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Inflation Impact on Agricultural Sector

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- **Abstract:-**

Inflation is always and everywhere a monetary phenomenon. It is arise in general level of prices of goods and services in an economy over a number of years. So that inflation reflects on their purchasing power of money. In short, inflation is quoated as common in Indian economy as cold and flu in winter season. The economy of is large, with a number of major sectors like agriculture, textiles and handicrafts, manufacturing industries and services. In Indian economy agriculture is a major component, more than 75% of our people have their live hood as agriculture and agriculture oriented works. Therefore, agricultural sector of Indian Economy is one of the most significant part of India. In this way, majority of population is working in agriculture sector. So the effect increases manifold. This paper focuses on the analysis the inflation and its factors as well as the effects of inflation on Indian agriculture sector.

Keywords:- Inflation, Indian economy, Agriculture Sector, Monetary phenomenon, Goods and Services.

- **Objectives:-**

The Following are the objectives of the study.

1. To understand the term of inflation.
2. To study the importance of agriculture in Indian economy.
3. To study the current inflation in India.
4. To study the impact of inflation of Indian agriculture sector.

- **Research Methodology:**

The present research paper based on secondary data obtained from various sources such as reference books, journals, articles, magazines and from web sources including websites related inflation impact on agriculture sector.

- **Introduction:**

Normally, inflation refers to the increasing trend in general price level. In other words it is a state in which the purchasing power of money goes down

Inflation is defined as a sustained increases in the general level of prices for goods and services. It is measured as an annual percentage increase. In other words inflation is too much money chasing too few goods.

According to monetarists theory that, when the money supply is increased in order to grow or increase production and employment, creating an inflationary situation within an economy.

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- **Types of Inflation:**
  - Creeping Inflation: When prices are increasing it is called as creeping inflation. It is the mildest from inflation. It is also called as mild information or Low inflation. It is not more than 3% p.a.
  - Chronic Inflation: If creeping inflation persists i.e. continues to increase for a longer period, then it is called as chronic or secular inflation can be either continuous to grow for longer period without any downturn then it possibly leads to Hyperinflation.
  - Walking Inflation: When the rate of rising prices is more than the creeping inflation, it is called as walking inflation or Trotting inflation. It is between 3% to 10% p.a. It gives a cautionary signal for the occurrences of running inflation.
  - Moderate Inflation: Moderate inflation means combination of chronic and working inflation. It is not more than 10%. Therefore stable inflation is not a serious economic problem.
  - Running Inflation: It prices increases by more than 10% in a year, is called as running inflation. It may be consider price raise between 10% to 20%.
  - Galloping Inflation: If prices increase by dual or triple digit inflation rate like 20%, 500%, or 999% p.a. then this situation is called as Galloping inflation. When prices increase by more than 20% but less than 1000% p.a. It is also called as Jumping inflation. Our country has been witnessing it from second five year plan period.
  - Hyper Inflation: When prices increase above 1000% p.a. (quadruple or four digit inflation rate). It is called as Hyper inflation. During Hyper inflation, the value of the national currency (money) of an affected currency reduces almost to zero. Paper money becomes worthless and people start trading either gold or silver or sometimes use the old system of commerce. Hungary in the year 1946 and Zimbabwe during 2004-2009 under Robert Mugabe's regime are the two worst examples of Hyper inflation in the world.
- **Causes of Inflation in India:**
  - Increase money supply: Last few year the rate increase in money supply has varied between 15% to 18%. Therefore the rate of increase out put has not been sufficient to absorb the rising quantity of money in the economy.
  - Rising Impact Prices: International inflation gets imported into the country through major imports like edible oil, Steel, Cement, Chemicals, Fertilizers etc. In short, inflation has been a global phenomenon.
  - Deficit Financing: During the 6^{th} and 7^{th} plans, massive does of deficit financing had been resorted to. It was Rs. 15684 Crores in the Sixth Plan and Rs 36000 Crores in the seventh plan.
  - Increase in Government Expenditure: In India during the recent years government expenditure has been increasing very fast. Non development expenditure does not create real goods it only creates purchasing power and so leads to inflation.

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- Rise in Administered Prices: There are a number of important commodities both agricultural and industrial for which the price level is administered by the government.

- **Impact of Agriculture on Indian Economy:**

Agricultural sector of Indian Economy is one of the most significant part on India. Agriculture is the only means of living for almost two- thirds of the employed class in India. Mahatma Gandhi said Indian economy lives in rural villages and many of the industries getting their raw material from agriculture sector.

In short, increase in agricultural production on and productivity leads to increase in the income of the farmers. In this way increased income of the rural commodity will lead to more 'saving' which can be used for either further development of non agricultural occupations, as well as industry.

According Finance Ministers, Arun Jaitley's budget speech (February 29, 2016) our farmers for being the backbone of the country's food security. Government will, therefore, reorient its interventions in the farm and non farm sectors to double the income of the farmers by 2022.

Doubling of real incomes would be "a miracle of miracles" as it would imply a compound growth rate of 12% p.a. Ashok Gulati former chairman of commission for Agricultural costs and prices and professor, Indian council for research on International Economic Relations, wrote in Indian Express.

To double the income of farmers by 2022 in nominal (numerical) term- which do not take inflation into account would require a 15% annual income growth rate according to our estimates.

- The fall in international commodity prices, especially of crude oil has helped improve India's key macro economic parameters. Such as fiscal deficit current account deficit and inflation. Low crude prices have also provided an opportunity to reform the fuel subsidy regime. Industries dependent on oil, such as auto, also get a boost from lower fuel prices. Lower international prices of edible oil have provide a blessing this year. A drop in looking coal prices by 18% . Since last year will reduce input costs for sectors such as power.
- India is a significant exporter of agricultural products and is trade surplus in the segment. The export include 11.6% of total rice production 4% of total wheat production and also cotton.

- **Indian Agriculture Industry: Overview**

- According to the Economic survey 2015 growth in agri GDP in FY 15 is just 1.1 %, while the overall GDP is likely to growth at 7.5% for the first years of the 12th Five Year Plan the average rate of growth in agri GDP is a meager 2%.
- Achieving food and Nutrition on security today and for a world population that will number more than 9 billion and be 70%. Urbanized by 2050 is a key global challenge.

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- **Inflationary Impact on Agricultural Output:**

The Ministry of Agriculture released the first advance estimates of production of major kharif crops or FY 16.

Production for Kharif Crops of 2015-16 and WPI and CPI Inflation for August 2015

Cereals	FY 15 (mntonnes)	FY 16 (mntonnes)	Change (%)	WPI (%)	CPI (%)
Cereals	120.68	118.49	-1.8	-1.65	2.38
Rice	90.86	90.61	-0.3	-3.48	-1.16
Coarse Cereals	29.82	27.88	-6.5	n.a.	n.a.
Maize	16.39	15.51	-5.4	1.68	5.51
Pulses	5.63	5.56	-1.2	36.40	25.76
Tur	2.78	2.61	-6.12	48.40	41.37
Urad	1.27	1.37	7.87	35.34	26.87
Foodgrains	126.31	124.05	-1.8	5.10	n.a
Oilseeds	18.33	19.89	8.5	-2.52	#
Soybeen	10.53	11.83	12.35	-17.23	0.28
Castor Seed	1.73	1.94	12.1	-1.11	n.a
Ground nut	5.07	5.11	0.8	21.82	12.24
Cotton (mnbales)	35.48	33.51	-5.55	-12.99*	n.a
Sugarcane	359.33	341.43	-4.98	20.94	-15.73

Source: Ministry of Agriculture, office of Economic Advisor

* Refers to sugar CPI

\# CPI inflation for mustard oil was 6.4% and ground nut oil 10.4%.

As the season's rainfall goes into a deficit of 16% the agricultural crop production for Kharif crop does appear to be under pressure.

Although inflation figures for both WPI and CPI are at their lowest levels for the month of August, there does appear to be pressure on prices going ahead given the production dynamics.

- **Looking Towards 2050 :**

The key inflation points for India in the next four decades are as follows.

- The high – saving households of the south will save less as the proportion of the aged increases sharply.
- Resource constraints will put a huge premium on resources – saving technologies.
- The rural- urban balances will shift decisively and infact, the absolute size of the rural population will start declining by the middle of the next decade.
- New technologies that replaces skilled labour with computer – controlled machines will dull the edge of comparative advantage that populous Asia enjoys.
- The energy economy will be radically different from the present structure of centralized electricity and liquid fuel based transport.

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- The big bulge in the working age population will be in North India and that is where non- agricultural jobs will have to be created.
- The rise of China and the loss of dynamism in the West will shape our diplomacy defence and international economic policy.

In this way, we face major challenges even in a 2050 time frame in agriculture, costly zone management water resources, and disaster risks and so on.

- **Conclusion:**

Considering the above information it is concluded that, inflation in general and food price inflation in particular has been a persistent problem in India over the past few years. Apart from agriculture manufacturing and services sector. which contribute the highest. In this way, price stability is crucial for sustainable growth structure and factors influencing food inflation.

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