

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.



HARISH DAMODARAN

IT'S CLEAR that El Niño is now emerging as a major economic risk in India — and ahead of the national elections scheduled for April-May 2024, a political risk too.

The effects of the abnormal warming of the central and eastern equatorial Pacific Ocean waters towards Ecuador and Peru — generally known to suppress rain in India — are already beginning to be felt.

August so far has seen the country as a whole register 30.7% below-normal (i.e. the historical long-period average for a given interval) rainfall. As a result, the overall 4.2% surplus during the first two months of the southwest monsoon (June-September) has turned into a cumulative 7.6% deficit as of August 27.

The India Meteorological Department anticipates no significant monsoon revival during the next five days, putting this month on course to end up as the driest-ever August — even surpassing those of 1965 and 1920.

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 66% probability of the ONI exceeding 1.5 degrees Celsius during October-December and a 75% chance of it remaining above 1 degree in January-March 2024. El Niño is, thus, projected to not only persist, but strengthen through the 2023-24 winter.

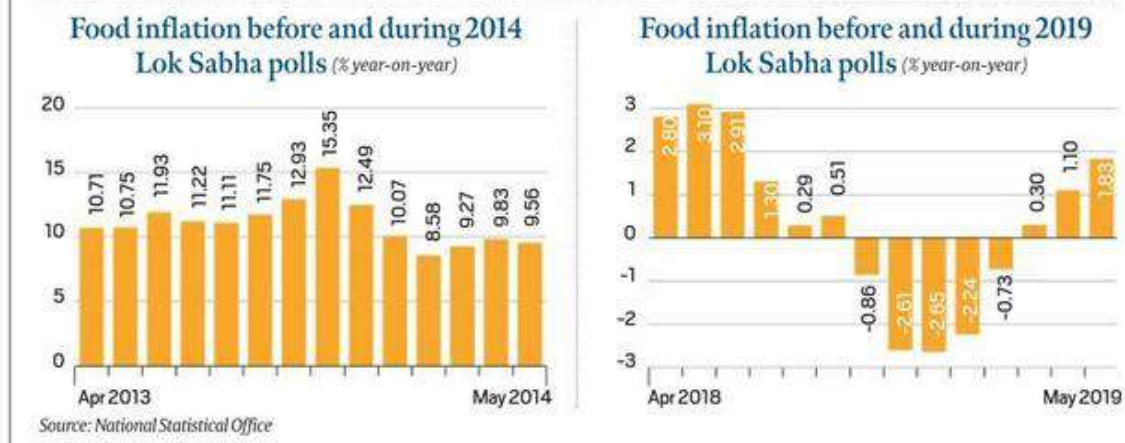
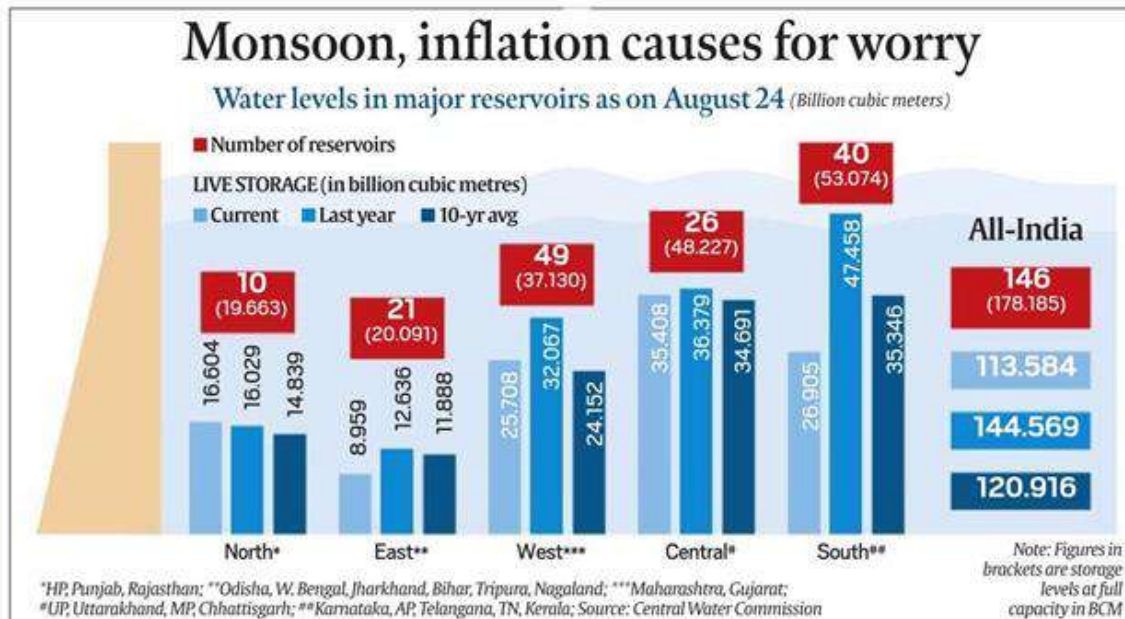
That, in the worst-case scenario, could lead to an intensification of the current dry conditions in September (when the southwest monsoon season ends) and beyond. It would also mean subpar rainfall during the northeast monsoon (October-December) and winter (January-February) seasons.

What that can do

The southwest monsoon rain is crucial for not just the kharif season crops, sown mostly in June-July and harvested over September-October. It is required also to fill up dam reservoirs and recharge groundwater tables that, in turn, provide water for the crops cultivated during the rabi (winter-spring) season.

The rabi crops are mainly wheat, mustard, *chana* (chickpea), *masur* (red lentil), *matar* (field pea), barley, potato, onion, garlic, *jeera* (cumin), *dhaniya* (coriander) and *saunf* (fennel). They also include maize grown in Bihar and rice in West Bengal, Assam, Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Odisha and Chhattisgarh.

The table shows water levels in 146 major reservoirs as on August 24 to be 21.4% lower than a year ago and 6.1% below the last 10-year average for this date. The area sown under most kharif crops this time has been higher than last year, thanks to the 12.6% rain-



fall surplus in July that made up for the monsoon's late onset 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 be not 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/deficient rain.

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 to, say, tomatoes or vegetables suffering temporary 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 cereals inflation in check. The scenario is different today, when there's pressure on both rice and wheat stocks, besides 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 to power 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 11.2 mt in 2021-22 (October-September) and 6.1 mt in 2022-23 sugar years. No exports undertaken after May 2023.
- On September 8, 2022, exports of broken rice prohibited and 20% duty levied on shipments of other white (non-parboiled) non-basmati grain. On July 20, 2023, ban extended to exports of all non-parboiled non-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 wouldn't be allowed, made applicable for basmati shipments.
- On June 2, 2023, stock limits put on *arhar* and *urad*, with traders not permitted to hold more than stipulated quantities. On March 3, import duty on whole *arhar* 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 bites and the 2024 Lok Sabha elections near, one can expect more such measures from the government. That many of these go against the letter and spirit of the farm reform laws it enacted (and subsequently repealed) barely three years ago is another thing.