What Is the Best Way to Invest in Countries Which Have Inflation Problems?

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doi: https://doi.org/10.37745/ejaafr.2013/vol11n36780 Published April 1 2023

Citation: Jafari M. and Alikhademi A. (2023) What Is the Best Way to Invest in Countries Which Have Inflation Problems, *European Journal of Accounting, Auditing and Finance Research*, Vol.11, No. 3, pp.67-81

ABSTRACT: *This research investigated inflation in Iran and collected data in different ways based on a series of polls and studies on various websites and articles and booklets. In general, one of the important and practical issues that were examined in this article was the investment and inflation processes, which were the two facts that formed the main title of this article, the effective role of investment on the lives of all sections of society, especially private individuals and households. normal problems are not hidden from anyone, but the existence of problems such as inflation has caused concern to all members of society, on the other hand, inflation is an unwanted thing, and it cannot be said that none of the members of the society have a 100% role in it, or that they are completely irrelevant. But the main topic of this project is to discuss all these topics and find a solution to compensate for these problems and solve these concerns. The findings of this research generally show that the rate of inflation in third-world countries increases by an average of 54.0% every year. The problems in these countries are not few, from domestic inflation or foreign sanctions in addition to being more severe. Changing the lifestyle of the people in society makes it impossible to save or invest, but financial issues are always looking for solutions and methods to control them. It provides you with a summary of these two controversial difficulties.*

KEYWORDS: investment, inflation, third world countries, society problems, rate of inflation, financial issues.

INTRODUCTION

Inflation (in French: Inflationir) (in English: Inflation) in terms of economics refers to an increase in the general level of money production, monetary income, or prices. Inflation is generally considered to mean a disproportionate increase in the general price level. Inflation is an

European Journal of Accounting, Auditing and Finance Research
Vol.11, No. 3, pp.67-80, 2023
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)
Website: https://www.eajournals.org/
Publication of the European Centre for Research Training and Development -UK
increasing and irregular process of increasing prices in the economy. Although different definitions of inflation are provided based on various theories, they all refer to the increasing and irregular process of price increases. Today's concept of inflation was popularized in the 19th century. Before that, there was another concept of inflation, which was used to indicate the increase in the volume of banknotes that could not be converted into gold.

Inflation rates around the world in 2019

The inflation rate is equal to the change in a price index, usually the consumer price index. The decrease in the percentage of national money backed by the percentage of created money is called inflation. Note: The Central Bank must check point by point and the Ministry of Economy on a minimum daily basis all indicators and parameters related to inflation and bring it to the optimum level by changing possible strategies. (1)

Inflation means an indirect tax on all people in different amounts, so that the highest cost is on the shoulders of the oppressed and the poor and the lowest cost is on the shoulders of the rich, in other words, it can even be said that inflation is an indirect tax on workers and empty hands in favor of the rich (or The tax on the poor is for the greater comfort of the affluent section of the society.

Inflation refers to a situation in which monetary demand for a product grows relative to production, a situation that manifests itself as an increase in the price of a unit of produced goods in the absence of effective control. Inflation is usually accompanied by a real or potential increase in the general level of prices, or other words, a decrease in the purchasing power of a currency. In some cases, inflation occurs when the general level of prices does not decrease to the extent required by the increase in the efficiency of factors and economic processes. Inflation, as it is commonly understood, has to do with an abnormal increase in prices.

When economists talk about inflation, they are referring to the growth of the general level of prices; Inflation means that more money must be paid to buy goods and services.

Some other definitions have defined inflation as the cumulative course of the price increase and its irreversibility. Other experts such as Raymond Barr, Jean Marshall, and Gunnar Myrdal have defined inflation as a large and continuous increase in prices. If wage growth is the same as productivity growth in the economy, inflation will not occur.

In general, it can be said that inflation means an average increase in the general level of prices. The average is used for this reason, because the price of goods may increase and the price of goods may decrease during inflation, so their average increase will be considered

Investing means allocating money to something with the expectation of profits and benefits from it in the future. More precisely, investment is the commitment of money or capital to purchase equipment or other assets, to obtain benefits from it. In economics, investment means buying a product that is not consumed now but will be needed in the future and that product will be profitable for him. In finance, investment means that a person buys a financial asset such as stocks and predicts that the financial asset will be profitable in the future and its price will increase, so he will make a profit by selling it at a higher price.

Investment is discussed in many economic areas such as business management or property and finance, whether it is for families, companies, or governments. An investment involves a choice by a person or an organization, such as a pension fund, after analysis or consideration, to invest or lend money in a cycle, instrument, or asset such as property, commodity, stock, bond, financial derivative (for For example futures and secure platforms), or a foreign asset denominated in a foreign currency, which provides a level of risk and allows returns over some time. An investment that is not fully analyzed can be riskier than the owner's investment because the possibility of damage is not within the control of the owner.

The difference between speculating and investing can be subtle. It depends on the investment that the owner is considering, whether the purpose is to lend resources to another person for an economic purpose or not. In a case of investment, instead of storing the commodity produced or its monetary equivalent, the investor chooses to produce a durable good for the consumer or producer to use that good, either by lending the originally stored commodity to another in exchange for interest or A share of the profit is investing in the stock market.

Today, it is no secret that investment plays an important role in the economy, capital formation can be described as any type of investment that increases the production capacity of social investment and is the growth factor in society. Therefore, the need for capital Investors can be called to obtain a range in proportion to risk and security in investment and flexibility in investment and liquidity (2)

The third world is a term that became popular in the 1950s and 1960s, and it refers to the group of newly independent countries in the continents of Asia and Africa, as well as the group of countries that are neither among the developed capitalist countries nor among the developed communist countries. In this sense, countries like China, North Korea, Vietnam, and Cambodia, although they have a communist regime, are included in the third world. The synonyms of this term for these countries are "underdeveloped", "underdeveloped" or "developing" countries.

The concept of the third world includes most Latin American countries and Asian and African countries. Most of these countries have a history of colonialism (monocolonialism) and hate imperialism, and are plagued by poverty and population explosion, and they constitute more than two-thirds of the member states in the United Nations. In the 1950s and 1960s, an international political movement emerged in these countries to acquire a specific political and moral identity against the two "Eastern Bloc" and "Western Bloc", whose prominent leaders were Jawaharlal Nehru from India, Nasser from Egypt, Sukarno from Indonesia.

and Tito (nek Titoism) were from Yugoslavia."Bandung Conference" and "Belgrade Conference" were among the leaders of such countries, which were seeking a new international identity under the name of "non-aligned", and some even hoped that among these countries, a third block or a "third force" against Eastern and Western blocs will be formed, but the weakness of the economic foundation and the internal political crises of these countries inevitably led them to one of the two blocs, East and West, and although many "non-aligned countries" continue with the "non-commitment" policy, In practice, ideologically, politically and economically, they tend to one of the two blocs, and in the meantime, the share of the countries that love the Soviet Union and receive aid from it - due to the fear and hatred that most of these countries have for the colonial and imperialist background of the West - has gone. It gets more and more. Lately, some Western writers have made a new division and called the developing countries with rich natural resources, such as the oil-rich countries of the Middle East, the "Fourth World".

By accepting the "three worlds" theory, the Chinese have given a new dimension to this term. In their opinion, the real revolutionary and anti-imperialist world is the "Third World", which is opposed to the two camps of imperialism and "social imperialism" and is threatened and exploited by them; But the Soviets and their communist supporters only believe in "two camps", one "camp of imperialism and capitalism" and the other "camp of socialism and anti-imperialism"(3)

Best Investments for Inflation

We may earn an affiliate commission from partner links on the Entrepreneur Guide. These do not affect our editors' opinions.Inflation has been wreaking havoc on the U.S. economy since the coronavirus pandemic. The government's consumer price index increased by 9.1% from June

2021 to June 2022. The increase was the largest year-over-year jump experienced in the U.S. since the 1981-82 recession.

The price of energy became an issue after the Russian invasion of Ukraine. At their peak, energy prices increased by 42% from the same time during the previous year. A jump that severe hasn't been experienced since 1980 when the Iranian Revolution significantly reduced oil production.

Economically, last year was tough, but this inflationary period is worse than it's been in more than 40 years. Consumer purchasing power is much lower than it's been in decades, and there's no telling when it might get better. Higher prices might feel a little bleak, but the current inflationary environment is not completely hopeless.

There are a few moves that you can make that can protect your money from inflation and possibly net you a profit in the long term. What are the best investments to make during inflation?

Inflation is a completely normal occurrence for the economy. While a 9.1% increase is extremely high, the annual inflation rate typically averages somewhere around 2%. In some cases, the inflation rate can be negative by the end of the year. However, that's uncommon, and you should plan for at least a 2% inflation rate each year.

The best option for keeping up your finances when inflation rises is to keep a percentage of your money in long-term investments as part of a diversified portfolio.

Retirement accounts, for example, are commonly used as a way to grow your money slowly over time and keep up with the natural rise of inflation.

The problem is that you can't access these accounts until much later in life. If you're looking for inflation protection in the short term, then you'll need to seek an alternative method.

Here are six of the best investments that you can make during times of high inflation. Most of these options are generally solid investments but can be especially safe during inflationary times.

Real Estate

Real estate is almost always an excellent investment and should be at the top of your list. Under normal circumstances, commercial real estate is the most lucrative investment opportunity. However, the last few years have been anything but "normal circumstances."

Work-from-home and hybrid work schedules might become the new standard, so commercial real estate is currently in limbo. On the other hand, residential real estate is a white-hot market right now and could be where you should focus your attention.

Since 1991, the average annual growth in home value has been about 4%. That's more than enough to cover the average annual rate of inflation. Another benefit is that rent prices have been skyrocketing. You can buy a new home for yourself, rent your current one, and charge a considerable amount of money each month.

Naturally, some risks are inherent when owning multiple properties. The cost of financing the purchase and routine maintenance may mean that you likely won't see a profit for quite some time. Also, there is always the risk of another housing market crisis like the one in 2007-2008.

The good news is that you don't have to take on these risks alone. Real estate investment trusts (REITs) are publicly owned companies that own real estate and mortgages.

By investing in one of them, you'll be able to experience the potential windfalls of real estate without buying any property. The money pooled together can lead to larger purchases with much lower personal risk.

Savings Bonds

The U.S. Treasury sells savings bonds that are designed to earn interest based on a fixed rate and one that's adjusted for inflation. The interest rate is set once every six months and will be altered based on the current rate of inflation.

For example, the current interest rate for an I-Bond is 9.62% and is set through October 2022. The rate will either be increased or decreased based on the current state of the economy in the fall.

The good thing about I-Bonds is that they are both short-term and long-term investment opportunities. An I-Bond will only earn interest for 30 years (5).

Economic growth is the most important goal of each country. Foreign direct investment which links the domestic economy with the global economy is the main factor of economic growth as long as the attraction situation has been provided in the country. The results show that foreign direct investment in a high-income developing country is positive and significant and in low-income countries is not significant (6).

In macro literature, inflation uncertainty can affect the investment and economic development of countries by affecting the decisions of economic actors. The obtained results have shown that inflation uncertainty has caused the inflation of countries to increase (Cokerman-Meltzer 1986 hypothesis) and other findings have indicated the negative impact of inflation uncertainty on economic growth and investment in these countries (Bernanke 1983 and Pindic 1991-1982 hypothesis). But its effects in the short term are different depending on the situation of each country(7).

Investigating the impact of the inflation rate on different sectors of the economy, especially the capital market, shows the growth of the country's economic activities. Based on the obtained results, the two variables of exchange rate and soft inflation show a negative effect on the real returns of stocks in the long term (8).

Investments are divided into domestic (private) and foreign sectors, private capital is obtained from the difference between the formation of gross fixed capital in two consecutive years and foreign investment, each of which is subject to several factors and variables, which are mainly affected by the variables Domestic including income, exchange rate, trade relationship, interest rate, and inflation rate, etc. In addition, one of the variables affecting foreign investment is the inflation rate, which can affect foreign direct investment by influencing investment risk and the average maturity of commercial loans (9).

One of the basic features of the movement towards economic development is the attraction of savings resources available in the national economy towards investment expenses. For this purpose, political factors affecting private savings such as: financial policies, social security arrangements, macroeconomic stability, and development of national markets, and non-political factors including: the growth of demographic characteristics and external factors have an effective role in investments. (10)

Our results show that Friedman's 1977 and Ball's 1992 hypothesis that an increase in inflation increases inflation uncertainty. Therefore, policies based on inflation targeting can be quite useful in increasing economic growth. In addition, we found that the increase in inflation uncertainty reduced both investment growth (Bernanke hypothesis 1983) and (Dixit and Pindik 1994) and production growth (Friedman 1977 hypothesis), and finally, the hypothesis (Holland 1995) means the existence of negative causality from uncertainty Inflation is passed to inflation. (11)

The auto-regression vector model is estimated using the variables of liquidity growth, exchange rate growth, inflation rate, and expected inflation as nominal variables and the real gross domestic product gap variables as real variables. The root of inflation is not only monetary and the chronicity of inflation in the country. It is also related to the real variables. The results of the estimation of this model imply a gap in the gross domestic product and the stability of those variables is considered one of the important factors of economic growth (12).

The results of shock reaction functions show that in the short term, increasing the degree of trade openness increases economic growth and reduces inflation. But the effect of this increase in the short term is negative on the growth of employment, also the results show that in the long term, a sudden change of one standard deviation does not affect the variable of trade openness (13).

Investment of firms, headquartered in countries with higher inflation is significantly less sensitive to their stock prices than that of firms headquartered in countries with lower inflation. We argue that stock prices are less informative in countries with high inflation. As a result, managers are less likely to use stock prices in their investment decisions, thereby lowering the sensitivity of investment to stock prices in countries with higher inflation (14),

Inflation, in addition to the continuous increase in the general level of prices or the decrease in the private sector, harms the profitability of investments. Due to the inverse relationship between investment and inflation, the implementation of effective policies to reduce inflation, which will encourage savings and create investment incentives, prevent the flight of capital from the productive sector to speculative and brokerage activities (15).

In traditional investment theories, it is assumed that investment decisions are made in a certain environment, in some countries there is a high degree of uncertainty based on inflation, production rate, and other important macroeconomic variables. In this regard, the conditional variable of the regression is the generalization of the inflation rate on private sector investors in these countries. While the gross domestic product has a positive role and the inflation rate has a negative role on private sector investment (16).

It is a reflection of the mandated control of credit rationing along with its known undesirable effects, such as the emergence of unorganized (unofficial) interest rates a very different interest rate from the official interest rate. Evaluation of the effect of changes in the number of facilities in the official market on the interest rate in the informal market. The estimation of the investment function of the correlation coefficient between the two interest rates of the Granger test confirms the results of the theoretical model (17).

European Journal of Accounting, Auditing and Finance Research
Vol.11, No. 3, pp.67-80, 2023
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)
Website: https://www.eajournals.org/
Publication of the European Centre for Research Training and Development -UK

In the method of linear expenditure system, internal and cross-price elasticities of 16 goods and savings elasticities about price and income have been estimated. In this calculation, except for beverages and prepared foods, edible goods are in the group of essential goods that must be spent on them. In general, the income elasticity of households is equal to 45.2, which means that with a ten percent increase in income, The amount of savings will be 24.5(18).

In some studies, Bayesian BMA model averaging and WAIS least squares averaging have been used to investigate the effect of ten explanatory variables on inflation during a certain period, and the results show that in the order of these ten factors based on the probability of their presence in the model The obtained variables of the price index of imported goods, liquidity growth rate and non-oil gross domestic product growth have been ranked first to third, respectively (19).One of the most common functions of social security is the redistributive function of these funds. Depending on the organization of the fund's position, this function can be redistributed between strata or between generations. The current and future of the fund and the intensification of intergenerational distribution (20).

Another related research is the multi-scale method, which is possible to examine the mentioned relationship in time scales between inflation and stock returns in the short-term, negative, and positive in the long-term and medium-term horizons. Bodukh 1993, Wong and Wu 2000, and Raine 2006, which are consistent with approaches other than wavelet analysis (21).

Table 1: calculation of inflation in Iran

Headimg	Present percentage	Last month percentage	Last year precentage
Annual household inflation rate	40,5	+1,2	
Spot inflation rate	....	+1,5	+54.0
Urban spot inflation rate	52,8	+1,4	
Rural spot inflation rate	60,7	+2,5	
Monthly inflation rate	4,6	-7,6	
Urban monthly inflation rate	4,5	-7,0	
Rural monthly inflation rate	4,8	-11,0	
Annual infation rate	40,5	+1,1	
Urban annual inflation rate	40,0	+1,1	
Rural annual inflation rate	43,2	+1,4	

All of the calculations related to the July of 2022 in Islamic Republic of Iran.

Table definition

To express more information regarding the presented table, as it is known, the information given is related to the amount and rate of inflation in Iran during the past two and three years.

The annual inflation rate of July 1401 for the country's households has reached 40.5%, which shows an increase of 1.1 percentage points compared to the same information in the previous month.

The point inflation rate means the percentage change of the price index compared to the same month of the previous year. The point inflation rate in July 1401 has reached 54.0% That is the country's households have spent an average of 54.0% more than July 1400 to buy the "same set of goods and services".

The point inflation rate of July 1401 has increased by 1.5 percentage points compared to the previous month. The spot inflation rate of the major group "food, beverages and tobacco" has reached 86.0% with an increase of 4.4 percentage points, and the "non-food goods and services" group has reached 36.9% with an increase of 0.1 percentage points. Meanwhile, the point inflation rate for urban households is 52.8% which has increased by 1.4 percentage points compared to the previous month. Also, this rate for rural households is 60.7% which has increased by 2.5 percentage points compared to the previous month.

The monthly inflation rate means the percentage change of the price index compared to the previous month. The monthly inflation rate of July 1401 has reached 4.6 percent, which has decreased by 7.6 percentage points compared to the same information in the previous month. The monthly inflation for the major groups of "food, beverages, and tobacco" and "non-food goods and services" was 5.7% and 3.8% respectively.

Meanwhile, the monthly inflation rate for urban households is 4.5% which has decreased by 7.0 percentage points compared to the previous month. Also, this rate for rural households is 4.8% which has decreased by 11.0 percentage points compared to the previous month. The annual inflation rate means the percentage change in the average number of the price index in a year ending with the current month, compared to the same period before that. The annual inflation rate of July 1401 for the country's households has reached 40.5% which shows an increase of 1.1 percentage points compared to the same information in the previous month.

Also, the annual inflation rate for urban and rural households is 40.0% and 43.2% respectively, which has increased by 1.1 percentage points for urban households and 1.4 percentage points for rural households.

A consequence of this article

Results and suggestions

Most economic activists consider investment as the only way to stay safe from inflationary storms, as it has been examined, there are different markets for investment and each of them has its details, including the stock market, bonds (debt), housing, gold, cars, etc. It should be noted that the government's income decreases despite inflation in those years and cannot cover all expenses, which shows itself in the majority of the budget deficit, so the first part that feels inflation is the increase in the foreign exchange rate. which immediately adjusts itself with inflationary shocks. The stock market is one of the platforms for investment, the valuation of active companies is, directly and indirectly, dependent on the exchange rate, so it is a good option for investment. In general, the shares of active companies in the capital market are influenced by The exchange rate can be divided into two categories: foreign currency and domestic currency. If this stock has a foreign currency value, with the increase in the foreign exchange rate, it will not only have a loss, but it will also gain.

The best suggestions (from the article on the relationship between inflation, inflationary uncertainty, and investment growth by Amir Gholami and Akbar Kamijani)

It is recommended to study during the period 1367:2:1387:

1)The policy of reducing the inflation rate should be on the agenda of economic policymakers.

2)Considering the effect of liquidity growth on inflation, the central bank curbs the liquidity growth rate and

Applying discipline-oriented monetary policies and, in other words, anti-inflation in the direction of reduction

Inflation is on the rise.

3)According to the rejection of Holland's hypothesis (1995), the following result can be implicitly

He found that the central bank has a lower degree of independence. In other words

Another policy consequence is that more the independence of the central bank in the direction of stability

If the prices are higher, this independence is accompanied by a low inflation rate and inflation uncertainty.

It will be less.

4)Negative effect of inflation uncertainty on investment growth, risk aversion hypothesis

It verifies people, therefore, the security of investment and the reduction of uncertainty.

It can lead to an increase in investment growth and then economic growth.

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