

## CHAPTER 5

### PRICES, PRICE POLICY & PUBLIC DISTRIBUTION SYSTEM

In the current financial year the wholesale prices have remained under pressure despite a satisfactory monsoon for the second year in succession. Prices had remained subdued throughout 1988-89 when even the seasonal rise in the first half of the year was relatively modest. However, Wholesale Price Index (WPI) registered a spurt this year during the month of April itself. For the week ended September 16, 1989 the WPI (1981-82=100) was higher by 7.7 per cent over end March, 1989. At this level it was nearly double the increase of 3.8 per cent in the corresponding period of 1988-89. After a sharp seasonal increase, the price rise was moderated and the wholesale prices were higher by 7.0 per cent in the financial year upto February 17, 1990.

5.2 The cumulative increase in the WPI on a point to point basis, is 6.5 per cent during the current financial year upto January 27, 1990 as against 4.9 per cent in the corresponding period of last year. Annual inflation rate upto January 27, 1990 works out to 7.3 per cent as against 5.6 per cent in the corresponding period last year as shown in Table 5.1. However, the movement of Consumer Price Index (CPI) for Industrial Workers on a point to point basis during this year is different from that of WPI. Upto January, 1990 the CPI (1982=100) has registered an increase of 4.8 per cent compared with an increase of 7.8 per cent in the corresponding period of last financial year. This is by far the lowest rate of increase during the last ten years. The annual rate of inflation in terms of CPI is also lower at 5.5 per cent upto January, 1990 against 7.8 per cent upto January, 1989 (Table 5.1).

TABLE 5.1  
*Movement in Price Indices*

	Percentage change	
	1988-89 upto 28-1-1989	1989-90 upto 27-1-1990
<b>A. Wholesale Price Index (1981-82=100)</b>		
1. Annual Inflation Rate (point to point basis) . . . . .	5.6	7.3
2. Annual Inflation Rate (Average of the year basis) . . . . .	8.2	6.9
3. Financial year upto end September . . . . .	4.2	7.0
4. Financial year upto end January . . . . .	4.9	6.5
5. Level of Index . . . . .	<b>155.8</b>	<b>167.1</b>
	January, 1989	January, 1990
<b>B. Consumer Price Index for Industrial Workers (1982=100)</b>		
1. Annual Inflation Rate (point to point basis) . . . . .	7.8	5.5
2. Annual Inflation Rate (Average of the year basis) . . . . .	9.1	7.0
3. Financial Year upto January . . . . .	7.8	4.8
4. Level of Index . . . . .	<b>165</b>	<b>174</b>
6. Average of 12 months ending January . . . . .	<b>160.50</b>	<b>171.67</b>

#### Price Situation in 1988-89

5.3 The year 1988-89 witnessed a slow down in the annual rate of inflation in terms of WPI on a point to point basis from a high of 10.7 per cent recorded in the drought year of 1987-88 to 5.7 per cent. This slow down was caused by sharp recovery in agricultural production due to favourable weather and buoyancy in industrial production. This facilitated continued releases of essential supplies at adequate level through public distribution system. Domestic supplies continued to be augmented through requisite imports.

5.4 The items which were responsible for the price rise during 1988-89 were wheat (12.47%), pulses (11.12%), tea (41.39%), raw jute (58.70%), gur (23.08%) and milk (15.87%). These increases were partly neutralised by decline in prices of fruits and vegetables (-12.18%), oilseeds (-23.26%) and edible oils (-7.43%) as shown in Table 5.2. The prices of wheat had gone up because of sharp depletion of stock due to heavy releases in the wake of drought. The continued low level of stocks generated inflationary expectations and rise in wheat prices. Though the production of pulses recovered and domestic supplies were supplemented by imports under OGL, the total availability still fell short of demand. Hardening of prices of tea and raw jute reflected decline in production. The increase in the prices of gur was caused by lower supplies of cane for gur production.

5.5 As pointed out in the last year's Economic Survey the WPI had registered a contra seasonal rise during October-November, 1988 which was attributed to inflationary expectations generated by widespread floods in Punjab and Haryana during September and October, 1988. This increase in WPI percolated to consumer prices and the CPI rose sharply during the months of October and November. Though increase in CPI was moderated subsequently, nevertheless, its threshold upto October, 1988 had gone up sharply and could not be neutralised by the seasonal decline. As a result, inflation rate in CPI during 1988-89 on a point to point basis, increased to 8.5 per cent though it was still lower than the high inflation rate of 10.9 per cent recorded in 1987-88.

5.6 It may be mentioned that the low inflation rate during the year in terms of WPI was partly due to the continued draw down of stocks of foodgrains, to ensure high releases at previous year's level, and also continued imports of essential items like edible oils.

#### **Price Behaviour during 1989-90**

5.7 As mentioned earlier prices remained under pressure during this year. The seasonal rise was high and the subsequent seasonal decline was delayed and weak. The seasonal items as a group accounted for over 28 per cent of total price rise this year as against less than 5 per cent in the corresponding period last year.

5.8 The accelerated rise in prices during the current year is due to :

- (a) supply and demand imbalances of some essential items particularly pulses, tea, sugar, khandsari, gur, edible oils and textiles;
- (b) fiscal imbalances leading to higher liquidity growth and overhang of liquidity from earlier years; and
- (c) inadequate level of food stocks and tighter position of balance of payments which limited the manoeuvrability of Government to bring down prices by drawing down of stocks or by imports.

5.9 The increase in prices during the current financial year is partly due to increase in the prices of seasonal items like pulses, tea, oilseeds, sugar, khandsari and gur and groundnut oil. Among non-food manufactured items textiles, paper and paper products, beverages, tobacco and tobacco products and basic metals have also registered considerable increases as may be seen in Table 5.2.

5.10 Prices of sugar along with those of khandsari and gur rose very sharply (30.41%) upto the end of September, 1989 (Table 5.3). However, having reached the peak at that time, sugar prices have declined to some extent and on January 27, 1990 their level was higher by only about 10 per cent over end March, 1989. The prices of khandsari and gur continued to be substantially higher over last year's level. The higher increase registered by khandsari and gur compared to sugar is partly due to the fact that while the prices of khandsari and gur reflect open market prices those of sugar reflect PDS prices as well which have remained unchanged during the year.

5.11 During 1989-90 (upto September 30) prices of edible oils increased by 13.15 per cent, prices of groundnut oil by 34.79 per cent and that of rapeseed/mustard oil by 17.11 per cent. This rise in the edible oil prices has to be seen in the context of the low levels to which they had reached during the previous year following a bumper harvest. However, as the production of kharif crop has been normal, though lower than the bumper harvest of the previous year, prices of edible oils have moderated and at the end of January the index of edible oils as a group was higher by 10.80 per cent over March end.

TABLE 5.2  
*Movement of Wholesale Price Index of Selected Items*  
 (Base : 1981-82=100)

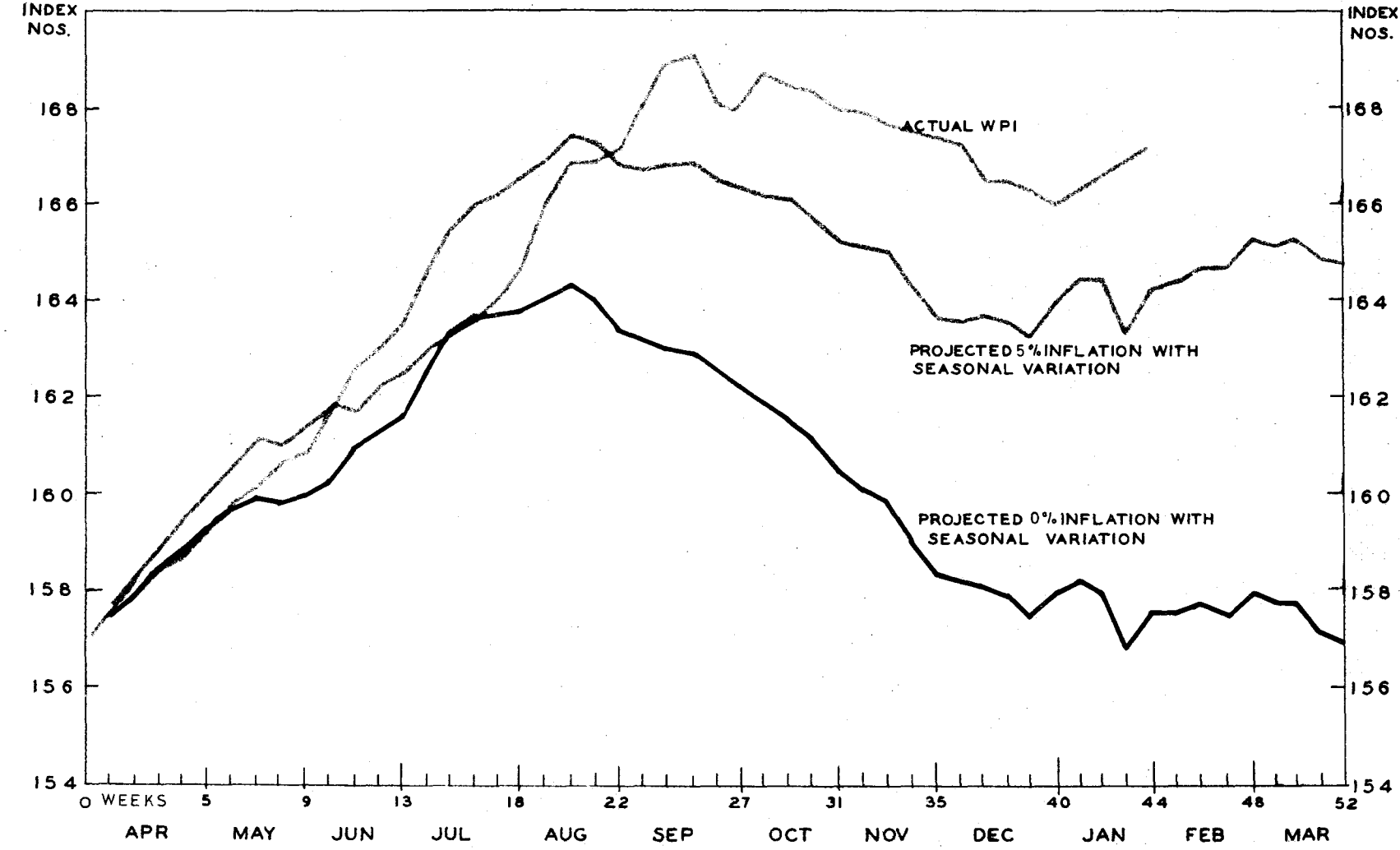
	Weight (%)	1988-89				1989-90*			
		Whole Year (April-March)		End March to 28th Jan. (44th wk)		End March to 27th Jan. (44th wk)			
		%change	%share	%change	%share	%change	%share		
<b>ALL COMMODITIES</b>	<b>100.00</b>	<b>5.66</b>	<b>100.00</b>	<b>4.92</b>	<b>100.00</b>	<b>6.50</b>	<b>100.00</b>		
<b>A. Seasonal Items†</b>	<b>34.41</b>	<b>-0.09</b>	<b>-0.57</b>	<b>0.61</b>	<b>4.66</b>	<b>5.21</b>	<b>28.48</b>		
Food-Articles	17.39	3.58	12.42	6.92	27.63	0.17	0.51		
Food Grains	7.92	9.46	13.48	11.44	18.77	-2.36	-3.03		
1. Cereals	6.82	9.17	11.04	9.91	13.73	-3.77	-4.08		
(i) Rice	3.69	6.68	4.48	3.87	2.98	0.68	0.40		
(ii) Wheat	2.25	12.47	4.90	20.65	9.34	-8.97	-3.26		
(iii) Bajra	0.18	-22.43	-0.74	-17.39	-0.66	9.02	0.19		
(iv) Barley	0.05	10.16	0.10	12.71	0.14	0.51	0.00		
2. Pulses	1.09	11.12	2.44	20.17	5.09	5.32	1.07		
(i) Gram	0.41	40.18	2.63	61.91	4.66	0.37	0.03		
(ii) Arhar	0.27	-20.74	-1.37	-18.45	-1.40	16.69	0.72		
(iii) Masoor	0.05	31.18	0.25	44.46	0.42	2.18	0.02		
3. Fruits & Vegetables	4.09	-12.18	-10.91	-7.45	-7.68	-3.41	-2.21		
(i) Fruits	2.80	-18.58	-13.07	-11.33	-9.17	-8.96	-4.23		
(ii) Vegetables	1.29	11.09	2.13	6.70	1.48	11.35	2.00		
(a) Potatoes	0.47	8.00	0.51	3.25	0.24	-12.46	-0.71		
(b) Onions	0.16	-20.13	-0.52	10.55	0.31	-4.19	-0.07		
4. Milk	1.96	15.87	6.18	17.78	7.97	0.57	0.21		
5. Eggs, Fish & Meat	1.78	4.21	1.46	8.97	3.58	5.86	1.75		
6. Condiments & Spices	0.95	-8.60	-2.43	0.96	0.31	-2.06	-0.44		
(i) Chillies	0.32	54.46	3.02	89.15	5.69	-41.31	-2.91		
7. Tea	0.56	41.39	4.25	35.02	4.13	35.71	4.27		
Non-Food Articles	10.08	-7.05	-14.16	-8.30	-19.19	11.31	17.39		
1. Fibres	1.79	12.03	3.86	-2.46	-0.91	-3.26	-0.97		
(a) Raw Jute	0.16	58.70	1.76	34.63	1.19	17.13	0.67		
2. Oil seeds	3.86	-23.26	-18.29	-20.05	-18.14	19.57	9.73		
Food Products	10.14	5.58	9.54	2.69	5.28	9.30	13.82		
1. Sugar, Khandsari & Gur	4.06	13.12	7.30	2.95	1.89	10.22	5.29		
(i) Sugar	2.01	5.84	1.70	3.70	1.24	9.79	2.48		
(ii) Khandsari	0.30	8.55	0.30	-2.04	-0.08	30.86	0.97		
(iii) Gur	1.75	23.08	5.31	2.81	0.74	6.47	1.51		
2. Edible Oils	2.45	-7.43	-3.79	-4.29	-2.52	10.80	4.20		
(i) Groundnut Oil	0.53	-20.30	-2.14	-17.19	-2.08	25.02	1.73		
(ii) Rape & Mustard Oil	0.28	-20.86	-1.08	-13.41	-0.80	16.46	0.56		
3. Oilcakes	0.43	-23.85	-2.33	-27.98	-3.15	17.51	1.08		
<b>B. Administered Items</b>	<b>20.16</b>	<b>5.25</b>	<b>16.91</b>	<b>4.25</b>	<b>15.78</b>	<b>3.79</b>	<b>10.58</b>		
1. Petroleum, Crude & Natural Gas	4.27	-2.09	-0.97	-2.09	-1.11	0.79	0.29		
2. Petroleum Products	6.67	1.09	1.11	1.09	1.28	0.00	0.00		
3. Coal Mining	1.26	12.48	3.85	12.48	4.44	0.00	0.00		
4. Electricity	2.74	8.28	4.57	5.38	3.42	4.32	2.12		
5. Fertilisers	1.75	-5.26	-1.15	-5.26	-1.32	0.00	0.00		
6. Iron & Steel	2.44	10.38	4.76	7.28	3.84	10.95	4.57		
7. Non-Ferrous Metals	1.03	22.57	4.72	21.75	5.23	17.03	3.59		
<b>Manufactured Products</b>	<b>57.04</b>	<b>9.24</b>	<b>90.31</b>	<b>7.16</b>	<b>80.48</b>	<b>9.03</b>	<b>79.41</b>		
<b>C. Other Important Groups</b>									
1. Beverages, Tobacco & Tobacco Products	2.15	16.00	6.53	13.43	6.30	17.04	6.64		
2. Textiles	11.55	7.05	13.06	5.94	12.66	14.42	23.55		
3. Paper & Paper Products	1.99	8.76	3.67	6.84	3.30	9.93	3.73		
4. Leather & Leather Products	1.02	7.25	1.41	6.82	1.57	12.36	2.12		
5. Rubber & Plastic Products	1.59	0.39	0.11	-0.51	-0.17	3.20	0.78		
6. Chemical & Chemical Products	7.36	2.70	3.15	2.40	3.23	3.43	3.39		
7. Non-Metallic Mineral Products	2.48	7.47	3.22	5.14	2.55	9.06	3.45		
(i) Cement	0.86	11.18	1.45	0.71	0.11	5.17	0.62		
8. Basic Metals, Alloys & Metal Products	7.63	19.39	28.34	15.41	25.92	8.85	12.72		
9. Machinery & Machine Tools	6.27	14.22	14.70	12.42	14.77	6.64	6.45		
10. Misc. Manufacturing Industries	0.97	5.34	0.68	3.80	0.56	0.43	0.05		

†Includes Food Articles; Non-Food Articles; Sugar, Khandsari & Gur; Edible Oils and Oilcakes.

\*Provisional.

# SEASONAL MOVEMENT OF WHOLESALE PRICE INDEX

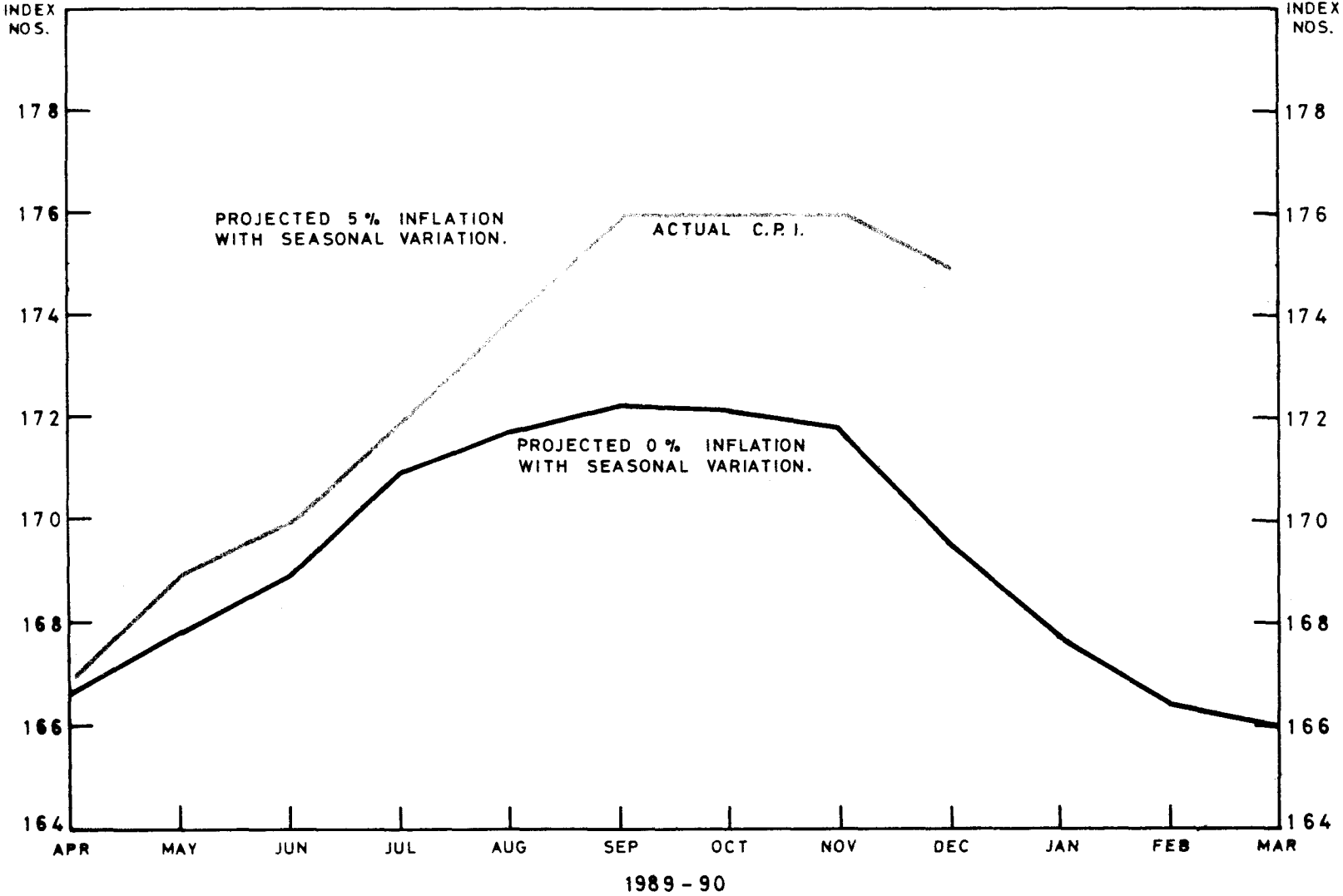
1981-82 = 100



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# SEASONAL MOVEMENT OF CONSUMER PRICE INDEX

1982 = 100



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5.12 The prices of tea increased by over 41 per cent upto the end of September largely due to decline in tea production. During January—November, 1989 total tea production was estimated to be around 649.64 million kgs. as against 661.87 million kgs. in the corresponding period last year. In addition, there has been pressure of international demand as reflected in rising international prices of tea. Exports were, therefore, marginally higher during April—

November, 1989 at nearly 153.41 million kgs. as compared with 150.49 million kgs. in the corresponding period last year. In order to check the price rise in tea, Government has taken several steps such as introduction of a 'Nagrik' popular brand of tea marketed at Rs. 40 per kg. and issue of directive that every second auction of tea would be for domestic sale. Despite close monitoring and measures taken by the Government tea prices remain under pressure.

TABLE 5.3  
Movement of Wholesale Price Index of Seasonal Items  
(Base : 1981-82=100)

Items	Weight in WPI (%)	Percentage Change (point to point basis)				
		1988-89		1989-90		
		Whole year	End Mar. —End Sep.	End Mar. —End Jan.	End Mar. —End Sep.	End Mar. —End Jan.*
<b>Seasonal Items ‡</b>	<b>34.41</b>	<b>—0.09</b>	<b>2.25</b>	<b>0.61</b>	<b>9.38</b>	<b>5.21</b>
<b>Food Articles</b>	<b>17.39</b>	<b>3.58</b>	<b>6.03</b>	<b>6.92</b>	<b>6.57</b>	<b>0.17</b>
Food Grains	7.92	9.46	7.67	11.44	3.38	—2.36
Cereals	6.82	9.17	5.46	9.91	0.43	—3.77
Rice	3.69	6.68	8.58	3.87	6.45	0.68
Wheat	2.25	12.47	4.23	20.65	—8.36	—8.97
Pulses	1.09	11.12	20.11	20.17	19.27	5.32
Fruits & Vegetables	4.09	—12.18	4.46	—7.45	7.00	—3.41
Fruits	2.80	—18.58	—7.06	—11.33	—8.56	—8.96
Vegetables	1.29	11.09	47.17	6.70	48.49	11.35
Milk	1.96	15.87	8.86	17.78	5.84	0.57
Eggs, fish & meat	1.78	4.21	1.77	8.97	6.97	5.86
Condiments & Spices	0.95	—8.60	2.60	0.96	6.91	—2.06
Other food articles	0.69	35.94	8.83	31.24	33.77	29.24
Tea	0.56	41.39	12.35	35.02	41.41	35.71
Coffee	0.13	14.24	—5.24	16.37	—4.09	—2.83
<b>Non—Food Articles</b>	<b>10.08</b>	<b>—7.05</b>	<b>—7.71</b>	<b>—8.30</b>	<b>6.36</b>	<b>11.31</b>
Fibres	1.79	12.03	—3.59	—2.46	—1.19	—3.26
Raw cotton	1.34	3.72	—10.29	—11.89	—1.47	—10.88
Raw jute	0.16	58.70	24.46	34.63	—12.57	17.13
Oil seeds	3.86	—23.26	—15.66	—20.05	22.01	19.57
<b>Sugar, Khandsari &amp; Gur</b>	<b>4.06</b>	<b>13.12</b>	<b>21.89</b>	<b>2.95</b>	<b>30.41</b>	<b>10.22</b>
Sugar	2.01	5.84	5.92	3.70	14.69	9.79
Khandsari	0.30	8.55	18.53	—2.04	53.85	30.86
Gur	1.75	23.08	42.71	2.81	44.41	6.47
<b>Edible Oils</b>	<b>2.45</b>	<b>—7.43</b>	<b>—1.49</b>	<b>—4.29</b>	<b>13.15</b>	<b>10.80</b>
Groundnut Oil	0.53	—20.30	—9.04	—17.19	34.79	25.02
Rape & Mustard oil	0.28	—20.86	—4.56	—13.41	17.11	16.46
<b>Oil cakes</b>	<b>0.43</b>	<b>—23.85</b>	<b>—19.25</b>	<b>—27.98</b>	<b>18.82</b>	<b>17.51</b>
<b>All Commodities</b>	<b>100.00</b>	<b>5.66</b>	<b>3.77</b>	<b>4.92</b>	<b>7.01</b>	<b>6.50</b>

‡ Includes Food Articles; Non-Food Articles; Sugar, Khandsari & Gur; Edible Oils and Oilcakes.

\* Provisional.

5.13 The price of pulses increased by 19.27 per cent upto the end of September but declined thereafter due to increase in production. It may, however, be mentioned that there has been a secular increase in the prices of pulses on account of stagnation in production during the last two decades caused by low yield and low profitability in relation to the competing crops. The per capita availability of pulses has consequently declined from nearly 52 grams per day in 1970 to about 33 grams per day in 1988. Keeping this in view, the import of pulses has been kept under OGL. During 1988-89 a quantity of 8.27 lakh tonnes of pulses was estimated to have been imported while during April–September, 1989 a quantity of 1.18 lakh tonnes of pulses was imported. Because of rising prices the import duty on pulses has been reduced from 35 per cent to 10 per cent. The WPI of cereals upto the end of January, 1990 has shown a decline of 3.77 per cent during the current financial year in contrast to an increase of about 10 per cent in the corresponding period of last year.

5.14 The prices of manufactured products such as beverages, textiles, paper and paper products, leather and leather products, basic metals as well as non-metallic mineral products have also registered appreciable increases. In fact, the manufactured items as a group continued to account for the bulk of increase (about 80 per cent) in WPI (Table 5.2). The increase in prices of metals, machinery and paper products is due to higher import prices and that of leather products and, to some extent, of textiles due to increasing export demand.

5.15 Prices of administered items as a group have shown a modest rise of 3.79 per cent and account for 10.58 per cent of total increase. A notable increase has been recorded in the prices of metals which have gone up largely on account of higher cost of imports.

5.16 The main factor responsible for persistent inflationary trend in the current financial year has been the higher liquidity growth and overhang of liquidity from high order of monetary expansion in past three financial years. During the current financial year broad money (M<sub>3</sub>) has recorded an increase of 14.9 per cent upto January 26, 1990 against 14.6 per cent recorded in the corresponding period of last year. The net bank credit to government has also recorded a higher increase of 21.1 per cent during this period as compared with 17.8 per cent in the corresponding period of last year.

5.17 As observed earlier while the WPI has registered an increase of 6.5 per cent upto January 27, 1990 which is higher than the increase of 4.9 per cent in the corresponding period of 1988-89, the increase in CPI during the current year upto January, 1990 is 5.5 per cent which is much less than the increase of 7.8 per cent recorded in the corresponding period of 1988-89. This shows that the gap between the inflation rates yielded by WPI and CPI has considerably narrowed in the current year. Also the decline in the inflation rate as per CPI and rise in inflation rate as per WPI may be on account of the fact that the CPI has attained a relatively higher level last year. However, it must be mentioned that WPI and CPI are not strictly comparable on account of differences in objectives, coverage, methodology and weighting diagrams of the two series.

#### New Series of WPI (1981-82=100)

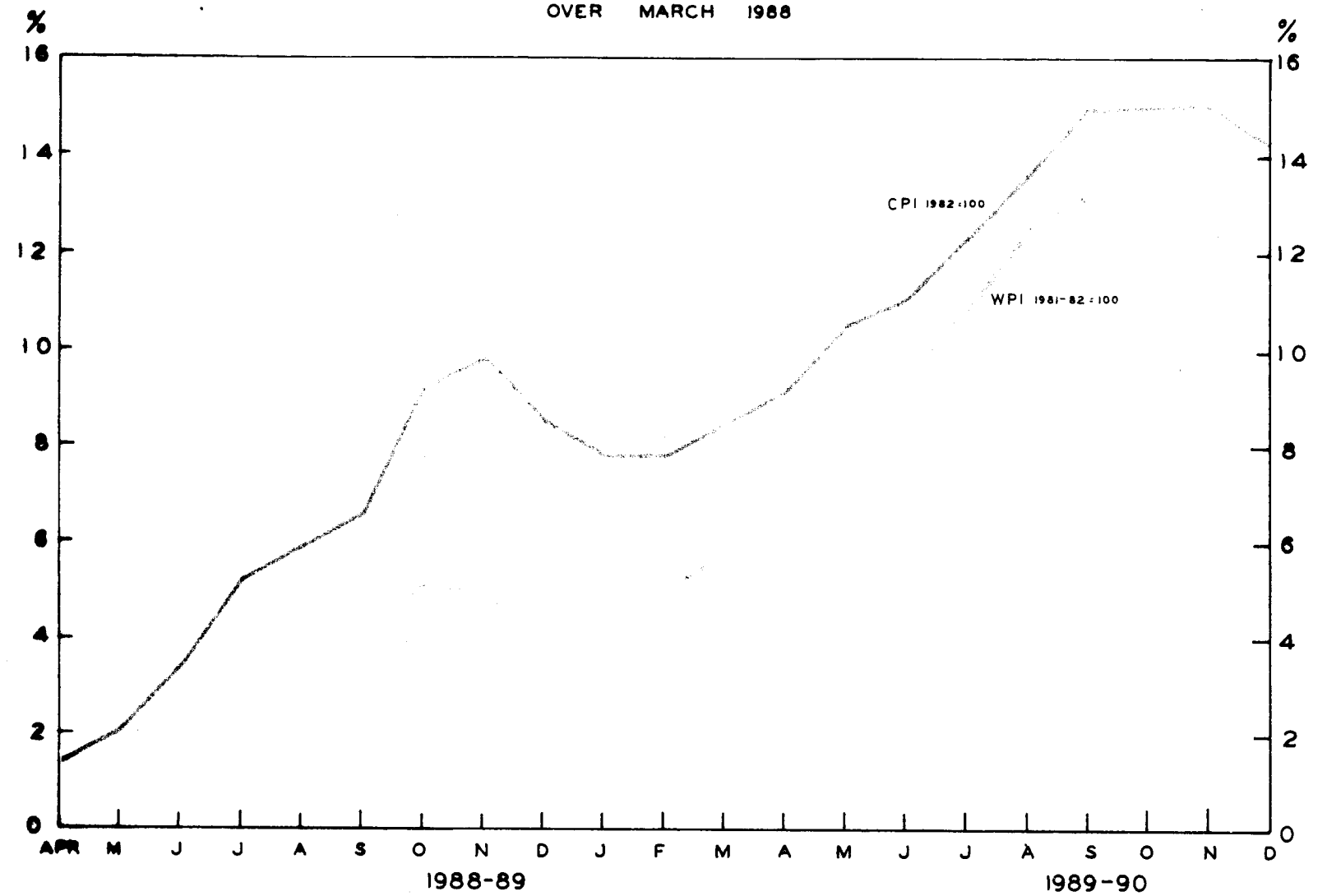
5.18 A new series of Wholesale Price Index with 1981-82 as the base year has been released in July, 1989 to replace the old series with 1970-71 as the base. The new series has a considerably larger coverage of items, their grades and markets, and is also based on larger number of quotations. The weighting diagram of new series is also different from the earlier one. Details are given in Table 5.4.

TABLE 5.4  
Weighting Diagram, Number of Items and Quotations of WPI  
1970-71 and 1981-82 Series

Group of Items	Weights		Number of Items		Number of Quotations	
	1970-71	1981-82	1970-71	1981-82	1970-71	1981-82
All Commodities . . . . .	100.00	100.00	360	447	1295	2371
I. Primary Articles . . . . .	41.67	32.30	80	93	411	519
II. Fuel, Power, Light & Lubricants . . . . .	8.46	10.66	10	20	30	73
III. Manufactured Products . . . . .	49.87	57.04	270	334	854	1779

# MOVEMENT IN C P I AND W P I

CUMULATIVE PERCENTAGE CHANGE  
OVER MARCH 1988

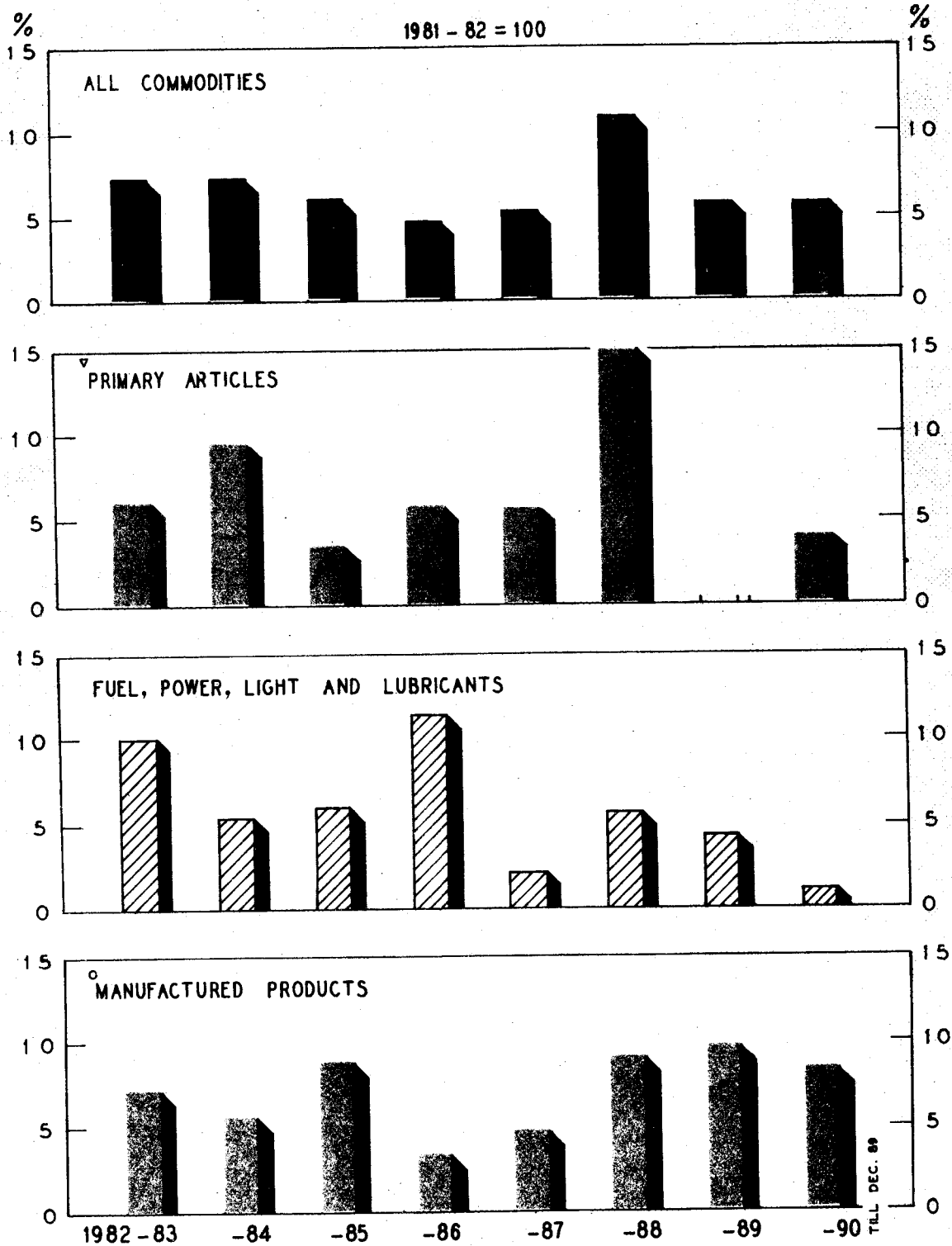


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# ANNUAL INFLATION RATES (POINT TO POINT)

## WHOLESALE PRICE INDEX (GROUP WISE)



▽ INCLUDES SUGAR, KHANDSARI, GUR & EDIBLE OIL  
 ○ EXCLUDES " " " " "

## Administered Price Policy and Government Intervention

5.19 The Government follows administered price policy in respect of commodities which are either vital industrial raw materials, produced wholly or largely in public sector (such as coal, steel, petrol, fertilizers etc.), or intervenes in the determination of prices of essential items of final consumption mostly of agricultural origin (like wheat, rice, sugar, edible oils etc.). Revision in prices of administered items becomes necessary in view of change in cost of production and also to keep relative price structure in order.

5.20 During the current year, administered prices remained stable for industrial items. However, there have been substantial upward revisions in procurement/support prices of various agricultural commodities to provide, inter alia, incentives to producers and to augment production and to achieve adequate procurement of various agricultural commodities.

### Procurement/Minimum Support Prices

5.21 The Commission for Agricultural Costs and Prices (CACP) advises the Government on fixation of procurement/support prices. While recommending these prices the CACP takes into consideration, various factors such as cost of production, input-output price parity, trends in market prices, inter-crop price parity and parity between prices paid and prices received etc. Government fixes the procurement/support prices after reviewing the recommendations of CACP.

5.22 The Government announces procurement/minimum support prices for each season and also arranges procurement/price support operations through public/cooperative and other state designated agencies. The Food Corporation of India (FCI) is the agency responsible for procuring rice and wheat. The FCI also procures coarse

grains in Haryana, Punjab and Uttar Pradesh, while NAFED undertakes support operation for coarse grains in other states. Procurement prices/support prices set the floor to and significantly influence open market prices. These are in the nature of a guarantee that the prices will not be allowed to fall below these levels as the Government will then intervene and make purchases at the guaranteed price. The details of procurement/support prices of different agricultural commodities fixed by the Government in recent years are given in Table 5.5. The revisions made for marketing years 1989-90 (kharif) and 1990-91 (rabi) are discussed below.

### Foodgrains

5.23 For the marketing year 1989-90 procurement price of paddy (common) was initially raised by Rs. 15 per quintal over previous year. Soon after the beginning of the marketing season in October, 1989 further increase of Rs. 10 was announced. As a result, during the kharif marketing year 1989-90 procurement price for paddy ruled at Rs. 185 per quintal compared with Rs. 160 in the previous year. Similarly the price of fine variety was raised from Rs. 170 to Rs. 195 and for superfine variety from Rs. 180 to Rs. 205 per quintal. Procurement prices of coarse grains which were first raised from Rs. 145 to Rs. 155 per quintal in 1988-89 were further revised to Rs. 165 per quintal in October, 1989. For kharif pulses like arhar, moong and urad the support prices were raised from Rs. 360 to Rs. 425 per quintal including an additional hike of Rs. 25 allowed for the marketing season 1989-90.

5.24 Procurement price of wheat was raised by Rs. 17 per quintal i.e. from Rs. 183 to Rs. 200 per quintal for the rabi marketing season 1990-91. The minimum support price for barley was raised from Rs. 145 to Rs. 160 per quintal and for gram from Rs. 325 to Rs. 370 per quintal.

TABLE 5.5

## Minimum Support/Procurement Prices of Agricultural Commodities

(Rs. per quintal)

Commodity		Marketing Year*						
		1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1. Wheat	(Procurement Price)	152	157	162	166	173	183	200
2. Paddy (Common Variety)	-do-	137	142	146	150	160	185**	
3. Coarse grains	-do-	130	130	132	135	145	165	
4. Barley	(Minimum Support Price)	124	130	132	135	135	145	160
5. Gram	-do-	240	..	260	280	290	325	370
6. Arhar	-do-	275	300	320	325	360	425	
7. Moong	-do-	275	300	320	325	360	425	
8. Urad	-do-	275	300	320	325	360	425	
9. Mustard	-do-	360	385	400	415	430	460	510
10. Groundnut	-do-	340	350	370	390	430	500	
11. Sunflower seed	-do-	325	335	350	390	450	530	
12. Soyabean (Black variety)	-do-	240	250	255	260	275	325 £	
13. Cotton (F-414/H-777)	-do-	410	425	430	440	500	570	
(Kapas Hybrid-4)	-do-	535	535	540	550	600	690	
14. Sugarcane	(Statutory Minimum Price)	14.00	16.50	17.00	18.50	19.50	22.00	23.00
15. Jute (W-5 Grade Ex-Assam)	-do-	195	215	225	240	250	295 @	
16. VFC Tobacco (F-2) (Black soil)	-do-	1115	1115	1115	1125	1175	1250	

\*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. 195 per quintal for fine variety and Rs. 205 per quintal for superfine variety.

..not announced £ Rs. 370 per quintal for yellow variety.

@Minimum Support Price of TD-5 variety at Nowgong in Assam.

**Oilseeds**

5.25 The minimum support price for groundnut was raised from Rs. 430 to Rs. 500 per quintal and for sunflower from Rs. 450 to Rs. 530 including the additional hike of Rs. 30 announced in October, 1989. For soyabean (black variety) support price was raised from Rs. 275 to Rs. 325 per quintal and for yellow variety from Rs. 320 to Rs. 370 per quintal for 1989-90 season. The minimum support price of rapeseed/mustard has been raised from Rs. 460 to Rs. 510 for the marketing season 1990-91.

**Sugarcane**

5.26 The statutory minimum price (SMP) of sugarcane which was fixed at Rs. 20 per quintal for 1989-90 marketing season was further raised to Rs. 22 for the same season.

For the 1990-91 season the SMP for sugarcane has been raised to Rs. 23 per quintal.

**Fibres**

5.27 For raw cotton (F-414/H-777) minimum support price for 1989-90 season was raised by Rs. 70 per quintal to Rs. 570. Support price of Hybrid-4 variety of cotton was raised sharply from Rs. 600 to Rs. 690 per quintal. The minimum support price for jute (TD-5 variety at Nowgong in Assam) was fixed at Rs. 295 per quintal marking an increase of Rs. 32.50 over previous year.

**Tobacco**

5.28 For VFC tobacco (F-2 black soil) the minimum support price was raised from Rs. 1,175 to Rs. 1,250 per quintal.

5.29 In order to ensure fair returns to farmers for their produce a comprehensive review of the methodology followed for recommending procurement/support prices has become absolutely necessary. For this purpose, an Expert Committee has been set up to (i) review the methodology followed for the estimation of cost of cultivation which go into determination of procurement/minimum support prices; (ii) the terms of trade between the agricultural and non-agricultural sectors with a view to safeguard the interests of farmers; and (iii) to recommend other measures to improve the remunerativeness of crop production. After the Committee submits recommendations, the price policy will be reviewed appropriately. This will enable the Government to evolve a more realistic price structure for agricultural commodities.

#### Foodgrain Operations

5.30 Government operations in foodgrains primarily aim at stabilising market prices by making purchases from farmers through procurement to protect them against a post-harvest decline in prices and to provide foodgrains to consumers at reasonable prices through the Public Distribution System and open market sales. Foodgrains are procured by FCI and State Agencies at prices fixed by the Government. Procurement of wheat for financial year 1989-90 (upto end January, 1990) was 9.0 million tonnes which was substantially higher than the procurement of 6.53 million tonnes in the corresponding month of previous year which followed a drought. Procurement of rice during current financial year 1989-90 also has been higher at 9.21 million tonnes (upto January end) as compared to 6.32 million tonnes in the corresponding period last year. As a result, this is likely to improve stock position of foodgrains. The stock of rice at 7.42 million tonnes on February 1, 1990 was higher than 4.88 million tonnes a year ago. The stock of wheat was also higher at 5.09 million tonnes on February 1, 1990 compared with 4.30 million tonnes a year ago thanks to good procurement (See Table 5.6). The position of stocks of foodgrains in recent years is shown in Table 5.7. While prices of wheat and rice have not been under any stress during current year, buffer

stocks available with the Government need to be replenished to desirable levels to cope with any problems that may develop in respect of adequacy of rainfall in the years ahead.

TABLE 5.6  
*Procurement, Public Distribution and  
Stocks of Foodgrains*

(,000 Tonnes)					
		1987-88	1988-89	1989-90*	
			Full Year	Upto January, 1989	Upto January, 1990
<b>A. Procurement</b>					
Rice	.	6890	7689	6317	9207
Wheat	.	7880	6535	6534	9904
<b>Total Foodgrains</b>		<b>14945</b>	<b>14289</b>	<b>12925</b>	<b>18339</b>
<b>B. Public Distribution</b>					
Rice	.	10171	9089	7640	7080
Wheat @	.	9222	7668	6238	5838
<b>Total Foodgrains</b>		<b>19483</b>	<b>16980</b>	<b>14073</b>	<b>12964</b>
<b>C. Stocks**</b>					
Rice	.	5914	4675	4880	7420
Wheat	.	3341	2661	4301	5088
<b>Total Foodgrains</b>		<b>9427</b>	<b>7387</b>	<b>9254</b>	<b>12603</b>

\*Provisional.

\*\*End period basis.

@Public distribution of wheat does not include open sale of wheat by FCI which was of the order of 35.97 lakh tonnes in 1987-88, over 10 lakh tonnes in 1988-89 and 1.99 lakh tonnes in 1989-90 (upto end January).

5.31 Foodgrains procured for the Central pool are distributed to consumers through a vast network of fair price shops at issue prices fixed by the Government. These prices are revised by the Government periodically taking into account the changes in procurement prices and cost of distribution. These prices are kept below the economic cost to keep them within the reach of vulnerable sections of society. The difference between the issue price and economic cost is borne by the Government by way of food subsidy. The issue price of rice was last revised with effect from January 25, 1989 and that of wheat on March 25, 1988. Since then the issue prices of rice and wheat have remained unchanged at Rs. 244 for common variety of rice and Rs. 204 per quintal for wheat. For ITDP areas the issue price of wheat was raised from Rs. 139 per quintal in March 1988 to Rs. 154 in June, 1989.

TABLE 5.7  
Stocks of Foodgrains

Item	At Month ending					
	June 87	Sept. 89	June 88*	Sept. 88*	June 89*	Sept. 89*
Rice	8.35	5.47	4.16	2.02	3.60	2.03
Wheat	14.86	11.46	7.55	5.92	9.43	7.80
<b>TOTAL (including others)</b>	<b>23.27</b>	<b>16.96</b>	<b>11.90</b>	<b>8.09</b>	<b>13.05</b>	<b>9.82</b>

\*Provisional

5.32 Total public distribution of wheat (off-take) during current year has been lower at 58.38 lakh tonnes compared with the last year's level of 62.38 lakh tonnes (till January) (Table 5.8). Offtake of rice has also been lower at 70.80 lakh tonnes as against 76.40 lakh tonnes in corresponding period last year. Lower offtake this year is partly on account of lower level of releases of rice upto October, 1989 because of lower level of stocks and partly due to easy availability of foodgrains in open market which eased the pressure on supplies under PDS that was built up during drought years 1987 and 1988. During 1989-90 over 5 lakh tonnes of rice was imported to maintain the supplies through PDS. The availability of rice has improved with the arrival of current crop.

#### Sugar Operations

5.33 The dual pricing system for sugar which has been in existence for some time continued during the current-year. Under this system a fixed percentage of total factory output is acquired by the Government at a pre-committed price as levy and is released through the public distribution system. The remaining output is free to be sold in the open market. For 1988-89 the free sale quota was raised to 55 per cent from its earlier share of 50 per cent. The issue price of levy sugar for PDS which was increased from Rs. 5.10 per kilogram to Rs. 5.25 per kilogram with effect from January 1, 1989 remained at this level during the current year.

5.34 As noted above prices of sugar, khand-sari and gur have registered a very sharp increase during the current financial year. Price rise of this magnitude was caused mainly by decline in sugar production, rising demand for sugar and reported smuggling in the neighbouring areas where higher prices were ruling. Sugar production declined from 9.1 million tonnes in

1987-88 (sugar year) to 8.7 million tonnes during 1988-89. In order to check the rise in market prices the Government released larger quantities of freesale and levy sugar. As may be seen in Table 5.8, total releases of sugar during 1989-90 were 105.09 lakh tonnes as against 99.74 lakh tonnes in the previous year. Furthermore, to augment the domestic availability it was decided to import about 2.4 lakh tonnes of sugar. Stock limits for licensed dealers were also reduced as a supplementary measure to ease pressure on prices. As a result of these measures, sugar prices have shown a downward trend in recent weeks.

#### Edible Oil Operations

5.35 As a result of substantial increase in production of oilseeds during 1988-89 the availability of edible oils remained comfortable and its prices showed a declining trend almost throughout the year. Consequently, dependence on imports for meeting the domestic requirements came down substantially. Import of edible oils came down from 19.67 lakh tonnes in 1987-88 to 11.66 lakh tonnes in 1988-89. Of the imported edible oils available with the Government 8.09 lakh tonnes was released for PDS during 1988-89 against over 13.37 lakh tonnes during the previous year. Considering easy availability of indigenous edible oil, import as well as allocation has been curtailed during the current financial year. Till January, 1990 only 2.13 lakh tonnes of edible oil was imported. Release of edible oils for PDS during 1989-90 has been at the level of 3.71 lakh tonnes against 8.09 lakh tonnes in the previous year. With a view to providing edible oil to consumers at a reasonable price and also keeping in view the price trend of indigenous oil in the market, the PDS price of imported oil was kept the same as revised with effect from September 1, 1988.

5.36 In view of easier availability of indigenous oils in the country, supply of imported edible oil to vanaspati industry at concessional rate was discontinued last year. However, supply at commercial rate of Rs. 19,000 per tonne was allowed. Even this has been discontinued with effect from May, 1989. This has not, however, affected the production of vanaspati which remained almost at the 1987-88 level of 9.89 lakh tonnes. However, in order to augment the pace of lifting of indigenous oil from the market and also to provide adequate oils for vanaspati the use of expeller groundnut/mustard oil in vanaspati was allowed to the extent of 20 per cent for a period of 2 months with effect from January 10, 1989. On reviewing the position, the permission to use expeller groundnut oil in vanaspati was withdrawn after 2 months but the permission to use mustard oil continued till January 15, 1989.

5.37 Under the integrated edible oil policy of the Government the National Dairy

Development Board (NDDB) was designated as the market intervention organisation (MIO) with effect from oil year 1988-89. The objective of bringing NDDB to intervene in edible oil market was to provide remunerative prices to the producers of oilseeds and to stabilise prices of edible oil in the market within the price bands recommended by the Government. This was done by intervening in the market through procurement and market sales operations.

5.38 The Wholesale Price Index of edible oils during the current year (upto January 27, 1990) registered an increase of 10.80 per cent as against a decline of 4.29 per cent in the corresponding period of previous year. Groundnut oil rose by 25.02 per cent and mustard oil by 16.46 per cent as against their corresponding declines of 17.19 per cent and 13.41 per cent respectively. The prices of most edible oils during the current year are likely to remain comfortable due to their easy availability.

TABLE 5.8  
Monthly Pattern of Off-Take of Major Items by the Public Distribution System

Month	Rice (Off-take)*		Wheat (Off-take)*@		Edible Oils £ (Allocation)		Sugar** (Releases)	
	1988-89	1989-90	1988-89	1989-90	1988-89	1989-90	1988-89	1989-90
April	764	637	544	437	62.3	24.2	782	782
May	766	638	525	440	64.3	24.4	782	832
June	779	654	604	524	77.5	23.0	772	882
July	809	685	655	589	83.1	28.8	832	832
August	798	710	614	608	94.8	34.9	832	857
September	764	702	643	655	93.9	37.7	842	882
October	739	667	626	582	96.9	38.3	917	1032
November	704	790	619	632	86.2	42.9	932	932
December	747	814	724	672	38.5	26.0	852	882
January	770	733	684	699	40.7	27.0	832	832
February	703		662		38.3	28.5	807	882
March	746		768		32.9	35.0	792	882
<b>Total</b>	<b>9089</b>	<b>7080</b>	<b>7668</b>	<b>5838</b>	<b>809.4</b>	<b>370.7</b>	<b>9974</b>	<b>10509</b>
		(7640)		(6238)				

\* Provisional

\*\* Total of levy and free sale sugar.

£ Including small packs.

@Total off-take of wheat does not include open sale of wheat by FCI which was of the order of over 10 lakh tonnes in 1988-89 and 1.90 lakh tonnes in 1989-90 (upto January end)

Note :—Figures in brackets give total for the corresponding months of 1988-89.

### Administered Prices for Industrial Products

5.39 Administered prices for most industrial products remained stable during the current year. However, there have been a few marginal revisions in prices of certain industrial products as stated below.

5.40 *Coal*: Price of coal produced by Coal India Ltd. was last revised with effect from January, 1989 raising the average pithead price from Rs. 219 per tonne to Rs. 249 per tonne. The price of coal produced by Singareni Collieries Company was revised with effect from January 24, 1989 raising the average pithead price from Rs. 270 per tonne to Rs. 297 per tonne. The price of soft coke was however not revised and was kept at Rs. 175 per tonne for domestic use and Rs. 300 per tonne for industrial use.

5.41 *Steel*: Prices of various categories of steel were raised marginally on an average by 1.5 per cent with effect from June 2, 1989 by the Joint Plant Committee following an increase in railway freight.

5.42 *Non-Ferrous Metals*: Not only price control on aluminium was done away with its sale was decontrolled during the current year. However, Government continued to administer the prices of other non-ferrous metals such as copper, zinc, lead and nickel whose prices are significantly affected by international prices and changes in exchange rates as bulk of these metals are imported.

5.43 *Petroleum Products*: There has been no change in the basic ceiling selling prices of petroleum products despite an increase in price of crude oil and increase in rail freight. The Government continued to provide petroleum products at concessional prices for export oriented units (EOUs) besides implementing special subsidy schemes of supplying kerosene and LPG for domestic use to hill areas and North Eastern regions.

### Outlook

5.44 As mentioned earlier, in addition to demand/supply imbalances in respect of certain commodities an important cause of persistence of inflationary pressure in recent years is the fiscal imbalance leading to higher liquidity growth and overhang of liquidity from earlier years. As recourse to imports for augmenting domestic supplies of sensitive items has to be necessarily limited due to tight balance of payment position, the success in controlling inflation will largely depend on the success in controlling excess liquidity in the system and the speed with which fiscal discipline is imposed. A rapid rise in the price of essential commodities hurts the vulnerable and weaker sections. Further through its impact on the Government budget it also erodes the resources available for investment and development. Hence there is a continuing need for supply management of essential commodities through production promotion, domestic procurement, foreign trade, buffer stocking, public distribution and market intervention operations.