Monsoon Dependence of Indian Economy

1) Introduction
   - It is said that “agriculture is the backbone of Indian economy.” To an agriculturist, water is more valuable.
   - In many ways, the monsoon is the lifeblood of India’s farm-dependent economy.
   - Hence, all variations in the monsoon affect agriculture and economy of the country.

2) Why Monsoon is important for Indian Economy
   - The monsoon is important for India’s farm-dependent $2 trillion economy.
   - It is a crucial source of water supply necessary for agriculture, industry and households in the country.
   - India gets around 70 percent of its annual rainfall during the monsoon season.
   - This affects the yield of some key kharif crops like rice, pulses and oilseeds such as soybeans.
   - Around 50% of India’s total food output comes in the form of Kharif crops.
   - India is primarily an agrarian economy— agriculture contributes 16% of India’s GDP.
   - It is also crucial for rabi crops as monsoon has an impact on the ground water and also reservoirs which are critical for rabi crops irrigation.
   - Bumper farm output keeps food prices under control and keep inflation in check.
   - This boosts demand for consumer goods as well as income of rural people.
   - All of this leads to a stronger economic outlook that in turn help lift equities, especially of companies selling goods in rural areas.
   - Monsoon rains also replenish reservoirs and groundwater that helps in improving irrigation and also boosts hydropower production.
   - Good Monsoon can reduce demand for subsidized diesel used for pumping water for irrigation.
   - Good monsoon also checks government spending.
   - Industries use raw materials like cotton, sugarcane, vegetable oils and natural rubber. The prices of these raw material fall in times of good monsoons.
   - The loan portfolio of banks rises and banks net interest margins also rise.
   - Easy interest rates prevail in the economy and bank stocks rise in value.
   - A good monsoon will mean more farm related employment leading to a higher cash flow into the economy, all with a positive impact on the overall GDP.

3) Delayed or Poor Monsoon
   - A poor monsoon season can have a rippling effect on India’s economy and overall GDP growth of India.
   - A delayed monsoon can lead to supply issues and even accelerate food inflation.
   - Higher food inflation translates into higher interest rates, which in turn raises the borrowing cost across the country and impacts profitability.
   - Below normal monsoon can also lead to drought-like situation, thereby affecting the rural household incomes.
   - Other sectors affected by the health of the rural economy are banking, NBFCs and microfinance institutions.
   - Droughts result in NPAs, as farmers are unable to repay loans.
- Groundwater levels will continue to fall dangerously.
- This affects the farm sector which employs over half of the total population of India.
- Crop failure and/or deficient rainfall is one big reason for mass farmer suicides across the country.
- A poor monsoon weakens demand for Fast-Moving Consumer Goods (FMCG) products, tractors, two-wheelers and rural housing.
- It forces the government to spend on the import of food as well as take measures like farm loan waivers. These widen fiscal deficit.
- This not only results in banks facing losses, it also disturbs the credit discipline of borrowers.
- The impact even ripples overseas, as commodity markets are starved of Indian sugar and rice.
- States like Kerala, Karnataka, MP and Maharashtra - could face challenges from a deficit monsoon, as they have poor irrigation availability.

4) Way Forward
- Monsoon does play a big role in India. It has social, political, as well as economic implications.
- Thus monsoon doesn’t only affect the crops but all the industries in the country.
- The monsoon-dependent Indian economy needs climate-sensitive budgeting.
- The excessive dependence on monsoon may be mitigated by the construction of modern irrigation canals, afforestation, and diversification of Indian industries.
- Farmers, especially smallholder farmers, need advance warning of emergent weather conditions at a local level.
- Develop climate-smart agriculture practices.
- Build adaptive capacities to climate variability and strengthen the sustainability of farming systems.
- Preventive measures for drought that include growing of pulses and oilseeds instead of rice.
- Mobile telecommunication systems are increasingly cost-effective and an efficient way of delivering weather-based agro-advisories to farmers at a large scale.