Rate of Inflation Between India and Developed Countries in the Recent Scenario

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Abstract
Inflation is a crucial economic indicator used to assess the health of an economy, with the potential to create both positive and negative outcomes. Inflation rates can affect the decision-making process of key players in the economy such as producers, consumers, and policymakers. Therefore, maintaining a desirable rate of inflation is crucial for sustaining stable economic growth in the country. This study aimed to examine the difference in the rate of inflation between India and developed countries such as Germany, the UK, and the USA. The study utilized secondary data collected between 2010 and 2022 and applied descriptive statistics to assess the nature of inflation between the countries. The results indicate that India has been experiencing a high rate of inflation, while the developed countries have been experiencing moderate, creeping inflation during the study period. During the post-pandemic scenario, the rate of inflation in developed countries was found to be significantly higher than that of India. The study suggests that the government should implement a tight monetary and fiscal policy, similar to India's, to maintain a moderate level of inflation in the country over time. Furthermore, political leaders have to maximise spending more on productive projects and minimize unproductive public expenditure to maintain fiscal and sustained price stability and achieve sustainable economic growth.
Keywords: Inflation Rate, Economic Growth, India, Developed Countries

Introduction

Macroeconomic indicators provide a comprehensive view of the overall health and performance of an economy. These indicators reflect the collective behaviour of various economic sectors in a country. Policymakers rely on these indicators to assess the economy's performance and devise appropriate policies to improve it during a specific period. Therefore, macroeconomic indicators are essential tools for policymakers to gauge the economy's health and make informed decisions. Dictators will provide information on the success or failure of policies like fiscal and monetary policies. Indicators play a crucial role in the economy. They have the potential to either cause economic problems or offer solutions. Numerous macroeconomic indicators can impact the economy, including interest rates, inflation, fiscal policy, gross domestic product, national income, employment, economic growth rate, and industrial production. Among these indicators, interest rates, GDP, and inflation are particularly influential and can trigger volatile market reactions, leading to significant gains or losses in an instant.

Theoretical Context of Nature and Effects of Inflation on the Economy

Inflation refers to the sustained increase in the general price level of goods and services over a while. As per the economic theory, there are different types of inflation based on the rate of increase. Each range of inflation will positively and negatively influence the economy particular period. The creeping inflation range is from 1% to 4% where the rate of inflation slowly increases over time. This inflation won't be immediately noticeable. At this rate, inflation is not a major problem. However, if the creeping rate of inflation continues, it will create challenges and problems for the economy. When the range of inflation is from 4% to 10%, the rate of inflation will be called as walking inflation or moderate inflation. During this inflation, the central bank will be increasingly concerned. The range of inflation, between 10% and 20% a year is known as running inflation where a significant cost has been imposed by the rate of inflation. Also, it could easily start to creep higher on the economy. On the other hand, the Galloping inflation where a rapid rate of price increases between 20% and 100% is a serious problem as well as very challenging to bring under control. Another extreme form of inflation is usually over 1000% a year known as Hyperinflation. Under this inflation, the level of prices changes so fast and the value of money will rapidly decline.

According to the understanding of macro economists, moderate inflation can be beneficial as it indicates a healthy level of demand and economic growth. However, high inflation will wear down the purchasing power of the consumer, reduce savings, and create uncertainty. It can also lead to wage-price spirals and mislead resource allocation, affecting the investment decisions. Inflation is considered as a measurement that measures the how fast rise of goods and services prices in a particular period. If the rate of inflation is increased, it leads to a rise in the price of necessities (food items) and make negative impact on the overall economy. Once a higher rate of inflation is taking place throughout an economy, the expectation of further inflation will become an overriding concern in the consciousness of consumers and businesses alike. The causes of inflation will be stimulus by many factors like monetarism (demand-pull) and less supply (cost-push).

These causes often amount to the same thing. The instrument by which the increase in money supply causes inflation will be created by excess demand, making monetarism compatible with the demand–pull argument. Also, the theories of demand pull and cost push inflation are linked to each other. An excess of demand will cause the producer to raise their price, on the other hand, this lead worker to demand higher wages to maintain their living standard. As a result, it will raise the cost of production again (cost-push). Under the cost–push inflation, the cost increases stimulating price rises are wage costs. It will represent most of the total net cost of the economy. The firm can raise their prices when the demand for their goods increases to sell and if not, the high cost will merely bankrupt them. All two of these amount to an effort by a country to live away from its resources or to enjoy a living standard greater than that acceptable by its production and borrowing. This denotes that the rate of inflation could be rarely preserved by measures that don't suppress efforts at sustaining high living standards and explicates why the decline of inflation is connected with austerity measures.

In most of the economy, inflation is owing to both cost-push and demand–pull factors. For instance, the high increase in vegetable price is an example of demand-pull inflation, whenever the storage of vegetables in the markets takes the price to new heights. In addition, prices go up at any time there will be a hike in petroleum products. It is called as cost–push factor. This is so because petroleum is an essential element in a lot of manufactured items, and as vital fuel for road transport, it enlarges the transportation cost, so prices, in general, tend to rise. There are foremost demand-pull factors such as mounting government expenditure, deficit financing and increase in money supply, the role of black money, and rapid population growth. The notable cost-push factors are like rise and fall of production and quantity, tax policy, administered price and hike in oil price.

Objectives and Methodology of Study

Objective

To analyse the nature of the inflation rate between India and developed countries

Methodology of Study

The study has applied data from secondary sources that have been gathered entirely from the World Bank Report 2022 and www.statista.com covering the period from 2010 – 2022. The obtained data deals with the rate of inflation which belongs to developing countries like India and selected developed countries such as Germany, the UK and the USA. This study has used descriptive statistics, trend lines and tables To make a comparative study between the selected countries. The selection of the country depends on the World Bank Report 2022.

Analysis and Interpretation

Table 1 Inflation Rate between India and Developed Countries

Year	India	Germany	UK	US
2009	10.88	0.31	1.96	0.36
2010	11.99	1.1	2.49	1.64
2011	8.86	2.06	3.86	3.16
2012	9.31	2.01	2.57	2.07
2013	10.91	1.5	2.29	1.46
2014	6.35	0.91	1.45	1.62
2015	5.87	0.51	0.97	0.12
2016	4.94	0.49	1.01	1.26
2017	2.49	1.51	2.56	2.13
2018	1.14	4.86	2.44	2.44
2019	4.76	1.45	1.74	1.81
2020	6.18	0.51	0.99	1.24
2021	5.51	3.14	2.52	4.70
2022	6.67	6.9	10.70	8.00

Sources: www.macrotrends.net/countries/IND/india/inflation-rate-cpi % Change

The above table indicates that the inflation rate has gradually increased in different years. In 2009, India's inflation rate was 10.88% which is a high level of inflation this occurred due to the oil and metal prices not only the demand for protein food also led to this inflation. Nevertheless, the developed countries like Germany, the UK, and the US inflation rates were comparatively very low during this period. In 2015 it could be seen that India's inflation rate has been reduced to 5.87% from 11% but when you compare the developed countries the inflation rate is high until the pandemic.

The developed countries' inflation rates were completely stable before the pandemic and India's rate of inflation was comparatively high. Still, India's inflation rate had its stability before the pandemic like the other countries there was not too much increase or too much decrease in the inflation rate. During the pandemic, it shows India's inflation rate has increased by around 2 %. Whereas the inflation rate of the developed countries has decreased. In 2021 India's inflation rate has fallen to 0.67 percentage. However, the inflation rate of the developed countries has increased. During 2022 reveals that the country's inflation rate has gone up. Studies stressed that the rise in Indian inflation is because of food, as during the pandemic time the cultivation of food grains was poor this might be the reason for the spike in the inflation rate in India. The reason for the spike in inflation in the UK is said to be the cost of living. The cost Of living has gone up after the pandemic in the UK leading to the sudden rise of inflation in the UK at 10.70%. In Germany, consumer prices have gone up which led to an increase in the inflation rate in Germany. The increase in US inflation at 8.00% was because of the Russia and Ukraine war. From table confirms that the developed countries have struggled with higher fluctuation in their inflation rates than India after the pandemic.

Trend Line Analysis

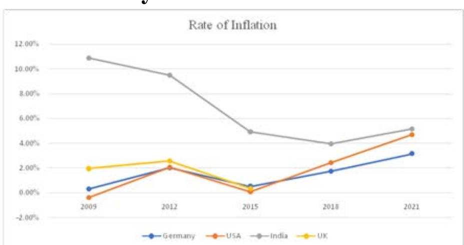

Figure 1 Rate of inflation in India and Developed countries

Sources: Computed by researcher 2023

In the above figure, we have compared 4 different countries' inflation rates from the year 2009 to

2021. It is a comparison of inflation rates between developed and developing countries. As we can see USA, UK, and Germany inflation rates have been steadily from 2009 to 2021 except for the US where there was a slight rise in the inflation rate in 2021. Whereas the inflation rate in India has been varying each year. India's inflation rate dropped in the year 2018 and from that year India's inflation rate has become a little steady. Hence, it can be seen that the developed countries have stable inflation rates and the developing countries are still trying to achieve stable inflation rates.

Descriptive Statistics

Table 2 Descriptive statistics

Variables	India	Germany	UK	USA
Mean	6.847143	1.947143	2.68143	2.286429
Median	6.265000	1.475000	2.356000	1.725000
Maximum	11.99000	6.900000	10.70000	8.000000
Minimum	1.140000	0.310000	0.970000	0.120000
Std.Dev.	3.190767	1.877414	2.441542	1.993322
Skewness	0.008320	1.598079	2.738853	1.818772
Kurtosis	2.195943	4.653047	9.704023	5.977711
Jarque-Bera	0.377291	7.5529903	43.72036	12.89079
Probability	0.828080	0.022903	0.000000	0.001588
Sum	95.86000	27.26000	37.55000	32.01000
Sum Sq.Dev.	132.3529	45.82089	77.49464	51.65332
Observations	14	14	14	14

Sources: computed by E-Views 2023

The above Table 2 reveals the rate of inflation descriptive statistics between countries like India and developed countries. The arithmetic mean for India is 6.8 and less than 2 for developed countries like Germany, the UK and the USA. Similarly, the median value of the rate of inflation is 6.2 for India whereas in developed countries is less than 2i.e. Germany at 1.47, the UK at 2.35 and the USA at 1.72 those values confirm that India has a running inflation nature and developed countries have creeping inflation nature for the particular period. The Maximum inflation rate is 11.9 for India and less than 10 for developed countries. On the other hand, the Minimum value of inflation of 1.0 is with India and less than 1 belongs to developed countries from 2010 to 2022. In the case of Measures of Dispersion, the Standard Deviation value of 3.0 deviation has been kept by India and less than 2 deviation is had by developed countries. In terms of Measures of Normality, a Skewness value of 0.0 shows the value of India is normally skewed. However, the developed country is positively skewed as the value of Skewness is less than 6. In the case of the Kurtosis values 2.9 and less than 9 denote that India has a Mesokurtic curve (Normal Curve) nature and developed countries have a nature of leptokurtic curve. According to the Jarque Bera test result like 0.3 and 0.95, reveals that the distribution of all these variable are normally distributed.

Findings of the Study

1. The study indicates that the impact of the pandemic on the inflation rate was mostly not shown during the pandemic, the effects of the pandemic were shown after the pandemic. Even developed countries like the USA,UK and Germany stumbled after the pandemic. Though the inflation rate was stable during the pandemic the post-pandemic did make the developed countries stumble.
2. The study reveals that the inflation rates in 2018 that is before the pandemic were completely low in the developed countries and India's inflation rate was also very low. This shows that the pandemic has made a huge impact not only in developing countries like India but also in developed countries like US, UK and Germany. Particularly, the US inflation was also influenced by the Ukraine and Russia war.
3. From this study, it understands that worldwide countries were not prepared to face the pandemic economically even though they somehow managed the inflation rate. Hence we can say that the developed & developing countries were equally impacted by the sudden rise of inflation rate after the pandemic.
4. The study explored that developed countries have stable inflation rates & developing country like India is still trying to achieve stable inflation rates.
5. As per the descriptive statistics, the median value of the rate of inflation is more than 6 for India whereas developed countries have less than 2, This confirmed that India has a running inflation nature and developed countries have creeping inflation during the period.

Conclusion & Suggestions

No doubt that Inflation is a crucial factor that affects the economy of a country. In India, inflation is influenced by various factors including the prices of oil and fuel, food consumption, and the COVID-19 pandemic. During the study period, inflation in India remained at a consistent level. The UK, the USA, and Germany, which are developed countries, are currently experiencing creeping inflation. This means that these countries have been able to maintain stable moderate-level inflation rates while India still needs to achieve stable and desirable inflation rates to ensure price and economic growth stability in its economy. In recent days, India's inflation rate appears to have stabilized, similar to other developed countries. However, sustaining this stability in a developing country like India would be challenging. Therefore, India should take appropriate actions, such as fiscal and monetary policy alterations, to maintain this stability. The government must decrease import expenditure and control the money supply by reducing corruption. This will lead to increased domestic production, which in turn will stabilize inflation rates at a moderate level. By achieving this goal, the country can soon attain developed nation status.

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