

Inflation Analysis and Impact on the Business Environment in Romania

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Abstract

This research deals with aspects related to the state of recession marked by the effects of inflation, thus analyzing how the business environment in Romania is affected, presenting statistical data from the period 2023 - 2024 regarding the number of suspended companies, in recession, but also the number of companies that were dissolved at the national level. Also presented, as results obtained from the research, are those areas of activity where significant fluctuations in the profitability rate were recorded, thus we can note the location of the effects in the field of trade, transport and storage, but also the regression that areas such as agriculture or the extractive industry recorded during the analyzed period.

An analysis of the inflation index at the national level was also carried out, an analysis carried out for the period 2022 - 2025, including estimated aspects for the fourth quarter of 2025, but also an analysis of the inflation rate of the European Union states, an analysis that highlights the fact that Romania recorded the highest inflation rate at the end of 2024.

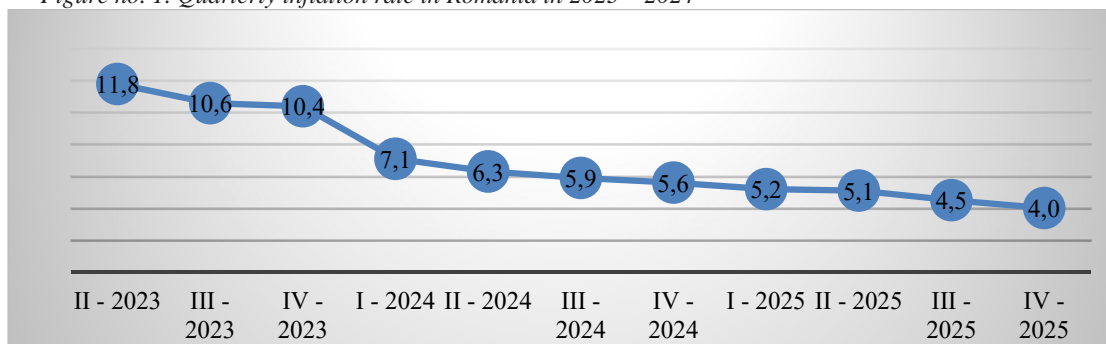
Key words: business environment, inflation, recession, cost, excise taxes

J.E.L. classification: A10

1. Introduction

The recovery process of the global economy continues as a result of the imbalances caused by the effects of the pandemic, but also by the effects of the war between Russia and Ukraine. In 2023, there was a slowdown in the pace of economic recovery, but it is noted that in the last period of action of the tensions recorded in the Middle East, there is an intensification of supply-side shocks. Although we observe a slowdown in the increase in interest rates by the main banks, all financial relations have become tense, thus generating uncertainties between economic budgets. It is estimated that inflation in the euro area will follow a downward path, but the pace is noted to be slow. (Armantier, 2015)

Figure no. 1. Quarterly inflation rate in Romania in 2023 – 2024



Source: INS, author's processing

From the data analyzed for the period 2023 - 2025, it appears that the Purchasing Power Index (CPI) has had a decreasing trend from the first quarter of 2023 to the present, with a further decrease expected throughout 2025. The pace of disinflation is thus estimated to have decreased from an inflation index of 5.6% recorded in the fourth quarter of 2024 to an index of approximately 4.0% at the end of the year in 2025, cumulating a contraction of 0.7% in the annual inflation rate. (Bhamra, 2023)

It is observed that the effect of the fuel excise tax increase in the second quarter of 2024 will lead to a contraction of 0.9% in the fourth quarter of 2024, thus estimating a reduction of 0.2% for the fourth quarter of 2025, thus we can deduce that the annual inflation rate calculated at constant taxes would be within the target range of 3.3% as early as the first quarter of 2025. The main opportunity in the period when inflation is more persistent is investments, as they are a way to protect ourselves from the disruptions generated by the effects of inflation. Investments made in shares help investors to profit from rising prices. In inflationary periods, an increase in investments in real estate and commodities can be observed. Effects of inflation: decreases in purchasing power are recorded; savings are encouraged; the cost of borrowing increases; depreciation of the national currency against other foreign currencies where inflation is lower. (Anghel, 2016)

2. Theoretical background

Inflation is considered a managerial issue for the business environment, because it leads to changes in costs, product prices and profitability. Increasing costs is a challenge for the business environment, so budget projection becomes much more complicated. (Candia, 2021) Inflation determines how profitable the business is as a result of fluctuations in demand for products and services. Inflation causes a decrease in spending by consumers, ultimately this will cause a decrease in sales volume and implicitly profit, in these cases it is recommended to diversify offers and adjust prices, so that the business environment's ability to respond to new market demands imposed by the inflationary factor ensures the long-term success of the business. Inflation causes operating costs to increase, all these fluctuations leading to a decrease in consumer purchasing power. Increasing wage costs, raw material costs ultimately put pressure on the company's budget and cash flow. (D'Acunto, 2021)

Inflation has an influence on the business environment, a first effect is the increase in production costs, which has repercussions on the increase in prices for raw materials, energy and wage costs. If companies do not find those strategies that allow them to partially transfer costs to customers, without suffering from the loss of customers and the decrease in sales volume, they will ultimately face the reduction of profit margins. A strategy to mitigate the decrease in the profit rate generated by inflation could be the reorganization and streamlining of the production process. (Del Negro, 2011)

In an inflationary environment, consumer behavior undergoes transformations, as they seek to be much more rational in terms of the demand for products and services or give up certain needs or postpone their purchase. (Boons, 2020)

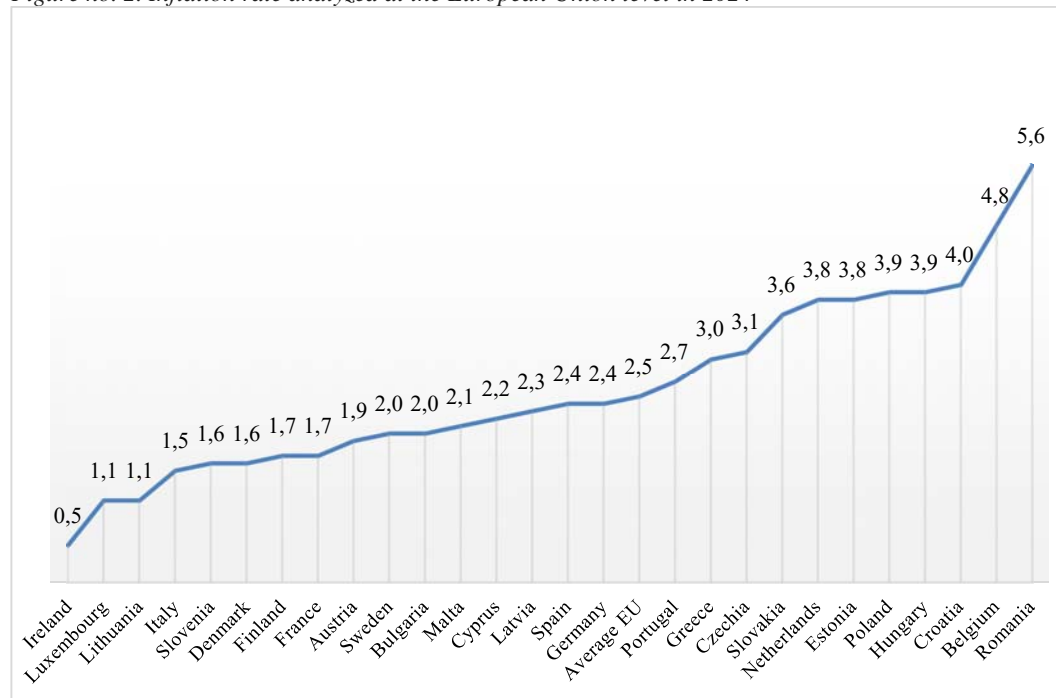
Thus, an adaptation of the offer, price reductions, and diversification of marketing strategies are required from the business environment to respond to new consumer preferences. (Malmendier, 2016)

During the inflation period, the need for working capital will increase to cope with the ever-increasing costs, and delays in paying invoices from customers who are also affected by inflation can generate imbalances within the company, so it is necessary to rethink payment terms in order to ensure a constant cash flow. (Ehling, 2018)

In the context of inflation, wage costs increase due to the demands that employees make from the need to maintain a standard of living equal to the previous one, unaffected by the decrease in purchasing power. Under these conditions, disagreements may arise between the employer and the employee. (Ichiue, 2015)

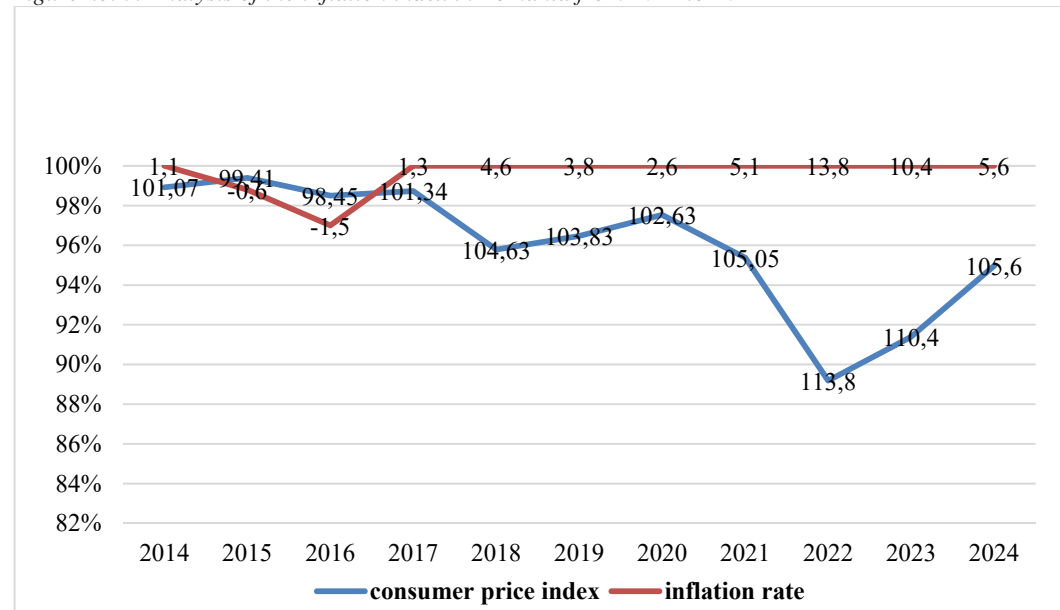
The period of inflation creates uncertainties regarding the viability of some projects and investments, which in such periods are forced to be postponed or even canceled due to economic uncertainties

Figure no. 2. Inflation rate analyzed at the European Union level in 2024



Source: EUROSTAT author's processing

Figure no. 3. Analysis of the inflation index in Romania from 2014 to 2024



Source: INS, author's processing

3. Research methodology

The research method adopted in this research is based on an analysis of the inflationary phenomenon and how it influences the evolution of the business environment in Romania.

By analyzing statistical data from the period 2014 - 2024, an analysis of the inflation index recorded in Romania was carried out, thus it is noted that in 2022 the highest inflation rate was recorded, reaching 13.8%, this situation being generated by the war between Russia and Ukraine.

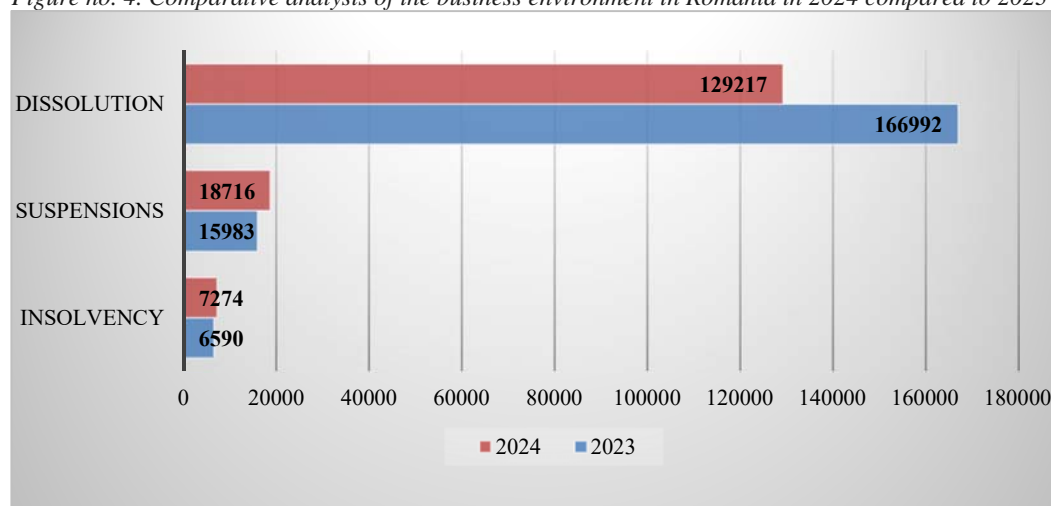
Statistical data on the inflation index for the period 2023 – 2024 is analyzed, but an estimated analysis of the inflation index for the year 2025 is also taken into account.

The method applied is based on identifying strategies that can provide shelter during periods of recession, so we can count that in the analysis period 2023 – 2024 at the national level the number of companies that entered insolvency increased in 2024 compared to 2023 by 9.4%, at least 9.4%, which above registered an increase in 2024 compared to 2023 by 17.2%.

4. Findings

In the analysis analyzed in this research, data from the period 2023 - 2024 were used, thus we can highlight a radiography of the business environment in Romania that reflects a consequence of the effects generated by the inflationary context, as follows: the number of companies that entered insolvency increased by 9.4% in 2024, during 2024, during 2024, during 2023, during 2023. company dissolutions recorded an increase of 17.2%.

Figure no. 4. Comparative analysis of the business environment in Romania in 2024 compared to 2023



Source: INS, author's processing

From the comparative analysis of the Romanian business environment, it appears that the number of newly established companies registered a decrease of 76%, from 8.6 thousand to 2.8 thousand new entities in Agriculture, and the decrease in the Trade area registered a decrease of 3.2 thousand while in the Construction field by 2.2 thousand, and in IT by 1.5 thousand in 2024 compared to 2023. The analysis shows that there were increases in new entities in the Transport and Storage activity field. Analyzing the registrations of new entities established from a geographical point of view, it can be seen that the largest decreases, ranging between one thousand and 1.9 thousand, were found in Bihor, Cluj and Bucharest.

The number of companies that entered insolvency increased from 6590 in 2023 to 7274 in 2024, which represents an increase of 9.4%, while suspended entities registered an increase of 14.6% in 2024 compared to 2023, thus reaching from 18716 entities in 2024 compared to 15983 in 2023. Deregistrations and dissolutions of entities in 2024 compared to 2023 registered an increase of 17.2% reaching 129217 entities in 2024 compared to 166992 in 2023.

In 2024, increases in the profitability rate were recorded in the following sectors of activity: trade (39% of the total), manufacturing industry (22% of the total), construction (8.3% of the total), energy and gas (5.6% of the total), transport and storage (5.0% of the total), while decreases were recorded in agriculture (5.6% of the total), energy and gas (17% of the total), extractive industry (38% of the total).

5. Conclusions

Inflation is considered a market force that is difficult to control, which is why it is necessary to diversify strategies to avoid or reduce losses generated by the decrease in purchasing power. Strategies that are required in periods of recession may consist of adapting the offer, reducing the price of products and services, and diversifying marketing strategies all aimed at satisfying consumer preferences. Inflation has an influence on the business environment, a first effect is the increase in production costs, which has repercussions on the increase in prices for raw materials, energy and wage costs. A challenge that persists in a period of recession is generated by the pressure that is created among entrepreneurs, pressures generated by the increase in wage costs and with them the emergence of tensions that can arise between the employee and the employer.

Another problem that the business environment faces is generated by the increase in working capital to cope with increasingly high costs, and delays in paying invoices from customers who are also affected by inflation, can generate imbalances within the company, thus it is necessary to rethink payment terms to ensure a constant cash flow.

The period of inflation creates uncertainties regarding the viability of some projects, of some investments, which in such periods are forced to be postponed or even canceled due to economic uncertainties. From the comparative analysis of the inflation index in 2023 and 2024, it appears that the number of companies that entered insolvency increased in 2024 by 9.4%, while the number of companies that chose to temporarily suspend their activity represented an increase of 14.6%, which justifies the smaller decrease in the number of companies in 2024 compared to 2023. We can see that in cities such as Cluj, Bucharest and Bihor, there was a downward trend in newly established companies.

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