Navigating Food Price Volatility: India's Inflation Mitigation"

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Introduction

Food inflation refers to the increase in the prices of food items over a specific period, leading to a decrease in the purchasing power of a currency. It is a specific type of inflation that primarily affects the prices of food products and can have a significant impact on a country's economy and its citizens.Food inflation can have a significant impact on households, particularly those with lower incomes. When food prices rise, it becomes more difficult for people to afford to buy the food they need to live healthy and productive lives. This can lead to several negative consequences, including:

Increased poverty: Food inflation can increase the prevalence of poverty, as people are forced to spend more of their income on food and have less money left over for other necessities such as housing, clothing, and healthcare.

Hunger and malnutrition: Food inflation can increase the risk of hunger and malnutrition, particularly among children, the elderly, and people with disabilities.
Social unrest: Food insecurity can also lead to social unrest, as people become more desperate to find food. Therefore,the government needs to manage food inflation in India

Present Scenario of Food Inflation in India: The Indian Council for Research on International Economic Relations (ICRIER) has projected that the prohibition of cereal exports in 2023 will result in farmers incurring losses of at least ₹45,000 crores.In August 2023, retail inflation stood at 6.83%, with food inflation specifically registering at 9.2%. These figures are calculated based on the Year-on-Year Consumer Price Index (CPI).The current inflation is primarily driven by the increasing prices of food items, given that food and beverages account for a significant 45.9% of the weight in the CPI basket.

Prominent factors contributing to the present food inflation encompass items such as tomatoes, onions, cereals (wheat and rice), spices, and milk and dairy products. The inflation in wheat prices can be attributed, in part, to domestic factors like heat waves and unseasonal rains (El Niño), and partly to the influence of international price transmission stemming from events like the Russia-Ukraine war.

Factors influencing India's food inflation: India's agriculture is heavily reliant on rainfall, and erratic rainfall patterns can have a significant impact on crop yields. Droughts can lead to reduced production of key food crops, such as rice and wheat, while excessive rainfall can damage crops and disrupt transportation networks. Which is further aggravated by climate change.

The recent surge in global commodity prices, including those of food commodities, along with the fluctuations in crude oil prices, has had a notable impact on the overall economic landscape.India's infrastructure, particularly in the areas of storage, transportation, and irrigation, is often inadequate to meet the needs of its growing population. Exchange rate fluctuations affectagriculture trade and thus prices.Post-harvest losses, rising income and changing dietary patterns. Government policies such as MSP and Food subsidies.

Measures taken by the government to control food inflation.

Export restriction:Export restrictions can take various forms, such as export bans, export duties, and the imposition of Minimum Export Price (MEP). Recent examples of such measures include a ban on the export of wheat, broken rice, and non-basmati rice, as well as the imposition of a 20% export duty on parboiled rice and a 40% export duty on onions.

Stock Limits: Enforcing restrictions on the amount of wheat that traders and millers can stock.
Buffer Stocks: The government maintains a buffer stock and releases items from it through the Open Market Sales Scheme (OMSS).

Food Security Scheme: The Pradhan Mantri Garib Kalyan Ann Yojana was initiated to distribute free food grains to over 80 crore beneficiaries.

Direct Farmer Support: Farmers receive assistance in the form of subsidies, income support, and the procurement of crops at the Minimum Support Price (MSP).

Supply-Side Measures: Strategies to enhance agricultural productivity, marketing, the establishment of strategic reserves, the encouragement of diversification, and the promotion of value addition.

Issues related to the existing system for managing food inflation.

Loss of Farmers' Income: Implementing measures to control food inflation, such as export bans, OMSS, and the imposition of stock limits, leads to a collective reduction in the income of farmers.

Policy Bias: The adoption of such market-distorting policies reflects a preference for consumers over farmers (who are the producers) in India's food price policy.
Indirect Tax Burden on Farmers: Previous research conducted by ICRIER and OECD revealed that Indian farmers bore a significant indirect tax burden, amounting to Rs. 2.65 lakh crores annually, between 2000-01 and 2016-17.

Dumping Effect: The combination of an export ban and the government selling wheat in the open market at prices below the Minimum Support Price (MSP) guaranteed to farmers has been suggested as a form of "dumping" within India by the government itself. Dumping refers to a situation where the price of a product in the importing country is lower than the price in the exporting country.

Global Ramifications: India is the world's largest rice exporter, accounting for approximately 40% of the global market. India's ban on rice exports has repercussions on global prices. Such abrupt policy changes jeopardize global food security and undermine India's reputation as a reliable food exporter.
Best strategies to tackle food inflation without causing harm to the economy or society

Tailored Trade Policy: Rather than imposing blanket trade restrictions, trade policies can be specifically designed to address rising inflation. Timely import duty reductions can be used to control inflation.

Buffer Stocks: During harvest seasons, the government should establish buffer stocks for essential vegetables prone to price fluctuations, such as tomatoes, onions, and potatoes. This will ensure stable prices for farmers during periods of surplus. These stocks can be strategically released during lean periods or high-demand seasons, such as festivals, to stabilize prices.

Income Support for Farmers: To mitigate potential income losses, the government can increase the annual income transfer to farmers under the PM-Kisan scheme from ₹6,000 to ₹10,000.

Promoting Food Processing: Processed food can provide a cost-effective alternative for consumers during periods of price pressure on fresh produce.

Boosting Research and Development (R&D): To enhance productivity, R&D investments in agriculture should be increased from the current level of 0.48% of agriculture GDP. This funding can be directed towards innovative farming practices and drought-resistant seed varieties that can adapt to changing climate conditions.

Expanding Irrigation: By expanding micro-irrigation infrastructure, including soil moisture sensors and drip irrigation systems, irrigation coverage can be increased. This will improve water efficiency and reduce the risk of crop failures.

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