

IMPACT OF INFLATION ON THE ECONOMIC GROWTH IN UKRAINE

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Abstract - The world has witnessed the beacon light of Economic Reforms in 21st Century to cope up the changing dynamics of global market economy with the bottom line that a gradual transition to market relation in the economy, with the emphasis on economic independence of enterprises, the introduction of competition mechanism, the development of all types of property and Entrepreneurship the maximum down trend in then state control on the economy. The answer to Economic Reforms has been to make incessant efforts to check the inflationary trends, which has particularly affected European countries along with the economy of the other countries. USSR a very strong world economy has been engulfed under increasing inflationary trends, as a result of major disintegration due to social, political and other reasons in too many parts viz., Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan etc. The world inflationary data shows that there has been a greater impact on the economy of Ukraine because of hyper Inflationary conditions resulting into sudden dip down in the value of money and sudden increase in the price of goods and services in all the sectors of the economy. Therefore, continuous, efforts have been made by the Economist of Ukraine to take measures to check the increasing trend of Inflation in the country. In this paper, an effort has been made by the researchers to study "Impact of Inflation on the Economic Growth and Development of Ukraine".

Key Words - Inflation, Economic growth, GDP, CPI, Money supply, Ukraine.

I. INTRODUCTION

Ukraine became an independent state after the collapse of Soviet Union in 1991. Since then the country has passed through a process of significant political, economic, and social change. Having experienced difficult economic times during 1991-1995 (the breakdown of integrated connections with the post-soviet business environment, hyperinflation, privatization issues, and national business system formation), the Ukrainian Government successfully established a national currency (hryvna) and overcome high inflation by the late 1990s.

Considering the economic development of Ukraine in the past decade, selected macroeconomic indicators show the national economy performance outcomes during this transitional process. For instance, GDP showed a positive dynamic starting from 2000 (5.58% annual change) until 2009 when the GDP dropped by 15.1% which was a direct consequence of the world financial crisis. Inflation in Ukraine remains relatively high (10-20 percent increase annually with the lowest level in 2002 (0.7%) and the highest ones in 2000 (28.2%) and 2008 (25.2%). The value of the current account balance had a surplus during 1999-2005 period with the highest value in 2004 (6.9 billion US dollars) and a deficit during 2006-2009 with the lowest value in 2008 (12.8 billion US dollars). In fact, the Economic instability has a direct impact on demography. The population has been steadily declining every year, dropping from 52 million people in 1992 to 45.7 million in 2009. Though the market system is being formed, the

transformation process is not complete yet. Being in the transition stage of its development, Ukraine experiences problems connected with institutional framework development which cause political and economic instability. One of the consequences of weak institutional governance is a significant informal sector widely used by Ukrainian citizens to earn additional income. The failure to build strong democratic institutions has also impacted the country's economic performance and, in spite of its large rich agricultural resources, and favourable location at the intersection of Western Europe and Asia, Ukraine has not yet reached the desired and expected economic progress, due to its dependence on Russian natural gas and oil, resources ongoing political instability, and the world economic crisis. The cumulative efforts of this leads to increase turbulence volatility, as a result in the economy of Ukraine

II. PROBLEM STATEMENT

The purpose of this study is to investigate the relationship between inflation and its impact on economic growth and development of Ukraine, to suggest measures to check the Inflationary trend hampering economy of Ukraine.

2.1 Significance of the Study

The significance of the study is that inflation is major problem in Ukraine which has effected people's daily life like income, purchasing power, literacy rate, money supply, etc. and they all effect economic growth of Ukraine in one way and that further effect

the country development on the other. So it's important that we know how impact of inflation has on economic growth and to what extent to current inflationary conditions be checked.

2.2 Objective of the Study

The objective of present study is to examine the impact of inflation on economic growth and development of Ukraine.

2.3 Hypothesis Formulation

Hypothesis statement are tentative assumptions and presumptions to be tested to proves or disapprove with the help of analysis of survey data but since the present study is based on secondary data therefore the testing of below listed hypothesis statement would not be feasible, as the present study is exploratory in nature and not Empirical one.

- Inflation has influence on Gross Domestic Product (GDP) of Ukraine and vice-versa.
- Gross Domestic Product (GDP) has influence on per capita income in Ukraine and vice-versa.
- Consumer Price Index (CPI) has influence on money supply in Ukraine and vice-versa

2.4 Limitation of the Study

The focus of this study is confined to the Ukraine and its coverage is 2007 to 2016. Since the researcher is currently located in India and therefore at the time of conducting this study it was not possible to visit the Ukraine in person. However, a model questionnaire has been framed and mailed to the citizen of Ukraine (Respondents) belonging to all walks of life in terms of qualification, age, gender, employment etc. but the response is dismal therefore the researcher had restricted this study on the analysis of secondary data collected through desk research by applying appropriate quantitative techniques for analysis of data.

2.5 Literature Review

Through the researcher has gone through all the existing literature available on the subject of study to find out the research gaps. However earnest efforts have been made by the researcher to find out the area of research in the context of present stage.

III. RESEARCH METHODOLOGY

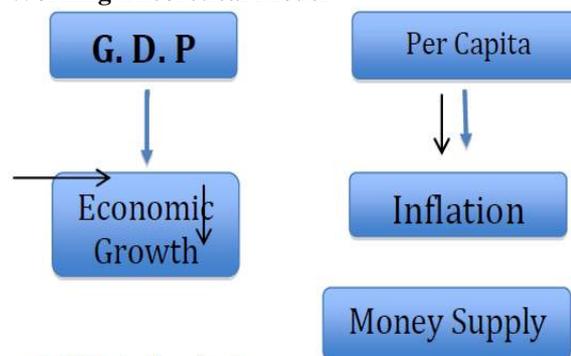
This study is qualitative in nature and examines the causal relationship between economic performance and inflation in Ukraine during the period last ten years from 2007-2016.

3.1 Tools used: The models we use to investigate the impact of relationship between inflation and economic growth and their correlation has been worked out by calculation of correlation-ship between the two identified variables i.e. trends of inflation and its impact on economic growth in Ukraine Economy

covering all essential components there-off by using regression method.

3.2 Data Type: Data used in this study is secondary and the sources of data collection for this study are NBU Report (National Bank of Ukraine), World Bank Report, IMF, and other documents.

Working Theoretical Model



3.4 Data Analysis:

(a) Inflation has influence on GDP of Ukraine and vice-versa

A Pearson's correlation was run to determine the relationship between CPI and GDP of Ukraine. There was a negative correlation between CPI and GDP of Ukraine, which was statistically significant ($r = -.758, p = .11$).

Model Summary

| Model | R | R Square | Adjusted Square | R | Std. Error of the Estimate |
|-------|-------------------|----------|-----------------|---|----------------------------|
| 1 | .759 ^a | .577 | .524 | | 37498.245 |

a. Predictors: (Constant), CPI

The study results reveal that there is a positive relationship between CPI and GDP as depicted by coefficient of determination R of .759 and a correlation coefficient R- square of .577. This means that change in GDP does influence on any change in CPI.

ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 1.532E10 | 1 | 1.532E10 | 10.898 | .011 ^a |
| | Residual | 1.125E10 | 8 | 1.406E9 | | |
| | Total | 2.657E10 | 9 | | | |

a. Predictors: (Constant), CPI

b. Dependent Variable: GDP

From the ANOVA results, the probability value of .11 is obtained implying that it is greater than significant level of 0.05.

Equation:- $GDP = 4.495E6 - 43156.781CPI$

Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.495E6 | 1.322E6 | | 3.401 | .009 |
| | CPI | -43156.781 | 13073.291 | -.759 | -3.301 | .011 |

a. Dependent Variable: GDP

Hence the above Hypothesis is accepted

(B) GDP has influence on per capita income in Ukraine and vice-versa

A Pearson's correlation was run to determine the relationship between GDP & per capita Income of Ukraine. There was a negative correlation between GDP & per capita Income of Ukraine, which was statistically significant (rs= -.345, p=.329.)

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .345 ^a | .119 | .009 | 454.208 |

a. Predictors: (Constant), GDP

The study results reveal that there is a positive relationship between GDP & per capita Income as depicted by coefficient of determination R of .345 and a correlation coefficient R- square of .119. This means that change in Per Capita Income does influence on any change in GDP.

ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 223372.670 | 1 | 223372.670 | 1.083 | .329 ^a |
| | Residual | 1650437.330 | 8 | 206304.666 | | |
| | Total | 1873810.000 | 9 | | | |

a. Predictors: (Constant), GDP

b. Dependent Variable: Per Capita

From the ANOVA results, the probability value of .329 is obtained implying that it is greater than sig level of 0.05

Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 7654.638 | 394.537 | | 19.402 | .000 |
| | GDP | .003 | .003 | .345 | 1.041 | .329 |

a. Dependent Variable: Per Capita

Equation:- Per Capita= 7654.638 - .003 GD
Hence the above Hypothesis is accepted

C. CPI has influence on money supply in Ukraine and vice-versa

A Pearson's correlation was run to determine the relationship between CPI & Money Supply of Ukraine. There was a negative correlation between CPI & Money Supply of Ukraine, which was statistically significant (rs= -.353, p=.317.).

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .353 ^a | .124 | .015 | 5857.610 |

a. Predictors: (Constant), CPI

The study results reveal that there is a positive relationship between CPI & money supply as depicted by coefficient of determination R of .353 and a correlation coefficient R- square of .124. This means that change in money supply does influence on any change in CPI

ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 3.903E7 | 1 | 3.903E7 | 1.138 | .317 ^a |
| | Residual | 2.745E8 | 8 | 3.431E7 | | |
| | Total | 3.135E8 | 9 | | | |

a. Predictors: (Constant), CPI

b. Dependent Variable: Money Supply

From the ANOVA results, the probability value of .317 is obtained implying that it is greater than sig level of 0.05

Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -202581.816 | 206493.306 | | -.981 | .355 |
| | CPI | 2178.141 | 2042.182 | .353 | 1.067 | .317 |

a. Dependent Variable: Money Supply

Equation: - Money Supply= 7654.638 - .003 CPI
Hence the above Hypothesis is accepted

CONCLUSION

The researcher has observed that as a result of disintegration of USSR which has completed almost Twenty-seven (27) years into many geographical / territorial regions which has almost wrecked the economic backbone of Russian economy as a result that of Ukraine economy.

Therefore, the Ukrainian Economy started the revival process of economic growth from scratch by identifying primary sector that is on priority the agriculture and shipping sector.

The agriculture sector being the source of industries, the primary emphasis by Ukraine enterprises has on it. The shipping sector being the prime on as a main source of revenue therefore this sector was consolidating into rapid speed to help facilitate the revival of economic growth of Ukraine. If we see the facts and figures which has engraved as result of analysis of secondary data based on the desk research following conclusion can be pertinently drawn.

- Inflation has influence on GDP of Ukraine
- GDP has influence on per capita income in Ukraine
- CPI has no influence on money supply in Ukraine

Therefore, the need of the day for Ukraine Economist is to study the factors responsible for higher rate of inflation resulting into retarded growth of economy of Ukraine, so that on long term basis the Ukraine Economy shall emerge as self- sustained economy leading to balanced growth and development of the country avoiding lop-sided development of various sector of the economy of Ukraine.

The researcher has observed that based on the analysis of secondary data by applying Regression, correlation and ANOVA quantitative technique, all the hypothesis statements have been found to be accepted(proved) which is a clear indication that there is a direct impact of rising inflation (variables being GDP, CPI, interest rate, and correlation. these variables showing regress tendency in inflation rate of GDP / interest rate grows affecting CPI that is inflation rate) on the slow and/or retarded growth in Ukraine economy and consequently economic development. Yet another vital observation as emerged from the study reveals that this integration of Russia played a decisive role in the weakening of

socioeconomic structure of Ukraine but the concerted effort made by the Government Of Ukraine (policy maker) have firstly consolidated the two sectors i.e. agriculture and shipyard which could be considered to be the backbone of any economy because agriculture provide raw materials as basic to develop industry in any company and shipyard sector promotes/encourage export/import to other countries to develop foreign exchange reserves and import in turn fulfill the needs of the countrymen in terms of obtaining good and services which Ukraine economy does not produce.

Therefore, the need of the day is to strengthen the industrial and agricultural sector on priority which will helps consolidate exports business with neighboring countries which will check the price of goods and services (CPI), increases value of goods and services as well as check the rate of inflation by avoiding the stage of stagflation (under which though the rate of inflation is under control but prices of goods and services keep on rising) which is not good for the health of economic growth in economy of Ukraine. Finally, it is concluded that there is lot of potential in the economy of Ukraine because of good governance (policy plans) of government and progressive attitude of society and sovereignty of country. The researcher is confident the country will prosper and attain economic growth and development in this 21st century.

Therefore, there is still ample scope of further research in this area for the researcher.

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