

## Causes and Consequences of Inflation in the World Economy

**Ayubov Ilyos Ilhomovich**

Samarkand Institute of Economics and Service, iffd

PhD associate professor

[ilxomovich03071984@gmail.com](mailto:ilxomovich03071984@gmail.com)

**Abstract:** This article contains a comprehensive analysis of the mechanisms of formation of inflation processes observed worldwide, the global economic and geopolitical factors that strengthen them, as well as the impact of inflation on macroeconomic stability. The study deeply studies the role of processes such as price fluctuations in raw materials markets, disruptions in supply chains, increased logistics costs, expansionary monetary policy, and supply-demand imbalances in increasing inflationary pressure. Also, a scientific analysis was conducted in such areas as the consequences of global inflation, such as a decrease in real incomes, destabilization of exchange rates, weakening of investment activity, and increased social tensions. At the end of the study, proposals were developed to curb inflation.

**Keywords:** world inflation, global demand, global supply, commodity prices, logistics costs, monetary policy, geopolitical risks, global markets, consequences of inflation, economic stability.

### INTRODUCTION

In recent decades, the world economy has been going through a period of complex and multifaceted changes. One of the most important manifestations of these changes is the activation of global inflationary processes and their impact on macroeconomic balance. In particular, in the period after the 2020 pandemic, inflation has become a priority economic issue for many countries. The general increase in prices has increased production costs, reduced real incomes of the population and put significant pressure on global economic stability.

The main factor determining the relevance of the topic is the high level of integration of global markets and the rapid spread of economic processes from one country to another. Factors such as rapid fluctuations in raw material prices, geopolitical instability in the energy market, disruptions in the international transport and logistics system, slowdown in supply chains and slow recovery of production are deepening global inflation, turning it into a global economic problem that requires a coordinated international approach[1].

Today, inflationary processes are not limited to economic indicators alone, but are also closely linked to geopolitical conflicts, sanctions, trade wars, financial market fluctuations, and demographic changes. At the same time, expansionary monetary policies implemented by major countries, excessive global liquidity, and uneven distribution of capital flows are further intensifying inflationary pressures.

The main objective of this research is to comprehensively analyze the mechanisms of formation of inflation processes observed worldwide, the global economic and geopolitical factors that enhance them, as well as to assess the impact of inflation on macroeconomic stability on a scientific and theoretical basis. The study deeply studies the role of processes such as price fluctuations in raw

materials markets, disruptions in supply chains, increased logistics costs, expansionary monetary policy and global supply-demand imbalances in increasing inflationary pressure. In addition, a scientific analysis is carried out in such areas as the consequences of global inflation - a decline in real incomes, destabilization of exchange rates, weakening of investment activity and increased social tensions, and at the end of the study, practical proposals are developed to curb inflation[2].

## **LITERATURE REVIEW**

The scientific works of many foreign and domestic scientists on this topic were analyzed. In particular, E.Goryunov and Ye.T.Gaidara in their studies highlighted the imbalance between the rapid recovery of aggregate demand and limited aggregate supply after the 2020 pandemic, disruptions in supply chains, large-scale fiscal support measures implemented by the state, geopolitical tensions and rising commodity prices, as well as the delayed monetary policy of central banks as the main factors affecting global inflation. G'.A.Safarov, ZOBakhodirov and Kh.Boltaeva in their articles comprehensively covered the essence, types, internal and external factors of inflation, as well as its impact on the country's economic security and a set of measures to eliminate it. M. Abdurakhmonova and D. Uzganbayeva studied the fight against inflation in member states of the World Trade Organization, the classification of types of inflation, as well as the decline in the standard of living of the population and the further impoverishment of underdeveloped countries as a result of its increase[3].

## **ANALYSIS AND RESULTS**

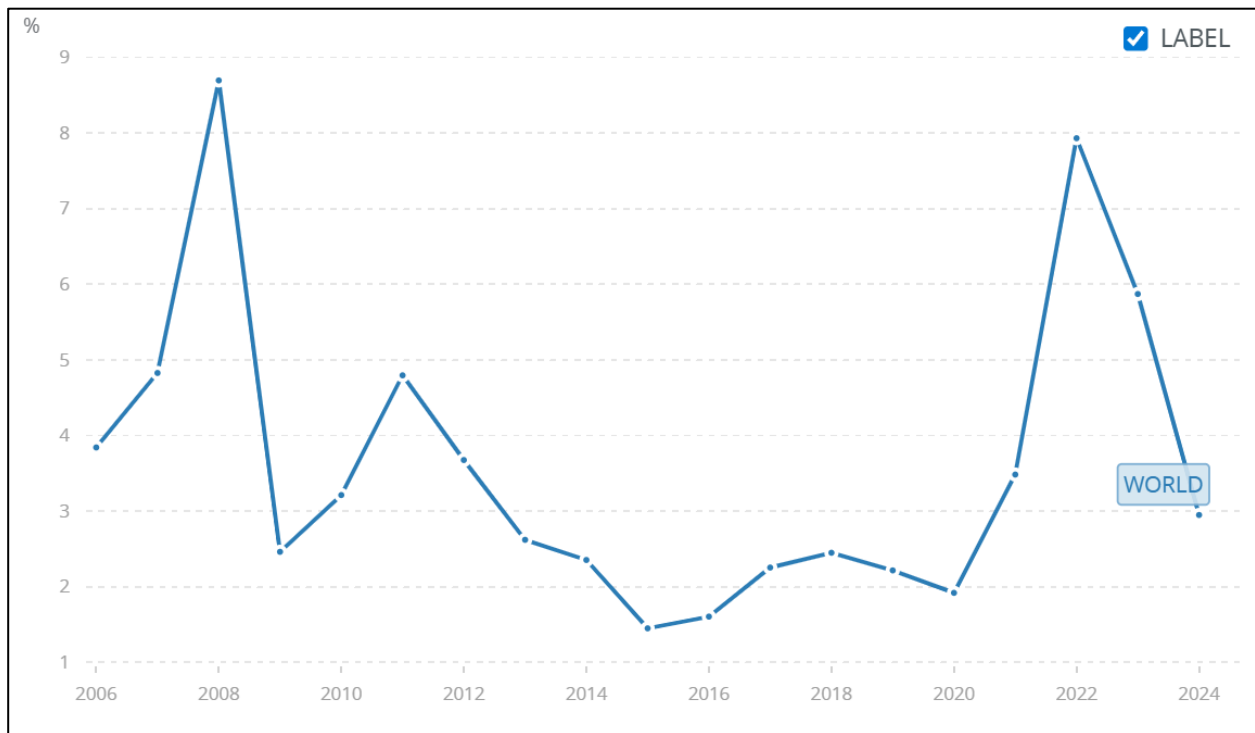
Inflation rates in the world economy are directly related to the well-being and living conditions of the population, and an increase in the general price level has a significant impact on the economic stability of the country. A sharp increase in inflation reduces the real value of GDP, puts pressure on foreign trade exchange processes, and reduces production efficiency. However, the correct conduct of macroeconomic policy and the effective functioning of regulatory mechanisms in the legislation help to keep inflation within the norm, which creates favorable conditions for economic growth.

Today, in many countries, high inflation rates can sometimes lead to hyperinflation. Currency depreciation, a sharp increase in demand, and a decrease in supply cause prices to rise rapidly. Inflation is usually constantly monitored by government financial authorities, but in some situations, weakening of control due to macroeconomic instability and political factors increases the risk of hyperinflation[4].

The intensification of inflationary processes on a global scale is determined not by a single factor, but by a complex set of interrelated and complex systemic reasons. Price fluctuations in international raw material markets, instability in the cost of energy resources due to geopolitical risks, and disruptions in global production chains increase production costs and increase pressure on price levels. Also, increased costs in the transport and logistics system directly affect the final price of goods. The expansionary monetary policy carried out by major countries has increased liquidity in world markets, further increasing inflationary pressure. The uneven distribution of capital flows, weakening competition in certain segments or increasing monopolization lead to a disruption of price-setting mechanisms. Most importantly, the slowdown in supply, coupled with a sharp increase in global demand, is causing an imbalance and a rapid increase in prices. Therefore, the current dynamics of global inflation are complex, and its stabilization requires systematic, coordinated macroeconomic policy measures[5].

The analysis shows that global inflation is not driven by a single factor, but by several interconnected economic, political and technological processes. Fluctuations in global commodity markets increase production costs, while disruptions in the logistics system reduce the supply of goods. Expansionary monetary policy measures lead to increased consumer demand, which in turn increases inflationary pressures. Geopolitical tensions and sanctions restrict international trade flows, causing prices to rise further.

**Figure 1. World inflation, consumer prices (annual %)**



The graph shows that 2006–2008 was a period of sharp increases in global inflation, from 3.8% in 2006 to 4.8% in 2007 and 8.7% in 2008. This increase was due to increased demand in the global economy, record highs in international commodity prices, especially oil, and overheated financial markets. The peak in 2008 was a clear reflection of the pre-crisis situation in global markets. Excessive demand, credit devaluation, and asset bubbles increased inflationary pressures.

The years 2015–2020 were the lowest period of global inflation, with 1.5% in 2015, 1.6% in 2016, 2.3% in 2017, and around 2–2.4% in subsequent years. This process is associated with the stabilization of oil and metal prices, increased global competition, increased production efficiency, and the strengthening of price control mechanisms in many countries. In 2020, the onset of the pandemic led to a sharp decline in global demand, which kept inflation at 1.9%. Although supply chains were disrupted, the decline in demand prevented prices from rising significantly.

The end of the pandemic and the beginning of a global economic recovery brought inflation to 3.5% in 2021. In 2022, global inflation rose to 7.9%, one of the highest peaks on the chart. This is mainly due to the global logistics crisis, a several-fold increase in container shipping prices, the energy crisis, geopolitical tensions and sanctions as a result of which energy, food and transport costs increased. Inflation in 2023, although it decreased to 5.9%, remains high, as energy market instability and disruptions in supply chains have not been fully eliminated[6].

Global inflation is projected to decline to 2.9% in 2024, a significant moderation after the high levels seen in 2022–2023. This shift is driven by a number of factors: tighter interest rate policies by central banks, measures to reduce the money supply, relative stabilization of global energy prices, recovery of the international logistics system, and moderation in consumer demand. In addition, the more stable functioning of production chains has reduced price pressures. The 2024 figure indicates that global inflation is beginning to return to a stable state.

## CONCLUSION

The analysis showed that global inflation is a complex multi-factor process, resulting from imbalances in global markets, energy, logistics, geopolitical situations and monetary policy. Volatility

in commodity prices, disruptions in the transport system, increased demand and weak supply lead to increased inflationary pressure. These processes have a negative impact not only on economic indicators, but also on social well-being: real incomes decrease, investment activity decreases, exchange rates become unstable.

To stabilize inflation, it is necessary to strengthen coordinated macroeconomic policies among countries, diversify the energy market, modernize the global logistics system, conduct consistent monetary policy, and improve anti-monopoly mechanisms. Active and scientifically based policies serve as an important factor in mitigating inflationary pressures and ensuring economic stability.

The global inflation process is multifactorial and poses a significant threat to global economic stability. Its management requires internationally coordinated policies. Based on the research results, the following proposals are put forward:

First, given that sharp fluctuations in international commodity prices are one of the main sources of inflation, countries should reduce their dependence on the single market for resources such as oil, gas, and metals, and enter into stable contracts with alternative suppliers;

Secondly, disruptions in transport and logistics chains and rising freight prices directly affect the final value of goods. Therefore, the creation of new transit routes, modernization of port infrastructure and expansion of multimodal transport systems;

Third, the expansionary monetary policies of major countries inject excess liquidity into global markets. Increased coordination among central banks will prevent excessive increases in the global money supply;

Fourth, market capture by a few large corporations distorts the price-setting process. Developing global antitrust rules and expanding open competition will reduce inflationary pressures;

Fifth, the uneven distribution of capital, capital outflows from developing countries, cause currency instability. Regional currency funds, joint reserve systems create a stable financial hedge against inflation;

Sixth, inflation reduces real incomes, which creates instability in the consumer market. Targeted subsidies, indexation of social payments, and support for the poor reduce the social harm of inflation;

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