# Stagflation Concerns in India

## What is the issue?

With fast decelerating economic growth and sharply rising inflation, there is a growing talk about India facing stagflation.

## What is Stagflation?

- Stagflation is a combination of stagnant growth and rising inflation.
- Typically, inflation rises when the economy is growing fast.
- This is because as people earn more, they become capable of paying higher prices for the same quantity of goods.
- When the economy stalls, inflation tends to dip as well.
- This is again due to the fact that there is less money now chasing the same quantity of goods.
- In contrast, stagflation is said to happen when an economy faces stagnant growth as well as persistently high inflation.
- With stalled economic growth, unemployment tends to rise.
- Also, existing incomes do not rise fast enough, but people have to contend with rising inflation.
- So, people find themselves pressurized from both sides as their purchasing power is reduced.

## What were the notable stagflation instances?

- The term ‘stagflation’ was coined by Iain Macleod, a Conservative Party MP in United Kingdom.
- This came in the context of the UK economy in November 1965.
- But, the most famous case of stagflation happened in the early and mid-1970s.
- The OPEC (Organisation of Petroleum Exporting Countries), which works like a cartel, decided to cut oil supply.
- Resultantly, oil prices went up across the world.
- The rise in oil prices constrained the productive capacity of most western economies that heavily depended on oil.
- This, in turn, hampered economic growth.
- On the other hand, the oil price spike also led to inflation and commodities became more costly.

- The net result was lower growth, higher unemployment, and higher price level; in all, stagflation.

## What is the current economic scenario in India?

- Over the past 6 quarters, economic growth in India has decelerated with every quarter.
- In the second quarter (July to September, 2019), the GDP grew by just 4.5%.
- In the October to December, 2019 quarter too, GDP growth is likely to stay at roughly the same level.
- For the full financial year, the GDP growth rate is expected to average around 5%, which is a six-year low.
- Yet, in October and November, retail inflation has went up.
- In fact, the October inflation was a 16-month high, and the November inflation, at 5.54%, is at a 3-year high.
- Inflation for the rest of the financial year is expected to stay above the RBI's comfort level of 4%.
- So, with growth decelerating every quarter and now inflation rising up every month, there are growing concerns of stagflation in India.

## Is India really facing stagflation?

- Although it appears so at the first glance, India is not yet facing stagflation.
- **Growth** - India is not growing as fast as it had in the past or as fast as it could.
- However, it is still growing at 5%, and is expected to grow faster in the coming years.
- It's growth has not yet stalled and declined.
- In other words, year on year, India's GDP has grown in absolute number, not declined.
- **Inflation** - It is true that retail inflation has been quite high in the past few months.
- But, the reason for this spike is only temporary.
- It has been caused by a spurt in agricultural commodities after some unseasonal rains.
- So, with better food management, food inflation is expected to come down.
- The core inflation (inflation without taking into account food and fuel) is still in the safe zone.
- Moreover, retail inflation has been well within the RBI's target level of 4% for most of the year.
- So, a sudden spike of a few months, which is likely to flatten out in the next few months, is a premature criterion for the stagflation claims or concerns.

**Source: Indian Express**

