

## *The Inflation (Consumer Price) Evolution*

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### **Abstract**

*The authors focus on the evolution of inflation and consumer price in Romania. The purpose of the research is based on the fact that the inflation is one of the main phenomena that are affecting the national economy of our country. Therefore, the inflation is to be properly analysed and monitored, as its implications are capable of generating leverage-style effects on other faces of the economic and social life.*

**Key words:** *inflation, price index, target, consumption,*

An important element to consider when evaluating the economic evolution of a country over a period of time consists of the way the consumer prices developed, both on an overall basis and by groups of goods and services, as well as of the dual comparison with the planned, forecasted target and the outcomes of the previous year.

In the context of the steady concern as regards the adjustment of the system of the income collecting, based on the unique quota of taxation, as well as bringing the Fiscal Code to the level of correlative terms, in line with the actual situation of the country, in 2010-2013 there are a number of events occurring and worth to be outlined.

First of all, the discussions between the Romanian Government and the I.M.F., have been finalized and the installments out of the granted credit were allocated. Practically, all of them, over 20 billion euro, were integrally transferred. There have been a number of elements which the I.M.F., intransigent and willing to see a market economy in action, did not agree with. Thus, for instance, there have been many concerns in respect of how to convince the I.M.F. to agree with a higher deficit of GDP or to keep on accepting the situation of having certain subsidies at the level of the national economy.

The second essential phenomenon of the years 2010-2013 is given by the divergent evolution between the consumer price index, as an overall and in structure, in comparison with the evolution and appreciation of the national currency, the new leu, against the two currencies which are forming the foreign exchange basket, respectively Euro and USD.

Since a couple of years, as a consequence of the policy run by the National Bank of Romania, which undertook the responsibility of targeting and fixing the inflation at certain levels, the foreign exchange evolution of the national currency followed a trajectory which, from a economic and financial point of view, proved to be a positive one but, meantime, generated a negative effect on the Romanian exports, or for those working abroad and those living in the country, being meantime non-conform with the actual economical situation of the country.

We can outline two contradictory evolutions which we could identify from this point of view. On the one side, the increase of the consumption propensity of the population and, hence, the imperative requirement for steps meant to stop this tendency.

Thus, at a first stage, the interests for the population deposits have been reduced after which, in order to improve the attractiveness of saving, they have been increased again aiming a sole purpose, respectively tempering the population propensity to consumption.

The austerity steps being taken have stopped, in a natural way, the population consumption with immediate effect on the economic growth and deterioration of the standard of life.

The revival measures of salaries and pensions, but also other social attempts, did not succeeded to improve, upon expectations, the incomes and subsequently the quality of life. On the other hand, in its concern as to targeting the inflation, the National Bank aimed to implement and control, permanently, the evolution of the foreign exchange rate, consequently the position of the national currency against the two foreign currencies – euro and dollar.

Another typical element is given by the steady concern of the Executive and, mainly, of the National Bank, to observe the goals declared as regards the inflation targeting. Despite all steps being taken targeting slipped out of an actual control, lining up outside the forecasts, from 2010 until June 2012. After 2013, a reverse trend of inflation evolution begins, kept under control. Among the non-foodstuffs recording a high average increase there are the natural gas, the thermo energy, tobacco and cigarettes,

electric energy, water – sewage – sanitation, hygiene and cosmetics, postal services, inter-urban transport.

**Price increase in July 2014**

– percents –

Indicators	Increase of consumption prices in July 2014, against:		Average increase of consumption prices during the period	
	June 2014	December 2013	1.I- 31.VII. 2013	1.I- 31.VII. 2014
Total	-0,1	1,1	0,2	0,2
Foodstuff <sup>*)</sup>	-0,3	-0,2	0,0	0,0
Non-foodstuff	0,0	2,1	0,5	0,3
Services	0,4	1,3	0,3	0,2

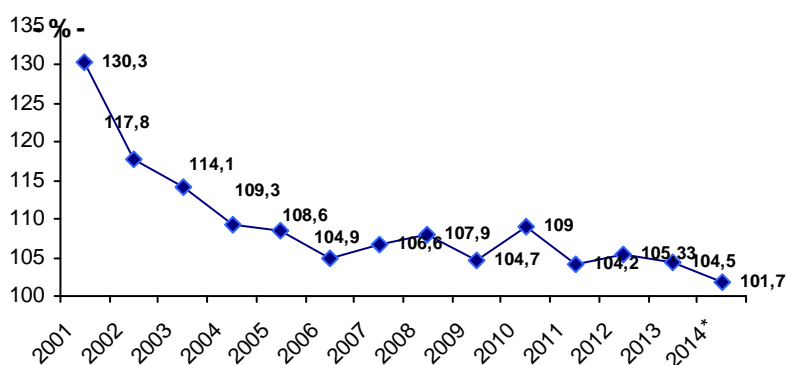
<sup>\*)</sup> Including drinks.

**Data source:** National Institute of Statistics, Statistical Bulletin no. 7/2014

Another possible analysis on the increase of the consumer price index might take into consideration the influences of the administrated prices which recorded an average increase of over 2,9%.

**Consumption price indexes, 2001-2014**

- December previous year= 100 -



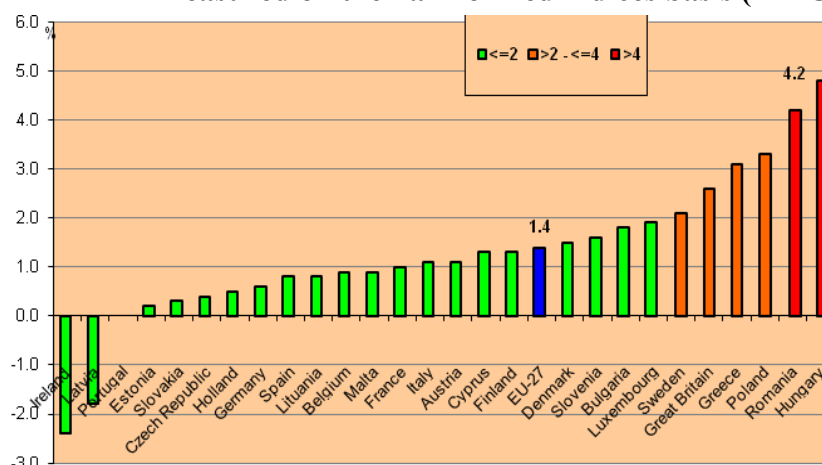
<sup>\*)</sup> Provisional data.

**Data source:** National Institute of Statistics

A comparative survey on the annual average inflation in the EU member countries during the period 2010-2014 shows that, along with Hungary, Romania was recording a high level of the inflation annual average level.

If proceeding to a careful analysis, we should note also that there are only three-four groups of goods which recorded a particular increase and generated the impossibility of hitting the forecasted target. Thus, for instance, the consumer taxes (taxes on vice), respectively the excises on alcohol and tobacco products, as well as luxury goods or products such as natural gas or thermo-energy, have been extremely high, having a major influence on the rhythm of increase of the consumer price index (inflation).

**The annual average rate of inflation at the EU level, in 2013\* measured on the harmonized indices basis (IAPC)**



\*)

Provisional data

Data source Eurostat, calculations INS

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