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Can we ignore inflation?

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On 24 January at the World Economic Forum Meeting (WEF) in Davos, Switzerland, as the IMF boss Lagarde was repeating her warning of the effects of falling prices in southern Europe, disturbing news trickled in: Argentina's high inflation and its currency peso's big fall by 11 percent.

As this is written, more bad news! This time on the Turkish lira and the South African rand

All relate to high inflation in these countries with Argentina's high inflation at 30 percent.

Dr Lagarde had to sound the warning on deflation at WEF meeting in Europe, which is in the doldrums. Europe is growing only by 1 percent this year as compared to US, which is predicted to grow by 2.8 percent. With the US tapering its monetary stimulus, IMF wants Europe to step up demand since the Eurozone inflation is only 0.8 percent, well below the 2 percent target.

Inflation elsewhere

In contrast, inflation is raising its ugly head in other countries.

In Argentina, populist measures and bulging budget deficits, which are funded by monetization have pushed up inflation. It is cheaper to mail order Chinese products delivered at the door step direct from China than those bought at local stores. The resulting trade deficits caused decline in foreign reserves by 30 percent.

It was similar to India's plight last September, when Indian rupee fell by 17 percent. The US dollar appreciated and domestic currency went down in value.

The impact is also similar. Essential imports became more expensive, further fuelling domestic inflation. While Argentina's inflation is 30 percent, India has been struggling with 10 percent inflation.

Before the authorities moved, consumers in Argentina and voters in India acted swiftly.

Last month, Argentina witnessed looting of supermarkets. In India, rise in onion prices from 9 rupees to 100 rupees per kilo cost the major partner of the ruling coalition at the centre losing elections in four states and the capital city of Delhi.

India's inflation

A committee set up by Reserve Bank of India (RBI) on monetary policy framework refers to six continuous years of inflation and its inability to deal with this problem. The reason is apparent lack of autonomy. The central bank was persuaded by government to go soft on monetary tightening.

On Tuesday January 24, the new RBI Governor, Raghuram Rajan, made clear his intention to be independent.

Much to the shock of businessmen and dismay of finance minister, RBI increased the policy indicator rate to 8 percent from 7.75 percent. Known as repo rate, it is the rate at which banks borrow short-term funds from central bank. By monetary tightening, RBI aims at bringing down consumer price index inflation below 8 percent by January 2015 and below 6 per cent by January 2016. The ultimate inflation target is not more than 4 percent.

Rajan voiced the concerns of the common man when he explained the interest rate hike:

"Elevated levels of inflation erode household budgets, and constrict the purchasing power of consumers. This, in turn, discourages investment and weakens growth. High inflation weakens the rupee. Inflation is also a tax that is grossly inequitable, falling hardest on the very poor."

Turkey's currency, the lira fell on January 29 by 16 percent against the US dollar. The reason inflation was 7.4 percent. Turkey's central bank raised its interest rate on overnight loans from 7.75 percent to 12 percent.

Inflation in the Pacific

ANZ monthly report says Fiji's inflation was 3.4 percent in November, driven higher by food and beverages, which increased to 5.5 percent from 5.1 percent in October. Solomon Islands' inflation is the highest at 6.3 percent. The contractionary policies over the last one year contributed to decrease in inflation from 8 percent.

Friday news is that American economy grew at 3.2 percent annual rate in the last quarter of 2013, confirming the expectations that 2014 will be the best year since 2009. The US central bank has decided to reduce its bond purchases by another $10 billion. Therefore, addition to

money supply in February will be US$ 65 billion, down from US$75 billion in January and from US$85 billion each previous month.

Emerging economies would experience another round of currency depreciation, as capital funds would flow back to USA. Already, India, South Africa and Turkey raised their interest rates to fight inflation. Hikes in interest rates will stabilize their economies too.

The Pacific islands are watching.