

# ANALYSIS OF THE INFLATION AND ECONOMIC GROWTH IN THE REPUBLIC OF NORTH MACEDONIA AND THE REPUBLIC OF BULGARIA

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## *Abstract*

*As a consequence of global instability, the economy of almost all countries of the world has significantly deteriorated. The outbreak of war between Russia and Ukraine has led to an even bigger energy crisis and high import inflation. The policies of most countries are proving to be inadequate and ineffective. From that aspect, the purpose of this research is to analyze the situation with inflation movements and economic growth in the Republic of North Macedonia and the Republic of Bulgaria in 2022 (Q2). From the research, it has been determined that in the analyzed period, in both analyzed countries, economic activity has decreased, economic growth has slowed down, on the contrary, inflation has accelerated further, and external debt has increased. Constant analyzes of macroeconomic trends contribute to vigilant monitoring of the current situation, hence the adoption of appropriate domestic policies and proper management of enterprises from the energy sector.*

**Keywords:** *inflation; economic growth; energy crisis; Republic of North Macedonia; Republic of Bulgaria*

**JEL Codes:** *E00; E3; E5*

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## **1. Introduction**

Economic growth in the current year 2022, not only in the Republic of North Macedonia and the Republic of Bulgaria, but also in other countries on a global scale, is assessed as highly uncertain. In addition to the consequences of the health crisis with the Covid-19 virus, the main reason for the significant reduction in economic activities and the slowdown in economic growth is the expected retention (and even possible increase) of high energy prices. By maintaining the general level of prices, and especially the prices of energy, sooner or later the states will be forced to increase the prices of electricity and gas for economies and for households, which automatically leads to an increase in costs and a decrease in the purchasing power of citizens. All of that implies a higher risk in the economy, higher growth of interest rates, reduction of investments and demand, and a rise of inflation rate. As a result of the increase in interest rates, monetary policies are also tightened, that is, there is an

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increase in the price of available credit funds. According to the reports of the World Bank for the month of May, the increase in prices on an annual level is 10.4%, which means that the previous predictions have been exceeded far beyond what was expected.

In the Republic of North Macedonia, in general, the increase in the prices of the consumer basket is due to the increase in the price of food and oil products, and somewhat less to the increase in the price of other goods. The Government of the Republic of North Macedonia is continuously taking measures to slow down inflation. Such measures refer to the control of the prices of food and energy products, as well as to the reduction of excise duties on oil. In addition to the positive effects in reducing inflation, the consequence of such measures is the increase in the debts of the state and public enterprises. According to the projections of the National Bank of the Republic of North Macedonia (2022), inflation by the end of the year would end at 14.3%, and the rate of economic growth would be 2.3%. The risks for economic growth continue to show a downward tendency and will largely be determined according to the trends of the economy in Europe.

And in the Republic of Bulgaria, according to the reports of the National Bank, a worsening of the commodity deficit, a worsening of the foreign trade deficit and the current account deficit, foreign exchange relations have also worsened, foreign exchange reserves have decreased, the foreign direct investments have decreased as well, and the public debt has increased. According to the National Statistical Institute, inflation in Bulgaria in 2022 will record the highest level in the past 24 years.

Considering the uncertainty of the duration of the war in Ukraine, it is obvious that the economies of both countries are entering a period of low growth, ie. stagnation, and according to most of the 80% of experts, it is inevitable that these two countries will also face the challenge of stagflation.

In the research below, a comparative analysis of the economic activity of the Republic of North Macedonia and the Republic of Bulgaria in the second quarter of 2022 will be made, all in order to determine to what extent economic growth has slowed down, what is the rate of measured inflation, and how much it has increased the external debt. Such analyzes will contribute to the active monitoring of the situation with the economy in the country and outside it, and from that point of view, also in the direction of taking appropriate measures and policies to overcome the potential risks and deal with the developments that have occurred. Quarterly reports of the National Banks of the two countries will generally be used for data collection.

## **2. Literature Review**

### *Concept of Economic Growth*

Economic growth represents a quantitative increase in the potential gross domestic product of an economy over time (Solow, 1956; Fiti, 2008). A country's Gross Domestic Product (GDP) is the most synthetic indicator of its overall activity.

When we talk about economic growth, we mean the growth of the Gross Domestic Product in the long term. Hence, it is important for the economy to achieve sustainable long-term growth. To determine this it is necessary to analyze the potential Gross Domestic Product which eliminates the short-term variations of the actual Gross Domestic Product. Economic growth is monitored and analyzed by determining the growth rate of real Gross Domestic Product, again over the long term. Through the real Gross Domestic Product is calculated at constant prices, to eliminate the effect of inflation. The growth rate of the real Gross Domestic Product shows the relationship between the variable (increase or decrease) of the Gross Domestic Product in the current year and the value of the Gross Domestic Product in the previous year, expressed as a percentage (Equation 1).

$$\text{Equation 1: } g = \frac{GDP(t) - GDP(t-1)}{GDP(t-1)} \times 100$$

If GDP(t) (real GDP in an economy in 2020 is \$136 billion), and GDP(t-1) (real GDP in 2019 is \$130 billion) then the growth rate of real GDP in 2020 in that year economy will amount to 4.6% (Equation 2).

$$\text{Equation 2: } g = \frac{136 - 130}{130} \times 100 = 4,62\%$$

Economists also regularly calculate the GDP per capita indicator, i.e. Gross Domestic Product per capita. GDP per capita is one of the most synthetic and authoritative indicators of the country's level of economic development (Fiti, 2008, p. 313).

The long-term tendency of growth of the real GDP of a country contributes to the qualitative improvement of all its economic performances and to raising the quality of life of citizens. How important economic growth is for a national economy is confirmed by the fact that seemingly small, even negligible differences in economic growth rates can have a strong impact on the economic position and power of a country.

### *Concept of Inflation*

Inflation is one of the most complex phenomena in the economy. It exists in all countries with a market economy, but also in all countries in transition.

Inflation is a condition in the economy when monetary funds exceed commodity funds, due to which there is a rise in the general level of prices (Hardwick et al., 1994, p. 492).

The inflation rate is measured in the following way (Equation 3):

$$\text{Equation 3: } IR = \frac{\text{Price level (year } t) - \text{Price level (year } t-1)}{\text{Price level (year } t-1)} \times 100$$

The price level is measured as a weighted average of the prices of goods and services in an economy. In practice, the general price level is measured by calculating price indices. The most famous price index through which inflation is measured is the Consumer Price Index (CPI), also known as the cost of living index. When calculating the cost of living index in many countries, the prices of the goods and services that make up the consumer basket are taken, including the prices for housing, firewood, fuel, health services, school fees, etc. Another well-known index for calculating inflation is the GDP deflator, which eliminates the impact of inflation on nominal GDP.

From the point of view of the inflation rate and its development dynamics, inflation can be moderate, galloping and hyperinflation. Moderate inflation represents a slight increase in the prices of goods and services in the economy. With moderate inflation, the annual inflation rate is single-digit. Galloping inflation is a condition in the economy when prices begin to rise rapidly and the annual inflation rate becomes, at first double-digit, and then triple-digit. People fear the galloping inflation, because it contributes to the constant increase in the prices of products and services, and reduces the living standards of the citizens of the national economy. This type of inflation produces serious difficulties in the economy, causing devaluation of money and loss of confidence in the national currency (Friedman, 1963). Hyperinflation is the most serious and dangerous form of inflation in which prices rise by a million or even a billion percent per year. Hyperinflation, although a rare phenomenon, if it occurs, destroys the economic fabric of the country. The sharp increase in the prices of all goods and services makes the operation of companies impossible, and the life of the largest number of citizens is unbearable. The consequences of hyperinflation can be disastrous. Hyperinflation causes a terrible redistribution of national wealth, severely distorts the relative prices of goods and services, and completely destroys the country's monetary system.

In terms of the reasons that condition it, there are: built-in inflation, demand-pull inflation, cost-push inflation and stagflation (Mankiw, 2011).

Built-in inflation is actually expected inflation that is built into all contracts and arrangements. In more detail, if the same rate of inflation, let's assume, of 5% is maintained for a longer time in the economy, then people expect that next year the rate of increase in the prices of goods and services would be 5%.

Demand-Pull Inflation occurs when there is an increase in aggregate demand over the production potential, over the production possibilities of the economy. The changes (increase) of one or more components of aggregate demand or the conduct of an expansionary monetary policy (increase in the mass of money in circulation) results in a rise in the general level of prices (Demand-pull inflation), with a simultaneous increase in the real GDP. In the economy, an increase in aggregate demand can occur due to financial factors and/or real factors.

Cost-push inflation is due to the increase in the production costs of businesses, of which, in the first place, are labor wages, prices of imported raw materials, etc. With the increase in production costs (increase in wages or prices of imported goods and services), the aggregate supply curve shifts to the left, and the macroeconomic equilibrium is established at a new point, with a higher general level of prices (cost-push inflation) and lower real output .

Stagflation is a type of inflation that is simultaneously accompanied by relatively high unemployment and low and even stagnant rates of movement of the gross domestic product. According to economic theory, the reasons for stagflation should be sought in the already consolidated monopolistic structures of the markets (large companies with the power to dictate prices and unions), as well as in the existence of state intervention of a deficit nature - budget deficits.

It is very difficult to overlook and summarize all the effects and costs that may arise from inflation. What the costs will be, and how much, depends on whether inflation is expected or unexpected. If inflation is expected, anticipated, moreover moderate, it almost does not cause any serious effects, because such inflation becomes embedded and on that basis no one suffers a great loss (Stockman, 1981). But most often in practice inflation is unexpected. When unexpected inflation occurs, there are negative effects (costs) related to the redistribution of income and wealth between separate categories of income users and wealth owners. Also, such inflation causes serious distortions, distortions or distortions in the relative prices of goods and services, leading to economic inefficiency.

#### *The relationship between economic growth and inflation*

The study of inflation and economic growth is of particular importance for mitigating the cyclical movements of a country's economy (Lojanica & Obradovic, 2019). At the same time, every country wishes and aims for accelerated growth of the economy and a low rate of inflation. However, in the direction of achieving such a goal, there are many limiting factors. Recently, such restrictions have been imposed by the various types of crises that have appeared consecutively over a period of three years and whose impact is still ongoing. As Pollin and Zhu (2006) say, the performance of macroeconomic policy cannot be measured by observing only one variable, because they are interdependent. Faster economic growth, in the long term, enables better welfare of the population (De Gregorio, 1992). While in the short term, the rate of economic growth can have negative consequences on other economic variables - for example, if the rate of economic growth is too low, there is a danger of increased unemployment. Or, if growth is present at a higher rate, there is a risk of inflation ie. from increased price growth. In this regard, Phillips (1962) points out that one of the fundamental problems of the execution and implementation of economic policy is the lack of adequate quantitative knowledge to understand how the economic system works.

Over the years, there have been numerous studies that examine the individual relationships between inflation and economic growth, as well as their connection. Examining the relationship between inflation and economic growth, like most macroeconomic issues, is controversial. It is said so because the movement of the inflation rate can have a positive or negative impact on economic growth. On the one hand, the higher inflation rate negatively affects the economic activities of the state, especially in the area of investments and consumption. Too much money in circulation leads to an increase in the cost of production, leads to a fall in the exchange rate, reduces the availability of limited resources such as food and oil. On the other hand, low inflation rates are associated with rising unemployment and loss of output. Inflation is a sign that the economy is growing, because the national economy stagnates without inflation. However, excessive economic growth, as mentioned earlier, can lead to hyperinflation, which has many negative consequences for the national economy.

According to classical growth theory, growth in total output is influenced by population growth, investment, rental income, and growth in total productivity. The direct link between inflation and economic growth is not emphasized in this theory. Indirectly, this relationship is negative, as there is a reduction in company profits due to higher labor costs (Gokal & Hanif, 2004).

According to Keynesians, inflation and economic growth are influenced by many factors: expectations for the future, labor force, prices of other factors of production, as well as fiscal and monetary policy. The adjustment dynamics in the short term implies an initial positive relationship between the variables, which later becomes negative. The positive association of the variables is explained by the producers' feeling that only the prices of their products have increased, while the rest of the producers operate with the same price level. Manufacturers continue to produce more, and output continues to grow. Even if the prices in the economy rise, the output does not decrease, because the producers have to fulfill the demand of the consumers with whom the contracts have been concluded. The negative relationship between the variables leads to the emergence of stagflation i.e. rise in inflation with decline in production. In the Keynesian model, there is a short-term trade-off in output and changes in the inflation rate, but this is not permanent.

Monetarists point out that inflation is the result of an increase in the supply or speed of money circulation, at a rate that is higher than the growth rate of the economy. Individuals anticipate the future rate of inflation and incorporate that effect into their behavior. In this way, employment and output are not affected. According to the concept of neutrality, the value of real variables is independent of the level of money supply in the long run. Monetarists point out that in the long run, prices are mostly influenced by the growth rate of money, and they have no real effects on growth. If the growth of the money supply is higher than the rate of economic growth, inflation will be present in the economy. In the earliest neoclassical growth models, Swan

(1956) and Solow (1956) point out that the main factor determining long-term economic growth is technological change and that its level is determined exogenously, independent of other factors, including inflation (Chriwa & Odhiambo, 2018). Following Saul's model, Tobin (1965) examines the relationship between inflation and economic growth and shows that inflation affects individuals' decisions to replace money with interest-bearing assets, which increases capital intensity and thus economic growth. In this case, a positive relationship has been demonstrated between the variables. Introducing the concept of superneutrality, Sidrauski (1967) shows that an increase in the inflation rate has no effect on the equilibrium state of capital, output and economic growth. In 1981, Stockman developed a model that showed that an increase in the inflation rate results in a decrease in the equilibrium level of output, as well as a decrease in the level of wealth.

New Keynesians introduce the concept of potential output, as the level of output for which the economy achieves an optimal level of production, given institutional and natural constraints (Gali, 2018). The level of output corresponds to the natural rate of unemployment. Inflation, according to this approach, depends on the level of the current level of GDP and the natural rate of unemployment. First, if GDP exceeds the potential level and if unemployment is below the natural rate, other things being constant, inflation rises because producers raise prices. Second, if GDP falls below the potential level and unemployment is above the natural rate, inflation falls, leading to disinflation. Finally, if GDP equals potential and the unemployment rate equals the natural rate of unemployment, then the inflation rate does not change, because there are no supply shocks. Endogenous growth theories describe economic growth, emphasizing that it is generated by factors within the production process, such as: economies of scale, increasing returns, or induced technological change, as opposed to exogenous factors such as population growth. In some empirical studies, which are based on endogenous growth models, it is shown that inflation has very weak effects on economic growth (Gomme, 1993). Such empirical studies show that rising inflation lowers the marginal value of today's unit of consumption, causing individuals to work less. This lowers the marginal product of capital, resulting in a lower rate of capital accumulation. The effect, however, is very small.

*The inflation and the economic growth in the Republic of North Macedonia and the Republic of Bulgaria in the second quarter of year 2021*

The increase in the prices of the consumer basket in the Republic of North Macedonia in the second quarter of 2021 is mainly due to the increase in the prices of oil derivatives. Inflation in the Republic of North Macedonia in the second quarter of 2021 was measured at 2.8% on an annual basis (Ministry of Finance – Republic of North Macedonia, 2021). According to the projections of the experts, the expectations were that in 2022 the inflation rate on an annual level would be 2.8%, and in 2023 2.4% on an annual basis (Macedonia 2025, 2022), but such expectations, specifically

for 2022, were exceeded at the beginning of the year. In the analyzed second quarter of 2021, a decline in the Banks' primary money was also observed, as well as an increase in the ready money put into circulation. Deposits of enterprises, households, denar and foreign currency deposits have also increased, and the degree of euroization has also increased. As a result of the growth of loans (both denar and foreign currency) to households and businesses, the credit activity of banks is also growing.

In terms of economic growth, the expectations for a minimal increase in the rate of economic growth in the Republic of North Macedonia in 2021 were realized, and based on that, the projections of the experts for the next two years were in the direction of slight growth.

In the Republic of Bulgaria, just like in the Republic of North Macedonia and other European countries, in 2021, as a result, in general, of the increase in the prices of energy and basic food products, an increase in inflation is observed. Hence, as a result of the increase in the cost of living, the lending activity of the banks is also growing, that is, the loans for the private and business sectors are increasing. Appropriate programs have been implemented to support the business sector in the Republic of Bulgaria, which, on the one hand, have a positive effect in mitigating the consequences of the health crisis, and on the other, a negative one, in connection with an increase in the state's public debt. In 2021, a relatively high growth was observed in the deposit potential of the banks. Regarding the movement of the economic growth rates, the expectations of the experts have not been realized, that is, the economic activity has been lower than expected, which is due to the increase in personal consumption costs already in the first quarter of 2021.

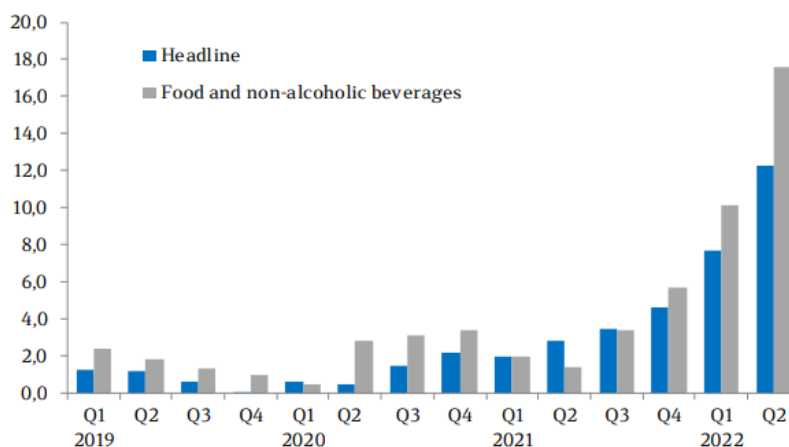
### **3. Research Findings**

For the purposes of the research within this article, data from primary sources were mainly used, i.e., from the reports on the expected movements of inflation and economic growth for the second quarter of 2022, because at the time of the research, in both countries, the Republic of North Macedonia and the Republic of Bulgaria, no reports were submitted for the third quarter of 2022. In addition, data published on the websites of the State Statistics Office, the Ministry of Economy, the Ministry of Finance, the National Bank of the Republic of North Macedonia, as well as some web portals of the official media of the state were also used.

In the Republic of North Macedonia, according to the data of the National Bank, and compared to the same time period of the previous year, inflation grew more than fourfold, i.e., from 2.8% on an annual basis in the second quarter of 2021 to 12.3% on an annual basis in the second quarter of 2022 (Figure 1). This significantly exceeds the expectations of experts who forecast the same inflation growth in 2022 as in the previous year 2021.



Figure 1. Comparative presentation of the movement of the inflation rate in the Republic of North Macedonia in the period from 2019 (Q1) to 2022 (Q2)



Source: Statistical Office of the Republic of North Macedonia

The long-lasting and strong growth of import prices of energy and food condition the high and upward dynamics of inflation on an annual level. As a result of the high price of food, which is an input resource for many other products and services, the basic inflation is also growing with a continuous upward trend. Percentagewise, food prices in the second quarter of 2022 have grown by 7.5% compared to the previous quarter of the same year i.e., from 10.1% in the first quarter of 2022 to 17.6% in the second quarter of 2022, which is mainly due to the increase in the prices of bread and cereal products, oil, dairy and meat products, cheese, eggs, and vegetables (Ministry of Finance – Republic of North Macedonia, 2022). In addition to the increase in food prices, in the second quarter of 2022, consumer prices in the categories of transportation, hospitality, housing, alcoholic beverages, recreation and culture, health care, etc. are also increasing. Considering that the war in Ukraine and the imposed sanctions against Russia are still current, price pressures continue to remain variable, difficult to predict, with significant oscillations in the movement, both domestically and internationally. However, the predictions of experts in the field are extremely positive, with the hope that price pressures would stabilize towards the end of 2022, with price growth starting to slow down in 2023 and stabilizing at around 2% in the medium term (Ministry of Finance – Republic of North Macedonia, 2022).

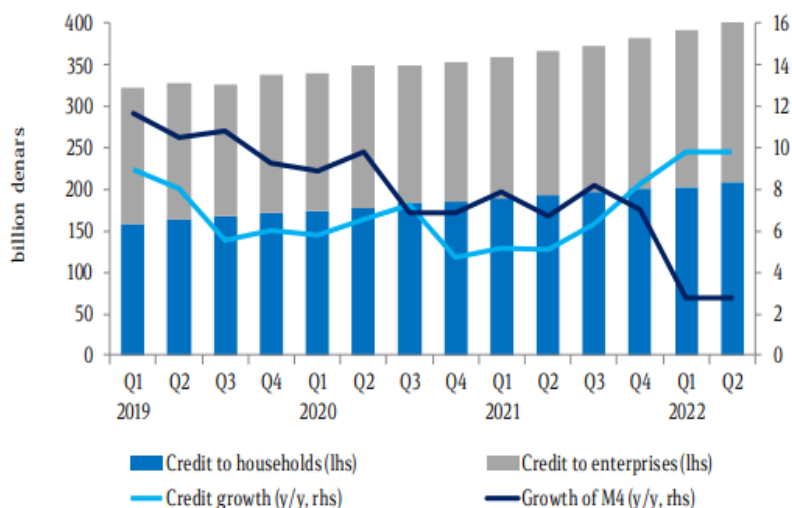
In order to respond to the rising inflation in the second quarter of 2022, the National Bank of the country raises the interest rate three times and tightens the monetary policies.

With the increase in the total liquidity of the banks, as well as the growth of cash in circulation, in the second quarter of 2022, the percentage of primary money also increases, which amounts to 2.6% on a quarterly basis (State Statistical Office of the Republic of North Macedonia, 2022).

Within the second quarter of the year, the total deposit potential of the banks has increased by 0.1% compared to the previous quarter. Looking at sectors, compared to the previous quarter, there is an increase in household deposits, and a decrease in company deposits. From the perspective of currency, in the second quarter of 2022, compared to the previous quarter of the same year, foreign currency deposits grew by 0.7%, while denar deposits registered a decrease of 0.4%.

According to the reports of the National Bank of the Republic of North Macedonia, the credit activity of the banks also increased from 2.6% in the first quarter to 2.7% in the second quarter of 2022. At the same time, loans to enterprises and loans to households are growing, denar and foreign currency loans have also increased, while short-term and long-term loans have also increased (Figure 2).

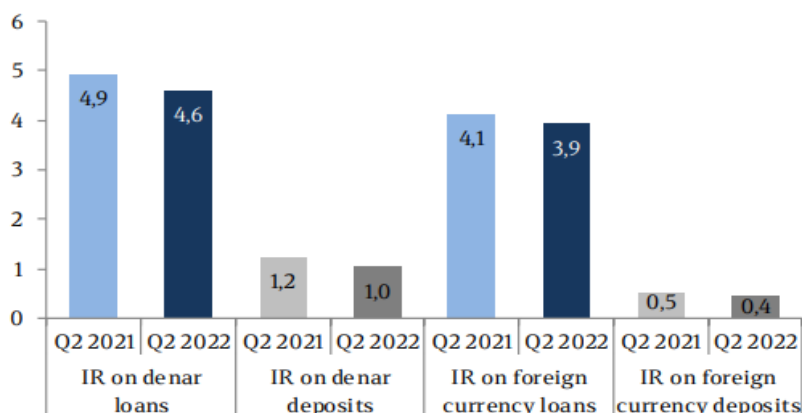
*Figure 2. Comparative view of the growth of loans and M4 in the Republic of North Macedonia*



Source: National Bank of the Republic of North Macedonia

The interest rates on denar and foreign currency loans in the second quarter of 2022 have decreased compared to the second quarter of the previous year, where the interest rate on denar loans is 4.58%, and the interest rate on foreign currency loans is 3.92% (Figure 3). Also, in the second quarter of 2022, compared to the second quarter of 2021, the interest rates on denar and foreign currency deposits were also reduced.

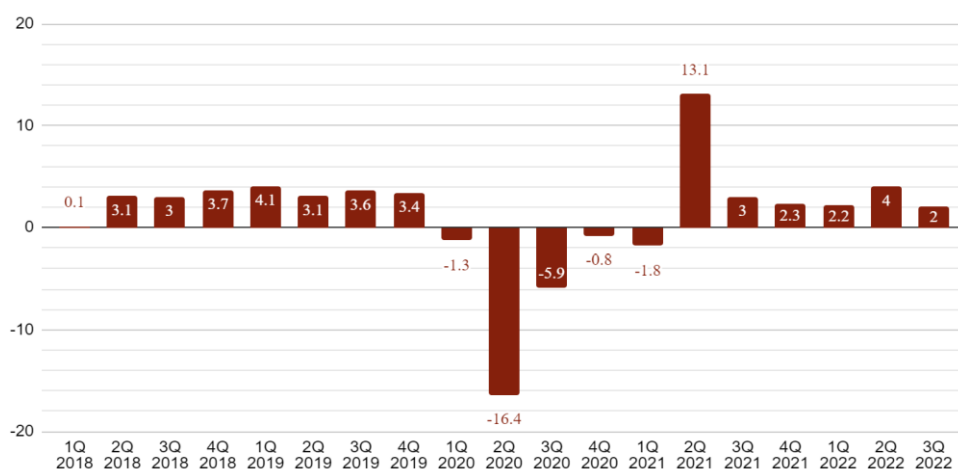
Figure 3. Comparative presentation of the interest rate growth on denar and foreign currency deposits and denar and foreign currency loans in Q2 2021 and Q2 2022



Source: National Bank of the Republic of North Macedonia

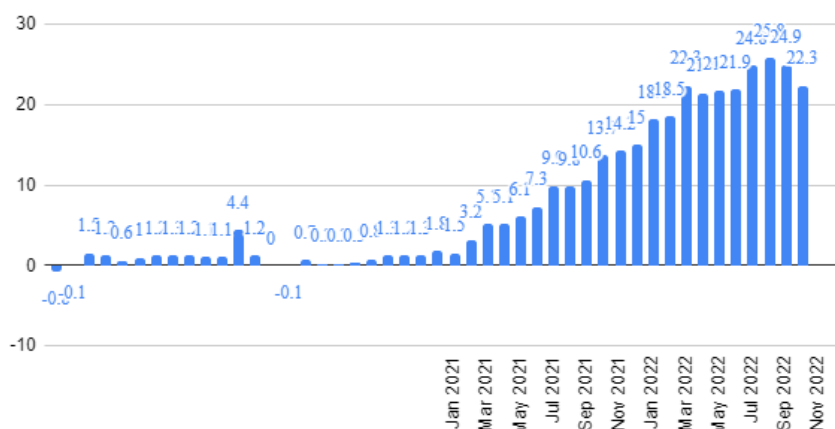
The expectations for the movement of the rate of economic growth in the Republic of North Macedonia for 2022 were positive, i.e., there will be minimal growth on an annual level compared to 2021. Analyzed by quarters, in the second quarter of 2022, and compared to the second quarter of 2021, a minimal growth of 4% was achieved (OECD, 2022) (Figure 4), which was driven generally by the processing sector (Figure 5).

Figure 4. Comparative analysis of the amount of GDP in the Republic of North Macedonia (Q2 2021 – Q2 2022)



Source: State Statistical Office

Figure 5. Comparison of the amount of the manufacturing sector rate in the Republic of North Macedonia in the second quarter of 2021 with the second quarter of 2022



Source: State Statistical Office

However, such growth is expected to slow down in the third quarter of the year. Looking at the annual level, taking into account the statements of the National Bank of the country, the growth in 2022 would be 2.3%, but considering the current events with the war in Ukraine and the consequences of the health crisis that are still being felt, there is something else – a scenario according to which the growth in 2022 would slow down and have a downward tendency, i.e. it would amount to about 2%. Given that the risks are not reducing, but instead continue to be downward and uncertain, growth would finally recover only in 2024 (Trading Economics, 2022). Such uncertainty with world developments and the implications of global markets increasingly emphasizes the need to conduct prudent domestic policies.

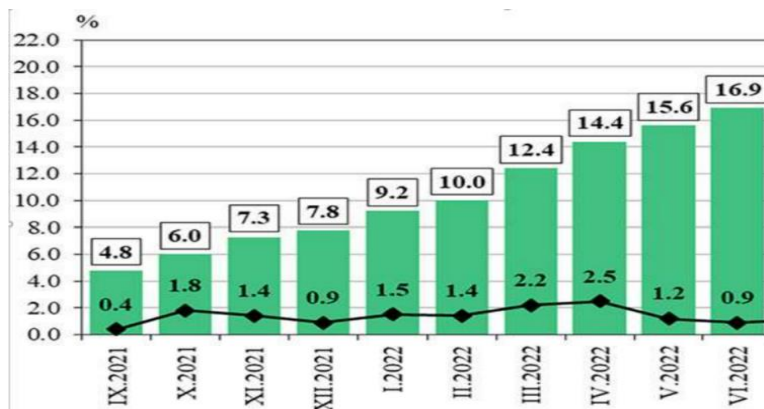
In the Republic of Bulgaria, according to the data of the National Statistical Institute, inflation in 2022 continues with an upward trend and reaches record levels. In the second quarter of 2022, inflation was 16.9%, and on an annual basis it is expected to reach up to 19% (Figure 6). According to these data, it is evident that this is the highest measured inflation rate in the country in recent years, higher even than the time of "red money" in 1998 when it was 18% (Trading Economics, 2022). Compared to 2021, annual inflation grew by 9.1%.

In the second quarter of 2022, the general level of prices is growing, which as measured in June of the same year is 10.1%. According to reports from the National Statistics Institute, the general price level tends to increase by about 1% each subsequent month.

Within the second quarter of the year, there is a slight increase in the total deposit potential of the banks. Analyzed by sector, there is a decrease in household

deposits, and an increase in company deposits, which is the opposite of the situation in the Republic of North Macedonia (Figure no. 7).

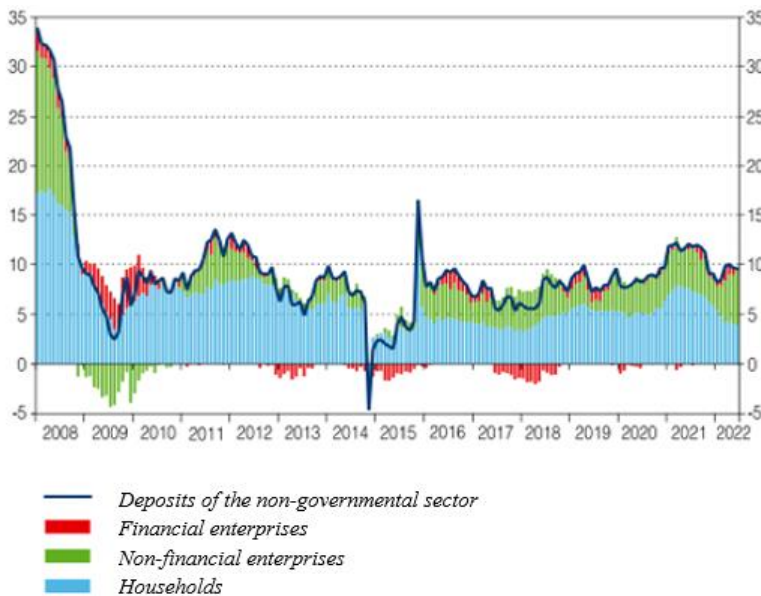
Figure 6. Overview of the inflation rate in the Republic of Bulgaria recorded by months from September 2021 to June 2022



Source: Infoz.bg

Note: The monthly inflation rate is marked in green. The annual inflation rate is shown with a black line.

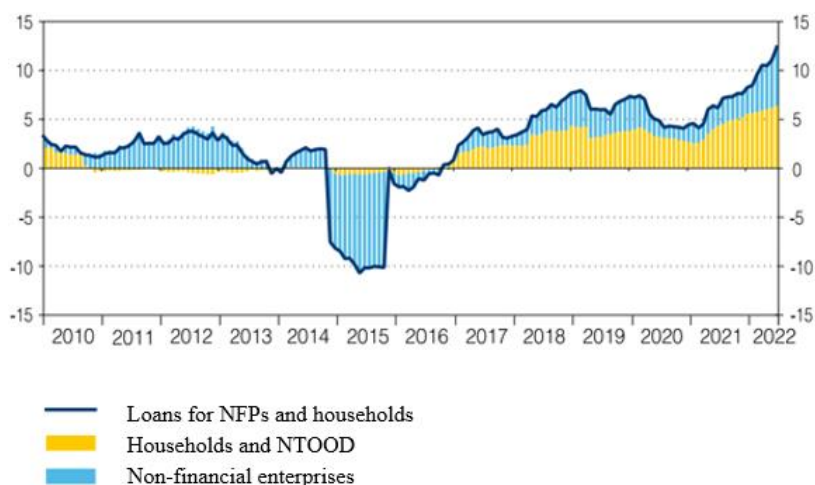
Figure 7. Percentage presentation of the annual growth of deposits in the Republic of Bulgaria by sectors



Source: BNB

The credit activity of the banks in the analyzed period, and according to the reports of the National Bank of the Republic of Bulgaria (2022), continues to accelerate, especially in the corporate sector, reaching 12.4% on an annual basis as of June 2022. Compared to the previous year, in addition to the annual growth of credits in the corporate sector, growth was also recorded in credits in the household sector and in non-financial enterprises (Figure 8). Here, as well as in the Republic of North Macedonia, foreign currency loans and loans in BGN have also increased, with the largest growth recorded in loans in euros.

*Figure 8. Percentage presentation of the annual growth of loans in the Republic of Bulgaria by sectors*



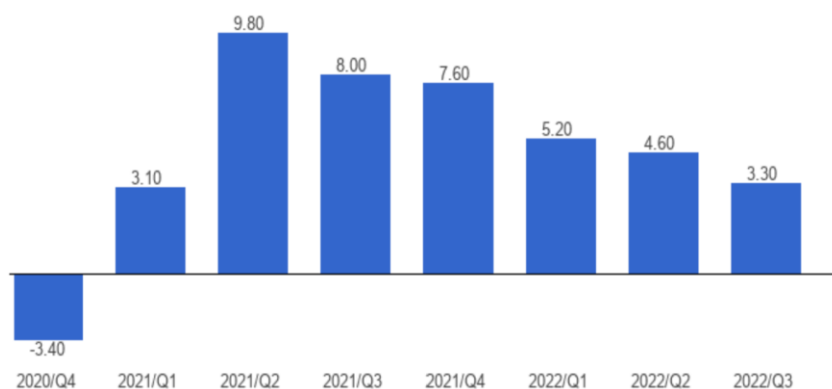
Source: BNB

In the Republic of Bulgaria, in the second quarter of 2022, and compared to the same quarter of the previous year, the interest rates of loans in levs and foreign currency loans for non-financial enterprises show a slight decrease, and there is a slight increase in loans in dollars, which according to the analysis of The National Bank is responsible for the decision on federal reserves, and for increasing the federal funds rate.

The economic growth in the Republic of Bulgaria in the second quarter of 2022 is 4.6% on an annual basis (The Global Economy, 2022) (see Figure 9). Compared to the previous quarter of the same year, the growth decreased by 0.6%. It is mainly due to the consequences suffered by the national economy caused by the war between Ukraine and Russia. The decrease in growth in the second quarter of the year is driven primarily by the decrease in gas exports to the Republic of Bulgaria, and by Russia, which occurs in the month of April. This increases the country's energy insecurity,

which affects the increase in prices, and hence the lower profitability of the business sector, as well as reducing the purchasing power of consumers.

*Figure 9. Comparative presentation of the movement of the rate of economic growth in the Republic of Bulgaria in the period from 2020 (Q4) to 2022 (Q3)*



Source: theglobaleconomy.com

Within the second quarter of the year, the growth of private consumption decreased by 4.3% compared to the previous quarter, and amounted to 2.1% at the annual level. Also, financial investments decreased by almost half, that is, by 3.7%, compared to the previous quarter and amount to 4.4%, which according to the data of the National Bank, is the sixth consecutive quarter of contraction. In this quarter, the percentage of public consumption grows to 13%, i.e. by 1% when analyzed annually.

Compared to the second quarter of 2021, in the second quarter of 2022 there is a positive trend in the increase in the export of goods and services to 10.7%, but the import of goods and services is also growing to 16.6% on an annual basis, which marks the best reading since the second quarter of 2021.

According to experts, the Bulgarian economy is expected to recover only in 2024, for which they believe that it is very important to dedicate to the adoption of the euro in order to stabilize expectations and control the retention of borrowing costs.

### **Conclusion and Recommendations**

From the conducted research, it can be concluded that in crisis conditions, none of the analyzed countries can achieve long-term and sustainable economic growth. Based on that, it is clear that the economic performance of the analyzed countries and the quality of life of their citizens is going down. Since it is about the impact of three successive, different types of crises, the economy has been brought to a state of continuous and rapid growth in the prices of goods and services, thus reaching record

high inflation rates that have not been seen for many years. From the point of view of the inflation rate and its development dynamics, the two analyzed countries are initially facing galloping inflation, and there are serious indications of hyperinflation in due course. Since it is obvious that the cause of inflation is the impact of different types of crises, the two analyzed countries, in the analyzed period, face almost three out of four types of inflation in terms of the causes that condition it. Initially analyzed countries face demand-pull inflation, generally in relation to basic food products, and as a result of conducting monetary policy (increase in the mass of money in circulation). Then, businesses ie. the companies of the two analyzed countries face cost-push inflation, as a result of the increase in production costs (increase in import prices of raw materials, as well as increase in workers' wages). Finally, the risk of stagflation is evident, as a result of the impact of the Covid-19 crisis, which initially contributes to a high increase in unemployment, the budget deficit of the state, and the inability to grow the Gross Domestic Product due to high energy prices. In addition, by observing and analyzing the short-term and long-term relationship between inflation and economic growth, the research confirms the theoretical findings according to which, in the long term, price volatility and their uncertainty negatively affect economic growth, while in the short term, inflation has a positive impact on economic growth.

The economies of both countries, the Republic of North Macedonia and the Republic of Bulgaria, are very vulnerable, which makes them powerless in the face of world events. Despite the fact that both analyzed countries take different measures and policies to deal with the situation, i.e. to reduce inflation and encourage economic growth, the positive effects are still very small, almost non-existent compared to the negative effects which are very large and very pronounced. In order to reduce the dependence on world production, and hence the exposure to paying high prices for imported products, it is recommended to increase the domestic production of food and energy. In that context, it is also necessary to accelerate the energy transition towards low-carbon energy sources. In order to provide aid to low-income countries, it is recommended to find options for debt relief or their write-off, and further strengthening of the mechanisms for reducing the negative effects of the pandemic with the Covid-19 virus. In conditions of continuation and deepening of inflationary pressures, the economies of the two analyzed countries should focus on protection from greater vulnerability and on providing greater fiscal space for defense, but at the same time, proper management of the public debt is most necessary, in order to ensure not only sustainable financing, but also macroeconomic stability of the state.

Taking into account the full impact of the crises, as well as other influencing factors, it can be said that the Republic of North Macedonia is another step behind in terms of the prospects for entering the European Union. The impact of the crises additionally affects in a way that makes it more difficult to implement the necessary reforms in certain areas of the country. Unlike the Republic of North Macedonia, the



Republic of Bulgaria has been a member of the European Union for 15 years. Therefore, the Republic of Bulgaria is in a better position in terms of improving the quality of life of its citizens and in stimulating economic growth. However, according to Solomon Passi, the former Bulgarian Minister of Foreign Affairs, the Republic of Bulgaria lags behind its peers in the EU. In the context of the topic of the research, it is most likely motivated by the confusion of the youth of the state ie. the demographic crisis that occurs as a result of the impact of other crises. The Republic of North Macedonia is also dealing with the demographic crisis. Therefore, it can be concluded that the impact of the three types of subsequent crises lead to the emergence of other additional types of crises that make the living conditions in the two analyzed countries currently, and in the future (given their uncertainty), less favorable and more difficult. Hence, in general, the impact of crises has a significant negative effect on the economies of states (increases unemployment, leads to an increase in inflation, decline in economic growth, an increase in the state's public debt, etc.), and causes serious distortions in all other aspects of daily activities of citizens and businesses.

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