

Balance Sheet of a Decade!



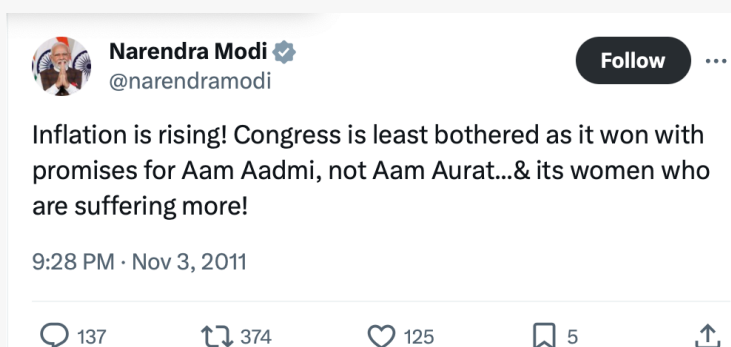
Report Card 2014-24

Inflation

The essence of democracy requires that we hold governments to account vis-a-vis their claims and promises. But one of the biggest casualties of the recent years has been the idea of accountability. The divisive and jingoist hyperboles in the media facilitate a collective amnesia. This report card (though not conclusive) is part of a series, by the Financial Accountability Network India, that attempts to glance through and highlight a few of the claims and reality of the government's performance across various sectors from a financial and economic lens.

Claims

- "No person should go to bed hungry, "We have promised to control inflation. We are determined to achieve this target," he said. "We will do this (control inflation) not only because it is our election promise but we want every poor to have access to food," Modi said, adding that "this is the collective responsibility of all of us".In its [election manifesto](#), Bharatiya Janata Party (BJP) had promised to rein in prices if it came to power.
- The 2014 [Election Manifesto](#) of the BJP said "Runaway food inflation has crippled household budgets and contributed to the overall inflationary trend under the Congress-led UPA's watch. Even worse, the food and nutritional security of millions is threatened. However, the Congress-led UPA government has remained insensitive and indifferent to the plight of the people; tying itself into knots with short-term, misdirected steps. The BJP-led NDA Government's record of holding the prices is a demonstration of our commitment to breaking the vicious cycle of high inflation and high-interest rates. Our immediate task will be to rein in inflation."
- During his tenure as the [Chief Minister of Gujarat](#), Modi as the Chairman of the Working Group on Consumer Affairs, submitted a Report of Working Group on food inflation which claimed to provide actionable points to curb inflation.
- "Congress had promised to curb inflation in 100 days, but did they live up to their promises? Don't trust those who betray public trust. If the governments of Vajpayee ji and Morarji Desai could stop the [price rise](#), why can't we? The BJP government in 2014 will do it, I assure you!"
- Govt will take more steps to [tackle Inflation](#), says Modi in his address to the nation on 77th Independence Day.
- "50 rupee hike in LPG!!!! N they call themselves Aam Aadmi ki Sarkar. What a shame!", tweeted [Smriti Irani in 2011](#).
- "Inflation is rising! Congress is least bothered as it won with promises for Aam Aadmi, not Aam Aurat...& its women who are suffering more!" [tweeted Modi in 2011](#).

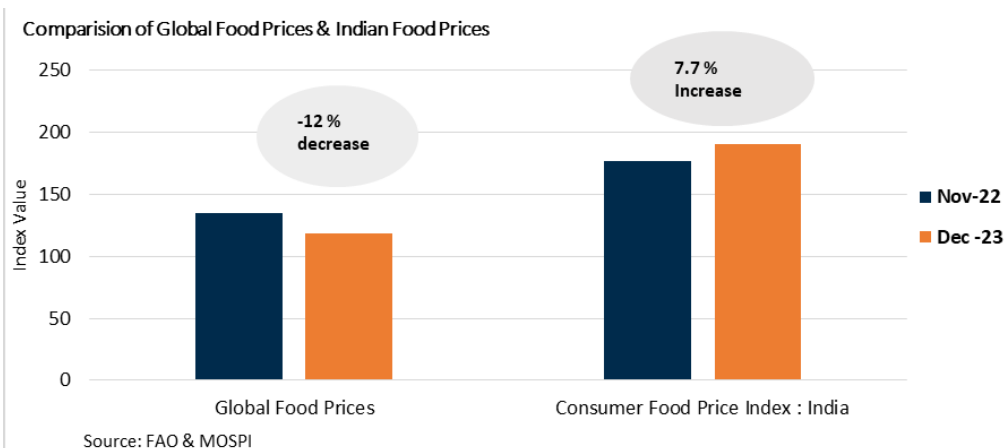
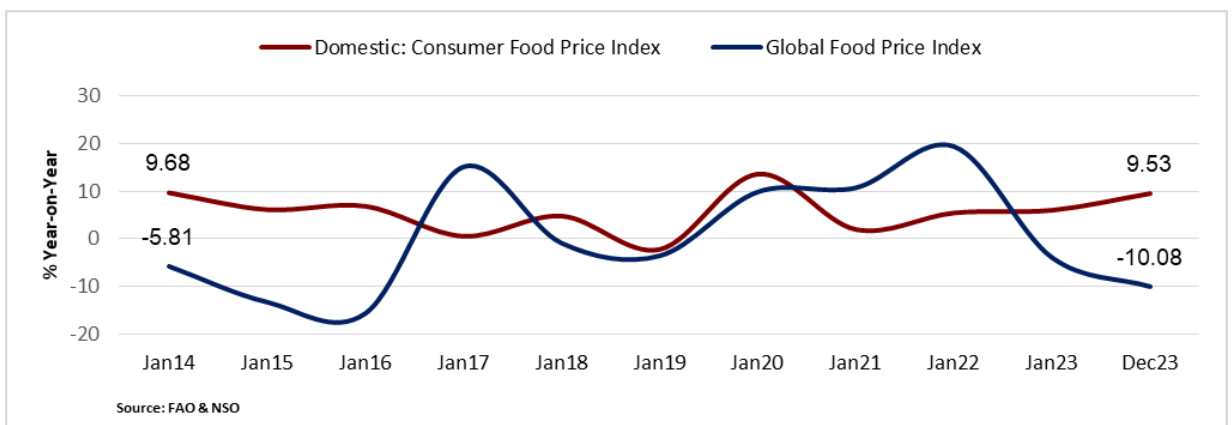


Interestingly the 2019 Manifesto of the BJP did not have the word "inflation" mentioned even once!

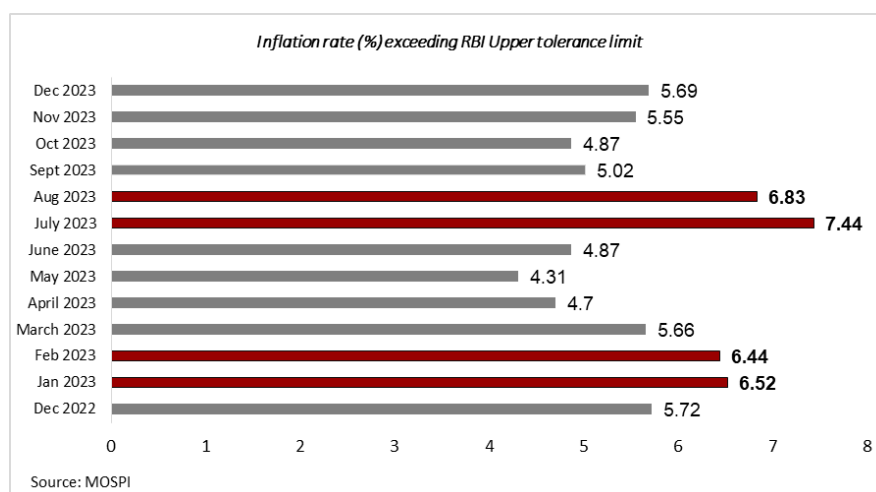


The Price of [Non-subsidised](#) LPG gas cylinders in Delhi has increased by 22% from Rs 905 in June 2014 to Rs 1,103 in March 2023. Smriti Irani has not much to say about that though. _

Globally Food Inflation on the FAO index has been negative since November 2022. **However, it's been the opposite in India** with persistent and elevated inflation at 9.5% in December 2023, as against -10.1% of the [Global Food Price index](#).

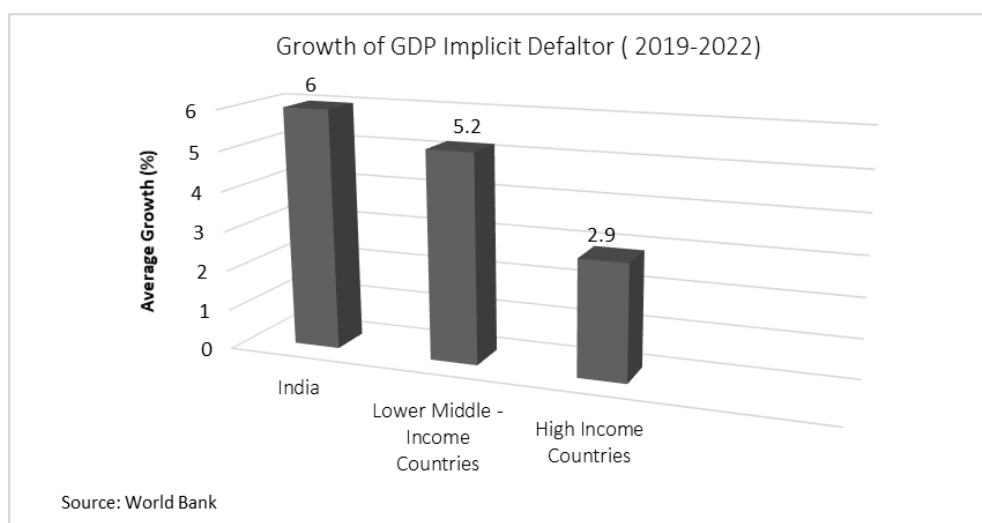


As reported by the Ministry of Statistics and Programme Implementation (MoSPI), India's retail inflation reached a **four-month high in December 2023**, at 5.69%. RBI's tolerance range of the Consumer Price Index (CPI) is between 2% to 6%. Primarily driven by higher prices of food items such as pulses and spices. This surge in prices **exceeded** the RBI's inflation tolerance band for the **fourth time during the year**.



Food prices rose 9.5% nationally and breached the 10% mark for urban consumers. Food inflation has increased continually on a year-on-year basis, while core **inflation** (excluding food and fuel) eased to 3.77%. **This has now been 51 consecutive months that retail inflation has been RBI's medium-term target of 4%.**

Data from the World Bank shows that post-2019 there has been a drastic increase in the GDP implicit deflator of India from **2.4 %** in 2019 to **8.2 %** in 2022 with an average of **6 %**. This is higher than that of the lower middle-income category countries (**5.2 %**) and that of High-income countries with an average of **2.9%**.



What is a GDP deflator?



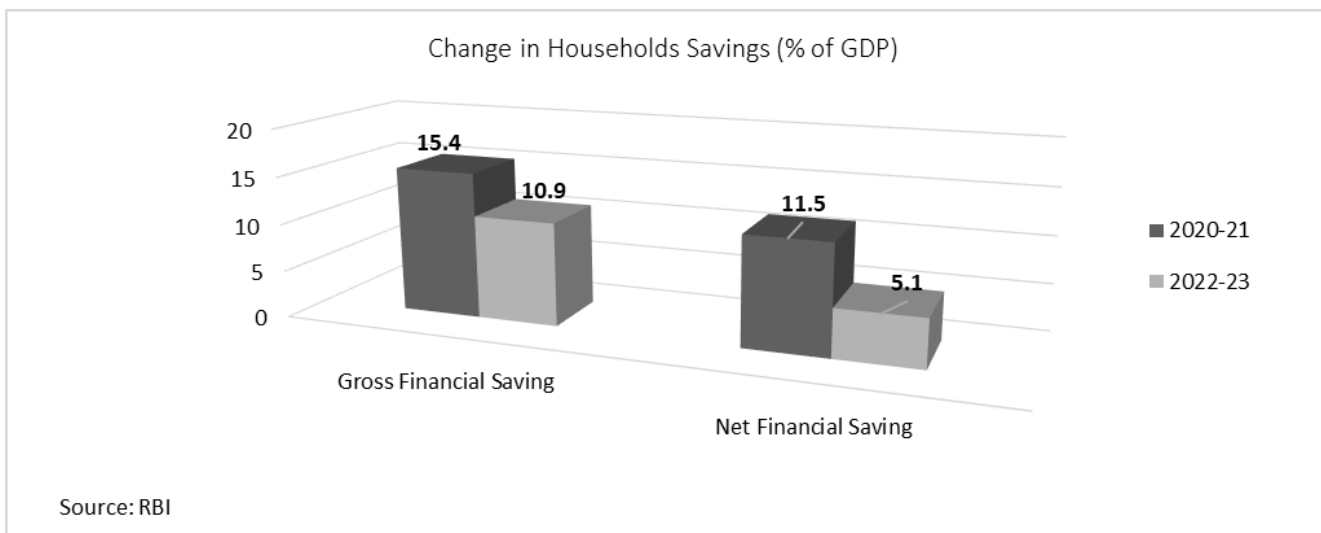
Well, **GDP Price Deflator** as a measure of inflation is said to be a more comprehensive measure of inflation than the Consumer Price Index (CPI) as it isn't based on a fixed basket of goods, but on change in overall price in the economy.

The CPI Index value of diesel increased from **121 points** in October 2019 to **161.8 points** in October 2023. During the Pandemic the rate of inflation across fuel & light increased from **6.2 %** in October 2020 to **32.5 %** in 2021. This is not fate, neither is it solely due to global turbulence and supply issues. It was mainly due to the rise in the excise duty by the central government on Petrol and Diesel. The government slashed the corporate tax rate from **30% to 22%** which cost the govt. exchequer **1.84 lakhs cr** in just two years. This was compensated by raising the excise duty on petrol and diesel. Excise duty on petrol was hiked from **Rs 19.98/L to Rs 32.9/L**, and the same on diesel was increased from **Rs 15.83 /L to Rs 31.8/ L** during the period. The Union govt excise collection during the same period increased by 88% from **1.78 lakh cr** in 2019-20 to **3.35 lakh cr** in [2020-21](#).



While [inflation](#) has not been a novel phenomenon, many believe that it is the alarming stagnancy of wages of the vast masses of Indians in recent years that is making the cost of living crisis a heavier burden. While the wages of construction workers and agricultural workers have increased by only **10.5% and 12%** respectively in rural India from April 2021 to March 2023, the cost of cereals has increased by a whopping **22%**. The fuel segment of the index has increased by **16%** and the cost of milk and milk products increased by **14%**.

In FY 2022-23, the gross savings of Indian households stood at **5.1% of GDP**, the lowest in at least 23 years. While during the pandemic, it is the lack of work and incomes that ate into the meagre savings of the poor, by the time they were hoping to recover, the steep rise in prices has once again been further depleting their savings as incomes have hardly been able to keep pace with [inflation](#).



While the government is happy to externalise the crisis to the invasion of Ukraine alone and its effect on fuel prices, post FY 2020-21, it is the food inflation that has seen a much sharper upward swing. What is most disconcerting for economists is the fact that this has relatively been a time of comfortable levels of domestic food production. As such, the impact of the apprehended below-normal monsoon on food production and thereby on the already [high food prices](#) is worrying.



The cost of a home-cooked vegetarian thali in Mumbai has increased by **65%** in the last five years. At the same time, the average wage earned by a casual labourer working in urban Maharashtra has increased by only **37%** and that of a salaried worker has [increased](#) by **28%**.

The cost of making two thalis every day for a month, when considered as a share of wages/salaries, increased from **22.5%** of a casual labourer's monthly earnings in 2018 to **27.2%** in [2023](#). In the case of those who drew a regular salary, it increased from **9.9% to 12.8%** in the same period.



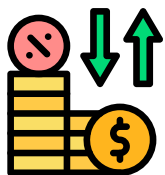
The latest results of the [consumer confidence survey](#) by RBI show that the current situation index has remained stable in November 2023. It remained unchanged at 92.2 points from the previous round of [surveys](#). Overall, it shows a downward slippage from 108.6 points in the round of March 2015 to 92.2 points in November 2023. **However, the consumers still retained negative sentiments on both current and future price expectations as per the survey.**

The Kantar India Union Budget [Survey](#) 2024 highlighted that 57% of Indians are worried about rising inflation, a significant increase from 27% in 2023. Additionally, concerns about job security are also on the rise, with one in every three Indians anxious about potential layoffs.



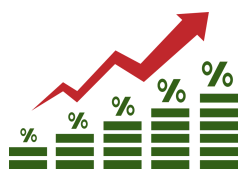
Highlights

Impoverished sections who don't have enough resources to consume even a single meal a day are hardest hit by the persistent food inflation leading to malnutrition and the country's poor standing in the [World Hunger Index](#). **India's rank in the Index slipped from 107 in 2022 to 111 in 2023 with a score of 28.7 which is under the serious category as per the World Hunger Index report.** The percentage of the total population in India who are undernourished has increased from 14 % in 2015 to 16.6 % in 2023.



There exists a Large gap between the rate of inflation measured by the annual growth rate of the [GDP implicit deflator](#) between India and that of High-Income countries. High-income countries can maintain a low rate of inflation with an average of 2.9 % (from 2019-2022) within their targeted band but in the case of India, there is an increasing trend from 2.4% in 2019 to 8.2 % in 2022 with an avg of 6 % over the period.

Indian Consumers had to face the brunt of the high fuel prices post-pandemic. In March 2022, [L PG Prices in India were the highest in the world](#), followed by petrol prices **third highest**, and diesel prices **eighth highest** in the world when compared to purchasing power parity. Indian Consumers had to face the brunt of high fuel prices when the global crude oil prices fell during this period. This was primarily due to the increase in the excise duty on Petrol and diesel during this period which was primarily because of Modi govt compensated for the revenue loss of about 1.45 lakhs cr because the government slashed the corporate tax cut from 30 % to 22 % by raising the excise duty of Petrol and diesel during this period.



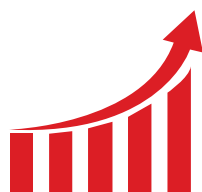
As Keynes said, "Inflation is the form of taxation which the public find hardest to evade". Higher persistent rates of inflation affect consumer consumption patterns, i.e. the price of the same selected basket increases. This decreases the disposable income of the consumers. As per the [YouGov Global Financial Outlook 2023 report](#), nearly **36%** of Urban Indians had a **net decrease** in their disposable Income over the last 12 months, but the decline in India was among the lowest when compared to other international markets.

If the government was mindful of the enormous burden of [rising prices](#) that this is adding to the common people's woes and had revised its tax rates to the pre-pandemic (2019-20) level, then the estimated loss of revenue in the difficult years would have been Rs 1.19 lakh crore. If a flat wealth tax rate of 2% was imposed on individuals with a net worth of Rs 1,000 crore or above in 2021, that is, if the wealthiest 1,007 families in the country were taxed, we could have raised Rs 1.84 lakh crore in just a year.



The government is only relying on monetary policy to tackle inflation through increasing repo rate which makes loans more expensive. But some economists feel while this may be a strategy for advanced economies, it is ineffective in India as here it is food prices that are driving inflation and for the largely poor population food remains a substantial chunk of their expenditure. And [repo rates](#) have no impact on this.

Some economists including a former RBI deputy governor have argued that the five biggest private business groups in India are contributing to persistently high core inflation. They feel with the concentration of market power in fewer hands they also now have increasing pricing power. The triple blow of notebandi, GST and lockdown has crippled small businesses and the unorganised sector. The result is increased pricing power in the hands of a few while the sufferers are the poor and the [middle classes](#).



A demand-driven inflation may still be a positive sign so far that it indicates that people have the wherewithal to spend. But in India, we are witnessing a twin crisis of low demand and high inflation which is not a healthy sign at all. supply side factors, on average, contributed around 55% to CPI headline inflation during the period January 2019 to May 2023. In contrast, the overall contribution of demand drivers to [inflation](#) during this period was 31%.

Personal loans and credit card purchases with high interest have increased due to inflation while stagnation of income adds additional burden on the people.



The Govt has acknowledged that 80 crore are living in poverty but provides them with just 5 kg of Rice or wheat. How will they survive?

