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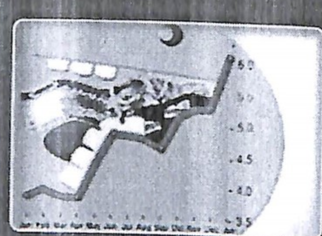
NATIONAL LEVEL SEMINAR ON

INFLATIONARY PRESSURE ON INDIAN ECONOMY



Sponsored by : U. G. C - University Grant Commission,New Delhi

ISBN-978-81-930865-5-1

Publisher

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Inflationary Pressure on Indian Economy

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Introduction:

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time .When the general price level rises, each unit of currency buys fewer goods and services .Consequently, inflation reflects a reduction in the purchasing power per unit of money a loss of real value in the medium of exchange and unit of account within the economy. Inflation is defined as a sustained increase in the general level of prices for goods and services .It is measured as an annual percentage increase. The rate at which the general level of prices for goods and services is rising and subsequently , purchasing power is falling .Central banks attempt to stop severe inflation along with severe deflation in an attempt to keep the excessive growth of price to a minimum Another way of looking at inflation is "too much money chasing too few goods". If the prices of only one commodity rise sharply but prices of other commodities fall it will not be termed as inflation, similarly due to rumours if the price of a commodity rises during the day itself, it will not be termed as inflation.

Objectives of Study:

1. to study the indian economy and inflation
2. to understand various factors affecting leading to inflation on indian economy
3. to study various macro economical factors of inflation
4. to find some viable solution to fix the inflation

Methodology:

The paper is based on secondary data collected form various reesrach papers, journals, books and newspaper articles.

Indian economy and Inflation:

Hide and seek is the name of the game when it comes to inflation in India in the past two years. In India, inflation has become smart political excuse to high growth, which neither seems high nor steady. Certainly, we can't argue against the fact that global issues have made their contribution to add to the woes, Indian economy has been facing, however, sudden outbreak of scams, fresh highs of **corruption** level and lack of policy reforms from the UPA government for faster economic growth have caused inexplicable consequences on Indian growth mechanism as well as budget of an individual.

Despite high inflation and colossal corruption patterns, India overcame the reparation done by global recession with little slower growth rate. When India touched double digit growth, Indian enthusiasts have started writing China off, comparing it to Indian growth and started painting stories of India over passing China by 2020. Reality is not that transparent. India has high inflation rate of around 9 per cent and consumer price Index (CPI) is currently flashing at more than 10 per cent. Prices of onions, vegetables and other staples are rising even faster. The latest data of the government food price index shows they jumped almost 17% last financial year. Situation on dining table has changed; food is eating people in India instead of people eating food. Moreover, consistent rise in government borrowings and high purchasing power have added fuel to the fire.

Factors of Indian Inflation:

Observers of India's economy may wonder why inflation has persistently remained high over recent years - much higher than that in many other Asian economies.

Inflation has been one of the most important problems facing India's economy. Over the past five years (2006-11), the annual average Consumer Price Index (CPI) inflation was 8.7 percent for industrial workers and 9.7 percent for agricultural labourers, while the Wholesale Price Index (WPI) inflation was 6.3 percent. India's CPI inflation has been the second highest among the Asian economies.

Nomura economists have identified five reasons for the consistent uptick in inflation:

1) Capital Stock Deficiency: Capital stock deficiency tends to lead to bottlenecks, under which resource constraints, including limited infrastructure and/or the lack of manufacturing capacity delay overall production or service generating processes, further leading to higher inflation through shortages in supply. India's capital stock-to-GDP ratio was 1.79 in 2010, among the lowest in Asia.

2)Demand Side Drivers (The National Rural Employment Guarantee Act (NREGA)): Nomura economists said demand-side inflation drivers, especially those arising from a sharp rise in personal income and an expansionary fiscal policy, have also played an important role in keeping inflation persistently high.

3) Food Price Pressures: Food price inflation has been a major driver of inflation and the lack of rainfall during the monsoon season often hits India's food production. In addition, the structural change in food intake has contributed to food price inflation.

4) Import Price Pressures: Import price pressures have also been an important factor for overall inflation as India has become a more open economy over the past 10 years. In fact, the imported goods-to-GDP ratio doubled from just above 11 percent in FY00/01 to 21.9 percent in FY10/11 with bulk imports, such as crude oil, metals, rubber and food - primarily commodity-related items - accounting for 42.7 percent of total imports.

5) Inflation Expectations: In the RBI's latest inflation expectations survey of households, respondents' inflation expectations for three months ahead inched up to 12.2 percent in the third quarter of 2011 from 11.8 percent in the second quarter. Overall, inflation expectations have been largely driven by food price inflation in India as food constitutes more than 50 percent of the average Indian household's consumption basket.

Macro economical factors:

Nope, it doesn't mean that as an economy India is giving any negative vision to its people. I would like to repeat the famous words of ex-Finance Minister, P. Chidambaram,"Our fundamentals are strong". Yes, they do and won't let India break down. But we are aware of what significance political assurances hold in real economical crisis. There are strong macro economical fault lines that need to be observed closely. They clasp potential to cut the economic outlook to certain extent and will keep foreign investments away from the economy i.e. scorching level of public debt. Rise in government spending and widening of fiscal deficit would jeopardize the economic growth.

India's public debt zoomed to more than 76 per cent of the total GDP, which is much higher than ever expected. It has increased with the speed of 10 plus percent since 2007. Another concern is capital deficit. Current account deficit is expected to inflate further supported by depreciation of Indian Rupee (due to high inflation and interest rates) will make imports dearer and India's largest import product is crude, higher crude oil prices as projected and lower expectations of foreign capital inflows will dent foreign investment environment.

Quick Fix:

There can't be any quick fix to long running troubles India has been facing. Government needs to adopt systematical economical reforms in various sectors like Infrastructure, education, health and public distribution system. It is challenge on part of the government to bring down the inflation at the rate where it can refrain from giving excuses.

Since Indian government has already committed to invest up to $1 trillion in infrastructure, however to attract FDI and to transform itself into best investment destination, India need to keep up the momentum, infrastructure development needs to step up moderately. Sectors like health, agriculture, food processing, education and entrepreneurism need big boost from the government.

Conclusion:

In more than one way Indian economy is great learning lesson for the world. Growth, if solves some, creates some other problems. There is reason to be hopeful as what is required — strict fiscal policy and tight interest rates — the central bank of India is exactly moving into the same direction. Since last year RBI has increased policy rates by 9 times and now it is ready to compromise short term growth to control this maniac for the long term sustainable growth.

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