

13.10.20

Inflation in India

• Protein Inflation →

Increase in Income of the low income population generally leads to change in their dietary habits & they consume more of Protein Rich foods like pulses, fish, eggs, milk which causes "Demand-Pull Inflation" in these items & is sometimes called as Protein Inflation.

Based on Rates, Inflation are of following types →

• Creeping Inflation (Creeping Rate of Inflation) →

A rate of inflation which is extremely low e.g. 1% (country specific)

(Trotting-walking)

• Trotting Inflation →

A rate of inflation which is moderate e.g. 5%.

• Run-away Inflation ↗

When inflation rate changes from a moderate level to a high level e.g. from single digit to double digit.

(jumping)

← Galloping Inflation ↗

Is high rate of inflation generally in 2 digits e.g. inflation was around 20% during 1972-75 in India.

• Hyper Inflation ↗

An extraordinarily high rate of inflation, say in 3 digits or more. e.g. last year in Venezuela, 25 Lakh per kg, was the price of Potato, so currency lost its value.

1985 - Zimbabwe, it was seen.

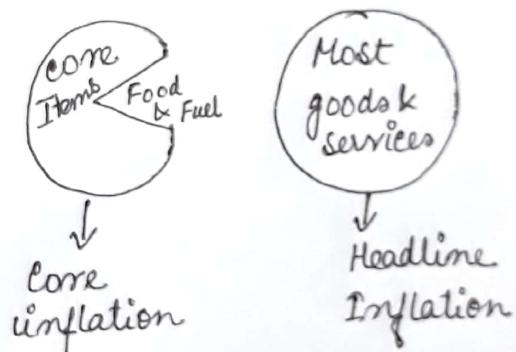
[In India, highest inflation, recorded as 19.6%, i.e. Post-war Inflation. (after 1971).]

Core vs Headline Inflation

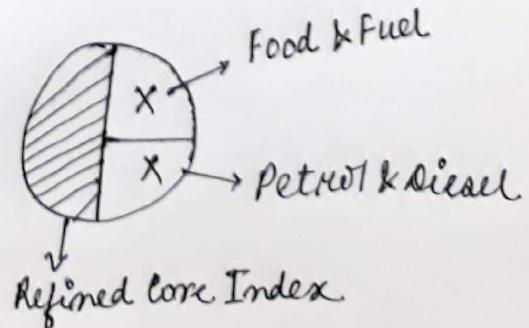
Most of the
goods & services
are covered.

When inflation rate is computed for a complete basket of goods & services of general customers, then it is known as Headline Index.

When inflation rate is based on all items of Headline Index except "Food & Fuel" then, the rate is called as core Inflation Rate.



If Petrol & Diesel are also excluded from the basket then the index become Refined Core Index.



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Bottleneck Inflation

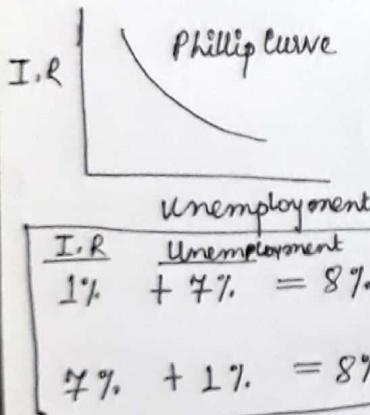
Logistics, administration
bottlenecks lead to high inflation
e.g. before H.S.T.
price of items in India.

Inflation due to problem in supply chain (supply shock), is called as Bottleneck Inflation.
e.g. War in Kuwait leads to 'Oil Shock'

(Stagnation + Inflation)

Stagflation

Inflation coexisting with the stagnation in economy which is featured by generally high unemployment & low economic growth rate

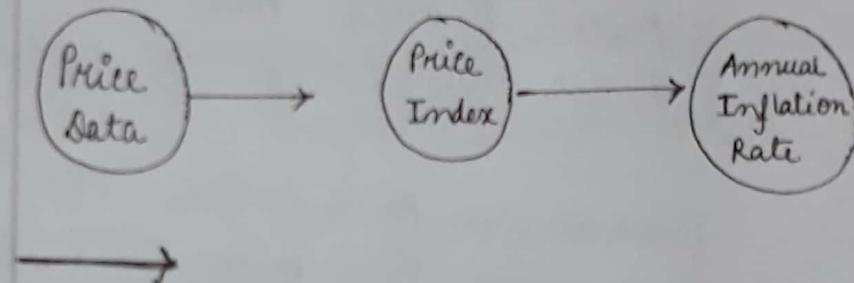


Misery Index → $\left(\text{Rate of unemployment} + \text{Rate of Inflation} \right)$
 ↓
 (Arthur Okun)
 the economist gave the idea.

Stagnation →

$$\begin{matrix} \text{Inflation} + \text{Unemployment} \\ \downarrow \quad \downarrow \\ 7\% + 7\% = 14\% \end{matrix}$$

How is Inflation Rate measured/computed in India?



Inflation rate is the annual rate of change in the expenditure of customer on a standard basket of goods & services which is computed on a point to point system. It means that the Price Index of the current month is compared with Price Index of the same month in the preceding year & percentage change between the two, is known as Annual Inflation Rate.

e.g.

Point to Point System

↓
Price Index of Sept 2020 = 150

Price Index of Sept 2019 = 140

$$\begin{aligned}
 \text{Annual Inflation Rate} &= \left(\frac{\text{PI}_{\text{cy}} - \text{PI}_{\text{py}}}{\text{PI}_{\text{py}}} \right) \times 100 \\
 (\text{AIR}) &= \left(\frac{150 - 140}{140} \right) \times 100 \\
 &= 7\%
 \end{aligned}$$

PI_{cy} → Price Index of current year

PI_{py} → Price Index of previous year

Price Index refers to the value computed with the base of 100 for every month. Moreover, there are different types of Price Indices that are computed in India including the following —

- i) Consumer Price Index (CPI)
- ii) Consumer Food Price Index (CFPI)
- iii) CPI for Industrial Workers
Agricultural Labourers
Rural Labourers $\begin{bmatrix} \text{CPI-IW} \\ \text{CPI-AL} \\ \text{CPI-RL} \end{bmatrix}$
- iv) Wholesale Price Index (WPI)
- v) Producer Price Index (PPI)

Difference among these indices lies in the basket & the source of Price Data.

CPI has a basket of goods & services while CFPI is based on Food Basket i.e. ~~to say~~ containing only food items.

WPI is based on only goods without any services while PPI has a basket of core items that are Input

for industries. Moreover, these indices are published by different agencies in India like

National Statistical office. ← NSO (National Statistical Office) under Ministry of Statistics & Programme Implementation (MoSPI) is responsible for publishing →

CPI (Urban, Rural & All India) &

CFPI

while

the Office of Economic Adviser (OEA), Ministry of Commerce & Industry

publishes → WPI

CPI for Industrial Workers, Agricultural Labourer & Rural Labourer published by "Labour Bureau" under Ministry of Labour & Employment.

NSO (MoSPI) → "CPI" (Urban, Rural, All India)

"CFPI"

OEA (MoCI) → "WPI"

Labour Bureau (MoLE) → CPI - I.W, A.L, R.L

(8)

With effect from 2013, Govt. of India has taken "CPI" to be the anchor index for the publication of Annual Inflation Rate. However, upto year 2012, WPI has been the anchor Index.

Inflation Trends in India

India has been a country with moderate inflation as the ^{average} annual Inflation Rate has been around 6.5% since 1951.

There have been some episodes of high inflation due to diverse factors such as "Oil shocks", Wars, Political disturbances, erratic monsoons, & so on. The decade wise trends were as follows —

1950s	—	1.7%
1960s	—	6.4% (war)
1970s	—	9% (war & pol. factors)
1980s	—	8%
1990s	—	9.5%

After the economic reforms of 1990s Inflation Rate came down to 5% level during 2000–2007 period. But due to skewflation in food items & global factors it reached 8% average rate for 2008–2012.

During the last 8 years there has been an interesting trend of ups & downs mainly because of fluctuating food & oil prices. The CPI based Headline Index for these years is given below—

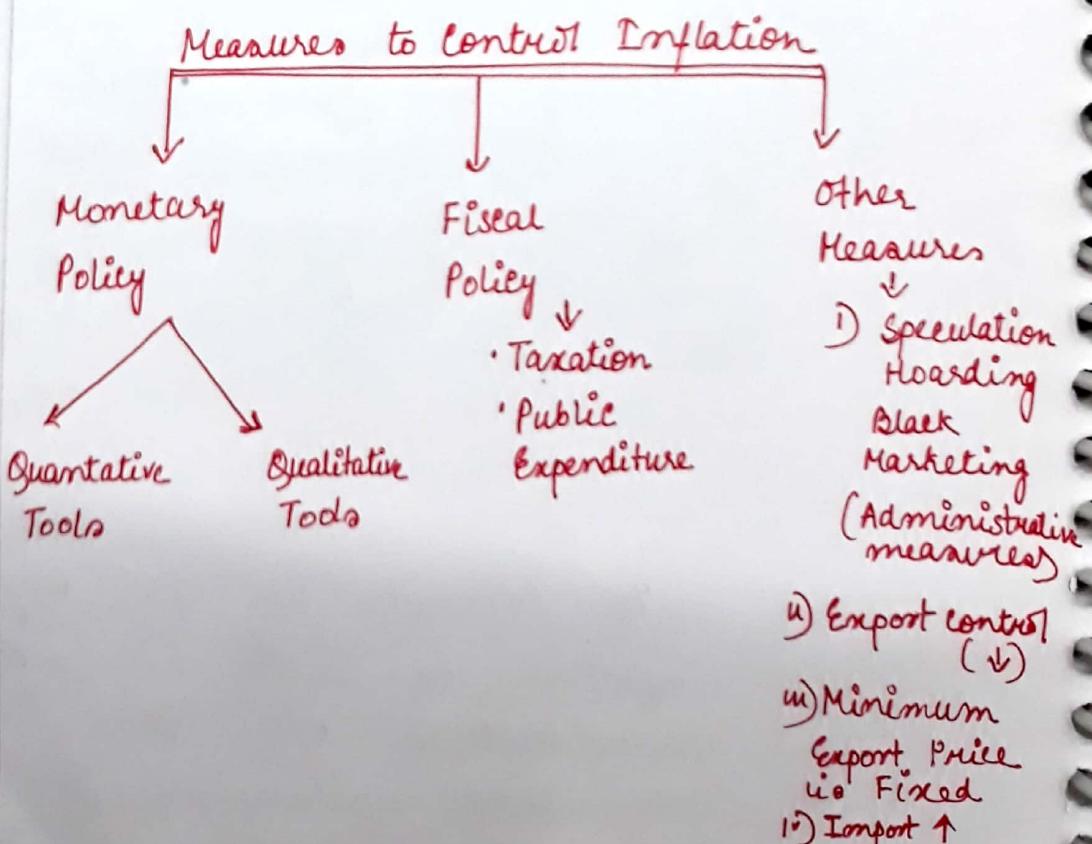
2012–13	—	10.2
14	—	9.4
15	—	5.9
16	—	4.9
17	—	4.5
18	—	3.6
19	—	3.7
20	—	4.1 (Provisional)

Source—MoSPI

To conclude we can say that inflation in India has been mostly under control after 2014 but there were some short episodes of fluctuations because of ups & downs in the crude oil

prices & food prices. Food & Beverages group is the main contributor to the Consumer Price Index, hence any change in the food prices causes inflation rate to fluctuate. This is a regular issue because food prices remain fluctuating in India.

Add on.
Economic Survey
2021



i) Monetary Policy → Various Quantitative & Qualitative tools can be used to control inflation including Bank Rate, Repo Rate, Reverse Repo Rate, MSF Rate, CRR & SLR, Moral suasion, Direct Action Open Market Operation, Margin Requirements & so on.

ii) Fiscal Policy → It includes techniques like increasing the rates of taxes & duties on Income & Exports & relaxing on Imports on one side & decreasing the subsidies & public expenditure on the other.

iii) Other measures include checking speculation, Hoarding & Black Marketing, banning exports, fixing minimum export price, promoting imports & so on.

Q. Measures taken by Govt. of India during 2020-21.

Add on. ↪

Ans: Eco. Survey 2021