the second-largest antivirus software provider in the world. The company used to pay levies of more than 50 million CZK (2.05 million EUR) in Russia a year.[2] Interestingly, many of the private companies that have left the Russian market make public statements denouncing Russia´s actions and promising financial support for Ukraine. At the same time, owners of the Czech shops have stopped selling products from Russia or Belorus, cancelling the trade contracts in many cases. The largest Czech e-commerce store, for instance, has announced that the company is going to sell neither products of Russian origin nor books about President Vladimir Putin.[3] The social hysteria has obviously not avoided businessmen either.

Conclusion

Even though the economic state agencies as well as the Czech companies have been suspending their activities in Russia or have been leaving the Russian market, other subjects have endeavoured to continue the business.

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[1] Nosek, M. (2022, March 07). *České firmy zarazily obchod s Ruskem. Nejvíce utrpí strojaři a výrobci vozidel*. E15.cz. https://www.e15.cz/byznys/prumysl-a-energetika/ceske-firmy-zarazily-obchod-s-ruskem-nejvice-utrpi-strojari-a-vyrobci-vozidel-1388244.

[2] *Avast přestal prodávat programy v Rusku, na daních tam platil přes 50 milionů Kč* (2022, March 11). České noviny. https://www.ceskenoviny.cz/zpravy/avast-prestal-prodavat-programy-v-rusku-na-danich-tam-platil-pres-50-milionu-kc/2175711.

[3] *Čeští obchodníci stahují z nabídky zboží ruského či běloruského původu* (2022, February 28). České noviny. https://www.ceskenoviny.cz/zpravy/cesti-obchodnici-stahuji-z-nabidky-zbozi-ruskeho-ci-beloruskeho-puvodu/2169190.

The Financial Analytical Office, serving as the national financial intelligence unit, has reported several attempts to circumvent the sanctions.[1] At the same time, however, some state officials emphasise that neither the Government nor Parliament or the state administration is not allowed to impose a ban on the export of products from the Czech Republic under the present legislation.[2] The current situation, therefore, will probably lead to adjustments of the national law.

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[1] Soukup, J. (2022, March 23). *Firmy chtěly obejít sankce a vyvést desítky milionů. FAÚ to zarazil a poslal na ně policii*. Novinky.cz. https://www.novinky.cz/valka-na-ukrajine/clanek/fau-stopnul-vyvadeni-desitek-milionu-korun-kvuli-snaze-o-obejiti-sankci-40391427.

[2] *Náměstek: V českém právním rámci není možné zakázat vývoz čehokoli z ČR* (2022, March 23). České noviny. https://www.ceskenoviny.cz/zpravy/namestek-v-ceskem-pravnim-ramci-neni-mozne-zakazat-vyvoz-cehokoli-z-cr/2181828.

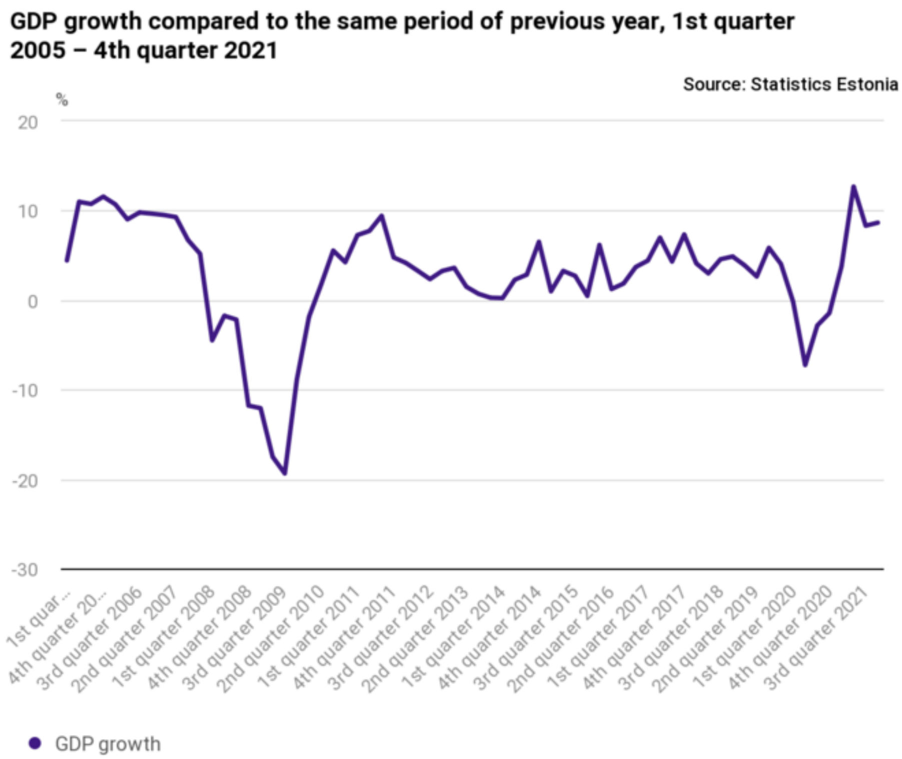
The Time to Be Creative: An Economic Aspect (February)

E-MAP Foundation MTÜ

Summary

For an ordinary year, the beginning would have been very promising – as it was confirmed officially (see *Figure 1*), in 2021, the economy of Estonia grew by 5.2 per cent, if it is to be compared to the per-COVID-19 times[1] (a nearly something that not many people remember).

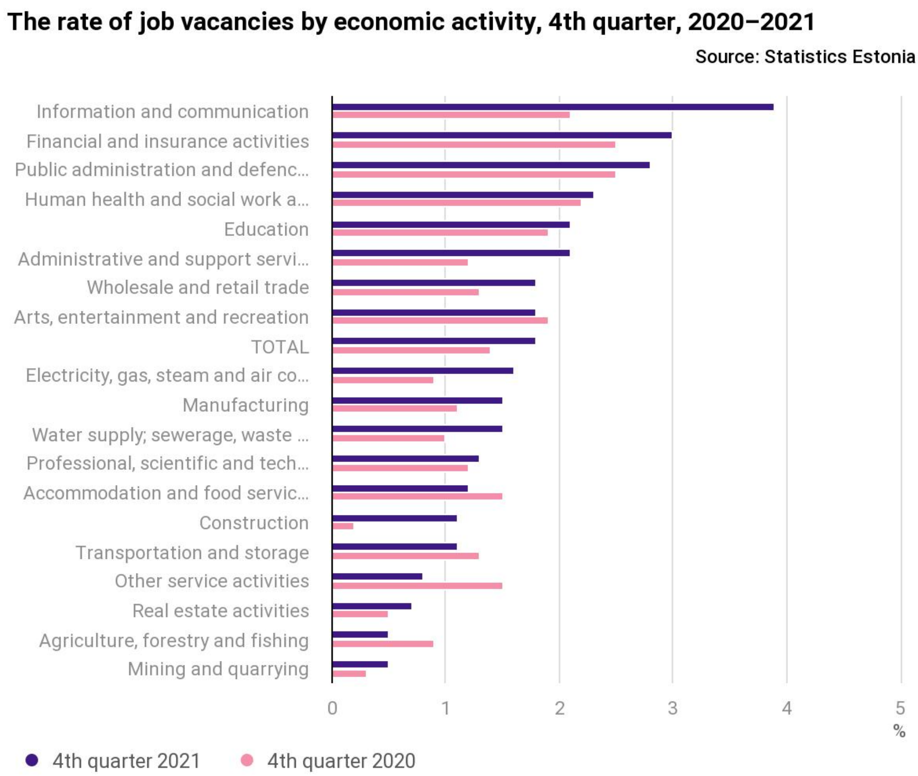
Figure 1



[1] 'Estonia's economy grows by 5.2 percent compared to 2019' in *ERR*, 1 March 2022. Available from [https://news.err.ee/1608516185/estonia-s-economy-grows-by-5-2-percent-compared-to-2019].

The same report noted that the aforementioned steady growth was attributed to a fairly healthy state of the country's manufacturing, which "climbed back to the pre-pandemic level", and some noticeable boosting that 'arrived' from "information and communication, transportation and storage, and professional, scientific and technical activities" [1]. In a significant addition, the fourth quarter of 2021 saw Estonian employment-providers posting 11,103 job vacancies, and the latter figure is 28 per cent higher than it was in the same quarter one year before[2] (see *Figure 2* for more details).

Figure 2



[1] 'Estonia's economy grows by 5.2 percent compared to 2019'.
[2] 'The number of job vacancies was still over 10,000' in *Statistics Estonia*, 11 March 2022. Available from [https://www.stat.ee/en/node/258566].

Arguably, a yet another routine year for the Baltic/Nordic country was supposed to be ahead, economic development wise. However, a 'perfect storm' from the east (in the form of the Russian Federation's yet another invasion into the sovereign territory of Ukraine) literally erased all sorts of positive economic plans, for the entire globe. Having underlined that "Estonia's foreign trade was encouraged last year by the good position of the global economy and by strong demand from Estonia's trading partners for Estonian exports"[1], the country's Central Bank (*Eesti Pank*) still had to adequately reflect on the nearly absolute degree of uncertainty, which was evidently generated by the latest Russian aggression. The institution noted that "[d]evelopments in foreign trade [in 2022] will be affected by Russia's unprovoked invasion of Ukraine" and "[s]anctions on Russia resulting from this will have some impact on Estonia's foreign trade both directly and indirectly through the exchange of goods with Estonian trading partners"[2].

Indeed, such a forecast carried plenty of generic connotations, but it could be excusable, because even the world's brightest minds could not and would not predict what the Russo-Ukrainian War (its continuation as well as the outcome) is to push for. Only the end of March would allow the *Eesti Pank* to be a bit more specific, forecasting that the country's economy is likely "to shrink by 0.4 per cent" in 2022, given the difficult geo-strategic situation, additional spending on defence, and significant expenses on accommodating (prospectively tens of) thousands of Ukrainian refugees[3]. Slightly later, Eesti Pank also noted that there is a likelihood that Estonian banking system will be experiencing some issues with loans repayments, even though they all have "sufficient buffers to cope with an increase in

[1] 'Central bank: Strong trade growth at end of 2021 to slow this year' in *ERR*, 12 March 2022. Available from [https://news.err.ee/1608530014/central-bank-strong-trade-growth-at-end-of-2021-to-slow-this-year].
[2] 'Central bank: Strong trade growth at end of 2021 to slow this year'.
[3] 'Bank of Estonia forecasts slight recession for 2022' in *ERR*, 30 March 2022. Available from [https://news.err.ee/1608549010/bank-of-estonia-forecasts-slight-recession-for-2022].

problem loans, to allow payment holidays if needed, and to continue lending to businesses and individuals”[1].

Suddenly, it became obvious that, soon, Estonia would be facing a range of unprecedented challenges, which it would need to overcome together with the other Member States of the EU – something serious would need to be implemented to reduce the whole entity’s dependence on Russia-supplied gas and oil. Taavi Aas (*Centre*), Estonian Minister of Economic Affairs and Infrastructure, framed up the context in the most precise way:

Last year, Russian gas accounted for about 40 per cent of the EU’s gas consumption. Estonia’s dependence on natural gas is not great, but there are member states in the EU where the role of natural gas is much greater and it is difficult to find alternatives. […] With a big effort, we would be possible to supply the Baltic-Finnish region with LNG, but if the whole of the EU buys LNG at the same time, it will probably lead to an increase in prices and supply difficulties cannot be ruled out.[2]

Another major matter that Estonia got directly engaged in discussing was the evident interlinkage, which is existing between economic development and security. This issue was brought up by the country’s Minister of Finance, Keit Pentus-Rosimannus (*Reform*), who mentioned that, to her knowledge, the EU’s Energy Commissioner (and also Estonia’s only representative in the body) Kadri Simson, worked very hard to outline a number of possible scenarios for the EU. It was indeed the case, and Commissioner Simson stated during her interview to *CNN* that the EU “is working toward disconnecting from Russian gas, which the U.S. will

[1] ‘Bank of Estonia: War bringing more problems with loan repayments’ in *ERR*, 27 April 2022. Available from [https://news.err.ee/1608579010/bank-of-estonia-war-bringing-more-problems-with-loan-repayments].
[2] Taavi Aas as cited in ‘Kallas: EU must find alternatives for Russian gas and oil’, *ERR*, 9 March 2022. Available from [https://news.err.ee/1608525629/kallas-eu-must-find-alternatives-for-russian-gas-and-oil].

support with LNG deliveries"[1]. Back to Minister Pentus-Rosimannus, she continued with the following delivery:

The faster and more vigorously the EU's plan to secure gas supplies from other countries, invest in capabilities, including energy efficiency, replace gas with another energy source, the more resolutely it will be able to withstand next winter. […] The Commission will make its proposals public […], and work is already underway in the [M]ember [S]tates to move investment forward as quickly as possible.[2]

If one makes an attempt to single out the main economics-related clusters where major issues of concern could be easily detected, these are likely to be found in the following segments: **firstly**, the Russo-Ukrainian War is to significantly reduce Estonian companies-linked export and import; **secondly**, inflation is to be pushed up, dramatically adjusting both financial position and financial performance of nearly all enterprises and other organisations in the country; and **thirdly**, the risk of losing jobs is to become a real socio-political issue across all those sectors that are affected by the uncertainty[3]. All these and some other issues, with necessity, would require a different level of attention, and the Estonian Government immediately started working preparing a number of amendments of the already adopted budget, which was, of course, not forecasted for a massive war in Europe to occur in 2022. To normatively reflect on the situation, Prime Minister Kaja Kallas (*Reform*) and her cabinet worked on developing a supplementary budget draft bill to be later presented before the *Riigikogu* – the whole idea was to frame up an approach to 'unify' a range of effective solutions on defence, energy security, and providing accommodation for war refugees from Ukraine. At the end of the process, the *Riigikogu* was

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[1] Kadri Simson as cited in 'Energy commissioner: U.S. to support Europe in giving up Russian gas', *ERR*, 16 March 2022. Available from [https://news.err.ee/1608533578/energy-commissioner-u-s-to-support-europe-in-giving-up-russian-gas].

[2] Keit Pentus-Rosimannus as cited in 'Kallas: EU must find alternatives for Russian gas and oil'.

[3] 'Bank of Estonia: War bringing more problems with loan repayments'.

addressed with a bill that has additional EUR 247.6 million allocated to security, EUR 257.3 million – to energy security, and EUR 242.7 million – for hosting the over 30,000 war refugees[1]. Presenting the new version of the budget, Prime Minister Kallas stated:

In order to boost the security of free and democratic Estonia, the government submitted a supplementary wartime budget aimed at strengthening Estonia to the Riigikogu today, amounting to EUR 732 million. Via this additional budget, we will make Estonia stronger and give the people of Estonia a greater sense of security – we will be able to cope with the altered security situation. […] We have been witnessing the cruelty and destruction that Putin is prosecuting in Ukraine. The suffering that ordinary Ukrainians, children, mothers, fathers, grandparents have to endure. […] More than 13 million people have had to flee their homes in Ukraine; 5.4 million of them have left the country, and of these, more than 34 thousand have arrived here in Estonia. Europe has not seen such a flood of people fleeing conflict for decades. […] Hard times are coming, and we all need to think about how to protect ourselves.[2]

On the macro level, the proposed supplementary budget would account for about 2.2 per cent of the country's GDP, but, as argued, "[t]he impact of the supplementary budget on the budgetary position is nonetheless somewhat smaller, as the use of subsidies will see the state get some of the money back in taxes"[3]. Characteristically for the ledger, it is unlikely that the budgetary adjustments (both supporting measures and, prospectively, negative cash flow) will not be pushing for the increase of the absolute permitted maximum of the country's outstanding government debt (that is

[1] 'Prime minister presents €800-million war budget before Riigikogu' in *ERR*, 3 May 2022. Available from [https://news.err.ee/1608584701/prime-minister-presents-800-million-war-budget-before-riigikogu].
[2] Kaja Kallas as cited in 'Prime minister presents €800-million war budget before Riigikogu'.
[3] 'Supplementary budget bill passes first reading in Riigikogu' in *ERR*, 5 May 2022. Available from [https://news.err.ee/1608587299/supplementary-budget-bill-passes-first-reading-in-riigikogu].

EUR 7.2 billion). “Hart times are coming”? Evidently, they have already arrived.

Energy Crisis: Greece’s Strategy to Ensure Domestic Needs （July）

Evelyn Karakatsani

Summary

The Russian invasion of Ukraine triggered an energy crisis in Europe. EU member states accelerated efforts to reduce energy dependence from Russia. Greece is a country highly dependent on Russian oil and natural gas. However, since the start of the crisis the country has taken major steps towards energy autonomy. The briefing presents the puzzle of the energy crisis in Greece, as well as the available alternatives to the energy demand question.

Introduction

Greece is in the process of diversifying the sources of its imports in fuels and has already managed to decrease its dependence on Russia. LNG transportation via Revithoussa LNG Terminal has been accelerated. In addition, the Interconnector Greece-Bulgaria was recently inaugurated and EuroAsia and EuroAfrica interconnectors are on the way. Additionally, the government have also announced a turn towards the utilization of lignite in order to increase its participation in the fuel mix for power. However, the participation of natural gas in electricity production still remains high. The materialization of Renewable Energy Source projects is accelerated, in order to exploit the countries potentials to the fullest. Technical and bureaucratic issues need to urgently be addressed as well as a strong framework to support the country’s energy efficiency in the winter needs to be implemented.

Greece’s energy puzzle

The ongoing war in Ukraine raises the concern of Greece's energy efficiency for the upcoming winter. The government has as a top priority to ensure the country's energy security. According to data presented in Kathimerini, the first half of 2022 Greece 13.3TWh of Russian gas was imported comparted to 16.0TWh imported in the corresponding period of 2021. This is a decrease of 21.3%. However, this decrease can be attributed on technical issues, concerning the agreement with the Russian company Gazprom. In parallel, dependence on LNG increased. In particular, during the same period, LNG imports increased by 47.3%, from 11.7TWh last year to 17.3TWh in the first half of 2022. In Revithoussa LNG terminal, 39 cargoes of LNG arrived this year, in comparison to 15 cargoes last year. It should be mentioned that the final destination of some of the cargoes were other countries, such as Bulgaria, Romania and Hungary (1).

However, despite the reported decrease in consumption, the dependency of Greece from Russian fuel is still considerable. In particular, 37% oil and 9% natural gas imports related to energy come from Russia. Furthermore, the problem of high dependency of electricity generation on natural gas remains. Specifically, power producers absorbed the first half of 2022 20.39TWh of gas, almost the same amount used in the corresponding period last year, that is 20.42TWh (1). Consequently, the electricity prices rapidly increased.

In addition, Gazprom's decision to shut down the Nord Stream 1 pipeline for annual maintenance, until the 21st of July, caused concerns. This pipeline is the main source of gas for Germany. Hence, EU member states and especially Germany, started preparing for the worst-case scenario, that is the extension of the date the pipeline will be operational due to the war in Ukraine. Greece is not directly dependent on Nord Stream 1, but a possible extension of the shutdown will impact the LNG market and will result to a further increase in energy prices (3). In response to these events, the Minister for Environment and Energy Kostas Skrekas announced the government plan in the case of a complete interruption of gas flows from Russia. This plan includes provision to transport LNG with two ships concurrently to Revithoussa, import more LNG through the TAP pipeline from Italy using reverse flow and use more diesel, as well as return to lignite (2).

The plan for utilizing lignite in order to increase its participation in the fuel mix for power is a step back to the green transition of the country. The Public Power Corporation (PPC) had planned to stop using lignite from 2023. Due to the Ukrainian crisis this goal will most probably not been achieved. However, it is evident that the government promotes the use of lignite in order to limit the use of much more expensive natural gas. In particular, PM Kyriakos Mitsotakis decided to increase mine production by 50% in the beginning of April. Following this decision, Minister Skrekas instructed PPC to increase the participation of lignite in electricity generation mix to 17-20%, instead of 5% last year. In the first twelve days of July, the participation of lignite in the electricity production increased to 16.3%. However, the participation of natural gas to the energy spectrum still remains at the high level of 48.6%. It should be mentioned that technical issues related to the feasibility of implementation of this plan still remain. For example, PPC points out that the lignite units are obsolete, and the continuous operation can lead to breakdowns. In addition, the workforce needs to be increased and updated and this needs the relative budget. Also, contract issues with lignite mines need to be shortened out. Even if everything is working as planned the units need 6 to 7 months to reach an operational efficiency (4).

On the 14th of July, the PM was informed by the Energy Crisis Management Committee of the Ministry Environment and Energy about existing alternative scenarios in the event of a reduced or complete interruption of Russian natural gas to Europe. During the meeting it was noted that Greece is in a better position than most of the Central European countries, since it has alternative natural gas supply sources, such as TAP pipeline and the Greek-Turkish pipeline. In addition, it has access to LNG through Revithoussa and it has the capacity of increasing lignite production. It was also stressed that in the worst-case scenario and if so required, there is a plan of restricting exports of natural gas and electricity to third countries and prioritize the covering of domestic needs (5).

Steps towards alternative energy resources and renewable energy

The government has also accelerated efforts for seeking alternative energy resources by forging tripartite cooperation's, such as the one between Greece, Cyprus and Israel. The three allies agreed on April to continue cooperating on natural gas pipeline projects. One of the main projects of the tripartite cooperation scheme is the Euro-Asia interconnector, the longest underwater power cable, which is expected to be finished by 2025 (6). This project has received 657 million euros via the Connecting Europe Facility (CEF) and is on the way to construction. It is expected to be operational within 2025 (7). Another project on the way is the EuroAfrica interconnector, a subsea cable connecting the electricity grips of Greece, Cyprus and Egypt. This project is expected to be completed by 2023 (8). Furthermore, in the beginning of July, the long-delayed project of the Interconnector Greece-Bulgaria (IGB), which transfers natural gas from Azerbaijan to Greece and Bulgaria, was inaugurated and will start operating by the end of July, as Skrekas stated at the 26th Annual Economist Government Roundtable, held in Athens on 5-7 July 2022 (9).

In addition, during his speech at the same conference, the Minister stated that by the end of 2022 renewable energy resources will cover 50% of the country's electricity demand. He mentioned that in 2018 renewable energy covered 30% of the electricity needs of the country and by 2021 new renewable energy source units were added with the total power of 5,000MW. He noted that new units installation will be accelerated the upcoming years and is expected that a total power of 2,000MW will be added from 2023 onwards. This will raise to 62% the total share of renewable energy resources in Greece (10). Moreover, Skrekas has stated that "We are creating the right conditions to establish our country as a hub for green energy for the entire Southeastern Europe and we are laying the foundations for Greece to become an exporter of clean energy" (11). Numerous projects have taken place in order for the country to reach its goal of 70% share of renewable energy in electricity consumption by 2030. Most recently, on 13th July a leading solar energy investor, Cero Generation, announced the beginning of works on an 100 megawatt project at Prosotsani in Drama (12). In addition, floating offshore wind projects are under development during the last months. Specifically, in April, Hexicon, a Swedish floating wind specialist company, created a joint venture with Greece's EAMAA, in order to start the development of floating offshore wind project in the Greek coasts (13).

However, concerning renewable energy, administrative and technical problems have emerged. The network of the Hellenic Electricity Distribution Network Operator (HEDNO) is frozen. The Independent Power Transmission Operator (IPTO) has reached its limits, as well. A new law on renewables licensing, which was approved from the parliament on the 30th of June, redefines new power margins and open up space for new projects. IPTO currently waits for the implementation of the new law to make use of the possibility of suspending applications for a definitive connection offer to six months period. It has been observed that numerous investors got licenses with the aim of reselling them, before provisions of financial solvency and time to maintain the licenses were in place. Thus, valuable space has been reserved by projects that have been stagnant for years, while large and mature projects are waiting for this space to open. It is estimated that these stagnant projects reach 1/3 of the projects that already acquired license from IPTO. In addition, the rapid rise of projects, investments for the construction of new lines by IPTO or the investors themselves are also required. However, this construction process goes through a bureaucratic licensing process and time-consuming expropriation process that leads to major delays. These problems need to be solved urgently and the new law offers a better framework for the development of the renewable energy projects in Greece (14).

Conclusion

In order for the government to combat the energy crisis and ensure energy security of the country, it needs to establish a clear strategy for the upcoming winter. Major steps have been taken for the decrease of energy dependence from Russia. However, existing plans will materialize throughout the following years. Thus, time matters and setting a specific time frame of transitioning to alternative energy resources, as well as accelerating results that will ensure Greece's energy autonomy is crucial. Furthermore, the rising prices in energy also needs to be monitored and addressed.

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Housing Market in Hungary（May）

Csaba Moldicz

Summary

The Hungarian housing market has developed rapidly in recent years. The booming market has been fueled by favorable financial and economic conditions in the economy for many years. At the same time, soaring inflation and rising interest rates have changed the environment for this development in 2021 and 2022. Needless to say, in addition to rapid GDP growth, the war in Ukraine and supply chain bottlenecks that forced the central bank to raise policy rates are among the causes of inflation. The briefing looks at how the Hungarian housing market and mortgage lending have adapted to the changing economic conditions.

Introduction

Over the last 7 years, real estate prices in Hungary have continued to rise. The last time we observed falling or stagnant prices on this market was the period between 2008 and 2013, when prices on the housing market collapsed in the wake of the global financial market. During this period, prices on the market fell by around 20-25 percent, and the defaulted foreign currency loans continued to cause problems for decision-makers in the Hungarian economy for several years.

Since 2013, prices in the housing market have increased, which can be explained by several factors:

— Rapid GDP growth led to rising real wages, which boosted demand in this market segment,

— The central bank began cutting interest rates (6 percent) starting in late 2021, and the cycle bottomed out in mid-2021, when the policy rate was 0.6 percent.

- The government launched several programs to boost demand. With these programs, the government targeted families raising children.

The Covid 19 pandemic affected the housing market through three channels:

- The market for rented commercial properties collapsed due to the pandemic, as employers in the tourism and hospitality industries closed or went out of business.
- Due to the collapse of tourism, Airbnb hosts affected by the Covid 19 pandemic were forced to sell their properties.

The economic uncertainty caused by the pandemic caused potential buyers to postpone the purchase of real estate. There is a significant difference between the two periods (2008-2013) and (2020-2021) when prices were significantly affected by external factors. Between 2008 and 2013, the decline in real estate prices was significant, while after Covid-19, prices tended to just stagnate and did not fall. The other difference is that the upheaval of the market was caused by policy mistakes - those of the FED, the neoliberal policies of many years and inappropriate policy decisions of the Central Bank between 2002 and 2012 and the Hungarian government between 2002 and 2010. At the same time, the development of the housing market in 2020 and 2021 was caused by external events - the pandemic and the closures - which cannot be influenced by economic development policies.

Housing prices after Covid-19 pandemic – a European comparison

According to Eurostat, Hungarian house prices have also risen rapidly compared to other EU countries. Between 2015 and 2021, Hungarian prices increased by 118 percentage points, while the EU average was "only" 40 percentage points. Even if we include other European countries, prices increased faster than in Hungary only in three other countries (Turkey, Iceland, Estonia). (See table 1!). If we look at the delated house price index, Hungary ranks first. We must add, however, that there are no data for Turkey and Iceland in this data set, yet Hungary outperforms Estonia.

Deflated house price index – according to Eurostat definition – “This indicator therefore measures inflation in the house market relative to inflation in the final consumption expenditure of households and NPISHs. Eurostat HPI captures price changes of all residential properties purchased by households (flats,

Table 1. House price index in 2021 Q3 (20215=100)		
	House price index	Deflated house price index
Turkey	527.62	-
Iceland	261.16	-
Estonia	256.31	131.62
Hungary	228.40	166.52
Luxembourg	223.81	156.52
Latvia	214.46	140.00
Czechia	210.70	160.56
Austria	208.92	137.51
Lithuania	208.26	141.86
Germany	193.10	141.19
Sweden	187.76	121,57
Norway	182.44	-
Slovakia	168.71	137.70
Portugal	163.91	154.74

Netherlands	157.13	146.77
Malta	152.68	126.36
Denmark	148.19	130.41
Poland	146.91	128.61
Ireland	146.48	132.87
Bulgaria	146.00	130.48
European Union	141.60	-
Belgium	141.04	115.51
Euro area	137.58	-
Euro area	137.32	-
Slovenia	136.66	140.13
Croatia	131.25	132.78
France	127.90	116.88
Finland	119.16	104.67
Romania	115.03	109.60
Spain	100.76	124.45
Cyprus	91.48	101.49
Italy	88.10	98.81

detached houses, terraced houses, etc.), both new and existing, independently of their final use and their previous owners."

Looking at the factors that explain the boom in the housing market between 2013 and today - rapid GDP growth, low interest rates, government subsidies - only one seems certain: relatively high GDP growth will continue to support the development of the housing market, but the MNB started to raise interest rates last summer, which will reduce the volume of mortgage loans. As for the government subsidy factor, it is not certain that the government can continue the policy of strong support in this segment, and the main subsidy schemes are about to expire, which means that this part requires government decisions. (The subsidy for green loans is limited to HUF 200+100 billion HUF, the "baby expect" program will expire at the end of 2020, and the "home renovation" program will also expire at the end of the year).Housing prices in 2022

As for expectations, experts predict a decline in real estate prices, some analysts even predict a sudden end to the boom in this market segment. Looking into the future, we should examine 5 factors:

1. Inflation,
2. Interest rates,
3. Demand-side factors (real wage trends, employment rates, etc.)
4. Real estate as an investment,
5. Supply side factors (new construction, government subsidy programs).

As for inflation and interest rates, it is clear that conditions point to a contracting housing market. On real wages, the signs are not clear, as real net wages grew 3.4 percent in 2021 compared to 2020, while earlier years showed stronger growth in real net wages. (See Table 2!) Looking at earlier years, we can see that there is a strong correlation between rising prices in the housing market and robust growth in real net wages. The period between 2014 and 2020 is a good example of real net wage growth coinciding with the housing market boom, while the previous period of low wage growth did not support housing market growth.

The fourth factor - the housing market as an investment factor - is more difficult to assess, as it also requires forecasts of the bond and stock markets as alternatives to real estate investment. The Hungarian stock market has robust growth in 2020 and 2021, but geopolitical uncertainties and the monetary tightening policy of FED point to choppy waters for this year. We should add that the war in Ukraine generally does not support long-term investments such as buying apartments and houses, so we can conclude that this factor does not indicate the direction in which the market is moving.

Table 2. Real net wages compared to previous year (%)	
Years	Change in percentage (100=previous year)
1992	98,6
1993	96,1
1994	107,2
1995	87,8
1996	95,0
1997	104,9
1998	103,6
1999	102,5
2000	101,5
2001	106,4
2002	113,6
2003	109,2
2004	98,9
2005	106,3
2006	103,6
2007	95,4
2008	100,8
2009	97,7
2010	101,8
2011	102,4
2012	96,6

2013	103,1
2014	103,2
2015	104,4
2016	107,4
2017	110,3
2018	108,3
2019	107,7
2020	106,2
2021	103,4
Source: Hungarian Statistical Central Office	

As for the fifth factor, which reflects the changes on the supply side, we can see that this depends very much on the decisions of the new government. Based on the communication of the new government, some forms of government subsidies will be maintained in this market segment. However, the question remains whether the government will be able to support this sector to the same extent as before. (The number of new contracts in the construction sector declined significantly in March, down 30 percent in March 2022 compared with March 2021.9.

Summary

Based on the indicators we have seen so far, we can conclude that the robust growth in housing prices will not continue. However, this does not necessarily mean that the numbers will collapse, as the final growth of the sector will depend on the intervention of the government and the financial incentives provided by the government.

The geopolitical uncertainty will also discourage people from borrowing money when necessary in these times, and they may postpone their real estate purchases. At the same time, investments in the stock market also seem to be becoming more uncertain than before, which could lead investors back to the real estate market.

Impact of the War in Ukraine and Western Sanctions on the Economy of Latvia（April）

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Summary

In Latvia, the average consumer price level in March 2022, compared to March 2021, increased by 11.5%. In turn, food, fuel and electricity prices accounted for two-thirds of total price increases. Individuals must prepare that sanctions, rising energy prices and rising food prices will lead to further price rises and possibly high inflation unseen for a long time. However, the biggest concern at the moment is the situation in the natural gas market - Latvia's dependence on Russian gas. For Latvia, it will be necessary to think not only about how to compensate for the increase in prices, but also to look for alternative sources of supply. Thus, minimal economic growth can be predicted this year, however, inflation and resource scarcity are curently the biggest challenges faced by Latvian economy. Forecasts suggest that this wave of inflation is expected to reach up to 15% and is unlikely to end without a recession.

Introduction

The restrictions previously caused by the pandemic and now the Russian invasion of Ukraine have led to an even sharper rise in world prices for food, energy and other raw materials. Inflation in Latvia has exceeded 10% for the first time since 2008. Everyone is facing rising food and energy prices on a daily basis, and people are worried about the future of the economy. This analytical economy briefing presents the latest statistics on changes in consumer goods, as well as assess potential threats and new perspectives at the individual and business level.

I Growing Inflation

As can be seen in Figure 1, annual inflation in Latvia reached 11.5% in March 2022 - the consumer price inflation has seen the sharpest rise since 1996.

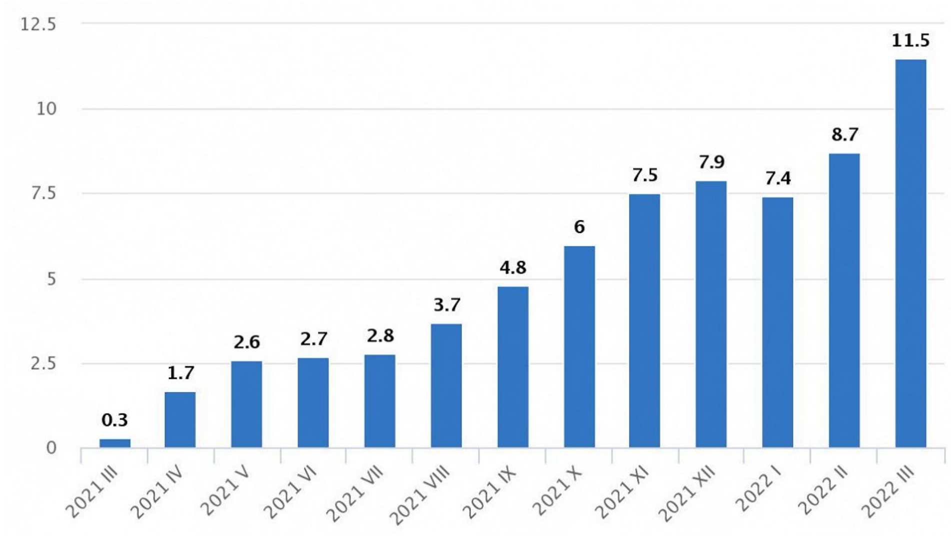

Figure 1. Percentage change in consumer prices in Latvia compared to the corresponding month of the previous year

Data: Central Statistical Bureau of Latvia, 2022

According to the data published by the Central Statistical Bureau in April 2022, prices in the group of food and non-alcoholic beverages increased by 14.7%. The average price level of alcoholic beverages and tobacco products increased by 4%.

The average price level of housing-related goods and services increased by 14.5%. The most significant price increase during the year was for heat energy and natural gas. In the health care group, the average price level increased by 5.5% during the year. Dental services, specialist medical services and pharmaceutical products have risen in price. Prices for transport-related goods and services increased by 22.9%, driven by a 43.3% increase in fuel prices. Diesel became more expensive by 45.7%, petrol by 40.5% and car gas by 35.8%. Average price levels increased for cars, maintenance and repair of personal transport equipment, and spare parts and accessories for personal transport equipment.

Goods and services related to recreation and culture increased in price by 4.2%. Recreational and sports services, pet food, flowers, toys, television subscription fees have become more expensive. Books and personal computers have become cheaper. In the group of miscellaneous goods and services, prices increased by 8.5%, which was significantly influenced by the rise in prices for personal care products and beauty products. Car insurance, hairdressing and beauty salons services also rose in price. In the other consumer groups, the most significant increase in prices fell on catering services, clothing, footwear and telecommunications services.

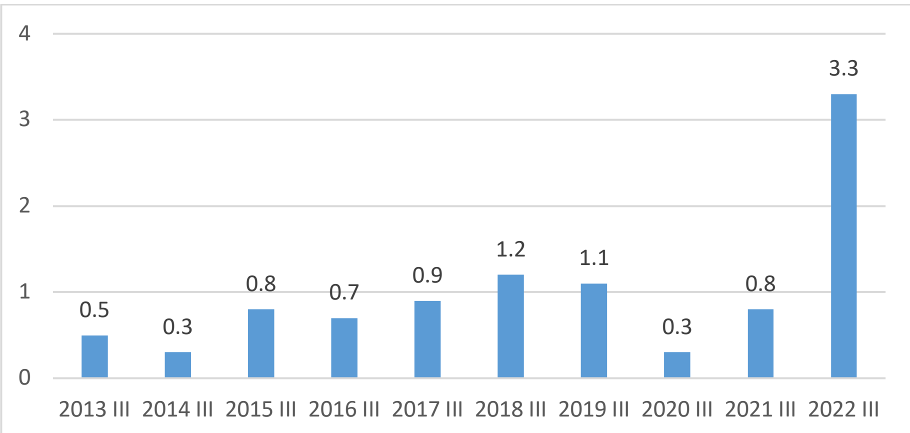

Figure 2. Percentage change in Latvian consumer prices compared to the previous month, 2013 - 2022

Data: Central Statistical Bureau of Latvia, 2022

As shown in Figure 2, in March 2022, compared to February 2022, the average consumer price level increased by 3.3%, the largest increase in the last 10 years.

The most significant price changes occured for good related to transport. Services became more expensive by 9.4%, mainly due to a 17.1% rise in fuel prices. Diesel prices rose by 20.3%, gasoline - by 15%, and car gas - by 2.5%. Currently, oil prices are directly affected by the Russia-Ukraine conflict. Passenger air transport, spare parts and accessories for personal vehicles have become more expensive.

Obviously, inflation in Latvia this year will definitely exceed 10%, and in early summer, inflation in Latvia may approach 15%, as in neighboring countries. At present, there is no reason to expect a decrease in food or energy prices in the world. The population of Latvia has significantly felt the ompact of rising prices for natural gas. Current natural gas prices are about five times higher than before, and heat prices are sure to rise in the autumn. Thus, the government will have to think about support measures, especially on the verge of Latvia's complete renunciation of Russian energy resources starting at the end of this year.

II Losses and New Perspectives for the Latvian Economy

In Latvia, several hundred companies that actively traded with Russia and Belarus before the war stopped their trade relations with these countries. Consequently, the direct effects of the cessation of trade will also be known. Unemployment will continue to rise. Despite the general shortage of employees, there are some companies whose exports are directly related to Russia and Belarus, and which may therefore find themselves in a state of insolvency.

The effects of the sanctions of the war in Ukraine will be felt in various sectors, from the wood industry to the textile and metalworking industries. If it is not possible to find alternatives to the supply of steel and other materials previously supplied from Russia within a reasonable time, production interruptions in Latvia could occur, harming both entrepreneurs and the national economy.

In turn, Latvian producers have the opportunity to replace the shares of Russia, Belarus and also Ukraine in European markets, to which these three countries do not currently actively export. Its areas are food production and agriculture, these are wood products and also the production of textiles. It should also be mentioned that the demand for firewood is also growing due to the high gas prices. This is another positive demand stimulus for the wood industry. The question of raw materials will be very crucial, namely whether they will be available to meet demand.

Entrepreneurs who had built up stocks of materials, for whom the price has risen sharply and availability has fallen, benefit in the current situation. Then the winners are those who said left Russian and Belarusian markets and cooperation partners after Russia's annexation of Crimea. Those are high-risk markets - this has been known for a long time. The winners are also those companies that have diversified their supplies, for example, purchased some materials not only in Russia, but also in other places. It is much easier for such companies to increase production volumes rather than starting from scratch due to the need to establish new suppliers.

Western-oriented companies are unlikely to experience the crisis as much. In addition, there is a possibility that some companies may grow strongly, start earning more and also increase their salaries. Demand in the West is likely to increase due to the current shortage of Russian, Belarusian and Ukrainian products in Western markets. And if demand is growing and Latvian companies are able to fill these niches, then it is even an opportunity in these times.

The effects of the war could also have a positive effect on companies operating in the fields of business services and information technology (IT). Many companies have left Russia, so it could be expected that part of the orders there will go to Latvian companies. The IT and business services sectors has always been interested in the Baltic Region, had a good growth forecast in the past and, thus, could even be benefitted by the war.

Conclusions

The crisis caused by the war in Ukraine and the sanctions imposed by the West are a loss for the Latvian economy as a whole. It is not so easy to find the industries that are gaining during this time. Very little economic growth is likely to continue this year, but the risks are very high and the economy may be in the red. As the geopolitical situation worsens, global crude oil prices have risen sharply. Sanctions are already being imposed on Russian crude oil products, which is also affecting the oil market, such as world crude oil prices. As a result, inflation is rising, including prices for goods and services. The population of the country will continue to experience the rise in prices of goods, energy resources and services in the coming months. The previously expected economic recovery after the end of the covid pandemic restrictions will not materialize due to sanctions against Russia, and it is still expected that economic growth in Latvia will remain low this year. However, it is difficult to predict how Western sanctions against Russia will affect the Latvian economy in the current conditions of war. However, the current events opens up new perspectives and opportunities for Latvian enterprises, to fill the niches previously occupied by Russian and Belarusian companies - in food production, forestry and agriculture, as well as in the field of IT and global business services.

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The Standard of Living is in Focus Again Trends in Public Finance (May)

Milika Mirkovic

Summary

During the previous period, public finances recorded favourable trends. The realized budget deficit is at a lower level both in relation to the planned deficit and in relation to the amount from the previous year. The growth of budget revenues, which was generated through the growth of revenues from Value Added Tax (VAT), corporate income tax and excises, along with reduced budget expenditures due to the reduction of capital expenditures, contributed to the reduction of the budget deficit. One of the important segments in the part of tax policy is the decision to reduce VAT on oil, flour and salt and reduce excise duties on fuel, in order to neutralize or mitigate the effect of rising prices on the living standards of citizens. The effects of these measures will only be visible in the coming period, both on the budget side and on the price side of these products.

Introduction

Since January this year, the economic program "Europe Now" has been implemented, which, among other things, includes a change in tax policy and the abolition of contributions for compulsory health insurance paid by employees. The application of this program has produced a number of direct and indirect effects on various segments of the economy and society.

Amendments to the tax regulations that imply introduction of progressive taxation on income and corporate income, increase in tax rates on dividends, interest, royalties and capital gains and reduction of the tax wedge by eliminating health contributions and personal income tax for salaries bellow the 700 EUR, affects budget trends. Some effects of the introduction of the program are already visible, while the delayed effects will only be manifested in the coming period, such as the impact on the functioning of the health system in Montenegro.

The change of government during the previous month, which includes a change in the organizational structure, where instead of the previous 12, the number of ministries was increased to 20, imposed the need for budget harmonization and technical rebalance to ensure the smooth functioning of public administration. This rebalance does not imply an increase in the budget, but only its redistribution in accordance with the new structure. Certainly, structural changes in government may affect the growth of expenditures and public spending, which may further reflect on the availability of budget funds in the coming period.

The main fiscal trends in 2022

During the first four months of 2022, the collection of budget revenues was higher than planned. Namely, the total budget revenue in the observed period amounted to EUR 598.6 million, which is 13.4% more than planned. Compared to the same period in 2021, budget revenues are higher by 21.5%. On the other hand, there was a decrease in budget expenditures in the comparable period by 0.2%. Compared to the plan, budget expenditures were lower by 7.3%. Although the planned budget deficit was at a much higher level, in the period January-April it was significantly lower and amounted to EUR 36.4 million. The growth of budget revenues was mostly contributed by the growth of VAT revenues, given that VAT has the largest share in total budget revenues (40.9%) and that VAT revenues were higher by 27.5% than planned. The growth of this category of income can be explained by the higher growth of prices in the previous period. According to MONSTAT data, the annual growth of prices in the first four months was 8.3%, and in April, when the highest VAT collection was realized, the annual inflation rate was at the level of 11.2%[1].

These data clearly indicate the significant role of price trends on the level of tax revenues, while higher budget revenues cannot be attributed to real growth in economic activity. The increase in fuel prices during the previous period also affected the level of excises, which also represent a significant item of budget revenues (the share in budget revenues is 12.7%). The annual growth rate of fuels and lubricants for personal transport equipment in April 2022 was 42.4%, which was reflected in the level of excise revenues, which in the first four months was higher by 31.1% compared to the same period last year. In addition, in the observed period, there was an increase in revenues from corporate income tax of 21.4% compared to January - April 2022. On the other hand, due to the amended legislation regarding the taxation of personal income under the economic program "Europe Now", personal income tax revenues in the first four months of 2022 decreased by 10.8% compared to the same period in 202 and by 20.3% in comparison to the planned revenues. The program and changes in tax policy have also affected revenues from health insurance contributions, which brings new challenges for the functioning of the entire health system. During the observed comparative period, health insurance contributions decreased by 64.4%. However, compared to the planned revenues, they were twice as high in the first four months of 2022.

On the other hand, budget expenditures in the period January-April 2022 were slightly lower compared to the previous year, while they were lower by 7.3% compared to the planned expenditures. Almost all categories of budget expenditures recorded a lower level compared to the plan, but the largest difference was realized in capital expenditures and transfers for social protection (35.8% and 29% of the total amount of deviations from the plan, respectively). The reduction of investment activity, rights in the area of pension and disability insurance and the field of social protection have contributed to lower budget spending, which consequently leads to a

[1] https://monstat.org/uploads/files/Bilten/2022/05/4.pdf

more favourable ratio between budget revenues and expenditures compared to the plan.[1]

Reduction of excise duties and VAT

Significant price increases during the previous period, especially food and fuel prices, affected the decline in real income and living standards of citizens. Therefore, in order to mitigate the impact of rising prices, the Government changed the tax regulations, which means reducing excise duties on fuel and VAT on oil, flour and salt. Namely, the new amendments to the Law on Excise Duties envisage the possibility of reducing the amount of excise duties on fuel by up to 50%, and therefore the amount of excise duties has been reduced by 40%. In addition, according to the amendments to the Law on Value Added Tax, the temporary abolition of VAT on flour and oil is envisaged, i.e. its reduction from 7% to 0% and the reduction of VAT on salt from 21% to 7%.

However, this tax reduction can be observed only in a certain period, since the trends of prices is influenced by the trends of supply and demand in the international market. According to estimates, further price increases can be expected, which may nullify the effects of the measures on living standards. In addition, an important segment of VAT reduction is the adjustment of prices by traders to new changes in the tax rate, because in fact the impact of these Government measures will depend on this adjustment. Measuring and assessing the effects of measures is very difficult, given the constant changes in the food and energy market. In any case, these changes will neutralize or mitigate the negative impact of rising prices on the living standards of the citizens, at least for a certain period and when it comes to fuel prices.

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[1] Source of data: Ministry of finance of Montenegro, https://www.gov.me/clanak/izvjestaj-o-izvrsenju-budzeta-crne-gore-za-januar-april-2022

Challenges in the health system

The change in tax regulations in the direction of abolishing health insurance contributions paid by employees, has had the effect of reducing revenues on this basis. As noted, income from contributions decreased by 2.8 times compared to the previous year (January - April 2022 compared to January - April 2021). Reducing the revenues from which the functioning of the health system is financed can affect the availability and quality of services of the entire system. If the debt of the Health Insurance Fund from previous year is added to this challenge, then the functioning of the system is even more questionable.

The question remains how the funds in the budget will be replaced: will the funds be provided through borrowing or will the funds be redirected from other budget units, which will further lead to the elimination of some other forms of spending.

Although during the previous period there were favourable trends in public finances which were reflected in higher budget revenues with a lower level of budget expenditures compared to the plan and the level of the previous year, in the coming period a budget rebalance can be expected to ensure smooth functioning of public finances. Revenue growth largely depended on rising prices and changes in tax policy. First of all, the growth of health system debt, but also other challenges in public finances caused by external influences on economic activity, which in turn affects the trends of budget revenues, as well as new decisions regarding VAT and excise are some of the reasons for a possible rebalance. In the end, this may further imply new borrowing.

Early Assessment of the Economic Consequences of the War in Ukraine (March)

Gjorgjioska M. Adela

Summary

The war in Ukraine and the various sanctions and counter-sanctions taken in its response have threatened to extend and deepen the economic turmoil that had been left by the Covid-19 pandemic. On the 8th of March, N. Macedonia was added to the list of countries and territories that had taken "unfriendly actions" against Russia, following the Government's decision to join the EU's package of sanctions. It was expected that companies from the agricultural and food sector would be immediately affected by these moves. On a macroeconomic level, it was predicted that the economic consequences would be strong, would come from both direct and indirect shocks and would result in a stagflation. The main hit was expected to arrive as a spill-over effect of the negative impact over the EU economies with which the country has strong economic interdependence.

On the 8th of March, N. Macedonia found itself on Russia's list of countries that had taken "unfriendly actions" against the country, its companies and citizens. The move followed the Government's decision to join the EU package of sanctions against Russia on the 28th of February.[1] As a result Macedonian companies became subject to certain restrictions related to their relationships with Russia, including trade and currency restrictions. Inevitably, this was expected to influence the country's trade with the

[1] North Macedonia joins EU's package of sanctions against Russia, published on 24.02.2022, available at

https://europeanwesternbalkans.com/2022/02/24/north-macedonia-joins-eus-package-of-sanctions-against-russia/ accessed on 12.04.2022

Russian Federation, which amounts to around $200 million a year. Last year, it amounted to 233.5 million dollars and Macedonian companies exported $57.1m worth of goods to this market. Moreover, goods worth $176.3 million were bought from Russia. In 2021 Russia participated with 0.7% in the country's total exports, and Ukraine with 0.2%. Russia accounted for 1.7% of imports and Ukraine for 1.5%.[1]

The country mostly imports energy from the Russian Federation, some raw materials and metals, and directly exports agricultural and food products. However, the indirect export of products produced in the country is far greater, considering that part of the products produced in the country is first imported by third countries and then exported as a finished product on the Russian market. Nonetheless, if we consider the total amount of trade with Russia, the number is not large, but for the Macedonian economy every export and market is a plus, especially in the vulnerable post-pandemic period. In terms of the structure of exports to Russia, particularly at risk will be producers of peaches, nectarines, apples, early cabbage and other agricultural products that will have to look for business partners from other countries, which is not easy to achieve in the short term, in spite of the growing demand for agricultural products in the world. But not only that, farmers will also face a shortage of fertilizers, which are imported from Russia and Ukraine. The price of fertilizers will increase, and this will affect the annual agricultural production. "Due to the costs, a large part of the farmers will reduce their production areas or will give up production. Of course, this will be a problem not only for their existence, but also for

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[1] What economic consequences will Macedonia suffer after the war between Ukraine and Russia?, available at

https://bankarstvo.mk/%D0%BA%D0%B0%D0%BA%D0%B2%D0%B8-%D0%B5%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D1%81%D0%BA%D0%B8-%D0%BF%D0%BE%D1%81%D0%BB%D0%B5%D0%B4%D0%B8%D1%86%D0%B8-%D1%9C%D0%B5-%D0%BF%D1%80%D0%B5%D1%82%D1%80%D0%BF%D0%B8/, published on 24.02.2022, accessed on 12.04.2022 the supply of the domestic market, as the prices of horticultural crops will grow", representatives from the Union of Agricultural Producers have said.

According to the businessmen, it will be far more difficult to return to the Russian market after the sanctions, since it is very likely that Russia will not be willing to resume cooperation with the countries participating in the sanctions.[1] "The exclusion of the Russian Federation from the SWIFT banking system for international payments will simply freeze all trade and economic relations with this country. Given that N.Macedonia is completely dependent on Russia for gas, and is a significant importer of other energy sources and raw materials from the Russian Federation, it can be predicted that there will be significant consequences for Macedonian companies, which will directly affect the standard of citizens," said Dejan Beshliev, executive director of the Macedonian-Russian Chamber of Commerce.[2]

The immediate effect of the escalation of the conflict will be the rise in the prices of oil derivatives, the price of natural gas, and thus the price of electricity, which will directly affect businesses and households. The rise in the prices of petroleum products will be reflected in the liquid household fuels, fuels and lubricants for vehicles, and transport service, all of which form part of the living index through which inflation is measured. In view of this, it is highly likely that inflation will continue to rise above the 6,7% and 7,6% measured in January and February respectively.[3] The Vice Governor of the National Bank, Ana Mitreska, confirmed that one of the

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[1] "How much will the sanctions with Russia cost us? Businesses will be unable to recover for years", published on 01.03.2022, available at https://plusinfo.mk/kolku-e-n-chinat-sankciite-kon-rusi-a-duri-i-denes-da-zavrshi-vo-nata-biznisite-ne-e-mozhat-da-se-oporavat-so-godini/ accessed on 10.03.2022

[2] Ibid

[3] Inflation of 7,1% on average in January and February, available at https://faktor.mk/inflacija-od-71-otsto-prosek-za-januari-i-fevruari---zasega-ne-se-menuva-kamatata-na-narodnata-ban accessed on 03.03.2022

direct immediate consequences of this crisis will be the rise in prices of basic products, energy, wheat and metals. "Last year we were exposed to rising global prices. This crisis is further putting pressure on primary products. Not just for our economy, but for everyone. Our inflation projections are accompanied by upward risks and upward inflation adjustments. What the outcome will be is determined by the duration of the crisis", Mitreska added.[1]

Additional risks stem from the existing energy crisis, which even before the start of the war in Ukraine had drained the 5,2 billion denars in funds allocated for the management of the energy crisis and the accumulation of commodity reserves. These funds have already been spent, which means that new public debt will have to be incurred for the purchase of wheat, oat and oil reserves, for all of which there is currently a shortage in the country.

These are not the only consequences that are expected. The sanctions and the continuing conflict in Ukraine is also expected to influence the industry of automotive components in the country. At least 5 companies from this industry have a direct connection with their factories in Russia and Ukraine, from where they receive or send components that are installed in cars. The Russian market is one of the largest for car sales, and a number of brands have stopped deliveries for this market due to the sanctions. This is particularly concerning in view of the large share of exports that is accounted for by this sector of the economy. In spite of the crisis, in 2020 automotive components were responsible for nearly half of total exports. Since 2009, the automotive components industry has contributed 70,1% in the overall growth of exports in the country. The consequences of the sanctions will also have an impact on the air traffic in the country, and with it the tourism sector that was hoping for a breakthrough on the Russian market. The government has already announced that it has banned Russian

[1] "The war in Ukraine will bring a new shock to the Macedonian economy", published on 01.03.2022, available at https://faktor.mk/kje-poskapuvaat-hranata-i-strujata-vojnata-vo-ukraina-nov-shok-za-makedonskata-ekonomija accessed on 05.04.2022

planes from landing in the country, and that the Skopje-Moscow air-line will have to cease to operate.[1]

The main hit however is expected to arrive as a spill-over effect of the negative impact over the EU economies with which the country has strong economic interdependence. N. Macedonia exports 77% of total exports to the EU and imports 46% from the EU. The high rise in the prices of electricity, gas, the rise in the prices of oil derivatives, the rise in the prices of food will undermine the purchasing power of the EU population. In parallel with increased consumer abstinence due to the conflict this will be reflected in low demands for products and services, all of which will have a negative impact on the Macedonian economy. As a result, the indirect effects are expected to be huge, and will result in the reduction in both exports to the EU and investments (to and from the EU), reduction of remittances of emigrants to the EU, and thus the disposable income of households. In turn this is likely to deal a heavy blow on personal consumption, which has already been undermined by inflation and rise in energy prices. All of these factors will have an impact on the growth of the economy. Combined with the high and rising level of inflation, this means that the country has already entered into a period of stagflation.

[1] Ibid

National Bank of Poland: Inflation in 2022 at 14.3% (July)

Konrad Rajca

Summary

The National Bank of Poland (NBP) has presented forecasts for inflation in Poland, which is expected to be around 14.3 percent in 2022. According to NBP President Adam Glapinski, the main reason for the rising inflation in Poland is the increase in raw material and food prices caused by the war in Ukraine. 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.

Introduction

The latest forecast by the National Bank of Poland (NBP) puts consumer inflation at 14.3 percent in Poland in 2022, in 2023 it will be at 12.3 percent, and in 2024 it will be 4.1 percent. Despite better-than-expected economic data earlier this year, the NBP report published in mid-July downgraded forecasts for Poland's economic growth. According to the central bank, signs of a slowdown in the labor market are intensifying.

The war in Ukraine is raising inflation

Inflation in Poland with a 50% probability in 2022 will be in the range of 13.2-15.4% (vs. 9.3-12.2% in the March projection), the NBP estimates in a published report. The middle of this range is 14.3 percent, significantly higher than the 10.75 percent projected back in March. "The change in expectations between forecasting rounds was significantly influenced by the course of Russia's military aggression against Ukraine and its impact on the economy, " the report reads.

According to the NBP's forecasts, next year consumer inflation will begin to fall, but price growth in Poland will remain at double-digit annual levels. The NBP's projection assumes that the anti-inflationary shield (cuts in taxes and excise taxes on fuel and energy) will be in effect until October 2022, which will lower consumer inflation by 3.2 percent relative to the scenario without the shield. Inflation in Poland, according to preliminary data from the Central Statistical Office (CSO), rose to 15.6 percent in June 2022.

The latest NBP forecast calls for core inflation of 8.9 percent in 2022, 7.5 percent in 2023, and 4.2 percent in 2024. Core inflation refers to prices that are influenced by the central bank (as opposed to, for example, commodity prices, which depend on the situation on global markets).

To put the brakes on price increases, the Monetary Policy Council since October 2021 has raised interest rates 10 times. During this time, the reference rate has risen from 0.1 percent to 6.5 percent.

Higher energy prices due to ban on coal imports from Russia

"The direction of higher energy prices is influenced by the April 13 law banning coal imports to Poland from Russia and Belarus, as well as the May 13 resolution adopted by the Polish government to terminate the agreement on Russian gas supplies from Russia. Poland has de facto stopped importing natural gas from Russia since April 27 this year, after Gazprom unilaterally broke the Yamal Contract, which was due to expire at the end of 2022." - reads the report.

"The continuation of Russia's military aggression against Ukraine, resulting in a strong reduction in the supply of some agricultural goods on world markets, has simultaneously influenced an increase in the food price inflation forecast. The revision is also the result of further increases in agricultural production costs, which include higher prices for feed grains and fertilizers (of which Russia and Belarus are major exporters) and energy. Rising production costs and prices of imported goods and services also translate into an upward revision of core inflation in 2022-2023." - NBP emphasizes.

Lower GDP growth

The NBP's July forecast calls for Poland's GDP growth in 2022 at 4.7 percent, in 2023 at 1.4 percent, and in 2024 at 2.2 percent. As the NBP points out, the downward revision of the GDP forecast is influenced by interest rate hikes and slowing economic activity abroad, among other factors.

According to the NPB, signs of a slowdown in the labor market are also intensifying in Poland, and demand for workers is likely to weaken. In May, the NBP points out, stagnation was evident in terms of employment dynamics. "The second surprise was lower wages. (...) This is the first time that wages turned out to be below market expectations, and this may suggest that this pressure is no longer growing so strongly," - Jacek Kotlowski, deputy director of the NBP's Department of Economic Analysis and Research, said at a press conference.

The National Bank President: inflation will return to standard levels in 2024

The Monetary Policy Council will raise interest rates if inflation rises; however, I hope it will not have to do so; Poland may experience a technical recession, National Bank of Poland (NBP) Governor Adam Glapinski said at a press conference in mid-July. He said that inflation should fall sharply next year, and in 2024 reach the upper band of deviations of the NBP target, i.e. 3.5 percent of its level.

The situation is serious: we have a war across our border, we have an unspoken war through energy commodity prices by Russia," Glapinski said. The inflationary shock immediately after the pandemic was predictable, but it was wildly amplified by Russia's subsequent actions. The shock occurred because as a result of the pandemic we had supply barriers, shortages, bottlenecks - transportation, energy, rare metals and so on," he said.

He also referred to accusations that he delayed a long time in responding to rising prices. Initially, after the pandemic, many signals pointed to a temporary increase in inflation. I actually said so, on behalf of the National Bank of Poland (...) This is what all the central banks and all the international financial institutions said, that we are dealing with a temporary increase in inflation," he explained.

In his opinion, high inflation is global in nature. Unfortunately, it does not bypass Poland either. There is nothing we can do about it," said the National Bank of Poland president. He calculated that internal factors account for no more than 1/4 of inflation in Poland, and 75 percent is external.

Glapinski: I don't expect a recession in Poland

Glapinski explained that at meetings with central bank governors and international organizations, informal votes were taken on who expects a recession. As he stressed, more than 90 percent expect a crisis. I voted against, because in Poland I do not expect a recession. A technical recession is possible, for two quarters GDP may have negative growth. But this is not a recession," he said.

The NBP president reiterated that, according to the monetary authorities, the dynamics of price growth will peak during the vacations, and then gradually decline, including next year "significantly." He noted that the forecast for 2023 could be lower if the government extends the so-called anti-inflation shield.

Interest rates will be raised as long as inflation continues to rise

Forecasting the end of interest rate hikes, Glapinski said that "we are nearing the end of the monetary tightening cycle, although we haven't necessarily reached it yet." I would like that not to be the case, of course. I would like to see the process of lowering inflation rates begin after the vacations, but this is a conditional assessment. Further decisions will always be made based on an assessment of incoming new data and forecasts. If inflation persistently continues to rise, we will raise rates. If it doesn't rise, we won't," the NBP president explained.

He explained that the weakening of the current zloty exchange rate flows from the tightening of monetary policy by the US Federal Reserve. What we are seeing now is a rise in the dollar against the euro, and we have a weaker exchange rate together with the euro. These are global processes in the global economy in the global financial market," he said.

Adam Glapinski also said that when selecting the new NBP president there was "tremendous pressure from one of our neighbors" to bring Poland into the eurozone. According to him, the idea was to elect a candidate who would be in favor of the euro. He later admitted that it was about Germany. As long as I am the president of the NBP Poland will not join the eurozone, he announced.

Conclusion

NBP forecasts indicate that Poland will record double-digit inflation by the end of 2023. Its level will be one of the higher in the European Union. This is due to both internal factors (the NBP's delated response to the rise in inflation) and, above all, external factors caused by the rise in commodity and food prices due to the war in Ukraine. Inflation is also affected by the increase in gas and coal prices caused by the shift away from imports of Russian raw materials. High inflation will be accompanied this year by relatively high economic growth, which, however, will begin to decline significantly starting next year.

Major Changes on the Motor Third Party Liability Insurance Market in Romania (April)

Oana Popovici

Summary

After the bankruptcy of City Insurance in September 2021, the largest provider of Motor Third Party Liability (MTPL) insurance on the Romanian market, the prices for this mandatory policy increased significantly. A draft law for capping the prices at reference rates imposed by Financial Supervisory Authority (FSA) for six months is under approval in the Parliament, for restoring the situation on the market and providing stability. Moreover, a new state insurance company is about to be launched in the summer, under the coverage of CEC Bank. The new player is set to sell a wide range of insurances, but it is expected to act especially in the MTPL area, for restoring price balance and adding quality on the market.

A law regarding the capping of the prices for the MTPL compulsory insurance at the reference rate established by the FSA is under adoption in the Parliament. The aim is to protect consumers and ensure the stability of the market. FSA, which is the initiator of the draft law, motivates that the capping of tariffs is temporary, for a period of 6 months, due to the accelerated upward evolution of premium rates charged by MTPL insurers and the classification of a large number of MTPL policyholders in the category of high-risk insured (specifically, policyholders who receive offers from at least three different insurers for 12 months that are 36% more expensive than the reference rate). The institution proposes differentiated rates for individuals and legal entities, depending on the purchasing power of each category and the degree of risk to which it is exposed. The request for capping comes after FSA found some speculative activities on the market after the bankruptcy of City Insurance, with prices 30-45% higher than the average rates on MTPL policies. Under these circumstances, the

FSA reference tariff becomes a threshold that can no longer be exceeded by insurers when setting the price for the MTPL policy. The insurer calculates an insurance premium so as to cover all the obligations arising from the conclusion of the MTPL contracts, without exceeding the value of the reference tariff established by FSA. Currently, the reference rates are neither minimum nor maximum rates, but only benchmarks for insurers who provide MTPL policies, but also for those insured. Therefore, insurance companies set their own rates based on these benchmarks.

The price of MTPL policies has risen sharply in 2021, the main cause being the insolvency, in September, of City Insurance, the market leader at the time in terms of MTPL insurance, with a share of over 45%. FSA withdrew the operating license of City Insurance after finding irregularities with regard to policy settlements and delays in the payment of claims. In addition, the company had not complied with insurance legislation for a long time. As such, FSA requested the opening of bankruptcy proceedings against the company after, six months before, it had filed a complaint with the prosecutor's office. Prior to the bankruptcy, the company was the market leader in the field of MTPL insurance, with over three million policies.

Although the gap left by the company was immediately filled by the rest of the insurers, the price of the policies increased. At the end of last year, the average prices for MTPL was, on average, higher by over 30% for young drivers (maximum 30 years) and by 12.3% for trucks with a mass equal to or greater than 16 tons. Other calculations showed that in the case of young drivers, prices have risen by between 45% and 103%. Several transport unions have called for a capping decision as a matter of urgency.

However, several players in the insurance market said that, most likely, the policies will become more expensive again at the end of the six months, because no insurer will want to sell at a loss. The decision of the MTPL price cap will actually have a boomerang effect, as in 2017, when prices were forcibly lowered by the Government for six months, and subsequently, after the cap expired, the price of the insurances doubled. Insurers indicate that the Government cannot impose a lowering of the insurance price if a similar intervention is not it followed by a freeze in the prices charged by car services. Measures such as capping the MTPL price cannot be a medium- or long-term solution. Insurers consider it imperative that these solutions be based on well-founded technical analysis for customer protection, so as not to affect the ability of insurance companies to play their most important role: timely payment of compensation to road accident victims. In addition, they ask for stability and predictability on the insurance market.

In addition, the increase in compensation costs is among the cause of the increase in MTPL prices, as the paid average damage has grown significantly over the last few years. The combined damage rate for car insurances (MTPL and Casco) has increased alarmingly in 2021 compared to previous years and is reaching record levels, according to the annual report of the FSA. Thus, the combined rate of MTPL damage hit a record level of over 160%, compared to 122.12% in the previous year. This means that for every RON 100 received, the companies that sell MTPL policies paid RON 160 for damages, taxes and marketing and sales expenses. In other words, they lost RON 60 for every RON 100. All the companies authorized by FSA to practice MTPL policies had supra-unitary combined ratios.

Moreover, the MTPL market continue to remain highly concentrated. At the moment, there are 8 actors. The more a market is covered by more competitors, the more likely it is to create a dispersion of risk. FSA stated that the excessive concentration on the MTPL market in recent years is gradually starting to decline, following the bankruptcy of City Insurance. Now, the market share of the most important player (Euroins insurance company) has increased only marginally, from 35.4% in 2021 to 37.6% at the end of January 2022. The second player has a market share of 18.7%, followed by 14.5% for the third largest company. City Insurance provided policies at very low prices and unsustainable rates, as later seen. The same price level was at Euroins, which, after the problems at City, significantly increased its MTPL prices and came with capital increases of over RON 500 million to recover financially. In short, MTPL prices have become very close among insurers in the market, which can explain this increase in the market share of other companies. The situation was even more concentrated at the end of the first quarter in 2021, when the top two insurers at the time - City Insurance and Euroins - gathered about 77% of Romania's MTPL insurance contracts. Euroins, back then the second player, had 31.17% of the MTPL market, followed by the third and fourth largest players with only 6% of the market.

After the insolvency of City Insurance, the discussions about the launch of a state insurer reappeared, an idea that has been circulated in the last at least 5 years. The insurer with state capital is going to be established through CEC Bank, where the Ministry of Finance is the main shareholder. It is very possible that the new player will start its activity this summer, as all the steps are taken, according to the legislation, for CEC Bank to sell a wide range of insurances, not only MTPL policies. There is already a state-owned insurer on the market, Eximasig, controlled by Eximbank, but the company has a limited activity, being specialized in guarantee insurance, commercial credit insurance and other types of products for companies and especially for those who practice export-import activities.

The entry of the future insurer controlled by CEC Bank is expected especially in the MTPL area, where the market feels an acute need for competition, but MTPL will not be the favourite target, at least in the first phase. Most likely, the company will focus on insurance related to credit and savings products, which can be provided together with other banking products. However, analysts consider that CEC Bank can also enter the MTPL segment profitably, especially since it benefits of a large branch network. If it were to develop a product suitable for online sale, the advantage of CEC would be significant, given that the costs of insurers with the distribution MTPL policies are around at least 13-15%. Thus, a new player active in the MTPL area will mean an increase in competition and a halt to the price increases after the bankruptcy of City. Moreover, a new player will bring an extra quality in this area.

The emergence of a state insurer can bring some balance to this market. Any new company is welcomed in a segment that is getting narrower and narrower, according to the analysts. Therefore, the higher the competition, the more the consumer has to gain. In addition, economists are optimist that if the new state company manages to strike a balance between premiums and risks, while there are harmonized rules for all players and an authority referee who oversees compliance with the rules, there will be a functioning MTPL market.

Ukrainian Crisis and Serbian Economy (March)

Ivona Ladjevac

Summary

At its session held on March 9, 2022 the European Parliament has adopted the resolution “Foreign interference in all democratic processes in the European Union”. Among many dubious parts, there is a segment of the resolution blaming the Orthodox Church to “promote Russia as a protector of traditional family values and fortify relations between state and church”. As expected, such content caused widespread odium in Serbian society and especially within the Serbian Orthodox Church which promptly reacted Summary

The Ukrainian crisis and the fear of the energy crisis caused by the events in Ukraine led to the real explosion of the energy prices. As expected, the increase in these prices also caused an increase in food prices, production and transport costs. In order to support the economy, Serbian government has adopted a package of measures which, among other, consists of limited food and oil prices. It is assumed that these measures will have positive effect both on inflation and on the cost of production.

Inflation rate and economic growth

Corresponding to Serbian government “economic” response to the Ukrainian crisis, a stable supply of gas and oil can be assumed, as well as a milder rise in oil prices, given that the government has decided to freeze the rise in oil prices and reduce excise duties by 20% on leaded gasoline, unleaded gasoline and gas oils, while 60% of gas prices fixed at $ 270, and 40% of the price is market-defined. It is expected that this crisis will have the greatest impact on inflation growth, and to some extent on the slowdown in economic growth. Speaking of the exchange rate, the maintaining of stability is expected even if a slight slowdown in foreign exchange inflows (foreign direct investment and remittances) occurs which would be result of temporary inclination of companies to invest in the country.

The scenario of a stable exchange rate is based on the National Bank of Serbia's commitment to the policy of minimizing exchange rate volatility. Forecasting inflation and GDP growth is quite challenging in these highly volatile conditions, but this forecast reflects Government measures and market conditions on possible price and GDP developments. Along with that, the inflation growth forecast has been increased to 6.5% from 3.5%[1] in 2022. Still, the risks of rising inflation in 2022 are quite high and include: a) rising gas prices, in the market-determined part (40%), b) problems in the supply of semi-finished products and raw materials, c) spillover of inflation growth in the Euro area over import prices on domestic inflation, e) growth of prices of primary agricultural products on global markets and prices of fertilizers, as well as e) growth of metal prices.

Positive impacts, in terms of calming inflation growth, can be expected from the good agricultural season, a package of measures adopted by the Government to calm the rise in food and energy prices, but also in calming the Ukrainian crisis, which would lead to a drop in premiums for oil and gas shortages and eventually slowing down the growth of energy prices. Although the good agricultural season and the above-mentioned measures of the Government will have an anti-inflationary effect, better yields of basic agricultural crops will not be able to stop the growth of food prices to a greater extent, unless the growth of input prices slows down. Furthermore, this crisis will slow down GDP growth, so the growth projection has been adjusted to 3.3% for 2022 from 4.5%.

[1] The original inflation projection. See more: "Target and actual inflation", the National Bank of Serbia, https://nbs.rs/en/ciljevi-i-funkcije/monetarna-politika/inflacija/projekcija-inflacije/index.html, accessed on 30/03/2022.

Among factors that will slow down the GDP growth are: a) higher production costs, b) high prices that will reduce disposable income for consumption and c) a possible temporary decline in consumer and company confidence in terms of the outcome of the current crisis and the effect on the economy, decreased investment activity and decreased citizens consumption.

Due to the Governments' adopted measures, a slight increase in the budget deficit is expected, although due to the conservative spending policy in 2021, and created space for financing all measures, the deficit will not exceed the level of 2020 or 2021.

Ukrainian crisis will, at least temporarily, cause a slightly lower level of foreign direct investment, mostly due to the temporary postponement of all investment decisions, until investors estimate the course of the crisis and the prospects for its ending.

Seasonal growth in fruit and vegetable prices, as well as rising oil prices, boosted inflation to 8.8% in February. The key driver of the monthly inflation growth of 1.1% per month, after 0.8% per month, were the prices of food and non-alcoholic beverages (+ 2.0% per month, after 1.4% per month in January), more precisely the prices of vegetables and fruits, whose growth was seasonal, while other products had very moderate growth. Thus, the Government's decision to limit the prices of key food products (sugar, meat, milk, bread, edible oils) is clearly yielding results. Prices of alcoholic beverages and tobacco increased (+ 2.6% per month) after an increase of 0.1% in January, transport prices increased by 1.6% per month (January: +1.0 per month) as the decision of the Government on limiting oil prices to 30 days passed in mid-February. Health prices rose by 1.2% per month (January: + 0.4% per month). At the annual level, inflation is quite high (+ 8.8%), after 8.2% in January, supported by the prices of food and non-alcoholic beverages (+ 15.2%), transport (+ 13.3%), alcoholic beverages and tobacco (+ 7.0%), and equipment for housing and current maintenance (+ 5.9%).

The government has introduced various measures to help citizens and companies cope with rising energy and food prices, including extending the Decision on limiting the growth of key food prices until the end of April, plus introducing a package of fertilizer measures (subsidizing interest rates on commercial bank loans). For fertilizers, abolition of customs duties of 10% on imports of fertilizers), extension of restrictions on growth of electricity prices for the real sector until June, extension of restrictions on growth of prices of petroleum products Euro diesel and Euro premium BMB 95 until the end of April, temporary reduction of excise duties by 20% on lead and unleaded petrol and gas oils (until the end of the year), introduction of a temporary ban on the export of wheat, corn, flour and sunflower oil.

However, industrial producer prices continued to rise in February (+ 12.3% year on year), after 11.5% in January. The oil price per barrel (BRENT) forecast of the RBI survey is currently set at \$ 100 (end of year) and is expected to reach a max level in the second quarter (\$ 120). Regarding core inflation, growth dynamics remained stable in February (+ 4.4% per year) after 4.1% growth in January, as a result of a stable exchange rate and still anchored inflation expectations in the medium term. The current jump in gas prices certainly has an impact on the local market, but compared to markets in the region, it is still a smaller blow, as 60% of gas prices are agreed at a level below current market prices.

However, oil prices have a negative impact on retail prices, because the limit on price growth was set at a time when prices were already quite high. Although the NBS expects inflation to slow from March and end the year within the inflation target (3% +/- 1.5 pp), major uncertainties are obvious in this regard caused by the events in Ukraine, which will result in higher inflation than expected before the beginning of this crisis. This is especially due to: a) spillover of inflation growth in the euro area through import prices to domestic inflation, b) bottlenecks in the supply of semi-finished products and raw materials, c) rising prices of primary agricultural products on world markets and fertilizer prices, e) rising metal prices. Although a good agricultural season will have an anti-inflationary effect, it will not be able to stop the growth of food prices to a greater extent, unless the growth of input prices slows down at the same time.

Monetary policy

The National Bank of Serbia (NBS) kept the key rate at 1%, supporting the continued tightening of monetary conditions through an increase in the repo rate on reverse repo auctions and the withdrawal of excess liquidity from the banking sector. The weighted average rate at repo auctions increased from 0.11% (early October, when a more restrictive monetary policy was launched) to 0.91% at the last auction, supported by increased cost pressures in local and international markets, the need to influence inflation expectations and limit the effect of the second round of price growth on other products and services.

The NBS is aware that the events in Ukraine will affect the slowdown in global economic growth, as well as the growth of key foreign trade partners of Serbia and the inflation path (through rising energy and food prices). However, the NBS expects a slowdown in inflation in Serbia from March to the central value of inflation targets (3% +/- 1.5pp) by the end of 2022, supported by a package of previously adopted administrative measures and recently limited growth in electricity prices for the real sector until June, as well as oil prices. Furthermore, the NBS expects that a stable exchange rate and a better agricultural season will support the slowdown in inflation dynamics. When it comes to fundamentals, the NBS is pleased with the development and does not feel concerned about the fall of the manufacturing sector in January, justifying it by bottlenecks in global supply chains.

Consequently, the NBS maintained its GDP projection at 4-5% in the medium term, supported by infrastructure investment and personal consumption. However, the institution recognizes current short-term risks that could affect the economies of key foreign trade partners of Serbia, and through this channel the economy of Serbia. Still, key rate forecast for 2022 can remain unchanged at 1.25%, assuming only one increase, despite expectations that inflation will be significantly higher this year compared to projections before the outbreak of the Ukrainian crisis. The reason for this is the new economic growth forecast, which predicts a slowdown in GDP growth from 4.5% to 3.3% and which supports keeping interest rates low in order to avoid a stagflation scenario.

Conclusion

Responding to the Ukrainian crisis, Serbian Government so far has introduced package of different measures aimed to reduce Ukrainian crisis effect primary on the inflation and monetary policy, but also to the economic growth which is expected be much lower, mostly due to a slowdown in the growth of the manufacturing sector.

The Effects of the Russo-Ukrainian War and COVID-19 Epidemic on The Slovenian Economy in April 2022 (April)

Gašper Pirc

Summary

Before the parliamentary election on April 24, 2022, after which Slovenia may get a new government, the Slovenian economy – the achievements in the sphere of which have been regarded as one of the stronger elements during the term of the current government – has been shaken by the effects of the Russo-Ukrainian war and economic sanctions against Russia. At the same time, the effects of the COVID-19 epidemic still affect the economy, but as the restrictions are progressively being reduced, the business world is preparing itself for a full restart of post-COVID-19 economic activities.

Background: Economy after the COVID-19 pandemic and amidst the Russian invasion of Ukraine

For almost two years, the Slovenian economy has been heavily affected by the COVID-19 crisis and its effects, which have been, for example, clearly visible with the crisis due to the rising energy prices which started in the second half of 2021.

In February 2022, Russia invaded Ukraine in what has been considered one of the most important and far-reaching events in recent years. The almost unanimous support for the Ukrainian struggle from the member states of the European Union has been concretized in heavy (economic and political) sanctions against Russia, which, on the other hand, are already affecting the previously somewhat compromised economy.

It is believed that the economic sanctions on Russia are among the most severe ever forced upon a sovereign nation, and might be the cause for the downfall of the Russian economy in the following years. However, both the effects of the war in Ukraine by itself and of the economic sanctions against Russia have driven the rise in prices of several products. For example, much like the rest of the European Union, in March 2022 Slovenia experienced a significant rise in prices of petrol and diesel fuels (up to ca. 0,16 EUR/l at the beginning of March), and there were rumors of the grain and flour shortage around the European Union. So far, the Slovenian government officials tried to alleviate some of the fears about the possible future large-scale crisis.

The Russo-Ukrainian war and its effects on prices of food and ownership of international companies

The Russo-Ukrainian war has already affected the prices of the most important cereals and vegetable oils. The food price index calculated by the Food and Agriculture Organization of the United Nations (FAO) thus reached its highest level since measurements began in 1990.

In the words of the representative of FAO, "world food prices jumped significantly in March, reaching the highest level ever, as the war in the Black Sea region caused shocks in the markets for major cereals and vegetable oils."

Their food price index averaged 159.3 points in March, 17.9 points or 12.6 percent more than in February when it reached the previous record since the beginning of the calculation in 1990. Year-on-year, the value of the indicator that monitors monthly the shifts in the prices of the most frequently traded food raw materials increased by 40.1 points or 33.6 percent.

The cereals sub-index was up 170.8 points or 17.1 percent from 170.1 points in February, and the growth of the indicator was driven mainly by wheat and non-bread cereals as a result of the war in Ukraine. Russia and Ukraine account for about 30 and 20 percent of the world's wheat and corn exports, respectively. The sub-index was up 46.2 points or 37.3 percent year on year.

Specifically, world wheat prices rose by almost a fifth in March alone, while corn prices reached a record high, along with barley prices. On the other hand, the prices of rice, which is an important source of food for many, have remained more or less unchanged on a monthly basis and are one-tenth lower than in March last year.

The price of vegetable oils in March was 248.6 points higher than in February by 46.9 points or 23.2 percent, and year on year by 89.3 points or almost 56 percent. The growth of the index was mainly driven by the prices of sunflower oil, of which Ukraine is the world's largest exporter.

As a result, with the concomitant effect of rising oil prices, the price of soybean, palm, and rapeseed oil also rose significantly.

The sugar sub-index was 7.4 points or 6.7 percent higher monthly, while it was 21.7 points or more than a fifth higher year-on-year.

The meat price sub-index was 5.6 points or 4.8 percent higher in March than in February, reaching a new high since the beginning of the measurement. It was 19.2 points or 19 percent higher year on year. Meat prices were driven mainly by pork prices due to the shortage of pigs for slaughter in Europe. Poultry prices are also rising due to the negative impact of several outbreaks of bird flu on supply.

In March, prices of milk and dairy products were up by 3.7 points or 2.6 percent, and year on year by 27.7 points or 23.6 percent.

Since the prices of energy, fertilizers, and other raw materials are exponentially rising, fears of the devastating consequences of the war in Ukraine on food security around the world are growing, especially in poorer countries. The examples of this are already showing in parts of Africa and Asia, where rising prices are causing political and social tensions.

So far, Slovenia seems to have handled the issue of the rising price relatively well, with the government reducing the level of excise duties on electricity and motor fuel to curb the rising prices situation. As the government officials recently assured, Slovenia does have active reserves in regards to the most types of food and energy; however, much like in the rest of the European Union the store of the consumption-ready products has been steadily growing.

The war in Ukraine also further affected the Russian ownership of companies around the world, including Slovenia.

In April 2022, (internationally) the largest Russian bank Sberbank, and the Hungarian-American real estate investment fund Indotek signed an intention to sell Sberbank's 44% stake in the Fortenova Group, which also includes the largest Slovenian retailer Mercator.

The conclusion of the transaction requires the consent of regulators in several countries, they added in Fortenova. According to Finance, due to the scale of the deal, the European Commission will have the main say. There is also the question of paying the purchase price if sanctions against Russia are tightened and extended to new financial institutions. It should take some time before the deal is concluded.

Fortenova's Fabris Peruško wrote at the signing of the contract that they welcome the arrival of Indotek in the ownership of the group, as they see him as a long-term strategic partner. In addition to the retailer part, which consists of Mercator and the Croatian Konzum, the group also includes the agricultural and food processing part.

In the middle of the month, the Croatian Jutarnji list revealed that Sberbank had started the sale process. Russia's largest bank, which played an important role in rescuing Croatia's Agrokor, from which Fortenova emerged, announced its withdrawal from Forten's ownership in two years in the middle of last year. Sanctions against Russia could be extended to its ownership. Fortenova is also owned by the Russian bank VTB with a little more than 7%.

The post-COVID-19 support for the Slovenian companies

Apart from the immediate economic issues concerning the effects of the Russo-Ukrainian war, the effects of the COVID-19 related crisis still influence the recent developments in the Slovenian economy. As most of the business activities are, in the large part, returning to the state before the crisis, the Slovenian government is providing measures that might help with the restarting process.

Thus, in April 2022 the public agency SPIRIT intends to announce a tender to help companies restart their activities after the removal of restrictions related to covid-19. 10 million EUR will be given to micro, small and medium-sized enterprises.

SPIRIT will therefore publish a public tender in the Official Gazette and on its website to help micro, small and medium-sized enterprises that meet the tender conditions. As the representative of SPIRIT said, "just under 10 million euros are available, the amount of co-financing will be in the form of a lump sum of 6,000 euros per employee."

They intend to support at least 500 companies from the tourism, catering, and cultural arts industries, with 9,980,000 EUR available on the available budget. Eligible costs are labor costs incurred by applicants during the resumption of activities in the period from 1 August 2021 to 31 January 2022.

Eligible for funding are micro, small, and medium-sized enterprises that are companies, sole proprietors, or cooperatives and had one of the following activities registered in their AJPES database as of 31 July 2021:

hotel and similar accommodation activities, beverage serving activities, travel agency activities, tour operator activities, reservations and other travel-related activities, organization of exhibitions, fairs, meetings, artistic performances, or accompanying artistic performance activities.

Conclusion

As of mid-April 2022, it is still difficult to say what the final reach of the economic sanctions against Russia will be and how it will affect the world economy in the years to come. However, it is clear that some significant changes – in particular, e.g., in the sphere of the distribution of energy products – will need to be made across European Union. While the world economy is preparing itself for future issues with rising prices for several products, the effects of the COVID-19 crisis seem to be ever less pronounced.

In any case, it appears that for the future Slovenian government, keeping the level of the economy at a high level will continue to be a significant challenge.