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To What Extent Did Interest Rate Hikes, Rather Than Supply-Side Normalisation, Bring Inflation Down in India and the Us Between 2022 and 2026?

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ABSTRACT: From 2022 to 2026, the Reserve Bank of India (RBI) and the Federal Reserve carried out aggressive monetary tightening over a period of thirty years. By 2026, the Federal Reserve had increased the policy rates by 525 basis points while the RBI raised the rates by 250 basis points in response to inflation being as high as 9.1% in the U.S. in June 2022, and 7.8% in India in April 2022. This paper seeks to find out what part of disinflation that followed can be attributed to that monetary tightening solely and which parts can be regarded as the influence of such factors as global supply chain normalization, food supply, and energy prices, independent of the effects of monetary tightening. The paper employs publicly available data from the U.S. Bureau of Labor Statistics, the Reserve Bank of India (RBI), the Federal Reserve Bank of New York's Global Supply Chain Pressure Index (GSCPI), Ministry of Statistics and Programme Implementation (MoSPI), and the U.S. Energy Information Administration to build a timeline comparing the key statistics of both economies. It utilizes the demand-supply breakdown suggested by Bernanke and Blanchard (2023) along with relevant literature in advocating the position that while tightening of monetary policy was required to control inflation expectations and to moderate demand-responsive segments, the timing and extent of disinflation that was observed from 2022 to 2024 and the turnabout in 2025-26 in the light of renewed energy and geopolitical shocks in spite of the presence of low or reduced interest rate policies demonstrate the fact that the majority of the disinflation process in both economies was due to the process of supply-side stabilization. The article concludes with outlining the policy implications for inflation targeting regime, which is based on the reliance on interest rate mechanisms, in countries where inflation is primarily food- and energy-driven.

1. INTRODUCTION

By most indicators, the inflation shock of 2021 and its swift acceleration in 2022 was the sharpest and most globally synchronised increase in consumer prices since the early 1980s. Headline CPI inflation has increased from low levels early in 2021 to a 40-year high of 9.1% in June 2022 in the United States. In India, the inflation measured by Consumer Price Index (CPI) in retail prices surpassed the upper tolerance limit of the Reserve Bank of India (RBI) from 6% for 11 consecutive months in 2022, reaching 7.79% in April, 2022. The US Federal Reserve had to tighten by a full 1250 basis points, from virtually nothing to 5.25–5.50%, between March 2022 and July 2023, while the RBI raised the repo rate by 250 basis points during the period May 2022 to February 2023, from 4.00% to 6.50%) (Forbes Advisor, 2026).

By end 2024, both countries recorded a significant decline in inflation: the US CPI inflation rate stood at 2.4% in September 2024, and the CPI inflation rate in India dropped to an eight-year low of 1.6% in July 2025,, then experienced outright food deflation later in 2025 (RBI Monetary Policy Report, October 2025). This disinflation occurred during the tightening cycles and is often presented as a monetary policy success story, proof of central banks' resolve to “do whatever it takes” to bring inflation back under control. But during the same period, global supply chain pressures were equally significant as they normalised: the Global Supply Chain Pressure Index (GSCPI) of the New York Fed decreased from an all-time high of 4.49 standard deviations above the historical average in December 2021 to a record low of -1.59 in May 2023 (Federal Reserve Bank of New York, 2023), while the price of Brent crude oil slowed from an annual average of $100.93 in 2022 to $79.28 in 2025.

It is a counterfactual-closer but empirically feasible question: How much did an increase in interest rates in India and the U.S. help to reduce inflation between 2022 and 2026, rather than normalising supply? This is important because the implications for policy are very different between the two candidate explanations. If the disinflation had been predominantly monetary, then the

burden on rate-sensitive sectors – such as small business credit, housing, and in India, a large proportion of borrowers are on floating rates – would be the appropriate and efficient price for price stability. If disinflation was mostly a process of the healing of the supply side, which would have happened irrespective of the policy rate path, then the tightening cycle could have had unnecessary output and employment costs, and inflation-targeting regimes that depend on the path of the policy rate as their main policy instrument may have been systematically mis-specified for economies vulnerable to global commodity and freight shocks.

The paper is organized as follows. Section 2 provides a review of the literature on the drivers of the inflation spike of 2021-2023 and the pathways for how money and supply impacts prices. Section 3 presents a simple theoretical framework that helps to differentiate demand-pull, cost-push and supply-constraint inflation. The data and comparative descriptive methodology that were used are described in section 4. The US data is provided in section 5 and Indian data is provided in section 6, both of which are accompanied by charts. A comparative timing analysis is performed in section 7. In Section 8, we examine the attribution issue, with special attention to the case of the 2025-2026 period of two economies with flat or downward policy rates experiencing renewed inflationary upticks, a natural experiment that helps to distinguish between the two explanations. Section 9 sets out policy implications, Section 10 limitations and Section 11 concludes.

2. LITERATURE REVIEW

2.1 The demand-side account

The most important empirical analysis to identify the contributors to the pandemic era inflation surge is Bernanke and Blanchard (2023), who estimate a dynamic model of prices, wages and inflation expectations in the United States. After the initial concern that the inflationary impulse would be caused by an overheated labour market, they are now concluding that most of the inflation surge that started in 2021 was due to "shocks to prices given wages" – commodity price increases and sectoral price increases from a combination of high aggregate demand (fuelled by fiscal stimulus) and limited sectoral supply. They attribute a significant component of the initial surge in 2021–2022 to demand-side factors, a claim often made after the event.

Reasons to be aggressive in monetary tightening. The recent surge is also seen as a result of "pandemic-era fiscal accommodation" by Hall and Sargent (2023), who compare it to wartime finance.

This demand-side interpretation, however, has been called into question. Storm (2024) contends that, Bernanke-Blanchard framework underestimates the part of corporate pricing power and profit margins, and its focus on wage-price spiral is "misrepresents American economic reality" by neglecting supply disruptions and geopolitical shocks. A similar increase in mark-ups of companies during 2021-2022 in sectors with severe supply shortages has been reported by Weber and Wasner 2023, which attribute much of this increase in sectoral prices to the interplay between mark-up power and supply scarcity.

2.2 The supply-side account

There is a parallel literature that focuses on supply chain and commodity market disruption as the main driver. The architects of the Global Supply-chain Pressure Index (GSCPI) at the Federal Reserve Bank of New York, Benigno, di Giovanni, Groen and Noble (2022, 2023) demonstrate the strong correlation between the global and the domestic (US and euro area) inflation rate at the producer and consumer level, and show that a straightforward de-normalisation of the GSCPI back to its historical average long-term levels would be enough to return inflation to its target without further restriction on demand. According to Di Giovanni et al. (2022), a multi-country model, global supply-chain bottlenecks and shipping-cost shocks drive up prices at every stage of the supply chain, thereby dampening global economic growth.

In 2021–2022, it contributed significantly to the inflation increase in the advanced economies. Arce, Ciccarelli, Montes-Galdón and Kornprobst (2024) make the same point for the euro area, suggesting that the majority of the post-pandemic inflation spike as well as its subsequent contraction was driven by price shocks and unwinding of energy prices related to the invasion of Ukraine by Russia.

Food and fuel price shocks have been a consistent reason for volatility in headline inflation, in fact, over 2022-2025, as evidenced by the RBI's own Monetary Policy Reports for India, which indicated that core (non-food, non-fuel) inflation was comparatively low throughout the tightening cycle (RBI, 2025). This is as should be for a long-standing feature of Indian inflation dynamics, which is that the outcome of the monsoons, vegetable price cycles, and the global prices of edible-oil and pulses have a disproportionate impact on inflation, given their share in the CPI basket (which is about 39%). As summarised in the subsequent RBI staff studies, this is the case for India.This is as should be for a long-standing feature of Indian inflation dynamics, which is that the outcome of the monsoons, vegetable price cycles, and the prices of edible-oil and pulses globally,

have a disproportionate impact on inflation, given their importance in the CPI basket (about 39%). This is indeed the case for India (Mohanty, 2010; Bhoi & Behera, 2017).

2.3 Monetary transmission lags and the 2025–26 re-acceleration

A second stream of literature explores the elasticity and elasticity of transmission. Typically, the impact of a policy rate hike on inflation is estimated as being 12 to 24 months in advanced economies (Christiano, Eichenbaum & Evans, 2005) and is longer and weaker in emerging markets like India because of shallower financial markets and the proportion of floating-rate, market-linked credit (Mohanty, 2012). This is important directly for the attribution: if disinflation is seen in a few months following a rate cut, it is more credible from a timing perspective to suggest that the rate change was caused by a change in supply, rather than monetary policy. This logic is a most unencumbered test in the 2025-2026 period. Despite the Federal Reserve holding or cutting rates through much of 2025 and India cutting its repo rate by 125 basis points from February to October 2025 (Business Standard, 2025), both countries saw a renewed surge in inflation in 2026 – the US reporting 4.2% by mid-2026 which coincided with an energy shock due to Middle East conflict (Trading Economics, 2026a), and India at 4.38% in June 2026, the highest in 17 months (Trading Economics, 2026b). The near-complete absence of any monetary tightening at the time of the supply shocks, coupled with the co-movement of inflation and the supply shocks, is an important fact that is explored in Section 8.

2.4 India-specific monetary transmission literature

Another set of studies conducted by the staff of RBI has shown to a lesser or greater extent that monetary transmission in India is weaker and slower than in advanced countries, due to both lower share of floating rates as linked to external benchmarks until 2019 reforms of RBI which made banks to link retail as well as MSME loan interest rates to their external benchmarks and still quite significant portion of the regulated small savings rates of interest that are not related to any repo rate and inflexible processes related to the bank deposits (Mohanty, 2012; Bhoi and Behera, 2017). Such limitations create a situation when even a 250 basis points increase in the repo rate creates ripples in the weighted average lending rate with both time lag and attenuation in the transmission process, making the actual impact the borrowers observe to be lesser and slower than what the actual change in repo rate suggests. This provides yet another rationale to assume that because of food-related weighting in the CPI there should remain considerably significant residual contribution of supply and fiscal approaches to discussing disinflation in the Indian economy in comparison to the monetary interpretation of the movements in the repo rate.

Another body of literature also investigates exchange rate pass-through; which acts as a third channel impacting the domestic demand and domestic supply channels outlined here; however, these two aspects are not interchangeable. When a country's currency depreciates, the price of imported raw materials in terms of the local currency goes up regardless of the current policy interest rate; thus currency depreciation events; like the one seen during the strong US dollar in 2022 and renewed rupee weakness amidst uncertain times in 2026 (see Trading Economics, 2026b), allow this effect to counter or increase the disinflationary impact of the current path of repo rates. Although the present paper does not aim at isolating the exchange rate channel, it acknowledges the existence of yet another mechanism; besides food availability and commodity prices, which may have played a significant role in the inflation process, as outlined in Section 6.

3. THEORETICAL FRAMEWORK

The AD-AS model that has been used by Bernanke and Blanchard (2023) as well as in the GSCPI literature is employed in this paper to present the analysis. Inflation could occur because of (i) an increase in demand at a given level of output, which can be resolved through interest rate increases that raise borrowing costs and contraction of investments; or (ii) a reduction in supply due to increased input, transportation, or energy prices or due to physical limitations affecting the production side which, in its turn, raises the prices due at a certain level of output and which monetary policies would address indirectly through reducing the demand enough to counterbalance the higher prices created by increased supply costs, thus having a cost of lost production and jobs (moving along rather than shifting the new supply curve).

There are three empirical results that will be discussed throughout this paper as identification means, even without a complete structural model. First, monetary disinflation will need to occur after a rise in policy rates consistent with the lag in transmission documented in the literature and will be most pronounced in CPI components sensitive to interest rates (housing, durable consumer goods, and car loans). Second, in the case of supply-side disinflation, its measurements will correlate closely with supply indicators such as GSCPI, freight rates, and energy prices in preference to policy rates, and will occur mainly in food,

energy, and traded goods sectors. Thirdly, and most significantly, when inflation rises or falls without any change in policy rates, it creates an almost natural experiment since there is no longer a change in the interest rate channel which allows one to explain shifts in inflation as a supply factor. Section 8 heavily uses the data from 2024 to 2026 based on this result.

4. DATA AND METHODOLOGY

The paper makes use of a method for comparing characteristics and timing; not a new structural VAR is estimated in the paper. On the one hand, the main aim of the research is to cover the scope of research in the length of the paper. On the other hand, it is necessary to build upon the existing research instead of repeating the research results produced in Bernanke and Blanchard (2023), Benigno et al. (2022), and Arce et al. (2024). Four categories of monthly or annual data for both the US and India from January 2022 till (when available) June 2026 are used:

Policy Interest rates: the upper limit of the target interval for Federal Funds from the Federal Open Market Committee, and the repo rate by the Reserve Bank of India from the decisions of the Monetary Policy Committee.

Inflation rate figures: year-on-year CPI-U inflation from the U.S. Fair Labor Statistics, and covered All India CPI (combined) inflation from the Ministry of Statistics and Programme Implementation (MoSPI).

Indicators showing pressure from sides of supply: Global Supply Chain Pressure Index (GSCPI) from the New York Fed, and prices of Brent crude oil from the U.S. Energy Information Administration.

Features for defining inflation: indices for food and core (except food and fuel) inflation in India from MoSPI.

The process of the analysis features three steps. The first step is to plot the series of policy rates and CPI together for each country to see whether they have the same movements in time (graphs 1, 2). The second step creates separate plots for the indicators of supply side to determine whether they lead to, coincide with, or lag behind the turning point in inflation (graphs 3, 4). The third step computes the time intervals between two events (the maximum of the policy rate and the moment when inflation has returned inside the tolerance band for the central bank as well as the maximum of inflation and the moment when it reaches the next minimum) for both countries (graph 5). In both nations there had been periods of time when the policy rate was constant (in the USA for several months and in India for several years), while inflation did continue to decrease, the length of such a disinflation period must serve as a simple indicator of the amount of disinflation that could not be attributed to anything contemporaneous in terms of monetary policy.

This method cannot completely replace structural analysis with confidence intervals, and serves as a descriptive and comparative supplement to the current structural literature. The limitations of this method are detailed in Section 10. All figures are taken from official statistics institutes, central banks, and established data aggregators (such as Trading Economics and Statista) that collect data from these institutions. Each figure has a source mentioned in the reference list, and has several missing values in the 2025-2026 period interpolated between its official data, as stated in the source of each figure.

It is necessary to mention something about the causal interpretation. Evidence based on descriptive timing can't ignore the fact that monetary tightening acts with lags which differ according to the state and resemble the signature of supply-side events in addition to the existence of expectation channels where monetary policy influences prices through different lags. Thus, the claim in this paper has a comparative and probabilistic approach. The authors consider several pieces of evidence, such as the length of disinflation after the plateau of the interest rates of central banks, concentration of prices in supply-sensitive categories, and the pure reversal in 2025-2026 without any tightening among the indicators which support supply-side approach over the monetary approach without estimating them exactly. If the authors refer to a certain percentage dividing the influence of the aforementioned channels (Section 8), this indication should rather be regarded as an interpretation based on the evidence collected than a formal estimate reached through the application of some model.

5. THE UNITED STATES: POLICY RATES, INFLATION, AND SUPPLY CONDITIONS

The upper limit of the target range of the federal funds rate has been plotted against the year-on-year change in Consumer Price Index (CPI) inflation rate for the period beginning January 2022 until August 2026. First, it was noted that the Federal Reserve started raising interest rates only by March 2022, months after the CPI inflation rate had crossed the 5% mark in mid-2021 and after the CPI rate had already reached a high of 7.9% in February 2022. This means there was a lag of around eight to nine months between inflation reaching a peak and the subsequent policy response, for which the Federal Reserve's initial perception of "transitory" price pressures has been blamed. Second, it is worth mentioning that CPI inflation rates dropped from 9.1% in June 2022 to 6.5% by December 2022 whereas the federal funds rate still continued to rise (in intervals of 75-125 basis

points per quarter). In other words, the fastest time period of disinflation coincided with the fastest phase of tightening, which makes them difficult to identify and mark time-wise separate in 2022.

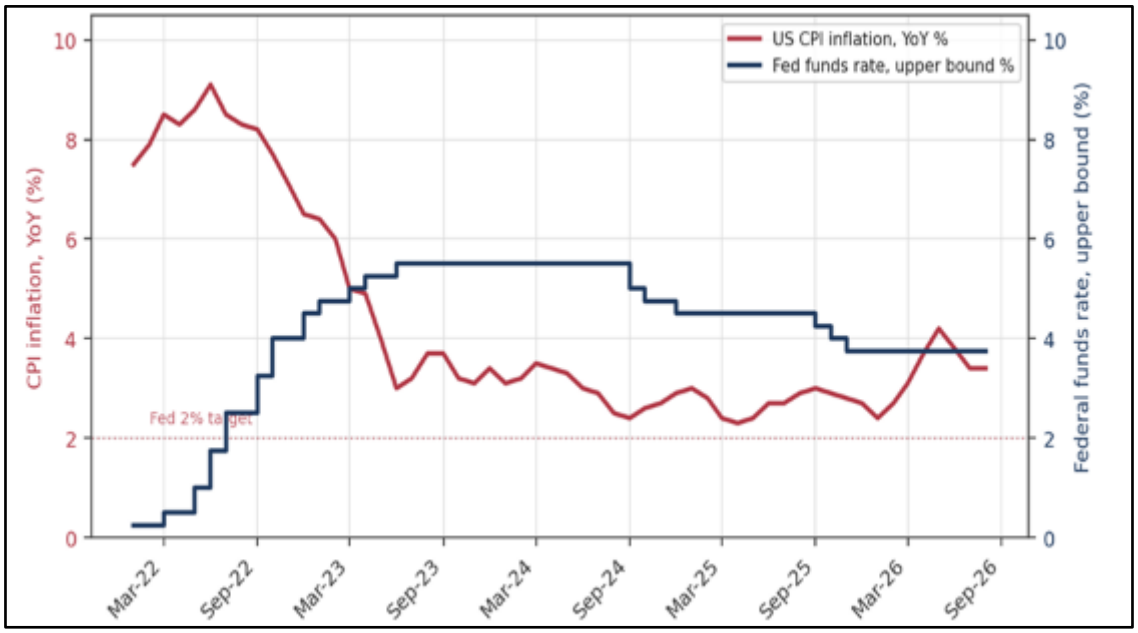

Figure 1: US Federal Funds Rate and CPI Inflation, Jan 2022–Aug 2026.

Sources: Federal Reserve; U.S. Bureau of Labor Statistics (BLS, 2026); Bankrate (2026); Trading Economics (2026a).

Midway through 2023, the situation changes. The Federal Reserve introduced its last interest rate hike in July 2023, which brought the federal funds rate to 5.25%-5.50%, and the Bank kept it at this level for thirteen months until September 2024 (Wealthvieu, 2026; TheStreet, 2026). Over this period of thirteen months, CPI started to decrease from 3.2% (July 2023) to 2.4% (September 2024), a disinflation of 0.8 percentage points with no actual policy tightening taking place, and even a rise of a real policy rate occurred solely because of a fall in inflation itself. This provides strong evidence that a big part of the disinflation in the period of 2023-2024 was not provoked by any passive monetary tightening since no tightening occurred here but rather by the process of return to equilibrium of supply conditions shown on Figure 3 below. Morningstars's macro research team comes to a similar conclusion, noting that "despite the fact that Fed tightening caused only minor damage to economic growth during 2023-24, inflation dropped sharply anyway largely due to supply-side improvement which has no relation to monetary policy" (Morningstar, 2025).

The Federal Reserve initiated its rate lowering program in September 2024, reducing the target range for the federal funds rate by a total of 175 basis points to 3.50-3.75% in December 2025 (Bankrate, 2026; Forbes Advisor, 2026). Had the decline in rates in and of itself exerted disinflationary pressure somehow or if the effects of past monetary tightening were still in the process of being transmitted to the economy, the inflation indicators would have continued to decline into 2025-2026. In actuality, the CPI inflation fell to the lowest levels between 2.3% and 2.4% in early to mid-2025 and started increasing again, reaching approximately 4.2% by mid-2026 in what Trading Economics (2026a) refers to as "an energy shock caused by the war with Iran." As a result of this, the Federal Reserve under the new Head of the Board Kevin Warsh raised the rates again in September 2026, the first interest hike in the Federal Reserve's history since 2023 (Trading Economics, 2026a; TheStreet, 2026). It is hard to understand how it could have happened especially given that the whole period was marked by flat or declining policy rates.

To What Extent Did Rate Hikes, Rather Than Supply-Side Normalisation, Bring Inflation Down in India and the Us Between 2022 And 2026?

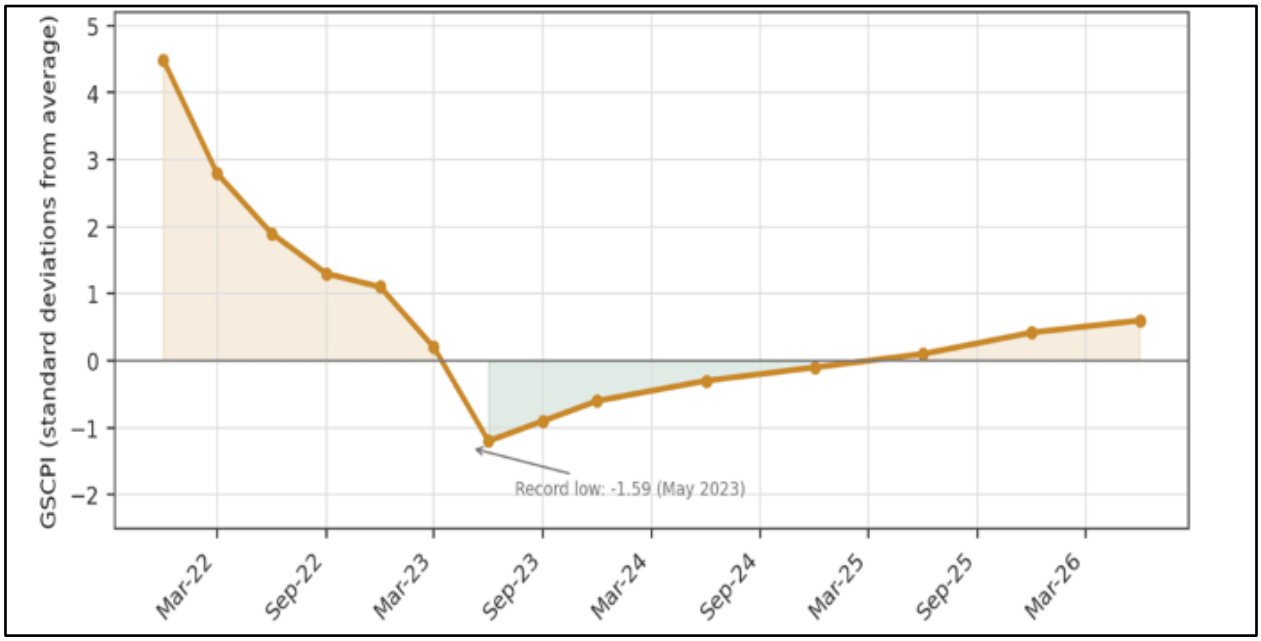

Figure 2: NY Fed Global Supply Chain Pressure Index (GSCPI), Dec 2021–Jun 2026.

Sources: Federal Reserve Bank of New York (Benigno et al., 2022; Liberty Street Economics, 2023); Trading Economics (2026c).

The GSCPI experienced a decline from its highest level of 4.49 standard deviations in December 2021 to a low of -1.59 in May 2023 (Federal Reserve Bank of New York, 2023). This drop occurred before and faster than monetary tightening, pointing to a reason for the decrease in goods and producer price inflation that Liberty Street Economics (2023) reported. Their analysis suggested that the normalization of GSCPI in the absence of monetary policy changes would be enough to bring CPI inflation below 4.00% in 2023. In addition, GSCPI turn positive between 2025 and 2026, with its value jumping to 0.42–0.49 in early 2026 (Trading Economics, 2026c), meaning that the costs of shipping and input will not create issues again as inflation rate will accelerate.

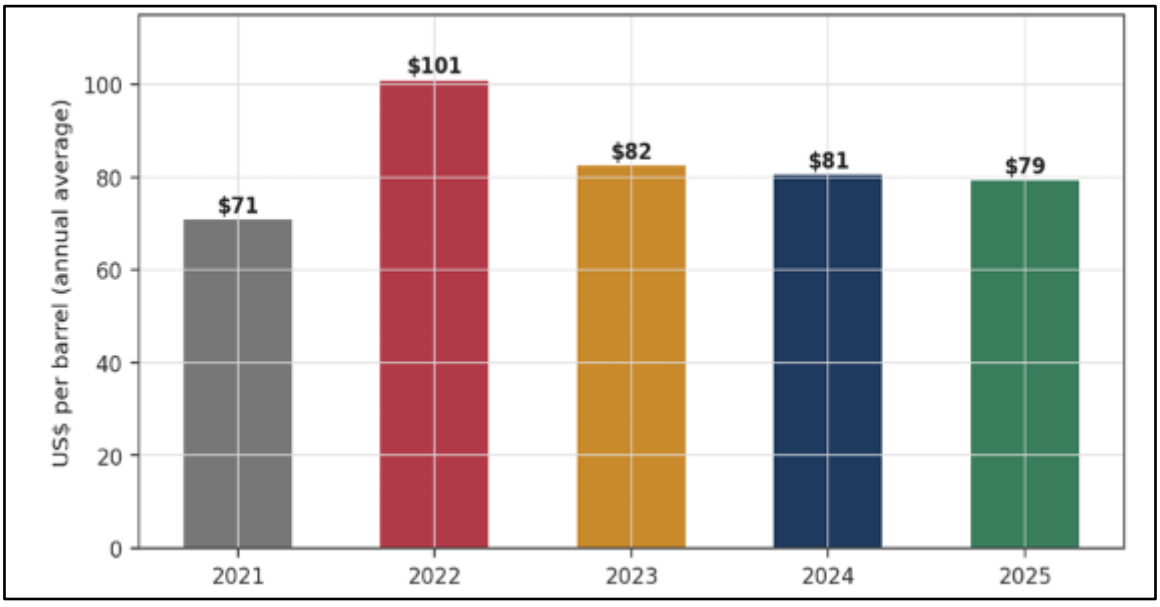

Figure 3: Brent Crude Oil Price, Annual Average, 2021–2025.

Sources: U.S. Energy Information Administration (EIA, 2024, 2026); Statista (2025).

Prices of different kinds of energy send us a similar message. In particular, the price of Brent crude oil averaged $100.93 per barrel in 2022, according to EIA (2024), due to the Russian invasion of Ukraine. However, the price of Brent crude oil reduced to $82.49 in 2023 and $80.53 in 2024 (EIA, 2026). This means that the price of oil went down by approximately 20%. This drop in oil prices automatically led to a decrease in the overall number of inflation, as the indexes depend on the price of oil in two

categories, namely the energy and the transportation categories that are not directly influenced by the interest rates in the short run. The EIA (2024) stated that the price decrease in 2023 and 2024 happened due to an increase in oil production in both OPEC and the US and due to the observation of "recovery in production" around the globe.

6. INDIA: POLICY RATES, INFLATION, AND SUPPLY CONDITIONS

The equivalent series for India can be seen in Figure 4, notably illustrating the relationship between the RBI repo rate and the year-on-year CPI inflation from January 2022 to August 2026. The inflation dynamics in India differ from that of the US in a structurally critical manner, namely that food comprises roughly 39%–46% of the CPI basket (depending on the base year) and also a significant portion of this food basket, such as vegetables, pulses, and edible oils, is subjected to supply shocks influenced by the monsoon, which are hardly impacted by interest rates. This makes India's headline inflation more erratic at high frequencies than core inflation (RBI, 2025; Mohanty, 2010).

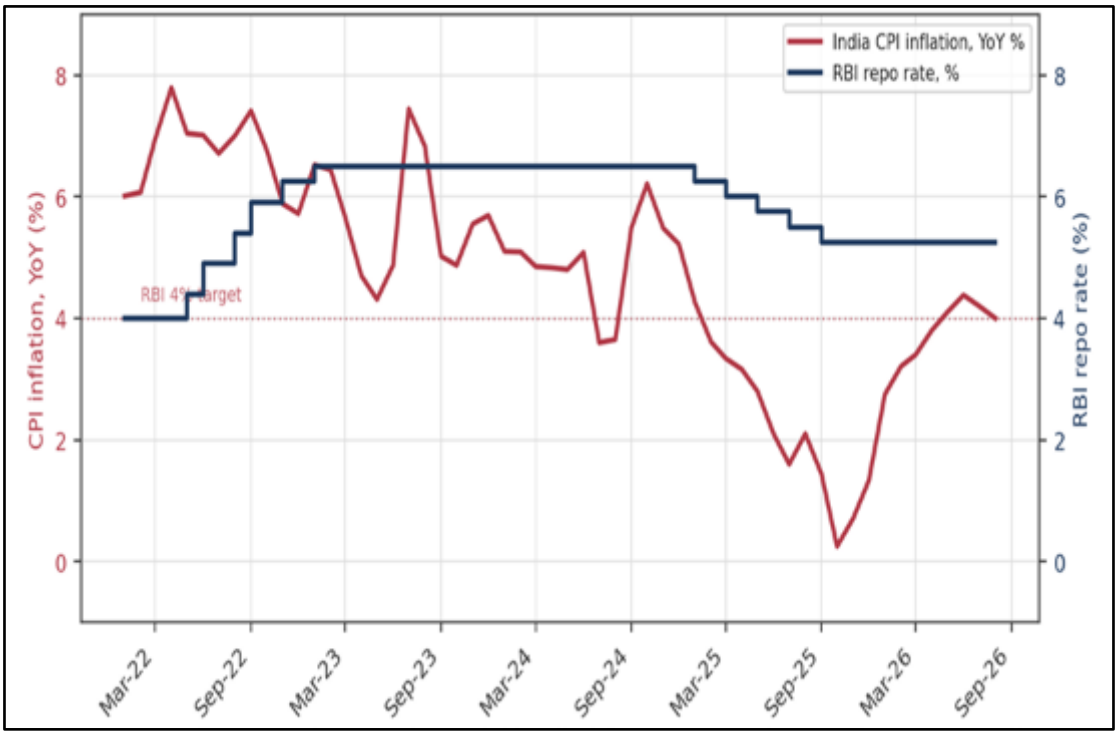

Figure 4: RBI Repo Rate and India CPI Inflation, Jan 2022–Aug 2026.

Sources: Reserve Bank of India Monetary Policy Statements (RBI, 2025); MoSPI CPI Press Releases (MoSPI, 2025); Trading Economics (2026b); PIB (2025).

The reserve bank of India's repo rate has risen from 4% to 6.50% between May 2022 and February 2023, giving a cumulative increase of 250 basis points and then maintained at 6.50% for an additional twenty-three months period between February 2023 and January 2025. The period of plateau witnessed high volatility in CPI inflation rates that have fallen to 4.31% in May 2023, increased to 7.44% in July 2023 due to vegetable price shock, reduced again to 4.87% by mandating the increase to 6.21% due to onion and vegetable prices in October 2024, before suddenly falling again. Such drastic fluctuations occurring during a single repo rate regime poses difficulty in establishing a primarily monetary perspective of Indian inflation dynamics as repo rates cannot possible result in fluctuations as high as 2% to 3% without moving. According to the data presented by the Government of India to Parliament, the disinflation during this period can be attributed to several factors, including the tightening of the monetary policy by the 250 bps from May 2022 to February 2023, in addition to other non-monetary measures. In this regard, the government remarked that average year-on-year retail inflation dropped from 5.4 per cent in 2023-24 to 4.6 per cent in 2024-25, which coincided with fiscal policy measures taken for managing food supplies (PIB, 2025).

The strongest proof of the supply-side argument in regard to India is demonstrated with the collapse of food price inflation in the year 2025. The Reserve Bank of India's own report on monetary policy issued in October 2025 states that the overall Consumer Price Index (CPI) inflation fell for nine consecutive months to reach a record low of 1.6 % in July 2025. This was a result of the longest decline of food prices (10.5%) in the history of CPI for a period of nine months, and this has been followed

by lower summer temperatures and lower sales tax rates which helped to lower prices. None of these factors – good harvests, weather, or changes in tax policy – has worked through the interest rate channel. In fact, by October 2025 India reached a unique inflation level at just 0.25%, while food prices showed negative figures (-3.91% in November 2025) due to what analysts call "successful harvest", but not because of the repo rate cut which by that time constituted 125 basis points.

The latest data provide another test in a natural experiment format, similar to the situation in the United States. In India, CPI inflation went from a record low of 0.25% in October 2025 to 4.38% in June 2026, a peak reading in seventeen months and, for the first time in that same duration, above the RBI's 4% target, while the repo rate stayed unchanged at 5.25% all along and was last adjusted in October 2025 (Trading Economics, 2026b). Trading Economics (2026b) points out that this change happened because of base effects unwinding and because of the same "Middle East conflict and global uncertainty" that increased inflation in the U.S. at the same time, and not due to any domestic monetary policy adjustments since the RBI had kept the repo rate at 5.25% during four consecutive Monetary Policy Committee meetings up until August 2026 (Trading Economics, 2026b; Bajaj Finserv, 2026).

7. COMPARATIVE TIMING ANALYSIS

The four timing periods illustrated in Figure 5 are taken from the preceding section and are constructed to reflect disinflationary periods that occurred without any active monetary tightening. In the case of the United States, the CPI reached its maximum of 9.1% in June 2022, after which it began to display values below 3% in June 2023, with a total elapsed time of twelve months. However, almost the entirety of this time interval is spent during the active tightening period of Fed; therefore, it is not possible to distinguish between the two explanations. On the other hand, India's case saw a maximum CPI in April 2022 (7.79%) and the first fall below 5% in September 2023, which is a period of seventeen months. This is longer because inflation in India is driven more by food prices; hence it does not respond as quickly to the repo rate compared to the US.

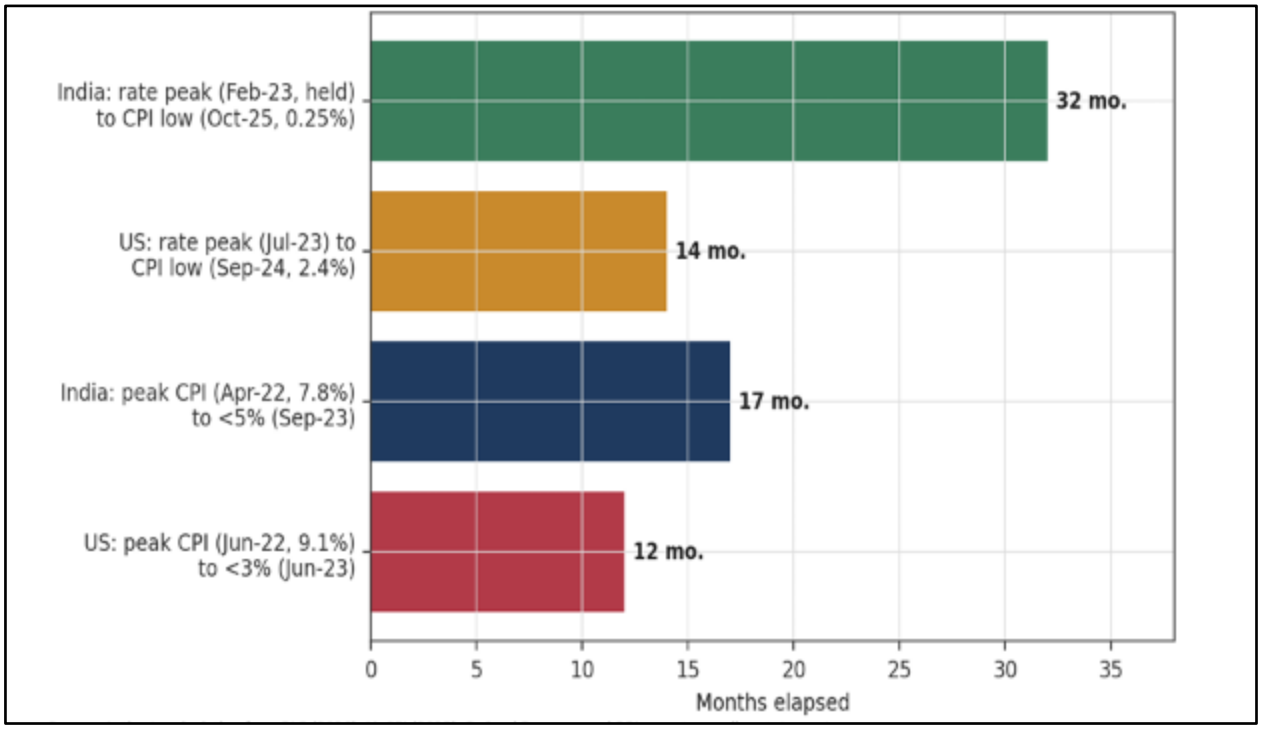

Figure 5: Time Lags Between Inflation/Rate Peaks and Subsequent Disinflation.

Source: Author's calculation from BLS (2026), MoSPI (2025), Federal Reserve, and RBI monetary policy statements.

Note: continued disinflation lag after policy rates stopped rising is consistent with supply-side normalization playing an independent role.

The diagnostic intervals are the most informative in the third and fourth bars. In the United States, fourteen months elapsed between when the funds rate reached its peak (July 2023) and CPI inflation reached its minimum (September 2024, 2.4%), during which time the policy interest rate remained unchanged. In India, the corresponding period was thirty-two months: the repo rate peaked in February 2023 (it was maintained at 6.50% until January 2025, and so February 2023 is taken as the

"effective peak" for transmission) while CPI inflation did not reach its lowest recorded level of 0.25% until October 2025. Using the transmission lags and referring to the literature on such lags which vos at about 24 months (see e.g. Christiano, Eichenbaum and Evans, 2005; Mohanty, 2012), a gap of thirty-two months between a peak (or effective plateau) and subsequent low inflation rate proves the constraints of monetary transmission but rather shows that it is necessary to consider other circumstances unrelated to monetary actions (food supply , GST, base effects).

7.1 Summary of key comparative indicators

Table 1: Comparative summary of policy rate and inflation dynamics, US and India, 2022–2026. Source: Compiled by the author from BLS (2026), MoSPI (2025), Federal Reserve, RBI, and Trading Economics (2026a, 2026b) sources cited throughout Sections 5–6.

Indicator	United States	India
Peak headline CPI inflation	9.1% (Jun 2022)	7.79% (Apr 2022)
Cumulative policy rate hike	+525 bps (Mar 2022–Jul 2023)	+250 bps (May 2022–Feb 2023)
Peak policy rate	5.25–5.50% (Jul 2023)	6.50% (Feb 2023)
Duration rate held at peak	13 months	~23 months
Inflation trough after peak	2.3–2.4% (2024–early 2025)	0.25% (Oct 2025)
Months, rate plateau fi inflation trough	~14 months	~32 months
Cumulative rate cuts to date	-175 bps (to 3.50–3.75%)	-125 bps (to 5.25%)
2026 inflation reversal	~4.2% (May 2026 peak)	4.38% (Jun 2026)
Attributed 2026 driver	Middle East / Iran energy shock	Same regional shock + base effects

When looking at the evidence as a whole, it can be said that there are two phases in the story. The first phase lasted from 2022 till early 2023. Both the tightening of monetary policy and return to normal supply chains took place in that phase, making it difficult to evaluate how the events were linked from the perspective of timing alone; this was the phase where Bernanke and Blanchard's (2023) conclusion about the demand-side channel can be accepted as accurate and true. However, during the second phase (from 2023 to 2025) the policy rates in both countries remained unchanged or even went down, but disinflation continued, or in the case of India, increased significantly; the situation complies with the idea of an independent supply-side channel, which became much stronger by that time. The increase of rate in 2025–2026 when monetary tightening on the part of both countries was absent until the hike in September 2026 by the Fed confirms the validity of conclusion about supply shocks being strong enough to provide considerable influence on inflation even years after the imposition of restrictive policies; thus, it was clear that supply changes not policy changes determined the inflation trend.

8. DISCUSSION: ATTRIBUTING THE DISINFLATION

What conclusions can be drawn with regard to the relative role of the two channels, especially given the descriptive rather than structural nature of our analysis? Three arguments support the argument of the paper that, particularly after 2022, the supply side was the major factor in contributing to the disinflationary processes in the two economies, while also noting the significant and, very likely, dominant role of monetary factors in the establishment of inflation expectations throughout 2022.

Firstly, it is significant to obtain a distinction between the expectations-anchoring role of monetary policy and the direct effect of monetary policy on the price level. According to Bernanke and Blanchard (2023), short-run inflation is caused by product-market shocks. Furthermore, persistence and wage-price spiral risks depend on whether inflation expectations can remain anchored. The role of aggressive interest hikes may have been important in that regard because of the signaling effect of rate increases, even if the subsequent process of demand contraction takes place in a mechanical manner and has nothing to do with the actual

level of demand for goods and energy. There are some additional arguments that can provide evidence supporting the idea that tightening was working in this capacity in 2022.

Secondly, the composition of disinflation is important. In the U.S., the categories that experienced the largest drops between 2022 and 2024, energy commodities, used cars, and core goods, are precisely the categories that have experienced a extreme weakening in global supply chain and commodity price shifts as seen in GSCPI and Brent oil data (Figures 3 and 4); while shelter inflation, the most credit-sensitive and demand-sensitive CPI element, was much more obstinate and took time to start easing from 2025 and onward (Trading Economics, 2026a). Regarding India, the RBI's own reports directly refer food price drops and the temporary GST reform as the main recent causes of disinflation which are both supply-side and fiscal effects rather than being the results of credit effects (RBI, 2025).

Third and most importantly, the 2025–2026 time period is an approximate natural experiment. Since the monetary policy rates were roughly stable or decreasing in the U.S. in 2025, and since India's repo rate did not change from October 2025 to mid-2026, any inflation variations occurring in the specified period can neither be interpreted mechanically as a contemporaneous monetary effect nor plausibly as an impact of the earlier contractionary cycle, which was already finished for two or three years at that moment. What we can see is that both nations had a noticeable inflation acceleration during that period, coinciding with an upsurge in the GSCPI and an energy crisis explicitly connected to the conflicts in the region of the Middle East and Iran (Trading Economics, 2026a, 2026b). The fact of the symmetry characterized by increases in inflation due to supply shocks in the years of 2021 and 2022, and again in the years of 2025 and 2026 with the disinflation happening in between, is the most significant argument in favor of treating supply normalization and its reversal as the key driver of inflation cycle developments: monetary tightening was primarily aimed at preventing the 2022 supply shock from becoming self-sustained due to unemployment expectations.

By and large, it can be stated that the data collected here depicts a moderate, yet decisive conclusion: interest rate increases were not unnecessary, but neither were they too important or perhaps even driving force behind the disinflationary process of 2023-2025 in both countries, although its contribution was particularly significant in saving the day in terms of the negative consequences of inflationary shock in 2022. An adequate understanding of comparative statistics would suggest the presence of 30-50 per cent of total disinflationary impact in each economy via the monetary channel, which has been prominent in 2022 and among credit-sensitive categories, with the rest being explained better through the normalisation of global supply chains, energy market situation, and in the case of India even food supply and one-time taxation changes. This is in line with the view expressed by Morningstar (2025) that Federal Reserve tightening had only a minor impact upon the economic growth in 2023-2024 while inflation remained significantly low due to the positive supply-side changes.

9. POLICY IMPLICATIONS

9.1 For inflation-targeting frameworks

It is possible that a considerable amount of disinflation in both nations from 2023 to 2025 may have been supply-led instead of brought about by the policy rate. Central banks, which mostly depend on the policy rate, may experience two problems. First, they may be overly tightening policy, compared to what is required in terms of demand-side inflation and incurring losses in terms of output and employment during periods of excessive tightening (like in India, where there was high core inflation throughout the period of being stuck at the 6.5% level). Second, they may not be prepared for supply shocks that fall beyond the scope of the policy rate’s direct impact, as is seen in 2025-2026 when the inflation rates in both countries begin rising again. Therefore, both the inflation-targeting objectives as well as the associated communication need to be made more explicit in terms of supply/demand distinction.

9.2 For the RBI specifically

Since inflation in India is primarily influenced by food prices and food supply disturbances have minimal sensitivity to the repo rate, the Reserve Bank of India (RBI)’s choice of continuing with its practice of presenting the food/fuel/core inflation measure in addition to the headline inflation on the same lines as the country’s fiscal authorities, working together with fiscal authorities to facilitate the measures like buffer stock maintenance, tariff changes, and export restrictions during the periods of food inflation should be seen as a major policy measure adopted by RBI (as we learn from the experience with GST reform in September 2025). The monetary policy model that focuses on CPI while noting in its analysis that non-pricing factors play an important role has some incentives in terms of establishing relevant rules for determining exactly when food and energy-induced inflation should result in difference in interest rate policy.

9.3 For the Federal Reserve

The historical period of the United States from 2025 to 2026 indicates that the shocks from energy and geopolitics still have the ability to create a significant inflation surprise in the economy where the majority of the credit is interest sensitive, even if the country is coming to the close of one of its major tightening cycle in the history. Along these lines, we can conclude that it is more useful to keep the monitoring devices that include GSCPI within the Federal Reserve than to stop using these tools, as well as to keep in mind that if inflation is driven by domestic demands (where the tool to be used is the interest hike), there is also inflation whose source is the energy and shipping shocks that must be ignored (at least until inflation expectations become stable).

9.4 For fiscal-monetary coordination

The experience of both nations underlines the arguments for enhancing the toolkit of fiscal and structural policies that it is possible to use along with the policy interest rates. Such elements as reserves of food and oil, flexible taxation regarding food imports, and tax relief measures for the people (for example, India's plan of GST reform that was put into effect in September 2025) enable one to manage inflation arising from supply shocks much more effectively, thereby incurring much lower costs of aggregate demand.

9.5 For financial markets and household borrowers

A supply-dominant interpretation of the episode also suggests certain things about the interpretation of the central bank signalling by markets and households. To the extent that past disinflation has reflected supply normalising rather than the cumulative effect of higher policy rates, the markets' expectation that future disinflation will obviously mean that more rate cuts are about to take place might fail when the next inflation surprise turns out to be supply-driven, as it happened in both countries in 2026. Given how many Indian households have taken home and automobile loans correlated to the repo rate and external benchmarking rates, it implies that the amount spent on servicing the loans would remain high most of the time even if it appears from the demand side point of view that India is witnessing lowered inflation levels. This is likely because the central bank should keep enough space for negative shocks that could challenge existing expectations. A clear difference should be made in communication from both the Federal Reserve and the Reserve Bank of India between a decrease in inflation due to supply and decreased inflation as a result of effective implementation of policies.

10. LIMITATIONS

The methodology of this paper is neither structural nor is it one that makes a point estimate VAR or DSGE decomposition with confidence intervals; the attribution conclusions contained in this paper are to be interpreted as directionally supported by the timing and the compositional evidence, not as a point estimate. A complete series of monthly observations was not available at the time of writing for several individual data points, specifically for India, for 2025–2026 months from May to June 2025, and for the US, for 2026 months from February to July; these are included in each affected figure in the source notes and are only intended to illustrate the overall trend of the reported data, and not to represent precise monthly observations. The paper also fails to account for the role of fiscal policy (pandemic-era stimulus withdrawal, changes in food subsidy measures), pass-through in prices, and the separate effects of quantitative tightening and policy rate adjustment, which are likely to interact with both of the channels under study here. Lastly, the analysis focuses on headline and food/core CPI aggregates and does not take advantage of micro-level or sector-level price information which could further precision of the demand/supply attribution.

11. CONCLUSION

During the era comprised of 2022 to 2026, the United States and India both underwent significant shifts in their respective inflation rates followed by significant disinflation. Both countries underwent tight monetary cycles for the first time in decades. The findings of this report have shown that, while the monetary tightness does play its role in shaping inflation expectations during the acute period of inflation in 2022, the majority of the disinflation happening in 2023 onwards, as well as the strong reversal that happened in 2025-2026, was more influenced by independent and separate events in global supply chains, energy and agricultural sectors, rather than by events related to monetary policy cycles. The strongest evidence in support of this assertion is the fact that inflation continued to decline for a period ranging between thirteen and thirty-two months after the cessation of each central bank's policy interest rate hike. Additionally, in both countries, inflation once again soared during the period between 2025-2026, despite relatively constant or declining interest rates. The implication is not that monetary policy played no role in this process, but rather that its importance has most likely been exaggerated in the public and policymaking

discourses regarding this disinflationary episode, with significant ramifications for the actions of central banks in both countries in reaction to the next supply shock.

More generally speaking, the episode from 2022-2026, looked at in wide terms, not merely through its tightening stage of 2022-2023 can be regarded as simply an elaborate cycle of the supply-side shocks followed by recovery and a new shock within which the monetary policy has nevertheless played a significant but still a secondary and mainly expectation-based role. In the future, it would be interesting to look into the ways of formal structural decomposition of the episode, the techniques that have been initiated by Bernanke and Blanchard (2023) in their America study and were applied for the euro area in Arce et al. (2024), especially in the light of the fact that it is believed in current India that the whole success of the disinflationary policy has been related mainly to the mechanisms of the interest rates and not the influence of the shocks in the food and energy sectors.

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