

The recent IMF-WB meetings in Washington reminds us of one of the primary lady characters in the famous musical drama “Wicked”, currently being played at Broadway New York. As the famous character Glinda in this drama proudly proclaims that the alphabet G in her name is silent, it seems that the word good may have temporarily vanished from the global economy with uncertainty casting an enormous spell of hardships across countries. As the IMF pointed out recently, there has been a manifold jump in cost of living across countries, with food and energy prices going through the roof. With the central banks across countries in the midst of a rate hike cycle, the cost of owning a house in respective countries has also jumped manifold. **However, the good thing is that India still stands like an oasis in this era of uncertainty.**

To borrow from the latest IMF report, “food and energy prices have been in the same phase (boom or bust) about 75% for the period since 2004. Such inflation affects most economies across the world with severe impact on lower-income groups in developing economies as in these countries, food consumes a significant household consumption expenditure. This has a direct impact on cost of living in these countries. Since the beginning of the Ukraine-Russia conflict, there has been a significant surge in prices across developed as well as emerging economies.

To understand how India has performed in terms of cost of living, in a common currency, we compared cost of living in India with US, UK and Germany by adjusting each country’s exchange rate (dollar, euro and pound in our case) to achieve parity with the rupee by allowing for these currencies movements against rupee and then using such converted numbers to arrive at comparable cost of living across these countries in rupee terms only.

Our analysis was thus to measure the cost of living by using a uniform measurement of prices across different countries by using rupee as the exchange rate. Once we did this, we found that in rupee terms, if the household budget/cost of living was Rs 100 in September 2021 across all countries, it has now increased by Rs 12 in both US & India, but it has increased by Rs 20 in Germany and Rs 23 in UK.

- **In terms of increase in food prices, India performs the best. What cost Rs 100 in Sep’21 across countries, now is up by Rs 25 in US, Rs 18 in UK, Rs 33 in Germany and Rs 15 in India.**
- **In terms of increase in shelter prices, India again performs the best. What cost Rs 100 in Sep’21 across countries, is now up by Rs 21 in US, Rs 30 in UK, Rs 21 in Germany and Rs 6 in India.**
- **In terms of increase in energy prices, what cost Rs 100 in Sep’21 across countries, is now up by Rs 12 in US, a staggering Rs 93 in UK and Rs 62 in Germany and Rs 16 in India.**

Clearly, there has been a deterioration in cost of living in the aftermath of global mayhem, but India still performs significantly better compared with countries supposed to be the epitome of sound macro management.

As the global economy continues to ravage through uncertainties, it thus seems that India has done quite well in managing the cost of living in comparison with other countries. The US job market is still quite strong and the Fed may have to do a little more rate hikes to have a firm grip on labour market. India have remained remarkably resilient with 72% of the \$14.7 bn capital outflows till July 29 in FY23 has already been recovered. Portfolio inflows in FY23 in November has been strong at \$4.1 bn and is still counting.

INDIA'S PER CAPITA INCOME

- ◆ One common argument that is often brandished is that India has a low per capita income and any discussion on cost of living should be linked to that.
- ◆ An interesting observation regarding India's per capita income (PCI) is that for the **8-year period ending 2022**, as per IMF, PCI of India has jumped by a sharp 57% in \$ terms, on the back of financial empowerment of people at the bottom strata, even as there has been a sharp decline for countries across the spectrum, that India has surpassed in terms of size since 2014.
- ◆ China has done quite well since 2022 in terms of its increase in PCI, followed by USA and India. Surprisingly, Russia has had improved its position till 2022, till the war disturbed the arithmetic in 2023.

COST OF LIVING IN PURCHASING POWER PARITY/RUPEE TERMS

- ◆ While looking at CPI indexes of respective countries, it has been observed that CPI has been risen by 22.5 USD in USA, 12.1 INR in India, 11.4 Pound in UK, and 11 Euro in Germany, in a period of one year from September 2021 to September 2022.
- ◆ To test where does India stand in the cost of living across the group of countries, we introduced a new measure of the cost of living, indexed to Indian rupee to make uniform comparison across all countries.
- ◆ In effect, beginning Sep'21 we measured the increase in cost of living across countries by adjusting for the cross-currency exchange rate movements of USD, British Pound and Euro in case of Germany against Indian rupee.
- ◆ **Our analysis was to measure the cost of living by using a uniform measurement of prices across different countries by using rupee as the exchange rate. The method effectively accounts the purchasing power of the currency while accounting for cost of living. The currency depreciation reflects into increase in cost of living and currency appreciation reflects into decline in cost of living in respective CPI baskets making the exchange rate movements transformed CPI comparable across countries.**

Country	% Increase/Decline in per Capita Income (In \$ terms)
India	57%
India Overtaken	
UK	-1%
France	-5%
Russia	5%
Italy	-6%
Brazil	-27%
Larger than India	
Germany	1%
Japan	-11%
China	88%
USA	36%
Source: SBI Research	

Rise in CPI Index in respective countries				
Month	US	India	UK	Germany
Sep-21	100.0	100	100	100
Oct-21	102.3	102.3	101.2	100.6
Nov-21	103.6	103.5	102.1	100.4
Dec-21	104.5	103	102.7	101.0
Jan-22	106.8	102.5	102.5	101.4
Feb-22	109.4	102.9	103.4	102.4
Mar-22	113.2	104.5	104.7	105.2
Apr-22	114.8	106.9	107.6	106.1
May-22	118.0	108.5	108.4	107.2
Jun-22	122.0	109.4	109.4	107.3
Jul-22	122.0	110.2	110.1	108.3
Aug-22	121.9	111.1	110.7	108.7
Sep-22	122.5	112.1	111.4	111.0
Source: SBI Research				

Exchange Rate Movements with respect to INR				
Month	US	India	UK	Germany
Sep-21	1	1	1	1
Oct-21	0.9917	1	0.9672	0.9864
Nov-21	0.9897	1	0.9946	1.0080
Dec-21	0.9968	1	0.9945	1.0223
Jan-22	0.9958	1	0.9955	1.0323
Feb-22	0.9831	1	0.9910	1.0221
Mar-22	0.9780	1	1.0046	1.0225
Apr-22	0.9705	1	1.0404	1.0648
May-22	0.9568	1	1.0205	1.0342
Jun-22	0.9407	1	1.0422	1.0454
Jul-22	0.9371	1	1.0372	1.0644
Aug-22	0.9348	1	1.0814	1.0800
Sep-22	0.9131	1	1.1004	1.0800
Source: SBI Research				

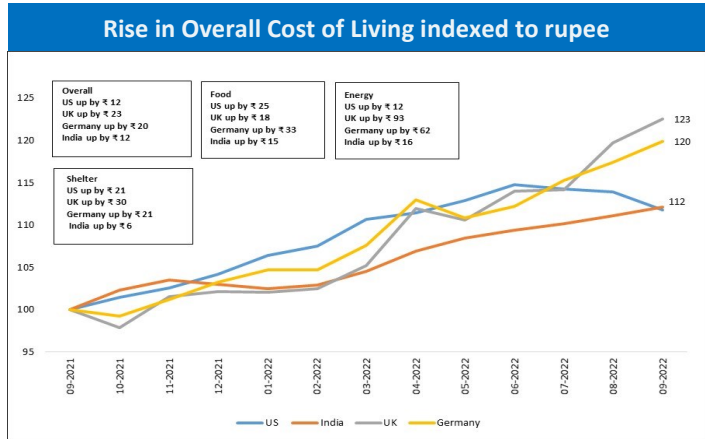
- On the basis of exchange rate movements transformed CPI against INR, It was found that in rupee terms if the household cost of living was Rs 100 in September 2021 across all countries, it has now increased by Rs 12 in both US & India, but it has increased by Rs 20 in Germany and Rs 23 in UK.

COST OF LIVING IN PURCHASING POWER PARITY/ RUPEE TERMS OF FOOD, ENERGY AND SHELTER

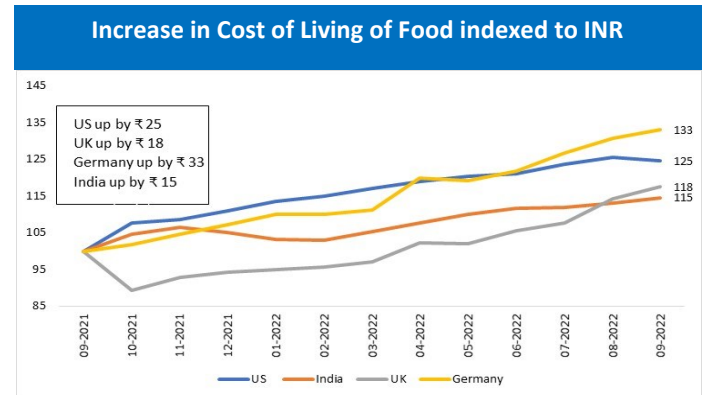
- On a similar lines, we also looked into three components of CPI mainly food, energy and shelter, to test where does India stand in the cost of living in these segments across the group of countries.
- Food CPI index of each country has also been transformed with respective change in exchange rates in comparison to INR, it has been observed that cost of living of food has increased by INR 25 in US, INR 15 in India, INR 18 in UK, and INR 33 in Germany in the last one year.**
- Energy CPI index of each country has also been transformed with respective change in exchange rates in comparison to INR, it has been observed that cost of living of energy has increased by INR 12 in US, INR 16 in India, INR 93 in UK, and INR 62 in Germany in the last one year.**
- Housing CPI index of each country has also been transformed with respective change in exchange rates in comparison to INR, it has been observed that cost of living of Housing has increased by INR 21 in US, INR 6 in India, INR 30 in UK, and INR 21 in Germany in the last one year.**

Exchange Rate Transformed CPI				
Month	US	India	UK	Germany
Sep-21	100	100	100	100
Oct-21	101	102	98	99
Nov-21	103	104	102	101
Dec-21	104	103	102	103
Jan-22	106	103	102	105
Feb-22	108	103	102	105
Mar-22	111	105	105	108
Apr-22	111	107	112	113
May-22	113	109	111	111
Jun-22	115	109	114	112
Jul-22	114	110	114	115
Aug-22	114	111	120	117
Sep-22	112	112	123	120

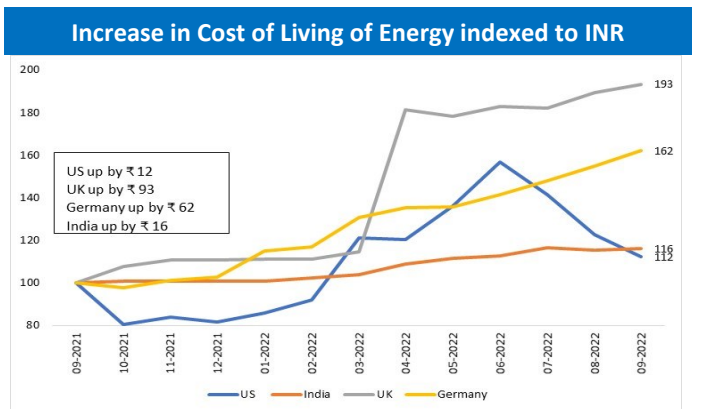
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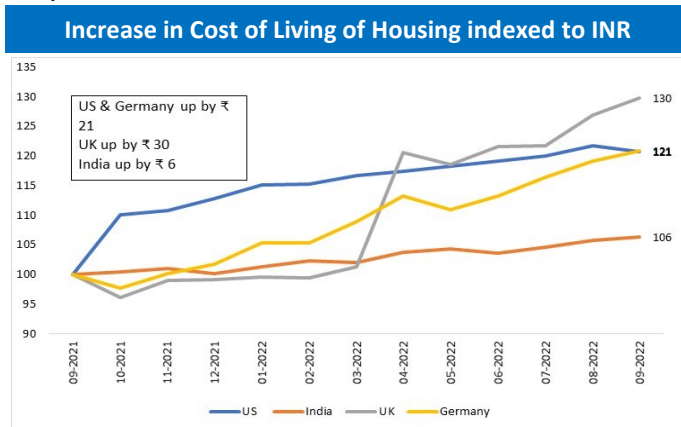
Source: SBI Research



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