



Term of Trade

Over the last decade and a half, **Terms of Trade (ToT)** for Indian agriculture has shown significant improvement based on national income statistics.

- The ToT improvement in agriculture is attributed to the **global agri-commodity price boom** and policy interventions, especially [minimum support price \(MSP\) hikes](#).
- **ToT** for Indian agriculture refers to the movement in prices of farm commodities relative to non-farm goods and services.
 - Terms of trade refers to the ratio of agricultural prices to industrial prices, measured as price indices.
- A rise in the terms of trade implies better purchasing power for the agricultural sector in terms of industrial goods.
 - A **ratio above one (or 100%) implies favorable pricing power**, in terms of what farmers sell versus what they buy.
 - A **TOT ratio below one** indicates **unfavorable conditions of exchange**.
- The increase in procurement prices has led to a rise in food subsidy bills, contributing to fiscal deficit and macroeconomic management issues.

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