



MACRO ECONOMICS

Deflation and stagflation

Falling prices, and rising prices in a stalled economy: what each means, with Japan, China, the 1970s and 2022

Official statistics as released up to 14 October 2026

For training and education only. Not investment advice.

Deflation is a lasting fall in prices across the economy. Stagflation is high inflation in a stalled economy.

Both are hard for a central bank. With deflation, interest rates cannot go far below zero. With stagflation, one tool has to deal with two problems that pull in opposite directions.

Four words that sound alike



Inflation

The general price level rises, so ₹100 buys a little less. India's CPI was up 5.54% in the year to September 2026.



Disinflation

Inflation slows but stays above zero. Prices still rise, only more slowly: say 3% a year instead of 6%.



Deflation

The general price level falls and keeps falling for a while. Inflation is below zero, so ₹100 buys more.



Stagflation

High inflation with weak or no growth and rising unemployment. The word joins 'stagnation' and 'inflation'.

Source for India's CPI: MoSPI press release on CPI (base 2024=100) for September 2026, 12 Oct 2026 (provisional).

Why falling prices can hurt a borrower

THE SET-UP (ASSUMED)

A shopkeeper borrows ₹1,00,000 for one year at 6% interest. She must repay ₹1,06,000. That sum is fixed in rupees.

What changes is what those rupees can buy.

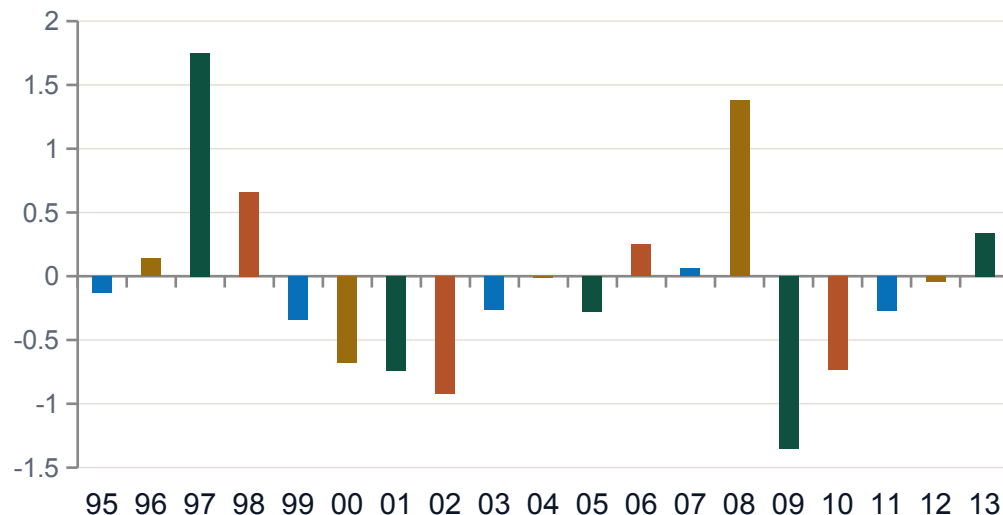
- 1 Prices rise 5% in the year. In today's money the repayment is $1,06,000 \div 1.05 = ₹1,00,952$: a real cost of 0.95%.
- 2 Prices fall 5% instead. The repayment is $1,06,000 \div 0.95 = ₹1,11,579$ in today's money: a real cost of 11.58%.
- 3 Her own selling prices fall too, so she must sell more goods to raise the same rupees. She cuts spending and hiring.
- 4 When many borrowers do this at once, demand falls and prices fall further. Economists call this a deflationary spiral.

The same 6% loan costs 0.95% in real terms with 5% inflation, and 11.58% with 5% deflation.

Illustration with assumed, round figures. Not a forecast.

Japan: mild but long-lasting deflation

Japan, consumer price inflation, % a year



Read the chart

- Consumer prices fell in 12 of the 19 years from 1995 to 2013.
- The falls were small. The largest was 1.35%, in 2009.
- The Bank of Japan set a 2% inflation target in January 2013.
- Inflation was above 2% in each year from 2022 to 2025.

Sources: World Bank, World Development Indicators (inflation, consumer prices, annual %), accessed 16 Oct 2026; Bank of Japan, 'Price Stability Target of 2 Percent'.

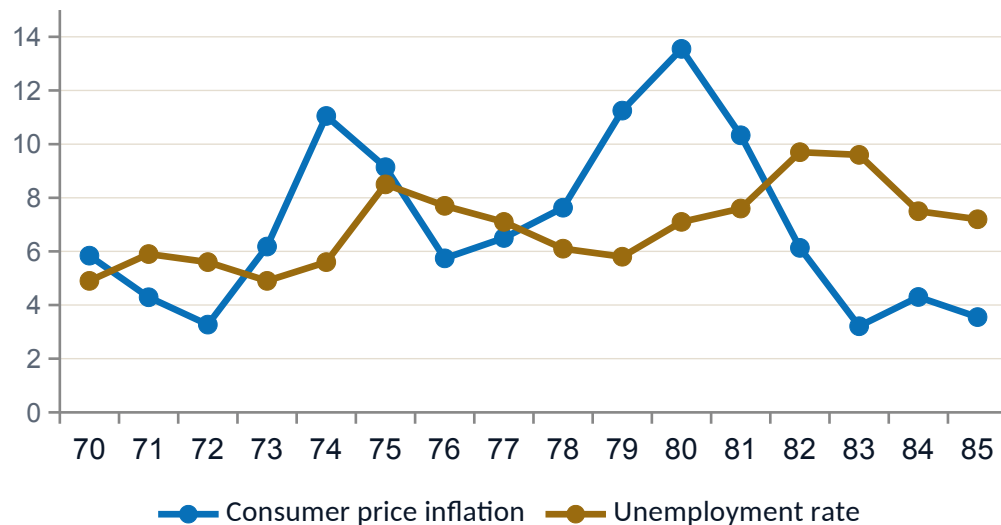
Falling prices: three recent cases

Where	What happened	What to notice
Japan, 1995 to 2013	Consumer prices fell in 12 of 19 years, each time by less than 1.5%. A 2% inflation target followed in 2013.	Mild deflation can last for years.
China, 2023 to 2025	Consumer prices were flat in 2025, after a 0.2% rise in 2024. Producer prices fell 2.6% in 2025. The GDP deflator fell in all three years.	Factory-gate prices can fall while shop prices barely move.
India, wholesale prices	On the new 2022-23 base, WPI inflation was -0.20%, -1.18% and -0.59% in September, October and November 2025, and 11.39% in September 2026.	WPI is wholesale prices, not what households pay. It can swing fast.

Sources: World Bank WDI, accessed 16 Oct 2026; NBS data reported on gov.cn, 9 Jan 2026; Office of the Economic Adviser, DPIIT, WPI release, 14 Oct 2026.

The 1970s: the era of stagflation

United States, % a year, 1970-1985



Read the chart

- Oil shocks in 1973 and 1979 pushed prices up while output faltered.
- Inflation topped 10% in 1974 and 1979 to 1981. Unemployment hit 8.5% in 1975.
- Cutting rates risked more inflation. Raising them risked a deeper slump.
- Inflation fell after steep rate rises, with 9.7% unemployment in 1982.

Sources: World Bank WDI (US consumer price inflation; unemployment, national estimate), accessed 16 Oct 2026; Federal Reserve History, 'The Great Inflation', 2013.

2022: the stagflation scare

2.9%



The warning

In June 2022 the World Bank cut its forecast for world growth that year to 2.9%, from 4.1% in January. It said the risk of stagflation was rising.



The echoes

It saw three echoes of the 1970s: supply shocks pushing up inflation, a long spell of very easy money, and weakening growth. It also listed differences, such as stronger banks.

8.0%



What followed

World inflation averaged 8.0% in 2022. World growth was 3.4%. Central banks raised rates: RBI raised its repo rate in steps from May 2022 to 6.50% in February 2023.

Sources: World Bank press release, 'Stagflation Risk Rises Amid Sharp Slowdown in Growth', 7 Jun 2022; World Bank WDI, accessed 16 Oct 2026; RBI Press Release 2022-2023/1680, 8 Feb 2023.

Where things stand in India

Latest official figures. Prices and output are both rising, so neither definition fits these numbers.

CPI INFLATION

5.54%

September 2026, provisional. Target 4%, band 2% to 6%.

WPI INFLATION

11.4%

11.39% in September 2026, provisional, base 2022-23.

REAL GDP GROWTH

7.8%

April to June 2026, against a year earlier.

RBI PROJECTION

7.1%

Real GDP growth for 2026-27. CPI projection: 5.2%.

Sources: MoSPI CPI press release, 12 Oct 2026; Office of the Economic Adviser, DPIIT, WPI press release, 14 Oct 2026; MoSPI GDP press note, 31 Aug 2026; RBI Governor's Statement, 7 Oct 2026.

If you learnt this from older material

Older assumptions

- In India, talk of deflation refers to the wholesale price index.
- Japan is the standing example of an economy stuck in deflation.
- Stagflation is mainly a worry for slow-growing rich economies.

What holds now

- RBI's target uses CPI, since 2016; inflation below it is deflation risk.
- Japan's inflation was above 2% in each year from 2022 to 2025.
- In 2022 the World Bank warned of stagflation risk for the world economy.

Both indices have new bases: CPI 2024=100, first released Feb 2026; WPI 2022-23, June 2026.

Sources: RBI, Monetary Policy overview (RBI Act, 2016 amendment); World Bank WDI; World Bank, 7 Jun 2022; MoSPI, 12 Feb 2026; Office of the Economic Adviser, 1 Jun 2026.

Four things people get wrong



'Inflation fell, so prices fell.'

That is disinflation. Prices fall only when inflation is below zero, as in Japan in each year from 1999 to 2005.



'Falling prices are always good news.'

A fall that comes from better technology can help buyers. A broad fall driven by weak demand makes debts heavier and can hold back spending.



'Negative WPI means India had deflation.'

WPI tracks wholesale prices. The headline inflation rate and RBI's target use CPI, which tracks what households pay.



'Stagflation just means high inflation.'

It also needs weak growth. In 2022 US inflation was 8.0% while its economy grew 2.5%.

Check yourself

Q1 Inflation falls from 6% to 2%. Is this deflation?

Q2 You borrow ₹50,000 at 8% for one year and prices fall 4% (assumed figures). What is the repayment worth in today's money?

Q3 Why is stagflation hard for a central bank to deal with?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- CPI September 2026 (5.54%, provisional): MoSPI press release, 12 Oct 2026. WPI (base 2022-23), Sep 2025 to Sep 2026: Office of the Economic Adviser, DPIIT, press release, 14 Oct 2026.
- Real GDP growth, April-June 2026: MoSPI press note, 31 Aug 2026. RBI projections for 2026-27: RBI Governor's Statement, 7 Oct 2026. Inflation target framework: RBI, Monetary Policy overview.
- Japan, China and US inflation, GDP deflator, growth and US unemployment: World Bank, World Development Indicators, accessed 16 Oct 2026.
- Bank of Japan: 'Price Stability Target of 2 Percent' (January 2013); 'Changes in the Monetary Policy Framework', 19 Mar 2024. China 2025 prices: NBS data reported on gov.cn, 9 Jan 2026.
- World Bank press release, 'Stagflation Risk Rises Amid Sharp Slowdown in Growth', 7 Jun 2022. Federal Reserve History, 'The Great Inflation', Michael Bryan, 2013.
- RBI repo rate 6.50%: RBI Press Release 2022-2023/1680, 8 Feb 2023. WPI base revision: Office of the Economic Adviser, Note for WPI Users, 1 Jun 2026.

This material is for training and investor education only. It is not investment, tax or legal advice and is not a recommendation to buy, sell or hold any security or scheme. Examples use assumed figures unless a source and date are shown. Mutual fund investments are subject to market risks; read all scheme related documents carefully. Trustner Asset Services Pvt. Ltd. is an AMFI-registered Mutual Fund Distributor (ARN-286886).