

## The Impact of the Geopolitical Situation on Inflation in the Current Period

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### Abstract

*In a global context marked by conflict and instability, the impact of war on the economy and, in particular, on inflation becomes a topic of major importance. However, there is a lack of detailed studies on the effects of contemporary conflicts on inflation in Romania. This study aims to fill this gap by analyzing the impact generated by recent conflicts, especially the war between Russia and Ukraine and the COVID-19 pandemic, on the inflation rate in Romania in the period 2005-2023. The methodology used involves an econometric analysis of macroeconomic data from this period, combined with a qualitative examination of applied economic policies. The main findings indicate that these events had a significant effect on the evolution of inflation, influencing both internal and external factors of the Romanian economy. The study adds value to the existing literature by providing an updated and detailed perspective on how global events affect inflation in an emerging economy like Romania.*

**Keywords:** *development, inflation, trade, war.*

**JEL Classification:** E31, F51, H56.

### Introduction

Inflation is one of the most important macroeconomic indicators, used to measure price changes over time. This is calculated by the Consumer Price Index (CPI), which reflects the cost of goods and services consumed by the population. Rising inflation can adversely affect economic growth, undermining confidence in the value of the currency [Bali, Brown, & Tang, 2017].

In recent macroeconomic studies, inflation has been the subject of extensive research, focusing on managing the impact of price fluctuations. In the current economic context, inflation is predominantly viewed as an adverse phenomenon due to its long-term effects on the economy [Benchimol, Saadon & Segev, 2023]. The inflation rate is the main indicator used to monitor this phenomenon over time and globally, comparing developments between different countries. The analyzed period, 2005-2023, is crucial for understanding the evolution of inflation in Romania, including the economic transformations and periods of instability that marked this period. In the past few decades, Romania has undergone significant economic transitions and market liberalizations, which have had a profound impact on the inflation rate [Raghutla, Sampath, & Vadivel, 2019].

Through this detailed analysis of the evolution of inflation in the period 2005-2023, the paper contributes to the deep understanding of the inflationary phenomenon in the economic and social context of Romania. The results obtained can be used to formulate appropriate policies and measures to manage inflation and maintain long-term economic stability.

The paper also aims to provide an integrated perspective on the relationship between contemporary conflicts and inflation, drawing on recent economic data to provide relevant and well-founded conclusions. In the current economic context, marked by uncertainty and volatility, understanding these relationships is crucial for formulating appropriate economic policies and ensuring long-term economic stability.

### **1. Analysis of inflation in a pandemic and war context**

Inflation, an economic phenomenon of major importance, is the generalized increase in prices in an economy [Bodislav et al., 2021]. In Romania, this phenomenon had a complex and significant evolution, influenced by various political and economic events, both internal and external [Bodislav et al., 2019].

During the post-communist transition period, Romania went through profound economic changes [Bodislav et al., 2020]. The transition from a centrally planned economy to a market economy was marked by rampant inflation, driven by price liberalization and the necessary structural adjustments. In the 1990s, the prices of consumer goods and services rose approximately 1,355 times, with services increasing in price by 2,018 times compared to food goods, which increased in price by 1,120 times [Bida & Ruda, 2022].

Inflation in Romania had a profound impact on economic and social structures. It affected both the old economic mechanisms and the new ones information, exacerbating the gap in incomes and living standards between rural and urban areas [Ciobanu et al., 2019]. In addition, inflation has been an effective tool for eroding the income and personal financial wealth of the majority of the population, reducing mass consumption and the domestic market [Pandey, Lucey & Kumar, 2023].

Another important aspect of inflation was the depreciation of the leu [Bran et al., 2023]. For example, in the period 1990-2000, the exchange rate of the leu against the US dollar increased from 14.90 RON for one dollar in 1989 to 21.693 RON for one dollar in 2000, reflecting a significant depreciation of the national currency [Boubaker et al., 2023]. This had direct effects on the purchasing power of the population and on the overall economic stability. The post-2000 period was marked by attempts at economic stabilization. The monetary policies adopted by the National Bank of Romania (BNR) played a crucial role in controlling inflation. Inflation targeting strategies have been successfully implemented, helping to gradually reduce inflation and stabilize prices. However, these

policies have been tested by recent events such as the COVID-19 pandemic and the Russian-Ukrainian war [Gâf-Deac et al., 2024].

### **1.1. Impact of the COVID-19 Pandemic on Inflation**

The COVID-19 pandemic has deeply affected all countries, having a devastating impact on global and national economic activities [Ferriani&Gazzani, 2023]. Lockdowns and restrictions imposed by the authorities to limit the spread of the virus have significantly reduced economic activities, leading to a substantial increase in unemployment [Radulescu et al., 2021]. Crucially, economic recovery depends not only on managing the pandemic, but also on each country's economic structure and its ability to implement effective and timely macroeconomic policies [Cretu et al., 2022].

The pandemic had devastating consequences globally, with more than 2.6 million deaths recorded a year after its outbreak [Belostecinic et al., 2022]. The effects of COVID-19 are deeply felt in all aspects of society and the economy, due to the restrictions imposed on commercial and social activities [Negescu et al, 2021]. The largest outbreaks of infection were identified in the United States, Brazil, India, Russia, the United Kingdom, and France. Additionally, the Republic of Moldova and Romania were not exempt, suffering significant economic consequences, including increased unemployment and reduced employment rates [Chiang & Chen, 2023].

Romania reacted quickly to the crisis generated by COVID-19, anticipating and managing the threat before many other European countries [Popescu et al. 2021]. Urgent measures to save lives and reduce the economic impact were implemented under the coordination of public health specialists and epidemiologists. In the first six weeks of the pandemic, more than 400,000 employment contracts were suspended, and people laid off or placed on technical unemployment felt a significant impact on income and production. [Cheema, Faff& Szulczyk, 2022].

At the same time, the National Bank of Romania intervened in the market to maintain the stability of the exchange rate, using foreign exchange reserves to manage the volatility caused by the pandemic.

### **1.2. The impact of the Russian-Ukrainian conflict on inflation**

The Russian-Ukrainian war had a significant impact on the global economy, and Romania was not spared from its effects. The conflict has caused significant increases in energy and food prices, amplifying inflationary pressures already in place due to the COVID-19 pandemic. This situation has generated a series of economic and social challenges that Romania must manage in order to ensure economic stability and the well-being of its citizens [Danylychuk et al., 2023].

One of the main effects of the war was the increase in energy prices. As the conflict intensified, oil and natural gas prices skyrocketed. For example, during the analyzed period, natural gas prices had an inverse influence on the harmonized index of consumer prices (IAPC) in Romania. This not only affected production costs, but also the final prices of consumer goods, contributing to rampant inflation [Nodiş, 2023]. Along with the increase in energy prices, food also experienced significant price increases.

Disruptions to supply chains, caused by the sanctions imposed on Russia and logistical difficulties, led to a decrease in the availability of raw materials and food products,

leading to price increases in the domestic market. These increases have particularly affected low-income households, which spend a larger proportion of their budget on food

In the short term, inflation in Romania remained high. The inflation rate was 13.8% for 2022, falling gradually to 10.4% in 2023 and approaching the target set by the European Central Bank in the second half of 2024. This decline in inflation was attributed to lower prices energy and food products as supply chains stabilized and production adjusted to new economic conditions.

The impact of war on inflation is not limited to price increases. Long-term effects include changes in the structure of the economy and how resources are managed. In addition, economic and monetary policies have been adjusted to meet the new challenges. For example, the rise in interest rates was anticipated to temper inflation and maintain economic stability [Faruk, Rahman& Hasan, 2021].

## **2. Analysis and evolution of relevant indicators**

The inflation rate is an essential indicator for measuring price growth and assessing economic stability. The analysis of the evolution of the inflation rate in Romania over the period 2000-2023 provides a clear perspective on how the Romanian economy has evolved and responded to various challenges and crises, including the impact of the COVID-19 pandemic and the Russian-Ukrainian war [Diaconu& Tiliuta, 2023].

During the period 2000-2004, the inflation rate registered a gradual decline, from 45.7% in 2000 to 11.9% in 2004. This downward trend reflects post-transition economic stabilization and inflation control efforts.

Tight monetary and fiscal policies, along with market liberalization measures, helped reduce inflation and stabilize prices. Since 2017, the inflation rate has increased slightly, reaching 4.6% in 2018 and 3.8% in 2019.

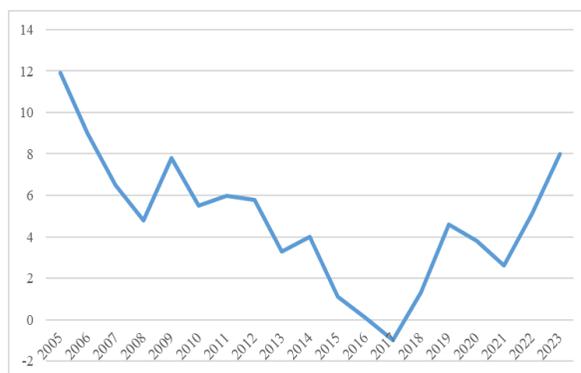
This upward trend suggests a moderate rise in inflation driven by rising domestic demand and consumption. Economic growth and investment contributed to this development, but also to inflationary pressures that required control measures.

The COVID-19 pandemic had a significant impact on the inflation rate in Romania. In 2020, the inflation rate was 2.6%, indicating a slight increase in prices. In 2021, the inflation rate rose to 5.1%, reflecting the impact of lockdown measures and economic restrictions on prices. With the post-pandemic economic recovery, the inflation rate has seen a significant increase to 13.8% in 2022, driven by increased demand and supply chain disruptions.

The Russian-Ukrainian war in 2022 has also had a significant impact on inflation rate. The increase in energy and food prices, caused by the conflict and the sanctions imposed on Russia, exerted inflationary pressures on the Romanian economy. In 2023, the inflation rate was 10.4%, indicating a slight reduction in inflation but maintaining high price levels.

Figure 1.

### **Evolution of the Inflation Rate in Romania in the period 2005-2023**



(Source: INSSE)

The Consumer Price Index (CPI) is an essential indicator for measuring inflation and assessing the cost of living. The analysis of the CPI evolution in Romania over the period 2000-2023 provides a clear perspective on how the Romanian economy has evolved and responded to various challenges and crises, including the impact of the COVID-19 pandemic and the Russian-Ukrainian war. After the economic crisis, the CPI showed moderate fluctuations, ranging from 105.79% in 2011 to 98.5% in 2016.

This period of stabilization and reduction in inflation reflects continued efforts to control prices and maintain economic stability. Effective monetary and fiscal policies have played a crucial role in keeping inflation low [Dridi& Boughrara, 2023].

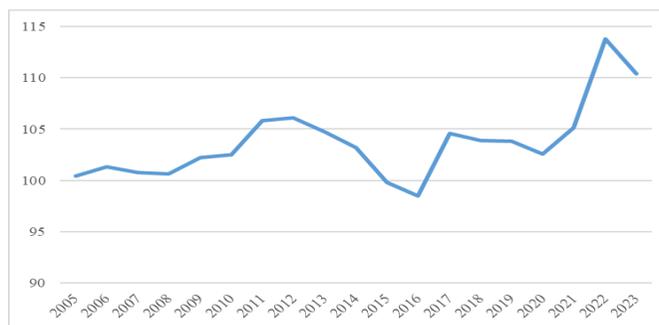
Since 2017, the CPI has risen slightly, reaching 104.6% in 2018 and 103.8% in 2019. This upward trend suggests a moderate rise in inflation, driven by rising domestic demand and consumption. Economic growth and investment contributed to this development, but also to inflationary pressures that required control measures.

The COVID-19 pandemic had a significant impact on the CPI in Romania. In 2020, the CPI was 102.6%, indicating a slight increase in prices. In 2021, CPI rose to 105.1%, reflecting the impact of lockdown measures and economic restrictions on prices. With the post-pandemic economic recovery, CPI has seen a significant increase to 113.8% in 2022, driven by increased demand and supply chain disruptions.

The Russian-Ukrainian war in 2022 also had an impact on the CPI. The increase in energy and food prices, caused by the conflict and the sanctions imposed on Russia, exerted inflationary pressures on the Romanian economy. In 2023, the CPI was 110.4%, indicating a slight reduction in inflation but maintaining high price levels. The economic compensation measures adopted by the government were essential to maintain price stability and support the economic recovery.

In the analyzed period, the Consumer Price Index decreased, with an average annual decrease of 1.53% (or 1.19% in absolute terms). The average value of the Consumer Price Index for the period 2000-2023 was 109.31%. The dynamics of the employment rate in the case of the study of the analyzed period is decreasing. The average dynamic index suffers a decrease between the years 2000-2023, reaching 98.80%.

Figure 2.

**Evolution of the Consumer Price Index in Romania in the period 2005-2023**

(Source: INSSE)

The price level index in total GDP is an essential indicator for evaluating inflation and the economic health of a country. This index reflects the proportion of the price level in relation to total GDP and provides insight into price dynamics and purchasing power.

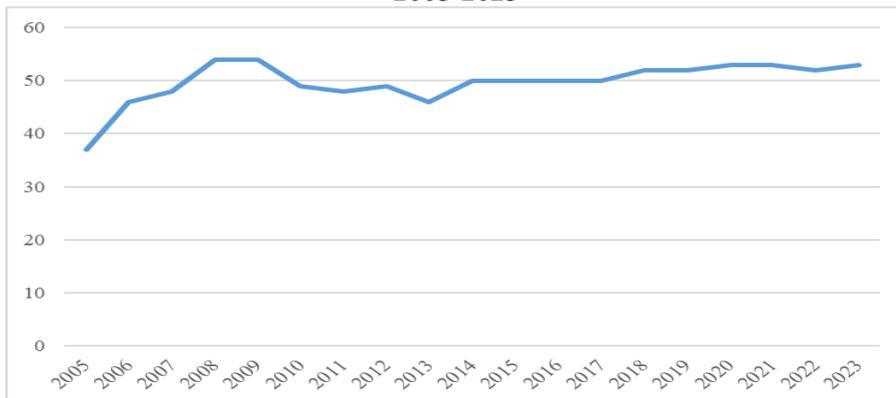
The analysis of the evolution of this index in Romania over the period 2001-2022 highlights how the economy responded to various challenges and crises, including the impact of the COVID-19 pandemic and the Russian-Ukrainian war.

Between 2001 and 2004, the price level index to total GDP remained relatively constant, varying between 36% and 37%. This stability reflects post-transition economic stabilization efforts and inflation control. The economic measures adopted during this period contributed to maintaining a constant level of prices, facilitating a gradual economic recovery. Since 2016, the price level index has increased slightly, reaching 52% in 2017 and 53% in 2019. This upward trend suggests a strengthening of the economic recovery and an increase in domestic consumption. Favorable economic policies and increased investment contributed to this development. However, these increases also indicate increased inflationary pressures, which the authorities have had to manage.

Another important turning point was the period of the COVID-19 pandemic, which kept the price level index relatively constant at 53% in 2020 and 52% in 2021. This stability was the result of the lockdown measures and economic restrictions imposed to limit the spread of the virus, but also the economic support measures implemented by the government. In 2022, the price level index returned to 53%, indicating post-pandemic stabilization.

The unemployment rate is one of the most important macroeconomic indicators that reflect the economic health of a country. The analysis of the evolution of the unemployment rate in Romania during the period 2000-2022 provides a clear perspective on how the Romanian economy responded to various challenges and crises. The data provided reflects fluctuations in the unemployment rate over two decades, highlighting key moments and critical inflection points.

Figure 3.  
Evolution of the Price Level Index in total GDP (%) in Romania during the period  
2005-2023



(Source: INSSE)

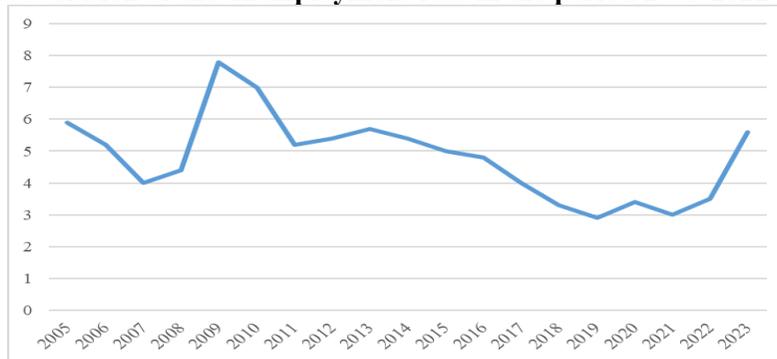
After the peak in 2009, the unemployment rate began to decline again, reaching 5.2% in 2011 and continuing this trend to 5.0% in 2015. This period of steady decline indicates a gradual recovery of the economy and a relaunch of the labor market, supported by the economic stimulus measures adopted after the crisis. Effective monetary and fiscal policies have played a crucial role in this recovery, helping to reduce unemployment and stabilize the labor market.

Since 2016, there has been a continuous decline in the unemployment rate, reaching a low of 2.9% in 2019. This downward trend suggests a strengthening of the economic recovery and a stabilization of the labor market. Economic growth, investment and various employment policies have contributed to this significant improvement. This period of economic prosperity was interrupted by major external events.

Another important turning point was the period of the COVID-19 pandemic, which saw the unemployment rate rise to 3.4% in 2020. This increase was the result of lockdown measures and economic restrictions imposed to limit the spread of the virus. However, with the post-pandemic economic recovery, the unemployment rate fell again to 3.0% in 2021 and remained at this level in 2022, indicating a rapid labor market recovery.

In 2022, the Russian-Ukrainian war had a significant impact on the global economy, including Romania. Although the unemployment rate remained stable at 3.0%, the conflict generated economic uncertainty and disruptions in supply chains, affecting various sectors of the Romanian economy. However, the economic policies and social protection measures implemented by the government contributed to maintaining the stability of the labor market.

Figure 4.

**The evolution of the unemployment rate in the period 2005-2022**

(Source: INSSE)

**Conclusions**

The main objective of this paper was to investigate and understand inflation in Romania over two decades, providing a detailed analysis of the evolution of this crucial economic phenomenon. Since 2000, Romania has experienced significant fluctuations in the inflation rate, influenced by a multitude of internal and external factors.

In the first part of the analysis, a significant decrease in the inflation rate was observed in the early years of the 21st century, from an alarming level of 45.7% in 2000 to 6.56% in 2006. This drastic reduction was the result of the implementation of strict economic policies and concerted efforts to stabilize the economy. However, inflation remained a persistent problem, affecting the purchasing power of citizens and negatively influencing the business environment. The period 2007-2008 marked a new wave of increases in the inflation rate, culminating with a value of 7.85% in 2008. This increase was largely determined by the global economic crisis, which had disastrous effects on the Romanian economy. In the years that followed, the inflation rate was relatively volatile, but showed a tendency to stabilize around 5-6%. The economic crisis of 2009 resulted in an inflation rate of 5.59%, followed by a period of relative stabilization. Between 2010 and 2016, inflation remained under control, even reaching negative values in 2015 (-0.6%) and 2016 (-1.5%). This was a period when monetary and fiscal policies had a positive impact on economic stability.

The year 2022 brought a new major challenge: the war in Ukraine. This conflict has significantly disrupted supply chains and led to substantial increases in energy and food prices. The inflation rate reached a new high of 13.8%, reflecting the combined impact of the COVID-19 pandemic and the regional conflict on the Romanian economy. This period highlighted the vulnerabilities of the economy to external shocks and required urgent economic adjustment measures. The detailed analysis of inflation in Romania showed that multiple factors, including economic policies, external conditions and unforeseen events such as wars and pandemics influence it. Despite continuous efforts to stabilize the economy, inflation remains a constant challenge, requiring continuous monitoring and adjustments of economic policies.

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