THE PROBLEMS OF INFLATION IN CURRENT GLOBAL ECONOMY

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Abstract. *In the framework of the research, the main substance is provision of the fact that inflation is, undoubtedly, one of basic macroeconomic categories, which requires the use of rational and effective mechanisms to achieve quality economic growth along with increase in public wealth. Presented some views of economists on origin and specifics of inflation. The main purpose of this paper is to comprehend investigation of inflation as well as to determine what kind of factors influence on its current significant growth along with provision of analysis of trends of inflation for certain period.*

Key words: *inflation, consumer price index (CPI), producer price index (PPI), aggregate demand, aggregate supply, money supply, GDP, output, cost-push inflation.*

Today, the world faces a huge array of challenges including unprecedented and catastrophic consequences of climate change, huge shrink of global GDP and unexpectedly quick price growth issues. According to the estimates of The World bank, global GDP growth is highly likely to plummet in many countries in the world, especially in Europe and Central Asia because of high dependance on the Russian Federation which is conducting special military operation in Ukraine as well as supply shocks in most sectors of economy which are leading to high level of inflation.

Therefore, probability of global GDP reduction is only rising, having already shown 0.7 percentage points (to 3.5%), with the eurozone cut by 1.5 percentage points to (3.0%) and the US by 0.2 percentage points (to 3.5%) decline in experts' prediction from Fitch Ratings in March 2022 and this intensifies sharp upward revisions to inflation forecasts for the end of 2022.

Moreover, it should be taken into account that not only does Russian military operation fuel worldwide inflation, make economic growth deteriorate, but also post-pandemic recovery, price hikes of hydrocarbons and unprecedented number of economic sanctions have undermined current living standards of all around the world resulting in price jumps for consumer goods and services.

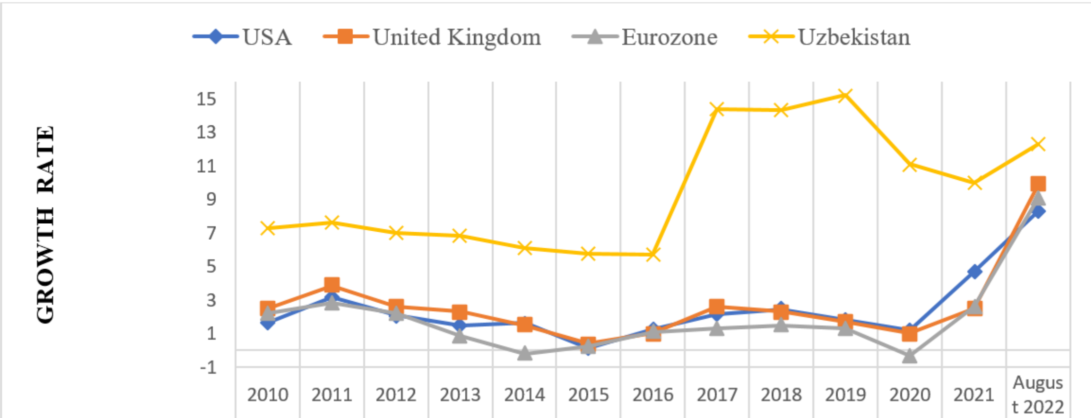
It would be more comprehensible to define primarily what inflation is, inter alia to understand why situation with inflation is exacerbating, mention what trends does inflation have now.

One of widespread definitions of inflation is overall increase in average level of prices, which implies that not all prices in economy must rise, yet some may be stay at the same level, or vary in different directions and at different pace.

Currently, in September 2022 the situation with inflation is apparently negative for global economy, for instance, in Eurozone, whereby the consumer price index (CPI), main economic indicator used for measuring inflation has achieved 9.1 per cent in line with the highest level of 25.2% in Estonia for August 2022 from a year ago, reaching 40-year high levels. The same is observed in other major economies such as the USA where this index soared to 8.3% and the Great Britain to 9.9%, which is also striking the level of last energy crisis (Oil shock) of 1973-74.

Furthermore, the rate of producer price index, which calculates how price of industrial products changes over a certain period, has shown skyrocketing indicators for respective countries with the most considerable one in Eurozone jumping up to 43.6%.

As of Uzbekistan, the CPI did not have such acceleration, yet showed some gradual growth to 12.3% over the August of 2021. Recent trends regarding inflation rate and how fast it has risen in aforementioned countries have been illustrated in the figure 1.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	August 2022
USA	1,64	3,16	2,07	1,47	1,62	0,12	1,26	2,13	2,44	1,81	1,2	4,7	8,3
United Kingdom	2,5	3,86	2,6	2,3	1,5	0,4	1,01	2,6	2,3	1,7	1	2,5	9,9
Eurozone	2,2	2,8	2,2	0,85	-0,2	0,25	1,1	1,3	1,5	1,3	-0,3	2,6	9,1
Uzbekistan	7,3	7,6	7,0	6,8	6,1	5,8	5,7	14,4	14,3	15,2	11,1	10,0	12,3

** For August 2022, the indexes are computed for a year range.*

Figure 1. Inflation rate (CPI) calculated in percentages for four regions covering the period from 2010 to August 2022*

If we talk about the causes of current inflation, a crucial point would be the view of great economist, Nobel prize awarder Milton Friedman, who recapped about inflation in his famous quote: “Inflation is always and everywhere a monetary phenomenon”.

The Quantity Theory of Money based their notions on fundamental equation which looks in the following way:

MV = PY; where

M is total amount of money,

V describes transactions velocity of money,

P is price level in economy

Y is total output of economy (or in some cases, it is called the real value of aggregated transactions).

If we take **V** and **Y** as constant components, this will mean that money supply **(M)** is directly affecting the price level, or in other words change in amount of money in economy would entail alterations in price index, which is used to measure inflation.

However, assumption that **V** and **Y** are constant seems to be too strong, as velocity of money **V** is widely considered unpredictable and real GDP – a proxy for Y – has been variable over time. In most cases instead of money supply many governments utilize M2 aggregate, which is sum of M1 (The total of all physical currency + Checkable deposits) and Savings accounts + Money market accounts + Retail money market mutual funds + small-denomination time deposits.

Furthermore, a fast growth of money supply plays an active role in inflation and stems either from mistaken policies of Central Banks (in the US Federal Reserve) or because such institutions overemphasize on fiscal requirements of federal government and finances budget deficits through money creation. Clear illustration of this in current state is lastly made changes of the Federal Reserve in monetary policy of the USA.

First, to respond properly to COVID-19 pandemic and economic crisis, the Congress of the United States has approved trillions of dollars of fiscal and monetary support over a short period of time from 2020. The overall level of economic stimulus has achieved more than 7 trillion dollars which comprises around 30% of the US GDP as well as has reached approximately half of M2 of the prepandemic level in the USA.

Figure 2, a plot of money supply (M2) of USD in the US economy, whereof it can be inferred that money supply had accelerated substantially by nearly 5.5 trillion dollars or by about 40% in 2020 in comparison with 2018 figure and then continued increasing moderately to the level of 21.75 trillion resulting in more than half growth in M2.

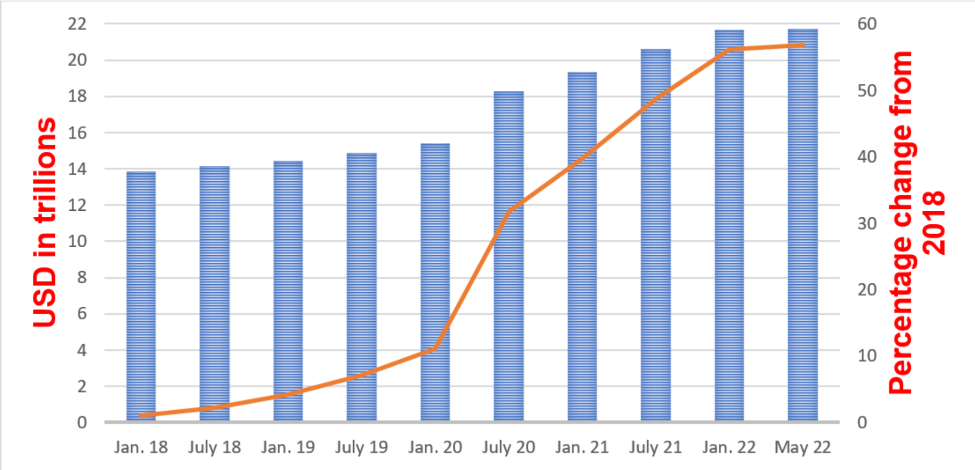


Figure 2. Money supply (M2) of USD in the US from 2018 to May 2022.

Left vertical axis reveals money supply in trillion US dollars, while the right one shows change in money supply in percent, in relation to the 2018 figure.

Notwithstanding the fact that this huge and dramatic financial stimulus was to bolster economic activity and push aggregate demand up along with impeding unemployment to be the problem, the rate of M2 growth has not been at the same speed as the growth of output (real gross domestic product), which fueled inflation much. The index of output rise in the USA is depicted in figure 3. Thus, the level of money in the circulation has become too abundant in comparison with production rate of goods and services for the same period; thereby compelling the latter category to achieve new equilibrium prices which will equate aggregate demand and aggregate supply on the market.

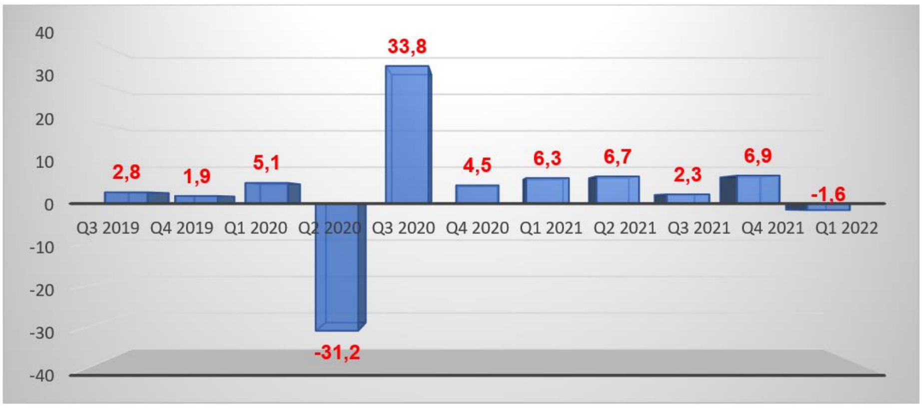


Figure 3. Real gross domestic product index of the USA from third quarter of 2019 to the first quarter of 2022

Second, these trillions of dollars injected in the economy have influenced significantly on not only the US economy but also the rest of the world, due to the high dependency of global financial system on dollar; thereby exporting own inflation to other regions. By most measures the dollar is dominant currency and plays an outsized international role relative to the U.S. share of global GDP and it is dominant in international transactions and financial markets, too (figures 4 and 5).

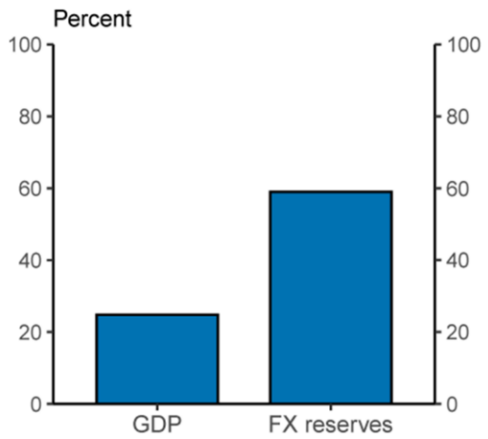


Figure 4. U.S. share of world GDP vs. U.S. dollar share of international reserves

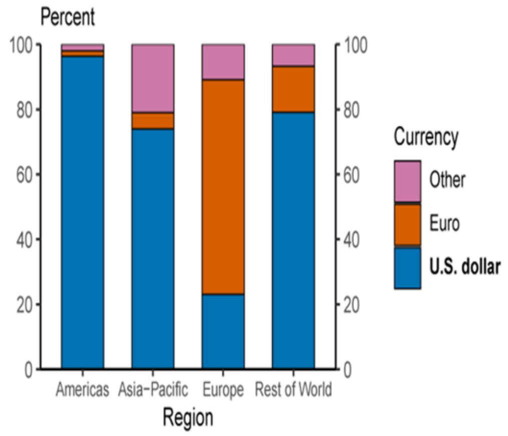


Figure 5. Share of export invoicing

Additionally, expansionary policy of the Federal Reserve System (Fed) also contributed much to inflation jump, since regulator had not raised its benchmark interest rate, despite tremendous price rise tendency earlier. Only in March 2022 the Fed made decision to raise interest rate by 25 basis points, which was the highest growth since 2000. Nevertheless, some experts and economists support the idea that it would have been better off if the Fed had started using its tough monetary tools much earlier to avoid disastrous inflation we now face. "We're late a little. The sooner they move the better" expressed Jamie Dimon, JP Morgan Chase chief executive officer in interview to the Bloomberg. He, also, added that the Fed may have waited too long to raise rates.

Moreover, it is anticipated that the Fed will continue following the course of tightening of monetary policy to combat high inflation and restore stable market prices. This cause is to blame for the European Union, as well. The union even made things worse while pending with the interest rate hike until the second part of July 2022, when euro fell in such a way that became equal to dollar value, after that Christine Lagarde, the President of the European Central Bank, announced new approaches to stabilize prices and markets involving shifts in monetary policy in euro area, raising interest rate by 0.5 percentage points, eventually abandoning eight-year spell of negative rates.

Another actual problem, the whole world suffers from disruptions in global supply chain and high prices of raw materials, especially for energy resources which are the main reasons of inflation in some parts of the world. These reasons refer to cost-push inflation. For example, because of tough economic sanctions on most sectors of Russian economy involving turning Russian banks of SWIFT off and sanctions on energy sector deteriorated the situation since Russia supplies around one-tenth of the world's energy, including 17% of its natural gas and 12% of its oil [2]. The higher is the price of hydrocarbons in the market, the higher is the costs for either businesses to produce goods and services or consumers who will obtain pricey cheques for utilities.

In figure 6, it is obviously seen how prices of two oil brands, WTI Crude and Brent Crude, have developed over the last year.

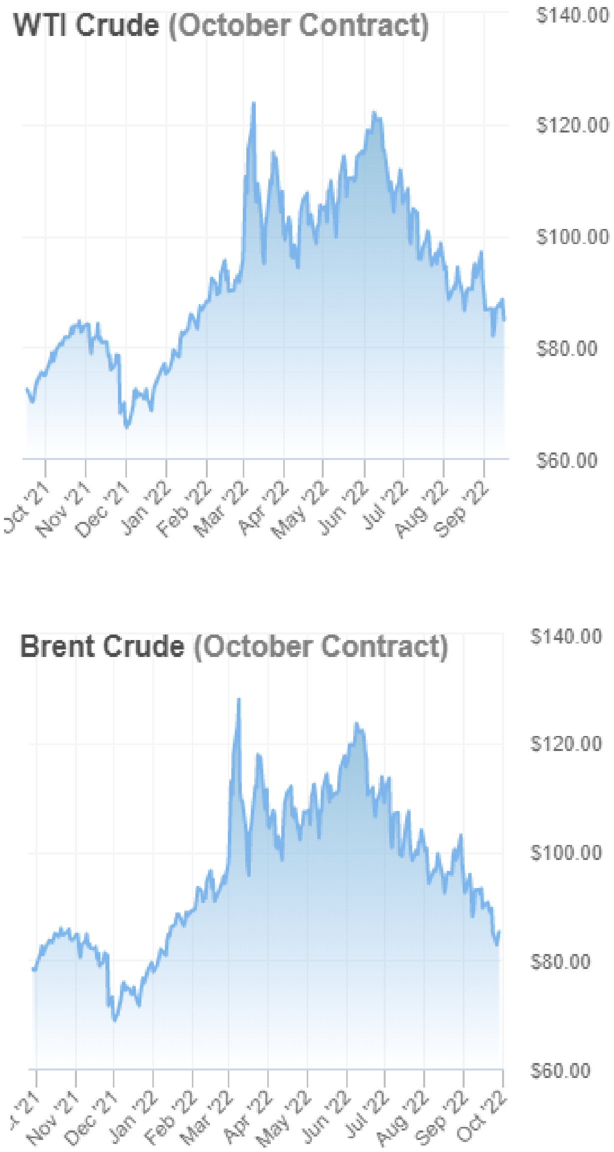


Figure 6. Oil prices on the global market

The same trends are observed with natural gas market in Europe, where the price of 1000 cubic meters of natural gas achieved the point of 3500-3600 USD dollars by the end of August (figure 7).

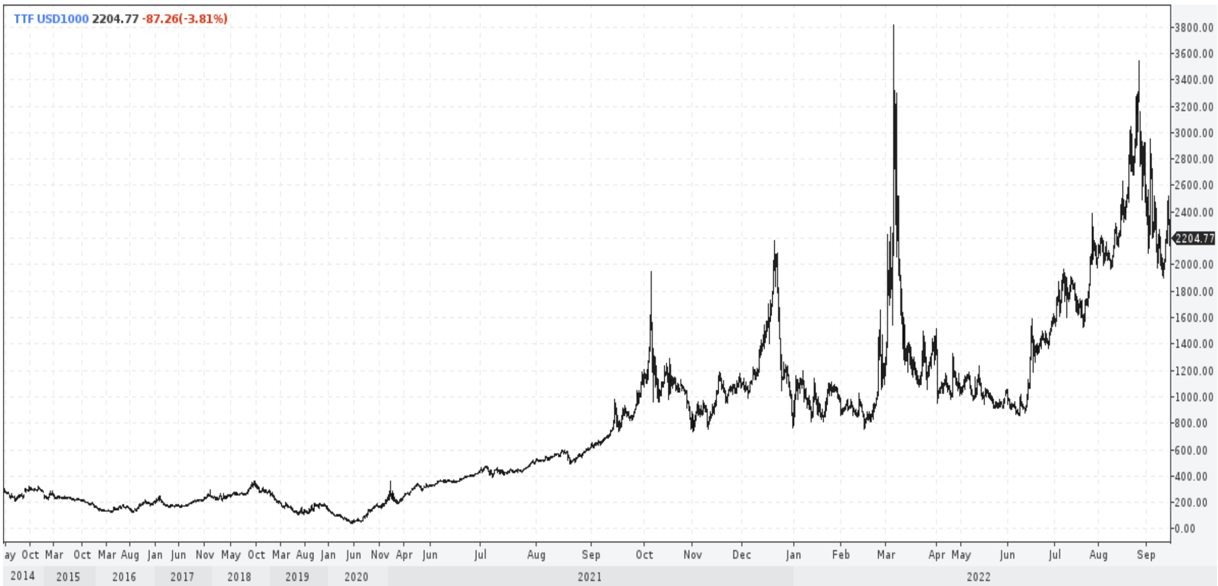


Figure 7. Natural gas price in European market

Another factor ought to be also considered for natural gas market that Russia first cut its gas supply through pipeline Nord Stream-1 to 20% of its capacity, then in September totally halted the supply, because of technical issues with pipes and sanctions imposed by German multinational conglomerate Siemens AG, which provided technical maintenance of the pipeline. It, therefore, fuels acceleration of price of resource on energy market.

In conclusion, inflation is one of the most painful and dangerous phenomena that negatively affects financial and monetary systems specifically and the whole economic system generally. Inflation entails not only a decrease in purchasing power of money, but also undermines the possibilities of effective economic regulation, devalues efforts to restore broken proportions and structural transformations and is the root of social instability and radicalism and fuel for recession. Consequently, without proper actions to slow down inflation, politicians and national authorities put in peril their prior efforts of developing and modernizing their homelands.

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