

## INFLATION – THE ECONOMIC DEMON



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### FROM THE DESK OF CHAIRMAN

*At the outset, let me wish you all a very happy and prosperous new Vikram Samvat Year 2079. I am sure, after a gap of two years, this Diwali festival was economically and emotionally rewarding.*

*In the aftermath of COVID 19 pandemic, economic and other effects of which are still lingering on, and further ongoing and stretched war between Russia and Ukraine, are having its toll on economies of the countries individually and of the world collectively. Of course the reasons of high inflation in each country vary, global high inflation trends emanate from common causes.*

One major impact of the war has is increase in the crude oil prices, which in effect resulted in the inflation world over. Though the crude oil prices recently have come down, the same are in higher bracket if we consider last 5 year scenario. Apart from war various other factors impacted high inflation rate world over (e.g. USA printed more currency during COVID times to provide monetary support to its citizens, and so on). Most of the European countries, including UK, are facing double digit inflation rate. The biggest economy i.e. USA is facing inflation rate of more than 8%. High inflationary trends are also seen in most countries of Asia and Africa. In short world is reeling under inflationary pressure.

To put the facts in perspective, consider this data:

- (1) Belgium's annual inflation rate accelerated for the third straight month to 12.27% in October 2022, from 11.27% percent in September. It was the highest reading since June of 1975, mainly due to soaring prices of housing & utilities (33.91% vs. 31.51% in September), amid skyrocketing energy costs. Prices also continued to climb for food & non-alcoholic beverages (12.92% vs. 10.75%) and transportation (10.69% vs. 10.58%). On a monthly basis, consumer prices inched up by 2.37%.
- (2) The annual inflation rate in Portugal is likely to increase to 10.2 percent in October of 2022, the highest since May 1992, compared to 9.3 percent in September, preliminary estimates showed. Energy prices surged 27.6 percent, driven by gas prices, while food costs jumped 18.9 percent, the most since June 1990. Consumer prices were up 1.3 percent compared to the previous month, following a 1.2 percent gain in September.
- (3) The annual inflation rate in Italy rose to 11.9 percent in October of 2022, the highest in over 38 years, picking up from 8.9 percent in the previous month and soaring past expectations of 9.6 percent, according to preliminary estimates. The acceleration in consumer prices was mainly attributed to higher prices of energy (73.2 percent vs. 44.5 percent in September), due to the large premium that Italy pays to source energy from sources other than Russia.

- (4) Annual inflation rate in France accelerated for the first time in three months to 6.2% in October of 2022, the highest since June of 1985, from 5.6% in September. Figures came higher than market expectations of 5.7%, preliminary estimates showed. Prices of energy (19.2% vs. 17.9%), food (11.8% vs. 9.9%) and manufactured products (4.2% vs. 3.6%) accelerated
- (5) Germany's consumer price inflation rose further to 10.4 percent year-on-year in October 2022, a new all-time high and above market expectations of 10.1 percent, lifted by euro weakness, a deepening energy crisis and the continuing supply chain interruptions.
- (6) USA's inflation rate is highest in last 25 years and way above its normal range of 2-4%.
- (7) The annual inflation rate in Japan was at 3.0% in September 2022, unchanged from August's near 8-year high figure, amid high prices of food and raw materials as well as yen weakness. Main upward pressure came from cost of food (4.2% vs. 4.7% in August); fuel, light and water charges (14.9% vs. 15.6%), mainly electricity (21.5% vs. 21.5%) and gas (19.4% vs. 20.1%).

It can be seen that the inflation rates are very high and paint a gloomy picture. Many smaller countries are facing economic turmoil due to very high inflation rates and in turn are facing social, political unrest.

These high inflationary pressures can result in compelling central banks to hike interest rates aggressively, which can in turn result in further higher inflation and slowing of economy leading to various other issues like reduction of purchasing power, increase in unemployment (though in short term unemployment may get reduced), high cost of finance, higher property rates, rise in inequality etc. and may ultimately cause painful recession. Only strong and willing governments will be able to provide sustainable economic solutions to this problem. We have already witnessed social and economic unrest followed by economic turmoil, mainly caused by hyper inflation in many countries recently, such as Sri Lanka, Venezuela, etc. Even UK faced political upsets due to its economic woes and saw three prime ministers in less than two months. Main factors which have been impacted are decline in per capita income (mainly in emerging market economies), increase in commodity prices alongside rising global demand, increase in food prices, and so on.

We are aware that reasonable inflation is sign of economic development and growth, however, high inflation can eat into itself and make lives of people very painful. No country can be indifferent to economic woes in other part of the world. However, sensible economic decisions by stable governments, sound monetary policies by central bank scan only make this journey through economic cycle lesser painful and help people sustain their businesses, etc. Good news is that it is believed that the global inflation may have peaked and forecast suggests that in next couple of years inflation will ease considerably. Let us hope that lowering of inflation in future is not result of recession.

Let us pray that New Year brings better economic conditions and economic demons are dealt with strongly and sensibly by the Governments world over.

*Thank you all..... Always in Gratitude*

*CA Ketan Rambhia*

