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Clear and present danger: Economy facing rising risk of stagflation

The economic trend of stagflation is marked by rising inflation and falling GDP growth

India's economy which is already reeling under immense turbulence unleashed by the Covid-19 pandemic, now faces an ever increasing risk of stagflation, experts opined. The economic trend of stagflation is marked by rising inflation and falling GDP growth.

"In our opinion, the risks of stagflation which is a painful phase of low or negative growth and high inflation have visibly increased for the Indian economy," Suman Chowdhury, Chief Analytical Officer at Acuite Ratings and Research, told IANS.

"Unless food inflation is controlled in the short term, such an environment may set in where monetary and fiscal policies may not easily be effective, aggravating the challenge for the policy makers."

"At present, supply disruptions caused by localised lockdowns and intermittent heavy rainfall, as well as taxation changes and modifications necessitated by social distancing, are outweighing faltering demand, which is raising the unpalatable likelihood of a stagflation-like scenario arising," said Aditi Nayar, Principal Economist, ICRA.

"In our assessment, the CPI inflation will remain above 6 per cent in August 2020, and continue to exceed 4 per cent in September-October 2020. However, we expect inflation to drop rapidly between September-December 2020, keeping alive the possibility of a final cut in the MPC's February 2021 meeting."

According to Madhavi Arora, Lead Economist, FX and Rates for Edelweiss Securities: "Amid consistent supply shocks, we now see inflation hovering above 6 per cent in the near term, and averaging over 5.5 per cent in FY21."

"Headline CPI inflation will likely be below 4 per cent by year-end with rebalancing of effective demand-supply dynamics, sharply widening output gap and favourable base effect. We maintain further scope for upto 50 bps cut in the current cycle, but with MPC's desire for statistical reflection of durably low inflation, near term cuts may be ruled out. Irrespective of the policy stance, RBI's yield curve management in the form of outright OMOs and operation twist will continue."

However, **M. Govinda Rao, Chief Economic Advisor, Brickwork Ratings, said: "What we see now is a recession combined with inflation. The decline in the GDP in two successive quarters is called recession."**

"Liquidity is not the reason for the recession. The economy was decelerating even before the crisis but after the pandemic struck, there is a decline in GDP or contraction in the economy. This is mainly due to the lockdown which has caused both the demand and supply to contract. Liquidity injection is to ensure that the businesses have adequate working capital when the capacity utilisation increases as the lockdown is relaxed."