Measures Of Inflation And Its Impact On The Indian Economy

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Abstract
The purchasing power of money and the state of an economy as a whole are both impacted by inflation, a common economic occurrence. It speaks about the gradual, consistent rise in the average level of prices for products and services through time. Your money will go further in purchasing fewer goods when inflation is high. This could have a detrimental impact on a number of economic factors, including corporate expenses, profitability, investment, consumption, savings, and government policies.

Inflation is one economic aspect linked to price increases that has a long-lasting impact on society and societal problems. Inflation is defined as a consistent rise in the average cost of goods and services over an extended period of time. Each unit of currency may purchase fewer products and services as prices rise. Inflation, then, is the term used to describe a change in the purchasing power of a unit of currency. Price swings encourage an unpredictably atmosphere that is not conducive to development activity. As a result, inflation raises the price of goods relative to prior times. In addition to the price of necessary items, non-essential items like cigarettes and similar ones will also be more expensive. Costs rise with time for everything. Examining how inflation affects the Indian economy and inflation metrics was the goal of the current study. Therefore, we must focus on the experiences of developing and growing nations in order to gain a better understanding of how inflation affects society. This article examines the recent effects of inflation on the Indian economy.

Keywords: Inflation, Purchasing Power, Indian economy, Price, Goods and Services

Introduction

Inflation is the term used to describe price rises for the most popular goods and services, including food, clothing, housing, entertainment, transportation, and consumer durables. Inflation is calculated using a basket of products and services while keeping track of the typical change in price over time. The opposite, less frequent fall in the price index for this basket is referred to as deflation. The loss in a currency's ability to buy a single good or service is known as inflation. Here, the percentages illustrate this. India's inflation is impacted by both demand-pull and cost-push factors. For instance, the considerable increase in vegetable prices that occurs when products are maintained on the market serves as an example of demand-pull inflation. Every time the cost of petroleum products rises, prices rise as a result of the cost push effect. This is true since petroleum is an essential component of many manufactured items and a necessary fuel for vehicle transport, so raising the cost of transit results in an increase in pricing. The main demand-pull causes include rapid population expansion, black money use, increased government spending, funding a deficit and expanding the money supply. However, changes in output and supply, taxes, administered prices, and an increase in the price of oil are the key cost-push variables. As goods and services become more expensive, inflation has less of an impact on a currency's purchasing power. Additionally affected by this is the expense of living. A high rate of inflation raises living expenses and eventually slows down economic growth. A certain level of inflation is required by the economy to promote spending and discourage holding onto money through savings. Money should be invested because it usually depreciates over time. Investments ensure a country's economic growth. India has an annual inflation rate of 3.9 percent in 2018; by 2020, it would be 6.6 percent. In 2021, the annual inflation rate was 5.1%, a slight decline. In May 2022, the inflation rate was 7.0 percent; it is currently rising.

Review of Literature:

The relationships between economic growth, fast industrialization, job creation, interest rates, and other issues like inflation and unemployment have been the subject of extensive research and astute analysis.

Deshmukh (2017) study, downward revisions to inflation expectations have been ongoing, preventing further disinvestment initiatives. George Karloff, William Dickens, and George Perry all believed that mild inflation "loosens" the working population's gears and results in significant advances in efficiency. Additionally, he found that over a five-year period, a one percentage point drop in inflation as of the goal will result in a six percentage point increase in private obligation. Businesses use inflation to "cover" real wage adjustments; nevertheless, in the absence of inflation, workers would eventually face more frequent nominal salary drops, which are never pleasant. The head of the Federal Reserve Board, Alan Greenspan, told Congress that price stability may lead to a sharp rise in a company's productivity because it offers a strong incentive for businesses to enhance profits through innovation because costs "cannot be passed through to higher prices.

The importance of high growth industries like manufacturing, which have rising employment elasticity, strong income and consumption impulses, high export growth, and the potential to earn significant foreign exchange, was highlighted by studies by Sahstri (2019) and Sekhar (2018).

Studies on economic growth and its relationship to inflation have been done by Friedman (1973), Mallik & Chowdhury (2001), and Behera (1998). The research by Mallik & Chowdhury (2001) and Behera (2014) described trends in inflation and economic development in South Asian nations. Scientific research has established a positive long-term association between the study variables of financial development and economic growth. According to research by Siddik. (2013) and Priya (2021), states with stronger enterprise rules and regulations had better increases in employment in the field of structured manufacturing.

Objectives of the Study:

1. To study the measures of inflation in India.
2. To examine how inflation has affected the Indian economy.
3. To investigate how inflation has affected the value of money.
4. To offer policy recommendations for reducing India inflation.

Research Methodology:

The current study aims to look into the measurement of inflation and its effects on the Indian economy. Usual methods for calculating inflation include the Laspeyres formula. The Economic Survey of India for 2019, 2020, and 2021, reports from the NITI Aayog, reports from the World Bank and IMF, reports from the Reserve Bank of India's Handbook of Statistics, reports from the MOSPI of the Government of India, and expert comments published in reputable publications and journal articles all served as the foundation for the study.

Causes of Inflation in India

Built-In Inflation: Generally speaking, built-in inflation happens when many individuals begin to anticipate that inflation will last for a considerable amount of time in the future. Due to this speculation, workers and employees request an increase in pay from their particular companies or employers in order to achieve their objectives and maintain their standard of living. As a result, as wages for workers rise, so do the prices of commodities, which causes inflation.

Cost-Push Inflation: Cost-push inflation, on the other hand, happens when costs associated with production, such as more expensive raw materials, higher wages, etc., increase prices. Consumers frequently pay more for goods and services due to these costs being passed on to them in the form of higher prices. In this scenario, production costs are higher since the rate of demand is constant but the amount of available commodities decreases. Thus, the price of finished goods that a buyer must pay is increased by these additional production costs.

Demand-Pull Inflation: When discussing demand-pull inflation, it occurs when the demand for a specific good or service increases. In this particular sort of inflation, demand for commodities increases beyond what the economy can supply. As a result of a lack of supply, producers must raise the selling prices of their products to meet consumers' increasing needs.

Measurement of Inflation:

The long-term, deliberate increase in the average level price of goods and services throughout the economy is known as inflation. It is a macro concept where the effectiveness of inflation is evaluated using a sizable basket of goods. The primary result of inflation is a decline in the value of money, or its purchasing power. Despite a period of economic growth that was below trend, India has continually seen significant inflation in recent years. As a result, the government's top priority right now is to lower inflation. A central government agency responsible for making decisions to ensure the smooth operation of the economy measures inflation. The Ministry of Statistics and Programme Implementation in India is responsible for calculating inflation.

The consumer price index and the wholesale pricing index are India's two primary inflation indicators. The RBI recently amended its monetary policy framework and advised employing a dynamic inflation targeting technique based on headline CPI inflation, despite the fact that the WPI is likely the most widely used indicator for detecting rising inflation. The Indian Ministry of Commerce and Industry is responsible for developing the Wholesale Prices Index (WPI). At the very first key point of sale in the domestic market, statistics are gathered. Prices for produced items from the past are used, together with wholesale prices for basic goods and fuel item prices that are regulated.

In other words, WPI establishes the cost of goods at the factory or farm gate before they are sold to consumers in retail outlets. One aspect of the WPI's extensive history, which goes all the way back to January 1942, makes it valuable for examining long-term inflation swings. The WPI covers a wide range of things, from unfinished to finished, despite the obvious absence of services. The Lapsers formula is used to calculate the WPI, which looks at how much more expensive it is to purchase the same assortment of goods today than it was at a specific earlier time. Because the weights are established in the base retro and just the prices need to be changed for each additional computation, this method is simpler than others. If the weights are not updated frequently and the composition of sales in the wholesale market changes, this form of index will be biassed. Given how quickly things are changing in India, a developing country, this is more likely to be a problem. We predict that as the Indian economy expands and family incomes rise, non-food purchases and services will make up a higher portion of household spending. We also predict that changes in demand will affect how the product is composed.

Each WPI component's weight is determined by the current price of the component represented as a percentage of gross production. The table below shows that there have only been four rebasings of the WPI overall.

Table-1 "Wholesale Price Index Group Weights (Per cent of total)

Items	1970-71	1981-82	1993-94	2018-19
Primary articles	42	32	22	28
Food	30	17	15	17
Non-food	11	10	6	4
Minerals	1	5	1	2
Fuel and power	9	11	14	15
Manufactured products	50	57	64	68
Food	13	10	12	8
Chemicals	6	7	12	12
Basic metals, alloys and metal products	6	8	8	14
Machinery and machine tools	5	6	8	9
Other	20	26	24	27

Sources: Ministry of Commerce and Industry; RBA"

Each of the first two rebasings significantly altered the weights for some categories in the WPI. Comparatively more modifications occurred in 2018-19 and 2020-21 than in prior rebasings. There have been a number of major changes over the past 50 years or so, including an increase in industrial goods' weight and a decrease in the weight of primary commodities (particularly food).

Consumer Price Index (CPI):

The CPI provides a unique gauge of changes in Indian price trends. In a recent report to the RBI governor, the Expert Committee to Revise and Strengthen the Monetary Policy Framework (the Patel Committee) recommended that the RBI create a flexible inflation-targeting system with the objective of achieving headline consumer price inflation. We'll discuss this concept in more depth below. As stated in the table below, a variety of consumer price indices are published by the Ministry of Statistics and Programme Implementation (MOSPI) and the Ministry of Labour and Employment, two separate governmental organisations.

Table-2 "Consumer Price Indices

Ministry of Statistics and Programme Implementation	Ministry of Labour and Employment
Urban CPI	CPI- rural labourers
Rural CPI	CPI- agricultural labourers
Combined (urban and rural) CPI	CPI- industrial labourers
CPI- urban non- manual employees (ceased in 2015)	

Sources: Ministry of Labour and Employment; Ministry of Statistics and Programme Implementation."

Each index has a unique set of weights, and different measurements have various base periods. The methodologies used to create the indices, such as how prices are gathered, also vary. Since 2011, MOSPI has made its urban, rural, and mixed CPIs available to the public. Even though the Ministry of Labour and Employment's estimates of consumer price inflation have a somewhat longer history, the time series of the CPI for industrial employees began in 1989. Despite the fact that these indices are based on data from a base period that is much out of date and is unlikely to correctly reflect the current consumption baskets of Indian households, they have been used in wage calculations and as a reference for welfare benefit allocation. The ideal measure is MOSPI CPIs, according to the RBI. These factors determine the current urban, rural, and mixed CPIs, which will be the focus of this study.

Core Inflation:

India does not regularly provide a gauge of "core" inflation, despite the fact that such assessments may be valuable as a predictor of underlying trends in pricing pressures throughout the economy (or "underlying"). The "non-food manufactured" component of the WPI was determined to be the most pertinent series by the RBI after it reviewed a variety of potential core inflation indicators. Even though it can be estimated from the official WPI, non-food manufacturing inflation is not reported in it. For more details, consult Raj and Misra (2011). The use of weights and indices. Although both the headline WPI inflation rate and the inflation rate for non-food manufacturing have been declining since 2011, the inflation rate for non-food manufacturing has decreased significantly since then. Because of the general slowdown in both economic demand and industrial production, this may mean that inflation is under some downward pressure.

Before the global financial crisis, future growth was estimated by the RBI to be over 8%; at the end of 2013, it was estimated to be around 6% (2014b Reserve Bank of India). This demonstrates that the year-ended GDP growth in the previous two years was around 1-2 percentage points below than projected.

Impact of Inflation on Indian Economy:

Inflation seemed to be a recurring problem in many parts of the world. It is generally acknowledged that inflation restricts potential economic growth by leading to ineffective resource allocation. Inflation affects macroeconomic stability, has high costs for economies and society, and disproportionately hurts the poor and people with fixed incomes. The poor have historically been hit harder by high inflation than the wealthy because they are less prepared to combat its impacts and reduce its risks. Therefore, the low income and fixed income groups quickly gain from reducing inflation. Rapid inflation has the potential to destabilise the nation's finances and the overall economy. One of the main repercussions of inflation on an economy is a general slowing. As a result, borrowing costs rise, consumer spending power decreases, and unemployment rates rise. They are all exerting pressure on the country's financial system.

The growing prices of goods and services have resulted in higher costs for labour and raw resources. Profit margins for firms are getting thinner. Additionally, the enterprises pass some of these additional costs along to the customer. Inflation has also had a severe effect on the industrial sector, which harms the entire economy.

If the price of goods and services is continuously rising. The rise in consumer income and salaries relative to one another, however, has lagged. These final consumers are consequently no longer able to afford the products and services. The most affected are also those with the lowest incomes. Even the most fundamental needs are insurmountable.

Conclusion:

It's important to keep in mind that, despite the common perception that inflation is harmful for the economy, moderate inflation can actually be advantageous. It might act as an incentive for companies to invest in output and growth, which would increase GDP. A rate of inflation between 2 and 6 percent has also been assessed to be optimal for the Indian economy by the Reserve Bank of India (RBI). This demonstrates that the RBI is cognizant of the fact that some inflation is required to foster economic growth.

The lives of those who are middle class and poor are significantly impacted negatively by inflation. In order to manage inflation, the government must create comprehensive, efficient, and long-term plans. Inflation has been successfully controlled or avoided for the global economy thanks to new employment practises and a fresh outlook on global living standards. when a result of inflation, when people's incomes grow more limited, they start to consume or buy less of these goods and services. It has the effect of slowing down both output and consumption. As a result of increasing pricing and a predicted decline in demand, producers will produce fewer goods, which will result in this situation. Banks will increase interest rates while inflation is rising; otherwise, they will be negative. Using the nominal interest rate less inflation, real interest is computed. Borrowing costs increase as a result, which affects both people and businesses. This will lead to a decrease in the number of individuals purchasing homes, cars, and other items. The high cost of borrowing prevents businesses from obtaining bank loans to engage in capacity growth.

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