

PRICES AND DISTRIBUTION

Inflation, which had reached an exceptionally high level in 1991, declined considerably in 1992-93; by January 1993 it was lower than at any time since September 1990. The cost of living indices showed as much decline in inflation as the wholesale price index. The decline was due largely to agricultural goods, both essential consumer goods and industrial inputs. The prices of many agricultural products fell. Whereas prices of agricultural goods had risen more than those of manufactures in 1991-92, this trend was partially reversed in 1992-93. Although prices of fertilizers and petroleum products were raised significantly, the increase in administered prices in 1992-93 was more moderate than in the previous two years. Minimum support prices of agricultural products were raised following cost increases. So were procurement prices, but procurement of wheat declined as market prices ruled high. With a good kharif harvest, however, rice procurement picked up in 1992. Imports of wheat and rice were contracted to replenish the depleted PDS stocks and to restrain inflationary pressure.

The inflationary spiral which began in October 1990 continued through 1991, with the rate of inflation peaking at 16.7 per cent in August 1991. Primary goods led the inflationary surge with an inflation rate of 21.6 per cent in the middle of November 1991; the pressure on foodgrain prices was even higher. The prices of manufactured goods and fuels also firmed up. The spurt in foodgrain prices pushed up consumer prices both in rural and urban areas. Double-digit inflation in consumer items continued throughout 1991-92; the maximum rate being 23 per cent in consumer goods used by agricultural labourers.

4.2 The Government took several initiatives during 1991-92 and in the current fiscal year to restore price stability. At the macro-economic level the effort of the Government has been to restore fiscal stability by reducing the fiscal deficit which had reached unsustainable levels in 1990, and to moderate the growth of money supply. A good kharif harvest and excellent prospects for next rabi crop have eased the pressure on supply of essential goods. The improved balance of payments position and the new trade policy which ensure easy access to imports needed to sustain production have helped to remove supply constraints facing the industry. The Government has taken special care to strengthen the public distribution system.

4.3 As a result of all these measures, inflation rate began to recede from September 1991, and stabilised between 12 and 14 per cent until the middle of July 1992. Thereafter the rate of inflation declined steadily; and except for a short break in the trend on account of fertilizer decontrol and adjustments in administered prices of petroleum products, the declining trend has been maintained so far. The annual rate of inflation as measured by the

BOX 4.1

The Wholesale Price Index

- The wholesale price index (WPI) with base 1981-82 reflects changes in the prices of 447 commodities (93 primary articles, 20 fuels and 334 manufactured products) covering all important items transacted in the economy. Selection of items is guided by their relative importance in the economy.
- The index is based on 2371 quotations (519 for primary articles, 73 for fuels and 1779 for manufactured products).
- The price quotations used represent bulk transactions usually for further sale, at the primary stage which broadly correspond to producers' prices.
- Price data are collected through official as well as non-official sources.
- For prescribed items or varieties, weekly price quotations as prevailing on or about each Friday are collected; prices are collected on a monthly basis for items not undergoing week-to-week price fluctuations.
- The index at the time of its initial compilation and release is provisional as some of the price quotations are received belatedly. For missing quotations the prices are either estimated or repeated from the previous week.
- The provisional index is made final after eight weeks by which time required quotations become available.
- Whether the final index is higher or lower than the provisional index depends on whether in successive weeks the prices for missing items tend to rise or fall or remain steady. Seasonal and non-seasonal items show different patterns and affect the overall difference in these two indices.

WPI has come down from 13.6 per cent at the end of last financial year to 6.8 per cent in the third week of January 1993. The rate of inflation in foodgrain prices has shown an especially steep decline to 1.6 per cent as on 16 January 1993 compared with 26.3 per cent at the same point last year.

4.4 Inflation in consumer prices has also declined sharply during the current financial year. The decline in the rate of inflation for agricultural labourers is the steepest, from 24 per cent in May 1992 to 8.6 per cent in November 1992.

Measuring Inflation

4.5 Inflation is measured at the wholesale level in terms of the wholesale price index (WPI) and at the retail level by three consumer price indices (CPI) for (i) industrial workers, (ii) urban non-manual employees and (iii) agricultural labourers.

Wholesale Price Index(WPI)

4.6 The wholesale price index, which is released with a time lag of two weeks, is provisional as it is not entirely based on actual price quotations in respect of all items covered in the index. The index is revised to yield final estimates with a time lag of eight weeks after receipt, scrutiny and processing of all quotations. The conceptual and operational issues are indicated in Box 4.1.

TABLE 4.1
Comparison of Measures of Inflation
based on the Final and Provisional WPI
(April 1991- November 1992)

1	Mean 2	Standard deviation (SD) 3	Ratio of SD to mean 4
1. Difference between estimates:			
a. Final to final less provisional to final (ff-pf)	1.02	0.49	0.48
b. Final to final less provisional to provisional (ff-pp)	0.21	0.71	3.38
2. Ratio between estimates:			
a. Provisional/final over final/final (pf/ff)	0.92	0.04	0.04
b. Provisional/provisional over final/final (pp/ff)	0.99	0.06	0.06

4.7 On account of a shorter time lag, the provisional index is used for comparing changes in the inflation rate. It is often argued that this procedure of calculating the inflation rate or changes in prices over two points of time based on the provisional and previous final data is not realistic. A more relevant measure would be the rate based on provisional indices for both the reference points. A study of the inflation rates based on alternative comparisons of provisional data for the current year with provisional data for the previous year, provisional data for the current year with final data for the previous year and final data for both years, indicates that the inflation rate based on provisional data for both years is closer to the final inflation rate (Figure 4.1). The averages and coefficients of variation in the weekly data in respect of these two sets of inflation rates are given in Table 4.1.

Figure 4.1. Annual rate of inflation(WPI)
(Base: 1981-82=100)

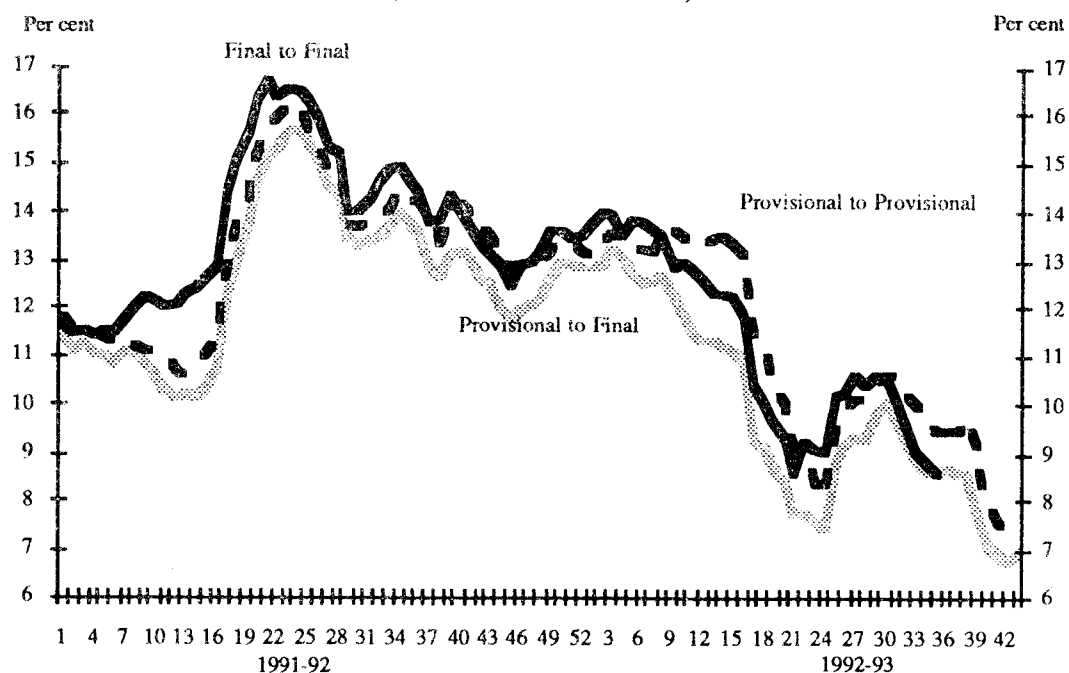


TABLE 4.2
Annual Rate of Inflation in WPI and CPI

Year 1	Month 2	WPI 3	CPI(IW) 4	(Per cent)	
				CPI(UNME) 5	CPI(AL) 6
1990-91	April	9.1	7.8	8.6	3.2
	May	8.7	7.7	9.3	3.3
	June	9.5	8.8	9.2	3.1
	July	9.6	9.9	9.7	4.6
	August	8.1	9.2	8.9	4.6
	September	7.5	8.5	8.2	2.6
	October	8.9	10.8	9.5	3.5
	November	10.5	12.5	11.6	8.4
	December	12.0	13.7	13.0	10.0
	January	12.9	16.1	15.0	13.9
	February	13.5	15.4	15.0	17.3
	March	12.7	13.6	13.4	16.6
1991-92	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	14.7	13.6	14.0	21.2
	December	14.3	13.1	13.3	21.7
	January	13.6	12.9	12.4	20.4
	February	12.9	13.4	13.0	20.6
	March	13.6	13.9	13.6	21.9
1992-93	April	13.8	14.4	13.5	22.6
	May	13.8	14.7	14.0	23.9
	June	13.0	12.9	13.2	21.9
	July	11.7	13.1	12.8	20.6
	August	9.4	11.5	10.9	19.0
	September	9.6	10.0	10.9	14.1
	October	10.6	9.4	10.8	11.0
	November	8.9*	8.4	9.6	8.6
	December	8.4*	8.0	NA	NA

* Provisional
NA: Not available

Consumer Price Index(CPI)

4.8 Inflation rates in terms of consumer price indices reflect the trend in prices at the retail level. The consumer price index for industrial workers, CPI(IW), measures changes in retail prices of commodities consumed by industrial workers' families. The consumer price index for urban non-manual employees, CPI(UNME), measures such changes in commodities consumed by families of employees in non-manual jobs in urban areas. The consumer price index for agricultural labourers, CPI (AL), measures changes in the retail prices of commodities consumed by agricultural labourers. Inflation rates based on the above three CPI variants are not strictly comparable as the base year, structure and coverage of these indices differ. CPI (IW) and CPI (UNME) measure changes in the prices of goods consumed in the urban areas by different sections of the working population. Their base years are close to each other and hence these two indices are, by and large, comparable. But inflation rates based on CPI (AL) may not truly represent changes in the prices of items consumed by agricultural labourers as the base year of this index is still 1960-61; the consumption basket and weighting diagram are based on the Agricultural Labour Enquiry conducted during 1956-57. This index suffers from obsolescence.

4.9 Inflation in terms of the consumer price index for industrial workers (CPI-IW) moved in the same direction as wholesale price index (WPI) during the last two years. The rate of inflation (CPI-IW) decelerated from 15.7 per cent in September 1991 to 8.4 per cent in November 1992. It was higher than that of WPI when food prices increased at a higher rate than other items and vice versa on account of the higher weightage of food items in CPI-IW. The decline in the prices of food items since August 1992 has brought the annual rate of inflation in CPI(IW) sharply down. The inflation rate in other consumer price indices has also fallen sharply (Table 4.2).

4.10 Movement in the consumer price index for urban non-manual employees, CPI (UNME), was similar to CPI (IW). The consumer price index for agricultural labourers, CPI (AL) recorded a much higher rise than any other price index; its range of fluctuations has also been very wide (8.6 per cent to 23.9 per cent). This could be mainly due to the wide swing in the prices of essential food articles which have a higher weightage in CPI(AL) as compared to the other two CPIs. It may also be indicative of the poor impact of the public distribution system in rural India.

4.11 While changes in WPI and CPIs have been in the same direction, there are differences in the composition and weights of the commodity baskets of these indices. CPI(IW) is the most commonly used index which measures changes in the prices of 260 commodities consumed by industrial workers while WPI measures changes in the prices of 447 commodities which include not only consumer goods but also raw materials, intermediate products and investment goods. In the WPI, manufactured products have a much higher weight than the food articles, while in the CPI (IW) food articles and products have much higher weight than manufactured products or any other item. Further, while house rent and cost of some miscellaneous services are covered by the CPI, the WPI does not include changes in them.

Common Items in WPI and CPI (IW)

4.12 Many essential items are, however, common to both these indices. To measure the true relationship between the wholesale and retail prices of these common items, a comparable index for annual inflation rate for 30 commodities has been prepared which shows a virtual parallel movement, though the changes in individual items have varied

**Figure 4.2. Annual rate of inflation (WPI and CPI)
essential commodities**

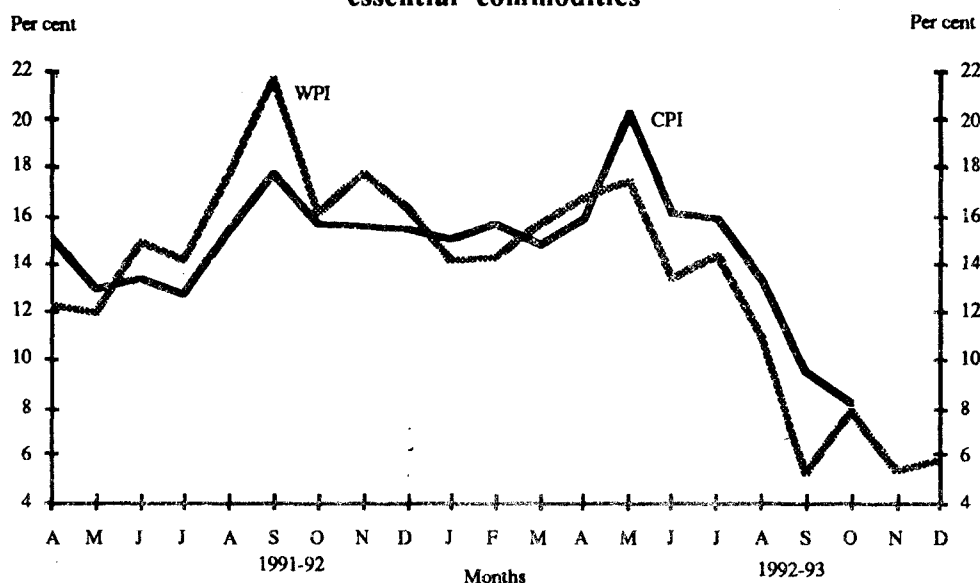


TABLE 4.3
Annual Rate of Inflation in Essential Commodities

(Per cent)

Commodity	Weight		Annual changes in November				Financial year changes April-November			
	CPI	WPI	1991		1992		1991		1992	
			WPI	CPI	WPI	CPI	WPI	CPI	WPI	CPI
1	2	3	4	5	6	7	8	9	10	11
GENERAL INDEX	100.00	100.00	14.8	13.6	8.9	8.4	10.8	11.9	6.3	6.5
Rice	12.45	3.69	24.7	16.3	12.6	15.3	18.9	17.7	2.6	6.0
Whole wheat	4.43	2.25	20.0	17.3	8.5	16.8	-0.6	5.1	-7.7	-3.7
Wheat atta	1.75	0.76	22.0	19.2	19.0	8.7	8.5	4.9	5.5	-9.4
Jowar	0.46	0.42	70.8	81.0	14.9	6.2	38.8	53.7	-4.0	5.5
Bajra	0.16	0.18	63.1	50.1	-7.7	-20.8	36.9	28.8	-28.1	-33.9
Moong	0.53	0.20	18.2	7.6	-1.1	13.1	14.3	6.4	-7.9	5.0
Gram	0.08	0.41	-9.6	-8.6	8.5	5.8	-3.5	-2.4	9.2	9.7
Masur	0.41	0.05	18.2	18.2	-14.0	-8.5	10.1	8.9	3.6	-0.4
Arhar	1.69	0.27	16.5	13.9	-9.6	-8.7	19.1	19.8	-4.1	1.1
Urad	0.35	0.15	14.8	9.9	-10.2	-2.1	10.8	7.4	-6.1	0.5
Coconut oil	0.09	0.17	40.0	46.8	4.2	-8.1	25.3	42.8	3.4	10.7
Groundnut oil	2.27	0.53	22.0	21.7	-16.2	-14.3	9.6	8.4	-6.8	-5.3
Mustard oil	1.44	0.28	16.0	11.6	-15.7	-12.5	13.7	12.1	-5.5	-0.6
Vanaspati	0.78	0.52	21.9	15.4	-10.5	-12.5	11.2	13.8	-2.0	-2.6
Goat meat	2.12	0.52	10.4	9.3	13.9	11.2	2.6	5.4	9.0	6.9
Fresh fish	1.31	0.51	-1.3	9.9	35.3	11.8	10.1	6.1	22.5	6.8
Milk	5.52	1.96	17.8	14.1	12.8	15.0	10.9	10.9	10.3	9.0
Salt	0.15	0.04	23.8	14.8	3.9	4.7	17.5	4.8	-2.7	2.3
Chillies	0.63	0.32	230.8	174.3	-21.4	-7.5	147.2	121.1	-7.1	-0.8
Onions	0.67	0.16	-21.0	-11.3	-35.8	-29.5	13.0	12.7	50.3	43.7
Potatoes	1.23	0.47	58.7	41.1	-31.7	-29.9	146.3	104.7	51.9	29.8
Sugar	2.24	2.01	10.3	7.7	12.5	12.4	10.1	9.1	3.4	3.3
Gur	0.47	1.75	-3.6	-0.7	14.3	18.1	12.3	11.0	32.3	28.1
Tea leaves	0.82	0.56	-10.4	-0.3	5.0	2.4	0.8	1.9	9.7	2.2
Soft coke	0.80	0.35	39.4	7.2	-9.6	12.4	39.4	6.7	0.0	3.4
Kerosene oil	1.82	0.87	-9.8	-8.5	0.8	1.7	-9.8	-8.9	0.0	0.2
Matchboxes	0.23	0.23	3.0	7.1	4.3	12.0	3.0	-1.8	4.3	8.1
Washing soap	1.33	0.59	20.4	14.1	4.4	5.8	19.0	11.9	3.7	3.1
Long cloth and sheeting	0.20	0.36	3.1	12.7	9.2	14.2	0.0	10.7	-2.5	12.0
Dhoties, sarees & voiles	0.35	1.19	7.5	7.0 *	12.7	8.7	4.0	5.0 *	6.4	8.4*
Sarees	2.05	-	-	9.8	-	9.3	9.2	-	9.3	-
Composite Index	48.83	21.77	17.7	15.5	5.2	5.1	15.0	14.4	4.6	4.0

* Dhoties.

considerably (Table 4.3). The annual rate of inflation in essential commodities shows a sharp decline in terms of both the WPI and CPI (IW) during November 1991 to November 1992 (Figure 4.2). It declined from 17.7 per cent to 5.2 per cent in terms of the WPI and from 15.5 per cent to 5.1 per cent in terms of the CPI (IW) during this period. The increase in the prices of essential commodities this year up to November 1992 is much lower than last year; in 1992-93 retail prices rose by 4 per cent as against 14.4 per cent in 1991-92 and wholesale prices rose by 4.6 per cent as against 15 per cent during the same period last year.

Retail versus Wholesale Prices

4.13 The magnitude of variation between retail and wholesale prices varied substantially from commodity to commodity and market to market. While retail prices are bound to be higher than the wholesale prices, and a part of the variation between the wholesale and retail prices may be due to varietal or quality variations, it is difficult to attribute the entire difference between the wholesale and retail prices to these factors. A comparative study of percentage margins between wholesale and retail prices in respect of selected markets is given in Table 4.4.

TABLE 4.4
Gross Margin of Retail Prices over Wholesale Prices
in Selected Market Centres-1992

Commodity/ Centre	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	(Per cent)	
												Dec	Average
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Rice													
Bombay	8.8	8.8	16.2	15.2	13.0	12.6	21.6	13.7	12.8	16.9	22.9	22.9	15.4
Bhuban- eshwar	13.6	13.6	9.1	11.1	11.1	8.7	8.7	7.5	8.7	8.7	11.1	8.7	10.0
Madras	10.5	10.5	8.6	8.6	7.6	7.6	7.6	4.7	8.1	6.4	9.7	6.3	8.0
Wheat													
Kanpur	8.7	8.7	13.3	17.5	11.1	9.7	12.3	12.8	13.5	14.3	14.3	30.1	13.6
Ludhiana	7.3	7.3	13.0	16.7	17.4	11.9	4.5	5.6	9.5	11.9	13.6	11.9	10.6
Bhopal	21.8	21.8	11.8	6.3	5.3	5.9	5.6	5.3	5.5	5.6	5.6	6.7	8.7
Gram													
Delhi	35.1	35.1	28.2	23.5	33.3	36.0	28.2	19.0	19.0	19.8	19.0	16.3	25.6
Bombay	10.0	10.0	11.1	16.4	20.0	10.0	10.0	11.6	26.8	17.1	23.7	23.7	16.0
Sugar													
Delhi	9.8	9.8	9.2	5.6	7.9	5.3	8.8	6.4	5.3	4.2	6.4	5.3	6.9
Bombay	4.5	4.5	4.6	4.3	3.2	3.8	3.1	3.2	2.1	2.6	5.4	0.5	3.5
Groundnut oil													
Delhi	10.9	10.9	15.6	12.8	12.8	15.6	15.6	15.6	15.6	15.6	17.1	17.1	14.5
Bombay	10.8	10.8	14.3	8.6	15.1	15.1	12.4	12.7	11.1	8.6	18.7	11.8	12.4
Mustard oil													
Delhi	10.0	10.0	7.1	9.8	7.1	7.1	8.1	7.6	13.7	13.4	13.9	16.9	10.3
Bombay	23.7	23.7	25.6	24.1	24.1	24.1	24.1	22.6	17.5	17.5	23.9	23.9	22.8
Vanaspati													
Delhi	5.2	5.2	1.8	2.6	9.0	4.6	2.8	6.5	1.3	15.7	8.6	10.0	5.9
Bombay	21.0	21.0	23.9	12.8	20.0	21.1	18.9	18.9	18.9	23.3	30.7	30.7	21.6

4.14 The variations in the prices of different commodities in 37 markets spread over the entire country, illustrated in Table 4.5, show larger fluctuations than warranted by differences in transport and handling costs etc. Trade and movement regulations might have also affected these prices and retailers' margins.

TABLE 4.5
Month-end Wholesale and Retail Prices in 37 Markets-1992

	(Rs./quintal)											
Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	2	3	4	5	6	7	8	9	10	11	12	13
Rice												
Minimum	420	420	400	430	485	485	450	465	460	460	350	450
Maximum	700	700	670	680	720	750	750	712	700	680	690	695
Minimum	460	460	450	460	520	500	480	500	500	525	455	480
Maximum	740	740	750	750	750	800	800	775	750	750	800	800
Wheat												
Minimum	290	290	340	280	317	315	325	340	320	300	300	325
Maximum	685	685	685	760	765	700	700	700	700	710	750	660
Minimum	320	320	365	285	350	325	350	370	370	330	325	340
Maximum	720	720	700	750	800	725	720	750	750	750	800	750
Gram												
Minimum	710	710	750	790	750	735	770	800	800	825	800	850
Maximum	1250	1250	1275	1080	1150	1100	1125	1350	1390	1280	1350	1051
Minimum	750	750	800	850	800	800	825	850	900	900	900	950
Maximum	1300	1300	1520	1200	1300	1300	1200	1850	1850	1600	1600	1300
Sugar												
Minimum	816	816	791	805	820	865	878	880	895	900	900	868
Maximum	1040	1040	950	1080	1050	1080	1100	1033	990	990	1000	1000
Minimum	840	840	825	830	850	900	900	900	920	940	925	890
Maximum	1200	1200	1000	1100	1100	1100	1100	1075	1050	1050	1070	1050
Mustard oil												
Minimum	2833	2833	2400	2433	2400	2475	2450	2725	2700	2450	2375	2250
Maximum	3933	3933	3420	3750	3333	3367	3433	3535	3533	3535	3387	3300
Minimum	3200	3200	2600	2600	2600	2600	2700	2900	2900	2650	2540	2500
Maximum	4200	4200	3700	3800	3600	3700	3775	3800	3800	3800	3800	3550
Vanaspati												
Minimum	3660	3660	3367	3233	3400	3467	3400	3500	3400	3370	3233	3100
Maximum	4700	4700	4000	4685	4830	4860	4650	4400	4000	4200	4100	3766
Minimum	3800	3800	3600	3900	3700	3700	3600	3700	3800	3500	3400	3350
Maximum	5070	5070	4500	5070	4500	5000	5000	4800	4500	4500	4400	4485
Groundnut oil												
Minimum	3500	3500	3250	3150	3100	3100	3250	3300	3320	3200	3060	3040
Maximum	5000	5000	4733	4366	5000	5000	5000	4467	4167	4027	4000	4000
Minimum	3600	3600	3350	3300	3300	3300	3400	3400	3500	3500	3250	3200
Maximum	5100	5100	4800	4700	5100	5100	5100	4800	4500	4500	4300	4250

Source: Ministry of Civil Supplies, Consumer Affairs and Public Distribution.

Price Movements in Major Groups

Financial Year Changes

4.15 The cumulative price increase in wholesale prices during the current year up to 16 January 1993 is 5.6 per cent as against 12.4 per cent during the corresponding period last year. Among major groups, the rate of increase in prices this year is the lowest (3 per cent) in primary articles and the highest (10 per cent) in fuels. The prices of primary articles had recorded the highest increase of 17.4 per cent during this period in 1991-92 (Table 4.6).

TABLE 4.6
Wholesale Price Movement in Major Groups

Group/ sub-group	April to Mid-January		(Per cent)	
			Rate of Inflation (January-December)	
	1991-92	1992-93	1991	1992
1	2	3	4	5
All commodities	12.4	5.6	14.3	7.8
I Primary articles	17.4	3.0	20.4	2.4
Food articles	20.6	5.9	22.2	8.7
Foodgrains	25.8	-2.0	27.6	1.4
Fruits & vegetables	12.9	4.6	22.8	10.3
Condiments & spices	41.6	16.8	49.7	16.2
Non-food articles	14.9	-2.2	21.1	16.2
II Fuel & light	11.1	10.0	11.7	13.1
III Manufactures	9.6	6.4	11.3	10.2
Food products	10.6	6.4	13.8	7.9
Fertilizers	37.4	44.0	37.4	34.9

4.16 The price situation was aggravated in 1991-92 when the prices of mineral oils, primary articles and manufactured products rose sharply (Figure 4.3). Subsidies on a number of products with administered prices were reduced to bring down the fiscal deficit. This raised their prices. Aggravation of macro-economic imbalances and the persistence of structural rigidities made the restraint of prices difficult during the year. As a result, inflation rate went up during 1991-92 despite measures taken later that year to moderate it. These measures, however, began to have an impact from the current year when disinflationary fiscal and monetary measures began to take effect; the rate of increase in prices in all major groups, particularly primary articles, was much lower than in the previous year.

Annual Changes

4.17 By November 1992 single digit inflation became a reality, and by the week ended 16 January 1993, the rate of inflation came down to 6.8 per cent, the lowest rate since the middle of September 1990; the rate at a comparable date in January 1992 was 13.3 per cent. The impact on the WPI of the 60-paise rise per kg. in the issue price of rice and the 50-paise rise per kg. for wheat from the middle of January 1993 was offset by a decline in prices of other food articles and food products.

4.18 Owing to the weighting patterns, movements in the prices of primary commodities have a substantial influence on the WPI as well as the CPIs. During 1990-91 and 1991-92 the upswing in inflation was primarily due to a sharp increase in the prices of primary articles, especially foodgrains and other food articles. The downswing in inflation this year is also dominated by the very modest rise in the prices of primary commodities; price movements in foodgrains and food products have particularly influenced the deceleration in inflation rate (Figure 4.4). Although the prices of khandsari and gur have risen over the past year, their effect was offset by a decline in the prices of foodgrains and edible oils (Table 4.7).

Figure 4.3. Financial-year changes in WPI
All commodities & major groups
(Base: 1981-82=100)

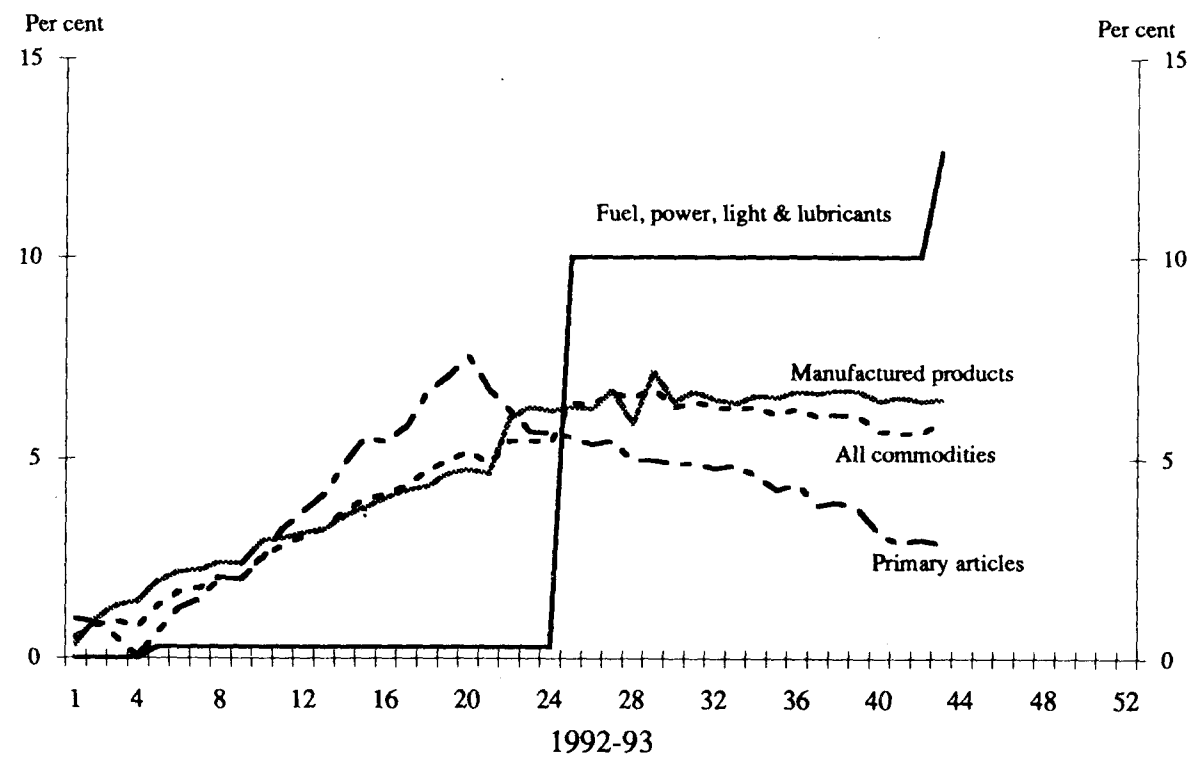
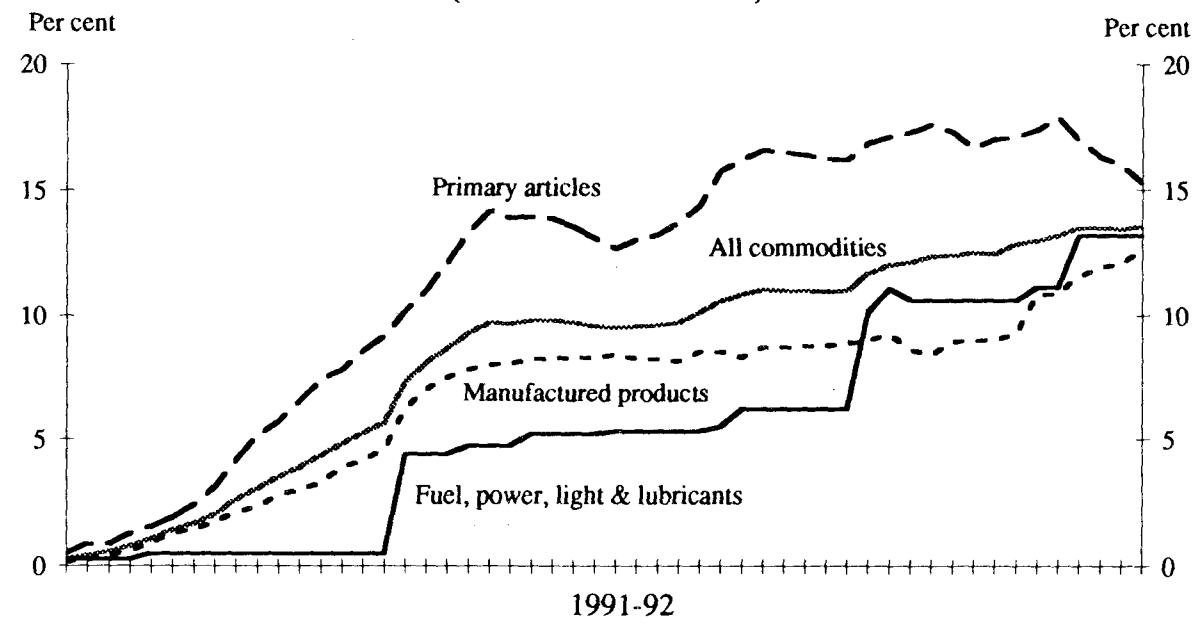


Figure 4.4. Annual rate of inflation in WPI
All commodities & major groups

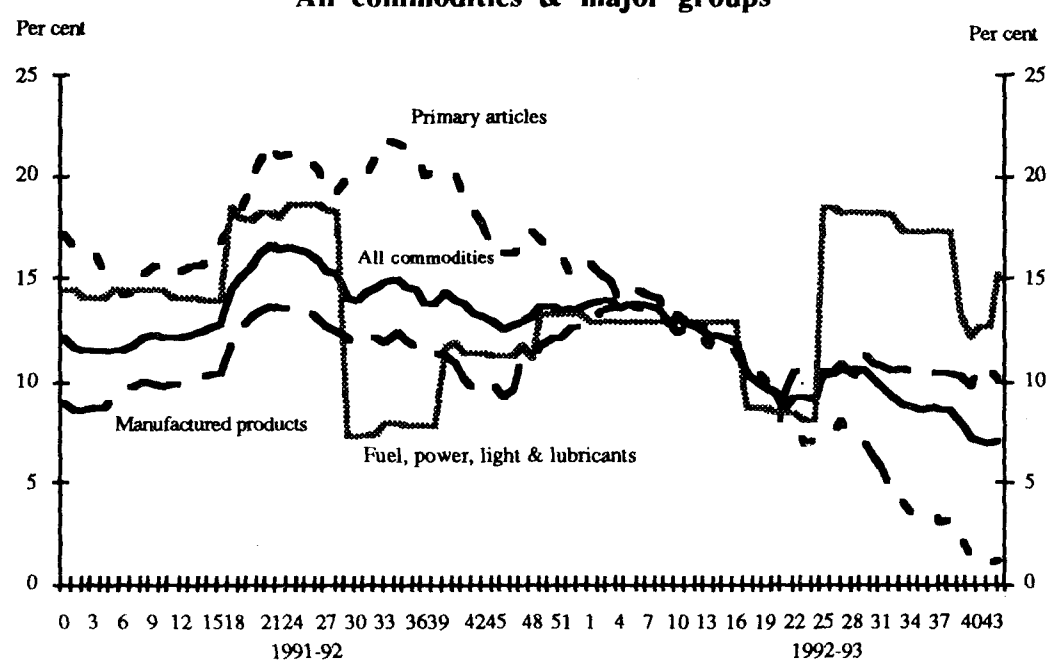


TABLE 4.7
Annual Rate of Inflation (WPI) during 1990-91 to 1992-93

Commodity group	(Per cent)		
	1990-91	1991-92	1992-93*
1	2	3	4
All commodities	12.1	13.6	6.8
Primary articles	17.1	15.3	1.1
Food articles	18.9	20.9	6.1
Foodgrains	22.7	24.0	-1.6
Non-food articles	19.3	8.1	-7.9
Fuel & light	14.4	13.2	12.1
Mineral oils	20.6	9.2	18.0
Manufactures	8.9	12.6	9.3
Food products	13.2	10.2	6.0
Sugar, khandsari etc.	0.1	5.5	20.0
Edible oils	32.7	1.9	-8.0
Textiles	5.3	11.3	3.1
Cement	14.1	17.4	8.9
Fertilizers	0.0	28.8	34.9
Iron & steel	6.0	4.5	9.1

* As on 16 January 1993.

Sub-sectoral Price Movements

Primary Articles

4.19 The prices of primary articles rose by only 3 per cent during the current fiscal year till 16 January 1993. This increase is mainly on account of a rise in the prices of fruits and vegetables, milk, eggs, fish and meat, condiments and spices, tea and coffee. Despite a tight PDS stock position in respect of rice and wheat and lower procurement of these commodities, their market prices remained subdued during 1992-93. Prices of foodgrains in the middle of January 1993 were about 2 per cent below last year's level. Wheat prices were 7 per cent below last year's level. Prices of jowar and bajra were lower by 11 per cent and 26 per cent respectively compared to a year ago. Prices of pulses were marginally above the last year's level. The prices of condiments and spices increased by 17 per cent this year as against 49 per cent in 1991-92. The prices of oilseeds were 10 per cent and cotton 20 per cent lower this year than a year before (Table 4.8).

Fuels

4.20 Prices of fuels, power, light and lubricants have risen by 10 per cent during the current financial year (up to middle of January 1992) as against 11 per cent in the previous year, primarily on account of the rise in the prices of petrol and petroleum products in the middle of September 1992. Electricity tariffs were also marginally raised by the State governments. The direct impact of the rise in prices of mineral oils (petroleum products) on the WPI was about 1 per cent.

Manufactured Products

4.21 Prices of manufactured products rose by 6.4 per cent from April 1992 till 16 January 1993 compared with 9.0 per cent last year. The commodity sub-groups which have contributed to this rise in prices are: khandasari and gur, wood and wood products, chemicals and chemical products including fertilizers, iron and steel etc. The increase in the overall price level of manufactured products would have been still higher had the prices of edible oils, oilcakes, cement, leather and leather products not declined and had prices of textiles, sugar, rubber and plastic products etc not shown just marginal increase over last year's level (Table 4.8).

4.22 The annual rise in the prices of manufactured products as on 16 January 1993 was 9.3 per cent, much above the general increase in prices this year, although the rate of increase was lower than 10.7 per cent on the corresponding date last year. Among important sub-groups, the annual rate of inflation was 116.4 per cent in wood and wood products, 34.9 per cent in fertilizers, 17.7 per cent in paper and paper products, 29.6 per cent in gur and 22 per cent in khandasari. The peak rate of inflation in manufactured products was 13.8 per cent in the beginning of May 1992. It then declined to 10 per cent and remained around this level until January 1993 when it further declined to 9.3 per cent. Compared to the peak inflation rate of 13.7 per cent in manufactured products during 1991-92 and 12.6 per cent at the beginning of the current year, there has been a marked decline in inflation in this major group also this year.

4.23 With industrial recovery, relaxation of monetary and financial controls, import liberalisation, improved supply of raw materials, and demand restraints, a downturn in inflation rate in this sector has set in from June 1992. Partial withdrawal of subsidy for some fertilisers and increase in prices of petroleum products other than kerosene oil in August-September 1992 again pushed up production and distribution costs leading to some accentuation of inflationary pressures in this sector.

TABLE 4.8
Variation in Wholesale Prices of Selected Commodities

Commodity	Weight in WPI (%)	End-March to mid-January			Inflation rate mid- Jan 93	Share in Inflation		
		1991-92	1991-92	1992-93		1991-92	End-March to mid-January 1991-92	1992-93
1	2	3	4	5	6	7	8	9
All commodities	100.00	13.56	12.36	5.65	6.77	100.00	100.00	100.00
I Primary Articles	32.30	15.29	17.39	2.97	1.13	37.15	46.34	17.59
(A) Food articles	17.39	20.87	20.59	5.89	6.14	29.43	31.84	21.21
(a) Foodgrains	7.92	24.02	25.85	-0.16	-1.62	14.35	16.94	-0.26
1 Cereals	6.82	26.89	28.99	-0.33	-1.95	13.43	15.88	-0.44
(i) Rice	3.69	30.72	27.79	2.57	4.92	8.17	8.11	1.89
(ii) Wheat	2.25	12.30	24.89	3.39	-7.03	2.18	4.84	1.43
(iii) Jowar	0.42	65.50	57.39	-15.13	-10.75	1.63	1.57	-1.32
(iv) Bajra	0.18	74.87	59.61	-32.54	-26.09	0.79	0.69	-1.27
2 Pulses	1.09	9.41	9.76	0.83	0.51	0.91	1.04	0.19
(b) Fruits & vegetables	4.09	19.00	12.86	4.58	10.27	6.14	4.56	3.72
(i) Fruits	2.80	24.08	20.79	4.69	7.54	5.44	5.15	2.78
(ii) Vegetables	1.29	7.15	-5.57	4.34	18.40	0.69	-0.59	0.95
(c) Milk	1.96	13.68	10.54	9.63	12.74	2.27	1.92	3.84
(d) Eggs, fish & meat	1.78	16.32	20.51	17.07	13.00	2.24	3.09	5.76
(e) Condiments & spices	0.95	41.31	41.65	16.77	16.49	4.81	5.32	5.83
(f) Other food articles	0.69	-4.95	0.45	16.62	10.35	-0.35	0.03	2.34
(B) Non-food articles	10.08	8.12	14.87	-2.20	-7.94	6.63	13.31	-4.10
1 Fibres	1.79	14.39	24.91	-12.93	-20.26	2.00	3.79	-4.34
2 Oilseeds	3.86	4.67	19.36	3.11	-9.57	1.47	6.68	2.17
(C) Minerals	4.83	5.23	5.14	1.48	1.57	1.06	1.14	0.67
II Fuel & light	10.66	13.20	11.13	10.02	12.07	10.21	9.45	18.55
III Manufactures	57.04	12.61	9.77	6.44	9.19	52.65	44.77	64.00
(A) Food products	10.14	10.17	10.64	6.42	5.97	7.57	8.69	11.13
1 Sweeteners	4.06	5.50	2.65	16.80	20.04	1.26	0.67	8.62
(i) Sugar	2.01	18.91	9.87	3.42	11.92	2.09	1.20	0.95
2 Edible oils	2.45	1.95	9.89	-1.01	-8.17	0.46	2.57	-0.52
(i) Rape & mustard oil	0.28	6.93	21.53	-8.53	-19.52	0.16	0.54	-0.44
(ii) Groundnut oil	0.53	-2.11	7.01	-16.69	-23.80	-0.11	0.39	-1.77
3 Oilcakes	0.43	25.71	30.65	-0.93	-4.68	0.80	1.05	-0.08
(B) Others								
1 Textiles	11.55	11.25	9.51	1.52	3.13	8.88	8.24	2.82
2 Cement	0.86	17.35	-0.70	-7.88	8.87	1.06	-0.05	-1.20
3 Iron & steel	2.44	4.50	4.16	8.70	9.06	0.87	0.89	3.73
Administered items	17.26	12.22	11.10	11.03	12.16	13.06	13.01	27.96
1 Crude oil & natural gas	4.27	1.91	1.91	1.87	1.87	0.31	0.34	0.66
2 Petroleum products	6.67	9.23	9.23	18.03	18.03	4.03	4.42	18.17
3 Coal 1.26	27.42	27.42	0.00	0.00	3.09	3.39	0.00	
4 Electricity	2.74	13.73	6.65	0.87	7.56	3.09	1.64	0.47
5 Fertilisers	1.75	28.76	37.44	43.97	34.88	1.92	2.74	7.98
6 Non-ferrous metals (Other than aluminium)	0.57	9.67	6.73	4.58	7.46	0.62	0.47	0.68
1 Administered items	17.26	12.22	11.10	11.03	12.16	13.06	13.01	27.96
2 Seasonal items @	34.41	14.16	16.54	3.82	1.70	38.58	49.44	25.13
3 Raw materials **	14.91	7.55	12.93	-1.48	-6.18	7.69	14.45	-3.43

* Provisional.

@ Seasonal items include food articles; non-food articles; sugar, khandsari & gur; edible oils and oilcakes.

** Raw materials include non-food articles and minerals.

Administered Prices

4.24 Prices of a large number of commodities - vital raw material inputs, essential consumer goods or goods which have a pervasive influence on the growth and development of the economy and for the welfare of a broad cross-section of the consumers - are determined by the Government. The price policy in respect of these commodities aims at stabilising prices of critical commodities by providing intermediate inputs at low prices. While price stability in such items is important, it is counter-productive to delay price revisions in respect of items whose prices are administered by the Government. If such adjustments are not made from time to time, the later adjustment process becomes difficult and creates shocks in the economy resulting in sharp increases in costs in different sectors. The budget deficit is also increased, with inflationary consequences.

4.25 Depressing administered prices artificially by subsidisation from the exchequer only alters the source of price rise; it does not remedy the malady of price rise. Subsidies reduce the incentives to producers to compete and reduce costs. In fact, when accompanied by retention pricing, subsidies reward the least efficient producers at the expense of the efficient ones.

4.26 In order to reduce the budget deficit and offset losses, the prices of administered items have been adjusted upwards selectively during the current year. The revisions made in the administered prices over the last six years are given in Table 4.9.

TABLE 4.9
Annual (point-to-point) Rate of Inflation in Administered Items

Year	All commodities	Crude oil & natural gas	Coal	Oil products	Electricity	Fertilizers	(Per cent) Non-ferrous metals*
1	2	3	4	5	6	7	8
1987-88	10.7	-4.0	18.0	2.3	4.4	-3.1	28.1
1988-89	5.7	-2.1	12.5	1.1	8.3	-5.3	37.5
1989-90	9.1	12.5	0.4	9.1	4.7	0.0	5.2
1990-91	12.1	-0.4	0.0	20.6	11.4	0.0	9.4
1991-92	13.6	1.9	27.4	9.2	13.7	28.8	9.7
1992-93 (16 January 1993)	6.8	1.9	0.0	18.0	7.6	34.9	7.8

* Other than aluminium.

4.27 The price policy for administered items now visualises that an increase in costs attributable to unproductive cost elements should be absorbed by the industry through improvements in efficiency and the rest through an increase in the selling price.

4.28 The direct impact of the increase in prices of all administered items on WPI during the current year is 1.9 per cent. If the prices of these items had not been increased, annual rate of inflation on week-ended 16 January 1993 would have been about 5 per cent instead of 6.8 per cent.

TABLE 4.10
Commodities showing Decrease (10 per cent and above)
in WPI during 1992

Commodity	(Per cent)	
	January-December 1991	1992
1	2	3
Bajra	67.4	-16.5
Maize	49.5	-22.2
Barley	14.2	-17.5
Arhar	26.5	-15.4
Masur	9.8	-13.9
Urad	18.4	-14.6
Potatoes	22.2	-28.4
Dry chillies	241.2	-27.3
Betelnuts	27.1	-16.9
Garlic	-43.4	-23.1
Raw cotton	57.7	-15.7
Mesta	-23.5	-26.5
Raw silk	83.6	-36.9
Groundnut seed	22.5	-16.9
Rape & mustard seed	11.4	-15.9
Gingelly seed	8.5	-17.2
Linseed	19.5	-19.4
Niger seed	27.5	-19.6
Safflower	14.7	-13.3
Sunflower	2.1	-14.1
Mahua seed	7.3	-33.4
Hydrogenated vanaspati	18.9	-10.3
Kardi oil	3.9	-18.5
Mahua oil	19.0	-14.9
Solvent-extracted groundnut oil	10.2	-16.9
Rape & mustard oil	17.7	-19.5
Groundnut oil	12.9	-20.4
Cottonseed oil	2.5	-14.1
Hessian cloth	4.2	-16.4
Sulphuric acid	10.3	-19.0
Linseed oil	14.0	-28.2

Overall Price Situation

4.29 The overall price situation is now under control. Out of 447 commodities whose prices are monitored, prices of 74 commodities have not increased during the past year. These commodities mainly fall in the sub-groups of food items, minerals, newsprint, plastic products, lime, mica products, cycle tubes, stainless steel, ceramic tiles, oxygen, and aluminium products. Prices of another 67 items have declined, the decline being 10 per cent or more in 32 commodities (Table 4.10). Prices of coarse cereals, some minor pulses, potatoes, fibres, oilseeds, edible oils, jute, hemp and mesta, textiles, urea, pesticides, and inedible oils have declined this year compared to the last year.

Long-term Trends in WPI

4.30 Movement of the WPI since 1982-83 to 1992-93 (up to December 1992) indicates that among the major groups the maximum increase has occurred in the fuels group (135 per cent) followed by primary articles (134 per cent), and manufactured products (129 per cent). The prices on the whole increased by 131 per cent during this period (Table 4.11).

TABLE 4.11
Extent of Price Rise and Share in Inflation
1982-83 to 1992-93 (up to December 1992)

Commodity		Weight	Extent of price rise	(Per cent) Share in inflation
1		2	3	4
ALL COMMODITIES		100.00	131.0	100.0
I	Primary articles	32.30	133.8	33.0
A	Food articles	17.39	172.4	22.9
	Foodgrains	7.92	138.3	8.4
	Cereals	6.82	136.8	7.2
	Pulses	1.09	148.0	1.2
	Fruits and vegetables	4.09	172.0	5.3
	Milk	1.96	176.0	2.6
	Eggs, fish and meat	1.78	181.1	2.5
	Condiments and spices	0.95	424.8	3.1
	Other food articles (tea & coffee)	0.69	187.7	1.0
B	Non-food articles (fibres, oilseeds etc.)	10.08	123.4	9.5
C	Minerals	4.83	16.4	0.6
	Iron ore	0.15	82.2	0.1
	Imported crude petroleum	3.00	-50.7	-1.2
	Indigenous crude petroleum	1.27	130.9	1.3
II	Fuel & light	10.66	134.9	11.9
	Coal mining	1.26	196.5	1.9
	Mineral oils	6.67	119.3	6.1
	Electricity	2.74	144.8	3.0
III	Manufactures	57.04	128.6	56.0
A	Food products	10.14	125.9	9.7
	Sugar	2.01	74.3	1.1
	Edible oils	2.45	163.9	3.1
B	Beverages etc	2.15	195.7	3.2
C	Textiles	11.55	101.8	9.0
D	Wood & wood products	1.20	245.6	2.2
E	Paper and paper products	1.99	215.8	3.3
F	Leather and leather products	1.02	127.5	1.0
G	Rubber and plastic products	1.59	87.7	1.1
H	Chemical and chemical products	7.36	99.0	5.6
I	Non-metallic mineral products	2.48	130.0	2.4
J	Basic metals, alloys and metal products	7.63	159.1	9.3
K	Machinery and machine tools	6.27	134.5	6.4
	Electrical machinery	2.99	121.1	2.8
L	Transport equipment and parts	2.71	121.0	2.5
M	Other miscellaneous manufacturing industries	0.97	39.1	0.3

4.31 The contribution of different major groups to inflation over the last 11 years is almost in proportion to their relative weight in WPI; within the groups the extent of rise in prices varies considerably. The increase in foodgrain prices account for 8.4 per cent of the

overall price rise; out of which 7.2 per cent is on account of cereals and 1.2 per cent on account of pulses. Fruits and vegetables, eggs, fish and meat, condiments and spices and milk, together with a combined weight of 8.78 per cent, account for 13.5 per cent of the overall rise in prices during this period.

4.32 The prices of coal, mineral oils and electricity have, by and large, risen as much as general prices.

4.33 Among manufactured products, food products account for 9.7 per cent of the total price rise, textiles 9 per cent, paper and paper products 3.3 per cent, beverages, tobacco and tobacco products 3.2 per cent, chemical and chemical products 5.6 per cent, basic metals, alloys and metal products 9.3 per cent, machinery and machine tools 6.4 per cent.

4.34 The major commodity groups where prices have risen disproportionately to their weight are basic metals, alloys and metal products, beverages, tobacco and tobacco products and edible oils. The prices of some administered items namely crude petroleum and sugar (under dual pricing), raw cotton and cotton textiles, chemical and chemical products have risen at a much lower rate than general prices.

Terms of Trade between Agriculture and Industry

4.35 The relative increase in prices of agricultural products vis-a-vis manufactured products during the last two years exhibit a mixed trend. The prices of agricultural products (primary articles other than minerals) had risen at a steeper rate between July 1991 and February 1992, but from February to May 1992 the prices of manufactured products exhibited a higher rise than the prices of agricultural products. From June to August 1992 the prices of agricultural products rose at a higher rate than the prices of manufactured products; but from September 1992 until December 1992 the prices of manufactured products have again risen faster than the prices of agricultural products. The overall terms of trade between the relative prices of manufactured products and agricultural products in December 1992 compared to that in December 1991 improved in favour of the manufactured products (Appendix Table 5.4). However, taking a longer period of last 11 years (1982-83 to 1992-93), the prices of both agricultural products and manufactured products have risen at about the same rate. This implies that the terms of trade between the prices of agricultural products and that of manufactured products in December 1992 are nearly the same as in 1981-82. Technical progress may be expected to be greater in industry, but its effect on relative prices is not discernible.

Measures to Control Inflation

4.36 Among the principal factors which have helped to contain inflation during the current year are: strict control of the fiscal deficit, liberalisation of imports, a tight monetary policy, augmentation of domestic stocks of wheat and rice through timely imports and relaxation of import compression measures to boost industrial production. These measures have broken the inflationary expectations of producers and traders, and led them to dishoard even commodities whose production has not increased.

Reforms and Inflation

4.37 As part of its policies of macro-economic stabilization and economic reforms, the Government has continued to pursue disinflationary policies to contain demand and to promote supply. Reduction in the fiscal deficit has played an important part in this policy by restraining real expenditure and promoting fiscal consolidation. It is also expected to help in the allocation of scarce resources according to national priorities and promote sustainable growth and employment.

4.38 Supply adjustment through imports is not possible so long as the balance of payments position remains difficult. Unless exports increase, essential raw materials,

capital goods and food products cannot be imported. Hence, trade reforms which are intended to promote exports and make them finance enhanced imports are bound to help in containing inflation.

4.39 Financial sector reforms have also helped. Relaxation in the Statutory Liquidity Ratio (SLR), and the Cash Reserve Ratio (CRR) has increased the flow of funds to industry. The underlying thrust of various reforms is to stimulate competition which should spur improvement in productivity and employment and generate competitive efficiency.

Agricultural Price Policy

4.40 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 support or procurement prices for major agricultural commodities and organises purchase operations through central, State or cooperative agencies such as Food Corporation of India, Jute Corporation of India, Cotton Corporation of India, National Agricultural Co-operative Marketing Federation and Tobacco Board, besides other agencies designated by the State governments.

Minimum Support or Procurement Prices

4.41 The support and procurement prices for important agricultural commodities are fixed by the Government on the recommendations of the Commission for Agricultural Costs and Prices, besides taking into consideration the views of the State Governments and Central ministries, and other factors relevant for fixation of these prices. The commodities at present covered for the fixation of minimum support or procurement 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). Support and procurement prices for the last few years are given in Table 4.12.

4.42 The procurement price of paddy (common variety) was raised by 17.4 per cent in 1992-93 crop year and that of wheat by 22.2 per cent (including bonus of Rs. 25 per quintal) for the 1991-92 crop marketed in 1992-93. During the main marketing periods, the market prices ruled much above the procurement prices and affected procurement of these commodities. The severe pressure on market prices was attributed to low stocks of these essential commodities with Government agencies. Continuing inflationary expectations led the farmers to hoard part of their surplus. Uncertainty about the 1992 monsoon also added pressure on the market on account of a possible shortfall in kharif cereal production. As a result, the procurement of wheat and rice during fiscal year 1992-93 was adversely affected. The procurement price of wheat crop of 1992-93 to be marketed in 1993-94 has been increased by 20 per cent which would facilitate higher procurement of wheat next year.

The Public Distribution System(PDS)

4.43 Essential commodities such as rice, wheat, imported edible oils, sugar and kerosene are distributed at below market price through a network of fair-price shops; this is an essential element of Government's safety net for the poor.

4.44 As on 31 March 1992, there were over four lakh such outlets in the country; 3.05 lakh in rural areas and 0.94 lakh in urban areas. On an average, one fair-price shop is envisaged to cover a population of 2000. From January 1992 a scheme to revamp the public distribution system has been launched in about 1700 blocks falling in the drought prone, desert, integrated tribal development project areas and certain designated hill areas.

In these areas, additional commodities like tea, soap, pulses and iodised salt are also envisaged to be distributed.

TABLE 4.12
Procurement and Minimum Support Prices
(Crop year basis)

Commodity	Type	Variety	1988 -89	1989 -90	1990 -91	1991 -92	(Rs. per quintal)	
							1992 -93	Increase 1992-93 (Per cent)
1	2	3	4	5	6	7	8	9
1 Paddy	P	Common	160	185	205	230	270	17.4
		Fine	170	195	215	240	280	16.7
		SF	180	205	225	250	290	16.0
2 Coarse cereals	P	FAQ	145	165	180	205	240	17.1
3 Maize	P	FAQ	145	165	180	210	245	16.7
4 Wheat	P	FAQ	183	215	225	275@	330@	20.0
5 Barley	M	FAQ	145	180	200	210	260	23.8
6 Gram	M	FAQ	325	421	450	500	600	20.0
7 Arhar	M	FAQ	360	425	480	545	640	17.4
8 Moong	M	FAQ	360	425	480	545	640	17.4
9 Urd	M	FAQ	360	425	480	545	640	17.4
10 Sugarcane@@	S	FAQ	19.50	22.00	23.00	26.00	27.00	3.8
11 Cotton	M	F-414/						
		H-777	500	570	620	695	800	15.1
	M	H-4	600	690	750	840	950	13.1
12 Groundnut	M	FAQ	430	500	580	645	750	16.3
13 Jute	S	TD-5	-	295	320	375	400	6.7
14 Rape and mustard	M	FAQ	460	575	600	670	760	13.4
15 Sunflower	M	FAQ	450	530	600	670	800	19.4
16 Soyabean	M	Black	275	325	350	395	475	20.3
	M	Yellow	320	370	400	445	525	18.0
17 Safflower	M	FAQ	440	550	575	640	720	12.5
18 Toria	M	FAQ	430	545	570	645	725	12.4
19 Tobacco	M	VFC F-2	1175*	1250*	1325*	1475*	1600\$	8.5
	M	L-2	1200\$	1350\$	1425\$	1600\$	1750\$	9.4
20 Copra	M	FAQ	-	1500#	1600#	1700#	-	6.3
Copra balls	M	FAQ	-	-	1850	-	-	-

M-Minimum support price. P-Procurement price. S-Statutory minimum price. FAQ-Fair average quality.

@ Including a Central bonus of Rs. 25.00 per quintal.

@@ These prices are linked to a basic recovery of 8.5% with a proportionate premium for every 0.1% increase above that level.

* Black soil. \$ Light soil. # For calendar years 1989, 1990 and 1991. SF- Super fine. (-)- Not fixed.

4.45 Foodgrains (rice and wheat) are allocated to states and union territories for revamped PDS blocks at lower prices; Rs.50 per quintal lower than Central issue prices (CIPs) for normal PDS blocks. The State Governments are, however, required to ensure that the retail prices of these commodities in these blocks are not higher than CIPs by more than 25 paise per kg. Sugar is also distributed at lower prices. As of today, imported oil is allocated to states at an issue price of Rs.20000 per tonne for bulk and Rs.25000 per tonne in 15 kg. tins. Consumer prices recommended to states are Rs.25 per kg. for bulk supply and Rs.27.75 per kg. for supply in 15 kg. tins.

4.46 During the edible oil year 1991-92, 1.68 lakh tonnes of palmolein was imported into the country for distribution under PDS. About 47,000 tonnes of soyabean oil was also received as gift from USA under the USAID programme during this year. In view of the increased production of edible oil in the country, only about 20,000 tonnes of oil has been imported as against the import authorisation of 3 lakh tonnes of edible oils in 1992-93. 29.9 lakh tonnes of wheat and 2.1 lakh tonnes of rice are being imported during the current year to improve domestic supplies of these grains.

TABLE 4.13
Distribution of Foodgrains under the Public Distribution System

Commodity		1990-91	1991-92	(Million tonnes) April - December	
				1991	1992
Rice	Allocation	9.61	11.36	8.72	8.47
	Offtake	7.87	10.04	8.16	7.12
Wheat	Allocation	9.50	10.36	7.80	6.97
	Offtake	7.09	8.73	6.46	5.94
Total	Allocation	19.11	21.72	16.52	15.44
	Offtake	14.94	18.77	14.62	13.06

Supplies under PDS

4.47 Allocations of foodgrains in 1992-93 were restored to pre-1991 levels and additional allocations are being made for the revamped blocks. In April-December 1992, 15.44 million tonnes of foodgrains were allocated to the states for the PDS against which 13.06 million tonnes were lifted for distribution. The allocation of rice and wheat in the previous year for the corresponding period was 16.52 million tonnes and the offtake was 14.62 million tonnes (Table 4.13).

TABLE 4.14
Procurement of Foodgrains

	1990-91	1991-92	(Million tonnes) Up to 25th January	
			1991-92	1992-93
Rice	13.02	10.45	7.02	8.31
Wheat	11.07	7.75	7.75	6.38
Total foodgrains	24.26	18.25	13.61	12.57

Procurement

4.48 During the 1992-93 rabi marketing season, 6.38 million tonnes of wheat was procured as compared to 7.75 million tonnes during the corresponding period in 1991-92; the shortfall was substantial. Lower procurement this year is attributed to the higher open market prices compared to the procurement prices, lower arrivals of wheat in the major wheat-producing states of Punjab, Haryana and Uttar Pradesh, and a possible holding back of the stocks by farmers in anticipation of higher open market prices later in the year. Rice procurement during the marketing year 1992-93 (October-September) is better than in 1991-92 and has touched 8.3 million tonnes as on 25 January 1993 as compared to 7 million tonnes during corresponding period last year. Total procurement during the current year is likely to exceed last year's level (Table 4.14).

Stocks

4.49 Stocks of foodgrains with public agencies (Central and State) as on 1 January 1993 were 13.19 million tonnes as against 14.74 million tonnes on the corresponding date last year. Actual foodgrain stocks have remained below buffer stock requirements (Table 4.15).

TABLE 4.15
Stocks of Foodgrains

Beginning of	Wheat		Rice		(Million tonnes) Total	
	Minimum	Actual	Minimum	Actual	Minimum	Actual
1	2	3	4	5	6	7
April	3.7	2.4	10.8	9.8	14.5	12.2
July	13.1	6.7	9.2	8.4	22.3	15.1
October	10.6	4.3	6.0	6.9	16.6	11.2
January	7.7	3.5	7.7	9.5	15.4	13.2

4.50 On 1 April 1992, the opening stocks of rice were 1.3 million tonnes lower and those of wheat 3.4 million tonnes lower than the corresponding stocks last year. Foodgrain stocks were 2.3 million tonnes lower than the requirements of the buffer stocking policy. This rendered food management this year more difficult than before and necessitated imports of wheat and rice referred to earlier.

4.51 The PDS supplies no doubt have contained the vigour of inflation but part of their impact has been offset by monetisation of budgetary deficit to meet food subsidies. Maintaining supplies to PDS involves continuation of food procurement, grant of subsidies, and reintroduction and perpetuation of some controls. But several weaknesses have emerged in the distribution system which have diluted the essence of the system to benefit the vulnerable sections. The financial liabilities of the state governments in maintaining this system have increased. Leakage and black marketing in PDS items have also reduced the full impact of PDS in containing inflation.

4.52 While the PDS has to be continued to help the poor, the burden of subsidy on the Central budget has also to be restrained. This may call for a review of the food management system including procurement, distribution, and pricing of items supplied and the coverage of beneficiaries.

4.53 A review of the agricultural policy, including buffer stocking, may also be necessary so that it is in tune with developments in the international trade. Last year, agricultural production was lower, industrial production had stagnated, foreign exchange reserves were the lowest ever and there was limited scope for supply management. This year the options for containing inflation are better. Current year's kharif production is estimated at 98.7 million tonnes, much above last year. Improvement in foreign exchange reserves has created opportunities for better supply management and relaxation of import compression measures to help recovery of industrial production.

Outlook

4.54 Arrivals of kharif crops and prospects of a good rabi crop next year have induced stockists to unload stocks, easing the upward pressure on the prices of food and other essential commodities. With an improvement in industrial production, infrastructure, and supply management and a disinflationary monetary policy, the rate of inflation now stands

considerably tamed, especially in the last quarter. Inflation at the end of the fiscal year is now anticipated at around 8 per cent, more than 5 percentage points lower than the rate of 13.6 per cent at the end of 1991-92.

4.55 Inflation, which has been a major problem in the past two years, is now amenable to control. The improvement in foreign exchange reserves and the judicious use of these scarce reserves to ensure imports has enhanced the ability of the Government to fight inflation. Relaxation of restrictions on imports of essential raw materials and capital goods as also the recent liberalization under the Foreign Exchange Regulation Act are expected to accelerate industrial production. Relaxation in commodity controls, movement and trade restrictions, enhanced flow of bank credit for productive sectors, removal of obstructions to improvement in production, and efficient management of food, would further enhance production and supply. Phased withdrawal of food subsidies by targeting PDS, economy in unproductive expenditure and continued credit regulation would help in containing demand. A judicious balancing of demand and supply would help in attaining the goal of price stabilization.