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Ways to Reduce the Effect of Inflation on the Country's Economy.

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ABSTRACT

This article analyzes the scientific theoretical aspects of inflation, the aspects that are neglected in its prevention, and the dynamics of inflation in Uzbekistan and world practice. By the way, the levels of factors affecting inflation are determined, also, relevant conclusions and recommendations are given.

Keywords:

inflation, creeping inflation, hyperinflation, inflation targeting, economic growth, financial crisis, external debt.

Introduction

Today, inflation is increasingly becoming one of the global problems and a significant topic in the international situation, and inflation indicators are growing upwards in many countries. Inflation is the devaluation of the currency and, as a result, increases in the value of products on the market and decreases in the purchasing power of the country's currency. Depreciation is defined as a decrease in the amount of goods or services purchased for the same amount of money over time.

Inflation can be observed in three stages: creeping inflation, that is, it is moderate and has a low rate for many years, and it is normal for the current economy to be in the range of 1-4%. The second stage means that the annual rate of inflation exceeds 10% and this indicator increases every month. The last and most dangerous stage is hyperinflation, in which the price level increases excessively, even more than 50 times per year.

Also, in order to prevent inflation in our country, that is, to bring the aforementioned inflation indicators to a normal state, the President of the Republic of Uzbekistan "On

improving the monetary and credit policy by gradually moving to the inflation targeting regime" The decree was adopted on November 18, 2019. According to the decree, the implementation of measures to further reduce the level of inflation is considered an important factor in ensuring the effectiveness of economic reforms aimed at improving the standard of living of the population and creating conditions for sustainable economic growth.¹

Today, there are a number of problems that prevent inflation in our country, including the fact that government spending exceeds income, the development of the domestic market is lagging behind, and foreign borrowing is growing day by day. Eliminating the following problems, developing the domestic market in our country, reducing borrowing, effective use of the state budget and proper management of monetary policy are of urgent importance today.

Analysis of literature

A number of researches have been conducted in the literature related to the economy about the highly controversial opinions about inflation, its causes, methods of

¹ <https://lex.uz/docs/-4600824>

calculating inflation, and measures to reduce inflation. an increase in the amount of money in use and, as a result, a depreciation of the national currency.

Economists M. Polan and P. Guards carried out research on inflation in 1969-1999, including 165 countries, and came to the following conclusions. According to them, there is a correct relationship between the rate of growth of money and the inflation rate, which are the main elements of inflation, and this is reflected in a number of statistical data. According to the analysis of P. Guard and M. Polan, the level of inflation can be divided into 3 parts, low, reasonable and high indicators². According to these indicators and their correlational analysis, they shed light on the relationship between the nominal exchange rate of the national currency and inflation.

After the 65th years of the last century, the correlation between unemployment and inflation determined by Phillips, that is, the conclusion that an increase in the level of unemployment at the national level causes inflation, was put forward. However, by the 1970s, this research did not gain practical importance, because according to the in-depth research of L. Catao and M. Terronza, it was proved that the growth of inflation was caused by errors in the management of the state budget. The persuasiveness of these studies is that these economists covered 107 countries and carried out research on the relationship between budget deficit and inflation for a period of 40 years, ie until 2001.

According to another group of economists, including CH. Morris and G. Hess³ low price growth also had a negative impact on inflation dynamics. As a result, banks' credit interest rates cause not only inflation, but also additional fees, and the standard of living of the population begins to decrease.

Economists A. Kudrin and A. Pivovarova put forward the opposite ideas without confirming the above opinions. They

² Graude P., Polan M. Is Inflation Always and Everywhere a Monetary Phenomenon? Discussion Paper. #2841 CEPR. 2001. June. - R. 26-29

argue that low inflation supports economic growth, and in this case, anti-inflationary policies increase unemployment and reduce economic growth.

If we look at the international experience today, according to the conclusions of several economists, the causes of inflation have been shown. They are divided into internal and external factors.

Internal factors:

- The crisis of the state's financial situation
- Budget deficit
- Money issue
- Acceleration of circulation of money in circulation
- Existence of monopoly in production and service
- The state has a monopoly on price formation

External factors:

- Monetary policy prevailing in the country
- Secret export of gold or currency
- External debt attraction

From the analysis, we can see that there are many factors that cause inflation, and economists have different opinions about it, and it is still the case today. But today, as the most important factor, they point to the reasons related to the currency policy, that is, the change in the amount of money in relation to the mass of goods, the rise of the hidden economy, or the inability to effectively use the state's foreign debts. It is necessary to set strategic goals aimed at reducing the level of inflation based on these presented problems.

Method

In this article, the scientific-theoretical views of domestic and foreign economists on inflation, its causes and preventive measures, educational manuals, and comparative analysis were made. Analytical, monitoring, evaluation

³ Hess G., Morris C. The Long-Run Costs of Moderate Inflation // Federal Reserve Bank of Kansas City Economic Review. 1996. Second Quarter. - P. 71-88.

and other similar methods of analysis were used during the research.

Discussion and results

According to the results of the above analysis, hyperinflation is observed in several countries after 2022, and these countries are experiencing the most severe economic processes, including⁴ Countries like Venezuela, Sudan, Lebanon, Syria. Although Venezuela has the largest oil reserves, its economy has shrunk by 80% over the past 9 years, and the national currency has depreciated by 99% to 686% per year.

In Sudan, a military coup and civil dissensions escalated, a coup d'état took place in the country, and the inflation rate of the Sudanese currency was 318%.

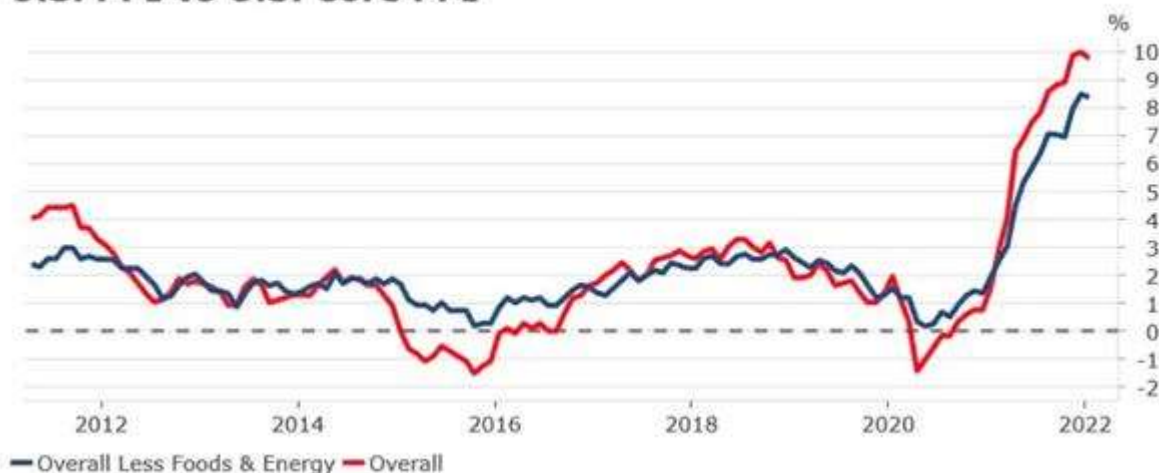
In 2021, Lebanon also experienced a sharp decline in economic growth and a deep financial crisis, and the current inflation rate is 224%, while in Syria, the country is almost torn apart due to military conflicts, and annual inflation is 139%.

The following have been identified as potential risks from hyperinflation:

- The currency loses its essential properties
- The price will increase dramatically
- Public default or bankruptcy
- Loss of citizens' ability to accumulate and difficulty in living standards of the population
- Increase in unemployment
- The state financial system begins to completely collapse
- Economic chaos

Of course, although hyperinflation is not observed in our country, galloping inflation is observed. This situation is observed not only in Uzbekistan, but also in advanced and economically developed countries, including the USA and European countries: Estonia, Lithuania, Latvia, and the Netherlands. The most surprising thing is that the highest inflation rate observed in the last 40 years is happening in the USA.

U.S. PPI vs U.S. Core PPI



- 1- picture Dynamics of inflation observed in the USA in the last 10 years.
- 2- PPI- producer price index, CPI- consumer price index

From the chart below, we can see that the measure of PPI and CPI increased from 0.5% to 0.7% in December 2021, which shows that the inflation index is not going down yet.

Inflation of processed products increased by 1.7% m/m, and inflation of goods used as production increased by 0.1% m/m. The main inflation trend was more than 2% in 2012, and even

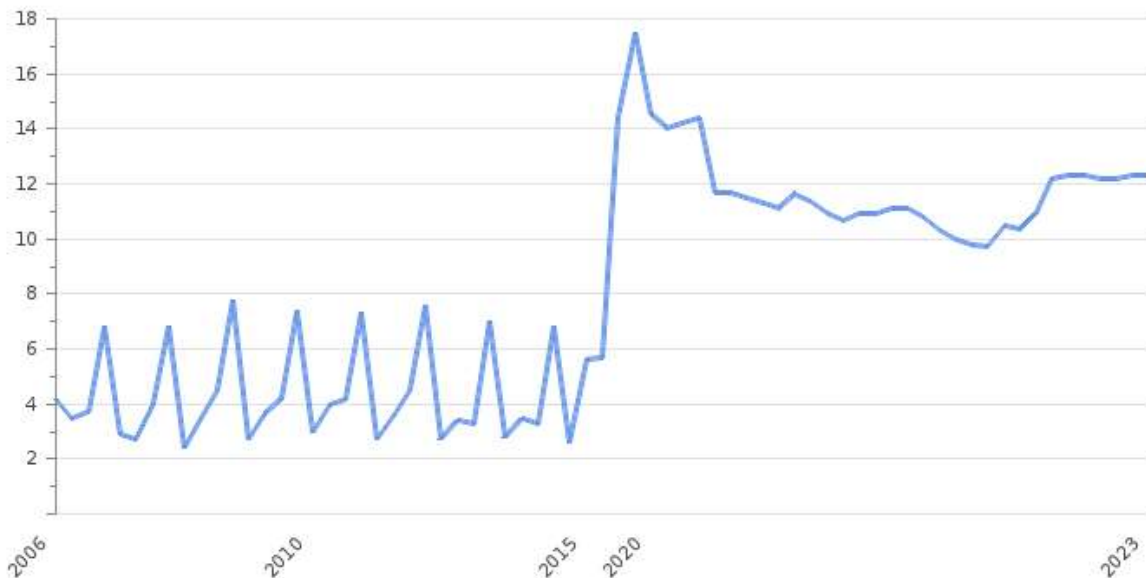
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<https://www.gazeta.uz/oz/2022/06/16/hyperinflation/>

decreased to -1% in 2016, but after 2020, the inflation dynamics began to rise sharply and reached 8% in 2022. . This is an unprecedented indicator in recent history.

Or in Uzbekistan at the end of the year it increased by 1.3% compared to the previous month and made 12.3%. This, in turn, causes various economic problems and negatively

affects the lifestyle of every person in the country. It should also be taken into account that any level of inflation does not harm the economy, on the contrary, low-percentage inflation is a natural process for economic growth. Low inflation indirectly stimulates economic growth by increasing additional demand in the economy



3- Fig. Inflation indicators in Uzbekistan for 2006-2023.

As can be seen from the data analysis in this diagram, the general shift of inflation dynamics in Uzbekistan since 2006 is reflected in the numbers. That is, the inflation index did not exceed 8% until 2015. However, since 2019, the depreciation of our national currency has increased significantly and by the end of 2022, it has reached its highest level, exceeding 12.3%. In addition, according to the above information, it is estimated that by 2023, the level of inflation will gradually decrease if the measures to prevent inflation are applied correctly.

In order to achieve this goal, it is envisaged to use inflation targeting, which is used by most countries, that is, to achieve it through effective management of monetary and credit policy. What is inflation targeting? it is natural to ask that question. In this method, in order to achieve a certain level of inflation, the monetary policy mechanism is successively transferred to this mode and a specific indicator

is determined. In Uzbekistan, the transition to the inflation targeting regime is being carried out step by step, and in 2023, an inflation rate of 5% has been set as a goal.⁵

Conclusion

In short, inflation occurs when the national currency depreciates on the territory of the country, and several factors affect its formation. In general, we can give examples of the existence of a monopoly in the issuance of paper money, the increase of public expenditure, the incorrect conduct of monetary policy, the backwardness of the domestic market, and unexpected natural disasters. Of course, in order to prevent inflation, the Central Bank and our government are taking necessary measures in our country. Additionally, based on the above analysis, we can make the following suggestions: 1. First of all, it is necessary to further improve the environment of the domestic market, that is,

⁵ <https://finlit.uz/uz/articles/monetary-policy/inflation-targeting/>

to form a competitive environment and provide all-round support to producers of consumer goods and service providers.

2. To reduce foreign borrowing and set strategic, clear goals of the state credit policy.

3. Issuance of more inflation-linked government securities, further development of the financial market in general.

4. Balancing the fiscal policy by reducing the budget expenses to the maximum extent.

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