

STAGFLATION



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Understanding Stagflation
– By Prof. *Simply Simple*



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- ❑ While we are perhaps overexposed to the term “inflation”, it would be interesting to understand the concept of stagflation in this context.
- ❑ In the next few slides let me try and explain the same to you.

What is Stagflation?



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- ❑ While inflation refers to rising prices in a growing economy, stagflation takes place when price rises are accompanied by a stagnant economy.

- ❑ Thus in stagflation:
 - Prices of goods rise
 - Economy does not exhibit growth
 - Hence employment & consumption both dwindle

- ❑ While inflation, which seems to be making all the news is bad; stagflation is a lot worse.



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A balancing act

- ❑ In this context, you will understand the role that the RBI Governor plays and the criticality of his role.
- ❑ While the RBI, through its monetary policy aims to rein in inflation by increasing interest rates and CRR rates, it has to do a balancing act to ensure that the measures being enforced do not strangle economic growth and send the economy into stagflation.



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While this may not be such a big problem for an economy like India which still has substantial growth potential in spite of inflation; for countries growing at 1% to 2%, the balancing act by the central bank gets extremely crucial to prevent the economy from slipping into stagflation.



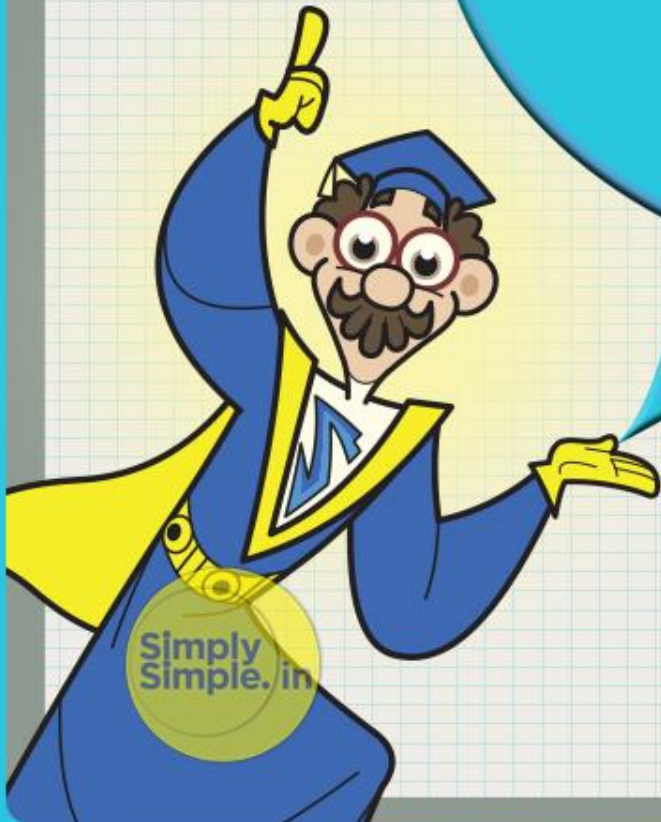
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This is why we describe the Indian economy as being robust, based on sound fundamentals of consumption potential which, in a sense, hedge the economy from the forces of stagflation.



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What is the remedy for stagflation?



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- ❑ **Removal of structural bottlenecks by introducing reforms would help unlock the economy's growth potential.**
- ❑ **Along with introducing reforms, tightening of monetary screws by the central bank can further stir the economy out of stagflation.**



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To Sum Up

- ❑ **Recession can be held at bay by lowering interest rates, while inflation is usually tamed by raising interest rates.**
- ❑ **Given the impossibility of pursuing both courses of action simultaneously, priorities come into play. This is where the actions of the RBI become crucial.**
- ❑ **Historically, inflation has been considered the greater long term economic menace and has therefore been dealt with first but taking care that the growth engine is not derailed leading to stagflation.**
- ❑ **As our economic growth is based on strong fundamentals, we need not fear stagflation but need to overcome inflationary forces.**



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**Hope you have now understood
the concept of Stagflation**

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