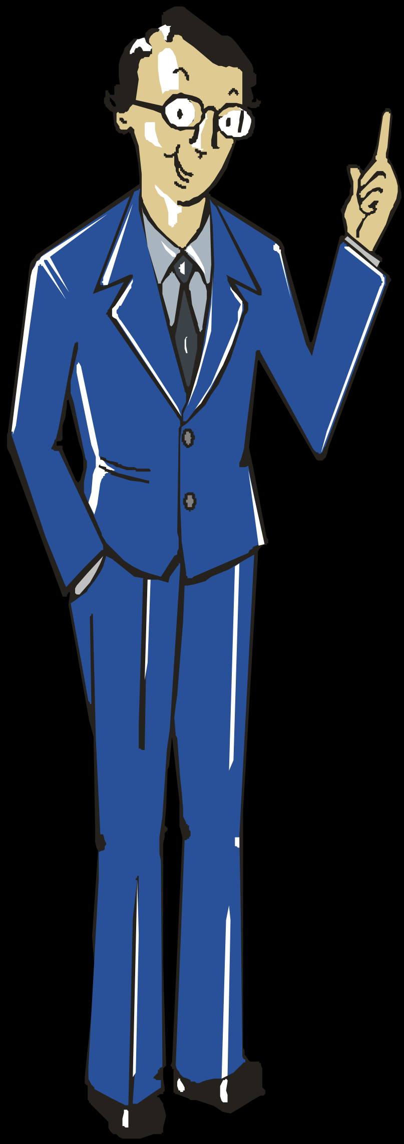

# Understanding

# Hard Landing

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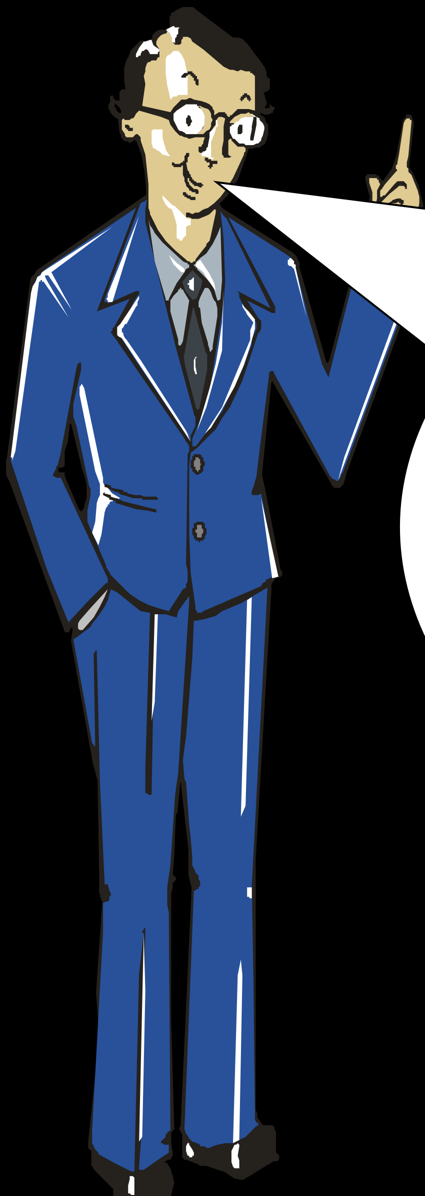
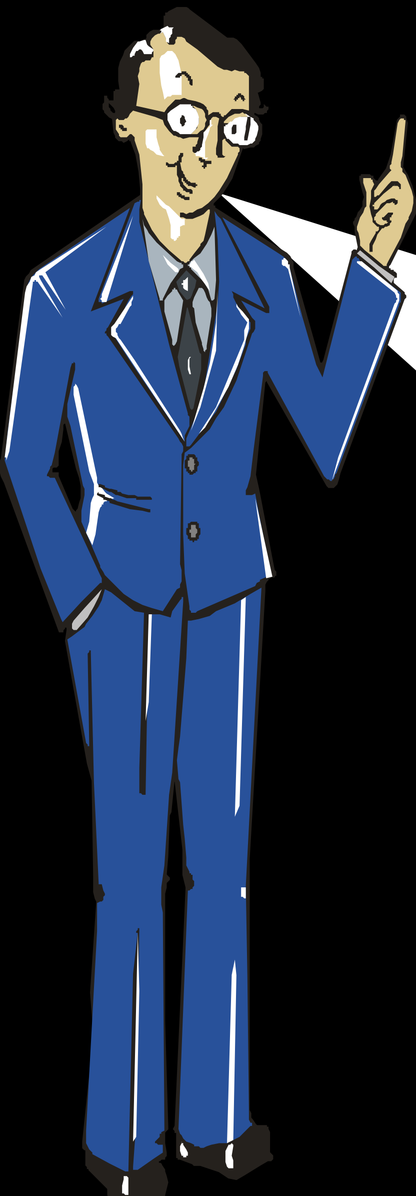
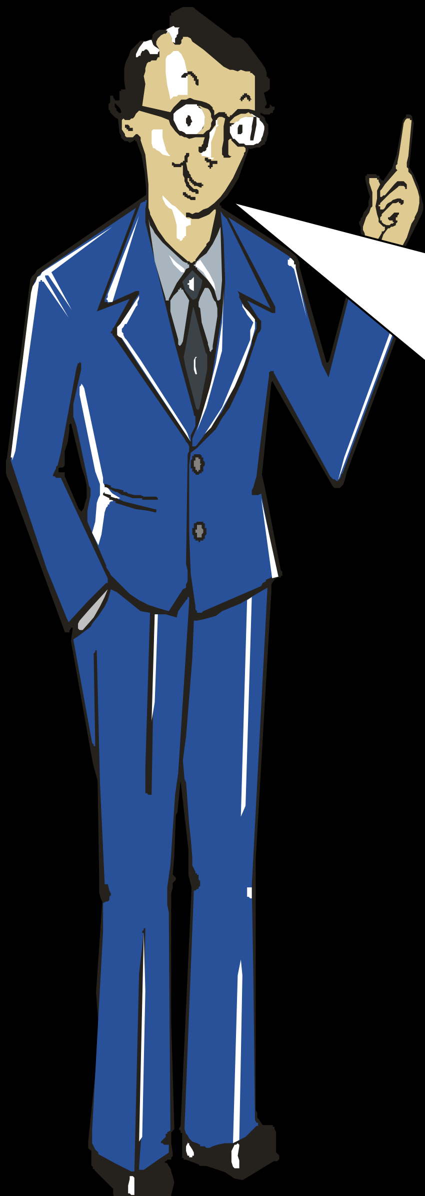


Whenever I am on a plane and the landing is announced, I start feeling a little anxious about the impending touchdown. For there have been times when I have experienced a rough landing. Often we term such a landing as “hard landing”.

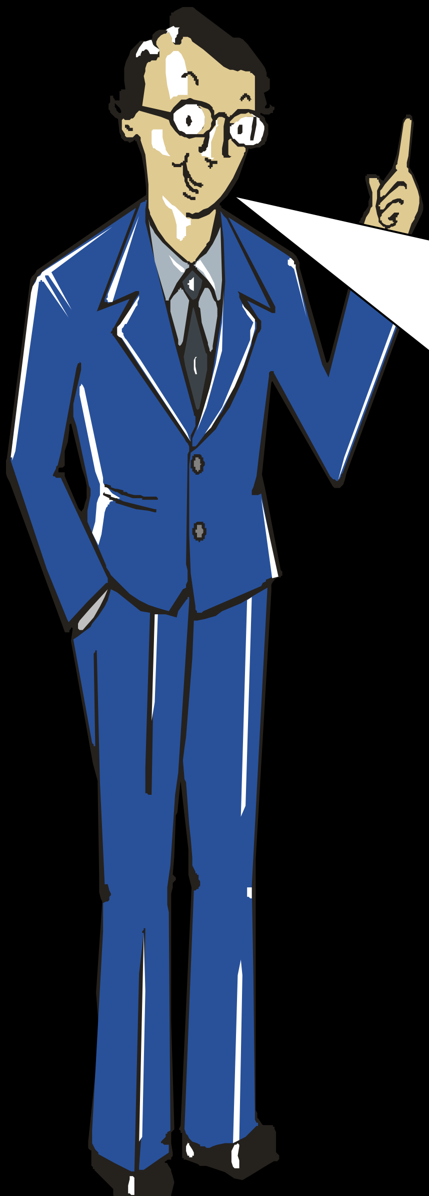
So what does hard landing of the economy mean?



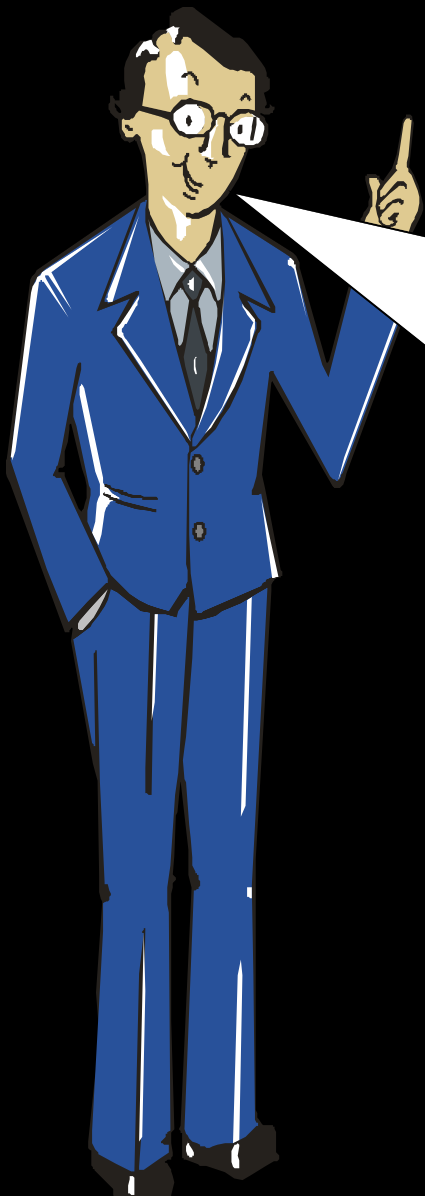
To understand this let's look at why an aircraft has a hard landing. A hard landing occurs when the aircraft hits the ground with a greater vertical speed and force than a normal landing. Hard landings can be caused by weather conditions, mechanical problems, over-weight aircraft or pilot error. In a hard landing the pilot still has total or partial control over the aircraft.



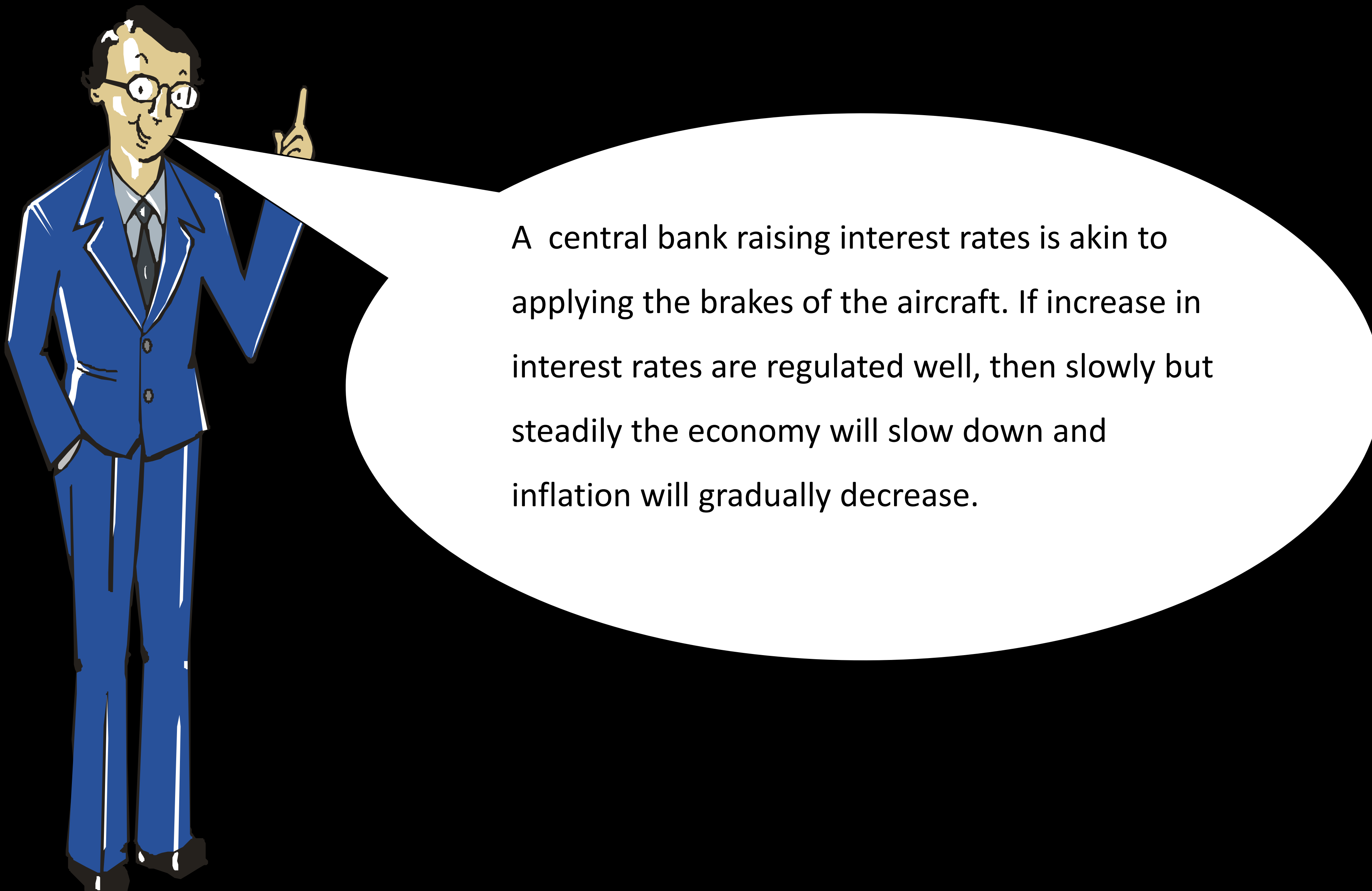
Now let us compare this with economic hard landing. A country's economy is healthy when it experiences good levels of consumption, investments and growth. As growth rates increase due to high demand, prices of goods and services start to rise. This may cause the gates of the economy to open up to inflation.

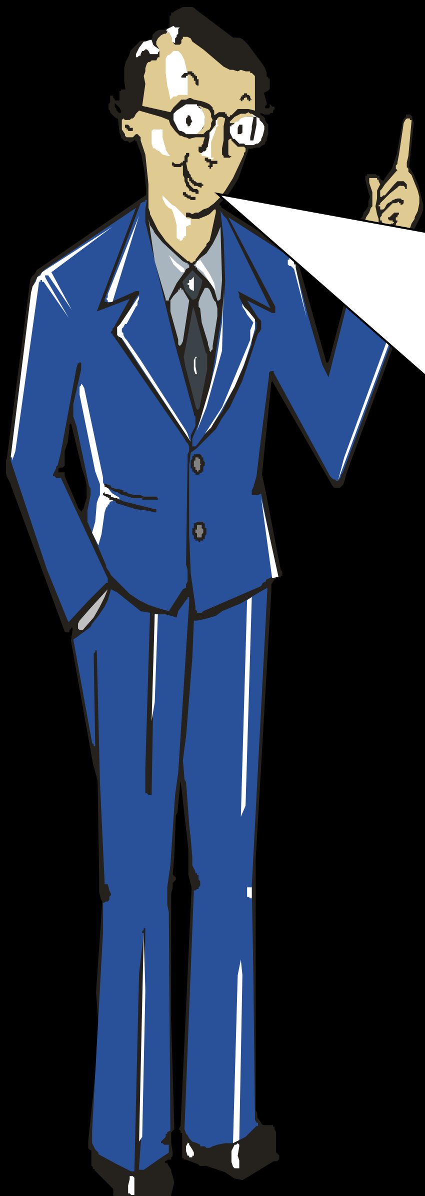


Hence the central bank starts to apply the brakes by raising interest rates to start slowing down the economy gradually. Here the word, “gradually” assumes a lot of significance because the job of regulating interest rates by the central bank is indeed a very delicate one.



To understand this better, just imagine if the pilot were to apply the brakes of the aircraft too hard. This could cause the pilot to lose control over the aircraft causing it to skid and crash. Thus the pilot needs to regulate the brakes in such a manner that the aircraft lands smoothly.


A central bank raising interest rates is akin to applying the brakes of the aircraft. If increase in interest rates are regulated well, then slowly but steadily the economy will slow down and inflation will gradually decrease.



Else the economy can go out of control and experience a sudden slowdown. This would cause immense pain in the economy due to low capacity utilization, job losses, and defaults, etc. This pain caused by mismanagement of the monetary policy is termed as “hard landing” of the economy..

Hope this analogy of the economy with an aircraft helped you understand the term “Hard Landing”

Please give us your feedback at professor@tataamc.com

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