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INFLATION MARCHING HIGHER

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In the world there are not enough countries where there would be no inflation. Presently it is impossible to live a day, not to hear this artful and an intriguing word. People speak about it, people struggle against it, people are afraid of it.

Determining the cause of inflation is important in determining how to fight it. Inflation can cause adverse effects on the economy.

Inflation affects both the economy of a country and its social conditions, as well as the political and moral lives of its inhabitants. However, the economic effects of Inflation are stated and described below:

1. Inflation weakens the function of money as storage of value, because each unit of money is worth less with the passing of time.
2. Inflation can result in a redistribution of income and wealth from creditors to debtors.
3. People buy consumer durables as stores of wealth in the absence of viable alternatives as a means of getting rid of excess cash before it is devalued, creating shortages of the hoarded objects.
4. More generally, inflation can disrupt business planning.
5. Inflation is a possible cause of higher unemployment in the medium term if one country experiences a much higher rate of inflation than another, leading to a loss of international competitiveness and a subsequent worsening of their trade performance.
6. Inflation can act as a drag on productivity as companies are forced to shift resources away from products and services in order to focus on profit and losses from currency inflation.
7. Inflation can impose hidden tax increases, as inflated earnings push taxpayers into higher income tax rates.
8. If inflation gets totally out of control (in the upward direction), it can grossly interfere with the normal workings of the economy, hurting its ability to supply.

Controlling Inflation forms a significant part of the economic activities of a nation. Inflation is an economic condition characterized by a general rise in the prices.

To analyze the influence of global inflation on the Republic of Belarus, we need to look, first of all, at the price growth in European and especially in the neighboring countries.

The highest level of inflation among European countries in 2009 was registered in Ukraine

(12, 3%). On the second place is Belarus (10.1%), on the third place is Russia (8, 8%). The average inflation of EU countries is 1, 4%; the highest rate shown Hungary (5.4%), Romania (4.7%) and Poland (3.8%).

In January-February 2010 inflation in Belarus made up 1.3% as against 5.4% in the same period last year. In February 2010 inflation was running at 0.5%. A reminder, inflation is projected within 8-10% in 2010.

There are various reasons for the food price growth, experts say. First of all, there are as follows:

- increasing income in developing countries which up food consumption in those countries;

- the use of tre farm lands, which used to be sown with traditional farm crops, for growing biofuel crops as a result of higher energy prices;
- poor crops in some agricultural basket regions and countries.

As an open economy Belarus exposed to global inflation trend. The soaring energy and food prices drive up inflation in our country.

Belarus has streamlined its monetary, currency and price policies recently. The measures that helped reduce the rate of inflation included:

- toughening the monetary policy; abolishing multiple exchange rate of the national currency;
- strengthening the Belarusian ruble, which entails aligning domestic prices with world prices;
- eliminating sharp discrepancies in prices for various goods and services with the prices in the neighboring countries;
- reducing the volume of cross subsidizing of household gas and electricity consumption as carried out by the manufacturing industry;
- making the prices for the energy supplied by the Russian Federation more projectable and stable;
- Increasing earning of the population.

Comparing the situation in Belarus with that in the neighboring countries we see that the rate of inflation in Belarus is lower than that in Latvia, Russia and considerably lower than that in Ukraine. The fact that Belarus is able to keep inflation at lower levels than in the neighboring countries in the unfavourable external environment shows that the national economy is stable comparing with these countries, is less vulnerable to modern-day crisis world trends. We believe that the main reasons are:

1) quite a long stable economic growth;
2) stability of the monetary system, confidence of the population in the national currency;
3) surpluses of the national budget for many years;
4) effective price regulation policy;
5) strictly regulated price formation rules, stringent control over their observance;
6) when performing price regulation, the government takes into account the interests of both producers and consumers.

Thus, the most important problem of modern development of economy in many countries of the world is inflation. It negatively influences on all aspects of social life. Inflation depreciates results of work, destroys savings of legal and natural persons, and prevents from long-term investments and economic growth. High inflation destroys the monetary system, provokes to flight of the national capital abroad, weakens the national currency, and undermines possibilities of financing of the state budget.

Literature

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