

## CAUSES OF INFLATION IN CHINA

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*Inflation, a persistent increase in the general price level of goods and services within an economy, has long been a subject of intense scrutiny and debate among economists and policymakers alike. Its implications for economic stability, growth, and social welfare are far-reaching and multifaceted. This study delves into the economics of inflation in China, a country that has experienced significant economic transformation over the past few decades.*

**Keywords:** *inflation, cost, crises, prices.*

Inflation, as a core concept in macroeconomics, refers to the economic phenomenon in which the general price level rises continuously and significantly over a period of time, resulting in a corresponding decrease in the purchasing power of money. To put it simply, "money is worthless", and you need to pay more currency to purchase the same amount of goods and services. Inflation is a common phenomenon in economic operations, but its extent and impact need to be analyzed based on specific circumstances.

The government in China opted for expansionary monetary policies, this coupled with increasing wage rate resulted increased inflation over a period time [1].

The causes of China's current inflation are complicated. It is not caused by a single factor, but by multiple factors. However, compared with the causes of previous rounds of inflation, demand-driven, cost-driven and external input are the main factors that induce current inflation in China.

It is undoubted that loose economic policies are adopted to alleviate crisis pressure during crises or economic downturns. Therefore, after the outbreak of the global financial crisis in 2008, China's economic policy turned to easing. Although the implementation of the policy ensured high GDP growth of 9.2% in 2009, it brought a lot of liquidity to the economic system, resulting in an increase in total demand and pushing up inflationary pressure.

In response to the 2008 international financial crisis, macroeconomic policy in China changed from "prudent fiscal policy" and "tight monetary policy" to "active fiscal policy" and "moderately loose monetary policy". A series of measures have been taken. In terms of fiscal policy, government spending has been expanded. In 2008, 10 measures of "expanding domestic demand and promoting growth" with a scale of 4 trillion yuan were introduced. In the first quarter of 2009, a large-scale investment plan was launched; taxation was reduced, various tax laws and systems were revised, tax system reforms were carried out, and structural tax reduction plans were implemented; additional bonds were issued; infrastructure construction was strengthened; and old industrial bases were revitalized. In terms of monetary policy, interest rates have been lowered four times since September 2008, and the deposit reserve ratio has been lowered three times, which has brought into the era of negative interest rates; the scale of bank credit has been reasonably expanded and credit allocation has

been relaxed. This series of measures has injected a large amount of liquidity into China's economic system in the short term. Excessive liquidity has not flowed into the real economy, but has been stranded in banks or entered the real estate market, leading to rising asset prices and laying the groundwork for inflation risks.

Excessive money issuance has led to excess liquidity, which has led to an increase in total demand. The current inflation is the result of excessive money supply in China in the past 10 years, especially due to the impact of the 2008 financial crisis, the phenomenon of excess liquidity has become more serious.

The over-issuance of currency in China over the years has been mainly affected by the following aspects:

First, for a long time, economy in China has been mainly driven by investment, and domestic demand and consumption are seriously insufficient. Residents have been saving a lot for many years, with backward consumption awareness, weak financial investment awareness and narrow investment channels. Most of their money is deposited in banks. The more deposits banks absorb, the more abundant the liquidity of the banking system. Under the condition of insufficient supervision and driven by the maximization of bank interests, banks' enthusiasm for lending has increased greatly.

Secondly, in the case of serious financial crises and debt crises in Europe and the United States, countries have continued to issue more currency to promote economic recovery. In order to maintain the competitiveness of economic growth, China has been forced to join the ranks of quantitative easing policies in various countries, thus further excess liquidity. Finally, a large amount of foreign exchange reserve balance and the increase in foreign exchange reserves have enabled the central bank to continuously release base money for hedging. Under the effect of the money multiplier, the money supply has doubled.

Thirdly, cost push is one of the causes of China's current inflation, mainly including the rise in prices of raw materials, agricultural products, labor and other factors, which increases the production costs of enterprises and then affects the cost of living of residents, causing prices to rise and pushing up the inflation level.

For many years, China's high economic growth has been based on low labor costs, unreasonable pricing of resource products, and unreasonable compensation for environmental pollution.

The demand for raw materials, fuels and agricultural products has continued to expand in recent years. The expansion of demand is mainly caused by the following two reasons: on the one hand, China has long relied on investment and export-driven economic growth. The increase in investment demand and export demand will inevitably lead to an increase in demand for primary products such as raw materials, fuel, energy and agricultural products. On the other hand, the process of industrialization and urbanization is accelerating, and market prices are determined by supply and demand. Factor resources such as oil and coal are limited and are non-renewable energy. In the context of sustained economic development in China, the market demand for factor resources is strong, which will inevitably increase demand and drive up prices. In addition, in the "12th Five-Year Plan", China will accelerate the transformation of economic development mode and adjust the economic structure as a top priority. Environmental governance and protection and the price increase of resource products will also be a long-term trend.

The upward trend of labor costs in China in recent years is mainly affected by the following factors: First, the population structure has begun to change, the aging era has arrived, the "Lewis turning point" has appeared, the "demographic dividend" is gone, and the labor supply has become tight. Secondly, China's wage remuneration rate has been low for many years, and the proportion of residents' income in GDP has been declining, which should be changed. Finally, prices have continued to rise in recent years, and residents' living costs have continued to rise. Under the above circumstances, it is inevitable that the living wage level will rise. And due to the unbalanced economic development in China, there are some industrial sectors with overcapacity and low profit margins. The demand rates of monetary wages for sectors with different labor productivity are synchronized, and they will inevitably demand wage increases. The overall increase in wages will inevitably put some industries and enterprises with backward production capacity and poor innovation capabilities under greater survival pressure, which is likely to cause a series of other problems.

Finally, the rise in asset prices such as land, real estate prices, and rents is mainly affected by the following factors: First, in order to ease the pressure of rising prices, the central bank has continuously adopted an interest rate hike strategy, and a negative interest rate state has emerged.

Therefore, minerals, energy, raw materials, wages, agricultural products, rents, land, environmental costs and costs are all rising. China has entered a high-cost era. Cost factors will have a long-term effect on price increases, and will face inflationary pressure for quite some time in the future. Therefore, reducing corporate costs and burdens, improving residents' living standards, improving resource utilization efficiency, and changing the economic growth model will be a long-term task for China. Governing cost-driven inflation will also become a long-term task for China.

Thus, through the study of current inflation in China, the use of macroeconomic policies to alleviate economic pressure after the crisis should be cautious, and the time lag of policies should be fully considered. It should be long-term and forward-looking. At the same time, international cooperation should be strengthened, and developed countries should also take responsibility to consider the impact on emerging economies when implementing policies. Therefore, the causes of China's inflation can be attributed to several main factors: first, demand-driven. With the increase of people's income and consumption upgrading, the demand for goods and services has increased; second, cost-driven, such as rising raw material prices and labor costs, which lead to rising production costs; third, the increase in money supply, especially the increase in government investment and loose monetary policy will lead to excessive money issuance, thereby driving up prices; finally, external factors, such as price fluctuations in the international market and rising prices of imported goods, will also have an impact on China's inflation. Effective monetary policy, market supervision and supply-side structural reform are all important measures to combat inflation.

## References

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## ПРИЧИНЫ ИНФЛЯЦИИ В КИТАЕ

*Инфляция, постоянное повышение общего уровня цен на товары и услуги в экономике, уже давно является предметом пристального внимания и дебатов как среди экономистов, так и среди политиков. В статье представлены причины инфляции в Китае, к которым отнесены: рост доходов населения и увеличение спроса на товары и услуги; рост цен на сырье и стоимость рабочей силы, что приводит к росту издержек производства; увеличение денежной массы, особенно увеличение государственных инвестиций и мягкая денежно-кредитная политика, что приводит к чрезмерной эмиссии денег; внешние факторы, такие как колебания цен на международном рынке и рост цен на импортные товары.*

**Ключевые слова:** инфляция, стоимость, кризисы, цены.