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TRENDS OF INFLATION IN INDIA AFTER NEW ECONOMIC POLICY



Gadhav R. A.

Assistant Professor, School of Commerce & Management Solapur University, Solapur.

Short Profile

Gadhav R. A. is working as Assistant Professor at School of Commerce & Management in Solapur University, Solapur.



ABSTRACT:

Inflation generates and widens the socio-economic inequality among the different groups of people. It creates bad relations between the labour and capital. It rises to many social and moral evils like bribery, corruption, black-marketing etc. Poverty is the root of all evils. The variations in the Wholesale Price Index (WPI) were from 3.3 to 13.7 percent in the period 1991-2013. The overall average annual growth rate of inflation was 6.85 percent in the period 1991-2012. The highest frequency of range that is the

modal range of inflation was 3 percent to 6 percent during the entire study period. In the study period, Eight Five Year Plan (1992-93 to 1996-97) has seen highest inflation rate and followed by Eleventh Five Year Plan (2007-12). During the period 1991-2012, the average annual growth rate of inflation related to food articles and non-food articles were 8.26 and 7.7 percent respectively. During 1992-93, prices increased at an average annual rate of 10.1 percent.

KEYWORDS

Inflation, Price Stability, Poverty, Inequality, Commodities.

INTRODUCTION :

India is having second rank relating to population growth in the world next to China. Indian economy has been facing many economic problems such as an inflation, economic crisis, poverty, unemployment, inequality etc. Inflation is the burning topic of the day throughout the world. Due to inflation, common people under the below poverty line and other middle class people are affected. The people under the poverty line have to struggle very hard to attain their daily requirement of food. Some people pass their day without food. In such family, the children suffer from malnourishment.

Price stability is one of the prime objectives of India's five year plans. 'Growth with stability' was the base of India's Ninth Five Year Plan. Inflationary fluctuations are a common phenomenon throughout the world. The process of new economic reforms was initiated in the Indian economy since July 1991. Inflation is the rate of change of general price level. Inflation is statistically measured in terms of percent increase in the price index, as a rate percent unit of time usually a year or a month. Generally, rise in the price level indicates net change in price of all produced commodity and provided services in the economy. It means there may be increase or decrease in the price of basket of some commodities in the economy. The net effect gives general rise in price level or reduction in the price level.

Inflation generates and widens the socio-economic inequality among the different groups of people. It creates bad relations between the labour and capital. It rises to many social and moral evils like bribery, corruption, black-marketing etc. Poverty is the root of all evils. All the economies are suffering from inflation and deflation, which can also be called as price instability.

Inflation monitoring in India is almost entirely done using year on year price changes. As an example, the Annual Report released by the Reserve Bank of India is entirely touched in terms of year on year changes in price indexes. The measure of inflation used in the Economic Survey released by the Ministry of Finance is the percent difference between moving averages of the price index over the latest 12 months when compared with the identical value of a year ago.

Table No.1
Plan wise rates and Index of Inflation

Year/Plan	WPI index Base Year (1993-94)	WPI index Base Year (2004-05=100)	Annual Percent Change	Average Annual Growth rate in Plan (Percent)
Annual Plan				
1991-92	83.8	44.7	13.7	13.7
Eighth plan				
1992-93	92.25	49.3	10.1	8.74
1993-94	100	53.3	8.4	
1994-95	112.6	60.1	12.6	
1995-96	121.6	64.9	8.0	
1996-97	127.2	67.9	4.6	

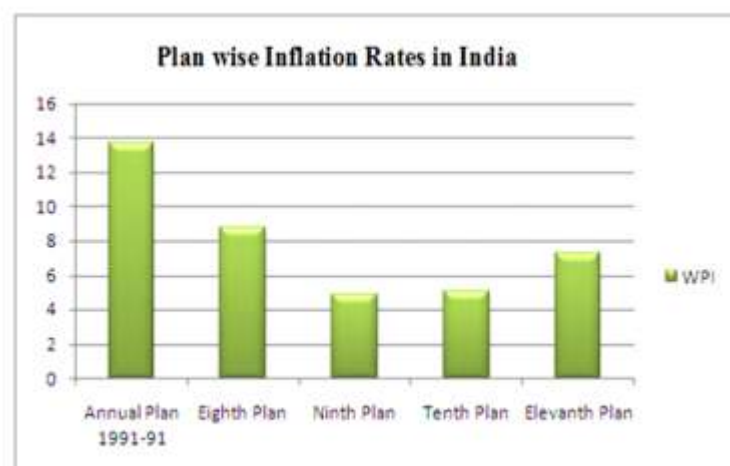
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Ninth plan				
1997-98	132.8	70.9	4.4	4.88
1998-99	140.7	75.1	5.9	
1999-00	145.3	77.6	3.3	
2000-01	155.7	83.1	7.2	
2001-02	161.3	86.1	3.6	
Tenth plan				
2002-03	166.4	89.1	3.4	5.06
2003-04	175.9	93.9	5.5	
2004-05	187.3	100.0	6.5	
2005-06	195.5	104.5	4.4	
2006-07	206.2	111.4	5.5	
Eleventh Plan				
2007-08	215.7	116.6	4.6	7.24
2008-09	233.9	126.0	8.4	
2009-10	262.5	130.8	4.7	
2010-11	268.4	143.3	9.6	
2011-12	292.4	156.1	8.9	
AGR		6.85		

Sources:- 1) The office of the economic adviser, ministry of commerce and industry and economic survey 2013-14.

2) Handbook of Statistics on Indian Economy, RBI 2013-14.

Graph No. 1



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The table 1 and figure 1 indicates the plan wise inflation rates in the post reform period (1991-2012). The table shows that, average annual growth rate was 6.85 percent in the post reform period (1991-2012). There has been a sustained rise in the price level during the ninth plan. During the Annual Plan 1991-92, the growth rate of inflation measured through WPI and it was 13.7 percent. During the Eight Plan, the overall increase in Wholesale Prices Index was 8.75 percent. Average annual growth rate of WPI in the year 1992-93 and 1994-95 was more than the plan average. During the Ninth Plan, WPI has shown 4.88 percent increase per annum average growth rate. The rate of inflation decreased in the Ninth Plan compared to the Eighth plan. During the Tenth Plan, the rate of inflation was 5.06 percent. The WPI was slightly increased in the Tenth Plan. The Eleventh Plan witnessed the increase in the inflation rate (7.24 percent). WPI in the year 2008-09, 2010-11 and 2011-12 was greater than the plan average. Comparatively, there was high increase in the prices Eleventh plan than the previous plan. In the study period, Eighth Plan (1992-93 to 1996-97) has recorded highest inflation rate, followed by Eleventh Five Year Plan (2007-12).

Table No.2

Period wise average of annual growth rate of inflation in the sub-groups of commodities (Percent)

Period	All Commodities	Food Articles	Non- Food Articles
1991-1996	10.56	11.72	11.98
1996-2005	4.93	4.87	3.83
2005-2012	6.68	9.90	9.40
1991-2012	6.85	8.26	7.70

- Sources: 1) Central Statistical Office (CSO), 2012-13.
 2) Ministry of Statistics and Programme Implementation, 2012-13.
 3) Government of India and RBI Hand Book 2012,
 4) Economic Survey, 2012-13.

Graph 2

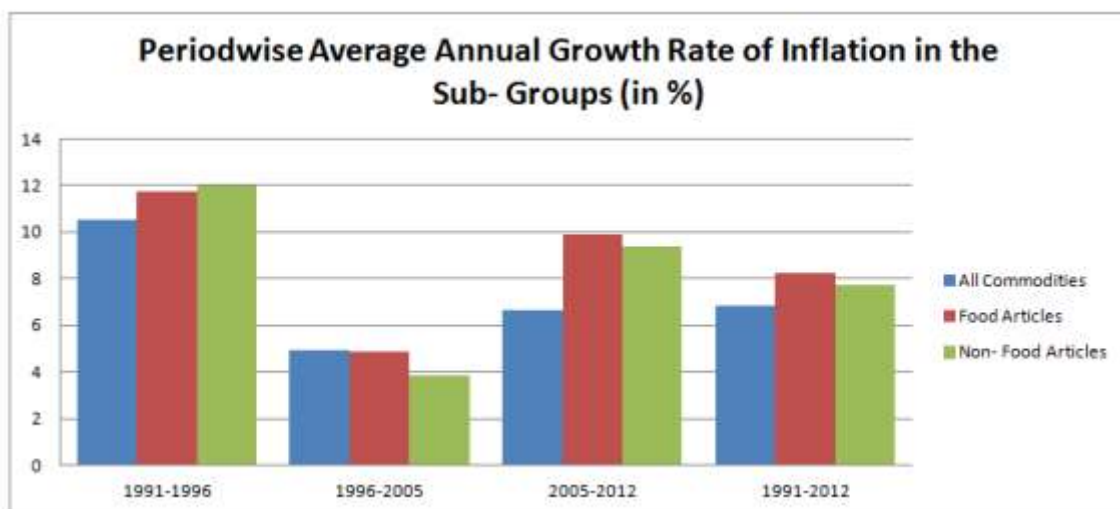


Table 2.1 shows the average annual growth rate of inflation which was 6.85 percent for the

period 1991-2012. Similarly, during same period, the average annual growth rate of inflation related to food articles and non-food articles was 8.26 and 7.7 percent. In the second stage (1996-2005), inflation rate under food and non-food articles was lower than all commodities. In the final stage (2005-2012) inflation rate under the food and non-food articles was higher than the inflation rate for all commodities. The average annual growth rate of inflation related to all commodities was 10.56 percent for the year 1991-96. The average annual rate declined to 4.93 percent for during the year 1996-2005 compared 1991-96. During 2005-2012, the annual average rate of inflation was 6.68 percent.

The graph 1.2 indicates the period wise average annual growth rate of inflation in sub-groups. In the first stage (1991-96), inflation rate was highest in food, non-food and all commodities group than the other parts of study periods. In the middle period (1996-2005), the rate of inflation was moderate compared to the other period. In the last period of (2005-2012), the rate of inflation was highest for the food articles.

Rising and falling prices are worse to the economy. Inflation brings out situation as some people are suffering from loss while some got advantage. Price stability keeps the value of money stable, eliminates cyclical fluctuations, brings out economic stability, helps in reducing inequalities of income and wealth, secures social justice, promotes economic welfare and achieves steady growth rates.

RECOMMENDATIONS:-

- 1)The government should encourage to the agriculture sector to increase more production which can help to reduce the food inflation.
- 2)There should give proper weight to the commodities on the basis of value, which helps to proper measurement of rate of inflation and reflects the current structure of economy.
- 3)Government should adopt strict policy against hoarding, black money and corruption.
- 4)Sustained increase in production of agriculture and industrial goods can create price stability in the economy.
- 5)The government should encourage the society for saving and investment their money.
- 6)Inflation will control through the proper target of government food security and anti malnutrition policies.

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