CHAPTER 6

PRICES, PRICE POLICY AND PUBLIC DISTRIBUTION SYSTEM

The price situation was under pressure through out 1990-91, despite a satisfactory monsoon and a bumper crop for the third year in succession. The inflationary pressures had started building up from 1989-90 itself when the Wholesale Price Index (WPI) registered a marked increase of 9.1 per cent compared with an increase of only 5.7 per cent during 1988-89. During the first half of 1990-91, the cumulative price rise at 5.9 per cent was lower compared with an increase of 7 per cent in the corresponding period of the previous year. After September, 1990, however, the situation deteriorated. Instead of a seasonal decline usually associated with the arrival and marketing of kharif crops from September onwards, there had been a contra-seasonal increase in prices, a situation which had arisen only during the drought year of 1987-88 in the recent past. Consequently, the annual rate of inflation in terms of WPI during 1990-91 at 12.1 per cent was much higher than the annual inflation rate of 9.1 per cent during 1989-90.

6.2 The major concern about inflation in 1990-91 was that the sharp increase in prices was concentrated in essential commodities such as foodgrains, vegetables, pulses and edible oils. This occured despite three good monsoons in a row, and hence three successive bumper harvests. The scope for supply management through imports was limited in view of the precarious balance of payments situation. At the same time, while a large liquidity over-hang had been inherited from the earlier years, the scope for a further monetary sequeeze was constrained by the fact that the Cash Reserve Ratio (CRR) had already reached its statutory limit of 15 per cent. Reliance had to be placed on other measures to moderate the pace of reserve money growth. More frequent modification of minimum margins and credit ceilings on bank advances against sensitive commodities were made in response to price and output developments. The Statutory Liquidity Ratio (SLR) was raised from 38 per cent to 38.5 per cent of the net domestic demand and time liabilities with effect from September 22, 1990. The budgetary situation was also under pressure because of revenue shortfalls and expenditure overruns, some part of which was attributable to the Gulf crisis.

6.3 Several factors had contributed to the build up of inflationary pressures in the economy. The main factors, no doubt, related to (a) fiscal imbalances resulting in a higher increase in money supply, liquidity over-hang and thus effective demand, (b) supply and demand imbalances in sensitive commodities mainly due to shortfall in domestic production and inability of the Government to import desired quantities because of persistent pressure on balance of payments and shortage of foreign exchange, and (c) the consequent inflationary pressures.

6.4 The increase in the prices of essential commodities was due to various factors. Prices of cereals, particularly rice and wheat, increased on account of a substantial increase in their procurement prices and consequent rise in their issue prices which set the trends for open market prices. Prices of pulses continued to increase by persistent excess demand against a situation of near stagnation in domestic production in the last two decades. The sharp increase in prices of edible oils was mainly due to shortfall in the domestic production for two successive years and inability of the Government to import larger quantities due to balance of payment problems. Prices of other food articles, particularly fruits and vegetables, seemed to have risen on account of increase in transport costs attributable to the two hikes in prices of diesel. Disruption in transport during August—October, 1990 might have accentuated the problem by creating localised shortages.

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6.5 The Gulf Surcharge of 25 per cent on domestic prices of petroleum products, imposed with effect from October 15, 1990, has no doubt, also added to the inflationary pressures.

6.6 The increase in the Consumer Price Index for Industrial Workers was still higher at 13.6 per cent during 1990-91 compared with 6.6 per cent during 1989-90. The relatively higher increase in CPI was due to a continuous spurt in the prices of food articles and food products, which have a much higher weight in the CPI than the WPI. Similar trends have been exhibited in the movement of the CPI for Urban non-manual employees.

6.7 Details with regard to the movements in price indices (WPI and CPI) during 1990-91 and 1989-90, are given in the following table :—

TABLE 6.1

Movement in Price Indices

	Percentage change	
	1989-90	1990-91
1	2	3
A. Wholesale Price Index (1981-82 = 100)		
1. Annual Inflation Rate (Point to point basis) . . .	9.1	12.1
2. Annual Inflation Rate (Average of the year basis) . . .	7.5	10.3
3. Level of the Index (Last week of March)	171.1	191.8
B. Consumer Price Index for Industrial Workers (1982 = 100)		
1. Annual Inflation Rate (Point to point basis) . . .	6.6	13.6
2. Annual Inflation Rate (Average of the year basis) . . .	6.1	11.6
3. Level of the Index (March) .	177	201

Trends During the 1980s

6.8 The group-wise average change in WPI since 1982-83 is given in the following table :—

TABLE 6.2

Average Change in WPI of major groups during 1982—91
(Base : 1981-82 = 100)

Commodity/Group	Weight	Percentage change in WPI between 1981-82 and 1990-91	Percentage contribution to increase in WPI
1	2	3	4
I. Primary Articles .	**32.30**	**84.9**	**33.2**
(a) Food Articles .	17.39	100.6	21.2
(b) Non-food Articles	10.08	94.2	11.5
(c) Minerals . .	4·83	9.0	0.5
II. Fuel, Power, Light & Lubricants . .	**10.66**	**75.8**	**9.8**
III. Manufactured Products	**57.04**	**82.8**	57.0
(a) Food Products .	10.14	81.7	10.0
(b) Textiles . .	11.55	71.2	9.9
(c) Basic Metals, Alloys & Metal Products . .	7.63	119.9	11.1
(d) Machinery & Machine Tools .	6.27	80.2	6.1
All Commodities . .	**100.00**	**82.7**	**100.00**

6.9 Since 1981-82, the all-commodities WPI has moved up by 82.7 per cent (upto March, 1991). Manufactured products as a group accounted for 57 per cent of the increase in the index, whereas primary articles accounted for 33.2 per cent and the balance 9.8 per cent was contributed by the group 'fuel, power, light and lubricants'. Among manufactured items the contribution of food products was 10 per cent, textiles 9.9 per cent, basic metals, alloys and metal products 11.1 per cent and machinery and machine tools 6.1 per cent.

6.10 Administered items as a category consist of minerals, petroleum crude & natural gas, fuel, power, light and lubricants and a number

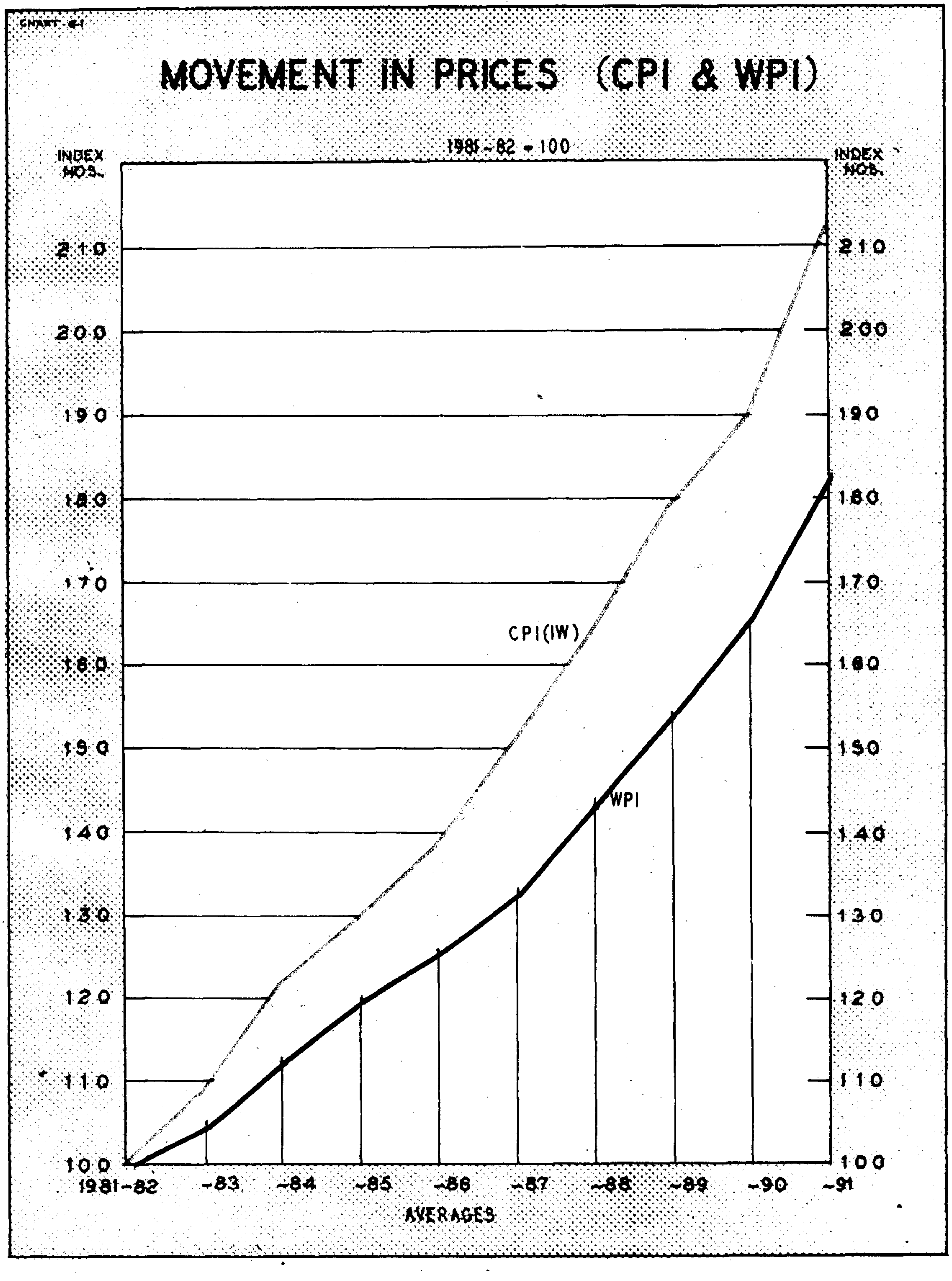


CHART 6-1
MOVEMENT IN PRICES (CPI & WPI)
1981-82 = 100
INDEX NOS.
210
200
190
180
170
160
150
140
130
120
110
100
CPI(IW)
WPI
1981-82
-83
-84
-85
-86
-87
-88
-89
-90
-91
AVERAGES

of important manufactured products such as iron and steel, non-ferrous metals (excluding aluminium) and fertilizers. The rise in the prices of fuel, power, light and lubricants was due to upward revision in administered prices of energy, necessitated by the rise in cost of inputs. The prices of other items, by and large, remained stable. The prices of fertilizers have remained virtually unchanged during the 1980s. Since the cost of inputs has risen appreciably during this period, the higher cost has been absorbed in the budget through the provision of subsidy. This has led to a sharp increase in the burden of fertiliser subsidy.

6.11 The movement of WPI of administered items is given in the following table. :—

TABLE 6.3

Movement in WPI of Administered Items

Administered Items	Weight	Percentage change in WPI between 1981-82 and 1989-90	Percentage contribution in WPI
1	2	3	4
1. Petroleum Crude & Natural Gas	4.27	(—)8.2	(—)0.5
2. Petroleum Products	6.67	29.7	3.0
3. Coal Mining	1.26	131.8	2.5
4. Electricity	2.74	87.7	3.7
5. Fertilizers	1.75	(—)0.9	Neg.
6. Iron & Steel	2.44	88.8	3.3
7. Non-ferrous Metals (excl. aluminium)	0.57	166.8	1·4
TOTAL	19.70	44.7	13.40

Trends during the Sixth and Seventh Plans

6.12 The annual average change in price indices of different commodities during the Sixth and Seventh Plan periods has been quite uneven as may be seen from the following table :—

TABLE 6.4

Annual Inflation Rates

(Base : 1981-82 = 100)

(Average of weeks basis)

(In Per Cent)

Items	Sixth Plan* (1980—85)	Seventh Plan (1985—90)
1	2	3
All commodities	**9.3**	**6.6**
1. Foodgrains	8.6	7.2
2. Cereals	7.7	6.8
3. Pulses	13.4	10.2
4. Fruits & Vegetables	13.2	3.9
5. Milk	10.6	8.7
6. Eggs, Fish & Meat	10.5	7.0
7. Condiments & Spices	15.4	8.0
8. Other Food Articles (Tea and Coffee)	16.7	8.7
9. Non-food Articles	9.1	6.3
10. Oilseeds	10.9	6.2
11. **Manufactured Products**	**8.2**	**7.5**
12. Food Products	10.9	7.8
13. Edible oils	11.3	7.8
14. Sugar, Khandsari & Gur	10.9	9.0
15. Textiles	5.8	5.9

*Figures for 1980-81 and 1981-82 have been derived from 1970-71 base.

6.13 It may be observed that the rate of inflation has been significantly lower during the Seventh Plan compared with the Sixth Plan. As the rate of output growth during the two periods was broadly similar, this was evidently due to the fact that the Sixth Plan period had to absorb the adverse impact of two shocks, the severe drought of 1979–80 and the second oil shock. The combined effect of these shocks was reflected in the unduly high rate of inflation during the first year of the Sixth Plan; the last three years of this period experienced relatively modest rates of inflation.

6.14 The Seventh Plan period, on the other hand, experienced one major shock, the drought of

1987–88. Its impact was also short lived. However, the Seventh Plan period witnessed the emergence of some disturbing trends which have made the task of achieving price stability more difficult. The demand and supply gap in respect of essential commodities like pulses and edible oils has widened. Due to stagnation in domestic production the dependence of the country on imported petroleum and petroleum products has also increased substantially. This has aggravated the balance of payments position, thus restricting our ability to supplement shortfalls in domestic supplies of some essential commodities through imports.

Seasonality in Price Movements

6.15 The prices of agro-based items are subject to the phenomenon of seasonal variations associated with the harvesting and marketing of agricultural crops. Usually, there is an upward trend in prices upto August-September, followed by a decline upto December consequent on the arrival of Kharif crops, and a slight rise thereafter. Departure from this pattern is termed as contra-seasonal. The element of seasonality in the movement of WPI during last seven years (1983–90) may be observed from the following table :—

TABLE 6.5

Seasonal Pattern of Price Variation

Commodity	Average Rate of change of WPI during 1983—90 (Per cent)		
	April—Aug.	Sept.—Dec.	Jan.—March
1	2	3	4
1. All Commodities	**5.4**	**0.0**	**1.4**
2. Seasonal Items			
(a) Food Articles	11.1	(—)3.2	(—)0.1
(b) Non-food Articles	6.1	1.4	0.0
(c) Sugar, Khandsari & Gur	15.2	(—) 8.9	0.6
(d) Edible Oils	8.3	1.4	(—)0.8
3. Fuel, Power, Light & Lubricants	1.7	0.7	3.7
4. Manufactured Products	4.8	0.6	2.0

6.16 The above table shows that the WPI recorded, on an average a rise of 5.4 per cent between April-August. The rise was more prominent in food articles and food products like sugar group and edible oils. The manufactured products as a group (including sugar and edible oils sub-groups) recorded an average increase below 5 per cent.

6.17 Between September and December, the seasonal decline is generally concentrated in food articles group and agro-based manufactured items such as sugar, khandsari and gur.

6.18 During January-March, the food articles group showed a modest fall before the arrival of rabi crops. In fact, the prices of most of the agro-based products remained steady or showed a marginal decline during this period.

6.19 The seasonal items played a significant role in determining the rate of inflation during any year as may be observed from the following table :—

TABLE 6.6

Contribution of Seasonal Items to Inflation

Year	Annual Rate of Inflation (All Commodities)	Seasonal Items (wt 34.41 per cent)	Administered Items* (wt 19.70 per cent)	Manufactured Products (wt 57.04 per cent)
1	2	3	4	5
1985-86	4.8	36.81	30.48	47.37
1986-87	5.1	52.06	1.28	57.92
1987-88	10.7	55.81	8.48	47.07
1988-89	5.7	(—)0.57	21.45	90.31
1989-90	9.1	29.99	14.56	70.30
1990-91	12.1	52.28	14.07	42.99

*Includes cement and aluminium upto 1988-89.

NOTE : The three categories are not mutually exclusive.

Price Situation During 1989–90

6.20 As mentioned earlier, the fiscal year 1989–90 closed with an inflation rate of 9.1 per cent interms of WPI (on a point-to-point basis) compared with 5.7 per cent recorded in 1988–89.

Manufactured products accounted for about 70 per cent of the increase in WPI, food articles less than 5 per cent, non-food articles about 15 per cent, administered manufactured items about 15 per cent and fuel, power, light and lubricants about 7 per cent.

CHART 6.2

ANNUAL INFLATION RATES (POINT TO POINT)

WHOLESALE PRICE INDEX (GROUP WISE)

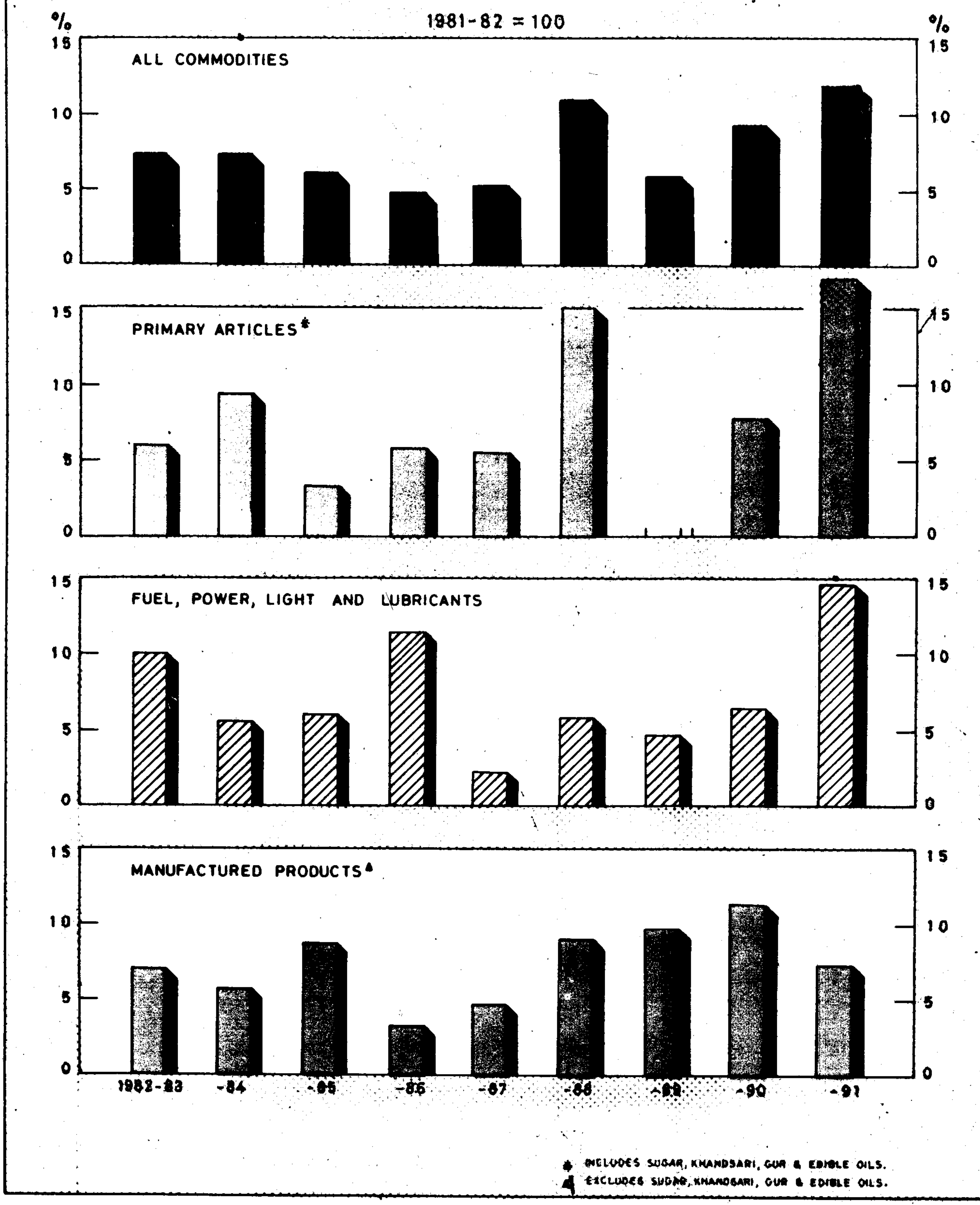


TABLE 6.7

Price Variation of Selected Items
(Base : 1981-82 = 100)

Items/Groups	Weight in WPI (%)	Annual Inflation Rates (Whole Year) (April—March) 1989-90 % change	1989-90 % share	1990-91 % change	1990-91 % share
1	2	3	4	5	6
ALL COMMODITIES	**100.00**	**9.05**	**100.00**	**12.10**	**100.00**
Food Articles	17.39	2.13	4.53	18.89	28.14
(a) Food Grains	7.92	—3.44	—3.18	22.72	13.89
1. Cereals	6.82	—6.18	—4.80	25.35	12.68
(i) Rice	3.69	1.60	0.68	13.36	3.94
(ii) Wheat	2.25	—16.61	—4.34	48.91	7.32
(iii) Bajra	0.18	1.43	0.02	26.35	0.28
(iv) Barley	0.05	0.06	0.00	34.23	0.15
2. Pulses	1.09	11.23	1.62	10.81	1.19
(i) Gram	0.41	2.77	0.15	2.02	0.08
(ii) Arhar	0.27	28.94	0.89	27.98	0.76
(iii) Masoor	0.05	4.19	0.03	20.72	0.09
(b) Fruits & Vegetables	4.09	3.59	1.67	22.83	7.55
(i) Fruits	2.80	—2.39	—0.81	25.04	5.68
(ii) Vegetables	1.29	19.47	2.46	17.68	1.83
(a) Potatoes	0.47	20.36	0.83	22.94	0.77
(b) Onions	0.16	—2.42	—0.03	98.00	0.79
(c) Milk	1.96	4.50	1.20	8.85	1.69
(d) Eggs, Fish & Meat	1.78	6.27	1.34	10.47	1.63
(e) Condiments & Spices	0.95	5.43	0.83	32.25	3.57
(i) Chillies	0.32	—44.86	—2.27	44.68	0.86
(f) Other Food Articles	0.69	26.06	2.71	—1.96	—0.18
(i) Tea	0.56	29.73	2.55	—12.58	—0.96
(ii) Coffee	0.13	7.87	0.14	61.32	0.82
Non-Food Articles	10.08	13.37	14.77	19.33	16.61
1. Fibres	1.79	—3.97	—0.84	24.46	3.42
(a) Raw Cotton	1.34	—17.61	—2.60	44.29	3.69
(b) Raw Jute	0.16	49.80	1.40	—14.97	—0.43
2. Oilseeds	3.86	27.42	9.79	26.60	8.30
Manufactured Products	**57.04**	**11.13**	**70.30**	**8.93**	**42.99**
Food Products	10.14	12.85	13.71	13.17	10.87
1. Sugar, Khandsari & Gur	4.06	13.06	4.86	0.07	0.02
(i) Sugar	2.01	10.49	1.91	0.42	0.06
(ii) Khandsari	0.30	36.40	0.82	—2.75	—0.06
(iii) Gur	1.75	12.72	2.13	0.13	0.02
2. Edible Oils	2.45	17.16	4.80	32.67	7.34
(i) Groundnut Oil	0.53	38.39	1.91	36.21	1.71
(ii) Rape & Mustard Oil	0.28	19.95	0.49	44.49	0.89
3. Oil cakes	0.43	23.42	1.03	4.56	0.17
Others					
1. Textiles	11.55	17.06	20.01	5.27	4.97
2. Cement	0.86	14.87	1.27	14.06	0.95
3. Non-Ferrous Metals (whole group)	1.03	4.14	0.70	7.99	0.97
4. Aluminium	0.45	2.63	0.17	5.68	0.27
Administered Items	**19.70**	**7.47**	**14.56**	**9.79**	**14.07**
1. Petroleum Crude & Natural Gas	4.27	12.50	3.34	—0.40	—0.08
2. Petroleum Products (Mineral Oils)	6.67	9.13	5.54	20.55	9.34
3. Coal Mining	1.26	0.43	0.09	0.04	0.01
4. Electricity	2.74	4.70	1.66	11.38	2.89
5. Fertilisers	1.75	0.00	0.00	0.00	0.00
6. Iron & Steel	2.44	11.81	3.54	6.00	1.38
7. Non-Ferrous Metals (Other than Aluminium)	0.57	5.15	0.53	9.42	0.69

6.21 Seasonal items, accounted for about 30 per cent of the total price rise during the year. Among the important items in this group the price rise was high in pulses, tea, raw jute, oilseeds, edible oils and sugar, khandsari and gur. Prices of some cereals such as wheat; fibres (raw cotton); chillies; and fruits registered a fall, neutralising partly the overall increase in prices.

6.22 The prices of pulses firmed up on account of stagnation in production and rise in demand. To increase domestic availability and hold the hike in prices, over 4 lakh tonnes of pulses were imported under OGL and the import duty was reduced from 35 per cent to 10 per cent. Tea prices exhibited a steep rise following decline in production and reduced domestic availability owing to export commitments. Domestic availability of tea was augmented by earmarking every second auction of tea for domestic use. The increase in prices of oilseeds and edible oils was also due to substantial decline in production over the previous year and curtailed imports on account of balance of payments constraint. The prices of sugar group also had gone up due to decline in production of sugar from nearly 91.10 lakh tonnes in the sugar year 1987–88 to about 87.52 lakh tonnes during the sugar year 1988–89. To check the price rise, larger quantities of sugar were released both for free sale and for supply through the public distribution system. Further, about 2.42 lakh tonnes of sugar was imported.

6.23 The administered items, as a group, contributed nearly 15 per cent to the overall rise in prices. Of this, nearly 9 per cent was contribuited by petroleum crude and petroleum products and the rest by iron and steel, electricity and non-ferrous metals.

6.24 The prices of manufactured products, as a group, recorded an increase of over 11 per cent but their contribution to the overall price rise was over 70 per cent. Over 40 per cent of this share was on account of rise in prices of edible oils, sugar, khandsari and gur, and textiles.

6.25 The rate of price rise in terms of CPI during 1989-90 was lower at 6.6 per cent compared with 8.5 per cent during the 1988–89. The lower rate of increase in CPI was mainly due to moderate increase of 5.3 per cent in the food index as against 10.5 per cent during 1988–89. The main items contributing to the rise in the index were pulses, fruits and vegetables, tea, condiments and spices, edible oils and the sugar group.

Price Rise During 1990-91

6.26 The price situation worsened during the financial year 1990–91 as there was no let up in the rising trend. The cumulative increase in the WPI during 1990–91 was 12.1 per cent, which was much higher than the increase of 9.1 per cent in the year 1989–90 (Table 6.7).

6.27 The increase in the WPI upto the end of September, 1990 at 5.9 per cent was lower than the increase of 7 per cent upto the end of September, 1989. The turning point came in September, 1990 when, on account of both domestic and external factors, a spurt in prices was caused, completely weakening the seasonal decline in prices of agro-based items and even resulting in contra-seasonal increase in the prices (Table 6.8).

6.28 The accelerated rise in prices during 1990–91 was thus the result of the following factors:

(a) Fiscal imbalances resulting in higher increase in money supply, liquidity overhang and thus effective demand;

(b) supply and demand imbalances in some of the sensitive commodities, mainly due to shortfall in production and supply;

(c) imposition of the unavoidable Gulf surcharge at the rate of 25 per cent on the prices of petroleum products and also imposition of other levies to contain rise in the budgetary deficit; given the weight of petroleum products in the WPI, the direct and indirect impact of rise in petroleum product prices on WPI during 1990–91 was estimated to be 1.5 per cent;

(d) the substantial increase in procurement prices and the consequent rise in issue prices of foodgrains which set the trends for open market prices; and

(e) the disturbed law and order situation particularly during the third quarter of the year, leading to some contraction of output and disruption of transport, resulting in localised shortages.

CHART 6.3

SEASONAL MOVEMENT OF WHOLESALE PRICE INDEX

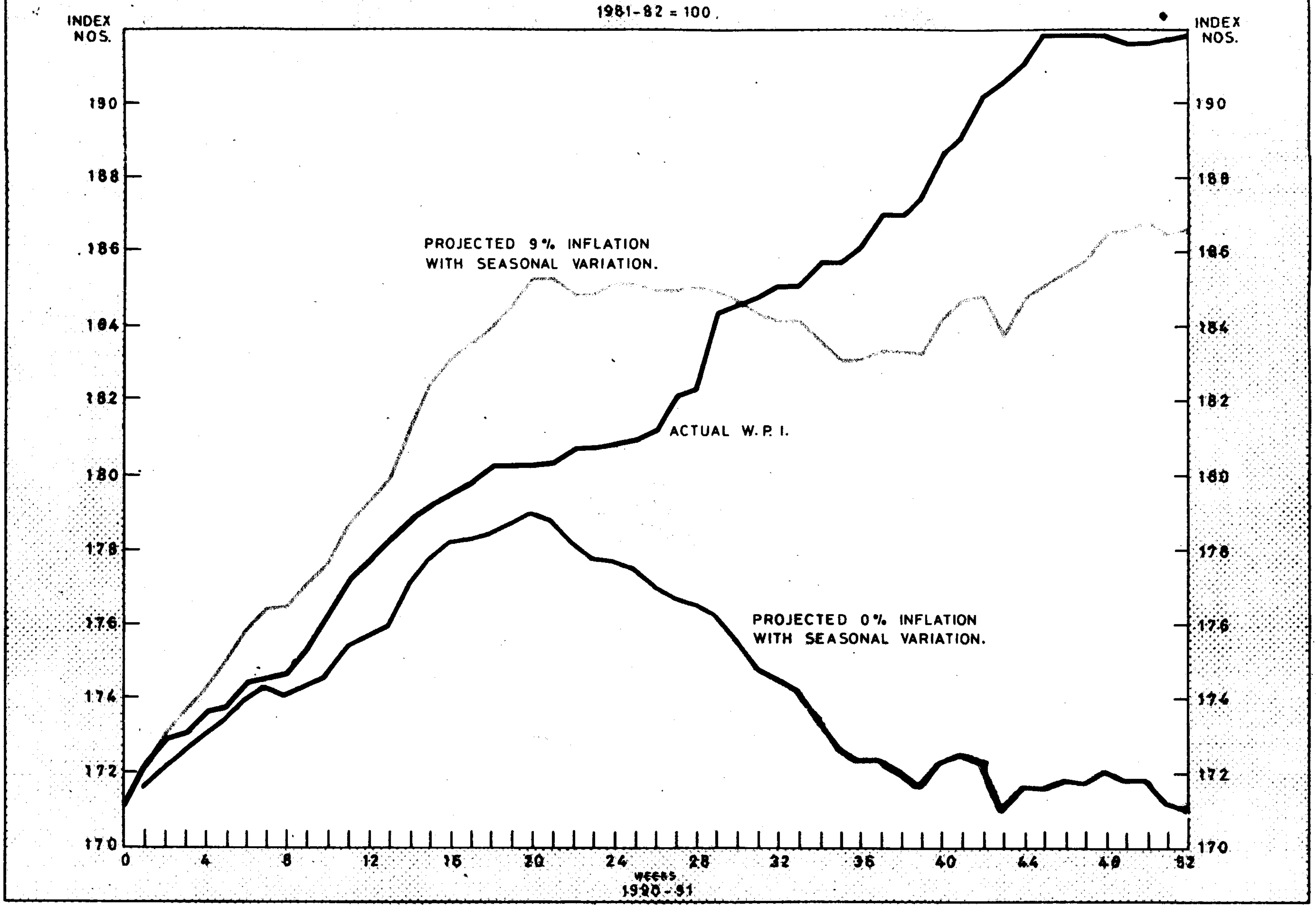


TABLE 6.8

SEASONAL VARIATION OF PRICES

Items	Weight in WPI (%)	Percentage Change (point—to—point basis) (Base : 1981-82=100) Whole Year 1989-90	1990-91	End March-End Sept. 1989-90	1990-91
Seasonal Items £	**34.41**	**7.64**	**18.03**	**9.38**	**11.11**
I. Food Articles	**17.39**	**2.13**	**18.89**	**6.57**	**12.97**
(a) Food Grains	7.92	-3.44	22.72	3.38	9.64
1. Cereals	6.82	-6.18	25.35	0.43	9.87
(i) Rice	3.69	1.60	13.36	6.45	8.28
(ii) Wheat	2.25	-16.61	48.91	-8.36	17.59
2. Pulses	1.09	11.23	10.81	19.27	8.56
(b) Fruits & Vegetables	4.09	3.59	22.71	7.00	26.00
(i) Fruits	2.80	-2.39	25.04	-8.56	15.03
(ii) Vegetables	1.29	19.47	17.68	48.49	50.09
(c) Milk	1.96	4.50	8.85	5.84	4.60
(d) Eggs, fish & meat	1.78	6.27	10.47	6.97	8.38
(e) Condiments & Spices	0.95	5.43	32.25	6.91	12.25
(f) Other food articles	0.69	26.06	-1.96	33.77	14.23
(i) Tea	0.56	29.73	-12.58	41.41	7.51
(ii) Coffee	0.13	7.87	61.32	-4.09	54.40
II. Non-Food Articles	**10.08**	**13.37**	**19.33**	**6.36**	**8.16**
1. Fibres	1.79	-3.97	24.46	-1.19	8.21
(i) Raw cotton	1.34	-17.61	44.29	-1.47	10.88
(ii) Raw jute	0.16	49.80	-14.97	-12.57	4.14
2. Oil seeds	3.86	27.42	26.60	22.01	12.55
III. Sugar, Khandsari & Gur	**4.06**	**13.06**	**0.07**	**30.41**	**8.56**
1. Sugar	2.01	10.49	0.42	14.69	-1.20
2. Khandsari	0.30	36.40	-2.75	53.85	-4.40
3. Gur	1.75	12.72	0.13	44.41	21.07
IV. Edible oils	**2.45**	**17.16**	**32.67**	**13.15**	**15.07**
1. Groundnut oil	0.53	38.39	36.21	34.79	19.16
2. Rape & Mustard oil	0.28	19.95	44.49	17.11	35.97
V. Oil cakes	**0.43**	**23.42**	**4.56**	**18.82**	**0.89**
All Commodities	**100.00**	**9.05**	**12.10**	**7.01**	**5.90**

£ Includes Food Articles; Non-Food Articles; Sugar, Khandsari & Gur; Edible Oils and Oil cakes.

6.29 There has been a significant built up of liquidity overhang in the past as may be seen from the following table :

TABLE 6.9

Growth Rates of National Income, Money Supply and Prices during the Seventh Plan

Year	M_3	NRCCG	GNP	WPI	CPI
1	2	3	4	5	6
1985-86	15.9	19.4	4.1	4.8	8.3
1986-87	18.6	18.6	3.6	5.1	6.2
1987-88	15.9	14.5	4.2	10.7	10.9
1988-89	17.8	12.6	10.6	5.7	8.5
1989-90	19.4*	23.7*	5.2	9.1	6.6
1990-91	15.1*	21.3*	5.0@	12.1	13.6

@Anticipated.

* Between March 31, 1989 and March 23, 1990 for 1989-90 and between March 31, 1990 and March 22, 1991 for 1990-91.

WPI-Base : 1981-82=100, CPI-Base : 1982 100.

While broad money (M_3) has increased during the last five years by an average rate of 17.6 per cent per annum and net Reserve Bank Credit to Central Government has increased by 17.8 per cent per annum, the GNP recorded an average growth rate of 5.7 per cent. Such a liquidity growth, which is out of line with the growth in GNP, generally reinforces inflationary pressures in the economy.

6.30 Shortfalls in production of some essential and critical commodities of mass consumption, combined with constraints on augmenting supplies through imports have constrained the supply position and have further aggravated the pressure on prices.

6.31 It may be observed from Table 6.7 that the food articles which recorded an appreciable price rise during the year were fruits and vegetables, oilseeds, edible oils, foodgrains, eggs, fish and meat and condiments and spices. Food articles, as a group contributed nearly one-third to the total price rise. The index of manufactured products recorded a modest increase of 8.9 per cent but contributed 43 per cent to the price rise because of its higher weight. Administered items as a group recorded a price increase of 9.8 per cent but contributed over 14 per cent to the price rise mainly because of the substantial increase in prices of petroleum products.

6.32 As mentioned earlier, the increase in the prices of cereals such as rice and wheat is attributable to the substantial increase in procurement prices and the consequent rise in the issue prices. The continued increase in the prices of pulses was caused by the persistent excess demand in the face of stagnation in production which has resulted in a decline in per capita availability despite imports of sizeable quantities of pulses in recent years.

6.33 The sharp increase in the prices of edible oils was mainly due to shortfalls in domestic production in two successive years and the inability of the Government to import larger quantities because of a shortage of foreign exchange.

6.34 The increase in the prices of fruits and vegetables appears to be partly due to an increase in transport costs which can be attributed to higher prices of diesel. Moreover, disruption of transport on account of the disturbed law and order situation last year may have aggravated the problem.

TABLE 6.10

Movement of Consumer Price Index for Industrial Wokers in Major Groups

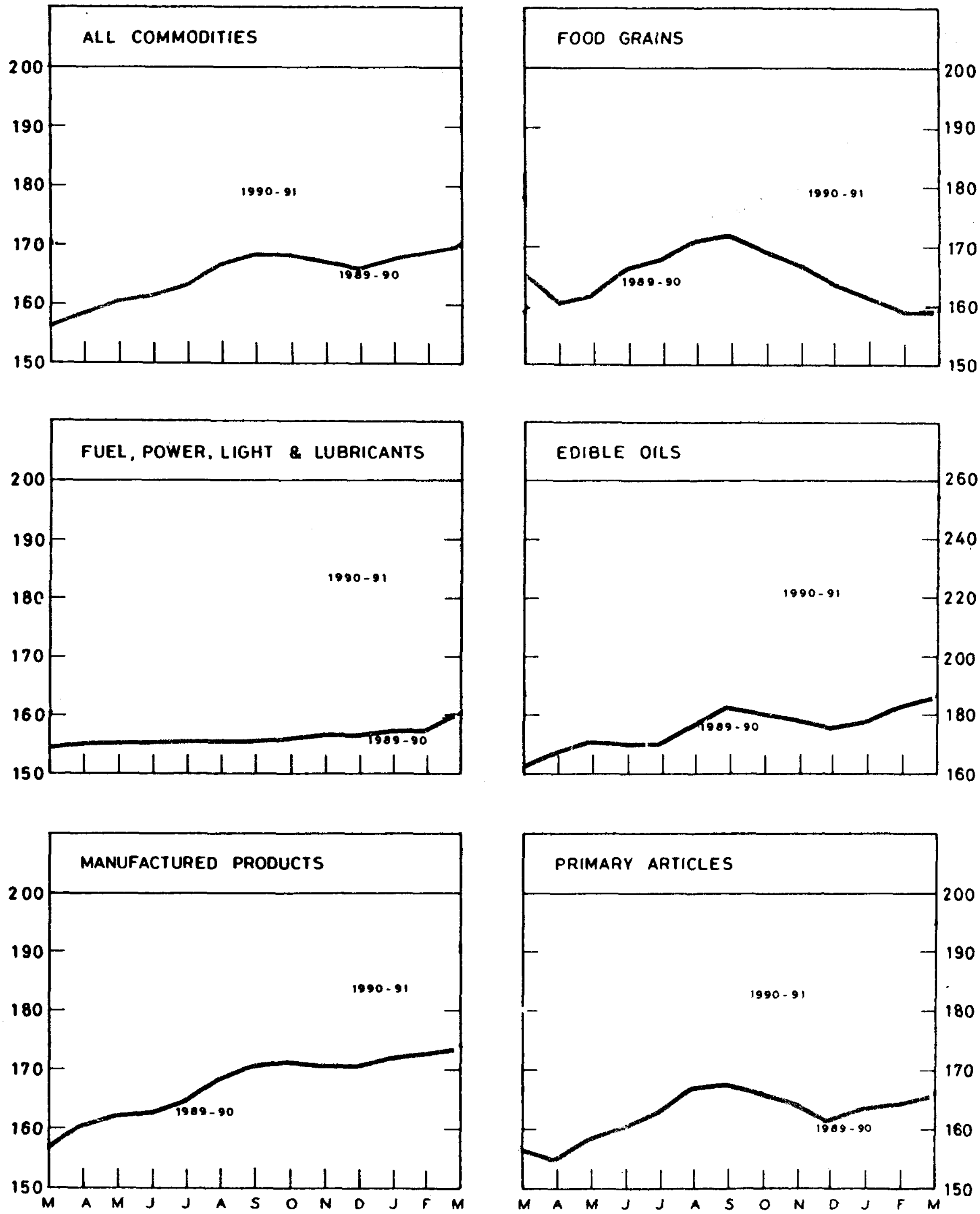
(Base : 1982=100)

Groups	Weight	Indices			1989-90		1990-91	
		1988-89	1989-90	1990-91	% Change	% share	% change	% share
1	2	3	4	5	6	7	8	9
1. Food	57.00	169	178	207	5.3	46.6	16.3	68.9
2. Pan Supari, Tobacco & Intoxicants .	3.15	202	233	257	15.3	8.9	10.3	3.2
3. Fuel & Light	6.28	166	174	199	4.8	4.6	14.4	6.5
4. Housing	8.67	165	178	192	7.9	10.2	7.9	5.1
5. Clothing, bedding and Foot Wear .	8.54	134	149	160	11.2	11.6	7.4	3.9
6. Miscellaneous	16.36	163	178	196	9.2	22.3	10.1	12.3
General	**100.00**	**166**	**177**	**201**	**6.6**	**100.6**	13.6	**100.0**

CHART 6.4

MOVEMENT IN WHOLESALE PRICE INDICES

(1981-82 = 100)



6.35 Sugar prices during 1990-91 remained stable in contrast to an appreciable increase recorded in the previous year. The price stability in the sugar group was due to increased production of sugar during the 1989-90 sugar season (October-September) and equally good prospects for the 1990-91 season.

6.36 While the index of manufactured products, as a group, remained relatively stable, appreciable increase was recorded in the price of cement, mainly because of an increase in input costs and buoyancy in demand. Localised shortages had emerged from time to time due to infrastructure bottlenecks.

6.37 As mentioned earlier, the CPI for Industrial workers had recorded a higher increase during 1990-91 compared with 1989-90 mainly due to sharp increase in the food index from March, 1990 onwards. Also, because the pressure came largely from the seasonal items comprising agricultural and agro-based products. The longer term trends in the comparative movement of the WPI and the CPI are outlined in the accompanying chart.

6.38 Movement of Consumer Price Index in respect of six major groups is given in Table 6.10. Food items accounted for about 69 per cent of the increase in the general Consumer Price Index during 1990-91 compared with their contribution of only 47 per cent in the price rise during 1989-90. Miscellaneous group comprising medical care, education, recreation and amusement, transport and communication, personal care and effects etc., accounted for about 12 per cent of the increase in the Index. The remaining groups contributed between 3 and 6 per cent each to the price rise. The higher increase in the CPI compared with that of WPI during 1990-91 was primarily due to sharp increase in the prices of food articles which carry a weight of 57 per cent in CPI as against a weight of about 28 per cent only by food articles (food articles and food products) in the WPI.

Price Situation during 1991-92

6.39 During the current financial year, until June 15, 1991, the WPI has increased by 1.8 per cent compared with 3.5 per cent during the corresponding period of last year. The annual rate of inflation in terms of the WPI as on 15th June, 1991, at 10.3 per cent was slightly higher than the annual rate of 9.3 per cent a year ago. Data on price rise during each financial year since 1984-85 are set out below to situate the trends in prices in a medium term context.

TABLE : 6.11

Cumulative Increase in Prices (Point-to-Point)

(Per cent)

Year	Whole Year	First 11 weeks
1	2	3
1984-85	6.0	4.7
1985-86	4.8	2.8
1986-87	5.1	2.6
1987-88	10.7	[illegible].4
1988-89	5.7	4.2
1989-90	9.1	3.3
1990-91	12.1	3.5
1991-92	—	1.8

6.40 The price rise on June 15, 1991 has been the lowest since 1984-85. During the current year the prices of food articles (fruits and vegetables, milk, condiments and spices, eggs, fish and meat and pulses), non-food articles (raw cotton) and manufactured products (food products such as khandsari and gur, groundnut oil, non-metallic mineral products such as cement, machinery and machine tools) have shown rise. Prices of food articles (cereals other than rice, tea, coffee), manufactured products (rapeseed and mustard oil), and basic metals, alloys and metal products have shown some decline. The prices of administered manufactured items, excepting electricity and non-ferrous metals which have recorded a slight increase, have remained unchanged. Commodity-wise movement in price indices during 1991-92 are given in Table 6.12.

TABLE 6.12

Variations in Wholesale Price Index Numbers of Selected Items
(Base : 1981-82 = 100)

Commodity Group/Sub-group	Weight in WPI (%)	1991-92‡ End March to 15th June (11th week) % Change	% Share	1990-91 End March to 16th June (11th week) % Change	% Share	Annual Inflation Rate (Per cent)
1	2	3	4	5	6	7
All Commodities	**100.000**	**1.82**	100.00	**3.51**	**100.00**	**10.28**
I. **Primary Articles**	**32.295**	**3.27**	59.05	**7.37**	**66.20**	**12.67**
A. **Food articles****	**17.386**	**4.46**	**46.69**	**9.81**	**50.42**	**13.10**
(a) Food-grains (Cereals + Pulses)	7.917	—1.73	—7.69	5.01	10.56	14.84
(a_1) Cereals	6.824	—2.84	—10.53	4.94	8.53	16.06
(i) Rice	3.685	3.84	7.58	1.75	1.78	15.69
(ii) Wheat	2.248	—15.62	—20.55	12.43	6.41	11.76
(a_2) Pulses	1.093	3.97	2.87	5.45	2.08	9.26
(i) Gram	0.410	2.08	0.48	9.95	1.31	—5.28
(b) Fruits & Vegetables	4.089	15.29	36.68	23.19	26.44	14.85
(b_1) Vegetables	1.291	29.84	21.54	46.30	16.57	4.44
(i) Potatoes	0.472	51.57	12.64	64.68	7.52	13.15
(ii) Onions	0.156	—9.29	—0.86	23.55	0.64	45.37
(b_2) Fruits	2.798	9.06	15.19	12.70	9.93	21.01
(c) Milk	1.961	4.45	5.49	3.61	2.39	9.74
(d) Eggs, Fish & Meat	1.783	8.03	8.20	1.54	0.83	17.54
(e) Condiments & Spices	0.947	8.82	7.60	13.57	5.16	26.72
(f) Other Food articles	0.689	—6.61	—3.45	15.97	4.95	—21.05
Tea	0.564	—2.31	—0.92	16.51	4.38	—26.70
Coffee	0.125	—20.50	—2.52	12.77	0.57	13.73
B. **Non-food articles**@**	**10.081**	**1.85**	**11.23**	**5.56**	**16.47**	**15.15**
(a) Fibres	1.791	12.61	13.00	4.76	2.30	33.79
(i) Raw Cotton	1.335	17.29	12.24	6.76	1.94	58.52
(ii) Raw Jute	0.160	0.88	0.13	0.08	0.01	—14.29
(b) Oil seeds	3.861	0.94	2.21	9.74	10.49	16.45
(i) Groundnut seed	1.296	—3.98	—3.44	10.15	3.95	12.94
(ii) Rape & Mustard seed	0.661	—1.33	—0.49	13.44	2.30	9.64
(c) Other non-food articles	4.429	—1.55	—4.18	2.52	3.54	7.53
(i) Sugarcane	2.706	0.00	0.00	0.00	0.00	2.31
C. **Minerals@**	**4.828**	**1.01**	**1.52**	**—0.46**	**—0.40**	**1.01**
(i) Petroleum crude & natural gas*	4.274	0.00	0.00	—0.40	—0.28	0.00
II. **Fuel, Power, Light & Lubricants**	**10.663**	**0.48**	**2.74**	**0.73**	**2.13**	**14.09**
(a) Coal Mining*	1.256	0.00	0.00	0.00	0.00	0.04
(b) Mineral oils (Petroleum products)*	6.666	0.00	0.00	0.35	0.56	20.13
(c) Electricity*	2.741	1.55	2.58	1.83	1.60	11.07
III. **Manufactured Products**	**57.042**	**1.21**	**37.48**	**1.89**	**31.37**	**8.20**
A. Food products	10.143	4.51	24.92	3.62	10.31	14.14
(a) Sugar, Khandsari & Gur**	4.059	9.84	16.82	4.01	3.99	5.68
(i) Sugar	2.013	3.36	2.76	—0.21	—0.10	4.02
(ii) Khandsari	0.300	12.16	1.47	—2.75	—0.20	12.16
(iii) Gur	1.746	16.42	12.57	9.59	4.28	6.37
(b) Edible Oils**	2.445	1.83	3.21	7.85	6.07	25.26
(i) Rape & Mustard Oil	0.276	—1.78	—0.30	18.66	1.27	19.60
(ii) Groundnut Oil	0.526	4.26	1.61	9.72	1.57	29.44
(c) Oil cakes**	0.432	7.98	1.85	3.73	0.48	8.85
B. Beverages, Tobacco & Tobacco products	2.149	0.24	0.37	6.83	5.44	3.95
C. Textiles	11.545	—0.17	—0.99	—0.36	—1.15	5.47
D. Wood & Wood products	1.198	0.00	0.00	0.00	0.00	0.31
E. Paper & paper products	1.988	0.59	0.80	1.83	1.29	9.33
F. Leather & Leather products	1.018	1.74	1.16	8.58	2.92	7.67
G. Rubber & Plastic products	1.592	0.00	0.00	0.43	0.19	1.28
H. Chemical & Chemical products	7.355	0.78	2.52	0.63	1·10	7.48
(a) Fertilizers*	1.748	0.00	0.00	0.00	0.00	0.00
I. Non-metallic mineral products	2.477	2.39	3.33	0.23	0.17	13.34
(a) Cement	0.860	7.14	3.24	—1.73	—0.40	24.34
J. Basic metals, alloys & metal products	7.632	—0.39	—1.96	2.24	5.98	5.92
(a) Iron & steel*	2.441	0.00	0.00	0.82	0.65	5.14
(b) Non-ferrous Metals (Other than aluminium)*	0.571	0.34	0.16	4.79	1.22	4.78
K. Machinery & machine tools	6.268	2.22	7.52	2.16	3.87	10.48
L. Transport Equipment & Parts	2.705	0.47	0.70	0.98	0.77	8.98
M. Other Misc. manufacturing industries	0.972	0.00	0.00	0.08	0.02	4.33
1. Administered items*	19.697	0.29	2.75	0.75	3.74	9.36
2. Seasonal items**	34.403	3.94	79.81	7.74	77.43	13.87
3. Raw Materials@	14.909	1.69	12.75	4.18	16.06	12.05

*Administered Items : Petroleum Crude & Natural Gas, Petroleum products, Coal Mining, Electricity, Fertilizers, Iron and Steel and Non-ferrous metals (other than aluminium).

Seasonal Items : **Food articles; Non-food articles; Sugar, Khandsari & Gur; Edible oils & oil cakes.

@Raw Materials : **Non-food articles & Minerals.**

‡Provisional.

PRICE POLICY

Agricultural Price Policy

6.41 The procurement and support prices for important agricultural crops are fixed by the Government on the recommendations of the Commission for Agricultural Costs and Prices (CACP). The Commission formulates its recommendations on the basis of several factors such as cost of production, changes in market prices, input-output parity, inter-crop price parity, effects on industrial costs structure, general price level, international market situation, etc.

6.42 As cost of production is one of the most important factors in the determination of procurement/minimum support prices, an expert committee was set up early in 1990 under the Chairmanship of Prof. C. H. Hanumantha Rao to review, inter alia, the methodology for the estimation of cost of production of crops and adjustment of procurement/support prices before the arrival of the crop in the market with a view to improving remuneration for crop production and to safeguard the interests of the farmers.

Hanumantha Rao Committee

6.43 The Committee was asked to particularly look into the following aspects :

(a) whether valuation of labour should be on the basis of statutory minimum wages or actual wage rates, whichever is higher, as against only actual wages which have been the basis so far?

(b) Adjusting procurement/minimum support prices announced before the sowing season for rise in costs of inputs during the period intervening the announcement of the procurement/support prices and the arrival of the crop in the market.

(c) To include managerial/entrepreneurial functions performed by farmers as an input and treat the same as an item of cost.

6.44 The Expert Committee in its Interim Report submitted to the Government on March 15, 1990, recommended that :

(i) The casual hired labour may continue to be evaluated on the basis of actual wages paid, whether they are market wages or statutory minimum wages.

(ii) Family labour be valued on the basis of actual wage rate for casual labour.

(iii) Procurement/minimum support prices announced before the sowing season should always provide for the possible rise in the cost of production likely to occur during the cropping season. The CACP should also have a second look at the changes in input costs before the market arrival of the crop and adjust the procurement/minimum support prices in case the observed rise in input costs turns out to be higher than the anticipated rise.

(iv) The CACP should publish the methodology, including the weighting diagram and the index number of input prices used by them, in their Reports.

(v) In order to account for management input of the farmers, the paid out costs be raised by 10 per cent and a separate cost (Cost C_3) be computed by adding this component.

6.45 A Standing Advisory Committee (set up in the Ministry of Agriculture under the Chairmanship of Shri Sharad Joshi to assist and advise the Government on a continuing basis in the formulation and implementation of agricultural policy) suggested some modifications in the recommendations. The Government considered the recommendations of the Expert Committee as also the modifications suggested thereon by the Standing Committee and accepted the recomendations numbers (iii) to (v) of the Expert Committee. As regards the valuation of labour, it has been decided that :

(i) The basis of valuation of labour should be statutory wage rate or the actual market rate, whichever is higher.

(ii) The CACP should specifically assess the latest position every year in regard to the rise in wages, including the enforcement of minimum wages in different parts of the country, on the basis of their discussions with the various sections, and to take this into account while using the input cost index for recommending procurement/minimum support prices.

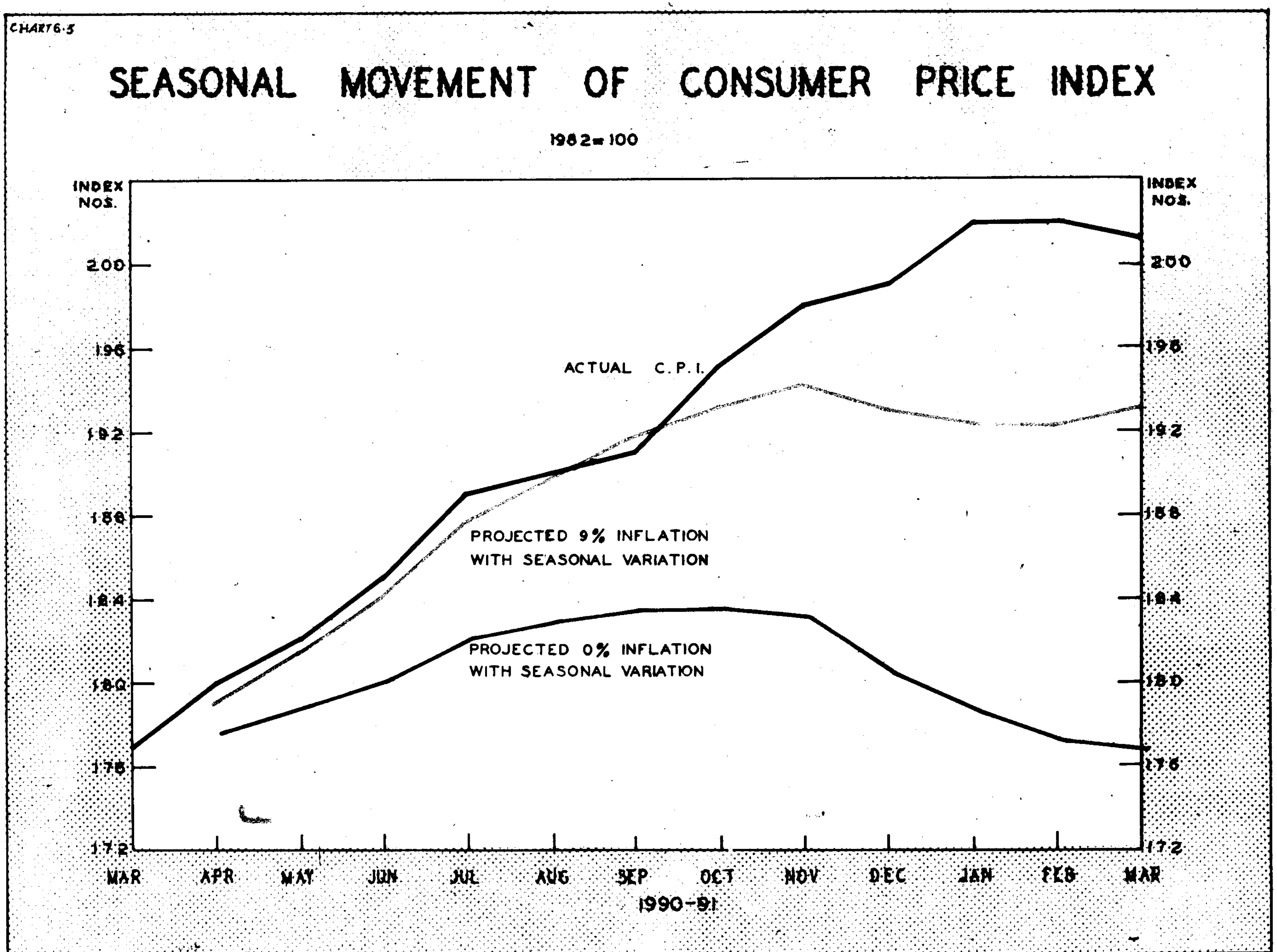


CHART 6.3
SEASONAL MOVEMENT OF CONSUMER PRICE INDEX
1982=100
INDEX NOS.
200
196
192
188
184
180
176
172
ACTUAL C.P.I.
PROJECTED 9% INFLATION
WITH SEASONAL VARIATION
PROJECTED 0% INFLATION
WITH SEASONAL VARIATION
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
1990-91

TABLE 6.13

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	1991-92
1		2	3	4	5	6	7	8	9
1. Wheat . .	(Procurement Price)	152	157	162	166	173	183	215	225
2. Paddy (Common variety) . .	—do—	137	142	146	150	160	185	205	
3. Coarse grains .	—do—	130	130	132	135	145	165	180	
4. Barley . .	(Minimum Support Price)	124	130	132	135	135	145	180	200
5. Gram . .	—do—	240	—	260	280	290	325	421	450
6. Arhar . .	—do—	275	300	320	325	360	425	480	
7. Moong . .	—do—	275	300	320	325	360	425	480	
8. Urad . .	—do—	275	300	320	325	360	425	480	
9. Safflower. .	—do—	—	—	400	415	415	440	550	575
10. Rapeseed Mustard	—do—	360	385	400	415	430	460	575	600
11. Toria . .	—do—	—	—	360	375	400	430	545	570
12. Groundnut .	—do	340	350	370	390	430	500	580	
13. Sunflower seed.	—do—	325	335	350	390	450	530	600	
14. Soyabean (Black)	—do—	240	250	255	260	275	325	350	
15. Soyabean (Yellow)	—do—	265	275	290	300	320	370	400	
16. i. Copra	Minimum Support Price	—	—	—	—	—	1500	1600	1700
ii. Copra Ball	(Minimum Support Price)	—	—	—	—	—	—	—	1850
17. i. Cotton (F-414/H-777)	-do-	410	425	430	440	500	570	620	
ii. Kapas Hybrid-4)	-do-	535	535	540	550	600	690	750	
18. Sugarcane	(Statutory Minimum Price)	14.00	16.50	17.00	18.50	19.50	22.00	23.00	24.00
19. Jute (W-5 Grade Ex-Assam)	-do-	195	215	225	240	250	295@	320@	375@
20. i. VFC Tobacco (F-2) (Black Soil)	(Minimum Support Price)	1115	1115	1115	1125	1175	1250	1325	
ii. VFC Tobacco (F-2) (Light Soil)	-do-		1200	1200	1200	1220	1280	1350	1425

*Marketing year: April-March for wheat, gram, barley, mustard and toria; July-June for Jute; September-August for cotton and October-September for paddy and other Kharif crops.

@ Minimum support price of TD-5 variety at Nowgong in Assam.

6.46 The CACP recommended procurement/ minimum support prices for kharif crops of 1990-91 and rabi crops of 1990-91 (to be marketed in 1991-92) after considering the estimates of cost of production based on the revised methodology.

6.47 The CACP in their Report on Price Policy for kharif crops of 1990-91, inter alia, recommended that the decision to take into account statutory minimum wages or actual wages, whichever is higher, in the calculation of cost of production be reviewed in the interest of avoiding unintended distortions in the structure of agricultural commodity prices and in the light of the fact that the process of departing from the practice of taking into account actual prices/ rates to those considered appropriate on other considerations cannot stop at wages alone. The suggested review is presently under examination.

6.48 The Hanumantha Rao Committee submitted its Final Report on 31st July, 1990. The Report is under consideration of the Government.

Revised Procurement/Support Prices

Foodgrains

6.49 The procurement/minimum support prices of paddy, coarse cereals and pulses for the marketing year (1990-91) were announced on June 16, 1990. The price for paddy (Common) was raised by Rs. 20 per quintal to Rs. 205 over the price of Rs. 185 per quintal fixed on October 1, 1989. A differential of Rs. 10 each was kept for fine and super-fine varieties by fixing their prices at Rs. 215 and Rs. 225 per quintal respectively. The prices of coarse cereals (FAQ) covering jowar, bajra, maize and ragi were raised by Rs. 15 per quintal from Rs. 165 to Rs. 180 per quintal. The prices of pulses (FAQ) arhar, moong and urad were raised by Rs. 55 per quintal from Rs. 425 to Rs. 480 per quintal.

6.50 The prices of rabi crops for the marketing year 1990-91 announced on August 29, 1989 were revised again on April 20, 1990. The upward revision was Rs. 15 per quintal for wheat, Rs. 20 for barley and Rs. 51 for gram. The prices were fixed for these crops at Rs. 215, Rs. 180 and Rs. 421 per quintal respectively. Prices for 1991-92 season were announced on November 6, 1990 raising the prices further by Rs. 10 per quintal for wheat and barley and Rs. 29 per quintal for gram. The price for barley was, however, further raised by Rs. 10 per quintal for the 1991-92 season on February 7, 1991.

Oilseeds

6.51 The support prices for oil seeds (kharif) were fixed on June 16, 1990 by raising groundnut prices by Rs. 80 per quintal to Rs. 580 per quintal, and soyabean (Yellow and Black varieties) by Rs. 30 and Rs. 25 per quintal to Rs. 400 and Rs. 350 per quintal respectively. The price of sunflower seed was raised by Rs. 70 and fixed at Rs. 600 per quintal. The prices of rabi oil seeds (rapeseed/mustard and safflower) were raised on April 20, 1990 by Rs. 65 and Rs. 60 per quintal and fixed at Rs. 575 and Rs. 550 per quintal respectively. The prices of rapeseed/mustard and safflower seed for the 1991-92 season were announced on November 6, 1990 raising them to Rs. 600 and Rs. 575 per quintal respectively. The price of toria was fixed at Rs. 570 per quintal for 1991-92 on December 26, 1990.

Copra

6.52 The support price for Copra for the year 1990-91 was raised by Rs. 100 and fixed at Rs. 1700 per quintal on March 18, 1991. The Government has also, for the first time, fixed a minimum support price for "Ball" copra, an edible variety, at Rs. 1850 per quintal for fair average quality.

Fibres:

6.53 The support prices of cotton were raised by Rs. 50 (at Rs. 620) per quintal for F-414/H-777 and by Rs. 60 (at Rs. 750) for H-4 variety. The price of Jute (TD-5 Assam) was raised by Rs. 55 and fixed at Rs. 375 per quintal on March 22, 1991.

Sugar Cane

6.54 The statutory minimum price (SMP) of sugar cane (linked to a basic recovery of 8.5%) for 1990-91 season was raised from Rs. 22 to Rs. 23 per quintal on November 6, 1990. The SMP of sugar cane for 1991-92 season was raised by Re. 1 to Rs. 24 per quintal on the same day.

Market Intervention Operation

6.55 Market intervention operations are being conducted in foodgrains, sugar, edible oils and pulses.

Food grains Operations

6.56 Foodgrains operations are primarily aimed at regulating the movement of foodgrains prices by making purchases from the farmers on the one hand and arranging regular supply of foodgrains to the Public Distribution System (PDS) on the other. Foodgrains are procured by the Food Corporation of India (FCI) and the state agencies at prices fixed by the Government. These purchases ensure remunerative returns to the farmers and also enable the Government to maintain adequate buffer stocks to achieve security in food supply. The procured foodgrains are distributed under PDS/welfare schemes through a vast network of fair price shops at prices fixed by the Government. These prices are deliberately kept below the economic cost (procurement, acquisition, handling and distribution cost) in order to keep them within the reach of the vulnerable sections of the society. The difference between the economic prices and the actual prices at which these are distributed under PDS is reimbursed to the FCI as subsidy.

6.57 In order to enable the Government to allot requisite quantities in the years of shortages, the Government had decided to maintain buffer stocks of both rice and wheat. As per buffer stock policy applicable for the Eighth Five Year Plan period, the levels of wheat and rice stocks to be maintained are as under :

(In million tonnes)

	Wheat	Rice	Total
1st April . .	3.7	10.8	14.5
1st July . . .	13.1	9.2	22.3
1st October . .	10.6	6.0	16.6
1st January . .	7.7	7.7	15.4

6.58 The FCI and the state agencies had procured nearly 24.1 million tonnes of rice and wheat during 1990–91. This included a quantity of 13.0 million tonnes of rice against 11.1 million tonnes in 1989–90. Procurement of wheat during 1990-91 amounted to 11.1 million tonnes compared with 9 million tonnes in 1989–90.

6.59 Total public distribution of foodgrins during 1990–91 was at 16.03 million tonnes against 15.84 million tonnes during the corresponding period of 1989–90. Supply of rice during the period was 8.82 million tonnes as againt 8.63 million tonnes during the similar period of 1989-90. Supply of wheat was lower at 7.06 million tonnes as against 7.08 million tonnes during 1989–90 (Table 6.14).

6.60. The position of procurement, stocks and supply under public distribution of foodgrains during the past few years has been as under :

TABLE 6.14

Procurement, Public Distribution and Stocks of Foodgrains

(Lakh tonnes)

Commodity	1988-89	1989-90	1990-91
1	2	3	4
A. PROCUREMENT			
Rice	77.07	111.43	130.15
Wheat	65.35	90.00	110.74
Total Foodgrains . .	142.92	203.14	242.90
B. SUPPLY UNDER PUBLIC DISTRIBUTION (Excluding Open Sales by FCI)			
Rice	91.79	86.31	88.18
Wheat	77.68	70.85	70.64
Total Foodgrains . .	171.26	158.40	160.26
C. STOCKS (End period basis)			
Rice	46.75	79.10	112.39
Wheat	26.61	36.52	58.05
Total Foodgrains . .	73.87	117.28	172.71

6.61 It is evident that the stocks position of foodgrains especially wheat, as on 1st April, 1991 has improved over the previous year due to high levels of procurement.

6.62 In view of the sharp rise in the prices of foodgrains especially wheat during 1990–91, allotment of wheat for PDS was stepped up from 8.07 lakh tonnes in January, 1991 to 9.99 lakh tonnes for March, 1991. FCI also under took open market sales of wheat at Rs. 320 per quintal (Rs. 330 per quintal in Southern Zone), which was much lower than the open market prices of wheat.

Issue Prices

6.63 The Central issue price of rice was increased on June 25, 1990 from Rs. 244 per quintal to Rs. 289 per quintal for the common variety. The differential of Rs. 60 per quintal has been maintained for fine variety and Rs. 81 per quintal for superfine variety. For Integrated Tribal Development Projects for which supplies are made available at highly subsidised prices, the central issue price was increased from Rs. 194 per quintal to Rs. 239 per quintal for the common variety. The central issue price of wheat was increased by Rs. 30 per quintal with effect from May 1, 1990 from Rs. 204 per quintal to Rs. 234 per quintal. Also a similar increase for the ITDP area was effected from Rs. 154 per quintal to Rs. 184 per quintal.

Sugar Operations

6.64 The system of dual pricing of sugar in vogue for some years was continued during the year. Under this system 45 per cent of the sugar production is acquired by the Government at a pre-committed price as levy and the remaining 55 per cent of the produce is allowed to be freely sold in the open market. This ratio of levy and free sale sugar is being maintained from 1988–89. The ex-factory prices of levy sugar were fixed on the basis of statutory minimum price (S.M.P.) of Rs. 23 per quintal of sugarcane for 1990–91 (October-September) season. The incentive scheme for higher free-sale quota was continued during the year to raise production of sugar. Under the scheme, 75 per cent of the sugar produced between October 1, and November 15, 1990 is to be treated as free-sale as against the normal 55 per cent.

6.65 Sugar production during 1990-91 beginning October 1 had shown buoyancy. Upto April 7, 1991, sugar production aggregated 94.35 lakh tonnes as against 86.63 lakh tonnes during the corresponding date in the previous season. At this rate, production during sugar year 1990-91 is expected to reach about 114.86 lakhs tonnes. Sugar consumption during the current sugar season is also likely to increase to 106 lakh tonnes as against 102.83 lakh tonnes during sugar year 1989-90. Steps have also been initiated for raising production of sugar by creating additional capacity for sugar production.

6.66 The levy sugar was allotted to the State Governments at a uniform retail price of Rs. 5.25 per kg with effect from January 1, 1989. The issue price of sugar under PDS was raised to Rs. 6.10 per Kg from May, 1991. The ex-factory levy prices were raised with effect from January 27, 1990 for 1989-90 season and from March 27, 1991 for 1990-91 season; gap between the economic issue price and the actual issue price is to be met by way of government subsidy. Total deficit upto March, 1991 aggregated to about Rs. 391 crores. The amount of deficit would further increase @ Rs. 28 crores per month if the issue price was not raised to neutralise the revision in the ex-factory levy prices for 1990-91 season.

6.67 The wholesale sugar prices in the open market started firming up in mid-April, 1990 as a result of speculative tendencies in the market. Immediately, the Government increased the monthly quantity of sugar for free-sale and initiated other measures to check the pressure on sugar prices. Total quantity of levy and free-sale sugar released during the financial year 1990-91 aggregated to 112.65 lakh tonnes as against 105.09 lakh tonnes during 1989-90. Carry over stocks at the beginning of the current season (1990-91) were 21.78 lakh tonnes as against 12.65 lakh tonnes on the corresponding date of last season.

Edible Oil Operations

6.68 The demand-supply imbalance in edible oils remained high during 1990-91 on account of reduced availability arising from shortfalls in production and reduction in imports. As a result, the prices of edible oils were under pressure throughout the year. The NDDB, the agency designated to undertake market intervention operations in edible oils to stabilise their prices within reasonable limits, could not hold the price hike. In fact, the very entry of NDDB in the market to procure edible oils in the flush season tended to raise the threshold of market prices. Moreover, following reduced imports, the NDDB also did not have access to adequate supplies of imported oils. The prices of edible oils registered a relentless rise of about 29 per cent during the year upto February, 1991. The price index slightly declined in March, 1991 due to excellent mustard crop but the prices firmed up again and towards the middle of May, 1991 percentage increase over a year ago was more than 31 per cent. The price rise during 1991-92 upto 15th June, 1991 at 1.8 per cent was, however, much lower than 7.8 per cent increase recorded during similar period of 1990-91. Rapeseed and mustard oil prices recorded slight fall during this period as against 18.7 per cent increase during this period a year before. With the onset of lean season beginning from May, 1991, the prices are likely to remain under pressure. Due to foreign exchange constraints, more import of edible oils are not expected. The problem of shortage of edible oils is expected to slightly ease because of a good Rabi oilseed crop.

Issue Prices

6.69 The Central issue price of imported edible oils to state Governments etc. for the Public Distribution System was raised with effect from January 26, 1991 from Rs. 13,150 PMT to Rs. 16,500 PMT for bulk supplies and from Rs. 14,500 PMT to Rs. 19,000 PMT for supplies in 15 kg tins. Similarly, retail price for loose delivery was raised from Rs. 15.40 per kg to Rs. 19.15 per kg for oil supplied in bulk and from Rs. 16.60 per kg to Rs. 21.60 per kg for supplies in 15 kg tins. The upward revision became necessary mainly to compensate for the higher cost of imports as a result of sharp rise in inter-national prices of edible oils.

Pulses Operations

6.70 The production of pulses is subject to considerable fluctuation from year to year because they are grown mostly on dry lands. This leads to instability in the prices of pulses. Market Intervention Operations in pulses have become necessary to provide a reasonable price to the farmer, a fillip for pulses production and to contain the rise in their prices. The National Agricultural Co-operative Marketing Federation (NAFED) has been designated as the agency to operate on pulses in such a way that such entry does not drive prices up. Efforts are also being made to raise pulses production particularly under the National Pulses Development Project (NPDP). The quantities of pulses procured by the NAFED are to be deployed at suitable consumption centres through State Civil Supplies Corporations, State Cooperative Marketing Federations and other agencies of the State Governments.

Public Distribution System

6.71 The network of Public Distribution System (PDS) has expanded over the years. At present, there are over 3.6 lakh retail outlets/fair price shops which supply essential commodities such as rice, wheat, sugar, edible oils, kerosene at prices fixed by the Government, which are generally lower than the market prices. The State Governments decide the norms of scales of ration for the consumers which vary widely from state to state. The prescribed norms for coverage envisage one fair price shop for a population of 2000, on an average, in a radius of not more than three kilometers. The quantum of supplies of foodgrains and other commodities to the State Governments and UTs for public distribution, excluding open sales by FCI, has been maintained at reasonable levels over the years. In 1989-90, a total quantity of nearly 15.8 million tonnes of foodgrains was distributed against 17.1 million tonnes in the previous year. During 1990-91 supplies under the PDS increased to 16.0 million tonnes of foodgrains (8.8 million tonnes of rice and 7.1 million tonnes of wheat). Even though the supply of PDS items is supplementary in nature, it helped in making available basic essential items to the vulnerable population and has played an especially useful role in the years of drought and low production. Under the Integrated Tribal Development Programme, wheat and rice at specially subsidised prices (50 paise per kg. below the PDS prices) is provided to the people living in ITDP areas. The Scheme is significant in its coverage in as much as it covers ITDP areas in 19 States/UTs besides covering the entire population in 6 tribal majority states. The total quantities of rice and wheat supplied annually under the scheme is of the order of 1.75 million tonnes.

6.72 Some shortcomings and limitations in the operations of the PDS are known to exist. Some of these pertain to a lack of reach to certain areas/population, non-timely delivery of items, diversion and high subsidy involved in distribution etc. To remove some of these limitations, as also to minimise the subsidy dispensation, the functioning of the PDS is constantly being reviewed.

TABLE 6.15

Monthly pattern of Off-take of Major Items by the Public Distribution System

('000 Tonnes)

Month	Rice*			Wheat* @			Edible Oils £ (Allocation)			Sugar** (Releases)		
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91
1	2	3	4	5	6	7	8	9	10	11	12	13
April	784	673	673	548	437	491	62.3	24.2	40.0	782	782	932
May	779	688	696	522	440	379	64.4	24.4	50.5	782	832	953
June	760	654	770	610	524	390	77.5	23.0	61.1	772	882	933
July	808	685	729	669	589	468	83.1	28.8	70.0	832	832	933
August	810	710	707	652	608	526	94.8	34.9	90.0,	832	857	933
September . .	771	702	677	680	655	517	93.9	37.7	92.0	842	882	1508
October . . .	745	667	729	640	582	538	96.9	38.3	99.9	917	1032	1508
November . .	719	790	690	623	632	604	86.2	42.9	58.2	932	932	933
December . .	784	814	704	710	672	708	38.5	26.0	Nil	852	882	908
January . . .	770	748	756	684	664	808	40.7	27.0	Nil	832	832	908
February. . .	703	757	801	662	626	789	38.3	28.5	30.8	807	882	908
March	746	779	886	767	656	846	32.9	35.2	34.2	792	882	908
Total	**9179**	**8631**	**8818**	**7767**	**7085**	**7064**	**809.5**	**370.9**	**626.7**	**8874**	**10509**	**11265**

*Provisional.

**Total of levy and free sale sugar.

£Including small packs.

@Does not include sale of Wheat by FCI to Roller Flour Mills and other agencies which was of the order of 10.04 lakh tonnes in 1988-89, 2.56 lakh tonnes in 1989-90 and 13.21 lakh tonnes in 1990-91.

6.73 Imports of edible oils and their supply through the PDS were somewhat restricted during December, 1990—March, 1991, in view of the anticipation of a bumper rabi crop and constraint in the balance of payments position.

Administered Prices for Industrial Products

6.74 Seven commodity groups namely petroleum crude and natural gas, mineral oils (petroleum products), coal mining, electricity, fertilisers, iron and steel and non-ferrous metals (other than aluminium) constitute the administered items. Excepting petroleum products, iron and steel, electricity and non-ferrous metals, the prices of other commodity groups have remained stable during 1990-91. Revisions made in the prices of administered items during the year have been as follows:

Coal Mining

6.75 Pit head prices of coal and coke are fixed by the Central Government. The average pit head price of coal produced by the CIL has remained unchanged at Rs. 249 per tonne since January 1, 1989 and by SCCL at Rs. 297 per tonne since January 24, 1989. Thereafter, there has been no increase in coal prices. The price of soft coke was fixed at Rs. 175 per tonne for domestic use and Rs. 300 per tonne for industrial use on January 9, 1986. The price of soft coke remains unchanged since then.

Iron and Steel

6.76 There is no control, statutory or otherwise, on the prices of iron and steel. These are determined and announced from time to time by the Joint Plant Committee. The prices announced by this Committee are applicable only to the major items of iron and steel produced by the Integrated Steel Plants in the country. The re-rollers, mini-steel plants and alloy steel producers etc. fix their own prices for their products. The Joint Plant Committee revises the prices of iron and steel items primarily to neutralise the increases in the cost of inputs such as coal, power, railway freight etc. and in levies such as excise duty. The last general price increase was effected by the integrated plants on January 8, 1989 by about 7.6 per cent. The general price was again revised by 5 per cent with effect from September 18, 1990 to cover the escalation in input prices and levies on Engineering Goods Exports Assistance Fund (EGEAF) and Freight Equalisation Fund (FEF).

Non-Ferrous Metals

6.77 Non-ferrous metals (other than aluminium) namely, copper, zinc, lead and nickel are mostly imported. Their prices are revised from time to time to reflect changes in international prices and exchange rates.

Petroleum Porducts

6.78 Changes in the prices of petroleum products have been largely influenced by the increase in the import cost of petroleum crude and petroleum products. In recent past, the prices of some of the petroleum products were revised towards the end of 1989-90 and then during 1990-91 in respect of all major petroleum products except LPG for domestic use, from October 15, 1990 by levying a 'Gulf Surcharge' of 25 per cent. This was done to partially meet the additional import costs of crude oil and petroleum products in the international market at the time of the Gulf crisis from August, 1990.

Outlook

6.79 From the above, it is clear that the uptrend in prices manifest in 1990-91 still persists and the price situation is likely to remain an area of concern for some time and will need close monitoring and urgent attention. The step up in the inflationary pressures is largely caused by the persistence of macro-economic imbalances. These have been aggravated by the impact of Gulf crisis on the fiscal and the balance of payments situations. Supply management through imports of essential commodities in short supply has been severely constrained due to the difficult balance of payments position. This situation has strengthened the speculative tendencies in the economy. What is needed is a firm resolve on the part of the Government to restore macro-economic balance through a significant reduction in the fiscal deficit combined with strict monetary discipline and a judicious adjustment of supply and demand for essential /sensitive items. Urgent steps are needed to raise the productivity of the existing capital stock and rationalise dispensation of subsidies. The pricing policies of commodities should have twin objectives of providing incentives for production and correcting the persistent imbalances in the balance of payments.