

Hyperinflation in russia in 1990



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The paper "Hyperinflation in Russia in the 1990s" is an extraordinary example of a term paper on finance and accounting.

Before embarking on the main study, it is of importance to have a look at the meaning of the expression "hyperinflation". Generally, inflation refers to a scenario where there is a sustained rise in the general levels of prices.

Therefore, according to Salemi in his article, hyperinflation basically refers to the very high levels of inflation. Economists usually use this term 'hyperinflation' to situations of more than 50% inflation per month. At this rate inflation of 50%, it fundamentally means that an item costing USD 10 in the 1st of January in the current year would cost USD 1300 on the 1st of January the coming year. (Salemi, 2008).

Some of the types of inflation that can be explained using graphical illustrations are; cost-push inflation and demand-pull inflation. Cost-push inflation happens when there is a rise in production costs for firms, which leads to total supply shift towards the left. This is usually a type of inflation resulting from rising commodity and energy prices.

From the graph, if the change in prices from P1-P2 would reflect a percentage higher than 50% per month, thus this would be interpreted as a situation of hyperinflation.

Demand-pull inflation, on the other hand, results when aggregate levels of demand rise faster than the aggregate supply levels. This occurs when the economy of a country grows at a higher rate than the long-term trend of levels of growth. Where demand is higher than supply, firms will react by raising the levels of prices.

Also in this scenario, if the price levels rise from P1 to P2 would exceed 50% in terms of percentage change per month; this would mean a situation of

hyperinflation. (Moffatt, 2011).

In the year 1992, the rate of inflation in Russia was 1,528.7%. Though this figure may not be very precise, since the IMF (International Monetary Funds) started reporting about the rates of inflation in Russia in 1993, it reflects a very high rate. The other member nations to the former Soviet Union also experience a similar ordeal.

Events of the high inflation rates reported in 1992, set in when the government liberalized price controls of many commodities in the retail sale and wholesale alike. The controls in prices remained for a while for most the commodities like rent for residential purposes, milk and bread among others. Most of the reformers in Russia held high hopes during this transition period to capitalism and they prospected aid from the western countries. They did not prospect chaos on liberalization due to the economic and political disintegration slowly unfolding to this former Soviet Union.

From a state of a single Central Bank, which would issue a single monetary policy, the disintegrated state now had 15 Central Banks and a similar number of monetary policies, (That is, between years 1992 as well as 1993). As the need to come together in the setting of the tariff, monetary and tax policies went unnoticed, prices escalated a great deal. Budget pressure was mounting on the Russian economy.

The government of Russia especially felt the impact of hyperinflation due to the declining earning power of the most essential government payments like pensions, salaries, social spending and budgets for enterprises. This is simply due to the fact that the revenues from the tax were rendered less meaningful. Output levels fell and this caused a dire need for money to run the Russian enterprises while the non-Russian businesses called for more

funds to pay for the trade deficits between them and Russia.

Some of the remedies that the Russian government came up with were, the provision of loans that were 'centralized' to the business enterprises of Russia through the commercial banks while the 'technical' type of loans was provided for the non-Russian business enterprises. These funds to non-Russian businesses were provided for through the domestic Republican authorities.

Proceeds from the loans provided were directly utilized to buy dollars through the foreign exchange market of Russia, which had recently been liberalized. This raised the price of imports which raised inflation levels, eventually. The system was in havoc, the more. (Allen, 2009 p217).

Some of the solutions that worked for the Russian government started with the government's temporal freezing of drawings from the bank accounts held at the state banks. This resulted in the storing of the purchasing power as well as savings in the form of USD at any given chance. The new law of banking went up to the level of letting non-financial institutions to attract deposits. This led to pyramid schemes being set up.

By the month of July 1995, the Russian government had managed to reduce the fluctuations of the Ruble with notable success. By this time also inflation was falling, which found persons with high rates of interest loans in the form of Ruble being unable to service the loans. Thus with disinflation, most of the pyramid schemes fell.

The rate of inflation continued to fall in the years following 1995, from 1995 it was 197.4% to 1996's 47.6%, 14.7% in 1997 and by the year 1998, it had settled at 27%. Though it showed signs of rising again from 1998 through 2003; the rates fell again in the year 2004. (Allen, 2009 p218)

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