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Research Article

Navigating Inflationary Tides: An In-Depth Exploration of Inflation's Impact on the Indian Economy and Strategic Approaches for Mitigation

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Abstract

Inflation occurs when the value of a currency diminishes over time, making it more expensive to buy the same goods and services than it was in the past. Imagine you're shopping for your daily essentials like groceries, fuel, or even clothing. Over time, you might notice that the prices of these items have gone up, meaning your money doesn't stretch as far as it used to. This rise in prices across a broad range of products is what we call inflation. At its core, inflation is driven by an imbalance where the money supply grows faster than the goods and services available. When there's more money floating around but the same amount of goods, people are willing to pay more for these goods, leading to higher prices. It's like an auction where more bidders show up, driving up the price of the item being sold. For India, the International Monetary Fund (IMF) has pointed out that even though the economy is bouncing back after the impact of COVID-19, there's a risk of rising inflation. The IMF suggests that as the recovery strengthens, India should slowly reduce the monetary policies that were supporting the economy during the downturn. One of the most effective tools central banks have to control inflation is adjusting interest rates. By raising interest rates, it becomes more expensive to borrow money, which slows down spending and investment, helping to cool off inflation.

Keywords

Inflation, Purchasing Power, Monetary Phenomenon, Money Supply, International Monetary Fund (IMF), Inflationary Pressures, Monetary Policy, Interest Rates

1. Introduction

1.1. What Is Inflation

Inflation refers to the reduction in a currency's purchasing power over time. It can be quantified by observing how the average price level of a basket of selected goods and services in an economy increases over time, which indicates a decline in purchasing power. When the general price level rises, expressed as a percentage, it means that the currency buys less than before.

Inflation differs from deflation, which involves a decrease in prices and an increase in purchasing power.

Key Points to Note

1. Inflation is characterized by the decrease in currency value, leading to a rise in the overall prices of goods and services.
2. Inflation is often categorized into three types: de-

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mand-pull inflation, cost-push inflation, and built-in inflation.
3. The most commonly used indices to measure inflation are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).
4. Inflation can have both positive and negative effects depending on one's viewpoint and the rate of change.
5. Individuals who hold physical assets like real estate or commodities may benefit from inflation, as it tends to increase the value of their investments.

1.2. Understanding Inflation

To grasp the concept of inflation, it's essential to first define what it entails. While tracking price changes for specific items over time can be straightforward, human needs and desires are far more complex. People require a diverse array of goods and services for a comfortable life, including essentials like food grains, metals, and fuel, as well as utilities such as electricity and transportation, and services like healthcare, entertainment, and labor.

Inflation refers to the overall effect of price changes across a broad range of goods and services, reflecting the rise in the general price level in an economy over time with a single figure. For instance, the Consumer Price Index for All Urban Consumers (CPI-U) saw a 7% increase in the year ending December 2021, marking the largest 12-month rise since June 1982, as reported by the US Bureau of Labor Statistics (BLS).

As the value of currency declines, prices increase, reducing its purchasing power and affecting the general cost of living. This can lead to economic stagnation. Economists argue that persistent inflation occurs when a nation's money supply grows faster than its economic output. To counteract this, a responsible monetary authority, such as a central bank, manages the money supply and credit to control inflation and maintain economic stability. Monetarism is a prevalent theory that elucidates the link between inflation and the money supply.

Historically, significant influxes of money, such as those following the Spanish conquest of the Aztec and Inca empires, led to a rapid expansion of the money supply, causing the value of money to drop and prices to soar. Inflation is measured in various ways depending on the types of goods and services analyzed and stands in contrast to deflation, which occurs when the inflation rate falls below 0%, indicating a general decline in prices.

1.3. Historical Context

Historically, substantial increases in gold or silver supplies led to inflation. When silver served as currency, governments could gather silver coins, melt them down, blend them with other metals like copper or lead, and then reissue them with the same face value. For instance, when Nero became Roman Emperor in AD 54, the denarius contained over 90% silver, but by the 270s, it had nearly lost all its silver content. By mixing silver with other metals, the government could produce more coins without requiring additional silver, thus boosting seigniorage profits. This practice expanded the money supply while reducing each coin's intrinsic value. As the value of each coin diminished, consumers had to spend more to purchase the same goods and services.

In the 18th century, many countries adopted fiat currency, which allowed for greater fluctuations in the money supply. This led to several instances of hyperinflation, characterized by extremely high inflation rates far exceeding those experienced during the era of commodity money, particularly in countries undergoing political turmoil. A notable example is the hyperinflation experienced by the Weimar Republic in Germany.

As of October 2018, Venezuela had the highest hyperinflation rate in the world, with an annual inflation rate of 833,997 percent. Since the 1980s, however, inflation has been managed more effectively in countries with independent central banks, leading to a more stable business cycle and reduced volatility in most macroeconomic indicators.

1.4. Historical Inflationary Periods

Various societies throughout history have experienced rapid increases in their money supply, with changes in the types of money used over time.

Ancient China: During the Song Dynasty, China pioneered the use of paper money as fiat currency. However, under the Mongol Yuan Dynasty, excessive military spending led the government to print more money, resulting in inflation. The Ming Dynasty later abandoned paper money in favor of copper coins, fearing the inflation that plagued the Yuan Dynasty.

Medieval Egypt: In 1324, Malian king Mansa Musa's pilgrimage to Mecca was accompanied by thousands of people and a hundred camels. Upon reaching Cairo, he spent or distributed so much gold that it caused a significant devaluation of the Egyptian currency for nearly a decade. A contemporary Arab historian noted that before Musa's visit, the mithqal was worth at least 25 dirhams but fell to around 22 dirhams due to the influx of wealth brought by Musa.

Price Revolution in Western Europe: Between the late 15th century and the early 17th century, Western Europe experienced a major inflationary period known as the "price revolution," with prices increasing approximately sixfold over 150 years. This inflation is often attributed to the influx of gold and silver from the New World into Habsburg Spain, which exacerbated inflation in a previously cash-strapped Europe. Additionally, Europe's recovery from the Black Death likely initiated a cycle of inflation that was further intensified by the influx of New World metals in the 16th century.

2. Study Objectives

1. To conduct a comprehensive analysis of inflation.
2. To gain a deeper understanding of inflation's impact on the Indian economy.
3. To identify strategies for reducing inflation within a market economy.

3. Literature Review

Devendra Pratap Singh, Aditya Mishra, and Purnima Shaw [1] state that nominal interest rates reflect the expectations of economic agents regarding real interest rates and inflation. Inflation expectations, similar to interest rates, vary among different agents depending on their risk profiles and uses of money. For instance, if households anticipate rising inflation in the medium term and expect lower returns due to reduced real interest rates, they might prefer investing in tangible assets such as precious metals and jewelry instead of saving in term deposits. Real estate investment, which requires a larger initial investment, may be less affected in the short to medium term. Alternatively, consumers might seek better returns through different investment avenues, potentially leading to adverse effects such as increased interest rates for producers, reduced production, and higher imports.

Dr. Sunil Kumar Dalal [2] describes inflation as a common occurrence in market-driven economies, present since the inception of money. It is characterized by a general increase in the prices of goods and services over time, which reduces the purchasing power of money. This rise in prices creates economic uncertainty, adversely affecting investment and savings. When consumers and businesses start hoarding goods in anticipation of further price increases, it can lead to shortages and increased inflationary pressures, causing public frustration and posing challenges for policymakers.

Javed Ahmad Bhat and Sharma [3] note that high inflation is often seen as a hindrance to economic progress and a threat to the standard of living. Therefore, managing inflation has been a key focus for macroeconomic policy in many economies, including India. Various factors contribute to inflation, such as monetary and structural shocks, demand and external shocks, and demographic changes. Inflation issues have been linked to government fiscal policies. Theoretical frameworks for linking inflationary pressures to government budget deficits in an economy focus on understanding how inflation affects financial decisions.

According to Irfan Ahmad Shah, Manmohan Lal Agarwal, and Srikanta Kundu [4], inflation has been a persistent concern, influencing expenditures due to both anticipated and unanticipated inflation. Unexpected inflation, which includes redistributive and disruptive costs, has garnered more attention than forecasted inflation costs, as the latter are generally considered less impactful. The theory suggests that when nominal interest rates increase due to rising inflation, the demand for cash balances decreases. Consequently, the area under the money demand curve, representing consumer surplus, contracts. As a result, a rise in inflation leads to a reduction in consumer surplus. Tax revenue, which is a part of this consumer surplus, is then redistributed to the economy through non-distortionary lump-sum transfers by the government.

4. Research Methodology

The research design used for this project is Descriptive research. This project heavily relies on secondary sources, particularly those found online. Meaningful inferences might be made as a result of the systematic presentation of all the gathered and compiled information and data. The paper also has a connection to the current circumstances.

5. Analysis and Discussion

5.1. Inflation as a Monetary Phenomenon

Inflation is fundamentally a monetary phenomenon, driven by a rate of money supply growth that exceeds the rate of production increase. According to the quantity theory of money, changes in prices are directly proportional to the money supply, reinforcing the notion that inflation stems from monetary factors. This theory posits that the total value of transactions in an economy (or nominal GDP) corresponds to the money circulating within it, calculated as the money supply multiplied by its velocity (how often money changes hands). If we assume constant velocity, inflation in a stagnant economy matches the rate of money supply growth. Consequently, as the money supply increases, more money competes for the same amount of goods, leading to higher prices. Conversely, if both economic growth and the money supply remain unchanged, prices should remain stable. [5]

This highlights the importance of evaluating the effectiveness of monetary policy, particularly its impact on monetary aggregates. When a central bank injects liquidity into the banking system—through long-term loans or direct asset purchases—this expands the monetary base. However, this does not automatically lead to an increase in the money supply. Historically, banks would leverage this liquidity to increase credit, causing variations in the money supply to mirror changes in the monetary base, which in turn spurs consumption and investment, ultimately driving up prices. [6]

5.2. Growth and Inflation in the Indian Economy

According to the International Monetary Fund (IMF), India's economy is gradually recovering from the impacts of two COVID waves. However, the government needs to be cautious about inflationary pressures. The IMF suggests that as the recovery progresses, monetary policy support should be reduced gradually.

The IMF notes that while the COVID-19 pandemic has affected investment and human capital, potentially delaying recovery and impacting medium-term growth, the rebound is expected to be quicker than initially projected due to the progress in vaccination and economic reforms. The IMF's executive board, in its annual Article IV report on India, highlighted that the economic outlook remains uncertain due to pandemic-related risks, which pose both downside and upside threats. The report mentions that although the second wave led to a substantial decline in economic activity, it was shorter and less severe this time. Current high-frequency indicators show a continuing recovery. [7]

The report cautions that if COVID-19 continues to negatively affect investment, human capital, and other growth drivers, the recovery could be delayed, impacting medium-term growth. Despite India's favorable demographic profile, disruptions in education and training caused by the pandemic could hinder the growth of human capital. The report emphasizes that accelerated vaccination and improved treatments could mitigate the pandemic's impact. Additionally, the implementation of broad-based structural reforms could enhance India's economic potential. The IMF recommends maintaining an accommodative monetary policy, with a well-communicated plan for gradually reducing monetary support as the economy strengthens, to ensure orderly market transitions.

Figure 1. *Inflation Rate in India (2011-2021).*

Despite policy support, bank credit growth has been slow, even though large corporations have benefited from better capital market conditions. The IMF forecasts a 9.5 percent economic growth rate for India this fiscal year, with headline consumer price inflation at 5.6 percent, despite rising price pressures. Inflation rates have moderated to 5.6 percent in July, thanks to lower food prices and base effects, and have further decreased to 5.3 percent in August and 4.3 percent in September. The IMF expects that a slowdown in economic activity, weaker revenue, and pandemic-related support measures will lead to a fiscal deficit of 8.6 percent of GDP for the Centre in 2020-21. The combined deficit of the federal government and states is projected to be 12.8 percent. [7]

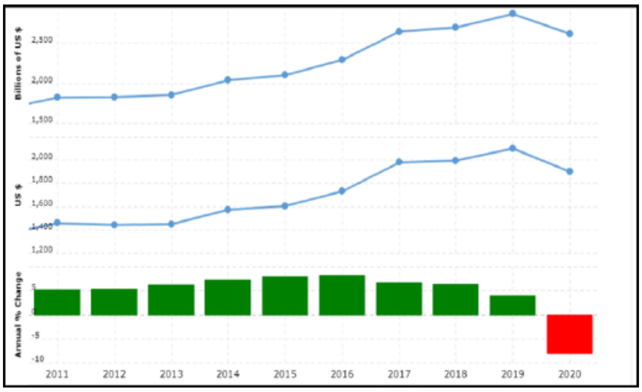

Figure 2. *Indian Economic (2011-2021).*

In 2020, India's economic growth was $2,622.98 billion, representing an 8.62% decrease from 2019. In 2019, the growth was $2,870.50 billion, marking a 6.27% increase from 2018. For 2018, the economic growth was $2,701.11 billion, showing a 1.87% rise from 2017. In 2017, the growth stood at $2,651.47 billion, reflecting a 15.54% increase from 2016.

Inflation can impede economic advancement for several reasons. It distorts relative prices in economies that have not fully adapted to the prevailing inflation rate, leading to negative and volatile real interest rates when nominal rates are fixed, which discourages savings. The depreciation of the exchange rate tends to lag behind inflation, causing real appreciation and increased exchange rate volatility. Additionally, since tax collections are based on nominal incomes from previous years and public utility costs do not rise with inflation, real tax revenues fail to keep up with inflation. This exacerbates fiscal challenges and can reduce public savings, potentially impacting public investment negatively. Inflationary pressures create uncertainty about future inflation rates, which diminishes investment efficiency and deters potential investors.

5.3. Inflation Measurement

In practice, the methods for calculating inflation rates vary across countries and economic institutions. The Consumer Price Index (CPI) is a commonly used measure, calculated as P1-P0/P0 x 100, reflecting the annual percentage change in the CPI over time. Another measure is the Wholesale Price Index (WPI) or Producer Price Index (PPI), which gauges the impact of raw material costs on producers. These costs can be transferred to consumers, absorbed by profits, or mitigated through increased productivity. Unlike the CPI, the PPI accounts for subsidies, earnings, and taxes received by producers. The Core Price Index is another metric used to assess inflation. [8]

These inflation indicators do not consider asset prices, which also influence the overall price level. Some central bankers suggest that a broader inflation measure, which includes food and energy prices, would be more effective. This approach involves stabilizing asset prices, rather than focusing solely on CPI or core inflation. Asset price inflation refers to the unsustainable increase in the value of assets like stocks and real estate. Interest rate adjustments often impact these prices: raising rates can increase stock prices while rising commodity or real estate prices can lead central banks to raise rates. Conversely, falling asset prices may prompt rate cuts. Managing asset price bubbles and crashes can potentially be more successful with this broader approach. [9, 10]

5.4. Causes of Inflation

Developing Economy: In a growing economy, unemployment decreases and wages increase. Consequently, more individuals have extra money to spend on both luxuries and essentials. This rise in demand enables suppliers to raise prices, which further stimulates economic activity by creating more jobs and increasing the money supply.

Increase in the Money Supply: Demand-pull inflation can be driven by an expanded money supply. When the Federal Reserve prints money faster than the economy grows, the increased money in circulation boosts demand, leading to higher prices. To illustrate, consider an online auction: the more bids (or money) placed on an item, the higher its price becomes. Essentially, money's value is determined by what we are willing to exchange it for.

Government Rules and Regulations: Government-imposed regulations or tariffs can raise the costs of producing or importing goods for businesses. These increased costs are often passed on to consumers as higher prices, leading to cost-push inflation.

Managing the National Debt: When the national debt becomes excessive, the government has two main options. One is to raise taxes to cover debt payments. Higher corporate taxes typically lead to increased consumer prices, creating another form of cost-push inflation. Alternatively, the government can print more money, potentially causing demand-pull inflation. Using both methods to address the debt can result in a combination of both types of inflation.

5.5. Types of Inflation

Demand-Pull Inflation: This occurs when the demand for goods or services exceeds their supply capacity. A shortage arises from this imbalance between supply and demand, leading to higher prices.

Cost-Push Inflation: This type of inflation happens when production costs increase. As the expenses for inputs like labor and raw materials rise, so does the cost of the final product.

Built-In Inflation: Built-in inflation results from expectations of future inflation. When prices rise, incomes increase due to the higher cost of living. This leads to higher wages, which in turn raise production costs and, consequently, product prices, creating a continuous cycle. [11]

5.6. Formula for Calculating Inflation Rate

To calculate the inflation rate, use the following formula:

$$\text{Inflation rate} = [(B - A) / A] \times 100$$

Where:

1. A represents the initial cost
2. B represents the final cost

In this formula, *A* is the Consumer Price Index (CPI) value at the beginning of the period, which could be a specific year or month. *B* is the CPI value at the end of the same period.

To apply the formula, subtract *A* from *B* to determine the change in the cost of the item or service. Next, divide this change by *A* to obtain a decimal value. Convert this decimal into a percentage by multiplying it by 100. The result will be the inflation rate. [11, 12]

5.7. Benefits and Drawbacks of Inflation

Advantages of Inflation:

Deflation can be detrimental to the financial system, potentially leading to reduced consumer spending and slower economic growth. For instance, when prices are falling, consumers may delay purchases in anticipation of lower prices in the future.

A moderate rate of inflation helps to decrease the real value of debt. In contrast, deflation increases the real value of debt, putting pressure on disposable incomes.

Moderate inflation rates allow prices to adjust and enable goods to reach their true value.

Similarly, moderate wage inflation allows relative wages to adjust. Since nominal wages are resistant to downward changes, mild inflation enables employers to effectively reduce real wages for less productive employees by freezing pay increases.

Moderate inflation is also an indicator of a healthy economy. Economic growth usually comes with a certain level of inflation.

Disadvantages of Inflation:

High inflation rates often lead to uncertainty and confusion, resulting in reduced investment. Countries with persistently high inflation tend to experience lower investment and economic growth.

Increased inflation can lower international competitiveness, leading to reduced exports and a worsening current account balance. This issue is exacerbated under fixed exchange rates, such as the Euro, where countries cannot devalue their currency to adjust.

Menu costs refer to the expense of updating price lists.

Inflation combined with stagnant wage growth can reduce real incomes.

Inflation can erode the real value of savings, which particularly affects retirees who rely on their savings. This impact depends on whether interest rates exceed the inflation rate.

Inflation can also diminish the real value of government bonds. As a result, investors may demand higher bond yields to compensate for this loss, leading to increased debt interest expenses.

Hyperinflation can devastate a financial system. When inflation spirals out of control, it can trigger a destructive cycle where rising inflation leads to increased inflation expectations, which in turn drives prices even higher. This scenario can erode the savings of the middle class and shift wealth and income toward those with debt and property.

Addressing inflation involves significant costs. To restore price stability, governments and central banks must implement deflationary fiscal and economic policies. However, this approach often results in reduced overall demand and can lead to a recession. Consequently, the immediate cost of reducing inflation is increased unemployment. [13, 14]

6. Recommendations and Findings

6.1. Is Inflation Good or Bad

Inflation, fundamentally, refers to the rise in price levels. Economists generally believe that inflation occurs when the supply of money exceeds the demand for it.

Inflation can be viewed positively when it stimulates consumer demand and consumption, thereby driving economic growth. Some argue that inflation helps prevent deflation, while others believe it burdens the economy. John Maynard Keynes suggested that a moderate amount of inflation can help avoid the paradox of deferred consumption.

6.2. Hedging Against Inflation

An inflation hedge is a financial strategy aimed at protecting the purchasing power of a currency from losses caused by rising prices. This typically involves investing in assets expected to retain or increase their value over time. Alternatively, it may involve investing in assets that depreciate at a slower rate compared to the currency's value.

How Inflation Hedging Works:

Hedging against inflation helps preserve the value of investments. Some assets might seem profitable initially, but when adjusted for inflation, they could end up losing value. For instance, if you invest in a stock that yields a 5% return while inflation is 6%, you effectively lose 1% on your investment. Inflation-hedging assets often attract investors, which helps keep their prices high even if their true value is lower.

For example, gold tends to become more expensive as the dollar loses value due to inflation. Thus, gold owners are protected from a declining dollar because, as inflation increases and the currency's value decreases, the price of gold rises in dollar terms. Consequently, the investor benefits from receiving more dollars per ounce of gold. [15]

6.3. Effects of Inflation

Reduces Purchasing Power: Inflation reduces the purchasing power of money as prices across the economy rise. For instance, a cup of coffee that once cost a dime now costs around three dollars. This price increase might be due to factors like increased demand, price fixing by coffee growers, or adverse conditions in coffee-producing regions. Such price changes affect only specific products, not the entire economy. True inflation involves a broad rise in prices across a wide range of goods and services, measured by indices like the Consumer Price Index (CPI). Essential items like food and gasoline can drive inflation on their own, leading economists to often exclude them to focus on "core" inflation, which is less volatile.

Stimulates Spending and Investing: When purchasing power declines, people tend to spend rather than save, as cash loses value over time. This behavior prompts consumers to make purchases and businesses to invest in capital that they might otherwise defer. During inflationary periods, investors may turn to gold and other precious metals, although these assets can be volatile. Historically, equities have proven to be strong hedges against inflation. For example, Apple's stock, priced at $29 in 1980, would be worth $7,035.01 in 2018 after accounting for dividends and stock splits, representing a substantial real increase.

Exacerbates Inflation: Increased spending and investing during inflation can lead to a feedback loop, worsening inflation. As people and businesses spend quickly to avoid holding depreciating money, the resulting excess cash pushes prices up further. Severe inflation can lead to hoarding and frantic spending as people try to get rid of their cash before it loses more value.

Increases Borrowing Costs: To manage inflation, central banks often adjust interest rates. Lower rates encourage borrowing and spending, which can drive inflation further. Conversely, raising rates can cool down the economy by making borrowing more expensive, thereby controlling inflation. Central banks aim to keep inflation near a target level, typically around 2% in advanced economies.

Lowers Borrowing Costs: Without central bank intervention, inflation can reduce the real cost of borrowing. For example, if you borrow $1,000 at a 5% interest rate and inflation is 10%, the real value of the loan depreciates faster than the interest payments. Politicians may favor inflationary policies to reduce debt, though this can lead to detrimental effects, as seen in historical cases like Weimar Germany.

Independent central banks are often established to mitigate such issues by focusing on stable prices and maximum employment.

Reduces Unemployment: Inflation can lower unemployment by decreasing real wage costs, allowing businesses to hire more workers. This relationship is reflected in the Phillips curve, which shows an inverse correlation between unemployment and inflation. However, when inflation leads to higher wages, it can increase spending power, potentially driving further inflation.

Boosts Growth: Inflation can discourage saving and encourage spending and investment, which can boost economic growth in the short to medium term. However, central banks' attempts to stimulate growth through low interest rates and quantitative easing have sometimes struggled to achieve desired inflation and growth levels, as seen in recent years.

Reduces Employment and Growth: High inflation coupled with low growth and high unemployment, known as stagflation, can be detrimental. This phenomenon was evident in the 1970s and is associated with supply shocks, such as the 1973 oil embargo, which contributed to economic stagnation and productivity declines.

Impacts Currency Strength: High inflation often leads to a weaker currency, which can exacerbate inflation by increasing the cost of imports. For instance, if Country X's currency depreciates by 10% compared to Country Y's, Country X will pay more for imports from Country Y without needing to increase export prices, leading to inflation in Country X. [16, 17]

6.4. Inflation Control Measures

There are various methods available for managing inflation in an economy:

Monetary Measures: Central banks employ monetary policy as a primary tool to reduce inflation. Typically, high interest rates are used to combat inflation. Key monetary policies aimed at controlling inflation include:

1. Bank Rate Policy: This is a commonly used approach for managing inflation. An increase in the bank rate raises borrowing costs, which in turn reduces the amount commercial banks borrow from the central bank.
2. Cash Reserve Ratio (CRR): To curb inflation, the central bank may raise the CRR, limiting the lending capacity of commercial banks.
3. Open Market Operations: This involves the central bank buying or selling government assets and bonds to regulate the money supply.

Fiscal Policy: Fiscal measures, including taxation, public borrowing, and government spending, also play a significant role in controlling inflation. Some fiscal strategies include:

1. Budget Surpluses
2. Increased Savings
3. Higher Taxes

Wage and Price Controls: These controls help manage inflation by regulating wages and prices, aiming to keep them in check. Although wage-price controls are considered a short-term solution, they can be effective in reducing inflation and preventing rationing in the long term.

6.5. Inflation Rate in India (1986-2026)

The graph depicts India's inflation rate from 1986 to 2020, with projections extending to 2026. Inflation is measured based on the increase in the price of a specific basket of goods and services that the average consumer purchases annually. This basket includes items such as groceries, clothing, rent, electricity, telephones, recreational activities, raw materials (e.g., gas, oil), and federal fees and taxes. In 2020, India’s inflation rate was approximately 6.18%, consistent with the previous year. For additional details, review the statistics on India's economic growth.

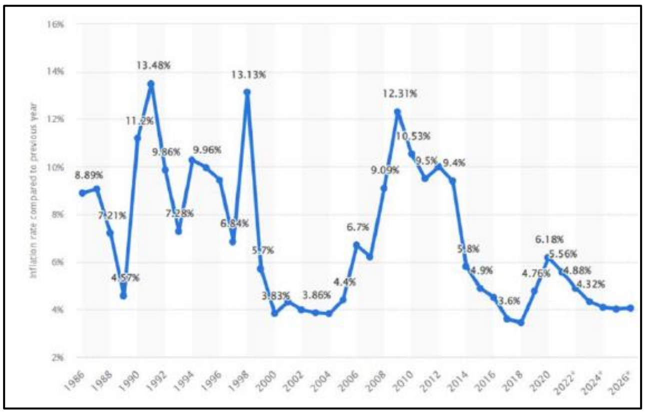

Figure 3. *Inflation Rate (1986-2026).*

India's Inflation and Economy

Inflation represents the increase in the cost of goods and services over time, whereas deflation is the decrease in these costs. Inflation is a critical indicator of economic health, affecting the general price level, cost of living, savings, mortgage interest rates, and state pensions and benefits.

In recent years, India has experienced rising inflation, though it has been decreasing since 2010. Despite this, India's economy has shown strong performance with consistent GDP growth and a decline in national debt. However, the budget balance relative to GDP is less favorable, with a state deficit exceeding 9% of GDP.

7. Conclusion

Inflation is generally declining, though the RBA has suggested that the next move in interest rates could be upwards. I remain doubtful because there are no indications of rising inflation, and with the property market struggling, increasing interest rates might negatively affect economic activity.

As the United States and several other countries begin to raise their interest rates, the Australian dollar is expected to weaken, as per the theory of interest rate parity.

The primary contributors to current inflation are:

1. Recreational and Cultural Activities: The most significant factor is a 4.3 percent rise in the cost of overseas travel and accommodation. This increase is directly linked to the depreciation of the Australian dollar against the currencies of popular tourist destinations, leading to cost-push inflation with minimal benefits for Australians.
2. Alcohol and Tobacco: The second-largest factor is the rise in cigarette prices due to tax hikes, contributing to cost-push inflation with few benefits, aside from the government and potentially smokers who quit as a result.
3. Transportation Costs: The third major factor is the increase in gasoline prices, driven by a weaker Australian dollar and higher global oil prices.
4. Communications: Increased competition in the mobile and internet sectors led to significant price reductions, particularly from Telstra, which rationalized their mobile plans.
5. Child Care: Since the new Child Care Subsidy was introduced on July 2, child care costs have dropped by 11.8 percent. This reduction is solely due to changes in the subsidy and does not reflect fundamental supply and demand dynamics.

Overall, cost-push inflation seems to be outpacing demand-pull inflation at present, driven by a weaker Australian currency and higher international oil prices. Consequently, domestically focused businesses may face challenges, while the weakening Australian dollar may benefit export-oriented enterprises.

Abbreviations

IMF	International Monetary Fund
CPI	Consumer Price Index
WPI	Wholesale Price Index
GDP	Gross Domestic Product
CRR	Cash Reserve Ratio

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Author Contributions

Tanwangini Sahani is the sole author. The author read and approved the final manuscript.

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Conflicts of Interest

The author declares no conflicts of interest.

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Biography

Tanwangini Sahani is a dedicated Research Analyst currently employed at Magistral Consulting Pvt Ltd. Her academic journey began with a Bachelor's in Business Administration (BBA) and culminated in a Master's in Business Administration (MBA) with a specialization in Financial Analysis from the University School of Management Studies, GGSIPU. Her writing career commenced in 2020 during undergraduate studies when she co-authored her first book chapter on the National Education Policy (NEP) 2020 alongside one of her professors. This initial experience ignited the passion for research and writing, leading to contribute extensively to the academic community. Since then, she has authored and co-authored over 25 book chapters and research papers, and have also penned two books. Her work spans a diverse range of topics, reflecting my commitment to advancing knowledge and contributing meaningful insights to the field of management, finance, and beyond.

Research Field

Tanwangini Sahani: management, finance, leadership, sustainability, organization change and culture