



IMPACT OF INFLATION ON THE INDIAN ECONOMY: TRENDS AND ANALYSIS

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Abstract

Inflation is a key macroeconomic indicator that significantly influences economic growth, purchasing power, and financial stability. This study examines the trends and impact of inflation on the Indian economy over the period 2015–2026. The research is based on secondary data collected from reports of the Reserve Bank of India, Economic Survey, and other reliable sources. The findings reveal that inflation in India has remained largely within the tolerance band of 2–6% in recent years, with a moderate rate of approximately 3.4% in 2026. The study highlights that moderate inflation supports economic growth, while high inflation adversely affects purchasing power, savings, and investment. The paper concludes that maintaining a balanced inflation rate is essential for sustainable economic development.

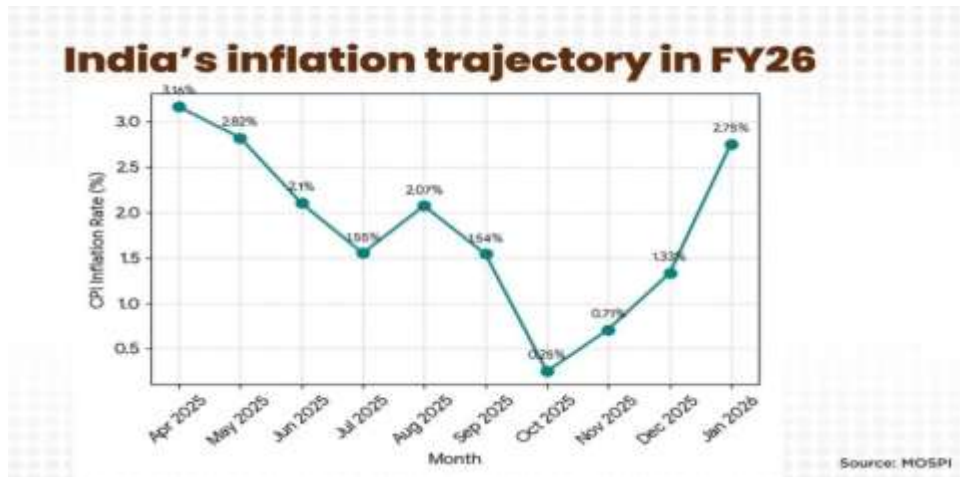
Keywords: *Inflation, Economic Growth, Consumer Price Index (CPI), Monetary Policy, Purchasing Power, Indian Economy, Price Stability, Inflation Trends*

Introduction

Inflation refers to a sustained increase in the general price level of goods and services over a period of time, leading to a decline in the purchasing power of money. In India, inflation is primarily measured using the Consumer Price Index (CPI), which reflects changes in retail prices.

Inflation plays a crucial role in shaping the economic environment of a country. It affects consumption, investment, savings, employment, and overall economic growth. A moderate level of inflation is considered beneficial as it encourages production and investment. However, high inflation creates economic instability and reduces the standard of living. The Indian economy, being one of the fastest-growing economies in the world, has experienced varying inflation trends due to domestic and global factors such as supply chain disruptions,

fuel price fluctuations, and policy changes. In recent years, inflation has remained relatively stable, supported by effective monetary policies and improved supply management.



Types of Inflation

Demand-Pull Inflation: Caused by excess demand

Cost-Push Inflation: Caused by rising production costs

Built-in Inflation: Due to wage-price spiral

Trends of Inflation (2015–2026)

Inflation in India has shown significant fluctuations over the years.

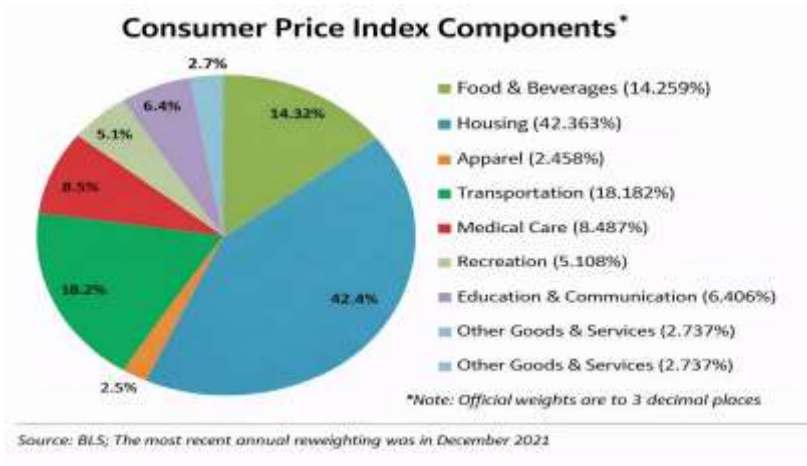
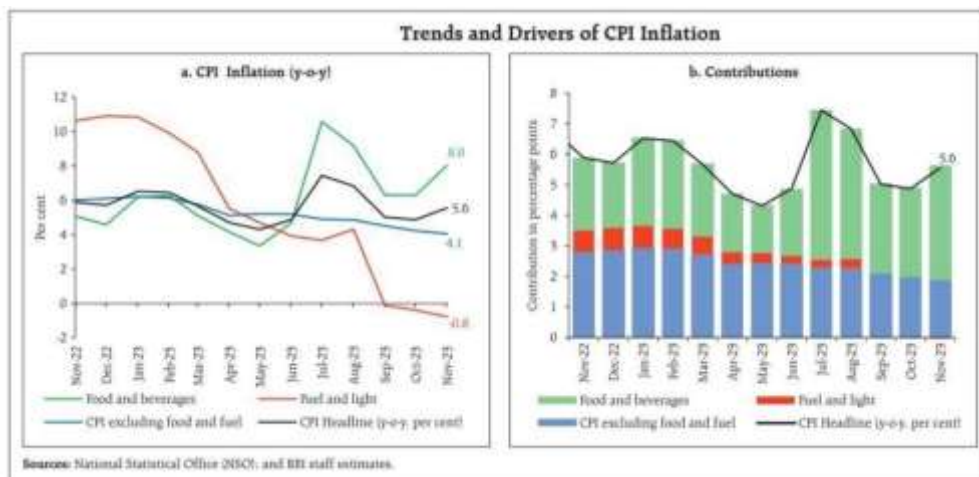
◆ Key Trend Analysis:

- Inflation remained within the RBI's tolerance band (2–6%) in most years
- In 2025, inflation dropped to historically low levels (around 0.25% in October) due to falling food prices
- India Brand Equity Foundation
- By early 2026, inflation rose moderately to around 3.4%, indicating stability
- Housing inflation remains a major contributor due to its high weight in CPI
- Fuel prices and global factors significantly influence inflation

Recent Data Highlights:

- 2025 average inflation: around 3–3.5%
- March 2026 inflation: 3.4%
- Inflation remains below RBI target of 4%

These trends indicate a controlled inflation environment, supporting economic stability.



Causes of Inflation in India

1. Domestic Factors

- ✓ Increase in demand
- ✓ Supply chain disruptions
- ✓ Rising wages
- ✓ Agricultural dependency

2. Global Factors

- ✓ Oil price fluctuations
- ✓ Geopolitical tensions
- ✓ Global inflation trends

For example, global conflicts and oil price volatility have recently contributed to inflationary pressure in India.

Impact of Inflation

Inflation has both positive and negative effects on the economy.

Positive Impact

- Encourages consumption and investment
- Supports economic growth
- Increases business profits (short term)

Negative Impact

1. Reduction in Purchasing Power

Inflation reduces the real value of money, making goods and services more expensive.

2. Impact on Savings

Higher inflation discourages savings as real returns decline.

3. Effect on Investment

Uncertainty due to inflation affects long-term investment decisions.

4. Cost of Living Increase

Inflation increases the cost of living, especially for middle and lower-income groups.

5. Impact on Economic Stability

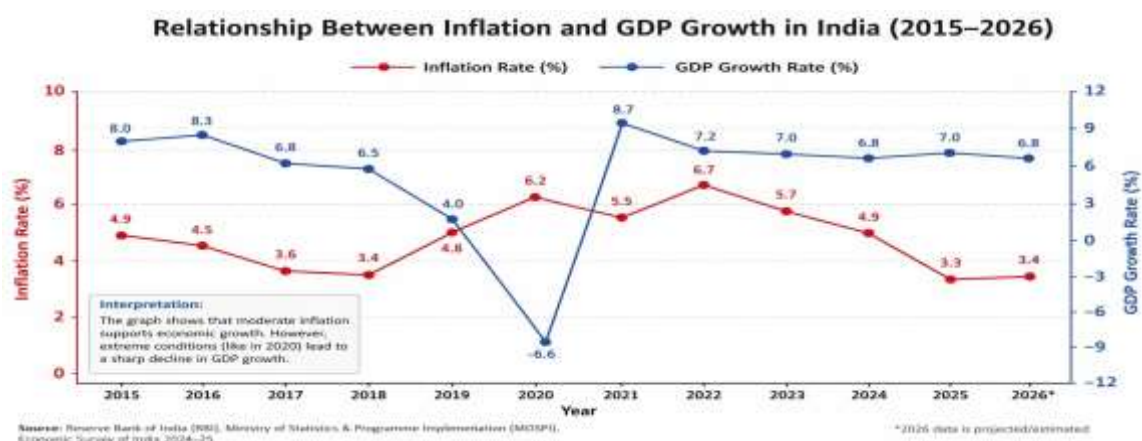
High inflation creates uncertainty and slows economic growth.

Inflation and Economic Growth

The relationship between inflation and economic growth is complex.

- Moderate inflation → promotes growth
- High inflation → reduces growth

India's GDP growth is influenced by inflation trends. For instance, inflation stability has



supported projected GDP growth of around 6.8–7.2% in recent years.

Control Measures

Monetary Policy (RBI)

The Reserve Bank of India uses various tools:

- Repo rate
- Cash Reserve Ratio (CRR)
- Open market operations

These tools help regulate money supply and control inflation.

Fiscal Policy (Government)

- Tax policies
- Subsidies
- Public expenditure control

Supply-Side Measures

- Improving infrastructure
- Enhancing agricultural productivity
- Managing imports and exports

Research Methodology

This study adopts a systematic and analytical approach to examine the impact of inflation on the Indian economy. The methodology is designed to ensure reliability, validity, and relevance of findings.

Research Design

The study is based on a descriptive and analytical research design.

- Descriptive: To explain the concept, types, and trends of inflation
- Analytical: To evaluate the relationship between inflation and economic growth

Sources of Data

Data has been collected from authentic and reliable sources, including:

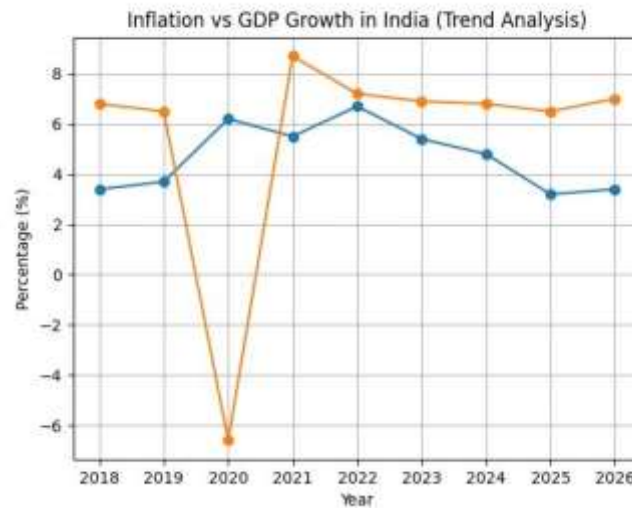
- Reports of the Reserve Bank of India
- Economic Survey of India
- Ministry of Statistics and Programme Implementation (MOSPI)
- Research journals, articles, and publications
- Online databases and financial reports

Objectives Of Research Paper

1. To study the concept and trends of inflation in India
2. To analyze the impact of inflation on the Indian economy
3. To examine the relationship between inflation and economic growth
4. To evaluate measures taken to control inflation .

Limitations of the Study

- Based only on secondary data
- Limited to Indian economy
- Short-term fluctuations may not be fully capture



Result & Discussion

The study of inflation trends in India over the period 2015 to 2026 reflects a largely stable economic pattern, with inflation mostly staying within the acceptable range defined by the Reserve Bank of India. The findings indicate that fluctuations in inflation are primarily driven by variations in food and fuel prices, which hold significant weight in the overall price index. Instances of lower inflation, particularly observed in 2025, were mainly due to reduced food prices, while the moderate rise in 2026 suggests a balanced economic recovery. The analysis further demonstrates that a controlled level of inflation contributes positively to economic expansion by stimulating demand and encouraging investment. In contrast, higher inflation levels tend to erode purchasing power, discourage savings, and create uncertainty in long-term financial planning. The role of monetary policy has been crucial, as regulatory measures such as interest rate adjustments and liquidity control have helped maintain price stability. Overall, the findings emphasize that maintaining inflation within a moderate range is essential for sustaining economic growth and stability in India.

Conclusion

To conclude, inflation continues to play a significant role in shaping the economic environment of India. The study establishes that maintaining a moderate level of inflation is necessary to ensure economic stability, promote investment, and protect consumer purchasing

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power. While controlled inflation can support growth by encouraging spending and production, excessive inflation leads to economic imbalances and negatively impacts the standard of living, especially among vulnerable sections of society. The effectiveness of policy measures undertaken by the Reserve Bank of India and the government highlights the importance of coordinated monetary and fiscal strategies.

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