Indian Economy · GS - III

What are the causes of persistent high food inflation in India? Comment on the effectiveness of the monetary policy of the RBI to control this type of inflation.

EXAM YEAR	PAPER	SUBJECT
2024	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Food inflation, supply-side constraints, climate shocks, MSP, perishables, food supply chains, RBI monetary policy, transmission, inflation targeting

Model Answer

Introduction

Food inflation in India is predominantly influenced by supply-side factors, although monetary conditions can affect demand and inflation expectations. Its persistence therefore creates limitations for conventional monetary policy.

Body

1. Causes of Persistent Food Inflation

- Climate variability, droughts, floods and heatwaves affect agricultural production.
- Rising input costs, including fertilisers, fuel and electricity, increase food prices.
- Inadequate storage, cold-chain facilities and fragmented supply chains cause post-harvest losses.
- Production cycles and seasonal shortages create recurrent price spikes in vegetables, pulses and cereals.
- International commodity-price shocks can transmit into domestic prices.
- MSP-related price expectations and procurement policies can influence cereal prices.

2. Effectiveness of RBI Monetary Policy

- Higher policy rates can moderate aggregate demand and prevent food-price shocks from becoming generalized inflation.
- Monetary tightening can anchor inflation expectations and prevent second-round effects on wages and other prices.
- However, higher interest rates cannot directly increase vegetable, pulse or cereal supply.
- Excessive tightening can raise borrowing costs and adversely affect investment and growth without proportionately resolving supply shortages.

Conclusion

RBI monetary policy is necessary for containing generalized and demand-driven inflation, but persistent food inflation requires complementary supply-side measures such as better storage, diversified agriculture, resilient supply chains, improved productivity and timely trade management.

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