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The dynamics of inflation in the context of the economic crisis



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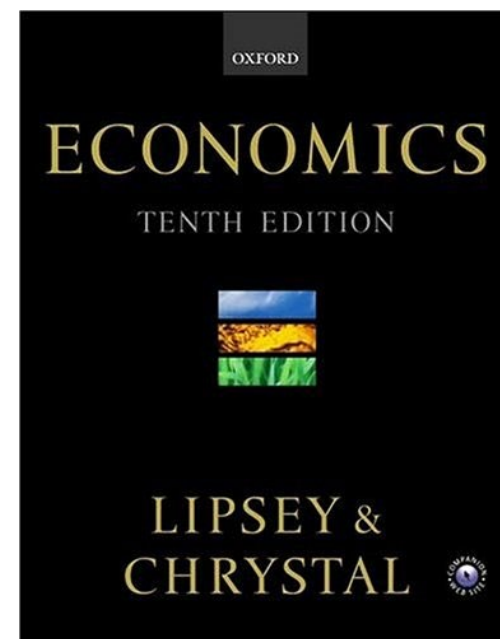
Objectives of the article:

- The article entitled *The dynamics of inflation in the context of the economic crisis* aims to perform an analysis of the inflationary phenomenon during the years 2000-2019, as well as to identify the causes and consequences that are reflected both in the economy and in society following the economic crisis.
- From the point of view of **social** effects, the main and at the same time, the most significant is represented by the diminution of the quality of life of the population, the emphasis being placed on the people who are financially disadvantaged, more precisely those who really notice the increase of the prices of the goods from market.
- From the **economic** point of view, the resulting effects are mainly reflected by the decrease of exports and the increase of imports, a change that will gradually lead to the slowdown of the economic growth, as well as the decrease of the production that will later materialize by the existence of a trade deficit.



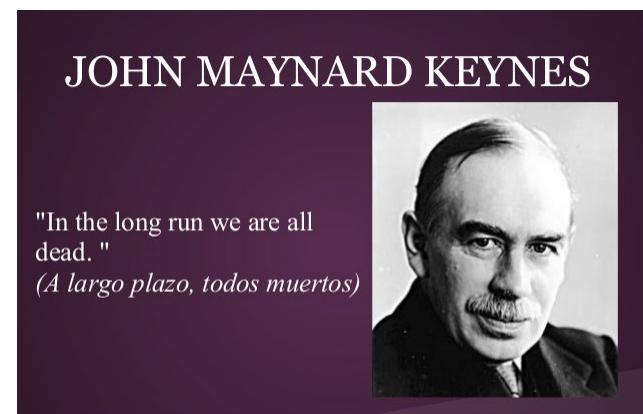
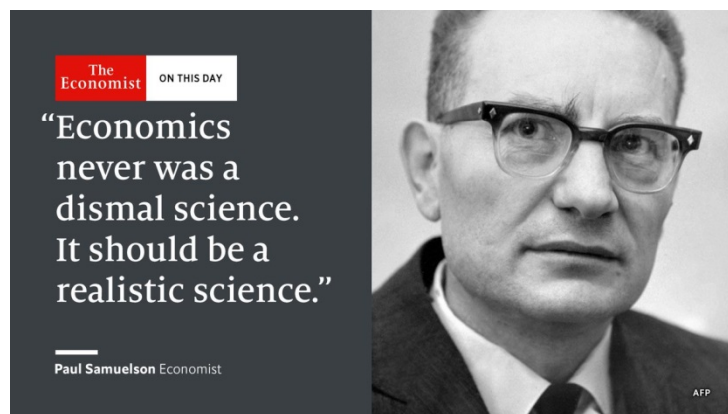
Introduction and literature review

The inflationary phenomenon is one that has been considered a controversial topic by many economists, each supporting his point of view on this process and thus highlighting the effects and ways of diminishing it. An eloquent example can be represented by the authors Richard G. Lipsey and K. Alec Chrystal in the book entitled "Positive Economy" in which they argue that inflation, unemployment and growth represent the fundamental problems facing the economy in the current period. Regarding the unemployment rate and the inflation rate, these two are in close correlation with each other, as the decrease in unemployment inevitably leads to an increase in the inflation rate and in the case of lowering this inflation was accompanied in most cases by a level of inflation high unemployment. "Macroeconomic policy can indeed be like that of trying to go on a very narrow bridge where inflation is on one side and unemployment on the other.



Introduction and literature review

- Another well-known economics author, Paul Samuelson, who received the John Bates Clark Medal in 1947 and the Nobel Prize in Economics in 1970, brings to the fore in his book "Economics-19-e" alongside William Nordhaus, their conception of inflation. The inflationary phenomenon appears when the economy is experiencing an increase in the general level of prices. Their opinion is based on the idea that "Inflation is as old as market economies", so that over time it affected in different proportions each state, manifested itself in different forms and led to new changes.
- John Maynard Keynes concept: "Given that inflation is a continuous process and that the real value of the currency fluctuates wildly from month to month, all the permanent relations between debtors and creditors, which form the fundamental end of capitalism become so disordered that they are almost meaningless."



The quantitative equation of money

The quantitative theory of money called Fisher's equation was developed between the centuries XIX-XX by the American economist Irvin Fisher. He analyzed the link between the total amount of money in the economy and the volume of expenditures on products and services. The equation of exchange is as follows:

$M \cdot V = P \cdot Y$, where: M - represents the monetary mass in circulation, V - is the rate of rotation of money, P- is the level of prices of goods and services in the economy and Y - represents the amount or volume of goods and of services traded on the economic market.

Inflation is a monetary
phenomenon. It is made by
or stopped by the central
bank.

Milton Friedman

The economic impact and effects of the inflationary process

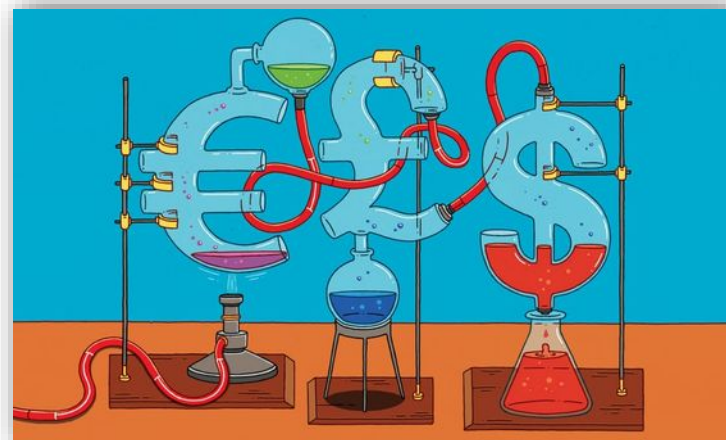
The economic effects of the inflationary process differ from one economy to another, depending on the economic policies adopted, the degree of development of each country, as well as the capacity of governments to manage and control inflation as a whole. Regarding the analysis of the consequences of inflation, this is difficult to achieve, because: one part of the economic agents obtains considerable profits from the inflation and the other part has to lose. It can also be specified that the intensity of the effects is closely related to the intensity of the inflationary phenomenon.



The economic impact and effects of the inflationary process

It is worth noting that under inflation conditions prices and wages do not change in the same proportion, as changes in relative prices occur. As a result of this change, two effects of inflation were identified, such as: the redistribution of income and wealth of the population between different groups and differentiations that appear at the level of prices and production of different goods and services. There are many areas that are affected by inflation, for example: the distribution of income and wealth at the level of a state, because there are major differences between the assets and liabilities they hold. Also, the unforeseen inflation is the one that the borrowers benefit from, but also the creditors, they are not as affected as in the previous period, because there are many types of debts that have interest rates moving up and down with the rates.

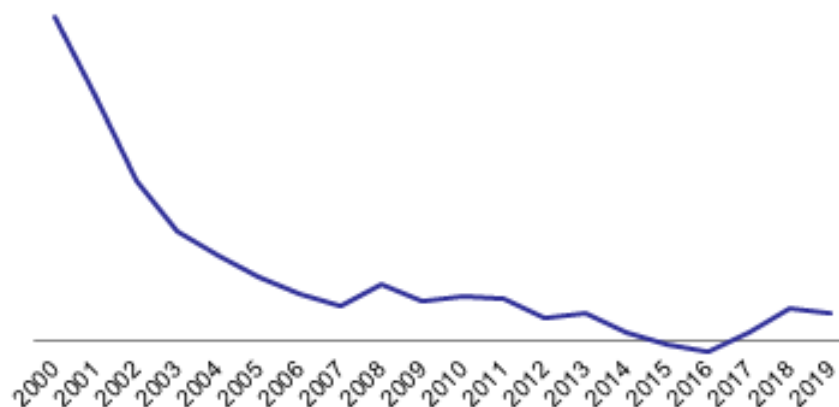
Inflation affects not only the distribution of incomes, but also the real economy in two important areas, such as: economic efficiency and total production, both of which are essential, as they lead to the sustainability of the economic system.



The evolution of the inflationary process in Romania in the context of the emergence of the economic crisis

During the period 2000-2019, the level of the inflation rate fluctuated considerably, reaching both positive and negative values so that the highest level of the inflation rate was registered in 2000, of 45.7%, and the lowest in 2016 of -1.5%.

Inflation evolution in Romania between 2000-2019



Source: National Institute of Statistics, <https://insse.ro/cms/ro/content/ipc%E2%80%93serie-de-date-anuala>

The evolution of the inflationary process in Romania in the context of the emergence of the economic crisis

The economic crisis started in 2007 and reached a turning point in mid-September 2008, leaving deep imprints on the economic systems of each state. The factors that weakened and subsequently triggered the most serious international economic crisis after the one that occurred between 1929-1933, the Great Depression are mortgage loans, which presented a high risk (subprime). The economic-financial crisis intensified following the bankruptcy of Lehman Brothers bank, but also after the time when Merrill Lynch was taken over by Bank of America.

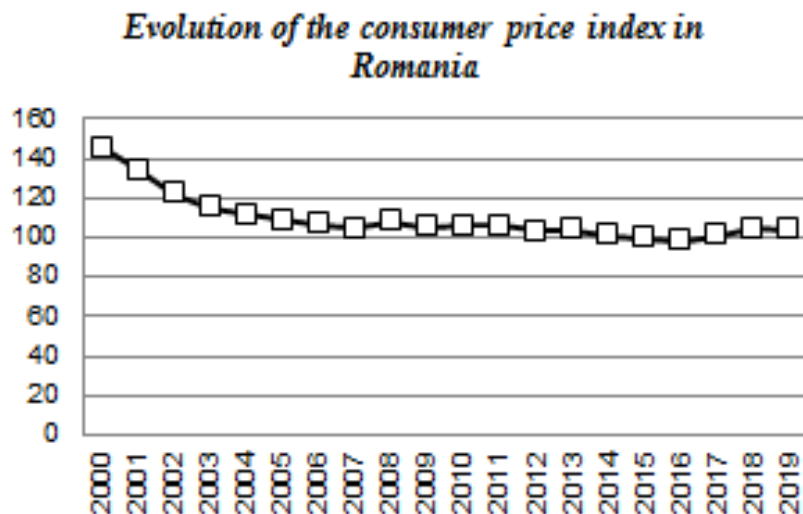
The rise of the inflation rate in 2008 was influenced by a number of significant factors, such as: rising global oil prices a change that was felt in the prices of natural gas and fuels, as well as the lasting effects exerted on the level of food prices as result of the decrease in agricultural production achieved in 2007. The decrease of the labor force productivity in terms of daily activities and the increase of the salary level in Romania in 2008, more precisely between June and August, inevitably led to an increase in the unit cost of the employees, as these changes felt in the economy determined the appearance of inflationary pressures. These were generated primarily by the costs of the employees on the prices that the producers set and secondly, the inflationary pressures were determined by the wage constraints that were reflected on the excess domestic demand. The intensification of inflationary pressures was due to the expansion of population consumption and investments made actions that could be achieved through financing in the form of: salary increases of economic agents, increase of government spending, as well as loans granted to the private sector.

The evolution of the inflationary process in Romania in the context of the emergence of the economic crisis

In line with the situation in the economy in 2008, the monetary policy authority of the NBR has established certain measures through which the exit from the crisis and the mitigation of its effects can be achieved. The Central Bank decided to practice a restrictive monetary policy, justified by the overheating of the Romanian economy, which focused on increasing the monetary policy interest rate from 8%, registered in 2007, to 7.5% per year, which it aimed to maintain a high level of monetary conditions in the economy while achieving the short and medium term disinflation goals. The decision to increase the monetary policy interest rate was materialized after the considerable increase in consumer prices, at the end of 2007, the dynamic increase in budgetary expenditures, as well as the further increase in the expected duration and level of GDP. Also, the NBR considered the control of the liquidity at the level of the foreign exchange market through market operations and maintaining a constant level of the minimum reserve ratio. Due to the diminution of the excess liquidity in the system, commercial banks experienced a liquidity deficit and the central bank thus occupied the position of creditor.

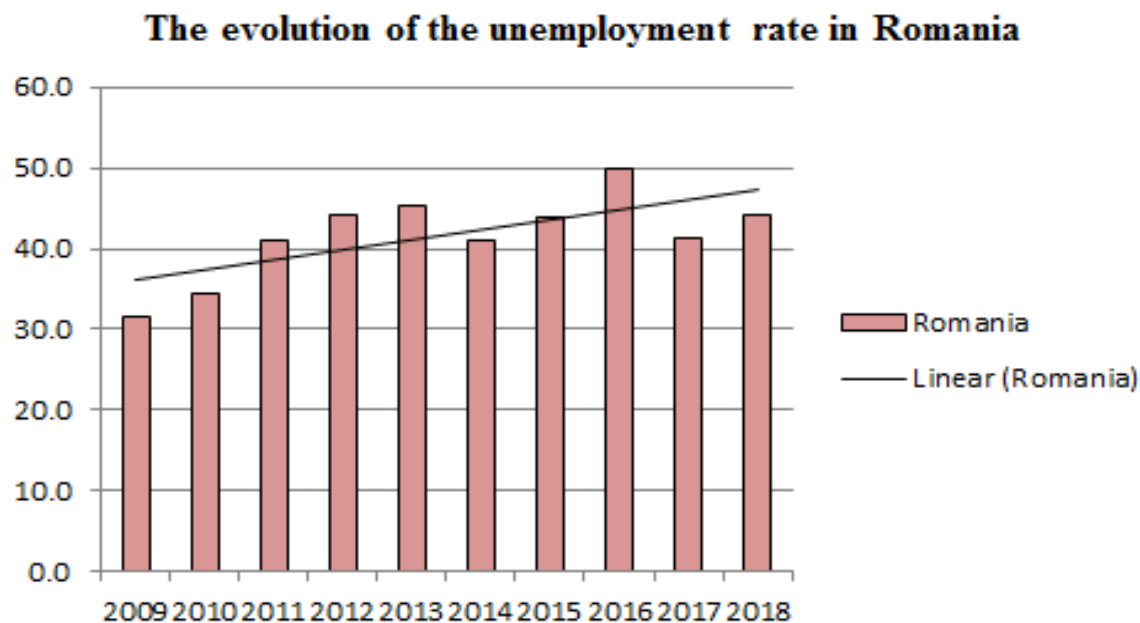


The evolution of the inflationary process in Romania in the context of the emergence of the economic crisis



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Conclusion

We can highlight the idea that inflation appears as diseases, for several reasons, because it lacks a single source, according to Paul Samuelson's conception, thus affecting both Romania and the member states of the European Union, and in what regards the economic-financial crisis of 2008-2009, it will remain enshrined in the economy of each state through the effects exercised.



INFLATION



Thank you for your attention!

