THE PROBLEM OF FOOD INFLATION IN INDIA AND ITS RISING TRENDS

Dr. Pooja Ramchandani
Assistant Professor, H. R. College of Commerce and Economics, Mumbai, India
Email: bhatiapoonam2000@yahoo.com

ABSTRACT

The rising food inflation always has been a cause of worry for the government and efforts are always made to keep it under control. During the period of 2006 to 2013, the average food inflation has been the highest. The impact of such high food inflation is visible on various sectors of the economy. The research paper attempts to study the rising trend of food inflation in India and the measures undertaken by the Indian Government to deal with it.

Keywords: Food Inflation; Rainfall; CPI (Consumer Price Index); MSP (Minimum Support Prices)

INTRODUCTION

The prices of various produce such as pulses, sugar, vegetables and poultry products are estimated to surge in India in the next three months on thin supplies, which in turn could fuel inflation in the country. In India, food prices are a political hot potato where most of the population (at least more than a quarter of the population) live on a mere 74 cents or less per day. India is currently struggling with its first back-to-back drought in nearly three decades, which has resulted in ravaged crops. However, it is expected that good rains in the June-September monsoon season may boost production and food supplies later in the year and help to improve the current situation in the country. One of the most obvious explanations for the current spike in food inflation is that the effects of drought are felt most during the summer months. It is during this period when the Rabi crop will have already been marketed while we are still some time away from the next crop’s arrival in October. In a sense, is the proverbial darkest hour just before the dawn for India. It is expected that with a good monsoon, worries over food prices will mostly be washed away. The research paper attempts to study the rising trend of food inflation in India and the measures undertaken by the Indian Government to deal with it.

REVIEW OF LITERATURE

Vasantkumar Shetty (2016) conveyor of All India Broiler Co-ordination Committee was of the opinion that the prices will come down only after a couple of showers. For certain products such as Maize being a 90-day crop, the rains will force both farmers and traders to offload their produce.

Shriram Gadve (2016), President of the Vegetable Growers Association of India (VGAI) added that the vegetable growing areas in Pune, Ahmednagar, Dhule, Satara, Sangli have reported huge reduction in area due to water paucity. Indian Meteorological Department’s Agrimet section has reported that the farmers may begin tilling activities but should hold off on sowing to ensure seeds were not wasted.

N Chattopadhyay (2016), Deputy Director General of Agrimet emphasised that it is necessary to have good monsoon rainfall consistently for a few days for the seeds to grow into a good crop.

Harish Galipelli, head of commodities and currencies at India trade Derivatives and Commodities said that good monsoon rainfall can lead to higher production, but new crops will be available for
consumption only after few months. Until we get the new crop, prices will remain elevated due to limited supplies.

According to Ashwini Bansod, a Senior Analyst at Phillip Commodities India Pvt. Ltd, prices are likely to rise further as demand grows in coming months due to festivals like Ramadan.

Abhishek Upadhyay, economist at ICICI Securities Primary Dealership Ltd said that with core inflation also sticky, headline inflation is therefore likely to stay at 5 percent or higher which makes it difficult for further rate cuts by the RBI.

The Finance Ministry has announced that to keep domestic prices of sugar under check, the Government will impose 20% export duty on export of raw, white or refined sugar. Hem Pandey, Consumer Affairs Secretary mentioned that states have been asked to ensure that traders aren’t inflating rates artificially. The Government doesn’t want to ramp up procurement of pulses from the domestic market beyond 1.5 lakhs tonnes to ensure stability.

Albinder Dhindsa, Co-Founder of Grofers is of the opinion that the wholesale vegetable prices in the market have suddenly soared but are being managed at low level through forward buying. Bulk buying helps to control prices.

Hari Menon, Co-Founder and CEO at Big Basket is of the view that the price fluctuations will soon settle down due to good rains this year and that will bring price stability. Most of the escalations are manmade because middlemen tend to hoard. They try to cut that out by sourcing directly from farmers. In the next few months around 80% of fruits and vegetables will be sourced directly. Compared to 3% to 7% that fruits and vegetables contribute to modern trade store’s overall business, their contribution to our business is hovering at 18%.”

Aditi Nayar, Senior Economist at ratings agency ICRA said that CPI inflation is expected to print in the range of 5.5% to 6.0% in June - July, with food prices likely to remain firm during those months. Moreover, the rise in service tax rate and retail prices of petrol and diesel would add some upward pressure to CPI inflation. August 2016 onwards food inflation is likely to soften. Moreover, data on the distribution of rainfall and pace of sowing may dampen food inflation, particularly if higher MSP’s can boost acreage of high inflation items such as pulses. Lower temperatures may douse the prices of perishables and non-vegetarian protein items.”

OBJECTIVES OF STUDY

1. To analyze the reason behind rising food inflation in India.
2. To evaluate the measures taken by the Indian Government to deal with food inflation.
3. To suggest some measures to overcome the problem in future.

RESEARCH METHODOLOGY

The research is based on the secondary data collected from various magazines, articles, newspapers and various websites on the various aspects of The Problem of Food Inflation in India.

Trends in Food Inflation in India

In India, the cost of food increased 7.55 percent in May 2016 over the same month in the previous year compared to 6.32 percent in the previous month. It is recorded as the highest food inflation rate since August 2014 in India. Food Inflation in India which is reported by the Ministry of Statistics and Programme Implementation (MOSPI), India in its report indicated that the prices of pulses increased the most which is 31.57 percent from 34.13 percent in the previous month, followed by sugar which is now 13.96 percent as compared to 11.18 percent in the previous month and vegetables indicating 10.77 percent from 4.82 percent. Also, the prices of fruits have been rising at a faster pace. It was 2.64 percent as compared to 1.66 percent in April. In India, food inflation was at an average of 8.52 percent.
in 2012 until 2016, when it reached an all time high of 14.72 percent in November 2013 and recorded a lower rate of 2.15 percent in July 2015.

The graph below indicates the trends in food inflation from June 2015 to May 2016.

![India Food Inflation Graph](source: http://www.tradingeconomics.com/india/food-inflation)

The following table shows the percentage rise in prices of various commodities over a period of past two years.

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>CHANGE (INCREASE OVER 2 YEARS IN %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomato</td>
<td>195</td>
</tr>
<tr>
<td>Urad Dal</td>
<td>114</td>
</tr>
<tr>
<td>Tur Dal</td>
<td>100</td>
</tr>
<tr>
<td>Chana Dal</td>
<td>62</td>
</tr>
<tr>
<td>Potato</td>
<td>38</td>
</tr>
<tr>
<td>Masoor Dal</td>
<td>28</td>
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</tbody>
</table>

Source: Times Of India dated 17th June 2016.

**Measures Taken By Indian Government**

On 14th June, 2016; Finance Minister Arun Jaitley called a high level meeting in order to discuss the prices of pulses. Pronouncements about increasing imports, encouraging private traders and other such measures have been iterated. On Thursday, the Government ordered import of 6.5 lakh tones of pulses, the highest so far, in order to tide over the problem of soaring prices that's hurting household budgets. The Government has also approved import of 3 lakh tones green lentil, 2 lakh tones yellow peas, 1 lakh tone red lentil and 20,000 tones each of arhar and urad to deal with the problem of food inflation. The Government is also looking at the possibility of leasing land in Mozambique in order to grow pulses. Some of the initiatives in irrigation, a national farm market and a shift from MSP-driven policies will take time to show impact on the economy. Although expectation of a robust monsoon has wiped off some worries but the impact of two consecutive patchy rainfall years must be dealt with especially when both retail price inflation and wholesale price inflation data point to build up of pressure points on food items. As the Government is very well aware that spiraling prices may hurt economic recovery, it is taking measures to ease pressure on pulses include negotiations being initiated on long-term contracts to improve supplies. The RBI has already paused its rate cutting cycle so that it can watch the government’s supply management as well as progress of the monsoon before it moves on the interest rates.
RECOMMENDATIONS

1. The government should cut import duty rates in order to increase supply and bring prices down.
2. Also, the Government must take measures to remove stockholding and hoarding of goods.
3. The Government may also build buffer stock through imports and resume futures trading in pulses in order to overcome the problem of food inflation.

REFERENCES

4. Times Of India dated 17th June 2016.