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CAUSE-EFFECT RELATIONSHIP BETWEEN INFLATION AND THE FINANCIAL SECTOR IN THE REPUBLIC OF NORTH MACEDONIA

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Abstract

In the last two years, a key feature of the international and domestic environment has been the gradual economic recovery from the pandemic, which in the previous year, left serious health and economic consequences for countries around the world. Such movements contributed positively to the operation of the domestic financial sector and to the maintenance of financial stability. However, since the beginning of 2022, with the growth of geopolitical tensions and the outbreak of the war in Ukraine, the positive prospects for economic recovery have deteriorated sharply, which especially applies to European countries due to their geographical proximity and economic-financial connection with conflict areas. The new conditions have significantly exacerbated inflation risks, with price pressures already present from the second half of 2021 due to disrupted energy and commodity markets and disruptions in global supply chains impacted by the pandemic.
So far, the consequences of the crisis have primarily affected the domestic economy through the movements of the global market of energy and basic products, which creates pressure on domestic inflation.
The financial sector is the main source of financing productive economic projects in every economy in the world. It has a fundamentally important role in achieving economic growth and thus achieving sustainable economic development.
The interaction between inflation and economic growth as well as economic growth and financial development has been extensively investigated in the literature. It can be said that there exists a consensus among economists to be that high rates of inflation are detrimental to economic growth performance. However, much less agreement exists about the mechanisms by which inflation affects economic activity. Financial development is viewed as an important channel through which inflation can adversely affect growth.

Keywords: Financial Development, Inflation, Analysis, Republic of North Macedonia, Banks

1. Introduction

The financial sector is the main source of financing productive economic projects in any economy worldwide. It plays a major role in the functioning of the economy through financial intermediation. Simply, the role of financial sector lies between savers and borrowers: it takes money from savers (in the form of deposits) and lends it to those who wish to borrow, such as companies, governments, or individuals. The financial sector promotes economic growth through capital accumulation and technological progress by increasing the saving rate, providing information about investment, and improving capital allocation, The development of financial sector plays an important role in economic development. The development of financial markets eases informational frictions in financial markets, enhances the economy’s efficiency of resource allocations, and thereby fosters economic growth. (Batayneh, 2022)

The financial sector is a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms: (Kenton, 2021)

- A large portion of this sector generates revenue from mortgages and loans, which gain value as interest rates drop. The health of the economy depends, in large part, on the strength of its financial sector. The stronger it is, the healthier the economy. A weak financial sector typically means the economy is weakening.
- In order for an economy to remain stable, it needs to have a healthy financial sector. This sector advances loans for businesses so they can expand, grants mortgages to homeowners, and issues insurance policies to protect people, companies, and their assets. It also helps build up savings for retirement and employs millions of people.
- The financial sector generates a good portion of its revenue from loans and mortgages. These gain value in an environment where interest rates drop. When rates are low, the economic conditions open up the doors for more capital projects and investment. When this happens, the financial sector benefits, meaning more economic growth.

The economy comprises various segments, known as sectors, each consisting of different business that offer goods and services to consumers. The variety of services offered by lending institutions, brokerage firms, and other businesses are collectively referred to as the financial services sector: (Catalano, 2021)

- The financial sector is the primary driver of a nation's economy. It provides the free flow of capital and liquidity in the marketplace. When the sector is strong, the economy grows, and companies in this industry are better able to manage risk.
- The strength of the financial sector is also important to the prosperity of a country's population. When the sector and economy are strong, consumers generally earn more. This boosts their confidence and purchasing power. When they need access to credit for large purchases, they turn to the financial sector to borrow.
- If the financial sector fails, though, it can drag a country's economy down. This can lead to a recession. When the financial system starts to break down, the economy starts to suffer. Capital begins to dry up as lenders tighten the reins on lending. Unemployment rises, and wages may even drop, leading consumers to stop spending.
- In order to compensate, central banks lower interest rates to try to boost economic growth. This is primarily what happened during the financial crisis that led to the Great Recession.

The financial sector refers to businesses, firms, banks, and institutions providing financial services and supporting the economy. It encompasses several industries, including banking and investment, consumer finance, mortgage, money markets, real estate, insurance, retail, etc. (Vaidya, 2022),

- The financial sector consists of businesses, corporations, banks, and other financial institutions providing financial services and sustaining an economy.
- It reflects the state of the economy and has a significant impact on it through interest rates, mortgages and loans, debt financing, and capital funds.
- Increased interest rates, a lack of or excessive government regulation, and reduced consumer debt can considerably affect the sector. In times of recession or financial crisis, the government provides immediate assistance to the sector.
- The sector's two main pillars are banking and insurance, which provide loans, mortgages, and insurance policies.

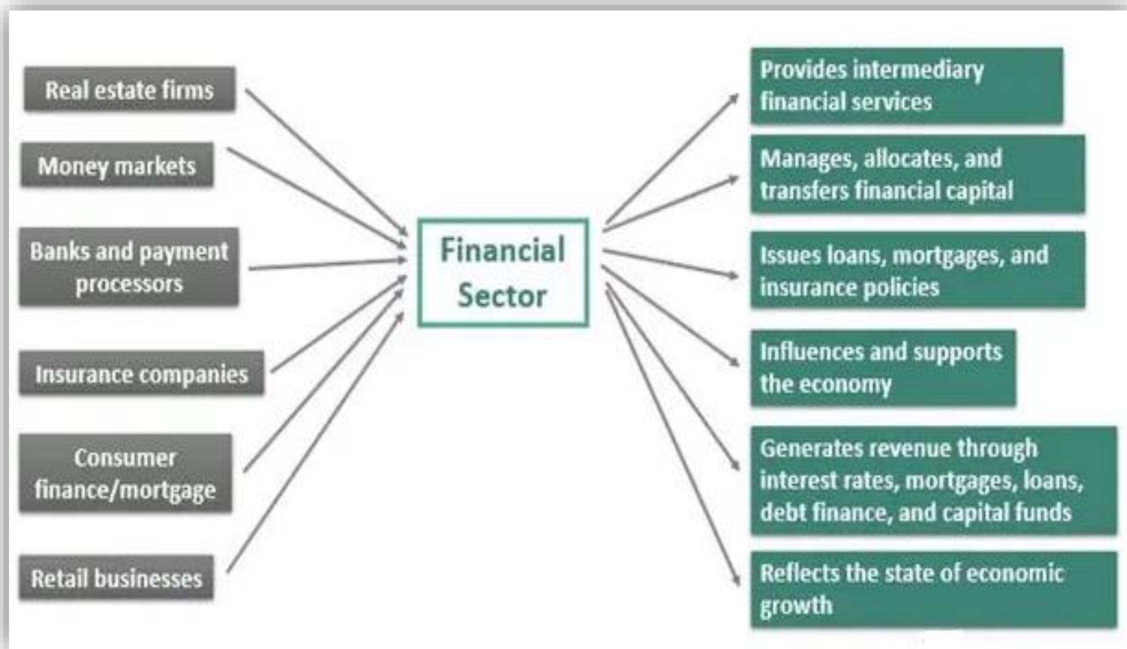


Figure 1: Financial Sector
Source: Vaidya, D., (2022), Financial Sector - Meaning, Examples, Roles, how it Works?

Inflation refers to a broad rise in the prices of goods and services across the economy over time, eroding purchasing power for both consumers and businesses. In a healthy economy, annual inflation is typically in the range of two percentage points, which is what economists consider a signal of pricing stability. And there can be positive effects of inflation when it's within range: for instance, it can stimulate spending, and thus spur demand and productivity, when the economy is slowing down and needs a boost. Conversely, when inflation begins to surpass wage growth, it can be a warning sign of a struggling economy. Inflation affects consumers most directly, but businesses can also feel the impacts: (McKinsey, 2022)

- Households, or consumers, lose purchasing power when the prices of items they buy, such as food, utilities, and gasoline, increase.
- Companies lose purchasing power, and risk seeing their margins decline, when prices increase for inputs used in production, such as raw materials like coal and crude oil, intermediate products such as flour and steel, and finished machinery. In response, companies typically raise the prices of their products or services to offset inflation, meaning consumers absorb these price increases. For many companies, the trick is to strike a balance between raising prices to make up for input cost increases while simultaneously ensuring that they don't rise so much that it suppresses demand.

Inflation is the aggregate level at which prices for goods and services are increasing. When inflation occurs, it means that the purchasing power of consumers and businesses is declining, unless they can increase their income by an offsetting amount. Inflation also reduces the value of savings. If the inflation rate is higher than the return on investment that a person or business is experiencing, then there is a net decline in investment. Inflation has an especially pernicious impact on those with fixed incomes, since their purchasing power gradually declines over time: (Inflation definition, 2022)

- Inflation may be caused by a constriction in supply. For example, when there is a shortfall in the amount of gasoline in comparison to the demand for it, the price of gasoline will increase (unless prices are controlled by order of the government). Inflation may also occur when a loosening of credit results in individuals and businesses spending so much that excessive demand forces an increase in prices.

- Inflation is considered an aggregate amount, which is the average change in prices for a selected set of goods and services. In reality, the inflation rate for a specific item may be much higher than the reported aggregate inflation rate, while the prices of other items may have declined during the same period of time.
- A minor level of year-over-year inflation is considered to be optimal, usually near two percent. This is the target level that most central banks use as one of the goals of their monetary policies.

Technically speaking, inflation is the rate of increase in prices over a specific period of time. Colloquially, however, the term "inflation" most commonly is used in reference to the rate of increase in the Consumer Price Index for All Urban Consumers, usually referred to as the Consumer Price Index or simply the CPI. (Martin, 2022)

- Inflation can be used without an index as well. Inflation can be measured in a specific commodity and/or market. Companies might refer to the increase in their costs as inflation; "wage inflation", in particular, is a common term covering the change in labor expense.
- On a technical basis, inflation refers to any increase in almost any price. But in political and even economic commentary, inflation almost always refers to the rate of change in the CPI.
- The basic formula for calculating the inflation rate follows the same framework as any other percentage-based comparison. The inflation rate is equal to the change of prices divided by the original base.
- For annual inflation, for instance, the formula would look like this:

$$\frac{\textbf{(Price Or Index At Present) - (Price Or Index 1 Year Ago)}}{\textbf{(Price 1 Year Ago)}}$$

Inflation refers to a general increase in the prices of goods and services in the economy over time that corresponds with a decrease in the value of money: (Kennon, 2022)

- Inflation is a sustained upward movement in the overall price level of goods and services in an economy. It corresponds with a loss of purchasing power for a currency that's utilized within the economy. It takes more currency units to buy the same amount of goods and services as a result.
- Inflation causes a decrease in purchasing power when prices rise more quickly than wages increase. It forces individuals to spend more dollars, euros, or other forms of currency to buy necessities, which can put the average consumer in a financial pinch. It can reduce discretionary spending, too.
- Many consumers associate inflation with a rise in the price of a few key goods or services, such as oil, or even a particular industry, such as real estate. But inflation is only present when the overall prices of goods and services are rising. Two main forces are thought to be responsible for the increases: demand-pull inflation and cost-push inflation.
- With demand-pull inflation, the demand for goods and services in the economy exceeds the economy's ability to produce them. This short supply places upward pressure on prices, giving rise to inflation.
- Cost-push inflation occurs when the rising price of input goods and services increases the price of final goods and services and causes inflation. An oil crisis often causes a decrease in the oil supply and an increase in the price of petroleum, an important input good. The rising price of petroleum puts upward pressure on the price of final goods and services, leading to inflation.
- Some investors may also lose as a result of inflation. A country's central bank will often adjust short-term interest rates to maintain the desired inflation rate. The Central Bank often raises a short-term

interest rate known as the "state funds rate" when it's facing rising inflation. This action typically results in a decrease in the price of fixed-rate securities like fixed-rate bonds.

Significant inflation surprises can lead to market volatility, increasing the probability of a disorderly repricing of assets: (Mosk, Welz, 2022),

- When faced with an inflation shock, market participants try to anticipate the potential response of central banks as they seek to maintain price stability. This can prompt adjustments in market interest rates at the short and long end (depending on market participants' expectations), followed by adjustments in other market prices. If nominal interest rates increase by more than (expected) inflation rates, (expected) real yields increase. All else being equal, higher real yields are typically associated with de-risking by investors. Over the past decade, search-for-yield behaviour has led to compressed risk premia and elevated asset prices. This increases the potential scale of adjustments when real yields start to rise. At the same time, in an inflationary environment, equities may be more attractive than fixed income products, as the coupon payments on nominal bonds do not offer protection against inflation. The ultimate impact on equity markets also hinges on economic growth prospects.
- Higher than expected inflation also affects the capacity of different borrowers to service their debts, even as inflation may reduce the real value of outstanding debt. The real value of any nominal amount of outstanding debt decreases as prices increase. This means that, in aggregate, borrowers' loan repayments are relatively smaller in real terms, such that they have to forego relatively fewer "consumption baskets" to repay their loans. However, borrowers could run into debt servicing problems if their income does not increase enough to offset the higher cost of consumption and investment. This is more likely to happen if supply shocks result in both lower growth and higher inflation. Generally, borrowers with variable-rate debt contracts are more directly exposed to rising interest rates, with their debt servicing capacity hurt by more than that of borrowers with fixed-rate debt.

One of the most damaging consequences of inflation is the long-term impact that it can have. Even after the economy seemingly recovers, investments may take a while to regain value. It illustrates the importance of a diversified portfolio and proves just how susceptible assets can be to fluctuations in value. To minimize the lasting impact of inflation, investors should invest in businesses with low capital requirements. Financial institutions must keep up to date with the current inflation and insure themselves with a liability plan: (https://www.usrisk.com ›2022),)

- Inflation Affecting Insurance Rates - Inflation significantly affects insurance, as the costs of everything rise. Because the prices of simple materials go up, the rates for insuring everything will also rise. Thus, it produces a reoccurring issue that seems uncontrollable. While banking institutions may enjoy higher inflation, it could affect them, too. Banks and insurers should have concern about the rampant spread of inflation. However, insurers often pass the costs of inflation to the consumer. It allows them to avoid the high expenses of a market rate where the dollar goes up. However, it can produce mixed results in the end.
- Banks can profit in the short term and gain a stronghold with the assets. Additionally, interest margins could go up, leading to more profits for the bank. There is a downside to this. Likewise, debt will go up.
- Supply and Demand Remain Unbalanced - Supply and demand are integral components of the inflation rate. Unfortunately, as they remain unbalanced, inflation remains high. Supply and demand affect inflation and cause a ripple effect through insurance rates. Just as the dollar cost goes up, the premium rates for everything that has insurance will continue to rise.
- Rising Energy Costs Exacerbate Inflation - Yet another issue contributing to the problem is the rising cost of energy. Every industry relies on energy to sustain its work, so of course, this increase in expense has triggered costs to increase elsewhere. It can impact investments in several ways. As

inflation increases, for example, a bond's purchasing power is minimized. Any cash flow that was fixed in the future will also be reduced. Though rising energy costs may initially seem unrelated, they directly affect the outcome and value of investments.

- Investors Should Adjust Their Expectations - Investments are a risky business. As inflation rises, the value of an investment is likely to go down. This is bad news for anybody who's recently sunk substantial funds into stocks or bonds, but those who have a diversified portfolio may be able to weather the storm.

In the first quarter of 2022, economies across Europe recorded the highest levels of inflation in a decade, and economists started acknowledging that inflationary pressure might not be temporary. (Austen,Farah, Carchen, 2022)

- Inflation was widely expected to be a temporary consequence of extraordinary fiscal stimulus and pandemic-induced supply chain disruptions. Economists are now acknowledging that inflation is evolving from being transient and mostly technical, to being driven by persistent demand-side and supply-side factors as well by structural changes in the way value is allocated within the economy. The recent rise in energy prices, exacerbated by the war in Ukraine, is the latest and likely the biggest inflation driver in the short term. In the medium to long term, structural factors, such as the shift to greener (and more expensive) energy, and the investment backlog, as well as demographic changes in Europe and key supply markets, are likely to stoke inflationary pressure.
- Steering through this time of high inflation, whilst supporting the real economy in this period of uncertainty and efficiently facilitating the reallocation of resources, will be the measure of success for the banking sector. The central role of banks as an enabler economic growth role will be emphasized yet again.
- By supporting the recovery from the pandemic and helping to tackle the biggest issue facing Europe's economy today, the sector can gain a stronger sense of purpose and ensure its ongoing relevance.

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. (World Economic Outlook, 2022)

- Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic.
- Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. Structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.

2. Methods

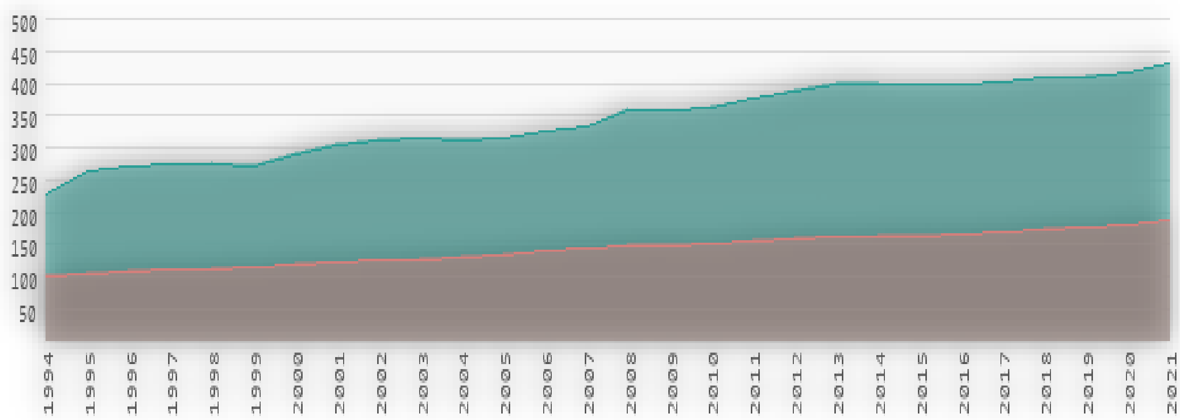
Qualitative and quantitative research methods were used in the preparation of this study to achieve the objectives of the study.
Quantitative research methods relied on bibliometric analysis to detect trends in the transformation of business banking. The bibliometric analysis revealed the explanations for the transformation of the banking sector that have been processed in documents, magazines, and in the existing literature.
Quantitative methods are used to numerically measure the results achieved in the transformation of business banking.

The study analyzes the problems of inflation and its impact on financial sector:

- Research methods have been used to identifiing the slowdown in global economic activity. The economic outlook depends on a successful calibration of monetary and fiscal policies.
- Policymakers should focus on restoring price stability and alleviating cost-of-living pressures. Multilateral cooperation remains necessary to fast-track the green energy transition and prevent fragmentation.
- The recent increase in inflation worldwide took many by surprise. As of early 2022, both headline inflation (price of all goods and services) and core inflation (excluding food and energy) were significantly above target in most advanced economies and several emerging markets.
- Standard economic theory states that inflation will get out of control under a prolonged mix of certain monetary and fiscal policies, but whether inflation will persist toward that end warrants further examination. The answer depends both on the distribution of shocks to the economy and how central banks (and finance ministries) react.

3. Results

The inflation rate for consumer prices in North Macedonia moved over the past 27 years between -1.3% and 126.6%. For 2021, an inflation rate of 3.2% was calculated. During the observation period from 1994 to 2021, the average inflation rate was 7.1% per year. Overall, the price increase was 329.35%. An item that cost 100 denars in 1994 costs 429.35 denars at the beginning of 2022. (Inflation rates in North Macedonia, 2022



Graf 1: *Inflation rates in North Macedonia Performance over the last 27 years compared with the USA* - Source: Inflation rates in North Macedonia - Worlddata.info, (2022), https://www.worlddata.info › p. 1

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

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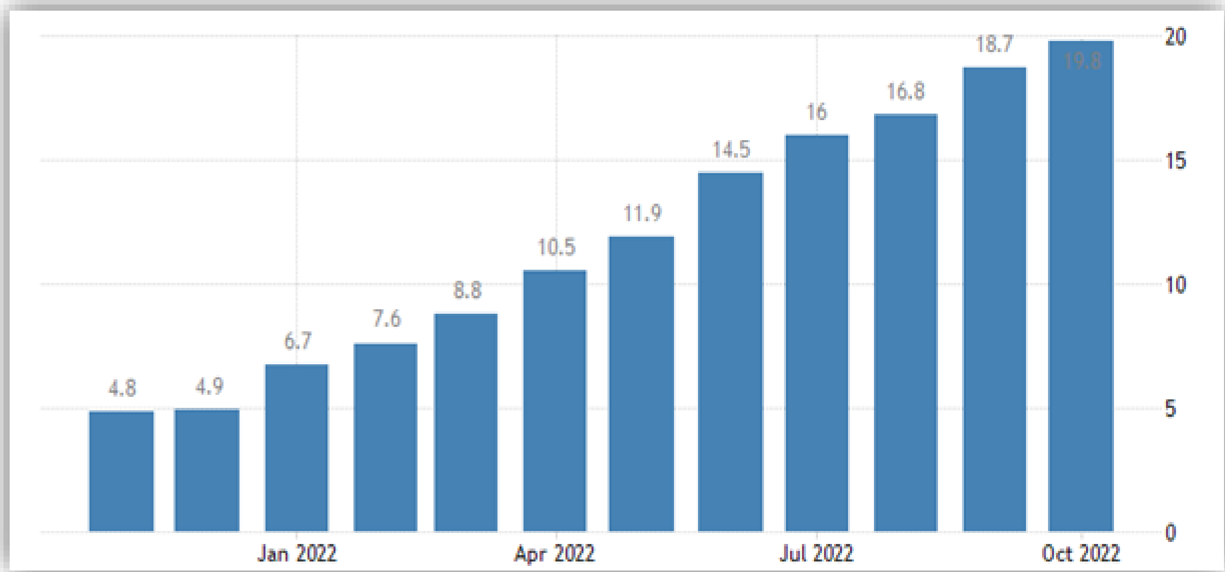
- Prices accelerated the most for food & non-alcoholic beverages (28.7 percent vs 25.1 percent in August; housing & utilities (19.4 percent vs 16.9 percent); clothing & footwear (2.2 percent vs 1.3 percent); restaurant & hotels (26.1 percent vs 24.2 percent); furniture & household equipment (13 percent vs 9.9 percent); miscellaneous goods & services (12.1 percent vs 9.7 percent); alcoholic beverages & tobacco (8.5 percent vs 8 percent); health (4.7 percent vs 3.7 percent) and education (0.4 percent vs 0.2 percent). Meanwhile, inflation was steady for communication (at 0.7 percent) and cost slowed for transport (13.6 percent vs 17.4 percent) and recreation & culture (5.6 percent vs 5.7 percent). On a monthly basis, consumer prices increased 1.6 percent, following a 1.3 percent gain in August.
- In September 2022, following the example of the European Central Bank, the National (Central) Bank started publishing a new indicator of domestic inflation, the so-called “Low IMport Intensity” (LIMI) inflation indicator”. Based on the calculations, it was established that the domestic component of the total inflation is small and it participates with 11.2% in the total index of the cost of living, and covers mostly the categories relating to the services. The LIMI indicates that the current high rate of inflation is mainly imported, reflecting global supply shocks and the demand that is increasingly spilling over into the economy through high import prices. The analysis also shows that there is a growth of this component in the last period, but its contribution to the growth of the total inflation is small. At the same time, in view of long-term growth in the world prices of energy and food, the analysis shows that the increase in this component is mainly a transfer effect from the increase in the prices of these categories.
- Monetary response to the surging inflation - Since the beginning of 2022, the central bank has raised its key rate five times – in April, May, June, July and September. The central bank also decided to increase the interest rate on overnight deposits by 0.5 pp to 0.95% and the rate on seven-day deposits also by 0.5 pp to 1.00%
- According to the European Commission (EC), the monetary policy conducted by the Macedonian National Bank is appropriate to the current conditions and challenges. “Through a gradual increase in interest rates, the National Bank contributes to the stabilization of inflation expectations, taking care not to have significant effects on economic growth and to reduce the negative impact of the health and energy crisis”.

- What complicates the situation further in the Macedonian context is the energy crisis, marked by low supply of electricity, and thus rising cost of electricity due to the high dependence and low availability of energy imports. Since most citizens use electric heaters in winter, energy poverty is likely to spike in the coming months.

The annual inflation rate in North Macedonia continued to climb to reach a new peak of 19.8% in October of 2022, from 18.7% in the prior month. There was a generalized acceleration in prices of goods and services, primarily for food & non-alcoholic beverages (31.2% vs 28.7% in September); housing & utilities (19.8% vs 19.4%) and miscellaneous goods & services (13.3% vs 12.1%). On a monthly basis, consumer prices were up by 1.4%, after increasing by 1.6% in the previous month. (North Macedonia Inflation Rate, 2022

North Macedonia Inflation Rate



Graph 2
Source: State Statistical Office of the Republic of North Macedonia, (2022)

The National Bank applies a gradual increase in the interest rate, with which the risks surrounding inflation are indicated in the past months and consequently measures are taken, while also considering the economy: (National Bank of the Republic of North Macedonia, 2022)

- In addition to the increase in the basic interest rate, the National Bank also took other measures that also affect the banking system and the economy (changes in the mandatory reserve rates, namely the reduction of the mandatory reserve allocation for Denar liabilities and the increase of the allocation for foreign currency liabilities of the banks). Let's point out that with the measure to release banks from the mandatory reserve for newly selected loans for green finance, both lending and the transformation of the economy towards greater use of renewable energy sources are encouraged, which is crucial in this crisis period.
- In the current circumstances surrounding inflation, it is especially important to stabilize expectations, that is, to provide conditions for setting real prices for products by economic entities - prices that are a real reflection of current costs. Stabilizing consumer inflation expectations, on the other hand, should ensure that additional demand and inventory building are contained, which can also fuel inflation.
- Although it is difficult to talk about the further movement of inflation in these extremely uncertain global circumstances, the fact that global inflation projections from all international institutions

point to its slowdown during 2023 is still significant for the future path of inflation. It is supported by the strengthened efforts across the European economies, but also the region, for the transformation of the energy sector and the transition to renewable energy sources, as well as the monetary measures already taken around the world to curb inflation and inflationary expectations.

4. Discussion and conclusion

Inflation is out of control and is eating into real incomes. Soaring global electricity prices are taking an additional toll, as some big industrial plants may be forced to close over the winter. Monetary and fiscal policies are becoming more and more restrictive, further crippling the economy.

According to the latest high-frequency indicators and the data available so far, we forecast a positive but relatively low growth of the Gross Domestic Product, i.e. a growth of 1.5% to 3.5%. The main reason for the predicted relatively low economic growth is the war in Ukraine, the high rise in prices at the world level, as well as the disruption of supply chains in the world.

Industrial production: In the second quarter of 2022, industrial production recorded a modest increase of 2.9%, which is actually within expectations considering the global challenges faced by the world. Namely, the main reason for the low growth of the industry in the analyzed period is actually the deterioration of the global supply chains, but this time caused in a larger part by the war between Russia and Ukraine and in a smaller part by the prolonged health crisis, especially on the territory of the People's Republic of China. The analyzed data by individual industrial branches for the second quarter show that the low growth of industrial production is due to the greater part of the increased production in the "Supply of electricity, gas, steam and air conditioning" sector, whereas the processing industry recorded a negative growth rate. Therefore, the decline is mostly due to the traditional sectors – especially the production of metals and food, whereas the production in the automotive industry, that is, among the exporting companies located in the technological development zones, recorded a stable single-digit growth.

North Macedonia's central bank expects the country's economy to expand by 2.9% in 2022 and 3.6% in 2023, revising downwards its October projections.

Domestic demand will positively contribute to North Macedonia's economic growth in 2022, although to a more moderate degree due to the lower household consumption, while net exports are expected to have a negative contribution, the central bank said in a press release.

The central bank added it is raising its average inflation forecast for 2022 to 8.8% from the previously expected 2.4%, reflecting the rising global prices of primary products and disruptions in global supply chains. For 2023, the central bank projects an average annual inflation of 3%.

However, projection risks are assessed as downward and are mostly related to the course of the conflict between Russia and Ukraine, the statement read.

In October, the central bank projected an economic growth of 3.9% and 4% in 2022 and 2023, respectively.

Last week, North Macedonia's central bank hiked its policy rate by 0.25 percentage points (pp), to 1.75%, after increasing it by 0.25 pp in April, to combat inflation.

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Construction works performed in the period April-May 2022 recorded a real decline of 4.6% compared to the same period of the previous year. Such developments are unfavorable and represent the sixth consecutive quarter of decline in construction in the Republic of North Macedonia. Such data indicate that construction will have a negative contribution to GDP growth in the second quarter of 2022.

Exports of goods in the second quarter of 2022 recorded a growth of 23.5% compared to the same period last year, whereas imports of goods recorded a greater increase of 27.9%. However, the rise in prices on world markets is the main reason for the high growth of exports and imports. The main contribution to the realizations of exports in this period is the growth of the traditional sectors (iron and steel), the export of energy and food, which is mostly due to the upward developments of the stock exchange prices of these primary products on an annual basis, as well as the growth of exports of the automotive industry.

In terms of imports, energy imports have the highest contribution to growth (under conditions of higher energy prices and simultaneously higher imported quantities). The import of iron and steel, the import of food and consumer goods operated in the same direction. A positive contribution to the growth was also recorded by the raw material import of part of the production facilities in foreign ownership.

Taking into account the growth of exports, but also the higher growth of imports, we expect the contribution of net exports to be negative for Q 2 2022.

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