

Understanding Economic Disruption

What is inflation?

Inflation is the decrease in how much you can buy with the same amount of money over time. This decrease in purchasing power is a result of rising prices. Inflation is typically measured using indexes that compare the annual price increases of various goods and services.

What causes inflation?

Prices can increase for various reasons. The demand for goods can increase or the supply of goods can decrease, both of which result in increased prices. The costs to produce goods and services also influence prices. Energy prices are often a driving force behind production costs increasing due to the amount of energy used in manufacturing and transporting products. The amount of currency in circulation also significantly impacts inflation. When more of a currency is printed, its value typically decreases.

How should I deal with inflation?

Inflation, especially higher levels of inflation, can make personal finances more difficult to manage. As prices increase, people who previously had disposable income will find their budgets getting tighter and will have less flexibility with their spending. The most effective way to manage your finances during high levels of inflation is to create a strict budget and eliminate any discretionary spending if possible.

Tips for Budgeting During Unsettled Times

During unsettled times, there are many things out of our control. Budgeting, however, is a way to take control of your finances and can be extremely valuable in times of uncertainty. Here are some tips:

- **Budget.** Careful budgeting can help stretch your income. As prices and expenses change, updating and adjusting your budget accordingly is important.
- **Shop around.** Get multiple quotes on services to find cost efficiencies; switch from name brand to generic; buy in bulk and use coupons.
- **Prioritize expenses.** Determine which expenses might be discretionary. Cancel unused subscriptions, bring lunch or coffee from home instead of ordering out.
- **Increase income.** Take on odd jobs or a part-time job, offer baby-sitting or pet-sitting services, or sell things you don't need.
- **Establish savings.** Can you create savings for emergencies using your budget? Everyone needs a safety net and every penny saved counts. If you didn't fully spend what you budgeted for, you can now save that money.
- **Get disciplined with your spending.** Cut back on entertainment, eating at restaurants and travel. Look to trim these costs, or to temporarily eliminate them altogether, where you can.

The SWIFT Banking System

With recent media coverage of sanctions imposed by Western nations on Russia, you may have heard the SWIFT banking system mentioned. SWIFT, or the Society for Worldwide Interbank Financial Telecommunication, is a means to facilitate international transfers of trillions of dollars among more than 10,000 financial institutions and more than 200 countries and self-governing bodies.

SWIFT provides a secure means of transferring money between international partners as well as between SWIFT member institutions within a single country. Without access to SWIFT, banks, individuals and corporations generally find it costlier and less secure to conduct international trade, pay bills and receive income from foreign sources.

To avoid sanctions like those recently imposed by Western nations, Russia and China each created alternatives to SWIFT. Russia has the System for Transfer of Financial Messages, or SPFS, as it's known by its Russian acronym. Although established in 2014, it has largely failed to thrive. China's system, the Cross-Border Interbank Payment System, or CBIPS, was created in 2015. It relies on the SWIFT program to facilitate exchanges and has been more successful than SPFS.

Interbank transactions for individuals may also be completed by the SWIFT, SPFS or CBIPS systems. While individuals are unlikely to have a Swift or other account themselves, their banking institutions likely use one of these resources. Crypto currencies are an increasingly popular method of exchange for financial transaction, although they are largely unregulated and less secure than interbank transfers.

What are cryptocurrencies?

Cryptocurrencies are essentially digital coins or tokens that can be moved electronically from one holder to another without permission from a central authority such as a government, bank or a credit card company. Cryptocurrencies can be used to buy goods and services with any seller that accepts them as payment. However, the majority of cryptocurrency holders currently treat them like an investment, along the lines of precious metals, real estate, or equities, purchasing them through a broker or an online hub or trader. There are thousands of cryptocurrencies today, but the oldest, best known and most valuable is Bitcoin.

What is Bitcoin?

Bitcoin is a peer-to-peer value transfer network where all the transactions happen directly between equal, independent participants. It was created in 2009 by a coder known by the pseudonym Satoshi Nakamoto. For the average person, Bitcoin should be thought of as a digital store of value but one with substantial price fluctuations and therefore risk.

What gives cryptocurrencies value?

While cryptocurrencies have no intrinsic value, their worth, like a house or a car, is determined by what a buyer is willing to pay for them. When Bitcoin was first established, the value of each coin was just fractions of a cent. Over time, buyers have bid up the price, which at one point reached more than \$67,000 per coin. Recent fluctuations have seen the price of Bitcoin drop to as low as \$34,000 per coin before recovering to \$44,000 per coin.

Why It Matters

With sanctions in place and difficulty accessing traditional banking due to world events, cryptocurrencies may allow for purchases without resorting to barter, provided the buyer has a crypto account and the seller is willing to accept cryptocurrency in trade. Cryptocurrencies can also be a method to evade the worst effects of currency devaluation, such as the depressed value of the Russian ruble under Western sanctions, because they trade outside regulated channels.

The Barter Economy

When society faces extreme levels of disruption, the value that people place on standard methods of exchange such as cash, coins or credit drops. Lenders are often unwilling to loan during these times and cash may have little or rapidly falling value and may not be accepted by those selling products.

In extreme situations, such as during war, the cash economy may be replaced by a barter economy. Barter is the exchange of one good for another directly, without the use of cash or credit. In a barter economy, the role of currency is filled by the exchange of one product or service for another.

Some things are more useful in a barter economy. Things like food (especially canned goods and other long-lasting items), cigarettes, alcohol, diapers, medicine or services such as daycare, skilled trades or day labor are all sources of value in most barter economies.

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