



# INFLATION SOURCES AND THEIR IMPACT ON THE INDIAN ECONOMY

<sup>1</sup>SHASHIKANT THAKUR, <sup>2</sup>DR. ARVIND KUMAR SINGH

<sup>1</sup>Research Scholar, <sup>2</sup>Professor

<sup>1</sup>Law Department,

<sup>1</sup>Amity University, Lucknow, India

## Abstract

Expansion alludes to a supported expansion in the general value level of labor and products in an economy over a period. In India, expansion has been a persevering issue and its sources and effect on the economy are mind-boggling and interrelated. A portion of the fundamental wellsprings of expansion in India include:

1. Supply-side factors like normal catastrophes, dry seasons, and different variables that influence rural creation.
2. Increase in the expense of data sources like fuel, unrefined substances, and wages, which increment creation costs and eventually cost.
3. Monetary factors, for example, expansionary financial strategy and an expansion in cash supply prompted an expansion sought after for labor and products and hence costs.
4. External factors, for example, worldwide ware costs, conversion standard developments, and exchange approach.

Expansion essentially affects the Indian economy and its kin. High expansion decreases the buying force of customers and disintegrates the worth of investment funds. It additionally influences venture and financial development as it builds the expense of getting and diminishes the motivator to contribute. Also, expansion prompts pay disparity as those with fixed livelihoods, for example, beneficiaries and individuals on low wages are especially defenseless. Consequently, controlling expansion and guaranteeing value solidness is a significant goal of financial arrangement in India.

Keywords: Inflation, GDP, Economy, fiscal policies, monetary policies, international marketing.

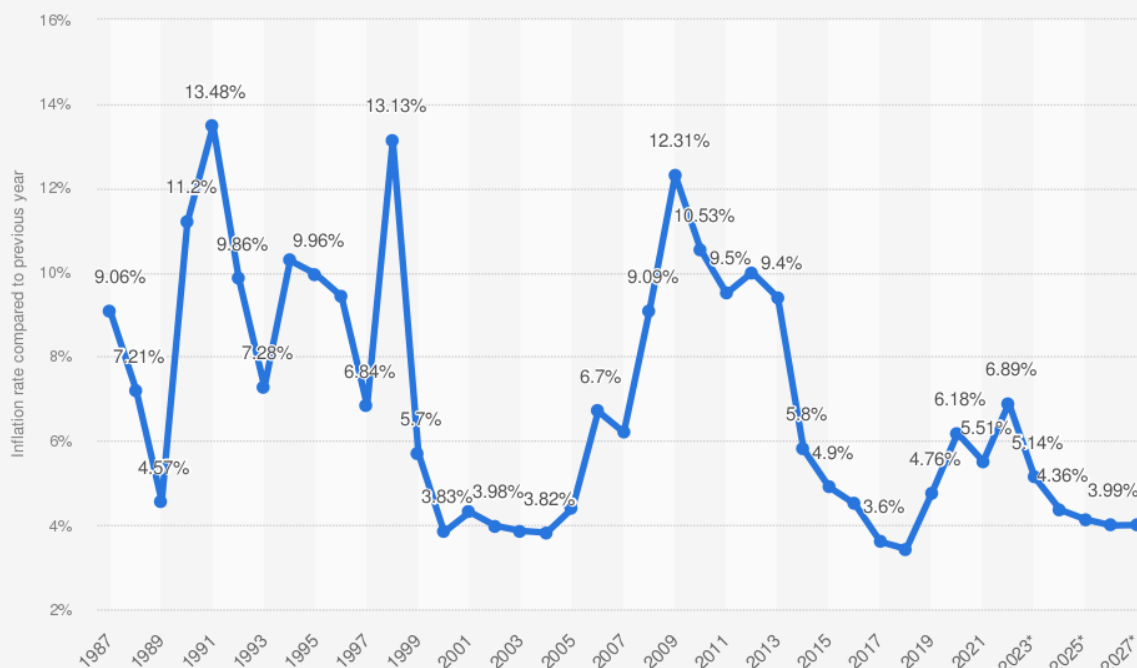
## Objective Of the Study

The goal of the study of inflation is to gain an understanding of the factors that lead to sustained rises in the overall level of prices of goods and services in an economy, as well as the effects those factors have on the economy as a whole. The goal of the study of inflation is to discover the numerous reasons that lead to inflation. These factors include shifts in the money supply, policies implemented by the government, supply and demand issues, and other macroeconomic variables. In addition, the study of inflation aims to assess the effects of inflation on the economy, such as shifts in "purchasing power, investment, economic growth, income distribution, and international commerce." The ultimate purpose of research into inflation is to educate members of government as well as private citizens on the best ways to control price increases while preserving a sound and thriving economy. The primary purpose of the study is to conduct an investigation on the influence that inflation has had on the Indian economy.

## Introduction

Inflation refers to the sustained increase in the general price level of goods and services in an economy over a period of time. In India, inflation has been a persistent problem for many years, with various factors contributing to its occurrence. One of the main sources of inflation in India is the increase in the cost of raw materials and inputs used in the production of goods and services. This is due to factors such as global commodity price increases, supply chain disruptions, and rising transportation costs. When the cost of producing goods and services increases, the prices of these products tend to rise as well, leading to inflation. Another significant source of inflation in India is the increase in demand for goods and services, which can outpace the supply. When the demand for a particular product is high, but the supply is low, the price of that product tends to increase. This can occur due to factors such as population growth, increasing urbanization, and changes in consumer preferences. As more people compete for the same limited resources, the prices of those resources tend to increase, leading to inflation. In addition, inflation can also occur due to government policies and actions. For example, the government may increase spending on public projects or welfare programs, leading to an increase in demand for goods and services. If this increase in demand is not matched by an increase in supply, inflation can occur. Similarly, the government may print more money to pay for its expenses, leading to an increase in the money supply. When there is more money in circulation, the value of each unit of the currency tends to decrease, leading to inflation. Other factors that can contribute to inflation in India include changes in exchange rates, interest rates, and taxes. For example, when the value of the Indian rupee decreases relative to other currencies, the cost of importing goods increases, leading to inflation. Similarly, when interest rates are low, consumers are more likely to borrow money and spend, leading to an increase in demand and potentially inflation. Taxes can also impact inflation by increasing the cost of goods and services, which can then lead to an increase in prices. Inflation is a persistent problem in India, with various factors contributing to its occurrence. Some of the main sources of inflation in India include increases in the cost of raw materials and inputs, changes in demand and supply, government policies and actions, and changes in exchange rates, interest rates, and taxes. It is important for policymakers and businesses to carefully monitor these factors to manage inflation and ensure a stable economy. Expansion in India has been a worry for the two buyers and policymakers. The essential effect of expansion is felt by the last customers of labor and products, as the costs of these things are continually rising. This prompts a decline in the buying force of shoppers, making it more challenging for them to manage the cost of a similar way of life as in the past. The effect of expansion is especially critical for individuals on fixed livelihoods, for example, retired people, who depend on the premium procured from their investment funds to help themselves. A high pace of expansion, for example, 6.95 percent, can dissolve the worth of these reserve funds and adversely influence income, as the premium got isn't sufficient to stay up with rising costs. Nonetheless, there have been a few ongoing positive improvements in India's expansion circumstances. The Buyer Value Record (CPI) and Discount Value File (WPI) have seen a decay, essentially because of a sharp decline in food cost expansion. The Save Bank of India (RBI) projects that the genuine GDP (Gross domestic product) development will be 6.8 percent in the approaching year. This, alongside different measures taken by the public authority and the national bank, will assist with monitoring expansion and guarantee that the economy proceeds to develop and give open doors to all residents. In India, the annual rate of inflation for consumer prices has ranged anywhere from -7.6% to 28.6% during the course of the last 61 years. It was determined that the inflation rate for 2021 will be 5.1%. The period of observation begins in 1960 and continues until 2021, during which time the annual inflation rate averages out to 7.5%. The percentage increase in prices across the board was 7,704.85%. At the beginning of the year 2022, the price of an item that was 100 rupees in 1960 is now 7,804.85 rupees. The annual percentage change in the cost of living, as of December 2022, was 5.5%.

India: Inflation rate from 1987 to 2027 (compared to the previous year)



Source: IMF © Statista 2022

Additional Information: India; IMF

### India Inflation Rate

YEAR	INFLATION RATE	ANNUAL CHANGE
1985	5.56%	-2.76%
1986	8.73%	3.17%
1987	8.80%	0.07%
1988	9.38%	0.58%
1989	7.07%	-2.31%
1990	8.97%	1.90%
1991	13.87%	4.90%
1992	11.79%	-2.08%
1993	6.33%	-5.46%
1994	10.25%	3.92%
1995	10.22%	-0.02%
1996	8.98%	-1.25%
1997	7.16%	-1.81%
1998	13.23%	6.07%
1999	4.67%	-8.56%
2000	4.01%	-0.66%
2001	3.78%	-0.23%
2002	4.30%	0.52%
2003	3.81%	-0.49%
2004	3.77%	-0.04%
2005	4.25%	0.48%

2006	5.80%	1.55%
2007	6.37%	0.58%
2008	8.35%	1.98%
2009	10.88%	2.53%
2010	11.99%	1.11%
2011	8.91%	-3.08%
2012	9.48%	0.57%
2013	10.02%	0.54%
2014	6.67%	-3.35%
2015	4.91%	-1.76%
2016	4.95%	0.04%
2017	3.33%	-1.62%
2018	3.94%	0.61%
2019	3.73%	-0.21%
2020	6.62%	2.89%
2021	5.13%	-1.49%
2022	4.36%	-0.73%

### The inflation rate of some other countries

Country Name	Inflation Rate
India	6.50%
Russia	11.90%
USA	6.40%
China	0.08%
Australia	7.80%
United Kingdom	10.52%
Israel	2.08%
Bangladesh	5.55%
Sri Lanka	7.01%
Pakistan	9.50%
Nepal	7.68%

## Causes of inflation in India

“Inflation refers to a sustained increase in the general price level of goods and services over a period of time. It is measured by the inflation rate, which is the percentage increase in the consumer price index (CPI) or wholesale price index (WPI) over a given period.” Throughout the course of many years, inflation has remained a chronic problem in India, and a number of different causes have contributed to the rise in inflation. Some of the primary contributors to India's high inflation rate are highlighted here.

1. **Increase in demand:** One of the major causes of inflation in India is the increase in demand for goods and services. This can be due to a variety of factors, such as a growing population, rising incomes, and changes in consumer preferences. As demand increases, prices tend to rise as well, which can lead to inflation.
2. **Cost-push inflation:** Cost-push inflation is another key contributor to India's overall inflation rate. This type of inflation arises when there is an increase in the overall cost of production. This may be the result of a number of factors, including an increase in the cost of raw materials, labour, or energy, all of which contribute to increased pricing for the finished product. It is also possible for supply chain interruptions to cause cost-push inflation. One example of this is the COVID-19 pandemic, which caused disruptions in supply networks all over the world, which in turn led to shortages and price rises.
3. **Fiscal and monetary policies:** Government policies can also contribute to inflation in India. For example, excessive government spending can lead to inflation by increasing the demand for goods and services. Similarly, the printing of money to finance government deficits can lead to inflation, as the increase in money supply leads to higher prices. Monetary policies such as low-interest rates can also contribute to inflation by increasing demand for credit, which can lead to higher prices.
4. **Exchange rate fluctuations:** Exchange rate fluctuations can also contribute to inflation in India. A weaker currency can lead to higher import prices, which can increase the cost of production and lead to higher prices for consumers. Additionally, a weaker currency can increase demand for exports, leading to higher prices for domestically produced goods as well.
5. **Supply-side constraints:** Supply-side constraints such as bottlenecks in transportation, infrastructure, or production can lead to shortages and higher prices for goods and services. For example, if there is a shortage of food due to a bad harvest or transportation disruptions, prices for food will rise, leading to inflation.
6. **International factors:** Global commodity prices can also contribute to inflation in India. For example, if oil prices rise globally, the cost of transportation and production will increase, leading to higher prices for goods and services. Similarly, the global supply and demand for key commodities such as metals, food, and energy can affect the price of these commodities in India.
7. **Inflation expectations:** Inflation expectations can also contribute to inflation in India. Increased demand for products and services now could result in higher costs later if consumers and companies believe prices will grow. Additionally, wage increases can also contribute to inflation, as businesses pass on the higher labor costs to consumers in the form of higher prices.
8. **Policy uncertainty:** Policy uncertainty can also contribute to inflation in India. Uncertainty regarding government policies, such as tax policies or regulatory changes, can lead to volatility in markets and higher prices for goods and services.
9. **Black market and hoarding:** Black market activities and hoarding can also contribute to inflation in India. When goods are sold in the black market, they are sold at a higher price than their actual value, leading to inflation. Similarly, when goods are hoarded, they become scarce, leading to higher prices and inflation.

In conclusion, inflation is a complex phenomenon that can be caused by various factors, and the causes of inflation in India are no different. Factors such as an increase in demand, cost-push inflation, government policies, supply-side constraints, and international factors.

## How GDP (Gross Domestic Product) Influences the Inflation

Gross Domestic Product (GDP) and inflation are two important macroeconomic indicators that are closely related to each other. The relationship between GDP and inflation in India can be explained as follows:

1. **GDP growth and inflation:** In general, a higher GDP growth rate can lead to higher inflation, as increased economic activity and demand for goods and services can push up prices. However, this relationship is not always straightforward, and other factors such as supply-side constraints or policy interventions can also affect the relationship between GDP growth and inflation.
2. **Supply-side constraints:** One of the factors that can affect the relationship between GDP growth and inflation in India is supply-side constraints. For example, if there are bottlenecks in transportation or infrastructure, or if there are shortages of key commodities, this can lead to higher prices and inflation, even if GDP growth is strong.
3. **Policy interventions:** Government policies such as monetary and fiscal policies can also affect the relationship between GDP growth and inflation. For example, if the government pursues expansionary monetary policies, this can lead to higher GDP growth but also higher inflation, as more money in circulation can lead to higher demand and prices. Similarly, fiscal policies such as government spending or tax cuts can also affect the relationship between GDP growth and inflation.
4. **Inflation targeting:** In recent years, the Reserve Bank of India (RBI) has been following an inflation targeting framework, which aims to keep inflation within a certain target range. In this framework, the RBI uses monetary policy tools such as interest rates to control inflation. In this context, the relationship between GDP growth and inflation may be less straightforward, as the RBI may prioritize controlling inflation over stimulating GDP growth.

In conclusion, the relationship between GDP growth and inflation in India is complex and can be influenced by various factors such as supply-side constraints, policy interventions, and inflation targeting. While a higher GDP growth rate can lead to higher inflation, this relationship is not always straightforward and depends on the specific circumstances of the economy.

## How International marketing affect inflation in India

International marketing can potentially affect inflation in India through various channels, including:

1. **Exchange rate:** If the Indian currency depreciates against the currencies of countries with which India trades, the cost of imported goods and services will increase, leading to higher inflation.
2. **Commodity prices:** India imports many commodities, such as oil, which are priced in international markets. Any increase in their prices will raise the cost of production, leading to higher prices and inflation.
3. **Trade policies:** Changes in international trade policies or agreements can affect the volume and cost of imports and exports, which can impact inflation in India.

However, the impact of international marketing on inflation in India can be complex and depends on various factors. Other domestic factors, such as fiscal and monetary policies, also play a significant role in determining inflation.

## How fiscal and monetary policies play a significant role in Inflation.

To effectively control the economy, including inflation, governments and central banks rely heavily on fiscal and monetary policy as two of the most significant weapons in their toolbox. Here's how each of these policies can impact inflation:

1. **Fiscal policy:** This is a reference to the various methods that the government use, including taxation, government spending, and borrowing, in order to exert influence over the economy. When the government spends more money or reduces taxes, it stimulates the economy, which can result in increased prices and inflation. Conversely, demand and inflationary pressures can be tamed when the government reduces expenditure or increases taxes.
2. **Monetary policy:** This is a reference to the ways in which the central bank attempts to impact the economy through manipulating interest rates, the amount of money in circulation, and other methods. Higher prices and inflation can result from the central bank's decision to reduce interest rates or raise the money supply, both of which boost borrowing and spending. Yet, inflationary pressures can be mitigated by a rise in interest rates or a reduction in the money supply implemented by the central bank.

Fiscal and monetary policies can interact in complex ways, and their impact on inflation depends on various factors, such as the current state of the economy, the level of inflation expectations, and the effectiveness of the policy tools. The effectiveness of these policies in managing inflation is often a matter of ongoing debate and analysis among economists and policymakers.

## Effect Of Inflation in India

An economy is said to be experiencing inflation when there is a consistent rise in the overall level of prices of goods and services across the economy over a period of time. If inflation remains persistently high for an extended period of time, it may have a detrimental impact not just on the economy but also on the living standards of the country's population. Moderate inflation may be an indication that the economy is expanding. In the following paragraphs, we will talk about the impact that inflation has had in India.

### 1. Reduced purchasing power and standard of living.

Inflation erodes the purchasing power of money. When prices of goods and services increase, people need more money to buy the same amount of goods as before. This can cause a decline in the standard of living for those with fixed incomes, such as pensioners, low-wage workers, and those on fixed salaries. As people's purchasing power diminishes, they have less money to spend on other things, which can lead to a decline in economic activity.

### 2. Interest rates and savings

Inflation can lead to higher interest rates, which can discourage people from saving money in banks. Banks increase their interest rates to compensate for the declining value of money. As a result, people may choose to spend rather than save their money, which can lead to a shortage of savings for investment and hamper economic growth.

### 3. Investment and economic growth

High inflation can discourage investment and reduce economic growth. Investors may be reluctant to invest in an economy where the cost of doing business is high, and the value of money is declining rapidly. This can lead to a reduction in investment, which can further slow economic growth. Additionally, inflation can lead to increased uncertainty, as it becomes difficult for businesses to forecast their future costs, and this uncertainty can discourage investment.

### 4. Balance of trade

Inflation can impact a country's balance of trade by making imports more expensive, leading to a reduction in imports and an increase in exports. However, this effect may be offset by the increased cost of domestic production and decreased competitiveness of domestic products in international markets, which can lead to a reduction in exports.

### 5. Redistribution of income and wealth

Inflation can lead to a redistribution of income and wealth in an economy. Those who hold assets such as real estate, stocks, and bonds are generally better off during periods of inflation, as the value of their assets increases. However, those with fixed incomes or limited assets, such as low-wage workers, pensioners, and small farmers, are likely to be worse off during periods of inflation. Inflation can widen the gap between the rich and poor and lead to social unrest.

### 6. Government finances and fiscal policy

Inflation can affect government finances by increasing the cost of borrowing and reducing tax revenues. When inflation increases, the government must pay higher interest rates to borrow money, which can lead to an increase in the budget deficit. Additionally, inflation can reduce the real value of tax revenues, which can make it difficult for the government to finance its programs and services.

### 7. Business costs and competitiveness

The price of goods and services for companies may go up as a result of inflation. The cost of manufacturing goods and services goes up whenever there is an increase in the prices of the various inputs that are used in its production. These inputs include labor, raw materials, and capital. This can result in a drop in the competitiveness of domestic products on international markets, which in turn can result in a decline in exports and further hinder economic growth.

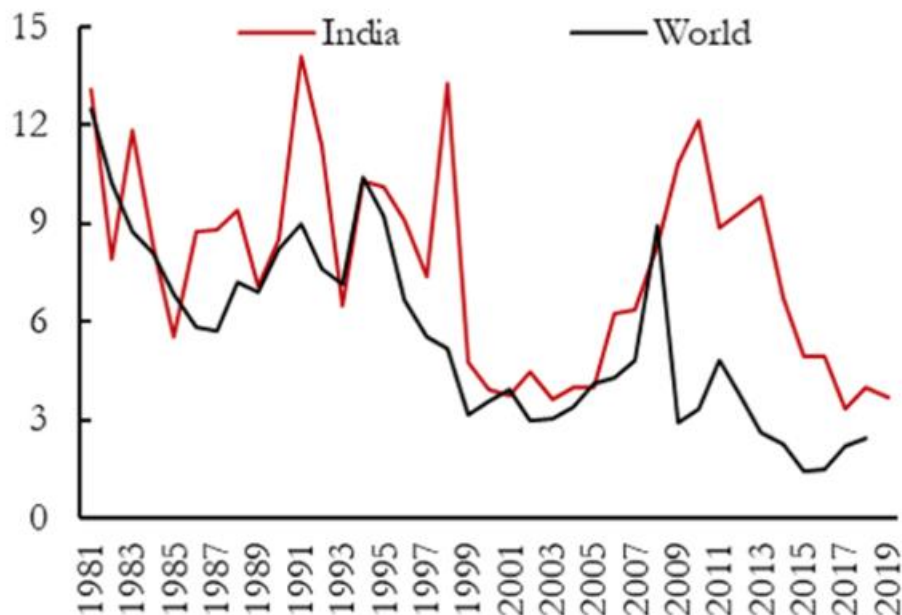
### 8. Wage increases and inflation expectations.

Inflation can lead to wage increases as workers demand higher salaries to keep up with rising prices. However, if wage increases outpace productivity gains, it can lead to a further increase in inflation, as businesses pass on their increased costs to consumers. Inflation can also lead to an increase in people's expectations of further price increases in the future. This happens when individuals begin to anticipate

that prices will continue to rise in the future. It is possible that this will result in a self-fulfilling prophecy, in which individuals will begin to expect higher wages, and firms would raise their prices to compensate.

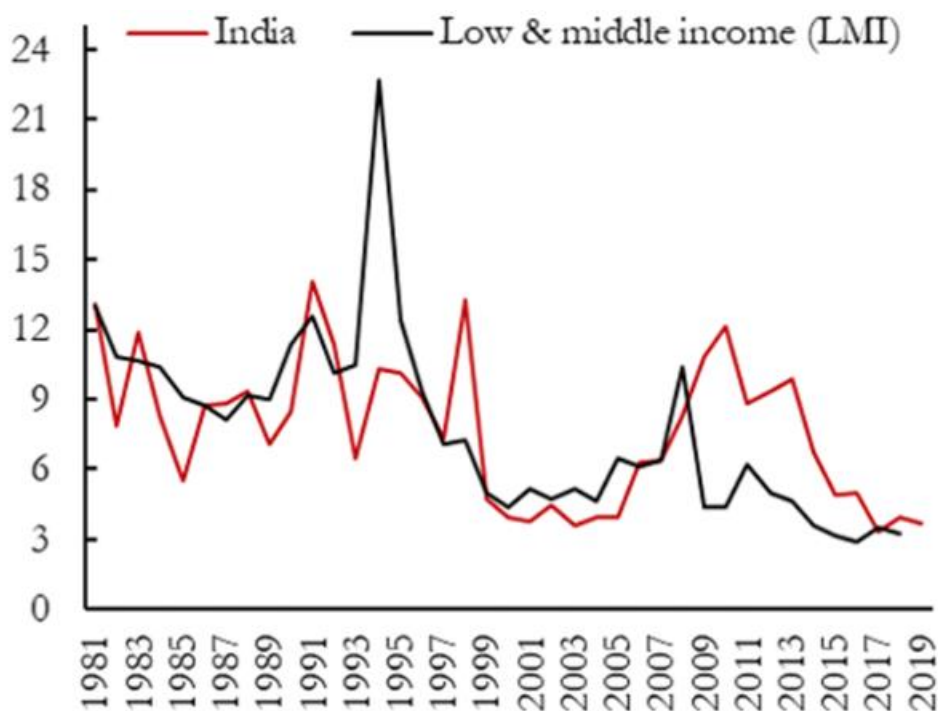
## Long-term inflation rate (consumer prices) in India and its co-movement with global inflation

The long-term average inflation rate (consumer prices) in India from 2011 to 2021 is around 6.5%. The co-movement of Indian inflation with global inflation can vary depending on several factors such as oil prices, currency movements, and global economic conditions. However, in general, there is a moderate positive correlation between Indian inflation and global inflation, indicating that changes in global inflation tend to have some impact on Indian inflation.



## Long-term inflation rate (consumer prices) in India and its co-movement with low- and middle-income countries

From 2011 to 2020, the average long-term inflation rate (consumer prices) in India was around 6.3%. In terms of co-movement with other low- and middle-income countries, the relationship is complex and influenced by many factors such as trade, geopolitical events, and global economic conditions. However, there have been some similarities in inflation trends among emerging market economies in recent years, such as a period of low inflation from 2015-2017 followed by an uptick in inflation in 2018-2020.



According to the customer cost list's estimation of inflation, the annual rate of change in the cost for the typical purchaser of receiving a bushel of labour and products that may be fixed or changed at set intervals, such as annually, is reflected by inflation. The majority of the time, the Laspeyres recipe is followed.

“India’s inflation rate for 2021 was 5.13%, a 1.49% downfall from 2020.”

“India’s inflation rate for 2020 was 6.62%, a 2.89% increment from 2019.”

“India’s inflation rate for 2019 was 3.73%, a 0.21% downfall from 2018.”

“India’s inflation rate for 2018 was 3.94%, a 0.61% increment from 2017.”

## Conclusion

The continuous and generalized increase in the level of prices paid for goods and services over a specified period of time is what we mean when we talk about inflation. There has been a consistent issue with inflation in India for a good number of years, and the effect that it has had on the economy is not something that can be ignored. In India, inflation stems from a number of different places, and each of these places has its own unique effect on the country's economy. The expansion of the money supply is one of the primary contributors to inflation in India, and it is also one of the most significant contributors overall. This surge may be the result of a number of factors, including increased government expenditure, historically low interest rates, and a plentiful supply of liquid assets in the banking system. When there is more money than the economy needs, it drives up the demand for goods and services, which in turn drives up the price of those goods and services. When there is excess money in the economy, it leads to an increase in demand for products and services. This particular form of inflation is referred to as demand-pull inflation, and it has a substantial impact on the economy of India. Cost-push inflation is yet another factor contributing to inflation in India. This form of inflation takes place when the cost of production rises for a variety of reasons, such as an increase in the cost of labor, raw materials, and transportation. When there is an increase in the cost of production, the vendors of products and services have little choice but to pass this additional expense on to the end customers in the form of higher prices. This form of inflation has a big influence on the Indian economy since it leads to a decline in the purchasing power of consumers, which might slow down economic growth. This in turn has a negative impact on economic growth. Food inflation is another key contributor to India's overall inflation problem. This kind of inflation takes place whenever there is a scarcity of food supply as a result of a variety of factors including natural disasters, inadequate infrastructure, and low levels of productivity. When there is a scarcity of food supply, the prices of food products go higher, which has the effect of affecting the total inflation rate in the country. As food is a basic necessity and an increase in food costs can lead to social unrest, this type of inflation has a substantial impact on the economy of India. Inflation of this type has a significant impact on the economy of India. The cost of energy is another key contributor to India's overall inflation rate. The costs of energy items like oil and gas have a direct influence on the prices of other goods and services. This is because energy is a key component in the production of these products. When the price of energy products goes up, so does the cost of producing items and transporting them, which ultimately results in an increase in the overall cost of consumer goods and services. Because energy items are necessary for the operation of the economy, this form of inflation has a substantial impact on the Indian economy. In India, inflation can also be caused by variations in the value of the rupee relative to other currencies. As the value of one currency, such as the Indian rupee, falls in comparison to that of other currencies, the prices of goods and services that are imported into India rise, which in turn leads to an increase in the overall rate of inflation. This form of inflation has a huge influence on the Indian economy, which is heavily dependent on imports for a variety of important commodities and services due to India's lack of domestic production of many of these items. In conclusion, inflation represents a huge problem for the economy of India, and the consequences of this difficulty cannot be disregarded. There is a wide variety of things that might cause inflation, and each of these things has their own unique effect on the economy. In order to bring inflation under control and ensure that the Indian economy will continue to expand in a sustainable manner, the Indian government will need to take a number of steps, including tightening its grip on the money supply, working to improve the country's infrastructure, boosting productivity, and actively regulating variations in the currency exchange rate.

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