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INFLATION TURNING INTO STAGFLATION

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Abstract -

The world economy in particularly Latin American countries is dwindling down for few years challenging to the Indian Economy which despite of different kind of hurdles are still surviving wells. Reasons are apparent as the spent thrift tendency of majority of Indians.

Keywords -

Inflation, GDP Deflator, insurgency, consumption stagflation, investors.

Introduction -

Many economists believe that increment in the level of inflation is mainly due to the growth of the supply of money. Layman is loaded by hiked rates of consumer goods while investors are facing high interest rates. The Reserve Bank of India is devising methods and financial models to arrest the rise in the rate of inflation in India. Basically, there are two indices on which the inflation rates are completely dependent. They are the Consumer Price Index (CPI), which affect a typical costumer and the other one is the GDP deflator, which measures the prices of goods and services produced at local level.

The snake of inflation is sucking the blood of each sector of economy. It basically involves the rise in the level of prices of goods and services, with the passage of time. Many economists believe that increment in the level of inflation is mainly due to the growth of the supply of money. Layman is loaded by hiked rates of consumer goods while investors are facing high interest rates. The Reserve Bank of India is devising methods and financial models to arrest the rise in the rate of inflation in India. This insurgency financial modeling may arrest the immediate crises but the long-term concerns are yet to be allayed.

Between April 2005 and March 2008, for the first time in more than the six decade long history of independent India, the country's GDP grew by an average of over 9% each year, three years in successions. This prompted many economists to say that the country's economy had changed gears and moved permanently into a higher growth trajectory. It was also believed that the India's growth story, has been largely driven by domestic demand and consumption, and it got insulted from global trends.

Hypothesis of the Study -

- Indian Economy has been strong enough to sustain despite of global tides and abbs.

Objectives of the Study -

- To highlight the stagnancy or stability of Indian Economy.
- To aprise the Indian masses and their tendency not to be afraid of inflation.

Appraisal of Stable Economy -

Considering this, in recent parliamentary standing committee on finance on the inflationary situation, RBI Governor was forced to answer some of the questions of Committee members. Why India was facing a double-digit inflation when the western countries had been able to contain their inflation rates in the rage of 3-4 percent was the foremost question. “It is not proper to compare India with developed countries and the situation here is not as bad as in some other developing countries. But the grim picture of the evolving situation on the price front reflects that the circumstances will improve dramatically anytime soon”, replied governor.

An MP while briefing the parliamentary standing committee advocated that the world economy had slipped into a state of “stagflation”, a situation characterized by high inflation and low economic growth. The stupendous growth rate of industrial output and employment created an enormous pressure on the inflation rate and pushed it further. The pricing disparity of agricultural products between the producer and consumer in the Indian market is found to be the main cause.

Moreover, the skyrocketing of prices of food products, manufacturing products, and essential commodities have also catapulted the inflation rate in India. Furthermore, the unstable international crude oil prices have worsened the situation. Central Bank has finally accepted that curbing inflation is its prime objective and has been taking a series of measure to limit the beast.

The two recent measures, increasing the Rapo Rate and CRR by 50 basis points (bps) will have its impact on the corporate houses as well as individuals. This will expected to snatch around Rs.200 billions from the market and help in restraining demand amid tightening monetary policy, it is the individuals will, either they have to increase their loan repayment period or else bear the brunt of increased lending rates. For Banks, the burden will lower its earning from each loan.

“Banks have already started raising their prime lending rates (PLR). The CRR and Rapo Rates hikes are larger than expected. In such a scenario its only those who have surplus cash who can benefit by higher interest rates on their savings, but considering the double digit inflation the fears of negative interest on the surplus looms large”, views corporate is the market.

Apart from domestic fronts, the situation of Indian economy has worsened globally, so far, for the parking places for all foreign institutional investors. But, the situation has been quite different during the last few months. Indian share prices have been sliding down, sometimes quite sharply. The love affair with the Indian stock market has slowly come to an end. Foreign institutional investors have turned into net sellers in the market.

Marginal effect of Recession -

In addition, the global slowdown has resulted in lower demand for Indian goods in export markets. Indian exports have dipped quite precipitously. On the other hand, there has not been any fall in the import bill. In fact, the steep rise in the cost of crude has caused a significant increase in the import bill. The natural outcome of this process has been a fall in the external value of the rupee.

There are numerous measures that can be taken in order to minimize inflation, which is due to the presence of different price indices related with the various sectors of the economy. Basically, there are two indices on which the inflation rates are completely dependent. They are the Consumer Price Index (CPI), which affect a typical costumer and the other one is the GDP deflator, which measures the prices of goods and services produced at local level.

Conclusion -

Analysts now say that much of India's remarkable performing over the last three years was the result of favorable economic condition the world over. A benign inflation rate and low interest rates also played lead roles in the script. The rising global tide, which lifted all the boats, also lifted India. Now the tide is also ebbing for India to feel the pinch.

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