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Exploring Inflation Trends Across SAARC Nations

The economic instability prevalent in numerous SAARC countries, notably Pakistan, Sri Lanka, and Bangladesh, has led to a multitude of economic challenges, compelling them to seek bailout packages from entities like the IMF and other international donors. Pakistan, in particular, grapples with a range of economic issues, including budget and current account deficits, a persistent trade imbalance, an unstable currency, escalating inflation, and a mounting debt burden, all amidst a backdrop of political uncertainty. This article aims to examine the trends in inflation across SAARC countries.

Inflation rate in SAARC Countries (Year-On-Year Basis change)

	Dec-23	Nov-23
Bangladesh	9.41%	9.49%
Bhutan	4.99%	4.60%
India	5.69%	5.55%
Maldives	2.00%	2.10%
Nepal	4.95%	5.38%
Pakistan	29.66%	29.20%
Sri Lanka	4.00%	3.40%

Note: Afghanistan has been excluded due to data unavailability

PAKISTAN

According to the IMF (2023), the year-on-year inflation rate in 2023 surged to 29.18% from 12.15% in 2022. On a month-on-month basis, the inflation rate increased to 1.8% in January 2024, compared to an increase of 0.8% in the previous month and 2.9% in January 2023. In fact, inflation has surged due to government measures mandated by the IMF, resulting in elevated prices for essential items. Currently, the inflation rate stands at approximately 30%, with a significant portion, around 40%, of the population living below the poverty line. The debt-to-GDP ratio has reached 72%, and forecasts indicate that inflation will persist at higher levels, primarily fueled by increased food prices. Notably, the State Bank has revised its projected inflation for the upcoming fiscal year to a range of 23% to 25%, compared to the earlier estimate of 20% to 22%. January 2024 witnessed a year-on-year inflation figure of 28.3%.

BANGLADESH

According to the Central Bank of Bangladesh, the year-on-year inflation rate in November 2023 was 9.49%. In December 2023, it slightly decreased to 9.41%, indicating a marginal decline in the level of inflation. According to the IMF's projections, Bangladesh's inflation rate is expected to decrease by 7.9%. The fluctuation in Bangladesh's inflation rate was attributed to the Russia-Ukraine war, which led to an increase in commodity prices. The government of Bangladesh is currently implementing various reforms to reduce inflation. These include reducing administrative and operational costs, as well as improving the efficiency of institutions such as the National Board of Revenue. These efforts are likely to contribute to a decrease in the inflation rate.

BHUTAN

In Bhutan, inflation rate in November 2023 was 4.60% and in December 2023 it was 4.99%. As per the projection of IMF, Bhutan is expected to experience decrease in rate of inflation i.e. 4.4% in 2024. The observed fluctuation in inflation rate was attributed to uneven rainfall distribution and disruption which increased the prices of vegetables. Also, oil prices increased because of the recent Israel-Palestine crisis on October 7 which influenced the inflation rate within the country.

INDIA

In the case of India, the year-on-year inflation rate for November 2023 was 5.55%, increasing to 5.69% in December 2023. According to the IMF, India's inflation rate is expected to reduce to 4.6% in 2024. To combat inflation, the Reserve Bank of India has withdrawn accommodative measures and raised the policy interest rate. Furthermore, the financial sector in India is relatively strong compared to other SAARC countries due to improvements in asset quality and robust credit growth in the private sector.

MALDIVES

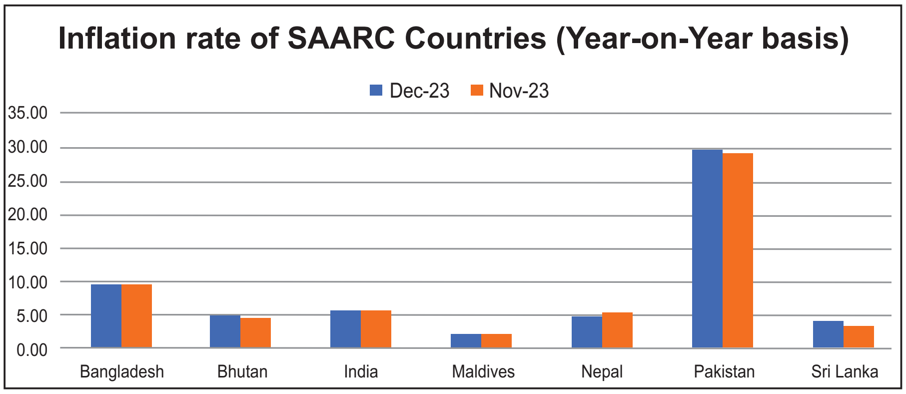
Maldives also experienced a slight fluctuation in the inflation rate, decreasing from 2.1% in November 2023 to 2.0% in December 2023. However, according to IMF projections, the inflation rate in Maldives is expected to rise to 2.8% in 2024. The observed increase in Maldives' inflation rate could be attributed to higher commodity prices, with a constant rise in the prices of food, healthcare, energy, and transportation exerting inflationary pressure on the economy.

NEPAL

In the case of Nepal, the year-on-year inflation rate was 5.38% in November 2023, which decreased to 4.95% in December 2023. However, in January 2024, the inflation rate in Nepal increased to 5.26% due to a rise in commodity and oil prices, coupled with the depreciation of the Nepali rupee against the US Dollar.

SRI LANKA

Sri Lanka also experienced an increase in the year-on-year inflation rate. In November 2023, the inflation was 3.4%, which then rose to 4% in December 2023. Subsequently, in January 2024, the inflation rate surged to 6.4%, as reported by the Central Bank of Sri Lanka. This increase in inflation rate was primarily attributed to the rise in property prices and essential commodities such as water, electricity, and clothing.



Inflation Rate Trend Analysis

As evident, the inflation patterns among SAARC countries, including Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, display diversity owing to variations in economic policies, regulatory frameworks, economic structures, and external factors. Despite these differences, some commonalities and trends can be discerned across the region. Typically, these economies witness fluctuations in inflation rates. The analysis of inflation rates categorizes SAARC countries into two groups: (i) those experiencing an increasing trend in inflation and (ii) those witnessing a decreasing trend in inflation.

(i) Increasing Trend of Inflation

While some countries, including Pakistan, Sri Lanka, India, and Bhutan, are grappling with an increase in inflation, several factors contribute to these fluctuations. Supply-side constraints, movements in the forex market, domestic demand, and global commodity prices are key drivers of these trends.

For example, Pakistan's inflation surged due to a heavy reliance on imported commodities like pulses, wheat, edible oil, tea, and other agricultural inputs, leading to a shortage in domestic production. The cost of imported food escalated to 8 billion USD, and the import of wheat from Russia and Ukraine further contributed to the rise in domestic prices. In essence, Pakistan is currently experiencing demand-pull inflation.

In Sri Lanka, elements such as crude oil prices, exchange rates, and rice prices have influenced inflation in the short run, emerging as significant challenges for the Sri Lankan economy.

Similarly, India and Bhutan are facing comparable situations influenced by various factors, with the prime cause being the increase in commodity prices due to the Russia-Ukraine war. However, these economies are actively working on implementing reforms and policies to control inflation. As a result, the IMF has projected a decrease in the inflation rates of these economies in the near future.

(ii) Decreasing Trend of Inflation

The remaining countries, namely Bangladesh, Maldives, and Nepal, have successfully managed to reduce their inflation rates. In Bangladesh, the government has provided support to vulnerable groups through "social safety net programs." Additionally, essential food items like rice, sugar, edible oil, and lentils are made available to the public at affordable prices through Open Market Sales. These initiatives have played a crucial role in helping the economy withstand the economic volatilities experienced by the country.

Maldives has maintained a stable inflation rate compared to other regional countries, attributed to the affordability of food and energy imports. The country has also implemented a gradual reduction in public spending in favor of households. Policy-based controls on electricity prices and staple foods further contribute to the sustained low inflation in Maldives.

Similarly, Nepal has successfully reduced its inflation rate through strategic measures. The government imposed import bans on 10 goods, including potato chips, alcoholic beverages, cigarettes, and mobile phones valued at over US$600, which helped maintain forex reserves for currency and price stability. Government measures have primarily focused on controlling fuel prices to further reduce the inflation rate within the country.

Conclusion

In conclusion, a comprehensive analysis of the inflation trends within SAARC countries is crucial for informing policymakers in the development and implementation of effective macro-economic policies to address socio-economic challenges. Enhancing policy coordination and implementing structural reforms are essential for reducing external vulnerabilities, serving as a means to mitigate inflationary pressures. Furthermore, fostering regional collaboration and advocating for inclusive growth within the SAARC region is imperative. This collaborative approach, involving economists and governments, is vital for building resilience and promoting sustainable economic development across SAARC countries.