

### **Fear mongering over wheat production must not push the government towards an export ban, especially on cereals the prices of which are at an all-time high.**

The RBI team led by Governor Shaktikanta Das must be complimented for raising the repo rate by 40 basis points (bps) and the cash reserve ratio (CRR) by 50 bps with a view to tame inflation. High inflation is always an implicit tax on the poor and those who keep their savings in banks. The real value of their savings gets depreciated with every round of inflation as interest on deposits is often far below the inflation rate.

So, controlling inflation is an important mandate of the RBI. The question that arises is: Will the increases in the repo rate and CRR control inflation, especially food inflation? The short answer is, “not yet”. Our assessment of the situation is that the RBI has been behind the curve by at least by 4-to 5 months, and its optimism in controlling inflation in the earlier meetings of the Monetary Policy Committee was somewhat misplaced. If the RBI has to make up for lost time, it will have to repeat this feat of raising repo rates and CRR by at least three more times in this fiscal year (FY23) to mop up excess liquidity in the system. Even then, it may be difficult to rein in food inflation, which is surging faster than the overall consumer price index (CPI).

The reason for this is simple. Food prices globally are scaling new peaks as per the FAO’s food price index. The disruptions caused by the pandemic and now the Russia-Ukraine war are contributing to this escalation in food prices. India cannot remain insulated from this phenomenon. While on the one hand, it has opened opportunities for Indian farm exports, on the other hand, it has posed challenges as import prices of edible oils and fertilisers surge.

Let us focus here on cereals, which have the greatest weight in India’s food CPI. For the first time in the history of Indian agriculture, cereal exports have already crossed a record high of 31 million metric tonnes (MMT) at \$13 billion (FY22), and the same cereal wonder may be repeated this fiscal (FY23). Among cereals, wheat exports have witnessed an unprecedented growth of more than 273 per cent, jumping nearly fourfold from \$0.56 billion (or 2 MMT) in FY21 to \$2.1 billion (or 7.8 MMT) in FY22 (see figure). Commerce and Industry Minister Piyush Goyal is upbeat on agri-farm exports, which overall have crossed \$50 billion for the first time in FY22. On wheat, while the government has

set a target of 10 MMT for exports in FY23, Goyal in a recent interview said that it may go even up to 15 MMT. This has raised fears amongst many about whether India can export 10 to 15 MMT in the face of the scaling down of the production estimate of the current crop from 111 MMT to 105 MMT due to the heatwave, and the massive drop in procurement in the ongoing season due to higher market rates compared to MSP. However, there is very little talk about rice exports, which have crossed 20 MMT in FY22 in a global market of 50 MMT. That's a much bigger wonder than wheat.

Some of the concerns on the wheat front are genuine, and we need to realise that climate change is already knocking on our doors. With every one degree Celsius rise in temperatures, wheat yields are likely to suffer by about 5 MMT, as per earlier IPCC reports. This calls for massive investments in agri-R&D to find heat-resistant varieties of wheat and also create models for “climate-smart” agriculture. We are way behind the curve on this. But we are way ahead of the curve in distributing free food to 800 million Indians, with a food subsidy bill that is likely to cross Rs 2.8 lakh crore this fiscal out of the Centre's net tax revenue of about Rs 20 lakh crore in FY23. Can Goyal, who is rightly upbeat on agri-exports also rationalise the public distribution system and PMGKAY, as food minister, targeting only those below the poverty line for free or subsidised food and charging a reasonable price, say 90 per cent of MSP, from those who are above the poverty line. The bottom line is: He has to effectively target the massive food subsidy and save resources for the higher import bill on edible oils and fertilisers. Inflation in edible oils has been running amok — to double digits — for a long time, and there has been no relief for consumers on that front.

In the wake of likely lower production and procurement of wheat this year, Goyal has done well to substitute more rice in the PMGKAY, and may also do so in NFSA allocations. We would suggest giving an option to beneficiaries to receive cash in their Jan Dhan accounts (equivalent to MSP plus 20 per cent) in lieu of grains. This is permitted under NFSA and by doing so, he can save on the burgeoning food subsidy bill.

Goyal also needs to ward off any fear-mongering over wheat that can push him towards an export ban. That would be the worst thing he could do. It would be an anti-farmer move. The problem with our earlier policymaking has been that it is heavily biased towards protecting the consumers in the name of the poor by suppressing prices for farmers through choking markets — through imposing stock limits on traders, putting minimum export prices or outright bans on exports.

He must avoid that route, and let agri-exports flourish. Indian farmers need access to global markets to augment their incomes, and the government must facilitate Indian farmers to develop more efficient export value chains by minimising marketing costs and investing in efficient logistics for exports.

## GS World Team Input

### \*IN THE NEWS\*

#### World Food Price Index: FAO

##### Why in news?

- The Food Price Index of the United Nations Food and Agriculture Organization (FAO) averaged 159.3 points in March, breaking the previous record of 137.6 points set 11 years ago in February 2011.
- The Food and Agriculture Organization (FAO) has said in its latest report that world food prices increased by about 13 percent in March compared to February.
- The FAO Cereal Price Index was up 17.1 percent in March compared to February, largely due to a rise in the prices of wheat and all coarse cereals as a result of the war in Ukraine.
- In its detailed note on the Food Price Index, the FAO said, "Decreased shipment movement in the Black Sea region resulted in the loss of exports and, as a result, increased global prices, reduced imports and increased demand."

##### About the Food and Agriculture Organization (FAO)

- It is a specialized agency of the United Nations to lead efforts to eradicate hunger at the international level.
- The Food and Agriculture Organization was established in the year 1945 under the United Nations Organization and is a specialized agency of the United Nations.
- Objectives The Food and Agriculture Organization (FAO) aims to achieve food security for all, and ensure people have regular access to enough high-quality food to lead active, healthy lives.
- World Food Day is celebrated every year on 16 October in the world to commemorate the anniversary of the founding of FAO.

##### FAO's Strategic Framework 2022-2031

- The 'Strategic Framework' 2022-2031 was adopted by the member countries of the FAO in the 2021 conference.
- The framework aims at sustainable development through transforming agri-food systems into a more efficient, inclusive, resilient, and sustainable way of achieving better production, better nutrition, better environment and better lives, leaving no one behind. The agenda is to cooperate in 2030.
- These Four Betters Objectives – To support the achievement of the Sustainable Development Goals (SDGs), specifically SDG 1 (End poverty in all its forms everywhere), SDG 2 (zero hunger), and SDG 10 (reducing inequality within and among countries.).

## Expected Question (Prelims Exams)

**Q. Consider the following statements-**

1. The World Food Price Index averaged 159.3 points in March.
2. The Food and Agriculture Organization was established in the year 1945 under the United Nations Organization.
3. The FAO's Food Price Index was introduced publicly in 1996 to help monitor the development of the global agricultural commodities market.

Which of the above statements are correct?

- (a) 1 and 3
- (b) 2 and 3
- (c) 1 and 2
- (d) All of the above

## Expected Question (Mains Exams)

**Q. What do you understand by food inflation? While mentioning the factors responsible for food inflation in India suggest measures to rectify food inflation.**

**(250 Words)**

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**Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.**