

THE EVOLUTION OF INFLATION IN ROMANIA AND THE REPUBLIC OF MOLDOVA FROM 2015 TO 2020

Cristina FAZLÎ and Ramona Mariana CĂLINICĂ

Cross-Border Faculty, Dunarea de Jos University of Galati (ROMANIA)
cristinafazli262@gmail.com, ramona.calinica@ugal.ro

Abstract

Inflation is a macroeconomic imbalance, a negative effect of the problems encountered by a national economy. The inflation process manifests differently from one state to another, and the occurrence of a new, unpredictable factor, as is the COVID-19 pandemic, may lead to major changes in an economy. The aim of this paper is to highlight the role of inflation in an economy, and, at the same time, to show how this process may change over time, under the influence of various factors. The analysis of the inflation measurement indices has proven the way in which the COVID-19 pandemic has influenced an EU country, namely Romania, and a non-affiliated state, the Republic of Moldova. The social and economic effects of the inflation process in the two states have also been analyzed, the conclusion that can be drawn being that inflation is regarded as a negative process because it leads to decreases in population welfare through higher prices and lower incomes, respectively, and through the considerable decrease of entrepreneurial competitiveness, fewer exports and investments. Such negative outcomes resulting from the inflation process may be contained, to a certain extent, through the direct involvement of the state, imposing anti-inflation policies appropriate for the situation in place at a certain moment.

Although the inflation process cannot be always contained or avoided, its monitoring is still possible, in order to have its effects limited, and every state must possess policies in this regard, since the occurrence of an unpredictable factor, as was the COVID-19 pandemic, may lead to serious consequences at the societal level.

Keywords: inflation, price, economy, pandemic.

1 INTRODUCTION

In today's society, inflation is seen as a universal reality, as a permanent phenomenon that affects all countries in different forms and in different proportions. Conceptually, inflation usually signifies a major macroeconomic imbalance in the economy of a given country and reflects a generalized increase in the price level of consumer goods and services, while the purchasing power of the national currency is diminishing. Thus, having major importance in the economy of any country, the issue of inflation is widely debated by many specialists in the field around the world, and some of them consider inflation as the "big evil" for all economies in the contemporary world economy.

2 ANALYSIS OF INFLATION DEVELOPMENTS IN ROMANIA AND THE REPUBLIC OF MOLDOVA BETWEEN 2015 AND 2020

Currently, many of the world's countries are facing several macroeconomic problems, the most important of which is often considered to be unemployment, and the second place is occupied by inflation. Etymologically, the term inflation comes from the Latin inflatio, which,

This work is licensed under a Creative Commons Attribution-Non-Commercial 4.0. International License

in a primary sense, means "swelling", and from an economic point of view, it represents the malaise of an economic system. [1]

2.1 Theoretical aspects of the inflation process

An economy may experience inflation when there is a generalized process of price rise and depreciation of the national currency, due to an increase in the supply of money in circulation, which at that time is in excess of what is needed for trade. Broadly speaking, it is not possible to determine exactly when the inflation process first began. It is assumed that inflation most likely occurred at the same time as money itself, as it is directly linked to the functioning and circulation of money. Accordingly, it can be assumed that the emergence of inflation is linked to the development of market relations. [2]

The inflation process is approached differently by inflation researchers, most of whom see inflation as a negative process. Jean Bodin states that "inflation arises from the abundance of gold and silver, metals which originally gave value to things". [3] P.A. Samuelson and W.D. Nordhaus note that "inflation is a ubiquitous and yet often misinterpreted phenomenon that implies an increase in the general price level". [4]

In the literature, some economists consider that an increase in the average price level of less than 1% per year should usually not be regarded as an inflation process, while an amount of inflation between 1% and 3% per year is considered to be acceptable for a growing economy, the latter process being called creeping inflation. Another situation would be if the inflation rate in one month exceeds the 50% index, in which case hyperinflation occurs.

Regarding the economic effects of inflation, it can be said that they are studied both at the micro and macroeconomic level. An important effect would be that there is a considerable decrease in the competitiveness of enterprises, which is reflected by specific indicators. At the macroeconomic level, national products are losing their competitiveness abroad through a decrease in exports and an increase in imports, chronic deficits in the foreign trade balance, a decrease in the pace of production and a significant increase in prices. The effects of inflation can be divided into direct effects, reflected in the fall in the purchasing power of the currency and the real decline in the performance of the economy, and indirect effects, reflected in anti-inflationary (monetary and financial) policies.[5]

2.2 Analysis of inflation dynamics in the Republic of Moldova and Romania between 2015 and 2020

Inflation is a complex phenomenon influenced by many factors. In the Republic of Moldova, this process has undergone significant changes over the years, with both large rises and falls. When analyzing the evolution of the inflation rate in a period, it is necessary to analyze first the consumer price index in that period.

Table 1. Consumer price indices by groups of goods and services 2015-2020 (food, non-food, services)

Groups of goods and services	2015	2016	2017	2018	2019	2020
Food	114,30	102,80	109,70	102,15	112,37	101,66
Non-food	114,1	103,2	104,1	101,7	105,1	99,51

This work is licensed under a Creative Commons Attribution-Non-Commercial 4.0. International License

	0	0	0	2	6	
Services	111,3 0	100,5 0	107,9 0	97,68	103,5 1	99,70
TOTAL	113,6 0	102,4 0	107,3 0	100,8 8	107,5 4	100,3 9

Source: National Bureau of Statistics of the Republic of Moldova (NBS) [6]

Table 1 shows that the consumer price index by groups of goods and services has undergone several changes over the period 2015-2020. Thus, while in 2015 it registered the level of 113.60%, in 2016 it has an upward trend to the value of 102.40%, due to the reduction in prices of food, non-food goods and services. Analyzing 2017, it can be seen that the consumer price index recorded an increase compared to 2016, mostly due to the increase in food and services prices. In 2018, the consumer price index again recorded a sharp decrease to 100.88%, but in the following year, an upward trend was recorded reaching the level of 107.54%.

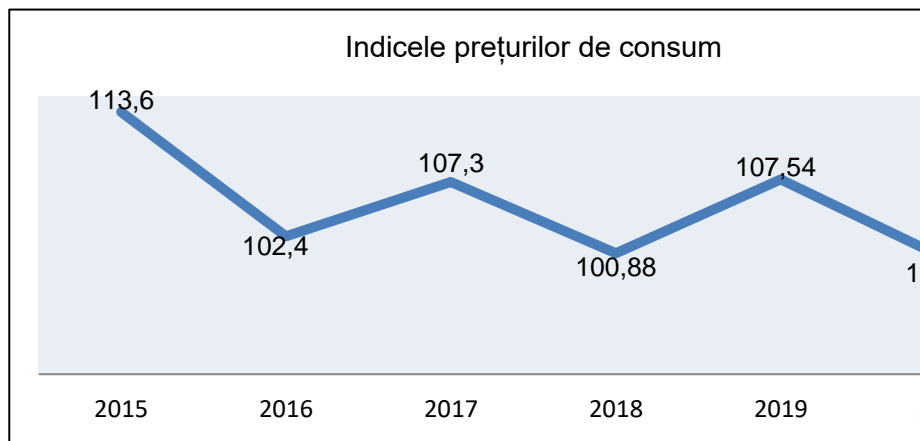


Figure 1. Evolution of the total consumer price index in the Republic of Moldova 2015-2020

Source: elaborated by the author based on data from the National Bureau of Statistics of the Republic of Moldova

The chart above shows the evolution of the total consumer price index in the period 2015-2020 in the Republic of Moldova. It recorded a sharp fluctuation in the period under review from the level of 113.6% in 2015 to the value of 100.39% in 2020.

This work is licensed under a Creative Commons Attribution-Non-Commercial 4.0. International License

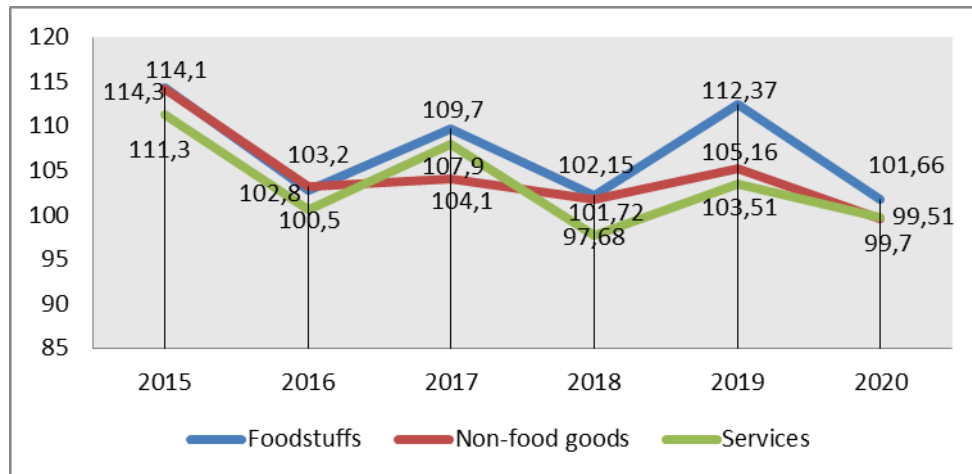


Figure 2. Evolution of the consumer price index for groups of goods and services in the Republic of Moldova

Source: elaborated by the author based on data from the National Bureau of Statistics of the Republic of Moldova

One can observe in the previous figure that food products and services show the highest fluctuations, reaching 101.66% and 99.7% respectively in 2020. Non-food goods show a downward trend until 2018, after which a small increase is recorded, but in 2019 the trend gets downward again. Thus, with the outbreak of the pandemic and the imposition of restrictions, many retailers stopped their activities, which had an effect on both demand and supply.

Table 2. Determination of the inflation rate in the Republic of Moldova
 2015-2020

Year	Consumer price index (%)	Inflation rate (%)
2015	113,60	13,60
2016	102,40	2,40
2017	107,30	7,30
2018	100,88	0,88
2019	107,54	7,54
2020	100,39	0,39

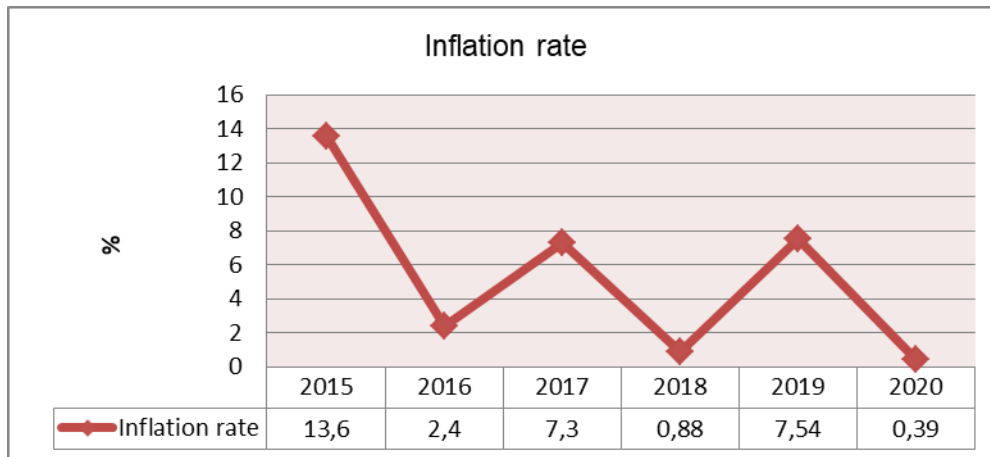
Source: National Bureau of Statistics of the Republic of Moldova

Analyzing the table above, it can be seen that the inflation rate in the period 2015-2020 has recorded considerable highs and lows. The highest value of this indicator was recorded in 2015, i.e., 13.6%, and then it decreased to the level of 2.4% in 2016. After the increase of

This work is licensed under a Creative Commons Attribution-Non-Commercial 4.0. International License

7.54% in 2019, the lowest level of the period under analysis was recorded in 2020, namely 0.39%.

Figure 3. Evolution of inflation rate in the Republic of Moldova 2015-2020



Source: elaborated by the author based on data of the National Bureau of Statistics of the Republic of Moldova

In what Romania is concerned, the analysis of the inflation process in the period 2015-2020 will initially focus on the total consumer price index.

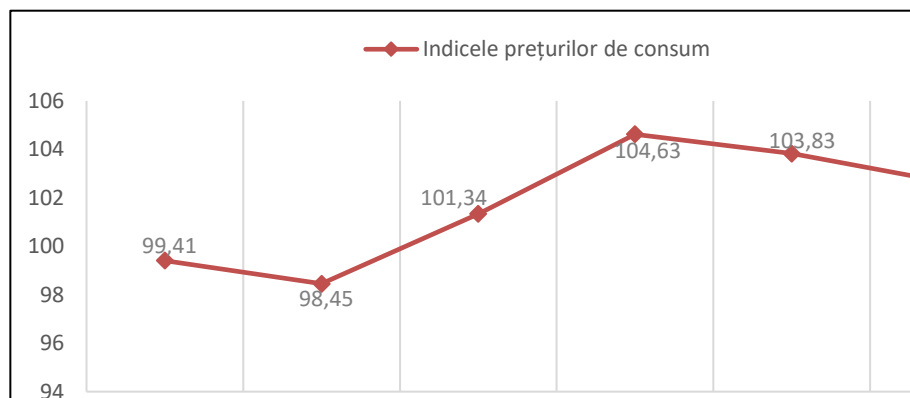


Figure 4. Evolution of the total consumer price index in Romania 2015-2020

Source: elaborated by the author based on data from the National Institute of Statistics [7]

Figure 4 shows the evolution of the total consumer price index in the 2015-2020 period. While in 2015-2016 there was a slight decrease in this indicator, from 99.41% to 98.45%, in the following period, there was an increase to 104.63% in 2018, followed by a downward trend until 2020, when it reached 102.63%.

Table 3. Determination of the inflation rate in Romania between 2015 and 2020

<i>Year</i>	<i>Consumer price index (%)</i>	<i>Inflation rate (%)</i>
2015	99,41	-0,6

2016	98,45	-1,5
2017	101,34	1,3
2018	104,63	4,6
2019	103,83	3,8
2020	102,63	2,63

Source: National Institute of Statistics

Analyzing the inflation rate, it can be seen that it recorded negative values in 2015 and 2016, i.e., -0.6% and -1.5% respectively. The inflation rate is closely related to the consumer price index for a well-determined period, the higher the consumer price index, the higher the inflation rate, and conversely, the lower the consumer price index, the lower the inflation rate. In 2018, the highest value of this indicator was recorded in the period under review, i.e., 4.6%, with a decrease in the following period to the value of 2.63% in 2020.

3. CONCLUSIONS

Inflation is considered to be a complex process that creates a number of economic and social consequences in the country or region where it occurs.

The inflation process is seen as a negative phenomenon affecting the economies of all countries in the world. This process represents a major imbalance within an economy and consists of a general increase in the price level of all goods and services, as well as a reduction in purchasing power and a depreciation of the national currency.

Comparing the consumer price index in the Republic of Moldova and Romania, it was observed that this index in Romania fluctuated between 98% and 104% and in the Republic of Moldova between 100% and 114%.

Inflation is a phenomenon that can break out against the background of events that leave deep traces in society. Referring to the current global situation, as a result of the outbreak of the COVID-19 pandemic, inflation in each country may change significantly. The COVID-19 pandemic has had a major economic impact, by reducing savings and suppressing both supply and demand.

REFERENCES

- [1] V. Umanet, *Economie politică*. Chişinău/Republica Moldova: USM, 2001, p 121
- [2] Materiale de învăţare, Accesed 20 November, 2021. Retrieved from
- [3] <https://works.doklad.ru/view/6KNyFVIkdGQ.html>
- [4] J. Bodin, *Paradoxes de M. de Malestroit touchant le fait des monnaies et l'enrichissement de toutes choses (1568)*. Paris/France: Armand Colin, 1932
- [5] P. Samuelson, W.D. Nordhaus, *Economics, International Edition*. New York/USA: Mc Graw Hill, 1995, p 349
- [6] A. Negucioiu, (Coordonator), *Economie politică, vol. II*. Cluj Napoca/Romania: George Bariţiu, 1998, p. 462.

This work is licensed under a Creative Commons Attribution-Non-Commercial 4.0. International License

- [7] Biroul Național de Statistică al Republicii Moldova, Accessed 5 October, 2021. Retrieved from https://statbank.statistica.md/pxweb/pxweb/ro/40%20Statistica%20economica/40%20Statistica%20economica__05%20PRE__PRE010__serii%20anuale/PRE010300.px/table/tableViewLayout1/?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774
- [8] Institutul National de Statistica, Accessed 10 October, 2021. Retrieved from <http://statistici.insse.ro/shop/?page=ipca1>