

SUSTAINABILITY OF ECONOMY VERSUS INFLATION - AN ANALYSIS OF THE CRISIS PERIOD IN ROMANIA

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Abstract:

Macro and micro economic developments over the period 2008-2010 have placed the most influence on the general level of inflation in Romania. There are increasingly more voices claiming unjustified price increases in almost all categories of products, with direct effects on the final consumer. Based on these considerations, we try to present some aspects of inflation on products and product groups, and to quantify their contribution in the general level of inflation in Romania.

Key words: inflation, contribution, crisis.

JEL classification: E30, E31

In January of this year, the International Monetary Fund released a report proving the sixth revision of the Stand-By Agreement with Romania, which includes information on the macroeconomic framework and its perspectives. According to this document, it is estimated that inflation will remain above the 2011 forecast by the National Bank of Romania, due mainly food price pressure. To these are added the changes in regulated prices as well as the exchange rate fluctuations. In an attempt to achieve an inflation "picture" in Romania, can be used data from the National Institute of Statistics, regarding the evolution of consumer price index.

In terms of the evolution of the consumer price index corresponding month of previous year, the period during January 2008 - December 2010 marks the oscillating but increasing developments in the three categories, namely:

- Food products (6.45%);
- Non-food products (9.76%);
- Services (6.43%).

From the perspective of **non-food prices**, the period from January 2008 - December 2010 is characterized by an upward trend, mainly on products and services whose prices / tariffs are regulated.

For example, in December 2010 compared to the same month of the year earlier, non-food prices increased by 9.8%, mainly due to increases in share prices:

- Tobacco and cigarettes (26.34%);
- Fuels (+15.4%);
- Heat (11.94%);
- Electricity (+8.6%);
- Drugs (7.9%).

If in the first eight months of 2008, food prices have generated an inflationary boom, over the total index of inflation, after this period the report "forces" which generate inflation has changed, food prices place being taken by non-food goods and services prices. In December 2010, non-food price indexes increased by 9.8 percentage

points, exceeding the general index which rose by 7.96%. In the food products during the period January 2008-December 2010, almost all products have price increase the oscillations from one month to another, standing out in the last year exceeded the average trend visible group in the following groups:

- Vegetables and tinned vegetables (22.5% in December 2010 to December 2009);
- Edible oils, bacon and fats (18.3% in December 2010 to December 2009);
- Fruit and tinned fruit (11.98% in December 2010 to December 2009).

Increases in food prices especially since July - 2010 can be attributed to the VAT increase, raw material prices on the entire chain of food and utility prices. To these may be added the price developments in food imports generated by the exchange rate fluctuations.

At the subgroup of "*milling and bakery products*", in December 2010 to December 2009, the price index increased by 5.24 percentage points, over this average are situated:

- Milling products (8.26%);
- Flour (9.56%);
- Maize flour (6.23%);
- Bread (5.79%).

At the subgroup of "*vegetables and tinned vegetables*" a significant price increase was recorded for potatoes, with not more than 45.6% in December 2010 compared to December last year, while the average subgroup increased by 22.5 % in same period.

With the exception of tinned fruit, whose prices do not register a significant fluctuations due to the low demand, the prices of "*fruit and tinned fruit*" subgroup increased by almost 12% in December 2010 to December 2009, due mainly increase the prices of fresh fruit with almost 18 percent points. Rising prices of fresh fruit can be explained by imports, in detriment of using the domestic output.

At the subgroup "*edible oils, bacon and fats*", the edible oil had the most increasing, whose price raised in December 2010 compared to December last year to 21.17%, exceeding the group average by 3 percentage points. If the price trends for vegetables and fruits can be attributed to the imports and non-utilization of domestic output, the systematic increase in edible oil prices with a relatively sustained rate can be explained, *inter alia*, by the high price of raw materials.

Fluctuations in food prices reflects both the seasonality of production, rapid response to variations in demand and the degree of competition, but is closely tied to the prices / tariffs for utilities and services that contribute to their achievement.

In the **services** sector, the most significant price increases returned water services, sewerage and sanitation, increasing their price in December 2010 to December 2009 with 15.9%, followed by urban transport tariffs (+7.8%) interurban (4.75%) and costs of postal and telecommunications (5.01%, below the group average of 6.43%).

On types of transportation, railway tariffs have registered the largest increase of almost 14 percentage points in December 2010 compared to same month the previous year, while the opposite, the occurrence of low-cost private operators contribute to reducing the air transport tariffs. In the postal and telecommunications services, the highest growth recorded a telephone tariffs, which increased by 5.9% in December 2010 to December 2009.

Unlike the free market in which prices of products and services are formed based on demand / supply ratio, with amplitudes clearly visible, prices and tariffs on regulated markets recorded a lower oscillations but on a slope upward. Their growth was, however, significantly higher than the food.

If compared with December last year, oscillation amplitude prices maintain a relatively close to the corresponding month of previous year, the consumer price index

analysis in the previous month for all products reveals that the increase of VAT in July 2010 led to an increase significant price, but they are significantly reduced in August 2010, following a strong demand response (contraction of demand). This trend is more visible to food, the oscillation amplitude is lower for goods and services, especially those regulated. In fact, of all the products caught in statistical terms, 10 products have been growing that can be made largely on the increase of VAT by 5 percentage points (Table 1).

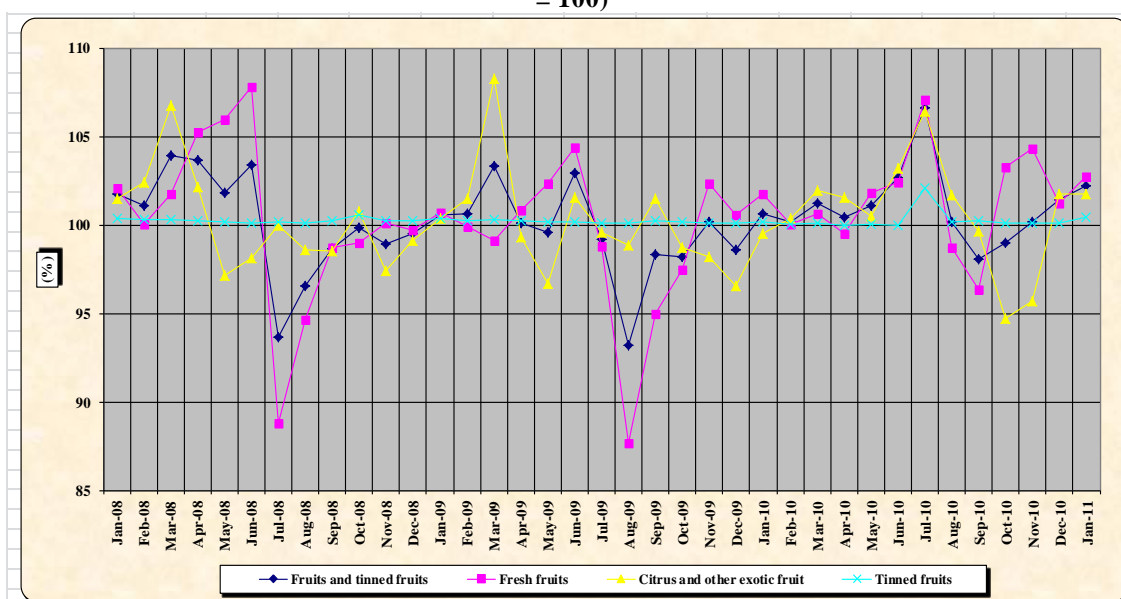
Table 1. Products/groups of products who took almost all the increase in VAT

	Price indices July 2010/June 2010
Fruits and tinned fruits	106,6
Fresh fruits	107,1
Citrus and other exotic fruit	106,44
Tobacco, cigarettes	109,47
Electricity	104,2
Natural gas	104,2
Water, sewer, sanitation	105,33
Railway transportation	105,54
Railway subscription	105,7
Telephone	104,75

Source: Data delivered by the National Institute of Statistics.

Regarding the fruit, the analysis of the period cover January 2008 - January 2011 reveals an oscillating trend of prices, given mainly by the seasonality of production. However, **there are not excluded other causes may underlie the increase in fruit prices (see Chart 1).**

Chart 1. Price indices for fruits and tinned fruits in January 2008 - January 2011 (previous month = 100)



Source: Data delivered by the National Institute of Statistics.

Starting with January 2010, fresh fruit prices fall on a slope upward except interval August-September 2010. The increase in fruit prices can be explained by seasonality of production, but the magnitude of this phenomenon is not kept from one year to another, which means that there are other factors which contribute to higher prices. In an attempt to find an explanation was requested from the National Statistics Institute (INS) data on the prices of fruit varieties. Analysis of the period 2008-2010 highlights the increasing trend in average prices of nearly all fruits, except apples (Table 2).

Table 2. Evolution of the average prices of fruits

	2008 (lei/kg)	2009 (lei/kg)	2010 (lei/kg)	2010/2008 (%)	2010/2009 (%)
Apples	2,62	2,22	2,16	82,4	97,3
Pears	3,12	3,37	3,89	124,7	115,4
Peaches	3,46	3,23	4,02	116,2	124,5
Apricots	3,22	3,6	4,39	136,3	121,9
Cherries	4,87	4,62	5,67	116,4	122,7
Cherries	4,31	3,6	4,86	112,8	135,0
Plums	2,08	2,08	2,12	101,9	101,9
Strawberry Field	3,56	4,84	4,64	130,3	95,9
Melons	2,26	1,42	1,64	72,6	115,5
Watermelons	1,24	0,58	0,85	68,5	146,6
Table Grapes	3,06	3,22	4,03	131,7	125,2
Nuts	4,68	4,52	5,05	107,9	111,7
Wine Grapes	1,28	1,08	1,54	120,3	142,6

Source: Data delivered by the National Institute of Statistics.

Regarding vegetables, the most significant increases were recorded for potatoes, their prices increasing sharply since August 2010. Data from the INS on the price of some vegetables bring out significant increases in average prices over the period 2008-2010 (Table 3).

Table 3. Evolution of the average prices of vegetables, 2008-2010

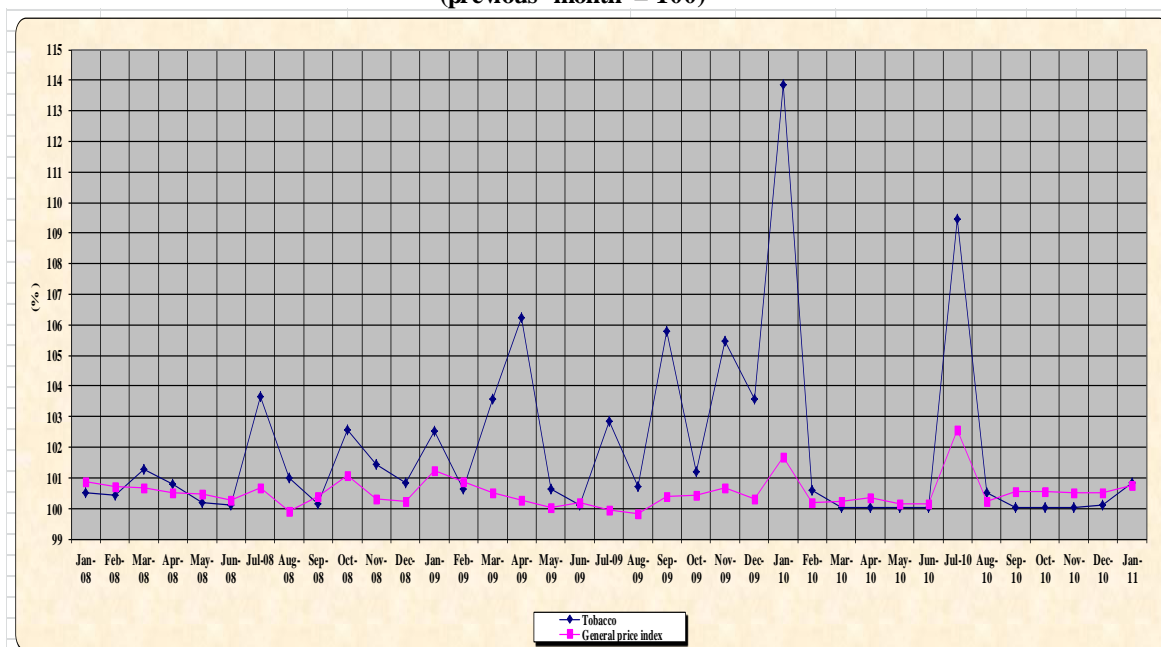
	2008 (lei/kg)	2009 (lei/kg)	2010 (lei/kg)	2010/2008 (%)	2010/2009 (%)
Early potatoes, and semi-early summer	1,26	1,28	1,35	107,1	105,5
Fall Potatoes	1,06	1,22	1,36	128,3	111,5
Beans	5,39	5,96	5,82	108,0	97,7
Onions dry	1,83	1,74	2,06	112,6	118,4
Carrots	2,25	2,26	2,25	100,0	99,6
Dry garlic	8,34	8,16	12,67	151,9	155,3
Field Tomatoes	2,41	2,08	3,36	139,4	161,5
Field Cucumbers	2,17	1,8	2,14	98,6	118,9
Field Salad	5,05	5,08	4,56	90,3	89,8
Spinach	3,62	3,6	4,05	111,9	112,5
Early cabbage	1,53	1,22	1,49	97,4	122,1
Winter cabbage	1,26	1,11	1,4	111,1	126,1
Cauliflower	2,99	2,94	3,77	126,1	128,2
Beans	3,95	3,04	3,2	81,0	105,3
Capsicum	2,84	2	2,62	92,3	131,0
Eggplant	3,21	2,18	2,13	66,4	97,7
Pimiento peppers	3,84	2,99	3,45	89,8	115,4
Pepper fibber	3,64	2,68	3,52	96,7	131,3

Source: Data delivered by the National Institute of Statistics.

Finally, regarding the cigarettes, the price increasing is driven by the market characteristics. Thus, an important feature of the cigarette market is **very high degree of transparency**, reporting mechanism itself induced the maximum retail price for determining the amount of excise duty, a **mechanism established by Community law** (Council Directive 2008/118/EC of 16 December 2008 on the general arrangements for excise duty and repealing Directive 92/12/EEC). This mechanism itself induces **vertical supply chain arrangements of cigarettes**, which are in fact exceptions to general rules of competition.

As indicated in the chart below, in 2010 there were two major jumps in the price of cigarettes, in January and July 2010 respectively, due to higher excise duties and VAT total. In January 2010, total excise increased by 11% from the previous period of 2009 respectively from 67 per 1000 cigarettes to 74 per 1000 cigarettes. Compared with previous month (June 2010), in July 2010 prices on cigarettes increased by 9.5%, "swallowing" the VAT increase of 5 percentage points (see **Chart 2**).

Graph No. 2. Evolution of cigarette prices indices between January 2008 and January 2011 (previous month = 100)



Source: Data delivered by the National Institute of Statistics.

It is obvious that the increase in cigarette prices occurred in 2010 cannot be explained only by changes in the level of excise duties and VAT. **There may be other factors that contributed to higher prices**, such as currency exchange rate set by the European Central Bank, which increased by 15% in January 2010 compared with the previous year, commodity prices, etc., or because of parallel behaviors induced by the high degree of market transparency.

REFERENCES

- * * * (2008-2011): Data INS, Tempo-Online database;
- * * * (2011): Statistical information provided by National Bank of Romania through interactive database.