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EFFECT OF RISING INFLATION ON INDIAN ECONOMY

Dr. Satish V. Tewani*

ABSTRACT

Inflation is the biggest problem in developing and populous countries. In which consumption is high and yield is low. Inflation arises due to many reasons. Like more population, less yield, less availability of land for produce, hoarding, etc. Due to which the demand for commodity increases and its price increases when its quantity decreases. Different countries of the world have different methods to measure the inflation rate. If we talk about India, then here the inflation rate is determined with the help of the Wholesale Price Index. Changes in this index are considered to be indicators of changes in inflation. But for some time, many other countries including India have been using the producer price index to measure the inflation rate. Inflation has more effect on poor people because their income is not enough to meet their needs. Due to which many other social problems like looting, theft, black marketing, adulteration, corruption start to arise due to which society and nation get corrupted. A useful national policy is needed to reduce inflation. In India, many laws have been made for the proper distribution of the consumption of necessities. Food Supplies Departments have been set up for the supply of food grains in every place. Ration shops have been opened at various places. If the system of distribution of food grains is proper then inflation can be stopped but it does not happen.In such a situation, it is important to know that what is the effect of rising inflation on India? How inflation poses a challenge to India's development? What are the reasons for rising inflation in India? The research topic has been selected to find answers to the above questions.

KEYWORDS*: Inflation, Producer Price Index, Populous Countries, Indian Economy, Price Hike.*

Introduction

Inflation has become a problem, which is increasing day by day not only in one country but in many countries. Today, the problem of inflation, taking a formidable form, is becoming a very painful problem for the people of the poor and low families. There are many reasons for inflation in India, the main reason being population explosion, population growth, and lack of consumer goods. Today, in a country like India, the population is increasing continuously. On the other hand, if the salary and dearness allowance of the employee's increases, then the budget of the government becomes in deficit. Inflation is an economic phenomenon that keeps happening in any country, whether the country is rich, progressive, or poor, inflation is seen everywhere. But it is also true that inflation rises slowly. Many such countries are facing the problem of inflation. Because here the price increase is getting quadrupled day by day, due to which the people of the middle and low families have become so afflicted that it has become very difficult for them to survive. The prices of pulses, rice, sugar is touching the sky, due to which people are not able to meet their family's problems and their needs.

Many types of side effects of rising inflation arise in front of our society, which have to be faced by the people of the upper class as well as the people of the middle class and lower class. Due to inflation, problems like unrest in the society, theft, robbing of banks, increase in crime are increasing continuously. Anti-social activities like adulteration, hoarding, smuggling, etc. are increasing day by day. In this way, the increasing steps of inflation are also increasing the danger for the democracy of our country and it seems as if the rule of our country is falling into the hands of autocratic people and our freedom is getting erased. The biggest impact of inflation on society is on the poor and middle-class people. Because their income is so much that it becomes difficult to live in an inflationary environment. Whereas poor people get upset only for two times' bread. Children do not attend good schools, they do not get good nutrition, and they suffer from many diseases and starve to death. For which inflation is solely responsible.

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* Vice Principal, Dada Ramchand Bakhru Sindhu Mahavidyalaya, Nagpur, Maharashtra, India.

Objectives of Research

- To find out how inflation poses a challenge to India's development.
- To know that what is the effect of rising inflation on India.
- To know what are the reasons for rising inflation in India.

Data Collection Method Used for Research

Data for the research paper has collected from reports, books, newspapers, magazines, and websites.

Effect of Rising Inflation on Indian Economy

Everything has doubled in price. Rising prices of pulses, fruits, and vegetables have become a cause for concern. Something similar has come out in the Consumer Confidence Survey of the Reserve Bank of India as well. This survey shows that consumer confidence has fallen to the lowest level ever. The Consumer Confidence Index came down to 49.9 in September 2020 while it stood at 53.8 in July 2020. India ranks third in terms of inflation among G20 countries. India's retail inflation reached its six-and-a-half-year high of 7.6% in October 2020. Food inflation has been recorded in double digits. Inflation had risen to 11.07 percent due to increased prices of protein-based items such as eggs, meat and fish, oil, vegetables, and pulses. Controlling high inflation determines the extent of overall economic recovery. Inflation in India has remained high for the past few months, exceeding the Reserve Bank of India's (RBI) upper target of 6 percent. However, there was a slight decrease in June. It had come down slightly from 6.30 percent to 6.26 percent. There was a possibility that retail inflation may decline further in July but this has not happened. Wholesale inflation is likely to remain above double digits due to higher manufacturing costs. This indicates that manufacturing companies and goods producers are facing high inflationary pressures. High inflation, loss of jobs, and wage cuts are going to affect the purchasing power of the consumer. At present, due to the festive season, there is a boom in demand in the economy. This boom will end in January and February and after that, the real situation will come out. Can't say that inflation is directly affecting growth right now. There are many factors behind this but when it comes to spending, inflation will be an important factor. If inflation remains high for several quarters, it will hurt the economy. According to CRISIL, "High inflation means that real interest rates will be even lower. At present people are trying to save and deposit money in the bank but if interest is cut then they will suffer. Those elderly and pensioners will suffer more, who have little option but to deposit money in the bank.

The day the companies started passing the input cost on to the consumers, the retail inflation will start rising from the day it will affect the economy as a whole. If talk about inflation, then the increased prices of food items are the main reason behind the increased inflation in December 2020. The prices of onions, garlic, and potatoes have increased significantly in recent times. It is difficult for the people at the moment but there will be relief in the coming days. A new crop of potato, onion is coming into the market, due to which the stock will increase and the price will come down. The burden of rising vegetable prices on the people will be reduced somewhat and this will also reduce the overall inflation rate. In the coming meeting, it is possible that given rising inflation, RBI may increase the interest rate by not cutting it. But if the interest rate is increased then its effect will be very bad. Those who have taken loans will be affected. In such a situation, it is more likely that the interest rate should not be increased and since the RBI has been reducing the interest rate in the past, it will now try to stay in the current situation. The slow growth rate will also have an impact on employment generation. There is not much improvement in the GDP figures. There are different reasons behind this.

As GST was implemented, it had its impact in many areas. It took time for people to understand and adjust to it. This made it difficult for small and medium industries to get digitized. The work that they used to do in cash, now they have to do it on the computer. With the advent of the Corona pandemic, there has been a slowdown in those areas. Apart from this, there are many other reasons like the private sector is avoiding investing. One is a recessionary phase and the other is not a positive investment climate. The political environment that is prevailing in the country, protests are taking place, it also affects the investment. In times of stress, the private sector avoids investing money. At the same time, they are also facing problems in taking loans from the bank. Even after the NPA case, banks do not want to give loans to the private sector. The government has tried to solve the problems of some industries facing the recession. Like many announcements were made for the automobile sector, real estate, small scale industries. Many projects in real estate were stuck, relief was given for them. It will take a couple of years for the effect of these announcements to be visible.

Rising prices of petrol and diesel have affected the budget of middle-class families a lot. Last year the lockdown affected economic activities. The demand for petrol and diesel is increasing since the economy opened. But their rising prices have created trouble. On the other hand, due to the ongoing tension in the Gulf countries, the supply of crude oil has also been hampered. The Organization of the Oil Producing Countries 'OPEC' has reduced the supply. This has increased the prices of petroleum products. India is the third-largest oil importing country in the world. Most of our oil is imported from Saudi Arabia and Iraq. An RBI report says that a $10 per barrel increase in crude oil prices increases the Indian government's deficit by $12.5 billion. India spends more than $100 billion on imports of petroleum products. At present, rising crude oil prices become the cause of inflation in the country's economy, both directly and indirectly. There has been a historic increase in the prices of petroleum products in the last few years. If we look at the figures for LPG gas, it is known that its price has doubled in the last 7 years. On 1st March 2014, the cost of an LPG was ₹410.5. Now it has become ₹ 1025 per cylinder. Compared to March 2014, 'Kerosene oil' has also increased from ₹ 14.96 per liter to ₹ 35.35 per liter. In May 2014, the base price of crude oil without any additional tax was ₹45.12, and inclusive of tax, petrol sold ₹71-₹72 per liter. Today its base price is ₹ 26.7 and inclusive of various taxes, petrol is being sold at a price above ₹ 100. At present, the Central Government is levying an excise duty of ₹ 32.90 per liter on petrol and ₹ 31.80 per liter on diesel. In the year 2013, a total of ₹ 52, 537 crores were collected as tax through diesel and petrol. In the same 2019-20, it has increased to Rs 2.94 lakh crore. In the year 2013-14, the international price of crude oil was $ 104.04 per barrel, which is currently running from $ 60 to $ 61 per barrel. The huge increase in oil prices is going to have a very negative impact on the Indian economy.

Rising oil prices will become a major cause of inflation and will cause a big fall in the income and expenditure of the overall public. The economic devastation of Kovid-19 has already cut into the earnings of the general public and rising oil prices will double the effect. But even the government cannot do much here. The fiscal deficit has already increased unexpectedly due to the shutdown of economic activities. Direct and indirect tax collection is also much less than the set target. Here the state governments would not at all want that they have to reduce the prices of oil through any kind of tax deduction. Already during Kovid-19, the revenue of the state governments has decreased unexpectedly and in such a situation any tax deduction will empty the treasury of the state governments. Therefore, no major reduction in oil prices can be predicted for the coming few months.

The demand for gold has increased by 50% every year. In the first half of 2021, 700 tonnes of gold have been imported. The hope is high. There is more purchase of gold and silver jewelry on Dhanteras, this is the reason for this. The Purchasing Managers' Index for Manufacturing (PMI) in India was 55.9 in October 2021, which is the highest since February 2021. The GST collection in October stood at 1.3 lakh crore, which is the second-highest since the introduction of direct tax in 2017. Similarly, there has been a sharp increase in factory output. The question is whether the markets and shops have returned on Dhanteras or whether the effect of inflation is visible on the general people. One thing is clear that after 19 months of the Korana period, if the jewelry market in the country is shining for the first time, then the effect of inflation is also visible.

Due to the impact of the pandemic on consumer demand, companies are refraining from sharply increasing the prices of commodities. Given the dwindling demand, firms were left with no option but to keep the prices of commodities low despite the pressure of higher cost costs. However, due to increased demand, companies are now struggling to keep the prices low. Once companies pass on the increased rates to consumers, retail inflation will see a sharp rise. An increase in prices will also create an environment where it will be difficult to maintain demand and consumer confidence.

The rising rate of inflation is troubling the growth of the Indian economy. The rapidly rebounding Indian economy and GDP growth get derailed time and again due to inflation. Alam is that the Wholesale Price Index seems desperate to reach double digits. At present, this index has reached 9.9 percent. The primary article index is showing 15 percent year-on-year inflation for the week ending February 20. The consumer price index for industrial workers and employees has reached the level of 16.22 percent.

The Indian economy continues to improve even after the second Covid wave unexpectedly disrupted growth. There has been a spurt in economic activity after the restrictions were lifted due to the improvement in the Kovid-19 situation. Along with this, companies have also increased production with increasing demand. The economy will strengthen by the end of this year. However, high inflation still poses a hurdle. Because of this development is getting affected. At the same time, its negative effect on the stock market also remains.

When oil prices rise, it is generally assumed that only petrol and diesel prices will be affected, although this is only half true as rising oil prices have a significant impact on other macro economies as well. A sudden jump in inflation may force the central bank to change its stance. Moving away from the low-interest rate regime could have an impact on the overall economy as it would also affect business, liquidity, and stock markets in many sectors. Inflation, interest rate, trade deficit, rupee exchange rate, and foreign exchange reserves are some of the examples where significant impact is seen. A research report by India Infoline has recently said that rising oil prices are a big challenge for the country's economy and also for the individual household budget.

Reasons for the Rise in Inflation in India

The continuous rise of inflation is like a nightmare for the poor and developing countries, from which all efforts to get rid of them prove to be in vain. Sometimes inflation is due to the recession and then due to an increase in prices. After the Indian economy is connected to the global economy, all the measures to control inflation prove to be unsuccessful. Now the issue of inflation and rise in prices is dealt with by the international situation.

Economists believe that inflation is increasing due to four main reasons. The government has increased the tax on petrol and diesel and due to staying at home and working from home, the demand for everyday items has also increased. Many companies have also increased the prices of personal care products such as cosmetic and cleaning products and entertainment items. All this has led to a rise in inflation. The central bank has said that India's economy may enter a 'technological recession' for the first time since independence in 1947. The problem of food inflation has grown more than it appears. This is not due to supply interruption in the lockdown. If food inflation persists even after relaxation in lockdown and increased movement, it shows that the problem is more complex and is going to persist in the future also. In January 2021, it was expected that inflation could remain up to 6 percent and in March it could go up to 6.5 percent. It was expected to come back to six percent in September 2021, but inflation has increased much more than this. Apart from this, onion harvest has also been delayed due to erratic rains in Maharashtra, Karnataka, and Andhra Pradesh, due to which onion prices have increased. Edible oils like groundnut, mustard, vanaspati, soybean, sunflower, and palm have also become costlier by 30% and this is also a big cause for concern. 70% of the edible oil in India is imported from countries like Malaysia, Argentina, Indonesia, and Ukraine. People who eat eggs have started using eggs more because of the increase in the price of vegetables. This has also increased the price of eggs, while the epidemic has also had a bad effect on egg production. Poor people are finding eggs cheaper than vegetables. On top of that, government spending is also increasing inflation. The crores that the government has spent in the name of the package, which is 15% of the GDP, have a direct impact on inflation. There are many special reasons behind this rise in prices. These include global capital markets, rise in global commodity prices, spurt in domestic demand due to high growth in GDP, and crop losses due to poor monsoon as the main reasons.

Conclusion

Due to the continuous increase in the prices of petroleum products, the daily necessities of the common man have also become expensive due to the increase in transportation costs. The kitchen budget has become uncontrolled and unbalanced. There has been a huge jump in the prices of tea, pulses, and edible oil. The central government did not make any concrete arrangements to curb hoarding and black marketing, as a result of which the common man is facing the burden of inflation. The treatment of corona infection is expensive, the cost of everyday necessities on it is a double whammy on the public. The government will make efforts to improve the coming budget. Just like the private sector is not willing to invest, then the government will have to invest in infrastructure like coal, steel, electricity so that jobs can also be created. If the government spends more money on the road, railway, or urban development, then related industries like cement, steel, and machinery will benefit and it will increase demand and growth. The government should reduce its dependence on petrol and diesel tax. The rising price of petrol-diesel is directly related to rising inflation. The government has imposed many types of taxes on them, which fills their coffers. The government earns from the tax of petrol-diesel and this Because of this, their prices are not coming down. The government will have to reduce its dependence on the income from these two, then only inflation can be controlled.

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