CHAPTER 4

PRICES AND DISTRIBUTION

The prices which had risen rapidly in 1990-91, continued their rise in 1991-92. The wholesale price index (WPI) registered 11.7 per cent increase from April 1991 to February 1, 1992 and the consumer price index (CPI) for industrial workers increased by 11.9 per cent from April to December, 1991. The annual rate of inflation was 12.1 per cent in terms of WPI as on the February 1, 1992 and 13.1 per cent in terms of CPI for industrial workers in December, 1991.

The major concern about inflation during the current year, as in 1990-91, is that it is concentrated in primary commodities including items such as foodgrains, vegetables, sugar and edible oils. Prices have tended to rise even in respect of commodities which are not in short supply.

Some pressure on prices may have arisen because of increase in the prices of administered items such as coal, petroleum products (other than diesel and kerosene), fertilizer, and electricity. However, the impact of these changes is small and in any case a failure to adjust these prices would have meant a larger deficit and correspondingly higher price pressure elsewhere in the system. A steep increase in prices was also observed in respect of raw cotton.

The buildup of inflationary pressures is mainly attributable to excess demand arising from the large and persistent fiscal deficits over the years, resulting in excessive growth in money supply and a liquidity overhang. There have also been supply and demand imbalances in sensitive commodities like pulses, edible oils, etc. due to shortfalls in domestic production and constraints in importing desired quantities due to the severe foreign exchange crunch. A sharp increase in procurement prices of cereals, and consequent rise in the issue prices, has set the trends for open market prices. Exchange rate adjustments in early July, 1991, led to increase in import costs which contributed to some cost pressure in import intensive industries. The uneven progress of monsoon until the end of August, 1991 also generated some inflationary expectations in the economy, exacerbating the pressure on prices.

In order to check the inflationary pressures in the economy and to bring down the prices, particularly that of essential commodities, a number of measures have been initiated by the Government. A major element in the strategy to combat inflation is the massive effort to correct the fiscal imbalance by reducing the fiscal deficit from 8.4 per cent of GDP in 1990-91 to 6.5 per cent in 1991-92. The growth of aggregate demand has been contained by restraining the growth of broad money (M_3) and bank credit to the Government. The selective credit controls on bank advances against price-sensitive essential commodities like rice, paddy, cotton and kapas, and pulses have been tightened. Steps have been taken to revamp the Public Distribution System, and its reach has been extended to 1,700 blocks in farflung and disadvantaged areas. Allocation of sugar, rice and wheat etc. under the PDS has been increased for the lean period. Stocks of wheat and rice have been off-loaded in the market to bring about a sobering effect on prices. Steps have been initiated to improve domestic supply of critical items such as edible oils, cotton and wheat through imports. Action against blackmarketeers and hoarders has been intensified to flush out the hoarded goods. Efforts have been made to remove transport bottlenecks and other infrastructural constraints in the movement of coal, raw materials and finished goods which had earlier led to a sharp increase in the prices of some commodities. State governments have also been requested to ensure availability of essential commodities at reasonable and affordable price and to regularly monitor and review the price situation at the highest level. These measures, together with other economic reforms, have begun to show results. The rate of increase in prices has fallen after September, 1991. A downturn in the annual rate of inflation has also set in; the annual rate of inflation on 1st February, 1992 is lower than at the same point in the previous year.

Introduction

The price situation was under pressure throughout 1990-91 despite a satisfactory monsoon and a good crop for the third year in succession. The annual rate of inflation in terms of Wholesale Price Index (WPI) was 12.1 per cent in 1990-91 compared with 9.1 per cent in 1989-90. The annual rate of inflation in terms of the Consumer Price Index (CPI) for Industrial Workers was 13.6 per cent during 1990-91 compared with 6.6 per cent in 1989-90.

4.2 The price situation has continued to be under pressure throughout the current year as well. In the first 44 weeks of the current financial year up to February 1, 1992, the WPI registered an increase of 11.7. per cent, same as during the corresponding period last year. The annual rate of inflation, on a point-to-point basis, as on February 1, 1992 was 12.1 per cent compared with 13.5 per cent on the corresponding date of last year. The Consumer price index for industrial workers registered 11.9 per cent increase during the first nine months of the current year (as in December, 1991), compared with 12.4 per cent during the corresponding period last year. The annual rise in the CPI for industrial workers, on a point-to-point basis, was 13.1 per cent till December, 1991 compared with 13.7 per cent during the corresponding period of last year.

4.3 **The trends in WPI and CPI,** in a medium term context, are given in Table 4.1.

TABLE 4.1

Trends in WPI and CPI

Items/Groups	Weight (%)	Changes during Financial year 85-86	86-87	87--88	88-89	89-90	90--91	91-92*	Annual rate of inflation (Point-to-Point) 85-86	86-87	87-88	88-89	89-90	90-91	91-92
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
(A) Wholesale Price Index (1981-82 = 100)															
ALL COMMODITIES	**100.0**	**4.8**	**5.1**	**10.7**	**5.7**	**9.1**	**12.1**	**11.7**	**4.7**	**5.8**	**9.4**	**6.3**	**8.1**	**13.5**	**12.1***
(a) Primary articles	32.30	4.4	5.5	15.7	—0.2	6.4	17.1	16.6	0.7	8.7	14.1	2.2	3.6	18.9	16.3*
(b) Fuel, power, light & lubricants	10.66	12.1	2.2	5.3	5.1	6.3	14.4	10.6	15.3	2.9	5.7	4.2	2.3	19.2	11.2*
(c) Manufactured products	57.04	4.1	5.3	8.9	9.2	11.1	8.9	9.0	4.8	5.2	8.8	7.9	11.8	9.6	9.7*
(B) Consumer Price Index (1982 = 100) (For Industrial Workers)															
GENERAL INDEX	**100.00**	**8.3**	**6.2**	**10.9**	**8.5**	**6.6**	**13.6**	**11.9**	**6.7**	**7.8**	**10.9**	**8.5**	**5.4**	**13.7**	**13.1$**
(a) Food index	57.00	10.0	7.6	9.9	8.3	5.3	16.3	15.5	7.4	9.9	9.7	9.5	2.3	16.9	15.5$
(b) Pan, supari, tobacco and intoxicants	3.15	17.2	10.2	6.4	9.8	15.3	10.3	10.1	16.4	10.1	8.5	7.9	16.7	8.5	16.5@
(c) Fuel & light	6.28	8.0	4.4	8.5	8.5	4.8	14.4	2.0	9.1	6.1	5.7	8.8	6.8	12.2	5.2@
(d) Housing	8.67	11.3	7.0	13.9	5.8	7.9	7.9	3.1	13.0	7.4	13.7	6.7	7.5	8.2	7.0@
(e) Clothing, bedding and footwear	8.54	6.7	5.4	5.1	8.9	11.2	7.4	7.5	4.9	6.5	5.2	8.3	10.7	7.6	10.3@
(f) Miscellaneous	16.36	5.9	8.0	11.1	8.7	9.2	10.1	9.2	5.1	7.3	11.4	8.2	7.5	10.5	13.2@

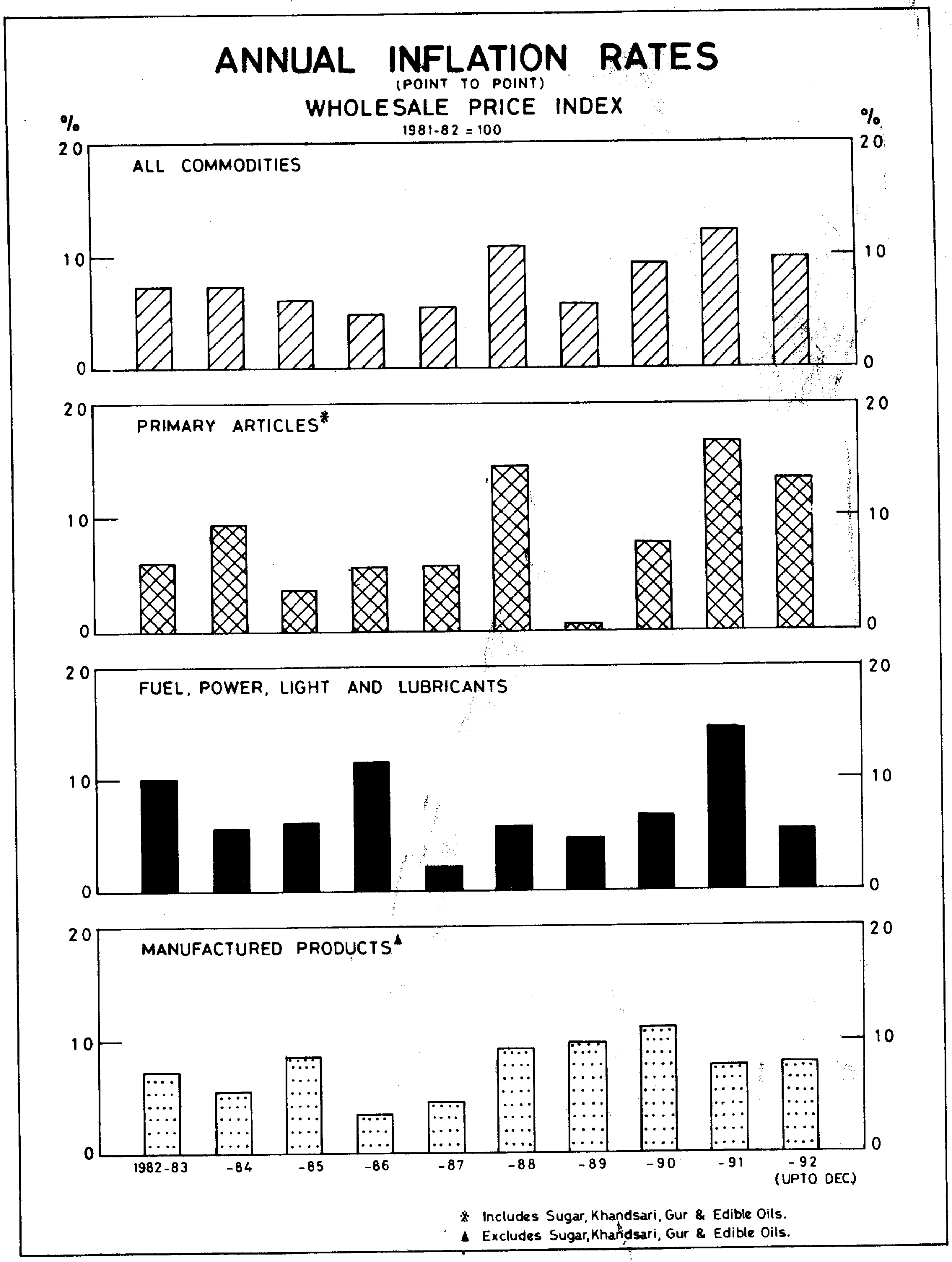
* WPI up to February 1, 1992 (Provisional).

@ CPI up to November, 1991.

$ CPI up to December, 1991.

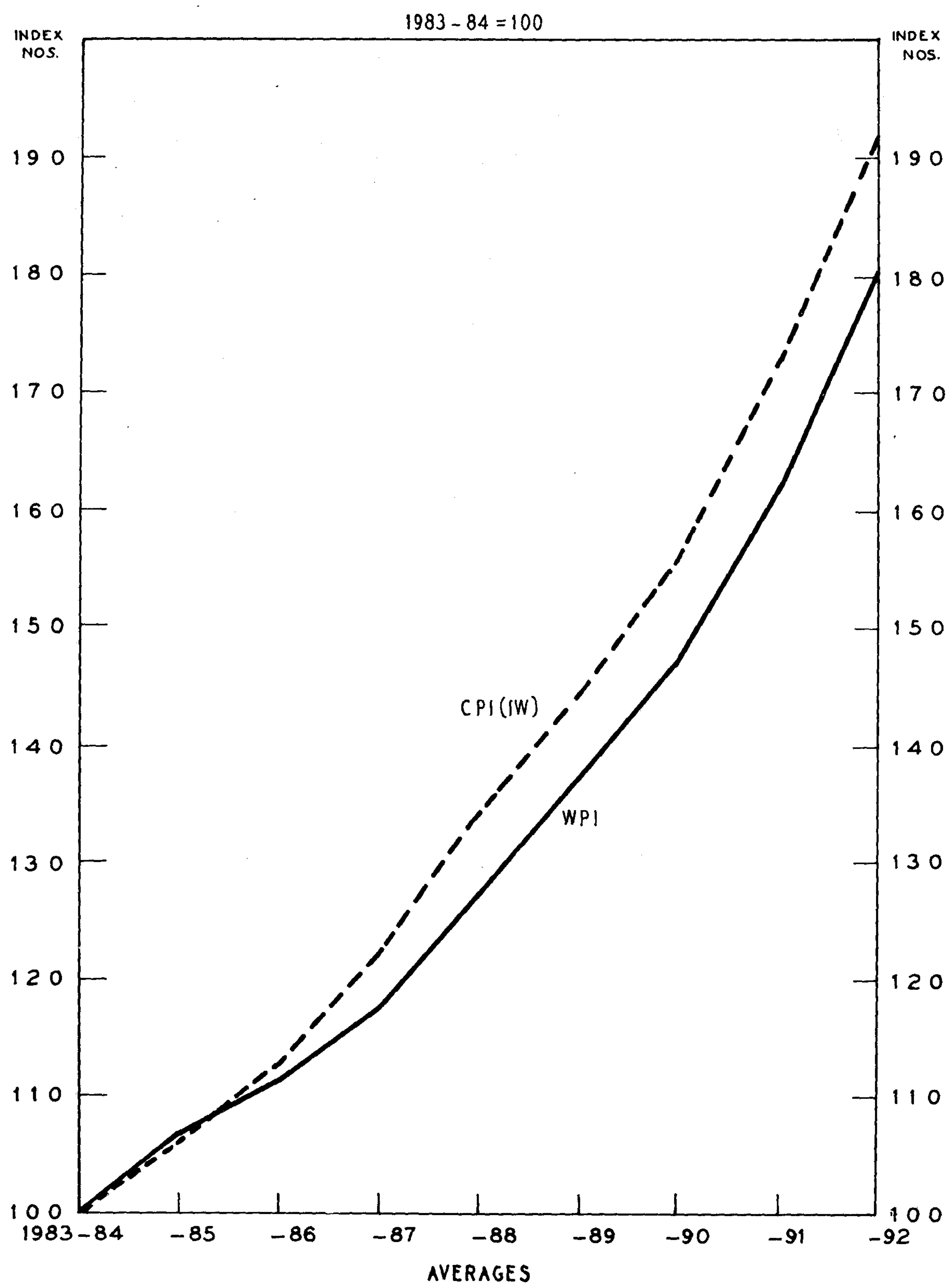
Wholesale prices : Group-wise changes

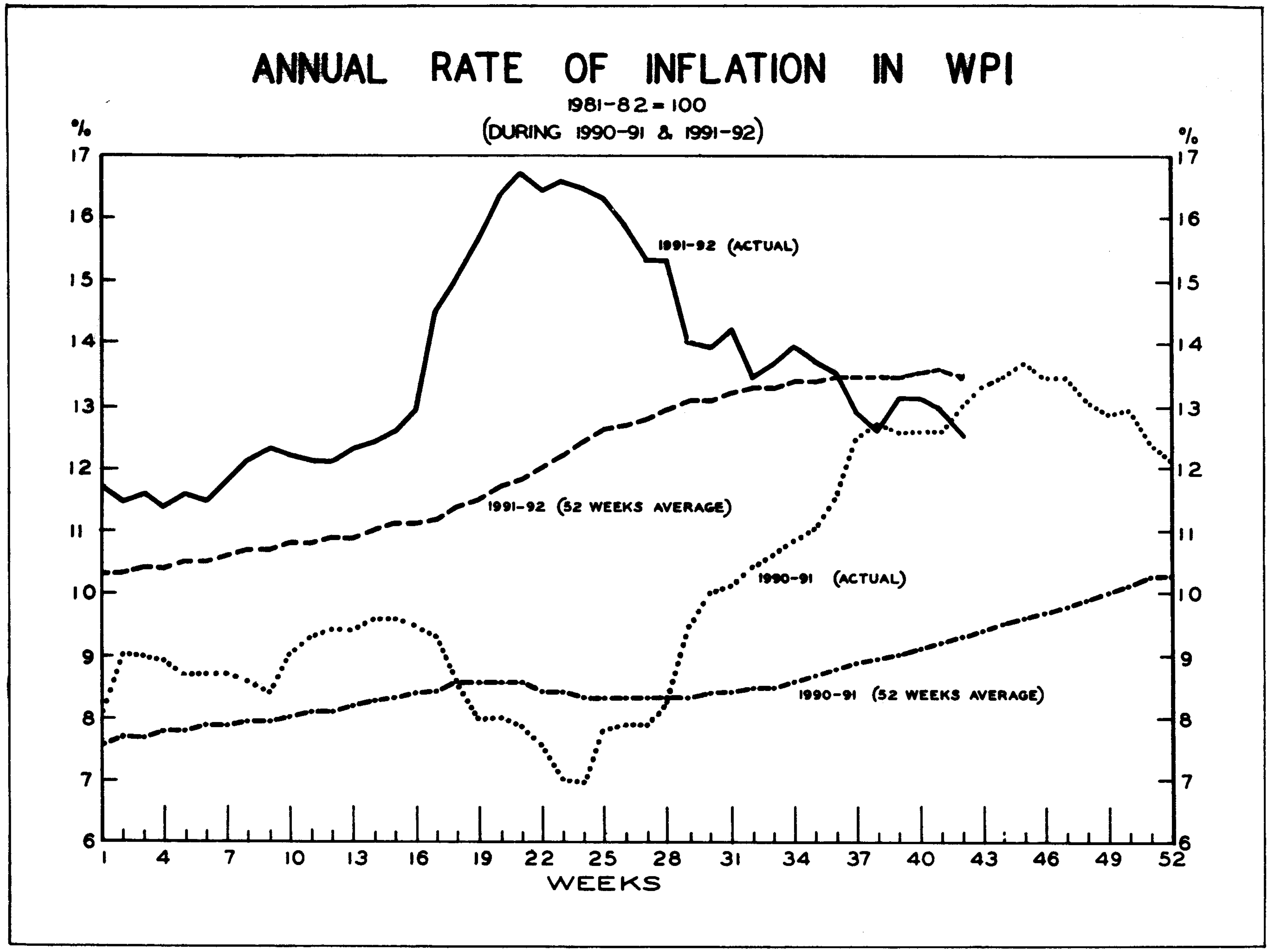
4.4 Variations in the WPI of major commodity groups/sub-groups and important commodities during 1991-92 are given in Table 4.2. The major contributors to the rising trend in prices during the current year are primary articles though the increase is less as compared to that of last year. Manufactured products also exhibited a marginally higher increase in prices than in the previous year. Though fuel, power, light and lubricants recorded a rise in the price index, the magnitude of its increase is lower than that in the previous year. Under *primary articles,* the real impetus to inflation was provided by food articles, such as cereals (especially rice and coarse cereals), fruits, eggs, fish and meat, condiments and spices and non-food articles (primarily raw cotton), rape and mustard seeds. Prices of gram, onion, coffee and raw jute slightly offset the price rise by registering modest to steep decline. Primary articles as a whole, with a weight of 32.3 per cent in the general index, contributed 46.9 per cent to the total price rise compared with 47.2 per cent in the corresponding period last year.

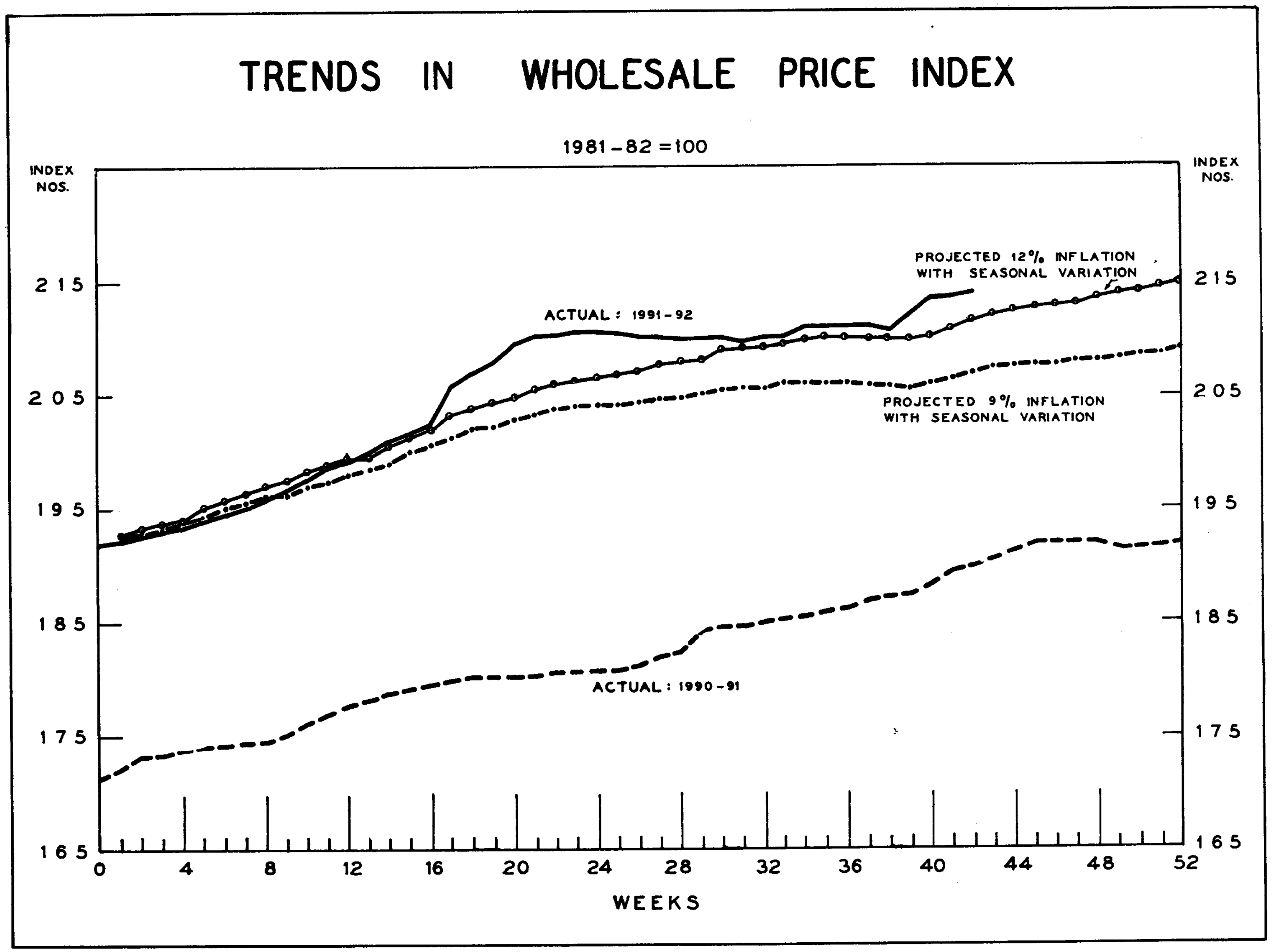


ANNUAL INFLATION RATES
(POINT TO POINT)
WHOLESALE PRICE INDEX
1981-82 = 100
%
ALL COMMODITIES
PRIMARY ARTICLES*
FUEL, POWER, LIGHT AND LUBRICANTS
MANUFACTURED PRODUCTS▲
0
10
20
1982-83
-84
-85
-86
-87
-88
-89
-90
-91
-92 (UPTO DEC.)
* Includes Sugar, Khandsari, Gur & Edible Oils.
▲ Excludes Sugar, Khandsari, Gur & Edible Oils.

MOVEMENT IN PRICES (CPI & WPI)




ANNUAL RATE OF INFLATION IN WPI
1981-82=100
(DURING 1990-91 & 1991-92)
%
1991-92 (ACTUAL)
1991-92 (52 WEEKS AVERAGE)
1990-91 (ACTUAL)
1990-91 (52 WEEKS AVERAGE)
WEEKS


TRENDS IN WHOLESALE PRICE INDEX
1981-82 =100
INDEX NOS.
INDEX NOS.
PROJECTED 12% INFLATION WITH SEASONAL VARIATION
ACTUAL: 1991-92
PROJECTED 9% INFLATION WITH SEASONAL VARIATION
ACTUAL: 1990-91
215
205
195
185
175
165
0
4
8
12
16
20
24
28
32
36
40
44
48
52
WEEKS

MOVEMENT OF WHOLESALE PRICE INDICES

1981-82=100

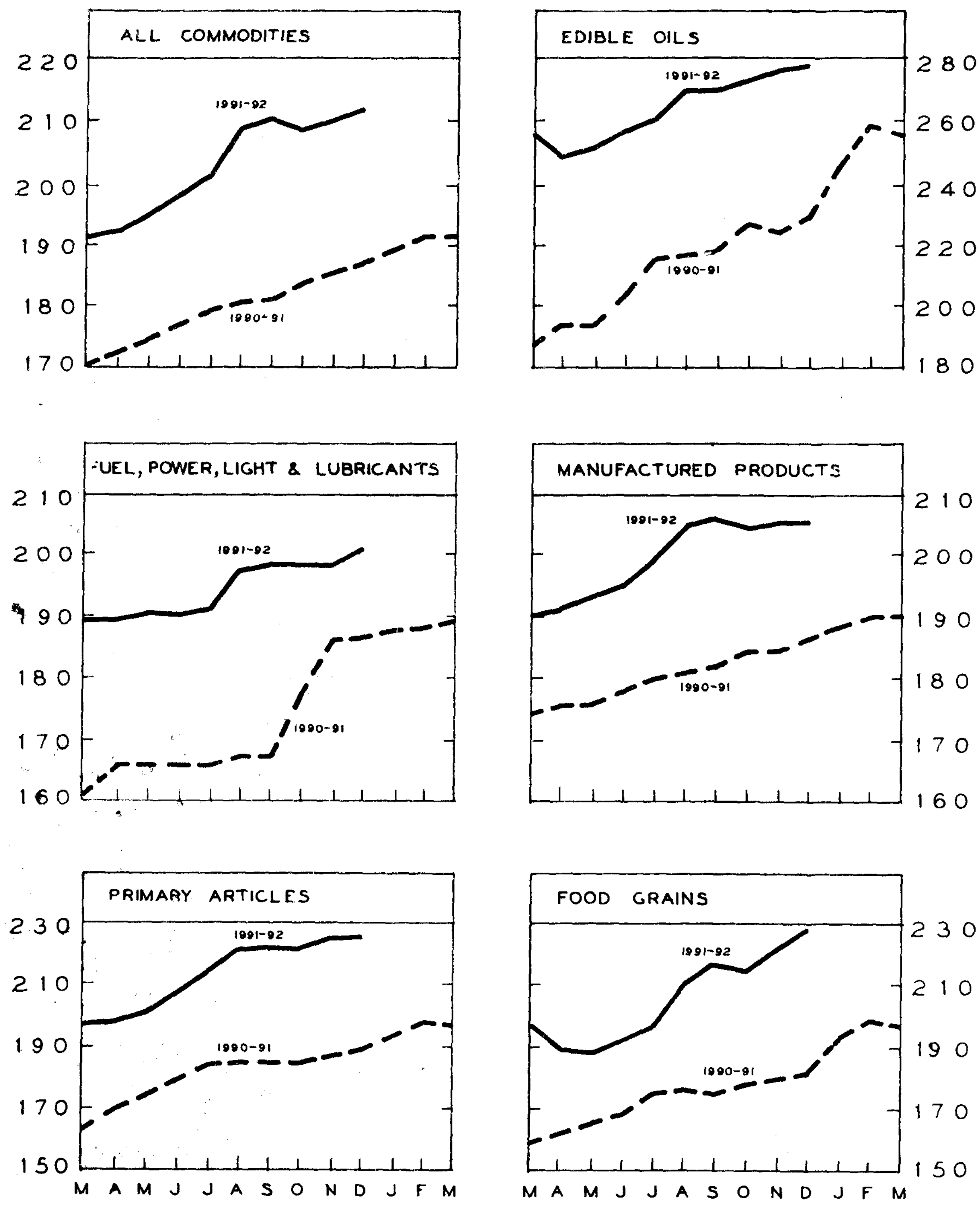


TABLE 4.2

Price Variation of Selected Items

(*Base* : 1981-82 = 100)

Items/Groups	Weight in WPI (%)	1990-91 Whole Years) (April—March) % change	% share	End-March to Feb. 2 (44th Wk) % change	% share	1991-92* End-March to Feb. 1 (44th Wk) % change	% share	Annual rate of inflation as on Feb. 1 1992 (per cent)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
ALL COMMODITIES	**100.00**	**12.10**	**100.00**	**11.69**	**100.00**	**11.68**	**100.00**	**12.09**
I. Primary Articles	**32.30**	**17.14**	**44.63**	**17.50**	**47.16**	**16.62**	**46.86**	**16.27**
(A) Food articles	17.39	18.89	28.14	20.25	31.22	19.31	31.60	17.96
(a) Foodgrains	7.92	22.72	13.89	24.53	15.52	25.19	17.47	23.37
1. Cereals	6.82	25.35	12.68	26.46	13.71	28.26	16.38	27.12
(i) Rice	3.69	13.36	3.94	13.48	4.11	28.27	8.73	28.13
(ii) Wheat	2.25	48.91	7.32	53.85	8.34	21.13	4.35	17.24
2. Pulses	1.09	10.81	1.19	15.93	1.81	9.46	1.07	4.62
(b) Fruits & vegetables	4.09	22.83	7.55	22.65	7.75	11.29	4.24	11.45
(i) Fruits	2.80	25.04	5.68	20.16	4.73	19.36	5.08	24.22
(ii) Vegetables	1.29	17.68	1.83	28.20	3.03	—7.05	—0.79	— 14.68
(c) Milk	1.96	8.85	1.69	5.29	1.05	9.09	1.75	12.78
(d) Eggs, fish & meat	1.78	10.47	1.63	11.08	1.79	20.41	3.25	19.75
(e) Condiments & spices	0.95	32.25	3.57	31.22	3.57	37.85	5.11	38.94
(f) Other food articles	0.69	—1.96	—0.18	15.93	1.48	—3.10	—0.25	—18.06
(B) Non-food articles	10.08	19.33	16.61	18.03	16.03	14.87	14.09	16.14
1. Fibres	1.79	24.46	3.42	10.99	1.59	25.06	4.04	40.23
2. Oilseeds	3.86	26.60	8.30	30.25	9.77	19.45	7.10	16.11
(C) Minerals	4.83	—0.46	—0.12	—0.46	—0.12	5.14	1.21	5.14
II. Fuel, Power, Light & Lubricants	**10.66**	**14.37**	**12.20**	**13.77**	**12.10**	**10.60**	**9.25**	**11.19**
III. Manufactured Produced	**57.04**	**8.93**	**42.99**	**8.19**	**40.78**	**8.99**	**43.54**	**9.74**
(A) Food products	10.14	13.17	10.87	13.05	11.15	10.85	9.37	10.97
1. Sugar, khandsari & gur	4.06	0.07	0.02	—0.07	—0.02	7.67	2.05	7.82
(i) Sugar	2.01	0.42	0.06	1.76	0.25	19.68	2.52	18.11
2. Edible oils	2.45	32.67	7.34	32.46	7.55	8.06	2.22	8.23
3. Oilcakes	0.43	4.56	0.17	7.29	0.28	29.91	1.08	26.61
Others								
1. Textiles	11.55	5.27	4.97	3.79	3.70	7.88	7.22	9.42
2. Cement	0.86	14.06	0.95	12.45	0.87	4.76	0.34	6.25
Administered Items	19.70	9.86	14.23	9.42	14.07	9.34	13.68	9.77
1. Petroleum crude & natural gas	4.27	—0.40	—0.08	—0.40	—0.09	1.91	0.36	1.91
2. Petroleum products (Mineral oils)	6.67	20.55	9.34	20.55	9.67	7.88	3.99	7.88
3. Coal mining	1.26	0.04	0.01	0.04	0.01	26.82	3.51	26.82
4. Electricity	2.74	11.38	2.89	9.29	2.44	7.73	2.02	9.79
5. Fertilisers	1.75	0.00	0.00	0.00	0.00	37.44	2.90	37.44
6. Iron & steel	2.44	6.00	1.38	6.00	1.43	1.84	0.41	1.84
7. Non-ferrous metals (other than aluminium)	0.57	9.42	0.69	8.08	0.62	6.56	0.49	7.89
1. Administered items	19.70	9.86	14.23	9.42	14.07	9.34	13.68	9.77
2. Seasonal items	34.41	18.03	52.28	18.35	55.05	16.14	51.03	15.83
3. Raw materials	14.91	14.79	16.49	13.79	15.91	12.93	15.29	13.93

* Provisional.

4.5 In the group *fuel, power, light and lubricants,* the price rise was more prominent in the sub-groups 'mineral oils' and 'coal mining'. With a weight of 10.7 per cent, this group contributed 9.5 per cent to the overall price rise compared with 12.1 per cent in the same period last year.

4.6 Among *manufactured products,* a steep increase in prices was observed in some food products such as sugar and oilcakes, and in textiles, paper and paper products, chemical and chemical products, particularly fertilizers, and machinery and machine tools. This group, with a weight of 57.0 per cent in the general index, accounted for 43.5 per cent of the overall increase in the prices this year compared with its share 40.8 per cent in the corresponding period last year.

4.7 *Goods with administered prices,* on the whole, registered nearly the same order of increase in prices (around 9 per cent) this year as that in the last year. Fertilizer prices recorded a steep increase this year due to a phased reduction in subsidies on fertilizers. The prices of coal and coke also increased appreciably. The share of administered items in the overall price rise, however, was lower this year than that in the last year.

4.8 *Seasonal goods* as a group consisting of food and non-food articles, and food products, recorded a lower rate of price rise this year than that in the last year on account of a decrease in the prices of pulses, fruits and vegetables, raw cotton, oil seeds, edible oils, sugar, etc.

4.9 Taking different groups together, only a few food articles such as rice, fruits, condiments and spices, non-food articles such as, raw cotton and oilseeds, and manufactured products such as, edible oils and oil-cakes, fertilizers, paper and paper products and machinery and machine tools, with a total weight of 25.5 per cent in the general index contributed to as much as 46.7 per cent to the total increase in the WPI on February 1, 1992. Compared to their respective weights, most of these commodities had contributed to a much higher rate of price rise than other commodities last year also.

4.10 An analysis of the movements in the Wholesale Price Index for some essential commodities during the period April to February 1, 1992 shows that the prices of wheat, gram, arhar, masur, urad, onions, potatoes, atta, mutton, gur, tea, mustard oil, coconut oil, groundnut oil, hydrogenated vanaspati, dhoties and sarees, kerosene, petrol, HSD. and cement have increased at lower rates than during the corresponding period of last year. However, the rates of price increase in the case of rice, jowar, bajra, moong, milk, chillies, sugar, salt, washing soap and safety matches are higher this year than in the corresponding period of last year. The major concern about inflation in recent months, as in the preceding financial year, is that it is concentrated in essential commodities such as cereals, particularly rice, wheat, coarse grains, pulses, edible oils, chillies, and sugar. Nearly 27 per cent of the total annual inflation in mid-January, 1992 was on account of rise in the prices of 29 essential commodities, and the remaining 73 per cent was due to rest of the commodities.

Seasonal Behaviour of Prices

4.11 Movements of monthly seasonal factors for major commodity groups/sub-groups (averaged for nine years from April 1981 to March 1990) indicate that the prices of primary articles show the highest degree of seasonality followed by the fuel group. Prices of primary articles tend to rise from April to August, fall in September, increase in October, and fall gently in November and steeply in December to March. The manufactured products index shows gentle rise from the beginning of April to August, followed by a fall up to December, an increase in January and a fall in February and March. The 'fuel' group shows a declining trend up to August and then a rising trend up to March. The all commodities index which reflects the overall effect of these changes, shows a rise up to August, a fall in September to December, a rise in January and a fall again in February and March.

4.12 Oilseeds show the maximum amount of seasonality, followed by fruits and vegetables. The seasonal changes in various items which comprise food articles vary. Rabi crops of wheat and pulses exhibit a trend contrary to that of the kharif crops. The fluctuations in the size of these crops affect the degree of seasonality. Any change in the behaviour of these major commodity groups, i.e., the primary articles/concerned manufactured products and the fuel group affects the overall behaviour of the general price index in any particular period. The actual movement of the price indices this year indicates a contra-seasonal trend in prices of primary articles and manufactured products during the second half of the year. The actual variation in the prices of seasonal items during this year is given in table 4.3.

TABLE 4.3

Seasonal Variation of Prices

Items/groups	Weight in WPI (%)	Percentage change (point-to-point basis) (Base : 1981-82 = 100) 1990-91 Whole year	1990-91 End-Mar.-End-Sep.	1990-91 End-Sep.-Feb., 2	1991-92 End-Mar.-End-Sep.	1991-92 End-Sep.-Feb 1*
1	2	3	4	5	6	7
SEASONAL ITEMS $	**34.41**	**18.03**	**11.31**	**6.51**	**13.65**	**2.18**
I. Food articles	**17.39**	**18.89**	**12.97**	**6.44**	**16.98**	**1.99**
(a) Foodgrains	7.92	22.72	9.64	13.58	9.99	13.82
1. Cereals	6.82	25.35	9.87	15.10	9.93	16.67
(i) Rice	3.69	13.36	8.28	4.80	17.33	9.32
(ii) Wheat	2.25	48.91	17.59	30.84	—4.05	26.25
2. Pulses	1.09	10.81	8.56	6.79	10.36	—0.82
(b) Fruits & vegetables	4.09	22.71	26.00	—2.66	32.78	—16.10
(i) Fruits	2.80	25.04	15.03	4.46	17.79	1.34
(ii) Vegetables	1.29	17.68	50.09	—14.58	67.60	—44.54
(c) Milk	1.96	8.85	4.60	0.66	3.86	5.47
(d) Eggs, fish & meat	1.78	10.47	8.38	2.49	9.63	9.83
(e) Condiments & spices	0.95	32.25	12.25	16.90	41.49	—2.57
(f) Other food articles	0.69	—1.96	14.23	1.49	8.39	—10.60
(i) Tea	0.56	—12.58	7.51	—1.35	13.82	—10.50
(ii) Coffee	0.13	61.32	54.40	13.24	—9.16	—10.92
II. Non-food articles	**10.08**	**19.33**	**8.16**	**9.12**	**8.41**	**5.96**
1. Fibres	1.79	24.46	8.21	2.57	21.54	2.90
(i) Raw cotton	1.34	44.29	10.88	7.22	29.19	4.00
(ii) Raw jute	0.16	—14.97	4.14	— 36.00	—19.33	—22.28
2. Oilseeds	3.86	26.60	12.55	15.72	12.61	6.08
III. Sugar, khandsari & gur	**4.06**	**0.07**	**8.56**	**—7.95**	**17.45**	**—8.32**
1. Sugar	2.01	0.42	—1.20	2.99	11.76	7.08
2. Khandsari	0.30	—2.75	—4.40	—0.36	11.10	—19.99
3. Gur	1.75	0.13	21.07	—18.48	24.50	—21.45
IV. Edible oils	**2.45**	**32.67**	**15.07**	**15.11**	**7.15**	**0.85**
1. Groundnut oil	0.53	36.21	19.16	21.96	7.81	—2.62
2. Rape & mustard oil	0.28	44.49	35.97	20.93	21.53	—2.81
V. Oilcakes	**0.43**	**4.56**	**0.89**	**6.34**	**22.46**	**6.08**
ALL COMMODITIES	**10.00**	**12.19**	**5.90**	**5.46**	**9.54**	**1.95**

$=Includes food articles; non-food articles; sugar, khandsari & gur; edible oils and oilcakes.

*=Provisional.

4.13 The seasonal dip in prices has of late become weak due to increased demand/procurement during the post harvesting season, lower arrivals on account of general improvement in the stock holding capacity of the producers or their holding of stocks on behalf of the traders to avoid stock regulations, multiple cropping, a wider spread of the harvesting seasons due to introduction of short-duration crops, unsteady growth in the production of agricultural and industrial products, and above all, the reduced weightage of primary articles in the WPI (from 41.7 per cent in 1970-71 base to 32.3 per cent in the new base with 1981-82 = 100).

Consumer Prices

4.14 All the three Consumer Price Indices (CPI) for industrial workers, urban non-manual employees and agricultural labourers, exhibited accelerated rates of inflation during the third quarter of the current year due to relatively higher increase in the prices of food articles and food products which have a much higher weight in the Consumer price index than the Wholesale price index. Among the three consumer price indices, the CPI for agricultural labourers has witnessed the highest rate of inflation. Upward movement in the wholesale prices of these commodities have been transmitted to the retail prices of these commodities in around a month's time. The comparable movements in the rates of inflation in terms of the WPI and the CPI during the current year are given below :

TABLE 4.4

Annual rates of inflation on a point-to-point basis in WPI and the CPI during 1991

(per cent)

Month	WPI (1981-82 = 100)	CPI for industrial workers (1982=100)	CPI for urban non-Manual Employees (1984-85 = 100)	CPI for agricultural labourers (1960-61 =100)
March	12.7	13.6	13.4	16.6
April	11.6	12.2	12.6	14.7
May	11.8	12.1	11.8	13.7
June	12.2	13.0	12.3	15.4
July	13.1	13.2	13.3	15.9
August	16.1	14.2	15.1	18.3
September	16.3	15.7	15.7	23.1
October	14.7	14.4	14.2	23.1
November	13.7(P)	13.6	14.0	21.2
December	13.1(P)	13.1	13.3	21.7

P=Provisional

Factors underlying inflation

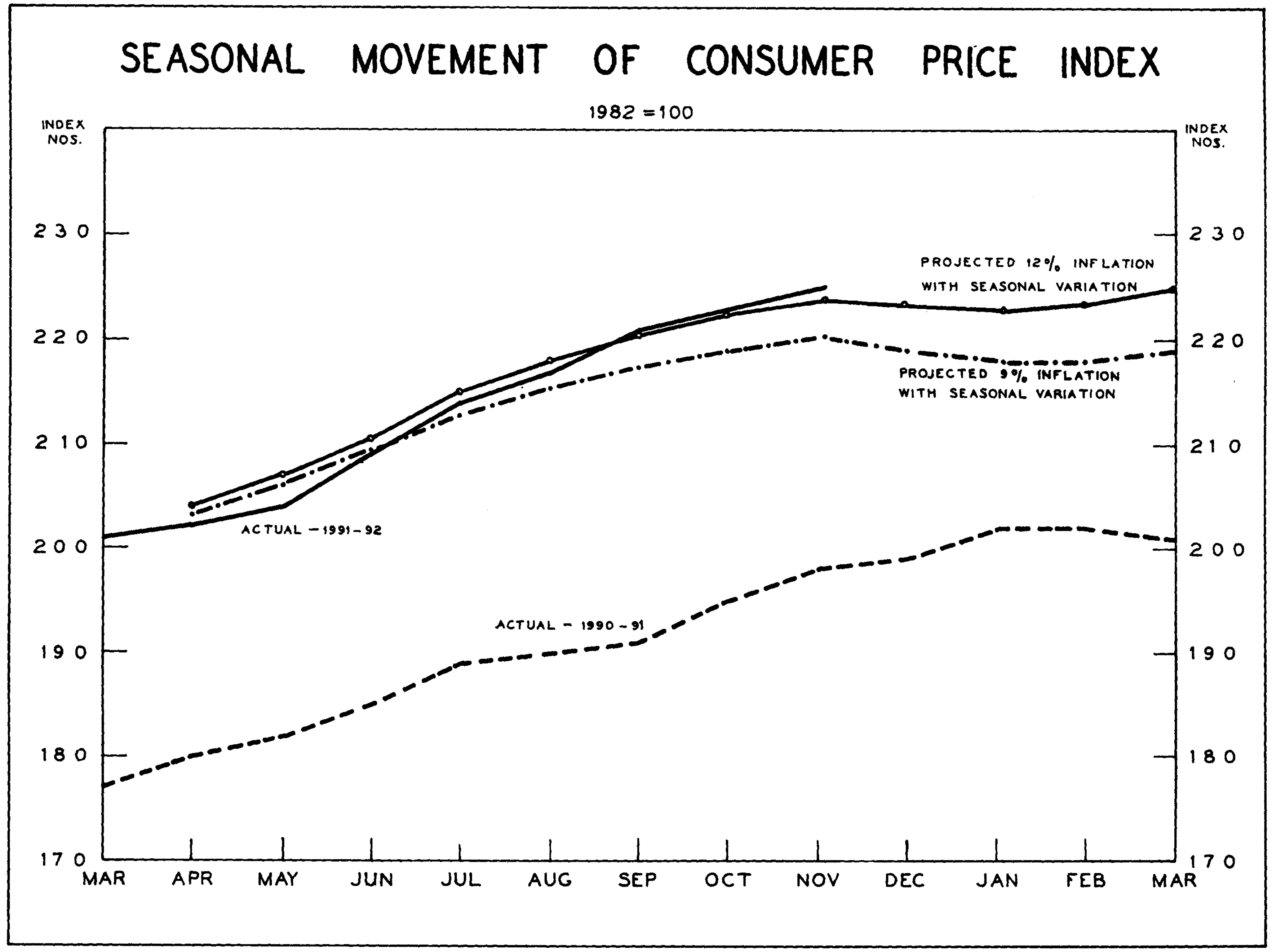
4.15 The buildup of inflationary pressure is mainly attributable to excess demand arising from the large and persistent fiscal deficits over the years, resulting in excessive growth in money supply and a liquidity overhang. There have also been supply and demand imbalances in sensitive commodities like pulses, edible oils, etc. due to shortfalls in domestic production and constraints in importing desired quantities due to the severe foreign exchange crunch. Exchange rate adjustments in early July, 1991, led to increase in import costs which contributed to some cost pressure in the import intensive-industries. The uneven progress of monsoon until the end of August, 1991 also generated some inflationary expectations in the economy, exacerbating the pressure on prices.

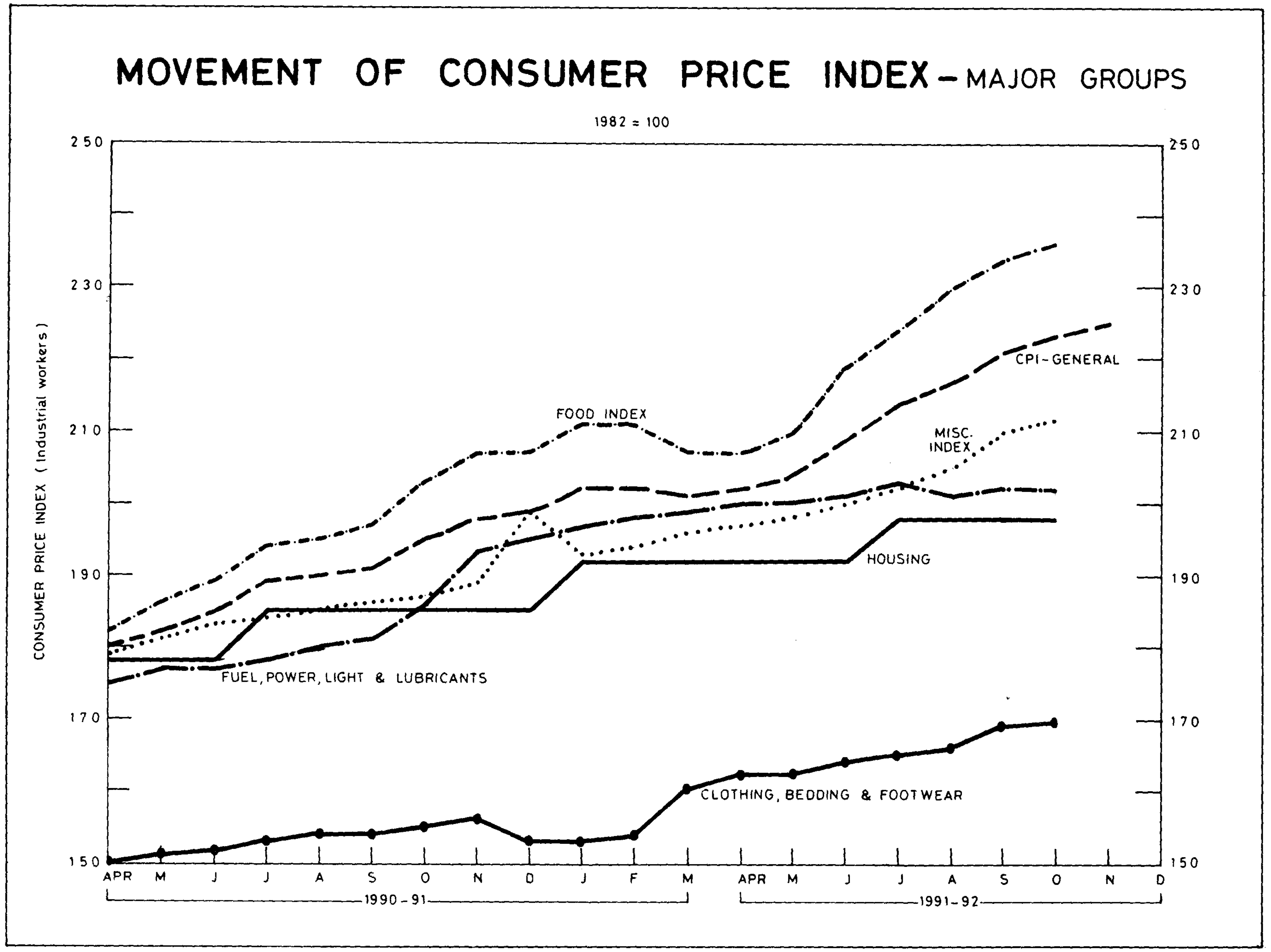
4.16 The acceleration in the rate of inflation is a cause for serious concern; equally worrisome is the rise in prices even of commodities which are not in short supply in the market. Fairly good monsoons for four years in a row leading to very good harvests in the last three years and prospects of a good crop during this year have not been able to contain the pressure on prices. The offtake of foodgrains from the PDS has also been higher this year compared to the previous year. Selective credit control measures have been tightened on bank advances against foodgrains, cotton and kapas, oilseeds and edible oils; and the lending rates and margin money for such advances have been increased substantially this year.

4.17 With an improvement in the balance of payments situation, imports of essential commodities in short supply in the domestic market are being arranged. Due attention is also being given to the building up of adequate stocks of these commodities to contain prices in the lean season. The continuance of tight monetary policy, judicious fiscal corrections, improvement in the foreign exchange reserves and regular supplies of critical commodities to the needy population would have salutory impact in bringing down the prices.

Anti-inflationary measures

4.18 A number of reforms in the spheres of fiscal and monetary policies, trade and industry, and external sector of the economy have been initiated which, among other things, are expected to check the inflationary pressures in the economy. Improvement in the foreign exchange reserves would facilitate a more effective management of supply through imports of essential commodities which are in short supply. A number of monetary measures have been introduced during the year to moderate the expansion of liquidity and to curtail effective demand. These were supplemented by a number of fiscal measures such as reduction in fiscal deficit of the Central Government by about 2 percentage points from 8.4 per cent of GDP in 1990-91 to 6.5 per cent of GDP in 1991-92. Imports of edible oils have been permitted against


SEASONAL MOVEMENT OF CONSUMER PRICE INDEX
1982 =100
INDEX NOS.
230
220
210
200
190
180
170
PROJECTED 12% INFLATION WITH SEASONAL VARIATION
PROJECTED 9% INFLATION WITH SEASONAL VARIATION
ACTUAL - 1991-92
ACTUAL - 1990-91
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR



MOVEMENT OF CONSUMER PRICE INDEX - MAJOR GROUPS
1982 = 100
CONSUMER PRICE INDEX (Industrial workers)
250
230
210
190
170
150
FOOD INDEX
CPI - GENERAL
MISC. INDEX
HOUSING
FUEL, POWER, LIGHT & LUBRICANTS
CLOTHING, BEDDING & FOOTWEAR
APR M J J A S O N D J F M APR M J J A S O N D
1990 - 91
1991 - 92

Exim scrips and foreign exchange earned by the state governments. About 7.5 lakh tonnes of wheat and some rice has been off-loaded by the FCI in the open market to bring about a sobering effect on the open market prices. The PDS is being strengthened to cater more effectively to far flung and disadvantaged areas to help the poorer sections of the society to get essential items at reasonable prices.

4.19 Coal supplies to the cement plants have been augmented and the supply of railway wagons to transport cement has been increased. Allocations of sugar, rice and wheat under PDS have been augmented during the lean season of these commodities in the market, and further exports of commodities in short supply in the market such as rice, wheat, cotton etc. have been restricted or stopped to improve their domestic availability. Commodity exchange agreements have been entered into with the World Food Programme (WFP) whereby the much needed edible oils would be made available to India under WFP assistance in exchange of foodgrains for WFP projects in India.

4.20 State governments who have an equally important role in managing prices, have been requested to review and monitor the working of the PDS, ensure strict enforcement of the Essential Commodities Act for checking the hoarding of commodities in short supply, and ensure timely and adequate supply of esstential commodities by removing infrastructural constraints, if any.

4.21 The monetary measures introduced during the year have been elaborated in the Chapter on 'Money and Credit'. Among the important measures taken to check price rise during the year include selective credit control measures to curb bank advances against stocks of oilseeds/vegetable oils, paddy, rice and other foodgrains, etc.

4.22 The various measures introduced by the Government have now started producing results. Rationalisation of subsidies on a number of commodities, such as fertilizers, food, etc. and substantial increases in the support/procurement prices of different agricultural commodities, which generally set the trend for open market prices, have hindered the manifestation of the expected fall in the prices.

Price Policy

Agricultural Price Policy

4.23 The agricultural price policy seeks to evolve a balanced and integrated price structure in the perspective of the overall needs of the economy, ensuring remunerative prices to the growers and safeguarding the interest of the consumers by making available supplies at reasonable prices. The Government announces each season procurement/support prices for major agricultural commodities and organises purchase operations through public and cooperative agencies such as Food Corporation of India, Jute Corporation of India, Cotton Corporation of India, National Agricultural Co-operative Marketing Federation (NAFED) and Tobacco Board, besides other agencies designated by the State governments.

4.24 The procurement/support prices for important agricultural commodities are fixed by the Government on the recommendations of the Commission for Agricultural Costs and Prices (CACP), the views of the State governments and Central ministries, and also taking into account other factors relevant for fixation of these prices. The CACP formulates its recommendations after making a comprehensive review of the entire structure of prices as cost of production, paid-out-cost and the imputed value of owned assets including land and family labour, changes in input prices, input/output price parity, demand and supply situation, inter-crop price parity, effects on the industrial cost structure, on the general price level, and on the cost of living, international market prices, parity between prices paid and prices received by farmers (terms of trade), etc. In addition to it, other factors which have been kept in view are the need to provide incentives to the producer for adopting improved technology and for developing a production pattern broadly meeting the national requirements, the need to ensure rational utilisation of land, water, and other productive resources, and the likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, industrial cost structure, etc.

4.25 The commodities at present covered for the fixation of procurement/minimum support prices, include, seven cereals (paddy, wheat, jowar, bajra, maize, ragi and barley), four pulses (gram, arhar, moong and urad), seven oilseeds (groundnut, sunflower, soyabean, rapeseed and mustard, safflower, toria and copra) and four other commodities (sugarcane, cotton, jute and tobacco).

4.26 The cost of production is one of the most important factors for determining the procurement/minimum support prices of agricultural commodities. Improvements in the methodology for estimation of cost of production of crops have been made based on a comprehensive study undertaken by an expert committee under the chairmanship of Prof. C.H. Hanumantha Rao and the modifications suggested by the Standing Advisory Committee. Valuation of labour is now done at statutory minimum wage rate or actual wage rate, whichever is higher. 10 percent of the total cost is earmarked as the cost of managerial input. The procurement/minimum sup port prices announced before the sowing season are adjusted in case the increase in input cost turns out to be higher than the anticipated rise at the time of the initial fixation of these prices. The revised methodology of cost of production has been adopted in the formulation of the recommendation for the procurement/support prices with effect from the kharif crops of 1990-91 season.

4.27 As agricultural activity is subjected to frequent fluctuations in weather, a stable relationship between the prices of agricultural and non-agricultural commodities does not protect the interest of the farmers. The terms of trade between agricultural and non-agricultural commodities have, therefore, to be treated as a medium term concept instead of an annual concept where price adjustments are made on a year to year basis. The Government had asked the Expert Committee to review this matter also and suggest appropriate safeguards to protect the interest of the farmers. The recommendations of the Expert Committee are at present under examination.

4.28 The movement of procurement/minimum support prices fixed for different crops since 1987-88 so far are given in Table 4.5.

TABLE 4.5

Minimum Support/Procurement Prices of Agricultural Commodities

(Rs. per quintal)

Commodity		Marketing Year*							
		1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
1		2	3	4	5	6	7	8	9
1. Wheat . . .	(Procurement price)	157	162	166	173	183	215	225	
2. Pady (Common variety) . . .	—do—	142	146	150	160	185	205	230	
3. Coarse grains . .	—do—	130	132	135	145	165	180	205**	
4. Barley . . .	(Minimum support price)	130	132	135	135	145	180	200	
5. Gram . . .	—do—	—	260	280	290	325	421	450	
6. Arhar . . .	—do—	300	320	325	360	425	480	545	
7. Moong . . .	—do—	300	320	325	360	425	480	545	
8. Urad . . .	—do—	300	320	325	360	425	480	545	
9. Safflower . .	—do—	—	400	415	415	440	550	575	
10. Rapeseed & Mustard .	—do—	385	400	415	430	460	575	600	
11. Toria . . .	—do—	—	360	375	400	430	545	570	
12. Groundnut . .	—do—	350	370	390	430	500	580	645	
13. Sunflower seed . .	—do—	335	350	390	450	530	600	670	
14. Soyabean (Black)	—do—	250	255	260	275	325	350	395	
15. Soyabean (Yellow) .	—do—	275	290	300	320	370	400	445	
16. (i) Copra . . .	(Minimum support price)	—	—	—	—	1,500	1,600	1,700	
(ii) Copra Ball . .	(Minimum support price)	—	—	—	—	—	—	1,850	
17. (i) Cotton (F-414/H-777)	—do—	425	430	440	500	570	620	695	
(ii) Kapas Hybrid-4)	—do—	535	540	550	600	690	750	840	
18. Sugarcane . . .	(Statutory minimum price)	16.50	17.00	18.50	19.50	22.00	23.00	26.00	27·00
19. Jute (W-5 Grade Ex-Assam). . .	—do—	215	225	240	250	295@	320@	375@	
20. (i) VFC Tobacco (F-2) (Black Soil) .	(Minimum support price)	1,115	1,115	1,125	1,175	1,250	1,325	1,475	
(ii) VFC Tobacco (F-2) (Light Soil) .	—do—	1,200	1,200	1,200	1,220	1,280	1,350	1,425	

*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.

**Maize, it is Rs. 210/- per quintal.

Price Policy for Kharif Crops of 1991-92

4.29 The minimum support prices for kharif cereals, coarse cereals, pulses, oilseeds, and cotton for the 1991-92 season have been fixed based on the revised methodology for the estimation of cost of production of crops. It also takes into account the 30 per cent increase in the prices of fertilizer this year.

4.30 Minimum support prices only have been announced for 1991-92 kharif crops, as recommended by the CACP, as against the earlier practice of announcing procurement/minimum support prices. The support prices fixed by the Government are in the nature of a guarantee to the producer that in the event of a glut in the market, consequent on excessive production or any other reason, the prices will not be allowed to fall below the minimum economic levels. The farmers are, however, free to sell their produce in the market at prices which may be higher than the support prices fixed by the Government. The support prices provide adequate incentive to the farmers to plan for greater investment in agriculture besides covering fully the increase in the input costs. The increases announced in the minimum support prices for fair average quality (FAQ) are : Rs. 25 per quintal for paddy, jowar, bajra and ragi; Rs. 30 per quintal for maize; Rs. 65 per quintal for kharif pulses viz. arhar (tur), moong and urad; and groundnut-in-shell. The minimum support prices for soyabean (yellow and black varieties) have been raised by Rs. 45 per quintal. An increase of Rs. 70 per quintal has been made in the minimum support prices for sunflower seed, Rs. 75 per quintal for cotton of F-414/ H-777 variety and by Rs. 90 per quintal for H-4 variety of cotton. In percentage terms the increases announced in the minimum support prices vary from 12.2 to 13.9 per cent for kharif cereals, 13.5 per cent for kharif pulses, 11.2 to 12.9 per cent for kharif oilseeds and about 12 per cent for cotton.

4.31 These upward revisions in the minimum support prices of kharif crops with a weight of 7.88 per cent in the general index of WPI have directly contributed to a rise of 0.98 per cent in WPI during the current year.

Sugarcane

4.32 The Statutory Minimum Price (SMP) of sugarcane (linked to a basic recovery of 8.5 per cent) was raised further from Rs. 23 per quintal to Rs. 26 per quintal for 1991-92 season. The SMP for sugarcane for 1992-93 season was fixed in advance at Rs. 27 per quintal.

Administered Prices

4.33 Seven commodity groups, namely, crude petroleum and natural Gas, petroleum products, coal, electricity, fertilizers, iron and steel and non-ferrous metals (other than aluminium) constitute the industrial products with administered prices. The prices of these items recorded an increase of 9.3 per cent during the current financial year up to February 1, 1992 as against an increase of 9.4 per cent during the corresponding period last year. The prices of electricity are revised by the State Electricity Boards (SEBs). The prices of other administered items have been revised during the current year as follows :

Iron & Steel

4.34 The prices of bulk of the items produced by integrated steel plants were being fixed and announced by the Joint Plant Committee (JPC) until 16-1-1992. The secondary producers themselves have been fixing and announcing the prices of their products, which fell outside the purview of price regulations. The prices of the items produced by the integrated steel plants were last revised in September, 1990. Price adjustments in these items have been carried out twice this year, once in July, 1991 (to neutralise the increase in the special excise duty by Rs. 15 per tonne on pig iron and an average increase of Rs. 36 per tonne on steel items), and second time on 1st September, 1991 (to neutralise the railway freight increase of Rs. 60 per tonne on pig iron and Rs.90 per tonne on steel items).

4.35 The pricing and distribution of iron and steel was deregulated from 16th January, 1992 and the existing scheme of freight equalisation was also simultaneously dispensed with. The iron and steel requirements of defence, railways, small scale industries sector, exporters of engineering goods, and of the north-eastern region will continue to be met on priority basis, as hitherto, at prices to be fixed by the integrated steel plants from time to time. The integrated steel plants will also fix ex-stockyard prices on the basis of the actual freight(s) or the equalised freight element as existed hitherto, which ever is less. The main producers of steel would also now be free to determine and fix the prices for their products.

4.36 The year witnessed some increase in the open market price of steel mainly on account of shortages in steel melting scraps, billets and HR coils. The shortages could not be made good through imports on account of heavy cash margin requirements, foreign exchange crunch and high import duties which increased their landed cost. In the case of integrated steel plants, increases in prices were effected to offset the increase in direct input cost; increases in other costs are sought to be neutralised by reducing costs through higher capacity utilisation, improvement in productivity, adopting energy saving techniques, improved maintenance and modernisation of plant and equipments. In the secondary sector, changes in prices were governed by demand and supply conditions. The import duties on steel items have been reduced by 20 percentage points along with the deregulation of iron and steel. The duty on steel melting scraps was reduced from 35 per cent to 10 per cent, on pig iron from 55 per cent to 35 per cent, and on billets and H.R. coils from 65 per cent to 45 per cent. This is likely to have a moderating effect on market prices. The production of finished steel this year is expected to be 14.81 million tonnes compared with 13.47 million tonnes in 1990-91. Production will fall short of the demand which is estimated at 16.35 million tonnes.

Non-Ferrous Metals

4.37 The prices of non-ferrous metals, which are mostly imported, are largely influenced by changes in their prices in the international markets and higher landed cost due to exchange rate adjustments made during July, 1991. The increase in the prices of non-ferrous metals (other than aluminium) during the current year up to February 1, 1992 was 6.6 per per cent compared with 8.1 per cent during the corresponding period last year. The year-over-year increase in the prices of non-ferrous metals on February 1, 1992 was 7.9 per cent.

Petroleum Products

4.38 Changes in the POL prices were announced in the Union Budget for 1991-92 in July, 1991 to offset the increase in the rupee value of the imports of crude oil and petroleum products as a result of the exchange rate adjustments and also to help to restrain the growth in the consumption of petroleum products. Prices of motor spirit, domestic LPG and aviation turbine fuel (for domestic use) were raised by 20 per cent. The prices of other petroleum products, excluding diesel and kerosene for non-industrial use, were raised by 10 per cent. The price of kerosene for non-industrial use was reduced by 10 per cent to protect the poor for whom kerosene is an essential source of light and fuel. No increase was made in the price of diesel to protect the interests of the farmers who use diesel.

4.39 The prices of petrol, high speed diesel (HSD), kerosene and liquified petroleum gas (cooking gas) were raised with effect from January 2, 1992 in 11 states to enable oil companies to recover the levies imposed by State governments on petroleum products directly from the consumers. With this, the practice of Oil Coordination Committee (OCC) of reimbursing the State levies to the oil companies has been discontinued. The impact of the hike in prices in different states was 7 paise to 110 paise per litre in motor spirit, 1 paise to 10 paise per litre in kerosene, 1 paise to 34 paise per litre in HSD and 30 paise to 435 paise per cylinder in LPG.

Coal Mining

4.40 The pit head prices of coal and coke are fixed by the Central Government. The average pit head price of Run-of-Mine (ROM) coal was revised with effect from December 28, 1991 from Rs. 249 per tonne as on January 1, 1989 to Rs. 322 per tonne in respect of coal produced by the Coal India Limited (CIL) and from Rs. 297 per tonne as on January 24 1989 to Rs. 388 per tonne in respect of the Singareni Collieries Company Limited (SCCL). No revision was made in respect of prices of soft coke which continues to remain at Rs. 175 per tonne for domestic consumption and Rs. 300 per tonne for industries since January 9, 1986.

Public Distribution System

4.41 The Government is supplying six key essential commodities through the PDS : wheat, rice, sugar, imported edible oils, kerosene and soft-coke. They are supplied at reasonable (below market) rates to consumers, the access to the system being universal. While the Central Government procures or allocates and supplies these commodities to the States or UTs, the latter, in turn, are responsible for the allocation and distribution within the State/UT and allied implementational activities. The PDS aims at insulating the consumer from the impact of rising prices of these commodities and maintaining the minimum nutritional status of our population. The PDS supplies have a stabilising effect on open market prices by increasing availability, removing scarcity psychosis and deterring speculative tendencies.

4.42 The network of the PDS has been expanded over the years, the number of fair price shops having increased to 3.75 lakhs now from about 3.12 lakhs in 1984. About 75 per cent of these shops are located in the rural areas. More than 15 million tonnes of foodgrains, i.e. about 9-10 per cent of total production, are supplied through the PDS per year. As PDS supplies are made at concessional rates, the Central Government has to spend over Rs. 2,000 crores on subsidising distribution of wheat and rice alone. Despite shortcomings, the PDS has established its relevance, and the pressures are mounting for its expansion both in the urban and rural areas to protect the poorer sections of the population from the general inflationary situation.

4.43 The Government has initiated, in consultation with the State governments and the UT administrations, steps to revamp the Public Distribution System to improve its reach on the basis of an area approach and to eliminate leakages and malpractices that have crept into this system. Preference is now being gived to the population living in the most difficult areas of the country, such as the drought prone areas, desert areas, tribal areas, certain designated hilly areas and the urban slum areas. About 1,700 blocks have been covered in these areas under the revamped PDS. Ration cards are being issued to all those who have not been issued such cards so far. Additional fair price shops are being opened where needed. Supply of additional items is being arranged through the PDS outlets. Beneficiaries are being involved in monitoring the functioning of the PDS. The Government has initiated steps to create infrastructural and other facilities necessary to support these operations.

Off Take under PDS

4.44 Foodgrains supplies under the PDS have increased in recent years. During 1990-91 a total quantity of nearly 16.0 million tonnes of foodgrains (rice, wheat and coarse grains) was distributed against 15.7 million tonnes in the previous year. During the first nine months of the current year (up to December 1991), 15.53 million tonnes of foodgrains (rice 8.7 million tonnes, and wheat 6.6 million tonnes and coarse grains 0.23 million tonnes) have been distributed under the PDS. The monthly off-take of major items for the PDS are given in Table 4.6.

TABLE 4.6

Monthly off-take of Major Items by the Public Distribution System

('000 tonnes)

Month	Rice*			Wheat*			Edible Oils £ (Allocation)			Sugar** (Releases)		
	1989-1990	1990-1991	1991-1992	1989-1990	1990-1991	1991-1992	1989-1990	1990-1991	1991-1992	1989-1990	1990-1991	1991-1992
1	2	3	4	5	6	7	8	9	10	11	12	13
April	652	672	900	447	490	738	24.2	40.0	1.2	782	932	893
May	695	696	938	474	379	682	24.4	50.5	1.2	832	953	893
June	660	770	957	547	389	631	23.0	61.1	4.9	882	933	958
July	679	729	973	587	465	763	28.8	70.0	1.1	832	933	958
August	699	707	1058	597	524	765	34.9	90.0	0.5	857	933	1000
September . .	717	677	959	678	514	788	37.7	91.9	0.1	882	1008	1000
October . . .	663	728	1016	611	535	820	38.3	99.9	22.2	1032	1008	1146
November . . .	813	684	977	650	602	715	42.9	58.5	22.2	932	933	1000
December . . .	760	701	929	696	705	724	26.0	Nil.	1.4	883	908	940
January . . .	717	759		632	816		27.0	Nil.	21.8	832	908	900
February . . .	741	809		591	808		28.5	30.8		882	908	
March . . .	751	896		595	835		35.2	34.2		882	908	
Total . . .	8547	8828	8707 (6364)	7105	7062	6626 (4603)	370.9	626.9	76.6 (561.9)	10510	11265	9688 (9449)

* 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.

NOTE : Figures in brackets give total for corresponding months of 1990-91.

4.45 Under the scheme for the supply of foodgrains (wheat and rice) at special subsidised rates (50 paise below PDS prices) to the population living in Integrated Tribal Development Projects (ITDP) areas, 1.88 million tonnes of foodgrains were supplied during 1990-91 and 1.34 million tonnes during the eight months of the current year (up to November, 1991).

4.46 In view of the sharp increase in the prices of foodgrains, especially wheat, allotment of wheat for PDS was progressively stepped up from 7.7 lakh tonnes in December, 1990 to 10.7 lakh tonnes in May, 1991. Wheat allocation were reduced after the arrival of the new wheat crop but the allocations were again increased progressively when the lean period commenced; the level of allocation was

9.0 lakh tonnes in February, 1992. Similarly, the rice allocations were also progressively increased from 8.1 lakh tonnes in January, 1991 to 9.5 lakh tonnes in February, 1992. With the beginning of the lean season for rice, additional *ad-hoc* allocations were made for the months of August-October, 1991. The allocation of rice was 10.5 lakh tonnes for August, 1991 and 11.3 lakh tonnes for October, 1991. After the arrival of the new crop, the allocation was reduced to 9.3 lakh tonnes for November, 1991, and 8.9 lakh tonnes for December, 1991, 9.2 lakh tonnes for January, 1992 and 8.5 lakh tonnes for February 1992.

Market Intervention Operations

4.47 Market intervention operations are being conducted in foodgrains, sugar, edible oils and pulses to ensure supply management, to curb inflationary expectations and to have a sobering effect on the open market prices.

4.48 Foodgrains operations aim at procurement of foodgrains for public distribution and the maintenance of buffer stocks to give not only short-term but also long-term stability to prices of essential commodities and safeguard the interest of the consumers. Procurement of foodgrains also ensure remunerative returns to the farmers and provide them with incentives to invest more on agriculture to raise its productivity and to ensure that in the event of any glut or due to any other reason, the market prices do not fall below the support prices.

4.49 The procurement operations under price support in respect of paddy, wheat and coarse grains are undertaken by the Food Corporation of India (FCI), in collaboration with the State Governments. While the procurement operations in paddy are conducted under price support through a vast network of procurement centres spread over the country, rice is also procured through a statutotry levy imposed by the State Governments on rice millers and wholesale traders in their states.

4.50 Procurement of wheat during the current rabi season stood at 77.52 lakh tonnes as on 24th January, 1992 compared to an unusually high level of 110.65 lakh tonnes during the corresponding period last year. Shortfall in wheat procurement could be primarily attributed to the higher open market prices compared to the support prices, increased purchases by the traders, lower arrivals in the major wheat procuring states of Punjab, Haryana and Uttar Pradesh and holding back of the stocks by farmers. (Table 4.7).

TABLE 4.7

Procurement, Public Distribution and Stocks of Foodgrains

(Lakh tonnes)

Item	1989-90	1990-91 Full Year	1990-91 Up to December, 1990	1991-92 up to December, 1991
1	2	3	4	5
A. PROCUREMENT				
Rice . .	112.46	129.21	88.66	76.09
Wheat . .	89.42	110.65	110.65	77.52
Total foodgrains	203.67	241.52	199.76	154.13
B. SUPPLY UNDER PUBLIC DISTRIBUTION (Excluding open sales by FCI)				
Rice . .	88.47	88.28	63.64	87.07
Wheat . .	71.05	70.62	46.03	66.26
Total foodgrains	157.07	160.37	110.56	155.34
C. STOCKS (End-period basis)				
Rice . .	79.10	112.39	95.22	92.92
Wheat . .	36.52	58.05	94.24	54.34
Total foodgrains	117.28	172.71	190.81	147.35

4.51 Procurement of rice during 1990-91 kharif marketing season stood at 126.7 lakh tonnes as compared to 118.7 lakh tonnes during the marketing season in the previous year (1989-90). Rice procurement which commenced with the onset of the kharif season 1991-92 touched 75.2 lakh tonnes as on 29th January, 1992 as compared with 88.7 lakh tonnes during the corresponding period last year. In order to maintain rice procurement at satisfactory levels, state governments have been requested to ensure strict enforcement of levy orders.

4.52 During the current financial year up to December, 1991, 154.1 lakh tonnes of foodgrains have been procured as against 199.8 lakh tonnes during the corresponding period last year.

4.53 The stock position of foodgrains with public agencies (Central and States) as on 1st January, 1992 was 147.4 lakh tonnes as against 190.8 lakh tonnes on the corresponding date last year. Under the buffer stock policy, the foodgrains stocks should be 154 lakh tonnes on this date. The shortfall was on account of lower wheat stocks due to lower procurement this year. As per the buffer stock policy for foodgrains, the size of the buffer stock to be maintained by the public agencies should be as under :

TABLE 4.8

Total Minimum Stocks

(in million tonnes)

Date	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

4.54 The Central issue prices for the PDS items are revised by the Government periodically keeping in view the increase in the procurement prices, cost of acquisitions etc. The central issue price (ex-FCI godown) of wheat was increased by Rs.46 per quintal with effect from 28th December, 1991 to reduce the burden of subsidy on the exchequer. The revised Central issue prices of wheat are Rs.280 per quintal as against the earlier price of Rs.234 per quintal for the PDS; and Rs.230 per quintal as against earlier price of Rs. 184 per quintal for the I.T.D.P. areas and the tribal majority States. The revised consumer prices in these special areas would not exceed Rs.255 per quintal.

4.55 Similarly, the Government increased the central issue prices (ex-FCI godown) of rice by Rs. 88 per quintal with effect from 28th December, 1991 to absorb partially the increases in the support/procurement prices of paddy and the consequential increase in the procurement cost of rice for the Central Pool. The revised central issue prices for rice under the various schemes are as follows :

TABLE 4.9

Revised Issue Prices of Rice

(Rs. per quintal)

Variety of Rice	P.D.S.		I.T.D.P.		Consumer Prices in I.T.D.P. and tribal majority States	
	Prior to 28-12-1991	Effective from 28-12-1991	Prior to 28-12-1991	Effective from 28-12-1991	Prior to 28-12-1991	Effective from 28-12-1991
Common	289.00	377.00	239.00	327.00	264.00	352.00
Fine	349.00	437.00	299.00	387.00	324.00	412.00
Super fine	370.00	458.00	320.00	408.00	345.00	433.00

The central issue price of rice (raw and parboiled) was last revised in June, 1990 and for wheat, in May, 1990.

Sugar Operations

4.56 The system of dual pricing of sugar in operation for some years was continued during the year. Under this system, 45 per cent of the sugar production is acquired by the Government at pre-determined prices as levy sugar and the remaining 55 per cent of the produce is released for sale in the open market. This ratio of levy to free sale sugar has been maintained at 45:55 since 1988-89. The ex-factory prices of levy sugar were fixed on the basis of Statutory Minimum Price (SMP) of Rs. 23 per quintal of sugarcane for 1990-91 (October—September) season and at Rs. 26 per quintal of sugar cane for 1991-92 (October—September) season. The incentive scheme for early and late crushing periods was continued during the year to raise the production of sugar. Under the scheme, 72 per cent of the sugar produced between 1st May and 31st July, 1991 as well as between 1st October and 15th November 1991 is to be treated as free-sale as against the normal 55 per cent.

4.57 Sugar production during the early part of the 1991-92 season beginning from October 1, 1991 has been slightly more than was achieved in the corresponding period of the previous season. Up to 31s December, 1991 sugar production aggregated to 32.6 lakh tonnes as against 30.7 lakh tonnes up to a similar period in the previous season. The sugar production is now picking up and the total production in the current sugar year 1991-92 is expected to reach about 120 lakh tonnes. Additional capacity for sugar production is being created. Sugar consumption during the current sugar season is also likely to increase to about 115 lakh tonnes as against 105.9 lakh tonnes (provisional) during the sugar year 1990-91.

4.58 The retail issue price of levy sugar distributed through the PDS at Rs.5.25 per kg. with effect from 1st January, 1989 was raised to Rs. 6.10 per kg. from 24th July, 1991 and further to Rs.6.90 per kg. from 21st January, 1992 to reduce the burden of subsidy on sugar distribution through the PDS. The provision for subsdiy in 1990-91 season amounted to Rs. 307.6 crores. Total quantity of levy and free-sale sugar released during the financial year 1990-91 aggregated to 112.7 lakh tonnes as against 105.1 lakh tonnes during 1989-90. Carry-over stocks at the beginning of the current sugar season (1991-92) were 32.8 lakh tonnes (provisional) as against 21.8 lakh tonnes on a similar date last season.

4.59 The wholesale Price Index which had risen during July and August, 1991 has started declining.

Edible Oils Operations

4.60 The country is yet to achieve self-sufficiency in edible oils inspite of steady progress achieved in the production of oilseeds over the years. During the oil year 1990-91 (November-October) the gap between demand and supply of edible oils was estimated to be around 6 lakh tonnes. This gap could not be bridged through imports this year due to foreign exchange constraints. Only about 1.1 lakh tonnes of edible oils could be imported as against 6.1 lakh tonnes in the oil year 1989-90. The imported edible oils are allocated to the States/UTs for distribution to the cross sections of the society through PDS. The allocation thus supplements the availability of indigenous edible oils in the market. The National Dairy Development Board (NDDB) has been appointed the market intervention agency to procure edible oils and oilseeds and release the edible oils to stabilise the open market prices.

4.61 On several requests received from State Governments for direct imports of edible oils, the Central Government has allowed the State governments of Tamil Nadu (18,000 MTs), Karnataka and Kerala (15,000 MTs each) and Andhra Pradesh, Gujarat, Maharashtra and West Bengal (8,000 MTs each) to import edible oils within 31-3-1992 directly against export of certain listed goods.

4.62 The issue prices of edible oils are reviewed and revised keeping in view the prices of imported edible oils in the international market, availability of foreign exchange, customs duties etc. Issue prices of edible oils with effect from 4-1-1992 are as under :

TABLE 4.10

Issue Price of Edible Oils

	in bulk	in 15 kg. tins
Central Issue Price	Rs. 22,000/- per tonne	Rs. 25,000/- per tonne
Maximum ceiling prices recommended to States/ UTs for retail sale through FPS	Rs. 25.00 per kg.*	Rs. 27.75 per kg.

(*exclusive of local taxes)

4.63 The prices of edible oils have registered a continuous rise since the last year. The annual rate of rise in edible oils prices at the beginning of the current year was 32.7 per cent. Prices further increased during the current financial year by 8.1 per cent (up to February 1, 1992). As the price rise during the same period last year was more (32.5 per cent), the annual price increase in edible oils at the end of February 1, 1992 came down to 8.2 per cent from 38.2 per cent during the corresponding period of last year.

4.64 To control the prices of edible oils, a number of steps have been taken by the Government, they include a reduction in the stock limit of oilseeds and oils held by dealers, processors and manufacturers of edible oils; withdrawal of permission to use expeller mustard oil in the manufacture of vanaspati; exemption of edible oils from the railway freight increase in the Railway Budget for 1991-92; complete exemption of available liquid oils from excise duty; withdrawal of restriction on packaging of vanaspati in smaller packs; expeditious review of sickness of the vanaspati industry; delicensing of the vanaspati industry; strict surveillance on the availability and prices of edible oils and conducting of de-hoarding operations. Commodities exchange agreements have also been effected with the World Food Programme (WFP) whereby edible oil will be received under the WFP and exchanged for foodgrains which will be distributed under these projects in India. Imports of nearly 2.20 lakh tonnes of palmolein oil by STC to supplement the oil availability in the country are also planned up to March, 1992.

Outlook

4.65 The down turn in the inflation rate may be expected to become manifest towards the end of the current year with the picking up of the growth of industrial production, greater responsiveness of inflation to strict monetary and fiscal discipline, better supply management through effective open market intervention in cereals, edible oils, etc. and extending the reach of the PDS to an additional 1,700 blocks in the far-flung and economically backward, drought-prone, desert and hilly areas. Coordination at various levels, central as well as States, in the removal of supply and distribution bottlenecks and closer involvement of the beneficiaries' committees in PDS would help minimise the distortions in efficient price management and curb inflationary expectations, profiteering and hoarding.

4.66 The inherent strength of the economy to combat inflation and bring about price stability in the near future lies in its stable food economy, high industrial growth potential, fairly good performance of infrastructural sectors, improvements in foreign exchange reserves, expectations of positive impact of structural reforms and liberalisation policies on the overall productivity and growth of the economy, and above all, the strong will and firm determination of the Government to remove the macro-economic imbalances, both internal and external.