A COMPARATIVE STUDY OF INFLATION IN INDIA AND SRI LANKA

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BONAFIDE CERTIFICATE

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ABSTRACT

The purpose of this study is to compare the inflation between Sri Lanka and India. Inflation indicates a decrease in purchasing power per unit of currency - loss of real value at the time of trading and the unit of account in the economy.Factors affecting inflation in India - Increased inflation, inflation, rising wages or an increase in government spending.Factors affecting the inflation rate in Sri Lanka include- Foreign exchange deficits, Exchange rate, economic growth.

KEY WORDS - INFLATION, ECONOMY, CURRENCY.

INTRODUCTION

Consumer inflation in India has been the highest since 2008, a time when inflation has plummeted in many regions of the world due to the global economic downturn. In addition to the fully acceptable rate of increase in consumer aggregated prices, analysis is forced to depend on other types of separate series. This behaves differently with the constant rise and fall in food prices, but the volatility of the production of inflation follows that which has a decline in prices.

India's inflation rate rose to 6.95% in March 2022, the highest since October 2020, with market forecasts above 6.35%.

Sri Lanka lost access to the international currency market by 2021, resulting in declining international reserves reaching very low levels and large government loans by the Central Bank of Sri Lanka. Foreign debt payments and the current growing account deficit have led to a sharp decline in foreign exchange (FX), while the official exchange rate has remained the same since April 2021. On the other hand, the Sri Lankan economic crisis may not directly affect India at the moment. itself provides valuable lessons in political economics to the Indian government. Unlike Sri Lanka, India’s income and individual performance in social sectors such as health care, education and social security is much worse.

Sri Lanka's inflation rate rose to 29.80 percent in April from 18.70 percent in March 2022.

Sri Lanka's inability to cope with rising prices and the problem of job creation among its youth has led to street protests and anti-government protests. The problem of unemployment in India and unemployment is even worse - when combined. Inflation is also still high as the Reserve Bank of India (RBI) struggles to keep consumer prices low.

LITERATURE REVIEW

- Girijashankar Mallik (2001) said to explore the relationship between inflation and GDP growth in four South Asian countries (Bangladesh, India, Pakistan and Sri Lanka). Comparison of error correction models using annual data collected from IFM International Financial Statistics. The authors find evidence of a long-term positive relationship between GDP growth rate and inflation in all four countries.
- As per Abdur Choudhury (2014), the relationship between inflation and inflation uncertainty in India. The methodology uses the autoregressive conditional heteroscedasticity (GARCH) model and the Granger Causality test. Preliminary estimates indicate the rate of inflation as a standing trend.
- Ranjith Bandara (2011) indications of a slowdown in Sri Lanka between 1993-2008, a period marked by rising and falling economies. Vector auto-regressive (VAR) models are used to determine the appropriate definitions of inflation and the corresponding use of the Granger Causality Test. High and continuous economic growth coupled with inflation is a key objective of the development of macroeconomic policy in both developed and developing countries..
- M. W. Madurapperuma 2016 strongly examines the relationship between inflation and economic growth in Sri Lanka. Using annual data on actual GDP and CPI for the period 1988 to 2015, anecdotal evidence was obtained using the aggregation and correction model.
- Ramesh VP 2021, said "Inflation Research" indicates that inflation (or, at least, inflation) is a general rise in the price of an economy over a period of time.
- Laurence Ball, Anusha Chari, Prachi Mishra (2016) said quarterly inflation behavior in India since 1994, with both major inflation and basic inflation as measured by the average rate of inflation in all industries.
- As per Jongrim Ha, M. Ayhan Kose, Franziska L. Ohnsorge (2019), a product of Macroeconomics, Trade and Investment Global Practice. It is part of a larger World Bank effort to provide open access to its research and to contribute to global development policy discussions.

DISCUSSION ON INFLATION

Inflation is commonly understood as a situation of substantial, and general increase in the level of prices of goods and services in an economy and a consequent fall in the value of money over a period of time. As per Keynes inflation is an imbalance between aggregate demand and aggregate supply.

Inflation is the rate of inflation over a period of time. Inflation is usually a broad measure, such as a general increase in prices or an increase in the cost of living in a country. But it can also be calculated gradually — in certain items, such as food, or services, such as haircuts, for example. In any case, inflation represents how much the right set of goods and / or services cost over a period of time, usually a year.

Types of inflation:

Creeping Inflation

Slowdown inflation is also known as low inflation as the name suggests a slow rise in prices of goods and services. If prices increase by 3% or less every year, that means inflation increases with inflation. Such inflation does not hurt the economy. In fact, according to the Federal Reserve, a 2% inflation rate is desirable. It is necessary for the growth of the country's economy.

Walking Inflation

In this case, the inflation rate falls between 3% and 10%. Such inflation can be detrimental to the economy. The country's economic growth is too fast to sustain. Consumers began collecting goods for fear that prices would rise sharply. This results in excess demand and prices rise sharply.

Galloping Inflation

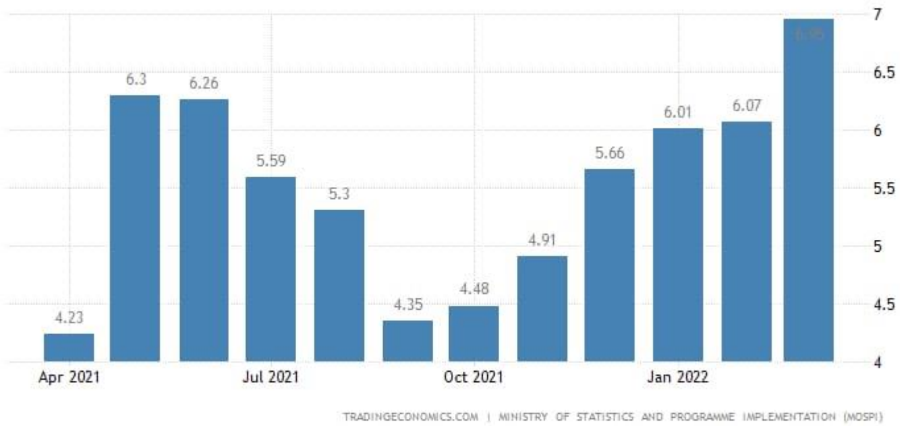
When volatile inflation and inflation are left unchecked, the inflation rate will rise to more than 10%. This is a sharp rise in inflation. The country's currency will lose value in the global economy. The wages and income of ordinary people cannot keep up with the ever-increasing prices of goods. This will create economic and national instability.

Hyperinflation

This is when inflation is completely out of control. There are no steps taken by the financial authorities to control the prices. The inflation rate is about 50% every month. Unchecked inflation could hit the country's economy, as in 2018 when Venezuela's inflation rate reached more than 1,000,000% per month, causing economic collapse and forcing countless citizens to flee the country.

India's inflation comes under creeping inflation and Sri Lanka's inflation comes under galloping inflation.

According to MOSPI that is Ministry of Statistics and Programme Implementation



What causes inflation?

Long-term episodes of high inflation are often the result of monetary policy weakening. If the supply of money grows significantly compared to the size of the economy, the value of the unit of money decreases; in other words, its purchasing power is declining and prices are rising. This relationship between financing and economic size is called monetary theory and is one of the oldest economic concepts.

As the inflation debate continues, it is worth repeating some of the key points that policymakers should keep in mind in the coming months as they consider what to do about inflation that emerged last year.

The debate over how much aid and repatriation efforts play a major role in raising inflation by 2021 through global warming is weakening, even after calculating the rapid growth of the last quarter of 2021.

The COVID-19 epidemic is a major factor in driving excessive inflation through demand and distortion of assets. Going forward, the economic downturn set by COVID-19 is likely to decrease significantly by 2022, providing relief from inflation.

Concerns about the “expectations” of inflation among workers, homes, and businesses will focus and keep inflation high are not justified. More important than the “expectations” of inflation are that workers and firms have the capacity to protect their wages from inflation. For decades this ingredient has been on one side and the workers have very little ability to protect wages from price pressures. This one-sided benefit will prevent rising wage pressure in the coming months and this will reduce inflation.

Increased interest rates will not delay inflation itself. The benefit of this increase in reassuring households and businesses that inflation is taken seriously by policy makers should be weighed against their potential decline in slowing growth.

Sri Lanka's national inflation rate in March 2022 under the National Consumer Price Index (NCPI) dropped to 21.5 percent from 17.5 percent reported in February 2022, reports the Department of Census and Statistics. As a result, food inflation has also risen from 24.7 percent in the previous month to 29.5 percent in March. Similarly, the downturn in inflation in March 2022 stands at 10.6 percent from 9.3 percent last month. Food prices have risen by 29.5 percent over the past 12 months. High inflation has hit important food prices such as rice, sugar, milk and bread. The economic crisis in Sri Lanka is due to the shortage of foreign currency, which has resulted in the country not being able to afford high quality food and imported oil, leading to severe shortages and high prices.

Last week, the Sri Lankan government said it would temporarily repay USD 35.5 billion in foreign debt as the Ukrainian epidemic and war make it difficult to pay off overseas lenders. On Monday, the Sri Lankan finance ministry confirmed that it would miss out on USD 78 million interest rates on private international bonds. Meanwhile, India on Friday extended the deadline for the USD 400 million currency exchange which was finalized with the island nation in January.

FACTORS AFFECTING INFLATION IN INDIA

1.An increase in the money supply:

Inflation can have both positive and negative effects on the economy. On the other hand, it can lead to higher wages and greater spending power for consumers. On the other hand, it can also lead to higher prices for goods and services, which can cause difficulties for businesses and families.

Offering and demand are not the only factors that can lead to inflation, however. Inflation can also be caused by inflation. When the government prints more money, it reduces the amount of money available distributed and leads to higher prices.

2.Increasing imported prices:

Inflation has become a global phenomenon. Inflation is imported into the country through the importation of large quantities of imported goods, such as fertilizers, edible oils, metals, cement, chemicals, and machinery. The rise in petrol prices in other countries has been quite dramatic and your contribution to rising domestic prices has been very high.

3.Regulated inflation:

In our economy most of the market is controlled by government actions. There are a number of important commodities, both agricultural and industrial, whose price is controlled by the government.

4.Rising wages:

The increase in wages is exactly the same as it sounds - an increase in workers' wages. "Earnings are a production cost," added Baker. "If wages increase at a higher rate, businesses will have to pay lower costs, or live on less. The opposite is true if they can reduce their wage growth through higher productivity."

5.Increased government spending:

Government spending in India in recent years has skyrocketed. Worryingly, the proportion of non-development expenditure has skyrocketed, accounting for about 40 percent of total government spending. Non-development costs do not create real assets; it only creates purchasing power and leads to inflation.

FACTORS AFFECTING INFLATION IN SRILANKA

1.Economic growth

Economic growth can be defined as the increase or improvement in market value adjusted for inflation and inflation of goods and services produced by the economy over time. Statistics generally measure such growth as a growth percentage total gross domestic product, or real GDP

2.Exchange rate

Exchange rate, exchange rate for foreign currency. The exchange rate is “adjusted” when countries use gold or another agreed rate, and each currency is charged a certain amount of metal or another value.

3.Government expenditure

Government expenditure or government expenditure can be divided into three main categories, government spending, transfers payments, and interest payments. Government spending on government procurement and services.

4. Funding

In macroeconomics, fundraising refers to the total amount of money held by a community over a period of time. There are several ways to define "money", but the most common measures usually include the type of money in the distribution and the required deposits.

5.Lack of foreign currency

The dollar shortfall occurs when a country spends more US dollars on exports than it does on foreign exchange. As the USD is used to make the price of most commodities around the world, and is used in many international trade, the dollar shortage can limit the country’s ability to grow or trade successfully.

COMPARISON BETWEEN INDIA AND SRI LANKA

FACTORS	INDIA	SRI LANKA
1.an increase in the money supply	✓	✕
2.Rising import prices	✓	✕
3.Rise in administered prices	✓	✕
4.Increase in government expenditure	✓	✕
5.Rising wages	✓	✕
6.Economic Growth	✕	✓
7. Exchange Rate	✕	✓
8. Lack of foreign currency	✕	✓

RESEARCH METHODOLOGY

This research paper explains the inflation in India and Srilanka. The study is based on primary data and secondary data. Simple comparison table and graph is used to analyze the results based on findings. Thus the study represents the comparison of inflation between India and Sri Lanka.

INTERPRETATION

- There is a shortage of foreign currency in Sri Lanka because Sri Lanka has been experiencing long-term power outages as the economic crisis worsens in troubled markets and businesses, with the government unable to pay for fuel exports due to a shortage of foreign currency.
- The island's heavy reliance on tourism and remittances has lowered the COVID-19 epidemic, which has been the cause of the current crisis. Tourism, which accounts for more than 10 percent of Sri Lankan GDP, has been hit by the loss of tourists from three key countries: India, Russia and the UK.
- Government spending in India in recent years has skyrocketed. Worryingly, the proportion of non-development expenditure has skyrocketed, accounting for about 40 percent of total government spending. Non-development costs do not create real assets; it only creates purchasing power and leads to inflation.
- As a result of some changes in India's production strategies which may not allow much work. Modern technology that requires a lot of money requires fewer workers and contributes to this type of unemployment.
- Sri Lanka's economic crisis is partly due to a lack of foreign exchange, which has meant that the country cannot afford to buy basic food and fuel supplies abroad, leading to huge shortages and high prices.
- Indian retailers are rethinking shipping plans in Sri Lanka as state-owned companies run out of money and private buyers cancel orders. Without government guarantees, exports to the island nation will be reduced.
- Increased tax collection, as well as support for the state budget in the provinces, has boosted India's overall economic growth.
- The missing target was slightly higher than in India compared to Sri Lanka because India was expecting it when confirming the rate. The budget notes the revised deficit of 6.9% of GDP for the financial year ending March 2022 (FY22), compared to our forecast of 6.6%.

CONCLUSION

As a result, there is a lack of foreign currency in Sri Lanka, which has resulted in the country not being able to afford high quality food and imported oil, leading to severe shortages and high prices. Inflation executives in India in all categories of consumers such as daily household goods, clothing and lifestyle products, and electronics have marked inflation as a major financial concern to come, more important than ever-growing demand. Overall the workplace remains challenging throughout the quarter with unprecedented 13% inflation and declining consumer sentiment. The third wave of the Covid-19 epidemic has hit India and is growing rapidly. But it is hoped that it will be milder and shorter, and that the Indian economy will continue to show the growth momentum it has shown over the past few months.

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