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FEATURES OF INFLATION PROCESSES IN UKRAINE: PROBLEMS AND CAUSES

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Research objective. The main purpose of this article is to examine the evolution and dynamics of inflationary processes in Ukraine during 1991–2023 on the basis of historical and systemic analysis, methods of dynamic analysis, structural analysis, and comparative analysis. Separate goals are to reveal and theoretically substantiates the main regularities of inflationary processes influence on the economic development and to analyze the features of anti-inflation regulation in the economy of Ukraine.

Research methodology. In the paper, the authors examined inflationary processes with the aim of identifying their consequences for the economy of Ukraine. A review of publications has shown varying studies of the inflationary process. The paper describes the chronology of inflationary processes, the dynamics of the consumer price index, the socio-economic consequences and causes of inflation in Ukraine. Attention is focused on the need for state regulation of inflationary processes. The effectiveness of the anti-inflationary policy was determined. In line with the findings of the study, the prospects for the implementation of an effective monetary anti-inflationary policy aimed at effective regulation of inflationary processes are outlined.

Conclusions. The authors conclude that the study of inflationary processes is important because inflation affects the exchange rate, economic growth and welfare. Economic agents always adjust financial risks, taking into account that inflation has historically been one of the most acute problems of Ukraine, which has uneven constant development. This study is aimed at determining the essence and causes of inflation in Ukraine during the period of restoration of its independence, as well as the possibility of its regulation by monetary methods. Inflation in Ukraine has specific features related to pricing, purchasing power, money circulation, anti-inflationary and anti-cyclical policies.

Practical implications. The results of this study are of interest to the Ministry of Economy of Ukraine, the National Bank of Ukraine, as well as the Committee on Ukraine's Integration into the European Union, whereas the processes of European integration contribute to reducing inflation in the future.

Originality/value. This study highlights the discussion on inflationary process in the transition economy of Ukraine. The authors emphasize that inflation in Ukraine has a permanent character and requires constant regulation to achieve significant progress in its reducing. The authors discovered that authorities should focus on the medium-term horizon of inflation control to ensure a reduction in inflation, as well as a level of inflation appropriate for price stability.

Key words: inflation targeting; inflation; central bank; monetary policy; consumer price index; price stability; Key Policy Rate; anti-inflationary fiscal policy.

Paper type: research paper.

Formulation of the problem

One of the main conditions for the effective economy is to ensure stable and low rates of inflation. Inflation management is one of the most important issues of monetary policy, while low and stable inflation is its main goal in the long term which should be accompanied by the use of a wide range of anti-inflationary measures – stabilization and stimulation of production, improvement of the tax system, anti-inflationary economic policy.

Analysis of recent studies and publications

Questions regarding the essence, content, causes of inflation, directions for its taming require thorough complex study. Among Ukrainian scientists, the essence and causes of inflation are studied by B. Danylyshyn [2], A. Hal'chyns'kyy, V. Heyts', S. Dzyubyk, B. Kvasnyuk, T. Koval'chuk, M. Koval', M. Savluk, A. Savchenko. Simultaneously, O. V. Aref'yeva, S. T. Pilets'ka, I. M. Myahkykh [2, p. 100] point out that it is appropriate to consider inflation as a cause and consequence of the onset of crisis phenomena that lead to destabilization of economic laws and mechanisms, as well as the functioning of economic entities. T. I. Batrakova, O. S. Rohachenko [3, p. 63] believe that an effective anti-inflationary policy should be based on objective, economically justified systemic forecasts. Among the effective methods of combating inflation, scientists single out: control over the money supply; stabilization of inflationary expectations; increasing the degree of marketability of the economy; reduction of taxes; as well as exchange rate regulation. O. Bohach, T. Klymenko. [4, p. 116] claim that in achieving and maintaining stable low inflation, it is necessary to maintain price stability, which is the main goal of the unified monetary policy. N. Ye. Vdovychenko [5, p. 102] calls the development of an anti-crisis program designed to protect the country from the influence of inflationary processes one of the priority tasks of the strategy and tactics of economic policy in Ukraine. A. P. Doroshenko, O. V. Yehorova, O. O. Doroshenko [6] believe that in order to ensure the stability of the monetary currency and prevent a decrease in the standard of living, an active state monetary regulation policy is necessary (especially during the strengthening of external pressures on the economic situation), as well as provision of indexation and growth of population incomes at a level not lower than official inflation indicators, and limitation of state expenditures in areas of inefficient use of budget funding. O. V. Zayachkivs'ka [7, p. 37] claims that the greatest effectiveness in reducing the inflation rate can be achieved under the conditions of a moderate fiscal and monetary policy; strengthening the role of the key interest rate of monetary policy (synchronized with the discount rate); moderate volatility of the hryvnia exchange rate; as well as development of a consistent, transparent monetary policy aimed at ensuring price stability. V. I. Kyfyak, K. V. Syroyizhko, O. M. Dmytriyeva [8, p. 89] conclude that the inflationary situation requires the introduction of effective measures to overcome inflation, taking into account foreign experience, including: liquidation of shadow economy; control over money circulation; overcoming poverty; stabilization of the price level.

Thus, the results of the conducted analysis are the determination of the features of current inflationary processes in Ukraine. The specified conclusions actualize the further direction of the research, namely, theoretical, methodological and logical questions about the cyclical dynamics of inflation.

Formulating hypotheses and setting goals

The hypothesis of this article is that inflation in Ukraine is permanent and requires constant regulation to achieve significant progress in reducing it. To do so, the authorities should focus on the medium-term horizon of inflation control to ensure that inflation is reduced and at an appropriate level, as it affects the exchange rate, economic growth, and welfare. The purpose of the authors was to investigate the issue of inflation process in Ukraine and to propose optimal ways to achieve long-term inflation stability.

Research methods

In the course of writing this paper, the authors used empirical methods to compare the data obtained as a result of monitoring the inflationary process in Ukraine. Among complex methods used were induction and deduction, as well as analysis and synthesis. Simultaneously, among the theoretical methods, the method of ascent from the general to the individual was used, which made it possible to draw reasoned conclusions regarding the raised issues of the inflationary process in the transitional economy of Ukraine.

Presenting main material

Inflation has been an urgent problem for Ukraine since the restoration of independence. But also, in the period of the USSR occupation in the 50–60s of the XX century, inflation in Ukraine manifested itself in a commodity deficit. The causes of inflation in Ukraine in that period were: economic shocks (for example, the oil crisis of the 70s), the emission of money and the devaluation of the national currency.

Besides, problems from the Soviet past (critical wear and tear of the main production assets; backwardness of the technological base; economic disparities between regions; high level of energy and resource intensity; weakly competitive quality of products) also provoked inflation.

Thus, Ukraine inherited from the USSR a deformed economy with a high level of monopolization, in the industry of which about 40 % was military production, which caused significant non-productive costs. Meanwhile, the government allocated huge funds to support unprofitable enterprises. The psychology of consumption and the distortion of demand led to significant pressure on the consumer market, which disturbed the ratio between money and commodity masses and led to disproportions in the economy. The huge deficit of the state budget was mostly covered by money emission. Likewise, during this period, Ukraine experienced price shocks on foreign markets, a regulated economy, and high taxes.

Meanwhile, in the early 90s of the XX century the main causes of inflation were: low level of production efficiency and product quality; state monopoly and lack of competition; distorted production structure; inconsistency and inhibition of reforms; excessive wear and tear of fixed assets; hypermilitarization. Besides, low-income families spent up to 90 % of their income on food [2, pp. 97–99].

In the 1990s, the government pursued an active pro-inflationary policy, which was characterized by: a significant budget deficit, unlimited monetary emission, rising prices, and a significant decrease in the real income of the majority of the population. Due to the incompleteness of market reforms, inflation during this period had a structural character. Further, inflation in the 1990s was triggered by rising of energy prices and price shocks, as well as disruptions in industrial chains and loss of sales markets.

Since 1991, the structural restructuring of the national economy and the social orientation of the economy have been defined as one of the main strategic goals of the national policy of Ukraine (In October 1991, the Verkhovna Rada of Ukraine adopted the “Main directions of the economic policy of Ukraine in the conditions of independence”), but the refusal of rapid market reform with the help of the policy of “shock therapy” led to stagnation that lasted for 10 years.

From 1991 to 1993, due to the growth of the money supply, consumer prices, including food prices, increased by 250 %, and wholesale prices – by 740 % (Fig. 1).

In 1991, price liberalization during a period of consumer goods shortage provoked hyperinflation, while price freeze in the conditions of economic recession and excessive increase in the money supply took place.

In 1992, when the national income fell to 82.2 % (Fig. 1), Ukraine introduced the Karbovanets. While a significant increase in the rate of inflation occurred due to released prices, the cost of oil increased by 300 times, and gas – by 100 times. Then, the NBU raised the bank rate to 80 %, resulting in inflation of 2100 % (Fig. 1). Nonetheless, a huge budget deficit (financed by the emission of money), unlimited monetary emission, lack of competition, and a collapse in the real incomes of the majority of the population were observed [7, pp. 35–37].

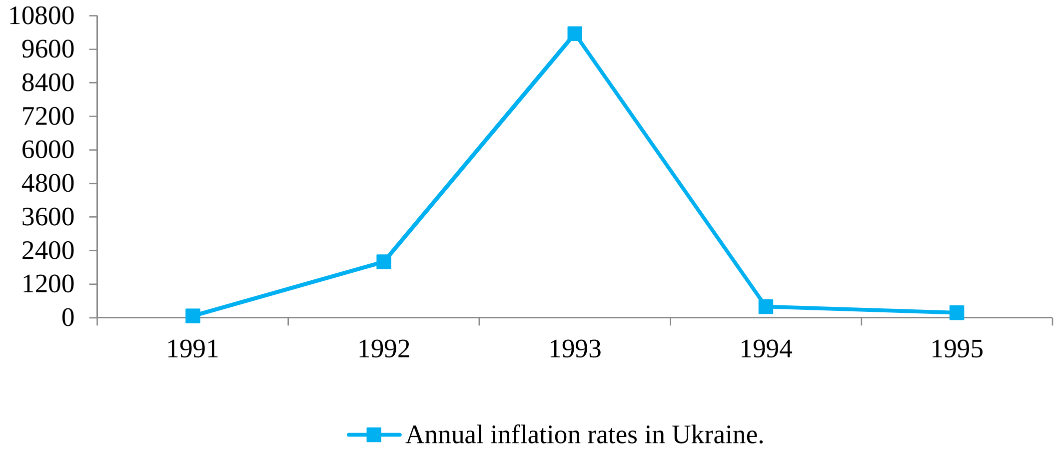

Fig. 1. Annual inflation rates in Ukraine (1991–1995), %

Source: developed by the authors based on [24, 28].

Subsequently, in 1993, the inflation rate reached 10.256 % (the highest rate among countries in non-war conditions). In order to curb inflation, Ukraine implemented a strict monetary policy and economic reforms. In 1992–1994, the NBU directly financed the deficit of the consolidated budget. Furthermore, in 1994, the Program of Economic Reforms was adopted, which provided for a strict monetary and fiscal policy.

Thereafter, in 1994, budget deficit limitation and introducing a strict monetary policy slowed down price growth. Loans received from international organizations helped to form a reserve fund for intervention in the foreign exchange market, which stabilized the Karbovanets exchange rate. These measures contributed to the implementation of monetary reform.

Meanwhile, in 1994, a new socio-economic strategy was adopted, which envisioned financial stabilization, state-regulated price liberalization; structural restructuring of production; decentralization of state management; liberalization of foreign economic relations; wage reforms, social protection and insurance; transfer of state property for public use through shares. The strategy was complemented by a program of anti-crisis measures, which included the liberalization of tax policy and the activation of the investment process. The new course contributed to the development of the financial, tax, customs, and banking systems. Significant changes occurred in the agricultural sector, where the first stage of land reform was completed – denationalization of land and its transfer to the ownership of legal entities. The implementation of the second stage of the reform - the formation of the real owner of the land has begun.

Additionally, in 1991–1994, the purchasing power decreased by 5 times, and almost 64 % of the population was below the poverty line. Hyperinflation in 1992–1994 (Fig. 1) in Ukraine was primarily the result of the wrong state economic policy, aimed at stimulating economic growth through credit expansion and excessive cash issuance, as well as price liberalization in the absence of a competitive environment and significant price regulation errors.

Nevertheless, the introduction in 1996 of a new national currency – the hryvnia, economic reforms, increased exports of goods and services led to a decrease in the inflation rate to 139.7 % (Fig. 2), and the monetary reform implemented in 1996 contributed to currency stabilization [3, pp. 60–62].

Still, in 1995–1996, disinflation was observed (since the budget deficit was reduced due to loans from international financial organizations), privatization and price liberalization took place. Thus, it was a period of inflation containment through stimulative measures of income policy. Furthermore, the introduction of a new monetary unit and the fixation of the exchange rate at the level of approximately 1.8 hryvnias for 1 dollar made it possible to lower inflation expectations temporarily.

Nonetheless, 1997 was characterized by a tough deflationary policy. At that time, inflation decreased to 10 % due to the revaluation of the hryvnia, which allowed the NBU to reduce the refinancing rate from 40 % to 16 %. Furthermore, due to high interest rates and a stable exchange rate, significant amounts of national and foreign capital were involved.

Meanwhile, in 1998, the East Asian financial crisis provoked capital outflow and a rapid hryvnia devaluation (in 1999, the hryvnia weakened by 68.7 %). To protect the hryvnia, the NBU began to spend foreign currency reserves and raised the interest rate to 80 %. Likewise, one of the key clauses of the "Law on the National Bank of Ukraine" adopted in May 1999 was the ban on direct financing of the budget deficit.

Consequently, during 1997–2013, inflation in Ukraine was mostly creeping, slowing down minimally in 2002 – to 99.4 % (Fig. 2). Accordingly, the decrease in the rate of inflation occurred due to the reduction of the budget deficit, the restoration of economic growth and the stabilization of the exchange rate.

Subsequently, in 2000, due to the positive balance of foreign trade and IMF financial support, GDP increased by 5.4 %; the internal and external public debt of Ukraine decreased by UAH 10.3 billion, while the growth of investments in the Ukrainian economy amounted to $340 million. Afterwards, inflation surge was neutralized. Hence, since 2003, the inflation rate was affected by the budget deficit and the rise in world metal prices.

Meanwhile, in the period of 2001–2007, the development of industry, growth of GDP, intensification of investment activity and development of domestic consumer demand led to the EU recognizing Ukraine as a country with a market economy in 2005 and the country's accession to the WTO in 2008 [8, pp. 33–35].

Undoubtedly, during 2002–2005, price increases in the mining industry were the main causes of inflation. While in 2006–2007 period, the cost of energy and food products increased, thus, inflation began to rise [8, pp. 33–35].

Nonetheless, the acceleration of world economic growth and the rise of global commodity prices created favorable conditions for the inflow of foreign currency into the Ukrainian market in 2003–2004. Likewise, the positive trade balance combined with a fixed exchange rate led to the growth of gold and foreign exchange reserves and increased the amount of cash in circulation [10, pp. 181–182].

Furthermore, the government has identified the following priority tasks: priority development of the *agricultural* sector; technical renewal and modernization of energy enterprises; easing of tax burden.

Meanwhile, since 2005, there has been a significant capital inflow. The nominal income increased significantly, which caused prices increase [11, pp. 178–186].

Comparatively, in 2006, the economic revival was caused by: high prices for Ukrainian exports, caused by the acceleration of global growth; the expansion of domestic demand, which increased due to income growing; financial stability, which was stimulated by soft monetary policy; financing the budget deficit due to domestic loans and increasing bank lending due to foreign capital [12, pp. 25–28].

Hence, during 2002–2008, there was rapid growth in private consumption, while domestic supply and imports did not totally meet the existing demand, which led to higher prices [13, pp. 93–96].

Further, in 2008, due to the global financial and economic crisis and the crop failure of 2007, a production decrease, capital outflow, a significant reduction in gold and currency reserves; an unemployment increase, a foreign debt progressive increase, an inflation increases and a foreign trade balance deficit; a real GDP sharp decline, a catastrophic devaluation of the hryvnia (the hryvnia devalued twice) and a negative foreign trade balance were observed. Since 2009, there has been a steady trend towards inflation decrease due to the economic stabilization (decrease in the world prices for goods, domestic and foreign demand decrease, administrative regulation of prices and tariffs for services, high harvest). Meanwhile, in 2010, due to the recovery of export-oriented sectors, real GDP increased by 4.2 %, the unemployment rate decreased, the hryvnia exchange rate stabilized (pegged to the dollar), real wages increased, and the inflation rate slowed down [14].

Nonetheless, in the period of 2010–2011, the economy and production recovered, which contributed to the stabilization of inflation rates (inflation decreased to single-digit indicators), the exchange rate also stabilized and growth has recovered. Due to growth of uncertainties on foreign markets in 2011, thus, NBU switched to a tight monetary policy aimed at reducing inflationary and devaluation pressure on the hryvnia exchange rate [5, pp. 96–101].

Subsequently, in 2012, the economy began to decline, the government stimulated private consumption and maintained a fixed exchange rate of the hryvnia to the dollar. Higher incomes led to higher prices. Hence, during 2010–2013, a tendency to decrease inflation indicators due to the administrative influence on the increase in prices for gas, electricity and water, the price reduction of food products due to the high supply provided by a good harvest was observed [15, pp. 286–287].

Thus, during 2012–2013, a recession was observed. A minimum wage increases and social benefits contributed to the growth of real household income by 9.7 % in 2012, but in 2014, due to the temporary Russian occupation of Crimea and its war in Donbas, the real GDP fell by 6.8 %, the international reserves of the NBU fell to 7.5 billion dollars, and in 2015 significant increase in tariffs for housing and communal services was observed [16, pp. 819–821].

Accordingly, in 2014, there was a decrease in production, while, fall in GDP, an increase in the price of imported goods, falling in the real income, an increase in the demand for currency, as well as its deficit, and the devaluation of the hryvnia, while decrease in foreign currency was occurred, income accelerated inflation growth[1]. Comparatively, in 2015, exchange rate fluctuations caused panic in the consumer market. At the same time, the devaluation of the hryvnia, the increase in administrative prices and tariffs, and the fall in GDP led to an increase in inflation to 143.3 % (Fig. 2) [17, pp. 23–28].

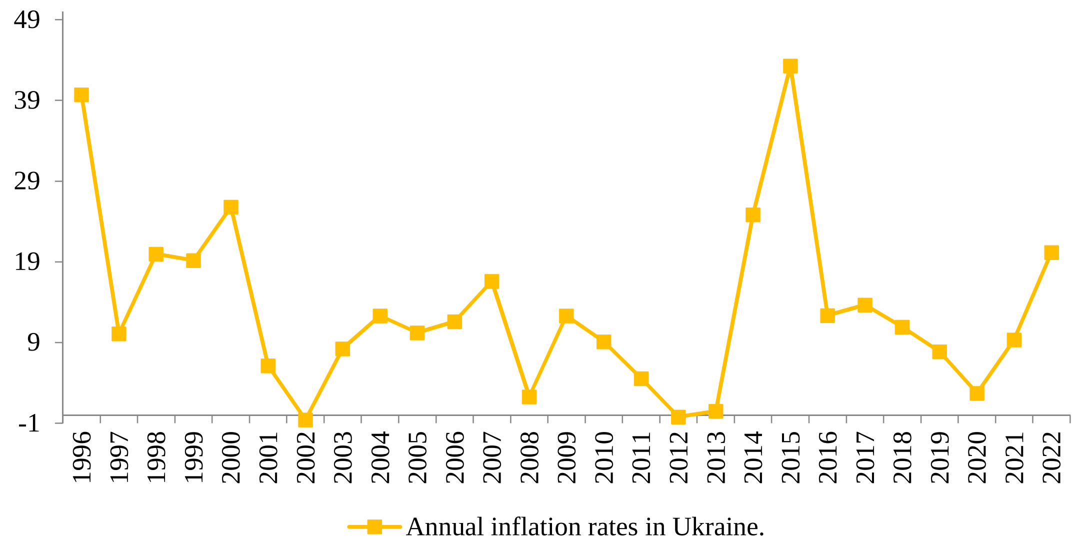

Fig. 2. Annual inflation rates in Ukraine (1996–2022), %

Source: developed by the authors based on [24, 28].

Therefore, it can be concluded that the post-Soviet hyperinflationary period of 1991–1994 was characterized by stagflation and policy imbalance. In the disinflationary stabilization period of 1995–1999, a strict restrictive monetary and fiscal policy contributed to the fall in inflation. In 2000–2006, balanced monetary policy was characterized by the restoration of the tendency towards economic growth in the conditions of relative price stability and moderate inflation under favorable global conditions. Budget funds were mostly directed to the social sphere, and not used for economic development. After 2007, a transition to a tight monetary policy due to the negative impact of external factors (the global financial crisis) had place [18].

Undoubtedly, inflation spikes after 1998, 2008 and 2014 devaluations were exacerbated by too high openness of Ukrainian economy, and, therefore, its vulnerability to external economic shocks [19, pp. 1186–1188].

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[1] Galloping inflation at 124.9 % level was observed.

Subsequently**,** since 2016, the European integration of Ukraine has accelerated: since 2016, the *EU-Ukraine Deep* and *Comprehensive Free Trade Agreement* (*DCFTA*), provided for by the Association Agreement between Ukraine and the EU, has been signed; furthermore, in 2017, Ukraine placed Eurobonds[2] and due to entering the external borrowing market, Ukraine for the first time attracted $3 billion. Thus, the implementation of *DCFTA* created conditions for expanding access of Ukrainian goods, services, capital and technologies to the European market, as well as, increase in EU member states investments into Ukrainian economy [20, pp. 62–65].

Nevertheless, since 2017, due to the doubling of the minimum wage, inflation has increased. Meanwhile, an increase in world prices for grain and energy resources in the period 2017–2018, increased the impact on domestic prices, which necessitated a strict monetary policy introduction. Meanwhile, in 2018, a collapse of the hryvnia exchange rate, a drop in real GDP, and a decrease in inflation rates has been observed. To counteract these negative phenomena, the NBU raised the discount rate to 18.0 % [21, pp. 326–329].

Further, in 2019, the hryvnia became the world leader in terms of growth rates[3]. Gold and currency reserves increased by 22 %[4]. Meanwhile, Ukraine became the third largest exporter of agricultural products to the EU after the USA and Brazil. Macroeconomic stabilization and revitalization were manifested in the growth of GDP due to large-scale reforms, activation of European integration processes, investment activity increase, increase of income and reduction of inflation rates [22, pp. 98–99].

Moreover, in 2019, the NBU pursued a tight monetary policy, which led to a decrease in inflation. At the same time, the strengthening of the exchange rate of the national currency was facilitated by the expansion of the domestic supply of some food products and the decrease in world food prices. Meanwhile, high rates of wage growth led to an increase in domestic demand and price growth, while the acceleration of GDP growth in 2019 was mainly caused by the revival of domestic consumption [4, pp. 115–116].

In 2020, Ukraine faced a large-scale economic crisis due to a reduction in supply and demand. Besides, due to the recession, a significant drop in the economy was observed (a reduction in production, a significant drop in GDP, an increase in public debt, a fiscal deficit, a decrease in foreign trade turnover and world prices for raw materials, a decrease in budget revenues due to a decrease in business activity, a decrease in the income, a decrease in domestic and foreign demand, contraction of the services sector, including retail trade, tourism, hotel and restaurant business, air transport, as well as a drop in investment activity, while the unemployment rate was 15.4 %[5]) [6].

In addition, the decrease in the price of food products, the high yield in 2019-2020, the decrease in world prices for imported energy sources, as well as the consistent monetary policy of the NBU aimed at achieving price stability were the main reasons for the slowdown in inflation [23].

Inflation in 2021–2022 was mostly imported for Ukraine [24]. As stated in the Monetary Policy Guidelines for 2021, actual consumer inflation in 2021 was higher than the forecast[6] published in the October Inflation Report [25].

However, the inflation increasing in 2021 was a global trend, which led to an accretion in the price of energy carriers, raw materials. Thus, these global factors influenced the acceleration of inflation in Ukraine [26].

Simultaneously, the weakening of price pressure on certain global commodity markets, strengthening of the monetary policy of the NBU[7] [27], strengthening of the hryvnia, record harvests, administrative restrictions on tariffs for housing [28] and communal services for the population caused a gradual slowdown of inflation from October 2021 [29].

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[2] In September 2017, Ukraine returned to the international capital markets for the first time since 2013 and placed 15-year Eurobonds worth USD 3 billion with the yield of 7.375 % per annum.

[3] Its exchange rate strengthened by 19 % versus the dollar.

[4] The highest since 2008

[5] The highest over the last 15 years.

[6] In 2021, core inflation increased to 7.9 % (from 4.5 % in 2020).

[7] In response to increased inflationary pressure, the NBU raised the discount rate from 6 % to 9 % per annum.

On April 15, 2022, the Council of the National Bank of Ukraine approved the decision for the period of martial law in the provisions of the Monetary Policy Guidelines, which provides for a return to the inflation targeting regime with a floating exchange rate[8], primarily due to the implementation of monetary and exchange rate policy measures[9], in the process of normalization of functioning price and financial system, as well as maximizing the potential for sustainable economic recovery [30].

Meanwhile, 2022 was characterized by the acceleration of inflation primarily due to the increase in production costs, disruption of supply and production chains, hyped demand for certain goods and services, destruction of infrastructure, as the consequences of the war.

Simultaneously, due to the anti-crisis measures of the NBU and the Government, inflationary pressure stabilized, and the actual rates of price growth in Ukraine were controlled.

It’s worth to remind that at the beginning of the Russian invasion, the NBU raised the discount rate to 25 % and introduced a regime of fixing the exchange rate. The government also contributed to the stabilization of consumer prices through a moratorium on raising tariffs for housing and communal services for the population and reducing certain taxes (in particular, VAT on fuel).

In addition, actual consumer inflation in December 2022 was lower than the forecast published in the Inflation Report for October 2022 due to stabilization of inflation expectations, expansion of food supply, weaker consumer demand, strengthening of the hryvnia cash rate [31].

Moreover, the NBU predicted that, due to consistent economic policy and the slowdown in global inflation, a moderate slowdown in inflation will be observed in 2023.

Subsequently, in 2023, the economy of Ukraine adapted to war conditions. Simultaneously, market stabilization is facilitated by food imports and the Government’s moratorium on the increase in utility tariffs.

Due to the NBU’s consistent monetary policy aimed at maintaining the attractiveness of hryvnia savings in July 2023, consumer inflation slowed down to 11.3 % from 12.8 % in June[10].

Furthermore, the NBU predicts a further decrease in inflation – to 10.6 %[11] by the end of 2023[12] and 8.5 %[13] – in 2024. In addition, the NBU will continue to maintain disinflationary dynamics, exchange rate stability and to improve inflation expectations [32].

Hence, in 2022, the economy fell by almost 30 %, Ukraine lost 35 % of its imports, inflation was at the level of 26 %[14], production fell by almost 37 %, the budget deficit reached almost 20 %.

Besides, on the background of a stable energy situation and the recovery of production and logistics chains, the positive impact of the new harvest contributed to a slowdown in inflation (consumer inflation in Ukraine slowed down to 8.6 %[15] in August).

Additionally, maintaining tight monetary conditions will reduce core inflation to approximately 3 %. While, in the post-war period, the main contribution to general inflation will be the adjustment of adminis-

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[8] Following the outbreak of the war, a fixed exchange rate regime supported by tight FX restrictions has played an important role in stabilizing inflation and exchange rate expectations and reducing inflationary pressures.

[9] The NBU has developed a Roadmap for the stages of gradual easing of currency restrictions, according to which, in the process of forming the necessary prerequisites, the NBU will gradually introduce greater exchange rate flexibility and exchange rate flexibility.

Strategy requires careful technical and operational readiness for implementing changes in monetary and exchange rate policy.

[10] The actual rates of price growth were lower than the forecast of the NBU, published in the Inflation Report for July 2023.

[11] Core inflation – below 9 %.

[12] According to NBU forecast, GDP will grow by 2.9 % thanks to the restoration of domestic demand and the resilience of the population and business to the challenges of war.

[13] Core inflation – up to 9 %.

[14] Meanwhile, for example, consumer inflation was 20.7 % in Latvia, 20 % in Lithuania, and 17.5 % in Estonia.

[15] In April 2023, consumer inflation amounted to 15.5 %, in May – 15.3 %, while in June inflation slowed to 12.8 % per annum, and in July consumer prices decreased by 0.6 % after increasing by 0.8 % in June.

trative prices and tariffs. Furthermore, the revival of the economy will contribute to the gradual growth of employment and labor income.

Similarly, the reduction of the unemployment[16] rate will primarily be facilitated by the recovery of economic activity. However, due to uneven economic recovery by sectors and regions, unemployment will remain higher than before the full-scale invasion. Furthermore, the revival of the economy will lead to a gradual increase in the demand for labor.

Undoubtedly, external aid[17] will make it possible to finance significant budgetary needs and maintain a high level of international reserves in 2023–2025[18].

In addition, the NBU will reduce the discount rate gradually[19] in order to maintain the attractiveness of hryvnia instruments[20]**.** Equally, the NBU lowered the discount rate in July 2023 – from 25 % to 22 %.

Consequently, those measures will help to implement the Strategy of Easing Currency Restrictions [33], move to greater exchange rate flexibility [34], and return to inflation targeting [35].

Due to the increase in the supply of food commodities[21], inflation slowed down to 8.6 % in August 2023. Simultaneously, due to the rapid decrease in inflation (Fig. 3) and the ability to maintain exchange rate stability, the Board of the NBU decided to reduce the discount rate[22] to 20 %[23] [36].

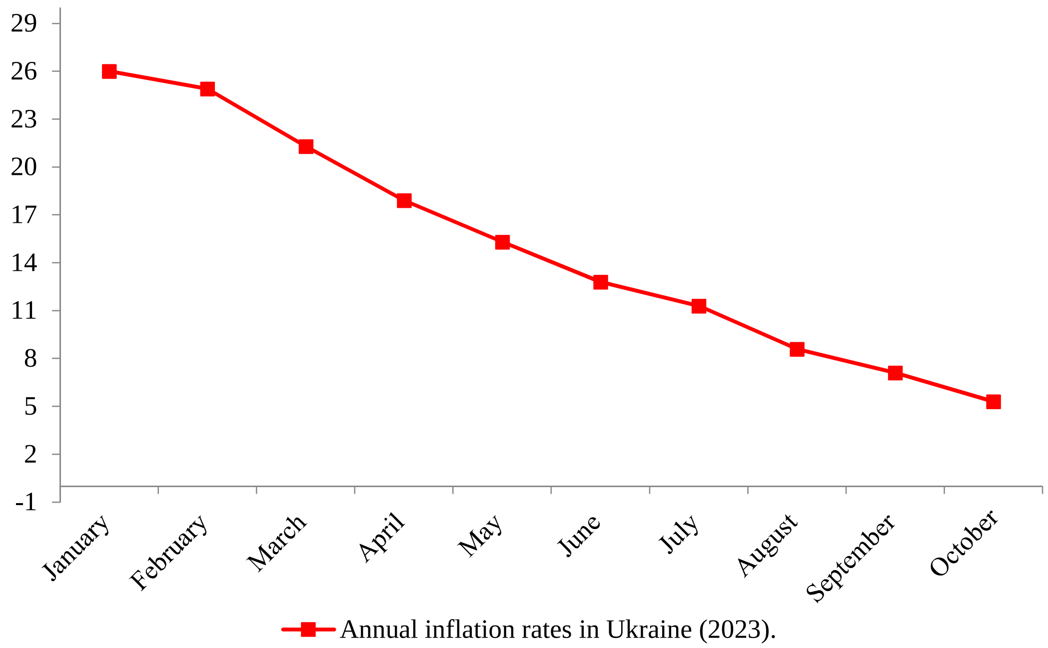

Fig. 3. Annual inflation rates in Ukraine (2023), %

Source: developed by the authors based on [24].

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[16] To 19 % in 2023 and to 16.9 % and 14.4 % in 2024 and 2025, respectively.

[17] In 2023, external financing will exceed 42 billion dollars.

[18] By the end of 2025, international reserves will reach 44.1 billion dollars.

[19] The softening of the interest rate policy will contribute to the revival of the economy and sustainable economic growth.

[20] To promote the growth of the attractiveness of hryvnia assets and strengthen monetary transmission, in 2023 the NBU significantly increased the standards for the formation of mandatory reserves by banks, which made it possible to maintain the stability of the foreign exchange market and, as a result, the reduction in inflation.

[21] Good harvests helped to lower the prices of flour, cereals, vegetables and some fruits.

[22] A further reduction of the discount rate was expected in the future.

[23] Due to support the recovery of the economy, the Board of the NBU reduced the discount rate from 22 % to 20 % from September 15, 2023.

Likewise, given the improvement in expectations, the yield on hryvnia assets[24] remained attractive. Consequently, the demand for bank deposits with a term of 3–12 months and Domestic government loan bonds (OVDPs) continued to grow [37].

Hence, during the last months of 2023, inflation decreased rapidly[25], primarily due to the positive impact of high harvests of agricultural crops[26] on the dynamics of food prices. And therefore, at the end of 2023, the NBU improved the inflation forecast from 10.6 % to 5.8 %[27]. In addition, taking into account the positive inflationary dynamics, from October 27, 2023, the Board of the NBU decided to set the discount rate at the level of 16 %[28]. Simultaneously, the NBU raised the inflation forecast for 2024 – from 8.5 % to 9.8 %[29], primarily due to the increase in salaries and the acceleration of the growth of administratively regulated prices.

Therefore, during 2023, a faster economic recovery was observed, caused by significant amounts of budget expenditures, the expansion of alternative ways of export supplies, a good harvest, and higher adaptability of the population and business to wartime conditions.

Consequently, the NBU predicts that the economy will grow by 3.6 % in 2024, primarily due to the further development of alternative supply routes and the maintenance of a soft fiscal policy that will support consumer demand.

In addition, the NBU predicts the acceleration of real GDP growth to 6 % in 2025, primarily due to the reconstruction of damaged infrastructure, the adjustment of production and logistics, as well as the improvement of investment and consumer sentiment.

The Strategy to Ease FX Restrictions, Transition to Greater Flexibility of the Exchange Rate, and Return to Inflation Targeting[30] [33] that the NBU will resume conducting the main volume of operations to regulate the liquidity of the banking system at the discount rate [38].

Conclusions

The following conclusions can be drawn from this study of the conditions of inflation process in Ukraine.

1. Nowadays, the process of stabilizing economic growth necessarily involves the use of comprehensive measures to stabilize inflation rates. The trends of recent years indicate that significant rates of inflation have had a significant negative economic effect worldwide, simultaneously leading to social stratification and tension. Since inflation in Ukraine is imported, due to the import of gas, oil and its products, the economy of Ukraine has always been affected by world prices. Therefore, taming inflation can ensure the state's anti-crisis policy.
2. The consequences of inflationary processes occur as a strong argument for the implementation of a predictable, effective and weighted anti-inflationary policy as a set of measures that should take into account the influence of internal economic factors of economic life and trends in the development of the global economic situation.

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[24] Maintaining a sufficiently high yield of hryvnia instruments is important for the further implementation of the Strategy to Ease FX Restrictions, Transition to Greater Flexibility of the Exchange Rate, and Return to Inflation Targeting.

[25] In September, inflation decreased to 7.1 % in annual terms.

[26] Such price dynamics were caused primarily by a significant supply of agricultural products of the new harvest, in particular grain and oil crops, vegetables and fruits, as well as sugar beets.

[27] The NBU improved the forecast of real GDP growth from 2.9 % to 4.9 % in 2023 as well.

[28] A return to the cycle of lowering the discount rate in 2024 will be possible only with a significant reduction in the risks to inflationary dynamics and exchange rate stability.

[29] Further, inflation will slow down to 6 % in 2025, primarily due to the expected decrease in security risks, the decrease in global energy prices, the recovery of logistics and production, which will limit price pressure and make it possible to increase the supply of goods.

[30] The priorities of the Strategy are: financial stability, inflation and inflationary expectations; the level of international reserves and the stability of the foreign exchange market.

3. The lack of efficiency in the implementation of such a policy can cause destabilization of economic processes.

All those circumstances make it necessary to form the theoretical and methodological foundations of understanding the main principles and mechanisms of the emergence and development of inflationary processes, which should give quick adequate reaction on negative consequences from internal and external economic shocks, as well as make it possible to form effective ways of reducing or leveling the economic and social results of the negative impact of inflation.

Prospects for further research

The study of the essence of inflation and its impact on the economy is an extremely urgent problem, which first of all requires a theoretical and methodological justification.

There is requirement for more thorough coverage of issues related to the impact of other macroeconomic indicators, such as foreign exchange reserves, GDP, the level of employment, as well as the hryvnia exchange rate on the inflation rate.

However, this issue is beyond the scope of this paper and will be discussed in subsequent publications that will refer to a deeper study of the inflationary process in Ukraine and, for comparison, in other countries that can be an example of effective economic development for Ukraine. Therefore, a perspective direction for further research is an in-depth analysis of inflationary processes in Ukraine. These questions will be covered in further research.

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ОСОБЛИВОСТІ ІНФЛЯЦІЙНИХ ПРОЦЕСІВ В УКРАЇНІ: ПРОБЛЕМИ І ПРИЧИНИ

Наведено дослідження еволюції та динаміки інфляційних процесів в Україні протягом 1991–2023 рр. Теоретично обґрунтовано основні закономірності впливу інфляційних процесів на економічний розвиток держави і проаналізовано особливості антиінфляційного регулювання в економіці України. Висвітлено хронологію інфляційних процесів, динаміку індексу споживчих цін, соціально-економічні наслідки і причини інфляції в Україні. Акцентовано на необхідності державного регулювання інфляційних процесів. Визначено ефективність антиінфляційної політики. Окреслено перспективи реалізації ефективної монетарної антиінфляційної політики, спрямованої на ефективне регулювання інфляційних процесів. Зазначено, що дослідження інфляційних процесів важливе, оскільки інфляція впливає на обмінний курс, економічне зростання і добробут. Визначено суть і причини інфляції в Україні періоду відновлення її незалежності, а також можливості регулювання цього макроекономічного показника монетарними методами.

Висвітлено дискусію щодо інфляційного процесу в перехідній економіці України. Підкреслено, що інфляція в Україні є перманентною і потребує постійного регулювання для досягнення істотного прогресу в її зниженні. Встановлено, що органи влади повинні зосередитися на середньостроковому горизонті контролю над інфляцією, щоб забезпечити зниження інфляції, а також відповідний рівень інфляції для досягнення цінової стабільності.

Ключові слова: таргетування інфляції; інфляція; центральний банк; грошово-кредитна політика; індекс споживчих цін; стабільність цін; ключова облікова ставка; антиінфляційна фіскальна політика.