

# Inflation in Romania: Causes, Effects, and Targeting Strategies

By Catalin Razvan DOBREA<sup>1</sup>, Romeo Catalin CRETU<sup>2</sup>,  
Octavian Catalin MANESCU<sup>3</sup>, Madalina MONCEA<sup>4</sup>

## **ABSTRACT:**

Inflation is based on numerous partial causes, from the correlation of which the inflationary process results. elected, it will be shown what losses the company will suffer because it fired a person without notice, especially when he was on vacation. In this paper, we will follow the fact that inflation has a fixed increase, this being indexed and calculated at the level of Romania, by the National Institute of Statistics, to calculate the salary and commission due for the injured employee. In specialized literature, inflation is expressed in monetary terms by the fact that the prices of services and goods increase, and the purchasing power of a mounting unit decreases.

*Keywords: demand, cost, finance, inflation, Romania*

## **1. Introduction**

Inflation is the result of a monetary imbalance and a macroeconomic phenomenon that has accompanied most of human history. At the level of understanding, inflation is captured as a generalized and lasting increase in prices or costs and a reduction in the purchasing or selling power of the monetary unit and the paper money put into circulation by the issuing central banks, so that the state can cope public expenditures higher than the related revenues. Due to this process, the increase of economic goods and services will result, followed by unemployment and other social conflicts (Bergman & Hutchison, 2015).

Inflation is an increase in the price level with several additional characteristics: it does not increase employment or real production in any way; it is faster than a harmless duck; it manifests itself as a monetary phenomenon; leads to further price increases; with a lack of precision can be anticipated; it is measured using net prices.

Finally, it can be said that inflation represents a decrease in the value of money in relation to other currencies, measured by exchange rates, or by the price of gold, or indicated by an excess of demand for gold or currency at official rates. Therefore, these definitions highlight a common aspect, namely that inflation is known through monetary units and through price at the customer level.

Inflation brings a high degree of insecurity for the business environment, when the growth of mats is consistent and lasting, the time horizon of economic agents' decisions is reduced.

<sup>1</sup>Professor PhD, Bucharest University of Economic Studies.

<sup>2</sup>Phd Student, Bucharest University of Economic Studies

<sup>3</sup>Bucharest University of Economic Studies.

<sup>4</sup>Assistant PhD, Bucharest University of Economic Studies.

This means that businessmen do not have the courage to embark on large and long-term investment projects, because they generate high risk.

At the same time, businessmen prefer short-term investments that are accompanied by minimal risk. Continued inflation can, under conditions of generalized growth over time, introduce a new process of saving and investment, by which it is understood that they will turn many analysts into traders specializing in buying today cheaper and selling tomorrow more expensive. The activity of the economic environment to produce in this situation is put at risk, thus saving and investment processes are circumspect.

## **2. Causes and effects of inflation**

Since many causes of an inflationary process are known, it is followed by the lack of a generalized theory. The nature of the inflation process can start from an economic order and can tend towards a social political environment, internal and external, monitored through the mechanism of relations of an international economic nature against the growth at the national level (Bova, Medas & Poghosyan, 2018).

By its nature, inflation, characterized as a particularly complex and comprehensive phenomenon, has generated a wide debate among specialists. At the same time, he pursued concerns for practitioners and among the population regarding the causes that generate it and the mechanisms that maintain it, which led to the identification of optimal solutions for the mastery and rigidity of the phenomenon (Alesina, Tabellini & Campante, 2008).

In certain situations, it can be said that inflation originates and at the same time receives an initial shock from the demand side, and sometimes from the supply side. In most situations, the appearance of inflation was like an open trigger shock that was constituted in the contradictory evolution of supply and demand on the market. Another measure is given by the monetary policy insufficiently associated with the relations in the domestic economy (Gootjes & Haan, 2022).

An increase without an economic meaning, or unjustified, of the monetary income of certain categories of economic agents, as well as the deficits of the state budget can be processes that can trigger inflation. Some specialists argue that accounts that reflect economic relations with foreign countries, even increasing costs and the money supply, can be inflationary. Regarding the depreciation of the national currency and the reduction of the supply of goods, it can be a support and a bridge that can trigger or amplify an inflationary process (Bran et al., 2023).

The occurrence of inflation is like diseases, for various reasons. Certain inflationary processes come from the demand side, others from the supply side. An important branch, essentially, of modern inflations is that they are inevitable once triggered because of the internal energy that sustains them. In the macroeconomic literature, this event is brought about by inertial, fundamental or anticipated inflation, that is, when concluding preferential contracts or official alliances, economic agents consider the anticipation of the inflation rate. Thus, integrated into the economically interested actions and behaviors of people and officials, the anticipated inflation rate. It can be a fulcrum for the effective inflation rate, which in the future tends to hold as long as another shock cannot have to increase or decrease it.

From these interests, we can talk about the variety of partial causes that appear in the inflationary process. They appear as an inflexibility of the monetary balance, more precisely in the presence of this as an excess of money mass (or supply) in relation to the volume of transactions or goods present. This surplus of monetary input compared to the volume of goods ultimately mirrors the membership of an excess of absolute demand in proportion to total supply. For claims whose means of payment exist, it is solvent and unsatisfied. Depending on the phenomena that trigger it, inflation is presented in figure 1, also called types of inflation.

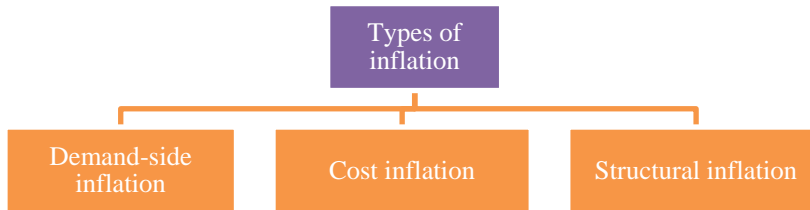


Figure 1. Types of inflation  
Source: own processing

A general characteristic is given by the additional global demand, in excess of the global supply, but the emergence of inflation in the three types mentioned above is explained differently. They are identified by a specific way of evolution of the global process (GDP) which increases in the case of demand inflation, decreases in the case of cost inflation and can be stationary or decrease in the case of structural inflation.

When global demand is increasing, one can talk about demand inflation, which is instantaneous, in the form of a shock or gradual, in front of which the supply is inelastic or independent. In this sense, it can be appreciated that inflation is everywhere and always like a monetary phenomenon, whereby the currency surplus is similar to a tree root (Kadria Ben & Aissa, 2014).

In other words, when the growth of money reaches mainly consumers, it can be said that the demand for financial assets will increase which leads to a result of the growth effect for prices gradually, which makes the inflationary transformation to have a strong impact (Ftiti& Essadi, 2013).

Cost-induced inflation is determined by the links that exist between the evolution of costs, the behavior of businessmen and the precision with which the factors of production, specifically resources, are used. Government policy plays an important role in triggering cost inflation because the government is interested in keeping demand high by using volume fiscal and monetary techniques (Marcel, Cristoph& Malte, 2020).

In this situation global demand supported by the authorities can increase potential production (Burlacu, Crețu et al., 2022). This production will be the result that will lead to inflationary reactions of businessmen bringing conditions of employment, which will imply wage increases, which directly imply increases in prices, costs, etc., as can be seen in figure 2.

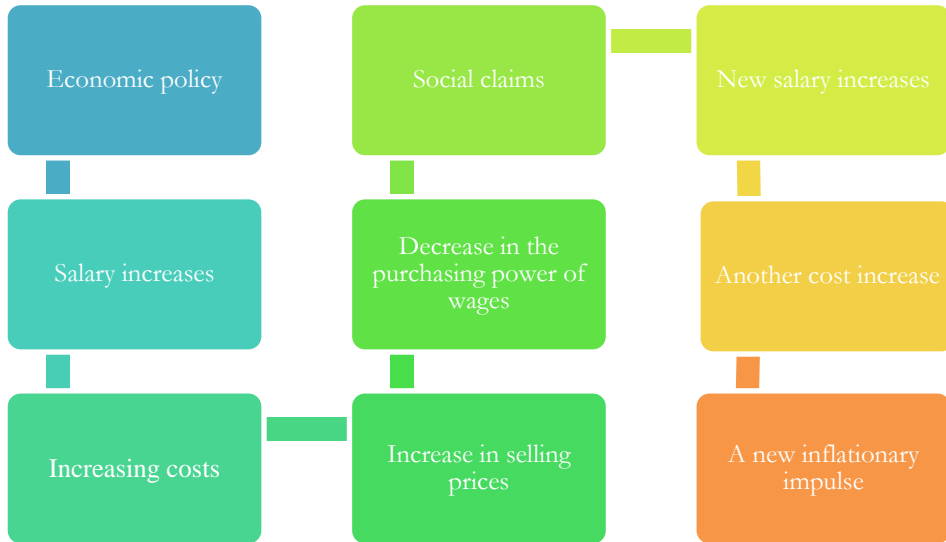


Figure 2. Price-wage inflation  
Source: own processing

By the third type, structural inflation, we can understand that crisis in the economy due to supply and demand following changes in the opposite direction. In other words, it is a decrease in supply and an increase in demand. It is both a continuation of the types of inflation mentioned above, with typical components such as the presence of monopoly structures that can strengthen some components of global demand compared to reducing other elements globally (Guerguil, Mandon & Tapsoba, 2017).

The evolution of this type of inflation follows the influence that global demand has on general supply. As a rule, in this situation, one will have to deal with a more demanding demand during increases and uncertain during decreases, in parallel with the supply, which is precise during decreases and with a lack of accuracy in the face of growth situations (Tobă, Simion & Țircă, 2024).

Because of this, when global demand increases, it results in a simultaneous increase in supply, thus favoring an increase in the inflation rate. By the concept of the inflation rate, it is understood that it grows more slowly than the mass of the value of money, because part of the surplus monetary mass reaches those who produce, and the supply presents a lower flexibility than the demand.

Being a process that reflects different states of affairs and often encounters different imbalances in people's behavior, inflation, by its very nature, starts with people, because it manifests itself on them, and through self-maintenance actions they only maintain this imbalance.

The fact that economic agents expect the price increase, in other words a sudden increase in inflation, they associate this prevention in future behaviors (Škare & Porada-Rochon, 2020).

Inflation seeks to threaten the social balance or to emphasize those social conflicts where they visibly or potentially existed. In this circumstance, inflation brings to every social

category a feeling of frustration and offense from an economic point of view, aiming to claim something, more or less violently through political changes that can lead to demonstrations and strikes.

## 2.2. The effects of inflation

Inflation presents amplified consequences, on multiple branches of the economy, and does not consider the interests of all categories of entrepreneurs, or of rich and poor people, of the political color of the country, as well as of the economic links between suppliers belonging to different types of economy.



Figure 3. Consequences of inflation  
Source: own processing

The population believes that inflation is a potential danger to economic life, like public enemy number one because of costs. Inflation imposes, at the same time, on completed contracts, the price categories that would increase by a similar percentage and gradually, so that no one loses or gains from it (Dinabandhu & Debashis, 2019).

A catastrophic characteristic can be associated with inflation because it destroys the purchasing power of monetary values, savings, securities, life or car insurance contracts, investment and savings accounts, in other words, of any kind of value document can be indexed to the inflation rate (Kadria & Ben Aissa, 2016).

Some case studies have highlighted the fact that in situations of inflation, the most affected are usually older people. Compared to younger people, the elderly has more nominal resources that are vulnerable to inflation, even though some components of income are not indexed.

Under conditions of moderate inflation, statistical data and experience demonstrate that wages rise more slowly than prices. Inflation also redistributes and skews income in favor of those who belong to investments and those who earn income based on wage losses. As a result of unanticipated inflation, in developed countries, the income brought in by shares diminishes, which makes the holders of securities in general, of shares, to be in loss (Huang, Yeh & Wang, 2019).

Fees and taxes not being indexed to the inflation index present an advantage. Taxpayers, in this situation, reduce their obligations to the state for the public debt, as well as the tax debt, because these are also not indexed. Inflation, together with public authority, devises methods to diminish the real value of public debt, favoring the return of money by the state, with a reduced earning power, and on which negative real interest is paid. Note that whenever inflation is not severely prevented and its upward trend is not part of future value contracts, it will generate redistributive consequences of ample income and wealth. Also in this context, part of the population and different entrepreneurs will be seriously affected, there are few who will not be affected by this phenomenon of inflation.

At the same time as the increase in prices in the situation of inflation, it can be said that not all monetary incomes have the same tendency. Some incomes may remain flat or increase with an acceptable lag to rising prices. Inflation thus targets certain social groups, particularly those on standard incomes, and provides an advantage to those living on irregular incomes that are conditioned, for example, by the level of sales and other types that they successfully impose.

### **3. Inflation targeting strategies, applied in Romania**

As an economic manifestation, inflation is described as a general and lasting increase in prices and a decrease in purchasing power with the help of monetary units (Radulescu, Bran, & Burlacu, 2019). Even if prices do not bear the same price change or increase in all categories of goods, the inflation phenomenon is involved in their increase. Currently, the catalog of one thousand four hundred and forty-two specimens is schematized on ten groups of goods (including services), detailed in thirty-three subdivisions. Each division and sub-division is given a certain percentage resulting from the expenditure of the population, which is closely related to the effect of purchasing food and non-food goods and paying for services (Radulescu, Bran et al., 2020).

To be more precise, the recording of prices is done once a week for food and less often, twice a month, for those services and non-food products, in the locations that have been established, without them being changed from one period to another.

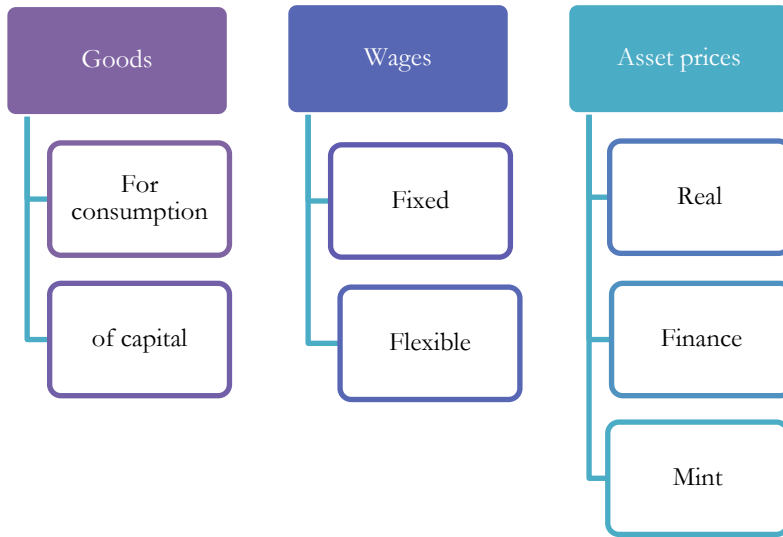


Figure 4. The implication of the inflation phenomenon  
Source: own processing

The process by which the CPI is determined is to take into account a sample of groups that includes about a multitude of positions considered characteristic in the consumption of the population (see figure 5). The registration and observation of prices takes place in forty-two localities, the county seat and the Municipality of Bucharest. For each category, a price index is calculated that will be merged by items and types of goods, as distinguished by INSSE.



Figure 5. Specifications of the CPI mathematical formula.  
Source: own processing

In Romania, consumer price indexation (CPI) increased during May 2012 compared to May 2022 by 29.39%, as shown in the table below.

**Table 1. The consumer price indicator in Romania**

	May 2012	May 2022
<b>Foodstuffs</b>	100	123,56%
<b>Non-food goods</b>	100	134,58%
<b>Services</b>	100	130,79%
<b>Total</b>	100	129,41%

Source: INS

As can be seen, in less than 10 years, prices know a slight increase, being a main macroeconomic imbalance faced by the Romanian economy.

In Romania, the inflationary probability accumulated gradually during the years of the command economy, but it increased sharply with the transition to price capitalization starting with this period. It is worth noting that, on the strength inherited from available command funds, Romania's galloping-style inflation was supported both by self-generation stages and by the style in which the economic reform was reflected and stimulated in an economically unfavorable manner.

A slowdown in the pace of inflation has been observed in recent years, although a share of price increases has a wider economic acceptance, and the effects on entrepreneurs result in a greater extent. The formulation of the CPI is not a name to be avoided from a socio-economic and political point of view. It represents technical phenomena on which it is due or indubitable regarding which statistical science that substantiated conclusions. There are many disputes. at the same time between unions, employers and the government, even contradictions on some elements related to the identification of the CPI, respectively the inflation rate.

The discussions in which the state leader, federations and patronages are following the list of goods that make up each group on the specific weights of each type in the significant family budget. These institutions track the differences in these categories and analyze the range in their favor.

The turnover index is an indicator of the business cycle that shows the monthly evolution of the market for goods and services in the industrial sector. It also records the evolution of turnover over longer periods of time. The turnover of the industry index is not reduced. Therefore, the objective of this indicator is to measure the value of market activity in the industrial sector.

#### **4. Conclusion**

The main effect of inflation is that not all monetary remunerations rise equally and simultaneously with rising prices under inflationary conditions. Some incomes remain flat against price increases or increase with an appreciable lag. In this way, the inflation index negatively affects certain social categories, especially those with fixed incomes. At the same time, inflation offers an advantage to those who live on flexible incomes, dependent on work results, or the level of services and other points of view they manage to impose.

The annual consumer price index accurately expresses the prices at which goods were bought in the current year compared to the previous year. Of the construction industry, the furniture production segment experienced a spectacular growth both in terms of the number of companies active in the specific fields and in terms of business development. At the same time, the segment continues to have a series of obstacles, primarily due to companies that do not respect quality standards, a fact also reported by employers in this field.



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