Inflation : Its Impact on the Growth of Indian Economy

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Abstract

Inflation is as common in Indian economy as cold and flu in winter season .It is therefore one of the biggest challenge for an economy like India which is on the path of growth and development , inflation is like a caterpillar that eats away the growing cream of an economy. In regular social discourse and everyday conversation inflation is commonly referred as the synonymous index for the price hike of daily commodities. Though inflation is the most immediate economic parameter to be associated with the hike of price, it has its long and far reaching effects on the society and social concerns. Globally the strong currencies those control the monetary strategies in the international level are less vulnerable to the effects of global inflation than the currencies of the poorer and developing nations. In this research paper we are going to analysis the effects of inflation on our country's economy and what factors are responsible for the current high rate of inflation in India. that emerged in the recent past.

Keywords: Inflation, GDP, Development,Correltion.

Introduction

"Inflation poses a serious threat to the growth momentum. Whatever be the cause, the fact remains that inflation is something which needs to be tackled with great urgency …"

[Dr. Manmohan Singh, Prime Minister of India, February 4, 2011, New Delhi]

Although inflation has always been a main public anxiety and always been subject to intense political debate, it is an surprising truth that since 1950 India has experienced one of the lowest inflation rates in the world in comparison to other developing countries and most of these years it had without fail maintained a steady control over the inflation rate by preventive it to only a single digit figure . But Over the last decade or from last few years, inflation has emerged as a foremost concern of India's economic policymakers and people. The biggest confusion of inflation came in the year 2008 to 2009 when India practiced both the highest ever rate of inflation in the country and the lowest rate also within span of just few months.. Worries grew as the inflation rate rose from 3.7% to 12.1% over 2001-2010. Inflation Rate in India averaged 6.85 percent from 2012 until 2017, reaching an all time high of 12.17 percent in November of 2013 and a record low of 1.54 percent in June of 2017 and again rise to 3.36 percent in August,2017(fig-1). leading to a debate about whether this moderation is likely to endure or inflation will rise again. In India inflation rate is at its high 5 month in August 2017.Consumer prices in India increased 3.36 percent year on year in Aug,2017, following a 2.36 percent rise in July and above market expectations of 3.2 percent. It is the highest inflation rate since march, due to rebound in food prices. The Reserve bank of India expects inflation at 2 percent - 3.5 percent in the first half of this fiscal year(April to September 2017) and at 3.5 percent - 4.5 percent in the second half (OCT 2017 to March 2018).

Objective of the Study

The Main objectives of this research paper :

1. To investigate the effect of inflation on the growth of Indian economy recently.
2. To identify the trend of inflation rate on Indian economy.
3. To examine to the extent to which inflation effects India's growth.

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(Figure-1)
Recent Inflation trends in India (Sep-2016-Aug 2017)

Source : www. tradingeconomics.com

While with proper and efficient fiscal administration India has been able to frequently avoid the ruinous global effects of inflation, various sector of Indian economy suffered from the offensive of inflation in various periods. currently Oil and aviation fuel, automobile, banking, steel and cement are some of the key industries that are mostly suffering from the present inflation syndromes. Among other industries IT, FMCG or consumer durable industries are facing pressurized by the effects of inflation and either growing the price of their deliverables or initiate severe cost cutting measures.

High inflation has an unfavorable impact on development through a variety of channels. First, high inflation leads to doubt which impacts investment and growth. As it is, outlay decisions are subject to a lot of uncertainties. High and volatile inflation adds further to these uncertainties. Second, high inflation makes banks deposits less attractive and encourages investment in physical assets and speculative activities, which leads to diversion of savings away from formal. The Indian economy finally gave a numerical evidence of the slowdown .India's economic growth unexpectedly slowed to 5.7% in the June quarter (2017), the slowest pace in three years, underlining the disruption caused by the uncertainty related to the rollout of the goods and services tax (GST) even as the Indian economy is struggling to recover from a shock demonetization. Some of the main reasons for the slowing economic growth are high inflation, a declining rupee, messy government money and policy paralysis among others. It is high times the government gets out of its denial-mode and stops putting the blame on the euro-zone disaster and other exterior factors.

(Table 1.1)
Karl Pearson`s Correlation between Inflation and Growth

Year	Inflation	Growth	X^2	Y^2	XY
2008	8.32	6.19	69.23	38.32	51.50
2009	10.9	6.77	118.81	45.83	73.79
2010	12.11	10.26	146.65	105.27	124.24
2011	8.87	6.64	78.68	44.09	58.90
2012	9.30	5.48	86.5	30.03	50.97
2013	10.92	6.54	119.25	42.78	71.41
2014	6.37	7.18	40.58	51.56	45.74
2015	5.88	7.93	34.58	62.89	46.62
2016	4.97	6.83	24.7	46.65	33.95
2017	1.90	7.18	3.61	51.55	13.64
	79.54	71	722.59	518.97	570.76

Source: statista.com ; World Economic Outlook

Karl Pearson's Correlation Coefficient is used to study the relationship between inflation and growth (table 1.1). The objective of the study is to analyze the impact of inflation in Indian economy with respect to growth rate from the year 2009 to 2017.The study is based on secondary data. Inflation and growth rate is collected from World Economic Outlook and statista.com for the period from 2009 to 2017.

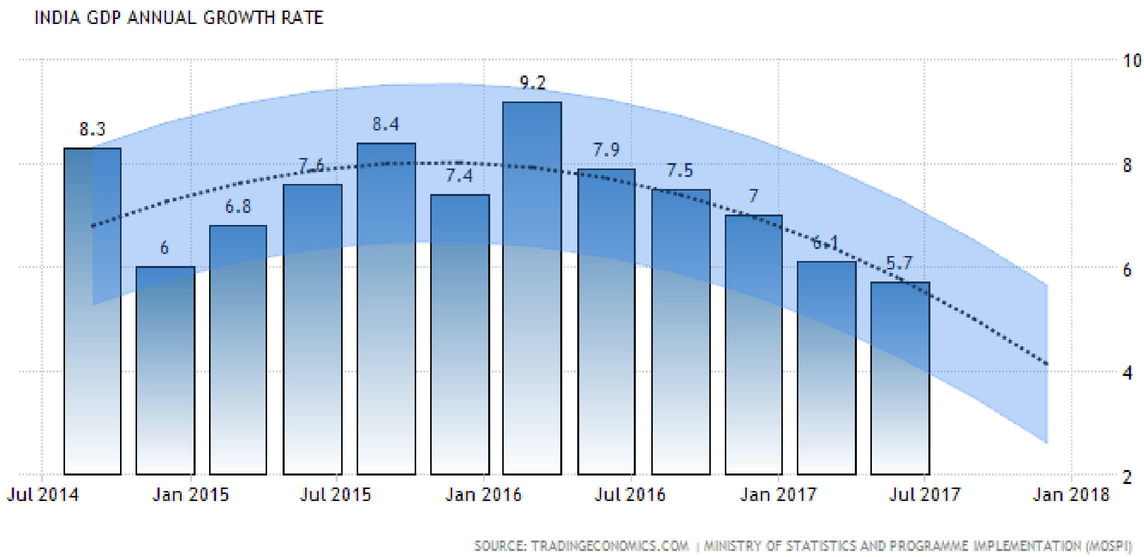
$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

$$r = \frac{10 \text{ X } 570.76 - 79.54 \text{ X } 71}{\sqrt{10 \text{ X } 722.59 - (79.54)2 \quad 10 \text{ X } 518.97 - (71)2}}$$

R= 0.16

According to the table1.1 Correlation between Inflation and growth is 0.16. There are number of factors that affect the economic growth, inflation is one among them. A single factor affects the growth up to 0.16 shows a moderate impact of inflation on Indian economy.

(Figure- 2)
India GDP Annual Growth Rate



The graph (fig-2) shows that the growth rate is always fluctuating in India. There is no steady growth in Indian economy whereas from the last few months it is fluctuating a lot which is not a good sign for development .And recent growth result (July 2017) has created a debate in the country whether the policy of NDA government was better in curbing inflation compare to present government. And the trend shows that if this government fail in controlling inflation specially in case food and fuel the situation will become more worse than now. so there is urgent need to control inflation if India wants to be on the path of development

Measures to Control Inflation:

There are broadly two ways of controlling inflation in an economy:

Monetary measures

1. Bank Rate
2. Open market operation
3. Cash reserve ratio
4. Other Selective measures

Fiscal Measures

In India Fiscal measures to control inflation include taxation, government expenditure and public borrowings. The administration can also take some protectionist actions such as prohibition the export of necessary stuff like pulses, cereals and oils to bear the domestic consumption encourage imports by lowering duties on import items etc.

Conclusion

Inflation in general and food price inflation in particular has been a persistent problem in India over the past few years .Price stability is crucial for sustainable growth structure and factors influencing food inflation, therefore it is critical for any rational policy decision to contain it within comfortable limits.

It is essential that economic policies should be backed up with statistical information and an understanding of economic theory. Collective action from the world wide should be taken against inflation.

Yet it would be a curious finale for the politicians and officials now in power who pushed through the reforms of 1991. Twenty Six years ago they said the yardstick against which India should be measured was its potential. On that measure, there is much to do.

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