

Publication	Business World	Date	04-July-2022
Link	https://www.businessworld.in/article/Normal-Monsoon-To-Bring-Down-Inflation-In-India-Experts/02-07-2022-435142/#.YsHSQFMrNK0.whatsapp		

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Normal Monsoon To Bring Down Inflation In India: Experts

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Experts pointed out that monsoon plays a crucial role in deciding the overall economic outlook of the country also because 'food' accounts for 50 per cent of the country's consumer price index



02 July, 2022
by Abhishek Sharma

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As the retail inflation for farm and rural labourers increased to 6.67 per cent and 7 per cent, respectively in May, monsoons will be an important factor in cooling off inflationary impulses across cereals and short-cycle crops such as vegetables, according to the experts.

"Monsoons will be an important factor in cooling off inflationary impulses across cereals and short-cycle crops such as vegetables. With a weightage of around 40 per cent, keeping food prices under check is essential in moderating the inflation trajectory in India," said Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities

As per the central government data, the hike in inflation is mainly due to higher prices of certain food items. The retail inflation rate in India eased to 7.04 per cent in May from 7.79 per cent in April, as per data released by the Ministry of Statistics and Programme Implementation.

"A good monsoon season contributes to adequate agriculture production which keeps inflation under check. As per a recent IMD report, there is the expectation of a normal monsoon for the fourth consecutive year, which will definitely have a positive impact on the Indian economy," said Sandeep Sabharwal, CEO, SLCM Group.

Rakshit added that while global commodities such as fertilizers, edible oils, and metals have seen some correction in prices, they remain elevated and continue to exert upward pressure on domestic prices. However, a good monsoon can influence domestic production and prices of crops which can mitigate the global pressures.

In India, agriculture accounts for almost 14 per cent of the country's USD 2.7 trillion economy and 42 per cent of total employment, according to industry estimates.

"With around 55 per cent of India's arable land dependent on precipitation, the amount of rainfall during the current monsoon season could sway economic activity in the agriculture sector and industries linked to it. It will also have a direct impact on the food security status of the country," said Aneesh Jain, Founder, Gram Unnati.

Jain added that crops such as wheat, rice and pulses, which are a staple in Indian diets, need heavy rainfalls to grow. The arrival of the monsoon signals the start of the cultivation of Kharif crops. The amount of crop cultivated is determined by the extent of the rainfall. With the timely onset of monsoon, farmers can start planting major crops such as paddy, soya bean, cotton, and pulses.

"For rural India, strong Kharif production will be important in generating agricultural income to offset the impact of not just food prices, but also rural core inflation which had been much higher than urban core inflation for over a year. Overall, normal monsoons, and more importantly a strong Kharif production, will be essential in the policymakers' battle to combat inflationary pressures in India," Rakshit said.

Talking about the impact of proper monsoon on inflation, Jain added that it has the ability to rein in galloping inflation and bring relief from skyrocketing food prices along with maintaining the food security of the country. A good monsoon can result in greater food grain production that will help in curbing supply-side deficiencies. It will also lead to higher income for farmers, therefore, greater demand for consumer goods. A weak or bad monsoon invariably means lower crop production and higher inflation.

As climate change worsened, India felt the negative effects of tormenting heat waves along with the Ukrainian crisis which led to the disturbance in the supply chain. Hence, the prices of rice, wheat-atta, jowar, bajra, milk, dried chillies, mixed spices, vegetables and fruits have also been rising, pushing the general index upwards.

A sufficient monsoon is necessary to keep the already rising prices of agricultural commodities in check and also help in ensuring good production for maintaining a positive food security status of India, Jain added.