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STRUCTURE ANALYSIS OF THE EVOLUTION OF PRIVATE CONSUMPTION IN ROMANIA

Empirical
study

Keywords

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JEL Classification

D12, D60, E21

Abstract

This paper aims to analyze the evolution of the private consumption structure in Romania in the last twenty years surprising three main periods that influenced the composition of economic welfare of romanian citizens: the transition period to the market economy after the fall of communist regime, the period of economic stabilization and sustained growth and the period of financial and economic crisis. The analysis reveals the modifications in the structure of private consumption throughout the three main phases surprised in the Romanian economy and shows the influence of these changes on the economic welfare of the population.

Introduction

Romania's economy has undergone changes over the past two decades, more exactly from the fall of the communist regime in , passing through the transition to an open economy, reaching economic stabilization and sustained growth and confronting with the effects of the global financial and economic crisis.

Gross Domestic Product (GDP), the most important macroindicator of the economy, is composed mainly from the household final consumption expenditure, the main part that influences directly the economic welfare of Romanian citizens.

Therefore, private consumption represents a very important aggregate at both macro and micro level in Romania's economy as it accounts of over two thirds of the country's GDP and it also reflects the expenditure of Romanian households. We live now in a consumer society, an open market economy and one can not live without participating in the economic activity because in order to satisfy even the basic needs people have to purchase products and services.

The purpose of the paper is to analyze the evolution of the structure of private consumption with its implication over the economic welfare at macro and micro level over the last two decades in Romania. The importance of this study lies in the awareness of the changes in the composition of household consumption that was influenced throughout the time and how these changes affected the economic welfare of citizens.

Literature review

Consumption and economic welfare.

Private consumption refers to households actual individual final consumption that consists of households expenditure on purchasing goods and services in order to directly meet the individual needs of resident households members, government expenditure for individual consumption (education, health, social security, and welfare, culture, sport, recreation, collection of households refuse) and non-profit institutions serving households expenditure for individual consumption.

The connection between private consumption and economic welfare has received insufficient attention in Romanian specialized literature, the majority of researchers and authors using the general concept of welfare, sometimes wrongly associating it with that of well-being, quality of life or standard of living. Some say that although GDP reflects to some extent the economic welfare of a country, this indicator is not adequate for this purpose (Doltu, 2004). Even if these terms are related one to each other and are mutually influenced, they do not have the same meaning, hence the separate existence of these concepts.

The importance of statistically analyzing the consumption of households stems from the fact that it is a leading indicator used in the formulation of socio-economic policies concerning both economic development and welfare being also useful for the business environment and for the population (Bucea & Băcescu, 2011; Stanciu & Mihăilescu, 2011).

Also Stroe et al. (2011) remark that "the level and structure of consumption are economic variables that reflect the welfare of the population, conditioned by the general macroeconomic context as well as agricultural policies, and many other factors".

In general terms "consumption means satisfying needs" and simply put "consumption means to have a good or a service, to own it to use or to dispose it in order to satisfy particular needs" (Firat et al., 2013). The act of consumption by means of money has both social and economic benefits by complying with the needs, wants and desires, goods, services and money or some value that substitutes material value in order to meet the demands (Firat et al., 2013). Moreover Solomon (1999) asserts the fact that a product may have at least two types of benefits for the consumer fulfilling a need that may be utilitarian and/or hedonic.

To give a short definition, economic welfare represents that part of welfare concept that can be measured through consumables (food, non-food goods and services) expressed in monetary terms (Pigou, 1932).

Nevertheless the purchasing act of products or services through economic transactions improves the buyer's social welfare apart from the economic one. As it is defined in an economic dictionary, the social or collective welfare refers to that type of welfare achieved by all members of the collectivity through a minimum stock of economic goods considered to be decent and normal (Varjan, 2011). Dăianu acknowledges the influence of consumption and the macroeconomic imbalances over the welfare and societal welfare of people (Dăianu, 2000).

Even if the act of consumption also satisfies the social needs of people it is primarily of economic nature contributing to the economic welfare of the individuals.

Pigou (1932) stated more about this concept and its relation with consumption as follows:

„The one obvious instrument of measurement available in social life is money. Hence, the range of our inquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring-rod of money. This part of welfare may be called economic welfare. [...] Nevertheless, though no precise boundary between economic and non-

economic welfare exists, yet the test of accessibility to a money measure serves well enough to set up a rough distinction. Economic welfare [...] is the subject-matter of economic science.”

Economic welfare thus refers to that part of social welfare that can be fulfilled through economic activity (Samuelson & Nordhaus, 1999).

As stated by Stanciu (2012) “the main purpose of any act of consumption aims the general field of welfare, conditioning the prosperity, good disposition, cleanness, elegance, emotion or pleasure, by meeting the different needs of the consumers” emphasizing the importance of the amount and structure of the material welfare obtained through consumption of goods and services.

Following this relationship, the National Bureau of Statistics of the Republic of Moldova has proposed in 2007 (Biroul Na ional de Statistic al Republicii Moldova, 2007) an indicator for the analysis of citizens welfare by summing up the consumption expenditure and performing certain adjustments concerning the methodology.

Private consumption of households in Romania. Consumption of population in Romania accounts for the main part in the size of demand, as it represented 74% of GDP in 2008, the peak of economic growth period. In what concerns the structure of consumption it has been observed a shift in the last decades from goods purchasing to services demand in many countries from European Union (Russu, 2012). The effects of this change has been noticed more in the recent years when, as Stroe, Cojanu and Militaru (2010) have stated, as a result of the economic crisis many households had to reconsider their priorities for consumption thus being obliged to pay certain housing utilities and services first at the expense of the expenditure allocated for food products.

Nevertheless, in the last two decades, Romanian people have spent almost half of consumption expenditure on food products, 55.8% in 2001 and 45-50% in the period of economic prosperity, until 2007, placing the country within EU as having a strongly strained consumption model mainly due to food sector spending (Stanciu, 2010).

In 2008 Romania had the following structure of the total consumption expenditure: for food 44.3%, for non-food goods 31.5% and for services 24.2% (Romanian Statistical Yearbook, 2009). In general, the greater the share of food in total consumption expenditure of a household the poorer the family of that household is, since most of the money are spent to cover basic needs (Orgonas, 2011).

Besides the principal composition of household consumption Gabor (2013) admits the

benefits of the degree of endowment with durable goods over the economic and social welfare of the population of post-communist Romania.

In the following sections are presented and discussed the main aspects concerning the level and structure of the evolution of private consumption of households in Romania and its influence over the economic welfare of the citizens.

Data and discussion

Private consumption (Household final consumption expenditure – HFCE) is the macro indicator that owns the largest share of GDP, Romania’s economy being one based mainly on consumption, this share increasing constantly in the last 20 years, starting with the fall of communist regime and continuing with the transition to the market economy and the period of economic growth. Thus the proportion of household final consumption expenditure in GDP (including also the statistical discrepancies in the consumption indicator) increased from about 66% in 1990 to over 83% in 2012 as seen in Figure 1.

In the first three years after the fall of the communist regime, 1990-1992, household consumption declined along with GDP, the beginning of transition being reflected by a difficult economic situation (Figure 1). The following period was characterized by economic growth of the final output, the population consumption following the same increasing trend between 1993-1996, their values gradually returning to their 1990 levels (Figure 1).

The end of 1996 brings new general election so, the next year marks the change of political leadership, a factor that significantly influenced the economic climate leading to a decline through the reduction of GDP until the end of 1999, while the household consumption maintained for three years relatively at the same value (Figure 1).

Year 2000 represented another electoral year establishing a new Government, the macro indicators knowing a continued and sustained expansion until 2008, the peak year of the period of maximum economic growth from the past 20 years. During this period the share of private consumption rose from 68% in 2000 to 86% in 2008 (Figure 1), mostly due to the consumption credits of the households.

Starting with 2010 the production and consumption registered small increases as a sign of economic recovery and of a relative stabilization after the significant negative economic effects generated by the global crisis (Figure 1).

This recovery of consumption was due to wage growth in 2012 and 2013, when the salaries were restored for more than 1.187 million of state employees, previously (2010) being reduced by 25%. In 2012, their salaries were increased by 8%

in June and then, in 2013, the value for covering the two salary increases amounted to about 4.6 billion lei (Marinescu, 2014).

In what regards the dynamic of annual changes of two macro indicators, it highlights a common path along the period analyzed, household consumption per capita recording increases generally higher compared to those of GDP per capita, reaching two peaks up to 13% and 14% in 1995/1994 and in 2004/2003 respectively (Figure 2). Negative changes took place in the downturn period of political-economic situation namely between 1991-1993 and in 1997-2000 together with the considerable decline of 2009/2008, when the effects of economic crisis affected the Romanian economy (Figure 2).

The small growth of household consumption can be explained by the lack of growth reinforcement being due to the distrust of the population in the recovery of national economic situation, increasing their deposits in real terms by 3.3% in 2012 and by 4.5% in 2013 (Marinescu, 2014).

Summarizing the period before financial crisis, 1990-2008, it can be stated that there were two stages of deep recession (1990-1992, 1997-1999) and two of relative economic growth (1993-1996, 2000-2004) followed by a great increase between 2004-2008.

The structure of final consumption expenditure of households by the main consumption purposes in the period 1995-2010 are presented in Figure 3 and Figure 4. In Figure 3 are shown the first three items by the largest size of the shares in total consumption expenditure, namely „Food and non-alcoholic beverages” with shares between 27.5%-38.5%, „Housing, water, electricity, gas and other fuels” with 15.5%-25.5% and „Transport” with 10.9%-18%. The demand in „Food and non-alcoholic beverages” has declined over the analyzed period by over 10 percentage points (p.p.) mainly due to the increase of expenditure related to „Housing, water, electricity, gas and other fuels” by changing with almost 7 p.p.. The third large share in consumption expenditure owned by „Transport” expenses had a relative constant path between 1995-2004, registering growth in the following two years only to return to its lowest value of the entire period of 11% in total consumption. These three main consumption destinations reveal to some extent the consumer profile of post-communist Romania that is characterized by a transfer of a major part of food products consumption to that of services expenditure, thus increasing the economic welfare of the households by spending less on food goods with the specification that the increase in housing expenditure means more money spent on housing utilities rather than spending on other goods or services that contribute more to their economic

welfare, revealing the fact that the first priorities of the individuals concerning consumption fulfills the basic needs.

Figure 4 presents the other nine items of consumption purposes as share of total consumption expenditure. Six of them had increased their shares over the period considered as follows: „Health” by 3.7 p.p., „Communications” by 2.4 p.p., „Recreation and culture” by 2.2 p.p., „Clothing and footwear” by 1.1 p.p., „Education” by 0.8 p.p. and „Alcoholic beverages, tobacco and narcotics” by 0.7 p.p.. From Figure 4 it can be observed that beginning with the effects of economic recession, in 2010 has been registered high increases in alcohol and narcotics spending along with health expenditure and those for communications. These facts reflect the impact of the global economic crisis that negatively influenced the structure of the households consumption and also the economic welfare of individuals.

The other three items of the structure of consumption expenditure had a relatively fluctuating trajectory as seen in Figure 4, the biggest decline along the period 1995-2010 being recorded by item relating to „Restaurants and hotels” reducing by 3.1 p.p. as an obvious and expected consequence due to the economic crisis.

Overall it is important to notice here that the lowest share in the total consumption expenditure is the one allocated for education spending. Even though the amount of money spent for education purposes has increased mainly after 2004, in the last two years of the period its value has decreased reaching almost the value of 2003 of about 1%. This indicates that Romanian households do not value too much the importance of education and the influence of it over the evolution of individual in the society concerning both spiritual and material levels thus affecting the present and future economic welfare of the citizens.

In what concerns the extent of the population consumer loans phenomenon, especially after 2003, it is significant not so much for the great propensity of the citizens to consume but because of the scarcity regarding the endowment of majority households with consumer durables (Figure 5) before 2004 (Stanciu, 2010).

As can be seen in Figure 5, the average number of the main durable goods has increased during the period 1995-2007, registering strong growths after 2001 for TVs, refrigerators and freezers and gas cookers, the cars recording the lowest increases due to the high cost of acquisition. On the 2008-2013 time interval the consumer durables had a relatively constant evolution with the exception of TVs, electric laundry washing machines and vacuum cleaners whose average number per 100 households has slowly increased. The refrigerators and freezers registered a small

decrease of its average value in 2013 due to the increase in purchasing refrigerators that incorporate also the freezers.

Conclusions

The importance of analyzing the evolution of consumption structure is evidenced by its impact at both micro and macro level concerning the economic welfare of people by fulfilling the social and economic needs through the act of consumption which contributes also to the economic activity as a whole.

The analysis revealed that private consumption is the macro indicator that accounts on average more than two thirds of GDP, Romania's economy being one based mainly on population's consumption. Following the analyzed period it can be stated that there were two stages of deep recession (1990-1992, 1997-1999) and two of relative economic growth (1993-1996, 2000-2004) followed by a great increase between 2004-2008 and shortly after by the phase of decline due to economic recession, all of which had affected the population's consumption and economic welfare.

The level of consumption expenditure is important but more importantly is the structure of it at household level in order to find out the consumption behaviour of the citizens.

Summarizing the results that the structure analysis had pointed out, it can be stated that romanian households spend the least on education and less on health but more on food and housing services and utilities. These results reflect the image of a nation that has not yet gone over the consumption habits of the transition period, the period of steady growth between 2004-2008 being too short to change significantly the structure of consumption expenditure.

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Figures

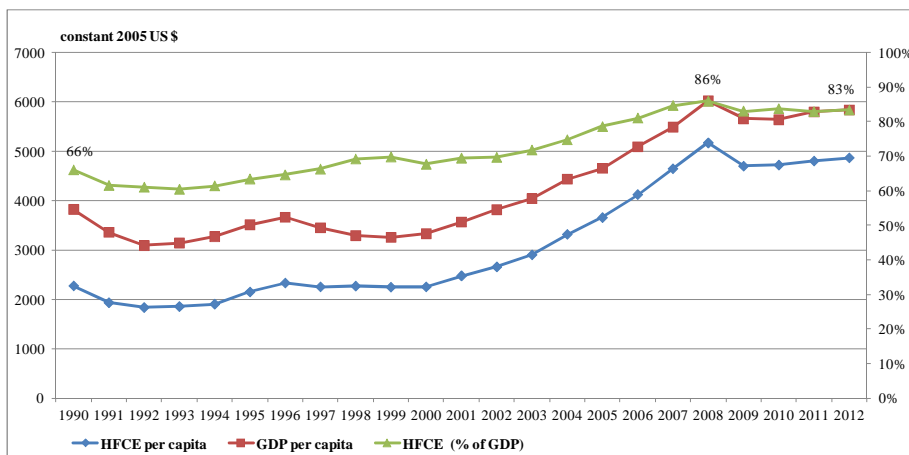


Figure 1 The evolution of HFCE per capita, GDP per capita (constant 2005 US \$) and of the share (%) of HFCE in GDP in the period 1990-2012

Data source: WorldBank Online Database

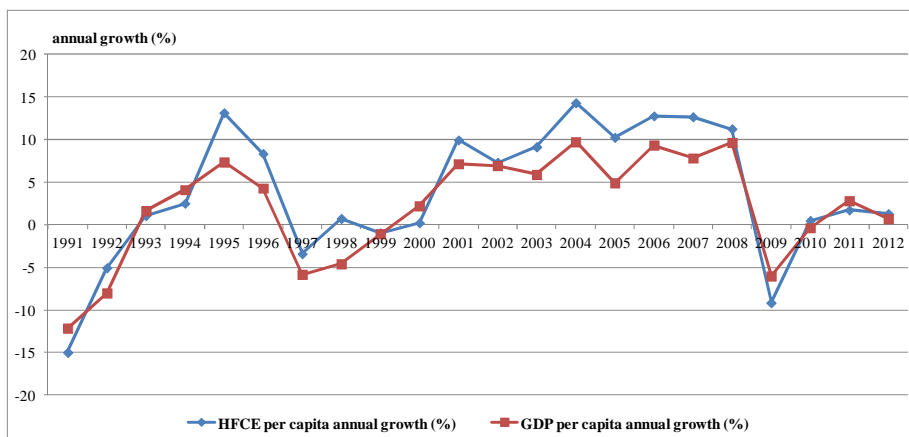


Figure 2 The evolution of annual growth (%) of HFCE per capita and GDP per capita in the period 1991-2012

Data source: WorldBank Online Database

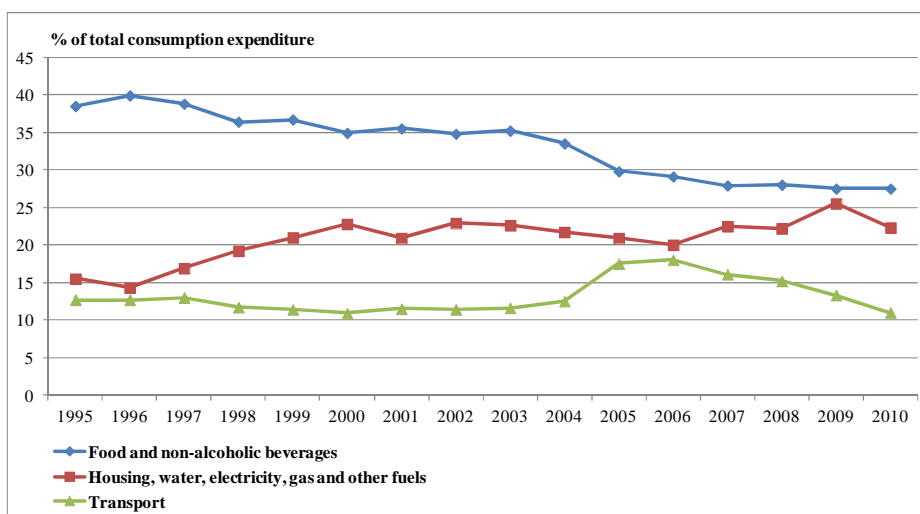


Figure 3 Structure of final consumption expenditure of households by consumption purpose - II (% of total) in the period 1995-2010

Data source: Eurostat Online Database

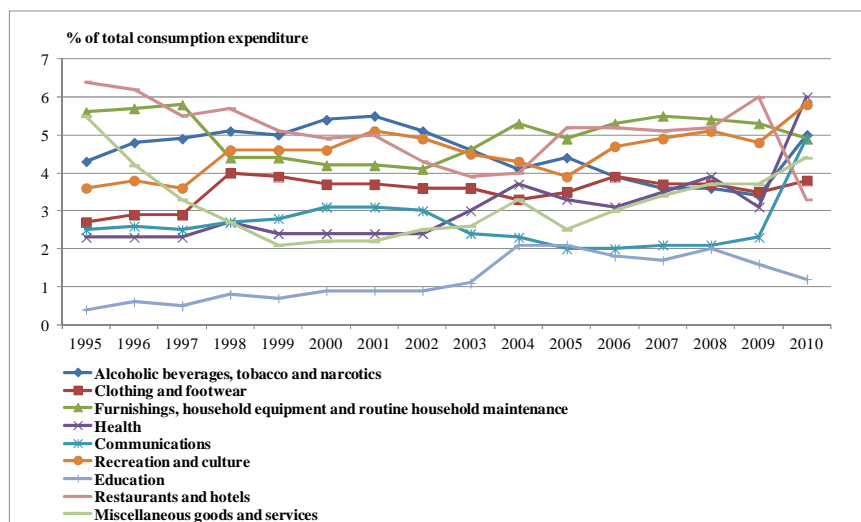


Figure 4 Structure of final consumption expenditure of households by consumption purpose - I (% of total) in the period 1995-2010

Data source: Eurostat Online Database

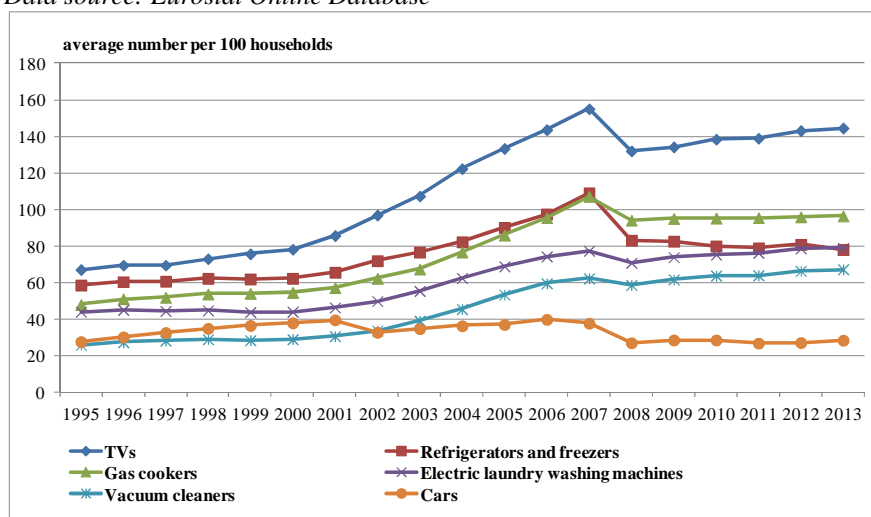


Figure 5 The main durable goods (average number per 100 households) in the period 1995-2013

Data source: National Institute of Statistics TEMPO Online Database

Note: Data is available starting with 1995 as the methodology regarding the endowment with consumer durables was completed in that year. The data between the periods 1995-2007 and 2008-2013 differs in methodology. For 2007, the vehicles registered on 31.12.2006 were automatically radiated in the case where the registration certificates were not changed.