

# “Sticky” inflation is still a global worry!

■ Dr. T. K. Jayaraman

While major world economies have successfully tackled inflation over the last six months by bringing retail inflation (the monthly consumer price index-based inflation) close to the central bank target rates of 2% with and emerging economies including India’s Reserve Bank of India have achieved some measure of success, all is not well yet.

**Table 1** presents data on world inflation ever since the Covid-19 pandemic receded and recovery looked promising, but cut by

Russia-Ukraine conflict in March 2022, which is still ongoing. The Table reports the success of anti-inflationary measures. The United States (the US) economy brought down the inflation from a high level of 8.30% in April 2022 to 3.20% in February 2024, which however rose though slightly, to 3.50% in the following month, March. Inflation in United Kingdom (UK) decreased from the highest 11.10% in October 2022 to 3.20% in March 2024, yet above the target of 2%. Only the European Central Bank, the common central bank for the Eurozone, was able to come much closer to its target rate of 2%. It brought down the inflation from highest in October 2022 to 2.40% in March 2024.

**India’s inflation: above the target**

In the case of India, inflation was brought down from 7.70% in April 2022 to 4.85% in March 2024. However, it continues to be above the target rate of 4%.

TABLE — 1 : Global Inflation (percent change compared with same month of the previous year) and Interest Rate (percent)									
Year and Month	Brent Crude US\$/barrel	USA Inflation %	USA Interest rate %	UK Inflation %	UK Interest rate %	EuroZone Inflation %	Euro Zone Interest rate %	India Inflation %	India Interest rate %
<b>2022</b>									
April	104.58	8.30	0.50	7.80	0.75	7.44	0.00	7.70	4.00
July	111.93	8.50	2.50	10.10	1.25	8.87	0.50	6.71	4.00
Oct	93.37	7.70	3.25	11.10	2.25	10.62	2.00	6.77	5.90
Dec	86.92	6.50	4.00	10.50	0.04	9.20	2.50	5.72	6.25
<b>2023</b>									
Jan	82.5	6.40	4.25	10.10	3.50	8.64	2.50	6.52	6.25
Feb	82.59	6.00	4.50	10.40	4.00	8.50	3.00	6.44	6.50
March	78.43	5.00	4.75	10.10	4.25	6.88	3.50	5.66	6.50
Apri	84.64	4.90	5.00	8.70	4.25	6.96	3.50	4.70	6.50
May	75.47	4.00	5.00	8.70	4.50	6.10	3.75	4.31	6.50
June	74.84	3.00	5.25	7.90	5.00	5.50	4.00	4.57	6.50
July	80.11	3.20	5.25	6.80	5.00	5.30	4.25	7.40	6.50
Aug	86.15	3.70	5.50	6.70	5.25	5.30	4.25	6.83	6.50
Sept	93.72	3.70	5.50	6.70	5.25	4.30	4.50	5.02	6.50
Oct	90.78	3.20	5.50	4.60	5.25	2.90	4.50	4.87	6.50
Nov	92.90	3.10	5.50	3.90	5.25	2.40	4.50	5.55	6.50
Dec	77.63	3.40	5.50	4.60	5.25	2.90	4.50	5.69	6.50
<b>2024</b>									
Jan	80.12	3.10	5.50	4.00	5.25	2.80	4.50	5.10	6.50
Feb	83.48	3.20	5.50	3.40	5.25	2.60	4.50	5.09	6.50
Mar	85.41	3.50	5.50	3.20	5.25	2.40	4.50	4.85	6.50
26-Apr	87.16	tba	5.50	tba	5.25	tba	4.50	tba	6.50

Notes : tba : Inflation for April will be announced in mid May

This target was agreed to by RBI and central government in August 2016. Though there is a comfort zone, informally agreed to, by a 2% plus margin (that is 6%), RBI Governor has been stressing from time to time that the target rate for the RBI interest rate setting committee, officially known as monetary policy committee (MPC). That has been elusive, because it is the food inflation which has been high all along. That matters most as the Indian economy is primarily agricultural which is dependent on the monsoon. Both food inflation and fuel and related-energy products inflation data are ignored, both being beyond the control of the authorities. Food grains, vegetables and fruits are subject to vagaries of weather; and supply of fuel and other energy products are import dependent with 80% of them severely impacted from time to time by uncertain world prices, often influenced by the whims and fancies of the petroleum crude producers, described as oligarchies, the OPEC and OPEC+ . Changes in prices of both categories are considered transient and transitory, due to their being volatile and unpredictable in nature. The universal practice by central banks is to look at core inflation, which excludes both food and fuel energy inflation. The man on the street does not care for these nicer distinctions between core and other measures: food, fuel and the core. For him the retail inflation, which is the CPI based monthly inflation, covering all final products of consumption matters most. The RBI is intensively aware of the concerns of “aam aadmi”

Food inflation has been stubborn in recent months because of the El-Nino phenomenon, of excessive heat and long dry spell and sometimes unexpected rains and floods during the sowing season and harvesting periods. Food inflation has been close to 9% each month in the new FY (2024-25): 8.30% in January having fallen from 9.53% in December 2023; 8.66% in February, and 8.52% in March and the core inflation has fallen to 3.60% in January, to 3.30% in February, which marginally rose to 3.50%. However, the retail inflation for March is 4.85% is still above the target of 4.85. The April inflation data will be released only in around May 14.

**Are we in the last mile?**

The answer is yes, no doubt! The next question is: can we not relax? That was the question raised by an external, non-official member of MPC, Professor Jayanth Varma of Indian Institute of Management, Ahmedabad.

In the Minutes (released on April 19) of the RBI’s MPC first bimonthly meeting (April 3-5) for FY 2024-25 we find the lone, dissenting note by Professor Varma. He voted in favour of reduction in the policy REPO rate by 25 basis points. He also wanted a change in the monetary policy stance to “neutral”. He thus differed from the otherwise unanimous decision by MPC which was to stick to at the tightening measure at 6.50%. This rate would stay until MPC meets next in June. The REPO rate serves the economy, as a lighthouse “signal” to all economic agents. The RBI Governor stressed the need

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to ensure that inflation progressively aligns to the target, while supporting growth.

“RBI would continue to be actively disinflationary to ensure anchoring of inflation expectations and fuller transmission. The MPC will remain resolute in its commitment to aligning inflation to the target. The MPC believes that durable price stability would set strong foundations for a period of high growth”, the Governor added.

The first of the two biennial Meetings of IMF and the World Bank, which is usually called the annual Spring Meeting was held on April 17-19. It was attended by Finance ministers and central banks of member countries of the two institutions. It ended on a sober note of warning: “Sticky’ inflation is still a global worry”. There are two factors: The new war in the Middle East, between Israel and Iran, in addition to the seemingly endless Ukraine-Russian conflict, and inflationary impact of expenditures now being incurred by several (80 plus)\_ countries, which are now going through elections. Global inflation will be tough to face as they would arise from sources: rise in commodity prices including petroleum crude, caused by new factors including disruption to trade; rising cost of labour and public debt.

**The IMF’s Word Economic Outlook**

The IMF Spring 2024 Report has advised its member countries thus: “Central banks should avoid easing monetary policy prematurely and push back as appropriate against overly optimistic market expectations for policy rate cuts. Where progress on disinflation is enough to suggest inflation is moving sustainably toward the target, central banks should gradually move to a more neutral stance of policy.”

Governor Shaktikanta Das, a retired member of IAS with long years of service in Tamil Nadu districts, before moving to policy making positions would be familiar with the Tamil poet-saint Avvaiyar of 12th century.

Avvaiyar in her Kondrai Vendhan (verse 68) wrote:

“*Paiya chendraal, vaiyyam thaangum*”.

It means: “If you go slow, the world will bear it” ■



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