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PROBLEMS OF INFLATIONARY PROCESSES IN EU

Within the framework of the market economy, a considerable number of negative phenomena had arisen, which pose a threat to the effective operation of the entire economic system at the state and regional level. One of these negative phenomena is inflation [1].

The development of inflationary processes in the world market accelerated significantly in 2021; in 2022, global inflation reached its peak - above 5% according to the IMF. This situation caused a wave of concern in the Eurozone and directly in the European Union: in the first half of 2022, the inflation rate in the Eurozone exceeded 6%, and the rate in the second half of the year became a record in general, amounting to 8.9%. In the EU, the inflation rate in general is a record - 9.6%. The highest inflation rates are observed in Estonia (22.0%), Lithuania (20.5%) and Latvia (19.2%). It should be noted that the fall of the euro below parity in relation to the dollar adds to the negative overall picture. [2].

Such a high level of inflationary processes has negative consequences not only for the EU economy as a whole, but also significantly harms the EU population. The devaluation of money reserves led to the fact that the incomes of the population began to decrease uncontrollably, and prices, on the contrary, rose rapidly. Since excessive inflation leads to an increase in unemployment, it can be confidently asserted that the welfare of the population of the EU countries has sharply decreased. The problem at the state level has become a significant increase in production and aggravation of the problem of money emission.

The main reasons for the increase in inflation include: the global economic crisis, the financial burden caused by the Covid-19 pandemic, the consequences of the full-scale invasion of Russia on the territory of Ukraine, and other intra-Union economic problems. Two waves of inflationary growth can be distinguished.

The first wave of inflation was caused by the coronavirus pandemic in 2019. The upheaval was very serious and led to the shutdown of many businesses and increased selectivity in certain industries in the Eurozone. It can be argued that the pandemic laid the foundation for inflation in the euro area. As we can see in Figure1 the general level of inflation changed quite unevenly: from a mark of 1.2% in 2019, the inflation rate fell to 0.3% in 2020 and increased again in 2021, from the middle of which inflation began to rise sharply and reached its historical maximum in 2022 [3].

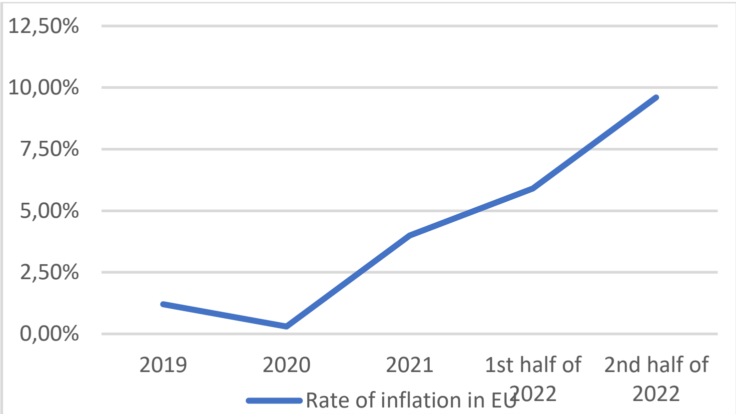

Fig.1 Rate of inflation in EU [3].

The second and more serious reason was the result of the increase in energy prices against the background of sanctions against Russia following its invasion of Ukraine, prompting a review of the EU's energy policy in order to reduce dependence on Russian energy resources. Changing the direction of energy policy is a complex process, so it is quite possible that energy inflation in the EU will become clearer and more pronounced, because almost half of the inflation rate existing in the European Union is attributable to energy components and is about 50%. In addition, inflation also occurred in the food sector, in June of this year, food inflation amounted to 8.9%, thereby reflecting the importance of Ukraine and Russia as producers of agricultural products [4].

It can be observed in the forecasts of the ECB, according to which the main scenario foresees a gradual decrease in inflation in 2023 to a mark of 2% already in 2024. In the event of a more negative development, the forecast predicts that the inflation level will remain fairly high throughout 2022 and 2023 and the stability of inflation processes in

2024 from 1.6% to 1.9%, depending on the level of adverse factors. Therefore, in my opinion, an improvement in the inflationary situation can only be expected in the long term due to persistent pressure on consumer prices and high dependence on energy resources. [5].

The current situation in the EU requires the implementation of certain measures to combat inflationary processes. In my opinion, the most effective method of combating inflation will be to "rehabilitate" the basic economic link (finances of enterprises and organizations), this will eliminate the drop in production and devaluation of money and will become the basis for further economic growth. The main measures of "improvement" are: regulation of the tax system, especially tax reduction, stimulation of production, restriction of barter operations, rejection of unpromising enterprises.

Summing up briefly, we can say that from the middle of 2021, inflationary processes in the European Union are on the rise, especially this is noticeable in the last six months. According to analysts, inflation will remain high in the near future, but starting from the last part of the year, under favorable conditions, the inflation level will begin to decrease and may drop to 2%. However, due to indirect and secondary factors, the risk of an increase in the inflation level still remains quite high. Against this background, the ECB has begun a long and gradual process of normalization of monetary policy, the framework and methods of which will depend on the volatility of the inflationary process.

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