Inflation: A Key for Economic Growth in India

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Abstract--- India's growth experience during the last two decades has been highlighted by initiatives, measures and improvements in financial sectors. During the current fiscal, Department of Economic Affairs (DEA), Ministry of Finance has undertaken various initiatives for enhancing the Economic Growth and ensuring the Fiscal Stability of the economy. The corresponding provisional inflation rates for rural and urban areas are 6.48 percent and 4.81 percent. Consumer prices in India went up 5.69 percent year-on-year in January of 2016, higher than 5.61 percent in December of 2015 and accelerating for the sixth straight month.

The present article made an attempt to assess the issues relating to inflation such as relationship between Money supply and inflation, impact of inflation in general and particularly on common man, Measures of Inflation, trends in inflation (CPI) over a period of time and also on current status of inflation in India.

Keywords--- Inflation, CPI, WPI, Money Supply.

I. INTRODUCTION

Growth with stability is essential condition for attaining sustainable economic development. Fluctuations in prices create an atmosphere of uncertainty which is not conducive to development activity. Inflations mean paying more for goods than paying earlier. Not only essential goods see a hike, non-essential items like cigarettes etc. would also cost more. The price of everything goes up over time and this phenomenon is called inflation.Inflation brings no gain to common man except for few hoarders and investors. Inflation enriches fewer while impoverishing more. They say a little bit of inflation is good for any economy so that business transaction takes place otherwise there would not be any growth in economy. The growth rate has fallen as predicted by many research firms. For the service classes it is a shot on the arm. Whatever hike in salary they might have bargained is outdone by the hike in prices in essential items. The cost for essential items should always be less but it is almost as high as luxury items or non-essential items. The RBI expressed concern over the unrelenting rise in food inflation, which is causing considerable hardships to a large number of people, who are below the poverty line. The rising inflation is also eating into the savings of a large majority of middle-class population resulting in sluggish deposit growth and diversion of bank deposits into other unproductive assets like real estate and gold as a hedge against inflation. The foremost challenge for returning the economy to a high growth trajectory is to revive investments. A competitive interest rate is necessary for spurring growth and investments. Against this backdrop, the main thrust of the monetary policy is intended to:

- Provide an appropriate interest rate environment to support growth.
- Sustained reduction in inflation.
- Manage liquidity and ensure adequate flow of credit to the productive sectors of the economy.

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II. STATEMENT OF THE PROBLEM

The very dangerous economical setback in the Indian economy is inflation which hinders economical power of the people. Most of the people are still suffering due to inflation in India.

III. OBJECTIVE

To assess the issues relating to inflation such as:

- Relationship between Money supply and inflation.
- Impact of inflation in general and particularly on common man.

- Measures of Inflation.
- Trends in inflation (CPI) over a period of time.

A. *Money Supply and Inflation*

An increase in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and rise in prices: it may be caused by an increase in the volume of paper money issued or of gold mined, or a relative increase in expenditures as when the supply of goods fails to meet the demand. This definition includes some of the basic economics of inflation and would seem to indicate that inflation is not defined as the increase in prices but as the increase in the supply of money that causes the increase in prices i.e. inflation is a cause rather than an effect. A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services. In this definition, inflation would have been appearing to be the consequence or result (rising prices) rather than the cause. A general and progressive increase in prices; "in inflation everything gets more valuable except money"

The Quantitative Easing by the central banks with the effect of an increased money supply in an economy often helps to increase or moderate inflationary targets. There is a puzzle formation between low-rate of inflation and a high growth of money supply. When the current rate of inflation is low, a high worth of money supply warrants the tightening of liquidity and an increased interest rate for a moderate aggregate demand and the avoidance of any potential problems. Further, in case of a low output a tightened monetary policy would affect the production in a much more severe manner. The supply shocks have known to play a dominant role in the regard of monetary policy. The bumper harvest in 1998-99 with a buffer yield in wheat, sugarcane, and pulses had led to an early supply condition further driving their prices from what were they in the last year. The increased import competition since1991 with the trade liberalization in place have widely contributed to the reduced manufacturing competition with a cheaper agricultural raw materials and the fabric industry. These cost-saving driven technologies have often helped to drive a low-inflation rate. The normal growth cycles accompanied with the international price pressures has several times being characterized by domestic uncertainties.

B. *Impact of Inflation*

Inflation seemed to be a chronic problem in many parts of the world. There is a wide spread recognition that inflation results in inefficient resource allocation and hence reduces potential economic growth. Inflation imposes high cost on economies and societies; disproportionately hurts the poor and fixed income groups and creates uncertainty throughout the economy and undermines macroeconomic stability. High inflation has always penalized the poor more than the rich because the poor are less able to protect themselves against the consequences, and less able to hedge against the risks that high inflation poses. Lowering inflation therefore, directly benefits the low and fixed income groups.

a. *Distract Future Plans*

Inflation has an impact on our plans for the future. When saving for retirement, college, a house, or simply budgeting for the next 12 months, the cost of goods and services have a direct impact on our goals. Due to inflation, the chocolate costing Re 1/- in last year costing Rs 2.50/-. One glass of Sugar cane increasing by minimum 50Ps per year and last year it increased by Rs 2,00/- per glass. Due to inflation our goals may cost more in the future than today. A meal that costs Rs 30 today may cost Rs40 in one year. A car that costs Rs 5,00,00 today may cost Rs 7,00,000 in one year, and almost Rs 10,00,000 in only 5 years. So, when planning for the future, we must consider inflation and the effect it may have on your goals.

b. *Real Wages of Employees*

Many people dislike inflation because they feel it makes it easier for the government, employers, financial institutions, and others to deceive them. One of the most important things about inflation is that the confusion caused by price changes enables people to play tricks on employees, at their expense.” Thus, some employers may “forget” to raise their employees’ wages as much as inflation thereby giving them a real pay cut. People seem to base their sense of satisfaction on nominal earnings rather than real earnings.

c. Paying Higher Taxes

Inflation creates other opportunities for sophisticated institutions to unfairly take advantage of the average individual, in many people’s minds. Inflation can increase the complexity of evaluating financial assets, from CDs and insurance policies to stocks and bonds. This shifts the distribution of power in the financial marketplace to the more sophisticated and knowledgeable actors to the detriment of the average person, in this view.

d. Distorting Investments

Economists tend to emphasize that inflation can do economic damage by distorting investment and consumption decisions. Distortions results from households’ and businesses’ uncertainty about inflation’s future course. When inflation is stable, people are more likely to have roughly the same anticipation of its future level. When inflation is highly volatile, however, people have different guesses. Most turn out to be wrong. Inadvertently, some end up winners and other losers.

C. Inflation and its Impact on the Common Man

Inflation has hit the common man in so many ways, as follows:

- Purchasing power of the rupee falls- a Rs.30 note, which could use to buy a kilogram of rice, will now fetch only half a kilogram.
- Commodity wholesaler dealers, such as rice dealers’ at mandis, may try and hoard essential commodities like food grains on hopes of reaping profits when prices increase further on dwindling supplies.
- Fixed income groups will be hit the hardest because their salaries will not be revised to include the cost of living even as prices of items soar.
- Household as well as national savings drop because there is less money to save now as people use a greater part of their disposable income to pay for daily-use commodities.
- Retail investors owning stocks of inflation-sensitive companies such as automobiles are likely to see the stock prices fall on low sales as people prefer to not spend money on “luxury” items, sticking instead to the “necessities.
- Food and dairy products which are of daily use are rising above 12%. For a middle class person it constitutes about 30-40% of his monthly spends. Such an impact leaves him very less money for other activities.
- Impact on EMI-With inflation being on high almost all banks have increased rates by 1-2% on existing borrowers of home loan. As home loans are mostly taken at floating rates most customers have to pay more EMI per month from last 1-2 years.
- Petrol Prices-The Petrol or diesel prices have been increased so many times this year that travel or commuting budget has increased for most of the middle class.
- Credit Card usage- As customers are short of cash, more customers are using credit cards and getting into a debt trap. To pay these card dues they then take personal loan if the shortfall becomes higher thus one more EMI to pay.

D. Trends in Inflation in India (CPI) in Different Years

Current inflation India (CPI India) – the inflation is based upon the Indian consumer price index. The index is a measure of the average price which consumers spend on a market-based “basket” of goods and services. Inflation based upon the consumer price index (CPI) is the main inflation indicator in most of the countries. The annual inflation by year for India - comparing the December CPI to the December CPI of the year before and the average inflation by year for India presented in the below table 1.

Table 1: Annual Inflation from December 2005 to December 2015

Years (Dec- Dec)	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Inflation	5.57%	6.53%	5.51%	9.70%	14.97	9.47%	6.49%	10.56%	9.13%	5.00%	5.61%

Source: DEA

Wholesale Price Index (WPI): WPI inflation has declined from 6.0 per cent in 2013-14 to 2.0 per cent in 2014-15 and -3.5 per cent during April to October 2015. WPI has been negative since November 2014 and is placed at -3.8 per cent in October 2015. WPI Food inflation has also shown steady decline from 6.0 per cent in January 2015 to 1.7 per cent in October 2015. Inflation in Fuel & power stood at -16.3 per cent in October 2015 compared to -17.7 per cent in the previous month and -11.0 in January 2015. Inflation for Manufactured products decreased to -1.7 per cent in October 2015 as compared to 1.0 per cent in January 2015.

Consumer Price Indices (CPIs): CPI-New Series inflation for 2014-15 declined to 5.9 per cent from 9.5 per cent in 2013-14, has remained below 5.5 per cent since January 2015. During 2015-16 (Apr-Oct), average CPI inflation was 4.7 percent and stood at 5.0 per cent in October 2015. Inflation in terms of Consumer Food Price Index (CFPI) has come down to 5.2 per cent in October 2015 from a high of 6.9 per cent as reported in February 2015.

Inflation based on CPI-Industrial Workers for September 2015 stood at 5.1 per cent as compared to 7.2 reported in January 2015. Inflation based on CPI-Agricultural Labour and CPI-Rural Labour declined to 3.5 per cent and 3.7 per cent respectively in September 2015 as compared to 6.2 per cent and 6.5 per cent in January 2015.

Table 2: Indian Prices from 2012-16

2012-16						
India Prices	*Last*	*Previous*	*Highest*	*Lowest*	*Unit*	*Change*
Inflation Rate	5.69	5.61	11.16	3.69	percent	[+]
Consumer Price Index (CPI)	126	126.1	126.6	86.81	Index Points	[+]
GDP Deflator	120	117.8	171.3	100	Index Points	[+]
Producer Prices	176	177.4	185.9	97.5	Index Points	[+]
Producer Prices Change	-9.21	-0.73	34.68	-11.31	percent	[+]
Export Prices	300	312	312	100	Index Points	[+]
Import Prices	518	518	518	100	Index Points	[+]
Food Inflation	6.85	6.4	14.72	2.15	percent	[+]
Inflation Rate Mom	0.16	-0.39	1.77	-1	percent	[+]

Source: http://www.tradingeconomics.com/india/inflation-cpi

IV. CONCLUSION

Finally to conclude that inflation plays major role, to weaken the economy. Controlling inflation is needs tremendous, effective and long term policies of the government. Inflation has been properly been curbed or averted the world economy with experience of new face on employment policies and have a new breath on the standard of living around the globe.

The measures taken by Government include, advising states to allow free movement of fruits and vegetables by delisting them from the APMC Act, banning of export of all pulses (except kabulichanna and organic pulses and lentils upto certain quantity), zero import duty on pulses and onion, empowering States/UTs to impose stock limits in respect of onion, pulses, edible oil, and edible oilseeds under the Essential Commodities Act, modest increase in minimum support prices in last two years etc.

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