

Stagflation

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Stagflation Latest News

In May 2025, concerns over stagflation have intensified in the United States. Banks are now sitting on \$482.4 billion in unrealized losses from securities investments, a 32.5% increase from the previous quarter, according to the Federal Deposit Insurance Corporation (FDIC).

About Stagflation

- Stagflation is an economic phenomenon where an economy experiences three adverse conditions simultaneously:
 - High inflation (rising prices)
 - Stagnant or slow economic growth
 - High unemployment
- The term was first used in the 1960s and became prominent during the 1970s oil crisis.
- Stagflation is particularly challenging because the usual economic tools to fight inflation or unemployment often worsen the other problem.

- For example, raising interest rates may control inflation but further slow growth and increase joblessness.

- **Causes of Stagflation:**

- **Supply Shocks:** Sudden spikes in the cost of essential resources (like oil) increase production costs, leading to both inflation and reduced output.
- **Policy Errors:** Poorly coordinated fiscal and monetary policies, such as excessive government spending or delayed interest rate hikes, can fuel inflation while failing to stimulate growth.
- **Tariff Increases:** Recent U.S. tariffs have raised input costs, potentially triggering stagflation by increasing prices and reducing demand.

Impact of Stagflation

- **Diminished Purchasing Power:** Inflation erodes household incomes, reducing consumption.
- **Higher Unemployment:** Companies facing higher costs and weaker demand cut jobs.
- **Reduced Investment:** Economic uncertainty discourages businesses from investing, further hampering growth.
- **Financial Sector Stress:** High interest rates, necessary to fight inflation, reduce the value of banks' bond holdings. If depositors lose confidence, banks may face liquidity crises, as seen with SVB in 2023.

Stagflation FAQs

Q1. What is stagflation in an economy?

Ans. Stagflation is when an economy has high inflation, slow growth, and high unemployment at the same time.

Q2. Is stagflation worse than inflation?

Ans. Yes, stagflation is worse than inflation because it combines high prices with slow growth and rising joblessness.

Q3. How do you fix stagflation?

Ans. Stagflation is hard to fix, but solutions include supply-side reforms, targeted fiscal policies, and careful monetary policy.

Q4. What caused the 1970s stagflation?

Ans. The 1970s stagflation was mainly caused by oil price shocks, supply shortages, and policy mistakes.

Source: [ET](#)

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