

CHAPTER 5

PRICES AND PRICE POLICY

In the first ten months of the current financial year the Wholesale Price Index (WPI, 1970-71=100) registered an increase of 3.1 per cent compared with a 5.7 per cent and a 8.7 per cent increase during the same period in 1984-85 and 1983-84 respectively. Contrary to the fears expressed at the start of the year of a double-digit inflation, prices are following a path of an annual rate of inflation of around six per cent. In fact, the price increase in this financial year (till January 25, 1986) has been the lowest for this period in any of the last seven years. However, the Consumer Prime Index for Industrial Workers (CPI, 1960=100) has risen by 7.5 per cent between March and December 1985 compared with 5.4 per cent and 11.4 per cent during the same period in 1984-85 and 1983-84 respectively. The divergent trends between CPI and WPI are a result of the price behaviour of certain items in the food group which have a higher weight in the CPI than in the WPI.

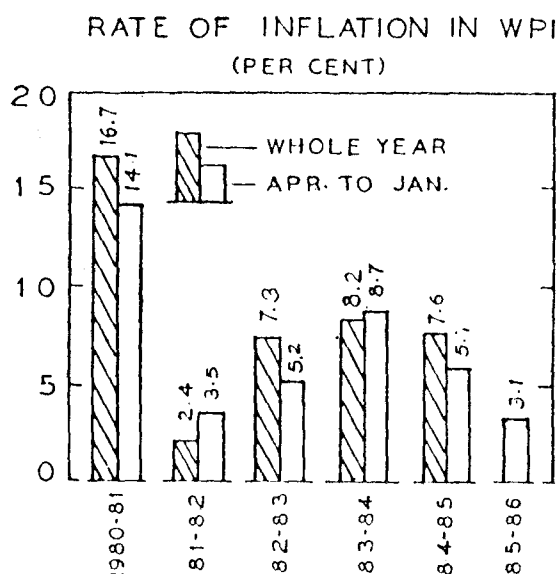


FIG-1

5.2 It is important to recognise that both the WPI and the CPI follow a clear seasonal pattern each year. Based on extensive past evidence, even in a situation

of stability over a year, wholesale prices are expected to rise seasonally every month from April, to reach a peak in August, and decline thereafter till March. Similarly, consumer prices tend to rise between April and September each year and decline thereafter. This seasonal fluctuation of prices normally coincides with the lean and peak marketing seasons for agricultural commodities. In the post-harvesting period, when the agricultural surplus arrives in the market, there is a downward pressure on prices and the converse occurs in the pre-harvest summer months.

5.3 Commodity-wise monthly seasonal factors based on data for several years which have been computed by the Reserve Bank of India and some research organisations provide useful tools for short term monitoring and projections of inflation. These seasonal factors have been incorporated in tracing the movement of WPI and CPI in charts 9 and 10 respectively. These charts show that the perceived rate of inflation at different times of the year may be very different from the actual rate. In the early part of the financial year (April—September) prices tend to appear to be rising faster than the underlying inflation rate once seasonality has been removed. Similarly, in the latter half of the financial year (September—March) prices are perceived to rise at a slower rate than the true underlying rate. Although a seasonal pattern of prices exists in most countries, in a developing country like India which is dependent on agriculture, the seasonal fluctuations are more pronounced.

5.4 The close monitoring of prices, coupled with effective supply and demand management, has helped to moderate inflationary pressures in the economy in 1985-86. The main thrust of anti-inflationary management during the year was on : the timely assessment of the demand-supply and the import of sugar; the regulated imports and releases of edible oils; strengthening of the public distribution system; the upward revision of procurement/support prices of agricultural commodities to stimulate production; a five per cent cut in the Central Ministries' non-Plan expenditure and an upward adjustment in the statutory liquidity ratio (SLR) of the commercial banks (from 36 per cent to 37 per cent) to check the growth of liquidity in the banking system.

5.5 Measures have also been taken to encourage the production of sugarcane and sugar so as to boost domestic supply of sugar and thereby reduce the outgo of foreign exchange on sugar imports. In order to enable the sugar factories to pay remunerative prices for sugarcane, the statutory minimum price (SMP) of sugarcane has been raised from Rs. 14 a quintal (linked to recovery of 8.5 per cent) to Rs. 16.50 a quintal (linked to recovery of 8.5 per cent) for the current sugar year and the ratio of

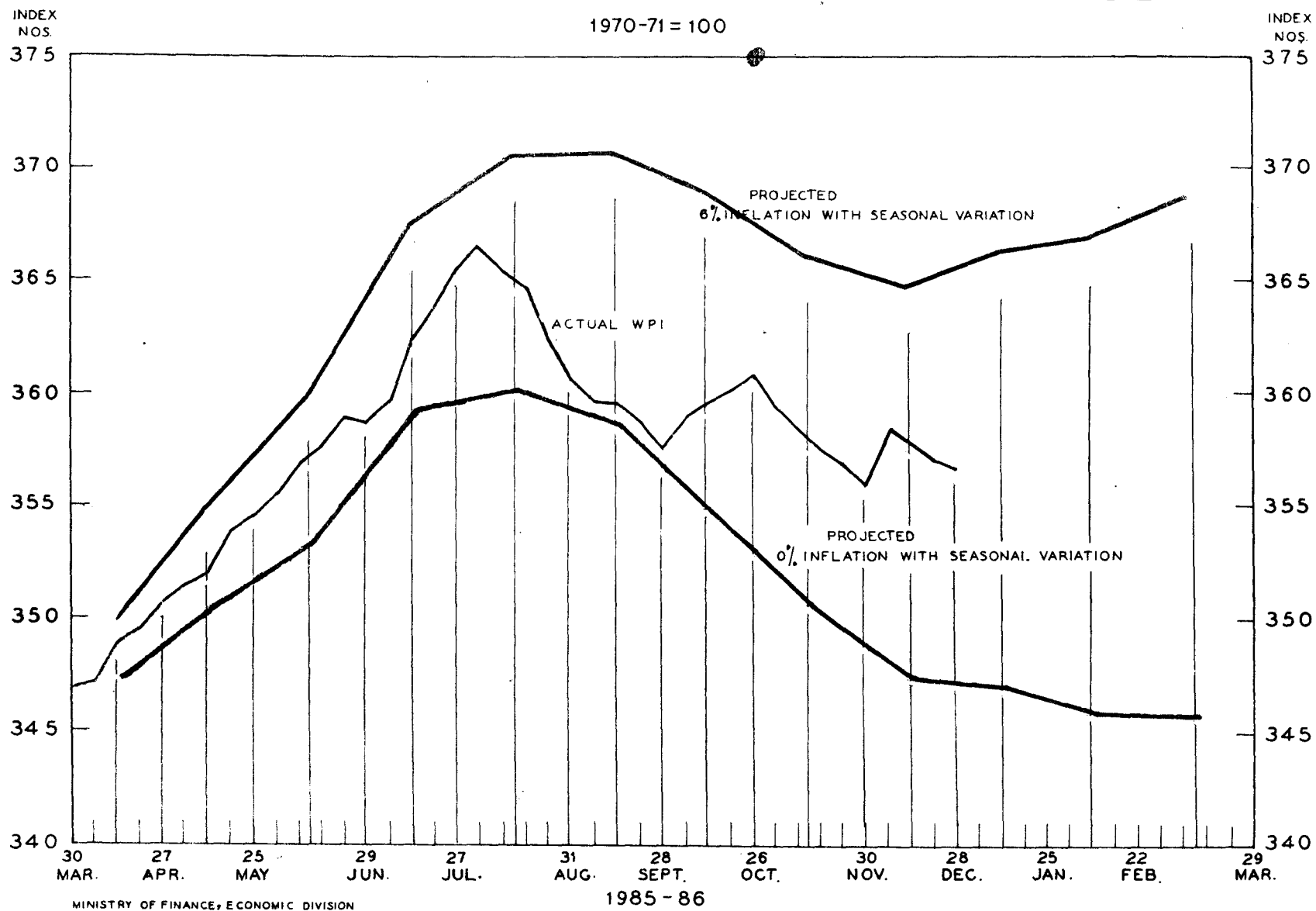
levy to open market sale has been changed from 65 : 35 to 55 : 45. In order to increase the acreage under sugarcane to augment supply, the SMP for the next sugar year (1986-87) was announced one year in advance. As a result of these policies, a large volume of indigenous sugar is expected to come to the market and the open market price is likely to stabilise at a reasonable level and imports should be reduced.

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

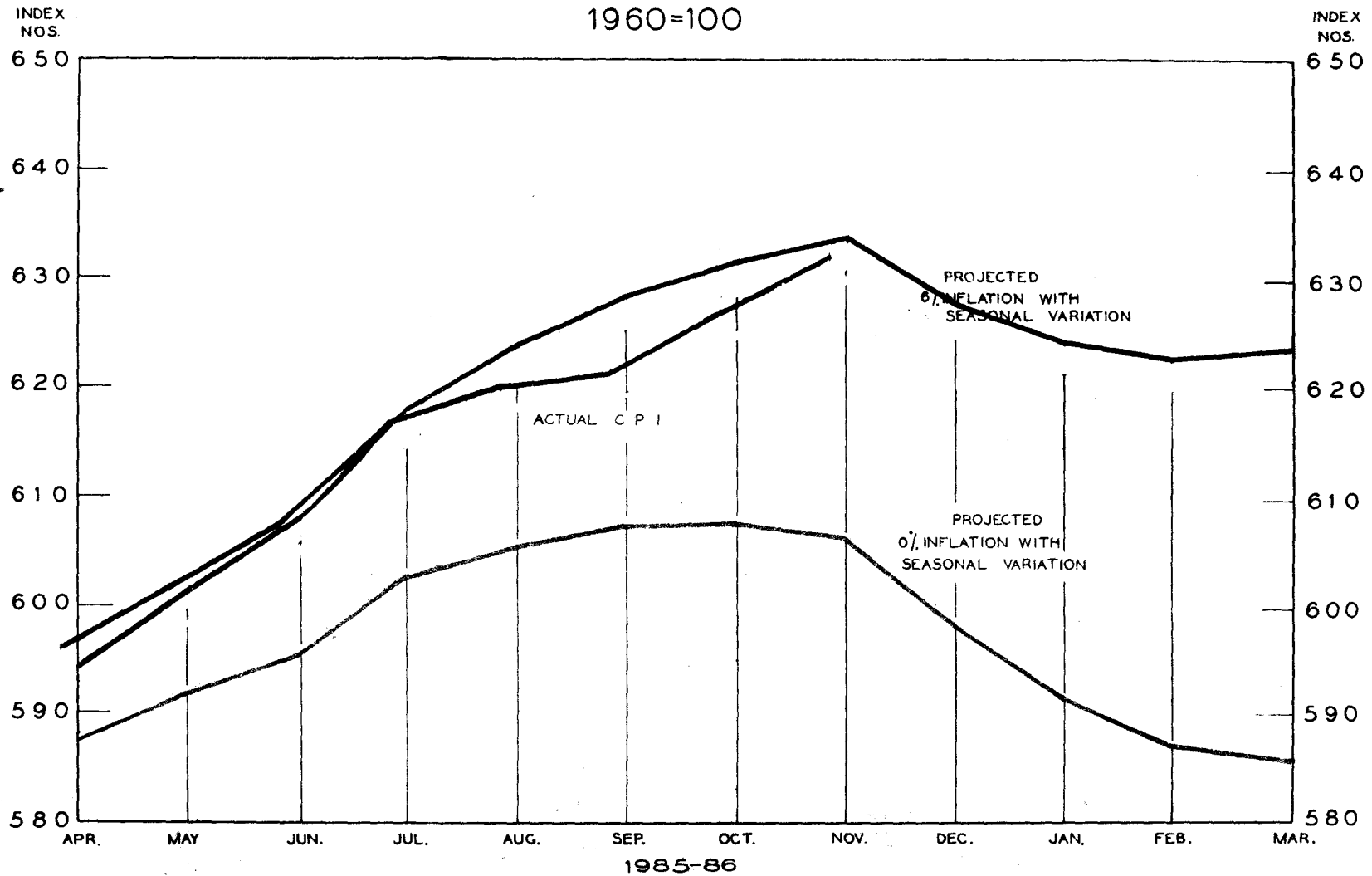
	Weight (Per cent)	Per cent Variation					
		27-3-82	2-4-83	31-3-84	30-3-85	26-1-85	25-1-86(P)
		28-3-81	27-3-82	2-4-83	31-3-84	31-3-84	30-3-85
1	2	3	4	5	6	7	8
ALL COMMODITIES	100.00	2.4	7.3	8.2	7.6	5.7	3.1
I. Primary articles	41.67	4.6	8.1	9.3	4.4	5.3	2.2
(a) Food Articles	29.80	7.7	12.2	6.7	5.8	5.5	6.4
Foodgrains	12.92	4.1	12.2	0.9	3.6	5.2	7.9
Cereals	10.74	9.3	16.0	-5.0	0.2	0.2	7.1
Pulses	2.18	-11.4	-1.6	26.0	14.9	21.1	9.9
Fruits and vegetables	6.13	5.8	16.1	3.1	11.1	5.6	13.8
Milk and milk products	6.15	16.9	1.5	16.0	1.4	2.5	2.5
Eggs, fish and meat	1.90	13.4	11.7	-4.5	18.7	13.7	12.4
Condiments & spices	1.10	11.1	-3.4	38.9	12.5	26.2	-15.6
Other food articles	1.60	3.9	41.3	35.2	-1.0	-1.3	-10.3
Tea	(1.15)	7.1	51.2	35.3	-7.0	-4.3	-11.1
(b) Non-Food Articles	10.62	2.2	7.5	20.5	1.9	6.9	-8.4
Raw cotton	2.25	-11.6	0.6	25.4	-4.6	-5.6	-15.7
Raw jute	0.43	11.2	44.5	41.1	93.9	128.1	-71.9
Oilseeds	4.20	-4.0	8.4	25.0	-5.7	0.9	-1.0
(c) Minerals	1.25	-5.1	-11.2	2.0	1.4	-0.2	0.5
Petroleum crude and natural gas	0.60	-7.2	-13.3	No ch.	0.7	-1.2	No ch.
II. Fuel, Power, Light and Lubricants	8.46	9.3	11.3	4.4	9.9	2.4	6.2
Coal mining	1.15	No ch.	18.9	25.2	0.3	0.2	13.2
Mineral oils	4.91	9.7	4.7	0.1	12.8	0.7	0.1
Electricity	2.40	15.7	29.7	3.7	9.4	8.7	18.9
III. Manufactured Products	49.87	-1.2	5.5	8.5	9.8	7.0	3.1
Food products	13.32	-20.8	1.2	19.0	7.9	5.1	6.5
Sugar, khandsari and gur	7.24	-33.4	-3.3	25.6	13.3	6.7	12.4
Edible oils	3.72	2.4	5.9	14.4	-2.0	0.9	-0.6
Textiles	11.03	4.0	6.1	9.0	8.6	12.4	-7.1
Paper & paper products	0.85	12.5	-0.2	12.7	11.2	10.5	-1.5
Leather & leather products	0.38	-4.0	4.4	9.4	4.5	1.4	17.0
Chemicals & chemical products	5.55	5.1	4.4	3.2	6.7	3.8	1.9
Non-Metallic mineral products	1.41	25.8	6.7	6.1	8.5	8.7	-1.6
Basic Metals, alloys and metal products	5.97	10.7	11.9	4.0	20.5	8.7	2.0
Machinery and transport equipment	6.72	9.5	5.4	1.3	7.6	5.9	8.8
Miscellaneous products	0.72	2.1	3.7	4.1	7.4	3.4	0.1

(P) Provisional.

SEASONAL MOVEMENT OF WHOLESALE PRICE INDEX



SEASONAL MOVEMENT OF CONSUMER PRICE INDEX



MINISTRY OF FINANCE, ECONOMIC DIVISION.

5.6 With a view to encourage domestic production of edible oils and reduce the country's dependence on imports, vanaspati units will be required to buy more indigenous oil, particularly in the immediate post-harvesting season when prices are generally the lowest. This increase in demand will help provide more remunerative harvest prices for farmers and should

particularly help small farmers. During the lean season, the supplies of imported oil to vanaspati units will be stepped up if necessary. By a contra-seasonal pattern of supply of imported oil, it should be possible to reduce fluctuation in prices and there will be less uncertainty and risk to farmers.

TABLE 5.2
Variations in Wholesale Prices of certain Commodities/Groups

	Weight (Per cent)	Between week ended					
		31-3-84 and 30-3-85		31-3-84 and 26-1-85		30-3-85 and 25-1-86 (P)	
		Percent- age change	Percent- age share	Percent- age change	Percent- age share	Percent- age change	Percent- age share
ALL COMMODITIES	100.00	7.6	100.0	5.7	100.0	3.1	100.0
A. ADMINISTERED PRICES (selected)	15.66	11.6	37.2	4.0	17.3	3.5	27.8
(i) Petroleum crude	0.60	0.7	0.3	-1.2	-0.7	No ch.	..
(ii) Petroleum products	4.91	12.8	13.7	0.7	0.9	0.1	0.2
(iii) Coal mining	1.15	0.3	0.1	0.2	0.1	13.2	8.7
(iv) Electricity	2.40	9.4	3.7	8.7	4.5	18.9	17.8
(v) Fertilizers	1.25	No ch.	..	No ch.	..	No ch.	..
(vi) Iron, steel and ferro alloys	3.47	27.7	16.3	11.5	9.1	0.1	1.3
(vii) Non-ferrous metals	1.18	7.0	1.2	4.9	1.2	4.1	1.7
(viii) Cement	0.70	15.8	1.9	13.0	2.2	-6.1	-1.9
B. SEASONAL ITEMS							
(1) Sugar, Khandsari and Gur and Edible Oils	10.96	8.1	10.8	4.7	8.5	8.4	27.5
(i) Sugar, Khandsari and Gur	7.24	13.3	11.7	6.7	8.0	12.4	28.1
Sugar	(2.19)	7.0	1.4	4.5	1.3	21.8	10.9
Khandsari	(0.49)	21.7	1.1	12.5	0.8	1.5	0.2
Gur	(4.56)	14.8	9.2	7.0	5.9	10.4	17.0
(ii) Edible Oils	3.72	-2.0	-0.9	0.9	0.5	-0.6	-0.6
(2) Other seasonal items	37.17	5.1	21.6	6.2	35.5	2.3	23.5
(i) Cereals	10.74	0.2	0.2	0.2	0.3	7.1	17.2
Of which :							
Rice	(5.13)	-0.8	-0.5	-2.3	-1.7	1.1	1.4
Wheat	(3.42)	1.6	0.5	3.6	1.4	8.7	5.8
(ii) Pulses	2.18	14.9	5.0	21.1	9.5	9.9	8.5
(iii) Fruits and vegetables	6.13	11.1	7.6	5.6	5.2	13.8	23.7
(iv) Milk and milk products	6.15	1.4	0.9	2.5	2.2	2.5	3.8
(v) Eggs, fish and meat	1.90	18.7	5.0	13.7	4.8	12.4	8.8
(vi) Condiments and spices	1.10	12.5	1.3	26.2	3.7	-15.6	-4.0
(vii) Other food articles	1.60	-1.0	-0.3	-1.3	-0.4	-10.3	-6.4
Of which :							
Tea	(1.15)	-7.0	-1.7	-4.3	-1.3	-11.1	-5.4
(viii) Fibres	3.17	14.6	4.9	21.1	9.6	-31.2	-27.0
Of which :							
Raw cotton	(2.25)	-4.6	-1.1	-5.6	-1.7	-15.7	-7.7
Raw jute	(0.43)	93.9	4.8	128.1	8.9	-71.9	-16.2
(ix) Oil seeds	4.20	-5.7	-3.0	0.9	0.6	-1.0	-1.1
C. ALL OTHER COMMODITIES	36.21	7.1	30.4	6.8	38.7	2.0	21.2

(P) Provisional

Price Behaviour in 1984-85

5.7 After registering a sharp rise of 7.6 per cent in the first five months of the year, the WPI remained practically stable during the remaining seven months. The stability in the latter part of 1984-85 was the result of a decline of 2.3 per cent during September–December, 1984, followed by a rise of the same order in next three months of January–March, 1985.

5.8 Prices of many seasonal items like rice, fruits and vegetables, milk, fish, tea, coffee, oil seeds, sugar group and edible oils, which had gone up during April–August, 1984, came down in the next four months (September–December, 1984). The overall seasonal decline during September–December, 1984 was, however, partly moderated by the pressure from pulses, eggs, meat, raw jute and sugarcane.

5.9 For the year as a whole, the price rise of 7.6 per cent was a marginal decline from 8.2 per cent in

1983-84 (Table 5.1). Prices of selected administered items as a group increased by 11.6 per cent while amongst the seasonal items, the sugar group increased by 13.3 per cent, other seasonal items 5.1 per cent and all other commodities by 7.1 per cent (Table 5.2). However, prices of several agro-based items declined (e.g. rice, tea, raw cotton, oil seeds and edible oils). The contribution of administered prices to the price rise in 1984-85 was 37.2 per cent compared with 32.4 per cent contributed by seasonal items and 30.4 per cent by all other commodities. Thus, administered prices as a group, with 15.66 per cent weight in the WPI, exerted more than proportionate pressure on the price level in 1984-85, mainly due to upward revisions in the prices of petroleum products, iron and steel and electricity. The increase in administered prices during the year may be viewed against the background of only a nominal rise in most administered prices and stability in petroleum prices during 1983-84.

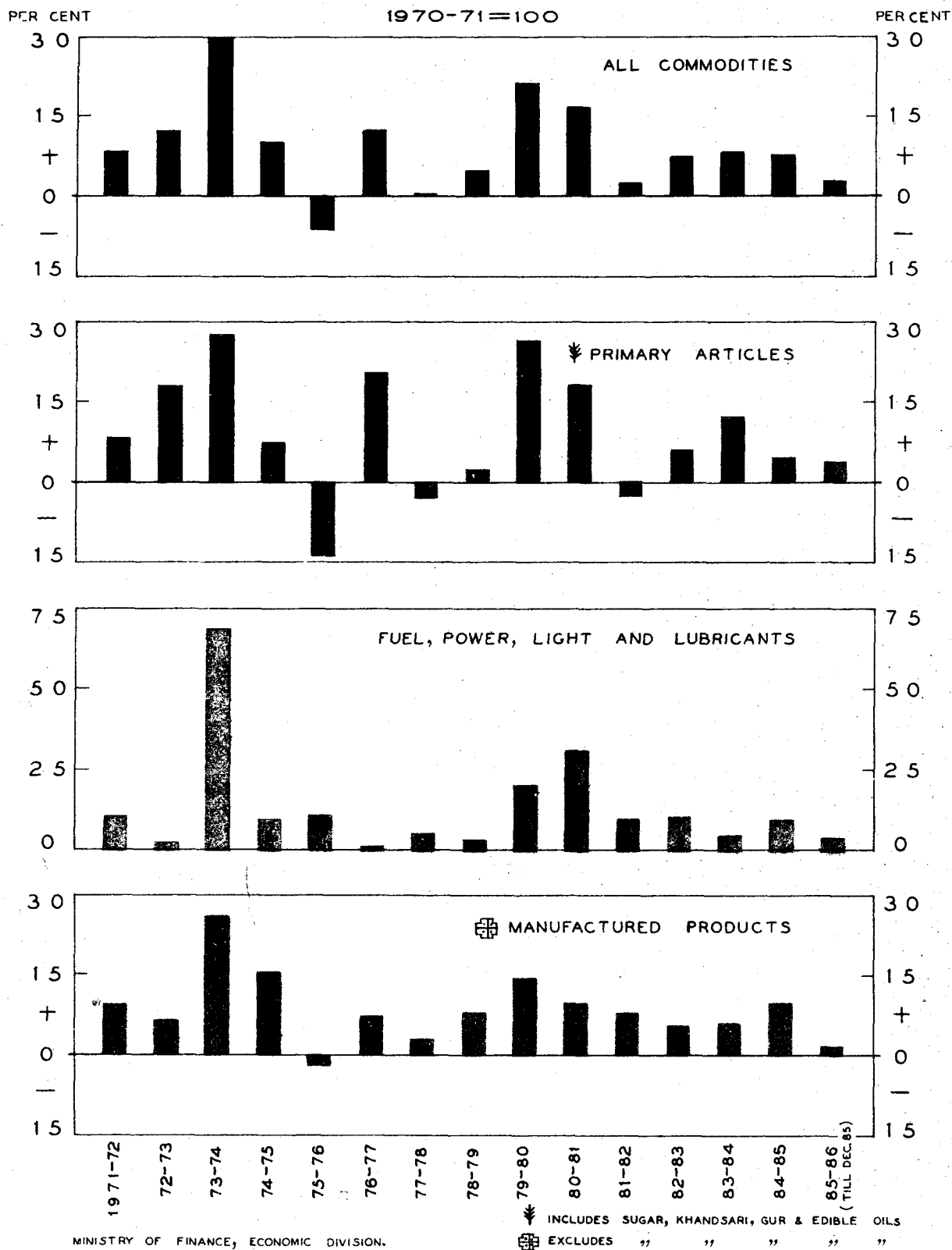
TABLE 5.3
Composition of Price Rise* between March 30, 1985 and December 28, 1985
(Seasonal Items)

Commodities/Groups	Weight (Per cent)	Between week ended			
		30-3-85 and 3-8-85		3-8-85 and 28-12-85	
		Percentage change	Percentage share	Percentage	change**
1	2	3	4	5	
I. Foodgrains	12.92	8.3	15.2	0.2	(-1.3)
1. Cereals	10.74	8.4	11.2	-0.9	(-4.2)
of which :					
(a) Rice	(5.13)	9.2	6.5	-6.7	(-7.8)
(b) Wheat	(3.42)	4.8	1.8	3.7	(0.7)
2. Pulses	2.18	8.2	3.9	3.2	(6.7)
II. Fruits and vegetables	6.13	35.5	34.1	-15.4	(-25.2)
III. Milk and milk products	6.15	3.4	2.9	-0.8	(-2.7)
IV. Eggs, fish and meat	1.90	9.0	3.6	3.5	(4.6)
V. Condiments and spices	1.10	11.1	1.6	-16.7	(11.9)
VI. Other food articles	1.60	-5.6	-2.0	-8.6	(-10.8)
(a) Tea	(1.15)	-7.3	-2.0	-6.5	(-12.2)
(b) Coffee	(0.16)	-2.4	Neg.	4.6	(-2.2)
VII. Non-Food Articles	10.62	-4.3	-7.2	-4.5	(-2.1)
1. Fibres	2.17	-18.7	-9.0	-18.3	(-2.6)
(a) Raw Cotton	(2.25)	-4.5	-1.2	-14.9	(-19.1)
(b) Raw Jute	(0.43)	-50.1	-6.3	-41.8	(38.7)
2. Oilseeds	4.20	0.7	0.4	-1.4	(-5.6)
VIII. Sugar, khandsari & gur	7.24	29.6	37.2	-15.7	(-11.4)
(a) Sugar	(2.19)	22.0	6.1	-1.1	(1.1)
(b) Gur	(4.56)	31.0	28.0	-19.2	(-15.0)
IX. Edible oils	3.72	-3.1	-1.8	3.2	(-8.8)
(a) Groundnut oil	(1.42)	2.5	0.6	2.0	(-11.7)
(b) Mustard oil	(0.67)	-4.4	-0.4	7.6	(-10.2)
X. Oil cakes	0.90	-4.9	-0.7	-4.4	(1.5)
XI. Total (I to X)	52.28	10.2	82.9	-6.2	(-6.7)
XII. Other Groups/Items	47.72	1.8	17.1	0.6	(1.8)
XIII. All COMMODITIES	100.00	5.6	100.0	-2.7	(-2.3)

*Based on Wholesale Price Index (1970-71 = 100) Provisional.

**Figures in bracket relate to the corresponding period of 1984.

ANNUAL INFLATION RATE [POINT TO POINT] WHOLESALE PRICE INDEX [GROUP-WISE]



Price Behaviour in 1985-86

5.10 The seasonal rise in the Wholesale Price Index started from mid-March, 1985 and spilled over into first four months of 1985-86. The seasonal pressure on prices began earlier than normal but also petered out early, operating for less than the usual duration which generally extends up to August. The Wholesale Price Index increased by 5.6 per cent during April—July 1985, reaching the peak of 365.8 on August 3, 1985. The increase in the corresponding period of 1984-85 was, however, sharper at 7.6 per cent. The seasonal decline began from August 10, 1985 and, after a break in October, continued up to December 28, 1985. The commodity composition of the rise between March 30, 1985 and August 3, 1985 and

the decline between August 3, 1985 and December 28, 1985 highlights the role played by seasonal items (Table 5.3). These items with a weight of 52 per cent in the index, as expected were more volatile than the remaining items with 48 per cent of the total weight. In particular, rice, fruits and vegetables, condiments and spices and the sugar group exhibited the strongest seasonal fluctuations.

5.11 The cumulative price rise in the current financial year up to January 25, 1986 is 3.1 per cent as against 5.7 per cent in the corresponding period of 1984-85. An analysis of the composition of the price rise in the current financial year up to January 25, 1986 (Table 5.2) reveals that prices of some items have increased abnormally: fruits and vegetables

TABLE 5.4

Percentage Variations in Wholesale/Consumer Price Indices

Month	1982-83			1983-84			1984-85			1985-86		
	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	276.9	—0.1	0.4	300.3	1.7	8.4	323.3	0.2	7.7	350.5	2.3	8.4
May	278.1	0.4	0.1	307.4	2.4	10.5	327.2	1.2	6.4	353.7	0.9	8.1
June	285.8	2.8	2.1	309.3	0.6	8.2	335.0	2.4	8.3	357.1	1.0	6.6
July	291.5	2.0	1.9	312.9	1.2	7.3	342.8	2.3	9.6	362.3	1.5	5.7
August	294.5	1.0	1.8	317.7	1.5	7.9	346.3	1.0	9.0	363.3	0.3	4.9
September	290.6	—1.3	2.0	319.1	0.4	9.8	342.4	—1.1	7.3	358.3	—1.4	4.6
October	289.8	—0.3	2.0	318.9	—0.1	10.0	343.1	0.2	7.6	359.7	0.4	4.8
November	290.3	0.2	3.1	319.3	0.1	10.0	341.3	—0.5	6.9	357.0	—0.8	4.6
December	288.7	—0.6	3.3	318.7	—0.2	10.4	338.0	—1.0	6.1	356.8	—0.1	5.6
January	290.6	0.7	3.4	322.7	1.3	11.0	340.1	0.6	5.4			
February	292.7	0.7	5.0	323.4	0.2	10.5	339.2	—0.3	4.9			
March	295.3	0.9	6.6	322.6	—0.2	9.2	342.5	1.0	6.2			
B : All India Consumer Price Index Numbers for Industrial Workers (1960 = 100)												
April	459	0.4	7.5	508	1.2	10.7	559	0.2	10.0	594	1.4	6.3
May	462	0.7	6.7	521	2.6	12.8	562	0.5	7.9	600	1.0	6.8
June	470	1.7	7.1	533	2.3	13.4	574	2.1	7.7	606	1.0	5.6
July	478	1.7	6.9	541	1.5	13.2	585	1.9	8.1	615	1.5	5.1
August	488	2.1	7.5	549	1.5	12.5	586	0.2	6.7	618	0.5	5.5
September	489	0.2	7.2	554	0.9	13.3	589	0.5	6.3	619	0.2	5.1
October	491	0.4	6.7	558	0.7	13.7	592	0.5	6.1	625	1.0	5.6
November	496	1.0	7.4	561	0.5	13.1	595	0.5	6.1	630	0.8	5.9
December	497	0.2	8.0	559	—0.4	12.5	588	—1.2	5.2	630	No ch.	7.1
January	495	—0.4	7.8	563	0.7	13.7	588	No ch.	4.4			
February	500	1.0	9.2	561	—0.4	12.2	585	—0.5	4.3			
March	502	0.4	9.8	558	—0.5	11.2	586	0.2	5.0			

Note :—Figures from May 1985 are provisional in respect of wholesale price.

(13.8 per cent), gur (10.4 per cent) and sugar (21.8 per cent) while prices of some other items declined abnormally : condiments and spices (—15.6 per cent), tea (—11.1 per cent), raw cotton (—15.7 per cent) and raw jute (—71.9 per cent). In the case of jute the decline, reflecting the high production this year, is partly a correction for the sharp rise in its price last year. In December, 1985 prices of tea were lower than the December, 1984 level by 16 per cent, oilseeds 10.8 per cent, edible oils 6.1 per cent and cotton 18.5 per cent while copra prices were less than one-half of their level a year ago. In early January, 1986 coal prices were raised by 14 per cent. This increase was after a period of two years—the last coal price rise being in January, 1984—and was aimed at reducing the losses incurred by the coal sector.

5.12 The prices of the cereals group remained stable in 1984-85 as a result of rice prices declining by 0.8 per cent and wheat rising by 1.6 per cent. The rise in the cereals group in the current financial year was due to a rise in both rice and wheat prices. The record procurement in the context of lower output of wheat and rice and the likely consequent reduced availability of stocks with private traders in the open market had an impact on the behaviour of prices. Poor production level of pulses is a continuing problem. During the last two years (1983—85) prices of pulses rose at an average annual rate of 20 per cent. In the absence of a break-through in seed technology the pressure on prices of pulses is unlikely to ease in the face of rising demand.

5.13 Large Government stocks of foodgrains were used effectively to deal with the situation arising from the rise in wheat prices. Releases of wheat through auction/direct sales at a uniform subsidised price by the Food Corporation of India (Rs 175 per quintal) since September, 1985 and more liberal distribution under the public distribution system (PDS) were arranged to moderate wheat prices in the open market till the arrival of the new crop. Rice prices started falling from October, 1985 under the impact of a reasonably good kharif harvest. In order to meet the de-stabilising effect of the sharp decline in the prices of some agricultural commodities, particularly oilseeds, coconut, raw jute and raw cotton, the price support policy is being strengthened and extended wherever necessary.

5.14 Jute prices in 1984-85 had touched record levels because of successive poor crops. With the onset of the current marketing season of jute from July, 1985, the prices of raw jute started declining. In anticipation of the large crop this year (1985-86)

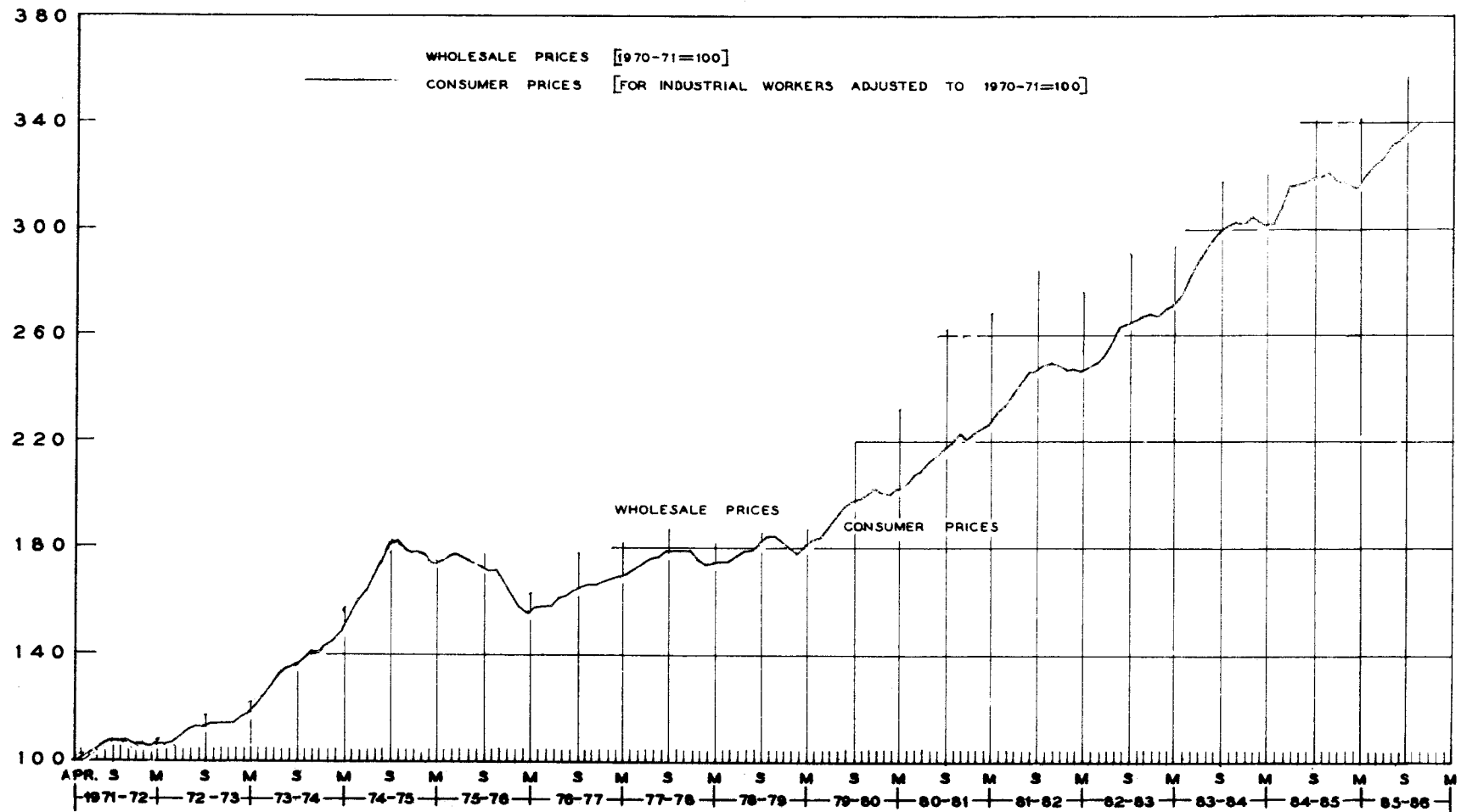
the Government had directed the Jute Corporation of India to mount necessary market support operations. According to the latest available information, the Jute Corporation of India had procured 24.24 lakh bales of jute till January 1985. This represented the highest ever level of procurement achieved by the Jute Corporation. In addition, the Government had also taken a number of measures to build up the demand for raw jute. These measures, among others, included directions to the jute mills in the private sector to maintain minimum levels of jute stocks, opening of closed jute mills and exports of raw jute by the Jute Corporation of India.

5.15 The two successive good crops of cotton during 1984-85 and 1985-86 had resulted in a decline in cotton prices of 4.6 per cent in 1984-85 and 15.7 per cent in 1985-86 (up to January 25, 1986). While in 1984-85 cotton prices in most of the States remained above minimum support levels, during the current season cotton prices were approaching support levels, even before the peak marketing period. The Cotton Corporation of India has, therefore, been mobilised to meet the emerging situation. A substantial quantity of cotton export was authorised very early in the season and further releases were contemplated. With a view to encouraging exports of value added goods, the Government announced substantially increased annual export ceilings of cotton yarn for a three year period up to 1988.

5.16 Following record oilseeds production during 1983-84 and 1984-85 the overall availability of edible oils in the country improved considerably and the prices of edible oils declined by 2 per cent in 1984-85 and remained almost stable in 1985-86 (upto January 25, 1986). Since there was a decline in the prices of some oilseeds, especially rapeseed and mustard, National Agricultural Cooperative Marketing Federation (NAFED) was required to enter the market to make price support purchases of rapeseed and mustard. The additional measures to support the price of mustard oil included permitting the vanaspati industry to meet up to 40 per cent of its raw oil requirements (30 per cent expeller and ten per cent solvent extracted). In 1985, a good crop resulted in a downward trend in prices of coconut. In order to provide remunerative prices for coconut growers, the Government decided to cover copra under market support operations and stopped the import of coconut oil.

5.17 The price behaviour of the sugar group is influenced by the fluctuations in sugarcane production. With production of sugar hovering around 60 lakh

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[illegible]

tonnes during last two seasons and demand reaching 82 lakh tonnes in 1984-85 there was bound to be pressure on sweetening agents despite large scale imports. The prices of the sugar group increased by 13.3 per cent in 1984-85 and by another 12.4 per cent in 1985-86 (up to January 25, 1986). Following the recent sugar policy, production of sugar in the first three months of the current sugar year (up to December 31, 1985) has risen by 22.5 per cent over the same period last year and the pressure on sugar prices may ease.

Consumer Prices

5.18 There are a number of technical reasons why the WPI and the CPI are not strictly comparable : the coverage in terms of number of items and the areas from which price quotations are received are quite different; the weighting diagram of the CPI is based on the Family Budget Survey in 1958-59 while the weights for the WPI are based on the levels of transactions during 1969-70; the CPI includes the price of services while the WPI only includes commodities; different seasonal patterns for the two indices necessarily lead to intra-year divergences.

5.19 A comparison between the movement of the WPI and the CPI shows divergent trends (Table 5.4). While in the long run these two indices tend to move in the same direction, in the shorter period differences are likely to occur. The annual rate of inflation of the WPI declined from 7.7 per cent in April 1984 to 6.2 per cent in March 1985 and further to 5.6 per cent in December 1985. The inflation rate in terms of CPI also came down from ten per cent in April, 1984 to five per cent in March, 1985 but rose to 7.1 per cent in December, 1985. Consequently, while the WPI increased at a faster rate than the CPI last year, this year precisely the converse has occurred resulting in approximately the same overall increase in both the indices taking the period as a whole. The charts 12 and 13 showing the long term trends of WPI and CPI confirm this similar growth pattern over time.

5.20 An important reason for the CPI increasing at a faster rate than the WPI this year is the increase in prices of the food group. These items have almost twice as much weight in the CPI as in the WPI. Prices of manufactures, which have been relatively stable, have a much higher weight in the WPI than in the CPI. Nevertheless, in spite of the difference in the

annual trends in CPI and WPI this year, the monthly inflation rates have tended to move in the same direction (FIG-2).

MONTHLY MOVEMENT OF CPI & WPI
(PERCENTAGE CHANGE)

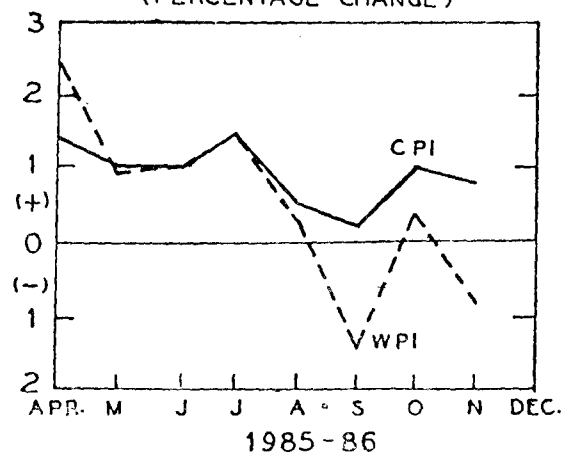


FIG. 2

5.21 The sharp fall in WPI in September this year is mainly a result of a greater than normal post-harvest seasonal decline. A number of commercial crops recorded very high production levels this year and as a result prices declined considerably (e.g. jute, cotton, mustard and rapeseed).

5.22 There was some hardening of the prices of rice, wheat and sugar between January and November, 1985. In the case of both rice and wheat, the increase occurred after prices of these items had fallen over a period of time to a low base. The wheat price index was at 225 in January, 1984 and fell over the year to reach 216 in January, 1985. Thereafter, the seasonal decline in wheat prices continued till the procurement prices were raised and between June and December the index rose again to reach 231 in December, 1985. Similarly, in January, 1985 the WPI of rice was 4.2 per cent lower than in January, 1984. The increase in the index between January and September, 1985 is a reversal of the earlier declining trend. The open market price of sugar increased sharply during the initial part of the year mainly on account of a poor sugarcane crop for the second successive year. Subsequently, sugar prices were stabilised by augmenting supply through imports. The recent sugar policy aims at encouraging more acreage under sugarcane and as a result, a substantial increase in sugarcane and sugar production can be expected next year which should help keep sugar prices at a reasonable level.

Policy Framework and Developments

Agricultural Prices

5.23 Along with other objectives, price policy for agricultural commodities has to consider the supply-demand balance across various crops and encourage the production of crops in short supply by providing

to the farmers remunerative prices. The changing relative support prices which influence cropping pattern and, therefore, the supply of the different crops are given in Table 5.5. However, not all these prices are operative every year as the market price may be higher or the institutional mechanism for procurement may not be effective.

TABLE 5.5
Minimum Support/Procurement Prices of Agricultural Commodities

Commodity		Marketing Year*						
		1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
1. Wheat	(Procurement Price)	117	130	142	151	152	157	162
2. Paddy (Common variety)	—do—	105	115	122	132	137	142**	@
3. Coarse grains	—do—	105	116	118	124	130	130	@
4. Barley	(Minimum Support Price)	@	105	@	122	124	130	132
5. Gram	—do—	145	@	@	235	240	@	260
6. Arhar	—do—	190	@	215	245	275	300	@
7. Moong	—do—	200	@	240	250	275	300	@
8. Urad	—do—	200	@	230	245	275	300	@
9. Mustard	—do—	@	@	@	355	360	385	400
10. Groundnut	—do—	206	270	295	315	340	350	@
11. Sunflower seed	—do—	183	250	250	275	325	335	@
12. Soyabean (black variety)	—do—	183	210	220	230	240	250£	@
13. Cotton (Kapas 320F/J-34)	—do—	304	@	380	400***	410***	425***	@
14. Sugarcane	(Statutory Minimum Price)	13.00	13.00	13.00	13.50	14.00	16.50	17.00
15. Jute (W-5 grade—Ex-Assam)	—do—	160	175	175	185	195	215	@

*Marketing year (April—March) for wheat, gram, barley and mustard, (July—June) for jute, (September—August) for cotton, and (October—September) for paddy and other kharif crops.

**Rs. 146 per quintal for fine variety and Rs. 150 per quintal for superfine variety.

@Not announced.

£Rs. 275 per quintal for yellow variety.

***F-414/H-777 variety. For a long staple basic variety, Hybrid-4, the price was Rs. 527 per quintal during 1983-84 season and Rs. 535 per quintal during 1984-85 and 1985-86 seasons.

5.24 Owing to the drop in the acreage under sugarcane successively during 1983-84 and 1984-85 and the consequent fall in production over these years, it became necessary to import sugar to fill the demand-supply gap. In order to reduce imports, the Government decided to stimulate domestic cane production by providing (a) remunerative prices for sugarcane by raising the statutory minimum price of cane from Rs. 14 to Rs. 16.50 per quintal (linked to a recovery of 8.5 per cent) for the 1985-86 season; (b) to reduce uncertainty for sugarcane farmers by announcing a statutory minimum price of Rs. 17 per quintal one year in advance for the 1986-87 season.

5.25 As may be seen from Table 5.5, upward revisions have been made in support/procurement prices in respect of all major agricultural commodities except some coarse grains for the marketing year 1985-86. The procurement price of paddy has been raised by Rs. five per quintal each for common, fine and super fine varieties to Rs. 142, Rs. 146 and Rs. 150 per

quintal respectively. The procurement price of wheat for the 1985-86 marketing year was increased by Rs. five from Rs. 152 to Rs. 157 per quintal. For barley, the minimum support price has been fixed at Rs. 130 per quintal as against Rs. 124 per quintal for the last marketing year. In respect of pulses, the minimum support price for 1985-86 marketing year has been increased by Rs. 25 per quintal to Rs. 300 per quintal for arhar, moong and urad. The minimum support price for mustard seeds was increased by Rs. 25 per quintal to Rs. 385 per quintal, for groundnut by Rs. ten to Rs. 350 per quintal, sunflower seeds by Rs. ten to Rs. 335 per quintal. In the case of soyabean, the minimum support price was increased by Rs. ten to Rs. 250 per quintal for the black variety and Rs. 275 per quintal for the yellow variety.

5.26 The minimum support price for medium staple cotton of F-414/H-777 variety has been fixed at Rs. 425 per quintal for 1985-86 marketing year as against Rs. 410 per quintal for 1984-85. For the long

staple basic variety (H-4) the minimum support price fixed for 1984-85 (Rs. 535 per quintal) remains unchanged for 1985-86 also. There was an increase of Rs. 20 per quintal in the statutory minimum price of jute (W-5 grade-ex-Assam) from Rs. 195 per quintal to Rs. 215 per quintal for the 1985-86 marketing year.

5.27 In January, 1986 the Government announced an increase in the procurement price of wheat of Rs. five per quintal, *i.e.* from Rs. 157 to Rs. 162 per quintal. At the same time certain important changes in policy regarding the sale of wheat by the FCI both through the open market and to the roller flour mills (RFMs) were also announced. With effect from April 1, 1986 the sale price of wheat to RFMs will be brought up to the economic cost of procuring and holding wheat by FCI, which is estimated at Rs. 220 per quintal, thus eliminating the large subsidy which was being provided to RFMs. FCI will also stop open market sales of wheat at highly subsidised prices in the new marketing season. These changes were necessary to ensure that farmers are able to sell wheat at remunerative prices in the open market and that the need for FCI to procure more and more wheat is avoided. FCI's wheat stocks are already far in excess of the country's requirements and any further increase in these stocks was not considered desirable or in the interest of the farming community. Issue prices of wheat and rice through the Public Distribution System (PDS) were also increased in order to reflect the increases in procurement prices.

Industrial Prices

5.28 While prices of most industrial goods are left to be determined by market forces of demand and supply, there are a number of important commodities for which the price level is administered by the Government. Many of these administered prices are for items manufactured by the public sector (coal, electricity, etc.). When production costs in these industries increase as a result of the general increase in the price level and wage revisions, the units begin to make losses unless their output prices are raised as well. The first option that the Government has, is to reduce costs by improving efficiency in these units. Thereafter, the choice lies between revising the commodity's price upwards or subsidising the losses through the budget, thereby increasing the budget deficit and causing an increase in money supply. Over a period of time the impact on prices as a result of subsidising losses and increases in budget deficits is considerable. Moreover, budgetary subsidies would be necessary year after year and would lead to an annual spurt in money supply. Raising administered

prices sometimes appears to be more inflationary as it tends to be more visible. A second important economic reason for adjusting administered prices is to maintain a consistent set of relative prices. If administered prices were not increased over long periods of time despite increases in costs, the price of these commodities would be very low relative to other commodities and demand-supply imbalances would begin to appear. This would be particularly counter-productive in shortage situations or where the Government would like to conserve resources.

5.29 Coal prices were raised on January 9, 1986 after a period of two years (the last revision was on January 8, 1984). The increase was necessitated by substantial escalation in the cost of production since January 1984 due to increases in the wage bill; higher depreciation and interest charges; increased cost of stores, power, petroleum products, transportation and other factors. The average pit-head price of coal was raised by Rs. 27 from Rs. 183 per tonne to Rs. 210 per tonne in the case of Coal India Limited and from Rs. 192 per tonne to Rs. 219 per tonne in the case of Singareni Collieries Companies Limited. Soft coke used as domestic fuel, however, remained unchanged at the 1982 level of Rs. 175 per tonne though for the industrial consumers the price was raised to Rs. 300 per tonne.

5.30 The Government revised the statutory retail prices of fertilisers with effect from January 31, 1986. The prices of principal fertilisers, namely, urea and diammonium phosphate have been revised to Rs. 2,350 and Rs. 3,600 per M.T. respectively from the earlier level of Rs. 2,150 and Rs. 3,350 per M.T. or by 9.3 per cent and 7.5 per cent respectively. The present revision will merely bring fertiliser prices to the same level at which they were in 1981-82. The last revision was on June 29, 1983 when the prices of all types of fertilisers were reduced by 7.5 per cent.

5.31 Prices of petroleum products were increased with effect from February 1, 1986. The increase on motor spirit (petrol) was Rs. 500 per kilo litre (7.9 per cent), on high speed diesel oil Rs. 180 per kilo litre (6 per cent), on kerosene oil Rs. 225 per kilo litre (12.3 per cent), aviation turbine fuel for domestic airlines only, Rs. 500 per kilo litre (10.5 per cent) and on cooking gas by Rs. 700 per tonne (23.1 per cent). These prices were increased in order to raise resources for financing Plan development, reducing subsidies and curtailing the rate of growth of consumption so as to help ease the balance of payments situation. The lower increase on high speed diesel oil as compared with that of kerosene oil will discourage adulteration of high speed diesel oil with

kerosene, thus improving availability of kerosene oil to the genuine consumers. The last general increase in the prices of petroleum products was on March 17, 1985 when prices of all petroleum products were increased by 15 per cent except high speed diesel oil whose price was increased by eight per cent only. On March 26, 1985 the prices of kerosene oil and high speed diesel oil were reduced by seven paise per litre. Consequent upon increase in basic prices with effect from February 1, 1986, the retail prices of petroleum products were revised (for example in Delhi) from Rs. seven per litre to Rs. 7.54 per litre, high speed diesel oil from Rs. 3.39 per litre to Rs. 3.58 per litre, kerosene oil from Rs. 2.11 per litre to Rs. 2.34 per litre and cooking gas (cylinder of 14.2 kgs.) from Rs. 51.35 to Rs. 61.79. On February 6, 1986 the price of petrol was decreased by Rs. 100 per KL, high speed diesel oil by Rs. 72 per KL, kerosene by Rs. 90 per KL and LPG (for domestic use) by Rs. 280 per tonne. Even after the rise in prices there will still be a subsidy on kerosene oil and LPG of Rs. 0.71 per litre of kerosene oil and Rs. 13.05 per cylinder of LPG.

5.32 The prices of most of the bulk drugs and formulations are controlled under the Drugs (Prices Control) Order 1979. As a result, prices of about

30 bulk drugs, 32 leader formulations packs and 1200 other formulations which include imported formulations, new packs of indigenously manufactured formulations and revision of prices of existing formulations were fixed/revised during the year. It has been possible to make available several vital and important medicines at reasonable prices.

Public Distribution System

5.33 The Public Distribution System (PDS) plays a central role in arranging supply of essential commodities like rice, wheat, sugar, edible oils, kerosene, soft coke and controlled cloth at fixed rates to a large number of consumers in both urban and rural areas through a national network of fair price shops. Some additional items like pulses, vanaspati, cycle tyres and tubes, toilet soaps, battery cells, salt and tea are also supplied by some State Governments through authorised retail outlets including consumer cooperative stores and 'super bazars'. The PDS is designed to help weaker sections of the community. The number of fair price shops increased from 3.11 lakhs in October, 1984 to 3.22 lakhs in October, 1985. The increased coverage and streamlining of distribution contributed to improved availability of essential commodities at reasonable prices.

TABLE 5.6

Procurement, Public Distribution and Stocks of Foodgrains

	1983-84 (P)	1984-85 (P)	1985-86* (P)
A. Procurement			
Rice	7552	9915	6925 (7276)
Wheat	8292	9300	10345 (9291)
Total Foodgrains	15882	19390	17349 (16658)
B. Public Distribution			
Rice	7637	6595	5477 (5006)
Wheat	7433	6704	6238 (4606)
Total Foodgrains	15284	13361	11748 (9662)
C. Stocks**			
Rice	5240	8545	7976 (7745)
Wheat	9598	12751	15827 (14712)
Total Foodgrains	14895	21420	24006 (22551)

*Up to December, 1985. (P) Provisional.

**End-period basis.

Figures in brackets relate to the corresponding period of 1985.

5.34 There was a record amount of foodgrains procured, 19.4 million tonnes, during 1984-85 compared with 15.9 million tonnes in 1983-84 (Table 5.6). During 1985-86, up to the end of December, 1985 procurement of foodgrains aggregated 17.3 million tonnes, registering an increase of 4.1 per cent over the quantity procured in the corresponding period of 1984-85. The off-take of foodgrains from the PDS declined from 15.3 million tonnes in 1983-84 to 13.4 million tonnes in 1984-85, reflecting a good crop and greater open market availability. In 1985-86, however, the off-take has picked up as a result of more liberal distribution policy for

wheat. The distribution of foodgrains up to December 1985 was 11.7 million tonnes, showing an increase of 20.6 per cent over 9.7 million tonnes distributed in the corresponding period of 1984-85. The total distribution of foodgrains during 1985-86 is expected to reach over 15 million tonnes. Data on monthly allocations/releases/off-take of major items under public distribution e.g. rice, wheat, edible oils and sugar during 1984-85 and 1985-86 are given in Table 5.7. Stocks of foodgrains with public agencies touched a peak of 29.2 million tonnes in end-June 1985 but by December 31, 1985 had fallen to 24 million tonnes.

TABLE 5.7

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

Month	'000 tonnes)							
	Rice*		Wheat*		Edible Oils**		Sugar***	
	1984-85 (P)	1985-86 (P)	1984-85 (P)	1985-86 (P)	1984-85	1985-86	1984-85	1985-86
April	528	512	401	508	87.3	58.7	648	683
May	545	537	361	477	75.0	48.4	623	673
June	540	564	425	429	75.0	38.3	653	738
July	577	655	416	622	89.0	43.0	653	688
August	612	720	500	760	88.0	49.8	653	763
September	611	692	732	795	89.3	49.0	733	763
October	528	663	546	915	86.8	49.0	698	763
November	525	565	613	836	84.0	48.3	698	763
December	540	579	612	896	84.7	41.2	748	688
January	546		729		77.6	42.5	703	688
February	507		684		77.6	42.5	693	673
March	536		685		74.4		693	
TOTAL	6595	5487 (5006)	6704	6238 (4606)	988.7	500.7 (914.3)	8196	7883 (7503)

(P) Provisional.

*off-take.

**Allocations.

***Releases (Total of levy and free sale).

NOTE : Figures in brackets give total for the corresponding months of 1984-85.

5.35 In the current financial year (up to the end of December, 1985) procurement of rice reached 6.9 million tonnes compared with 7.3 million tonnes during the corresponding period of 1984-85. Procurement of wheat was 10.3 million tonnes during 1985-86 (up to December, 1985) as against 9.3 million tonnes in the same period of 1984-85. The stock of rice as on December 31, 1985 was 8 million tonnes and of wheat 15.8 million tonnes, making a total of 24 million tonnes (including 0.2 million tonnes of coarse

grains). The stocks of rice and wheat a year ago were 7.7 million tonnes and 14.7 million tonnes respectively.

5.36 Releases of sugar (levy and free sale) were increased to 82 lakh tonnes in 1984-85 from 71 lakh tonnes in 1983-84 (Table 5.7). During the current financial year (up to February, 1986), the releases were stepped up to 79 lakh tonnes as against 75 lakh tonnes in the corresponding period of 1984-85. In

addition to the normal monthly release of levy sugar to States, fixed at 3.13 lakh tonnes per month since October 1983, additional quota of 50,000 tonnes of levy sugar was released in June 1985 and in every month from August to November, 1985 in order to meet the festival demand and as a part of the scheme of supply management to keep down sugar prices in the open market. The release of non-levy sugar was maintained at a high level of 4 lakh tonnes during August—November, 1985 and was reduced to 3.75 lakh tonnes for December, 1985 and to 3.6 lakh tonnes for February, 1986.

5.37 Although the procurement price of wheat was raised during the 1985-86 marketing year, there was no corresponding increase in the issue price of wheat fixed at Rs. 172 per quintal for both the public distribution system as well as for the roller flour mills with effect from August 10, 1984. However, consequent upon the increase of Rs. five per quintal in the procurement price of paddy for the 1985-86 marketing season, the issue price of rice was raised with effect from October 10, 1985 and fixed at Rs. 217 per quintal for common variety, Rs. 229 per quintal for fine variety and Rs. 244 per quintal for super fine variety.

5.38 Since the price of levy sugar is linked to the statutory minimum price of cane, following the increase of Rs. 2.50 per quintal in the statutory minimum price of sugarcane for the 1985-86 season, the retail price of levy sugar was raised by 40 paise per kg. from Rs. 4.40 per kg. to Rs. 4.80 per kg. with effect from December 1, 1985.

5.39 The central issue price of wheat for the public distribution system was increased from Rs. 172 per quintal to Rs. 190 per quintal with effect from February 1, 1986. For roller flour mills, the issue price was raised from Rs. 172 per quintal to Rs. 190 per quintal with effect from February 1, 1986, and would further go up to Rs. 220 per quintal from April 1, 1986. The open market price of wheat for sale by the Food Corporation of India was revised to Rs. 193 per quintal from February 1, 1986 and these sales will be discontinued from April 1, 1986. The central issue price of common variety of rice was raised from Rs. 217 per quintal to Rs. 231 per quintal, fine variety from Rs. 229 per quintal to Rs. 243 per quintal and superfine variety from Rs. 244 per quintal to Rs. 258 per quintal with effect from February 1, 1986.

5.40 Supply of wheat both for PDS and mills was liberalised in view of substantial stocks of wheat with the Government and firmness in its open market

prices. State Governments were allocated their full requirements of wheat and roller flour mills were allocated wheat at 125 per cent of their grinding capacity. Restrictions on the movements and stock limits of wheat were removed. A decision was taken to allow all ration card holders to draw wheat without any restriction on quantity from the fair price shops till March 31, 1986. Wheat and rice are being issued at specially subsidised rates (Rs. 1.25 per kg. for wheat and Rs. 1.60, Rs. 1.70 and Rs. 1.85 per kg. respectively for common, fine and superfine varieties of rice) so that these are available to beneficiaries in tribal areas covered by Integrated Tribal Development Projects at Rs. 1.50 per kg. for wheat and Rs. 1.85, Rs. 1.95 and Rs. 2.10 per kg. respectively for common, fine and superfine varieties of rice. The scheme of issue of additionally subsidised foodgrains for the tribals and weaker sections announced in November, 1985 would be continued for the present for one year from April 1, 1986 at the existing prices. There will be no increase in the prices under this scheme. The coverage of nutrition programmes for women and children and the National Rural Employment Programme and Rural Landless Employment Guarantee Programme are being extended.

5.41 Imported edible oils are issued for direct consumption through the public distribution system and for the manufacture of vanaspati. A small quantity is also issued to the Hindustan Vegetable Oils Corporation for sale in small packs. During the 1984-85 oil year (November, 1984—October, 1985) 13.68 lakh tonnes of edible oils were imported as against 16.34 lakh tonnes in the 1983-84 oil year. As a result of the improved domestic availability of edible oils, the allocation of imported edible oils for the PDS for direct consumption was reduced to 7.27 lakh tonnes in 1984-85 from 9.5 lakh tonnes in 1983-84. Under the small packs scheme the allocation was reduced from 1.76 lakh tonnes in 1983-84 to 1.35 lakh tonnes in 1984-85. The issue price of imported edible oils to States for public distribution in bulk was revised from Rs. 8,000 per tonne to Rs. 9,000 per tonne with effect from November 15, 1985.

5.42 The requirement of imported edible oils for the vanaspati industry during the oil year 1985-86 is expected to be around five lakh tonnes as against 7.7 lakh tonnes supplied during 1984-85 oil year. The supply of imported edible oils to the vanaspati industry at a fixed concessional rate was reduced from 60

per cent of their input requirement to 50 per cent with effect from November 15, 1985. Simultaneously, the issue price to the vanaspati industry was increased by Rs. 2,000 per tonne from Rs. 9,500 per tonne to Rs. 11,500 per tonne. Both these measures were taken in order not to undermine prices of indigenous oilseeds and oils so that their production may increase. The vanaspati industry has also been allowed to use expeller mustard/rapeseed oil to the extent of ten per cent of their requirement with effect from November 15, 1985 and up to 20 per cent from January, 1986 and up to 30 per cent from February, 1986. As a result of the increase in the issue price of imported edible oils to the vanaspati industry there was an upward revision in the voluntarily agreed retail price of vanaspati with effect from November 15, 1985. The prices of vanaspati were last revised from March 19, 1985 due to a revision in excise duty to ten per cent *ad valorem* from the earlier level of five per cent. The retail price of vanaspati was revised to Rs. 318 for 20 kg. tin, Rs. 16.7 for a one kg. pouch and Rs. 8.6 for a half kg. pouch. With effect from November 15, 1985 the retail prices for these packs were fixed at Rs. 345, Rs. 18.05 and Rs. 9.30 respectively, reflecting the increase in the issue price of imported edible oils to industry. In January, 1986 the voluntary price agreement with the vanaspati industry was discontinued and the supply of imported edible oils for vanaspati reduced to 40 per cent. It was further reduced to 30 per cent with effect from February 10, 1986.

5.43 Under the Janata Cloth Scheme in the handloom sector the total production increased from a level of 348 million sq. mts. in 1983-84 to 357 million sq. mts. in 1984-85. The production reached 166 million sq. mts. during first five months of 1985-86 (up to September, 1985). The Textile Policy announced by the Government of India in June, 1985 envisages a gradual shift of the entire mill made controlled cloth to the handloom sector by the end of the Seventh Five Year Plan. In accordance with this policy, an additional target of 60 million sq. mts. has been added to the handloom sector in the first year of the Seventh Plan (*i.e.* 1985-86) thus setting a target of 420 million sq. mts. for the year 1985-86.

5.44 The Seventh Plan has underlined the need for the control of inflation to promote growth with stability. It has favoured the continuation of the agricultural price support policy since the payment of remunerative prices to farmers is a major contributor to higher agricultural production. With regard to administered prices, the Plan lays emphasis on securing cost reductions in industry and other areas through greater efficiency, competitiveness and the application of improved technology. Subject to this, it has advocated more frequent but smaller price adjustments in relation to production costs rather than sharp increases at much longer intervals. It is a major challenge of economic policy in next few years to maintain price stability along with an increase in developmental outlays.