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Inflation, its causes and consequences

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Abstract

The economic crisis has various negative consequences, among which there is a considerable growth of inflation. As a result the prices increase for different categories of goods and devalue the savings of the population in national currency. Managing inflation is a major problem for economic policy. To reduce the rate of inflation it is necessary to take measures for carrying out a wide complex of anti-inflation measures.
The article describes the main reasons of inflation, highlights the social and economic consequences of its occurrence. It also analyses the current state of the Russian financial market inflation and describes inflation forecasts for the future periods.

Keywords: Economy, inflation, monetary factors, non-monetary factors, forecasts;

1. Introduction

Currently inflation is an acute disease of the economy in several countries of the world, which is chronic. Inflation is a complex socio-economic phenomenon, caused by the disproportion of reproduction in different areas of the market economy. The manifestation of inflation is the increase in the General Price level in the country, which occurs as an imbalance between aggregate demand and aggregate supply. The consequences of inflation have negative impact on financial, monetary and economic system in general.

2. Materials and methods

In order to analyse the current state of financial market I used a textbook - Money. Credit. Banks: / E. F. Zhukov, N. M.Zelenkova, N. D. Eriashvili.

Chief Editor of the publishing house- N. D. Eriashvili, candidate of jurisprudence, doctor of economic Sciences, Professor, laureate of the prize of RF Government in science and technology. I used this book because it pays particular attention to inflation and its causes and consequences, anti-inflationary policy of the state.

I used the official website of the Central Bank of the Russian Federation; the official website of the Federal service of state as well.

3. Discussion

Inflation is devaluation of money, reducing its purchasing power caused by rising prices, commodity shortages and a decline in the quality of goods and services [1].

Modern inflation is the result of systematic overflow of the circulation of excessive mass of money that leads to its impairment. Modern inflation is widespread and inclusive.

Internal causes are divided into monetary and non-monetary [1].

Monetary factors of inflation – the crisis of government Finance: the budget deficit, the growth of public debt, the growth of public expenditure due to emission of money, an increase of the velocity of money, an increase in state taxes and duties.

Non-monetary factors of inflation are the factors associated with structural imbalances in public reproduction; imperfect system of management of state economic policy; the decrease in the efficiency of investment and curbing the growth of consumption; extraordinary circumstances socio-political nature.

Opposite factors influence the level and the rate of inflation. It is therefore necessary not only to choose the approach to anti-inflationary government policies, but also to determine the combination of tools and their application.

4. Results

4.1 Socio-economic consequences of inflation

Economic consequences:

1) The impact of inflation on economic growth. A number of economists believe that low inflation rates promote economic development. A small increase in the mass of circulating money speeds up payment transactions, promotes activation of investment activity. In turn, the increased production will lead to the restoration of balance between commodity and monetary masses at higher price levels. Other theorists argue that even moderate inflation is harmful to the national economy [1]. It should be noted that the truth of these opinions has not been confirmed.

2) The impact of inflation on the accumulation is manifested in the accumulated impairment of part of national income. The higher the inflation, the less purchasing power of deposits.

3) The Impact of inflation on the balance of payments is manifested through the decrease of exports and increase of imports in the country where prices are rising.

4) The impact of inflation on international monetary relations is manifested in the increase in the level of world prices [1].

Social consequences are the following:

1) The decrease of living standards mainly social groups with the fixed incomes.

2) Social stratification, wealth inequality

3) The lag growth rate of nominal income, real wages and the sharply increasing prices for goods and services.

Thus, inflation leads to infringement of the reproduction process in all spheres; distorts the system of consumer demand and aggravates the problem of sale of goods in the domestic market. Each country has its own peculiarities of formation of inflationary processes.

Therefore, causes of inflation in Russia are:

1) The increase in the budget deficit

2) The decline of social production

3) The monopoly of large firms defining the price and own production costs

4) The imposition of economic sanctions against Russia starting from 2014.

Now Russia has to cope with the consequences of the fall of 2014, when the country faced the massive sanctions that caused the fall of national currency.

The peak of the economic crisis of 2014 was characterized by a sharp decline of the economy. Of course, the consequences resulted in a sharp increase in the number of unemployed and the rising level of inflation in the country. Prices for goods rose, while wages remained the same.

Describing the current state of inflation, it can be noted that inflation in Russia again began to accelerate in the first week of March 2016. In the period from 1 to 9 March, the consumer price index rose by 0.2 percentage points, compared to 0,1 % in the period from 21 to 29 February [3].

For six consecutive weeks, until February 21, inflation amounted to 0.2 % per week and only during the period 1-11 January - the holidays – it flew up to 0.3 %. Thus, the cumulative inflation since the beginning of the year until 9 March was 1.8 % (from 1.6% in December 2015) and 8 % in annual terms [2].

The consumer price index in February rose to an annual rate of 8.1 %, compared with 16.7 % in the same period of 2015 [3].

It was expected in 2015 that the Bank of Russia would keep its key rate unchanged at 11% then it will cut its interest rate by 6 percentage points.

4.2 Forecasts for the future periods

The 2016 inflation and its level is projected by the Central Bank of the Russian Federation. To date, all the efforts of the Central Bank are aimed at curbing the rate of growth and the stabilization of the situation. Experts of the Central Bank claim that the joint efforts of the coefficient of inflation in 2016 will be significantly reduced.

The Central Bank expects the maintenance of international sanctions until the end of 2017. The report "guidelines for the single state monetary policy for 2015 and the period 2016 and 2017" says that the negative impact of sanctions on the Russian economy will gradually weaken in 2015-2017. Russian banks will be able to adapt to external conditions, to establish access to Asian markets.

Conclusion

Managing inflation was a major problem for economic policy. To reduce the rate of inflation it is necessary to take measures for carrying out a wide complex of anti-inflation measures. Among them — stabilization and stimulating production, improvement of the tax system, creation of market infrastructure, increasing the responsibility of enterprises for business performance, carrying out of certain measures for regulation of prices and incomes.

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