



Food Inflation in India

For Prelims: [Inflation](#), [Reserve Bank of India \(RBI\)](#), [Monetary Policy Committee \(MPC\)](#), [Consumer Food Price Inflation \(CFPI\)](#), [Lok Sabha](#), [Minimum Support Price \(MSP\)](#)

For Mains: Impact of rising food inflation on farmers and macroeconomic indicators of the country.

Source: IE

Why in News?

In recent times, **Consumer food prices were 9.9% higher** year-on-year, with food inflation now largely limited to cereals and pulses, and the government is required to start addressing concerns of both producers and consumers in equal measure.

What is the Recent Scenario of Food Price Inflation and Disinflation in India?

▪ Inflation in Cereals and Pulses:

- Estimates show **food inflation** is being increasingly driven by two items: **Cereals (11.9%) and pulses (13%)** in the preceding months of July and August respectively.
 - Annual retail price rise in vegetables was even higher, **at 37.4% and 26.1%**.
 - The best indicator is **tomato**, the retail inflation for which stood at 202.1 % and 180.3% during the same period.

▪ Disinflation in Essential Commodities due to Government's Strategy:

- Most governments naturally tend to privilege consumers over producers due to political reasons, which favours numerical strength.
- In the current scenario, **the government must prioritize listening to producers**, particularly in regard to two agricultural/food commodities, among other concerns.
 - **The first is vegetable oils Producer:**
 - Harvesting and marketing of soybeans has started, but the oilseed is already trading below the government's **minimum support price (MSP)**.
 - Demand for **both oil and meal** (the residual de-oiled cake, used as livestock feed ingredient) is weak.
 - A major reason for the bearish market sentiment has to do with record imports of **edible oil**. India's vegetable oil imports are projected to touch an all-time high of 17 million tonnes (mt) in 2022-23.
 - **The second item - Milk Producers:**
 - **There isn't much buying of powder, butter or ghee happening.** It will be worse once the festival (Dussehra-Diwali) season ends and the animals enter peak production in winter.
 - Compounding the industry's problems is the **reported spurt in sales of ghee adulterated with vegetable fat**. The crash in prices of imported oils, especially palm, has made admixture of cheap fat in butter and ghee that much more attractive.
 - **Wheat and Rice as Essential Commodities:**

- **Overproduction:** Farmers in India often respond to **Minimum Support Prices (MSPs)** by increasing production of MSP-supported crops, like wheat and rice. This overproduction can lead to a glut in the market, causing prices to fall below MSPs.
- **Inadequate Procurement and Distribution:** While the government sets MSPs and procures crops from farmers, the procurement infrastructure and distribution system may be inefficient, leading to delays in procurement and inadequate distribution of grains to consumers.
 - As a result, market prices can decline due to oversupply in the absence of effective distribution.

What is Consumer Food Price Inflation (CFPI)?

- **Consumer Food Price Inflation, (CFPI)**, is a specific measure of inflation that focuses exclusively on the price changes of food items in a consumer's basket of goods and services.
 - It calculates the rate at which the prices of food products consumed by the average household are increasing over time.
 - CFPI is a sub-component of the broader **Consumer Price Index (CPI)**, where the **Reserve Bank Of India (RBI)** uses **CPI-Combined (CPI-C)** for this purpose.
 - CFPI tracks the price changes of a specific basket of food items that are commonly consumed by households, **such as cereals, vegetables, fruits, dairy products, meat, and other food staples.**

Consumer Price Index (CPI)

- **CPI inflation**, also known as **retail inflation**, is the rate at which the prices of goods and services that consumers buy for personal use increase over time.
- It measures the change in the cost of a basket of goods and services that are typically purchased by households, including food, clothing, housing, transportation, and medical care.
- **Four types of CPI** are as follows:
 - CPI for Industrial Workers (IW).
 - CPI for Agricultural Labourer (AL).
 - CPI for Rural Labourer (RL).
 - CPI for Urban Non-Manual Employees (UNME).
 - Of these, **the first three are compiled by the Labour Bureau** in the Ministry of Labour and Employment. **Fourth is compiled by the National Statistical Office (NSO)** in the Ministry of Statistics and Programme Implementation.

What are the Causes Behind Food Price Inflation?

- **Supply and Demand Imbalances:** When there is an imbalance between the supply of food and the demand for it, prices tend to rise.
 - Factors such as **extreme weather events, crop failures, or pest infestations can reduce the supply of agricultural products, driving up prices.**
 - Conversely, a surge in demand, perhaps due to population growth or changes in consumer preferences, can also lead to higher prices if supply cannot keep up.
- **Production Costs:** Rising production costs for farmers can lead to higher food prices. This includes expenses such as fuel, fertilizer, and labor costs.
- **Energy Prices:** The cost of energy, especially fuel, is a significant factor in the food supply chain. Increases in **oil prices can lead to higher transportation costs for getting food products from farms to stores, which can result in higher prices for consumers.**
- **Currency Exchange Rates:** Fluctuations in exchange rates can impact food prices, especially for countries that rely heavily on imported food. A weaker domestic currency can make imported food more expensive, contributing to inflation.
- **Trade Policies:** Trade policies and tariffs can affect the prices of imported and domestically produced food. **Restrictions on imports can limit the variety of available food products**

and potentially drive up prices.

- **Government Policies:** Government interventions in the form of subsidies, price controls, or regulations can influence food prices. Subsidies may reduce the cost of production, while price controls can limit price increases.
- **Global Events:** Global events such as **geopolitical conflicts, pandemics, and trade disruptions can disrupt food supply chains and lead to food price spikes.** The COVID-19 pandemic, for example, disrupted food production and distribution in many parts of the world.
- **Climate Change:** Long-term changes in climate patterns can have a significant impact on food production. More frequent and severe weather events, such as **droughts or floods, can damage crops and reduce yields, leading to higher prices.**

Way Forward

- **Increase Agricultural Productivity:**
 - Invest in agricultural research and technology to improve crop yields and livestock production.
 - Promote sustainable farming practices to enhance efficiency and reduce production costs.
- **Strengthen Food Supply Chains:**
 - Invest in transportation and storage infrastructure to reduce food wastage and spoilage.
 - Improve distribution networks to ensure that food reaches consumers efficiently.
- **Promote Trade and Market Integration:**
 - Facilitate international trade to ensure a steady supply of food products.
 - Remove trade barriers and tariffs on essential food items.
- **Promote Competition and Reduce Monopoly Power:**
 - Enforce antitrust laws to prevent market concentration and price manipulation by large agribusinesses.
 - Encourage competition in the food sector to keep prices competitive.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q 1. Consider the following statements: (2020)

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. The Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

Ans: (a)

Mains

Q. There is also a point of view that Agricultural Produce Market Committees (APMCs) set up under the State Acts have not only impeded the development of agriculture but also have been the cause of food inflation in India. Critically examine. (2014)

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