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Editorial

Need for Re-definition of Inflation

The price stability is a key objective of any monetary policy. No wonder the RBI is concerned with inflation. Prices of specific goods or services may go up or down relative to the prices of others reflecting the changes in demand and supply conditions. But when the overall price level rises, it erodes the purchasing power of income, raises the cost of living and lowers the real value of savings. The savers, investors and financial intermediaries track closely the link between inflation and interest rate. More importantly, it is the poor who are most vulnerable to inflation as they do not have any effective hedge against inflation.

Since 1950, the inflation in the Indian economy has been in single digit for many years. India has been the cynosure for the past few years in the global economic arena owing to its changing inflation patterns. Between the fiscal year 2004-05 and 2007-2008, India had experienced an average growth rate of more than 9%, but the global crunch drained the economy so hard that the economy gave in to the adverse external shocks and few sectors experienced a slump Inflation in India 2009 stands at 11.49%. The inflation rate reflects the general rise in prices impacts the common man's purchasing power.

The Reserve Bank began its exit from the expansionary monetary policy in October 2009 by reducing the potential liquidity. This process was carried forward in January 2010 with an increase in Cash Reserve Ratio (CRR) of banks by 75 basis points and then increased reverse repo and repo rates by 25 basis points each in March 2010. In the context of monetary policy formulation, it is important to have a robust primary measure of inflation at the national level. In this direction, the compilation of CPI (Urban) and CPI (Rural) could pave the way for a representative CPI for the country. There is also a need to augment the new series of WPI with a service price index to improve its overall coverage. In addition, it would be desirable to initiate steps to develop a Producer Price Index (PPI) for the country. Moreover, the representativeness of the various price indices could be sharpened by frequent updating of the base year so that it reflects the structural change in the economy.

The Twelfth Issue (Vol.6, No.2) of the SMART Journal of Business Management Studies Consists of eight articles, written by authors of repute, on different themes of contemporary relevance. I hope readers would find the journal academically challenging and strategically stimulating.

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