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# FINANCIAL AND ECONOMIC STABILITY IN INDIA THROUGH INFLATION AND ECONOMIC GROWTH: AN EMPIRICAL ANALYSIS

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**ABSTRACT**

*The purpose of this paper is to provide a different context for considering issues of financial stability, with reference to economic growth. Economic stability is the absence of excessive fluctuations in the macro economy. We then present the most important theoretical and empirical contributions to the debates. Article is devoted to the global social and economic stabilization results of the article are received on the basis of inter branch and the other economics balance. Such as balances of the enterprise balance between volume of world financial resources and product volume.*

***KEYWORDS****: Economic Stability, Financial Stability Growth Rate Inflation.*

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**Introduction**

The global financial crisis which began September 2008, result in a fundamental shift in perception regarding, the financial sector ''Borio argue that ''financial and macroeconomics stabilities are two sides of the same coin '' However an important issue is how to define the stabilities of the financial sector. This paper adopts a more inclusive approach to aggregates by placing a broader context around the issue of financial stability and instability. Financial stability of central importance to the effective functioning of a market economy. They provide the basis for rational decision making about the allocation of real resources through time and therefore improve the climate for saving and investment. A commercial bank's portfolio is stable when withdrawals by depositors take place randomly over time and assets are held to term. With a stable deposit base, a commercial bank can hold enough safety margin to allow from fluctuations and can invert the rest of its assets in less liquid but higher yielding assets. Economic stabilization refers to a governmental effort to stabilize the economy. It stems from situations in which the economy is suffering from stress due to inflation, unemployment or even deflation. The main purpose of economic stabilization is to stabilize the economy so that it can steadily develop and grow without significant fluctuations. fluctuations are combinations of growing periods and declining periods in an economy or market stable economy is constituted by gross domestic product growth, high employment and adequate individual income levels.

According to bis reports, there are three important reasons why central banks should intervene in financial stability policy namely. Financial instability could affect the macroeconomics environment ,with important consequence for economics activity, price stability and monetary policy transmission process ,central banks are lenders of last resort which provided liquidity in the economy and a liquidity adequacy in essential for financial stability Tommaso – padoa -schioppa states that the objective of economics stability is absolutely normal to be listed in a responsibilities and concerns of central banks because, over time, maintaining stability of the financial sector,

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banking supervision and monetary policy formed only one composite of the central authority functions [padoa- schioppa- 2002]. The author considers that there should be no conflict between economic stability and economic stability. but only some compromises in the short term and only in certain circumstances. Although long term synergies between the two objectives and effective monetary policy should prevent financial stability, this is not guaranteed.

Bruno and Easterly 1998 work are interesting. They note that the ratio of people who believe inflation is harmful to economic growth to tangible evidence is unusually high. Their investigation confirms the observation of Dornbusch 1993 Dornbusch and Peynoso 1989 Levien and Renelt 1992 and Levine and zerovos 1993 that the inflation's economic growth relationship is influenced by countries with extreme values.

**Objective of the Study**

- To study economic stability in terms of inflation and economic growth.

**Methodology of the Study**

The article has been written in the descriptive form the study is descriptive in nature. The method used for the collection of data is only secondary data. The secondary data has been collected through, journals articles on the topic, magazines, newspaper books, internet, and previous research papers, which focus on the economic and financial stability.

**Growth and Inflation in the Indian Economy**

The growth rate of GDP in India increased from 3.5 % in the 1970 to 5.5% in the 1980. The increase in growth has been attributed to both demand and supply side factors. But it has been suggested the Keynesian expansion, or the increase in aggregate demand due to higher government spending and larger fiscal deficits, was primarily responsible for pushing up growth rates. The reforms of the financial sector consists primarily of a reduction in the statutory liquidity ratio and a rationalisation of subsidised credit to priority sectors, relaxation of interest control and restrictions on firms' access to capital markets and more autonomy for public sector banks.

Inflation could hamper economic growth mainly due to the following reasons.

Economics that are not fully adjusted to a given rate of inflation usually suffer from relative price distortions caused by inflation. Nominal interest rates become negative and volatile, discouraging savings depreciation of exchange rates lagging behind inflation, resulting in variability in real appreciation and exchange rates. High inflation is unstable. There is uncertainty about futures rates of inflation, which reduces the efficiency of investment and discourages potential investors.

**Empirical Data Analysis**

The empirical evidence also Understand similar changes in views. The evidence of an increased relationship between inflation and economic growth was vociferously advocated mainly since the beginning of the 1980 in contradiction to the earlier stands. Taken by several researchers including Johnson 1967 who indicated that ''there was no conclusive empirical evidence one way or the other. However, especially since the arrival of the new evidence of a negative relationship, a large body of empirical research has explored various paradigms in inflation analysis. Incidentally much of the empirical literature on the important subject of inflation growth rate trade-off is devoted to developing countries as their economy happens to provide rich information about interesting variations in microeconomics activity.

**Literature on Inflation in India -An Analytical Review**

Existing literature on inflation India includes papers in a Phillips curve framework, paper in a Lucas -supply function framework and papers that treat inflation as a variable in a larger system of equations. Paper in a Phillips -curve framework examines the relationship between inflation and the output gap. Out of them the only paper that explicitly attempts to estimate the Phillips curve for India is Dholakia 1990 study a sample from 1990 to 2000 Dholakia asserts that the Indian economy does not seem to face any appreciable trade-off between unemployment and inflation even in the short run. He argues that the least developed countries having underutilized potential would not experience inflationary Pressure if the face of growth is high.

**Conclusion**

This study has been motivated by the recent developments in the literature on the relationship between inflation and growth and the apparent contradictory evidence provided for the developing countries. The main objective was to examine whether a relationship existed between economic growth and inflation and if, so its nature. The interesting results found in this exercise is that inflation and economic growth are negatively related. Second, the sensitivity of inflation to changes in growth rates is higher than that of growth to changes in inflation rates.

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