India’s Food Price Inflation: Is Demand Outpacing Policy?

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India’s Food Price Inflation

- In many ways instructive on the sources of recent global food price inflation
- Also instructive on the ways in which inflationary pressures influence food trade
India’s Food Price Inflation

- Historically, food prices have been relatively stable
  - Relatively weak underlying demand until the 1990s
  - Instability linked primarily to weather-driven cereal supply shocks
  - Food price stability a top policy priority
Historical Food Price Stability

Food Price Inflation in India

Food Items Now a Driver of Inflation

Increases in Real Food Prices
2004-06 vs 2009-11

- Food articles
- Cereals
- Pulses
- Vegetables & fruit
- Milk
- Eggs, meat & fish
- Edible oils

Drivers of Food Price Inflation

- **Demand**
  - Growth & diversification of food consumption

- **Supply**
  - Slow growth in farm productivity & output

- **Policy**
  - More aggressive farm price support policy
  - Focus on subsidies rather than public investment
  - Poor climate for private investment in agriculture
Diversifying Food Consumption

Indian consumption growth by food group
1990-2007

Source: Food and Agriculture Organization, FAOSTAT database.
Trends in GDP and Farm Output

Source: Reserve Bank of India.
Rising Government Subsidies

India's input and food subsidies
Inflation adjusted

Subsidies totaled 14% of farm output value in 2008/09

Weak Investment in Agriculture

Agriculture's terms of trade and share of gross fixed capital formation (GFCF) in India

The Policy Response

- **Reduced tariffs**
  - Primarily affects the major imports: edible oils & pulses

- **Export restrictions**
  - Mostly to limit global-domestic price transmission
  - Recently eased

- **Increasingly restrictive monetary policy**
  - But, is this a case of excess liquidity or of low investment & productivity?
The Policy Response

- New programs to boost productivity
  - Funding is a small fraction of subsidy outlays

- Slow improvement in private investment climate
  - Political consensus on market reform remains elusive
  - A State government issue...some are on the move
  - Improved governance in eastern States may be most significant recent news

- New Food Security Bill in the offing
  - Will significantly expand food grain subsidy
Agricultural imports grew 13% annually during 2000-2010

Sources: Reserve Bank of India; Government of India, Ministry of Finance, Economic Survey.
Trade Implications

- Agricultural imports have been growing
- Import growth led by edible oils & pulses
  - Essential foods
  - Low comparative advantage
  - Liberal import policy...likely to continue
- Grain surplus continues
  - Low growth in food use/substantial yield potential
  - Food Security Bill may reduce net exports
Trade Implications

- Fruits & vegetables
  - Some trade growth in fresh & processed segments
  - Large scope for domestic gains with improved marketing & processing
- Animal products
  - Dairy, eggs, poultry & mutton are income-elastic
  - Substantial growth potential evidenced in poultry & egg sectors
- Strongest emerging opportunity may be for investment
  - Input & output markets
  - FDI unrestricted, except for multi-brand retail
Trade Implications

Foreign direct investment (FDI) & share of gross fixed capital formation (GFCF) in India