

## CHAPTER 5

### PRICES AND PRICE POLICY

After a period of remarkable price stability in 1981-82 and most of 1982-83, prices began to rise from the middle of January 1983. The inflationary pressure has continued into 1983-84, with prices rising especially sharply in April and May 1983 and then slowing down a little in subsequent months. The seasonal decline which normally takes place after September was weak and shortlived and prices began to rise again since mid-December 1983. By January 14, 1984, the Wholesale Price Index (WPI) had increased by 9.7 per cent since the start of the current financial year and the annual rate of inflation (on a point to point basis) was 10.7 per cent. The annual rate of inflation in terms of Consumer Price Index (CPI) also rose from 9.8 per cent in March 1983 to 12.5 per cent in December, 1983.

5.2 The re-emergence of inflationary pressure in the economy reflects the impact of the drought of 1982, which adversely affected the production and availability of critical items combined with some excess of liquidity in the system. Prices remained in check up to January 1983 because of increased supplies through the public distribution system but some increase in prices in subsequent months was inevitable as stocks, especially of rice, began to decline. The delay in the arrival of the monsoon in 1983 also fanned speculative expectations in the first half of the current financial year. The liquidity in the economy was relatively high because money supply had expanded by about 15 per cent in 1982-83 when growth in national income in real terms was only 1.8 per cent. All these factors contributed to a relatively sharp increase particularly in the prices of

TABLE 5.1  
Index Numbers of Wholesale Prices  
(1970-71 = 100)

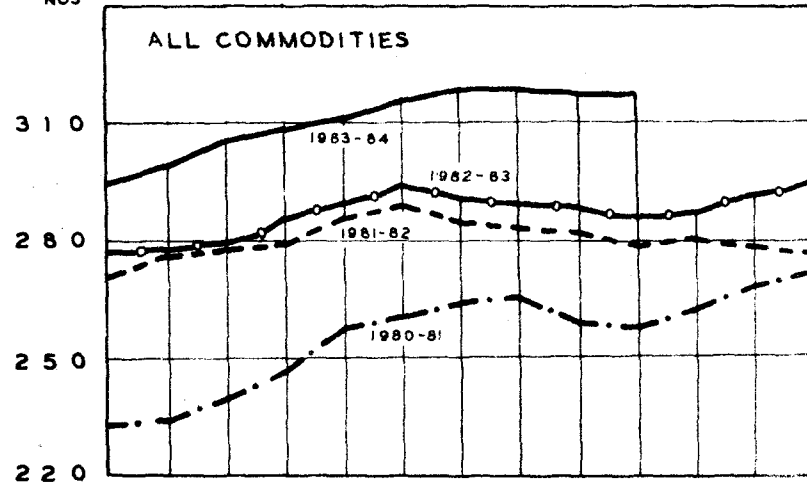
	Weight (Per cent)	Per cent variations					
		29-3-80	28-3-81	27-3-82	26-3-83	15-1-83	14-1-84(P)
		31-3-79	29-3-80	28-3-81	27-3-82	27-3-82	26-3-83
<b>ALL COMMODITIES</b>	<b>100.00</b>	<b>21.4</b>	<b>16.7</b>	<b>2.4</b>	<b>6.2</b>	<b>5.2</b>	<b>9.7</b>
I. Primary Articles	41.67	19.4	14.8	4.6	8.1	6.8	10.9
(a) Food Articles	29.80	11.3	15.3	7.7	12.0	7.0	9.5
Foodgrains	12.92	12.5	17.8	4.1	12.1	7.9	6.0
Cereals	10.74	16.3	11.3	9.3	16.3	10.9	-1.4
Pulses	2.18	Neg.	42.0	-11.4	-3.2	-2.8	38.2
Fruits & Vegetables	6.13	19.0	17.3	5.8	16.7	2.6	5.8
Milk & Milk Products	6.15	3.4	12.8	16.9	1.0	1.2	16.1
Eggs, Fish & Meat	1.90	14.5	10.5	13.4	14.7	18.2	4.2
Condiments & spices	1.09	-21.3	32.1	11.1	-4.5	0.2	32.2
Other food articles, of which	1.60	19.3	-0.8	3.9	39.9	24.0	26.7
Tea	(1.15)	24.6	-7.1	7.1	50.3	30.9	27.1
(b) Non-Food Articles	10.62	14.8	12.0	2.2	7.9	9.3	19.5
Raw Cotton	2.25	0.4	35.1	-11.6	Neg.	-6.6	15.1
Raw Jute	0.43	-4.7	-0.5	11.2	43.9	24.1	23.0
Oilseeds	4.20	31.8	18.0	-4.0	7.8	16.0	35.2
(c) Mineral	1.25	97.5	17.5	-5.1	-11.4	1.1	0.3
Petroleum crude and Natural Gas	0.60	120.3	18.3	-7.2	-13.3	1.0	No ch. <sup>1</sup>
II. Fuel, Power, Light & Lubricants	8.46	20.5	31.9	9.3	9.0	6.3	6.4
Coal Mining	1.15	54.8	29.6	No ch	18.8	16.7	25.1
Mineral oils	4.91	20.0	39.6	9.7	4.3	0.7	0.7
Electricity	2.40	6.5	10.4	15.7	19.2	19.2	11.2
III. Manufactured Products	49.87	23.2	14.7	-1.2	3.9	3.6	9.5
Food Products	13.32	49.3	26.4	-20.8	Neg.	2.1	25.2
Sugar, Khandasari & Gur	7.24	73.4	32.1	-33.4	-5.5	-4.6	30.1
Edible oils	3.72	25.9	20.3	2.4	5.9	9.2	24.2
Textiles	11.03	13.0	3.7	4.0	5.4	4.6	5.0
Paper & Paper Products	0.85	24.0	5.1	12.5	-0.5	-1.8	7.5
Leather & Leather Products	0.38	16.4	3.3	-4.0	4.8	1.5	3.3
Chemicals & Chemical Products	5.55	18.2	17.2	5.1	1.4	0.7	2.5
Non-Metallic Mineral Products	1.41	16.9	10.2	25.4	6.7	3.2	5.4
Basic Metals, Alloys & Metal Products	5.97	18.0	16.1	10.7	9.6	8.3	4.5
Machinery & Transport Equipments	6.72	15.7	9.6	9.5	3.4	3.0	2.4
Misc. Products	0.72	10.1	8.0	2.1	2.6	0.3	4.0

(P) Provisional.

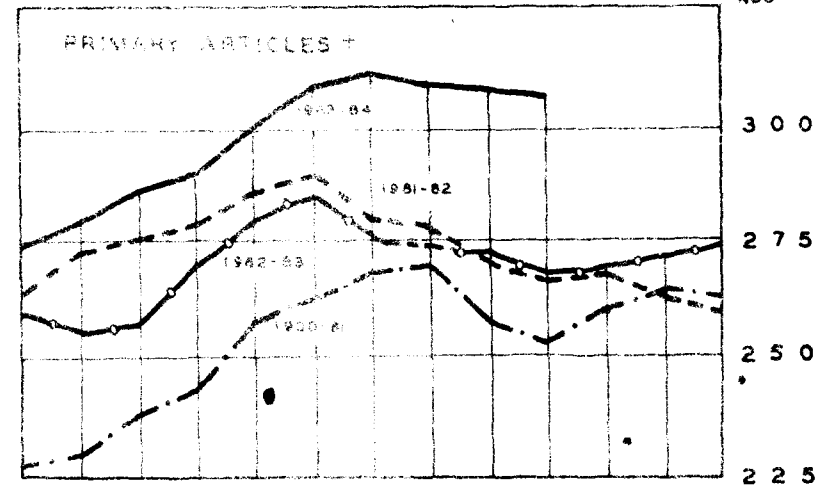
# WHOLESALE PRICES

(1970-71 = 100)

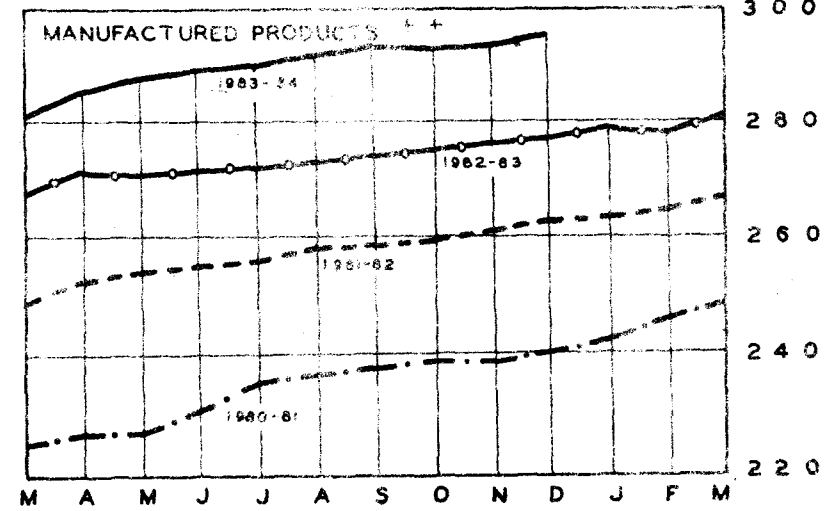
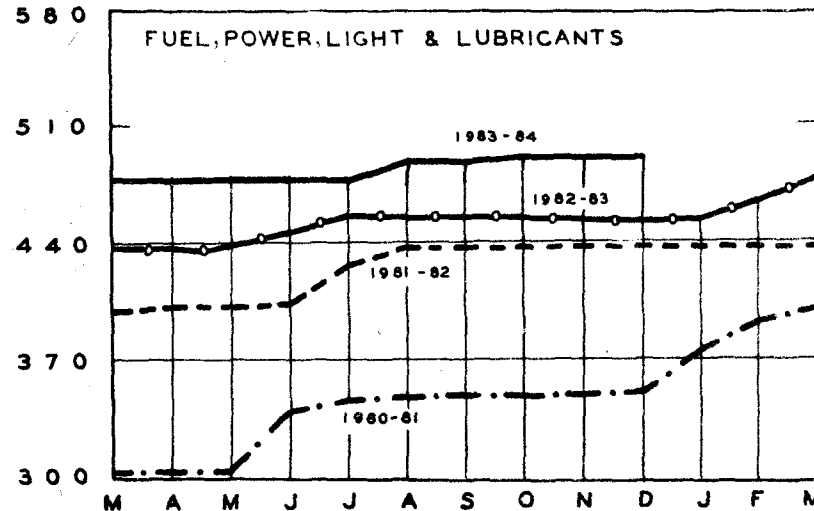
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MINISTRY OF FINANCE, ECONOMIC DIVISION.

+ INCLUDES SUGAR, KHANDSARI, GUR & EDIBLE OILS  
++ EXCLUDES " " " " " "

food articles (other than cereals) and food products. Since these items have a larger weight in the CPI, this index shows a larger increase of 11.4 per cent during the current financial year (up to December 1983).

5.3 The Government has been keenly aware of the need to take counter inflationary action and, accordingly, a number of steps were taken in 1983-84 acting on both the demand and supply side. On the supply side, efforts were made to expand availability in the short run through the public distribution system. The supply of wheat and rice and releases of sugar and edible oils under the public distribution system were stepped up substantially. Domestic availability was supplemented by imports as needed. Imports were arranged to augment Government stocks of foodgrains, and the volume of imports of edible oils was maintained at a high level. Simultaneously long term measures were intensified for increasing domestic production in critical areas. Procurement prices of paddy and wheat and support prices of oilseeds, pulses and other important agricultural commodities were raised and prices of fertilisers reduced to provide incentives for higher production. On the demand side, successive adjustments

were made in the cash reserve ratio of the commercial banks to check the growth of liquidity in the banking system. In January, 1984 Government introduced a package of measures aimed at strengthening fiscal discipline, including *inter alia*, curbs on expenditure in the last quarter of 1983-84 and a temporary ban on fresh Government recruitment. Central Ministries and other agencies have been asked to cut non-Plan expenditure by 3 per cent of the approved amount and the approved Plan outlay by 5 per cent. No further financial allocations will be made in 1983-84 for financing losses of the public sector enterprises. The commercial banks have also been asked to confine their lending assistance to levels which are prudent as per normal banking criteria.

#### Price Behaviour in 1982-83

5.4 The annual rate of inflation in terms of the WPI (on a point to point basis) during most of 1982-83 was around 2 per cent, but with the spurt in prices in the fourth quarter, it rose to 6.2 per cent at the end of the year, compared with 2.4 per cent at the end of 1981-82. The rate in terms of the CPI was 9.8 per cent and 8.8 per cent respectively. It was possible to maintain a reasonable degree of price stability in spite of the drought in 1982 principally

TABLE 5.2  
Percentage Variations in Wholesale/Consumer Price Index

Month	1980-81			1981-82			1982-83			1983-84		
	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation
1	2	3	4	5	6	7	8	9	10	11	12	13
A. Index Numbers of Wholesale Prices (1970-71 = 100)												
(Average of weeks)												
April . . . . .	235.0	0.8	20.2	275.7	2.1	17.3	276.9	-0.1	0.4	298.6	1.5	7.8
May . . . . .	240.0	2.1	20.9	277.9	0.8	15.8	278.1	0.4	0.1	306.2	2.6	10.1
June . . . . .	247.2	3.0	22.1	279.8	0.7	13.2	285.8	2.8	2.1	308.2	0.7	7.8
July . . . . .	257.8	4.3	21.8	286.2	2.3	11.0	291.5	2.0	1.9	311.6	1.1	6.9
August . . . . .	260.3	1.0	19.1	289.2	1.0	11.1	294.5	1.0	1.8	317.5	1.9	7.8
September . . . . .	263.8	1.3	19.3	284.8	-1.5	8.0	290.6	-1.3	2.0	318.9	0.4	9.7
October . . . . .	264.6	0.3	19.1	284.1	-0.2	7.4	289.8	-0.3	2.0	318.7	-0.2	10.0
November . . . . .	258.6	-2.3	16.5	281.5	-0.9	8.9	290.3	0.2	3.1	318.7	Not	9.8
December . . . . .	257.1	-0.6	13.3	279.5	-0.7	8.7	288.7	-0.6	3.3	317.8	-0.3	10.1
January . . . . .	263.2	2.4	15.6	281.1	0.6	6.8	289.3	0.7	2.9			
February . . . . .	268.8	2.1	16.2	278.7	-0.9	3.7	291.6	0.8	4.6			
March . . . . .	270.0	0.4	15.8	277.1	-0.6	2.6	294.3	0.9	6.2			
B. All India Consumer Price Index Numbers for Industrial Workers (1960 = 100)												
April . . . . .	375	0.5	11.3	427	1.7	13.9	459	0.4	7.5	508	1.2	10.7
May . . . . .	382	1.9	12.7	433	1.4	13.4	462	0.7	6.7	521	2.6	12.8
June . . . . .	386	1.0	11.9	439	1.4	13.7	470	1.7	7.1	533	2.3	13.4
July . . . . .	394	2.1	11.6	447	1.8	13.5	478	1.7	6.9	541	1.5	13.2
August . . . . .	397	0.8	10.3	454	1.6	14.4	488	2.1	7.5	549	1.5	12.5
September . . . . .	402	1.3	10.7	456	0.4	13.4	489	0.2	7.2	554	0.9	13.3
October . . . . .	406	1.0	11.2	460	0.9	13.3	491	0.4	6.7	558	0.7	13.7
November . . . . .	411	1.2	11.7	462	0.4	12.4	496	1.0	7.4	561	0.5	13.1
December . . . . .	408	-0.7	9.1	460	-0.4	12.7	497	0.2	8.0	559	-0.4	12.5
January . . . . .	411	0.7	10.8	459	-0.2	11.7	495	-0.4	7.8			
February . . . . .	418	1.7	13.3	458	-0.2	9.6	500	1.0	9.2			
March . . . . .	420	0.5	12.6	457	-0.2	8.8	502	0.4	9.8			

Figures from October 1982 are provisional in respect of wholesale prices.

because of the cushion provided by fairly large stocks of foodgrains which helped to keep prices under control until the third quarter of the year. Moreover, the drought did not adversely affect production of sugarcane which actually increased by 1.5 per cent, or of pulses in which case the shortfall in kharif was made up in the rabi season. Decline in the prices of sugar group and pulses contributed to relative price stability in the year.

5.5 The increase in the WPI during 1982-83 though modest, was the result of the increase in the prices of certain seasonal items such as cereals, fruits and

vegetables, eggs, fish and meat, oilseeds and tea (Table 5.3). In addition, there were increases in a number of administered prices such as coal, electricity, cement, iron, steel and ferro alloys with the increase in prices ranging from 9.4 per cent to 19.2 per cent. In the case of petroleum products and non-ferrous metals, prices were higher by 4.3 per cent and 2.5 per cent respectively. Price increases in these commodities were moderated to some extent by the decline in the prices of crude petroleum by 13.3 per cent reflecting lower prices for imported crude, and by the decline of 5.5 per cent in the sugar group and of 3.2 per cent in pulses.

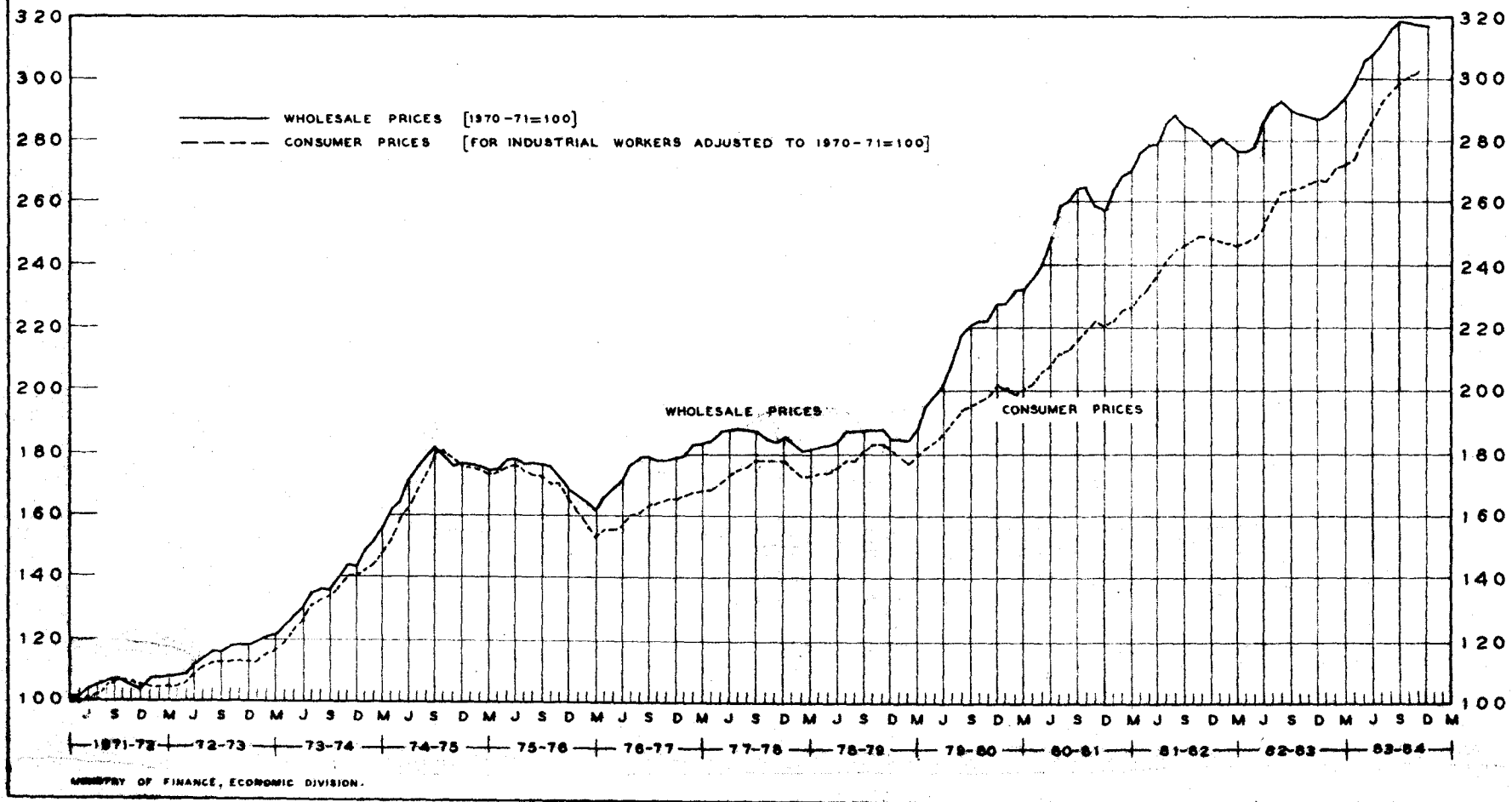
TABLE 5.3

*Variations in Wholesale Prices of certain Commodities/Groups*

Between week ended											
	Weight (Per cent)	29-3-80 & 28-3-81		28-3-81 & 27-3-82		27-3-82 & 26-3-83		27-3-82 & 15-1-83		26-3-83 & 14-1-84(P)	
		% age Change	% age Share	% age Change	% age Share	% age Change	% age Share	% age Change	% age Share	% age Change	% age Share
1	2	3	4	5	6	7	8	9	10	11	12
ALL COMMODITIES	100.00	16.7	100.0	2.4	100.0	6.2	100.0	5.2	100.0	9.7	100.0
A. Administered Prices	15.66	25.4	34.6	7.6	78.8	5.1	21.1	5.4	26.9	4.7	12.4
(i) Petroleum crude	0.60	18.3	5.2	-7.2	-14.7	-13.3	-9.4	1.0	0.9	No ch.	..
(ii) Petroleum products	4.91	39.6	16.8	9.7	34.7	4.3	6.3	0.7	1.2	0.7	0.7
(iii) Coal mining	1.15	29.6	2.9	No ch.	..	18.8	5.4	16.7	5.7	25.1	5.1
(iv) Electricity	2.40	10.4	1.5	15.7	14.7	19.2	7.8	19.2	9.3	11.2	3.3
(v) Fertilisers	1.25	52.9	2.9	7.1	3.6	Neg.	..	Neg.	..	-4.8	-0.6
(vi) Iron, steel & ferro alloys	3.47	19.7	4.6	13.0	22.2	12.6	9.0	12.5	10.7	5.0	2.4
(vii) Non-Ferrous metals	1.18	9.0	0.7	7.3	3.9	2.5	0.5	-2.5	-0.7	4.8	0.7
(viii) Cement	0.70	-0.1	..	56.5	14.4	9.4	1.4	-0.6	-0.2	8.2	0.8
B. Sugar, Khandsari & Gur and Edible oils	10.96	28.9	20.9	-24.3	-137.2	-1.6	-2.6	0.1	0.1	28.0	26.4
(i) Sugar, khandsari & gur	7.24	32.1	16.9	-33.4	-140.6	-5.5	-5.8	-4.6	-5.8	30.1	18.0
Sugar	(2.19)	28.9	3.5	-13.2	-12.5	-7.7	-2.4	-10.0	-3.7	3.5	0.6
Khandsari	(0.49)	36.2	1.4	-35.5	-11.2	-13.5	-1.0	-17.2	-1.5	14.2	0.6
Gur	(4.56)	32.7	12.0	-39.7	-116.9	-3.6	-2.4	-0.7	-0.6	43.6	16.8
(ii) Edible Oils	3.72	20.3	4.0	2.4	3.4	5.9	3.2	9.2	5.9	24.2	8.4
C. Seasonal Items	32.90	15.3	25.2	6.0	68.9	11.9	54.0	8.3	44.8	12.1	37.0
(i) Cereals	10.74	11.3	5.7	9.3	31.7	16.3	22.7	10.9	18.1	-1.4	-1.4
of which :											
Rice	(5.13)	6.7	1.7	11.7	19.7	18.0	12.5	10.8	15.3	0.5	0.5
Wheat	(3.42)	12.5	1.8	11.2	10.9	17.6	7.1	15.8	7.6	-5.4	-1.5
(ii) Pulses	2.18	42.0	5.7	-11.4	-13.3	-3.2	-1.2	-2.8	-1.3	38.2	8.6
(iii) Fruits & vegetables	6.13	17.3	5.2	5.8	12.0	16.7	13.8	2.6	2.5	5.8	3.4
(iv) Milk and milk products	6.15	12.8	3.5	16.9	31.4	1.0	0.8	1.2	1.2	16.1	8.0
(v) Eggs, fish and meat	1.90	10.5	1.3	13.4	11.1	14.7	5.1	18.2	7.6	4.2	1.0
(vi) Oil seeds	4.20	18.0	3.9	-4.0	-6.3	7.8	4.3	16.0	10.6	35.2	12.7
(vii) Other food articles	1.60	-0.8	-0.1	3.9	2.2	39.8	8.5	24.0	6.1	26.7	4.7
of which :											
Tea	(1.15)	-7.1	-0.5	7.1	3.0	50.3	8.3	30.9	6.0	27.1	4.1
D. All Other Commodities	40.48	8.5	19.3	6.0	89.5	4.7	27.5	4.0	28.2	6.5	24.2

(P) Provisional.

# INDEX NUMBERS OF PRICES



### Price Behaviour in 1983-84

5.6 Price behaviour in 1983-84 shows a continuation of inflationary pressure partly as an after-effect of the 1982 drought and partly also because of somewhat higher growth of liquidity in 1982-83 relative to real economic growth. The increase in prices was uneven in the year with prices rising by 3.9 per cent in the seven weeks period between end-March and mid-May, 1983 followed by moderation in the rate of increase from the middle of May up to 24th September, 1983. Developments after September have been disconcerting. The seasonal decline in prices, which begins around the second half of September in normal years was delayed in 1983-84 and was also very weak up to the first week of December. Thereafter, prices began to rise and by the end of December the seasonal decline had been virtually reversed. The prices of cereals as a group did register a decline between end-September and end-December and some decline also took place in the case of fruits and vegetables and the sugar group. But the decline in these items was neutralised by increases in such items as pulses, milk and milk products, oilseeds and edible oils, tea and fibres. The increase in wholesale prices during the financial year up to 14th January, 1984 amounted to 9.7 per cent and the annual rate of inflation reached 10.7 per cent.

5.7 As mentioned above, the rise in wholesale prices during 1983-84 reflects price increases in a limited number of agricultural and agro-based commodities. These items have a combined weight of less than 30 per cent in the index, but they accounted for about two-thirds of the 9.7 per cent increase in wholesale prices up to 14th January, 1984. Administered prices made relatively little contribution to the price rise in this period in contrast to the upward pressure exerted by this group in the same period of 1982-83. Electricity tariff increased by 11.2 per cent and iron, steel and ferro alloys by 5 per cent. Following the increase in coal prices with effect from 8th January, 1984, the price index for coal mining increased by 25.1 per cent. The decline in the price of fertilisers neutralised the increases in other administered prices to some extent. These administered prices as a group increased by 4.7 per cent up to 14th January, 1984 against 5.4 per cent in 1982-83 (Table 5.3). Thus, the major pressure on prices during the year was not exerted by this group of administered prices.

5.8 Rice prices registered a continuous rise amounting to about 14 per cent up to 24th September, 1983 and then declined in anticipation of a good crop. Between end-September and end-December 1983 the index for rice declined by over 11 per cent and the declining trend continued. As a result in the current financial year up to 14th January, 1984 rice prices increased only marginally by 0.5 per cent. Wheat prices declined by 5.4 per cent during this period in contrast to a rise of 15.8 per cent in the corresponding period last year. There was moderate pressure on wheat prices after October 1983.

5.9 The prices of pulses have exhibited wide fluctuations in recent years with a tendency for upward pressure reflecting the fact that production of pulses has remained stagnant over a long period. During the current year, while the index for cereals registered a marginal decline, the price index of pulses has increased by 38.2 per cent up to 14th January, 1984. This is in sharp contrast to relative price stability in prices of pulses in 1982-83 which was a year of drought but in which prices of pulses actually declined. A similar pattern was observed following the drought of 1979-80. While in the year of drought itself prices had remained stable even as the production had also declined, in the following year there was a spurt in the prices of pulses despite substantial recovery in production. This is somewhat puzzling. It is possible that under drought conditions the marketed surplus of pulses goes up as farmers resort to distress sales. The improved availability of supplies in the context of restrained aggregate demand reduces pressure on prices of pulses. Consumption reverts to normal level soon after recovery in production and incomes and consequently prices of pulses come under renewed pressure.

5.10 The prices of sugar, khandsari and gur as a group have risen rather sharply during the current financial year. The group index increased by nearly 44.5 per cent up to 24th September, 1983 compared with a decline of 1.1 per cent in the corresponding period of last year. Thereafter there was a seasonal decline and prices fell by 13.6 per cent up to the end of December 1983. Despite this seasonal decline, the sugar group index still shows an increase of 30.1 per cent up to 14th January, 1984 in contrast to a decline of 4.6 per cent in the corresponding period last year. The price increase in the current year is mainly due to gur. The increase in the prices of this group despite high production and availability of sugar has been due to specific problems facing the sugar sector. To begin with, unduly high state advised prices for sugarcane to be paid by sugar mills led to diversion of cane away from both khandsari and gur to sugar resulting in lower gur production and a sharp increase in gur prices. Prices of gur increased by 66.8 per cent during the current financial year up to 24th September, 1983 as against 23.7 per cent in the corresponding period last year. Subsequently, there was a seasonal decline and gur prices fell by nearly 20 per cent up to 31st December 1983, but even so there was an overall increase of 43.6 per cent in 1983-84 up to 14th January, 1984 in contrast to a decline of about 1 per cent in the corresponding period last year. The sharp increase in gur prices in 1983-84 is also partly a reflection of recovery from the extremely low level to which prices had fallen in 1982-83.

5.11 While gur prices have increased, sugar prices have not declined. Although there was record sugar production in 1982-83 sugar year (October-September) for the second year in succession and sugar stocks were high, releases of free sale sugar had to be judiciously regulated to prevent a collapse in prices of sugar to uneconomic levels. The fixation of unduly high state advised prices for cane is mainly responsible for

pushing up the cost of production of sugar, which in turn necessitates maintenance of sugar prices at a high level. As the current sugar season progresses, prices of gur are expected to ease. With comfortable sugar stocks, anticipated high level of production of both sugar and gur, and flexible releases of sugar for free sale designed to counter any undue increases in sugar prices, it is expected that the price pressure on sugar group will be effectively contained in the coming months.

5.12 Prices of edible oils and oilseeds have also contributed significantly to inflation in the current year, the wholesale price index rising by 24.2 per cent and 35.2 per cent respectively up to 14th January, 1984 compared with 9.2 per cent and 16.0 per cent in the same period last year. There were sharp increases in prices of mustard oil (+67.1 per cent) and coconut oil (+62 per cent); groundnut oil rose by 10.8 per cent. These increases reflect the shortfall in production in the previous season (November-October). Prices increased sharply in the first half of the year despite higher releases of edible oils through the public distribution system, probably because of speculation encouraged by low stocks with the traders. Even with the arrival of the new crop in the market, the pressure on edible oils prices has continued. It may be borne in mind that improved availability through imports can have only a limited impact because of consumer preferences. Even so, but for sizeable releases of edible oils in the public distribution system, prices in the open market might have reached much higher levels.

5.13 The spurt in tea prices by 50.3 per cent during 1982-83 was followed by an increase of 27.1 per cent in the current financial year up to 14th January, 1984. This reflects the relative stagnation in production in the face of rising domestic demand and a buoyant international demand in the second half of 1983-84. Production was 561 million kg. in 1981, 565 million kg. in 1982 and was expected to rise only marginally to 585 million kg. in 1983. International tea prices were more or less stable up to August 1983 but thereafter they increased very sharply, rising by 25 per cent in two months. Export quantities have also risen appreciably benefiting from high prices abroad. A number of steps have since been taken to contain tea prices in the domestic market and to regulate its exports. These include *inter alia* ban on export of CTC teas, compulsory registration for all dealers if the stock in their possession exceeds 1,000 kg., agreement with the industry to sell more tea through auctions and supply of good quality loose tea in convenient polythene packs at reasonable prices through a network of selected outlets in major metropolitan centres.

5.14 Cotton prices which had declined to relatively low levels in 1982-83, recovered appreciably up to the first quarter of the current financial year and remained stable till the beginning of December 1983.

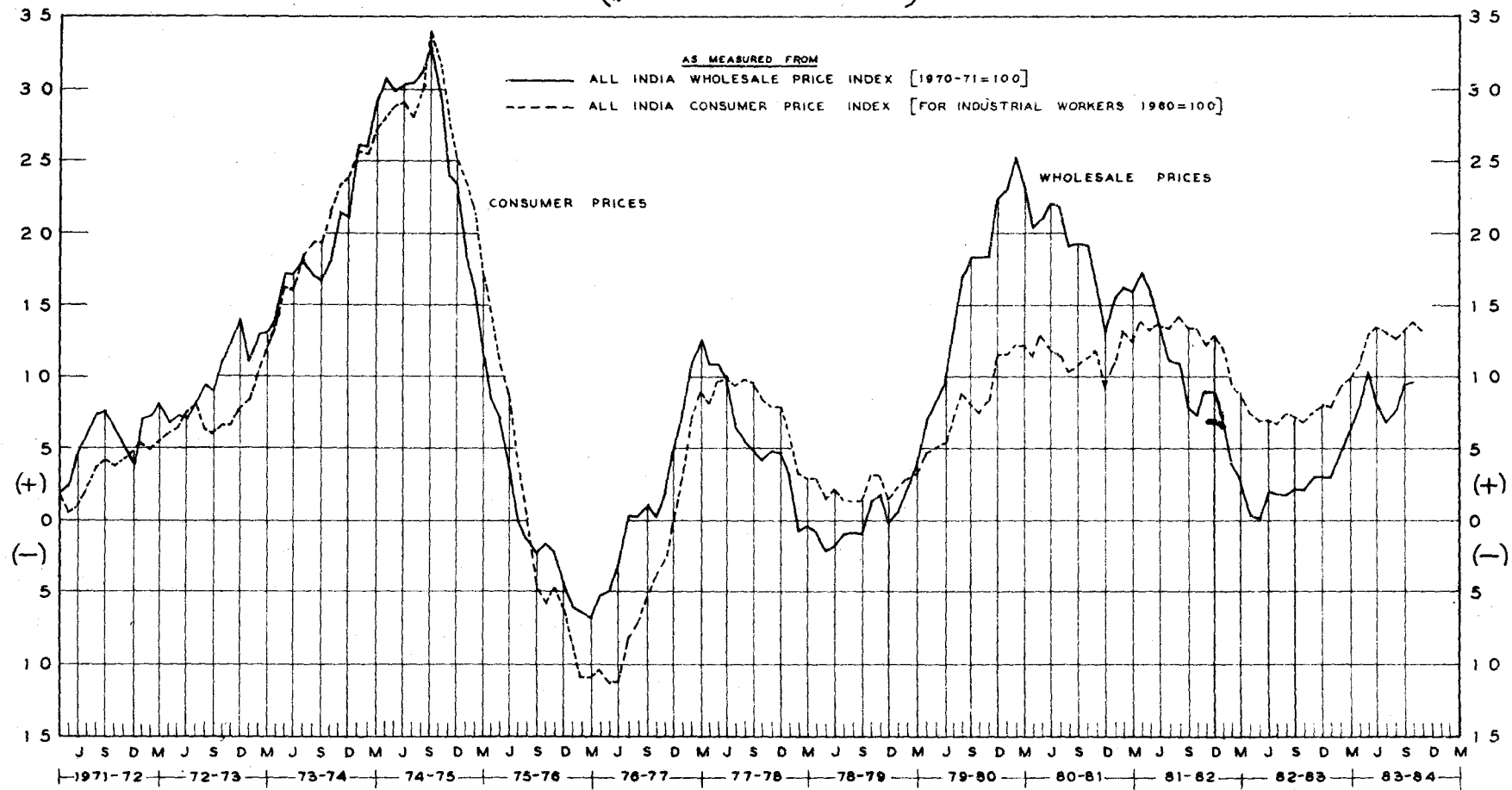
But following the reported fall in production of some varieties in States like Punjab and Haryana and reported low end-year stocks, cotton prices registered a sharp rise towards the end of December 1983 especially in medium staple varieties. After reviewing the position of availability of cotton, Government decided on January 3, 1984 not to allow any further export of cotton over and above the export quota already released for the year.

### Consumer Prices

5.15 The inflationary pressure on prices was also reflected in the All-India Consumer Price Index (CPI) for Industrial Workers' (1960=100). The annual rate of inflation, on a point to point basis, increased from 7.8 per cent in January 1983 to 9.8 per cent in March and to 13.1 per cent in November 1983. The CPI which had been showing uninterrupted rise since February 1983 and reached 561 in November 1983, declined to 559 in December 1983 and the annual rate of inflation also came down to 12.5 per cent. The rates in the corresponding months of 1982 were 11.7 per cent, 8.8 per cent, 7.4 per cent and 8 per cent respectively. The monthly and annual rates presented in Table 5.2 bring out the divergence in the movements of the CPI and the WPI. It has, however, been observed that in the long run the two indices tend to move in the same direction (Chart 9).

5.16 The reasons for divergent trends in the two indices are well known. The weighting diagram of the CPI is based on the family budget survey during 1958-59 while the weights of the WPI in the base year 1970-71 are based on the levels of transactions (marketed surplus in agriculture, value of products for sale in industries and value of imports etc.) during 1969-70. Consequently, the weights of even common items in the two indices are quite different. For example, the All India average weight of rice in the CPI is 18.1 per cent compared with 5.1 per cent in the WPI. A large number of goods and services which account for a substantial weight in the CPI do not figure in the WPI. Similarly, several other commodities, which have significant weights in the WPI, are not included in the compilation of the CPI. Evidently, the two indices would tend to diverge particularly in a situation where inflationary pressures are mainly generated by certain specific commodities. The inherent differences in the two indices are quite evident during the period under review. The divergence between the two indices has not only been due to the time lag between the two sets of prices but also because of the much higher weight in the CPI of those items whose wholesale and retail prices have continued to increase. For example, pulses, edible oils, milk and milk products, whose prices have continued to increase during this period have much higher weight in the CPI than in the WPI. Also the upward adjustments in issue prices for public distribution have a much sharper impact on the CPI.

# ANNUAL RATE OF INFLATION (%CHANGE OVER 12 MONTHS)



MINISTRY OF FINANCE, ECONOMIC DIVISION.



## Policy Framework and Developments

## Agricultural Prices

5.17 Agricultural prices policy continued to be guided by the three-fold objectives of raising production through assured remunerative prices to farmers, procuring sufficient quantities of rice and wheat for running public distribution system and buffer stocking, and promoting a desirable inter-crop balance. These price revisions are generally made on the recommendation of Agricultural Prices Commission (APC). While making their recommendations, the

APC take into account, *inter alia*, the changes in production costs, the inter-crop balance and the terms of trade between agriculture and other sectors of the economy. The revisions made during 1983-84 in the minimum support/procurement prices for important agricultural commodities are given in Table 5.4. Such price adjustments were considered necessary even when the prices were under pressure so as not to lose sight of the medium and long-term objectives mentioned above. The higher level of agricultural production realised in 1983-84 and the increase in the pro-

TABLE 5.4

*Minimum Support/Procurement Prices of Agricultural Commodities*

(Rs. per quintal)

Commodity	Marketing year*							
	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1	2	3	4	5	6	7	8	9
1. Wheat (procurement price)	110	112.50	115	117	130	142	151	152
2. Paddy (Common variety) —do—	77†	85†	95	105	115	122	132**	
3. Coarse grains —do—	74	85	95	105	116	118	124	
4. Barley (Minimum support price)—do—	65	67	@	@	105	@	122	124
5. Gram —do—	95	125	140	145	@	@	235	240
6. Arhar —do—	@	155	165	190	@	215	245	
7. Moong —do—	@	165	175	200	@	240	250	
8. Urad —do—	@	@	175	200	@	230	245	
9. Mustard —do—	—	225	245	@	@	@	355	360
10. Groundnut —do—	160	175	190	206	270	295	315	
11. Sunflower seed —do—	165	175	175	183	250	250	275	
12. Soyabean (Black variety) —do—	145	175	175	183	210	220	230£	
13. Cotton (Kapas 320F/J-34F) —do—	255	255	275	304	@	380	400***	
14. Sugarcane (Statutory minimum price)	8.50	10.00	12.50	13.00	13.00	13.00	13.50	
15. Jute (W-5 grade)	141	150	155	160	175	175	185	

\*Marketing year (April-March) for wheat, gram, barley and mustard, (July-June) for Jute, (September-August) for cotton, and (November-October) for paddy and other Kharif crops.

\*\*Rs. 136 for fine variety and Rs. 140 for superfine variety.

@Not announced.

£Rs. 255 for yellow variety.

\*\*\*F-414/H-777 variety for a long staple basic variety, Hybrid-5, the price is Rs. 527.

†Coarse variety.

curement of foodgrains during the year underlines the efficacy of this policy.

5.18 The Government raised the procurement price of common variety of paddy for the marketing year 1983-84 from Rs. 122 to Rs. 132 per quintal on the basis of the recommendations of the APC. The price differential of Rs. 4 per quintal between the common and fine varieties, as also between fine and superfine varieties, was continued. Accordingly the price of fine variety was raised to Rs. 136 per quintal and that of superfine variety to Rs. 140 per quintal. The procurement price of coarse kharif cereals (jowar, bajra, maize and ragi) was also raised by Rs. 6 per quintal to Rs. 124 per quintal.

5.19 The procurement price for wheat for the marketing year 1983-84 as recommended by the APC was fixed at Rs. 151 per quintal, which was higher than the procurement price for the last season by Rs. 9 per quintal. For the 1984-85 marketing year the procurement price for wheat has been fixed at Rs. 152 per quintal.

5.20 The minimum support price of barley was fixed at Rs. 122 per quintal for the marketing year 1983-84. It was raised to Rs. 124 per quintal for the marketing year 1984-85. The minimum support price for gram for the 1984-85 marketing season has been raised to Rs. 240 per quintal compared with Rs. 235 per quintal fixed for the 1983-84 marketing season.

5.21 As regards other pulses, the minimum support price of arhar (tur) for the 1983-84 marketing year (October—September) has been raised by Rs. 30 per quintal to Rs. 245 per quintal, for urad by Rs. 15 to Rs. 245 per quintal and for moong by Rs. 10 per quintal to Rs. 250 per quintal. The minimum support prices of oilseeds were also increased, from Rs. 295 to Rs. 315 per quintal for groundnut, from Rs. 220 to Rs. 230 per quintal for the black variety of soyabean, from Rs. 245 to Rs. 255 per quintal for the yellow variety of soyabean and from Rs. 250 per quintal to Rs. 275 per quintal for sunflower seed. For mustard, the prices have been raised to Rs. 360 per quintal during the marketing year 1984-85 compared with Rs. 355 per quintal fixed in 1983-84 marketing year. In these items, market prices have all been ruling above support prices and Government have been following a policy of slowly adjusting such support prices upward to make them more meaningful.

5.22 In the case of sugarcane, the statutory minimum price for the 1983-84 marketing year (October—September) has been fixed at Rs. 13.50 per quintal linked to basic recovery of 8.5 per cent. This is 50 paise more than the price fixed for 1982-83. However, past experience shows that a major problem in this area is that the state advised prices, which the sugar mills are expected to pay, are being fixed at levels much above those at which the mills can be viable. Since the price of levy sugar is fixed, *inter alia*, on the basis of the statutory minimum price of sugarcane, the fixation of unduly high state advised prices for cane threatens the financial viability of the

mills as they cannot realise the required amount without an unduly high price of free sale sugar. In effect, large quantities of sugarcane are diverted to sugar mills, sugar stocks mount and cane arrears accumulate while production of gur suffers, pushing up its prices. It is, therefore, necessary to exercise utmost restraint in fixing sugarcane prices in the interest of maintaining price stability and a desirable inter-crop balance.

5.23 The minimum support price of medium staple cotton of F-414/H77 variety for the 1983-84 marketing year has been fixed at Rs. 400 per quintal as recommended by the APC. Besides, the Government this year has also announced minimum support price for a basic long staple variety, viz., Hybrid-4 at Rs. 527 per quintal. The statutory minimum price of raw jute for W-5 grade ex-Assam at Rs. 185 per quintal during 1983-84 is higher by Rs. 10 than last year.

### Industrial Prices

5.24 Revisions in administered prices were carried out to bring them in line with economic costs as uneconomic pricing in the public sector and high priority industries results in erosion of resources for further investment and undesirable distortions. Appropriate price adjustments/rationalisation were carried out for a number of commodities with a view to ensuring viability of the undertakings and generating additional resources for investment in accordance with national priorities. The free on rail (F.O.R.) price of levy cement (controlled) was increased by Rs. 52 per tonne with effect from July 2, 1983. The increase was a sequel to the rise in rail freight and packing charges. With this, the F.O.R. price of ordinary portland cement and portland slag cement was fixed at Rs. 492 per tonne and of portland pozzolana cement at Rs. 477 per tonne showing an increase of 11.8 per cent and 12.2 per cent respectively. To protect the interests of the consumers, the provisions of the Packaged Commodities Rules have been applied to the cement industry, under which they are required to stamp on the non-levy cement bags the maximum price and minimum weight of cement. The Cement Quality Control Order 1962 specifies that the cement produced by the cement manufacturers should conform to ISI specifications. By an amendment to this order, ISI Certification has been made compulsory with effect from August 1, 1983.

5.25 Prices of certain petroleum products, viz., HSD, LDO, furnace oil, aviation turbine fuel and bitumen had been increased with effect from February 15, 1983 taking into account movements in costs of production, operation and distribution, the resource requirements of the petroleum sector and the balance of payments situation. A dual pricing policy was introduced for kerosene oil with effect from February, 15, 1983 but was discontinued from March 18, 1983 for administrative reasons. Following the withdrawal of the dual pricing, the issue price of kerosene was raised by 10 paise per litre. The price of motor spirit (petrol) was raised by 10 paise per litre from September 1, 1983 following the Government's decision

to replace motor spirit (petrol) of 83 Octane grade by improved grade motor spirit of 87 Octane.

5.26 The Joint Plant Committee (JPC) increased the price of pig iron by Rs. 105 per tonne and steel items by Rs. 160 per tonne consequent on the increase and adjustment in railway freight rates with effect from April 1, 1983. The JPC again rationalised and revised the prices of certain iron and steel items from July 23, 1983. The price of pig iron was raised by Rs. 185 per tonne. In the case of steel items, the increases were in the range of 1.1 per cent to 32.7 per cent. Most of the increase was in railway items as also in GP/GC sheets. Prices of certain size and quality extras were also revised.

5.27 The Government reduced the prices of all types of fertilisers by 7.5 per cent with effect from June 29, 1983. Besides, about a million tonnes of old stocks (of standard specifications) of fertilisers lying with the Food Corporation of India (FCI) are being sold to the farmers at a further discount of 10 per cent.

5.28 The proportion of levy and non-levy sugar has been maintained at 65 per cent and 35 per cent respectively. The price of levy sugar was increased by Rs. 25 per quintal to Rs. 400 per quintal with effect from February 1, 1984. Monthly releases of levy sugar and non-levy sugar were regulated with a view to protecting the interests of consumers and producers. To maximise sugar production, the Government announced excise duty rebate on 30th April, 1983. Accordingly, sugar produced in a factory during the late crushing period of May-September, 1983, in excess of the average production of the corresponding period of 1978-79, 1979-80 and 1980-81 sugar years, was given a duty rebate of Rs. 31.80 per quintal for free sale sugar and Rs. 19.00 per quintal for levy sugar.

5.29 In view of the rise in the level of production the Government reviewed the position regarding the buffer stock of sugar and decided to increase its quantum from 5 lakh tonnes to 10 lakh tonnes with effect from 1st October, 1983. The expenditure on the buffer stock of second 5 lakh tonnes is to be met from out of the Food Department's budget and not from the Sugar Development Fund as is the case in respect of the initial buffer stock of 5 lakh tonnes. Detailed procedure for the use of the Sugar Development Fund was published in 1983.

5.30 Coal prices, which were last revised on May 27, 1982, were raised on January 8, 1984 to cover the substantial increase that had taken place in the cost of inputs besides payment of higher wages and dearness allowance in the coal industry. The average pit head price of coal was raised by about 25 per cent from Rs. 145.90 per tonne to Rs. 183 per tonne in the case of Coal India Ltd., and by 24 per cent from Rs. 154.75 per tonne to Rs. 192 per tonne in the case of Singareni Collieries Company Ltd. In fixing the average price the Government has taken into account the possibilities of effecting reduction in cost through improvement of efficiency and

no provision has been made for return on equity. Escalation on account of depreciation and interest has been allowed only partially. An important feature of the new coal price structure is that it increases the differential between high quality coal and lower quality coal. This is intended to give a signal to consumers not to waste high quality coal and for the producers to upgrade their production-mix. No change has been made in the price of soft coke which is a domestic cooking fuel and a kerosene substitute. Its price has been kept at the existing level of Rs. 175 per tonne which is Rs. 120 below cost.

5.31 The Paper (Regulation of Production) Control Order was amended by the Government with effect from April 11, 1983 and the price of white printing paper was raised by Rs. 1200 per tonne or 28.6 per cent from Rs. 4200 per tonne to Rs. 5400 per tonne. The price was last revised on December 24, 1981. The previous stipulation of a uniform 30 per cent production of white printing paper has been abolished and instead it has been decided that the percentage of production of white printing paper with reference to the total production of paper and paper board shall vary from 20 per cent to 25 per cent depending on such factors as installed capacity to manufacture writing and printing paper. The new units will be covered fully under the Control Order in gradual stages.

5.32 The prices of drugs are revised by the Government from time to time under the provisions of Drugs (Prices Control) Order, 1979. Out of about 200 indigenously produced bulk drugs, the price of 186 bulk drugs have so far been revised. The prices of some of the bulk drugs have been revised more than once to compensate the manufacturers for increases in the costs of inputs. The Government has also revised the prices of about 800 leader packs of formulations and about 10,000 non-conforming packs. During the current year, it has been possible to make available certain vital medicines at substantially lower prices.

#### Public Distribution System

5.33 The Public Distribution System (PDS) has played a central role in the national framework of supply management which aims at supplying essential commodities at reasonable prices through a network of fair price shops. On the advice of the Central Government, the State Governments have been taking steps, to open more fair price shops, including mobile shops, to cater to the needs of the industrial workers and people living in isolated pockets and remote areas. The number of fair price shops had increased to 2.97 lakhs on 1st Oct. 1983 as against 2.93 lakhs on 1st April, 1983. Over two-thirds of these shops are located in the rural areas.

5.34 The offtake of foodgrains from the PDS increased substantially following the drought of 1982 and the reduction in total availability. Total foodgrains distributed during the current financial year (up to December 1983) amounted to 11.6 million tonnes which was higher than 11.1 million tonnes distributed in the corresponding period last year and 9.9 million tonnes in 1981-82. Foodgrains distributed in 1983-84

(up to December 1983) consisted of 6.0 million tonnes of rice and 5.5 million tonnes of wheat. Distribution of rice in the same period of 1982-83 totalled 5.7 million tonnes and 5.0 million tonnes in 1981-82. Distribution of wheat in this period in 1982-83 amounted to 5.3 million tonnes and in 1981-82, 4.8 million tonnes. The total distribution of foodgrains during 1983-84 is expected to be around 16 million tonnes (Table 5.5). It was decided in January, 1984 to make 20 per cent extra allocations of wheat to the States to meet pre-harvest demands in certain pockets where open market prices were above Rs. 2 per kg. As a measure of special assistance to the weaker sections, the Government decided to supply wheat at the concessional rate of 1.50 per kg. and rice at Rs. 1.85 per kg. under the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Scheme (RLEGS). The monthly pattern of releases/offtake of major items of public distribution *i.e.* rice, wheat, edible oils and sugar during 1982-83 and 1983-84 is brought out in Table 5.6.

5.35 The distribution of imported edible oils for direct consumption during 1983-84 (up to February 1984) through public distribution was increased to 6.56 lakh tonnes from 4.27 lakh tonnes in the corresponding 11 months of 1982-83, or by more than 50 per cent. The releases were sharply stepped up during the festival season. In view of the continued pressure on edible oil prices, the level of supplies is being kept high even after November. Efforts are being made to arrange for adequate quantities of

imports for maintaining the flow of supplies at the required level. The Government is also distributing imported edible oils at fixed prices in small consumer packs in addition to the oils issued through fair price shops in loose form under the PDS. The scheme, which was confined earlier to four metropolitan cities, is now being expanded further to cover twenty five cities.

5.36 The monthly allocation of levy sugar to the States was raised from 2.94 lakh tonnes to 3.13 lakh tonnes *w.e.f.* October, 1983 following the liberalised revision of levy quotas on the basis of 425 grams of per capita availability for the projected population. An additional quota of 50,000 tonnes of levy sugar was released to meet the festival demand in October-November, 1983. The releases of sugar—both levy and non-levy—totalled 64 lakh tonnes in the 11 months of 1983-84 against 60 lakh tonnes in the corresponding period of 1982-83. With a comfortable sugar stock and anticipated good production of sugar in the current season, it would be possible to regulate releases to meet the requirements in the coming months.

5.37 Besides foodgrains, edible oils and sugar, certain other essential items like kerosene, soft coke and controlled cloth are also distributed through retail outlets at fixed prices. In addition the State Governments may supply through the PDS such other commodities as considered essential for mass consumption and also arrange for their procurement through nominated agencies. Accordingly, some State Governments procure pulses, vanaspati, toilet soaps, cycle tyres and tubes, battery cells, salt and tea and distribute them through retail outlets at fixed rates.

5.38 The PDS is supported by vigorous procurement efforts so as to enable sufficient offtake and to build up an adequate buffer stock of foodgrains. Imports are utilised to supplement availability as needed. Procurement of foodgrains in 1982-83 was 15 million tonnes which was 1.2 million tonnes higher than the procurement of 13.8 million tonnes in 1981-82 in spite of the lower level of production. The quantity procured in 1980-81 was only 11.3 million tonnes. With a bumper crop of rice and equally bright prospects of rabi a larger quantity of foodgrains is expected to be procured in 1983-84. The procurement operations are progressing satisfactorily. Total rice procurement during the current financial year up to the end of January 1984 amounted to 6.6 million tonnes compared with 6.2 million tonnes during the corresponding period of last year. Wheat procurement in 1983-84 up to the end of January 1984 amounted to 8.3 million tonnes as against 7.7 million tonnes during the same period of 1982-83.

5.39 Arrangements were made for import of 2.1 million tonnes of wheat and 0.57 million tonnes of rice in 1983-84. A sizeable buffer stock of foodgrains will provide leverage to the Government to curb speculative tendencies and to stabilise foodgrains prices. As a result of record procurement of wheat during 1983-84 marketing year, the stocks of wheat

TABLE 5.5

*Procurement, Public Distribution and Stocks of Foodgrains during 1981-82 to 1983-84*

	(‘000 Tonnes)		
	1981-82	1982-83	1983-84*
<i>A. Procurement</i>			
Rice . . . . .	6990	7058	5597 (5419)
Wheat . . . . .	6595	7720	8280 (7711)
Total Foodgrains . . . . .	13791	14996	13906 (13283)
<i>B. Public Distribution</i>			
Rice . . . . .	6736	7692	5976 (5741)
Wheat . . . . .	6687	7891	5497 (5312)
Total Foodgrains . . . . .	13586	15719	11645 (11130)
<i>C. Stocks**</i>			
Rice . . . . .	6362	5224	4580 (5359)
Wheat . . . . .	4546	5571	10723 (7200)
Total Foodgrains . . . . .	11075	11009	45391 (12766)

\*Up to December 1983.

\*\*End period basis.

Figures in brackets relate to corresponding period of 1982.

TABLE 5.6

*Monthly pattern of off-take of major items of distribution by the Public Distribution System.*

(In '000 tonnes)

Month	Rice*		Wheat*		Edible Oils**		Sugar**	
	1982-83	1983-84(P)	1982-83	1983-84(P)	1982-83	1983-84	1982-83	1983-84
April	567	671	549	670	30.3	35.4	434	444
May	617	710	548	555	32.4	35.4	444	464
June	611	657	540	553	35.7	43.4	494	524
July	679	724	622	605	39.4	61.0	494	554
August	708	689	521	673	44.4	61.1	594	574
September	724	681	589	668	55.5	66.2	624	614
October	633	629	587	634	55.9	73.2	664	693
November	589	588	637	555	44.5	75.4	614	643
December	613	627	719	584	32.2	69.8	594	613
January	604		794		28.2	70.0	544	638
February	634		847		28.2	75.0	494	638
March	713		938		28.2	..	444	
TOTAL	7692	5976(5741)	7891	5497(5312)	454.9	655.9(426.7)	6438	6399(5994)

(P)Provisional.

\*Off-take

\*\*Releases (total of levy and free sale in the case of sugar).

NOTE : Figures in brackets give totals for the corresponding months of 1982-83.

at the end of December, 1983 increased to 10.7 million tonnes compared with 7.2 million tonnes at the end of December, 1982. Stocks of rice at the end of December, 1983 were 4.6 million tonnes as against 5.4 million tonnes in the same month of 1982. The overall stock position of foodgrains at the end of December 1983 was 15.4 million tonnes compared with 12.8 million tonnes in December 1982. The improvement is entirely due to increase in stocks of wheat in the current year.

5.40 With the increase in procurement and levy prices it became necessary to make upward adjustment in issue prices also so as to contain the total volume of food subsidy within reasonable limits. Consequently, the issue price of wheat was raised by Rs. 12 per quintal for public distribution and by Rs. 23 per quintal for roller flour mills with effect from April 15, 1983. The issue price of rice was increased by Rs. 20 per quintal effective from 16th January, 1984. The issue price of levy sugar was raised to Rs. 3.75 per kg. effective from 1st December, 1982. It was raised again to Rs. 4.00 per kg. with effect from February 1, 1984 to reflect the higher statutory minimum price of cane at Rs. 13.50 per quintal and other cost increases.

5.41 The vanaspati industry is a major recipient of imported edible oils which are supplied at fixed rates to meet 60 per cent of their input requirements.

A quantity of 6.88 lakh tonnes of imported edible oil was supplied to the vanaspati industry during the oil year 1982-83, as against 5.96 lakh tonnes during 1981-82. Additional support was provided to the vanaspati industry when the Government opened a second window from June 1983 for supplying imported oil at Rs. 12,000 a tonne over and above meeting 60 per cent of their requirements at Rs. 8,500 a tonne. In terms of a voluntary price arrangement, the industry fixed an ex-factory price of Rs. 217 per 16.5 kg. tin of vanaspati, inclusive of excise duty on February 17, 1982.

5.42 Production of controlled cloth by the mill sector and janata cloth by the handloom sector during 1982-83 was at 220 million square metres and 324 million square metres respectively. During 1983-84 (up to September 1983) the controlled cloth produced by the National Textiles Corporation (NTC) was 148 million square metres. The Government has also announced a pilot project for the production of 8 million metres of polyester cotton blended shirting which carries a subsidy up to Rs. 3.70 per metre. No additional outlay has been provided for the implementation of this pilot project and the subsidy requirement will be met by corresponding reduction in the production of controlled cloth (cotton). The despatches of controlled cloth by the National Cooperative Consumer Federation (NCCF) were 232 million square metres during 1982-83 compared with 262 million square metres in the previous year. During

1983-84 (up to September 1983) despatches were 122 million square metres.

5.43 The institutional framework provided by the cooperative movement has been geared to promote consumer interest. Accordingly, institutions like the National Agricultural Cooperative Consumer Federation (NAFED) and National Cooperative Consumer Federation (NCCF) continued to play an important role in the distribution of certain essential commodities at fixed rates such as pulses, eggs, onions and potatoes in different parts of the country. Encouragement to such institutions should be a positive step towards protecting consumer interest against undue price rise at least in those areas where consumers are more vulnerable to various types of unfair trade practices.

5.44 The price situation in 1983-84 has been a cause for concern and it will need to be kept under close review in 1984-85. As pointed out in earlier Surveys, the demand and supply balance for critical items in the Indian economy is fragile and disturbances such as a drought or external factors can have disproportionately large impact on prices of these items. This, and some weaknesses such as the relatively low growth in production of certain items like pulses and oilseeds have created difficulties in effective management of prices. Nevertheless, the economy has been able to withstand such stresses and strains. The Government will continue to give high priority to policies for augmenting supplies and restraining the growth of aggregate demand through effective monetary and fiscal discipline.