



DOHA DATELINE
Dr R. Seetharaman

Global challenge: Deflation or inflation or stagflation?

Various central banks to determine their actions based on trends

THE CORE INFLATION in US was at 1.8 per cent in October 2014, below Fed's annual target of two per cent. This indicates that the accelerating US economy is driving job and demand growth and stimulating price pressures. The recent minutes of Fed showed that most policymakers expect inflation will edge lower in the near term and subsequently move towards its target. But there was a bit of concern over falling market-based inflation expectations, with some officials saying they should be monitored for signs of "a possible downward shift in longer-term inflation expectations".

In UK the inflation rate stayed below the Bank of England (BoE) target of two per cent since January 2014. The consumer prices rose 1.3 per cent in October from a year ago and this has raised a concern that monetary policy makers have difficulty in raising interest rates soon.

In eurozone inflation rate was 0.3 per cent for November 2014, below European Central Bank's (ECB) inflation target of two per cent.

However, with the inflation rate not picking up together with sluggish growth, has put ECB under pressure to step up its stimulus measures. Inflation so close to zero is dangerous because it makes it harder to repay public and private debt, and impedes economic growth. Slowing growth and deflation are going to be major challenge for eurozone.

In Japan consumer prices excluding food increased 2.9 per cent in October from a year earlier. Excluding the effect of April's sales-tax increase, core inflation, the Bank of Japan's (BoJ) key measure, was 0.9 per cent. The BoJ, embarked on a programme of quantitative easing to revive economic growth and aimed to get inflation up to a two per cent target. However, its actions have not given the desired results. Japan fell in recession in the third quarter of 2014. The weak growth follows an increase in the country's consumption tax in April from five per cent to eight per cent, which attribute as a leading cause of the recession.

Recently People's Bank of China (PBOC) cut 40 basis points to the one-year lending rate to 5.6 per cent and 25 basis points to the one-year saving rate to 2.75 per cent. China's consumer price index (CPI), a main gauge of inflation, grew 1.6 per cent year on year in October 2014. The inflation index was the lowest since January 2010. The PBOC is ready to cut interest rates again and also loosen lending restrictions, concerned that falling prices could trigger a surge in debt defaults, business failures and job losses. China's economic growth has slowed to 7.3 per cent in the third quarter and



A pedestrian walking past an apparel shop in Tokyo. Japan's consumer prices excluding food increased 2.9 per cent in October from a year earlier. Excluding the effect of April's sales-tax increase, core inflation was 0.9 per cent. — AFP

When will Brazil, Russia or India come out of stagflation?

policymakers feared it was on the verge of dipping below seven per cent — a rate not seen since the global financial crisis.

In Russia the annual inflation in September and October had increased more rapidly than expected, reaching 8.4 per cent in Oct 2015. Russia Central Bank expected inflation to remain above eight per cent until the end of the first quarter of 2015. The bank said that higher inflation was the result of the weaker rouble, as well as Russian counter-sanctions which have banned the import of many Western food products. Further weakening of rouble can keep inflation high and slow growth. The Brazil central bank has a mandate to keep annual inflation at 4.5 per cent, but Brazil's consumer price index rose in September to 6.75 per cent, outside the bank's tolerance range of 2.5 per cent to 6.5 per cent. By end of October 2014 Brazil's central bank unexpectedly raised its benchmark interest rate amid slow economic growth and concern about the country's weakening

currency and to slowdown prices. India, which has long tried to rein in inflation, consumer prices in October rose at 5.5 per cent on year, down from double digits a year ago. However, RBI has kept the policy rate steady in December 2014 and has stated if the current inflation momentum and changes in inflationary expectations continue, a change in the monetary policy stance is likely early next year.

In South Korea with inflation below two per cent, the Bank of Korea reduced interest rates in October 2014 after an earlier cut in August 2014. Indonesia recently lifted interest rates to help soften the inflationary impact of higher subsidised fuel prices, while Malaysia and the Philippines have both raised rates in the past six months.

The inflation rate in Saudi Arabia was recorded at 2.60 per cent in October of 2014, as against 2.8 per cent in September 2014. Inflation in the UAE rose in October on increase in food and beverages and slight increase in housing. Consumer Price Index (CPI) for the year ended October climbed to 3.11 per cent from a prior of 2.91 per cent. The annual rate of inflation in Oman stood at 1.02 per cent in October 2014, as against 0.86 per cent in September 2014. The

inflation rate in Bahrain was recorded at 2.60 per cent in October 2014, as against 2.5 per cent in September 2014. The inflation rate in Qatar was at three per cent in October 2014 and had fallen from 3.6 per cent in September 2014 due to declining food prices. Inflation in Kuwait was at 3.16 per cent in September 2014. However, GCC central banks' actions are mainly driven by action of US Federal Reserve.

The inflation trends in economies have an impact on actions of various central banks. Is their concern of deflation in advanced economies such as eurozone or Japan or in emerging economies such as China apart from growth challenges? Is their a concern of inflation struggling to rise in countries such as USA or England along with economic growth? When will Brazil, Russia or India come out of stagflation? Various central banks will determine their actions based on inflation trends and economic growth trends. So the major challenge to global economic recovery — is it deflation or inflation or stagflation?

The writer is the group chief executive officer at Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.