

The background of the image is a dark blue and purple night sky filled with numerous white stars of varying sizes. In the foreground, there is a silhouette of a forest of evergreen trees. The text is centered in the upper half of the image.

TOPIC OF THE WEEK

DECEMBER'19 (19 to 25 Dec)

Onions augury

Over the last quarter, onion prices soured from around Rs 25-30 per kg to around Rs 120 per kg across major cities and semi-urban parts. The mostly ubiquitous and affordable onion that is part and parcel of any Indian cuisine, last week threw many calculations to wind as the mighty central bank had to bow to pressure from the soaring prices of the essential vegetable rather than do its might to revive an economy where growth rate has fallen to a six-year low. There are many layers to this story along with many misconceptions.

Prices are often seen as information messengers on the functioning of a market economy. Just like prices, policies are viewed as performance messengers on the state of governance within that economy. Volatile price behavior signals an ineffectively functioning market (sometimes resulting in a state of market failure), one, that is highly distorted either by excessive regulation through policy intervention or a lack of thereof.

It says Asia's two largest developing economies are facing a price surge for staple products -- pork in China and onions in India -- that are central to consumers' diets. In Turkey and Nigeria, supply problems are driving

up costs, while United Nations data show global food prices rose at the fastest pace in October in more than two years.

While the spike is painful for poorer consumers, it hasn't reached a level to convince central banks to pull the brake on policy easing, as they remain focused on boosting economic growth amid a global slowdown. But our government has been maintaining that it has taken all possible steps to rein in prices such as allowing imports, imposing a ban on exports and putting restrictions on quantities of onions to be stocked by retailers and wholesalers.

Experts blame the excess monsoon for a sharp rise in prices of food items. The price surge in onions dramatically represents the underlying force of inflation. However, experts also believe that as more supply hits the market from overseas and from the second crop in early 2020, prices of onions and other vegetables would cool off. Every year, India has produced a record output of onions. If prices of goods and services continue to rise, borrowing rates could stay at current levels. The inflation rate was over 5.5 per cent for November, the highest in 40 months. Interest rates adjust in line with the consumer price inflation rate.

While the RBI has brought borrowing rates down, it may not be able to cut rates further. Equity markets continue to witness buoyancy of fund flow from foreign as well as domestic institutional investors. As far as the onion prices are concerned, we have the January-March Kharif season to make up for any losses due to crop failure in the October-December season. Prices will come down gradually with the passing time. As an immediate measure, the government has reduced the stock hoarding limit for onions to two tonnes from five tonnes for retail traders while that on wholesalers to 25 tonnes from 50 tonnes.

Further, onions have been imported from different countries to balance out the supply and demand stabilizing the prices. To conclude, the onions prices are just one of the many contributors to inflation which in itself is a primary worrying concern.

For reference:-

- <https://indianexpress.com/article/india/food-inflation-the-truth-of-onions-6173907/>
- <https://economictimes.indiatimes.com/news/economy/indicators/inflation-targeting-surge-in-prices-of-onion-sugar-has-brought-back-bad-memories/articleshow/72465775.cms>
- <https://www.businesstoday.in/current/economy-politics/not-only-onion-prices-of-potato-and-other-veggies-on-rise/story/392143.html>

Additional Readings:-

- <https://economictimes.indiatimes.com/blogs/et-editorials/sound-decision-to-not-raise-gst-rates/>
- <https://economictimes.indiatimes.com/blogs/et-editorials/against-burning-woods-to-protect-the-wood/>
- <https://economictimes.indiatimes.com/blogs/et-editorials/growth-as-well-as-a-low-carbon-economy/>

Week: 19th to 25th December 2019

- <https://www.thehindu.com/opinion/editorial/whither-amaravati-on-the-capital-city-of-andhra-pradesh/article30361974.ece>
- <https://www.thehindu.com/opinion/editorial/justice-for-the-rohingya/article30332637.ece>
- <https://www.theguardian.com/commentisfree/2019/dec/20/the-guardian-view-on-trees-for-christmas-our-charity-appeal-is-rooted-in-hope>

Suggested Refresher Book:-

"When money dies"

Book by Adam Fergusson (Author)