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Inflation and Role of RBI in Next 5 Years

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- **What Is Inflation?**

Inflation is the rate of increase in prices for goods and services. Another popular way of looking at inflation is a rise in general level of prices of goods and services in a economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. There are a number of different measures of inflation in use. The most frequently quoted and most significant ones are the Consumer Prices Index (CPI) and the Retail Prices Index (RPI).

- **The Demand-Pull inflation → originates from demand side of the economy**

If aggregate monetary demand for domestic output exceeds the value of the full employment output at current prices, then the price level will rise (fig text book).

- **The Cost-Push inflation → originates from supply side of the economy**

It is caused by rising cost of production independently of the excess demand in the market (fig text book)

- **Control Of Inflation**

Inflation can be control by using various ways but the majors are following-

1. **Monetary Policy-** Increased interest rates will help reduce the growth of aggregate demand in the economy. The slower growth will then lead to lower inflation. Higher interest rates reduce consumer spending because: Increased interest rates increase the cost of borrowing, discouraging consumers from borrowing and spending
2. **Fiscal Policy-** This is another demand side policy, similar in effect to monetary policy. Fiscal policy involves the government changing tax and spending levels in order to influence the level of Aggregate Demand. To reduce inflationary pressures the government can increase tax and reduce government spending.
3. **Wage Control-** Wage growth is a key factor in determining inflation. If wages increase quickly it will cause high inflation. In the 1970s, there was a brief attempt at wage controls which tried to limit wage growth. However, it was effectively dropped because it was difficult to widely enforce.
4. **Exchange rate policy-** It was felt that by keeping the value of the rupee high, it would help reduce inflationary pressures.
   - A stronger Rupee makes imports cheaper (lower cost-push inflation)
   - Stronger Rupee reduces domestic demand, leading to less demand-pull inflation
   - A stronger Rupee creates incentives for firms to cut costs in order to remain competitive.

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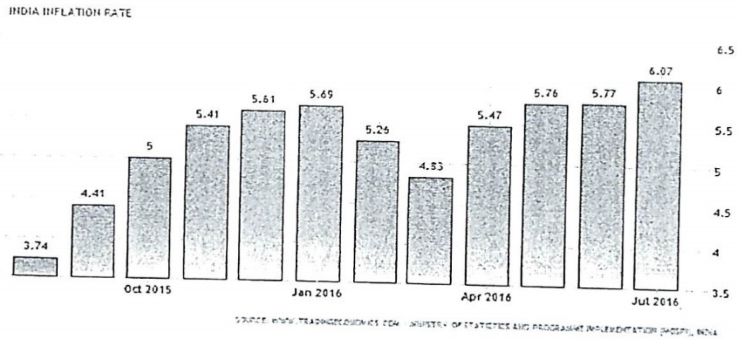
- **Inflation In India**



In 2013, the consumer price index replaced the wholesale price index (WPI) as a main measure of inflation. In India, the most important category in the consumer price index is Food and beverages (45.86 percent of total weight). Housing accounts for 10 percent; Transport and communication for 8.6 percent; Fuel and light for 6.84 percent; Clothing and footwear for 6.5 percent; Medical care for 5.9 percent and education for 4.5 percent. Consumer price changes in India can be very volatile due to dependence on energy imports, the uncertain impact of monsoon rains on its large farm sector, difficulties transporting food items to market because of its poor roads and infrastructure and high fiscal deficit. This page provides - India Inflation Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. India Inflation Rate - actual data, historical chart and calendar of releases - was last updated on August of 2016.

- **Central Government Pegs Inflation Target At 4% For 5 Years**

Government on Friday notified 4 per cent inflation target with a range of plus/minus 2 per cent for the next five years under the monetary policy framework agreement with the Reserve Bank.

The notification fixes inflation target at 4 per cent with upper tolerance level of 6 per cent and lower limit of 2 per cent.

The government and the Reserve Bank had in February 2015 entered into a monetary policy framework agreement, under which RBI would set the policy interest rates and aim to bring inflation below 6 per cent by January 2016 and within 4 per cent with a band of (+/-) 2 per cent for 2016-17 and all subsequent years.

- **Findings And Conclusion**

The inflation rate in the month of July, 2016 rose up to 6.07 which is the straight in last 4 months. The market expectation was 5.09 but due to high price increased in food cost it cross the average target 4% decided by Central Government. Foods, vegetables, Sugar, Fuel, and other basic needs are crossing the price limits, if situation will be same in the subsequent months, then inflation rate will cross highest rate which was in March, 2014.

- **Refrences**

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