

India's possible ban on rice exports presents a risk to global food prices

One important development this past week in global agriculture was the news that India is considering a temporary ban on rice exports.¹ The rationale cited in various media articles is that India's government is worried about inflation ahead of the upcoming elections. However, the problem with this view is that India faces far less inflation pressure than other regions. For example, in June 2023, India's annual consumer inflation was at 4.8%, down significantly from the start of the year when inflation was at 6.5% in January 2023.² Food inflation has moderated at roughly the same pace, measured at 4.5% in June 2023, down from 5.9% in January.³

Importantly, India is a significant producer of rice globally, accounting for a 26% share in the expected 2023/24 global rice production of 525 million tonnes, according to data from the International Grains Council (IGC). Of the 50 million tonnes of rice for global exports projected for the 2023/24 season, India is expected to account for about 40%. Other notable rice exporters are Pakistan, Thailand, the US, Vietnam, China, Cambodia, and Myanmar. But India is the largest exporter of all these countries. This means if the Indian government proceeds with a temporary ban on rice exports, as the recent reports suggest, there could be major disruptions in global rice trade and upside pressure on prices. At the end of June 2023, global rice prices softened from the surge we saw in May as the global production prospects improved. This price decline was positive for an already declining global agricultural commodities basket from the peak levels we saw after Russia invaded Ukraine in March 2022. But the news of a potential export ban threatens to change this constructive view of global food prices.

Also worth noting is that the potential ban on India's rice exports also comes in a season of abundance where such policy action is unexpected. For example, the IGC forecasts 2023/24 global rice production at a new peak of 525 million tonnes, up by 2% year-on-year. China, Indonesia, Bangladesh, the Philippines, Brazil, the US, and Vietnam are the primary drivers of the expected large global rice crop. India remains a notable producer, although its 2023/24 harvest could fall marginally by 0.4% from the 2022/23 season. Subsequently, the global rice stocks are expected to remain solid at 171 million tonnes, roughly unchanged from the previous 2022/23 season. In the absence of trade frictions, such production figures should signal a broadly sideways move in global rice prices.

In this environment of relatively healthy global supply levels, one would expect a low likelihood of inward-looking policy actions such as export bans. For a leading exporter like India, a rice export ban would change the moderating price trend and add upside pressure. Importing countries would also panic, thus, leading to short-term increased demand for rice supplies from other exporting countries that have not signalled any export ban.

¹ More information is available here: <https://www.independent.co.uk/climate-change/news/india-rice-ban-largest-exporter-b2375371.html>

² India's inflation data is accessible here: <https://tradingeconomics.com/india/inflation-cpi>

³ India's food inflation data is here: <https://tradingeconomics.com/india/food-inflation>

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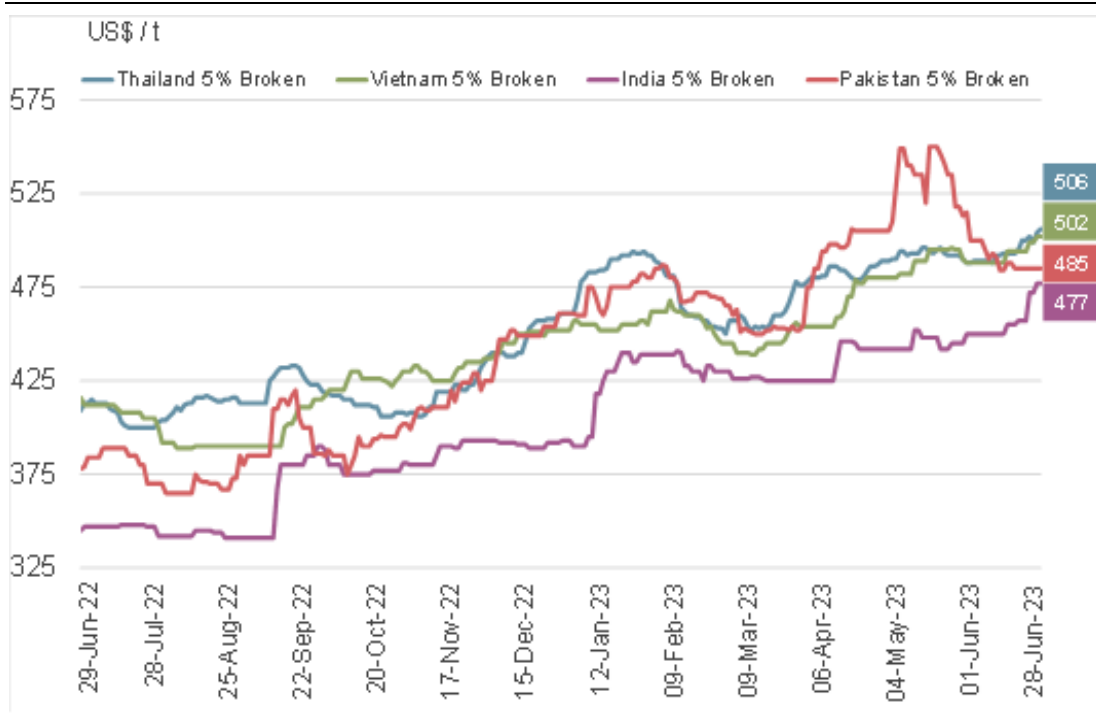
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South Africa is one of the importing countries, the world's eleventh largest rice importer, with a typical import volume of about a million tonnes a calendar year. The IGC forecasts South Africa's rice imports at 1,1 million in 2023 and similar volume for the next year. Roughly 90% of the imported rice is for the domestic market, and the balance is typically exported to neighbouring countries. Thailand is the leading rice supplier to South Africa, accounting, on average, for 74% of South Africa's rice import volume a year in the past five years. India is the second largest rice supplier to South Africa, boasting an average annual share of 21% over the past five years. Other rice suppliers to South Africa include Pakistan, Vietnam, China, Australia, the US, and Brazil. If India proceeds with this much-talked-about temporary rice export ban, South Africa will have to source larger volumes of its rice from other suppliers.

Given the importance of India in the global rice trade, if the country proceeds with the export ban, we will all feel its impact through a potential upswing in global rice prices. This would disrupt the declining trend of the global food prices we have all been observing through the FAO's Global Food Price Index. The major drivers of the decline in the FAO's Global Food Price Index in the past few months were sugar, vegetable oils, cereals and dairy products. Rice is a major component of grains. Therefore, a change in its price will cause a meaningful difference in this softening price trend. Thus, this is a matter worth monitoring over the next few days and weeks.⁴

Exhibit 1: Global rice prices



Source: International Grains Council

⁴ FAO's Global Food Price Index data is available here: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>