El Niño in election season

The current month is set to be the driest-ever August. Along with a strengthening El Niño, this poses a serious food inflation challenge for the Modi government ahead of the 2024 Lok Sabha polls.

Monsoon, inflation causes for worry

Water levels in major reservoirs as on August 24 (billion cubic meters)

<table>
<thead>
<tr>
<th>Region</th>
<th>North</th>
<th>East</th>
<th>West</th>
<th>Central</th>
<th>South</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last year</td>
<td>21.001</td>
<td>37.130</td>
<td>26.298</td>
<td>31.267</td>
<td>34.609</td>
</tr>
<tr>
<td>10-year avg</td>
<td>26.995</td>
<td>33.946</td>
<td>42.749</td>
<td>35.346</td>
<td>38.916</td>
</tr>
<tr>
<td>All-India</td>
<td>146 (178.185)</td>
<td>113.584 (123.849)</td>
<td>144.569 (149.426)</td>
<td>120.916 (130.112)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures in brackets are storage levels as a percentage of full capacity.

Why things can worsen

In July, the Oceanic Niño Index (ONI) – which measures the average sea surface temperature deviation from the normal in the east-central equatorial Pacific region – touched 1 degree Celsius. This was twice the El Niño threshold of 0.5 degree.

The US National Oceanic and Atmospheric Administration has predicted a 98% probability of the ONI exceeding 1.5 degrees Celsius during October-December and a 78% chance of it remaining above 1.0 degree in January-March 2023. El Niño is, thus, projected not to persist, but strong through the 2023-24 winter.

That, in the worst-case scenario, could lead to an intensification of the current dry conditions in September (when the southwest monsoon season ends) and beyond. It would also mean subpar rainfall during the northeast monsoon (October-December) and winter (January-February) seasons.

What can do that

The southwest monsoon rainfall is crucial for not just the kharif season crops, but also in June-July and harvested over September-October. It is required also to fill up reservoirs and recharge groundwater tables that, in turn, provide water for the crops cultivated during the rabi (winter-spring) season, in areas where water harvesting is not practiced. Additional water is also needed for the two main crops – tur (chick pea) and mustard (chana, chipped), and red lentil, mung bean, barley, potato, onion, garlic, jowar (sorghum), ragi (finger millet), and bajra (buckwheat).

The table shows water levels in 146 major reservoirs as on August 24 to 21.4% lower than a year ago and 6.1% below the last 10-year average for this date. The area seen under most kharif crops this time has been higher than last year, thanks to the 12.6% rainfall surplus in July that made up for the monsoon’s late-crescendo and 10.1% deficit in June. The dry weather in August can affect yields of the already-planted crops now in vegetative growth stage. But farmers may still be able to salvage these with one more shower, or even the available moisture. The real issue would not be with the kharif, but the upcoming rabi crops, largely dependent on water in the underground aquifers and reservoirs.

The economic risk

Reservoir water levels are precarious in Karnataka, Maharashtra, Odisha and much of southern and eastern India, which have also recorded below-average/delayed rainfall. In the ordinary course, these wouldn’t matter too much. But with rice and wheat stocks in government warehouses at 65.5 million tonnes (mt) on August 1, a six-year low for this date, and retail food inflation in July at 11.5% year-on-year, there is cause for worry.

For policymakers, food inflation isn’t a big concern as long as it is transitory or limited, say tomatoes or vegetables such as potato, and minor supply disruptions and likely to self-correct with the new crop’s arrivals. The problem is when inflation becomes persistent and broad-based.

Last year, public wheat stocks fell to their lowest since 2008, but there was enough rice to keep the overall cereal inflation in check. The scenario is different today: when there’s pressure on both rice and wheat stocks, and especially the El Niño factor. Wholesale prices of chana have risen by nearly a fifth in the past one month, not due to low stocks, but because inflation in other pulses is rubbing off on it. When scarcity in one product starts influencing the prices of others, the threat of generalised food inflation arises.

...and the political

The accompanying charts show consumer food price inflation rates for two periods – the 12 months leading to the Lok Sabha elections of April-May 2014 and that of April-May 2019. The annual retail food price increase averaged 11.1% in the former period and a mere 0.4% in the latter.

While not the only factor, the difference between the two numbers would have played some part in the UPA’s massive defeat in 2014 and the BJP’s spectacular return in 2019. The implications of the above cannot be lost on the government. Consider the various “supply-side” actions it has taken since May 2022, roughly the time when food inflationary pressures began building up.

On May 13, 2022, wheat exports banned.

On May 24, 2022, sugar exports moved from “free” to “restricted” category. Total shipments capped at 112 mt in 2021-22 (October-September) and 51 mt in 2022-23 sugar years. No exports undertaken after May 2023.

On September 6, 2022, exports of broken rice prohibited and 22% duty levied on shipments of other white (non-parboiled) non-basmati grade. On July 20, 2023, ban extended to exports of all non-parboiled basmati rice. On August 25, 2023, 20% duty imposed on exports of parboiled non-basmati rice. Minimum price of $1,200 per tonne, below which exports would not be allowed, made applicable for basmati shipments.

On June 2, 2023, stock limits put on ethyl alcohol, with traders not permitted to store beyond stipulated quantities. On March 3, import duty on whole ethyl alcohol cut to nil.

On June 12, 2023, stockholding limits imposed on wheat.

On August 19, 2023, 40% duty slapped on exports of onions.

As El Niño hits and the 2024 Lok Sabha elections near, one can expect more such measures from the government. That many of these come in the letter and spirit of the farm laws enacted (and subsequently repealed) barely three years ago is another thing.