

Rayat Shikshan Sanstha's



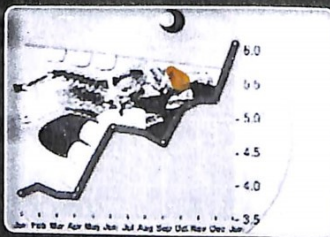
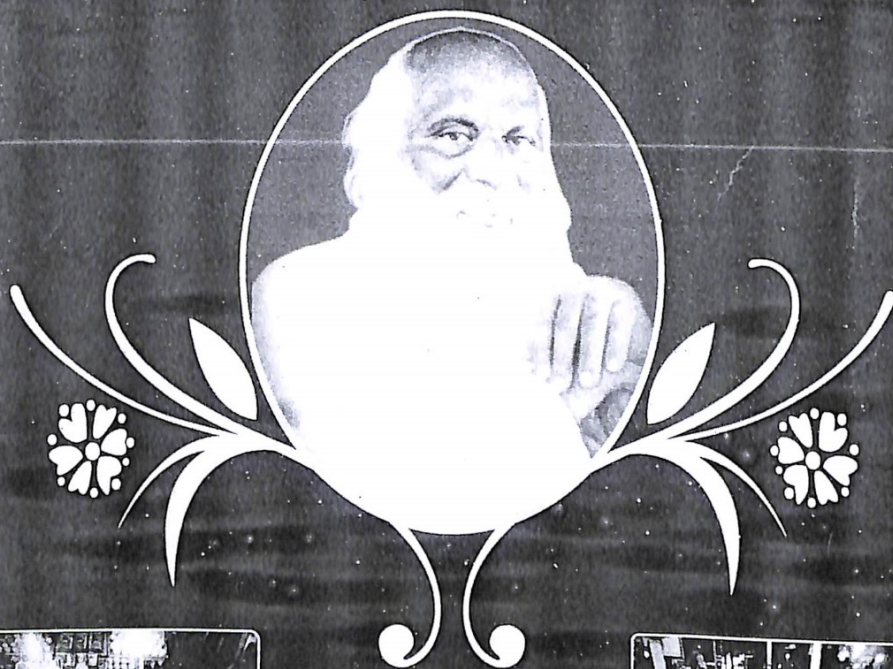
CHANDRAROOP DAKALE JAIN COLLEGE OF COMMERCE

www.cdjcollege.com , www.cdjlibrary.co.nr

(Re-accredited by NAAC with 'A' Grade under the new scheme)
(ISO Certification 9001:2008)



NATIONAL LEVEL SEMINAR ON INFLATIONARY PRESSURE ON INDIAN ECONOMY



Sponsored by : U. G. C - University Grant Commission, New Delhi

ISBN-978-81-930865-5-1

Publisher

Principal, C. D. Jain College of Commerce, Shrirampur, Dist. Ahmednagar.

21	Inflation – Impact on Indian Economy & Agriculture Prof. Khandagale Deelip P.	78
22	Inflation In Recent Years (2014-2015) Prof. Shaikh Shaukat Dadamia Prof. Pradip S. Yadav	81
23	Inflation – Problems and Remedies in Indian Economy Prof. Mengal S.G.	84
24	Inflation in India, Dr. Anupama Deepak Gandhi	89
25	Food Inflation in India - causes and Trends Khandre Swapnali Ramesh, Dr. Bhosale R.D.	91
26	Inflation and Its Impact on Indian Economy Prof. Sayyed Sadik Bashir, Dr. Sanjay Vaidya	94
27	Food Inflation in India Prof. Chandratre Y. V., Dr. Bhor L. D.	97
28	Inflation in India: Causes and Impact Jadhav Mangesh Dagadu, Dr. S. N. Gawali	100
29	Inflation: Service Sector Dr. S. R. Bakhale	104
30	Impact of GST on Indian Economy Prof. Mrs. Gujar Pornima Sachin	107
31	Inflation Impact on Agricultural Sector Dr. S. N. Gawali	110
32	Inflation in India: Role of Monetary Policy Dr. Naresh Madhavi	115
33	A View on Indian Inflation Dr. Tajane Umesh A., More Yogita Subhash	119
34	A Study of Impact of RBI policy rates on inflation Prof. Zalake A.S	122
35	Inflation and Role of RBI in Next 5 Years Dr. S.N. Gawali, Prof. Yuvaraj M. Waghare	126
36	A Research on Inflation in India-Causes and its Impacts Prof. Bhausahab S. Waghmare	128
37	Agricultural Price Policy in India Prof. Garule G.L., Prof. Sherkar S.A.	133
38	Inflationary Trend Boost to Gold Demand Gaikwad Yogita Suresh, Dr. Adik B. R.	136
39	Inflationary Trend in India- Food Inflation Dr. Mahejabin D. Sayyad	140
40	Inflation- Causes and Remedies Dr. Shinde Suresh Sukdeo	146
41	Inflation and Economic Recovery : External Trade and Investment Dr. Vikhe Archana Anil	150
42	Understanding Inflation and Controlling It Prof. Dr. B.B. Nighot, Prof. Pradip S. Yadav	154
43	Inflation: Causes and Impact Dr. Kadam Pramodini, Miss. Jagtap Mangal B.	157

Food Inflation in India

Prof. Chandratre Y. V.
Head, Dept. of Computer
C. D. J. College of Commerce, Shrirampur

Dr. Bhor L. D.
Principal,
C. D. J. College of Commerce, Shrirampur

• Introduction:

High food inflation has emerged as a major economic challenge in recent times. Among others, the prolonged stagnation in the agricultural sector since 1991 is considered to be a major contributing factor. However, a clear long-term link between the slowdown in agricultural growth and rising food prices is not yet established. The present understanding of the impact of agrarian slowdown on food inflation is based on the recent experience (since year 2008) with rising food prices. Many critical questions which have significant policy implications are left unanswered as a result: (a) How did food prices behave in India in response to the growth of agricultural sector during the post-economic reforms period as a whole? (b) Is the food price scenario experienced during the deceleration phase (post-1991) of agricultural growth significantly different from the one witnessing the pre-economic reforms phase? (c) What are the root causes of various instances of food price spiral witnessed during the pre- and post-economic reforms period? (d) How did India meet its food requirements and control the food prices throughout the post-reform period of decelerating agricultural output?

• Objectives:

To examine the long-term trends in the food price inflation in India in relation to the growth performance of Indian agriculture.

• Research Process

Process followed in this work is descriptive.

• Reasons behind food price pressures

- Each episode of food articles and food products inflation was preceded by a supply-shortfall.
- Host of other factors such as flood, drought, wars, increase in procurement and issue prices, delay in importing food and speculative hoarding

• Food Inflation and the Agriculture Sector:

Food industry is most badly hit by inflation. India's Economic Survey Report, 2009-2010, reveals a double digit increase in food inflation, currently standing at a staggering 16.12%. Inflation has spread to other sectors as well. It is not one cause, but a sum of many events that has led to this:-

- In 2008, the Finance Minister waived loans up to sixty thousand crores. A benevolent gesture, but as a result of having more money in hand, demand for commodities went up which resulted in high prices (law of demand).
- We have not been witnessing very good monsoons in the last few years. If the crop yield isn't good, then the demand clearly exceeds supply resulting in higher prices.

- The global economy, as a whole, is in a state of imbalance. With major nations in the world experiencing an economic setback, the import expenses are rising too.
- The ever rising costs of petroleum and crude oil have a direct impact on transportation charges.

As many people live below or close to poverty line in India, the poor pay a heavy price. With the increasing wholesale and retail margins, the farmers do not benefit from the rise in prices that consumers in rural and urban areas are forced to pay. For quite a while now, India has witnessed a debate on the sustainability of our much applauded growth rate in times when inflation seems unstoppable. However, the reality is that inflation has been deeply affecting our agriculture sector, and the nature of this problem is worth investigating.

• Understanding Food Inflation

Why are food prices rising now, especially when the drought is apparently behind us and the met department has forecast an "above normal" monsoon, with aggregate rainfall during June-September at 106 per cent of the long period average for the season? True, the rains have been deficit by about 21 per cent so far, but that picture is likely to change as we enter the peak kharif sowing period from June-end through July.

The most obvious explanation for the current spike in food inflation is that the effects of drought are felt most during the summer months. This is the period when the rabi crop – not a very good one this time – has already been marketed and we are still some time away from the next crop's arrival from October. This, in a sense, is the proverbial darkest hour just before the dawn. With a good monsoon, our worries over food prices will mostly be washed away.

Even the latest May CPI data shows retail inflation in pulses at 31.57 per cent. But one can expect farmers to significantly expand area under arhar/tur, urad and moong in this kharif season, mainly in response to high market prices. In fact, we saw them do this for rabi onions, so much so that a bumper harvest led to prices eventually crashing in March-April!

But there are some crops – especially sugar, wheat and potatoes – where we may not see prices really cooling even with a munificent monsoon.

India's sugar production fell from 28.5 million tonnes (mt) in 2014-15 to 25.2 mt in 2015-16. The impact of last year's drought and the low cane plantings in Maharashtra and Karnataka will, however, be seen more in the 2016-17 sugar season from October, with output expected to dip further to 22-23 mt. Imports can be a way out. But it is not an easy option to exercise, particularly with Assembly polls due in Uttar Pradesh early next year. Depressed sugar prices over the last three years have taken a heavy toll of the finances of both mills and cane farmers. Opening up to imports, just when prices are looking up, can hurt the BJP's chances in UP where cane growers form a substantial vote bank.

Wheat and potatoes, on the other hand, are primarily rabi crops sown in October and harvested from March. Although the Centre has claimed wheat production for 2015-

16 to be over 94 mt, flour millers and traders peg this at least 8-10 mt lower. Their estimates have some basis, given that wheat procurement by government agencies is down by 5 mt compared to last year and prices in major mandis are also higher by 14-15 per cent. Moreover, stocks with the Food Corporation of India on July 1 are projected at 28-29 mt, the lowest in eight years and just above the minimum buffer norm of 27.58 mt for this date.

Wheat imports now attract 25 per cent customs duty. This duty is technically applicable until June 30, when the marketing season gets over. It is not clear whether the Centre would allow the import duty to revert to nil after that. While the precarious domestic supply situation – notwithstanding the agriculture ministry's higher production estimate – may make this necessary, there are again political compulsions coming in the way of large-scale imports.

As far as potatoes go, the Centre's own estimates point to a drop in production to 45.6 mt in 2015-16, from the previous year's 48 mt. Low prices as well as unfavourable weather conditions led to farmers in states like Uttar Pradesh, West Bengal and Punjab planting less area in the recent rabi season. The effects of it are being felt now, with the tuber now retailing at twice the levels at this time last year.

The next few weeks, when the course of the monsoon would become clear, will decide where food inflation and interest rates are headed. And needless to add, the implications of it extend way beyond just these two variables.

- **Conclusion:**

The pressure on food prices is likely to increase as economic growth finds durable traction once again. It is therefore necessary to turn agriculture growth into a 'mission mode' so as to increase productivity through enhanced investments and improved technology. Needless to state, reducing the supply-demand gap in agriculture production in the long-run and improving supply logistics will be of utmost importance for assuaging food price pressures and for sustaining the pace of economic activity by securing adequate food availability at reasonable prices.

- **References:**

1. Agriculture Statistics at a Glance, Various Issues, Ministry of Agriculture, Government of India, Available at http://eands.dacnet.nic.in/latest_2006.htm.
2. Atul Guha, Ashutosh Kr Tripathi, (2014), "Link between Food Price Inflation and Rural Wage Dynamics" Economic and Political Weekly, June 28, 2014 (Vol. XLIX Nos. 26 & 27).
3. Bandara J.S., (2013), 'What is Driving India's Food Inflation? A Survey of Recent Evidence', South Asia Economic Journal, 14(1), page 127-156.
4. Chand R. (2010), 'Understanding the Nature and Causes of Food Inflation', Economic and Political Weekly, volume 45, number 9, page 10-13.