

INFLATION, THE EFFECT OF ECONOMIC CRISES: THE MAIN DETERMINANTS OF INSTABILITY AT EUROPEAN LEVEL, BUT ALSO AT THE LEVEL OF ROMANIA

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Abstract: Motivation and purpose of the research topic In addition to the generosity of this topic "Inflation", the motivation for its choice takes into account the following statements:

- The theory of economic crises and their consequences came out of the research interests before the Great Recession, but also after;
- Theoretical concerns aimed at highlighting the most important determinants of inflation;
- The few target-based inflation-forecasting models
- The development of the first purely monetary model, the Cagan model.

The theme "Inflation, the effect of economic crises: the main determinants of instability at European level, but also at the level of Romania" is very important not only because it highlights the role of inflation in this economic cycle but also because it finds out the effects of the recession. Recession forecasting has always been considered the "holy grail" of macroeconomics. Predicting recession is not only important for the government and the banking sector to ensure quality of life, but also to secure jobs.

Key words: inflation, deflation, cagan model, purely monetary model, social effects, european central bank, economic crisis, effects of inflation

1. STRUCTURE OF THE SCIENTIFIC PAPER

The title of the doctoral thesis is "Inflation, the effect of economic crises: the main determinants of instability at European level, but also at the level of Romania" and aims to highlight the principle of macroeconomics who take into account the fact that volatility could be a good friend in the long term and do not confuse financial stability with price stability. The structure of the scientific paper is divided into four major chapters. Each one having at least one subchapter for a detailed presentation.

2. CHAPTER 1 - INFLATION IN ROMANIA

Romania has the highest inflation Figures for January 2024 show that annual inflation ranged between 0.9% and 7.3% in the EU. Romania obtained the highest rate of 7.3% of EU members, followed by Estonia (5%), Croatia (4.8%) and Poland (4.5%). Economists in the past, then in the 2010s "black zero" developed this particular culture, especially prominent in the fear of inflation. For example, economists have repeatedly expressed concern about the stability of the value of money in surveys for years and long before the current rise in inflation. Where does this particular need for stability come from, and why is it so closely linked to inflation concerns?

The answer comes from the fear of rising living costs, referring to the period of the 2008 financial crisis.

In fact, such a long-term effect of a historical event is not as distant as it seems at first glance. It is now well documented that biographical shocks in an early phase of life can shape political attitudes and perceptions of problems throughout life. This applies to the experience of autocracy, war, or mass unemployment, but it also applies to the effect of inflation.

For example, comparative studies show that people who have experienced hyperinflation in their lives still attach great importance to monetary stability decades later. It can also be proven that the political behavior of grandparents has a systematic influence on that of their grandchildren. So, if those who lived through the year 1990 were shaped by it for the rest of their lives, and if they passed on their

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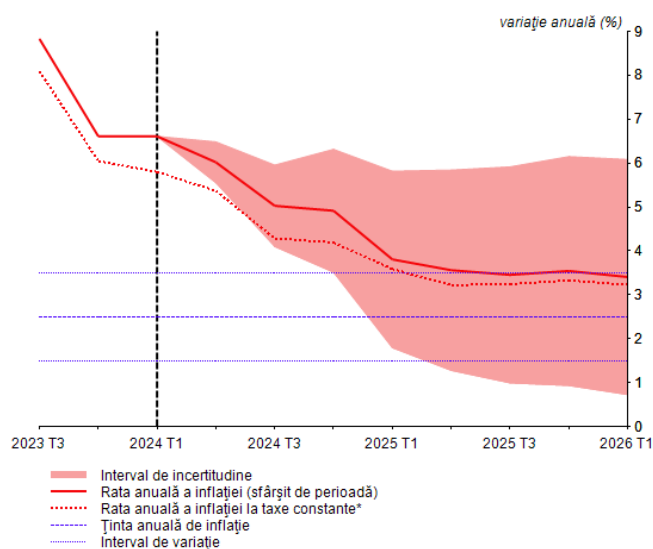
experiences to their descendants, whether at the family table, at school, or mediated by institutions such as the national bank—then it is not at least unreasonable that these experiences still shape current politics.

After all, just a few years after inflation, Romania experienced a second, no less drastic crisis in 1997. One obvious reason for the continued impact of hyperinflation is that it has become a cipher that extends far beyond the realm of monetary policy and even the economy. According to her, inflation has triggered a shortening of time horizons, an increasingly urgent focus on the here and now, which cultural journalist Harald Jähner summarizes in the formula "Only today matters" and for which he finds evidence in almost all areas of life and culture.

Thus, inflation demanded a break with the traditional notions of solidity, conventions and long-term commitments.

2.1. BNR projections (*National Bank of Romania*)

FIGURE 3. Annual CPI price inflation projection and associated uncertainty range



Source: INS, calcule BNR (*National Bank of Romania*)

3. CHAPTER 2 – INFLATION IN THE EUROPEAN UNION

3.1. How can inflation be measured?

Inflation can be measured by the consumer price index. To do this, the Federal Statistical Office determines the price level for the contents of an imaginary shopping cart. It contains various goods and services. These are representative of the consumption in Romania. In addition to food, clothing and consumer goods such as motor vehicles, these also include rents and insurance. The change in the consumer price index is called the inflation rate. An inflation rate of zero to two percent is considered normal. To avoid major fluctuations, the European Central Bank (ECB) ensures price stability through its monetary policy. The central bank achieves this, for example, by reducing or increasing the amount of money in circulation.

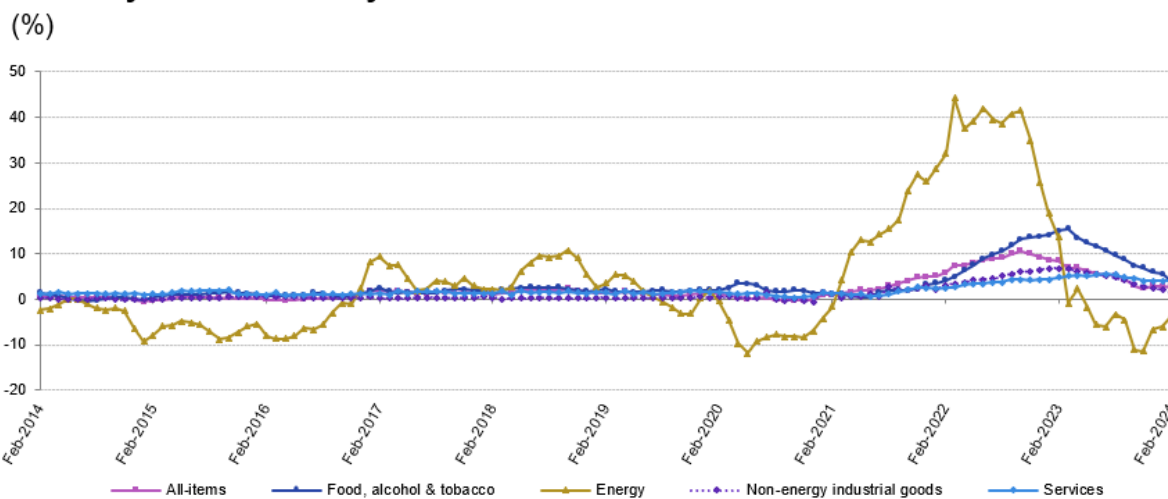
The annual inflation rate in the euro area – that is, in the European Union member states that have the euro as their currency – is currently between one and two percent. The central bank is targeting the medium-term target of an inflation rate of around two percent.

3.2. How do inflation rates compare in the EU and how has annual inflation changed from its peak?

Inflation reached the highest rate in the last decade in 2022. (Fig. 1.) The crisis caused by the COVID-19 pandemic was followed by a significant increase in consumer prices, as shown by the 2023 report of the Organization for Economic Co-operation and Development (OECD). Prices started to rise in 2021 due to the rapid recovery from the pandemic and supply chain bottlenecks.

FIGURE 1. Chart of the annual inflation rate at European level over a period of 10 years:

Euro area annual inflation and its main components, February 2014 - February 2024



Source: Eurostat (online data code: prc_hicp_manr)



Source: Eurostat

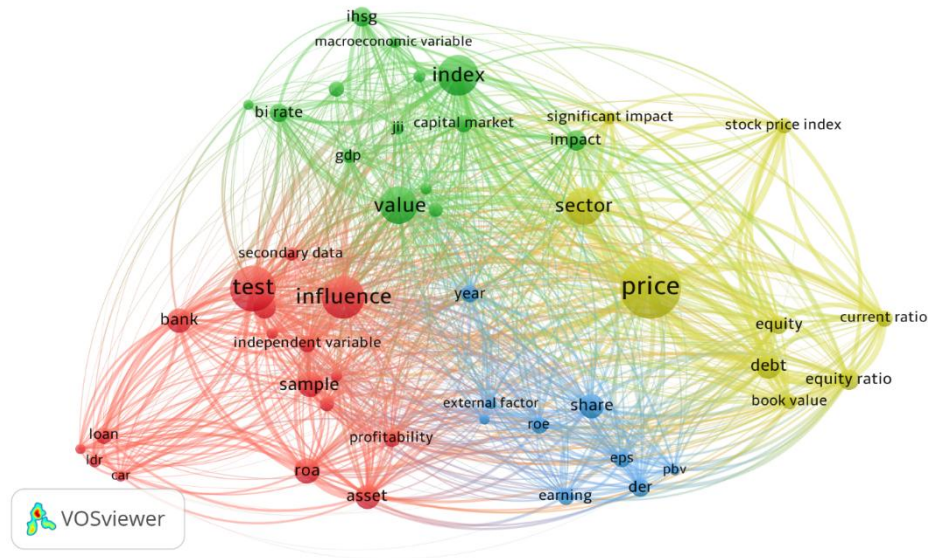
The decrease in the level of inflation, according to the chart above, shows us that consumer prices are rising more slowly than they were before, observing the upward trend of the inflation curve starting from 2021 and peaking in 2023. Situations where inflation has a negative or academic index called deflation happen when prices fall in an economy. Eurostat estimates, issued on March 1, 2024, show that annual inflation in the euro area has fallen to 2.6%, slightly above the European Central Bank's inflation target rate of 2%. The inflation rate, as measured by the Harmonised Index of Consumer Prices (HICP), differs widely across Europe. Although it has been observed that it is cooling in most EU countries, none of them showed a negative inflation figure in January from year to year. Eurostat estimates for February do not yet show any sign of such a decline in any country.

4. CHAPTER 3 - WHAT IS DEFLATION?

Deflation is the opposite of inflation. It also has consequences for the economy. Deflation is a sustained decrease in the price level. It can fall, for example, because the supply of money in circulation decreases or the aggregate supply exceeds aggregate demand. Due to the constant fall in prices, wages can fall in the medium and long term, and unemployment increases. In this way, the economic production in the country is reduced. Experts recommend building a financial cushion for the future and creating reserves. In this way, the devaluation of the currency can be counteracted. With a proper investment, one can start building assets - the decisive factor is resources (money from salaries) and financial needs. An investment in term deposits, for example, is considered safe.

5. CHAPTER 4- KEYWORD ANALYSIS; KEYWORD NETWORK VIA VOSVIEWER

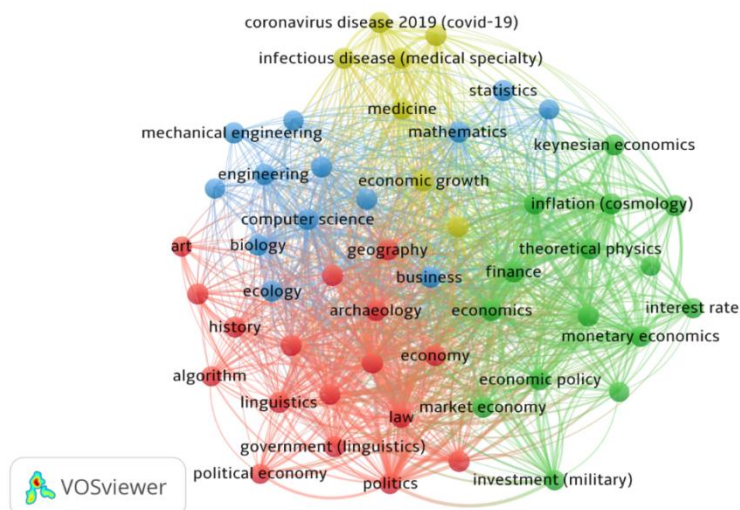
Starting from the initiative to create a bibliometric research on inflation, I managed with the help of the VOSviewer program to create two bibliometric graphs that have as their main search engine, the term "inflation" translated into English "inflation". The data was obtained through the Openalex platform, and as a search engine we have introduced in both cases the data that comes exclusively from the articles published online in 2023. In the first chart, only doctoral works that have as their title or that have the term inflation in their title, published exclusively in 2023, were selected:



Citation analysis can be performed using five different units of analysis in terms of bibliometric analysis, such as: documents, sources, authors, countries and institutions.

The purpose of the above chart was to highlight the citation analysis regarding the term inflation and its relations with other terms, together with which it forms the entire economic field.

The second bibliometric graph highlights the interdependence relationships between several economic terms, all having in common the fact that in 2023 they appeared in several specialized works, namely economics books or publications also with economic purposes:



In addition, this time the main term is also "inflation", only this time the bibliometric graph is much better outlined, and the other terms with which they form interdependence relationships are entirely specialized, highlighting the fact that the works resulting from the search API on the Openalex platform are scientific works. If a work is highly cited, it is considered to have a more significant influence on a specific topic than other less cited works do.

6. CONCLUSIONS

The general rise in the average price of goods and services that households (citizens) normally purchase is known as inflation. As the average price of a basket of products and services that are commonly purchased in the economy changes during a specific period, it remains stable. The European classification of individual consumption according to purpose (ECOICOP) and by aggregates of goods and services obtained from it is used to break down the HICP.

My main point in all the above-mentioned inflation analyses is that this phenomenon, called "inflation", reflects many other aspects than changes that affect the cost of living. Alternatively, all other macroeconomic approaches that consider this view provide another coherent and elaborate framework for the different possibilities for determining inflation.

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