What is Sticky Inflation?

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About Sticky Inflation:

- Sticky inflation refers to a **phenomenon where prices do not adjust quickly** to changes in supply and demand, leading to persistent inflation.

Features of sticky inflation:

- Prices for goods or services that don’t appear to be coming down anytime soon are considered sticky.
- **Causes:** Rising wages and prices for consumer goods and services are typically the main factors behind inflation stickiness.
    - Prices for medical services, education, and housing are some of the most important factors that can contribute to sticky inflation.
- It erodes the purchasing power of consumers and puts pressure on housing affordability.
- Sticky inflation presents **challenges for central banks in controlling inflation without causing a recession**.
- **To address sticky inflation**, central banks usually **raise interest rates.**
    - However, raising rates too fast can cause the economy to fall into a recession, while not raising them enough will allow prices to continue increasing.

Q1. What is a repo rate?

A repo rate is the interest rate at which a central bank, such as the Reserve Bank of India (RBI), lends money to commercial banks against government securities. It is used to regulate the economy by controlling inflation and money supply. The current repo rate in India is 6.50% as of June 07, 2024.

Source: Sticky inflation delays rate cut

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