

Beyond Percentages: What Does Inflation Say About Romania?

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Abstract

Inflation is a common economic phenomenon, which significantly influences the functioning and stability of the economy of any country. Even though the effects of inflation may vary from period to period, depending on the economic policies applied and the ability of governments to manage this phenomenon, high inflation values cause major imbalances in a country's economy, with economic and social consequences. This article analyzes the dynamics of this phenomenon in Romania during the period 2014-2024, how prices evolved through the Consumer Price Index and a comparison of the situation in our country with the European Union average. Inflation is not just a percentage, but is a reality that conditions the consumption habits, lifestyle, decisions and social perspectives of an entire generation.

Key words: inflation, purchasing power, consumer price index, the cost of living

J.E.L. classification: E31, E52

1. Introduction

Inflation is an extensive macroeconomic process which, depending on the severity and nature of the factors involved, has various consequences on national economies. Basically, inflation consists of a generalized increase in prices, simultaneously with a decrease in the purchasing power of money. A high and prolonged level of inflation is most often the result of a relaxed monetary policy. If the level of the money supply is too high in relation to the volume of transactions carried out in the economy, then the value of a monetary unit is reduced, or more specifically, the purchasing power of the currency is diminished and prices increase.

Being a complex economic and social phenomenon, identifying and researching the consequences of inflation is not easy, especially since there are numerous causes that can determine the occurrence of inflation. It is one of the controversial topics in the contemporary world, this phenomenon being present in all countries (Dobrea et al, 2024, p. 239).

2. Literature review

Inflation is defined as a generalized and sustained increase in prices, costs and a decrease in the purchasing or selling power of a monetary unit, in this way the state manages to cover the higher level of public spendings compared to the revenues collected. (Bergman, Hutchison, 2015, p. 95). It is that macroeconomic indicator that highlights whether the mix of fiscal, monetary and legal policies applied have led to the stability of consumer prices, this being one of the primary concerns of a central bank (IMF, 2008, p.29).

Authors Rădulescu et al (2019, p. 175) explain inflation as the process by which an increase in the prices of goods and services occurs, affecting the nominal earnings of employees, but also long-term investments.

Mishkin (2015, p. 301) mentions that inflation reduces the purchasing power of nominal wages, therefore if the rate of wage growth is not at least at the same pace as inflation, this will affect the standard of living of employees.

Other authors explain that every time currency is created and put into circulation on the market, in a situation where the real needs for the production of goods are exceeded, at that moment there is an abnormal, artificial monetary situation, called inflation (Anghelache, Sacală, 2015, p.6).

There are several types of inflation, depending on the causes that determined the emergence of this macroeconomic phenomenon. If we look at it from the perspective of intensity, the following forms are highlighted: *low inflation* – in which the price increase does not exceed an annual rate of 3-4%, being considered controllable by banks and specific to highly developed countries; *mild inflation* – a situation in which the price increase is up to 10%, affecting purchasing power, but it is not the case of major destabilization; *galloping inflation* – when the price increase rate is between 10% -100%, with a strong destabilizing effect, a significant depreciation of the national currency, a sudden decrease in purchasing power, uncertainty in the market; *hyperinflation* – when the purchasing power of money collapses, the annual rate of price increase being over 100% (or over 50% in a month). (Samuelson, Nordhaus, 2017, pp. 562).

Due to the multitude of negative consequences on economic development and society in general, most states affected by the inflationary phenomenon implement measures to combat or mitigate the effects of this phenomenon, which represent one of the key objectives of macroeconomic policies. Indirect economic policy measures target both the size and dynamics of aggregate demand (through the use of monetary or fiscal policy instruments) and the size and dynamics of aggregate supply (structural reforms, subsidies). (Mishkin, 2019, p. 315).

3. Research methodology

The first part of the paper presents the theoretical notions regarding inflation and its types and in the second part is analyzed the evolution of inflation in our country, specifying the economic and social effects. The research involved a descriptive and comparative quantitative analysis, using official secondary data published by the National Bank of Romania, the National Institute of Statistics and Eurostat in the period 2014-2024. In order to track the level of inflation in Romania, the evolution of the consumer price index was analyzed, on the main consumption components: food, non-food products and services and in order to compare Romania with the European Union average from the inflation perspective, the harmonized index of consumer prices was used.

4. Findings

The measurement of inflation, the intensity and evolution of this macroeconomic phenomenon is based on a consumer price index which measures the average increase in prices for a "consumption basket" of goods and services, purchased by households in a certain period of time.

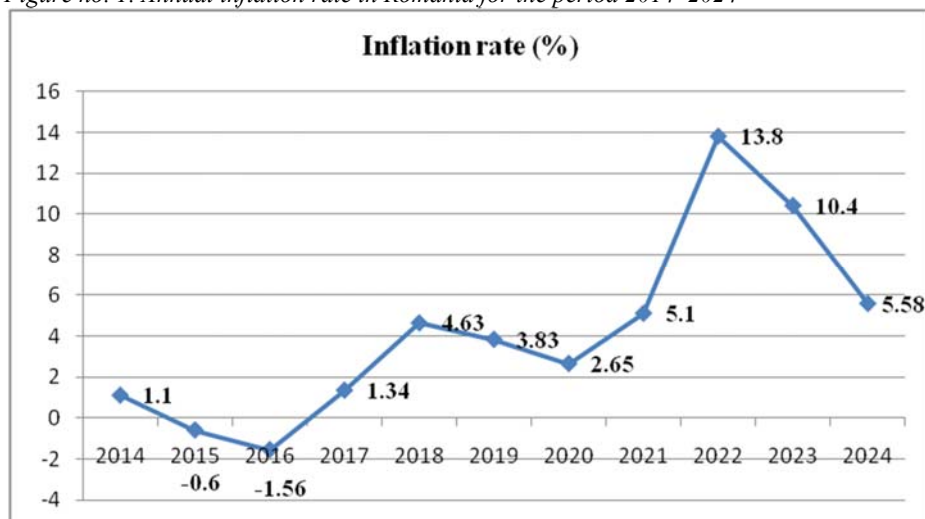
In Romania, the main components of the consumer basket that is the basis for determining the CPI are food, non-food goods and services. These product categories have different weights, for example in our country food products have a higher weight in the consumer basket compared to the average at the European Union level, which means that an increase in the price of these product categories affects the standard of living more.

The cost of living of consumers highlights the average expenses necessary for a decent living and is influenced by the prices of the many goods and services that they currently purchase, but also by the weight of each product in the family budget.

During the analyzed period 2014-2024, inflation in Romania had an oscillating evolution, the interval can be divided into 3 important phases. During the period 2014-2016, the inflation rate decreased from 1.1% to -1.56% (deflation phenomenon). Among the main causes of the decrease, can be mention the reduction of VAT (the general one from 24% to 20% and the one for food to 9%), the maintenance of a controlled consumption after the economic crisis, reduced global prices for energy and oil.

During the period 2017-2019, the inflation rate increased to 4.63% as a result of a fiscal relaxation policy. There were increases in salaries in the budgetary sector, pensions were increased (without being accompanied by sustainable economic growth).

Figure no. 1. Annual inflation rate in Romania for the period 2014–2024



Source: own processing from the data at www.insse.ro [Accessed on 14.03.2025]

In the period 2020-2024, the inflation rate reached a record level of 13.8% (2022) based on external shocks such as the Covid-19 pandemic (when there were disruptions in supply chains, resulting in higher production and transportation costs), the increase in the price of fuel, electricity, gas (in the period 2021-2022 the European energy crisis took place), but also the war in Ukraine, which caused an increase in the prices of cereals, fertilizers, energy. As internal causes, we can mention the depreciation of the national currency against dollar and euro, high budget deficits, the wage-price spiral with pressure on salaries in the private sector.

The table below presents the consumer price index for the 3 components of the consumer basket in Romania, at the end of 2024, with the reference year 2015=100. Over the past nine years, consumer goods prices in Romania increased by 59%.

Table no. 1 Consumer price index in Romania

Category	CPI Current Period 2024	CPI Reference period 2015
Food products (%)	169,68	100
Non-food goods (%)	156,63	100
Services	147,30	100
Total	159,00	100

Source: <http://statistici.insse.ro/> [Accessed on 14.03.2025]

During this period, prices for food products (32.91% share in the consumer basket) increased by approximately 67%, non-food goods (clothing, household products, furniture, household items), which have a share of 48.58% in the consumer basket, increased by 55%, while services such as transportation, telephony, restaurants (18.51% of the consumer basket) experienced an increase of 46%.

The increase in the CPI has strong, varied and complex consequences on the functioning of an economy, on people's lives and on society in general. The increase in prices of products and services affects all social categories, but especially people with low or fixed incomes (pensioners, people from rural areas, creditors). For example, from January 1st, 2023, the pension point was indexed by 12.5%, but the annual inflation rate in 2022 was 13.8%, and in December 2022 it reached a level of 14.1%. Therefore, the increase in pensions was below the pace of inflation, which means that the purchasing power of pensions decreased by 1.3 percentage points.

Also in the case of nominal incomes, their growth rate is not the same as that of inflation, so the economic situation of the population worsens. The purchasing power or real income of the population decreases, people will have less money for consumption, therefore small businesses or local services will also be affected. Less is consumed, the demand for premium products decreases, practically the standard of living decreases. Another consequence is the existence of a tense labor market, in which employees put wage pressure, but this means a cost for the employer, therefore benefits can be eliminated, employees can be fired or relocated. Among the social effects can be mentioned distrust in authorities, increased financial anxiety, migration to other more economically stable countries with stable wages.

In order to observe in more detail the consequences of inflation on income and on the cost of living, the evolution of the consumer price index is analyzed by eliminating groups of goods that are not bought and consumed by all people.

Table no. 2 Partial indices determined by eliminating certain categories of elements from the CPI

	December 2024 % - previous month = 100
Total CPI less alcoholic beverages and tobacco	100,30
Total CPI less fuels	100,25
Total CPI less products whose prices are regulated	100,30
Total CPI less vegetables, fruits, eggs, fuels and products whose prices are regulated	100,26
Total CPI less vegetables, fruits, eggs, fuels, products whose prices are regulated, alcoholic beverages and tobacco	100,28
TOTAL	100,29

Source: <http://statistici.insse.ro/> [Accessed on 20.03.2025]

It should be noted that the regulated products include electricity, CFR transport, medicines, thermal energy, natural gas, public urban transport, etc.

The calculation of partial indices by eliminating some categories from the CPI is essential to know the real nature of inflation and to identify the factors that lead to price increases. In this way, core inflation is determined, which highlights permanent trends in an economy, and not temporary ones such as taxes, excise duties or sudden increases in energy prices.

Regarding the evolution of the inflation rate at the European Union level, the data are presented in table no 3. The inflation rate was calculated based on the harmonized index of consumer prices, an indicator used to determine inflation based on a comparable consumer basket in all European Union member countries, using the same calculation method.

Table no. 3 Comparison between the inflation rate in Romania and the EU average

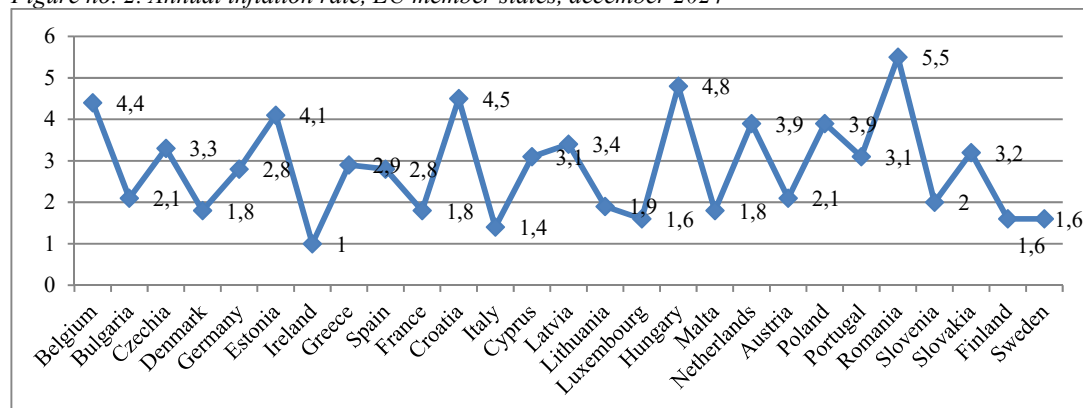
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
EU average annual inflation rate (%)	0,83	-0,1	-0,2	1,43	2	1,63	0,3	2,9	9,2	6,4	2,7
Annual inflation rate Romania (%)	1,1	-0,6	-1,56	1,34	4,63	3,83	2,65	5,1	13,8	10,4	5,58

Source: own processing based on information from www.eurostat.eu [Accessed on 10.04.2025]

During the analyzed period, the average inflation rate at the European Union level recorded periods of stability, periods in which the deflation phenomenon appeared, but also moments when the inflation level increased significantly as a result of the pandemic and the energy crisis. In 2024, the inflation rate approached the level targeted by the European Central Bank, namely 2%.

Our country recorded the highest level of inflation in the EU in 2024, the value being 5.5%, above the average inflation rate within the European Union, which was 2.7%. High inflation values were also reported in Hungary (4.8%) and Croatia with 4.5%.

Figure no. 2. Annual inflation rate, EU member states, december 2024



Source: www.eurostat.eu [Accessed on 10.04.2025]

Ireland, Italy, Luxembourg, Finland and Sweden are the countries where the lowest annual inflation rates were reported in 2024, below 2%. This can be explained by the implementation of prudent fiscal and monetary policies, the low percentage of energy in the consumption basket (these countries have invested in alternative energy sources), efficient logistics infrastructure (thus avoiding the increase in production and supply costs).

5. Conclusions

Inflation, one of the key macroeconomic variables, has direct effects on economic stability and the standard of living of the population. This indicator is closely monitored by policymakers (government, central bank), but also by the business community, investors and the general public. Together with other essential economic indicators, such as the unemployment rate, economic growth and exchange rate, inflation contributes to drawing an overall picture of the economy and the level of development of a country.

The annual inflation rate is of interest for several reasons. First, it determines the real standard of living. In establishing the purchasing power of the population, it is not sufficient to consider nominal incomes as basis, they must be correlated with the general evolution of prices. Therefore, inflation directly affects the way in which people cover their basic needs, make investments or save. Second, the inflation rate is a correction tool in income policy, being used to adjust pensions and salaries, in order to reduce the negative effects determined by the increase in the price of consumer goods and services.

Beyond the percentages presented, the evolution of inflation over the last decade highlights several aspects about Romania, as an economy and society. From an economic perspective, cyclical imbalances were observed (periods in which demand increased significantly were not accompanied by a proportional increase in domestic supply, which meant pressure on costs and prices) and structural imbalances (essential sectors, such as transport, energy, agriculture, did not have the power to adapt to domestic or external economic changes and the import of raw materials, most often in foreign currency, emphasized the dependence on the exchange rate, with import costs increasing substantially).

Also, the inadequate indexation of pensions has reduced purchasing power, highlighting the difficulty with which the state adjusts spending to economic reality and the problems in maintaining social sustainability without attracting additional fiscal measures. The issue of a higher budget deficit has been raised, in order to be able to finance the costs of salaries and pensions. The practice of a relatively relaxed monetary policy in an inflationary moment is another element that attracts attention. Given the situation of accelerated inflation at a global level, the National bank of Romania has delayed the increase in the key interest rate, which has impacted the exchange rate and savings. Although the upward trend in the inflation rate was visible since mid-2021, the interest rate increase was made in 2022, reaching 7% in 2023, while in other countries (Hungary, Poland, Czech Republic) this measure was implemented much earlier. Another aspect is the erosion

of savings. Since bank interest rates were mostly below the inflation level, the population preferred to invest in real estate, currency or gold.

From a social point of view, we are talking about the deepening differences between social classes (people with low and fixed incomes spend a large part of their budget on food and utilities, those categories of items whose prices have increased the most), about low access to vital services (education, health, inflation influencing their cost), about prudence (the population is more attentive to price developments, more restrained in consumer spending, more distrustful of government commitments), about labor migration (qualified young people prefer to leave for countries where the economy is more stable, inflation is under control, real earnings are more protected and the quality of life is higher.)

It is necessary for our country to align macroeconomic policies in order to maintain price stability, to ensure sustainable growth, to complete convergence with European Union standards (in this regard are necessary fiscal efficiency, financial education, energy modernization). Romania remains a country with high potential, but which must learn to face serious challenges: to stimulate investments, to implement reforms to support a level of inflation appropriate to the country's degree of development, but also stable in the long term and to maintain the population's trust in state institutions.

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