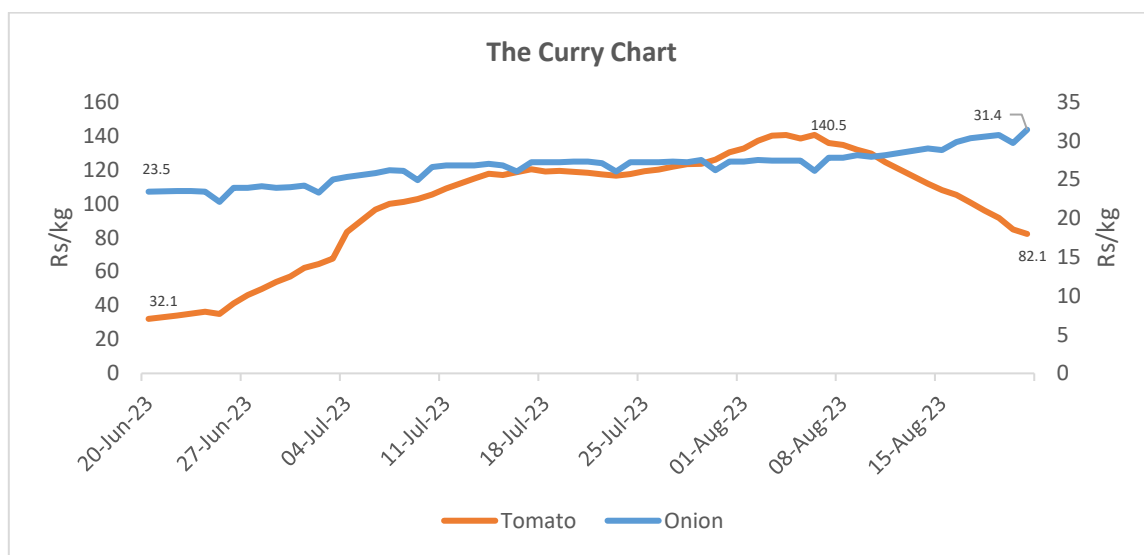


22, Aug 2023

## After tomatoes, it is onions now

After witnessing a sharp rise in the prices of tomatoes across the country, the related commodity that has followed suit is onions. In a period of 2 months, the price of onions has increased from Rs 23.5/kg at the All India retail level to Rs 31.4/kg as on 21<sup>st</sup> August. This has led to the government putting a 40% tax on export of onions.

Onions are a necessity in the Indian household being a staple and often is used along with tomatoes in the kitchen. The chart below shows tomato prices had peaked on 6<sup>th</sup> August at Rs 140 but came down to Rs 82 by 21<sup>st</sup>. The cycle has turned around with supplies improving in the last week or so. The action on onions can be seen more as a pre-emptive measure in the wake of rising prices.



### **The production cycle**

The estimated production of onions during 2022-23 based on a PIB release is around 31.8 mn tonnes, which is marginally higher than the 31.7 mn tonne mark of 2021-22.

Onion is grown in almost all the states in the country. However, Maharashtra is the leading producer with share of around 43%, followed by Madhya Pradesh with 16%, and Karnataka & Gujarat contributing around 9% of output.

The cropping pattern is interesting. It is harvested thrice a year, with cropping seasons reported during Kharif (October-December), late Kharif (January-March) and Rabi (end-March to May).

The harvest of Rabi is most important as it contributes nearly 70-75% of output and is made available for a longer period of time till the Kharif output comes in. The shelf life of Rabi harvest is highest and store worthy whereas the Kharif and Late Kharif crop is for direct consumption and not store worthy. The timing of the harvest of onion across the country provides regular supply of fresh / stored onion all over the year.

As the Rabi crop is made available for the months till October, any news of the sowing and possible harvesting pattern of the kharif crop tends to lead to price volatility. Onion crops gets affected by both absence and excessive rainfall and hence tends to be more vulnerable to monsoons than other

horticulture crops. As onions are stored by farmers and traders to earn higher prices towards the beginning of the next harvest i.e. October, excess rains tend to also damage the stored crop.

### The export ban

The government has been using trade policy as a way of controlling supplies and prices of such essential commodities. The present export tax of 40% will make them less competitive in global markets; and hence to this extent will ensure that the supplies remain robust within the country hence taming prices.

On the other side, the onion dealers believe that such a move will lead to excess supplies in the market leading to prices falling sharply which in turn will affect the farmers' income as well as future cropping as they may choose to try other crops. The table gives the exports profile of onions for the last two years.

**Exports of Onions**

Product		Amount
2021-22	Qty mn t	1.537
	Rs. Crore	3,432
	US\$ mn	460.5
2022-23	Qty mn t	2.525
	Rs. Crore	4,522
	US\$ mn	541.4
2023-24 (April-June)	Qty mn t	0.630
	Rs. Crore	957
	US\$ mn	116.5

Source: DGCIS

As can be seen from the table the total exports of onions were around 8% of total production in FY23. By curbing exports the domestic supply can be augmented to this extent. The main importers are SAARC countries, Gulf nations and SE Asia like Malaysia and Indonesia. As India is the second largest producer of onions (after China), any cut in exports has potential to push up the global price.

### How does it look like going ahead?

Two important factors will be at work from now on. First the state of the kharif crop will be important. The excessive rains in the month of July has affected some part of the sowing which will be known more towards October or so when the harvest takes place. Also states like Maharashtra have also had dry conditions in August which needs to be evaluated. The rising prices are normally an indicator of market conjectures of the crop. Therefore, it does look like that there could be problems here.

Second, the government's step can be seen more like a precautionary measure to ensure that supplies are regularized given that exports have some effect in terms of lowering available stock in the country. But such steps do also have a tendency to reinforce the scarcity factor and push up prices further as the policy would buttress the market belief on the crop prospects.

Presently it does not look like that there is any profiteering is being done at the retail end as the premium over the wholesale prices has been around 33% in the period April-August. This is slightly higher than an average of 29-30% witnessed in the last few years.

## How important is onion from the inflation standpoint?

Onions has a weight of 0.64% in the CPI which is around 10% of the overall weight of vegetables (6.0%). Combined with tomato the weight is 1.21%, and hence the government is worried that overall inflation will be impacted sharply by this measure. Intuitively every 10% increase in prices of these curry products will lead to an increase of 0.12% in the CPI.

In case of WPI onions have a lower weight of 0.16 and tomato 0.28 with vegetables having a weight of 1.87%.

Therefore, onions would have a higher impact on CPI and could potentially come in the way of monetary policy going ahead.

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