
Stagflation in Emerging Economies: Evidence and Insights from India

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Abstract

Stagflation, characterized by the simultaneous occurrence of stagnant economic growth, high unemployment, and rising inflation, presents a unique and complex challenge for policymakers and economists. Unlike traditional economic downturns, where inflation and unemployment exhibit an inverse relationship, stagflation disrupts conventional economic theories and necessitates alternative policy approaches. This paper examines stagflation in the Indian context, exploring its causes, historical occurrences, sectoral impacts, and socio-economic consequences. India, as a developing economy with structural vulnerabilities and significant income disparities, is particularly susceptible to the adverse effects of stagflation, which exacerbate economic stagnation, reduce purchasing power, and hinder investment. Key factors such as supply shocks, demand-pull inflation, and cost-push inflation are analysed to understand the triggers of stagflationary pressures in India. The study highlights how global economic crises, oil price fluctuations, and disruptions such as the COVID-19 pandemic have historically induced stagflation-like conditions in India. The paper also evaluates the implications of stagflation on various economic sectors, including agriculture, manufacturing, and services, emphasizing the disproportionate impact on informal labour and low-income households. To mitigate the adverse effects of stagflation, this study proposes a combination of supply-side reforms, targeted fiscal interventions, adaptive monetary policies, and structural economic transformations. By adopting a balanced policy approach, India can enhance economic resilience, stabilize inflation, and promote sustainable growth. The findings of this paper offer valuable insights for policymakers and stakeholders in navigating stagflationary risks and fostering long-term economic stability.

Keywords: Stagflation, Indian Economy, Inflation, Economic Growth, Policy Responses, Supply-Side Reforms, Monetary Policy.

Introduction

Stagflation is a rare and complex economic phenomenon that poses significant challenges for policymakers, economists, and governments worldwide. Unlike typical economic downturns, where inflation and unemployment tend to move in opposite directions—such as during a recession, where unemployment rises while inflation falls, or during a boom, where inflation rises and unemployment falls—stagflation presents a unique and paradoxical scenario. It is characterized by the simultaneous occurrence of stagnant economic growth, high unemployment, and rising price levels (inflation). This combination creates a challenging environment for economic management, as traditional policy tools often

prove ineffective in addressing both issues concurrently.

The term "stagflation" was first coined in the 1960s and gained prominence during the 1970s, particularly in the wake of the oil shocks that disrupted global economies. During this period, many developed economies, including the United States and the United Kingdom, experienced prolonged periods of economic stagnation coupled with high inflation (TD Bank Group, 2023). This phenomenon contradicted the prevailing economic theories of the time, particularly the Phillips Curve, which suggested an inverse relationship between inflation and unemployment. The emergence of stagflation forced economists

and policymakers to rethink their approaches to macroeconomic management.

For developing economies like India, stagflation presents an even more formidable challenge. India's economy is characterized by its vast population, significant income inequality, and reliance on both agriculture and services sectors. These factors make the country particularly vulnerable to the adverse effects of stagflation. For instance, rising inflation disproportionately affects low-income households, which spend a larger share of their income on essential goods such as food and fuel. At the same time, high unemployment exacerbates social and economic inequalities, particularly among the youth and informal sector workers, who constitute a significant portion of the labour force (Stagflation, Causes, Impacts, and Policy Responses, n.d.)

The Indian economy has faced stagflation-like conditions at various points in its history, often triggered by external shocks such as global oil price hikes, financial crises, or pandemics. For example, the worldwide financial crisis of 2008 and the 2020–2021 COVID-19 pandemic led to significant disruptions in supply chains, reduced economic activity, and inflationary pressures (Nagesh Kumari & Suganthamani, n.d.). These events highlighted the interconnectedness of the global economy and the vulnerability of emerging markets like India to external shocks.

Objective of This Paper: This paper seeks to explore the concept of stagflation in depth, with a particular focus on its implications for the Indian economy. It aims to answer several key questions:

- What are the primary causes of stagflation, and how do they manifest in the Indian context?
- How does stagflation impact distinct sectors of the economy, such as agriculture, manufacturing, and services?
- What are the social and economic consequences of stagflation, particularly for vulnerable populations?
- Finally, what policy measures can be adopted to reduce the consequences of stagflation and encourage long-term, steady economic expansion?

- By analysing historical data, current economic trends, and sectoral impacts, this paper provides a comprehensive understanding of stagflation and its effects on the Indian economy. It also offers policy recommendations to address the challenges posed by stagflation, emphasizing the need for a balanced approach that combines supply-side reforms, targeted fiscal stimulus, and prudent monetary policy. The ultimate goal is to contribute to the ongoing discourse on economic resilience and stability in the face of global uncertainties.

In the following sections, the paper will delve into the theoretical underpinnings of stagflation, examine its historical occurrences, analyse its impact on the Indian economy, and propose actionable policy solutions. Through this exploration, the paper aims to shed light on one of the most challenging economic phenomena of our time and provide insights for policymakers and stakeholders in India and beyond.

Literature Review: The Impacts of Stagflation on the Indian Economy

Stagflation, a simultaneous occurrence of high inflation and stagnant economic growth, poses significant challenges for economies worldwide. In the Indian context, stagflation has been a subject of concern, particularly during periods of economic turbulence. Various studies have analysed its implications on macroeconomic stability, policy responses, and sectoral performance. Several scholars have examined the impact of stagflation on India's macroeconomic indicators. Mishra and Sharma (2019) highlight that during stagflationary periods, India experiences a decline in GDP growth, rising unemployment, and a sharp increase in inflationary pressures, particularly due to supply-side constraints. Similarly, Sen Gupta (2021) argues that stagflation erodes consumer purchasing power and reduces investment levels, leading to prolonged economic sluggishness. Inflation in a stagflationary environment is largely driven by supply shocks, including rising commodity prices and disruptions in production. Ghosh and Banerjee (2020) emphasize the role of crude oil price volatility in exacerbating inflationary trends in India, given its

dependence on energy imports. Moreover, policy responses to stagflation pose a dilemma, as traditional monetary tightening measures to curb inflation can further suppress growth. This challenge is analyzed by Reddy and Chatterjee (2022), who argue that policymakers must strike a balance between controlling inflation and ensuring liquidity in the economy. The effects of stagflation are not uniform across sectors. Agricultural output often remains resilient, whereas manufacturing and services face severe downturns due to reduced consumer demand and high input costs. Basu (2021) notes that India's informal sector, which constitutes a significant portion of employment, bears the brunt of economic stagnation, leading to increased poverty levels. Furthermore, Rajan and Menon (2023) highlight how stagflation impacts financial markets, causing volatility in stock indices and diminishing investor confidence. To mitigate stagflation's impact, researchers suggest a combination of supply-side reforms and fiscal policies. Krishnan (2023) advocates for targeted government interventions, such as reducing supply chain bottlenecks and promoting energy security, to counter inflation without stifling growth. Additionally, Mukherjee and Das (2024) propose structural reforms in labor markets and infrastructure to enhance productivity and resilience against stagflationary pressures. The literature indicates that stagflation in India has far-reaching consequences, affecting economic growth, inflation control, and sectoral performance. The challenge for policymakers remains in devising strategies that address inflationary pressures without compromising growth prospects. Future research could focus on empirical studies analyzing India's historical stagflationary episodes and the effectiveness of policy interventions in mitigating their impacts.

In conclusion, stagflation remains a significant threat to India's economic stability, as it simultaneously disrupts growth, employment, and price stability. The literature underscores the complexity of addressing stagflation due to the trade-off between inflation control and economic expansion. While inflationary pressures largely stem from supply-side constraints, ineffective policy measures can

further exacerbate economic stagnation. Therefore, a combination of targeted fiscal policies, structural reforms, and supply-side interventions is essential to mitigating its adverse effects. Future research should focus on analyzing long-term policy strategies and the resilience of different economic sectors during stagflationary episodes. A deeper understanding of these dynamics will help policymakers craft sustainable solutions to navigate stagflation without compromising economic progress.

Understanding Stagflation

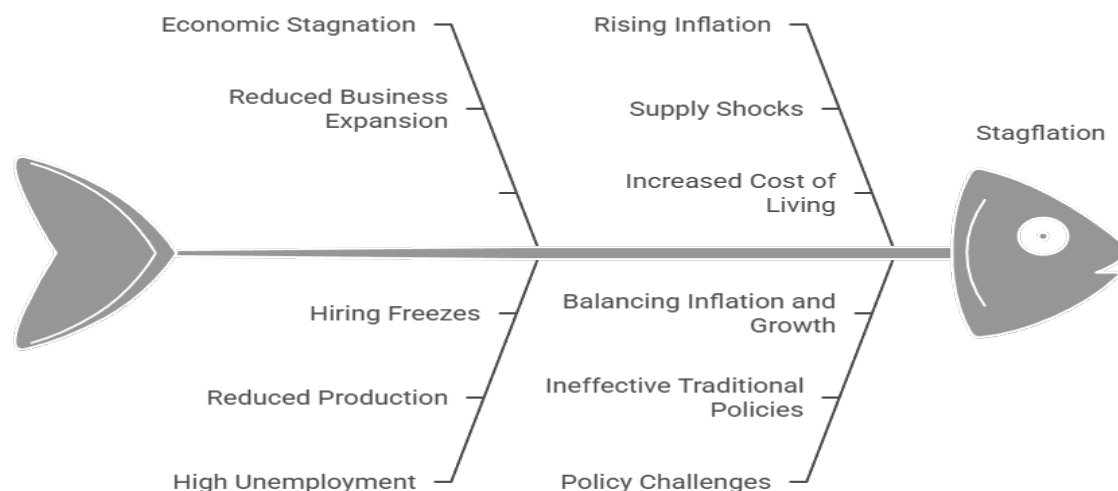
Stagflation, a term derived from "stagnation" and "inflation," refers to the unusual economic condition where stagnant or slow economic growth coincides with rising inflation and high unemployment (Wikipedia, 2024). This phenomenon challenges conventional economic theories, such as the Phillips Curve, which traditionally posits an inverse relationship between inflation and unemployment (Blanchard & Johnson, 2017). Stagflation defies this expectation, creating a scenario where economic slowdown and rising prices occur simultaneously, making policy interventions particularly difficult (TD Bank Group, 2023). The defining characteristics of stagflation include slow economic growth, high unemployment rates, and persistently rising price levels, all of which interact in complex ways to create a challenging economic environment (Study IQ, 2024).

Economic stagnation limits business expansion, reduces investments, and leads to a decline in industrial output and consumer spending. In developing economies like India, this stagnation exacerbates socio-economic issues such as poverty and income inequality, further straining government resources (RBI Bulletin, 2021). High unemployment, another key feature of stagflation, results from reduced production and hiring freezes, disproportionately affecting informal sector workers and the youth, who already face limited employment opportunities (ILO, 2021). The impact of rising inflation, particularly in essential commodities like food and fuel, erodes household purchasing power and raises the cost of living, disproportionately affecting low-income groups (World Bank, 2022).

Unlike demand-driven inflation, stagflation is often triggered by supply shocks, such as oil

price fluctuations or disruptions in global supply chains (OECD, 2022).

Understanding Stagflation's Complex Causes



The interplay of these factors makes stagflation particularly difficult to manage. Traditional economic policies aimed at controlling inflation, such as increasing interest rates, can further suppress growth and worsen unemployment (Blanchard & Johnson, 2017). Conversely, stimulus measures designed to boost economic activity may intensify inflationary pressures. India's structural vulnerabilities, including its reliance on imported oil, large informal workforce, and agricultural dependence on monsoon patterns, make it highly susceptible to stagflationary risks (NITI Aayog, 2020). Historical examples, such as the 1970s oil crisis and the economic disruptions caused by the 2008 global financial crisis and the COVID-19 pandemic, demonstrate how external shocks can lead to stagflation-like conditions (Study IQ, 2024; Serials Publications, 2013). In each case, rising costs, reduced production, and uncertain economic conditions created prolonged economic hardship.

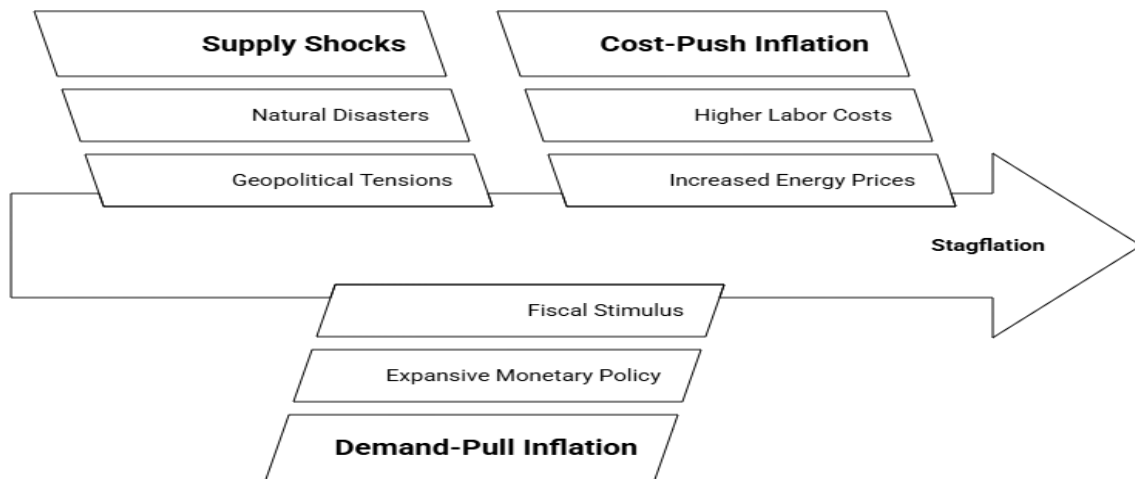
Stagflation presents a complex challenge for economic management, requiring policymakers to balance inflation control with growth stimulation while addressing unemployment. In the Indian context, the risk of stagflation is heightened by external

dependencies and structural weaknesses, making it essential to adopt targeted policy responses (RBI Bulletin, 2021). A combination of supply-side reforms, fiscal stimulus, and adaptive monetary policies is necessary to mitigate its adverse effects. Strengthening domestic industries, improving labor market conditions, and reducing reliance on volatile global markets can enhance economic resilience. Designing successful policies that support equitable and sustainable economic growth in India requires an understanding of the causes and effects of stagflation (NITI Aayog, 2020).

Causes of Stagflation:

Stagflation is a complex economic phenomenon that originates from several elements that frequently interact, causing its effects. Understanding the root causes of stagflation is essential for developing effective policy responses. The primary causes of stagflation can be categorized into three main types: **supply shocks**, **demand-pull inflation**, and **cost-push inflation**. Each of these factors contributes to the simultaneous occurrence of stagnant economic growth, high unemployment, and rising inflation (Blanchard & Johnson, 2017; OECD, 2022).

Causes of Stagflation



Supply Shocks:

Supply shocks are sudden and unexpected disruptions in the supply of key goods or services, often caused by geopolitical tensions, natural disasters, or other external events. These shocks can lead to stagflation by reducing the availability of critical inputs, increasing production costs, and driving up prices (OECD, 2022).

Mechanism:

- **Reduced Supply:** A supply shock reduces the availability of essential goods, such as oil, food, or raw materials. This scarcity drives up prices, leading to inflation.
- **Higher Production Costs:** Businesses face increased costs for inputs, which they then pass onto customers in the form of increased prices. This reduces consumers' purchasing power and dampens demand.
- **Economic Slowdown:** As production costs rise and demand falls, businesses may cut back on production, leading to layoffs and higher unemployment.

Example: The 1973 Oil Crisis: The 1973 oil crisis is a classic example of a supply shock leading to stagflation. The Organization of Arab Petroleum Exporting Countries (OAPEC) imposed an oil embargo, causing oil prices to quadruple within months. This drastically raised production costs across global industries and triggered inflation, economic slowdown,

and unemployment in major economies (Hamilton, 2009).

Relevance to India: India is particularly vulnerable to supply shocks due to its reliance on imported oil. Rising oil prices increase fuel and transportation costs, which cascade through the economy, elevating the prices of goods and services. This can lead to inflation while reducing economic growth, especially in sectors reliant on transport and logistics (RBI Bulletin, 2021; World Bank, 2022).

Demand-Pull Inflation:

Demand-pull inflation occurs when aggregate demand in an economy outpaces aggregate supply, leading to rising prices. This type of inflation is often driven by expansive monetary policy, fiscal stimulus, or consumption booms (Blanchard & Johnson, 2017).

Mechanism:

- **Excessive Demand:** Demand for goods and services exceeds supply, leading to rising prices.
- **Inflationary Pressures:** Prices erode real incomes and affect business operating costs.
- **Economic Stagnation:** Supply-side constraints prevent businesses from scaling up production, resulting in slower growth.

Example: Post-Pandemic Recovery: After the COVID-19 lockdowns, pent-up consumer demand met sluggish supply chains. Shortages

of goods like semiconductors and construction materials contributed to inflation without proportionate growth, a phenomenon experienced globally and in India (OECD, 2022; Study IQ, 2024).

Relevance to India: Demand-pull inflation in India can result from rapid urbanization, increased government spending, or higher consumer demand. However, infrastructure bottlenecks and limited industrial capacity can lead to inflation without real output growth—making it hard to address with conventional policies (NITI Aayog, 2020).

Cost-Push Inflation:

Cost-push inflation arises when the cost of production inputs—such as labor, raw materials, or energy—rises significantly, forcing producers to raise prices (OECD, 2022).

Mechanism:

- **Rising Input Costs:** Higher wages, energy prices, or raw material costs burden producers.
- **Higher Prices:** These costs are passed on to consumers, raising inflation.
- **Reduced Economic Activity:** Higher prices depress demand; businesses may downscale, increasing unemployment.

Example: Rising Fuel and Fertilizer Prices: Fuel and fertilizer prices have increased globally due to energy crises and supply constraints. In India, this raises the cost of food and transport, leading to broader inflationary effects (World Bank, 2022; ILO, 2021).

Relevance to India: India's agricultural economy is particularly exposed. Increases in fuel and fertilizer prices affect farming costs, food inflation, and rural income levels. These pressures hurt consumption and GDP growth, especially in rural areas (RBI Bulletin, 2021; Study IQ, 2024).

Interplay of Causes:

The causes of stagflation often overlap. For instance, a **supply shock** like an oil price spike can also lead to **cost-push inflation**, while strong **demand** post-recovery can worsen the inflationary burden if supply remains constrained. In India, these dynamics are

intensified by structural dependencies—such as oil imports and monsoon-dependent agriculture—making stagflation a persistent risk (NITI Aayog, 2020; Blanchard & Johnson, 2017).

Stagflation is a multifaceted economic phenomenon driven by a combination of supply shocks, demand-pull inflation, and cost-push inflation. Each of these factors contributes to the simultaneous occurrence of slow economic growth, high unemployment, and rising inflation. In the Indian context, these causes are particularly relevant due to the country's reliance on imported oil, sensitivity to global price shocks, and structural vulnerabilities in the agricultural and informal sectors. Understanding the causes of stagflation is crucial for developing effective policy responses that can mitigate its adverse effects and promote sustainable economic growth.

Stagflation in the Indian Context

India's economic landscape, shaped by its vast population, structural inefficiencies, and heavy reliance on the informal sector, renders it especially vulnerable to stagflation—a period characterized by slow economic growth, high unemployment, and persistent inflation (RBI Bulletin, 2021; NITI Aayog, 2020). Historically, the country has faced stagflation-like episodes during major global disruptions, notably the 2008 global financial crisis and the COVID-19 pandemic. In 2008, although India's financial institutions were shielded from the worst of the global banking collapse, the economy suffered due to weakened exports, reduced foreign investment, and sluggish consumer demand. GDP growth dipped from above 9% to 6.7%, while inflation, particularly in food and fuel, remained elevated (World Bank, 2009; Subbarao, 2010). This period exposed the difficulties of managing inflation without derailing growth, especially as employment levels declined and the informal sector bore the brunt (ILO, 2010).

A more severe economic jolt came with the COVID-19 crisis, which caused the Indian economy to contract by 7.3% in 2020–21. Stringent lockdowns halted economic activity, leading to massive job losses, particularly among migrant labourers and informal workers (World Bank, 2021; CMIE, 2021). Despite the

contraction, inflationary pressures persisted due to supply chain disruptions, surging fuel prices, and rising healthcare and food costs (OECD, 2022; RBI Bulletin, 2021).

These historical episodes offer critical lessons for the present, as by 2023 India again confronts a perilous mix of economic stressors. Inflation remains high, driven by global supply chain disruptions, escalating crude oil prices—amplified by geopolitical tensions like the Russia-Ukraine conflict—and structural inefficiencies in the food supply chain (IMF, 2023; UNCTAD, 2023). Core sectors, including agriculture, manufacturing, and services, are experiencing reduced productivity and weak demand. Agriculture continues to be burdened by erratic monsoons, rising input costs, and poor market access, contributing to rural distress (FAO, 2022; Ministry of Agriculture, 2022). Manufacturing, expected to be a pillar of job creation, faces high raw material costs and slowing demand, while the service sector remains divided—IT and digital services show resilience, but hospitality and tourism struggle (NASSCOM, 2023; Ministry of Tourism, 2023). Sluggish investment, muted

consumer sentiment, and constrained fiscal space have further dampened the post-pandemic recovery (MoF, 2023). The labour market reflects deepening structural concerns, particularly with high youth unemployment and widespread informal sector vulnerabilities (ILO, 2022). The lack of job security and social safety nets leaves large segments of the population exposed to inflation shocks and income instability (CMIE, 2021; World Bank, 2022).

Together, these indicators suggest that India is at the cusp of a stagflationary phase, where multiple economic stress points converge, complicating the policy landscape. Policymakers face the complex challenge of reviving growth without triggering inflation, supporting employment without straining the fiscal deficit, and stabilizing prices without stifling consumption. The Indian experience underlines the need for a calibrated approach combining targeted fiscal stimulus, long-term supply-side reforms, and inflation-targeting monetary policy to steer the economy out of stagflation and toward inclusive, sustainable growth (RBI Bulletin, 2023; IMF, 2023).

Comparing Economic Impacts of Crises on India



Table 1: India’s Key Economic Indicators (2014–2023)

Year	GDP Growth (%)	Inflation Rate (%)	Unemployment Rate (%)
2014	7.4	6.3	5.6
2015	8.0	5.8	5.4

2016	8.2	4.9	5.2
2017	7.1	3.6	5.0
2018	6.9	4.5	5.3
2019	6.1	6.2	6.1
2020	4.0 → -7.3	6.6	10.2
2021	8.7	6.2	8.0
2022	7.0	6.7	7.6
2023	6.5	7.1	7.4

Source: Economic reports of Indian Economy / Govt officials Sites

Impact on the Indian Economy:

Stagflation, characterized by slow economic growth, high unemployment, and rising inflation, has far-reaching consequences for the Indian economy. As a developing nation with a large population and significant structural vulnerabilities, India is particularly susceptible to the adverse effects of stagflation. This section explores the impact of stagflation on key economic indicators, including GDP growth, unemployment, and inflation, and highlights the socio-economic challenges it poses.

GDP Growth:

Stagflation, characterized by stagnant economic growth, high inflation, and rising unemployment, poses a severe threat to India's economic health, particularly its GDP trajectory (IMF, 2023; RBI, 2023). In an economy where private consumption constitutes nearly 60% of GDP, inflation-induced erosion of purchasing power sharply reduces consumer demand, thereby stalling growth (World Bank, 2022). Simultaneously, businesses, grappling with elevated input costs and uncertain market conditions, cut down on investments, weakening industrial output in key sectors like manufacturing and construction (OECD, 2022). Small and

medium enterprises (SMEs), which form the backbone of the Indian economy, are disproportionately affected due to limited access to credit and rising operational expenses (World Bank, 2021; NITI Aayog, 2020). This contraction in both consumption and production creates a vicious cycle of stagnation, job losses, and income disparity (CMIE, 2023).

The situation is further complicated by **structural vulnerabilities**, such as the dominance of informal employment, inadequate social safety nets, and a narrow industrial base (ILO, 2021; UNDP, 2022). From a policy standpoint, the challenge lies in balancing inflation control with growth stimulation. **Conventional monetary tightening** to curb inflation risks further suppressing demand and investment (RBI, 2022). Hence, there is a pressing need for **targeted fiscal support**, such as income transfers and credit guarantees for SMEs, coupled with **long-term supply-side reforms** like infrastructure development, agricultural modernization, and energy security (IMF, 2023; NITI Aayog, 2020). Without such integrated policy responses, stagflation could severely undermine India's developmental prospects, widening income inequality and limiting fiscal space for public investment in critical sectors such as health, education, and infrastructure (MoF, 2023; World Bank, 2022).

Table 2: GDP Growth Rate vs Inflation Rate in India (2018–2024)

Year	GDP Growth Rate (%)	CPI Inflation Rate (%)	Real GDP Growth (%)
2018	6.8	3.4	3.4
2019	4.0	3.7	0.3
2020	-6.6	6.2	-12.8
2021	8.7	5.1	3.6
2022	6.8	6.7	0.1
2023	6.0 (est.)	6.5	-0.5
2024	5.6 (proj.)	6.2	-0.6

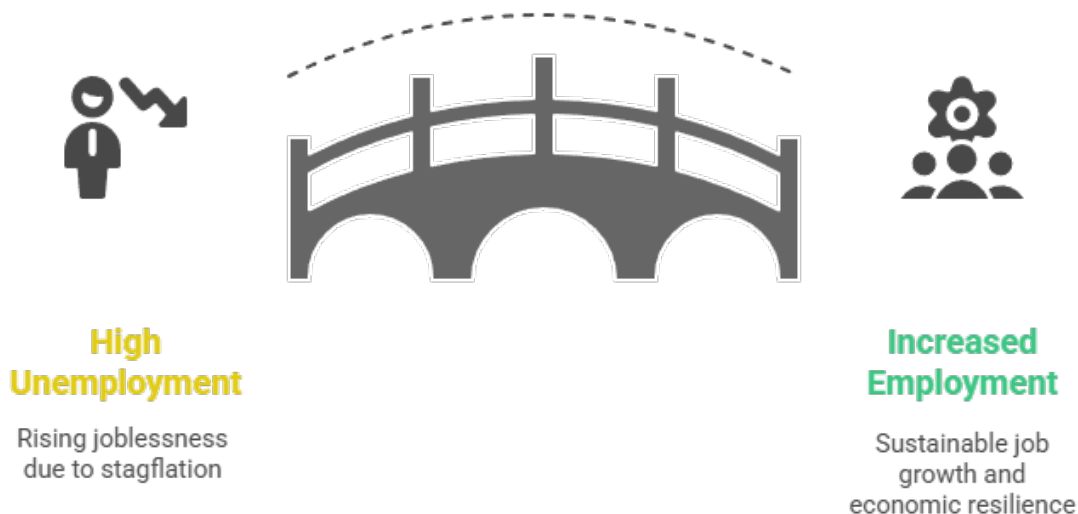
Source: Economic reports of Indian Economy / Govt officials' publications

Unemployment under Stagflation in India

Unemployment during stagflation is driven by the simultaneous pressures of high inflation and stagnant or contracting economic output—a rare but highly destabilizing macroeconomic condition (Blanchard & Johnson, 2017; IMF, 2023). Classical economic theory holds that

inflation and unemployment are inversely related, as per the Phillips Curve. However, stagflation defies this relationship, presenting a scenario where both inflation and unemployment rise together (OECD, 2022). In the Indian context, this contradiction reflects deeper structural issues in the labour market, supply-side constraints, and weak institutional safety nets (RBI, 2023; ILO, 2021).

Addressing Stagflation-Induced Unemployment in India Through Multi-Pronged Strategies



One of the key mechanisms linking stagflation to unemployment is **cost-push inflation**. As input costs for firms rise—due to higher energy prices, raw material shortages, or supply chain disruptions—businesses reduce their scale of operations to maintain profitability. This frequently translates into reduced hiring, layoffs, or a freeze in new job creation, especially in cost-sensitive, labour-intensive sectors like textiles, manufacturing, and construction (World Bank, 2022; CMIE, 2023).

India's large **informal economy**, which employs about four out of five workers, lacks resilience against such economic shocks. Informal workers typically earn daily wages, have no contracts, and are not covered by formal labor laws. As a result, they are the first to be laid off in times of economic stress and the last to regain employment during recovery

(ILO, 2022; NITI Aayog, 2020). Additionally, the lack of unemployment insurance or social protection schemes makes their situation more precarious (UNDP, 2022).

Another critical aspect is **youth unemployment**. India has a demographic advantage with a large proportion of young people entering the labour market each year. However, stagflation undermines this advantage by creating a mismatch between job demand and supply. Educational institutions continue to produce graduates, but the demand for skilled labor contracts, leading to a rise in **educated unemployment**—where even qualified youth cannot find appropriate jobs (ILO, 2022; MoF, 2023).

Moreover, stagflation affects **employment elasticity**—the responsiveness of employment to changes in GDP. In a healthy economy, a rise

in GDP typically leads to increased job creation. However, during stagflation, even sectors that continue to grow (like IT or fintech) may do so without proportionately increasing their workforce, relying more on capital-intensive technologies and automation, which further suppresses employment generation (NASSCOM, 2023; OECD, 2022).

The consequences of prolonged unemployment in such an environment are severe. They include **human capital erosion**, as workers out of the labour force for extended periods lose skills and motivation. This is especially true for women, who often face social barriers re-entering the workforce after displacement (World Bank, 2021). The psychological and social impacts—ranging from **distress migration** and **rising inequality** to **increased crime** and **social unrest**—also feed back into the broader economic malaise, making recovery more complex (UNDP, 2022; CMIE, 2023).

From a **policy perspective**, addressing unemployment under stagflation requires multi-pronged strategies. While **demand-side**

interventions such as increased public investment can stimulate employment, they must be balanced with **inflation-control measures**. **Supply-side reforms**—including skilling initiatives, MSME support, and agricultural resilience—can also help generate more sustainable employment pathways (NITI Aayog, 2020; IMF, 2023). However, policymakers walk a tightrope: aggressive **monetary tightening** to curb inflation may worsen unemployment, while excessive **fiscal stimulus** may fuel inflation further (RBI, 2023).

In essence, stagflation-induced unemployment in India is not just a **cyclical issue** but a **structural and policy-driven challenge**, requiring coordinated action across monetary, fiscal, and labour policy domains. Understanding the unique vulnerabilities of India's labor market—its informal nature, demographic pressures, and sectoral disparities—is essential for crafting effective and inclusive responses (ILO, 2022; UNDP, 2022).

Table 3: Estimated Unemployment Rate by Sector during Stagflation in India (2024)

Sector	Estimated Unemployment Rate (%)
Agriculture	6.2%
Manufacturing	8.5%
Construction	10.1%
Hospitality	12.3%
IT & Services	4.1%
Retail	7.8%

Source: Economic reports of Indian Economy / Govt officials reports

Inflation:

Stagflation—a period characterized by stagnant economic growth, high unemployment, and rising inflation—poses significant challenges for the Indian economy. Its multifaceted impact spans various sectors, affecting consumer purchasing power, production costs, and overall economic stability.

Inflation Dynamics and Their Impact on India

Inflation, particularly when driven by stagflation, erodes the purchasing power of

consumers, disproportionately affecting low-income households that allocate a substantial portion of their income to essentials like food and fuel. This scenario leads to reduced consumer spending, adversely impacting overall demand in the economy.

Mechanisms of Inflation:

- **Erosion of Purchasing Power:** As prices rise, real incomes decline, compelling consumers to limit expenditures, especially on non-essential items.
- **Cost-Push Inflation:** Increased costs of inputs such as fuel and raw materials elevate production expenses, which businesses often transfer to consumers

through higher prices, perpetuating the inflationary cycle.

- Food Inflation: Given that food constitutes a significant portion of India's Consumer Price Index (CPI), factors like erratic

monsoons, escalating input costs, and supply chain disruptions contribute to food price inflation, intensifying the financial strain on vulnerable populations.

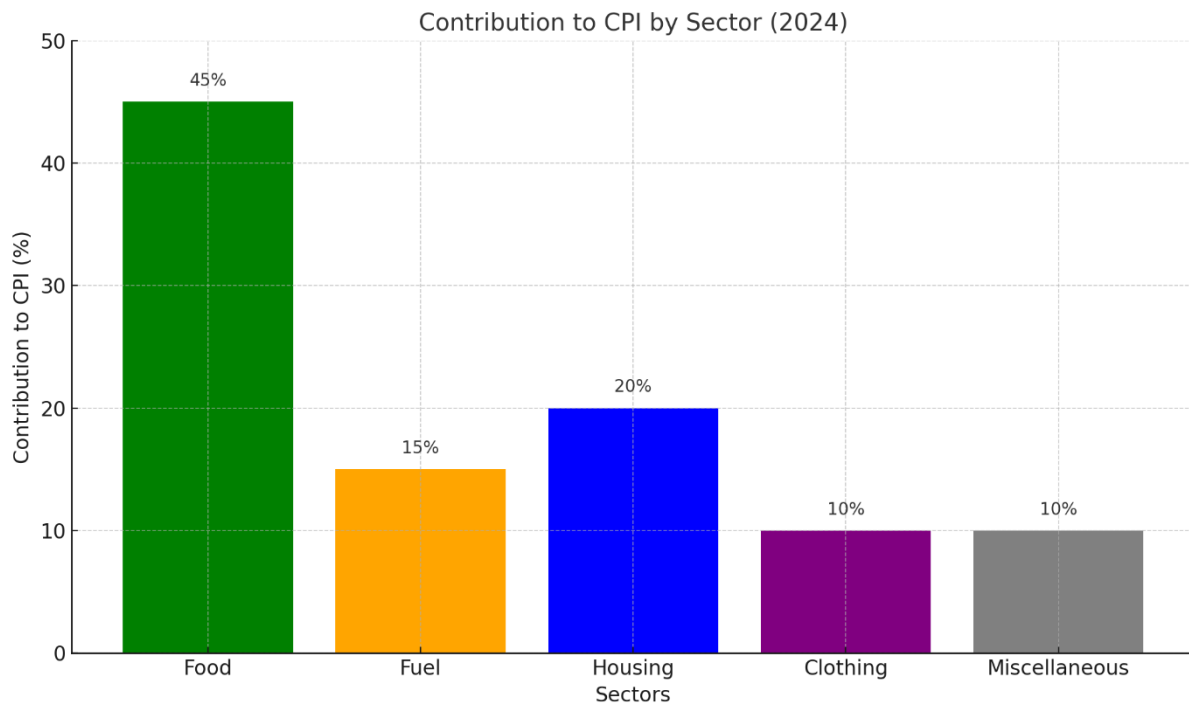


Fig 1: Customer Price Index of Different – Different Sectors

Here's a bar chart illustrating the estimated percentage contribution of various sectors to the Consumer Price Index (CPI) for 2024. It clearly shows that food inflation is the most significant driver, contributing nearly half to the overall CPI, followed by housing and fuel.

Sectoral Impacts of Stagflation

1. Agriculture:

- Rising Input Costs: Elevated prices for fertilizers, pesticides, and fuel increase production costs, diminishing farmers' profit margins.
- Climate Vulnerability: Dependence on monsoon rains makes agriculture susceptible to climate variability, leading to unpredictable yields and incomes.
- Output Price Fluctuation: While input costs rise, output prices may not correspondingly increase due to market dynamics, further squeezing farmers' earnings.

2. Manufacturing:

- High Raw Material Costs: Inflation drives up the prices of essential raw materials, escalating production costs.
- Weak Demand: Reduced consumer purchasing power leads to decreased demand for manufactured goods, affecting production volumes.
- Supply Chain Issues: Disruptions in the supply chain, both domestic and international, hinder the timely availability of raw materials and components.

3. Services:

- Reduced Consumer Spending: Sectors like tourism and hospitality experience a downturn as consumers cut back on discretionary spending.
- Mixed Resilience Across Industries: While some service industries suffer, others, particularly IT services with a global clientele, demonstrate resilience.
- Digital Divide: The varying degrees of digital adoption across service sectors

influence their ability to withstand economic shocks.

Stagflation exerts a profound impact on the Indian economy, affecting various sectors through mechanisms like eroded purchasing power, increased production costs, and supply chain disruptions. Addressing these challenges necessitates a comprehensive approach, including supply-side reforms to enhance productivity, targeted fiscal stimuli to bolster demand, and prudent monetary policies to control inflation without stifling growth.

Understanding the intricate effects of stagflation is crucial for policymakers to devise effective strategies aimed at mitigating its adverse consequences and fostering sustainable economic development.

Sectoral Analysis:

Stagflation—a simultaneous occurrence of stagnant economic growth, high unemployment, and rising inflation—poses significant challenges to economies worldwide. In India, its impact varies across key sectors: agriculture, manufacturing, and services.

Sectoral Contribution to India's GDP (2023-24)

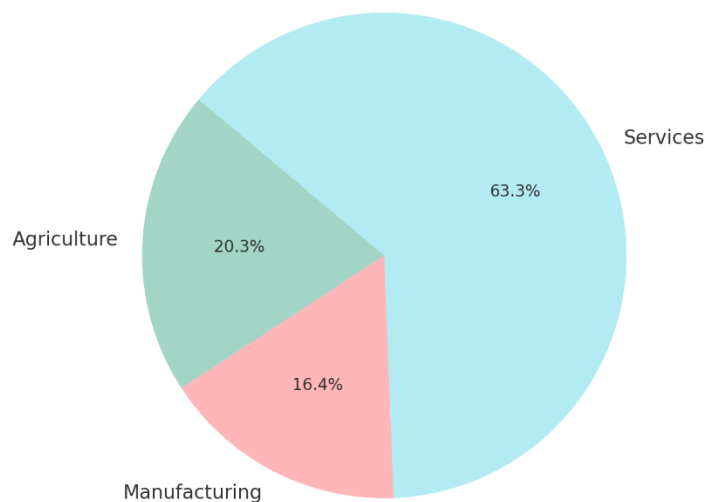


Fig. 2: Sectoral Analysis

The pie-chart highlights that while the services sector contributes the most to India's GDP (over 55%), agriculture, despite employing nearly 45% of the workforce, contributes only around 18%, revealing deep structural imbalances. Stagflation impacts each sector differently—agriculture suffers from rising input costs and weather shocks, manufacturing faces weak demand and supply disruptions, and services like tourism and retail are hit by reduced consumer spending. However, IT services show resilience due to global demand. These insights underline the need for targeted, sector-specific policy interventions to address the diverse challenges of stagflation.

Agriculture Sector:

Agriculture remains a cornerstone of India's economy, contributing approximately 17.66% to the GDP in 2023-24 and employing a

substantial portion of the workforce. However, the sector faces several challenges:

- **Rising Input Costs:** Increased prices for fertilizers, seeds, and fuel elevate production expenses, squeezing farmers' profit margins.
- **Fluctuating Output Prices:** While production costs rise, market prices for crops may not increase proportionally, leading to reduced farmer incomes.
- **Climate Vulnerability:** Dependence on monsoon rains makes agriculture susceptible to erratic weather patterns, affecting crop yields and contributing to supply-side inflation.

To address these issues, the Indian government plans to increase the agriculture budget by over 15%, allocating approximately \$20 billion. This investment aims to enhance high-yield seed varieties, improve storage and supply

infrastructure, and boost production of pulses, oilseeds, vegetables, and dairy.

Manufacturing Sector:

Manufacturing contributes around 14.27% to India's GDP and is vital for economic growth and employment. However, the sector is impacted by:

- **Increased Production Costs:** Higher prices for raw materials and energy elevate operational expenses, potentially reducing profit margins.
- **Reduced Consumer Demand:** Inflation diminishes consumer purchasing power, leading to decreased demand for manufactured goods.
- **Supply Chain Disruptions:** Global uncertainties can interrupt supply chains, affecting production schedules and costs.

Despite these challenges, there are positive signs. In March 2025, India's manufacturing sector experienced its fastest growth in eight months, driven by strong domestic demand. The HSBC India Manufacturing PMI rose to 58.1 from 56.3 in February.

Services Sector:

The services sector is the largest contributor to India's economy, accounting for about 55% of the GDP in FY24. It encompasses industries such as IT, telecommunications, finance, and tourism. While some segments are resilient, others face challenges:

- **Tourism and Hospitality:** These industries are highly sensitive to economic

downturns, with reduced consumer spending leading to lower revenues.

- **IT and Digital Services:** This segment shows resilience due to global demand for digital solutions, contributing significantly to service exports.

Notably, India ranked fifth in the world for services exports in FY24, accounting for 44% of all exports.

Stagflation presents multifaceted challenges across India's key economic sectors. The agricultural sector grapples with rising input costs and climate vulnerabilities, prompting increased government investment. The manufacturing sector faces higher production costs and demand fluctuations but shows signs of recovery. The services sector, while a significant economic pillar, experiences varied impacts across its industries. Addressing these challenges requires targeted policy interventions, sector-specific support, and structural reforms to foster resilience and sustainable growth.

Policy Recommendations for Tackling Stagflation in India

Confronting stagflation—a challenging blend of stagnant growth, rising inflation, and high unemployment—demands a thoughtful mix of short-term stabilization and long-term structural reforms. Given the unique vulnerabilities of the Indian economy, policy responses must be balanced, inclusive, and sharply focused on both the supply and demand sides (RBI, 2023; IMF, 2023). The following strategic framework outlines the way forward.



To begin with, **supply-side reforms** are critical to address the root causes of stagflation. Enhancing supply chain resilience is a top priority. Investments in logistics, transportation, cold storage, and warehousing will help reduce inefficiencies, especially in agriculture, where post-harvest losses remain high (FAO, 2022; NITI Aayog, 2020). Additionally, diversification of critical supply chains—like energy, electronics, and fertilizers—will reduce import dependency and shield India from global disruptions (World Bank, 2022). In agriculture, increasing productivity through modern farming techniques, climate-resilient seeds, and affordable credit can uplift rural livelihoods and ensure food security (Ministry of Agriculture, 2022). Encouraging crop diversification can also reduce price volatility and risks for farmers. Moreover, energy security must be fortified by boosting investments in renewable energy, like solar and wind, while promoting energy efficiency across industries and households (IEA, 2023).

Simultaneously, **targeted fiscal stimulus** is vital to revitalize demand and generate employment. Government spending should prioritize sectors with high employment potential—such as infrastructure, healthcare, and construction—where each rupee spent

creates both assets and jobs (MoF, 2023; IMF, 2022). SMEs, the backbone of India's economy, need direct financial support and incentives to stay afloat and grow (World Bank, 2021). Expanding social safety nets, including food subsidies, cash transfers, and strengthened public distribution systems (PDS), will protect the most vulnerable (UNDP, 2022). Public works programs like MGNREGA can be scaled up to absorb rural labor, while investments in skill development will boost the employability of India's youth (ILO, 2022). Importantly, healthcare and education must receive sustained funding, not only to improve quality of life but also to enhance long-term productivity and economic resilience (NITI Aayog, 2020; WHO, 2021).

In the realm of **monetary policy**, the Reserve Bank of India (RBI) faces a delicate balancing act. A rigid inflation-targeting approach may be counterproductive during stagflation. Instead, a more flexible regime—considering core inflation and broader economic conditions—will allow room to nurture growth without losing sight of price stability (RBI, 2023). Interest rate decisions must avoid extremes; aggressive hikes can hurt investment, while unchecked liquidity risks runaway inflation. Hence, calibrated interest rate management, paired with targeted credit support to

agriculture, MSMEs, and other priority sectors, is key (RBI, 2022). Ensuring adequate liquidity through instruments like OMOs and LTROs will maintain financial market confidence. At the same time, close monitoring of non-performing assets (NPAs) is essential to safeguard banking sector health (IMF, 2022). Exchange rate stability must also be managed to contain imported inflation and protect export competitiveness, especially in a volatile global environment (OECD, 2022).

The most enduring solution to stagflation, however, lies in **deep structural reforms** that boost the Indian economy's inherent strength. Labor market reforms must strike a balance between flexibility for employers and security for workers. Simplified labor codes, fixed-term contracts, and greater formalization of employment will create a healthier labor ecosystem (ILO, 2021; NITI Aayog, 2020). To make India more business-friendly, regulatory simplification, single-window clearances, and the expansion of digital governance can cut red tape and reduce compliance burdens (World Bank, 2022). Fostering a culture of innovation and entrepreneurship is equally important. Startups and MSMEs should be encouraged through R&D incentives, tax relief, access to finance, and mentorship (NASSCOM, 2023). Investment in infrastructure—whether in transport, ports, or digital networks—will unlock efficiency gains and attract private investment through public-private partnerships (PPPs) (MoF, 2023). Lastly, aligning education with labor market needs is crucial. Promoting STEM education, vocational training, and lifelong learning will prepare the workforce for the demands of a modern, digital economy (UNESCO, 2022).

In essence, India's path out of stagflation is not through isolated or short-term fixes, but through a comprehensive and coordinated reform agenda. The road ahead will require disciplined policymaking, stakeholder collaboration, and a shared commitment to inclusive, sustainable growth. With the right mix of agility and long-term vision, India can transform this period of economic uncertainty into an opportunity to emerge stronger, more self-reliant, and globally competitive (IMF, 2023; RBI, 2023).

Conclusion:

Stagflation poses significant challenges for the Indian economy, requiring a comprehensive and balanced policy response. Supply-side reforms, targeted fiscal stimulus, prudent monetary policy adjustments, and long-term structural reforms are essential to reduce the adverse effects of stagflation and encourage growth that is sustainable. By addressing the root causes of stagflation and enhancing the resilience of the economy, policymakers can provide India a more secure and prosperous future.

Stagflation, marked by the unusual combination of high inflation, elevated unemployment, and sluggish economic growth, poses a severe and multifaceted challenge for India's economy. Unlike conventional economic downturns where clear policy paths—such as boosting demand during a slowdown or tightening liquidity during inflation—can be deployed with relative confidence, stagflation demands a far more intricate balancing act. Any attempt to address one dimension of this economic crisis risks exacerbating another. In India's case, this dilemma is intensified by deep-rooted structural vulnerabilities such as a large informal sector, low agricultural productivity, dependence on energy imports, and a significant percentage of the population subsisting near or below the poverty threshold. These factors not only magnify the socio-economic toll of stagflation but also limit the space and effectiveness of standard macroeconomic responses.

The causes of stagflation in India arise from a mix of external shocks and internal inefficiencies. Globally, surging oil prices, disrupted supply chains, and geopolitical events like the Russia-Ukraine war have fuelled cost-push inflation while dampening international demand, hurting India's exports and investment climate. Domestically, persistent bottlenecks in agriculture, fragile manufacturing growth, and a slow-moving labour market reform process have weakened the economy's resilience to such shocks. The agricultural sector, in particular, continues to face challenges due to erratic monsoons, rising input costs, and low market integration.

Meanwhile, inflation has remained sticky, driven primarily by rising food and fuel prices, directly affecting household budgets and eroding the purchasing power of India's vast lower-income population. The combination of inflationary pressures with stagnating employment opportunities has led to a troubling rise in inequality, financial insecurity, and rural distress.

At the sectoral level, manufacturing and construction—critical engines of job creation—have suffered due to increased input costs and weak consumer demand. MSMEs, which form the backbone of India's industrial employment, are disproportionately affected by rising costs and limited access to affordable credit. In the services sector, tourism, hospitality, and offline retail continue to face setbacks due to subdued consumption, while the IT sector remains a relative outlier due to its export orientation and global clientele. The labour market remains under duress, with formal job creation lagging behind workforce expansion and informal employment rising as a survival strategy for many displaced workers. Youth unemployment and underemployment remain particularly concerning, not just from an economic standpoint but also for their implications on social stability and the demographic dividend.

Policy responses must therefore be nuanced and multi-pronged. While monetary tightening may be necessary to control inflation, it must be done with caution to avoid further dampening investment and growth. The Reserve Bank of India's role in managing inflation expectations and maintaining liquidity must be complemented by fiscal measures aimed at protecting vulnerable groups and stimulating demand in employment-generating sectors. However, India's limited fiscal headroom means that any stimulus must be carefully targeted. Expanding social safety nets—through programs like MGNREGA, PDS, and direct benefit transfers—can provide immediate relief to the poor, while public investments in infrastructure, renewable energy, and rural development can stimulate employment and crowd in private investment. Long-term structural reforms are indispensable to address the root causes of stagflation. These

include enhancing agricultural productivity through technological and infrastructural support, diversifying the energy basket to reduce import dependence, reforming labour laws to improve job security and flexibility, and easing business regulations to attract both domestic and foreign investment. Additionally, policies that foster innovation, promote entrepreneurship, and invest in human capital—especially education and health—will be crucial in improving overall productivity and economic resilience.

Ultimately, addressing stagflation in India requires not only economic tools but also political will, administrative efficiency, and inclusive governance. A whole-of-government approach that coordinates actions across fiscal, monetary, and structural domains is essential. Policymakers must also engage with stakeholders across sectors and regions to design interventions that are contextually grounded and socially inclusive. Stagflation, while deeply challenging, can serve as a catalyst for long-overdue reforms that strengthen India's economic foundations. India's track record of navigating crises with resilience—from the balance of payments crisis of 1991 to the recent COVID-19 pandemic—provides reason for cautious optimism. With the right blend of immediate relief measures and long-term reforms, India can not only mitigate the effects of stagflation but also transform this challenge into an opportunity for more inclusive, sustainable, and robust economic growth. The path forward is undoubtedly demanding, but with coordinated policy action and societal cooperation, India has the potential to emerge stronger and more resilient than before.

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