

Impact of Demonetisation on farm prices

What is the issue?

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The demonetisation and the consequent restrictions in cash flow have changed the nature of farm prices.

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Click [here](#) to know about Impact of Demonetisation after an year.

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What is the recent shift in price trends?

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- Price stickiness refers to a situation where the price of a good does not change immediately when there are shifts in the demand and supply.

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- Agricultural commodity prices in India have traditionally exhibited "downward stickiness".

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- This refers to a tendency to move up easily at the slightest demand-supply imbalance but prove quite resistant to moving down.

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- However, post demonetisation, this long prevailed resistance seems to have been disturbed.

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- And the tendency now is for prices to be increasingly "sticky upward" i.e. resistance to move upward.

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- Evidently, the prices of major crops are falling as well as reaching significantly lower levels than the officially-declared MSPs.

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- However, crops like paddy and wheat have escaped price declines, mainly because of assured MSP-based procurement.

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- Exceptions considerably apply to onions and tomatoes as well, the prices of

which have increased.

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- However, these exceptions are due to varied regional effects like drought and reduced plantings by farmers, heavy rains during the time of harvesting, etc.

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What is the reason for the shift?

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- **Inflation**- One reason is the central government's commitment to keep food prices under control.

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- This is complemented by its agreement with the RBI to keep annual consumer price inflation within a 4-6 % range.

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- The inflation target and the resultant restrictions are presumably keeping the prices lower.

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- **Restrictions** - Evidently, the last three years have seen a series of pre-liberalisation era controls on the agricultural trade.

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- These include:\n

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i. imposition of stocking limits on traders and processors.

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ii. restricting exports even while allowing duty-free imports.

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iii. ordering income-tax raids on alleged hoarders.

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- All these have imparted a downward bias to farm prices, while not allowing any corresponding upward adjustment.

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- **Demonetisation** - The impact during the demonetisation roll out and the lingering effects even after cash has returned to the system are one of the prime reasons.

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- The transactions between the agricultural mandis and the farmers are largely through the physical cash mode.

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- The income-tax department restrictions on daily cash withdrawals or deposits (Rs 2 lakh) make it harder for the traders to pay in cash.
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- The immediate cash payments are crucial for the framers to purchase inputs for the further cycles of farming.
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- There is also a qualitative difference between currency that used to earlier float freely and the cash of today.
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- Due to these factors, there is a slowdown in all agriculture related transactions which in turn is leading to depressing effect on the overall farm prices and farm incomes.
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- The transition from a regime of “downward stickiness” to “upward stickiness” has relevance beyond just economic jargons and needs more policy attention.
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Source: Indian Express

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