



India's De-globalised Food Inflation

For Prelims: [Food inflation](#), [UN Food and Agriculture Organization](#), [Black Sea Grain Initiative](#), [Biofuel production](#), [Edible oils](#), [Export Ban on Non-basmati white rice](#), [Imported inflation](#)

For Mains: Factors Contributing to the Drop in Global Food Prices, Factors Responsible for India's De-globalised Food Inflation

Source: [IE](#)

Why in News?

In 2023, world food prices dropped significantly from their 2022 highs. However, India's [food inflation](#) remained high at **9.5% in December 2023**, contrasting with global deflation of **-10.1%**.

- The [UN Food and Agriculture Organization's \(FAO\)](#) food price index averaged **143.7 points** in 2022, but fell to 124 points in 2023, a decline of 13.7%.

What Factors are Contributing to the Drop in Global Food Prices?

- **Abundant Supply of Key Crops:** Bumper harvests of major crops like [wheat](#) in 2023 led to a **surplus in the global market**.
 - This abundance contrasts with concerns in **2022**, when worries about supply disruptions due to the war in **Ukraine**, a major grain exporter, caused prices to spike.
- **Improved Supply from Russia and Ukraine:** Despite the disruption of the [Black Sea Grain Initiative](#) in July 2023, both Russia and Ukraine have managed to maintain wheat exports.
 - This continued flow of grain from the region has helped to alleviate some of the supply anxieties.
- **Lower Demand for Vegetable Oils:** The UN's Food and Agriculture Organization **Vegetable Price Index** saw the biggest drop in 2023, falling by 32.7%.
 - This decline is due to a combination of factors, including improved vegetable oil supplies and a **decrease in its use for [biofuel production](#)**.
 - As more oil becomes available for food purposes, and less is diverted for biofuels, the overall demand for vegetable oil goes down, leading to lower prices.
- **Slowing Demand:** High inflation and fears of an economic recession have dampened consumer demand in many parts of the world, including in major food-importing regions, leading to a **decline in import demand for certain food commodities** and putting downward pressure on global prices.

Why is India Experiencing High Food Inflation Despite Falling Global Food Prices?

- **Limited Transmission of Global Prices:** While global food prices fell, India's food prices stayed elevated due to **limited transmission of international prices to domestic markets**.

- India's import dependence is significant only for [edible oils \(60% of consumption\)](#) and pulses.
- For most other agri-commodities, including **cereals, sugar, dairy, and fruits and vegetables**, India is self-sufficient or an exporter.
- **Export Bans and Import Duties:** The Indian government imposed bans on exports of certain food items like **wheat, non-basmati white rice, sugar, and onions** and provided **import duty waivers on others**, effectively reducing global market influences on domestic prices.
- **Domestic Production Challenges:** Issues like weather conditions affecting crop yields, particularly for **cereals, pulses, and sugar**, contributed to supply shortages and higher prices domestically.
 - Cereal and pulse inflation stood at **9.9% and 20.7%** year-on-year, respectively, in December 2023.
- **Low Stock Levels:** Low stock levels for commodities like **wheat and sugar** further exacerbated price pressures.

Note:

- India remains largely unaffected by international supply chain disruption due to issues in the Red Sea route because imports of arhar and urad primarily come from **Mozambique, Tanzania, Malawi, and Myanmar**, bypassing the recently disrupted **Suez waterway-Red Sea route**.
- Masoor from **Australia and Canada** takes the North Pacific-Indian Ocean route.
- In edible oils, imports from **Indonesia, Malaysia, Argentina, and Brazil** through the South Atlantic and Indian Ocean remain **unaffected by the Houthi conflict**.
- Also, declining global prices, such as Russian wheat at USD 240-245 per tonne and Indonesian palm oil at USD 940 per tonne, have eliminated the risk of imported inflation in India.

What is Imported Inflation?

- **About:** [Imported inflation](#) refers to the rise in prices of goods and services in a country due to an increase in the price or cost of imports.
 - To maintain profit margins, companies often pass on the increased import costs to consumers by raising the prices of their goods and services.
- **Responsible Factors:**
 - **Currency Depreciation Factor:** A [depreciation in a country's currency](#) is often seen as the primary driver of imported inflation.
 - When a currency depreciates, more local currency is required to purchase foreign goods or services, effectively increasing import costs.
 - The [Asian Development Bank](#) recently warned that India could face **imported inflation** due to a potential rupee depreciation amid rising interest rates in the West.
 - **Rising Import Costs Without Currency Depreciation:** Even without currency depreciation, a rise in import costs due to factors like an **increase in international crude oil prices** can lead to imported inflation.
 - This is a **variant of cost-push inflation**, which states that rising input costs can cause inflation in the prices of final goods and services.

How Food Inflation is Calculated in India?

- **About:** Food inflation in India is primarily measured by the [Consumer Price Index \(CPI\) for Food and Beverages](#). CPI is a key measure of inflation in India that tracks the changes in the prices paid by typical consumers for a basket of goods and services over time.
- **Recent Trends:** Food has a weight of 45.9% in the **consumer price index** but its contribution to overall inflation has increased from **48%** in April 2022 to **67%** in November 2023.
 - The government's first [Household Consumption Survey](#) released recently showed that food's share of the rural consumption basket fell **below 50%** for the first time to 46% and to 39% for urban consumers.

- According to the RBI, about **90% of food inflation** is determined by **non-cyclical factors** like the weather, supply conditions, international prices and availability.
 - On average, however, 10% of food inflation is driven by demand factors with significant time variation.

How India can Address Food Inflation Effectively?

- **Increase Agricultural Productivity:** Investing in agricultural infrastructure, technology, and research to **improve crop yields and reduce production costs** can boost supply and stabilise prices.
- **Efficient Supply Chain Management:** Enhancing **logistics, storage facilities, and distribution networks** can reduce wastage and ensure a steady supply of food items to the market, mitigating price fluctuations.
- **Diversification of Agriculture:** Promoting diversification by encouraging the **cultivation of a variety of crops** and supporting alternative farming practices can reduce reliance on a few commodities and balance market dynamics.
- **Price Monitoring and Regulation:** Monitoring food prices regularly and **implementing effective price regulation** mechanisms can prevent price manipulation and ensure fair pricing for consumers and producers alike.
- **Climate Resilience:** Addressing climate change challenges through sustainable farming practices, water management strategies, and crop diversification can reduce production risks and enhance food security in the long term.

Drishti Mains Question:

What are the key factors driving India's de-globalised food inflation trend, and what strategies can be implemented to address this disparity in the context of the country's economy?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

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)

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)**

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