

The Impact of Inflation on China's Economy and Countermeasures

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Abstract: Judging from the economic trends since 2008, we can know that China's economic development and monetary policy are closely related. In the past decade, the central bank has formulated an efficient monetary policy, and used lower interest rates in monetary policy to alleviate the impact of the international financial crisis on China's economic development. But from another perspective, the large amount of currency circulation has also led to the emergence of excess currency liquidity. This situation where prices continue to rise over a period of time will lead to inflation. This requires a series of measures to curb the continued development of inflation, such as raising interest rates. These methods can effectively control inflation. It can be seen from this that the effective implementation of monetary policy can reduce various risks caused by inflation, and it can also be seen that inflation has a huge impact on China's monetary policy. Through analyzing the basic knowledge of inflation and the impact of inflation on our country's economy, some countermeasures against inflation are proposed.

1. Introduction

On August 31, 2018, at the Fifth Meeting of the Standing Committee of the 13th National People's Congress of the Party, China voted and passed the decision on amending the individual income tax law, and increased the exemption from the original 3,000 yuan per month to At RMB 5,000 per month, the tax reduction policy has been implemented first from October 1, 2018.

The "exemption amount" is proposed to protect the basic living standards of residents, and the most intuitive manifestation of residents' living standards is their consumption level. Zhang Yiyi, Zhao Xin, and Yi Mengya (2013) emphasized the important relationship between CPI and exemption, and initially constructed a formula with CPI as an independent variable and individual tax exemption as dependent variable. Cao Guiquan and Qiu Xiaofeng (2016) mentioned the necessity of constructing a certain dynamic model for the exemption in order to strengthen the redistribution effect of taxation. Zhang Yi and Wu Meng (2019) proposed to establish an exponential model of exemption based on price levels, focusing on consumer spending and price levels as the research basis, and proposed a series of analyses to confirm that the price level should be linked to the exemption.

The price level and inflation are inseparable, and the impact of price level and inflation on the

level of consumption of residents cannot be ignored. Inflation and changes in price levels are in a dynamic process. It can be seen from this that the effective implementation of monetary policy can reduce various risks caused by inflation, and it can also be seen that inflation has a huge impact on China's monetary policy. Through analyzing the basic knowledge of inflation and the impact of inflation on our country's economy, some countermeasures against inflation are proposed.[1]

2. Causes of Inflation

In recent years, China's currency issuance has been increasing. The supply of currency is far greater than the growth rate of the economy. Because of the multiplier effect of currency, the circulation of currency has been greatly improved. Although a part of the currency was stored by the residents, it did not cause inflation in a short period of time, but it also has a certain potential impact. Part of the currency will flow into the social market due to various policy adjustments in the market, new demand, etc., and because China's overall financial system is not very mature and cannot completely overcome the potential pressure of inflation, these liquids are relatively strong. The currency will flow into the real economy, leading to an increase in the price of capital.

As of the end of 2018, the prices of many types of agricultural products in my country have been on the rise. This is because the labor costs used to produce agricultural products are relatively high. On the one hand, in recent years, the number of agricultural workers in China has been small, and there are fewer people in the market who can provide labor for the production of agricultural products. This has led to a gradual increase in the labor costs of agricultural products enterprises in the production of agricultural products; The government repeatedly raised the minimum wages for workers in 1999, which has led to rising labor costs for agricultural products companies and even more types of companies. At the same time, due to insufficient labor supply, the supply of agricultural products will also decrease. In order to ensure profits, manufacturers will definitely increase the price level of their products. This will cause the prices of various products to rise rapidly within a certain period of time, leading to a rise in the consumer price index and thus aggravating inflation.

3. The Impact of Inflation on China's Economy

Inflation will promote China's economic growth to a certain extent. Second, inflation can alleviate the occurrence and deterioration of financial crises and economic crises to a certain extent. When a financial crisis breaks out, a country's currency often depreciates, leading to inflation. On the surface, this is indeed not conducive to economic development. However, the non-systematic economic crisis triggered by inflation can be solved by certain methods. The main reason is that after the financial crisis, the currency of each country will depreciate to a certain extent. If the exchange rate of the country's currency remains unchanged, it will affect the country's exports, but the country can export through a certain currency devaluation trade. The country's currency is used to offset the impact of the devaluation of other countries' currencies in order to solve the country's financial crisis.

However, in a longer period of time, the impact of inflation is more negative. First, the long-term inflation will affect the healthy development of China's real economy. When inflation occurs, the wages paid to workers in various industries will be much higher than before, and the prices of various raw materials required for production will also be much higher than before. The increase in labor costs and raw material costs will increase the production costs of enterprises. . Under the circumstances of this kind of cost increase, if the company wants to be able to develop for a long time, it must raise the price of the product. However, when commodity prices increase, the competitiveness of the products produced by these companies will also decrease; on the other hand,

if the prices of commodities are not increased, the profits of the companies will be reduced, or even losses. possibility. Second, inflation will hinder the development of our foreign-oriented economy. Most of China's export products are processed products, which are industries that mainly rely on labor to produce products. Therefore, most companies in our country use the cost of various labor forces to gain a certain competitive advantage in the product market. Therefore, the lower the labor cost of the company, the greater the products produced in the product market. Competitiveness. However, inflation will lead to an increase in labor costs, and ultimately lead to an increase in the market prices of various products, and finally lead to a decrease in the competitiveness of enterprises in this product market. At the same time, the depreciation of the renminbi within the country and the appreciation abroad, through the exchange rate conversion calculation, the product price has been unknowingly increased, which will also lead to the lack of competitiveness of enterprises in the product market, thus making China's Compared with enterprises of other countries, export-oriented enterprises have lost their competitive advantages in the international market, which has hindered the development of our foreign-oriented economy.[8]

4. Conclusion and Suggestion

In foreign trade, prices are often affected by many factors. Among them, the change of exchange rate is the most obvious influence on foreign trade economy among various factors. Because of the combined effect of some factors, the renminbi will increase in value when it depreciates internally, and this will inevitably produce a certain demand contradiction. When our country is in a surplus of international trade balances, our country's exchange rate changes and settlement mechanism will make our country's currency supply increase rapidly, and prices will continue to rise. It is a necessary choice to use the method of raising the exchange rate to reduce the level of inflation, and at the same time, it will make China's pattern of stimulating export trade more reasonable.

First, my country is a large agricultural country, and the current largest industry is still agriculture. Therefore, it is necessary to strengthen the development of agriculture and strengthen the construction of agricultural infrastructure to ensure that the total output of food is increased. In this way, the basic living problems of most residents must be solved. It is also necessary to strengthen the development of the agricultural and sideline product processing industry. This can be achieved by increasing the value of agricultural and sideline products and stabilizing the price of by-products. Second, intensify efforts to develop China's secondary industry, that is, industry, especially basic industries. Some industrial enterprises that have a very close influence on the national economy should be managed by the state, and the state should carefully control the output and prices of products in various industries to ensure the basic lives of residents and stabilize residents' psychology.

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