

INFLATION IN TIMES OF GLOBAL CRISES: CAUSES, CONSEQUENCES, AND METHODS OF COMBATING IT

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Abstract: *Inflation is a sustained increase in the general price level, accompanied by a decrease in the purchasing power of money. Under normal conditions, it can be moderate and even stimulate economic growth, but during periods of global crises, inflation often spirals out of control, causing serious harm to the economy and social stability. Global crises such as the COVID-19 pandemic, energy shocks, geopolitical conflicts, or economic sanctions intensify inflationary pressures on national economies around the world.*

Keywords: *Inflation, Global crisis, Economic crisis, Financial instability, Causes of inflation, Government regulation.*

Inflation is one of the key macroeconomic phenomena that has a direct impact on the standard of living, the stability of the financial system, and the economic policy of the state. Before delving into this global topic, it is essential to define the concept of “inflation”.

In the book Economics by Paul Samuelson and William Nordhaus, inflation is defined as “a sustained rise in the general level of prices”. Samuelson emphasizes that inflation reduces the purchasing power of money and affects the economic decisions of both consumers and producers. John Maynard Keynes viewed inflation as a result of excessive demand, especially under conditions of full employment. His definition was as follows: “Inflation is an excess of aggregate demand over aggregate supply, caused by an increase in the money supply in the economy”.

“Inflation is always and everywhere a monetary phenomenon, caused by a faster growth in the quantity of money than in the volume of production,” believed Milton Friedman, emphasizing the role of the central bank and the money supply.

In Volume I of Capital, Karl Marx argued that inflation is the result of the depreciation of paper money that is not backed by a corresponding amount of goods. Based on the above, a more general definition of the studied term can be provided: Inflation is a process in which the money supply in a country's economy increases, and the purchasing power of that money declines.

One of the main causes of inflation during crises is disruptions in global supply chains (Fig. 1). When the systems of production and logistics are disrupted, markets experience shortages of goods, especially imported ones, which leads to price increases. In addition, such situations are typically accompanied by rising prices for essential resources such as energy and raw materials, which increase production costs—costs that are ultimately passed on to consumers.

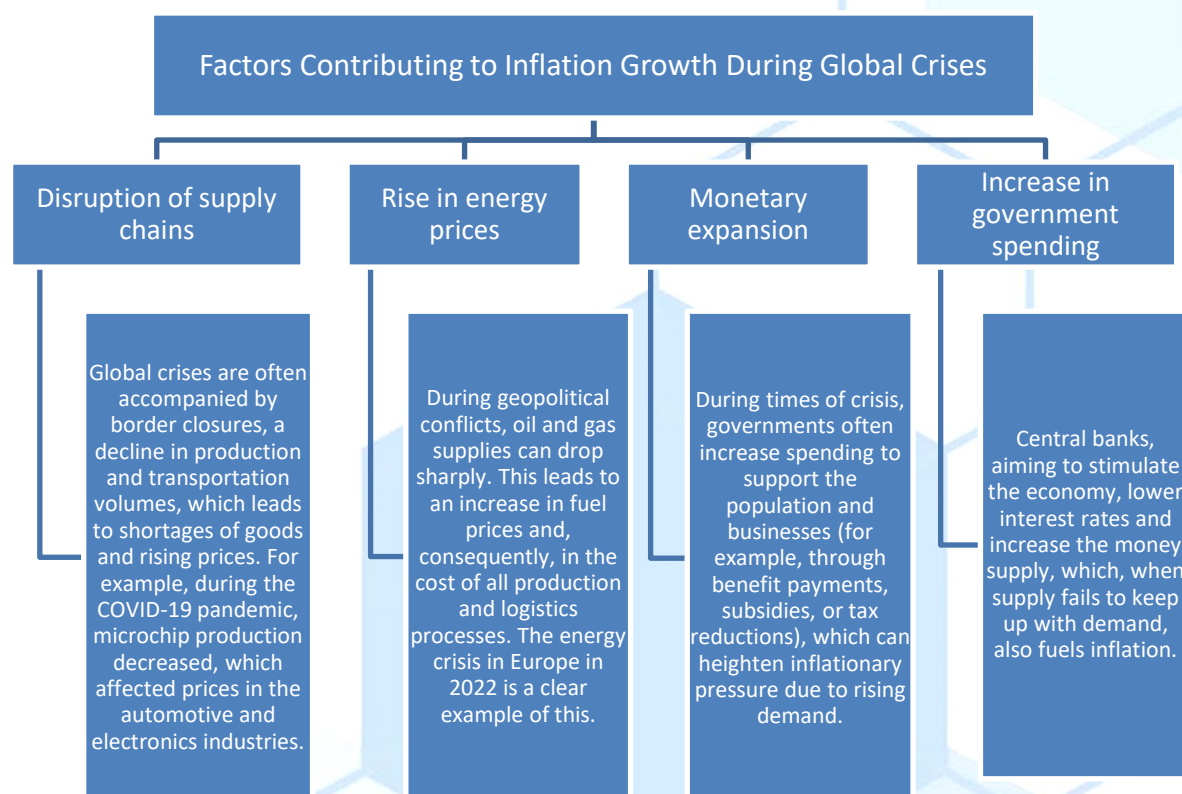


Fig. 1. Factors contributing to inflation growth during global crises.

Another contributing factor is active government intervention in the economy through stimulus measures. To mitigate the effects of a crisis, governments often increase public spending, while central banks lower interest rates and expand the money supply. These measures are intended to support demand and businesses, but in conditions of limited supply, they can lead to market overheating and a sharp spike in prices. A further factor during crises is the weakening of national currencies, especially in countries heavily dependent on imports. When exchange rates fall, imported goods and services become more expensive, which automatically drives up the general price level within the country.

The consequences of inflation under such conditions affect all aspects of life. First and foremost, the population suffers: real incomes decline, particularly among low-income groups, as prices for essential goods – such as food, fuel, and utilities – rise faster than wages. High inflation also negatively impacts the investment climate, as it increases economic uncertainty. Companies and individuals tend to reduce long-term investments, which slows economic recovery. Moreover, in response to rising inflation, central banks are often forced to raise key interest rates to curb price growth. This leads to more expensive loans and a slowdown in business activity. Thus, efforts to combat inflation can simultaneously suppress economic growth and heighten social tensions.

Examples from global practice include the United States and Europe (2020–2022): following large-scale economic support programs during the COVID-19 pandemic, inflation in 2022 reached record levels – the highest in the past 40 years. The Federal Reserve (Fed) and the European Central Bank (ECB) were forced to sharply tighten their monetary policies. Russia (2022–2023) also provides a notable example: amid sanctions, import restrictions, and a sharp currency fluctuation, the country faced dual inflationary pressure – on one hand, rising prices for imported

goods, and on the other, increased government spending on social support and mobilization needs.

Methods of combating inflation during a crisis depend on its causes. If inflation is caused by excessive demand, strict monetary measures are applied: raising interest rates, reducing the money supply, and controlling credit growth. However, if the cause lies in rising costs and external shocks, then, in addition to monetary policy, active government involvement is required to develop domestic production, eliminate bottlenecks in logistics, and reduce dependence on imports.

It is also important to consider the social aspects of inflation. The government must take measures to protect vulnerable groups of the population, for example, through benefit indexation, subsidies, and tax incentives. Only a comprehensive approach – a combination of monetary, fiscal, and social policies – can be effective under conditions of instability (Fig. 2).

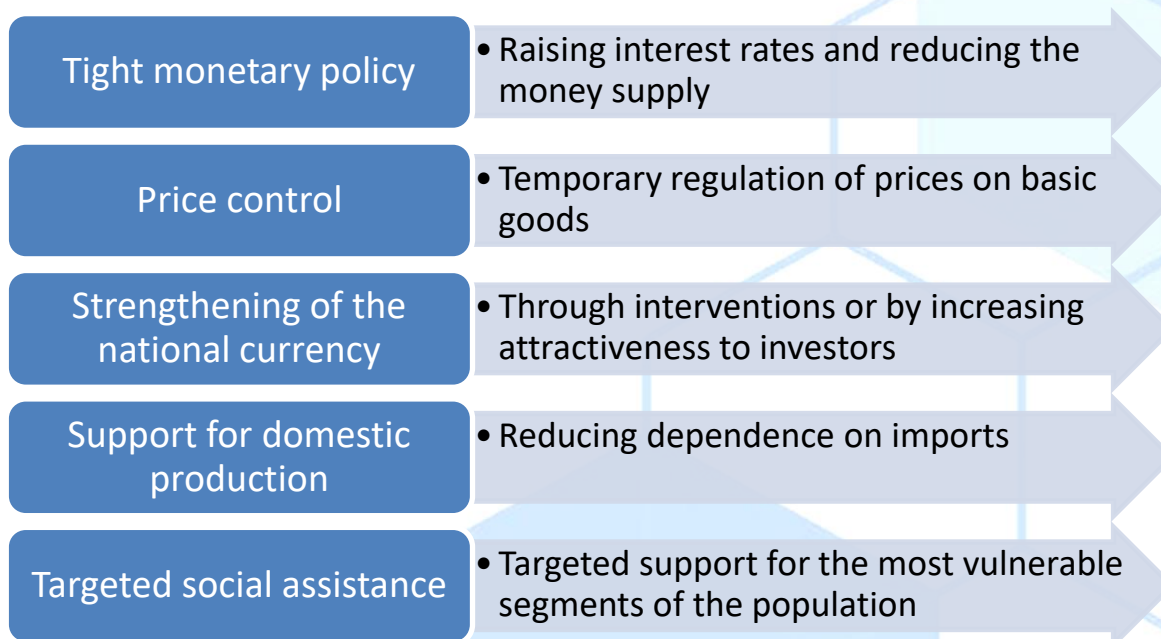


Fig. 2. Methods of combating inflation during global crises.

In conclusion, inflation during global crises is a complex and multifaceted phenomenon that requires coordinated efforts from the government, central bank, and business sector. Effective inflation control must take into account both macroeconomic

and social aspects, and be flexible, targeted, and timely. Only then is it possible not only to overcome the crisis but also to achieve sustainable economic recovery.

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