

# India needs climate-sensitive budgeting

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**INDIAN GROWTH STORY** has a capricious content of monsoon rains. As India moves into election year, the political economy of the monsoon is crucial to analyse. How the government strengthens their structural policies to ease the agrarian distress, contain food inflation and trigger the rural economy is something that a median voter in India is keenly looking forward to.

In India, 70% of annual rainfall is received in four months—June, July, August and September. As the rural economy is predominantly monsoon-dependent, any deviation from normal rainfall has repercussions on it. The official statistics show that, in India, agriculture accounts for around 16% of GDP and contributes around 49% of employment.

It is an irony that India is a significant example of an economy that still depends on the cyclicity of rains—the timely arrival and even distribution of monsoon—for its economic growth. A good monsoon is crucial for the rural economy as it not only is significant for *kharif* crops, but also for *rabi* crops, by replenishing the underground water. An important prelude to doubling the income of farmers is to trigger the growth of the agriculture sector.

The Inter-Governmental Panel on Climate Change (IPCC) predicted that, in the absence of any adaptation by farmers to climate change—in the absence of even rainfall—across regions in India, the farm incomes will be significantly lower than the average in the coming years. This points to the significance of the monsoon in the rural economy of India, which is predominantly rain-fed.

The impact of monsoon rains

across states has been strikingly heterogeneous this year. The south Indian state, Kerala, has faced severe floods. Cloudbursts and landslides have also been reported in Himachal Pradesh, Uttarakhand and Jammu and Kashmir. Given the divergent effects of monsoons on the economy, it is high time that state governments in India initiate climate-responsive budgeting, integrate the rainfall empirics as one component, and also track the public spending on a adaptation and mitigation strategies of unpredictable weather cycles.

The inflation-targeting framework by RBI is crucial for containing inflation in India through altering repo rates through the decision of the Monetary Policy Committee (MPC). When tackling food inflation is beyond the central bank's targeting rules, any deviation of monsoon rains from normal rainfall can trigger food inflation. The efficacy of the New Monetary Framework in India—agreed between ministry of finance and the Centre—in incorporating the effects of supply-side determinants of inflation, like monsoon rainfall, through expectations is crucial in manoeuvring the food inflation dynamics in India.

The impact of rainfall has been highly divergent between irrigated and non-irrigated areas. The districts where less than 50% of cropped area is irrigated is categorised as non-irrigated area. The recent Economic Survey noted that non-irrigated areas are

twice as dependent on rainfall as irrigated land areas are. Within the irrigated areas, some crops are significantly dependent on rainfall. Statistics show that 65% of the net sown area constitutes rain-fed crops. *Kharif* crops are grown in this period and they are heavily dependent on monsoon rains.

The agrarian distress in India is real and the Centre has announced fiscal packages to deal with the agrarian distress. The Union government has announced MSPs for 14 major *kharif* crops. The major *kharif* crops include paddy, maize, millets, cotton,

sugarcane and protein-rich pulses, which are predominantly rain-fed. The farm loan waiver policies have been announced by a few state governments, which have implications for their fiscal deficits. Apart from MSP announcements, the Indian government has also designed several schemes including rural infrastructure spending, viz., PMGSY (Pradhan

Mantri Gram Sadak Yojana) and a major financial programme, viz., Jan Dhan Yojana, to catalyse the rural economy. The step by the ministry of finance to introduce a calamity tax or a cess to finance the restructuring programmes of states devastated through natural calamities in the aftermath of monsoons is a welcome step. A committee has been constituted by the GST Council to look into the issue of calamity tax or cess, and they are expected to submit the report by October 31, 2018.

Statistics show that 65% of the net sown area constitutes rain-fed crops, demonstrating the over-reliance on monsoons for crop growth