Inflation and Climate Change

Why in news?

The RBI has raised the repo rate by 50 basis points. Even though, the probability of inflation remaining higher than the RBI's tolerance band is increasing by the day.

What is the link?

- Climate change is an increasing concern. India is going to have extreme events like heat waves, droughts, floods, etc., of increasing intensity and frequency.
- The unexpected changes of weather impacts the inflation.
- The risks are primarily from three sides:
    - The depreciating rupee,
    - Fast-depleting grain stocks, especially of wheat, and
    - Unexpected changes of weather as a result of climate change.

Inflation is measured as the consumer price index (CPI) in India.

What are the risks from fast depreciating rupee?

- As the US Federal Reserve raises its interest rates, there is going to be pressure on the Indian rupee.
- Depreciation of rupee poses a risk of imported inflation, especially through crude oil and gas and fertilisers and edible oils.
- The RBI has already spent more than $80 billion to support the rupee.
- If RBI tries to hold the rupee artificially high, it will adversely hit Indian exports, widening the current account deficit and putting further pressure on the rupee.
- **Current scenario** – There remains a risk of higher inflation from the falling rupee and are likely to continue for at least one year, if not more.
- The Federal Reserve of the U.S is committed to bringing down inflation in the US to 2 per cent from the current levels of more than 8 per cent in two to three years.
- **Suggestions** - The best that the RBI can and should do is to avoid a sudden and abrupt fall in the rupee.
- The RBI should find its natural level given what is happening globally and in the currency markets.
- The Indian policymakers have to have innovative policies to promote exports and attract more foreign direct investment (FDI) to circumvent imported inflation.

What are the risks from depleting grain stocks?

- There is a concern about whether stocks available are enough to curb inflationary expectations in the country.
- With the depleting grain stocks, the concern increases.
- The Cabinet's decision to extend the **PM Garib Kalyan Ann Yojana** (PMGKAY) by another three months will put pressure not only on stocks but also on the fiscal.
- The fiscal deficit of the Centre may go higher than provisioned in the Budget for FY23.
- **Current scenario** - The National Food Security Act (NFSA) of 2013, has the provision that after three years, the issue prices for PDS supplies can be revised.
- However, the government did not do so and the burden of food subsidies has piled up.
- It spiked when the PMGKAY was announced in the wake of the pandemic's first wave.
- The doubling free rations depleted the bulging stocks of grains.
- The wheat procurement has fallen and the current rice stocks are ample, but given the monsoon vagaries, the forthcoming rice harvest is expected to fall short.
- **Suggestions –** India needs to replenish wheat and rice stocks in FCI godowns and realise that extending the PMGKAY further will put an undue burden on MSPs and the fiscal deficit.
- The government will have to raise the minimum support price (MSP) of wheat substantially.
- To fix the issue prices of PDS supplies at half the MSP.
- To limit the PDS coverage to 30 per cent of the bottom population.

What are the concerns raising from climate change?

- Climate change is an increasing concern and will haunt our policymakers in the months and years to come.
- **Current scenario** - India is going to have extreme events of increasing intensity and frequency.
- **Suggestions** – India has to tame food inflation through policies and technology.
- We need to correct our own policies that increase GHG emissions and are damaging the natural environment.
- We will have to invest more in climate-smart agriculture, in precision farming, with high productivity and less damage to natural resources.

References

1. https://indianexpress.com/article/opinion/columns/the-link-between-inflation-and-climate-change-8186510/

Quick Facts

- **Inflation -** The rate of increase in prices of goods and services over a given period of time.
- **Depreciation of rupee –** It is the fall in the value of the Rupee against the dollar.

- **Imported inflation –** Inflation due to an increase in costs of imported products.
- **Current account deficit (CAD) –** The deficit that occurs when the inflow of foreign currencies from exports of goods and services is less than the outflow of foreign currencies from imports of goods and services.
- **Foreign direct investment (FDI) -** It involves an investor or company buying a significant, lasting interest in a company in another country.
- **Fiscal deficit –** It is the difference between total revenue and total expenditure of the government.
- **Public Distribution System (PDS)** - The Public Distribution System (PDS) evolved as a system of management of scarcity through distribution of food grains at affordable prices
- **Minimum Support Price (MSP) –** MSP is a form of market intervention. It is a price fixed by the Government of India to insure agricultural producers against any sharp fall in farm prices.