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A STRATEGIC STUDY ON INFLATION AND ITS RELATIVE IMPACT ON INDIAN ECONOMY

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Abstract

Inflation is unpredictable phenomena and has its presence in every economy in different form. It is impossible to forecast its presence and shocks in true séance. It moves with growth and decline of economy. It is impossible to find out the real reason of inflation. It presence in nation economy is a sign of growing economic activities. It acts as a two side sward, from one side it increase the general cost and from other side reduce the savings. It is necessary to control inflation for balance growth and development. Nation's with large population below to poverty line need to be very careful in taming inflation. It is obscure tax on lenders and common man. Inflation and exchange crises move together with competitive pace. If it grows above to eligible limit and continued for long then it become weapon of mass economic deterioration and manufacturing collapse. Its long presence sabotages the growth of the nation. Thus this study is carried out to find the real reasons and impacts of inflation on Indian economy. For the purpose of study data of different time period has been taken and trend been analysed. In last finding, conclusion and recommendation has been given.

JEL Classification: A 10, A13, A14, B 12, B 16, B21, B 22, B 26
Key Words: CRR, NDTL, GDP, SLR, Repo Rate, WPI, CPI, EDE, RBI, Inflation,

I. INTRODUCTION

Nation's global importance largely depends upon its growth, development and economic stability. These factors largely depend upon optimal utilisation of nation's resources with good governance, effective and protective fiscal policies and efficient manpower. Stable growth of the nation reflects its global status and regional dominance. Inflation is a core part of nation's economic policies, without it no policy can be prepared. It is good to have low inflation as it is a sign of economic activities and growth. It is like a double side sword, it acts as an obscure tax on common citizen and on financial lenders and on other side it reduces the savings. It is an increase in general price level of goods and services which ultimately depreciates the savings and is typically measured as a rate of change or as an annual percentage increase. In general value of inflation is measured in term of purchasing power, which is a real power through which we purchase goods and services. With increase in inflation rate purchasing power comes down and every rupee own buys a smaller percentage of goods and services in comparisons to past. Due to inflation the intrinsic value of all goods and services remains same. If inflation increases by 0.5 percentages then the currency power will depreciate in value at an annual rate of 5 percent in terms of goods and services we purchase. With rising inflation, nations currency cannot stay stable it will fluctuate with comparative movement of inflation. Moderate inflation is reluctantly acceptable but high inflation need minute assessment of all economic factors and prevailing conditions as it impact the profitability and liquidity of the economic entities and affect their working capital directly. Its movement results into increase or decrease purchasing power of the currency. It is a phenomenon which exists in every economy in form of inflation, defilation, hyperinflation or stagflation. In present global economic environment most of the economies have developed and adopted measures to minimise the impact of inflation if may not control its rate. The accepted ideal inflation rate is considered to be in between 2 to 3 percent.

II. HISTORY OF INFLATION

Inflation is a part of economy and hold important and respectful status. Without inflation no economic policy can be prepared. It has perpetual existence and exit in different form in economies depending on economic performance. India holds the distinction of saving and is also deeply intolerant of high inflation. Policy makers in India in general make policies considering savings as a backbone to answer future financial uncertainties. Globally history of inflation is found to be mystery and unpredictable. Indian economic history provides evidence that India has faced some severe inflation but not disease called hyperinflation which can cause breakdown to nation monetary system. Global economic histories provide evidence that many Asian and Latin American nations have worse record in inflation than India; it is due to their economical performance in comparison to Indian economic performance. In the year 1923 "Germany" faced worst hyperinflation in which price escalated to 2500 percent in one month and caused monetary breakdown. In Japan, year 1945 is recognised as a year of economic defeat and economic collapse due to war and nuclear destruction. In this year inflation increases and touched the level of 568 percent. In the year 1947, due to civil war in China inflation rises astonishingly and touched 1,579 percent. In the year 1951 due to war between North Korea and South Korea economy suffered and declined drastically and during the period inflation rate increases and touched the level of 210 percent. In present global economic environment Zimbabwe is facing worst hyperinflation, according to the report of Reuter from Harare that every citizen of Zimbabwe is billionaire with minimum purchasing power. Impact of hyperinflation can be analysed as Zimbabwe central bank introduced 500 million dollar note which has power only to purchase two loaves of bread. It is been reported that in many African nations prices change every passing day and some time it change hour to hour and it is been reported that it is rising at an annual rate of 66,000 percent. According to the Indian history of economy that in the year 1943 highest level of hyperinflation which India has faced since 1801 was 53.8 percent. This hyperinflation was due to famine and reason was Indian independence movement. Amartya Sen the Nobel Prize winner economist in his book has revealed many facts, causes and impact of Indian inflation. Satyajit Ray in the year 1973 produced a movie on inflation 'Ashani Sanket' and won the Oscar award. Through his movie he presented the inflation harsh truth and suffering of people.

Global economic history provides the evidence that greedy politics to make world their subordinate resulted World War II and due to which almost entire world was facing economical disaster and because of this greed most of the countries became victim of inflation, recession and hyperinflation. Every nation want to control the price whether they are active participant in war or victim of war, it is paramount important for their survival, political stability and governance. The modern history of wars reveals the fact that India took active part in all the world wars and during the period it was also passing through independence struggle, the collective impact of the period pushes the price which became uncontrollable and converted into inflation. With prudent policy to curb inflation and saving habit of Indian people efficiently managed the inflation in comparison to other nations. Indian economic history provides evidence that India has performed much better than its competitors and Asian neighbouring countries including Japan, China, Pakistan, Malaysia and Indonesia. It is found that every eighth year India has faced inflation in which price escalated but inflation remained under 20 percent. Keeping inflation under 20 percent show India's better economic performance, good governance and economic strength and its ability to control inflation which distinct it from other nations. India not only controlled inflation but also clear off foreign defaults by rescheduling foreign debt in 1958, 1969 and 1972. All advance economies, emerging economies and undeveloped economies are involve in economic activities according to their strength and expertise and thus also have faced inflation time to time according to growth stages and applied all their measures to control it in acceptable limit.

According to economist *Carmen M, Reinhart and Kenneth Rogoff,* that since Middle Ages world has got financial crises. Serial default is a universal rite of passage through history for nearly all countries as they pass through the emerging market state of development and also they said high inflation and currency debasement are just as much universal rite of passage as a serial defaults. Most of economic historians found, that India has managed inflation and hyperinflation with distinction. It controlled financial crises efficiently with appropriate growth rate and iron laws in comparison to other developed economies. It is basic responsibility of the government to control the inflation if want to survive smoothly.

During the period of 1970, in India inflation surpassed 20 percent and stayed there for 2 years and through effective price mechanism India brought it in controlled. *RBI Governor C Rrangarajan* in the year 1970 pushed up the interest rate to a particular acceptable limit to bring down inflation. Presently inflation is fluctuating frequently some time it come across double digit, some time it decline below to 10 percent. To control this volatility Indian government implemented same tool which was applied during the period of 70s, which is trade restrictions and moral suasion to hold prices and commodities such as iron and steel. But apart from these measures there is need of pushing interest rate comparatively. India as a emerging economy have to be very cautious in controlling inflation as India is having world largest poor population who are rolling their survival on half dollar per day earning. According to "*Reinhart and Rogoff*" that inflation crises and exchange rates crises travel hand to hand. At present India growth rate has declined and inflation has gone up and expected to move further and will influence the growth if it continued in same pace.

III. OBJECTIVE OF THE STUDY

The core objectives of the study are to evaluate the impact of Inflation on Indian Economy in general arising due to global financial crises, recession and Inflation and will analyze qualitative, quantitative and collective impact on various economic sectors, In addition for better future growth will suggest rational approach to reduce inflation impact which can be considered as a judicious recommendation for improvements of economic performance.

IV. METHODOLOGY

The study is done to analyze the impact of inflation on Indian economy in general and for the purpose secondary data and reports are used which are collected from published economical and commercial reports, magazines, RBI annual report, research articles and financial institutions websites. After judicious evaluation of inflation impacts suggestions and recommendation are made. The outcome of the study depends on the selected period by the researchers which may differ from other analysis.

V. LITERATURE REVIEW

Literature review is important part of all research activates. It provides reason to the researcher to carry out new researches and unearth the hidden and unexplored part of the area of research. It play anchor role and provide direction and analytical inputs to the study which is analysed and compared by the researchers with present facts and findings in order to forecast the future. With growing globalisation complexities are also growing and economic scenario keep on changing with prevailing circumstances. Outcomes of the studies also keep on changing according to the time period and prevailing socio- political and economic environment. Every carried out study adopt some different and innovative methodology which rationally distinct from the past and produce solution to prevailing situational requirement. Large number of studies were carried out worldwide in past and is being carrying out in present to find out appropriate solution to the perpetual phenomena inflation. Most of the studies were carried out in advance economies who are parent nation to most of the giant multinational organisation. Marginal numbers of studies were conducted by the developing and underdeveloped nations. Due to globalisation many underdeveloped economies transformed into world economic growth engine and thus also got exposed to inflation implications. Jerks of inflation forced them to examine inflation and to analyse the varying impacts in order to develop answer to unpredictable phenomena, hidden tax inflation. Therefore realizing the importance of inflation this study is designed by the researchers to understand, examine and critically analyse the degree of inflation and its varying impacts by minutely investigating the reasons and causes which stoke inflation. For the purpose researchers have evaluated various economic reports, economic theories, empirical studies conducted worldwide by academicians, economists and independent research agencies and revealed significant findings which gave new dimensions and highlighted hidden reality of inflation and recession along with relevant solution to control the inflation and its impact. In last study has set high parameter for future study to be followed by others.

Keynes (1936) in his studies found a negative relationship between output and variability and average growth, arguing that business take into account the fluctuations in economic activity when they estimate the return on investment, *Solow (1956)* found that there is encouraging impact of real uncertainty on output growth. He further said that uncertainties encourages higher precautionary savings and higher equilibrium rate of economic growth, *Jadhav (1994)* in his study found that there is a complete relationship between government deficits, money supply and inflation which possibly lead to a self perpetuating process of deficit-induced inflation and inflation- deficit. He further said that these situations are due to fiscal dominance and even after the complete phase out of automatic monetization of deficit, government deficit remains the core factor causing incremental growth in reserves money on the source side, and overall expansion in money supply and inflation, *Rebecca Hellerstein (1997)* in his carried out study found that public concern about inflation generally heats up in step with inflation itself. He also found that most of the economists do not always agree about when inflation starts to interfere with market signals, the public tends to express serious alarm once the inflation rate rise above 5 or 6 percent, *Islam and Stiglitz (2001), Kose, Prasad and Terrones (2005)* in their carried out studies found that due to crisis volatility trend also shifts. They also found that during the post crisis period volatilities has increased in developed nations economies but in developing nation it has generally declining trend, *Khundrakpam and Goyal (2009)* through their study revealed that growth in inflation is due to adverse supply shocks which may not merit monetary tightening as long as the permanent changes in relative energy price do not lead to a change in the underlying trend rate in inflation". They also found that in possibilities of short term trade off between inflation and growth monetary policy actions will be concentrated to control inflation which may ultimately result in growth decline and priorities, *Kundrakpam (2009)* in his conducted study found that degree of inflation persistence in India is comparatively low irrespective of all alternative measures. The study also found that components of wholesale price index WPI, manufacturing' inflation is the highest, *Friedman*, in his carried out study found that presence of inflation is a monetary phenomenon. He in his monetarist theory argued that if the supply of money increase faster than growth rate of national income then inflation is bound to occur and if money supply and inflation increase with equal rate then there will be no inflation. He also emphasised that unwarranted increase in the money supply cause inflation, *Carmen M, Reinhart and Kenneth Rogoff (2012)* from their conducted study tried to highlight the complexities of financial crises which are present in the global economy from centuries. They also found that serial default is a universal rite of passage through history for nearly all countries as they pass through the emerging market state of development. They further said that inflation and currency debasement is just as much a universal rite of passages as serial default, *Deepk Mohanty, (2013)* through his study tried to find the reasons because of which inflation remained entrenched despite of negative gap in output. He found that sustained level of rising inflation in economy is not good as it impose real cost directly which are borne disproportionately through diversified economic segments. He further said that to minimize the degree of inflation on an enduring basis, to anchor the inflation expectations, there is need of combined short term, long and midterm policy at all economic fronts, *S.M.Tariq Zafar, Waleed Hmedat and Adeel Maqbool (2016),* suggested that policy maker have to make effective policy, supply side policies, fiscal policies, exchange policies along with liquidity trap. They also suggested that they must keep on revising inflation baskets according to inflationary conditions.

They also suggested that to reduce inflation government have to control its wasteful and unwanted spending, have to control tax evasion, have to encourage fast economic growth, have to maintain quality debt, have to restrict government borrowing which later convert into government default or hyperinflation, have to borrow only for productive infrastructure which accelerate GDP growth and generate revenue. They also emphasizes that government may not borrow funds for subsidies or unproductive, corrupt and wasteful schemes and must promote planned spending. They also suggested that to generate funds government must sell its assets, share in government companies, and its holdings in corporate, spectrum and minerals blocks rather than expanding fiscal deficit, *Draghi (2016)* through his conducted study revealed that inflation projections have continued to be downgraded, complicating further deleveraging efforts. He also found that 1 percentage decline of inflation from target over five year period will raise private debt by around 6 percentage, *George Akerlof, William Dickens and George* Perry argue that moderate inflation yields significant efficiency gains by "greasing" the wheels of the labour market. Firms use inflation to "to cover" adjustments in real wages and at zero inflation nominal wage cuts, never popular among workers, would necessarily be more common, *Congress, Federal Reserve Board Chairmen Alan Greenspan* observed that firm's productivity may rise quickly with price stability, as the "inability to pass cost increase through to higher prices provides a powerful incentives to firms to increase profit margins through innovation. Inflation thus may weaken our judgement about how well we are doing, both as individuals and as firms, *Shiller's* survey found a striking number of people over 75 percent of respondents believe that their income would not fully adjust for several years after an inflationary episode. Economists have tried to measure whether wage increases lag price increases since the 1890s but have consistently found the relationship difficult to estimate. He further finds that worry about inflation's costs increases dramatically as individuals near retirement age, *Economists Peter Dimond, Eldar Shafir and Amos Tversky* in their carried out study "On Money Illusion," argued, that people seem to base their sense of satisfaction on nominal earnings rather than real earnings, *Lynn Browne of the Boston Fed*. High rates of inflation accelerated home buying by increasing the real, after tax returns to investment in owner occupied housing relative to alternative investments. A lag in interest rates reinforced this uptick in demand. As house prices in turn began to rise faster than the general price level, people rushed to buy rather than face higher prices later,

VI. REASON OF INFLATION MOVEMENT

Indian economy by virtue of prudent approach managed to register gains in 2015-16. It outwitted the back drop of a global environment characterised by competitive growth and heightened financial market volatility. During the year, varied economic activities picked up the momentum; trajectory of growth was determined by the policy makers and underpinned by macroeconomic stability. Policy makers efficiently controlled the unpredictable phenomena inflation and minimised the fiscal and current account deficits. Benign inflation conditions prevailing until August 2015 was dispelled by the sustained elevation in prices of daily consumable items specially pulses which impacted rise in inflation up to January 2016. Inflation was in control for few months and later from May 2016 it started moving upward. Due to the seasonal inflow of agro products CPI inflation ranged above target in the first quarter of 2016-17. Despite of consecutive year of drought conditions, India managed to post modest growth in comparison to previous year. Industrial output comparatively slowed down in comparison to previous year with turnaround in consumer durables. In consumer non durables articles economy witness decline after successive run of six years, mainly on account of contraction / deceleration in fast moving consumer goods which, in turn, reflected the subdued state rural demand. It is expected that in future agriculture performance will be better and will reverse the deterioration and boost the income in rural populace. Inflation unpredictability influenced investment and it is very much visible in service sector and new business orders slowed and export were impacted by weak external demand.

Inflation which in general measured by the consumer price index (CPI) in the year 2015-16 evolved through three phases. In first phase of the year, food prices pressures stemming from unseasonal rains and later delayed and skewed southwest monsoon brought favourable effects. By July-August, 2015 inflation ebbed to an intra year low of 3.7 percent, which is found to be the lowest since November 2014. In the second phase from September the economic conditions started heating and base effects dissipated and inflation started climbing unrelentingly month after month and reached to 5.7 percent in January 2016. The prices of pulses were considered to be instrumental in rise of the inflation during the second phase. The third phase witnessed decline in inflation which astonishingly came down to 4.8 percent. This decline happens due to unexpected decline in vegetable prices and supportive corrections in prices of pulses along with fuel prices adjustment.

For the year as a whole, inflation was comparatively below to preceding year 5.8 percent and averaged 4.9 percent. Categorically if we analyse then accept fuel and light annual average inflation came down in all the major categories. The current phase of disinflation is due to combination of effective developments, especially on the supply side in which global commodity prices decline and proactive, prudent and parental role of government in managing food prices along with anti inflationary monetary policy role of Reserve bank of India. Household's inflation expectations in India were persistently elevated and later gradually adapted to these developments and current perceptions and near term expectations edged down. Inflation expectations of other agent also declined according to the prevailing conditions. During the period of April-July 2016, unexpected rise in the prices of vegetables, fruits, protein-rich items and sugar were witnessed, along with these price rises, the increase in global crude oil prices pushes the price of fuel and consequently it reverses the inflation wave and touched 23 month high 6.1 percent. During the year of 2015-16 cost conditions were relatively benign and developed the disinflationary momentum. Globally, an accommodating slackness and weak commodity prices kept inflation subdued, with the UK, Europe, Thailand and Japan, overcast with disinflation risk. In some of the SMEs nations (Brazil and Russia) recession condition were witness and currency depreciation and structural bottlenecks kept inflation elevated. Crude oil prices moved softly throughout the year. It increases for a short period of time but later dipped to US 28$ a barrel in January 2016, which is recorded to be 12 year low in terms of the Indian basket of crude oil. Non-energy commodity prices also remained soft particularly metals and agro products due to spare capacity and weak demand. All these development depressed input costs in India considerably relating to raw material and intermediates.

Due to declining international commodity prices and falling costs wholesale price index (WPI) inflation for the period of 17 consecutive months up to March 2016 was in negative territory.

During the period of 2015-16 all other indicators which are measured by CPI-AL, CPI-RL and the GVA deflator were also flexible and ease. In the year 2015-16 minimum support price (MSP) increases were much more moderate in comparison to subsequent years. During the year rural wages and employee compensation growth rates in the organised sector were modest, on contrary corporate sector reported slower growth in staff costs. Although in the later part of 2015-16 input prices picked up as polled in purchasing manger indices (PMIs). Reserve Bank of India's business expectations survey and other survey of business indicated that the weakness in pricing power prevented a complete translation into output price increases.

During the year 2015-16 the inflation was measured by CPI and WPI with wide divergence, which ultimately stroked the feature of price development. The 7.6 percentage points divergence of inflation during 2015 can be analysed as the overall impact arising out by the difference in prices recorded for similar items (0.9 percentage points), difference in weights for similar items (0.03 percentage points), difference in inflation for dissimilar items, which is scope effects (4.9 percentage points) other effects which includes the differences in the tools, techniques and formulae used to compile these indices (1.8 percentage points).The year 2015 had experienced a unique overall divergence which was contributed by large scope effects. The WPI deflation was concentrated in tradable like basic and intermediate commodities whereas CPI inflation in relation to non-tradable like services, in which housing produced unusual persistence. During the period of increasing prices of the commodities scope effects tends to be omitted and cancel out

Inflation in general edged down across constituents categories and its unpredictability was also found ebbing across the major sub groups. While the fuel and energy group was a distinct outlier. The diminishing inflexibility and persistence in inflation excluding food and fuel was noteworthy development with implications for inflation dynamic moving forward. The category having food items constitutes 45.9 percent of CPI and in general it contributed 50 percent to overall inflation in 2015-16. During the year in this category pulses alone contributed 15 percent to overall inflation despite a small weight of 2.4 percent in CPI. Within this category inflation in cereals, fruits and animal based protein items remained broadly ranged bound. Due to structural factors, manmade and natural calamities in the year 2014-15 there was short fall in production of agro based and other allied products and absence of procurement mechanism until 2015-16 also played important role to an extent in pushing inflation upward. During June – September 2015 unpredictable and unseasonal rainfall and uncoordinated demand and supply pushed up vegetable prices. Number of controlling measures, comprehensive and rapidly deployed food management strategy been adopted by the government to arrest the food inflation. Higher MSPs to incentives production of pulses, procurement of pulses in order to develop buffer stock, banning exports of most of the pulses and eliminating duty on pulses and onion import, rising minimum export prices (MEPs) of onions. Allowing respective states to develop quota's and impose stock limits on certain essential commodities like edible oils, pulses and onions. Due to successive year below to average monsoon, the price of cereals had been pushed marginally on account of mild increase in MSPs and higher off take by the states to check the price pressure.

During the year fuel group aggregated the weight of 6.8 percent in the CPI and it accounted almost 7.1 percent. Inflation in this category initially reflected an organised and administered price changes, particularly in coal, electricity, LPG, kerosene, firewood's, chips and other household fuels. Prices of all these items remained constant throughout the year. The CPI inflation excluding food and fuel gradually increases and it continued throughout the year and stood to 4.9 percent in the month of December 2015, later it declined marginally in July 2016 and came down to 4.6 percent. These movements were initially influenced by price pressures in the subgroup of transport and communication, housing, personal care and effects, and health and education. Since November 2014 cumulative increase in excise duties of petrol by Rs 12 per litre and by Rs 14 per litre in diesel dampened the pass through of declining global prices of crude oil into transport and communication sub group wherein petrol and diesel are embedded. In the year 2015-16 after removing petrol and diesel components of transportation and after excluding food and fuel categories inflation averaged 5.2 percent. Since September 2015 housing inflation started increasing gradually. Inflation in personal care and effects rises up marginally in the second half of 2015-16, in service sector like health and education inflation exhibited persistent price pressures. These kinds of persistence price pressures calls are considered better for understanding the price setting mechanism and behaviour in the economy.

From the August 2016 revised pay scale under the seventh pay commission was implemented due to which the expectation of increase headline inflation with a cumulative impact of 10 basis point by March 2017 over the baseline scenario set out in bi- monthly monetary policy statement of June 2016 and in this the impact of CPC implementation was not included. This reflects indirect impact by the increased personal consumption expenditures which in result pushed the collective demand. In general it is seen that the overall impact on CPI inflation, which mainly derived through direct effects of an increase in house rent allowance. When it gets affected then their consequences reflect in staggered manner over ensuing months. Indirect effects due to expectations could also feed back into inflation outcomes. Government of respective states have to follow the revision of salaries and allowances of employees in order to match the inflation implications. Therefore most of the inflation impact is expected to spill over into the next financial year.

Reserve Bank Responsibility

This is a Reserve Bank of India (RBI) statuary obligation, social responsibility and macroeconomic priorities to achieve the government pre determined objectives that to bring down the inflation up to 4 percent. To achieve the set target of government the apex bank of the nation (RBI) developed and started following a gentle glide path, aiming to arrest inflation up to 5 percent by March 2017 which has declined from 6 percent since January 2016. The government of India has notified the inflation target for the RBI and for the purpose has outline the required structure and functions of monetary policy committee. This setting up of a specialised committee by the government is prudent move to strengthen the transparency, continuity and providing sovereignty to act independently in making future monetary policy and its implementer decisions. The ambit of structural reforms is broad in order to develop more efficiency, professional effectiveness and to generate productivity and competitiveness along with perseverance with disinflation towards the medium term CPI inflation goal of 14 percent under a new monetary policy framework and parenting states to high quality fiscal consolidation

Inflation Trend

Table No. 1. Inflation(Consumer Price Index, All India)									
	Rural			**Urban**			**Combined**		
Consumer Price Index (All India)	**2013 -14**	**2014 -15**	**2015 -16**	**2013 -14**	**2014 -15**	**2015 -16**	**2013 -14**	**2014 -15**	**2015 -16**
General Index (All Group)	**9.6**	**6.2**	**5.6**	**9.1**	**5.5**	**4.1**	**9.4**	**5.8**	**4.9**
Food and beverages	11.5	6.6	5.4	12.6	6.4	4.6	11.9	6.5	5.1
Housing	----	----	----	7.0	5.9	4.9	7.0	5.9	4.9
Fuel and Light	8.2	5.1	6.8	6.9	2.7	2.7	7.7	4.2	5.3
Miscellaneous	6.3	4.9	4.7	6.6	4.2	2.8	6.5	4.6	3.7
Excluding Food and Fuel	7.2	5.8	5.5	7.1	5.1	3.9	7.2	5.4	4.6

***Source**: Revealed by the researchers from RBI annual report 2015-16, Page no, 173*

Analysis and Interpretation of All Commodities: During the period of study it is found that in rural area inflation in general index of (All Group) is found in declining trend. In the year 2013-14 it was (9.6) which declined to (6.2) in and in the year 2015-16 it further declined to (5.6). The same declining trend is found in urban area also as in the year 2013-14 it was (9.1) and in following year it came down drastically and was (5.5) and subsequently it came down to (4.1). Thus collectively it is found (9.4) in the year 2013-14, (5.8) in 2014-15 and (4.9) in the year 2015-16. The study found that in rural area inflation was higher than urban area. It is also been found that in the year 2013-14 general index inflation was highest and was (9.6) and in the year 2015-16 it was lowest and was (4.1)

Analysis and Interpretation of Food and Beverages: During the period of study it is found that in the year 2013-14 inflation in food and beverages in rural area was highest and was (11.5) which declined to (6.6) in the year 2014-15, in the year 2015-16 it further declined and came down to the lowest that is (5.4). The study found that inflation in food and beverages in rural area has declined year to year as a trend. In the Urban area inflation in the year 2013-14 was highest and was found (12.6) and it was comparatively higher than rural by (1.1), in the year 2014-15 it drastically declined and came down to (6.4) which is marginally lower than rural inflation, in the year 2015-16 it declined and was (4.6) which is lower in comparison to rural inflation of the same period. The study found that in rural area inflation is more than urban area. Combined inflation of food and beverages is found (9.4), (5.8) and (5.1) respectively.

Analysis and Interpretation of Housing: From the above table it is found that during the selected period of study in rural area there is no data available through which inflation can be assessed and analyzed. The study found that in urban area inflation in housing has declining trend, in the year 2014-15 it was highest which was (7.0), it declined and was found (5.9) in the following year and in the year 2015-16 it came down further and was (7.0). The study found that during the selected period of study inflation in housing was having declining trend. In absence of rural housing inflation data, the combined data of inflation is been calculated taking only urban housing inflation data.

Analysis and Interpretation of Fuel and Light: From the above table it is been found that during the period of study inflation of fuel and light in rural area was highest in 2013-14, it was (8.2), in

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the following year 2014-15 it came down to (5.1) which is found to be the lowest in the study period, in the year 2015-16 it rose to (6.8). In urban area inflation of fuel and lighting was found highest in the year 2013-14 and it was (6.9), in the following year it came down drastically and was found (2.7), it remain constant at (2.7) in the subsequent year 2015-16. The study found that on combined basis inflation in fuel and lighting was (7.7) in the year 2013-14 and (4.2) in the following year and it was (5.3) in 2015-16.

Analysis and Interpretation of Miscellaneous: From the above table it has been found that during the period of study in the rural area inflation in miscellaneous was highest in the year 2013-14 and was (6.3), in the year 2014-15 it came down to (4.9) and in the year 2015-16 it marginally declined and was found (4.7). In the urban area miscellaneous inflation was found highest in the year 2013-14 which was (6.6), in the year 2014-15 inflation came down dramatically and was at (4.2), and in the year 2015-16 it came down further and was found at (2.8).Combined inflation was found at (6.5) in 2013-14, it was (4.6) in 2014-15 and was (3.7) in 2015-16. The study found that inflation in miscellaneous segment was having declining trend.

Analysis and Interpretation of Excluding Food and Fuel: From the above table it is been found that during the period of study inflation in CPI all India level excluding food and fuel in rural area segment was highest in the year 2013-14 which was (7.2), in the year 2014-15 inflation declined and was (5.8), in the year 2015-16 it further came down and was found at (5.5). In urban segment inflation in CPI all India level was highest in the year 2013-14 which was (7.1) and followed by (5.1) in 2014-15 and further came down to (3.9) in 2015-16. During the selected period of study, combined inflation was found (7.2), (5.4) and (4.6) respectively.

Table No: 2: Inflation

Other Price Index (All India) 2004-05 =100	**2007-8**	**2008-9**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
All Commodities	4.7	8.1	3.8	**9.6**	8.9	7.4	6.0	2.0	**-2.5**
Primary Articles	8.3	11.0	12.7	1.7	9.8	9.8	9.8	3.0	0.3
Of which – Food Articles	7.0	9.1	15.3	15.6	7.3	9.9	12.8	6.1	3.4
Fuel and Power	0.0	11.6	-2.1	12.3	14.0	10.3	10.2	-0.9	-11.7
Manufactured Products	4.8	6.2	2.2	5.7	7.3	5.4	3.0	2.4	-1.1
Non food Manufactured	5.0	5.7	0.2	6.1	7.3	4.9	2.9	2.4	-1.5
CPI Industrial Workers (IW) 2001=100	6.2	9.1	12.4	10.4	8.4	10.4	9.7	6.3	5.6
Of which (CPI- IW Food)	8.4	12.3	15.2	9.9	6.3	11.9	12.3	6.5	6.1
CPI Agriculture Labourer (1986-87 = 100)	7.5	10.2	13.9	10.0	8.2	10.2	11.6	6.6	4.4
CPI Rural Labourer (1986-87 = 100)	7.2	10.2	13.8	10.0	8.3	10.2	11.5	6.9	4.6

Source: *Revealed by the researchers from RBI annual report 2015-16, Page no, 173*

Analysis and Interpretation of All Commodities: From the above table number 2 it is been found that inflation in other price index at all India basis in all commodities was highest in the year 2010-11 which was (9.6), in the year 2015-16 it was found lowest (-2.5). the study found that in the year 2008- 9 inflation increases sharply from the previous year and was (8.1), but later in following year 2009-10 it declined drastically and came down to (3.8), but again in the year 2010-11 it increases sharply and touched the level of (9.6). The study further found that after touching highest level in the year 2010-11 it started declining year by year and was found (8.9), (7.4), (6.0) (-2.5) respectively.

Analysis and Interpretation of Primary Articles: From the above table number 2 it is been found that inflation in other price index at all India basis in primary articles was highest in the year 2010-11 and lowest in 2015-16. In the year 2007-8 it was (8.3), in the following year 2008-9 it increases and was found in double digit (11.0), which increases in 2009-10 and was (12.7), it further increases in 2010-11 and touched the level of (17.7) which is found to be the highest in study period of other price index. Study found that inflation of other price index declined drastically and remains constant at (9.8) in 2011-12, 2012-13 and 2013-14 and later it declined to (3.0) in the year (2014-15) and touched the lowest at (0.3) in the year 2015-16.

Analysis and Interpretation of Food Articles: From the above table number 2 it has been found that inflation in other price index at all India basis in food articles segment was highest in the year 2010-11 and lowest in 2015-16. The study found that during the period of study in the year 2007-8 inflation was (7.0) which increase in the following year and was found at (9.1), in the year 2009-10 it touched the level of (15.3) which further marginally increases in 2010-11 and was (15.6), but in the year 2011-12 it drastically came down at (7.3) it again started increasing and in the year 2012-13 it was found at (9.9), in 2013-14 it again entered in double digit and was found at (12.8), in the year 2014-15 it declined drastically and came down to (6.1) and further it came down to (3.4) in the year 2015-16. It is been found that during the period of study only in three year inflation in other price index in food articles segment entered in double digit.

Analysis and Interpretation of Fuel and Power: From the above table number 2 it has been found that inflation in other price index at all India basis in fuel and power in the year 2007-8 was (0.0) which dramatically increases and touched the level of (11.6) and subsequently in the following year 2009-10 it came down drastically and touched the level in negative and was found at (-2.1), which further dramatically rose to (12.3) in the year 2010-11 and with marginal increase it was found at (14.0) in the year 2011-12. It is been found that from 2012-13 it started declining and was found at (10.3), (10.2), (-0.9) and (-11.7) respectively.

Analysis and Interpretation of Manufacturing Products: From the above table number 2 it has been found that during the selected time period of study inflation in other price index at all India basis in manufacturing products segment was highest in the year 2011-12 and lowest in 2015-16. The study found that in the year 2007-8 inflation was (4.8) which increases and reached to the level of (6.6) in 2008-9 which drastically came down to (2.2) in 2009-10, it rose to (5.7) in 2010-11, in the year 2011-12 it touched the level of (7.3) and then it started declining year by year and was found (5.4) in 2012-13, in the year 2013-14 (3.0), in 2014-15 it came down to (2.4) and in 2015-16 it came down to its lowest, that is (-1.1).

Analysis and Interpretation of Non Food Manufacturing: From the above table number 2 the study found that during the selected time period of study inflation in other price index at all India basis in non food manufactured segment was highest in the year 2011-12 and lowest in the year 2015-16. The study found that in the year 2007-8 inflation in non food manufactured segment was (5.0) which rose to (5.7) in 2008-9 and then declined drastically and was found (0.2) in 2009-10, then it increases very fast and touched the level of (6.1) in the year 2010-11, in the year 2011-12 it increases to (7.3) and then it started declining year by year and was found (4.9), (2.9), (2.4) and (-1.5) respectively.

Analysis and Interpretation of CPI Industrial Workers (IW) 2001=100: From the above table number 2 the study found that during the selected time period of study inflation in CPI Industrial Workers at all India basis was highest in the year 2009-10 and lowest in the year 2015-16. The study found that in the year 2007-8 inflation was (6.2) which increases to (9.1) in the year 2008-9, which further increases to (12.4) in the year 2009-10, it declined in the following year and was (10.4) in 2010-11, it further declined and came down to (8.4) in 2011-12, it rose to (10.4) in the year 2012-13 but onward it started declining and in the year 2013-14 it came down to (9.7), in 2014-15 it declined and was (6.3) and in 2015-16 it was found at (5.6).

Analysis and Interpretation of CPI- IW Food: From the above table number 2 the study found that CPI – IW food segment inflation was highest in the year 2009-10 and lowest in 2015-16. It has been found that in 2008-9 and 2013-14 inflation in this segment was at the same level. In the year 2007-8 inflation was found at the level of (8.4) which astonishingly rose to (12.3) in the following year, it further climbed up and was found at (15.2) in 2009-10, in the year 2010-11 it came down drastically and was found at the level of (9.9), it further came down in 2011-12 at (6.3) but again it was found that inflation astonishingly jumped up in double digit and was found at (11.9), it marginally increases in the following year 2013-14 and found at (12.3), then after it started declining drastically and came down in the following years to (6.5) and (6.1) respectively.

Analysis and Interpretation of CPI - Agriculture Labourer: From the above table number 2 it has been found that inflation in CPI- agriculture labourer segment was highest in the year 2009-10 and lowest in 2015-16. In the year 2007-8 inflation was found at (7.5) which rose to double digit and was found at (10.2), in the following year 2009-10 it rose to (13.9) which is found to be the highest level in the study period, it then declined consecutively two years and was found at (10.0) and (8.2) respectively, it further started climbing up and in the year 2012-13 it touched the height of (10.2) and further rose to (11.6) then after it declined drastically and came down at (6.6) and to the lowest in 2015-16 at (4.4)

Analysis and Interpretation of CPI - Rural Labourer: From the above table number 2 it has been found that inflation in CPI- rural labourer segment was highest in the year 2009-10 and lowest in 2015-16. In the year 2007-8 inflation in CPI rural labourer segment inflation was found (7.2), it increases and entered in double digit in 2008-9 and was found (10.2), it further rose and touched the level of (13.8) in 2009-10, which is found to be the highest in the study time period, it started declining and came down to (10.0) and (8.3) in the following year, in the year 2012-13 it again entered in double digit and rose to (10.2) and further in following year it rise to (11.5), then again inflation it started declining and in the year 2014-15 it came down drastically and was found at (6.9) and it further came down to the lowest in study time period that is (4.6) in the year 2015-16.

Table No. 3: Inflation Trend of Competitive Nation

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Global	3.68	5.05	4.07	3.66	3.23	2.78	2.90
France	1.74	2.29	2.22	0.99	0.61	0.09	0.35
China	3.3	5.4	2.65	2.62	1.99	1.44	1.80
Russia	6.85	8.44	5.07	6.76	7.82	15.53	7.24
EU	2.00	3.00	2.5	1.5	0.5	NA	below0.5
UK	3.3	4.46	2.8	2.57	1.47	0.05	0.74
Canada	1.77	2.89	1.53	0.93	1.92	1.11	1.62

Source: *Revealed by the researchers Statista, the Statistics' Portal*

VII. IMPACT ON ECONOMY

Fall in inflation have positive impact as it increases the saving of common citizens of the nation and also good for lenders and banking industry. When inflation comes down in general then commodity prices in all segments follow it with equal pace. Economy without inflation means that nation economy is saturating and will impact further and influence other macroeconomic factors. When inflation increases it act as a hidden tax and reduce the saving. It affects business decisions by its interaction with the corporate income tax code, through the tax deductable depreciation allowance for equipment and structure. Because depreciation is not adjusted for inflation, an increase in the rate for inflation favours investment in inventories and short lived equipment. Most of the capital intensive sectors rely disproportionately on long lived plant and equipment and suffered losses. Due to inflation distortion occur in capital gains taxation as well. When inflation is high taxes takes a greater share of the assets real value. Under such conditions tax becomes due even the respective asset is sold with no real appreciation in its value but owner have to pay the due taxes as higher capital gains taxes is to be paid on the assets real value. After inflation government in general do not change the tax structure and consecutively people face additional burden of tax along with hidden tax 'inflation'. Due to increase in inflation investment decline, FDI inflow decline consumption decline, demand decline, purchasing power decline. When it continued for long period then unemployment start increasing with corresponding level. Due to inflation intrinsic value of all goods and services remain same. Its 1.0 percent rise depreciates currency by 10 percent in terms of good and service we purchase. Rising inflation destabilise the currency. It impacts the profitability and liquidity of the companies and directly impacts their working capital. Its declination up to extent is good for the economy, if it declined and became negative then again it is worse for economy.

Inflation impacts the companies who have excess cash. It impacts investors who have fixed income investment and surviving on fixed generated return, especially retirees. Investors who have invested in stocks have to wait for long run to recover their investment in general companies' returns are found overstated. During high inflation period it is seen that companies look like prospering, even though behind its growth inflation is seen to be the main reason. It impacts the nominal interest rate and real rate of interest. Inflation impact treasury bonds, as these fixed income assets pay the same return every year. If increase in inflation is faster than the return on these assets then they become less valuable. Reciprocally the asset holder will rush to sell them, then further decline in assets value take place. When this situation arises then government is forced to offer higher treasury yields to sell them at all. This kind of increases mortgage interest rates. Inflation lowers the value of investments. It also increases the cost to the government of financing the debt by raising the interest payments each year. To deal with this additional budget expenses needs to be offset by a cut in the discretionary budget, or increase in taxes and deficit spending. All these remedial measures are contradictory to fiscal policies and ultimately slow economic growth and translate into sub standard of living. It erodes public faith in the reliability of political leaders. It impacts savings and encourages consumption. It impacts moral virtues, a strong work ethic, and prevail deferred gratification. Due to inflation impact consumer spending increases which heats up the economy and later it converts into spiraling inflation and reduces standard of living. It also impact mass physiologically, once people start to expect inflation they start spending immediately rather than later. It impacts the financial assets like CDs, insurance policies, stocks and bonds and makes them more complex to evaluate. If once the inflation became part of economic behavior then it is difficult task to remove its influence and impacts.

VIII. FINDINGS

The study after analyzing the facts and figures found that inflation and economy are two side of growth coin. Without inflation no economy can move in proper direction. It is a sign of economic growth. The general perception that excess of everything is bad makes the difference. It is found that degree of inflation has its varying impacts. If inflation is low then it cast positive impact on common citizens, lenders and banking industry. If it is high then it adversely impacts economic performance.

The study found that in rural area inflation in general index of (All Group) was in declining trend and rural area inflation was higher than urban area. It is also found that in the year 2013-14 general index inflation was highest and was (9.6) and in the year 2015-16 it was lowest and was (4.1)

The study found that in the year 2013-14 inflation in food and beverages in rural area was highest and was (11.5) which declined to (6.6) in the year 2014-15

The study found that there is no data available of rural area through which inflation can be assessed and analyzed. In urban area inflation in housing has declining trend, in the year 2014-15 it was highest which was (7.0).

The study found that inflation of fuel and light in rural area was highest in 2013-14, it was (8.2), and was lowest in the year 2014-15 which was (5.1)

The study found that inflation in miscellaneous segment was having declining trend and rural area inflation in miscellaneous was highest in the year 2013-14 which was (6.3) and lowest in 2015-16 which was (4.7). Urban area miscellaneous inflation was found highest in the year 2013-14 which was (6.6) and lowest is 2015-16 (2.8)

The study found that inflation in CPI all India level excluding food and fuel in rural area segment was highest in the year 2013-14 which was (7.2). In urban segment inflation in CPI all India level was highest in the year 2013-14.

The study found that inflation in other price index at all India basis in all commodities was highest in the year 2010-11 which was (9.6), in the year 2015-16 it was found lowest (-2.5).

The study found that inflation in other price index at all India basis in primary articles was highest in the year 2010-11 which was (17.7) and lowest in 2015-16 which was (0.3).

The study found that inflation in other price index at all India basis in food articles segment was highest in the year 2010-11 which was (15.6) and lowest in 2015-16 which was (3.4).

The study found that inflation in other price index at all India basis in fuel and power was in minus in the year 2015-16 which was (-11.7) and was highest in the year 2011-12 which was (14.0)
The study found that inflation in other price index at all India basis in manufacturing products segment was highest in the year 2011-12 which was (7.3) and lowest in 2015-16 which was in minus (-1.1).

The study found that inflation in other price index at all India basis in non food manufactured segment was highest in the year 2011-12 which was (7.3) and lowest in the year 2015-16 which was minus (-1.5).

The study found that inflation in CPI Industrial Workers at all India bases was highest in the year 2009-10 which was (12.4) and lowest in the year 2015-16 which were (5.6).

The study found that CPI – IW food segment inflation was highest in the year 2009-10 which was (15.2) and lowest in 2015-16 which was (6.1).

The study found that inflation in CPI- agriculture labourer segment was highest in the year 2009-10 which was (13.9) and lowest in 2015-16 which was (4.4).

The study found that inflation in CPI- rural labourer segment was highest in the year 2009-10 which was (13.8) and lowest in 2015-16 which was (4.6).

IX. CONCLUDING REMARKS AND SUGGESTION

The study "A Strategic Study on Inflation and its Relative Impact on Indian Economy" has been carried out extensively; all relative aspects have been analyzed in order to find out the reason and explanation why inflation remain entrenched, unpredictable and uncontrollable. The study concludes that inflation is having perpetual existence as it is a part of active economy. It presence is an indication of economic movement with multiple impacts. Its varying degree cast varying impact on the economy. If it increase with high rate then it become disaster for the respective economy. It existence imposes real costs which nation citizen and associated socio – economical segments have to borne in different form.

In order to tame the inflation and to anchor the inflation expectations there is need of prudent and effective eco – protective policies with inflation as a core. In order to protect the economy from inflation impact policy makers of the nation have to think of nutritional security rather than exploring the possibilities at demographic level considering young population. It is a paramount important to arrest prices of food products at significant level. This could be achieved by correcting imbalance of demand and supply in agriculture sector through developing effective supply chain system.
Government have to adopt protective measures to secure energy security for the country to promote economy and to maintain low cost of manufacturing.

An effective and protective effort must be adopted by the government to control the energy crises and imbalances along with economizing the consumption.

Government must liberalise the energy sector and adopt market related pricing to reduce the subsidy burden of petroleum sector.

Nation policy makers have to consider the fact that economy which is supply constrained will not be stable but always be in fluctuating. In fluctuating economic condition potential output cannot be reliable gauge for inflation threshold. Under such conditions, firms generally operate below capacity and yet retain the power of pricing. Thus, availability of necessary raw material and reliability of power supply is core to optimize the industrial capacity and significant improvement in productivity.

The government and policy makers must develop and promote self sufficient economic environment besides moderating inflation. Government must minimise dependency on imports for which domestic capacity exits.

Global crude oil market is historically unpredictable and thus it is imperative to maintain exchange rate stability to cushion transmission of international price pressure in commodities, especially in crude oil and other petroleum products. For all these government must make comparative management of the current account balance of payment with rest of the world at sustainable rate.

Government and policy makers for consolidation purpose must avoid risk of twin deficit to manage internal and external balance.

Government must try to keep fiscal deficit low as it encourage private investment which is useful in maintaining stability in price.

Government and policy makers while taking preserving steps to increase the base of financial market and addressing credit constraints must calibrate the monetary policy with evolving growth

– inflation dynamics so that economy can attain potential growth in a non – inflationary manner.

Government and policy maker must develop effective mechanism to generate policy response when supply side factor dominate the inflationary pressure which ultimately result in generating the risks of spill over into a wider inflationary process. Thus in order to ease the inflation management, policy makers must develop structural supply constraint, for this they have to ensure that unhinging inflation expectations may not become binding constraint in long run and make the task of inflation management more complex.

Government and policy makers to control the inflation in advantage limits have to make effective monetary policy, supply side policies, and exchange rate policies along with Keynesian view – liquidity trap.

Government must keep on revising all categories inflation basket and must make them more comprehensive in order to meet the challenges of inflationary conditions.

Government in order to tame inflation have to restrict its wasteful spending and expenditures, it has to control tax evasion, it has to promote rapid economic growth, it has to maintain quality in debt. Government have to restrict its borrowing which translate into default or hyperinflation, government must borrow funds only for productive infrastructure which promote GDP growth and generate revenue, government may not borrow for unproductive, subsidies, corrupt and wasteful schemes and projects, government must adopt structural spending, government must develop financial resources by selling its excess assets, its shares in government companies, its obligatory holdings of corporate, spectrum, minerals and mines rather than expanding fiscal deficit to support its spending.

In last, for the betterment of nation economic growth and development government have to insure low and stable inflation. For this government have to develop effective coordination among all economic participants, significant contribution by nation's policy makers, Reserve Bank of Indi, global economic environments and other related economic bodies.

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