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Inflation in Ukraine: Causes and Methods of Regulation

In a market economy the GDP is formed as a mass of goods that are to be on sale, and which, in turn, cannot be carried out without the use of money. In the national economy there should be correspondence between commodity mass and the amount of money currently in circulation. But the correspondence can be violated, resulting in inflation – overflow of currency circulation channels over the needs of turnover, which causes the currency devaluation, provoking the growth of overall commodity prices.

According to the inflation rate there are three types:

1. Moderate (creeping) inflation, with price increase less than 10% per year.
2. Galloping inflation occurs when in prices grow from 10 to 200% per year.
3. Hyperinflation reflects the annual rate of price growth of over 200%.

All these three types are examples of open inflation, which manifests itself in the increasing prices. Hidden inflation is characterized by money depreciation in the form of trade deficits with unchanged price levels.

Inflation can have not only positive, but also have negative values. In such cases the money rise and their foreign purchases of capacity increases. Negative inflation is called deflation.

There are a lot of factors that cause inflation. In each country there are specific socio-economic conditions that provoke inflation occurrence. There are internal and external factors of inflation increasing. Let's consider the factors that contribute to this process in Ukraine:

1. Imbalance of public income and expenditure. It appears as the deficit of the state budget, provided that the present deficit is covered through the money emission.

2. The lack of a pure free market, as well as perfect competition as its component. The market power of the monopolist, oligopolist and monopolistic competitor in the short-term period, provides the possibility the market price control. So trying to maintain a high level of prices, the economic subject reveals an interest in reducing the production and supply of goods. In turn, this leads to a disparity of aggregate demand and aggregate supply.

3. Inflation import. Its importance is growing, because country's economy becomes more open.

4. The inflationary expectations. In Ukraine often happens a situation when consumers are confident that the increase in prices cannot be prevented. In this case, they demand higher wages, reduce savings and increase current consumption. In turn, the producers beware of price increases from its suppliers. This causes an increase of the goods prices on the projected them growth in prices for raw materials.

Unfortunately, at the present stage of development, the inflation index in Ukraine is growing. Since 2007 to 2012, inflation hovered in the upward and downward, but it has a tendency to increase since 2013. The dynamics of inflation in recent years is shown on the graph.

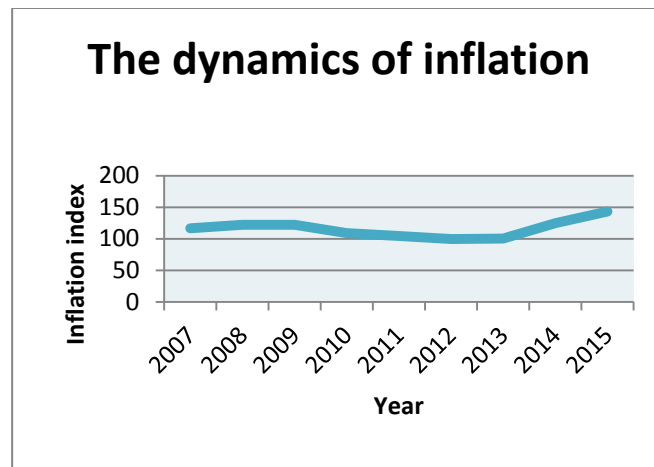


Figure 1. The dynamics of inflation in Ukraine

The inflation rate has economic and social consequences. If it is of a small rate, the growth of prices and profit rate are stimulated. In this case, inflation becomes a factor of a temporary revival of economic conditions. With increasing growth inflation turns into a problem of reproduction as it increases economic and social tension in the country.

Market economy at this stage of development is of an inflation type. So the state tries to control inflation and make it temperate through anti-inflationary policy.

Experience of anti-inflationary measures implementation in western countries shows a need for a combination of long-term and short-term instruments of regulation. The main recommendations for our country should be as follows:

- reduction of the inflationary expectations of the population which are over stimulating demand. To do this, the state must hold a clear weighted anti-inflationary policy that will increase the confidence of the population;
- the use of measures aimed at reducing the budget deficit, but not through the emission of money;
- implementing measures in the money supply circulation by setting strict limits and standards to increase the money supply in a particular period that will predict and tame inflation;
- weakening influence of external factors. The purpose of this measure is to reduce the inflationary effect on the economy, due to the overflow of external capital in the form of loans on a short-term basis and state loans abroad to finance the budget deficit.