Inflation Change

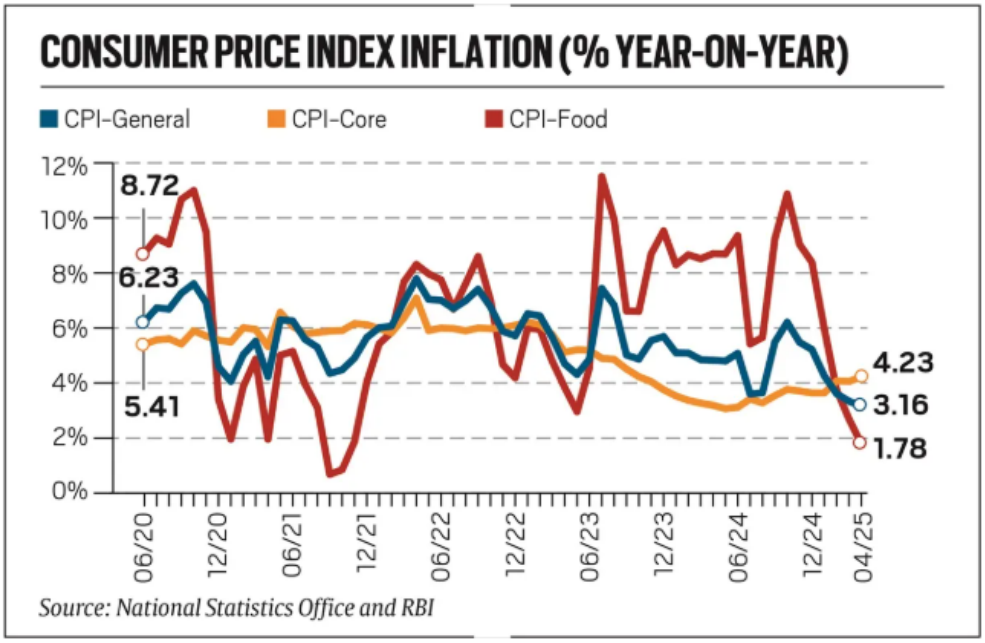
Mains Syllabus – GS III - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment

Why in News?

For the past 2 months India's inflation indices were making turn around from the past 2-year trend.

What is the recent trend in inflation movement?

- **Past 2 Years Average Inflation** - Between February 2023 and January 2025, the average inflation based on the official consumer price index (CPI) was 5.2% year-on-year.
- **Core Inflation Trend** - Core inflation rate which excludes food and fuel energy items from the CPI to compute the annual price increase – was only 4.1%.
- **Food Inflation Trend** - It was even higher, at 7.6%, for the consumer food price index (CFPI).
- **Recent Turn around of Indices** - CFPI inflation has declined to 1.8% in April 2025, lowest since October 2021 and the headline inflation to 3.2%, the lowest since July 2019.
- On the other hand, core inflation, at 4.2% has increased to its highest since September 2023.



Year	Average Inflation Rate	Annual Change
2025	3.34 (March)	-0.27%
2024	5.22 (December)	+0.13%
2024	5.09 (February)	-0.4%
2023	5.49	-1.21%
2022	6.7%	1.57%
2021	5.13%	-1.49%
2020	6.62%	2.89%
2019	3.73%	-0.21%
2018	3.94%	0.61%
2017	3.33%	-1.62%
2016	4.95%	0.04%

Components of CPI

1. Food and beverages

1.1.01	Cereals and products
1.1.02	Meat and fish
1.1.03	Egg
1.1.04	Milk and products
1.1.05	Oils and fats
1.1.06	Fruits
1.1.07	Vegetables
1.1.08	Pulses and products
1.1.09	Sugar and Confectionery
1.1.10	Spices
1.2.11	Non-alcoholic beverages
1.1.12	Prepared meals, snacks, sweets etc.

2. Pan, tobacco and intoxicants

3. Clothing and footwear
4. Housing
5. Fuel & Light
6. Miscellaneous

6.1.01	Household goods and services
6.1.02	Health
6.1.03	Transport and communication
6.1.04	Recreation and amusement
6.1.05	Education
6.1.06	Personal care and effects

Consumer Food Prices Inflation (CFPI) - Out of 12 sub-groups contained in 'Food and Beverages' group, CFPI is based on ten sub-groups, excluding 'Non-alcoholic beverages' and 'Prepared meals, snacks, sweets etc.'.

What are the reasons for the recent trend in inflation movement?

- **Geopolitical developments** - Russia's invasion of Ukraine in late-February 2022 pushed up international agri-commodity prices.
- The UN Food and Agriculture Organization's (FAO) world food price index (base value: 2014-16=100) soared to an all-time-high of 160.2 points in March 2022.
- **El Nino** - The long and strong El Niño of 2023-24 did translate into subpar monsoon, post-monsoon and winter rains.
- It was accompanied by a delayed and short winter, culminating in heat waves from the second half of March to June 2024.
- The effects, in terms of lower crop production and elevated food prices, were felt from July 2023 through the whole of 2024.
- **Oil Prices –** The brent crude is trading at just over $65 per dollar, as against $75 three months ago and $83 last year at this time.
- Value of Rupee - Three months back, the rupee was in free fall, touching an all-time-low of 87.99 to the dollar on February 10.



- **Changes in Forex** - India's official foreign exchange reserves plunged from $704.89 billion to $623.98 billion between September 27 and January 17.
- **Outgoing FDI –** The recent government change in the USA caused a net pullout of about $22 billion by foreign portfolio investors (FPI) from India's equity and debt markets during October 2024-February 2025.
- The sweeping "reciprocal tariff" actions of US led to further outflows of $2.34 billion in April.

What are the challenges in controlling inflation?

- **Volatile Nature of Food & Fuel Inflation** – Food and fuel inflation are largely driven by supply-side factors – such as rainfall, temperature and other weather-related phenomena affecting crop output.
- Due to the volatile nature, monetary policy cannot effectively address, as interest rates primarily work by influencing borrowing costs and aggregate demand in the economy.
- **Balancing Economic Growth** - Tightening monetary policy to curb inflation can hinder economic growth and investment.

- **Supply Chain Disruptions** - Frequent interruptions in supply chains due to geopolitical conflicts, natural disasters, or pandemics can lead to supply-side inflation.
- **Climate Forecasting Challenges** - Accurately forecasting inflation is difficult, and errors in forecasting can lead to inappropriate monetary policy decisions.

What lies ahead?

- A stable rupee, disinflationary pressures from Chinese imports, soft global oil and commodity prices, and the improved domestic food supply position should make it easy for the RBI to further cut rates in its upcoming monetary policy reviews.

References

[The Indian Express | The ‘core’ of inflation]

