How Much Did the Pandemic Consumption Behaviour Contribute to the Rising Inflation? The North-Western Romanian Households’ Perspectives

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Abstract: The living standards of Europeans have been facing serious challenges starting with the Covid-19 pandemic, and continuing with the Russia-Ukraine war and all its threats. Europe is facing one of its outcomes in the current gas shortage problem, impacting negatively various aspects of the Europeans’ lives, such as rising inflation. However, the rising trend of inflation was noticed even before the problems related to the Russian gas supply. The current paper presumes the Covid-19 pandemic’s lockdown and the changes in consumption behaviour also have a relevant contribution to the rising inflation; in this respect, the authors used both deductive – by collecting data regarding the national indicators – and inductive methods, as well – by conducting a survey in the Western part of Romania investigating the consumption patterns. The pandemic challenged individuals, institutions, entire systems, countries and regions to adapt to hardship and to create new ways of overcoming the restrictions imposed by the lockdown; although considering the stressful times and situations created by this phenomenon, it also enhanced negative adaptive and coping behaviours. This paper’s focus falls on the level and ways of spending during the pandemic, to assess if the rising inflation started with the irrational spending during the pandemic.

1. INTRODUCTION

As years ago Mr President Ronald Reagan pointed out that “Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man”, his affirmation is still valid nowadays and even more, strongly felt in the global economy. Today’s high inflation rates are due to numerous recent crisis, such as the Covid-19 pandemic, gas shortage, and war; our attention falls on the pandemic’s contribution to consumer behaviour changes, and so the rising inflation. Was argued by several academics that to avoid the economic disruptions that could have been caused by the falling demand during the lockdown, the governments injected funds into the economies. Well, besides ensuring an optimal demand level for the existing supply back then, these actions had also negative impacts by increasing the demand too much, which eventually affected the level of inflation. Our concern is to assess how the population in North-Western Romania approached the financial challenges caused by the Covid-19 pandemic and to see if their approaches could be related to the rising inflation.

2. METHODOLOGY

To meet the current paper’s aims, the methodological approaches dealt with were primarily related to a brief review of the literature; after introducing the researched subject and the latest
and most important findings regarding the pandemic effects on inflation, the paper switched our focus on the empirical part, as data collection from the national statistics database. Besides these national statistics, the authors were engaged in research by designing and applying a survey in the North-Western area of Romania. The survey consisted of 18 questions, answered by 131 respondents.

3. THE COVID-19 PANDEMIC AND THE INFLATION’S EVOLUTION

Unpredictable events can cause economic imbalances, just as the Covid-19 pandemic has thrown the economy out of balance and caused changes in consumer behaviours. The limited possibilities of spending, lowered incomes for those who lost their jobs, and also a certain level of prudence, initiated a decline in the demand level, which could have impacted disastrously the global economy. The early months of the pandemic were characterized by significant disparities in the inflation experiences of households. These dramatic changes determined households to anticipate both higher inflation and unemployment in subsequent periods (…) To avoid potential deflation as well as a collapse of financial markets and the broader economy, aggressive monetary and fiscal stimulus programs were implemented. In part, the logic of these programs was to raise inflation expectations and hence stimulate consumer spending (Weber et al., 2022). Several countries chose to stimulate the demand by injecting public funds into the economies, thus keeping production cycles in balance; however, besides the advantages created by these injections, there are disadvantages as well, rising inflation being one of them. For some of those who received governmental aid (i.e. Covid-19 pandemic unemployment benefits), that money was easily earned money, so their spending wasn’t so rigorous, determining so a higher demand than usual, and so higher prices.

Another point of view over the pandemic’s effects on inflation was highlighted by Banom & Smădu arguing that ”the depressing effect of pandemics on aggregate demand (fall of inflation rates) may occur through heightened uncertainty that increases precautionary savings and lowers investment demand (…) Governments worldwide engaged in large-scale stimulus measures to prevent mass layoffs and bankruptcies and avoid costly worker–firm separations. These policies have likely alleviated the adverse economic effects of the pandemic, and can even lead to a rise in inflation if maintained beyond the health crisis” (Bonam & Smădu, 2022).

There were discrepancies also in the way of perceiving inflation: a substantial share of households initially saw the pandemic as inflationary (Candia et al., 2020), while other households, in particular those with a college education, initially expected the pandemic to lead to low inflation or even deflation. Such a view is more closely aligned with that of firms, market participants and professional forecasters, who largely saw the pandemic as a deflationary demand shock (Armantier et al., 2021). Their differences in perception determined different behaviours regarding spending, saving and investment.

The rising inflation affected strongly the European Union (some countries’ inflation rates are presented in Table 1). Firstly, a general drop was present in the majority of the analysed countries – except the Czech Republic and Slovakia – and then, by 2021 the inflation rate started an ascending trend for all the presented countries, reaching excessive values in 2022.

Based on these data it could be assumed the prudential consumption behaviour from 2020 was followed by overspendings in 2021 – fulfilling needs and desires which were limited during the
lockdown, besides another perspective over the meaning and value of life in general – and the final values of 2022 also imply the energetic crises caused by Russian gas shortage, which is proved by the monthly values, as presented in Figure 1 – an abrupt increase in the inflation rate is noticeable starting with September 2021 for all the analysed countries.

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<tr>
<th>Table 1. Annual inflation rate (%)</th>
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<td><strong>Country</strong></td>
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*Source: Eurostat, 2022*

The enormous values of nowadays inflation are determined mostly by the energetic crisis and the Russian – Ukrainian war – these have affected directly the gas supply not only, Ukraine is one of the most important cereal exporters on the global market; but still, the rising trend of the inflation rate started after most of the lockdown restrictions were eliminated.

4. **THE PANDEMIC EFFECTS ON ROMANIA’S ECONOMY**

Over the last 20 years, the average annual growth of real GDP has been +3.7%, with the last five years before the pandemic recording increases of 4.7% (*INSSE, 2020a*), well above the average of EU member states in Central and Eastern Europe. The Covid-19 crisis significantly affected Romania’s economy, which in 2020 recorded a contraction of -3.9% (interruptions of the supply
chain in the industry, especially the automotive sector; decrease in external demand border closures and internal restrictions).

Considering the inflation, the policy rate has been below inflation, even as inflation has been above the target range for most of 2018-19, amid brisk double-digit wage growth. Following the severe impact that Covid-19 is having on the economy, inflation declined in early 2020 and remained within the target range until the first quarter of 2021 (INSSE, 2020b).

In the post-pandemic period, the National Bank of Romania maintained a relaxed monetary policy to mitigate the recession by reducing the reference interest rate.

5. SURVEY-BASED RESEARCH

The empirical research was extended with a survey conducted in March 2022 in North-Western Romania. The survey is based on the response of 131 people of which 74% of the respondents were women. Considering their age range, 71% are aged between 18-30 years, 17.6% are between 30-50 and 11.5% are aged over 50. Another aspect regarding the analysed sample is that 44% are participants live in urban areas, whereas the others (56%) live in rural areas. Regarding unemployment, according to the answers given, 90.8% weren’t unemployed and 9.2% weren’t employed during the pandemic. Their living standards are also described by their income level: 42% earn 500-1500 lei (€100 - €300), 28.2% earn 1505-3000 lei (€301 - €500), 17.6% earn 3005-5000 lei (€505 - €1000), 12.2% earn over 5005 lei (€1001).

![Figure 2. Expenses evolution during Covid-19 pandemic (%)](source: Own elaboration)

When asked about their expenses evolution during the Covid-19 pandemic, 56% noticed that their expenses increased, 27% considered them constant, and only 16% faced decreased expenses (Figure 2).

The respondents noticed mostly the rising of food prices, so it was relevant to ask how did they adapt to this change. Most of them (44%) didn’t adapt, they kept their food consumption at least at the same level, so their spending on food increased; an adaption could be observed in 37% of respondents who kept their spending constant, and a prudential behaviour was proved in lowering these expenses by 18% of the respondents (Figure 3).

The pandemic impacted every human being’s life, but our concern regards the financial aspects; as presented in Figure 4, the financial impact on the respondents’ lives wasn’t a strong one - 48% admitting a low or very low impact, whereas only 11% of the respondents faced high consequences.
However, as highlighted previously, the pandemic had alerted and activated prudential behaviour in many, so the savings and investments decisions intrigued us. As far as the pandemic postponed a lot of distractions and consumption allocations, an increase in the savings level is noticed, as 43% of the respondents considered they had saved more money during the lockdown, and also 60% of the respondents decided to invest their money in various ways (Figure 5).

Considering these results, the Covid-19 pandemic alerted and changed consumer behaviour towards a more prudent one; however, this aspect could be debatable as the level of savings could have increased during the lockdown due to restrictions and limited possibilities of spending. Partially this paper could conclude the same about the investments made during the lockdown, although these imply a certain level of risk and knowledge. In terms of spending during the lockdown, we can notice that the people who earned the same as before the pandemic outbreak had no choice but to save and invest their earnings.

6. FUTURE RESEARCH DIRECTIONS

The current research paper highlighted the need for deeper analysis – the assessment of the level of government aid how much of it was beneficial, and how much contributed to Romania’s rising inflation. To evaluate this view, we will, through another survey, analyse only people who received unemployment benefits.

7. CONCLUSION

The emergence of the Covid-19 pandemic brought the slowdown of all economic activities, and so fears and suspicions invaded the population towards job and income stability. Besides the downturn of the economic system, the potential prudent consumption behaviour alarmed
financial institutions and policymakers, seeing the population prudence as another threat to economic stability. In this regard, stimulus and prevention measure were taken, which alleviated to a certain degree the adverse economic effects of the pandemic.

Considering the survey’s sample, the pandemic’s impact on households’ well-being was moderate, generally increasing the expenses, and lowering the savings; however, investments were made – as a way to protect actual savings – and only 22% of our respondents were admitting a strong negative impact. Even if our survey shows that consumption increased, it also proves a responsible economic behaviour; this aspect determines us to investigate further the rising inflation’s causes, one of which could be the financial aid and stimulus provided by the Government – based on the papers evidence we should asses how much aid was needed and beneficial, and how much did more wrong than good.

References


