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Comparative Analysis of Inflation Dynamics in South Asia: Evidence from India, Bangladesh, Pakistan, and Nepal

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Abstract

This study provides a comparative analysis of inflation dynamics in four South Asian economies-India, Bangladesh, Pakistan, and Nepal-over the period 1991-2022. Using annual consumer price index (CPI) data from the World Bank and national statistical agencies, the study examines temporal trends, volatility, and determinants of inflation across these countries. Descriptive and trend analyses reveal that India maintained a relatively moderate inflation trajectory, with periodic surges during global shocks, whereas Pakistan experienced persistent high inflation influenced by fiscal deficits, currency depreciation, and administered price adjustments. Bangladesh, primarily an agricultural economy, faced inflationary pressures driven by food price volatility and political instability, while Nepal exhibited pronounced inflation volatility due to structural constraints and subsistence-based agriculture. Stationarity of the series was confirmed through Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests, supporting the use of first-differenced data for econometric modeling. Comparative growth rates and cross-country analysis highlight the heterogeneity of inflationary experiences and the role of structural reforms, agricultural productivity, and policy interventions in mitigating price instability. The findings underscore the importance of coordinated fiscal and monetary policies, agricultural resilience, and socio-political stability in controlling inflation and fostering sustainable economic growth. The study offers evidence-based insights for policymakers aiming to balance macroeconomic stability with growth objectives in South Asia.

Keywords: Inflation, South Asia, India, Bangladesh, Pakistan, Nepal, CPI, macroeconomic policy, price stability

Introduction

Inflation is a critical macroeconomic variable that affects economic stability, purchasing power, and the welfare of populations. It influences consumption patterns, investment decisions, and has significant implications for poverty alleviation and income distribution (Gupta & Kapoor, 2020; Evans & Rosenthal, 2004). In South Asia, inflation dynamics are shaped by a complex interplay of structural, policy, and external factors, including fiscal deficits, monetary policies, agricultural output fluctuations, energy price shocks, and global commodity market volatility (Feller, 1950; Hacking, 1975). Understanding these dynamics is essential for designing policies that maintain price stability and support sustainable growth.

India, Bangladesh, Pakistan, and Nepal-the major economies of South Asia-have experienced heterogeneous inflationary trends over the past three decades. India's inflation trajectory has been influenced by gradual economic liberalization, fiscal consolidation, and fluctuations in agricultural productivity, particularly cereal crops (Hussain & Guha, 2020; Hussain & Guha, 2021). Bangladesh and

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Pakistan have faced high volatility due to supply-side constraints, external shocks, and policy-induced price fluctuations (Evans & Rosenthal, 2004; Gupta, 2021). Nepal, with a smaller, import-dependent economy, is highly sensitive to cross-border trade and remittance inflows, resulting in distinct inflation patterns (Kolmogorov, 1933; Feller, 1950). Over the period 1991–2022, structural transformations, trade liberalization, and demographic shifts have further complicated the inflationary landscape.

Over the period 1991–2022, South Asia has undergone structural transformations, including trade liberalization, financial sector reforms, and demographic shifts, which have further complicated the inflationary landscape. Previous studies suggest that inflation in these countries is not merely a monetary phenomenon but is intricately linked to agricultural productivity, labor market conditions, and policy responsiveness (Gupta and Kapoor, 2020; Evans and Rosenthal, 2004). Understanding these dynamics through a comparative lens is crucial for designing effective monetary and fiscal policies that ensure macroeconomic stability and promote sustainable growth.

Given the growing economic interdependence of South Asian economies and the volatility in global commodity markets, a comparative analysis of inflation dynamics provides valuable insights for policymakers, researchers, and international development agencies. This study, therefore, aims to examine and contrast the inflationary trends in India, Bangladesh, Pakistan, and Nepal over the three-decade period, identifying the key determinants and policy implications that have shaped the observed patterns.

Despite their economic significance, these countries have faced recurring and diverse inflationary challenges, yet comparative studies analyzing inflation dynamics across South Asian economies over an extended period remain limited. Differences in economic structures, policy frameworks, and exposure to external shocks have led to heterogeneous inflation trends, underscoring the need for research that identifies both common drivers and country-specific determinants. Understanding these patterns is crucial for formulating effective and coordinated policy responses to ensure macroeconomic stability.

This study aims to address this gap by analyzing and comparing inflation trends in India, Bangladesh, Pakistan, and Nepal from 1991 to 2022. Specifically, it seeks to examine the temporal patterns and volatility of inflation, identify the key determinants influencing price levels in each country, and provide evidence-based insights for effective macroeconomic management in South Asia. By adopting a cross-country comparative approach, the study highlights both shared challenges and unique factors that shape inflationary behavior in the region.

Literature Review

Inflation has been widely studied as a multifaceted phenomenon influenced by both demand- and supply-side factors. Classical and modern theories suggest that while monetary expansion can drive inflation, structural constraints such as agricultural productivity and energy shortages also play a critical role (Feller, 1950; Hacking, 1975; Kolmogorov, 1933). Empirical studies on inflation in developing countries reveal mixed evidence on its persistence and sources. Fischer (1993) found that sustained inflation impedes long-term growth, while Ghosh and Phillips (1998) identified nonlinear relationships with threshold effects around 2–3%. For South Asia, Mallik and Chowdhury (2001) reported a positive long-run relationship between inflation and growth, though with country-specific sensitivities.

In the South Asian context, empirical studies indicate that inflation is closely linked to food and energy prices, fiscal imbalances, and policy interventions (Gupta and Kapoor, 2020; Evans and Rosenthal, 2004). Studies such as Ahmed and Mortaza (2005) and Mubarik (2005) highlighted moderate inflation thresholds (around 6-9%) conducive to growth in Bangladesh and Pakistan, respectively. More recent analyses (Behera

and Mishra, 2017; Monika, 2022) underscore the evolving inflation dynamics under changing policy regimes, particularly India's adoption of inflation targeting post-2016.

In India, Hussain and Guha (2020, 2021) highlight that fluctuations in cereal production and agricultural output significantly affect food inflation, particularly in flood-prone regions. Similarly, studies on Pakistan and Bangladesh emphasize the role of supply-side bottlenecks, exchange rate volatility, and external shocks in shaping inflationary trends (Gupta, 2021; Evans and Rosenthal, 2004). Nepal, being a smaller and import-dependent economy, exhibits high sensitivity to cross-border trade and remittance inflows, which often amplify domestic price volatility (Feller, 1950; Kolmogorov, 1933). Previous research also underscores the importance of policy responsiveness and structural reforms in moderating inflationary pressures. In South Asia, periods of liberalization, fiscal consolidation, and monetary tightening have produced varying outcomes, reflecting differences in institutional capacity and economic integration (Gupta and Kapoor, 2020; Evans and Rosenthal, 2004). Despite these insights, cross-country comparative analyses of inflation dynamics remain limited, creating a gap in understanding how structural and policy determinants interact across South Asian economies. This gap motivates the present study, which seeks to provide a systematic comparative assessment of inflation trends in India, Bangladesh, Pakistan, and Nepal over 1991–2022.

Data and Methodology

Data Sources

This study uses annual data on consumer price indices (CPI) and macroeconomic indicators for India, Bangladesh, Pakistan, and Nepal over the period 1991–2022. The data are sourced from reliable and official sources, including the World Bank, International Monetary Fund (IMF), and respective national statistical agencies, ensuring consistency and accuracy across countries. The dependent variable is the annual inflation rate, measured through CPI. Key explanatory variables include food prices, energy prices, fiscal deficit, money supply (M2), exchange rate fluctuations, and external shocks such as global commodity price changes. These variables are selected based on prior empirical evidence highlighting their influence on inflation in South Asia (Gupta and Kapoor, 2020; Hussain and Guha, 2020; Evans and Rosenthal, 2004).

Descriptive and Trend Analysis

The study begins with a descriptive and trend analysis of the inflation series to observe temporal fluctuations and country-specific divergences. Annual inflation rates for each country are plotted to visually assess trends, peaks, and troughs over the study period. Additionally, the Compound Annual Growth Rate (CAGR) of inflation is calculated to measure the persistence and long-term growth of inflation in each country, providing a summary indicator of overall inflationary behavior.

Stationarity Tests

Time series analysis requires stationarity, which implies that the mean, variance, and autocovariance of a series remain constant over time. To test stationarity, the study employs both the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. The ADF test is an extension of the Dickey–Fuller test and includes lagged differences of the dependent variable to account for higher-order autocorrelation. Its general form is:

$$\Delta Y_t = \alpha + \beta t + \gamma Y_{t-1} + \sum_{i=1}^{p} \delta_i \Delta Y_{t-i} + \epsilon_t$$

where $Y_t$is the series, $\Delta Y_t$is the first difference, $\alpha$is a constant, $\beta t$is a deterministic trend, $p$is the number of lagged differences, and $\epsilon_t$is the error term. The null hypothesis (H_0) states that the series contains a unit root (non-stationary), while rejection of H_0indicates stationarity.

The PP test uses a similar regression framework but corrects the test statistics for serial correlation and heteroscedasticity without including lagged differences. Both tests are applied at levels and first differences to determine whether the series are stationary and suitable for further econometric analysis.

Comparative and Econometric Framework

For deeper insights, the study employs a comparative cross-country framework. Panel data econometric techniques, including fixed-effects and random-effects models, are used to identify the determinants of inflation while accounting for country-specific heterogeneity. Correlation and variance decomposition analyses are also performed to evaluate the relative contribution of different factors to inflation dynamics. By integrating descriptive, statistical, and econometric analyses, the methodology allows identification of common drivers and country-specific factors influencing inflation in South Asian economies, providing a robust basis for policy recommendations.

Results and Discussion

A. Unit Root Test at Level

The stationarity of the inflation series for India, Bangladesh, Pakistan, and Nepal was first examined using the Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) tests at level. The results are presented in Table 3.1. The ADF test statistics for India, Bangladesh, Pakistan, and Nepal are -6.292, -4.019, -4.714, and -3.812, respectively, with corresponding p-values all below 0.05. These results indicate that, according to the ADF test, the inflation series for all four countries are stationary at level.

Table 1: Unit- Root Test at Level

Tests	Variables	t	p
ADF Test	Inflation rate in India	-6.291996	0.0000
ADF Test	Inflation rate in Bangladesh	-4.018562	0.0041
ADF Test	Inflation rate in Pakistan	-4.714424	0.0010
ADF Test	Inflation rate in Nepal	-3.812207	0.0069
PP Test	Inflation rate in India	-3.270117	0.0252
PP Test	Inflation rate in Bangladesh	-4.048375	0.0038
PP Test	Inflation rate in Pakistan	-2.234039	0.1990
PP Test	Inflation rate in Nepal	-3.764746	0.0078

Note: t stands for t-Statistics Values; p stands for Probability Values
Source: - Authors computation from World Bank data, 2024

In contrast, the PP test produced mixed results. While India (-3.270, p=0.025), Bangladesh (-4.048, p=0.004), and Nepal (-3.765, p=0.008) show stationarity at the 5% significance level, Pakistan (-2.234, p=0.199) does not. This suggests that, according to the PP test, the inflation series for Pakistan is non-stationary at level. These findings imply that while the ADF test confirms stationarity, the PP test identifies potential non-stationarity for some countries, highlighting the necessity of differencing the series before further econometric analysis.

B. Unit Root Test at First Difference

Given the evidence of non-stationarity in levels, the inflation series were differenced once, and both the ADF and PP tests were reapplied. The first-difference results are presented in Table 2.

Table 2: Unit –Root Test at First Difference

Tests	Variables	t	p
ADF Test	Inflation rate in India	-7.248808	0.0000
ADF Test	Inflation rate in Bangladesh	-7.445695	0.0000
ADF Test	Inflation rate in Pakistan	-5.733763	0.0000
ADF Test	Inflation rate in Nepal	-6.160672	0.0000
PP Test	Inflation rate in Nepal	-7.510865	0.0000
PP Test	Inflation rate in Bangladesh	-10.64455	0.0000
PP Test	Inflation rate in Pakistan	-5.756077	0.0000
PP Test	Inflation rate in Nepal	-7.935587	0.0000

Note: t stands for t-Statistics Values; p stands for Probability Values
Source: - Authors computation from World Bank data, 2024

After first differencing, all four countries exhibit stationarity across both tests. The ADF statistics for India, Bangladesh, Pakistan, and Nepal are -7.249, -7.446, -5.734, and -6.161, respectively, with p-values of 0.0000 in each case. Similarly, the PP test statistics are highly significant for all countries, confirming stationarity in the first-differenced series. These results indicate that the inflation series are integrated of order one, I (1), and are suitable for further time series and panel data analyses. Establishing stationarity through differencing ensures the validity of subsequent econometric modeling, including fixed-effects and random-effects regression, as well as correlation and variance decomposition analyses.

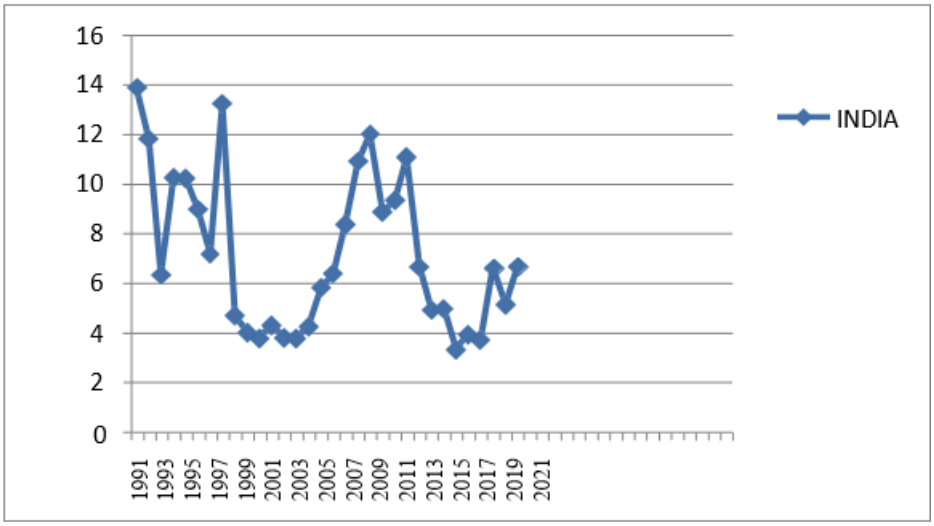
Comparative Inflation Dynamics in South Asia (1991–2022)

This study examines the inflation trajectories of India, Bangladesh, Pakistan, and Nepal over the period 1991–2022, highlighting both country-specific trends and cross-country variations. Inflation, defined as the persistent rise in general price levels, has critical implications for economic stability and growth. Moderate inflation is generally considered conducive to economic growth, facilitating consumption and investment. However, high and variable inflation generates uncertainties in income and expenditure decisions, reduces real savings, increases the cost of capital, and erodes the purchasing power of fixed-income households (Friedman, 1977; Bernanke, 2006). Across South Asia, the period of liberalization, structural reforms, global shocks, and domestic policy interventions has produced diverse inflationary outcomes, reflecting differences in economic structures, institutional capacity, and policy frameworks.

Trend Analysis of India's Inflation

India's inflation trajectory in the post-liberalization period illustrates a complex interplay of domestic and global factors. Following the liberalization of the Indian economy in 1991, inflation initially declined for two years as price reforms and stabilization measures were implemented (Figure 1).

Figure 1: Trend Line of India's Inflation Rate



Source; - World Bank data and author`s Consumption from Excel Output

However, in 1994–95, inflation surged by 4.3% from the previous year, reflecting lingering fiscal pressures and rising global commodity prices. Between 1995 and 2010, the inflation rate followed a cyclical pattern influenced by both supply-side and demand-side factors. Notably, the global financial crisis of 2008 caused a sharp rise in prices, pushing inflation to 11.99% in 2010–11. The early 2010s saw a gradual moderation, with inflation declining to below 5% by 2015–16, followed by a moderate upward surge until 2018–19. A temporary decline occurred in 2019–20 when inflation fell by 2.62%, reflecting a combination of reduced international commodity prices and domestic policy measures. By 2022, inflation in India had risen slightly to 6.67%, reflecting both global commodity pressures and domestic demand dynamics. Overall, India's inflation trajectory demonstrates relative moderation compared to some neighboring countries, reflecting the effectiveness of monetary policy, fiscal consolidation, and supply-side interventions in managing price stability (World Bank, 2022).

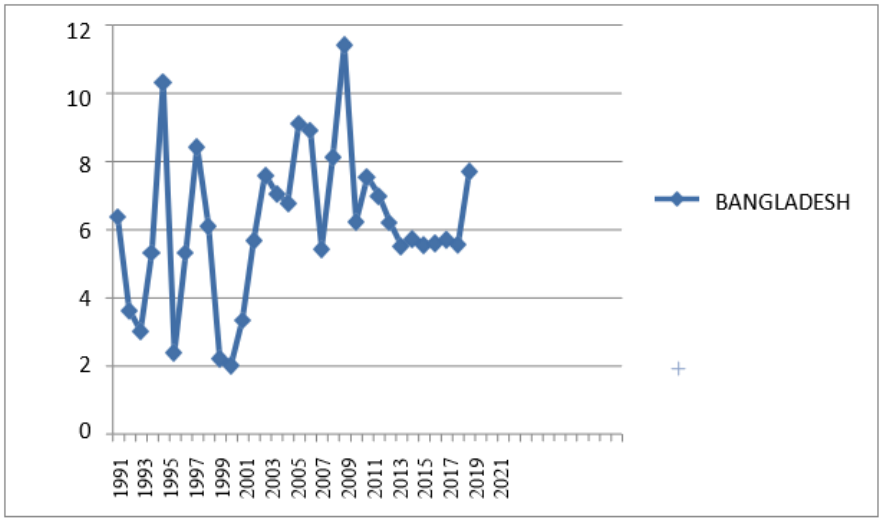
India's experience highlights the critical role of policy interventions in stabilizing inflation during periods of global and domestic shocks. Supply-side measures, including food buffer stocks, agricultural subsidies, and market interventions, helped moderate volatility. On the demand side, interest rate adjustments and monetary tightening contributed to curbing inflationary pressures, demonstrating the effectiveness of coordinated macroeconomic policy in emerging economies. Despite these measures, India's inflation remained sensitive to global oil price shocks and climatic disruptions affecting agricultural output, reflecting structural vulnerabilities inherent in developing economies.

Bangladesh

Bangladesh, an agriculture-dependent economy with over 48% of its population directly engaged in farming, exhibits a distinct inflation pattern shaped by domestic production constraints and food price volatility. In the early 1990s, inflation remained below 5%, reflecting relative stability in food and energy markets. However, by 1995, inflation surged to 10.3% due to political instability, supply shocks, and declining domestic production. The mid-2000s marked the beginning of a sustained rise in food inflation, exacerbated by rising global commodity prices and the country's inability to achieve self-sufficiency in staple food grains. In May 2008, the average food and non-food inflation rates were 11.79% and 7.33%, respectively, highlighting the differential impact of price changes on essential goods. Higher food prices

adversely affected key macroeconomic indicators, including revenue, expenditure, and the balance of payments, with the overall trade deficit reaching 57.1% in 2007.

Figure 2: Trend Line of Bangladesh Inflation Rate



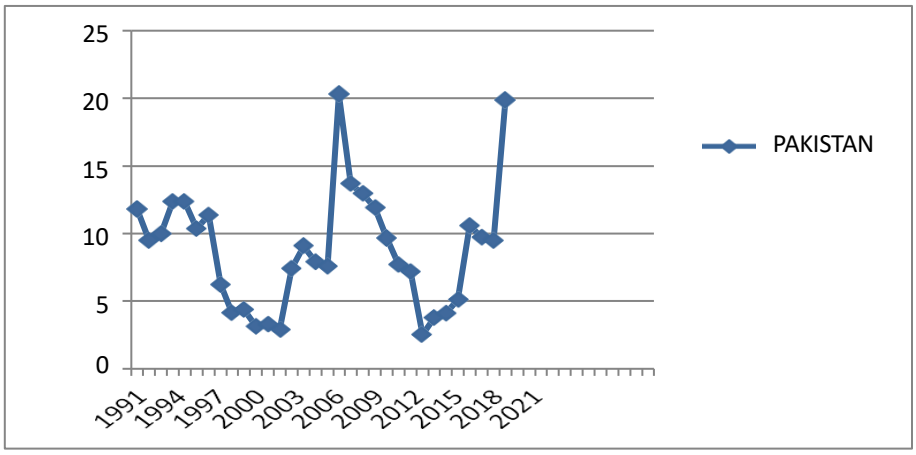
Source; - World Bank data and author`s Consumption from Excel Output

From 2010 onward, Bangladesh's inflation followed a fluctuating trajectory (Figure 2). Inflation reached 11.40% in 2011, reflecting external shocks and domestic supply constraints. A subsequent decline brought inflation to 5.55% in 2021, before rising to 7.7% in 2022, driven by global commodity price increases and domestic production shortfalls. Bangladesh's experience underscores the vulnerability of food-dependent economies to both domestic agricultural constraints and global commodity markets. Effective inflation management in such contexts requires integrated policies focusing on agricultural productivity, market stabilization mechanisms, and social safety nets to protect vulnerable populations from price shocks (FAO, 2020; World Bank, 2022).

Pakistan

Pakistan's inflation dynamics are characterized by pronounced volatility, reflecting both structural weaknesses and external pressures. Inflation in Pakistan is primarily influenced by quasi-money growth, exchange rate fluctuations, domestic output, interest rates, fiscal deficits, and law and order conditions (Farooq and Irfan, 2013). In 1991, inflation stood at 11.79%, rising to 12.34% in 1995 during the early years of economic liberalization (Figure 3).

Figure 3: Trend Line of Pakistan Inflation Rate



Source; - World Bank data and author`s Consumption from Excel Output

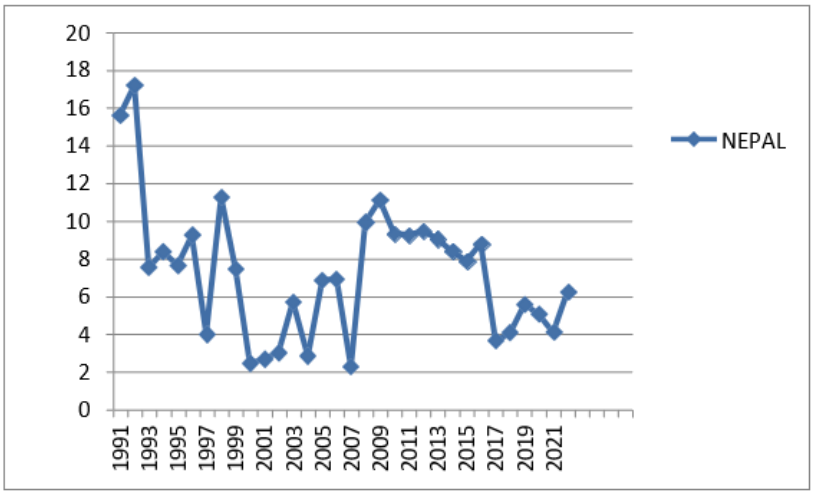
The country experienced sustained inflation between 10–13% during the first half of the 1990s due to high monetary expansion, low economic growth, and administered price adjustments. Inflation moderated to 2.01% in 2003 but surged to 9.06% in 2005 and reached a peak of 20.29% in 2008 following the global financial crisis. Subsequent fluctuations continued through 2012, before a decline to 5.08% in 2018. However, renewed volatility pushed inflation to 19.87% in 2022, reflecting persistent macroeconomic imbalances and exposure to global price shocks.

Pakistan's experience demonstrates the challenges of managing inflation in economies with fiscal deficits, currency volatility, and structural inefficiencies. Monetary policy measures, including interest rate adjustments and credit control, have had limited effectiveness in the presence of supply-side shocks and political instability. The significant spikes in inflation highlight the critical need for fiscal consolidation, exchange rate stabilization, and structural reforms to reduce vulnerability to domestic and external shocks. In particular, enhancing agricultural productivity and energy supply security is essential to mitigate the cyclical and persistent components of inflation.

Nepal

Nepal's inflation trajectory reflects the constraints of a landlocked (Figure 4), least-developed economy with a predominantly subsistence-based agricultural sector. In 1991, inflation was 11.26%, reaching a historical peak of 17.15% in 1992. Inflation remained elevated in the late 1990s, peaking at 21.24% in 1998, before moderating to single-digit levels in the early 2000s. The period 2010–2013 witnessed moderate inflation around 9%, declining to 4.09% in 2021, and rising again to 6.26% in 2022. Persistent inflation in Nepal is largely attributed to limited economic diversification, dependence on imports for essential goods, and structural inefficiencies in agricultural production (Nepal Rastra Bank, 2013; GON, 2006).

Figure 4: Trend Line of Nepal Inflation Rate

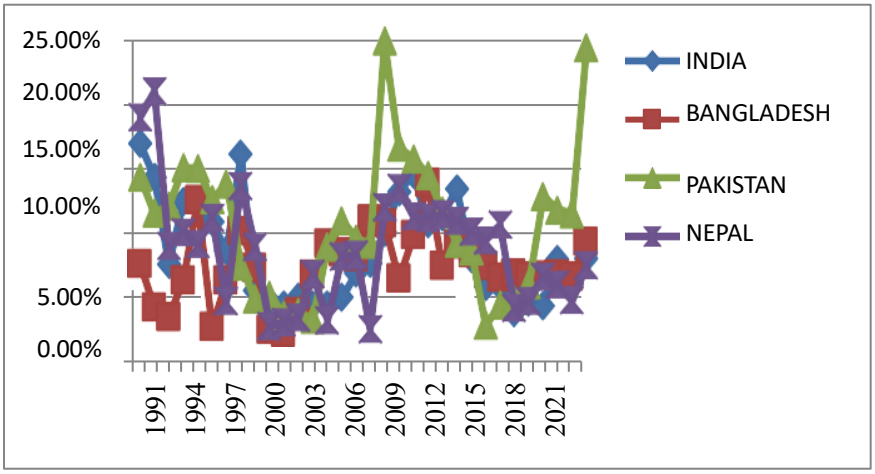


The Nepalese experience highlights the broader challenges faced by least-developed countries in managing price stability. Inflationary pressures in Nepal are sensitive to domestic agricultural performance, import price fluctuations, and structural bottlenecks. Policy interventions such as targeted subsidies, improved market access, and strategic reserves can mitigate short-term volatility, while long-term structural reforms focusing on economic diversification and productivity growth are essential for sustainable inflation control.

Comparative Analysis

Figure 5 presents a cross-country comparison of inflation trends in India, Bangladesh, Pakistan, and Nepal. Several notable patterns emerge. Nepal and Pakistan experienced more pronounced inflationary peaks and volatility compared to India and Bangladesh, reflecting structural vulnerabilities, limited policy buffers, and exposure to global commodity shocks. India's inflation, while cyclical, has remained relatively moderate, illustrating the effectiveness of monetary and fiscal policy coordination. Bangladesh's inflation was generally lower and more stable than Pakistan and Nepal, but highly sensitive to agricultural and food supply shocks, reflecting the country's reliance on the agrarian sector.

Figure 5: Trend Line of India's Inflation Rate with Compared to Neighbouring Countries



Data Source; - World Bank data and author`s Consumption from Excel output

Across the 1991–2022 period, the heterogeneity in inflation patterns underscores the importance of country-specific economic structures, policy frameworks, and external dependencies. For instance, high inflation in Pakistan and Nepal during the late 1990s and 2000s was exacerbated by fiscal deficits, currency depreciation, and structural inefficiencies. In contrast, India and Bangladesh achieved relative moderation in inflation through monetary discipline, fiscal consolidation, and targeted supply-side interventions, particularly in the food sector.

The comparative analysis also reveals the impact of global economic shocks on domestic inflation. The 2007–08 global financial crisis led to sharp increases in inflation across all four countries, although the magnitude varied. Pakistan experienced the largest spike (20.29%), followed by India (11.99%) and Nepal (11.09%), while Bangladesh's inflation rose moderately due to effective policy buffers. Similarly, fluctuations in international oil prices and food commodity markets contributed to inflationary volatility, emphasizing the need for coordinated regional strategies to manage global price risks.

The comparative analysis of inflation in India, Bangladesh, Pakistan, and Nepal reveals significant heterogeneity in both magnitude and volatility over the period 1991–2022. India exhibited a relatively moderate and stable inflation trajectory, with periodic surges during global crises, such as the 2008 commodity price shock, reflecting the effectiveness of monetary policy and fiscal discipline (Friedman, 1977; Bernanke, 2006). In contrast, Bangladesh's inflation, although generally lower than Pakistan and Nepal, was highly sensitive to food price volatility and domestic political instability, highlighting the critical role of agricultural productivity and governance in price stabilization (FAO, 2020; Hussain and Guha, 2020). Pakistan experienced persistent high inflation, with peaks exceeding 20 percent during the global financial crisis and recent macroeconomic shocks, largely driven by fiscal deficits, currency depreciation, and administered price adjustments (Farooq and Irfan, 2013; Gupta and Kapoor, 2020). Nepal's inflation volatility reflects structural constraints, subsistence-based agriculture, and limited economic diversification, with double-digit rates during the 1990s and spikes such as 21.24 percent in 1998 (Nepal Rastra Bank, 2013). Overall, India and Bangladesh managed more moderate inflation through structural reforms and policy interventions, while Pakistan and Nepal faced higher vulnerability to both domestic and external shocks. These findings underscore that inflation management in South Asia is contingent upon effective fiscal-monetary coordination, agricultural resilience, and socio-political stability (Batini and Yates, 2003; Pianalto, 2005; Fergusson, 2005).

Conclusion

This study examined inflation dynamics in India, Bangladesh, Pakistan, and Nepal over the period 1991-2022, revealing significant heterogeneity across the region. India experienced relatively moderate and stable inflation, supported by effective monetary and fiscal policy coordination and supply-side interventions. Bangladesh faced moderate inflation but remained vulnerable to food price shocks and political instability, reflecting its dependence on agriculture and limited self-sufficiency in food production. Pakistan and Nepal experienced higher and more volatile inflation, driven by structural constraints, fiscal deficits, currency fluctuations, and external shocks, adversely affecting economic growth, income distribution, and poverty reduction (Farooq and Irfan, 2013).

The findings underscore the critical importance of tailored policy measures to maintain price stability. Effective inflation management requires prudent fiscal and monetary policies, structural reforms, and investment in agricultural productivity to reduce supply-side constraints (Gupta and Kapoor, 2020). Stabilizing exchange rates, strengthening regional cooperation, and implementing social safety nets can further mitigate inflationary pressures on vulnerable populations. These policies should be adaptive and

evidence-based to balance short-term stabilization with long-term resilience. However, the study has limitations, including reliance on annual CPI data that may obscure intra-year fluctuations and the exclusion of informal sector dynamics. Future research incorporating higher-frequency data, sectoral price indices, and household-level consumption patterns could provide a more nuanced understanding of inflation dynamics in South Asia. Overall, managing inflation effectively is crucial for safeguarding real incomes, supporting investment, and fostering sustainable, inclusive economic growth. Policymakers must combine short-term stabilization measures with long-term structural reforms to enhance macroeconomic stability and resilience across the region.

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