# A Survey on inflation in India: A Global Challenge in a Changing World

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***Abstract: The most crucial information about fiscal policy, demand-pull inflation, and Fight Inflation is that the government may use it to reduce expenditure or raise taxes to combat inflation. This spike in demand is typically brought on by an excess of total demand over total supply, and it can be controlled by cutting governmental spending. The best method to control inflation while private spending rises is to tax corporate earnings. Both of these actions could be implemented simultaneously by the government to control inflation in the case of a high persistent inflation rate. The current essay is conceptual in nature and evaluates the causes and impacts of inflation in India by consulting secondary sources such journals, websites, publications, etc.***

***Keywords: Inflation, Financial Sector, Consumer Price Index (CPI), Wholesale Price Index (WPI).***

## I. INTRODUCTION

In every economy in the globe, the financial sector serves as the primary source of funding for worthwhile economic initiatives. By financial intermediation, it has a significant impact on the economy's ability to function. Simply put, the financial sector serves as a bridge between savers and borrowers by borrowing money from savers (in the form of deposits) and disbursing it to those who need it, such as businesses, governments, or people.[1] The financial industry boosts the saving rate, disseminates knowledge about investments, and enhances capital allocation to support economic growth through capital accumulation and technical advancement. In addition to the asymmetry, knowing and taking into consideration the uncertainty surrounding the central tendency is essential for maintaining inflation. 2] As a result, inflation uncertainty may have a negative impact on GDP, investment, and consumption. As the monetary authority's main goal is to stabilise prices, it is essential to empirically check whether it takes inflation uncertainty into consideration when formulating monetary policy.[3]

## II. OBJECTIVES OF THE STUDY

- To assess the cause and effects of Inflation.
- To estimate risks of inflation in India corresponding to various domestic and global drivers
- To Examine shifting of the conditional distribution of inflation for different domestic and global shocks. [4]

## III. RESEARCH METHODOLOGY

The study examines how inflation affects the Indian economy as a whole, and it does so by using secondary data and reports that have been gathered from a variety of published papers, periodicals, the RBI annual report, academic articles, and financial and websites. Many comments and recommendations are provided following the prudent study of inflation.

## IV. LITERATURE REVIEW

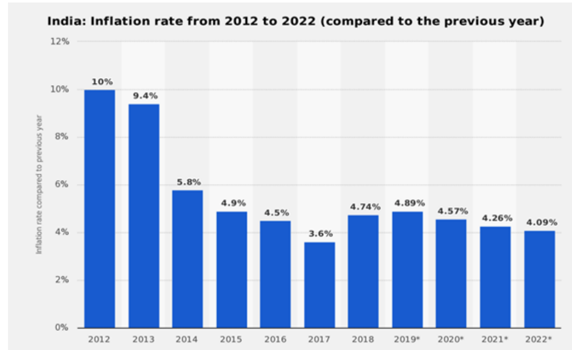
In the literature, studies that specifically analyse the tail risks of inflation are still very rare (Banerjee, Contreras, et al., 2020; López-Salido and Loria, 2020). However, a few research over the past ten years have examined the dynamics of inflation quantiles. Wolters and Tillmann (2015), for example, look at how distinct quantiles persist in the conditional distribution of inflation. In the instance of South Africa, Gupta, Jooste, and Ranjbar (2017) discover stronger inflation persistence for larger quantiles. [4] In a study of 12

OECD countries using the quantile regression approach, Tsong and Lee (2011) demonstrate unequal convergence of inflation to long-run value. This finding is consistent with relevant literature on convergence

## V. AVERAGE INFLATION RATE IN INDIA

Consumer pricing index (CPI) data shows that retail inflation in the nation surged to 6.50% in January 2023. The wholesale price index (WPI), which determines the overall cost of items before they are sold at retail rates, had a lower rate of inflation over the period of 4.73%. In 2022, the CPI peaked in April at 7.79%, and the WPI peaked in May at 15.88%. CPI is down 1.09% compared to inflation in January 2020, but WPI is up 1.72%. [6]

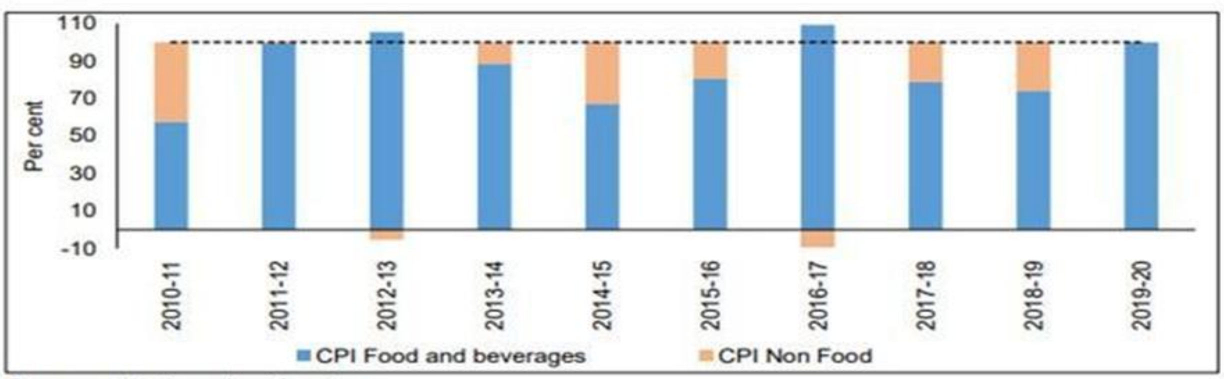
AVERAGE INFLATION RATE IN INDIA LAST 10 YEARS




## VI. EMPIRICAL ANALYSIS

Stylised Facts: Because that food accounts for a significant portion of the variance in CPI headline inflation, the uncertainty surrounding the rise in food prices also affects headline inflation (Chart 1) 3 . Price stability, or avoiding high inflation rates or very low inflation rates over time, is the RBI's major responsibility under the FIT framework because fluctuating prices might cause resource allocation to be inefficient. [7]

**Chart 1: Contribution of Food and Non-food Components to Inflation Volatility**




**Source**: Authors' estimates.

In keeping with changing macroeconomic conditions during the past ten years, the distribution of the CPI-C headline inflation has experienced considerable variations. The RBI's secondary goal of growth is also harmed by too high or too low inflation, which represents the upside and downside tail risks to inflation, respectively.[8] As a result, it is important to properly assess these risks. Due to a series of bumper food grain and horticultural production years and generally stable global commodity prices, particularly for crude oil, the FIT period was accompanied by a decrease in CPI inflationDespite the general easing of inflation, headline inflation deviated from the target, once falling below the lower bound of 2% (in June 2017), and consistently rising above the upper bound of 6% during December 2019–December 2020.[9] This deviation was primarily caused by supply disruptions brought on by the COVID-19 pandemic and monsoon-related shocks to the monsoon.

## VII. FINANCIAL CONTROLS OF INFLATION

The goal of monetary interventions is to decrease money-related revenue.

- Management of Credit: One of the most important monetary interventions is monetary policy [10]

- The nation's central bank uses a number of techniques to control the volume and standard of credit. In order to do this, the reserve ratio is raised, securities are sold on the open market, bank rates are increased.

## VIII. CONCLUSION

Inflation, in general, is thought to have both positive and negative effects on the nation's overall economy. Thus, it is believed that bonds are the safest investments over the long term, even if they frequently force investors to lock in a guaranteed rate for a lengthy period of time.[14] In conclusion, because inflation raises the cost of goods and services, it results in a situation where long-term investments that pay low interest rates have less purchasing power. Inflation is essential to the economy even though it decreases consumer purchasing power and leads to a mismatch between supply and demand. A rise in demand for goods and services will lead to inflation, which will boost output and aid in the expansion of the economy [15].

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