



Weekly Briefing

Romania social briefing:

New measure for capping prices and dealing with inflation

Oana Cristina Popovici


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Ju Weiwei

Kiadásért felelős személy: Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

New measure for capping prices and dealing with inflation

Inflation remains a problem for Romania and risks having a longer impact on consumption, while affecting economic growth perspective on the short and medium term. Food prices have the highest contribution on inflation, therefore the Government decided to cap the food prices by introducing a ceiling of 20% for the commercial addition that could be applied for basic food products in the next three months. The aim is to control prices. However, improvements in well-being following this measure risk to be affected by the new taxes and fiscal measures adopted by the Government in order to limit budget expenses.

Introduction

At the end of June, the Government decided to cap the commercial addition in basic food products for both processors and stores¹. The cap is established at 20% compared to the production cost for 14 basic food groups (including specific varieties of bread, milk, cheese, wheat and corn flour, sunflower oil, fresh meat and vegetables, sugar etc.) and will be maintained for three months starting with the 1st of August. The aim is to control prices and protect the consumer and to further reduce the prices throughout the whole production and distribution chain. The measure comes after the sustained increase in prices following the crisis and the price growth in public utilities.

The Government provision establishes that the commercial addition rate applied cumulatively on the entire distribution chain can be a maximum of 5%, compared to the purchase price to which operational expenses are added, regardless of the number of distributors on the chain, while the commercial addition rate applied by the trader for retail and cash and carry sales can be a maximum of 20%, compared to the purchase price. Only after such an addition, the value added tax (VAT) is applied. The risk for not respecting the provision is sanctioned with fines from RON 100.000 to RON 2.000.000, which are considered extremely hard².

¹ ***, 2023. Tot ce trebuie să știi despre OUG 67/30.06.2023, <https://marketmanager.ro/tot-ce-trebuie-sa-stii-despre-oug-67-30-06-2023/> (accessed 7 August 2023).

² Amariei, C., 2023. Haos în privința ordonanței ieftinirii alimentelor chiar înainte de aplicare. Aprovizionarea magazinelor, spitalelor și școlilor, în pericol, <https://romania.europalibera.org/a/haos-ordonanta-ieftinirii-alimentelor-aprovizionarea-scolilor-si-spitalelor-in-pericol/32520576.html> (accessed 7 August 2023).

The measure applies to all economic operators registered in Romania, regardless of the form of organization, and it covers the entire chain of production, import, intra-Community trade, distribution and retail. The Ministry of Finance expects “considerable reductions in the price of these food products”³, and further decisions on the continuation of this measure will be drawn after an impact assessment.

Earlier this year, the Competition Council launch discussions on the voluntary reduction on the price of the milk⁴. Finally, both retailers and processors agreed to reduce the price of fresh milk for consumption by at least 20%, starting from May 1, for a period of 6 months.

Reasons for adopting such measures

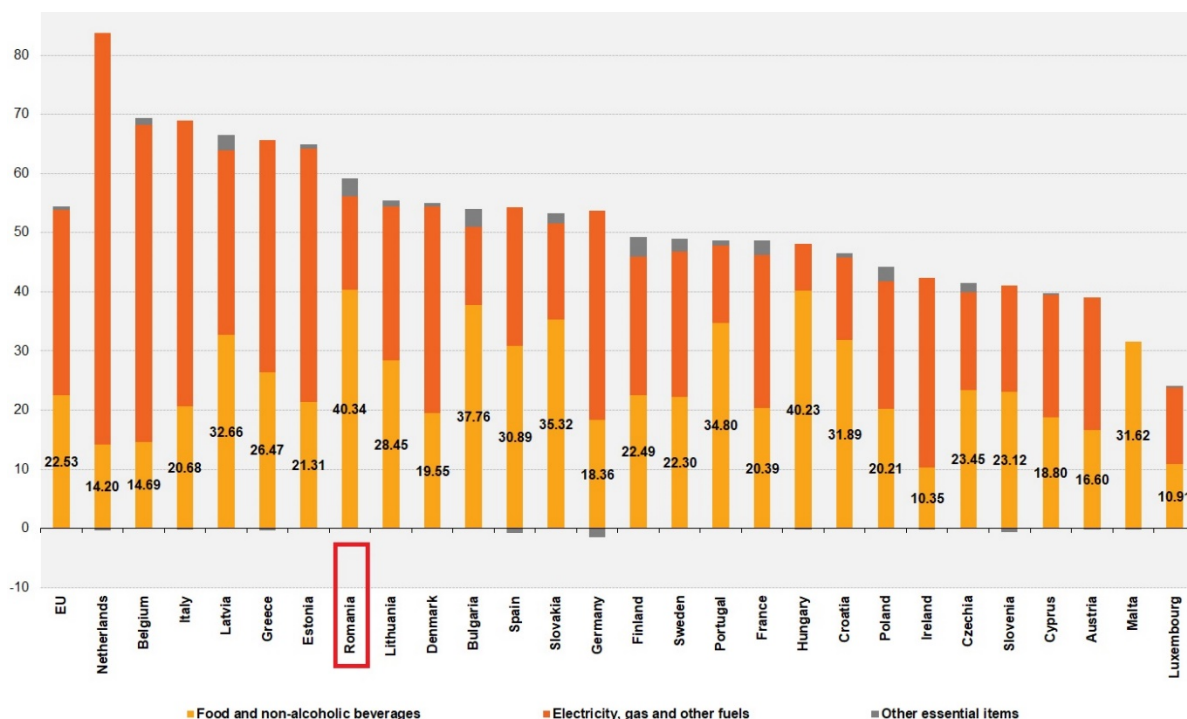
An analysis at EU level shows that, in Romania, the core inflation (which is given by the increase of prices for basic products) is among the highest⁵. In eight EU member states, inflation was determined especially by the high increase in the food prices (see Figure 1), Romania being ranked the first (with a contribution of 40.34% of the agro-food products and non-alcoholic beverages in total inflation, followed by Hungary (40.23%), as shows the results in 2022 as compared to 2021.

³ Pirv, C., 2023. *Boloș, despre ieftinirea alimentelor: Să fim atenți ca această ieftinire să apară pe tot lanțul*, <https://www.mediafax.ro/politic/bolos-despre-ieftinirea-alimentelor-sa-fim-atenti-ca-aceasta-ieftinire-sa-apara-pe-tot-lantul-21977064> (accessed 7 August 2023).

⁴ ***, 2023. *Acordul între retaileri și procesatori pentru reducerea prețului laptelui se aplică începând de astăzi*, <https://www.digi24.ro/stiri/actualitate/acordul-intre-retaileri-si-procesatori-pentru-reducerea-pretului-laptelui-se-aplica-incepand-de-astazi-2333199> (accessed 7 August 2023).

⁵ Bechir, M., 2023. *Nu inflația, ci ”inflația de bază” ne omoară: România și Ungaria, singurele state unde alimentele au contribuit cu de peste 40% în inflație. Presiunea prețurilor în statele UE*, https://cursdeguvernare.ro/nu-inflatia-ci-inflatia-de-baza-ne-omoara-romania-si-ungaria-singurele-state-ue-unde-alimentele-au-contribuit-cu-de-peste-40-in-inflatie-explicatii-punctuale.html#google_vignette (accessed 7 August 2023).

Figure 1. Contribution to total inflation of essential items in EU member states, 2022 vs. 2021, %



Source: Bechir, 2023

The National Bank of Romania (NBR) also showed that the processed food prices increased by 23% in 2022⁶, especially following the accelerated increase of dairy and meat products. While the evolution was determined especially by the increase in the prices of raw materials and energy, problems in supply also had large impact, such as the drought during summer and epidemics of swine fever and avian flu in some parts of the EU.

Fortunately, one week after the enforcement of the measure, the Competition Council showed that average prices of basic foods in large commercial chains fell by up to 34%, with the biggest reductions being in fruit and vegetables⁷, as compared to the average prices in June. The average price of meat and dairy products decreased by up to 12%.

⁶ Idem 5

⁷ Corpaci, C., 2023. **Consiliul Concurenței a tras primele concluzii despre ieftinirea sau nu a alimentelor de bază**, <https://romaniailibera.ro/la-zi/consiliul-concurenței-a-tras-primele-concluzii-despre-ieftinirea-sau-nu-a-alimentelor-de-bază/> (accessed 8 August 2023).

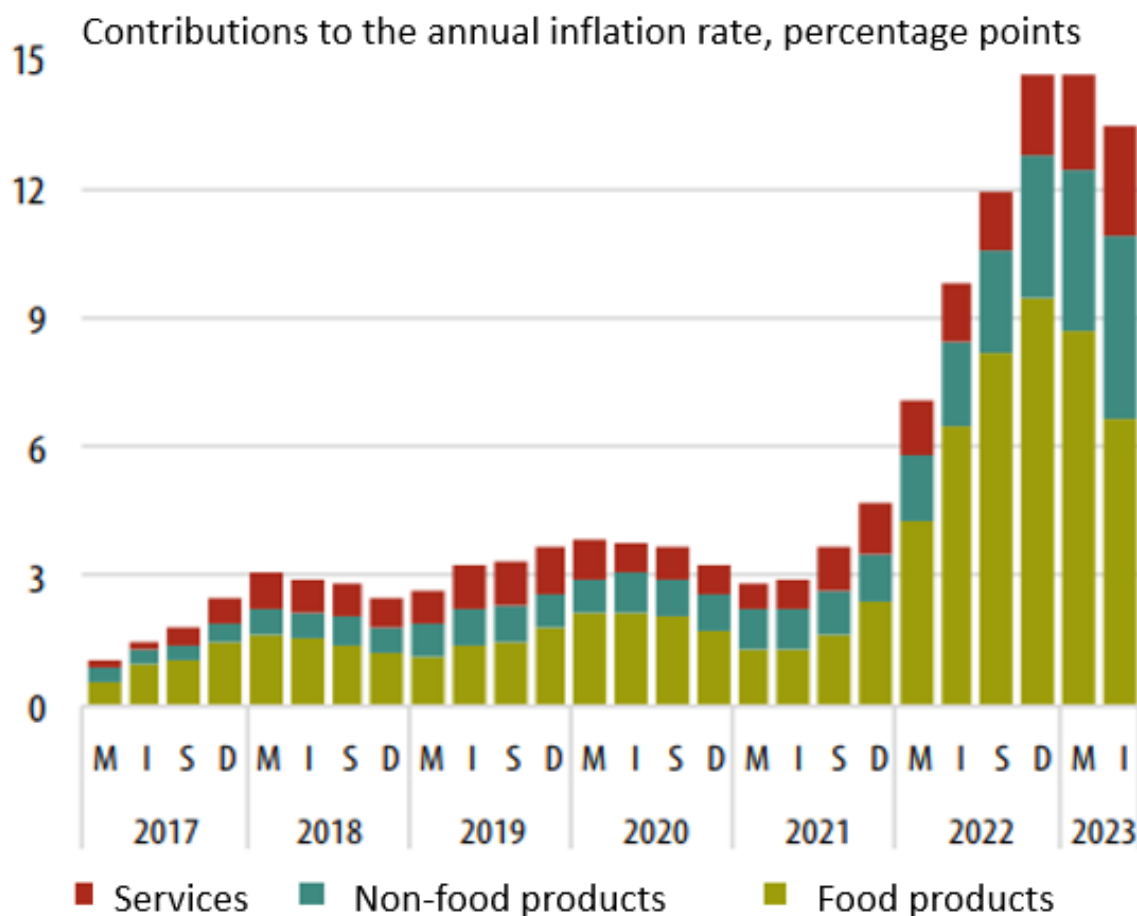
The evolution of inflation in Romania

In the most recent report analysing inflation⁸, launched in August, NBR shows that the annual inflation rate continued on a downward trajectory during the second quarter, reaching 10.25% in June, which was 6.12 percentage points lower than in December 2022, mostly due to the favourable evolution of the energy prices. Some improvements were also seen on the food segment, following the impact of the agreement on the grain transport corridor on the Black Sea, which ensured the fluidity of Ukrainian exports and maintaining balance on the international markets. In addition, specific for Romania, the agreement of domestic processors and traders to reduce the consumption price of cow's milk starting from May, for a period of six months, was also a favourable contribution to the decrease in the annual rate of increase in food prices.

However, food prices remain under the influence of a vast range of factors, starting from the weather conditions to the decision which have global impact, such as Russia's announcement to withdraw from the agreement on Ukrainian exports of cereals. Figure 2 indicate the contribution of each components of basic inflation to the annual rate of inflation. Although the contribution of food products has decreased, it remains the most important segment generating inflation. The problem is far from being solved. NBR shows that core inflation will be responsible for a level of inflation above the NBR target in both 2023 and 2024, and food prices will continue to play an important role.

⁸ National Bank of Romania, 2023. *Raport asupra inflației*, <https://bnr.ro/Publicatii-periodice-204.aspx> (accessed 8 August 2023).

Figure 2. Components of core inflation in Romania



Source: National Bank of Romania, 2023, p.16

The impact on well-being

Such evolution of prices will have a direct impact on the consumption level, which will affect economic perspective on the short term, as consumption was the main engine for economic growth in Romania in the last years. Recent data⁹ show that the growth rate for the retail sales was only 3% in the first semester of the year as compared to the same semester in 2021. In June, all the components of consumption (fuel, food and non-food sales) have decreased as compared to the previous month.

The increase of the basic products prices will mostly affect those vulnerable with low revenues, confronted with more expensive essential products which are necessary for living. A recent study of Deloitte showed that the generations born between 1983 and 2003 are mostly concerned with the ever-increasing cost of daily living and the evolution of the economy,

⁹ Gheorghe, L., 2023. Consumul aterizează – scădere în luna iunie față de mai. Consumul în S1 a crescut cu doar 3% față de S1 din 2022, <https://cursdeguvernare.ro/consumul-aterizeaza-scadere-in-luna-iunie-fata-de-mai-consumul-in-s1-a-crescut-cu-doar-3-fata-de-s1-din-2022.html> (accessed 7 August 2023).

therefore postponing or cancelling personal life plans, such as buying a new home, starting a family, requesting a salary increase or a promotion or changing jobs. The tendency is to have a second job, either part-time or full-time, to secure an additional source of income as many of them are worried that they will no longer be able to support their monthly expenses.

The evolution of well-being is expected to be further affected, given the recent decision of the Government to reduce budget expenses by increasing some taxes and adopting several other fiscal measures. NBR Governor declared¹⁰ that the effect of such measures is mixed, as the increased taxes that directly affect consumption (excise taxes and VAT) lead to an increase in inflation, while higher taxes on income may have the opposite effect, leading to a decrease in aggregate demand.

Some of them affect non-governmental organizations (NGO), jeopardizing the sponsorships rules for both the employees in the system and their beneficiaries. Over 1000 organization asked for the withdrawal of the measure, as “currently, NGO account for approximately 45% of accredited social service providers. We are talking about beneficiaries (children, adults, elderly) for whom the intervention of the sector is the only form of support they receive, and the state does not have the capacity and human resources to supplement the efforts of the NGO sector”¹¹.

Other measures could lead to the elimination of the meal vouchers, given that a new tax should be paid on these, or to the increase of the heating cost, following the VAT raise from 5% to 9% on firewood and the delivery of thermal energy in the cold season. Cost increases will affect the revenues directly, as well as indirectly, when needing several services (such as hospital care in the private system)¹². Experts also fear increasing the number of bankruptcies among small and medium-sized companies, larger tax evasion and work without legal forms and even the possibility that more well-trained professionals to find jobs in other countries¹³.

¹⁰ Barbuta, F., 2023. *Isărescu: Când crești impozitarea pe venituri, oamenii câștigă mai puțin, iar cererea scade / Dacă corecția fiscală nu va mulțumi instituțiile internaționale, o va plăti „cine te aștepți mai puțin”*, https://economie.hotnews.ro/stiri-finante_banci-26450992-avertisment-legat-evolutia-viitoare-preturilor-isarescu-pregatim-inflatie-corelata-cresterea-costurilor-salariale-este-periculoasa.htm (accessed 7 August 2023).

¹¹ ***, 2023. *Peste 1000 de organizații din România îi cer premierului Ciolacu să renunțe la modificările aduse Codului Fiscal care afectează sectorul ONG*, https://economie.hotnews.ro/stiri-finante_banci-26441801-peste-1000-organizatii-din-romania-cer-premierului-ciolacu-renunte-modificarile-aduse-codului-fiscal-care-afecteaza-sectorul-ong.htm (accessed 8 August 2023).

¹² Barbuta, F., 2023. *Trei măsuri de pe lista Guvernului care i-ar putea face pe săraci și mai săraci*, <https://economie.hotnews.ro/stiri-finante-26439647-trei-masuri-care-iti-vor-face-viata-mai-scupa-loviti-vor-cei-venituri-mici-medii.htm> (accessed 8 August 2023).

¹³ Barbuta, F., 2023. *Efectele modificărilor fiscale: Practicienii în insolvență anunță falimente, creșterea evaziunii și plecarea profesioniștilor din țară* <https://economie.hotnews.ro/stiri-finante-26439982-efectele-modificarilor-fiscale-practicienii-insolventa-anunta-falimente-cresterea-evaziunii-plecarea-profesionistilor-din-tara.htm> (accessed 8 August 2023).

Conclusion

Inflation remains a problem where fine tuning is needed. However, despite the Government or NBR's efforts, a high level of uncertainty in its evolution is given by the international situation, such as the prices of different raw materials and the turbulent circumstances following the war in Ukraine. Besides all these, Romania also deals with the need of fiscal consolidation, which add supplementary burden to the already increased cost of life. It is clear that the following period will put pressure on the well-being and will require more thoughtfulness in managing daily expenses.