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## **Kunal Kumar Kundu: Food inflation still bites**

India's persistently high [inflation](#) is a major cause for worry for the [Reserve Bank of India](#) (RBI). Among the Asian peers, India's headline inflation is the highest so far.

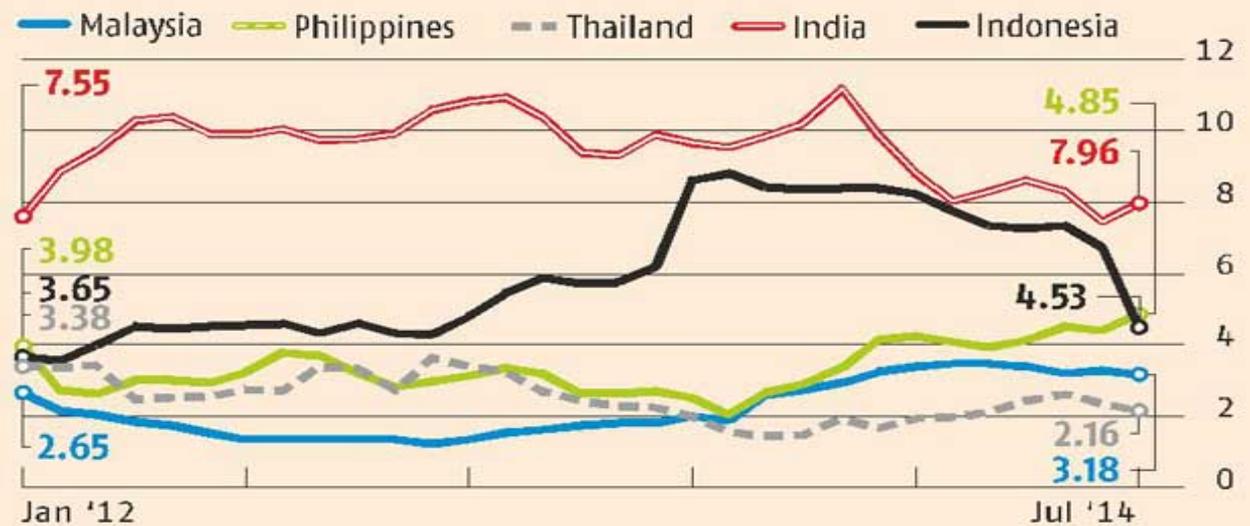
Headline inflation is driven by inordinately high levels of food prices. While the [El Nino](#) effect has receded, slow [monsoon](#) continues to be a threat. India may not yet face a drought but the situation remains worrisome. The delayed arrival and slow progress of monsoon resulted in June receiving its lowest level of rainfall since 2009, when India last experienced a drought. While the situation has improved since then, there are some tell-tale signs of distress.

According to the latest estimate by the India Meteorological Division, rainfall during this year's monsoon will be around 87 per cent of the long-period average, which means that the final amount of rainfall will be less than usual. More importantly, however, a normal monsoon is somewhat of a statistical phenomenon since some regions of the country may experience drought while others may experience flood, and we might yet end up with a normal monsoon. While some regions in Maharashtra faced a drought this year (and overall close to half of the country received deficient rainfall though only three per cent received scanty rainfall), there has been extensive flooding in Odisha, Uttar Pradesh, Uttarakhand and Assam.

While the extent of damage caused by floods is yet to be ascertained, indications are that heavy rain in major growing areas has taken a toll on the paddy crop. It is estimated that up to 40 per cent of the crops in low-lying, flood-prone areas might be damaged. According to the available information, about 60 per cent of sowing has been completed in Assam, while in the states of Uttar Pradesh and Odisha, sowing is in the final stages. So, if water levels don't recede soon, the crop might be damaged. It is important to note here that in India the kharif (or monsoon) season accounts for 90 per cent of the paddy crop and these three states together account for nearly 40 per cent of total paddy grown in the country.

# INFLATION TAILWINDS: ASIAN PEERS

## Consumer Price Inflation



Source: National sources

In any case, there has been a delay in sowing this year due to the delayed monsoon. While the situation has improved of late, the latest available information (August 22) indicates that 12 per cent of the normal sowing area is still to be sown, while monsoon will remain active for another month.

So far, the least progress has been made in the sowing of rice (85.7 per cent sown) and coarse cereals (86.2 per cent sown). There is, therefore, a possibility that food grain production will fall by about 10 per cent or by even more if floods take a more serious toll. Moreover, since delayed sowing leads to a delay in harvest, there is a possibility that the rabi (or winter) crops may have to be planted late, thereby affecting production. Rabi crops will also likely suffer in areas without irrigation facilities since a weak monsoon lowers the moisture content of the soil.

Clearly, [food inflation](#) in India faces enough tailwinds to worry policymakers. The fact that average monthly food inflation in India was more than 12 per cent year-on-year over the past five years highlights the structural constraints inhibiting India's food economy. Not surprisingly, during this period, Indian food inflation went out of sync with global food prices at a rapid pace. With monsoon woes adding to the pressure, RBI ought to remain vigilant on food inflation and its spillover effect on broader inflation. We believe that RBI may not be in a position to cut policy rates during the first half of 2015, as is widely expected in the market.

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These views are personal*