

## **Inflation and Its Socio-Economic Impact**

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***Abstract:** This article revealed the essence of inflation and the problems associated with it. The forms in which it can manifest itself, its main types, and the rate of price growth are considered. Revealed and substantiated the main reasons, the consequence of which is the process of depreciation of money, such as a deficit of the state budget, violations of the structure of the economy, world crises. The socio-economic consequences of inflation have been identified and structured. It was concluded that inflation has become a constant factor in economic life, significantly complicating the system of economic relations. Overcoming inflation is a necessary condition for normal economic development and effective functioning of the monetary system. Inflation is considered on the example of developing countries and the relationship between economic development and inflation is substantiated.*

***Key words:** price, deficit, economic structure, crisis, economic relations, monetary system.*

### **Introduction**

Currently there are many problems of modern economic development in many countries of the world. One of the main problems is the depreciation of money, i.e. inflation. This is a very dangerous process that affects finances, the monetary and economic industry in general and negatively affects all aspects of society. It increases social stratification in society and exacerbates social conflicts. Previously, this process was local and periodic, but now inflation is ubiquitous and chronic. The more started inflation, the more difficult it is for the state to determine the measures necessary to solve this problem. Inflation gives rise to an underestimation of the real value of property, the danger of the accumulation of depreciating funds, the depreciation of the income of enterprises and the population. Inflation is beneficial to debtors who repay debts in non-indexed amounts, banks that pay low interest on deposits, and the government, which maintains the level of payments to the population without taking into account price increases.

The purpose of this work is to reveal the essence of inflation, determine the reasons for its occurrence and socio-economic consequences.

In each state, inflation has its own characteristics. Because inflation is a global problem of the modern economy and it is rather difficult and long to fight it, then the study of this topic is very relevant at the present time.

Essence, types of inflation, causes and socio-economic consequences.

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Inflation is an increase the general level of prices for goods and services. The word comes from the Latin "Inflatio" - bloating. However, not all price increases are indicative of inflation. Prices may rise due to improved product quality, changes in the needs of society.

Inflation can manifest itself in two forms.

1. Open inflation is a form of inflation characterized by an increase in the general price level. This form is also called "free". Open inflation is of two types:
  - a) Demand inflation: manifests itself in the excess of demand over supply. This leads to higher prices and a shortage of goods and services. This type of free inflation affects the volume of GNP and employment of the population.
  - b) Cost inflation: manifests itself in the growth of prices for resources, factors of production. The consequence of this is an increase in the costs of production and circulation, as well as the price of products.
2. Suppressed inflation is a form of inflation held back by a shortage of goods, which leads the population to a forced accumulation of funds. The consequence of this type of inflation is a chronic shortage of goods and services. Suppressed inflation destroys market mechanisms and creates a deficit type of economy.

Both forms of inflation do not exclude each other. They can develop in parallel, complementing each other, perhaps even combinations of them.

According to the rate of price growth, inflation is divided for the following types:

1. Creeping or moderate - a long, gradual rise in prices. With this type of inflation, there are no significant shocks in the economy, but there is a slow depreciation of money. The annual increase in prices is 5-10%.
2. Galloping - inflation with an abrupt rise in prices. Prices are growing by 20-200% per year. Unlike creeping inflation, it is very difficult to manage. The economic equilibrium in this case is under threat, economic structures are in jeopardy, a crisis may arise.
3. Hyperinflation is inflation with a very high rate of price growth. Monthly price increases above 50%. Hyperinflation is virtually unmanageable. To stop or at least slow down hyperinflation, we have to use extraordinary measures. There is no clear idea of how best to deal with hyperinflation.

High inflation rates severely damage a country's economic development, and therefore its population.

There are many causes of inflation. Each state has its own conditions for its emergence. All causes of inflation are divided into external and internal.

Internal causes (due to the state of the economy of a particular country):

1. Deficit of the state budget or imbalance of state expenditures and revenues. If the deficit is financed by loans from the Central Bank of the country, i.e. due to the active use of the "printing press", this leads to a sharp increase in the amount of money in circulation, if no goods are produced.
2. Military spending. This is one of the reasons for chronic government deficits and an increase in government debt in many countries, for which paper money is issued. Military spending generates huge growth in the money supply without commodity coverage.

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3. Social spending. During the economic crisis, the standard of living of the population declines. The state is trying to support the population by allocating additional funds for social purposes (salary indexation, payment of benefits). The consequence of this is an increase in the amount of cash in circulation. Inflation is on the rise.
4. Inflation expectations. In this situation, the population purchases goods in excess of their current needs, "stocks up" with the necessary. There is a "flight from money". Demand stimulates supply, prices rise.
5. Disturbances in the structure of the economy - an imbalance between accumulation and consumption, supply and demand, government revenues and expenditures.

External causes:

1. Internationalization of economic ties: the presence of inflation in other countries affects the dynamics of domestic commodity prices through the prices of imported goods.
2. World economic crises.

The effects of inflation are different. They are negative, affecting the development of the economic process, social conditions, and various aspects of society.

- The impact of inflation on production is contradictory and depends on its size. Moderate inflation is not harmful, its reduction leads to an increase in unemployment, and in some cases it can even cause a temporary economic recovery. Galloping inflation negatively affects production, finances, credit and money circulation. With it, deformations of the market mechanism begin.
- Inflationary processes undermine the incentives for economic growth on the basis of STP, because the introduction of new technology into production is becoming more and more expensive.
- Devaluation of money within the country leads to their depreciation in relation to foreign currencies.
- Real incomes of the population are decreasing, and, consequently, the level of living
- Deposits and savings are depreciated. In order to insulate deposits from depreciation, the interest on deposits and the inflation rate must be equal.

Inflation is especially dangerous for the category of the population receiving fixed income: pensioners, students, dependents.

## Conclusion

Currently, inflation is one of the most dangerous processes that negatively affect finances, the monetary and economic system as a whole. Inflation means a decrease in the purchasing power of money. By its nature and manifestations, it can be different.

Inflation in one way or another covers all countries. The ideal scenario for a successful economy is the absence of inflation, although it is difficult to achieve. High rates of inflation seriously damage the economic development of the country and its population. Inflation has become a constant factor in economic life, significantly complicating the system of economic relations. It requires increased attention and special measures to keep it at a "normal" level. Overcoming inflation is a necessary condition for normal economic development and effective functioning of the monetary and financial systems.

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