THEORETICAL AND EMPIRICAL STUDIES OF INTERACTION BETWEEN INFLATION AND ECONOMIC GROWTH

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The complexity and diversity of interaction between inflation and economic growth are caused by multifactorialism of inflation and structural complexity of economic growth. In foreign and domestic literature, a large number of factors, which affect economic growth, are highlighted. That is why economists' views on the relationship between inflation and economic growth are ambiguous. However, they can be structured in two areas:

– in the long term, there is an inverse relationship between inflation and economic growth, or the connection is absent;
– in the short term, there is a direct relationship between inflation and economic growth in well-defined boundary limits.

As for the economy of Ukraine, by the first area of study we found that between inflation and economic growth in the long term (1991–2014), there was a statistically low inverse relationship (correlation coefficient is -0.36, determination coefficient is 0.13), but using one year time lag, the relationship is increased significantly (correlation coefficient is -0.6, determination coefficient is 0.36). It shows that the relationship is quite significant and inverse. Accordingly, it can be affirmed that inflation starts to affect the value of GDP in not the same year when corresponding changes in the value of the consumer price index will take place but only the year after.

Using a detailed analysis of the trend formulas, it is proved that the relationship between inflation and economic growth in the short term in the conditions of Ukraine’s economy transformation has both direct and reverse characteristics. This can be explained by the fact that in a national economy, inflation is affected by both monetary and non-monetary factors and it does not allow defining the dominance of inflation demand or costs, which, in turn, leads to ambiguous conclusions about the direction of the relationship between the studied categories.

However, we have identified “inflation corridor”, which can be shown as an inflation fluctuation where economic growth is the greatest. Using economic and mathematical modelling, we have proved that the optimal inflation corridor for Ukraine’s economy should have the inflation rate between 3.5% and 5.5%. In this case, GDP will take its maximum value.