Higher Food Inflation

For Prelims: **Retail inflation**, **RBI**, **CFPI**, **Food Price gains**, **Consumer Price Index (CPI) CPI-Combined (CPI-C)**, **WPI**, **Cost-push inflation, drip irrigation**, **minimum export price (MEP)**, **headline inflation**, **Russia-Ukraine war**

For Mains: Significance and Challenges of Food Inflation for Indian Economy.

Source: TH

Why in News?

Recently, the **Reserve Bank of India (RBI)** in its monthly bulletin titled " State of Economy" reported that a sharp rise in vegetable prices in June 2024 has halted the disinflation process towards the 4% target.

- The report emphasised the need for monetary policy to remain focused on aligning inflation with the 4% target.

Recent Trends in Consumer Price Inflation in India

- **Headline Inflation:** Year-on-year (y-o-y) headline inflation rose to 5.1% in June 2024 from 4.8% in May 2024, driven by food prices.
- **Food Inflation Increase:** Food inflation increased to 8.4% in June 2024 from 7.9% in May 2024, with significant contributions from cereal, pulses, and edible oils.
- **High-Frequency Data:** Data for July shows increases in cereal prices (mainly wheat), pulses (gram and arhar/tur), and edible oils (mustard and groundnut).

What are the Causes of the Rise in Food Inflation?

- **Temperature and Weather Challenges:** Issues like adverse weather conditions, such as the **prediction of a weak monsoon** and heatwave for this year affecting crop yields, particularly for cereals, pulses, and sugar, contributed to supply shortages and higher prices domestically.
    - **For example, cereal and pulse inflation showed double-digit inflation in April 2024.**
- **Fuel Prices:** The price of fuel, key input in agriculture, has witnessed a considerable increase in recent years.
    - For example, an increase in fuel inflation by 1% leads to a 0.13% rise in food inflation, and the effect slowly declines through the next 12 months.
- **Transportation Issues:** Disruptions in the supply chain due to factors like transportation constraints, labour shortages, and **logistical challenges can lead to a decrease in the availability of food products, causing prices to rise.**

- **Production Costs:** Rising production costs for farmers can lead to higher food prices. This includes **expenses such as fuel, fertiliser, and labour costs.**
- **Global Causes:** The ongoing **Russia-Ukraine war** has a global impact, particularly affecting developing countries. Energy and commodity prices have risen, and global logistical supply chains have been disrupted.
    - Ukraine and Russia account for up to **30% of global wheat exports**, leading to an increase in food prices.

What Measures Government Has Taken to Curb Food Inflation?

- **Subsidised Commodities:** The government is increasing the distribution of subsidised vegetables like onions and tomatoes through its network and releasing stocks of wheat and sugar to stabilise prices.
- **Buffer Stock Management:** The Government maintains a buffer stock of essential food commodities like wheat, rice, and pulses to release into the market during periods of scarcity or price spikes.
- **Procurement and PDS:** The **Public Distribution System (PDS)** ensures food security for the poor by providing subsidised grains. Increasing procurement and expanding PDS coverage can help stabilise prices.
- **Minimum Support Price (MSP):** Guaranteeing remunerative **prices to farmers for their produce incentivises production**, leading to increased supply and potentially lower prices.
- **Import-Export Policies:** The government can regulate **imports and exports of food items to manage domestic supply and prices**. For instance, import duties can be reduced to augment supply, while export bans can be imposed to control domestic prices.
- **Infrastructure Development:** Investments in cold storage, warehousing, and transportation facilities reduce post-harvest losses and improve supply chain efficiency, leading to lower prices.
- **Technology Adoption:** Promoting the use of technology in agriculture, such as precision farming and weather forecasting, **can enhance productivity and reduce production costs.**

Remove Food items from Inflation Targeting (Economic Survey 2023-24)

- **RBI Inflation Targeting Strategy:** In March 2021, the government retained the **Reserve Bank of India (RBI)'s flexible inflation target of 2-6%** for five years, through March 2026.
    - Under this framework, introduced in 2016, RBI targets **headline inflation** as measured by the **Consumer Price Index (CPI)**.
- **Suggestions of Economic Survey:**
    - The **Economic Survey 2023-24** suggested excluding **food inflation** from India's inflation targeting framework.
    - Food makes up **46% of CPI Headline Inflation** in developing countries, thus **controlling food prices is key** to managing overall inflation.
        - In June 2024, **overall inflation was 5.1%**, **food inflation was 9.4%**, and **core inflation was 3.1%**.
- **Reasons for Excluding Food from Inflation Targeting:**
    - **Supply-Induced Price Changes:** Food price fluctuations are mainly due to **supply shocks (For example: poor harvests, climate conditions)** rather than demand.
        - Traditional **monetary policy tools, designed to address demand-side pressures,** are ineffective for supply-induced changes.
    - **Direct Benefit Transfers (DBT):** To help poor and low-income consumers cope with rising food prices, the Survey suggests using direct benefit transfers or coupons, **offering targeted assistance without disrupting the inflation framework.**
    - **Core Inflation Focus**: Excluding food items allows the **focus to shift to core inflation**, which better reflects underlying inflation trends and the economy's health, **as it is less influenced by temporary shocks.**
    - **International Practices:** Countries like the **US, UK, and Canada also exclude food and energy prices** in their inflation targeting to maintain a more stable and predictable monetary policy framework.

Note

- **Consumer Price Index (CPI) vs. Wholesale Price Index (WPI):**
    - WPI tracks inflation at the **producer level** and CPI captures changes in prices levels at the **consumer level.**
    - WPI does not capture changes in the prices of services, which CPI does.
- **Headline inflation and Core Inflation:**
    - **Headline Inflation** is a measure of the **total economic inflation** that **includes food and energy prices.**
- **Core Inflation** is the change in the costs of goods and services but **does not include those from the food and energy sectors**.
    - This measure of inflation excludes these items because their prices are much more volatile.
    - **Core inflation = Headline inflation – (Food and Fuel) inflation.**

Way Forward

- **Supply Chain Improvement:** Investing in infrastructure, such as storage facilities, cold chains, and transportation, **can reduce post-harvest losses and ensure food** reaches consumers faster and in better condition, stabilizing prices.
    - Direct procurement initiatives, like the **Direct Benefit Transfer (DBT)** and expanding **schemes like Pradhan Mantri Kisan Samman Nidhi (PM-KISAN),** can help farmers receive fair prices without intermediaries, reducing price volatility.
- **Regulatory Measures:** Price controls and monitoring can provide **immediate relief during inflationary spikes by implementing temporary price** controls on essential commodities.
    - Strengthening the **Essential Commodities Act** can help regulate storage and movement, preventing hoarding and ensuring availability at reasonable prices.
- **Investment in Technology:** Encouraging the use of modern agricultural techniques and technologies (e.g., precision farming, and genetically modified crops) can increase yields.
    - According to the **Economic Survey 2022-23**, adopting new technologies can potentially **increase productivity by 20-30%.**
- **Encouraging Crop Rotation:** Promoting crop diversification can help stabilise prices. For instance, shifting from traditional crops to pulses and oilseeds can reduce dependency on imports and stabilise local markets.
- **Market Reforms:** Strengthening **Agricultural Produce Market Committees (APMCs)** and establishing more regulated markets can ensure better price discovery and reduce middlemen's influence.
    - Additionally, digital platforms like **e-NAM (National Agriculture Market)** can connect farmers directly with buyers, helping them secure better prices.

Drishti Mains Question:

What are the primary factors behind India's Rising food inflation, and what strategies can be employed to mitigate this gap between Overall Inflation and Food Inflation?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q.1 Consider the following statements: (2020)

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. The Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on

changing the key policy rates.

Which of the statements given above is/are correct?

(a) 1 and 2 only
(b) 2 only
(c) 3 only
(d) 1, 2 and 3

Ans: (a)

Q 2. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? (2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

(A) 1 and 2 only
(B) 2 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans: B

Mains

Q. There is also a point of view that Agricultural Produce Market Committees (APMCs) set up under the State Acts have not only impeded the development of agriculture but also have been the cause of food inflation in India. Critically examine. **(2014)**