

## **Impact of Inflation on Saving Patterns of people**

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### **ABSTRACT**

The inter-relationship among savings, inflation and economic growth is an important conjuncture in the linkage evaluation of economic performance. Inflation means a boom in the price of goods and services resulting in a decline in the purchasing strength of money. It is a sustained rise in the price of various commodities in an economy. When the general price level rises, each unit of forex buys fewer goods and services. On the other hand Saving means personal disposable income minus personal consumption expenditure. In other words, income that is not consumed by immediately on buying goods and services is saved. Saving plays an important role in economic development of any Country. This paper seeks to study the Impact of inflation n saving habits of people.

**Keywords-Inflation, Savings, Economic Growth, Economic Development, Impact**

## INTRODUCTION

Inflation means a boom in the price of goods and services resulting in a decline in the purchasing strength of money. When the general price level rises, each unit of forex buys fewer goods and services. Inflation affects every citizen of an economy. Therefore, inflation also reflects a erosion in the purchasing power of money – a loss of real value in the inner medium of exchange and unit of account within the economy. It additionally leads to reduction in investors' confidence within the economic system because of price uncertainty. Inflation is a main hassle of most economies in the world and influences a country's growth in diverse ways.

Saving is not mere non-spending. It includes a conscious choice between present and future fulfillments. It represents a positive act involving deliberate decision making. There are certain motives that constraint individuals to take part in savings. Savings fulfill unexpected possibilities . Saving is required for an unseen future relation between the income and the needs of the individual or his family which exists in the present like old age security, family education or the maintenance of dependents. Majority of the population prefer to buy larger real consumption at a later date than a smaller immediate consumption. This is possible only because of savings. Individuals, who want to enhance their standard of living, surely want to increase their savings. It is definite that savings lead to a sense of independence and the power to do things.

Many developing economies use CPI(Consumer Price Index) or WPI(Wholesale Price Index)as central measure of Inflation. It measures the average prices of goods and services that we have paid for them.

In developing nations like India, Inflation brings the quantitative and Qualitative changes in the economy which in turn affects the Economic Development, Human Development Index ,infrastructure, Saving and Investment, Social Inclusion, literacy etc .The Impact of Inflation can be seen in each and every sphere of any Economy when the economy moves from underdeveloped stage to Development stage.

The inflation rate in India was recorded at 5.61 in December 2015. Inflation Rate in India averaged 9.83 Percent from 2012 until 2014, reaching an all time high of 11.16 Percent in November of 2013 and a record low of 7.55 Percent in January of 2012. These days

economies of all countries whether underdeveloped, developing as well developed suffers from inflation. Inflation or persistent rising prices are major problem today in world.

Inflation today is caused more by global rather than by domestic factors. Normally, as the Indian economy experiences auxiliary changes, the causes of domestic inflation too have undergone structural changes. The primary cause of increase in the rate of inflation rate in India is the pricing disparity of agricultural products between the producer and consumers in the Indian market. Moreover, the sky-rocketing of prices of food products, manufacturing products, and essential commodities have also catapulted the inflation rate in India. Furthermore, the unstable international crude oil prices have worsened the situation. High prices of day-to-day goods make it difficult for consumers to afford even the basic commodities in life. This leaves them with no choice but to ask for higher incomes. Hence the government tries to keep inflation under control.

It is well known fact that the rate of saving have been an important monetary variable for economic development of any Economy. Savings can be known as financial or physical products kept aside for future use. saving may be considered as a stock or as a flow concept or as both. As a stock concept savings stands for the change in the individual's or group's net worth and is measured by using balance sheet method. As a flow concept saving of an individual or group is termed as the earned surplus that is the difference between current income and expenses.

### **Literature Review**

1) “The Group examined Inflation and its effect on Economic Growth in Nigeria in which the findings depicted that Inflation rate had a positive and non-significant effect on economic growth (measured by RGDP) in Nigeria for the period studied. The study suggested that government should adopt stiff monetary policy measures to calm down tide of inflationary pressure and politicians should minimize unjustified public spending and promote fiscal Policy.”(Anidiobu et al.,2018)

2) The Researchers in their paper reviewed that Impact of Inflation on economic Growth differs from Economy to Economy depending upon their own attributes or components. It

was also established that Inflation and Growth have a negative Relationship in Developed Economies.( Foluso A. Akinsola & Nicholas M.Odhiamo,2017)

3) “His study examined that standard of living of people is highly affected by Inflation as it compels them to take loans and to work overtime so as to meet out their daily needs. It was also revealed that the standard of living of the people worsen from year to year with 2013 been the lowest due to the high inflation”. (Solomon A. Anafo ,2014)

4) The reviewers re-examined the inter-relationship among savings, inflation and economic growth with reference to Nigeria, their result concluded inflation and real interest had negative effect on Economic Growth whereas exchange rate had positive effect on economic growth. In addition it was also revealed that economic growth, unemployment and real interest rate had negative impact on inflation rate, while indirect taxes had positive impact on inflation. The result further shows that economic growth; exchange rate and foreign direct investment cause savings while depreciation rate depreciates savings. Inflation with threshold level of 8 percent was found to be consistent with Nigeria growth; beyond this point inflation will endanger growth. (Richardson et.al..2015)

5) The Group analyzed the investment preferences and saving pattern of the individual household with reference to Pune city. The study resulted that saving and investment are strongly co- integrated and savings are extremely important for investment. (Bairagi and Rastogi 2013)

6)“He evaluated the determinants of saving behaviour in rural and tribal households in India by using a combination of simple and multiple regression models, the results disclosed that the age of the head of the household, sex, dependency ratio, income and medical expenditure were significant factors in influencing the saving behavior in both Urban and Rural Areas. , it was particularly discovered that in the tribal area, dependency ratio and medical expenditure had greater dampening effect on household savings”. (Gedela, 2012)

### **OBJECTIVE OF THE STUDY**

The main objective of this paper is to examine the impact of Inflation on Saving behavior.To make the study more precise, it attempts to show the interrelationship between inflation,

GDP, Investment and Household savings. This relationship can provide a better way to policy makers to make appropriate economic policies to set a smooth path for swift growth of Indian economy.

### **Research Design**

To examine the impact of inflation on GDP, Saving, Secondary data of past ten years have been comprised from various sources.

### **Interrelationship between Inflation and Economic Factors**

Economists also advocate a moderate rate of inflation for economic growth of a nation and 5-6% rate is considered good for an economy. But if this rate goes up, it becomes obstacle in the economic growth of the nation. The present study tries to seek the relationship between inflation, GDP and the related factors, as it is said a moderate rate of inflation has positive impact on growth, investment and direct productive activities.

**Table 1**

<b>Time</b>	<b>GDP</b>	<b>Inflation WPI</b>	<b>Inflation CPI</b>	<b>Savings</b>
2004-05	7.05	6.5	3.9	32.41
2005-06	9.48	4.4	4.2	33.44
2006-07	9.57	6.5	6.8	34.6
2007-08	9.32	4.82	6.2	36.82
2008-09	6.72	8	9.1	32.02
2009-10	8.59	3.6	12.3	33.69
2010-11	8.91	9.6	10.5	34.02
2011-12	6.69	8.8	8.4	31.81
2012-13	4.47	7.4	10.2	31.8
2013-14	4.86	6.5	9.6	30.5

**Table-2**

<b>Time</b>	<b>Savings</b>	<b>Investment</b>	<b>Household savings</b>
2004-05	32.41	32.45	23.1
2005-06	33.44	34.28	23.5
2006-07	34.6	35.87	23.15
2007-08	36.82	38.11	22.42
2008-09	32.02	35.53	23.64
2009-10	33.69	36.3	25.18
2010-11	34.02	36.53	23.51
2011-12	31.81	36.39	22.33
2012-13	31.8	34.7	22.8
2013-14	30.5	35.3	24

*(Sources: CMIE, Economic outlook)*

## **Conclusion**

As economics states that inflation affects different sections of economy differently, few segments are influenced while some are affected adversely. The positive impact of inflation is, it is valuable for makers who play crucial role in an economy. If this section has large gains, results in higher investment, higher production, higher employment and higher growth rate. As the main objective of this paper was to examine the interrelationship between inflation and economic growth, savings, The outcomes of the findings are that the inflation makes the stride of economy growth slower and somehow it affects it negatively. Second, household savings fall but overall savings not. Inflation has positive impact on investments. These findings can have important policy implications. The important conclusion is that any increase in inflation from the previous period negatively affects growth this is why the policymakers should note that any increase in inflation from the previous period at any level has negative effect on economic growth. However, the fact that the common people and the

decision makers do not like inflation has enormous effects on the consumption pattern, which in turn affects the output demanded. Macroeconomic stability and the necessary infrastructure are among the preconditions for sustained growth. Among the ways inflation can affect growth, an important avenue is the effect of inflation on investment. Low or moderate inflation is an indicator of macroeconomic stability and creates a favorable environment for investment.

Nations with moderate rates of inflation have higher growth rates over the long-term compared with countries with high inflation rates. The Indian experience appears to support the above view. In India, government additionally needs to make the effective monetary policy so that inflation could be kept under control and can be monitored. To promote growth and keep inflation at moderate level, the government needs to control budget deficits and spending shortfalls. This can be accomplished by switching public expenditure from consumption to investment, this may be difficult to seek after, particularly in a developing country where shadow economy is existing with a multiparty democracy but this is the urgent need of Indian economy. Indian government should curtail unproductive expenditure, which is cause of high inflation rate and low growth rate. To maintain sustainable growth, government likewise needs to make induced investments to promote new technologies and innovations to increase level of production that can help Indian economy to restart the engine of growth and development.

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