Mirae Asset Mutual Fund
An Investor Education Initiative

How inflation affects You

The rise in the prices of goods and services and, subsequently, the fall in the purchasing power of each rupee is called inflation. As inflation rises, every rupee will buy a lower quantity of goods.

Inflation is one of the main factors that reduce the value of your money over time. It means that the money you have at the beginning of the year will get you lesser goods and services at the end of the year. As the prices of even basic goods go up over time and during periods of high inflation, even if you carry on with your normal life – eating the same food, travelling to the same places, etc. – either you need to buy smaller quantities, cut down on the total items you purchase or end up spending more.

To combat inflation, you must avoid keeping your money idle (in cash) or in your savings account, which offers negligible interest in real terms. Instead, you must invest your money in investment options where the returns from the investments are higher than the inflation rate.

Investing wisely will not only help you to overcome the problem of inflation, it will also help you achieve your financial goals successfully.

Let's understand the impact of inflation on saving and investing with an example. You tend to park all your money in a bank savings account that for example earns 4% interest per annum. Your friend Rahul, on the other hand, invests his money actively and is able to generate an average return of 12% interest per annum. Who do you think will be able to counter the impact of inflation better over a long period? Naturally, Rahul will be far better off than you in terms of dealing with inflation and building wealth.

At the end of the day, who would you rather be? Someone who barely increases the value of your money or the smarter someone who makes smart investment choices and manages to create wealth out of it too? The choice is yours!

Before we end this, a few concepts of inflation must also be reviewed in its alternative forms:

- **Deflation:** When the general level of prices is falling. This is the opposite of inflation.
- **Hyperinflation:** Unusually rapid inflation. In extreme cases, this can lead to the breakdown of a nation's monetary system. One of the most notable periods of hyperinflation occurred in Zimbabwe in the late 1990s and continues to this day. At the peak of hyperinflation, it is reported that Zimbabwe had a 79.6 billion per cent rate of inflation!
- **Stagflation:** The combination of high unemployment and economic stagnation with inflation. This happened in industrialized countries during the 1970s, when a poor economy was combined with rising oil prices.

Key Takeaways

1. Every rupee saved will buy a smaller quantity of a product or service tomorrow, because of inflation (rising prices).
2. Even if you are aiming to simply retain your standard of living, with each passing year, you will be spending more money.
3. Investing is the best tool to help you beat inflation over the long term. It ensures that your money works hard to create even more money and helps you to maintain your standard of living.

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