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The Road Map to Mussoorie...

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FOOD INFLATION IN INDIA

SYLLABUS:

GS 3 > Indian Economy >> Inflation and its impacts

REFERENCE NEWS:

Over the past few days, several observers of the Indian economy have made the point that urban India, especially the larger mega cities, are the new areas of concern when it comes to economic activity while rural India is witnessing an uptick. In simpler terms, all this means is that people in urban India are not buying (consuming) as much stuff (be it cars or cereals) as companies expected them to buy while people in India’s rural areas seem to be doing much better than earlier.

A big reason why urban India seems to be doing worse is high food inflation.

FOOD INFLATION IN URBAN AND RURAL INDIA:

Inflation refers to the overall increase in the prices of goods and services, coupled with a decrease in people's purchasing power. Food products, especially, form a significant part of this inflation, often contributing more than 50% to the overall inflation rate.

Food inflation contributed **73.1 per cent to the headline rural inflation**. In contrast, food inflation contributed only **56.1**

per cent of the headline urban inflation. This stark disparity is because of the disproportionately higher weight food holds in the rural consumption basket, states a research note by CMIE’s

(Centre for Monitoring Indian Economy) Economic Outlook.

TABLE 1: How food inflation hits rural India more than urban areas

Month	Rural		Urban	
	Weight	Inflation	Weight	Inflation
General Index	100.00	5.87	100.00	5.05
Food and beverages	54.18	8.25	36.29	8.55
Food	47.25	9.08	29.62	9.56
Non-alcoholic beverages	1.37	2.33	1.13	3.03
Prepared meals, snacks, sweets, etc.	5.56	2.95	5.54	4.29
Pan, tobacco and intoxicants	3.26	2.32	1.36	2.94
Clothing and footwear	7.36	2.54	5.57	2.92
Housing	0.00		21.67	2.78
Fuel & light	7.94	-0.33	5.58	-3.25
Miscellaneous	27.26	4.07	29.53	4.09
Household goods and services	3.75	2.15	3.87	3.09
Health	6.83	3.94	4.81	4.38
Transport and communication	7.60	2.92	9.73	2.54
Recreation and amusement	1.37	2.22	2.04	2.45
Education	3.46	3.62	5.62	3.94
Personal care and effects	4.25	8.81	3.47	9.30

Source: CMIE’s Economic Outlook

Vegetable inflation contributed the most to overall headline inflation. Vegetables have a weight of 7.5 per cent in rural CPI and 4.4 per cent in urban CPI. Due to the relatively larger importance of vegetables in rural consumption, it contributed to **45.8 per cent of the headline rural inflation**. In contrast, vegetable inflation only contributed **31.3 per cent to headline urban inflation**.

CAUSES OF FOOD INFLATION IN INDIA:

Supply Chain Disruptions and Logistical Issues

- **Transportation Costs:** India's food supply chain depends heavily on road transport, making food prices sensitive to fuel costs. When diesel prices surged in 2021-2022, transportation costs increased significantly, which led to higher food prices across the country.
- **Storage and Warehousing Limitations:** According to NITI Aayog, up to 16% of India's fruits and vegetables are wasted due to poor storage which are post-harvest loss. This inefficiency drives up the prices of these items during periods of high demand.

Seasonal and Climatic Factors

- **Monsoon Dependence:** Agriculture in India is largely rain-fed, with approximately 60% of cropland dependent on the monsoon. Poor monsoon rains reduce crop yields, which inflates prices for key staples. In 2023, erratic rainfall due to climate variability led to reduced production of crops like rice and pulses, pushing up their prices.
- **Extreme Weather Events:** Increasingly frequent extreme weather events like droughts, floods, and unseasonal rain impact crop yields. In early 2023, unseasonal rainfall damaged wheat crops in major producing states like Punjab and Haryana, leading to a supply shortfall and subsequently higher prices.

Global Market Fluctuations and Import Dependency

- **Dependence on Imports:** India relies on imports for several essential items, including edible oils and pulses. India imports over 60% of its edible oil. In 2022, global disruptions in palm oil supply from Indonesia and soybean oil from Argentina led to a sharp increase in edible oil prices in India.

- **Currency Depreciation:** The depreciation of the Indian Rupee makes imports costlier, adding to inflation. Rupee's depreciation in 2022 raised the cost of imported pulses and edible oils, directly impacting domestic food inflation.

Rising Input Costs for Farmers

- **Fertilizers and Pesticides:** The cost of agricultural inputs, such as fertilizers, pesticides, and seeds, has been rising due to supply chain issues and international price hikes. The global shortage and subsequent price hike of fertilizers in 2021–2022 increased input costs for Indian farmers, raising the production cost of crops like wheat and rice.
- **Labour Costs:** The pandemic-driven labour shortages and higher wages in the agricultural sector increased production costs. In states like Maharashtra and Uttar Pradesh, where labour-intensive crops like sugarcane are grown, these higher costs contributed to increased prices.

Demand-Supply Mismatch

- **Growing Middle-Class Demand:** Rising incomes and urbanization have shifted dietary preferences toward protein-rich and processed foods. This trend increased demand for eggs, dairy, and pulses, leading to price spikes in these categories when supply could not keep up.
- **Export Demand:** Exports also affect domestic food prices. In 2022, India saw high export demand for wheat following global shortages, leading to domestic price rises. To control prices, the government imposed a wheat export ban in May 2022, highlighting the impact of export demand on domestic food prices.

Policy and Regulatory Factors

- **Minimum Support Prices (MSPs):** Government-fixed MSPs for certain crops can push up food prices if MSPs rise faster than the general inflation rate. For instance, the recent increase in MSPs for paddy and pulses to support farmers has contributed to higher rice and dal prices.
- **Supply Control Measures:** When prices increase, the government sometimes imposes trade restrictions, such as bans or tariffs on exports of essential goods. While these measures intend to stabilize domestic prices, they may also discourage production in the long term, affecting supply stability. The government's export ban on onions in

late 2023, for example, led to temporary supply disruptions and price volatility in onion-producing regions.

Inflationary Pressures from Global Events

- **Russia-Ukraine War:** The war between Russia and Ukraine, two major global exporters of wheat and sunflower oil, disrupted the supply chains for these commodities in 2022. This shortage affected the price of edible oils and grains, raising costs in import-dependent countries like India.
- **COVID-19 Pandemic:** The pandemic caused a series of logistical disruptions and labour shortages, raising food prices. Supply chain interruptions, especially during lockdowns, led to price increases in essential goods. For example, in 2020-21, the prices of items like pulses, dairy, and meat rose sharply due to restricted movement and labour shortages.

CONSEQUENCES OF FOOD INFLATION:

Reduced Purchasing Power and Standard of Living

- **Rural India:** Rural households typically spend a larger portion of their income on food, making them more vulnerable to inflation. For instance, in 2022, food inflation impacted staples like rice and pulses, which form a large part of rural diets. High food costs reduce their overall quality of life.
- **Urban India:** In urban areas, food inflation squeezes household budgets, particularly for the low- and middle-income groups. In 2023, the rise in cooking oil prices due to import costs meant urban households had to pay more or switch to cheaper substitutes, which often affects nutrition.

Worsening Nutritional Standards

- **Rural India:** High food prices lead to a reduction in the consumption of nutritious foods like vegetables, fruits, and protein-rich foods, impacting rural nutrition. Studies show that food inflation in 2023 contributed to a rise in malnutrition, especially in lower-income rural households, as families cut back on protein sources and greens to afford staples like rice and wheat.
- **Urban India:** As egg and dairy prices rose in 2023, some urban households reported reducing their intake of these items, potentially impacting child nutrition and health.

Rising food prices are linked to increased reliance on processed foods, which can lead to health issues like obesity, especially among urban children and adults.

Increased Rural Migration to Urban Areas

- **Rural India:** Food inflation exacerbates economic insecurity in rural areas, contributing to **rural-to-urban migration** as people seek better employment opportunities to cope with rising living costs. For instance, during the high inflation period of 2021–2022, reports showed a noticeable increase in migration from states like Bihar and Uttar Pradesh to cities in search of better income prospects, as local agricultural incomes could not keep up with food inflation.
- **Urban India:** Urban centres, already grappling with issues like congestion and resource scarcity, struggle to accommodate new migrants. This can strain urban infrastructure and contribute to a rise in informal settlements, placing added pressure on urban resources like housing, healthcare, and sanitation.

Rise in Rural Debt and Financial Stress

- **Rural India:** In states like Maharashtra and Tamil Nadu, where rural populations are already prone to agricultural debt, high food prices compound the financial burden, pushing more households into distress. According to a 2023 report by NABARD, rural households facing high food inflation saw an increase in short-term loans taken for food and other daily expenses.
- **Urban India:** While urban households may have more access to formal credit, food inflation still leads to increased reliance on personal loans or credit cards, raising the risk of debt. Higher credit card usage in urban areas has been linked to essential spending in times of inflation, leading to rising debt levels, especially among urban lower-middle-class families.

Increased Burden on Government Welfare Programs

- **Rural India:** Food inflation puts pressure on government welfare programs like the Public Distribution System (PDS), which supplies subsidized grains to low-income households. In 2022, the government expanded PDS subsidies under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) to combat rising food costs, but sustaining these expansions is financially challenging.

- **Urban India:** Urban welfare programs, like midday meal schemes and subsidies for urban poor, also come under strain. Rising food prices have been a challenge for the school midday meal programs, as noted in 2022, where meal quality was sometimes compromised due to budget constraints.

Risk of Social and Political Unrest

- **Rural India:** Rising food prices can lead to social unrest, especially among the agricultural workforce and low-income families. High inflation has been linked to protests among farming communities, especially when input costs increase without adequate support prices. In states like Maharashtra and Haryana, food inflation has often led to demonstrations demanding higher MSPs and subsidies.
- **Urban India:** Urban populations, particularly those in low-income brackets, can also experience frustration due to unaffordable food costs, which sometimes translates into protests or strikes. For instance, high onion prices in 2023 triggered public outcry and government action in urban centres, as onions are a staple in Indian cooking.

WAY FORWARD:

Improving Agricultural Productivity and Resilience

- The National Commission on Farmers, chaired by M.S. Swaminathan, emphasized improving productivity and income for farmers through measures like enhanced irrigation, use of high-yield seeds, and better soil health management. It recommended linking crop prices to the cost of production (Cost + 50% MSP) to ensure a fair return for farmers which is the C2 method.

Strengthening Storage and Cold Chain Infrastructure

- The **Shanta Kumar Committee** on Restructuring the Food Corporation of India (FCI) recommended decentralizing food storage and encouraging private sector investment in storage infrastructure. The Committee suggested reducing government stockholding and creating **decentralized warehouses** to reduce post-harvest losses.

Rationalizing and Expanding Market Access

- The **Ashok Dalwai Committee** on Doubling Farmers' Income emphasized the need for reforms in the Agricultural Produce Market Committee (APMC) system and recommended creating more transparent, farmer-friendly markets. This would

involve removing restrictive APMC practices and enabling farmers to sell directly to consumers or agro-processors.

- Digital marketplaces, similar to Alibaba's rural e-commerce model in China, could also provide Indian farmers access to wider markets and help stabilize prices through increased market competition.

Increasing Crop Diversification and Reducing Monoculture Dependence

- The NITI Aayog recommended promoting crop diversification as a buffer against inflation by reducing over-reliance on specific staple crops. The Commission on Agricultural Costs and Prices (CACP) also advised encouraging farmers to diversify into pulses, oilseeds, and horticultural crops to increase resilience against food price shocks.
- Countries like Brazil have diversified crop production to reduce dependency on any single commodity, thus stabilizing food prices.

Strengthening the Public Distribution System (PDS) and Welfare Schemes

- The Shanta Kumar Committee recommended targeting PDS more effectively to reach vulnerable populations and suggested gradually shifting towards direct cash transfers to reduce inefficiencies and leakages.
- India could look at Mexico's *Prospera* program, which has shown success in providing direct cash transfers to low-income households for essential purchases. A targeted cash transfer system, similar to Mexico's, could reduce the burden on the government to maintain large buffer stocks and help control inflation.

Enhancing Price Stabilization Mechanisms and Monitoring

- The CACP and NITI Aayog have both recommended establishing a Price Stabilization Fund to manage inflation for essential commodities. This involves strategic procurement, maintaining buffer stocks, and releasing them when prices spike. The committee also suggested improved price forecasting and early warning systems to enable better planning.

Promoting Sustainable Agriculture Practices

- The M.S. Swaminathan-led National Commission on Farmers highlighted the need for sustainable practices like organic farming, crop rotation, and reduced use of chemical inputs to enhance soil health and reduce input costs.

- Countries like Denmark and Sweden are leaders in sustainable agriculture, utilizing organic and regenerative farming methods to reduce dependency on costly inputs.

Boosting the Edible Oil Sector to Reduce Import Dependency

- The National Mission on Edible Oils has recommended boosting domestic oilseed production to reduce dependence on imports. This includes incentivizing farmers to grow oilseeds and improving domestic processing infrastructure.

PRACTICE QUESTION:

Q. “Food inflation in India has differential impacts on urban and rural areas. Examine the key causes of food inflation and its consequences in both regions. Suggest suitable measures to address this issue.” (15 marks, 250 words)

APPROACH:

Introduction :

- Start by giving a data on differential impact of food inflation in rural and urban areas.

Body :

- Give the causes of such inflation
- Give the consequences of food inflation in rural and urban India

Conclusion :

- Provide way forward and conclude

MODEL ANSWER:

Food inflation in India has been a persistent concern due to its far-reaching effects on the economy and household budgets. Food inflation contributed **73.1 per cent to the headline rural inflation**. In contrast, food inflation contributed only **56.1 per cent of the headline urban inflation** as per data by CMIE.

CAUSES OF FOOD INFLATION IN INDIA

1. **Supply Chain Disruptions:** India’s reliance on road transport for food distribution means that fuel price hikes directly increase food costs. For instance, diesel price surges in 2021-2022 raised transportation costs, inflating food prices nationwide.
2. **Seasonal and Climatic Factors:** The dependence on monsoon rains for over 60% of India’s agricultural land makes crop yields vulnerable to rainfall variability. In 2023, erratic rainfall patterns lowered rice and pulse outputs, pushing up their prices

3. **Global Market Fluctuations and Import Dependency:** India imports over 60% of its edible oil needs. Disruptions in the global palm oil supply from Indonesia in 2022 led to a spike in edible oil prices domestically. Additionally, currency depreciation raises import costs, impacting food inflation.
4. **Rising Input Costs for Farmers:** Increasing costs of fertilizers and pesticides due to global shortages raised production costs for farmers in India, inflating food prices for staples like wheat and rice.
5. **Policy and Regulatory Measures:** Policies such as Minimum Support Prices (MSP) increase the prices of crops like paddy and pulses, while export restrictions, like the 2023 onion export ban, create price volatility.

CONSEQUENCES OF FOOD INFLATION

Reduced Purchasing Power and Standard of Living

- **Rural India:** Rural households typically spend a larger portion of their income on food, making them more vulnerable to inflation. In 2022, food inflation impacted staples like rice and pulses, which form a large part of rural diets. High food costs reduce their overall quality of life.
- **Urban India:** In 2023, the rise in cooking oil prices due to import costs meant urban households had to pay more or switch to cheaper substitutes, which often affects nutrition.

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- **Urban India:** As egg and dairy prices rose in 2023, some urban households reported reducing their intake of these items, potentially impacting child nutrition and health. Rising food prices are linked to increased reliance on processed foods, which can lead to health issues like obesity, especially among urban children and adults.

Increased Burden on Government Welfare Programs

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- **Urban India:** Urban welfare programs, like midday meal schemes and subsidies for urban poor, also come under strain. Rising food prices have been a challenge for the school midday meal programs, as noted in 2022, where meal quality was sometimes compromised due to budget constraints.

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WAY FORWARD

To mitigate food inflation, a multi-faceted approach is necessary:

1. **Boosting Agricultural Productivity:** The National Commission on Farmers (Swaminathan Commission) recommended increased irrigation, improved seed quality, and fair pricing (Cost + 50% MSP) to support farmers.
2. **Strengthening Cold Chain and Storage Infrastructure:** The Shanta Kumar Committee on FCI reform suggested decentralizing storage and incentivizing private sector involvement in warehousing to reduce post-harvest losses. India could emulate China's decentralized storage system to manage food supply better.
3. **Reforming Market Access:** The Dalwai Committee on Doubling Farmers' Income advised creating transparent markets by reforming APMC laws and enabling direct

sales to consumers. Digital marketplaces, like China's rural e-commerce model, can offer wider access and price stability.

4. **Diversifying Crops and Reducing Dependency on Imports:** NITI Aayog's recommendations on crop diversification aim to reduce monoculture risks. India can follow Brazil's diversified agricultural approach, promoting oilseeds and pulses to stabilize prices.
5. **Enhanced Welfare Mechanisms:** The Shanta Kumar Committee suggested targeted PDS benefits and gradual adoption of cash transfers, similar to Mexico's Prospera program. A direct cash transfer system can help manage inflation impacts more effectively.
6. **Sustainable Agriculture Practices:** Promoting organic farming and crop rotation, as advocated by the Swaminathan Commission, aligns with Denmark's sustainable agriculture model and reduces dependency on costly inputs, enhancing long-term food security.

Addressing food inflation in India requires long-term policy reforms, improved supply chain management, and sustainable agricultural practices. A focus on building resilient, diverse agricultural systems and decentralized market access will reduce inflationary pressures, supporting economic stability and household food security across both rural and urban regions.

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