
India: Short-term Responses to Higher Food Prices

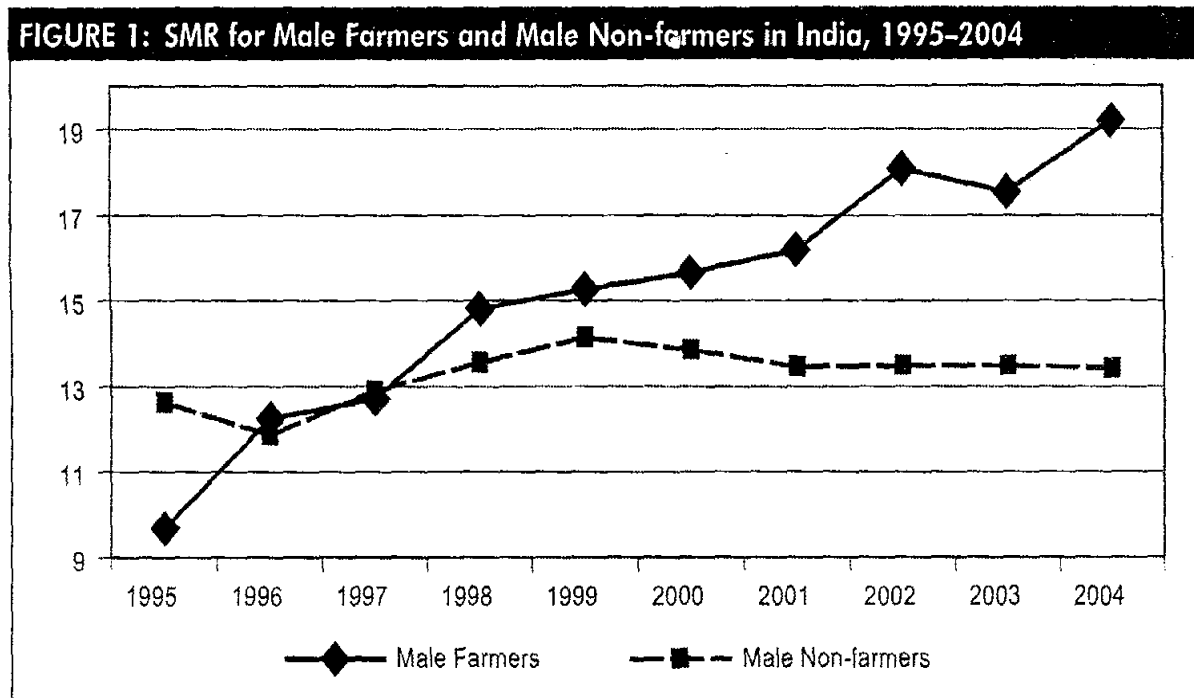
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Background: Agrarian Distress

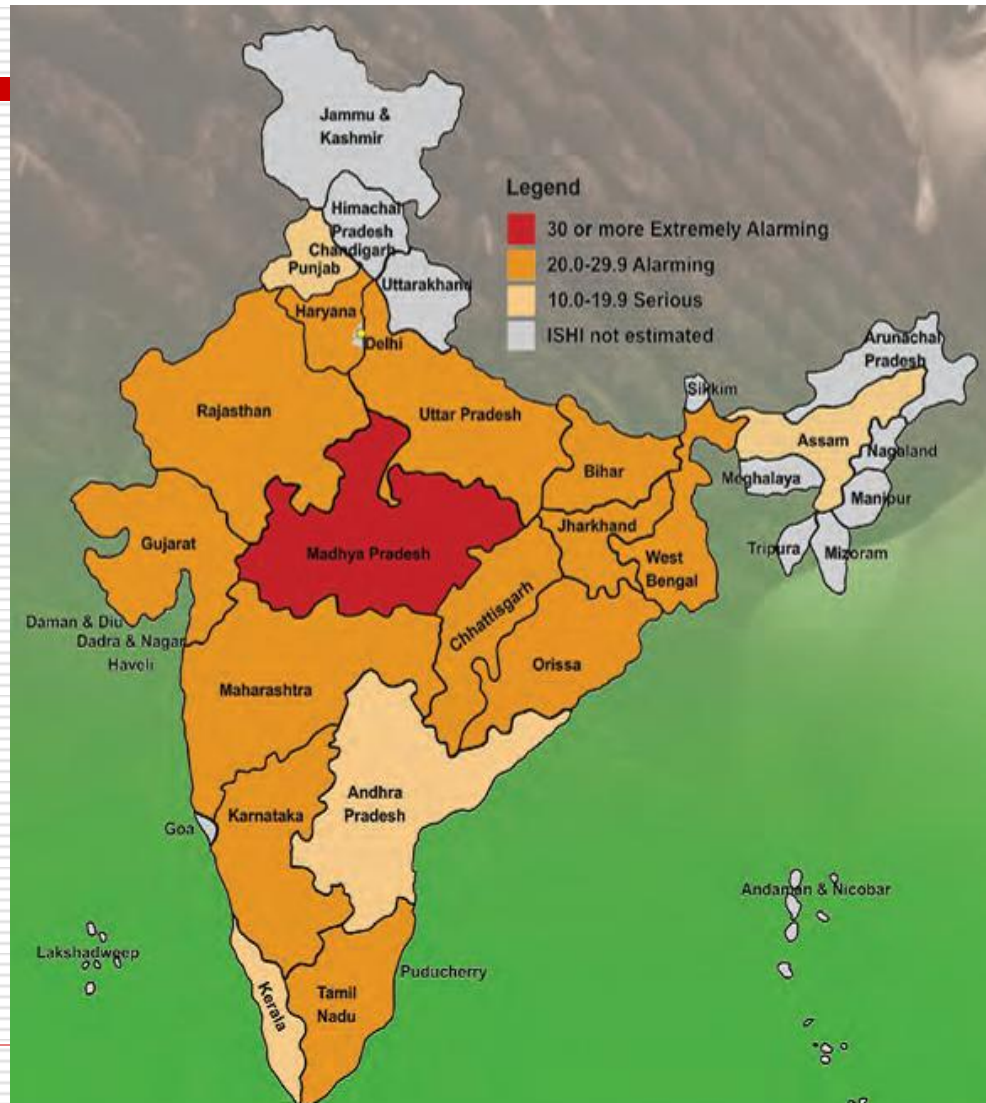
- 1. Slow growth rate of Indian agriculture**
- 2. Decline in per capita calorie consumption**
- 3. Skewed land distribution**
- 4. Declining public investment**
- 5. Large scale indebtedness**
- 6. Farmer's suicide**
- 7. Food riots in West Bengal**

Suicide Mortality Rate (SMR) for Male Farmers and Male Non-Farmers in India, 1995-2005

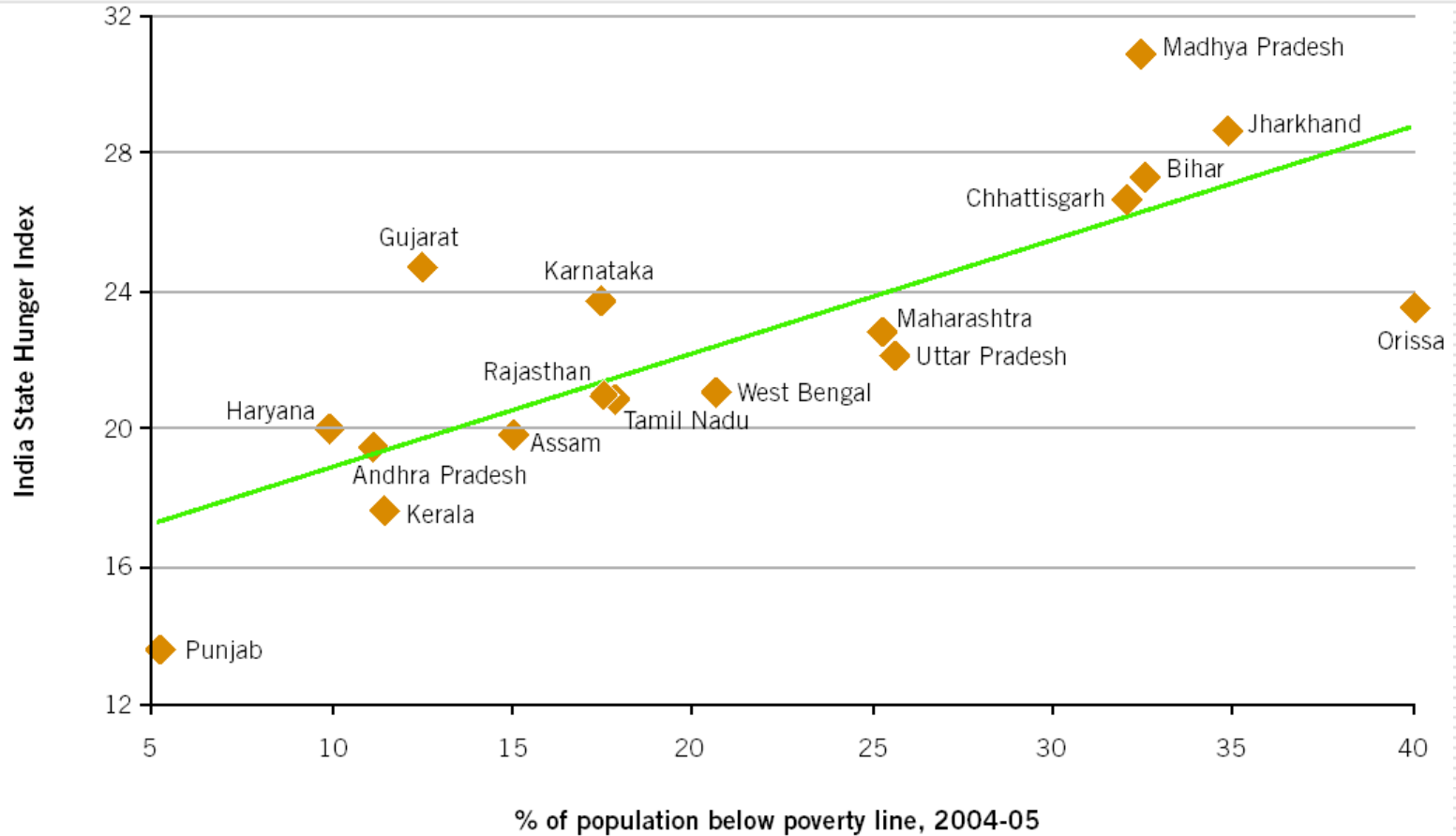


Source: Mishra (2007).

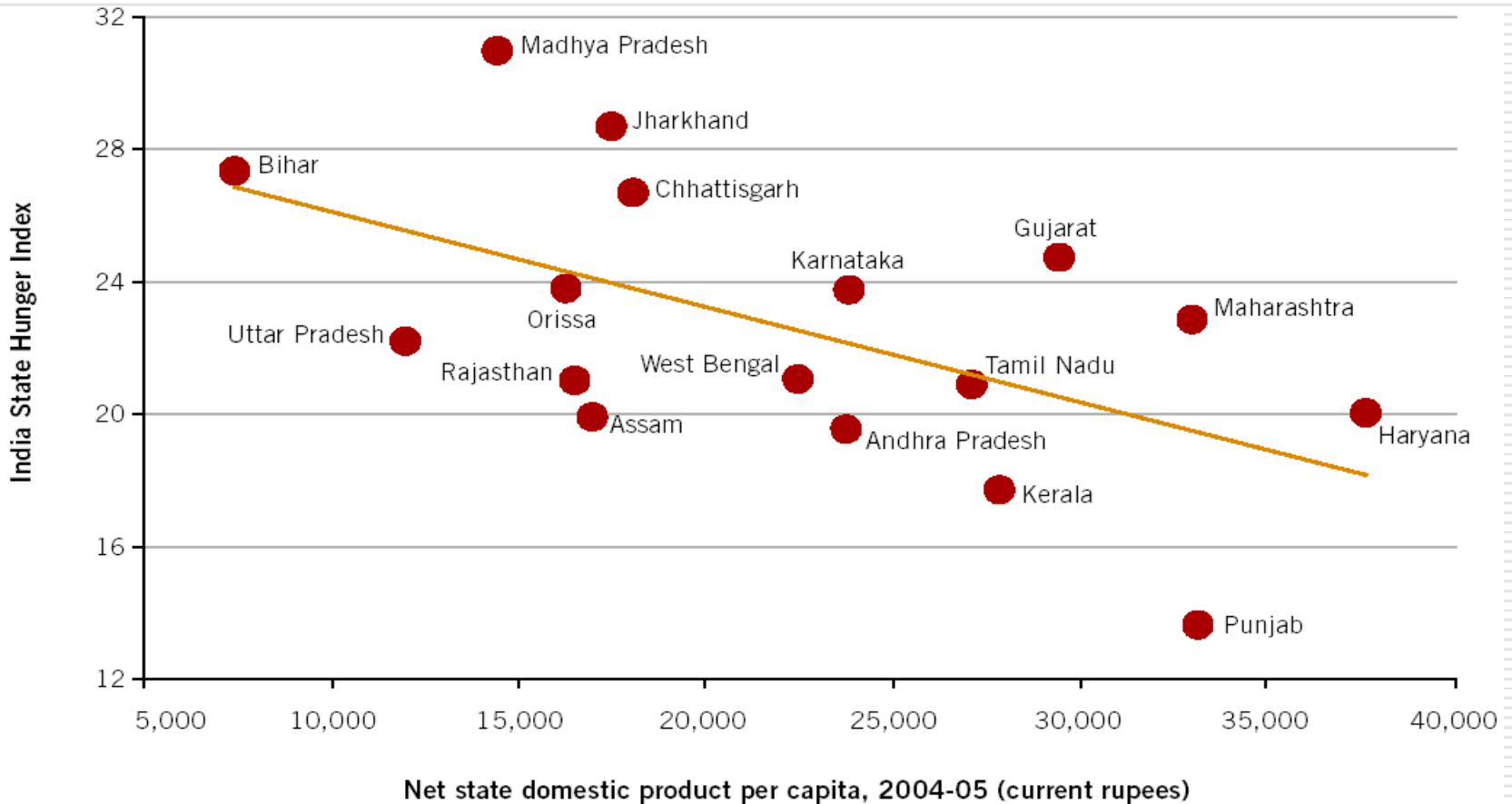
Severity of India State Hunger Index, By State



India State Hunger Index in Relation to Poverty



India State Hunger Index in Relation to PCI



Agflation in India

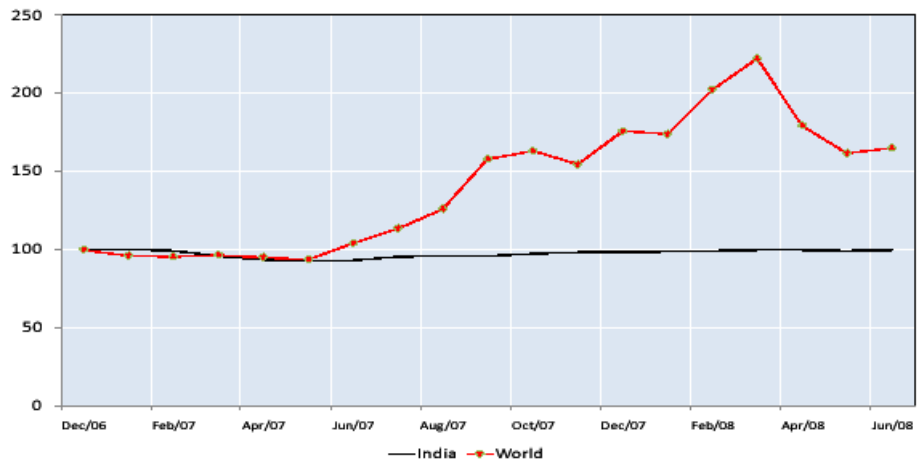
1. Food prices began to increase in 2007.
2. However, increase in food prices in India has been only a fraction of that observed in many other countries.

Between 2006 and 2007:

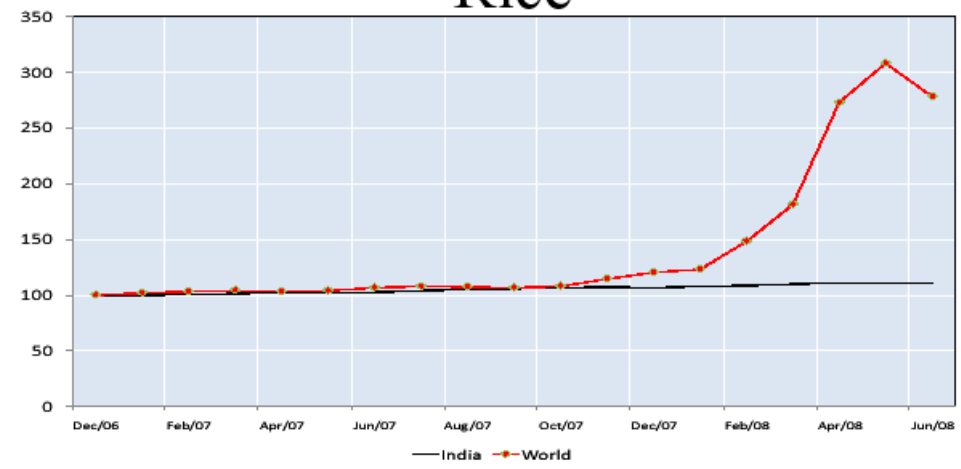
1. WPI of food articles rose by 7 per cent
2. Increase in food prices was led by wheat and edible oil
 - wheat: 13 Per cent
 - Edible oil: 13 Per cent

India's monthly wholesale prices compared to the world market prices, Dec. 2006=100

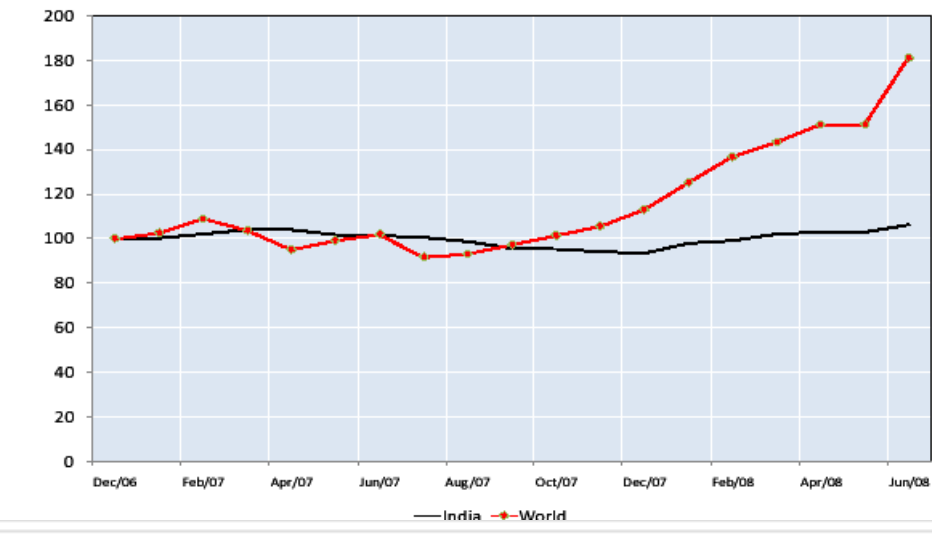
Wheat



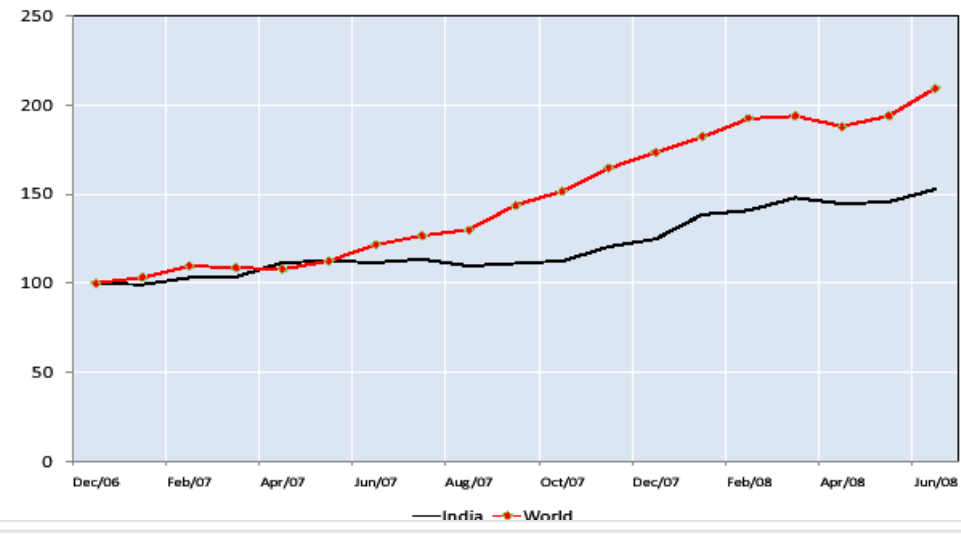
Rice



Maize



Soybean



Agflation in India: Ctd....

- confirms the Government's adoption of countercyclical policies aimed at stabilizing domestic prices and insulating domestic markets from fluctuations in world prices
- As a result domestic prices for key agricultural commodities remained significantly below world market levels, thus supporting consumers but taxing producers

**** Food Prices have exhibited moderation since 2008**

Agflation

Causes

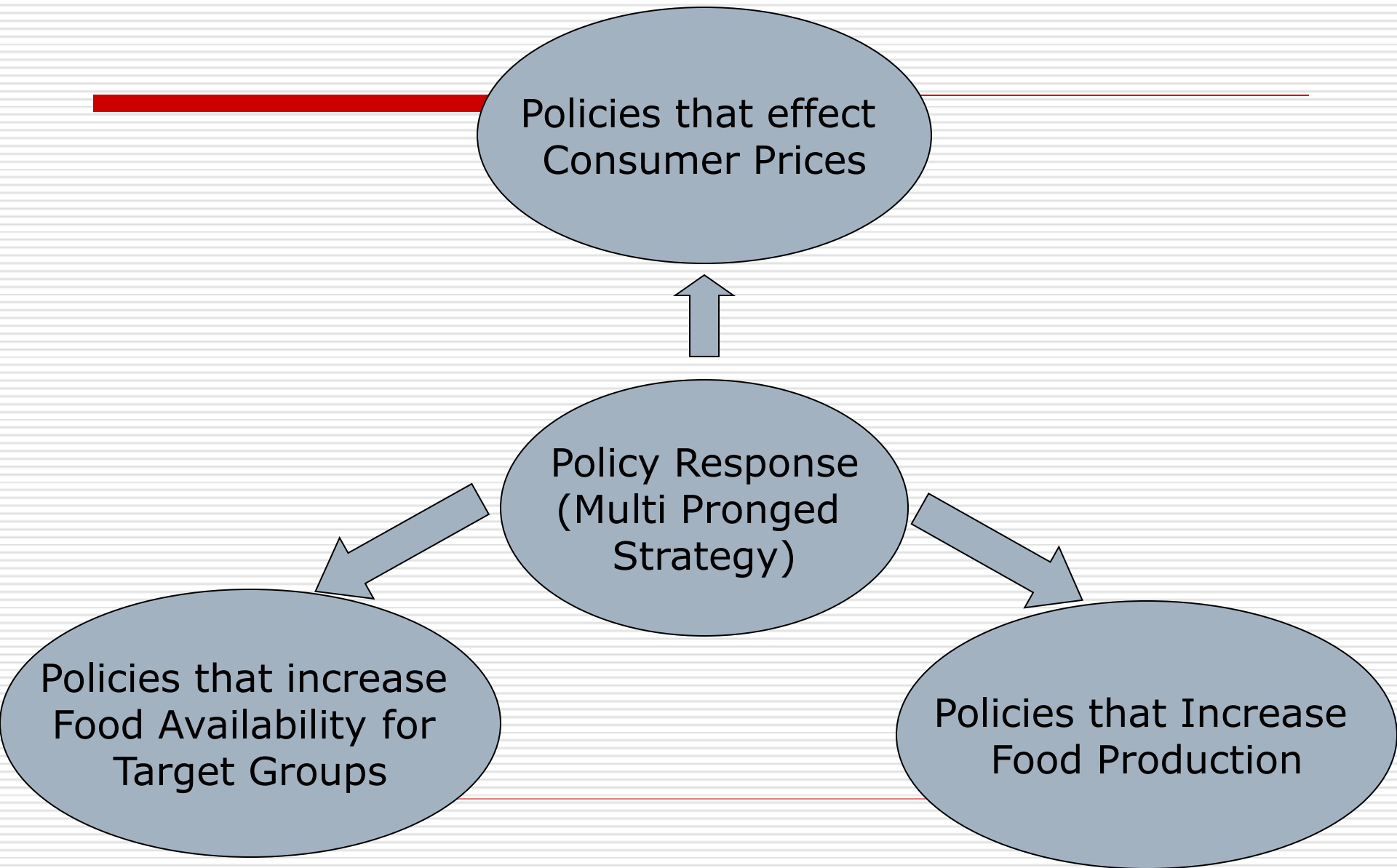
- Demand side
- Supply side
- Speculation

Impact/Effects

- On Growth
- On Poverty
- On Inequality
- On Malnutrition
- Decline in non food spending (education)
- Social Unrest

Policy Response

- Short Term
- Medium Term
- Long term



Short Term Measures Adopted for Combating Agflation

I. Policies that effect consumer prices

Ban on Exports

- **Ban** on export of **wheat** (February 2007), **corn** (July 2008), **pulses** (June 2006).
(However there are plans to lift the ban on export of wheat and export 2 million tons)
- **Ban** on export of all non **Basmati rice** varieties (October 2007).
- Established **Minimum Export Price** (MEP) for export of rice. Increased the same from USD 900 per tonne to USD 1100 per tonne (March 2008).

Relaxation of Import Duties

Cut import duties to improve stocks and relieve price pressures. Import duty reduced to 0% for wheat, rice, maize and pulses

Ban on Futures Trading

Ban on futures trading of following agricultural commodities:

- **Wheat** (February 2007).
Status: Ban Lifted in May 2009.
- **Rice** (February 2007).
Status: Ban still imposed.
- **Soya oil, rubber, potato and chickpea** (April 2008).
Status : Ban Lifted in Nov 2008.
- **Two varieties of lentils: Urad i.e. black gram and Tur i.e. pigeon pea** (Jan 2007).
Status: Ban still imposed.

Other Measures:

Debt Waiver and Debt Relief

- ❑ Introduced in February 2008
- ❑ Total amount spent: INR 716 bn (USD 17 bn)
- ❑ Meant primarily for small and marginal farmers (farms below 2 hectares): Complete waiver of debt
- ❑ For medium and large farmers: 25% debt relief
- ❑ In May 2008, scheme extended to include plantations, horticulture, dairy and poultry farming
- ❑ Loan waiver confined to loans from **formal institutional channels** only. However almost 50 % of loans are from private informal moneylenders.

Other Measures

- ❑ Approval given to the state-run Food Corp of India (FCI) to sell wheat and rice under the open market sale scheme.
- ❑ Contractionary Monetary Policies Adopted: Increased CRR and repo rate.
- ❑ VAT on food at 4% as compared to 12.5% for other commodities

II. Policies that increase food availability for vulnerable groups:

Forms of safety Nets

- Food Subsidies
 - Stable Central Issue Price for Consumers
 - Subsidized Ration Foods: PDS
 - Rice at Rs. 2 and Rs. 3 respectively in Andhra Pradesh and Madhya Pradesh
 - Cost of food subsidies has increased from USD 5.8 bn in 2006-07 to USD 7.6 bn in 2007-08 and to a budgeted USD 8.2 bn in 2008-09)

- Public Works Schemes: Food or Cash for Work
 - NREGA

Medium to Long Term Measures to Increase Domestic Food Production

- ❑ Minimum Support Prices (MSP)
- ❑ Input Subsidies
(fertilizers, power, water)
- ❑ Expansion of Agricultural Credit
- ❑ Investment in Infrastructure

Medium Term Policies: Increase in Minimum Support Prices (covers 26 commodities)

Commodity	% Increase in MSP in 2007-08 over 2006-07	% increase in MSP in 2008-09 over 2007-08
Paddy	11.2	31.8
Jowar	11.1	40
Bajra	11.1	40
Maize	14.8	35.5
Ragi	11.1	62.5
Moong	11.8	48.2
Cotton	1.7	38.9
Groundnut (Shell)	2	35.5
Sunflower seed	0.7	46.7
Soyabean (Black)	1.1	46.4
Nigerseed	1.6	94

Unfavorable Impact of Policies

- ❑ Reduces incomes of net food sellers
- ❑ Reduces incentive for producers to produce more
- ❑ Adverse implications for fiscal balance and inflationary pressures
- ❑ Black markets
- ❑ Trade interventions can precipitate protectionist reactions by other countries

Thank You

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