

Global Financial Crisis and Food Price Inflation

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ABSTRACT

The global financial crisis of 2008 triggered widespread economic disruptions, influencing trade, production, and price levels across nations. One of the most critical outcomes was the surge in global food prices, threatening food security and economic stability, particularly in developing economies like India. This paper examines the interconnection between the financial crisis and food price inflation, analyses their impact on India's macroeconomic framework, and evaluates policy measures that insulated the Indian economy. Using secondary data from the FAO, RBI, and MOSPI, the study identifies the trends, causes, and consequences of price fluctuations and provides policy recommendations to mitigate similar future shocks.

Keywords: Global Financial Crisis, Food Inflation, India, Food Security, Economic Policy

INTRODUCTION

Global Financial Crisis

The third quarter of 2008, the collapse of the U.S. housing market escalated into a global financial crisis with far-reaching effects. The failure of major financial institutions and liquidity shortages severely impacted global trade and investment flows. Concurrently, food prices rose steeply due to both structural and cyclical factors. These developments together shaped the global economic landscape, posing serious implications for developing economies.

India experienced indirect effects through capital flow disruptions, reduced liquidity, and slowing growth. Despite these challenges, timely interventions by the Reserve Bank of India (RBI) and the government helped cushion domestic markets from the full brunt of global volatility.

Financial Crisis in India

The global financial crisis has impact on India indirectly in terms of liquidity problems and lower economic growth. Developments, on both international and domestic fronts, particularly from mid-September 2008, have impacted domestic liquidity conditions. The bankruptcy/sell out/ restructuring of some of the world's largest financial institutions beginning mid-September 2008 brought some pressures on the domestic money and foreign exchange markets. The global financial environment deteriorated with the number of troubled financial institutions rising, stock markets weakening and the money markets coming under stress. Central banks in several major advanced and emerging market economies responded to these extraordinary developments by synchronized policy actions, including measures for liquidity infusion. The RBI has acted swiftly to augment liquidity in the system by reducing CRR, SLR and the Repo rate. These measures started in September, 2008 and are still continuing. The global financial crisis had significant impact on economic growth, employment and food security of poor in India.

The global food, oil and financial crisis have affected India also. The impact is much lower than some of the other countries. The food prices in recent years have been higher than those in the period mid-1990s to 2004. The volatility in food prices is likely to continue and would harm the poor. Even before the food crisis, the poor and vulnerable were significantly left behind. Rising food prices would further undermine the food security and livelihoods of the most vulnerable by eroding their already limited purchasing power. Poor people

spend 60 to 70 per cent of their income on food and they have little capacity to adapt as prices rise and wages may not adjust accordingly. Thus, the situation in India can still pose a threat to food and nutrition security of the country. Apart from the problem of rise in food prices, India is also facing the adverse impact of global financial crisis since the 3rd quarter of 2008. The sub-prime mortgage lending and collapse of housing market, flawed regulatory systems have affected the financial institutions around the world.

The causes for the rise in food prices and financial crisis are different. They are interconnected through their implications on financial stability, food security and political security. At the global level, the capital was diverted from the collapsing housing market to speculation in agricultural futures. Speculative activities were partly responsible for the rise in global food prices. The food crisis increased general inflation and impact on macro economic policies. Similarly, the financial crisis can have impact on employment, poverty, agriculture investment and social sector expenditures. Therefore, both food and financial crisis may have adverse impact on food and nutritional security of India and undermine the poverty reduction efforts and the gains over the last several years, if large sections of the population do not cope with rise in prices and financial crisis. These two crises can potentially further exacerbate and deepen existing vulnerabilities in India. Inflation in India averaged 5.90 percent from 2012 until 2025, reaching an all time high of 14.72 percent in November of 2013 and a record low of -2.65 percent in December of 2018.

Factors Affecting food prices are slowing agricultural production, continued increase in food demand, shift in food demand, protective government policies, depreciation of US dollar, rise in energy prices, financial market activities, increase in food grain production, reduction in import duties, imposition of bans, procurement, storage and distribution policies.

The growth of the bio fuel market Reasons for the lower rise in Food Prices in India. The policy stance was to attempt insulation of domestic prices from the high world prices by combining different measures including high subsidies, lower tariffs and export restrictions. Global increase in oil and fertilizer prices. Indian subsidies on Oil and fertilizer subsidies have insulated the global transmission of prices. Only small part of diesel prices was passed on to farmers and consumers. There was 16% increase in food grain production over three years from 2004-05 to 2007-08. Large scale imports were mainly in case of edible oils and to some extent in pulses. Wheat was also imported in 2006-07 and 2007-08. Simultaneously India was exporting rice varying from 3 to million tonnes per year till 2007-08. Import Duties for wheat, pulses and edible oils were either reduced or permitted at zero duty. There was a ban on export of rice, wheat, edible oil and pulses. Ban was imposed on futures trading in eight commodities viz., rice, wheat, pulses, potato, rubber and soy oil. Food stock limits were imposed under Essential Commodities Act from August 2006. State Governments have been given powers to take effective action on hoarding of food stocks. Policy of procurement, buffer stock and public distribution also made impact on insulating from global prices. In order to give incentives, Government increased the minimum support prices (MSP) significantly in recent years.

Objectives of the study

1. To compare the trends of global and Indian food prices during the period of the global financial crisis.
2. To identify the policy measures adopted to insulate the Indian economy from global food price inflation.

METHODOLOGY

The study relies entirely on secondary data sources such as FAO statistics, RBI bulletins, the Ministry of Statistics and Programme Implementation (MOSPI), and published economic literature. A comparative trend analysis is used to evaluate food price movements globally and in India from 2005–2011.

Trends in Food Prices Global and Indian

There have been three patterns in the trends in food prices in India as compared to global food prices.

First pattern - During 2005-06 to 2006-07 inflation in food prices increased globally and in India also. The rate of increase was much lower in India.

Second pattern - During 2007-08 as compared to 2006-07 inflation in food prices in India declined, while global prices rose significantly.

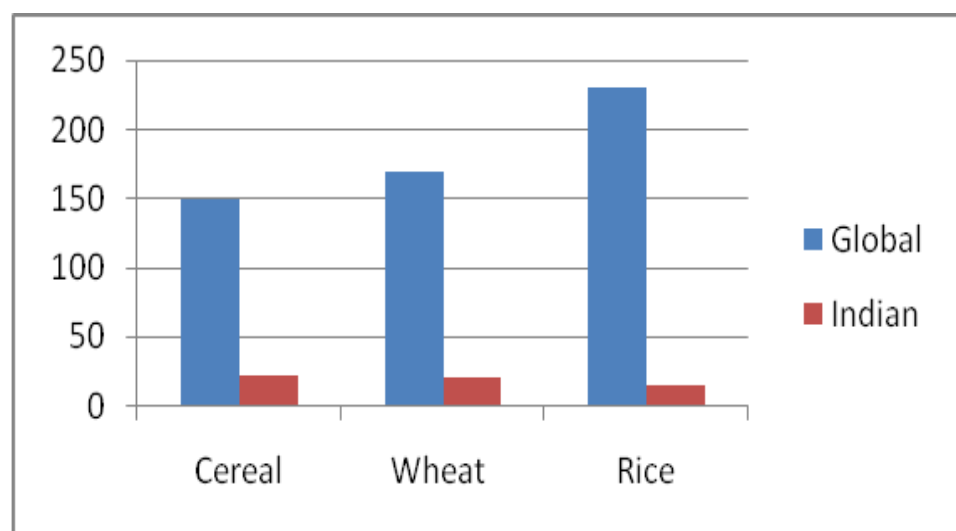
Third pattern- Indian inflation in food prices started increasing in third quarter of 2008.

These patterns show that global impact on India is limited because of less exposure. FAO food price index indicates that it increased more than 80 per cent during the period 2005-2008. The wholesale price index in India for food articles (food grains + non food grains) increased 21 per cent over this period. Cereal prices in India rose only 20 per cent as compared to 170 per cent increase of global prices during 2005-08. Similarly, Indian wheat prices rose only 21 per cent as compared to 170 per cent at global level. Rice prices in India increased only 16 per cent as compared to 230 per cent of global price increases during 2005-08. In the case of India; increase in food prices was higher in 2006-07 as compared to 2007-08. The inflation of food grains, food articles and wheat in 2006-07 was 10.2%, 7.8% and 13% respectively. As compared to this, inflation in the same commodities in 2007-08 was 4.7%, 5.5% and 4.3% respectively. Trends in food prices as given in table below.

Table 1 Trends in Food Prices (2005-08)

Commodities	Global	Indian
Cereal	150	23
Wheat	170	21
Rice	230	16

While global prices soared dramatically between 2005 and 2008, India's food price inflation remained significantly lower. FAO indices show an 80% global increase in food prices, whereas India's Wholesale Price Index (WPI) for food articles rose only 21% during the same period.



Source: Secondary Data

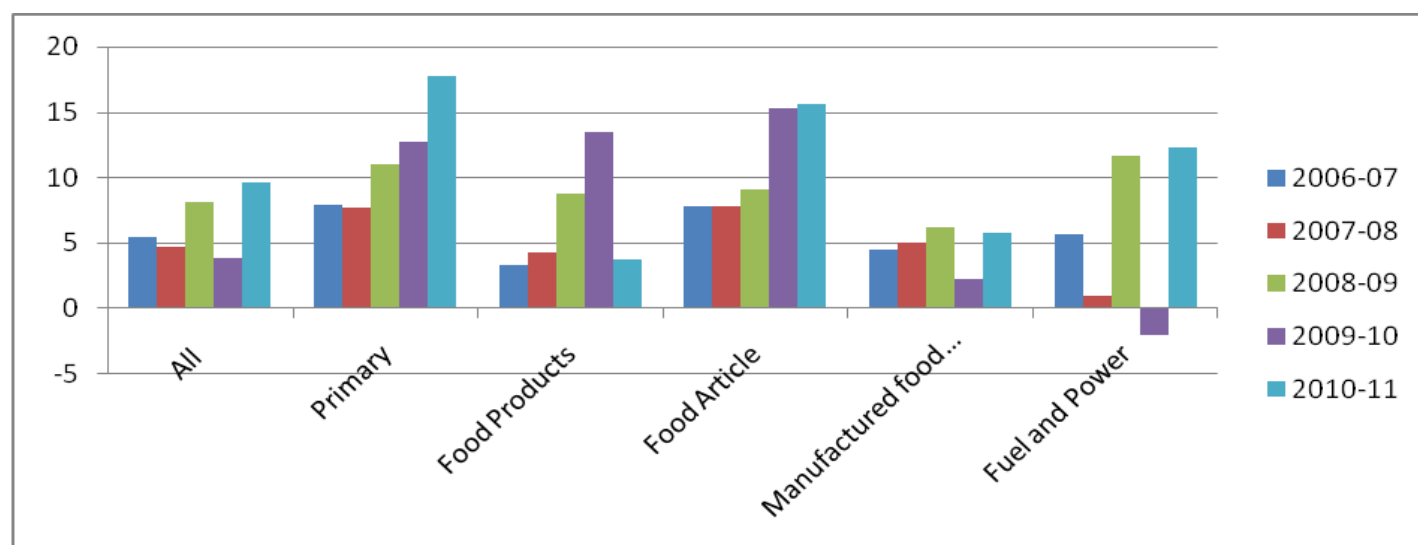
Figure 1 Trends in Food Prices (2005-08)

The overall and food price inflation is depicted in the table given below.

Table 2 Over All and Food Inflation in India

Commodities	2006-07	2007-08	2008-09	2009-10	2010-11
All	5.42	4.66	8.1	3.8	9.6
Primary	7.85	7.61	11	12.7	17.7
Food Products	3.22	4.27	8.7	13.5	3.7
Food Articles	7.78	7.78	9.1	15.3	15.6
Manufactured food products	4.43	4.97	6.2	2.2	5.7
Fuel and Power	5.61	0.93	11.6	-2.1	12.3

2005–06 to 2006–07, Global and Indian food prices increased, though at different rates. 2007–08: Global prices rose sharply, but Indian prices declined slightly. 2008–09. Indian prices began to rise again, reflecting delayed transmission of global trends. This indicates that India’s limited integration with global agricultural markets and strong domestic policy mechanisms helped contain inflationary pressures.



Source: Secondary Data

Figure-2 Over all Food Inflation in India Observed Patterns

Suggestions

The Government needs to put more stress on agriculture through long term investment plan. Increase the supply of food materials to bring down the price. Government can release food grains stock available with the Food Corporation of India and streamlining and strengthening the Public Distribution System. All these measures can be successful only to the extent we can control population growth.

CONCLUSION

Reasons for lower food price rise in India are India’s proactive policy measures helped reduce the transmission of global price shocks, high fertilizer and oil subsidies cushioned farmers and consumers, reduced or zero import duties on essential commodities like wheat, pulses, and edible oils, restrictions on rice, wheat, and edible oil exports prevented domestic shortages, strengthened procurement, storage, and distribution maintained price stability, food grain production increased by 16% between 2004–05 and 2007–08, regular revision of Minimum Support Prices encouraged domestic supply.

The increase in price is a direct result of the balance between supply and demand, the fundamental of economics. However, this supply and demand is largely influenced by government policies and market activities. These include trade policies, energy policies, national security policies, central bank/treasury actions, and financial market activities. As we learned from the recent financial crisis, the world economies are very much intertwined. This food crisis underpinned the importance of having coordinated policies both within and among nations.

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