Inflation Unlimited

OIL IS ONLY ONE SOURCE OF inflation. Prices of food products and minerals are rising in tandem. This increase in price was fuelled by the increasing demand from India and China due to their high rates of growth. Indian companies are establishing new factories, which is increasing demand for steel and cement. Foreign investors were making a beeline to invest in Indian share markets. They wanted to profit from the golden future of Indian companies. The Sensex scaled 21,000 on the back of these inflows. The temperature of the Indian economy was already high because of the frenzied activity by Indian companies. It was raised further by inflow of foreign capital. Inflation was not brought under control despite low price of oil because of this pressure of growth.

The two sources of inflation, in addition to oil, were domestic and foreign investments. Accordingly there were two ways of cooling these-curb domestic or foreign investment. But the Congress-led UPA government and their communist and socialist backers are especially fond of foreign investors. Their interests are most important in policy making. Thus the Government curbed domestic investment by raising interest rates while, at the same time, opening the doors wider for foreign investment. The policy had some desirable effect. Domestic investment was dampened. The economic growth rate declined from 10 to about 8 percent. Inflation, which could have reached 15 percent, was held at 11 percent. At the time of writing this article the Government was determined to pursue this path deeper because an 11-percent rate of inflation is still politically unpalatable. Indications are that a further increase in Cash Reserve Ratio is being contemplated by the Reserve Bank which will lead to a parallel increase in domestic interest rates.

The Government's determination to protect the interests of foreign investors is not being fulfilled. The burden of redemption of oil bonds is becoming large. The Reserve Bank has recently increased the daily borrowing limit against these bonds from Rs 1,000 crore to Rs 1,500 crore. Foreign investors are factoring in this future burden here and now. They anticipate a huge increase in the fiscal deficit of the Government in coming years which will derail the growth trajectory of the economy. Foreign investors have started withdrawing as a result and the Sensex has fallen to 14,000. This trend is likely to continue.

Foreign capital is fleeing despite the Government opening its doors wide because the fiscal situation is likeiy to soon deteriorate. And, the Golden Hen of domestic investors has been put into incubator by repeated increase in interest rates. All this because the Government is especially fond of foreign investors and unwilling to put brakes on inflow of that capital.

The combined impact of large domestic and foreign investment would again increase the temperature of the economy and fuel inflation. It was necessary to put brakes on foreign investment while encouraging domestic investment. But interests of foreign investors hold highest priority for the Government hence the Government choked domestic investment instead. In the end the Government has failed on all fronts. Inflation is unabated because subdued domestic investment is yet putting pressure on demand of steel and cement. *[contributed]* □□□