

# Challenges Caused by Inflation for Micro, Small and Mediumsized Enterprises: Analysis of Croatian Market

## Izazovi inflacije za mikro, mala i srednja poduzeća: analiza hrvatskog tržišta

### Abstract

Inflation, as a pervasive macroeconomic phenomenon, represents a constant global challenge faced by Croatian businesses. The main objectives of the paper were to investigate the macroeconomic situation and the way in which micro, small, and medium-sized enterprises operate in conditions of inflation in the Croatian market. A survey was conducted on the sample of 103 managers of Croatian micro, small, and medium-sized enterprises. The research results show the managers' attitudes towards cost-saving measures that Croatian micro, small, and medium-sized enterprises should undertake, as well as towards government measures to combat inflation. An analysis of respondents' answers reveals that state spending and the energy crisis are the main causes of inflation in Croatia from 2021-2023. Finally, the conclusion indicates that inflation is undoubtedly a challenge for micro, small, and medium-sized enterprises, followed by the answers to the research questions and the guidelines for further research in the field studied.

**Key words:** inflation, macroeconomics, micro-enterprises, small and medium-sized enterprises, Croatia

**JEL classification:** E21, E31

### Sažetak

Inflacija kao sveprisutan makroekonomski fenomen na globalnom tržištu predstavlja stalan izazov s kojim se suočavaju hrvatska poduzeća. Glavni ciljevi rada bili su istražiti makroekonomsko stanje i način na koji mikro, mala i srednja poduzeća posluju u uvjetima inflacije na hrvatskom tržištu. Provedeno je istraživanje na uzorku od 103 menadžera hrvatskih mikro, malih i srednjih poduzeća. Rezultati istraživanja pokazuju stavove menadžera prema mjerama štednje koje bi hrvatska mikro, mala i srednja poduzeća trebala poduzeti te prema mjerama vlade za suzbijanje inflacije. Analiza odgovora ispitanika otkriva da su državni troškovi i energetska kriza glavni uzroci inflacije u Hrvatskoj od 2021. do 2023. Na kraju zaključak ukazuje na to da je inflacija nesumnjivo izazov za mikro, mala i srednja poduzeća te slijede odgovori na istraživačka pitanja i smjernice za daljnje istraživanje proučavanog područja.

**Ključne riječi:** inflacija, makroekonomija, mikro poduzeća, mala i srednja poduzeća, Hrvatska

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## 1. Introduction

Today's businesses face increasing challenges in both the microeconomic and macroeconomic dimensions of the environment. Since the impact of an individual company on changes in macroeconomic forces is generally insignificant or almost negligible, companies must know how to appropriately adapt to new market trends and changes in macroeconomic factors. One significant factor in the macroeconomic environment is inflation, which represents a constant challenge for large businesses, especially for micro, small, and medium-sized enterprises, which find it more difficult to resist inflationary pressures in both the global and Croatian economies.

For this reason, the focus of this paper is on the Croatian economy and businesses in the category of micro, small, and medium-sized enterprises (from now on, MSMEs), which, according to the Croatian Chamber of Commerce (2024), consist of companies with fewer than 250 employees, an annual turnover not exceeding 50 million euros, and/or an annual balance sheet total not exceeding 43 million euros. For such businesses, the threat of inflation is a serious challenge as it can have various impacts on their operations, from increased production costs and lower profit margins to reductions in the number of employees. Consequently, businesses may respond by adjusting pricing strategies, managing costs more efficiently, and potentially raising prices to maintain profitability. In general, businesses must carefully monitor and adapt to inflationary changes in the context of retaining and strengthening their competitive position in an increasingly turbulent and demanding market.

MSMEs in the European Union are responsible for two-thirds of jobs in the private sector and contribute to over half of the total value added generated by firms in the European Union. The Commission has put in place a comprehensive framework for policy instruments aiming to bring the "Think Small First" principle into effect, emphasising that SMEs are essential for the delivery of stronger, lasting growth, more and better jobs, and revitalising the European economy Ioannidis & Giakoulas (2023).

High inflation affects businesses – in particular

SMEs – in a variety of ways. With SMEs accounting for more than 99.8 % of the total number of firms in non-financial sectors, as well as 64.4 % of employment and 51.8 % of value added in the EU, the sum of all these impacts – the majority of which do not act independently of one another – can have important consequences on the ability of the EU economy to grow. It is, therefore, important to understand how inflation has impacted SMEs, both in general and when compared with large firms, as well as to explore the heterogeneity of inflationary effects on firms operating in different industrial ecosystems (Schito et al., 2023). However, it also has broader socio-economic effects (Bošnjak et al., 2024).

The recent inflationary wave in the EU has had a negative impact on businesses, with some disproportionate effects on SMEs. Inflation initially reduced the profitability of SMEs as production costs increased, and SMEs were less likely to pass costs on than large firms. This led to a decline in EU SMEs' added value by 2.3% in 2022. Given that inflation also led to an increase in interest rates, SMEs also face reduced access to finance (Di Bella et al., 2023).

Globan et al. (2015) empirically analysed the domestic and external inflation determinants for eight new EU member states, including Croatia, that are non-Eurozone. They found that foreign shocks are a major factor in explaining inflation dynamics in the medium run. This might be the case due to relatively high imports in Croatia, and so inflation in Croatia is determined by costs and not by money supply (Živko & Bošnjak, 2017).

Jovičić and Kunovac (2017) stated that Croatia is a small open economy, which means that it is very dependent on a broader economic environment (European Union and the rest of the world). With the rise in inflation since 2021, a new generation of policymakers rediscovered in practice the powerful interactions between inflation and public finances. A series of shocks, including global supply chain disruptions and labour shortages following the recovery from the Covid pandemic, as well as energy and food supply dislocations due to the war in Ukraine, raised inflation in many advanced and emerging market economies to levels not seen since the 1970s (Mihaljek, 2023).

High inflation is only the latest in a series of shocks that firms and policymakers in Croatia and other European countries have recently had to deal with. Following the unprecedented rise in public spending during the COVID-19 pandemic in 2020-21, Croatia and other EU countries were hit in 2022-23 by a sharp increase in prices across sectors that influence the global economy (Banić et al., 2023).

Based on this, the research goals are primarily to provide general insights into the macroeconomic scene in Croatia, as well as the way in which MSMEs respond to the pressures of inflation, to offer both Croatian businesses and the government suggestions with regard to conducting adequate activities to combat actual inflation. Accordingly, there are three main research questions formulated as follows:

- RQ1. Were the introduction of the euro and the energy crisis the main causes of inflation in Croatia during the period 2021-2023?
- RQ2. Are government measures beneficial in the long-term fight against inflation in Croatia?
- RQ3. Should Croatian MSMEs generally optimise overall operations and avoid laying off workers to reduce operating costs in conditions of inflation?

A primary research study was conducted to obtain answers to the posed research questions. The main objective was to investigate the way in which MSMEs operate in conditions of inflation in Croatia. The research is quantitative, employing a survey approach using a Google Survey Form as the designated research instrument.

The paper is divided into several chapters, beginning with a brief introduction to set the context of the study. In the next section of the paper, the macroeconomic landscape of the Croatian economy is analysed, which can provide insights into some of the problems faced by the contemporary Croatian economy, as well as MSMEs operating in Croatia. The following chapter on theoretical background provides essential insights into inflation as a macroeconomic variable. It describes the role of the government in combating inflation and how MSMEs in Croatia respond to inflationary pressures. The next section describes the research methodology,

followed by the presentation of research results and the appropriate discussion, followed by a conclusion that provides answers to the research questions, outlines the limitations of the research, and suggests the need for further research in the studied field.

## 2. Literature review

### 2.1. Inflation as a macroeconomic variable

Numerous authors have defined the concept of inflation, but the essence of conceptual definition is found in the long-term increase in the general price level within an economy (Blanchard, 2011; Bošnjak et al., 2021; Šimičević et al., 2023). The same author also defines the inflation rate as the rate at which product prices increase over a specified period and deflation as a negative inflation rate involving a constant decrease in the general price level of products in the market.

There are various methods to measure inflation, but this paper focuses on three price movement indicators that are applicable and relevant to the Croatian economy. Firstly, the Consumer Price Index (CPI), defined by the Croatian National Bank (2024), serves as a general measure of inflation in the Republic of Croatia. The significance of the index lies in its indication of changes in the price level of products purchased, paid for, or used by the population for final consumption. In the United States, this index has been used since 1917 (Federal Reserve Bank of Minneapolis, 2024).

Furthermore, the second indicator is the Harmonized Index of Consumer Prices (HICP), which represents a set of European consumer price indices calculated according to a harmonised approach defined by specific definitions. This allows for a comparable measure of inflation across EU member states and EU candidate countries. It is important to note that the fundamental difference between the two indices lies in the broader coverage of the HICP, which includes institutional households and non-residents within a given economy, a scope not covered by the Consumer Price Index (Croatian National Bank, 2024).

The third indicator used to monitor price changes is the Gross Domestic Product (GDP) deflator. As explained by Blanchard (2011), the GDP deflator

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measures the difference between nominal and real GDP attributable to inflation. Unlike the Consumer Price Index, the GDP deflator includes prices of all goods and services produced in an economy, regardless of whether they are intended for domestic consumption or exports (Croatian National Bank, 2024).

Historically, inflation is a relatively recent phenomenon associated with the 20th and 21st centuries, interpreted as an excess of money supply relative to the output quantity (Capie, 2022). However, some authors have attempted to measure the inflation rate even before the 20th century. Harris (2014), for instance, measured inflation in America from 1634 to 1860 based on records of the estates of deceased individuals, assigning certain monetary values to their assets. However, the size of today's consumer basket obtained from Harris' approach significantly differs from the size calculated using contemporary methods.

Furthermore, inflation can be classified based on the rate size into the following types: (1) mild or creeping inflation – economically acceptable inflation with an annual rate of 2 to 3%; (2) moderate inflation – inflation with an annual rate of 5 to 10%; (3) galloping inflation – inflation with a rate exceeding 10% annually; (4) chronic inflation or hyperinflation – inflation with an annual rate exceeding 25%. Nobel laureate Milton Friedman (1969) advocated for an inflation rate of 0%, whereas numerous economists (Billi, 2009; Nettek, 1962; Samuelson, 1964; Tobin, 1972, cited in Khranov and Ridings Lee, 2013) concluded that beneficial inflation falls between 0.35% and 2%. Recently, economists argued that many central banks aim for low and stable inflation up to 2% (Oner, 2021). Such targeted inflation rate is compared with the projected future inflation path developed by the central bank in each economy, and any deviation between the forecast and the target dictates necessary adjustments to monetary policy instruments (Žigman, Lovrinčević, 2005), which is one of the key tasks of the state in combating inflation.

## 2.2. Role of the state in dealing with inflation

Every country plays a significant role in addressing inflation through its policies, bodies, and

instruments. Specifically, a country can respond to inflationary pressures through fiscal and monetary policies (European Central Bank, 2024). Monetary policy regulates the amount of money available in the market, either by reducing or increasing interest rates of commercial banks or by determining the level of bank reserves, as determined by the central bank of the country (European Central Bank, 2015). Bank reserves refer to the assets that commercial banks must hold with the central bank to cover deposits of citizens, which can largely be used to meet obligations in case of bank illiquidity (Hrvatska enciklopedija, 2024). Therefore, if a country faces high inflation, the government will attempt to control it by reducing the amount of money available in the market, and increasing the interest rate is a useful and effective measure in that context. The main executor of monetary policy in the Republic of Croatia is the Croatian National Bank, whose primary goal as the central bank is price stability. According to Lang (2002), the outcome achieved by an independent central bank is dominant compared to the consequential outcome of a central bank's dependence on policy.

In addition to monetary policy, the state can control inflation through fiscal policy, which is one of the key macroeconomic policies acting as a stabiliser of the economy. This means that during a recession, fiscal policy should stimulate GDP growth, while during periods of expansion, it should moderate it (Economic Base, 2023). One of the leading advocates of fiscal policy during times of crisis was John Maynard Keynes, who gained prominence during the Great Depression (1929-1933). He distinguished himself with an open letter to U.S. President Franklin D. Roosevelt, offering a solution to the crisis through increased employment and GDP growth (Keynes, 1933).

In today's world, governments choose between fiscal and monetary measures, but in principle, the best option is the alignment of these compatible measures (Knežević, 2022). However, it is essential to bear in mind that politics influence fiscal policy, while politically independent central banks influence monetary policy. In addition, as emphasised by the same author (2022), another complicating factor in combating inflation is the frequent changes in economic systems, and

consequently, implementing measures such as raising interest rates or taxes at the wrong time can have harmful economic consequences, both in the short and long term.

### 2.3. Micro, small and medium-sized enterprises in conditions of inflation

The year 2022 was marked by a drastic increase in inflation rates across European countries, which, as highlighted by Di Bella and associates (2023), led to rising interest rates, and subsequently reduced available financial resources. The increase in energy and commodity prices added additional pressure, creating an energy crisis. Additionally, the ongoing war situation in Ukraine and the inevitable digitalisation of business were identified as additional challenges, especially for MSMEs and companies whose operations are tied to affected markets. As noted by the same authors in their report on the impact of inflation on MSMEs, EU member states implemented various anti-inflationary measures, primarily focusing on addressing the key driver of the current inflationary cycle, namely the energy crisis in Europe.

Furthermore, the final report on MSMEs and high inflation (Schito et al., 2023) does not recommend the introduction of measures such as price controls on electricity, fuel, and gas, as well as reduced taxation on certain food items, i.e., measures that the Croatian government has implemented. The report also highlights that inflation has predominantly affected the energy ecosystem and agriculture, followed by tourism, retail, and construction sectors, with the least negative impact on the healthcare, digital, and social sectors.

According to the same authors (Schito et al., 2023), the impact of inflation on the profitability of businesses is twofold. Initially, inflation should decrease profitability, but over time, businesses tend to pass these costs onto consumers by increasing their prices. However, research indicates that the likelihood of passing increased costs to consumers is lower for MSMEs, as they are more inclined to reduce their profit margins instead. Schito and associates (2023) note that despite inflationary pressures, MSMEs in Europe have increased their investment expenditures to protect the value of their money. Nevertheless, due to

subsequent increases in interest rates, a reduction in these investments is predicted soon.

## 3. Methodology

### 3.1. Background: Macroeconomic situation in Croatia

A concise overview and analysis of key macroeconomic indicators in Croatia provide insight into the current state of the Croatian economy faced by MSMEs operating in Croatia, which is essential to better understanding the issues examined in this paper.

First and foremost, it is important to highlight that Croatia has recorded higher growth in Gross Domestic Product (GDP) compared to the European Union average from 2015 to 2022 (Eurostat, 2024a), which is expected from a developing country like Croatia. More developed European economies have already passed this phase and are now in an economic stage with lower GDP growth rates.

Regarding the macroeconomic variable of unemployment, the average unemployment rate in Croatia was 16% from 2013 to 2016, after which it stabilised and averaged 10.62% annually up to 2022, which is still above the European Union average of 8.20% in the observed period (Eurostat, 2024b).

Inflation is a macroeconomic indicator of an economy's state. From 2012 to 2023, Croatia's inflation rate was higher than the average European rate (Table 1).

After the inflation crisis of the 1990s, Croatia implemented a successful anti-inflation economic policy. Since 2012, according to Table 1, it is evident that the Croatian economy does not significantly deviate from the European average in terms of the inflation rate. However, it is important to note that the inflation rate rose sharply after 2020, reaching 10.7% in 2022 and then fell to 8.4% in 2023. However, a successful anti-inflation policy is not necessarily an indication that economic policy is also stabilising and developing (Kobsa, 2008).

A considerable size of the shadow economy presents an additional challenge for the Croatian economy, which is the reason why Croatian citizens have developed a negative attitude towards taxes,

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**Table 1** The average inflation rate in Croatia and the European Union (2012-2023)

| TIME            | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Mean | SD    |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| European Union  | 2.6  | 1.3  | 0.4  | 0.1  | 0.2  | 1.6  | 1.8  | 1.4  | 0.7  | 2.9  | 9.2  | 6.4  | 1.5  | 2.63  |
| Euro area       | 2.5  | 1.3  | 0.4  | 0.2  | 0.2  | 1.5  | 1.8  | 1.2  | 0.3  | 2.6  | 8.4  | 5.4  | 1.4  | 2.35  |
| Belgium         | 2.6  | 1.2  | 0.5  | 0.6  | 1.8  | 2.2  | 2.3  | 1.2  | 0.4  | 3.2  | 10.3 | 2.3  | 2.   | 2.54  |
| Bulgaria        | 2.4  | 0.4  | -1.6 | -1.1 | -1.3 | 1.2  | 2.6  | 2.5  | 1.2  | 2.8  | 13.0 | 8.6  | 1.8  | 4.08  |
| Czechia         | 3.5  | 1.4  | 0.4  | 0.3  | 0.6  | 2.4  | 2.0  | 2.6  | 3.3  | 3.3  | 14.8 | 12.0 | 2.5  | 4.43  |
| Denmark         | 2.4  | 0.5  | 0.4  | 0.2  | 0.0  | 1.1  | 0.7  | 0.7  | 0.3  | 1.9  | 8.5  | 3.4  | 0.7  | 2.28  |
| Germany         | 2.2  | 1.6  | 0.8  | 0.7  | 0.4  | 1.7  | 1.9  | 1.4  | 0.4  | 3.2  | 8.7  | 6.0  | 1.65 | 2.4   |
| Estonia         | 4.2  | 3.2  | 0.5  | 0.1  | 0.8  | 3.7  | 3.4  | 2.3  | -0.6 | 4.5  | 19.4 | 9.1  | 3.3  | 5.21  |
| Ireland         | 1.9  | 0.5  | 0.3  | 0.0  | -0.2 | 0.3  | 0.7  | 0.9  | -0.5 | 2.4  | 8.1  | 5.2  | 0.6  | 2.45  |
| Greece          | 1.0  | -0.9 | -1.4 | -1.1 | 0.0  | 1.1  | 0.8  | 0.5  | -1.3 | 0.6  | 9.3  | 4.2  | 0.55 | 2.88  |
| Spain           | 2.4  | 1.5  | -0.2 | -0.6 | -0.3 | 2.0  | 1.7  | 0.8  | -0.3 | 3.0  | 8.3  | 3.4  | 1.6  | 2.35  |
| France          | 2.2  | 1.0  | 0.6  | 0.1  | 0.3  | 1.2  | 2.1  | 1.3  | 0.5  | 2.1  | 5.9  | 5.7  | 1.25 | 1.86  |
| Croatia         | 3.4  | 2.3  | 0.2  | -0.3 | -0.6 | 1.3  | 1.6  | 0.8  | 0.0  | 2.7  | 10.7 | 8.4  | 1.45 | 3.38  |
| Italy           | 3.3  | 1.2  | 0.2  | 0.1  | -0.1 | 1.3  | 1.2  | 0.6  | -0.1 | 1.9  | 8.7  | 5.9  | 1.2  | 2.6   |
| Cyprus          | 3.1  | 0.4  | -0.3 | -1.5 | -1.2 | 0.7  | 0.8  | 0.5  | -1.1 | 2.3  | 8.1  | 3.9  | 0.6  | 2.61  |
| Lithuania       | 3.2  | 1.2  | 0.2  | -0.7 | 0.7  | 3.7  | 2.5  | 2.2  | 1.1  | 4.6  | 18.9 | 8.7  | 2.35 | 5.12  |
| Luxembourg      | 2.9  | 1.7  | 0.7  | 0.1  | 0.0  | 2.1  | 2.0  | 1.6  | 0.0  | 3.5  | 8.2  | 2.9  | 1.85 | 2.15  |
| Hungary         | 5.7  | 1.7  | 0.0  | 0.1  | 0.4  | 2.4  | 2.9  | 3.4  | 3.4  | 5.2  | 15.3 | 17.0 | 3.15 | 5.38  |
| Malta           | 3.2  | 1.0  | 0.8  | 1.2  | 0.9  | 1.3  | 1.7  | 1.5  | 0.8  | 0.7  | 6.1  | 5.6  | 1.25 | 1.81  |
| Netherlands     | 2.8  | 2.6  | 0.3  | 0.2  | 0.1  | 1.3  | 1.6  | 2.7  | 1.1  | 2.8  | 11.6 | 4.1  | 2.1  | 2.97  |
| Austria         | 2.6  | 2.1  | 1.5  | 0.8  | 1.0  | 2.2  | 2.1  | 1.5  | 1.4  | 2.8  | 8.6  | 7.7  | 2.1  | 2.44  |
| Poland          | 3.7  | 0.8  | 0.1  | -0.7 | -0.2 | 1.6  | 1.2  | 2.1  | 3.7  | 5.2  | 13.2 | 10.9 | 1.85 | 4.21  |
| Portugal        | 2.8  | 0.4  | -0.2 | 0.5  | 0.6  | 1.6  | 1.2  | 0.3  | -0.1 | 0.9  | 8.1  | 5.3  | 0.75 | 2.4   |
| Romania         | 3.4  | 3.2  | 1.4  | -0.4 | -1.1 | 1.1  | 4.1  | 3.9  | 2.3  | 4.1  | 12.0 | 9.7  | 3.3  | 3.64  |
| Slovenia        | 2.8  | 1.9  | 0.4  | -0.8 | -0.2 | 1.6  | 1.9  | 1.7  | -0.3 | 2.0  | 9.3  | 7.2  | 1.8  | 2.9   |
| Slovakia        | 3.7  | 1.5  | -0.1 | -0.3 | -0.5 | 1.4  | 2.5  | 2.8  | 2.0  | 2.8  | 12.1 | 11.0 | 2.25 | 3.93  |
| Finland         | 3.2  | 2.2  | 1.2  | -0.2 | 0.4  | 0.8  | 1.2  | 1.1  | 0.4  | 2.1  | 7.2  | 4.3  | 1.2  | 1.99  |
| Sweden          | 0.9  | 0.4  | 0.2  | 0.7  | 1.1  | 1.9  | 2.0  | 1.7  | 0.7  | 2.7  | 8.1  | 5.9  | 1.4  | 2.31  |
| Iceland         | 6.0  | 4.1  | 1.0  | 0.3  | 0.8  | -1.7 | 0.7  | 2.0  | 1.2  | 3.7  | 5.7  | 8.0  | 1.6  | 2.73  |
| Norway          | 0.4  | 2.0  | 1.9  | 2.0  | 3.9  | 1.9  | 3.0  | 2.3  | 1.2  | 3.9  | 6.2  | 5.8  | 2.15 | 1.69  |
| Switzerland     | -0.7 | 0.1  | 0.0  | -0.8 | -0.5 | 0.6  | 0.9  | 0.4  | -0.8 | 0.5  | 2.7  | 2.3  | 0.25 | 1.09  |
| North Macedonia | 1.8  | 2.7  | 0.0  | 0.1  | 0.2  | 2.1  | 2.3  | 0.7  | 1.2  | 3.4  | 14.0 | 9.0  | 1.95 | 4.02  |
| Serbia          | 7.4  | 7.7  | 2.3  | 1.5  | 1.3  | 3.3  | 2.0  | 1.9  | 1.8  | 4.0  | 11.7 | 12.1 | 2.8  | 3.8   |
| Türkiye         | 9.0  | 7.5  | 8.9  | 7.7  | 7.7  | 11.1 | 16.3 | 15.2 | 12.3 | 19.6 | 72.3 | 54.0 | 11.7 | 19.94 |
| United States   | 2.1  | 1.2  | 1.3  | -0.8 | 0.6  | 1.8  | 2.2  | 1.4  | 0.8  | 5.3  | 8.7  | 3.0  | 1.6  | 2.39  |

Source: Eurostat (2024c).

which is not a characteristic of a healthy economy. This is also in contrast to economies of countries with a similar population size (e.g., Finland), where tax payment is a competition in which citizens take pride in the amount of tax they have paid (Barry, 2018).

### 3.2. Data

The survey questionnaire included two screening questions aimed at precise sampling, targeting only respondents in managerial positions working in MSMEs based in Croatia. After the screening questions, the questionnaire consisted of 16 closed-ended questions divided into three separate sections: (i) general information about the company and the respondent, (ii) questions about the macroeconomic situation in Croatia, and (iii) questions about the business operations of the company in conditions of inflation. Most questions were designed as multiple-choice questions and Likert scale items. The final open-ended question asked respondents for additional comments regarding the impact of inflation on MSMEs' operations.

The survey questionnaire was distributed via email to 400 employees' addresses in MSMEs from June to December 2023. Out of the total, 103 fully

completed questionnaires were returned, resulting in a response rate of 25.75%, which constitutes the final sample of the study. The characteristics of the respondents from the sample are presented in Table 2.

According to the data in Table 2, almost half of the research sample are managers with a major stake in company ownership, and the other half of the respondents are employees who do not have any stake in the company in which they work.

Regarding the type of managerial position, the respondents hold, the majority are company directors, 53.4% of them, and the other larger position category is a sector manager (32%). Other managerial positions, such as a board member, CEO, or department manager, are insignificantly represented in the research sample. Most managers make decisions at all three levels, strategic, operational, and tactical, in their companies. However, the largest number of surveyed managers make decisions at the operational decision-making level, 81.6% of the sample.

The respondents are responsible for departments, and the responses show that the majority of MSME managers are responsible for more than one department in the company, mostly the sales, finance, and procurement departments.

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**Table 2** Characteristics of the respondents

| Characteristics               | Modalities              | Frequency | Structure in % |
|-------------------------------|-------------------------|-----------|----------------|
| Ownership Stake of Company    | Major                   | 49        | 47.6%          |
|                               | Minor                   | 3         | 2.9%           |
|                               | None                    | 51        | 49.5%          |
| Type of Managerial Position   | Company Director        | 55        | 53.4%          |
|                               | Board Member            | 4         | 3.9%           |
|                               | Chief Executive Officer | 2         | 1.9%           |
|                               | Sector Manager          | 33        | 32.0%          |
|                               | Department Manager      | 2         | 1.9%           |
|                               | Other                   | 7         | 6.9%           |
| Level of Decision-Making      | Strategic               | 70        | 68.0%          |
|                               | Operational             | 84        | 81.6%          |
|                               | Tactical                | 60        | 58.3%          |
|                               | Other                   | 2         | 1.9%           |
| Departments of Responsibility | Finance                 | 66        | 64.1%          |
|                               | Controlling             | 40        | 38.8%          |
|                               | Operations              | 59        | 57.3%          |
|                               | Sales                   | 74        | 71.8%          |
|                               | Procurement             | 62        | 60.2%          |
|                               | Human Resources         | 55        | 53.4%          |
|                               | Marketing               | 49        | 47.6%          |
| Other                         | 2                       | 1.9%      |                |

Source: Authors' work.

**Table 3** Characteristics of the surveyed MSMEs (n=103)

| Characteristics        | Modalities                  | Frequency | Structure in % |
|------------------------|-----------------------------|-----------|----------------|
| Number of Employees    | Less than 10 (micro)        | 51        | 49.5%          |
|                        | 10 – 49 (small)             | 35        | 34.0%          |
|                        | 50 – 250 (medium)           | 17        | 16.5%          |
| County of Headquarters | City of Zagreb              | 55        | 53.4%          |
|                        | Zagreb County               | 15        | 14.6%          |
|                        | Split-Dalmatia County       | 12        | 11.7%          |
|                        | Zadar County                | 4         | 3.9%           |
|                        | Istria County               | 3         | 2.9%           |
|                        | Other                       | 14        | 13.5%          |
| Main business activity | Wholesale and Retail Trade  | 17        | 16.5%          |
|                        | Information & Communication | 12        | 11.7%          |
|                        | Construction                | 11        | 10.7%          |
|                        | Other services              | 10        | 9.7%           |
|                        | Education                   | 5         | 4.9%           |
|                        | Other                       | 48        | 46.6%          |

Source: Authors' work.

The sampled MSMEs also have responsibility for operations and human resources departments.

As noticeable in Table 3, the characteristics of the surveyed MSMEs show that almost half, 49.5%, are micro-enterprises with less than ten employees, 34% belong to the category of small-sized enterprises with 10-49 employees, and 16.5% of the sample fall into the medium-sized enterprise group with the 50-250 employee range. Therefore, it can be noticed that the sample is characterised by an appropriate distribution of companies from the three observed categories according to the number of employees.

All the sampled MSMEs operate in the Croatian market and have their headquarters in the Republic of Croatia, which was a prerequisite for participating in the survey. As expected, the headquarters of the majority of the MSMEs are registered in the Croatian capital city of Zagreb (53.4%). In comparison, 14.6% of businesses have their headquarters in Zagreb County and 11.7% of them in Split-Dalmatia County. The rest of the sampled MSMEs are equally distributed among the remaining Croatian counties.

When it comes to main business activity, the sample consists of companies from all 29 offered activities, among which three can be singled out with a slightly higher percentage in the sample. Therefore, these are wholesale and retail trade (16.5%), followed by information and communication (11.7%) and construction (10.7%) as categories in the observed sample of companies.

## 4. Research results

### 4.1. Perception about the macroeconomic situation in the Republic of Croatia

First and foremost, with a set of questions on macroeconomic policy in Croatia, the aim was to determine the perceptions and attitudes of MSME managers regarding the causes of inflation during the period from 2021 to 2023, the macroeconomic policy measures implemented by the Government of the Republic of Croatia, and their views on the main bearer of most of the burden caused by the inflation crisis.

Specifically, respondents attribute the primary causes of current inflation in Croatia to excessive government spending, with 64.1%, and the energy crisis (63.1%). Additionally, 46.6% of managers believe that the introduction of the euro into the Croatian market has been an important cause of inflation. Fewer respondents, around 30%, attribute inflation to entrepreneurial opportunism, increased money supply, and supply chain issues affecting MSMEs.

In response to the question of who should bear the greatest burden because of the inflation crisis, the majority of managers prioritise the state budget, with 54.4% selecting it as the primary solution. Following that, entrepreneurs were chosen by 40.8% of respondents, and workers were chosen by 33%. About 29% of respondents rank individual citizens of Croatia as bearing the burden. Specifically, the state budget holds a statistically

significant higher rank (1.98) compared to all other proposed bearers of the burden due to inflationary pressures ( $p < 0.05$ ).

Furthermore, managers were asked to express their opinions on how to combat the current inflation. Most respondents (61.2%) believe that inflationary pressures should be addressed with both fiscal and monetary policy measures. In the theoretical elaboration of the studied issue, the challenge of fiscal and monetary measures was discussed, highlighting one of the contemporary theories advocating for the synergy of combining monetary and fiscal policy measures (Knežević, 2022), which is confirmed by the views of the respondents in this study.

At the end of the section on the macroeconomic situation, a series of statements were presented to determine to what extent managers of MSMEs agree with or support the measures taken by the Government of the Republic of Croatia in dealing with inflationary pressures, as shown in Table 4.

According to Table 4, it can be concluded that the respondents' answers are inconsistent, as clearly indicated by the high standard deviation values

up to 3.39. A slightly lower standard deviation is related to the statement, "The government measure of an additional tax on extra profits is harmful to entrepreneurs," with which most managers agree or strongly agree. However, with the other statements regarding the anti-inflationary measures of the Croatian government, the respondents are divided in their opinions, generally maintaining a neutral stance. Nevertheless, half of the respondents believe that other European Union countries are implementing more effective anti-inflationary measures than Croatia, and a large percentage of managers, as much as 36.9%, hold a neutral stance, which can be interpreted as their lack of knowledge about the macroeconomic situation and anti-inflationary measures in other EU countries.

The Pearson correlation analysis revealed the statistically significant correlations between the following statements: The government measure of monitoring price movements in retail chains is useful in combating inflation, and The government measure of controlling the prices of basic foodstuffs is beneficial in the long term ( $r = 0.61$ ,  $p < 0.05$ ). It was also observed that the statement that the government measure of controlling the

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**Table 4** Descriptive statistics for statements on government anti-inflation measures (N=103)

| Statements:   | Mean | St. Dev. | Strongly agree | 2     | 3     | 4     | Strongly disagree |
|---|------|----------|----------------|-------|-------|-------|-------------------|
| The government measure of an additional tax on extra profits is useful in combating inflation.          | 3.7  | 3.39     | 9.7%           | 13.6% | 22.3% | 16.5% | 37.9%             |
| The government's measure of an additional tax on extra profits is harmful to entrepreneurs.             | 2.51 | 2.07     | 37.9%          | 18.4% | 29.1% | 10.7% | 3.9%              |
| The government measure of monitoring price movements in retail chains is useful in combating inflation. | 3.4  | 3.17     | 13.6%          | 22.3% | 19.4% | 9.7%  | 35.0%             |
| The government's measure of controlling energy prices is beneficial in the long term.                   | 3.03 | 2.79     | 16.5%          | 25.2% | 26.2% | 11.7% | 20.4%             |
| The government's measure of controlling the prices of basic foodstuffs is beneficial in the long term.  | 3.09 | 2.88     | 20.4%          | 20.4% | 19.4% | 18.4% | 21.4%             |
| Other European Union countries have more effective anti-inflation measures than Croatia.                | 2.53 | 2.24     | 26.2%          | 22.3% | 36.9% | 8.7%  | 5.8%              |

Source: Authors' work.

**Table 5** Changes in MSMEs' performance indicators in 2022 compared to 2021 (n=103)

| Characteristics | Modalities                | Frequency | Structure in % |
|-----------------|---------------------------|-----------|----------------|
| Total revenue   | Increased by 10% and more | 56        | 54.4%          |
|                 | Increased by 2-10%        | 19        | 18.3%          |
|                 | Increased by 2% and less  | 11        | 10.7%          |
|                 | Remained unchanged        | 4         | 3.9%           |
|                 | Decreased                 | 8         | 7.8%           |
|                 | I have no information     | 5         | 4.9%           |
| Profit          | Increased by 10% and more | 47        | 45.6%          |
|                 | Increased by 2-10%        | 27        | 26.2%          |
|                 | Increased by 2% and less  | 10        | 9.8%           |
|                 | Remained unchanged        | 3         | 2.9%           |
|                 | Decreased                 | 7         | 6.8%           |
|                 | I have no information     | 9         | 8.7%           |
| Costs           | Increased by 10% and more | 46        | 44.6%          |
|                 | Increased by 2-10%        | 32        | 31.1%          |
|                 | Increased by 2% and less  | 12        | 11.6%          |
|                 | Remained unchanged        | 4         | 3.9%           |
|                 | Decreased                 | 1         | 1.0%           |
|                 | I have no information     | 8         | 7.8%           |
| Wages           | Increased by 10% and more | 27        | 26.2%          |
|                 | Increased by 2-10%        | 33        | 32.1%          |
|                 | Increased by 2% and less  | 17        | 16.5%          |
|                 | Remained unchanged        | 11        | 10.7%          |
|                 | Decreased                 | 2         | 1.9%           |
|                 | I have no information     | 13        | 12.6%          |
| Product prices  | Increased by 10% and more | 36        | 35.0%          |
|                 | Increased by 2-10%        | 26        | 25.2%          |
|                 | Increased by 2% and less  | 20        | 19.4%          |
|                 | Remained unchanged        | 1         | 1.0%           |
|                 | Decreased                 | 17        | 16.5%          |
|                 | I have no information     | 3         | 2.9%           |

**Source:** Authors' work.

prices of basic foodstuffs is beneficial in the long term positively correlates with the statement. The government measure of controlling energy prices is beneficial in the long term ( $r=0.59, p<0.05$ ), with a significance level of less than 5% in both cases.

#### 4.2. Croatian MSM enterprises in the inflationary pressures

A significant focus of the research was on the operations of MSMEs in the conditions of inflation from 2021 to 2023, particularly on changes in financial performance indicators, price determination, cost management, and cost-saving measures during inflation.

Namely, almost all sampled companies (91.3%) operated with a profit in 2022. The profitability of MSMEs is evidence that they have successfully dealt with the challenges of inflationary pressures and increased costs due to the energy crisis. The Government of the Republic of Croatia also

contributed to this (Narodne novine, 2023) through the enactment of the Regulation on the elimination of disturbances in the domestic energy market, which limited the prices of energy sources and consequently helped reduce companies' costs.

Table 5 shows the changes in other performance indicators in 2022 compared to 2021.

The results clearly show an increase in total revenue (54.4%) and profits (45.6%) of surveyed companies in 2022 by more than 10%. However, there was also a corresponding increase in costs of 44.6%, with wages rising at 26.2% of the companies. It is worth noting that a statistically significant correlation was found between increased revenue and profits in 2022 compared to the previous year ( $r=0.74, p<0.05$ ).

In most sampled companies, despite the increased costs, neither revenue nor profits decreased, and they did not respond to significant cost increases by reducing wages or laying off employees.

Furthermore, in 35% of the companies, the number of employees remained unchanged, while 55.3% of companies hired additional workers that year.

However, the majority of surveyed MSMEs, 79.6% of them, in 2022 reacted to increased costs by raising the prices of their products. Price increases of 6% and above were recorded in 60.2% of the surveyed companies.

Regarding cost-saving measures preferred by respondents in a cost-cutting situation, the majority opt for optimising general operations (73.8%) and procurement optimisation (64.1%), followed by government incentives mentioned by 46.6% of them. Furthermore, the variables of general operations optimisation and procurement optimisation are significantly correlated to a greater extent ( $r=0.5, p<0.05$ ).

When it comes to measures that respondents are not inclined to take during inflation, primarily mentioned are employee layoffs, asset liquidation, and profit reduction. However, it is important to note that middle-sized company managers consider employee layoffs a more effective cost-saving measure significantly more than managers in micro and small businesses (average values 1.27 vs 1.10).

## 5. Discussion

Based on the data and analysis presented in the paper, several issues need to be discussed before answering the research questions.

The research results generally indicate a neutral stance among most MSME managers towards government measures in combating inflation, supporting the modern view of the collaborative action of fiscal and monetary policies. Additionally, most surveyed managers believe that the government budget should bear the majority of the burden resulting from inflationary pressures. In contrast, employees and individuals (citizens) should bear the least burden, reflecting a certain level of social sensitivity among Croatian MSME managers.

Furthermore, it is important to highlight that the majority of MSMEs successfully faced the challenge of rising operating costs during the inflation crisis without transferring the burden onto their

employees through layoffs or wage reductions. Moreover, most companies operated with profits that year and recorded growth in total revenue and profits, indicating the recovery of Croatian MSMEs after the crisis period caused by COVID-19.

The findings that the majority of companies raised their product prices in 2022 reveal the solution they chose to partially shift the burden of rising costs, similar to companies in the European Union, onto consumers. It is important to note that the results of the conducted research align with research conducted on a sample of European MSMEs, who also transferred rising costs to consumers to a greater extent by increasing their product prices (Schito et al., 2023).

Finally, Croatian MSMEs prioritise optimising their operations as one cost-saving measure during inflationary pressures. This decision underscores their strategic approach to managing expenses and maintaining competitiveness in challenging economic environments.

## 6. Conclusion

Considering the analysis of responses from MSME managers and the interpretation of research results, the general conclusion is that inflation is undoubtedly a challenge for the operations of micro, small, and medium-sized enterprises. In addition, certain conclusions remarks can be formulated in order to respond to the previously formed research questions, as follows. First, the main causes of inflation in Croatia during the period 2021-2023 were state spending and the energy crisis, along with the introduction of the Euro to a lesser extent. Namely, respondents view the introduction of the euro as an important factor contributing to the inflation crisis in Croatia but not one of the two key causes (RQ1). Generally, government measures are not principally considered beneficial in the long term in combating inflation in Croatia (RQ2). More specifically, the government measures to control energy and basic food prices are not principally considered beneficial in the long term in combating inflation in Croatia. In addition, the government measure of monitoring prices in retail chains is not principally considered beneficial in the long term in combating inflation, and the government measure of imposing an additional tax on extra

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profits is not principally considered beneficial in the long term in combating inflation in Croatia. Instead, it is considered harmful for entrepreneurs. Finally, Croatian MSMEs should principally optimise overall operations and avoid laying off workers to reduce operating costs in inflationary conditions. In the face of rising costs, increasing product prices is principally considered a more appropriate option to ensure an enterprise's survival (RQ3). However, the research has its limitations, primarily highlighted by the small sample size of surveyed MSMEs. A larger sample would ensure a better distribution of respondents' answers, thereby increasing the accuracy and reliability of the research results. Additionally, focusing solely on one group of stakeholders in the research can lead to a limited

perspective on the studied issue. To gain a more comprehensive and accurate understanding of the macroeconomic situation in Croatia and the operations of MSMEs in an inflationary environment, it is essential to include a wider range of stakeholders in the research. This could involve incorporating perspectives from MSME employees to understand their experiences and challenges, engaging with government representatives to explore policy implications, and consulting with leading experts in macroeconomics and entrepreneurship in Croatia for valuable insights. Besides, further research in other European Union countries would allow the comparison of the Croatian macroeconomic situation with that of other European countries.

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