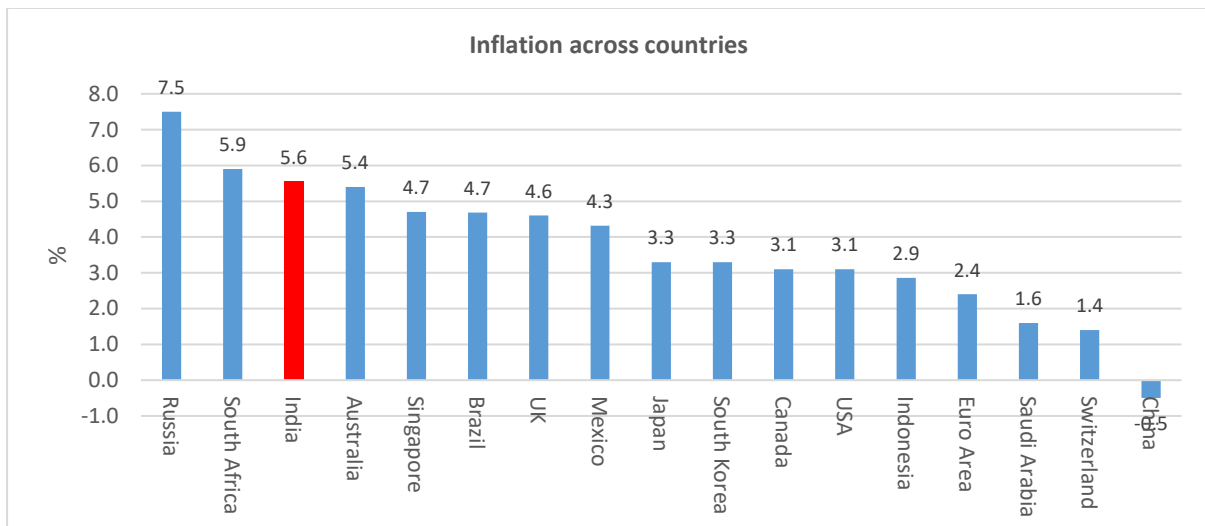


How does inflation compare across countries?

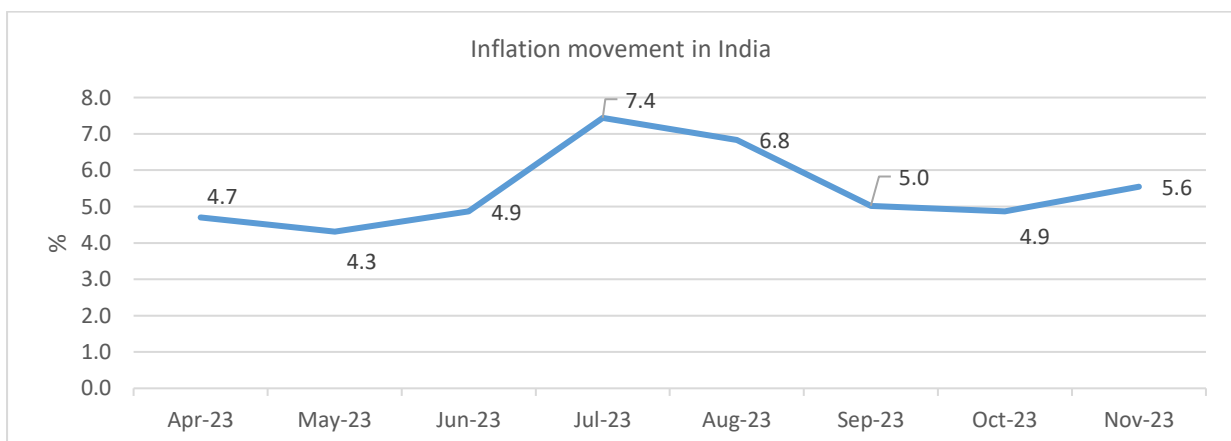
Inflation in India came in at 5.6% for November which is likely to remain high even in December due to higher food prices. There is however a lot of comfort drawn from the rather stable core inflation numbers in the last few months which is more susceptible to demand side forces and, in turn, can be controlled by monetary policy. However, food inflation is driven more by supply side pressures where shortfalls in production do manifest in higher prices. While inflation of 5.6% is definitely higher than the RBI target of 4% but within the band of 2%, how does this compare across other countries?

The inflation numbers for different countries is provided in the chart below as per the latest availability which varies between September and November. Inflation in India does appear to be on the higher side at 5.6% compared with most other nations. Argentina and Turkey are excluded due to extreme inflation numbers of 143% and 62% respectively.



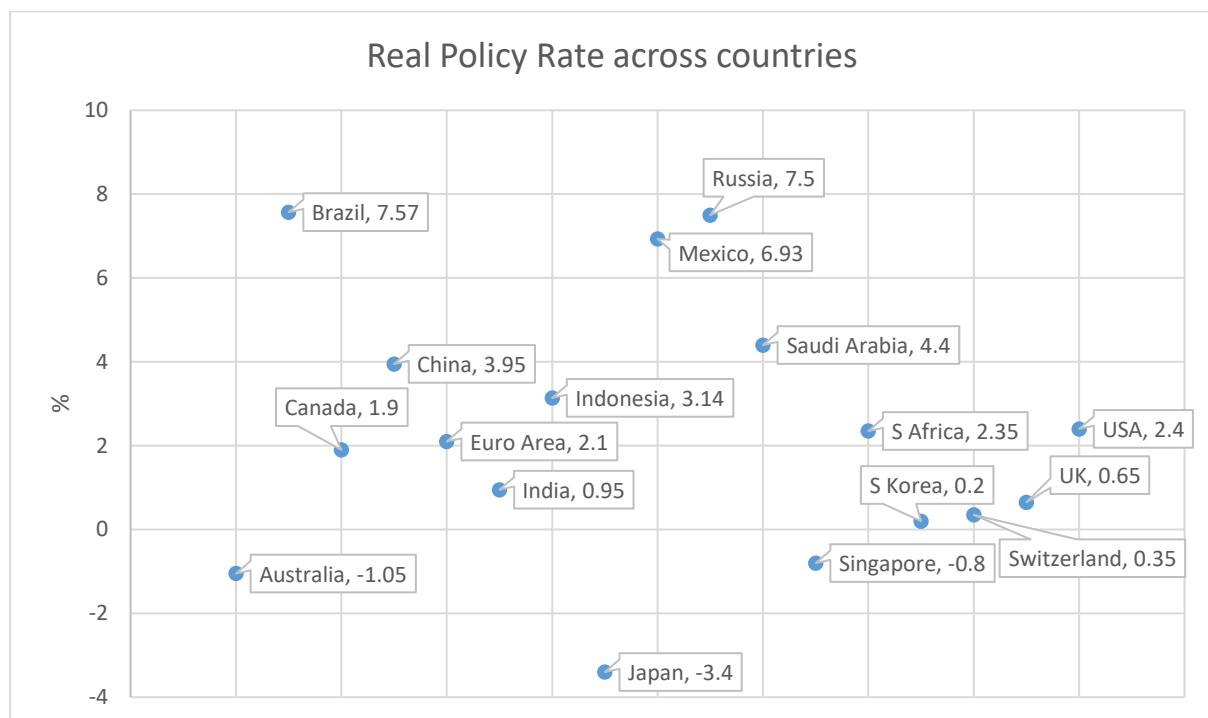
Source: Trading Economics

It should be pointed out that inflation in India has been volatile as it is driven by food prices and hence shown differing tendencies every month. This is depicted in the chart below; and as can be seen there was a declining trend for three months till October.



From a policy perspective often one does talk of the real rate. Hence if the policy rate in India, which is the repo rate, is at 6.5%, the real policy rate for the latest month would stand at 0.9%. The Chart below compares the real policy rate across this set of countries to give an idea of where countries are placed.

It should be remembered that this year, policy rates have been driven by rather unusual circumstances across countries which are based on targeting a certain inflation rate on a sustained basis. Also with inflation rates not following a linear path when there is higher weight for food products, there is tendency for real policy rates to show similar movements in the opposite direction. Therefore, central banks do take a more nuanced view of inflation, looking not just at the past but also future when arriving at a decision on rates.

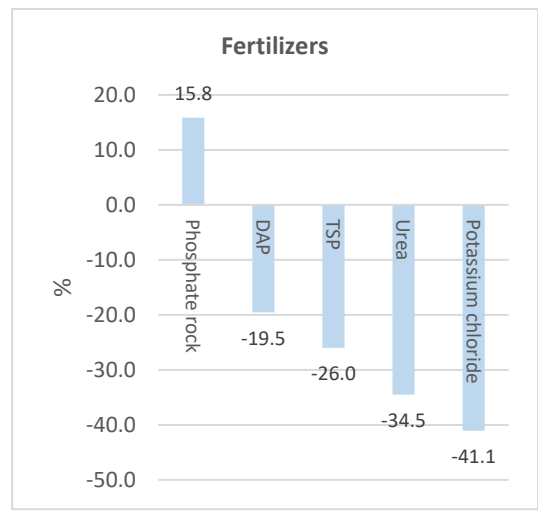
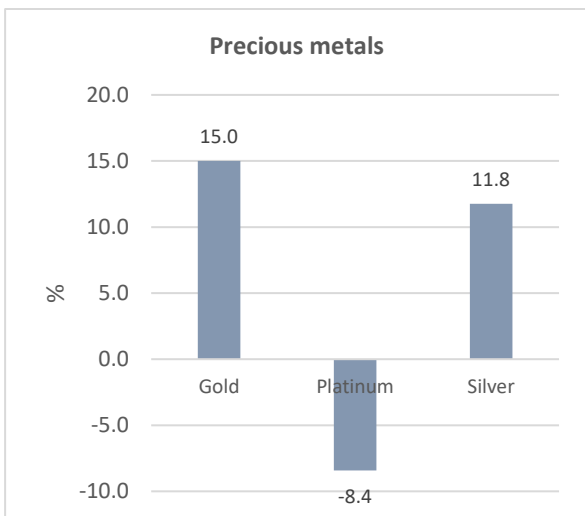
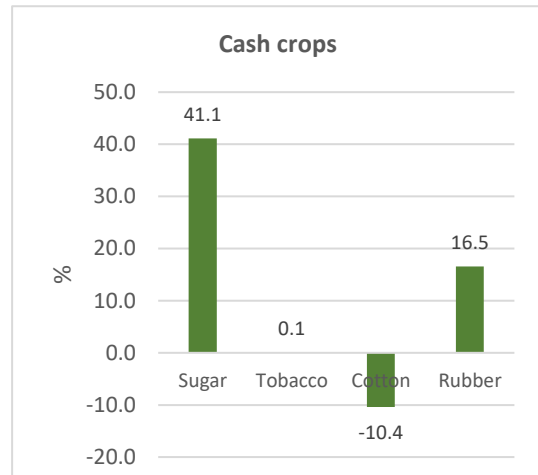
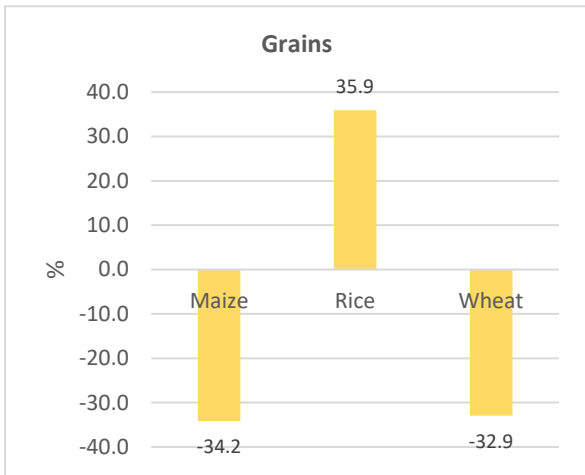
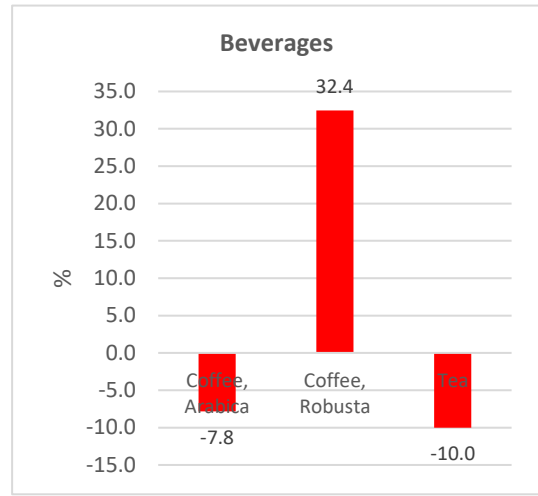
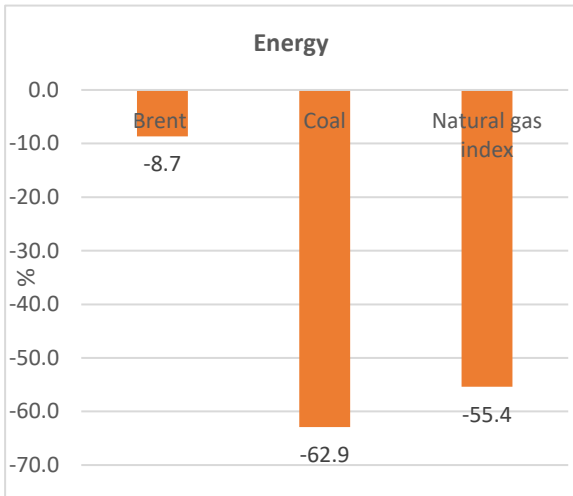


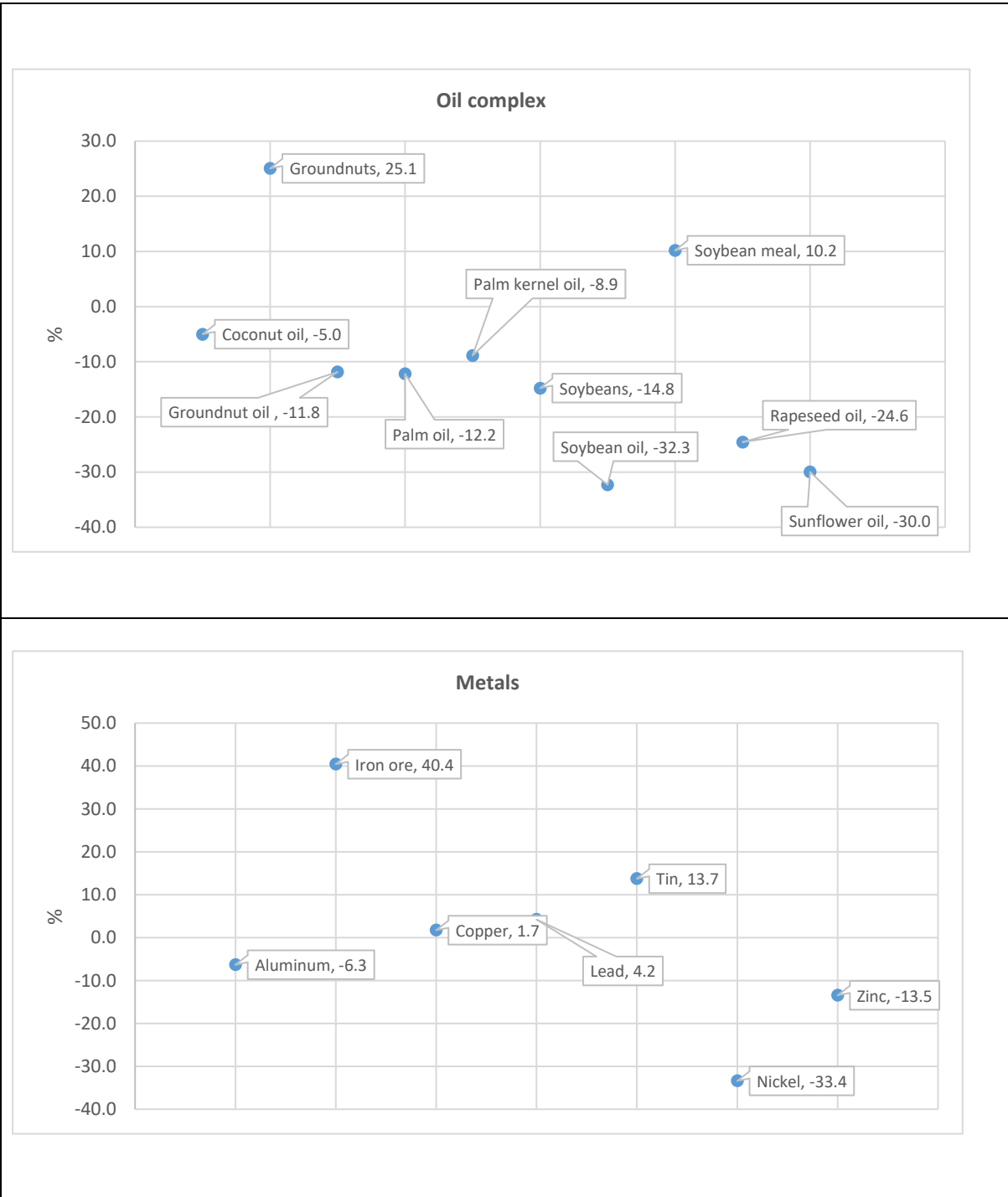
Source: Trading Economics

The chart above is only indicative and can change drastically if inflation numbers move down sharply which is possible given the idiosyncratic nature of food prices. For example in India's case with repo rate unchanged at 6.5% the real repo rate would have been -0.9% in July, -0.3% in August, 1.5% in September and 1.6% in October. Therefore the number of 0.9% in November is very different from the past due to volatile inflation numbers.

Movement in global commodity prices

In this context it would be interesting to see how commodity prices have shaped up over the last year. World Bank prices are used here for different categories of goods which is presented in the charts below. The period chosen is November 2023 over November 2022.





The overall picture is quite varied: energy is down, metals equally distributed, oils down, fertilizers down, precious metals up, beverages and grains generally down with rice being an exception. Evidently the driving factors are quite different.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

sonal.badhan@bankofbaroda.com