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Dr. Manoranjan Sharma
(Chief Economist)

SURGING FOOD PRICES: BUDGETARY EXPECTATIONS

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Considered in a proper historical and comparative perspective, inflation management has largely been seen as a central banking function by controlling the aggregate money supply. But some important work in Public Finance demonstrated that balancing the Budget and reducing the budgetary deficit will have a wholesome effect on inflation.

Of late, the CPI inflationary spiral, particularly double-digit food inflation, has emerged as a major concern, particularly because of its damaging impact on fixed income groups, pensioners and persons at the "bottom of the pyramid".

The seriousness of the disconcerting macroeconomic scenario was manifested in the CPI breaching the RBI's upper threshold of 6 % at 6.21 % in October 2024 and food inflation zooming to 10.87 %.

While CPI inflation softened to 5.48 % in November 2024 because of a precipitous fall in food prices, the RBI's raising of inflation projection from 4.5 % to 4.8 % for FY 25 causes concern and consternation.

Food inflation is largely impervious to the RBI's measures. The Government can, however, take some tough supply-side measures to improve the public distribution system; make food grains and other essential items available to marginalised, poor and deprived sections; prescribe stock limits to curb hoarding; ban exports of food items and vegetables; and slash import duties on essential items like edible oils to prop up domestic consumption.

Consumption has been hit hard by the ravages of stubbornly high and "sticky" inflation. Hence an attempt could also be made to shore up consumption by direct and indirect tax reliefs.

There could also be a renewed thrust on measures, such as, value chain development projects to reduce the magnitude of volatility in food prices and check post-harvest losses.

A Deloitte report brought out the imperative need for government policies that: a) develop a network of cold storage facilities and warehouses at the district and village levels to minimise post-harvest losses and ensure a steady food supply throughout the year; b) promote digital marketplaces that expand platforms such as eNAM (National Agricultural Market) to provide farmers direct access to buyers, reducing dependency on intermediaries; and c) ensure that food distribution programmes such as PDS (Public Distribution System) work efficiently to cushion the poorest sections from food inflation. These measures individually and collectively will make a perceptible difference to the ground realities and help to contain food inflation within manageable proportions.

In the ultimate analysis, both the monetary and fiscal policy measures must move in tandem to deal with the hydra-headed inflation monster.