

INFLATION IN RUSSIA

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Inflation as a phenomenon of the economic has been a long time. It is believed that it appeared almost from the emergence of money to the operation of which is inextricably linked.

Term inflation (from the Latin inflation – flatulence) first began to be used in North America during the Civil War, 1861-1865 and refers to the process of swelling of paper money circulation. In the XIX century this term was also used in England and France. The notion of inflation was widespread in the economic literature in the XX century after the First World War, and in Soviet economic literature from the mid 20-ies.

The most common and traditional definition of inflation is an overflow channel money supply in excess of the needs of trade, which causes impairment of the currency and, accordingly, increase in commodity prices.

Disparities in prices of commodity groups generates inequality rules of profits, stimulates the outflow of resources from one sector to another (in Russia from industry and agriculture, in commerce and finance and banking sector).

Types of inflation:

- Demand inflation – is generated by excess aggregate demand compared to the actual volume of production. (Shortages)
- Supply inflation – the rise in prices due to increased production costs in underutilized productive resources. Increased unit costs reduces the amount offered by manufacturers of products with the existing level of prices.
- Balanced inflation – the price of various commodities remain unchanged relative to each other.
- Unbalanced inflation – prices of various commodities vary in relation to each other in various proportions.
- Projected inflation – is inflation, which takes into account the expectations and behavior of economic agents.
- Unpredictable inflation – is for the population as a surprise, since the actual growth rate exceeds the expected price level.

Adapted to consumer expectations – change in consumer psychology. Often occurs as a result of the dissemination of information about potential future inflation. Increased demand for products allows businesses to raise prices on goods.

Suppression of inflation is characterized by external price stability, with the active intervention of the state. Administrative prohibition to raise prices usually leads to the increasing scarcity of those commodities for which prices would have to rise without government intervention, not only because of the initial high demand, but also a result of reduced supply.

Economists from Goldman Sachs invest corporations to indicate a sharp rise in prices for agricultural products have come up with a new term: "Agflation" (agricultural inflation). High rates Agflation recorded for two consecutive years. In 2006, the food index, calculated by Goldman Sachs, has increased by 26 %. In 2007 it grew by 41 %.

However, this definition of inflation cannot be considered complete. Inflation, although it manifests itself in the increase in commodity prices cannot be reduced merely to a

purely monetary phenomenon. This is a complex socio-economic phenomenon generated by the imbalance of reproduction in different areas of the market economy. Inflation is one of the most acute problems of modern economic development in many countries around the world.

Regardless of the state of money market commodity prices may increase due to changes in the dynamics of labor productivity, cyclical and seasonal fluctuations, structural changes in the system of reproduction, the monopolization of the market, government regulation of the economy, the introduction of new tax rates, devaluation and revaluation of the currency, changes in market conditions, the impact foreign economic relations, natural disasters, etc. Consequently, the rise of prices is caused by various reasons. But not all price increases is the inflation, and among the above-mentioned reasons for the increase in prices is important to distinguish truly inflationary.

Thus, price increases which are associated with cyclical fluctuations in market conditions cannot be considered inflationary. As you progress through the various phases of the cycle (especially in its "classical" form, typical of XIX – early XX centuries) the dynamics of prices will change too. Their growth during the boom gives way to fall in the phases of crisis and depression, and re-growth in a phase of recovery. Increasing productivity, if conditions are equal, should lead to lower prices. Another thing – if the increase in productivity in some industries is accompanied by a rise outstripping wage growth. This phenomenon called cost-push inflation is indeed accompanied by a general rise in prices. Natural disasters cannot be considered the cause of inflationary price increases. So, if as a result of flooding in some areas destroyed homes, it is obvious that prices will grow for building materials. It will encourage producers of construction materials increase the supply of its products and to the extent of saturation of the market price will drop.

First of all, it should be noted that price increases may be due to excess of demand over supply of goods. However, this increase in prices associated with the imbalance between supply and demand at some certain commodity markets – it is not inflation. Inflation is a rise in the general price level in the country, which arises in connection with prolonged imbalance in most markets in favor of demand. Other word, inflation is the imbalance between aggregate supply and aggregate demand.

Inflation is appeared primarily in the depreciation of money in relation to gold, commodities and foreign currencies. As a result, the gold contents of the national currency, so the price of gold increases. Decline in the purchasing power of money in relation to the goods reflected in the growth of wholesale and retail prices. Depreciation of money relative to foreign currencies is expressed in the fall of the national currency against foreign currencies. Almost all countries face with the inflation, recent years it is characterized by increasing its rates. We can say that the world has become more inflationary.

In economics there are following reasons for inflation:

1. The growth of public spending to finance which the government resorted to printing money, increasing money supply in excess of the needs of commodity circulation. Most pronounced in the military and crisis periods;
2. In surplus to expand the money supply due to mass loan;
3. The monopoly of large companies to determine their own prices and production costs, particularly in primary industries;
4. Monopoly Trade Unions, which limits the ability of the market mechanism to determine an acceptable level for the economy of wages;
5. Reduction of real national output, which is at a stable level of money supply leads to higher prices because there is less volume of goods and services complies old money.

With regard to inflation in Russia today, the soaring prices in Russia is gradually slowing, and inflation returned to the usual last year's level. According to the results of March Rosstat will say about the average price increase of about 0.6% – is four times less than in

January, and as much as it was in March 2010. The retreat of inflation associated with the administrative pressure on oil companies. Helped, and the relative stabilization of food prices – though at higher levels. Citizens count inflationary losses in recent months: they call the most painful rise in food prices and increased utility bills.

Inflation in Russia in annual terms today is about 9.4%. Central Bank will continue to use the mechanism of interest rates and reserve requirements for banks to reduce inflation. The Central Bank as a goal for himself formulates a limit price growth in 2011 at 7%. According to the results of March Experts of the Central Bank forecast inflation at 0.6% versus 0.8% in February. Before the slowdown in late February – early March, prices in the country much faster than the previous year, and many experts have predicted that inflation could reach double-digit rates.

It is true that economists call a temporary victory over inflation, and even a Pyrrhic one. Manufacturers of gasoline at the first opportunity try to catch up. The world food market has not seen stability. The slowdown in price growth can be attributed to two factors. Firstly, it terminates the effect of drought and a rise in price last year's harvest – all of these more expensive resources are involved in production and have been on the market. Secondly, the administrative burden on producers of fuel is retained. It is true that Russia may still experience a rise in global food prices as the global market, the risk of crop failure in 2011, which can trigger a new rise in prices. Closest to the reality of inflation forecast for 2011 is 8,5-9%.

Meanwhile, citizens take stock of the autumn-winter inflationary wave. Only 4% of employed Russians said they had not experienced the painful consequences of higher prices – such data published research center recruitment portal SuperJob.ru on the results of the March survey of thousands of people of working age. Answering the question "Higher prices at which goods or services from January 2011 was the most painful for you?" citizens indicate first of all food products (43% of mentions). Second place went to increase the rent and utility tariffs (34%). A price hike of petrol and lubricants was in third place (18%).

Appreciation of public goods and services was the most painful, the frequency of reference in%:

Goods, services,	Answer s
Food Products	43
Rent, utility bills	34
Gasoline, fuel and lubricants	18
The overall price increase for all groups of goods and services	15
Other: tobacco, cosmetics, cheap, basic commodities, medical services, alcohol, bribe the traffic police	8
The fare on public transport	6
Do not feel a significant increase in prices	4
Source: Research Centre recruitment portal SuperJob.ru	

Central Bank of Russia expects that in March-April 2011 inflation rate will not exceed 0, 6%. In late February, the central bank to combat inflation, raised the refinancing rate and the interest rates on individual transactions by 0.25 percentage points. According to the Federal State Statistics Service, the February inflation in Russia amounted to 0, 8% compared to 2.4% in January this year. According to the official forecast of Economic Development and Trade, inflation in 2011 will amount to 6-7%. At the same time last business forecast by the Ministry of 7-8%. At the end of the year will be seen, whose assumptions were the closest to reality.