

ENERGY COMPONENT OF INFLATION – LESSON FOR UKRAINE

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Relationship between energy policy of government and economical processes in the last time is very interesting topic for research among economists. This interest increased in view of “gas question” between Russia and Ukraine that became aggravated dramatically in the beginning of 2009. Recent events have shown that most of European states both developed and developing sharply depend on imports of energy. In our paper, we decided to investigate robust of this relationship.

The most often investigated aspects in this sphere are oil prices and their influence on consumer prices, and on GDP. Also was investigated reverse relationship – influence of different economical indexes and processes such as aid payments, industrial value added in GDP, import, FDI inflows on energy intensity (total primary energy supply divided by GDP).

Many empirical researches about relationship between energy policy and economy exist in our days. However, our paper differs from counterparts. We investigate the influence of energy structure of country on inflation and use for these goal two kinds of econometric estimation – conventional OLS estimation and Logistic Regression estimation.

As a measure for inflation we took annual values of CIP growth for period 1962-2004 in nine European countries that have deficit of energy. That is inflation comes forward a dependent variable, and data set consists of 387 observations.

As explanatory variables we have used fuel imports as a share of merchandise imports, ratio of energy produced in country to energy used in country, ratio of merchandise imports to merchandise exports.

The main finding of our study is that dependence on external sources of energy positively influences growth of inflation. In addition, we confirmed that high degree of openness of economy raises inflation.

Policy recommendations: to decrease growth of inflation government should develop production of energy from own sources and little by little decrease energy imports .

Directions for future research. Our study does not maintain data about money emission. In many empirical researches was confirmed that this index significantly influences inflation growth. It will be interesting to unite variables that reflect energy dependence and variable money emission in single research to reveal and estimate their simultaneous influence on inflation.