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INFLATION - "THE NUMBER 1 ENEMY " AND ITS CONSEQUENCES FOR THE EUROPEAN ECONOMY

OANA MARIA SICOE-MURG[1], NICOLETA MATEOC-SÎRB[1], TEODOR MATEOC[1], CAMELIA MARIA MĂNESCU[1], IOANA ANDA MILIN[1]

[1]University of Life Sciences "King Mihai I" from Timișoara, Faculty of Management and Rural Tourism, Romania

Abstract: *With the pandemic abating and the prospect of further lockdown episodes fading, the whole world was looking forward to the strong recovery predicted for 2022. In addition to economic growth, forecasts were generally agreed that inflation, which had risen in the previous months, would begin to fall as the basic effects of the short period of deflation of the pandemic. Not only, for a number of reasons, were these expectations not fully fulfilled, but February 2022 pushed events in a totally unexpected direction, ushering in an era of difficulties of an unprecedented complexity in the last decades of European history . While the direct consequences of the war in Ukraine on the insurance industry remain rather minor, the indirect consequences, such as volatility in capital markets or weaker growth prospects, weigh much more heavily. Among these, the galloping inflation that has hit all the world's economies is "Enemy No. 1" on a global scale, its impact on the insurance business being complex and substantial.*

***Key words**: inflation, economy, insurance, energy crisis, cost*

- **Introduction**

In a market economy, the prices of goods and services can change at any time. Some prices are going up, some are going down. Inflation occurs when there is a general increase in the prices of goods and services, not just specific items, which means that today you can buy one euro less than you could buy yesterday. In other words, inflation reduces the value of currency over time. The annual inflation rate in the EU reached the historical level in 2022, the highest level ever recorded, and tripled compared to 2021, when the annual value was 2.9%, according to the data analyzed for the study.

All other product categories registered increases between 2% and 8.1% in 2022, except for the price of communications, which decreased by 0.1%.

The year 2022 represented a turning point, the outlook for inflation changed suddenly, as the economy was simultaneously affected by two types of shocks. First, the euro area has been subject to an unprecedented series of negative supply shocks caused by pandemic disruptions in supply chains, Russia's unjustified invasion of Ukraine, and the ensuing energy crisis. The situation is also difficult when it comes to the field of insurance. There are several risk factors at play and they influence each other.

- **Material and method**

- In order to carry out this study, the authors documented themselves and consulted many specialized books, many current databases and consulted various scientific works on this very important and current field.
- Collecting the data was quite a difficult process, but in the end it was possible to create a database necessary for this study. After collecting these data, a centralization of them and a thorough analysis was necessary. After the analysis, the data were highlighted graphically, and at the end we were able to present some conclusions.

- **Results and discussions**

Throughout 2021, many of the world's economies have maintained a positive trend, registering increasingly higher growth rates and tending towards the recovery of GDP levels from before the Covid pandemic.
The increase in demand for goods, amid the recovery from the recession and the recovery of the labor market, has put pressure on supply flows already weakened by the restrictions imposed by the pandemic.

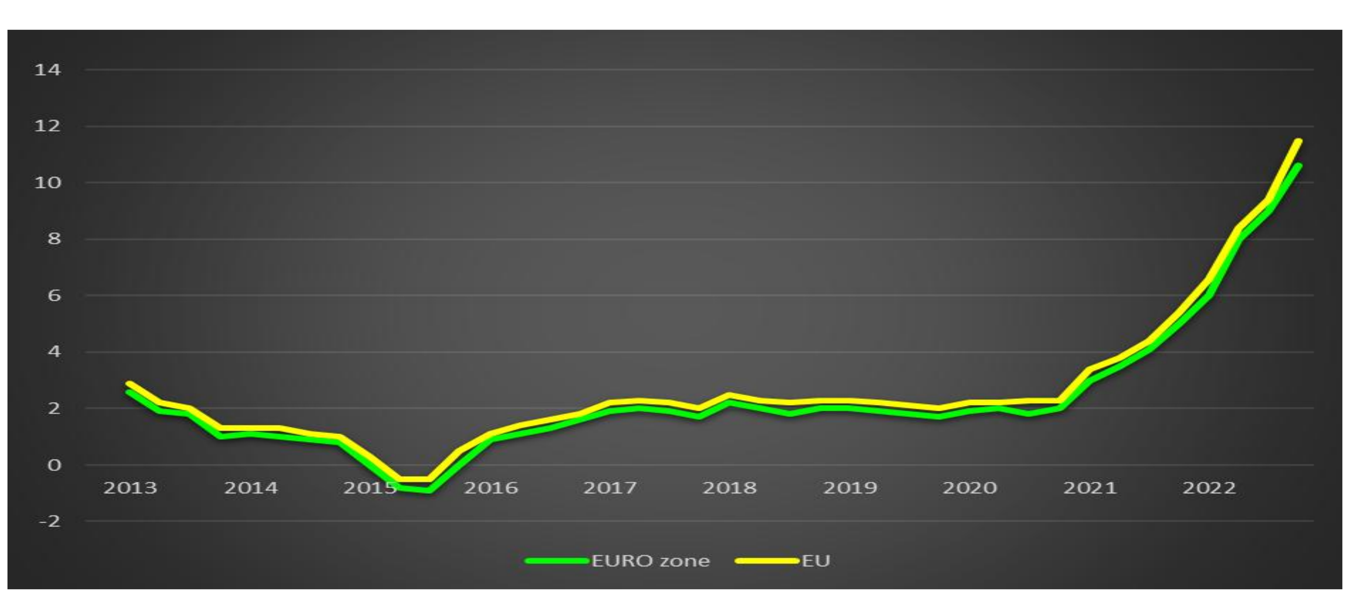

Figure 1. The evolution of the annual inflation rate (%) in the period 2013-2022

These figures reflect reaching an all-time high for the period since the introduction of the single European currency. The lowest annual rates were recorded in France (7.1%), Spain (7.3%) and Malta (7.4%), while the highest values were recorded in Estonia (22.5%), Lithuania (22.1%) and Hungary (21.9%) (Figure 2).

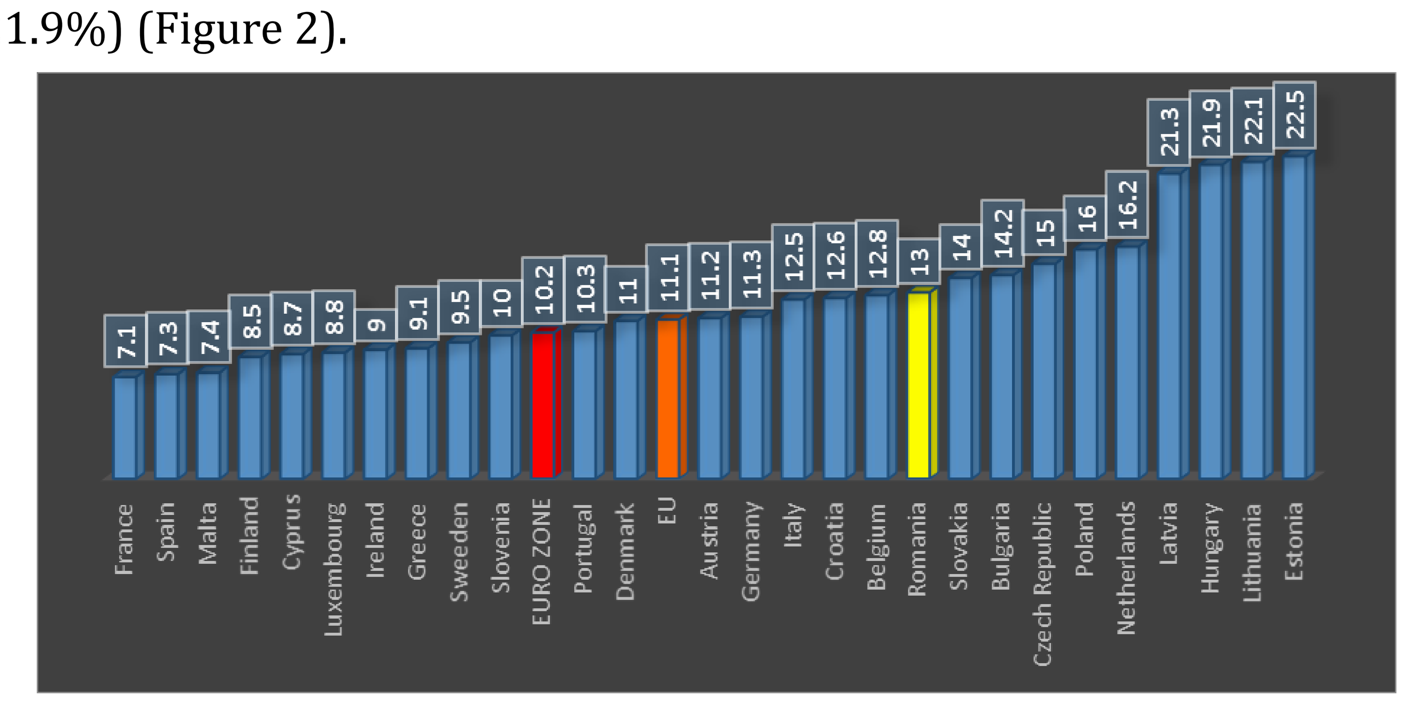

Figure 2. Annual inflation rate in European countries - October 2022 (%)

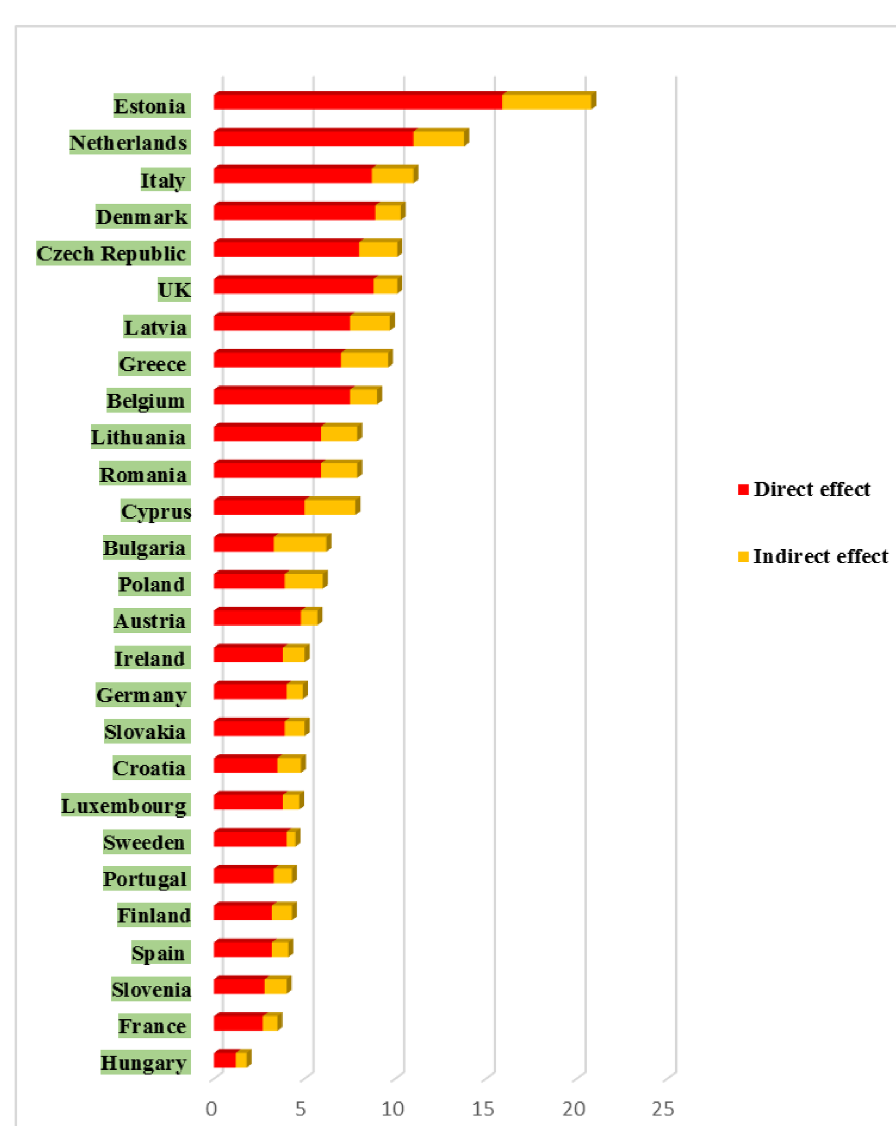

Figure 3. The increase in the cost of living caused by the energy crisis in 2022 (percentage of the average basket/household)

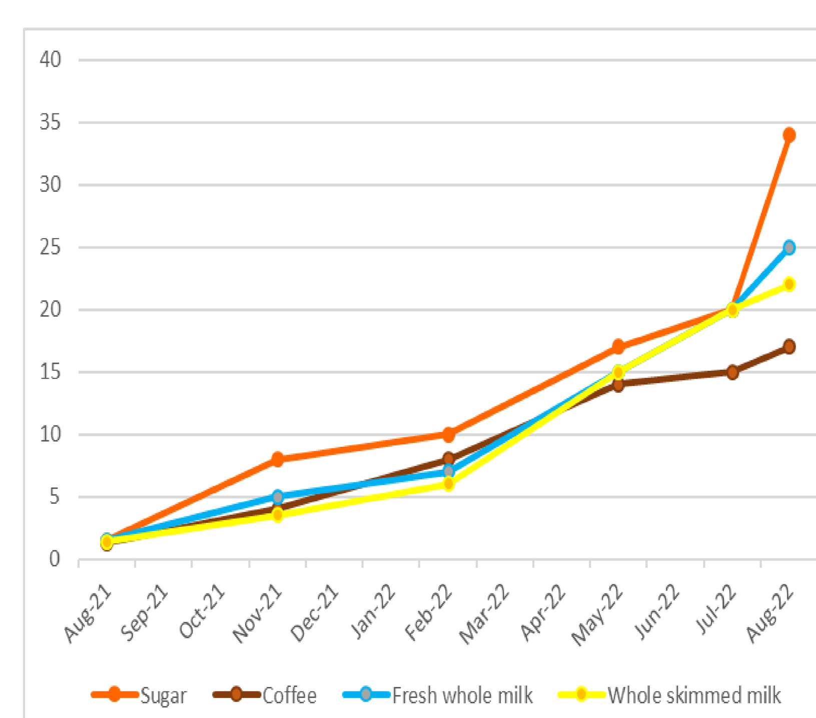

Figure 4. Inflation for coffee products in the EU (%, annual price change rate)

Conclusions

The recent price increase has far outstripped wage growth, leaving households with less cash available. People now spend, on average, a larger portion of their monthly income on basic needs, while less is available for savings and investments.
With family budgets at the limit, policyholders will be reluctant to accept substantially higher prices and will instead opt to reduce their insurance coverage. Because of this, there is a fine line that marks the balance between justified price increases and potential business losses.
In order to mitigate the effect of inflation on claims costs and, implicitly, to avoid as much as possible passing these costs on to price increases, insurers have a set of tools at their disposal. The increasing popularity of these products among customers could in turn drive the deployment of these technologies on an increasingly large scale.
With so many moving parts amid heightened uncertainty, it's best to tread carefully—both capital and liquidity. Now is not the time to let our guard down and narrow our buffer zones. They may be needed to help insurers through the difficult times ahead.