

# INFLATION DYNAMICS AND THE IMPACT ON GROWTH IN POST-DECEMBER ROMANIA

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## **Abstract**

The Romanian economy after 1990 face a series of structural imbalances with serious consequences as the tense of the economy, the uncertainty of the economic environment, the shocks induced by different contradictory or ambiguous economic policy.

Macroeconomic problems have some positive, some negative side. Regarding inflation, the negative side of the monetary economy, it will interfere with all the negative aspects of contemporary economy: recession crisis, unemployment, budget deficits, external deficits (trade and payment).

This paper highlights the evolution of inflation and the impact which this had on the Romanian economic growth during 1990-2014.

**Keywords:** measuring inflation, economic growth, inflation rate, GDP

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After 1989, in the early 90s, in Romania, the state was the only supplier of goods and services as a result of the socialist property became pervasive. Monopoly in all sectors of national economy and left its mark on the functioning of the entire economic system in our country.

The command economy imposed on this basis, centralized management unit, mainly through unique plan of the entire economic and social activities. In these conditions, the activity of economic agents and, in general, macroeconomics was operating according to the rules and regulations of the center, from top to bottom, according to economic and financial indicators enrolled in the single national plan. It can be said that the managerial autonomy of the undertakings was quasi-inexistence. Market was considered an insignificant economic system, mainly with the role of exhibition space processes of sale in order to supply technical equipment to businesses and crossing for consumption by the population in economic goods needed.

Price, interest rate, credit, wages, taxes and fees, as economic instrument were directed and correlated centralized artificially by single plan being ignored completely level and evolution of their real relationship between supply and demand, cost and price, wages and productivity, expenses and effects, both on the domestic as well as international level. Therefore, in such conditions, competition ceased to be a regulator of the market, reflecting the efficiency and profitability, in fact directives in the single national plan directives that had nothing to do with national and international realities.

Economic resources were distributed centrally by the national plan, almost entirely, in doing so and in terms of the processes of modernization and refurbishment of production capacities. Both employees' income, and income were determined centrally cooperative farmers, are deliberately ignoring their natural connection with the real effectiveness of the work of each worker, thus the motivation by repealing labor or any interest in further training and increasing labor productivity.

Romania's foreign trade was organized and held on the same single plan that required balancing or activation of trade balance by increasing the exports and depletion of imports, courses return at least absurd and serious consequences on meeting the demand on domestic and the development of national economy in the short, medium and long term.

With certain exceptions, insignificant fact, economic indicators in the 1990-1998 period of the system record level and total dynamic inappropriate.

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The real economy has been in a permanent setback, with some revival in 1994 and 1999. With the exception of isolated sector advances or temporary and inflation, which, after peaks in 1993 and 1997 diminished without exceeding 60% in most industries the situation has deteriorated. Decline and construction industries, agricultural production location on a downward trend almost continuously, accompanied of rising unemployment, or reflected in the gross domestic product. In such conditions the state domestic debt increased adverse developments in foreign trade, evidenced in increasing foreign trade deficit, exacerbating the decline.

It is worth noting that in 1998 the first sector of the economy, in terms of participation in the gross domestic product, has become the service. This is a normal trend reflecting structural changes in the economy. It should also be emphasized that raising the share of services in GDP, from 33.2% in 1997 to 37.8% in 1998, has been given that the gross value added was 6.3% lower than the previous year in real terms.

Dynamics of gross domestic product in Romania, the synthetic indicator of economic growth in the period 1990-1998 highlights a largely economic policies in the last decade of the twentieth century. Thus, in 1990-1991, and 1992, gross domestic product has declined particularly strongly. The sharp decline in domestic resources for consumption and development was due to the low efficiency of use of elements of economic potential and, primarily, of labor resources (in 1990 held shortening the workweek by about 13%, early retirement a large number of employees, while increasing revenues absolutely irrational people employed). In the same period there was a strong domestic market penetration by imported products, mainly for consumption, having been a runaway budget deficit and trade balance of payments. The destructive effect of this has been amplified by the growth and expansion of arrears as deep capitalization of undertakings.

Between 1993-1996 there was a relative recovery in the economic environment, especially as a result of the privatization process, which has brought some revival in the evolution of GDP, this reaching to about 88% of GDP in 1989 as a result of the increase by approximately 17.3% compared to 1992.

After 1996 the GDP recorded a freefall in real terms due to the economic policy promoted by the new policy options occurred after the 1996 elections, registering deficits rising (up from 18% in 1999), gross value added in industry representing in real terms, only 89.5% of the accomplishments of the previous year. In 1999 the industrial production decreased in absolute volume, 8% and 8.8% in comparable in terms of number of days. These results were followed in most industrial sub decrease of activity, the delayed restructuring and low economic efficiency.

As regards inflation, it rose continuously from about 3% of the civilian working population in 1991 (unemployment rates were registered in Romania since February 1991) to 10.9% in 1994, followed in 1995 and 1996 to grow and reach the level of 6.6%. Since 1997 the unemployment rate begins to grow again continuously, reaching the highest level in December 1999 (11.5% in relation to total working population).

According to a report by the National Institute of Statistics, in the first 4 years after the Revolution of December 1989, the inflation rate recorded levels ranging between 200% and 300%. Inflation peak was reached in December 1993 when its level was 300%.

In the second period, 1994-1996, the inflation rate dropped to 27%, a level that has remained constant until 1 June 1995, after which grew to over 56% at the end of 1996.

The third period, between the years 1997-2000, debuted a new inflationary spurt, which was maintained with small annual variations by the end of 2000 at a rate of over 150 percent. There followed a gradual decline in inflation to 14% in 2003 and 2005 inflation was reduced to single digits. Since then and until now a significant decline in inflation, including in 2009, the year of the deepest international economic crisis, which affected the most and our country.

The table below shows the inflation in Romania during 1991-2014.

Table 1

## Evolution monthly rate of inflation between 1991 and 2014

years	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
monthly inflation	10.3	9.6	12.1	4.1	2.1	3.8	8.0	2.9	3.7	2.9
years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
monthly inflation	2.2	1.4	1.1	0.7	0.7	0.4	0.5	0.5	0.4	0.6
years	2011	2012	2013	2014						
monthly inflation	0.3	0.4	0.1	0.1						

Source: National Institute of Statistics

After 25 years of the 1989 revolution, Romania appears in growth statistics as if they had traveled only once a five-year plan. This time, however, not a centralized economy and dubious reports, but under conditions of market economy, a full member of the EU and integrated into what was called before "consumer society".

A key factor in the transition to a market economy was the liberalization of prices. The zero time for action was November 1, 1990, and the price level in October 1990 was chosen as reference for subsequent change in prices. Change which allow relocation between them and eroded the purchasing power of incomes. There followed a period of very high inflation, while the coverage of commodity money in circulation was extremely poor, between 1991 - 1993 is characterized almost permanent monthly values of double-digit price increases. The slowdown in the inflation process failed in 1996 and in early 1997 Romania was confronted again with values close to those at the start of the decade, the boom on the exchange rate. In 2000, average monthly inflation fell below three percent, then about two years consecutive halved once the trajectory 1.4% in 2002, 0.7% in 2004 and 0.4% in 2006, before returning anything above the background of robust economic growth.

With the manifestation of the economic crisis, the price increase was braked to values compatible with European standards in the field amid the incomes policy adjustments and lack of internal demand. The note is only now that Romania is back, under Office of the supply-demand ratio, the stability achieved by administrative means before 1989.

Contrary to appearances and widespread opinion, the prices were not sustained any socialist period, as can be seen from the statistics provided by the National Institute of Statistics consumer price index between 1971-1990. The value somewhat higher in 1990 due to the liberalization occurred in the last two months.

Moreover, although product prices were set at the factory and the label being the same all the commercial network, they have occurred small changes in various cases and the resulting change of modest to the general price index below the theoretical limit of 2% currently recommended. Unlike other products, fuel to be updated relatively often and tripled after the oil crisis of 1973 to 1974.

The major exception was 1982, when prices were modified in a number of commodities. The explanation is the loan agreement concluded in June 1981 with the IMF, under which Romania could borrow capital markets and external debt climbed to the equivalent of about one-third of GDP at the time, the money paid and great sacrifices forced to 1989.

Consumer prices fell by almost 3% in June compared to May, due to lower VAT on food and beverages at 9% from 1 June and the annual inflation rate reached a negative level of -1.6% for the first time in 25 years, influenced by cheaper food by 6.4%.

In May , consumer prices rose 0.5 % from April, and the annual inflation rate increased from 0.8 % to 1.2 % , amid rising food by 1.2% and non-food 0.8 % and from the increase of tariffs for services by 2.1 % .

Table 2

## Consumer price indices and inflation in Romania during 1971-2014

Year	Consumer price indices %	Inflation rate %	Year	Consumer price indices %	Inflation rate %	Year	Consumer price indices %	Inflation rate %
1971	100,6	0,6	1986	101,0	1,0	2001	134,5	34,5
1972	100,0	0,0	1987	100,9	0,9	2002	122,5	22,5
1973	100,7	0,7	1988	102,2	2,2	2003	115,3	15,3
1974	101,1	1,1	1989	101,1	1,1	2004	111,9	11,9
1975	100,2	0,2	1990	105,1	5,1	2005	109,0	9,0
1976	100,6	0,6	1991	270,2	170,2	2006	106,56	6,56
1977	100,6	0,6	1992	310,4	210,4	2007	104,84	4,84
1978	101,6	1,6	1993	356,1	256,1	2008	107,85	7,85
1979	102,0	2,0	1994	236,7	136,7	2009	105,59	5,59
1980	102,1	2,1	1995	132,3	32,3	2010	106,09	6,09
1981	103,1	3,1	1996	138,8	38,8	2011	105,79	5,79
1982	117,8	17,8	1997	254,8	154,8	2012	103,33	3,33
1983	104,1	4,1	1998	159,1	59,1	2013	103,98	3,98
1984	101,1	1,1	1999	145,8	45,8	2014	101,07	1,07
1985	100,8	0,8	2000	145,7	45,7			

Source: National Institute of Statistics

Before the change of regime, Romania peaked quantified development through GDP in 1988, when slightly exceeded the threshold of \$ 60 billion. Then there was the renunciation of Most Favoured Nation that still had the relationship with the US, which came after the announcement in the spring of 1989 on payment of the foreign debt.

Forcing outward payments and lack of investment in technologies exhausted, however, the economy. He followed the decline, because in 1990 also get only two thirds of the maximum value of GDP socialist. Current values in lei were already no longer relevant because of hyperinflation. Besides the inherent shortcomings, it allowed rapid adjustment of the relationship between the relative prices of goods and services.

Decreased production dismantle trade system of the socialist countries and the loss of markets, liberalization of prices and the exchange rate have brought Romania over only another two years to the catastrophic situation to descend to less than a third of the result expressed in dollars of 1988. There followed a tortuous comeback marked the end of the decade the global crisis and negative economic growth.

Table 3

## Evolution of GDP in the period 1990-2014

year	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP (trillions lei)	2.2	6.0	20.0	49.7	72.1	109.0	252.0	338.0	545.0
GDP (billion USD)	28.9	19.6	26.3	30.0	35.4	35.3	35.2	38.1	35.6

Source: National Institute of Statistics

Basis on which attempted to advance production during 1992 - 1996 proved to be shaky and between 1997 - 1999 appeared with major macroeconomic problems , the Romanian state is on the brink of ceasing payments . The resumption of economic growth has occurred just beginning 2000 , the advance being continuously until 2008 , the year the GDP reached the highest historical value in real terms.

Table 4

## Evolution GDP in Romania during 2000-2014

year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP (trillions lei)	80.4	116.8	152.0	197.4	247.4	289.0	344.6	404.7	514.7	501.1
GDP (billion euro)	44.8	48.4	50.3	58.9	61.1	79.8	97.8	121.3	139.8	118.3
year	2010	2011	2012	2013	2014*					
GDP (trillions lei)	522.6	557.3	596.7	639.3	674.3					
GDP (billion euro)	124.1	131.5	133.9	144.7	151.9					

\* Forecasted values

Source: National Institute of Statistics

The downturn of the early 90s appear more subdued seen in real terms. Kickback maximum recorded in 1992 was 25 %. We lost, so a decade of development, as Romania has returned to performance in 1991 only in 2000. After shifting the emphasis on the private sector and reforming the tax system firms really started economic growth.

**Table 5**

<b>Economic growth in Romania during 1990-2013</b>										
<b>years</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<i>economical growth</i>	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.2	-4.9	-2.1	-0.4
<i>% compared to 1989</i>	94.4	82.2	75.0	76.1	79.1	84.7	87.4	83.1	81.3	81.1
<b>years</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>economical growth</i>	2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.9	8.5	-7.1
<i>% compared to 1989</i>	83.0	87.7	92.2	97.0	105.2	109.7	118.3	126.5	137.2	127.5
<b>years</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>					
<i>economical growth</i>	-0.8	1.1	0.6	3.5	2.6*					
<i>% compared to 1989</i>	126.5	127.9	128.6	133.1	136.6					

\* Forecasted values

Source: National Institute of Statistics

After 25 years since the change of regime in 1989, Romania is about to resume economic growth reached in 2008 where , with almost full recovery of the decline in the years 2009 - 2010. Now, however , all the macroeconomic indicators presented in compliance with requirements imposed by the Maastricht Treaty , with inflation stabilized and a very stable exchange rate .

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