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RBI Working Paper Series 10: Analytics of Food Inflation in India

The Reserve Bank of India today placed on its website a Working Paper titled "[Analytics of Food Inflation in India](#)" under the Reserve Bank of India Working Paper Series*. This paper is written by Thangzason Sonna, Dr. Himanshu Joshi, Alice Sebastian and Upasana Sharma.

Food inflation in India has remained stubborn in recent years. Various factors, such as, increasing demand - particularly that arising from higher rural wages, rising agricultural cost of production, changing consumption pattern favouring protein items, increase in minimum support prices (MSPs) and droughts in certain years are believed to have led to higher food inflation. In this backdrop, the study attempts to elicit the statistical significance of these factors in determining food inflation. The authors use standard cointegration and error correction methodology based on Johansen's multivariate cointegration framework for this purpose.

The empirical evidence shows that increasing real rural wages have played the most dominant role in determination of overall food inflation in India in the long-run. Though statistically significant, the long-run impact of hikes in MSP of food crops, namely, rice and wheat and input cost inflation (except wages) on food inflation were not as over-bearing as was generally perceived. Similarly, the long-run impact of protein expenditure on food inflation, though significant statistically, was found to be weak. In the short-run, the impact on food inflation stems from the same factors that are important in the long-run, namely, increases in rural real wages, MSP and input price pressures. Empirical results also indicate that the introduction of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) does not seem to have caused any significant increase in food inflation as is generally perceived.

The paper concludes that since the increase in real wages has the largest influence in driving food inflation, there is a need to raise agricultural productivity through enhanced investments and improved technology in line with the increase in real wages to assuage food price pressures. Reducing the supply-demand gap in agriculture production in the long-run and improving supply logistics will be of utmost importance for moderating food price pressures and for sustaining the pace of economic activity by securing adequate food availability at reasonable prices.

** The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*

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