

INFLATION EXPECTATIONS

The purpose of the article is to analyze the general public's reaction on raising inflation and to understand how people form their expectations on it in the future.

Inflation is an increase in the general price level that continues for a long period of time, in which it is possible to buy much less goods or services than it was possible to buy before. The condition for the emergence of inflation is the prevailing dynamics of the nominal money supply compared to the growth of national income [1].

One of the causes of inflation, which is important, are inflation expectations or, to put it differently, the perceptions of participants in the national economy about the future price level. They are based on the forecast of the growth rate of the price level of factors of production, resources, final products, etc. And accordingly, they influence prices on commodity and factor markets and determine the behavior of economic agents [2]. Macroeconomic science distinguishes three types of inflation expectations:

1) Static expectations. They are oriented to the inflation rate characteristic of the past period.

2) Adaptive expectations. They build expectations based on the past, in case of failure they adjust their expectations, adapting to the changed situation.

3) Rational expectations. People form their plans, predict the development of events in the future and build their behavior based on the analysis of all the information available at the moment and take into account all the factors that may affect price changes in the future [3].

Inflation expectations are the most important aspect of monetary policy, especially the monetary regime of inflation targeting. At the moment, the task is to find the best ways to obtain data on expectations of changes in the price level. Thus, inflation expectations of general public in some cases influence the growth of inflation rate, which in most cases has negative consequences.

Inflation in the Republic of Belarus is characterized by fluctuations in its values. Over the last 30 years in the Republic of Belarus one could observe all types of inflation: galloping, hyperinflation and moderate inflation. Inflation spikes were mainly caused by socio-political reasons and external factors due to the openness of the Belarusian economy [4].

One of the reasons for the persistence of high price growth in the Republic of Belarus is high inflationary expectations of households and businesses.

The annual inflation rate in the Republic of Belarus expected by the population amounted to 14.2% according to National Statistical Committee of the Republic of Belarus. If inflation expectations grow, a trap for monetary policy may arise. If the authorities react and raise the interest rate, this will mitigate the impact of expectations on actual inflation, but the output losses will be high due to extremely high real interest rates. Otherwise, if inflation expectations are ignored or nominal interest rates are rapidly reduced, actual inflation may rise. Therefore, the task of the National Bank of the

Republic of Belarus is to control prices, the growth of which during the crisis period may affect inflation expectations, leading to the formation of even higher inflation.

Inflation targeting is a monetary policy regime characterized by public announcement of an inflation target, increased responsibility of the Central Bank to achieve this target, institutional independence, and monetary policy that aims at managing inflation expectations. This approach should contribute to the formation of stable inflation expectations [5].

Ensuring stability of the exchange rate of the national currency is one of the measures that the National Bank of the Republic of Belarus can take to support sustainable growth of the economy. First of all, price stability is legislatively enshrined as the main objective of the National Bank of the Republic of Belarus. Second, the importance of the interest rate channel of the transmission mechanism has been increased and the mechanism of liquidity management in the banking system has been improved. Third, the transition to a floating exchange rate regime was implemented.

In conclusion, economists are increasingly studying the topic of formation of inflation expectations and conduct various experiments for this purpose, for instance interrogation of the general public's understanding how inflation works and how to predict it. According to the results of some of them it was revealed that when households are provided with information about inflation forecasts made by professionals, their opinion changes in the expected direction, similarly to firms. It is worth noting that on the part of the government it is important not only to share its decisions, but also to make them clear for the perception of the population. In addition, informational appeals should be systematic, because if they are one-time, they may have a short-term effect.

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