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Stagflation

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Macroeconomic events are cyclical, we see peaks and troughs, and the fact that nothing Is constant. Earlier we would see a huge gestation period in the incidents, most of the events were localized to some parts of the world but now that the economies are intertwined. Like right now, the Russia- Ukraine war opened the eyes of a lot of other countries and encouraged them to consider reducing their reliance on Russia for oil, gas, fertilizers and food grains.

Apart from this, the advent of technology has also changed the face of the global economy, the traditional industries like oil and gas,have been knocked off their perch by new-age tech companies like Apple, Google, etc. This clubbed with things like automation, advancements in AI have also changed the employment landscape, as more and more jobs (especially ones that are repetitive and transactional in nature) have been re-engineered or reduced.

With the context set above, let's explore what stagflation means and its manifestation in the current scenario, we will also look at elements associated with stagflation that may have occurred previously so as to better understand this.

"Stagflation is a fusion of the words: stagnation and inflation. It describes an economic condition in which slow growth and high unemployment combine with rising prices." (Asdefined by IMF)

How are stagflation and inflation different from each other?

- Inflation refers to the state of rising prices, the prices continuously rise over a period of time, prices rise at a faster rate and the rise in the prices of goods may not be equal for all goods and services.
- Stagflation happens when inflation exists in sync with high economic growth and unemployment. Inflation and Unemployment do not take place together- the relation can be seen as unemployment rates increase, inflation usually decreases, and vice versa.

Is it another fancy term that the economists have come up with?

Energy prices skyrocketed due to an embargo led by OPEC (Organization of the Petroleum Exporting Countries) resulting in crude prices doubling from 1973 to 1975. This led to high inflation and recession for countries that imported large amounts of oil. And then it happened *again*, a few years later, during the Oil Shock of 1978-1979, the Iranian Revolution and a subsequent decline in the country's oil output of nearly 5 million barrels per day. These events, combined with hoarding, lead to oil prices doubling from April 1979 to April 1980)

Characteristics of Stagflation

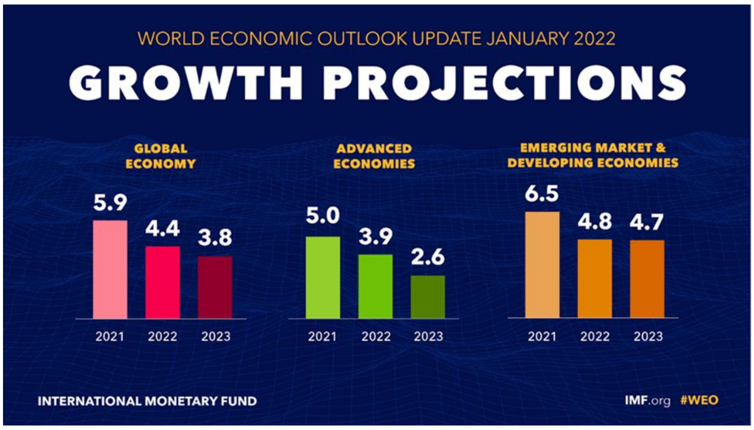
- High unemployment- This means less money in the economy, less buying and selling, and ultimately disrupts the demand-supply chain, in turn, and crushes the GDP.
- High inflation, currently, the highest rate in Turkey- 54.8%, and now Sri Lanka is in a huge mess, with inflation at 54.6% and food inflation at 80.1%. the value of Sri Lankan money has completely diminished, 1 dollar is now equal to 362.84 Sri Lankan money.
- Low GDP- Predicted to reach 2.9%
- Recession in key sectors- Since the demand-supply chain will be disrupted it will ruinthe production sector,
- Ineffective policies- It means that the policies already put in place might prove to be ineffective, the Russia-Ukraine war has taught everyone that all countries need to be independent and not rely on other countries for oil, gas, etc.

Effects of stagflation in the world

- The trifecta of slow growth, high unemployment, and fast inflation puts significantpressure on the economy.
- Stagflation is harmful to the economy, as high inflation and uncertainty spoilinvestment decisions.
- It is also damaging to fixed income markets, as rising interest rates push bond priceslower.

- The fixed income groups suffer, as the rise in their salary is not close to the rise of the prices of goods and commodities.

Predicted in January by the IMF, but now with the Ukraine invasion, as of June 7th 2022, the world bank has predicted that the global growth is expected to nosedive even further from percent in 2021 to 2.9 percent in 2022— a whopping 4.1 differential between theanticipation in January and in June.



Where does India stand in this regard?

- RBI has already raised the repo rate (the rate at which the commercial banks borrow from the central bank). Previously, it was 4% now it stands at 4.4%. It has been done to be better prepared for the current rise in prices and the current inflation in the economy.
- The Manufacturing Purchasing Managers' Index (PMI) stood at 54.6 in May, from 54.7 in April, pointing to a sustained level across the sector.
- The PMI also suggests improvement in the jobs in the manufacturing sector due to a boost in sales. Goods and Services Tax (GST) collections for the month of May came in at over Rs 1.4 lakh crore. Though 15 percent lower than the last month, the collections indicate improved economic activity.
- According to the Center for Monitoring Indian Economy (CMIE), the unemployment rate in the country rose up to nearly 8% in December up from 7 the year before

How to tackle stagflation?

Some methods to brace ourselves from stagflation have already been given by the economists in their fancy language but the question being how can we understand it in a layman's language so that we can be prepared for the negative impact of this phenomenon.

- Limit the devastation and harm caused by the war in Ukraine
- Try and limit the rising prices of oil and food
- Step up debt relief efforts
- Be better prepared for the waves to come and limit the spread of covid
- Use low carbon energy sources