

Inflation evolution and anti-inflation policies in Romania vs. Poland

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Abstract:

Inflation is a complex phenomenon and economists debate it a lot lately. It is the element that affects nearly every economic mechanism and is present in all countries.

In this paper we tried to analyze the main reasons for inflation and its fluctuation in Romania and Poland in recent years. Both countries have moved from a centralized economy to a market economy but applying different measures and adopting various economic policies they had a different economic evolution and a very different inflation.

Keywords: inflation; economic measures; anti - inflationary policies ; market economy

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Inflation is a complex social and economic phenomenon with various issues (caused by imbalances that marks) almost became persistent and omnipresent in the current period, worldwide. Basically, there is no economic mechanism that this phenomenon does not affect him. Therefore, inflation had been issued many points of view, wearing at times ambiguous mark.

Most of those who study inflation considered that it is generally a negative phenomenon that generates many problems and affects multiple levels. Other researchers focusing particularly on practical elements believe that inflation is not only an unwanted process, but a real scourge, which, by its significant upward movement in prices, tends to destroy the achievements of the economy.

There are also those who see inflation in the broader sense achieved by including its as a macroeconomic phenomenon in evolutionary movement of economic concepts and theories.

According to the Dictionary of Political Economy inflation means 'the supersaturation of artery circulation with an amount of paper money that exceeds of its real needs, which leads to currency devaluation'. The phenomenon is linked either by the moment when the issue of paper money circulation rises above the needs of either by the condition which the amount of money remains unchanged. Inflation is a complex

social and economic phenomenon, a macroeconomic imbalance, general and enduring manifested through the disagreement arose between money that comes to overstuff the sphere of circulation, and the volume of goods and services, which are actually on the market. The situation is externalized through the uneven but cumulative growth of the prices and by currency devaluation manifested by the declining of purchasing power of money signs.

If we stop on the fact that inflation is reflected in the overall price increasing is deemed necessary following comments:

- General adjective must be understood with some reservation: sure, not all prices rise in the same proportions and at the same time but the overall movement, however, remains upward. Neither prices which records growth don't do the same; often there are significant disparities which illustrates the term – prices disproportionality - contributing to inflationary phenomenon heterogeneity.

- Not any increase in prices means inflation. For example, the need for correlation of different products or groups of products, removing or relocation of some subsidies prices is not inflationary phenomena. To be like that it is necessary that this increase to represents a movement whose successive deployment, lasting, to determinate raising the ceiling to a inflationist general level.

- Conceptions about the phenomenon evolved: in the past inflation was viewed in a purely monetarist sense being seen as a simple increase in the volume of money signs in circulation without metallic coating. At present inflation can no longer be considered just that, because in the formulation of the concept are taken into account in equal measure the material and overall functional aspect. The generalization of inflationary phenomenon in many countries caused often policymakers to consider that, practically, rather than rising prices, it's interesting the analysis of internal data, along with those of other countries and to wear out, then, by comparative notions.

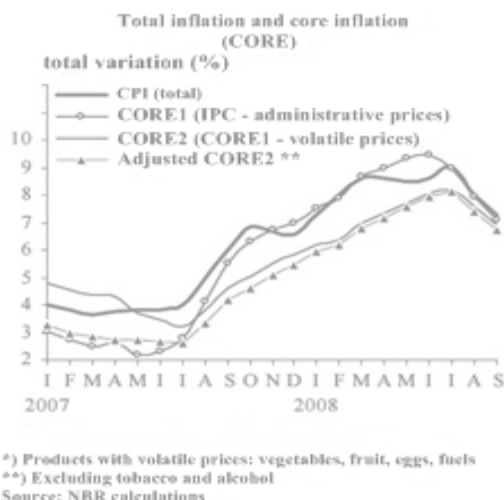
The process of inflation in Romania started when price liberalization which as held in November 1990. Until this year, the economy has functioned on the basis of a centralized system to the maximum, subsidizing and investing unrelated to any economic logic. Meanwhile were practiced dictated and rigid prices, which were not taking into account the ratio between market supply and demand, and often the price was less than the cost of goods.

Inflation in Romania

In 2007, the inflation rate dropped by 1.72 percentage points over the previous year, being fixed around 4.84%. Tripping in the second semester in 2007 of action of two types of inflationary shocks caused an increase of annual inflation rate in September at 6.03%, exceeded it by 2.23 percentage points over that recorded in June placing it with 1.19 percentage points over the figure of annual inflation.

This year, the slight contraction which were recorded in the second quarter by annual dynamics GDP (from 6% to 5.6%) was due mainly by amplification of the trade deficit, but also cutdown own consumption against the backdrop of weak performance farm.

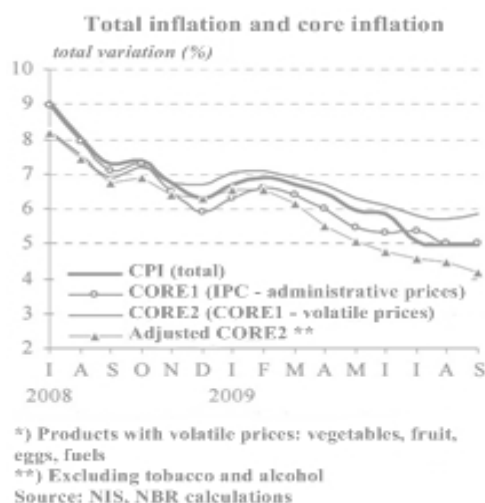
In 2008, the annual inflation rate has reached 7.90% rising by 3 percentage points compared to 2007.



The Quicker increases of wages and slower labor productivity in the period June-August 2008 compared with the dynamics of the first five months of the year, led to further growth of the unitary labor cost. These developments generates inflationary effects both through wage pressures on aggregate demand as a result of recording a physically surplus from earnings of individuals which they will direct instinctively to consumers but without awareness at the moment, the existence of factors of a counterbalance of "real value" of the income, reducing purchasing power, which will induce subsequent a negative effect that will be felt more pronounced and by the costs of labor on producer prices.

In 2009, the annual inflation rate fell to 5.60%, with 2.30 percentage points below the level reached in the previous year (7.90%).

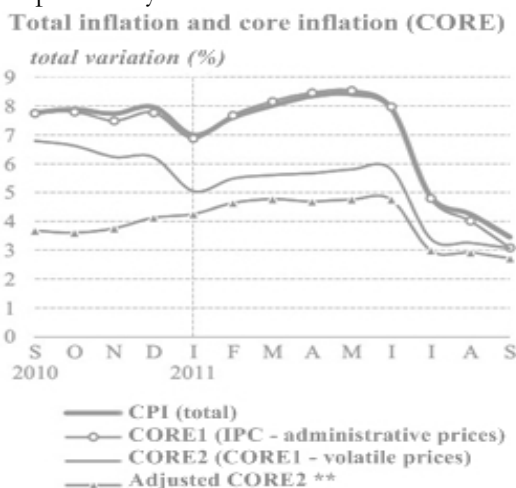
The dynamics of the inflation rate was favorably influenced by the significant deceleration of increases in administered prices and food prices. In the latter case, the slowdown in growth was significantly faster in the case of group volatile prices compared to the one recorded for food prices. An opposite influence had an annual dynamic accelerated in fuel prices, due to a base effect which dominated the impact of international oil price declining growth in the third quarter.



In 2010, the annual inflation rate rose to 6.10%, up 0.5 percentage points from the 5.60% achieved in the previous year.

Supply-adverse shocks, distinct from that of the VAT rate hike, came from administered prices and food prices as a result of partial materialization of some risk scenarios. In case of food goods, unfavorable developments were caused by substantial increases of external prices in parallel with the contraction of domestic supply for some product categories, after the floods in June-July, amid the significant base effects.

In 2011, the annual inflation rate fell to 5.80%, with only 0.3 percentage points below the 6.10% achieved in the previous year.



*) Products with volatile prices: vegetables, fruit, eggs, fuels

**) Excluding tobacco and alcohol

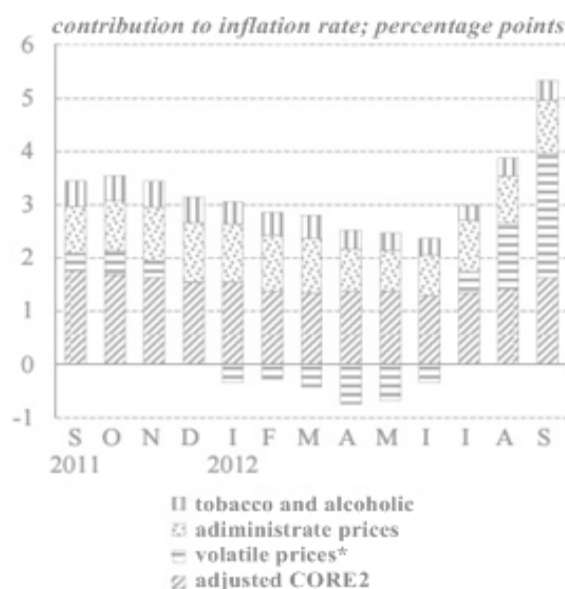
Source: NIS

The main factor, anticipated by BNR has been the exhaustion, in large part, the first-round effect from 1 July 2010 of increase the VAT rate. The second factor, whose intensity and duration of manifestation were more pronounced than anticipated, was the deflation registered in June to September on the food segment with volatile prices (LFO). Abundant offer of unprocessed foods due the rich agricultural production superimposed persistent supply demand created extremely favorable circumstances of consumption prices disinflation.

In 2012, the annual inflation rate fell to 3.40%, with 2.4 percentage points above the 5.80% achieved in the previous year.

Determinants for reducing of annual inflation over the previous year were significant decelerations of administered prices, from tobacco products and fuels. In case of the latter, the favorable effect of significant decrease of international prices of crude oil surpassed opposite influence of the depreciation of the national currency against the dollar (USD). The extent of the disinflation process has been affected by volatile commodity price dynamics of the agrifood goods as effect of the decrease of production domestically and internationally following the adverse climatic conditions.

The annual inflation rate



*) Products with volatile prices: vegetables, legumes, eggs, fuels

Source: NIS, NBR calculations

The annual growth rate continued to show negative values, but significantly lower in June compared with the previous five months, signaling the transition of the statistical effect of the basis from the favorable impact in the first half to the opposite influence already anticipated by forecasts of BNR.

The annual rate of growth of unit labor costs in industry has maintained significantly in April-May 2012, which was mainly attributable to negative dynamics of labor

productivity. Recent downward trends in other sectors of the economy are likely in the second quarter recording a rise in unit wage costs and along the entire economy. Avoid generation of pressures from costs - in purpose of conservation the favorable inflation prospects, and also maintaining macroeconomic balances - would require adequate correlation in future periods between salaries and the growth of labor productivity.

In 2013, the annual inflation rate is slightly declining by 0.20 percentage points, reaching 3.2%.

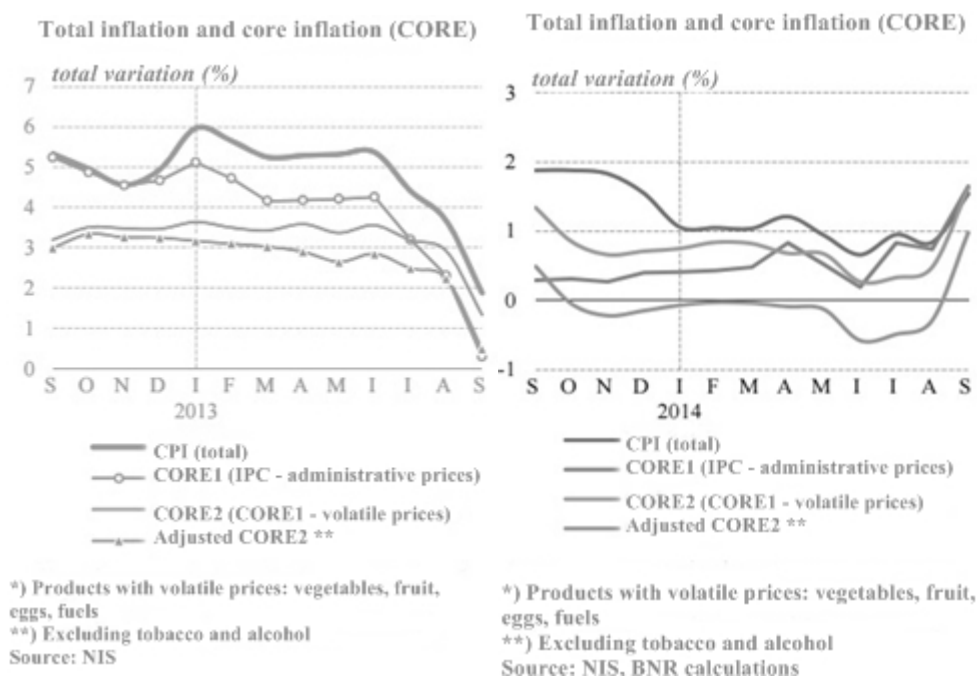
In the second half, the annual CPI inflation rate was registered on a sharply downward trend, standing at end of the period at 1.88 percent in the lower half of the variation of ± 1 percentage point around the target of 2.5 percent.

Volatile prices recorded at the end of the review period a -4.5% annual growth rate, whose sharp decrease compared to June 2013 (-12.1 percentage points) explained about half of CPI disinflation in the second half. The slowdown was due to overwhelming manifestation of a favorable base effect, especially in the segment of volatile food prices, affected the same period of previous severe restriction of the production of vegetables and fruits. In addition, abundant supply of vegetal production this year resulted in increased annual price deflation.

July marked a stage of liberalization of the energy market by introducing a competitive market component in the final price of electricity supplied to households and increase natural gas tariff by 8%. At the same time, the decrease of this component price and the diminish of the contribution for sustaining renewable energy have reduced in July by 2.5% of final electricity tariff.

The main positive influences returned due to materialisation of an exceptional agricultural year and the reduction of VAT on some bakery products from 24% to 9% since September. Following this change in the tax regime, the adjusted CORE2 inflation reached a record low of 0.49 percent.

Year 2014 brought an annual inflation to a historical unexpectedly low 1.40% , decreasing with 1.8 percentage points from the previous year.



Reducing the VAT rate since September 1 2013 to some bakery products from 24% to 9% contributed to **comeback** of inflation CORE 2 adjusted into positive territory in September at 1%.

Favorable evolution of adjusted CORE2 continued to be supported by fundamentals factors represented by persistent negative output gap and inflation expectations significantly improving. From other parts of the aggregate index of consumer prices, affected mainly by supply-side factors, a relevant contribution in the sense of increasing inflation had have the significant reduction of negative dynamics of prices volatile food to values close to zero, reflecting succession of two years (2013 and 2014) with comparable agricultural productions.

Favorable effect on the annual rate of CPI inflation was generated by timing of price increases for groups of fuels, tobacco products and alcoholic beverages and administered prices. Determinants of these developments were, in the first case, the reorientation of the Romanian market of exports for fruit and vegetables from some European countries affected by restrictions recently imposed by Russia, and in the second case, the reduction in September of international quotations oil to a minimum of recent years.

The downward trend in unit labor costs in industry, manifested the whole second quarter of 2014 was interrupted in July and August due to the lower labor productivity growth. Across to economy, the gross nominal earnings growth has accelerated slightly as a result of new increases in July of the the gross minimum wage economy. In the short term, the negative persistence of output gap reduces the risk of significant inflationary pressures from wage costs. In the medium term, but in the same time with the

approaching of GBP to the normal level, and especially in the event of materialization of further increases in the minimum wage, maintaining an adequate correlation between wage growth and labor productivity is essential for strengthening price stability.

Inflation in Poland

In 2004, Poland's EU accession year, inflation rate was 3.6%, rising with 2,9 procents compared to 2003.

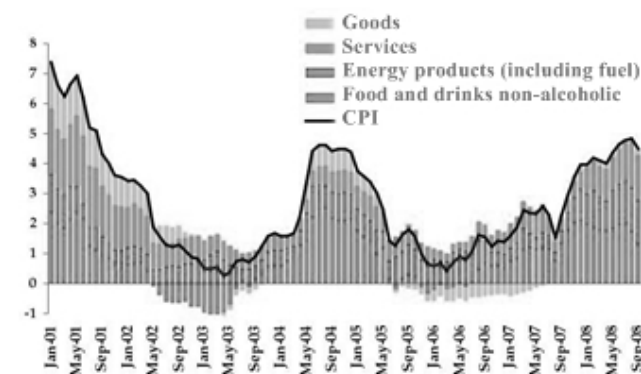
2007 brings an increase in inflation by 1.3 percentage points, reaching 2.6% inflation rate, actually doubling from the previous year. In certain months of Q3, inflation has experienced important fluctuations - in August 2007 decreased 1.5%, while in September, resumed its upward trend 2.3%, and in the end succeeded to stabilize the rate of 2.6 %.

According to estimates mentioned in one of the internal reports of the National Bank of Poland (NBP), real GDP growth remained at a high 6.4%, however a lower level, compared to the first half of 2007 (7.2%). Private consumption growth reached 5.1% and fell slightly below forecasts BNP report.

The increase with 1% of public consumption growth was also slightly lower than expected. Gross investment rose up to 20.8%, but, as expected, less than in the first semester 26.2%. During the same period, consolidated budget recorded a surplus of 3.9 billion PLN. Balance central government was the result, on the one hand, of great incomes, generated by fast economic growth and continuous improvement of the labor market situation, on the other hand, another result was the one of the reduced dynamics expenditure from the budget.

In 2008, inflation has increased rapidly and reached 4.2%, 1.6 percentage points above inflation from 2007. In this analized period, the generating factor of inflation is represented by increasing energy prices on global markets. This translates into an increase in energy prices and related services in the internal market.

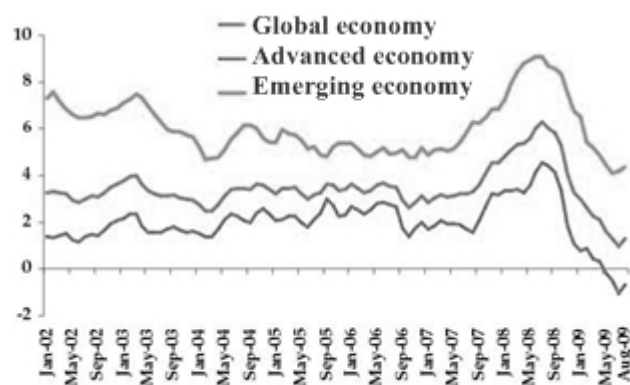
In September 2008, the annual growth assessment of all measures of core inflation exceeded the inflation target of BNP (2.5%). In the same period, core inflation excluding food prices and the energies reached 2.9%, the highest level recorded from 2002 to the present.



Source: NBP

In 2009, inflation fell slightly lower compared to the previous year, in numbers meaning that its value reduced with 0.2 percentage points, reaching a value of 4%.

From July to August 2009 the annual growth of prices of consumer goods and services, has ranged between 3.5% - 3.7%, slightly above the upper limit of deviation from the inflation target set by the National Bank of Poland, followed in September by a slowed rythm of 3.4%. The high level of annual inflation was determined, mostly, to the previous increases occurring in administered and tobacco product prices but also in quick rise of alcoholic beverages prices, the last two because of increased excise duty. Another generating factor of continuing inflation at a high level is the sharp depreciation in the exchange rate of the zloty in the second half of 2008 and early 2009. On the other hand, inflation has been complicated by the continued decline in fuel prices and discount in Gas prices for households in 2009.



Source: NBP

In 2010 the inflation rate is decreasing compared to the previous year by 1.3 percentage points, leveling off at 2.7%.

Annual growth in prices of consumer goods and services in Poland in June-August 2010 period decreased from 2.3% to 2.0% followed in September by an increase, reaching 2.5%, the threshold target inflation, fixed by BNP.

The growth of producer prices on the domestic market reached in July and August, 4.7% respectively 5.0%. Meanwhile, producer prices in exported goods rose to 1.1% and 1.5% respectively, which is associated with the decline of the zloty appreciation in annual terms.

Prices of imported goods in denominated zloty fell by 3.5% compared to decline of 4.9% registered in the previous quarter. Due to the slight appreciation of zloty in second quarter of 2010 this decline was attenuated.

In 2011, inflation has increased and reached 3.9%, with 1.2 percentage points above inflation in 2010.

Annual evolution of consumer prices in Poland experienced a gradual deceleration, reaching 3.9% in September 2011. Inflation remains significantly above the target set by the National Bank of Poland (2.5%). This decline that characterized inflation in recent months has been induced mostly by reducing food prices, particularly those which are raw materials. This was determined by a generous offer of fruit and vegetables, as a result of good harvests, combined with a weak demand for products.

Despite a slight appreciation in real terms, the zloty exchange rate, import prices denominated in zloty continued to climb quickly to 7.5% compared to 7% last year.

In 2012, inflation declined slightly, reaching the threshold of 3.7%, 0.2 percentage points below the rate of inflation in 2011.

Annual growth of consumer prices in Poland decreased gradually (to 3.8% in September 2012), remaining, however, above the upper limit of deviation from the inflation target set by the BNP.

In the second half of 2012, GDP growth slowed down again and, according to estimates reached 2.3% compared to 3.6% in the first half, as a result of decline in both consumption and capital formation, and the decline increase in inventories. On the other hand, the GDP was supported by a high contribution of net exports arising from a reduction in imports and a continued increase, although reduced of exports.

2013 is characterized by rapid decrease in inflation by 2.9 percentage points over the previous year, settling at 0.8%.

Inflation was tempered by a crisis in energy prices, a combined effect of the decline in fuel prices in the administered prices of gas (following the reduction of tariffs in January 2013) and electricity prices (after rebates in July 2013). Net inflation of food and energy prices increased from 1% in 2013, reaching 1.3% in September of the same year.

Increase in core inflation observed lately, meaning the that last months, was fueled in particular by higher prices of services, including, especially, administered prices of utilities services.



The decrease of price index in industry stabilized in 2013, was due to maintaining the overall downward trend in the price of energy products and the appreciation of the zloty. Stronger growth in export prices was correlated with increased intensity, of imports and gaining so a higher sensitivity to exchange rate fluctuations. The sequel of downward trend in import prices was supported by the appreciation of the zloty in the previous year, in the middle of a slow growth of external trade prices.

In 2014, the inflation rate fell sharply compared to previous years, standing at a historic low of just 0.1%, decreasing with 3.5 percentage points from 2004, the year of Poland's accession to the European Union.

The insignificant increase in prices was induced, obviously, by a decline in food prices correlated with a good agricultural harvest, internal and global reduction in prices of agricultural products. An additional factor which has helped reduce food prices represented the Russian ban on agricultural products and foodstuffs coming from Poland.

Consumer price growth was weakened by easing energy prices, which was due to a fall in prices of crude oil overall. Another factor that contributed to lower inflation was the lack of demand and costs pressure highlighted by the collapse of non-food products prices and a decrease, of industrial products prices.

Net core inflation of food and energy prices fell from 0.8% annually in May, compared with 0.4% in July to return to 0.7% in September. These changes were caused in particular by fluctuations in the price rise of services.

CONCLUSIONS

In Romania, the inflation process started along with the first price liberalization that took place in 1990. This instance doesn't mean that until then that our country has not experienced inflation.

Together with Romania's transition to a market economy, we have witnessed an explosion in prices, especially to consumer goods of the population. Duration and intensity of the inflationary process in Romania had coordinates higher than other countries that have moved from economy centralized to market economy and due to a combination of causes related to the objective conditions of functioning of the economy, but especially the nature of the economic policy pursued by successive governments in power.

The transition has not been easy either in Poland, the road until present was considered very difficult; Poland turned into a market economy model, but with aggressive measures taken by the government shortly after the collapse of communism. Poland's transition to capitalism was opened by the Finance Minister Leszek Balcerowicz with help from american economist Jeffery Sachs. They managed to economy, the so-called shock therapy by implementing a privatization program at large-scale of industry, by creating a stock of shares of capital markets, transforming zloty in convertible currency, removing price controls, reducing costs and cutting subsidies. The purpose of the program was Poland's integration into the global economy by its proximity to the Western model. Former big state companies were privatized, including listing on the stock market, but the state did not give the power to decide which many experts consider to be the main reason for a successful transition in Poland; certainly the key to success is the simultaneous impact of Polish many factors, social and political stability, making full use of selected benefits that derogate from EU membership.

Along with becoming an EU member in 2004, after 15 years of NATO membership and 25 years after the fall of communism, Poland has begun a new stage of its development (designated as developed environmental state). Poland has benefited from EU funds more than any other former communist state funds, but investment and, more importantly, best practices and regulatory models. Notice that Poland is the only EU country whose national economy hasn't registered contractions during the great financial crisis that erupted in mid-2009, achieving growth of 1.7% even while other countries were in recession.

Not only FDI have `fueled` economy, but also getting European funds, non-refundable. Benefits of EU membership are visible everywhere in Poland. Almost any city or state no matter how small it is, has something related to EU funds, whether it is a new water treatment plant built or a renovated a historic monument.

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