



KAMARAJ IAS ACADEMY
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Inflation falls but not unemployment

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Context

- At **less than 3%**, the inflation figure for May is **well within the target set by the government of India**. This has led to a celebration in the media of the Reserve Bank of India's prowess in macroeconomic management.
- While year-on-year **inflation fell from 3.2% in April to 2.8% in May**, the latest Periodic Labour Force Survey shows that the **unemployment rate rose from 5.1% in April to 5.8% in May**.
- **For those employed, a reduction in inflation is good news**
- But for those seeking employment, it makes no difference. They remain unemployed.
- Monetary Policy Committee meeting, **RBI Governor expressed willingness to lower repo rate again if inflation continues to decline**.

NAIRU (Non-Accelerating Inflation Rate of Unemployment)

- NAIRU, or the Non-Accelerating Inflation Rate of Unemployment, is the **level of unemployment below which the rate of inflation is expected to rise**
- The Non-Accelerating Inflation Rate of Unemployment (NAIRU) for India is estimated to be around **6.06%**, according to some research
- This means that **if the unemployment rate in India falls below this level**, it is likely to **put upward pressure on inflation**
- Conversely, **if unemployment is above this level**, it would likely **cause inflation to slow down or decrease**

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