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Agricultural Outlook Forum  
U.S. Department of Agriculture

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## India's Food Price Inflation: Is Demand Outpacing Policy?

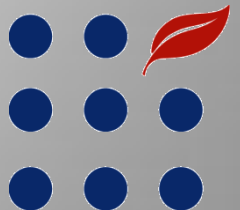
Maurice Landes

# India's Food Price Inflation: Is Demand Outpacing Policy?

Maurice Landes

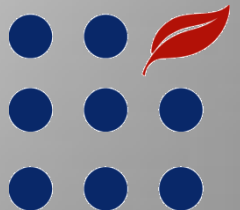
Economic Research Service

U.S. Department of Agriculture



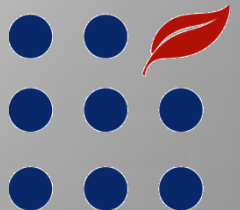
# India's Food Price Inflation

- 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



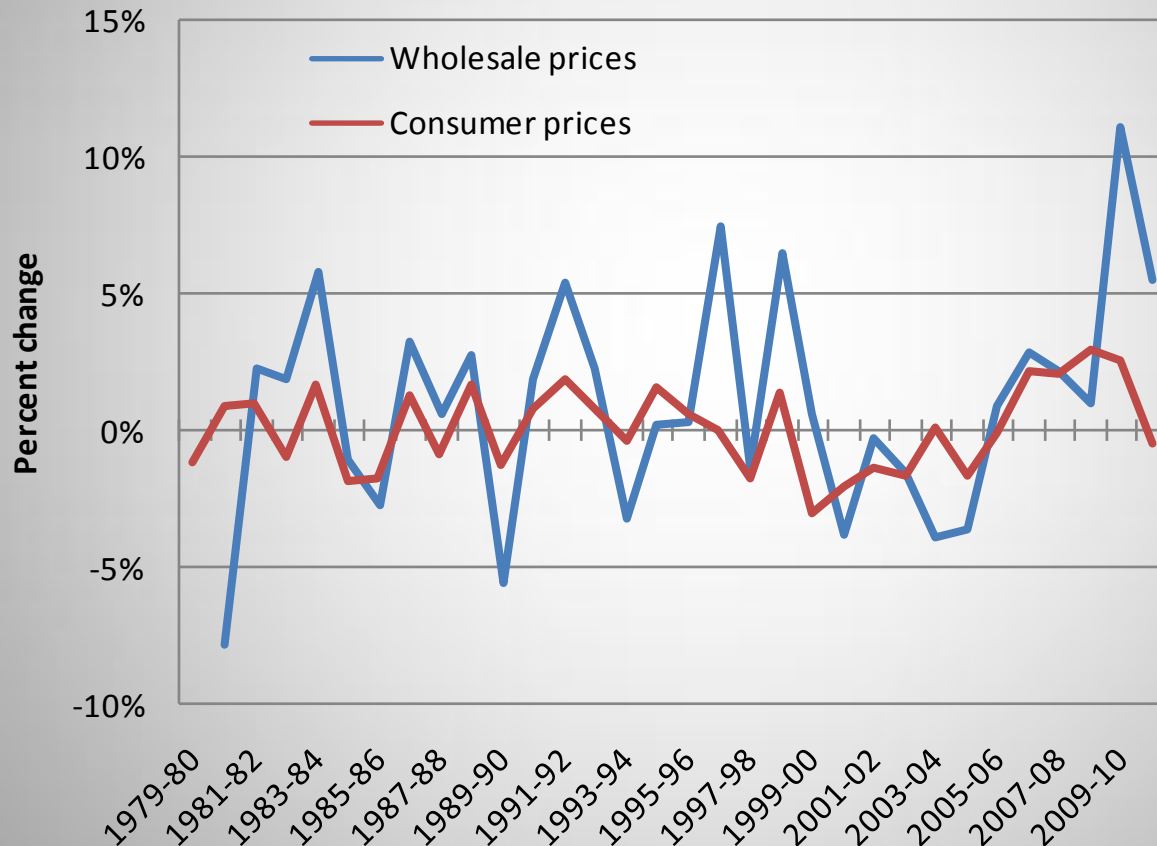
# India's Food Price Inflation

- 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

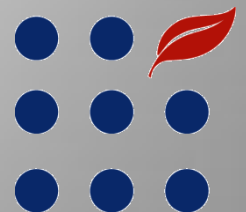


# Historical Food Price Stability

## Food Price Inflation in India



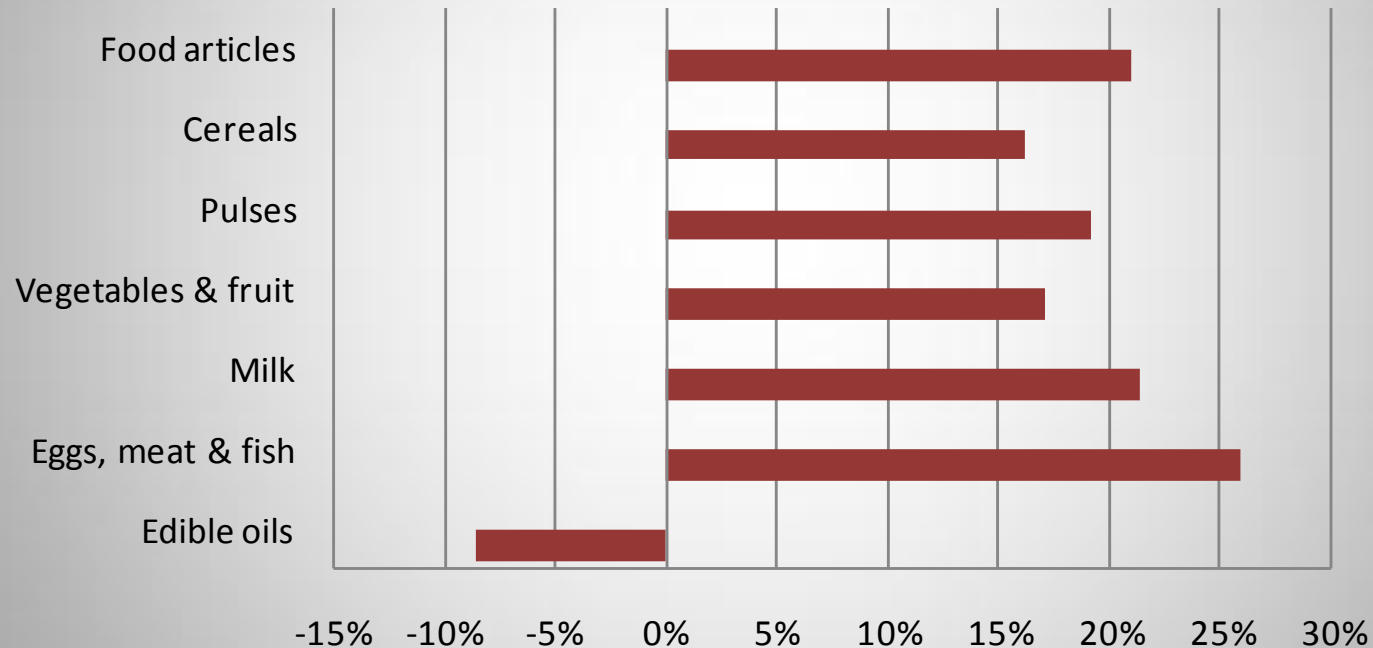
Sources: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India; Labour Bureau, Ministry of Labour and Employment, Government of India.



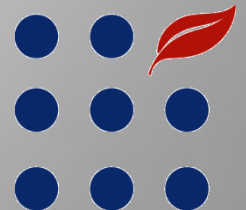
# Food Items Now a Driver of Inflation

## Increases in Real Food Prices

2004-06 vs 2009-11

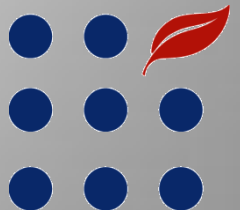


Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.



# Drivers of Food Price Inflation

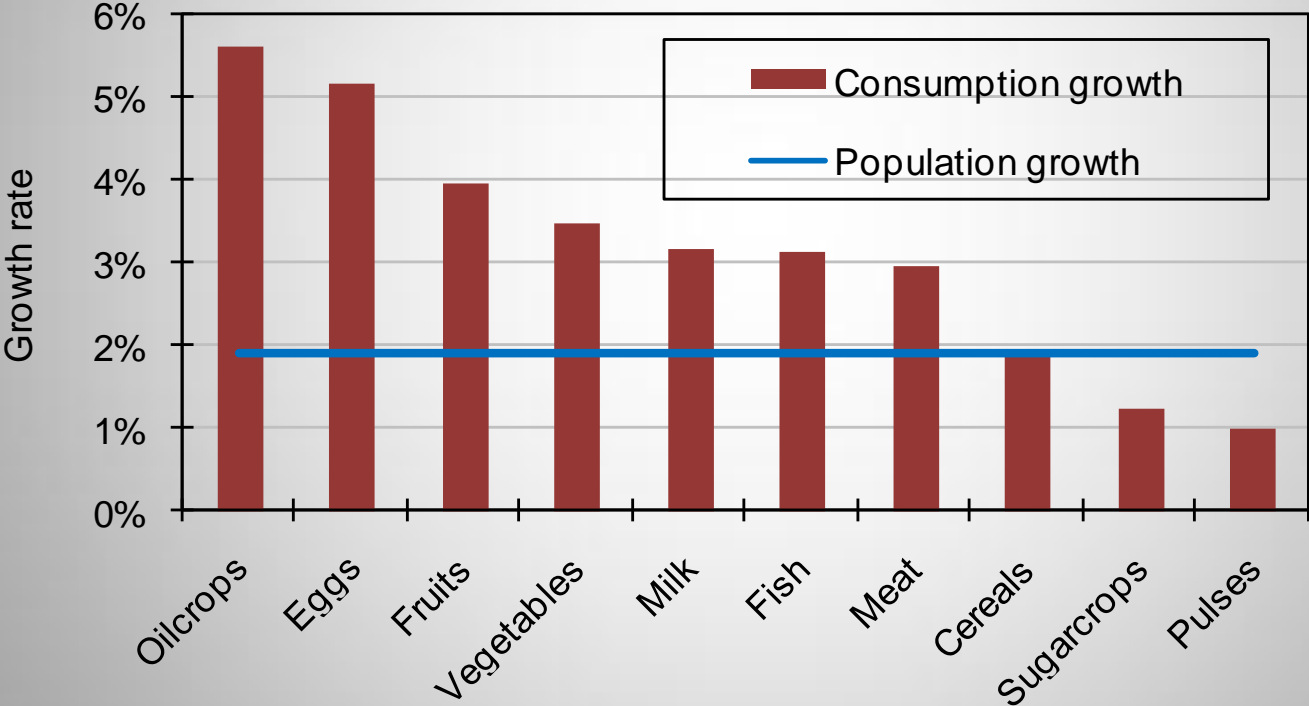
- Demand
  - Growth & diversification of food consumption
- Supply
  - Slow growth in farm productivity & output
- Policy
  - More aggressive farm price support policy
  - Focus on subsidies rather than public investment
  - Poor climate for private investment in agriculture



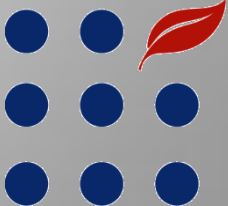


# Diversifying Food Consumption

## Indian consumption growth by food group 1990-2007

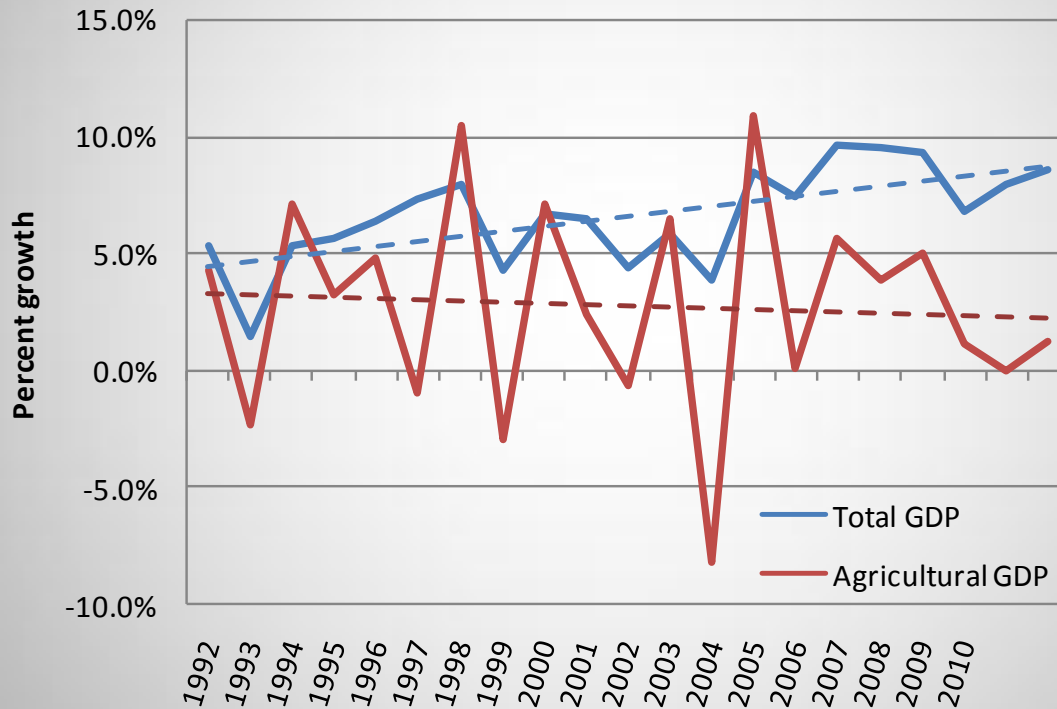


Source: Food and Agriculture Organization, FAOSTAT database.

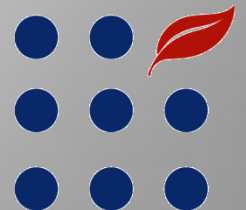


# Trends in GDP and Farm Output

## India's Total and Agricultural GDP

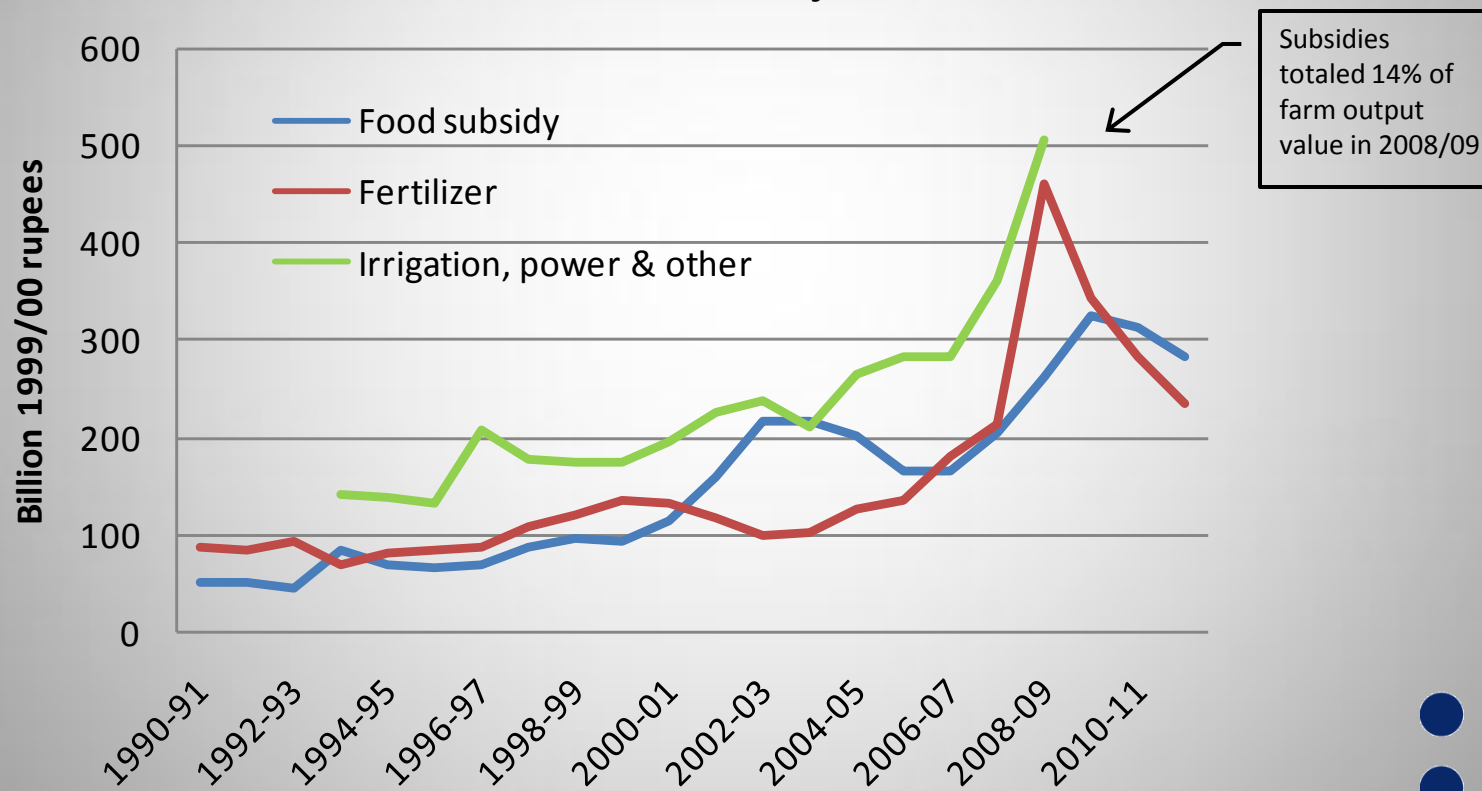


Source: Reserve Bank of India.

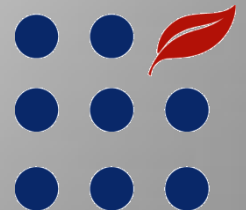


# Rising Government Subsidies

## India's input and food subsidies Inflation adjusted

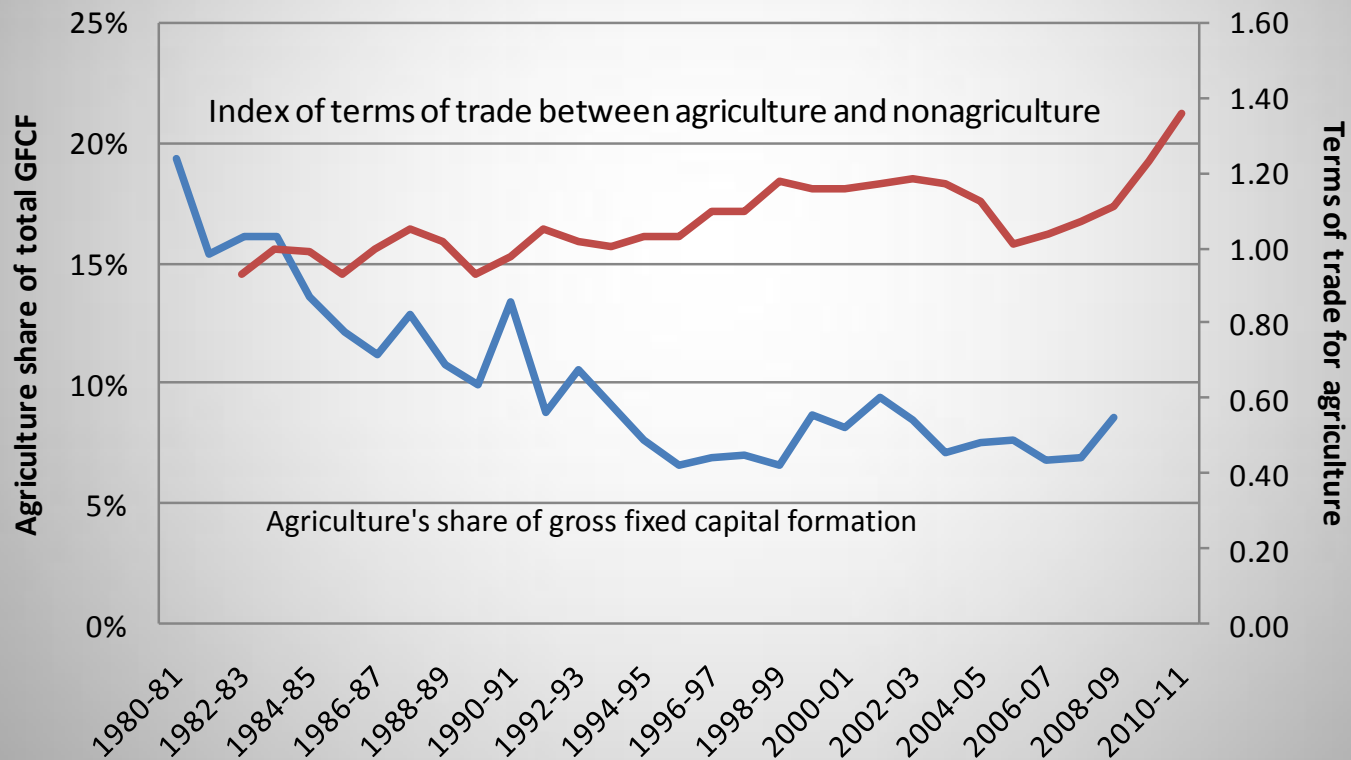


Source: GOI, Ministry of Finance, Economic Survey.

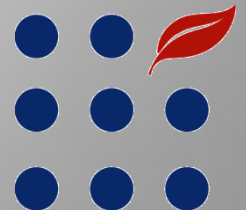


# Weak Investment in Agriculture

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

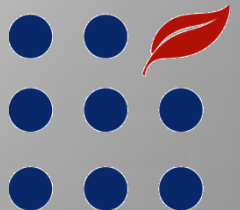


Sources: Government of India, Central Statistical Organization, National Accounts Statistics; Government of India, Ministry of Finance, Economic Survey.



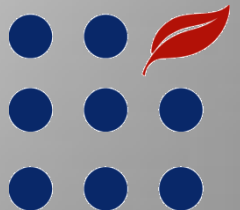
# The Policy Response

- 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?



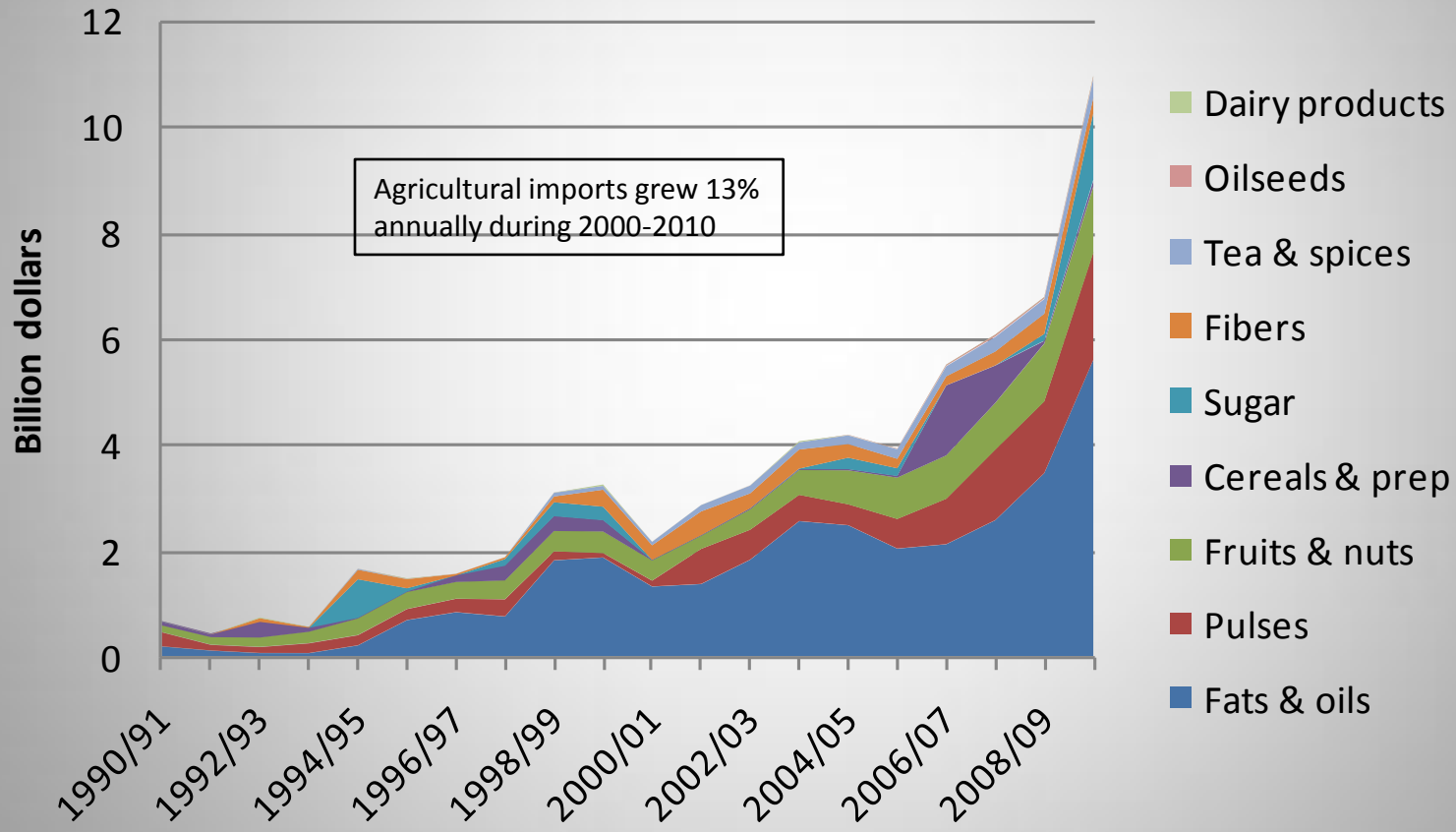
# The Policy Response

- 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

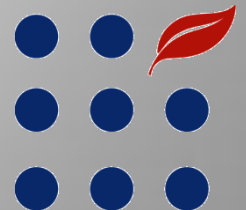


# Trade Implications

## India's agricultural imports

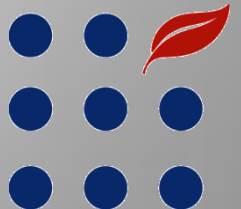


Sources: Reserve Bank of India; Government of India, Ministry of Finance, Economic Survey.



# Trade Implications

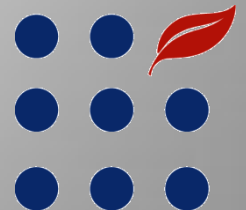
- Agricultural imports have been growing
- Import growth led by edible oils & pulses
  - Essential foods
  - Low comparative advantage
  - Liberal import policy...likely to continue
- Grain surplus continues
  - Low growth in food use/substantial yield potential
  - Food Security Bill may reduce net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





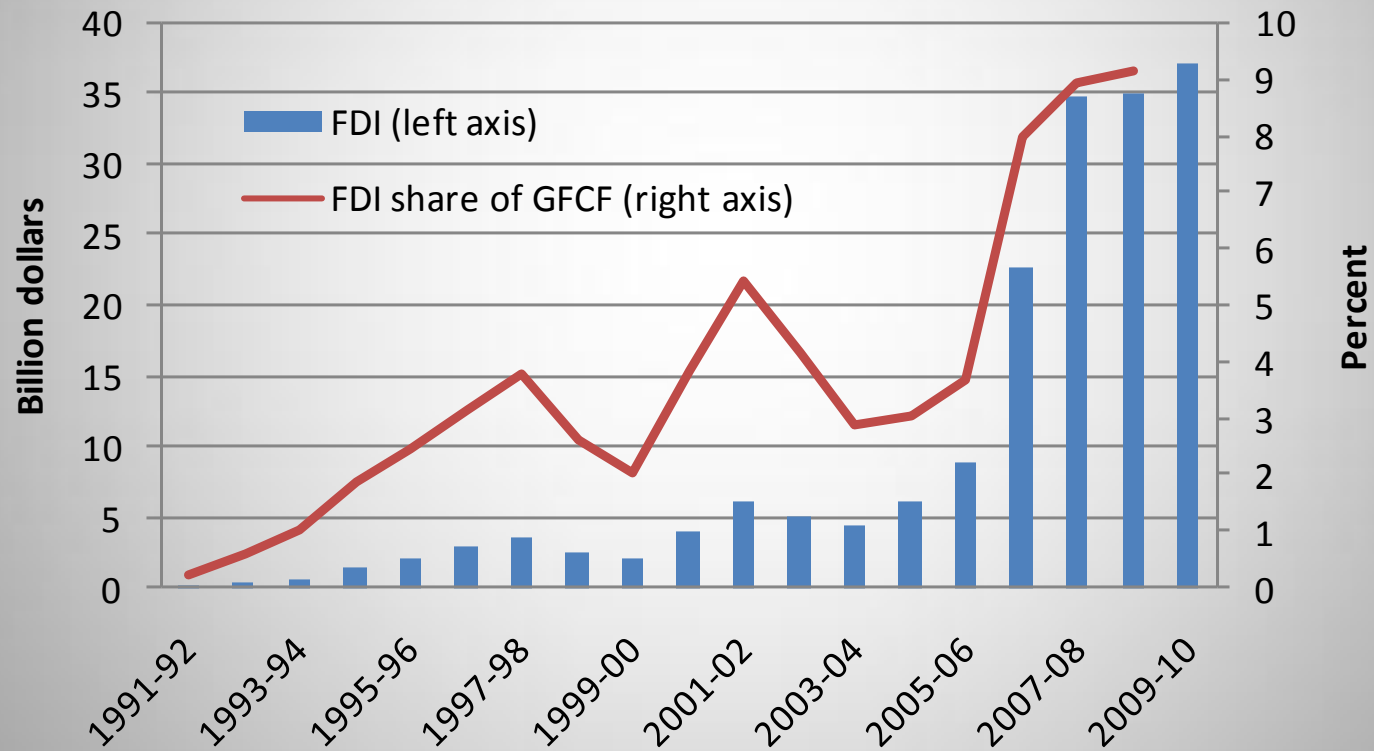
# Trade Implications

- 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



Source: Government of India, Central Statistical Organization; Government of India, Ministry of Finance, Economic Survey.

