EPH - International Journal of Business & Management Science
ISSN (Online): 2208-2204
Volume 10 Issue 01 October
2024 DOI: 10.53555/eijbms.v10i1.191

INVESTIGATE THE STRATEGIES THAT EMERGENT ECONOMIES ARE EMPLOYING TO ADDRESS THE ESCALATING PRICES THAT HAVE RESULTED FROM GLOBAL SUPPLY CHAIN DISRUPTIONS AND CENTRAL BANK INTERVENTIONS.

Aarna Kapoor[1*]

[1*]*The Shri Ram School Aravali, grade 11,*
aarna.k23@gmail.com

**Corresponding Author*
**Email ID: aarna.k23@gmail.com*

Introduction

In the aftermath of the pandemic, both advanced and emergent economies have experienced an increase in price levels in recent years. The imbalance between the supply and demand sectors is the likely cause of the spike. The supply chain has been significantly impacted by the pandemic and the conflicts in Eastern Europe. Disruptions in global supply networks were the consequence of the majority of production and distribution activities being disrupted during the pandemic. Developed nations implemented excessive expansionary fiscal policies during the pandemic, which contributed to the increase in prices.

The monetary authorities were confronted with a challenge in 2021 and 2022 as a result of the significant increase in prices. This challenge tested the reliability of their policy frameworks and their commitment to maintaining price stability. "Inflation in numerous countries reached levels that had not been observed in over four decades." The majority of monetary authorities, particularly those in advanced economies, delayed making policy adjustments until they were certain that the downside risks had diminished. Consequently, the delayed response necessitated a much faster and more substantial increase in interest rates than had been observed in decades. Additionally, the monetary authorities were compelled to act promptly in order to reduce their balance sheets. Nevertheless, this abrupt, aggressive, and multifaceted contraction resulted in the development of new risks related to the sustainability of fiscal positions and financial stability. It also presented obstacles for households and businesses that were caught off guard by the sudden rise in financing costs (Ubide et al, 2024).

Several interconnected factors, such as persistent global supply chain disruptions and interest rate increases by monetary authorities of advanced economies, contributed to the intensification of rising price in emerging economies. "The sharp tightening of monetary policy in advanced economies, particularly the United States, has frequently resulted in financial stress or even crises in emerging markets." Global investors have typically withdrew rapidly when AE interest rates have increased due to the increased credit and currency risks in EMs (IMF, 2023). Currency stability, interest rates, and capital flows in emerging economies are influenced by central bank policy adjustments in advanced economies, particularly the United States.

Purpose of the study

This study investigates the methods that emergent economies are employing to address the increasing price levels in the intricate economic environment of the present day. The initial segment, "Emerging Economies' Stable Performance amid Rising Rates," investigates the resilience of these economies, emphasising their ability to preserve stability in the face of increasing global interest rates. The second section, Policy Responses to Tackle Inflation – Monetary and Fiscal, examines the specific measures implemented by governments and monetary authorities, such as rate adjustments and targeted fiscal policies. The article then proceeds to present Case Studies on Inflation in India and Indonesia, which offer practical examples of how various emerging markets are coping with the increasing price pressures. The Role of Regional and Global Collaboration section subsequently examines the ways in which international institutions and partnerships, such as those with the IMF, assist these economies in managing their increasing price levels. Lastly, the Future Outlook for Emerging Economies provides a glimpse into the potential obstacles and strategies that are on the horizon for maintaining economic stability in the presence of global uncertainties.

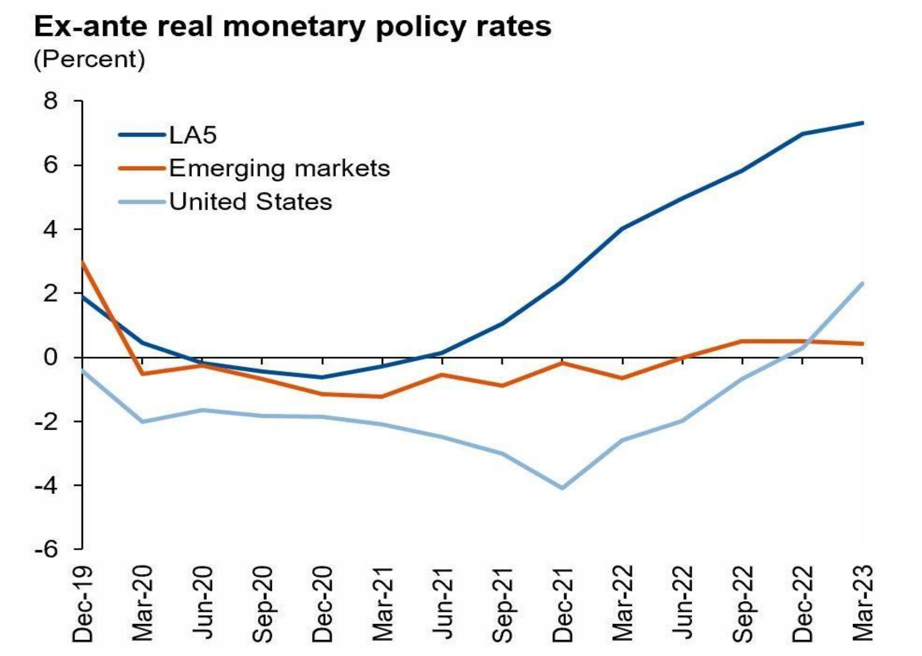
The Stable Performance of Emerging Economies in the Face of Rising Rates

In 2022, the rates of inflation in advanced and developing economies reached their greatest levels in more than a decade.

In 2022, the global price level increased sharply, surpassing 9 percent. Supply bottlenecks, the discharge of post-pandemic pent-up demand, and high commodity prices in the aftermath of Russia's invasion of Ukraine were among the factors that contributed to this development.

Due to the aforementioned factors, advanced economies implemented tighter monetary policies to mitigate the increase in prices. This resulted in an increase in interest rates, which typically prompts investors to withdraw from emerging economies. "This was the case in the 1980s and again in the mid-1990s." Investors were concerned about EMs (Emerging Markets) at the time due to their high levels of debt, which was frequently short-term and denominated in foreign currency, as well as their low international reserves and feeble policy frameworks (IMF, 2023).

Nevertheless, the most recent cycle of monetary policy tightening by advanced economies resulted in distinct outcomes for emerging economies. The IMF reports that emerging markets (EMs) began raising interest rates on average in mid-2021, well in advance of advanced economies (AEs) initiating their own rate increases, in response to the escalating domestic price levels.

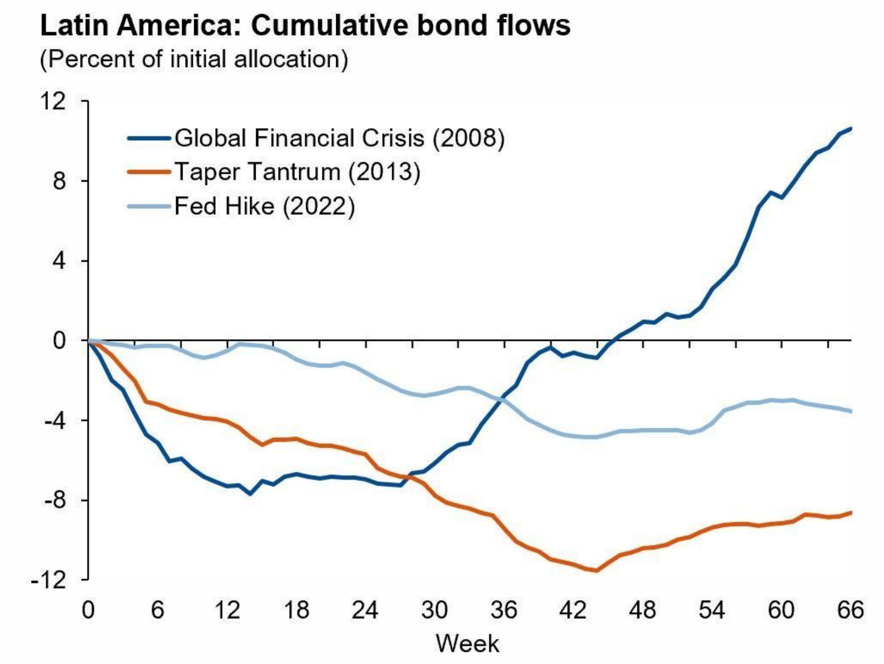


Sources: Consensus Economics; Haver Analytics; national authorities; and IMF staff calculations.
Note: Real policy rate is the difference between the nominal rate and one-year ahead inflation expectations. Aggregates are PPP GDP-weighted averages. Emerging markets = Hungary, India, Indonesia, Malaysia, Philippines, Poland, Romania, Thailand; LA5 = Brazil, Chile, Colombia, Mexico, Peru.

The graph above demonstrates that EMs contracted more aggressively and earlier than AEs. "In an environment of rapidly increasing global rates, numerous emerging markets have performed admirably" (IMF, 2023).

It is important to note that emerging market (EM) economies have demonstrated resilience in the face of both their own monetary tightening and the rapid rate increases by advanced economies (AEs), which have increased rates at the fastest pace in decades. In recent years, EM development has been robust and is anticipated to remain relatively stable in the future, with only limited capital outflows.

The graph below illustrates that the outflows of investors as a result of their withdrawals have been reduced in comparison to the previous crisis, as a result of the timely monetary policies of emergent markets. "For example, the outflows from Latin America have been significantly lower than they were during the Taper Tantrum of 2013." According to the International Monetary Fund (2023), certain emerging market currencies have even appreciated in comparison to the dollar.



Sources: Emerging Portfolio Fund Research (EPFR) database; Haver Analytics; and IMF staff calculations.
Note: Global Financial Crisis (9/10/2008); Taper Tantrum (5/22/2013); Fed Hike (1/5/2022).

Policy Responses to Address Inflation

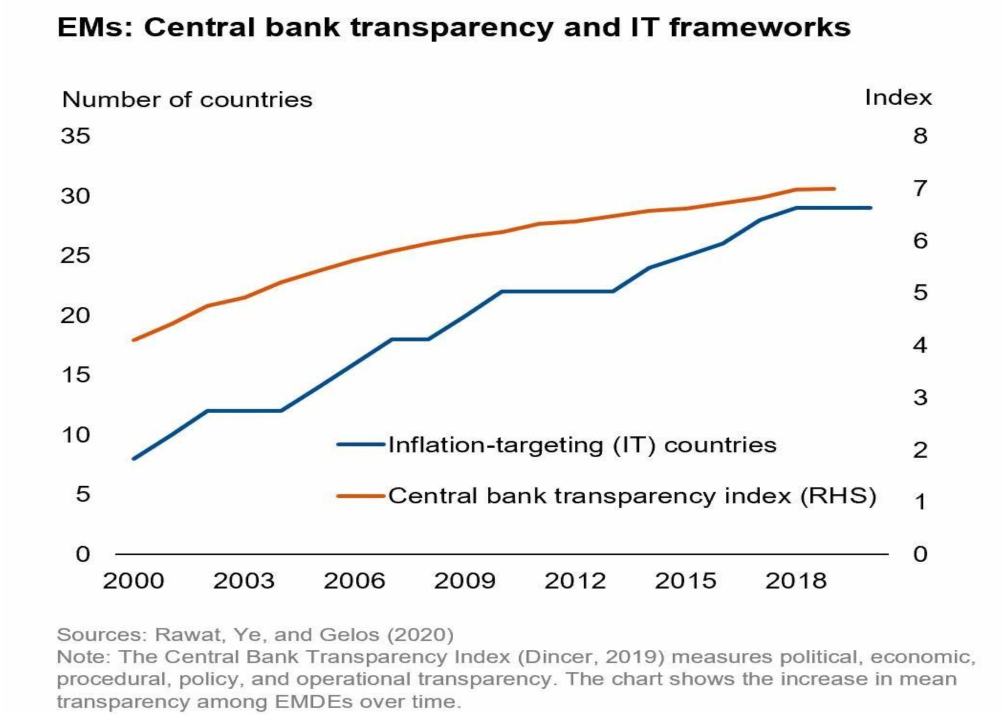
Enhanced Frameworks for Monetary Policy

In order to regulate inflation and stabilise their currencies, central banks in emergent economies have implemented aggressive interest rate hikes. This includes efforts from emerging economies such as South Africa, Mexico, Brazil, and India, which have implemented substantial rate hikes, as noted by IMF Deputy Managing Director Gita Gopinath. Central banks in emerging markets have taken timely and forceful actions to tame rising price levels, thereby ensuring that rising price levels expectations remain anchored.

This approach has trade-offs, as higher interest rates can slow economic growth and reduce employment opportunities, particularly in economies still recovering from the pandemic. However, these aggressive rate hikes help curb rising price levels by making borrowing more expensive, which in turn reduces consumer spending and slows down demand. "While monetary policy has tightened substantially in many EMs, activity hasn't slowed that much, leaving unemployment near historic lows" (Gopinath, 2023).

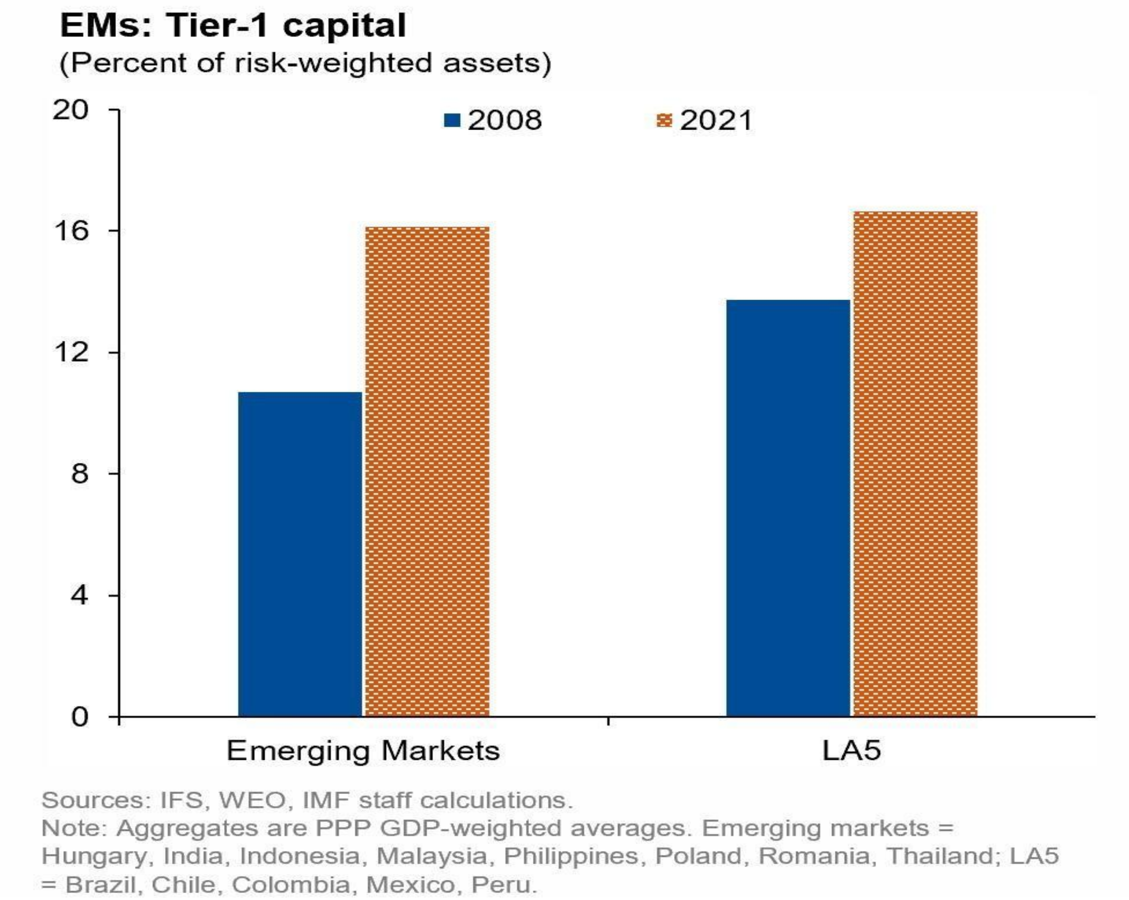
Reforms in Policy

a) Enhanced Transparency :Investors feel more informed and confident about the stability of the financial environment as a result of the increased transparency of policy in emerging markets, which has made it easier to understand and evaluate the risks associated with these economies. "The credibility of monetary policy frameworks has helped ease tradeoffs for monetary authorities" (Gopinath, 2023). The graph below illustrates the significant improvement in the frameworks of EMs over the past two decades.



b) Financial Stability : "The resilience of emerging markets has also been bolstered by the reduction of financial vulnerabilities" (Gopinath, 2023). By ensuring that banks have an adequate amount of capital, these economies have enhanced their financial stability. This additional capital serves as a safety net, enabling banks to navigate challenging economic conditions and reduce the likelihood of financial issues escalating throughout the system. This approach has rendered these economies more resilient in the face of unforeseen shocks. "They have implemented numerous measures to fortify regulatory, supervisory, and macroprudential frameworks in order to restrict risk-taking and foreign exchange (FX) mismatches" (Gopinath, 2023).

The graph below illustrates that the banking sectors of emerging markets are more adequately capitalised:



Measures of Fiscal Policy

The emerging economies have concentrated on providing targeted support to vulnerable populations, thereby reducing broad fiscal measures that could contribute to rising price levels. This approach has helped allocate resources more efficiently without inflating demand. By tightening fiscal policies, they have been able to reduce rising price levels without raising interest rates, thereby fostering economic stability. Additionally, many governments have worked to reduce excessive debt, which has helped manage rising price levels expectations and supported monetary authorities in maintaining price stability.

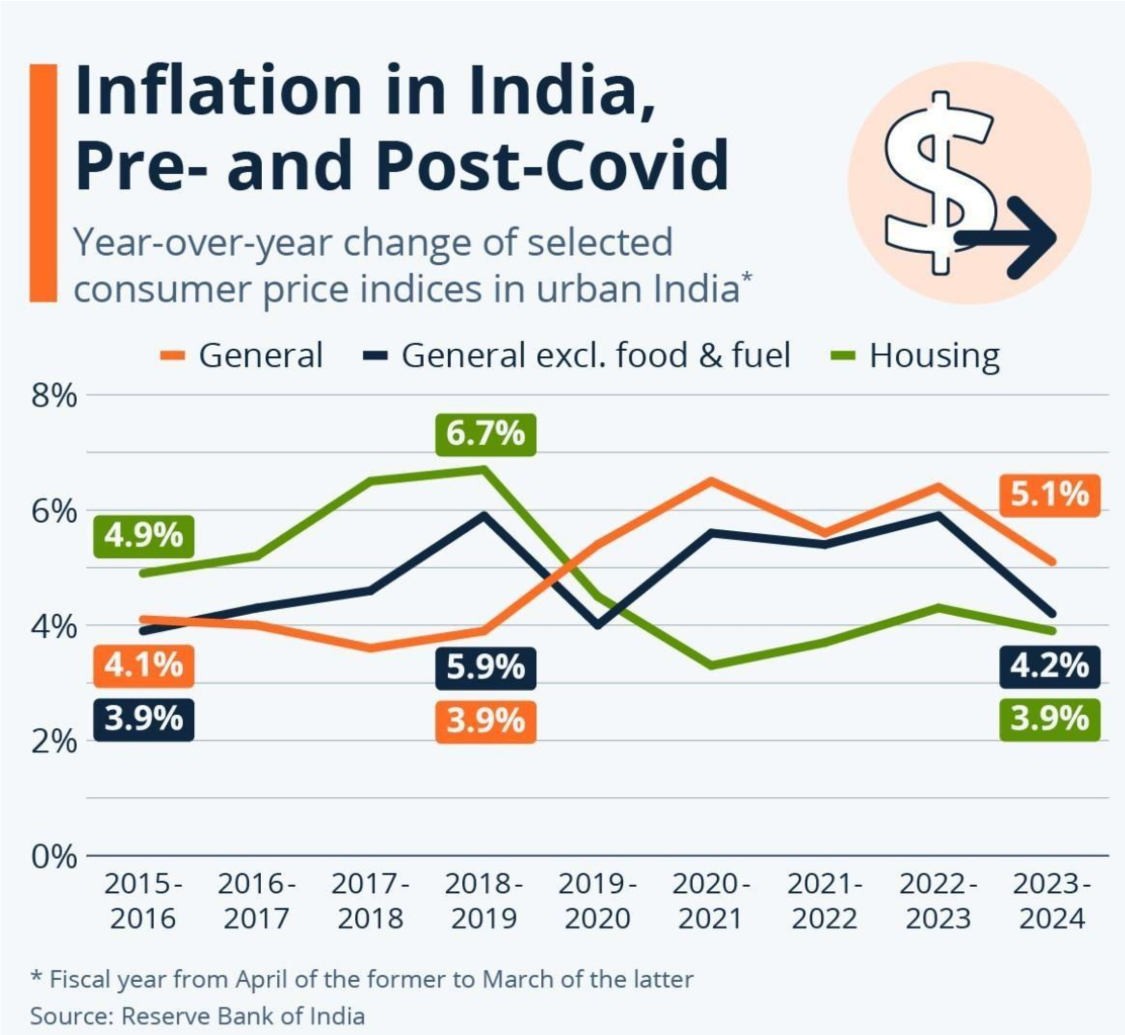
Emerging economies, such as India, have implemented targeted measures to support vulnerable populations. These measures include the provision of free rations to the poor under the Pradhan Mantri Garib Kalyan Yojana, direct cash transfers to low-income groups, subsidies for essential goods, and food security programs. These policies are designed to ensure that the most vulnerable are protected without overstimulating the economy and worsening rising price levels. Furthermore, such targeted assistance prevents the broader fiscal spending that could lead to rising demand and rise in price levelsary pressures.

This fiscal discipline facilitated improved coordination between fiscal and monetary policies.

Inflation in India: A Case Study

An Overview of India's Inflation Management

According to the Ministry of Finance, India has successfully maintained retail inflation at 5.4% in FY24, the lowest level in four years since the pandemic (PIB, 2024). This rate is lower than the global average and emerging markets, indicating that the country has implemented effective price control measures. The graph below illustrates the trend of India's price increases over the years.



The role of the Central Bank

In order to absorb excess liquidity and align rising price levels with its target range of 26%, the Reserve Bank of India (RBI) has committed to price stability by progressively increasing the policy repo rate by 250 basis points from May 2022 to February 2023.

The core rising price levels, which exclude food and energy prices, have experienced a substantial decrease, decreasing from higher levels in previous years to 3.1% in June 2024. This decrease is ascribed to the implementation of effective monetary policies and the enhancement of supply conditions.

The strategies employed

Administrative Measures: The Indian government has instituted price cuts for essential commodities such as LPG, petrol, and diesel, which have resulted in lower inflation rates in these sectors. It is worth noting that LPG inflation has been in deflationary territory since September 2023.

The government has extended the Pradhan Mantri Garib Kalyan Anna Yojana to provide free food grains to over 81 crore beneficiaries in order to combat the rising price of food, which has been a result of supply chain disruptions and climate-related challenges. The objective of this initiative is to ensure food security for vulnerable populations.

The Indian government is actively monitoring global commodity prices, particularly for edible oils, which are imported in excess of 50% of their consumption. The National Mission on Edible Oils Oil Palm is being implemented to balance imports with domestic production.

Streamlining the process

Geopolitical Tensions: Despite domestic efforts to stabilise rising price levels, ongoing geopolitical issues have disrupted supply channels globally, contributing to volatility in food and fuel prices.

The government has implemented proactive measures, including open market sales and timely importation, to mitigate the effects of extreme weather events on agricultural output, which have resulted in elevated food prices.

Interstate Variations: The rising price levels rates in India exhibit substantial variations, particularly in rural areas where food items comprise a larger portion of consumption containers.

This disparity complicates national strategies for managing rising prices.

Future Prospects and Suggestions

Source: PIB Delhi

Long-term Stability Objectives: The RBI and IMF anticipate a progressive convergence of consumer price increases to approximately 4% by FY26, provided that external conditions remain stable and monsoon seasons are consistent.
Improving Domestic Production: The Economic Survey recommends that the domestic production of dietary oils and pulses be increased to reduce dependence on imports and to mitigate the risks associated with global price fluctuations.
Enhancing Storage and Processing Facilities: Suggestions include the creation of contemporary storage solutions for perishable products, such as vegetables, to mitigate losses and stabilise prices during supply shocks.
Enhanced Data Monitoring: In order to facilitate rapid government responses to price fluctuations in specific commodities, there is a demand for enhanced data collection on prices at all stages, from the farm gate to the consumer.
India demonstrates how emerging economies can effectively manage rising price levels amid global supply chain disruptions while ensuring economic stability and development by concentrating on these strategies and challenges.

Inflation in Indonesia: A Case Study

"Despite the pressures of rising input costs and increasing demand, Indonesia's rising price levels rate reached a peak of 5-6 percent in the second half of 2022, defying the global trend. In contrast to its peers, Indonesia's rising price levels rate remained broadly flat, as demonstrated in the graph, and only began to increase in tandem with the rise in global commodity prices in early 2022" (Ilman et al, 2023)

This trend is illustrated in the graph below:

(contribution to inflation, percentage points)

Source: **BPS, CEIC, World Bank staff calculations.**

Note: **Selected peers are Brazil, China, Malaysia, Philippines, India, and Thailand. Administered inflation is defined as increase in price of goods and services whose price development is regulated by the government. Volatile inflation is defined as increase in price of goods and services that experience high volatility (i.e., foods).**

Indonesia has avoided a full-blown cost-of-living crisis by managing its rising price levels in a manner that differs from that of many advanced economies. This unique experience is the result of a combination of factors:

A high level of consumer confidence

The consumer confidence index in Indonesia has increased from approximately 80% in 2020 to approximately 120% by the end of 2022 (Santoso et al, 2023). This increased optimism has mitigated the impact of rising price levels on the cost of living, as consumers are less inclined to panic in the face of rising price levelsary pressures. The positive consumer outlook has facilitated Indonesia's ability to maintain stability in the face of global economic uncertainties.

Inflationary Experience

This familiarity with rising price levels means that consumers and businesses are better equipped to adjust to rising prices without causing severe economic disruptions, in contrast to advanced economies that have not experienced significant price shocks in over a decade.
Emerging economies, such as Indonesia, are more accustomed to rising price levels.

Menu Cost Theory

The Menu Cost theory explains the primary reason for Indonesia's resilience to rising price levels: its firms' reluctance to adjust prices frequently. In Indonesia, businesses are hesitant to raise prices quickly. "According to, Menu Cost can account for price stickiness of about 30 days, which is significantly less than the 7 to 24 month stickiness shown in services and retailing" (Santoso et al, 2023). This "price stickiness" helps prevent rising price levels from translating directly into hi

Core versus Non-Core Inflation

Inflation in Indonesia is measured by dividing it into core and non-core rising price levels. Core rising price levels is driven by fundamental economic factors, excluding government-set prices and volatile product prices. Non-core rising price levels, on the other hand, includes volatile food rising price levels and administered price rising price levels, which is heavily influenced by government policies such as fuel subsidies. In 2022, the administered price group was the largest contributor:

External Factors

In 2022, Indonesia's prices increased as a result of external factors, such as the increase in crude oil prices and disruptions to the global supply chain. However, domestic factors, such as fluctuations in food prices caused by seasonal weather patterns, supply chain inefficiencies, and changes in public demand, particularly during holidays, were the primary contributors to the increase in prices.

Cost of Living and Inflation

Despite the fact that Indonesia's price levels increased by 5.95% in 2022, they remained within the government's target range. Nevertheless, the pressure on consumer expenditures has been exacerbated by the rise in volatile food prices and the rising cost of fuel. The government's ongoing commitment to managing food price stability and reducing the impact of supply-side price increases is essential in preventing a significant cost-of-living crisis.

The Indonesian government's approach to managing rising price levels is characterised by a long history of price changes, high consumer confidence, and specific factors such as food and fuel price volatility. Despite the challenges it faces in managing rising price levels, the government prioritises maintaining price stability without overwhelming consumers, thereby preventing a significant increase in the cost of living.

In summary, our analysis indicates that Indonesia's relatively low rising price levels are primarily the result of the low transmission of producer price rising price levels to consumers. This could be partially attributed to price caps for specific goods and services. Although price interventions may assist in containing near-term rising price levels, they may also present challenges for the monetary policy response. Over the long term, sustained price interventions can impede allocative effici

The Function of Regional and Global Collaboration

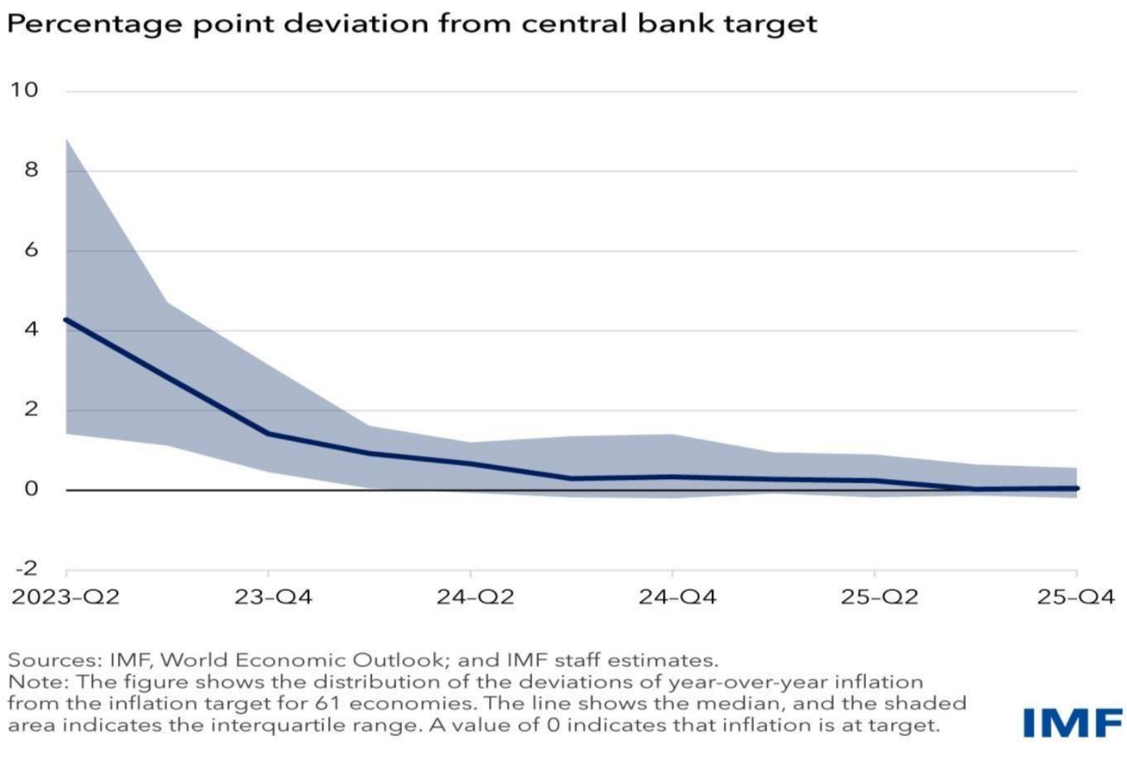
Regional cooperation is also crucial for managing the increasing price levels in emerging economies. By establishing regional trade alliances, countries can reduce their reliance on distant markets and benefit from more stable regional supply chains. "As the global economy is in turmoil due to the pandemic pandemic, the creation of the vast AfCFTA regional market is a major opportunity to help African countries diversify their exports, accelerate growth, and attract foreign direct investment" (World Bank, 2020). Such alliances strengthen economic resilience and provide a buffer against global rising price levelsary pressures. "The AfCFTA promises broader and deeper economic integration, attracts investment, boost trade, provide better jobs, reduce poverty, and increase shared prosperity in Africa" (Echandi et al, 2022).

The IMF posits that "international cooperation is indispensable for the stabilisation of global rising price levelsary pressures, as numerous challenges are interconnected and necessitate coordinated solutions." Furthermore, the IMF and the World Bank offer technical assistance and policy guidance to assist countries in the development and execution of effective strategies for managing rising prices.

The Prospects for Emerging Economies in the Future

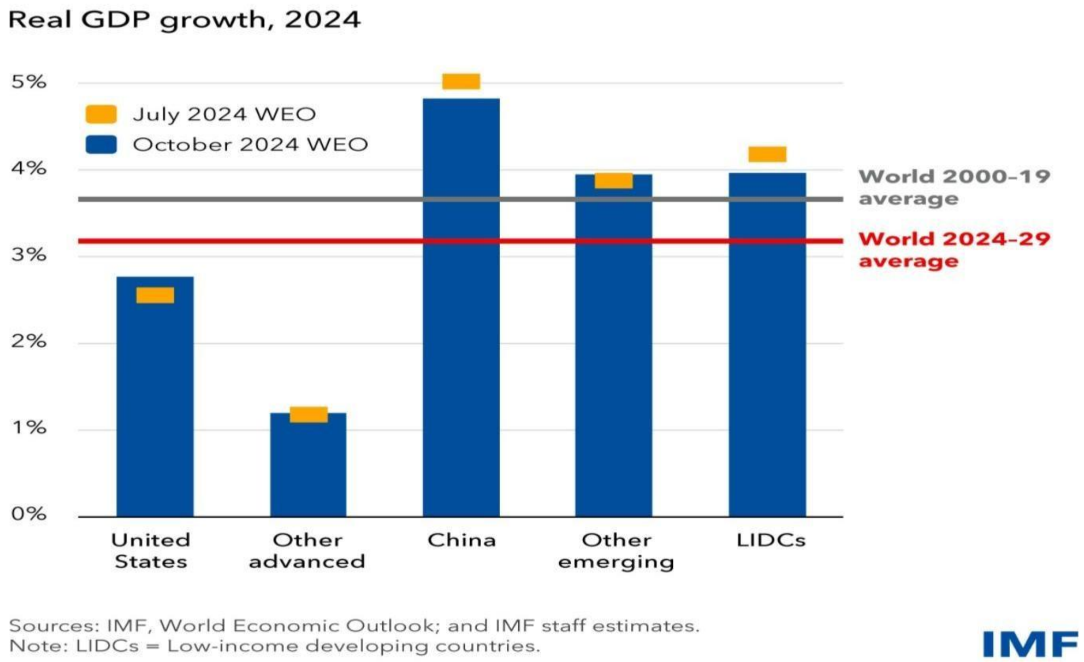
The IMF has projected that headline rising price levels will decrease to 3.5 percent by the end of 2025, after reaching a peak of 9.4 percent year-on-year in the third quarter of 2022. This indicates that rising price levels are now in close proximity to central bank targets in the majority of countries.

The graph below illustrates the percentage point deviation of the monetary authorities' objective for rising prices in 61 economies.



"The outlook is now dominated by downside risks, despite the positive news regarding rising price levels. An escalation in regional conflicts, particularly in the Middle East, could pose significant risks for commodity markets. Shifts towards undesirable trade and industrial policies can significantly reduce output relative to our baseline forecast. Monetary policy could remain excessively tight for an extended period, and global financial conditions could tighten abruptly" (Gourinchas, 2024).

The following graph illustrates the future development outlook for the economies, which remains at its weakest level in decades as a result of the prior unprecedented events, such as the pandemic, despite the fact that the decline in rising price levels without a global recession is a significant accomplishment.



Nevertheless, the recovery from the pandemic shocks appears to be promising. "In advanced economies, the United States is experiencing robust growth at 2.8 percent this year, but it is projected to return to its potential in 2025. Advanced European economies are expected to experience a modest growth rebound next year, with output approaching its potential. The growth outlook in emerging markets and developing economies is highly stable, with an expected growth rate of approximately 4.2 percent this year and next, with continued robust performance from emerging Asia" (Gourinchas, 2024).

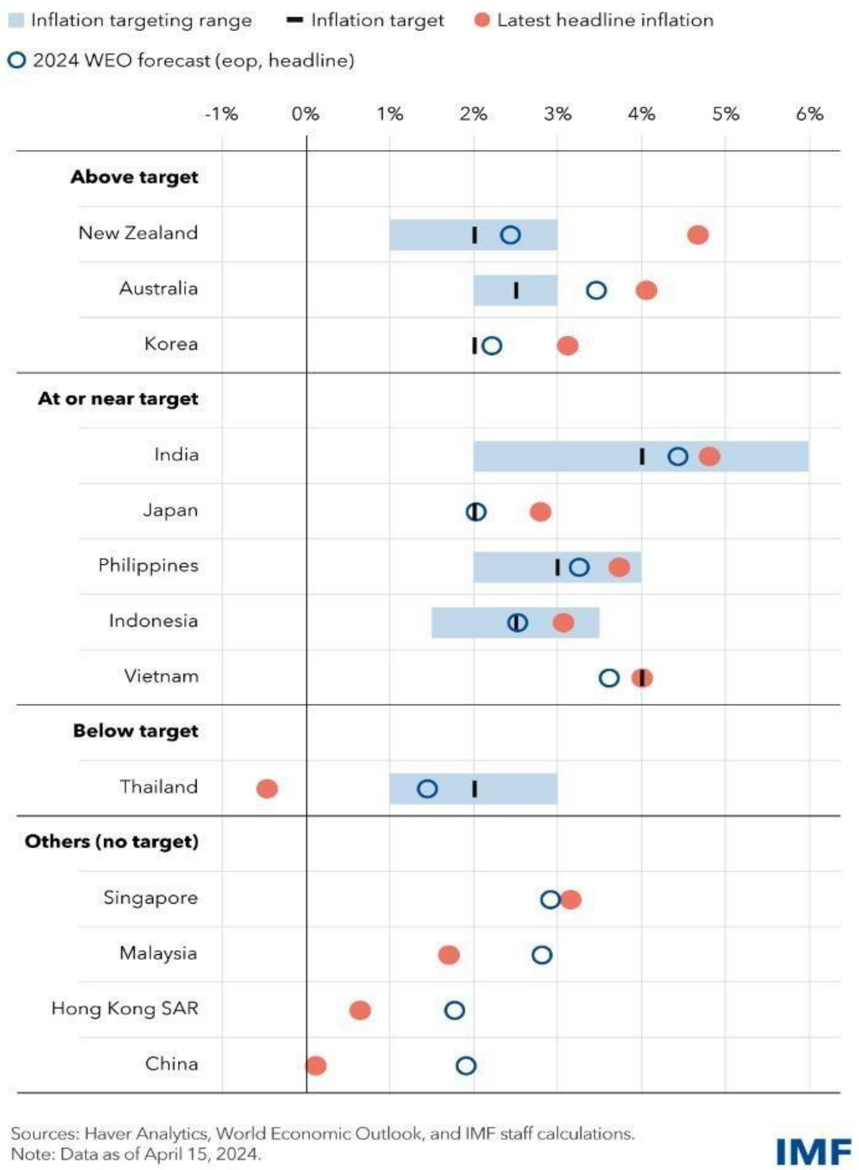
The recent decrease in rising price levels is largely attributable to the diminishing impact of past shocks and improved labour availability. However, monetary policy also played a critical role in maintaining rising price level expectations and regulating them. The reduction in supplychain disruptions following the pandemic, the global decline in commodity and goods prices, and the impact of previous monetary tightening all contributed to this outcome.

"Since June, the major monetary authorities in advanced economies have begun to reduce policy rates, thereby transitioning to a neutral stance. The pressure on emerging market economies will be alleviated by the lower interest rates in major economies, as their currencies will strengthen against the US dollar and financial conditions will improve. This will facilitate the reduction of imported rising price levels, thereby enabling these countries to more easily pursue their own declining price levels path" (Gourinchas, 2024).

Nevertheless, the rising price levels in services are still at an elevated level, nearly double the pre-pandemic level, according to the IMF. A few emerging economies are still experiencing price levelary pressures and are implementing a contractionary monetary policy by increasing interest rates to address the issue.

The rise in price levels has been uneven. "In certain advanced economies—particularly New Zealand, Australia, and Korea—consistently rising prices have kept the rate of increase above the target. In contrast, consumer prices have decreased in Thailand and China. Inflation, which excludes food and energy, is low, a reflection of legacy issues from the pandemic and the property sector correction in China. Elsewhere, pricing is approaching the target" (Srinivasan, 2024).

The significance of differentiated monetary policy responses is underscored by the following graph, which illustrates the uneven outcomes of growing price levels across a variety of countries.



"In economies where the rate of inflation remains high, monetary authorities may need to maintain higher interest rates for an extended period. In economies where the core rate of inflation is at or near the target, there may be room to lower interest rates later in the year. Conversely, in economies where the rate of inflation is unacceptably low, an accommodative stance is necessary. Central banks should concentrate on domestic conditions and avoid making decisions that are overly reliant on the anticipated trajectory of US interest rates. While adhering to the Federal Reserve could reduce exchange rate volatility, it runs the risk of the monetary authorities falling behind (or ahead of) the curve and destabilising rising price levels expectations (, 2024).

Conclusion

In the face of global supply chain disruptions and central bank interventions, emerging economies have encountered an exceptionally difficult environment as they endeavour to address the increasing price levels. These challenges are further exacerbated by the limited fiscal and monetary tools that are available to many emerging economies, which have compelled them to implement difficult measures such as aggressive rate hikes and subsidies.

Emerging economies have implemented a variety of policy responses, including central bank interventions that are designed to stabilise currencies and regulate the increase in price levels, as well as government fiscal measures that provide assistance to vulnerable populations.

"It is imperative that EM authorities enhance and refine their monetary, fiscal, and financial policy frameworks. Central bank independence should be preserved, and transparency and communication should be further improved. EM monetary authorities have been able to pursue countercyclical policies during both the Global Financial Crisis and the COVID pandemic as a result of improved policy frameworks, both monetary and financial. These frameworks have enabled EMs to withstand the most severe tightening of monetary policy in advanced economies in several decades. They should continue to serve as an anchor of stability to assist in navigating the challenging road ahead" (Gopinath, 2023).

Bibliography

1. (2022). Making the most of the African Continental Free Trade Area. [online] World Bank.
2. Available at:. Echandi, R., Maliszewska, M., and Steenbergen, V.
3. English, B., Forbes, K., and Ubide, Á. (2024). Monetary Policy Responses to the Post-Pandemic Rising Price Levels: Challenges and Lessons for the Future. [online] CEPR. Available at:.
4. Tackling High Inflation in Emerging Markets. [online] IMF. Available at: *Gopinath, G*., Director, *F.D.M., Brazil, I.S. at A.C. of the C.B. of and Brasilia (2023).*
5. *Gourinchas, P.-O. (2024)*. The global economy requires a policy triple reversal as the trend of increasing prices diminishes. [online] IMF. Available at:.
6. *Pib.gov.in. (2024*). GOVERNMENT'S PRUDENT MONETARY & TRADE POLICY SUPPORTED BY STRONG OUTPUT GROWTH REDUCES RETAIL INFLATION TO A FOUR-YEAR LOW OF 5.4% IN FY24.
7. *Srinivasan, K. (2024).* Asia's Growth and Inflation Outlook Improves, but Risks Remain. [online]
8. IMF. Available at:.
9. World Bank Blogs. (n.d.). Insights on the increasing price levels in Indonesia: Bucking the global trend. [online]. Available at:.
10. Zandt, F. (2024). Infographic: The Evolution of Inflation in India. Statista Daily Data. Available
11. at:.