4

PRICES AND DISTRIBUTION

The annual inflation rate during the first four months of 1993-94 based on the movement of the wholesale prices averaged 7 per cent. Consumer price inflation as measured by CPI for industrial workers was even lower and for agricultural labour still lower. This confirmed the success of the anti-inflation policies followed in the previous two years. However, from August 1993 there was a clear indication of build-up of inflationary pressure, which was linked to several cost-push factors and a weakening of fiscal position. Administered prices of diesel and petrol and the issue prices of rice, wheat and sugar under the public distribution system were raised in late January and early February 1994. Inflation, which was in the 8 to 8.5 percent range till late January, continues to be a cause for concern.

2 The first quarter of 1993 witnessed considerable decline in inflation, led by a decline in prices of agricultural commodities, essential consumer goods and industrial inputs. With reasonably good rainfall and comfortable food stocks, a further fall in inflation appeared likely. The declining trend was, however, reversed in mid-August. The immediate factors included disruption in movement due to the truckers' strikes and a regional dry spell in a few States which led to speculative increase in prices of oilseeds and rice. Faster monetary growth driven by fiscal pressures provided the undercurrent to the buoyancy in market prices. Other factors included higher minimum support/ procurement prices and the cost-push effect of freight increases.

Inflation based on WPI and CPI

3 The wholesale price index (WPI) quantifies inflation at the wholesale level and the Consumer Price Index (CPI) measures changes in the retail prices. Since the retail prices affect different socio- economic groups differently, the CPI are calculated separately for (i) industrial workers (IW); (ii) urban non-manual employees(UNME); and (iii) agricultural labourers (AL).

4 The annual inflation rate (as measured by the WPI), which entered double digits in November, 1990 (10.5 per cent), kept rising steeply to reach a peak of 16.3 per cent in September 1991. It declined to single digit level by August 1992 (Table 4.1). Thereafter, the WPI fell continuously, (barring temporary interruption in October, 1992) to reach 7.1 per cent in March 1993. This level was maintained till the end of June. The trend was reversed in August, with an inflation rate of 8 per cent led mainly

BOX NO. 4.1

Index Numbers of Prices

- The wholesale price index (WPI) with base 1981-82 reflects changes in the prices of 447 commodities covering all traded items in the economy. Because of a large number of structural and other changes in the economy since 1981-82, the WPI base needs to be revised. A Working Group was set up by the Ministry of Industry in June, 1993 for the revision of the current series of Wholesale Price Index Number. Issues like commodity coverage, their relative importance and the appropriate base year will be examined.
- The consumer price index (CPI) for agricultural labourers, constructed by the Ministry of Labour, is regarded as representing the retail price situation in the rural areas. The 1960-61 base weights and composition of commodities is outdated, given the changes in consumption pattern since then. A new series of Consumer Price Index for Agricultural /Rural labourers with base 1986-87 has been completed and is likely to be released soon.

by the spurt in primary product prices. Based on the final index this had reached 8.8 per cent by September, 1993. Since then there has again been some slight moderation and the provisional inflation rate by January 15, 1994 was 8.4 per cent and by January 29, 1994 it came down to 8.2 per cent.

5 Inflation in terms of the Consumer Price Index for Industrial Workers CPI(IW) moved almost in tandem with the wholesale price index (WPI) during the past 3 years

TABLE 4.1
Annual Rates of Inflation in WPI and CPI

(Per cent)

Year /Month	WPI Base→1981-82	CPI (IW) 1982	CPI (UNME) 1984-85	CPI (AL) 1960-61
1	2	3	4	5
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
Febraury	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	9.1	8.4	9.6	8.6
December	8.5	8.0	9.6	5.9
January	7.6	5.7	7.9	5.0
February	7.6	5.7	7.3	1.9
March	7.1	6.1	6.8	0.7
1993-94 April	6.9	6.1	6.7	-0.7
May	6.9	5.1	6.2	-1.9
June	7.0	5.9	6.6	-1.0
July	7.3	4.5	5.4	-2.0
August	8.0	5.8	5.9	-2.3
September	8.8	6.6	6.4	0.1
October	8.5	7.4	6.3	3.2
November	8.6	8.6	7.3	6.5
December	8.3*	8.6		
January	8.2*			

*Provisional

(Table 4.1).The rate of inflation based on CPI (IW) decelerated from a peak of 16.1 per cent in January 1991 to 8.4 per cent in November 1992, and thereafter fell steeply to 6.1 per cent by March 1993. Its continued decline to a low of 4.5 per cent in July 1993 reflected mainly the fall in prices of primary commodities which have a relatively higher weight in CPI than in WPI. With the sharp increase in primary product prices from August 1993 and the rise in the WPI, the CPI(IW) growth has also risen to 8.6 per cent in December 1993. Movements in the Consumer Price Index for urban non-manual employees, CPI(UNME), have been similar to the CPI(IW).

6 Agricultural labourers had faced the highest inflation till October 1992, as per the consumer price index for them. They have also gained the most from the control of inflation. From December 1992, the rise in CPI(AL) has been much less than in the other two CPI series (Table 4.1). Between April to August 1993 the growth rate of CPI (AL) became negative, reflecting a fall in prices of coarse grains and edible oils.

7 The differences in inflation as measured by the different price indices are due to differences in the commodity basket composition and weighting diagrams. The WPI has the most comprehensive coverage of commodities ranging from consumer goods, consumer durables, basic raw materials, intermediate and capital goods. The coverage of food articles and products is much more comprehensive and their weights are higher in the CPI(IW) and CPI(AL).

Financial Year Changes in WPI

8 The wholesale price index(WPI) for all commodities reached 250.7 (provisional) on January 15, 1994, as against 233.1 at the end of March 1993. This represents an in-

TABLE 4.2
Price Movements in Major Groups
as on Jan. 15, 1994

(per cent)

Group/subgroup	Weight (%)	Financial Year 1993-94	1992-93	Annual (pt-to-pt) 1993-94	1992-93
1	2	3	4	5	6
All commodities	**100.00**	**7.6**	**6.2**	**8.4**	**7.3**
i Primary articles	**32.30**	**9.5**	**4.3**	**8.1**	**2.5**
Food articles	17.39	5.0	6.3	4.1	6.5
Foodgrains	7.92	13.1	-0.6	11.6	-2.1
Rice	3.69	8.4	1.2	6.9	3.5
Wheat	2.25	9.3	3.8	8.1	-6.7
Fruits & Vegetables	4.09	-4.2	3.8	1.2	9.5
Non-food articles	10.08	17.2	1.4	14.0	-4.6
ii Fuel, Power etc.	**10.66**	**8.8**	**10.0**	**13.9**	**12.1**
iii Manufactured products	**57.04**	**6.2**	**6.6**	**7.5**	**9.5**
Food products	10.14	10.2	5.8	11.2	5.3
Sugar	2.01	11.5	3.5	22.6	12.0
Edible oils	2.45	6.7	-1.2	0.4	-8.4

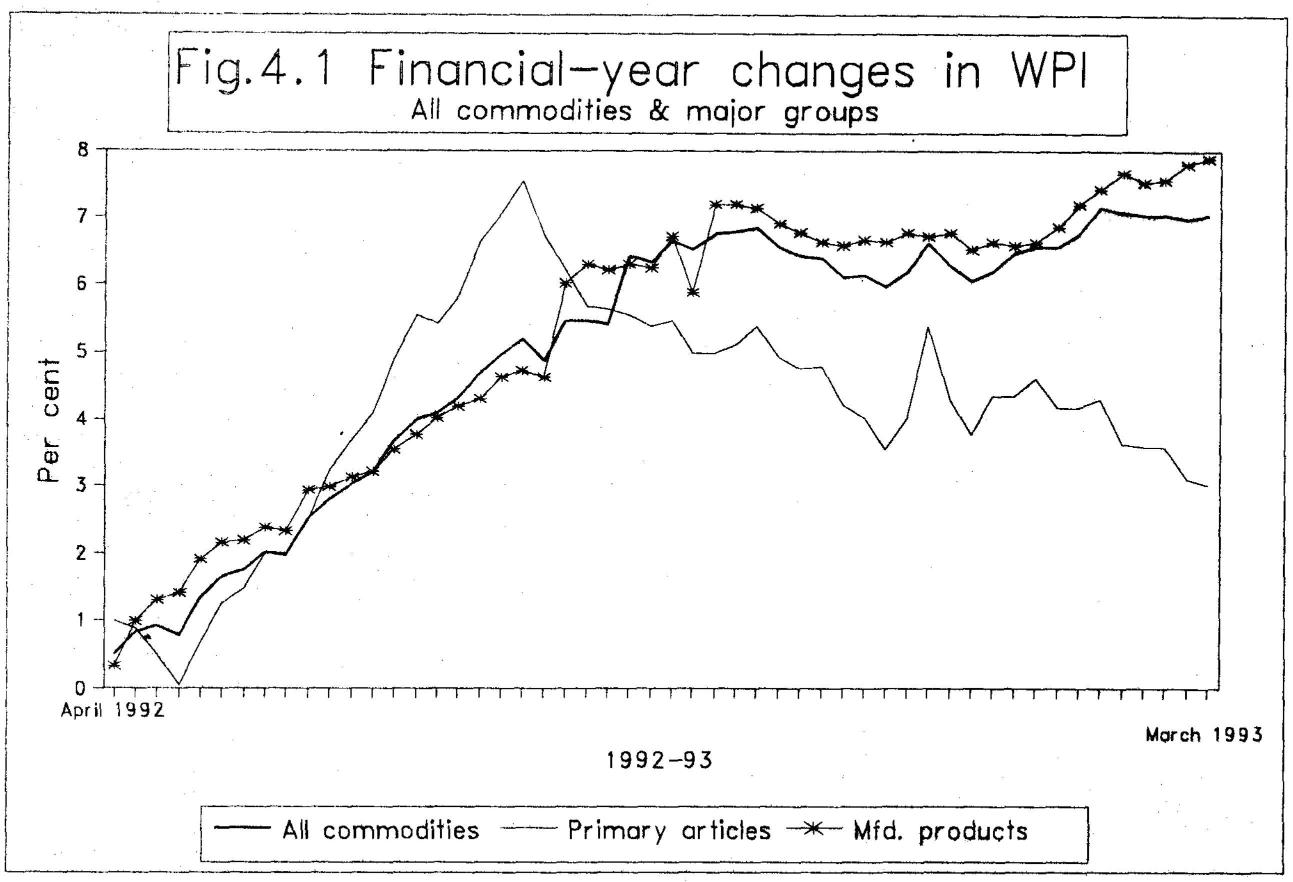
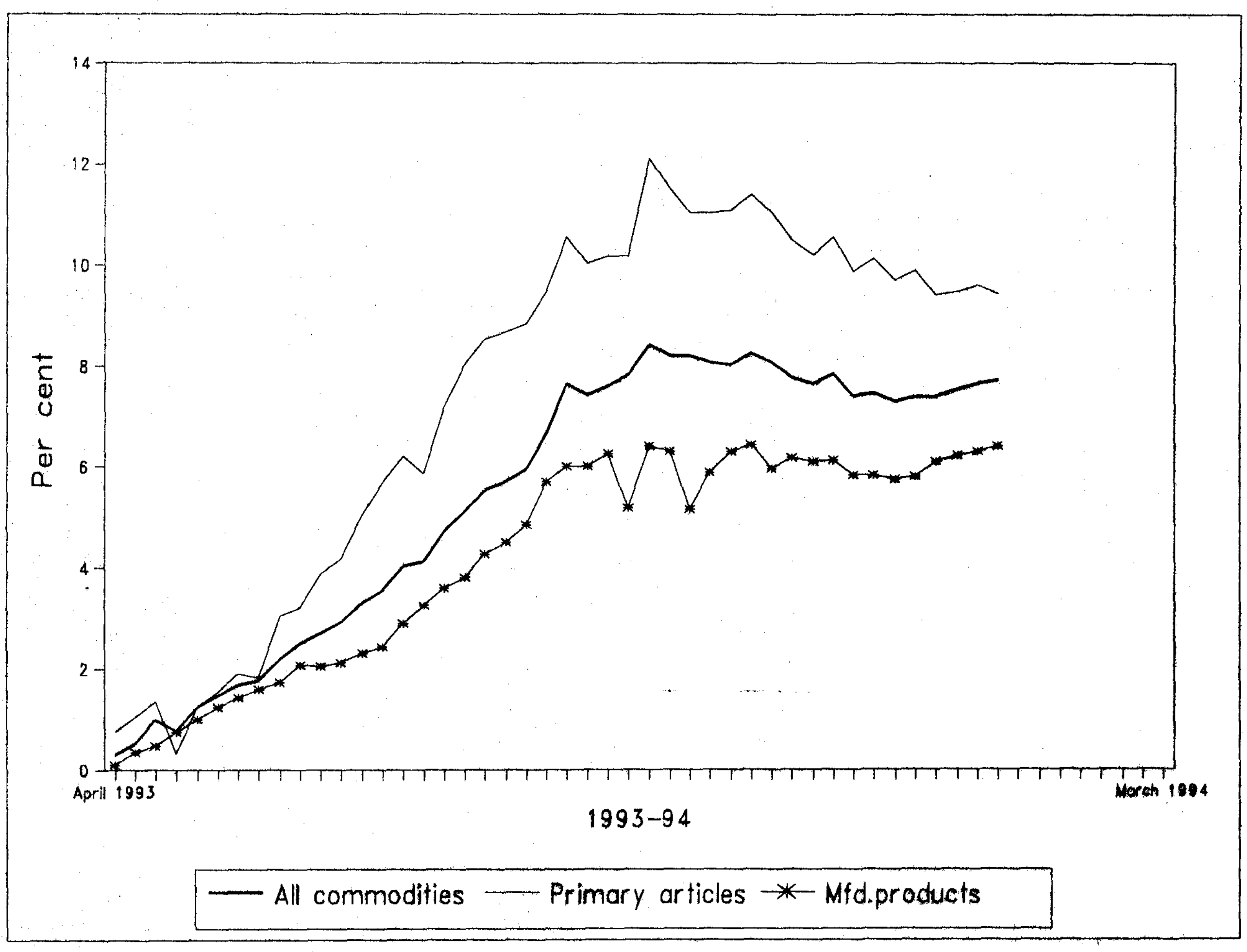


Fig.4.1 Financial-year changes in WPI
All commodities & major groups
Per cent
April 1992
March 1993
1992-93
All commodities
Primary articles
Mfd. products


Per cent
April 1993
March 1994
1993-94
All commodities
Primary articles
Mfd.products

crease of 7.6 per cent in the general price level so far in this fiscal year. The magnitude of change by groups and sub-groups, the detailed data for which is available till January 15, 1994 is shown in Table 4.2.

9 Much of the spurt in inflation is attributable to primary articles (Figure 4.1, Table 4.2) the prices of which rose by 9.5 per cent since April 1993, compared to 4.3 per cent rise in the corresponding period last year. Foodgrain prices rose by 13.1 per cent in 1993-94 as against a fall of 0.6 per cent last year. Prices of rice (up 8.4 per cent) and pulses (34.7 per cent) have also risen faster. Vegetable prices recorded a rise of 19.5 per cent, with potato prices rising by 31 per cent and onion prices by 96.4 per cent (Table 4.3). Price of tea has risen by 11.7 per cent since April. Coffee price rose by 26.7 per cent since April and is 28.3 per cent higher than a year ago. Non-food articles, which include sugarcane, oilseeds and fibres rose by 17.2 per cent as against a marginal rise of 1.4 per cent last year. The index for fuel, power and light sub-group rose by 8.8 per cent since April compared to 10 per cent last year. The reasons are, however, different; last year's rise was due to petroleum price revision while this year the main reason is the revision in electricity tariff by State Electricity Boards (SEB).

10 The rise in prices of manufactured products (6.2 per cent) since April, is somewhat lower than last year's 6.6 per cent. Among the products with higher rise, sugar was up by 11.5 per cent. If taken along with gur and khandsari, the price rise was 18.4 per cent (over March). Within the edible oil category, groundnut oil prices rose by 21.2 per cent and mustard/rapeseed oil prices by 17.4 per cent. Coconut oil prices declined by 22.3 per cent.

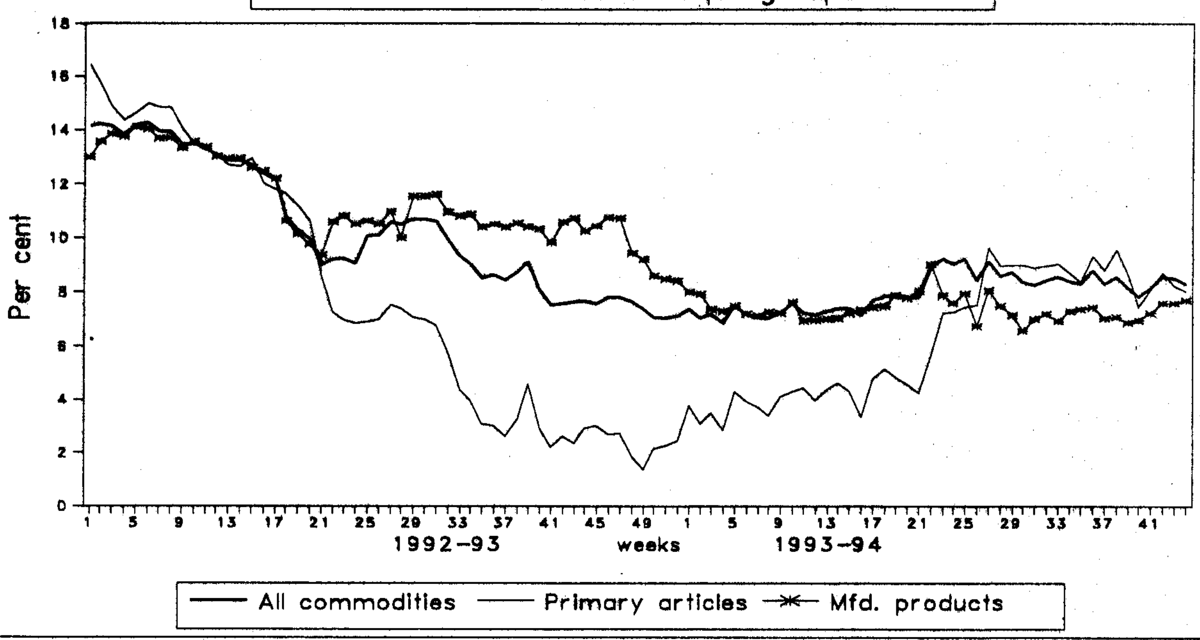
Administered Price Changes

11 After the decontrol/decanalisation of steel, non-ferrous metals, fertilisers (except Urea), the major items under administered price control are only petroleum products (though lubricating oil was decontrolled in November, 1993), coal and electricity. Increase in the prices of administered items (weight 15.93) since April, was 9.9 per cent compared to 8.3 per cent last year. As already stated, much of this year's increase in administered prices is attributed mainly to coal price hike and increase in electricity rates effected by SEBs'. Consideration must, therefore, be given to introducing greater competition in the coal sector for moderating sharp price increases in future. From February 1994, the direct impact of 6.3 per cent hike in price of petrol and 12 per cent increase in price of diesel is likely to push up the WPI by about 0.4 per cent. Indirect impact may even be higher.

Seasonal Price Changes

12 This year has been rather unusual. Increase in price of seasonal items (with a weight of 34.4) was 9.9 per cent since April as against 5 per cent last year. The unusually high seasonal rise may have been due to (i) speculative increase in August due to a short dry spell in Gujarat, Andhra Pradesh and Uttar Pradesh; (ii) higher minimum threshhold provided by Minimum Support Prices of major wage goods; and (iii) some clearly visible cost-push factors such as higher freight costs and withdrawl of exemptions for agro products by Railways. A more persist-

Fig.4.2 Annual rate of inflation in WPI
All commodities & major groups



ent factor is the higher growth of money supply , reserve money and net RBI credit to the Government.

Annual Inflation

All commodities

13 The WPI on January 15, 1994 reached 250.7 (provisional). This was 8.4 per cent higher than the WPI (final) for the same date last year (231.3). For the first 16 weeks of this financial year, up to July 17, the annual inflation rate (final) was between 6 and 7 per cent (Figure 4.2). An uptrend in the prices of primary articles beginning from August led to an increase in the WPI (final) growth rate to 8 per cent in August, the first time this had happened in 33 weeks. The inflation rate (final) even reached 9 per cent by mid-September. Thereafter the annual inflation rate has remained steady at over 8 per cent level.

Primary Articles

14 Primary commodities accounted for a higher annual inflation rate this year as their prices rose 8.1 per cent compared to a rise of 2.5 per cent last year. Within the primary group of commodities, foodgrains recorded a higher rise of 11.6 per cent on annual point-to-point basis compared to a decline of 2.1 per cent last year. This is rather surprising given the good harvest. Much of this increase was on account of 8.1 per cent rise in wheat price and 6.9 per cent rise in price of rice. An upward revision of issue prices under PDS for wheat (from Rs.280 to Rs. 330 per quintal) and for rice (from Rs. 377 to Rs. 437 per quintal) in January 1993 and the higher minimum support price (MSP) payable to farmers for wheat and rice were apparently the main factors for this uptrend. Thus, administered prices operating under Public Distribution System (PDS) and the MSP (or procurement price) provided a floor below which foodgrain prices could not have fallen even though improved production and supply situation warranted a price fall. Vegetable prices rose by 39.1 per cent over last year, with onion prices rising by 134.7 per cent by January 15 over same date last year. Price of tea was up by about 7.5 per cent and coffee by about 28.3 per cent over last year. Eggs, fish and meat was up by 9.8 per cent but condiments and spices were down by about 24 per cent. Fruit prices also showed a decline of 12 per cent over last year (Table 4.3).

15 The annual inflation in non-food articles component of the primary groups was 14 per cent this year, compared to a fall of 4.6 per cent last year. Very high rise was seen in raw jute (120.8 per cent), raw cotton (41 per cent), rape and mustard seed (16.7 per cent) and sugarcane (11.7 per cent). Even though the revision in the petroleum product prices was reflected in the index in September 1992, changes in crude oil prices were not fully reflected in the index of petroleum prices last year. However, these changes were reflected this year and hence the minerals sub-group which includes crude petroleum and natural gas was up by 16.5 per cent.

Fuel, Power, Light and Lubricants

16 Coal prices are still administered and this year coal price revision raised the WPI of coal by about 18 per cent. There was a major hike in electricity rates by most of the SEBs' pushing up the index of electricity prices by about 38 per cent. Hence the fuel group registered an annual inflation rate of 13.9 per cent. Besides this, the increase in price of petrol and diesel in February 1994 is likely to raise further the all commodities WPI by about 0.4 per cent.

Manufactured products

17 Manufactured products was the only major sub group which registered a lower inflation rate of 7.5 per cent as on Janurary 15, 1994 as against 9.5 per cent last year (Table 4.3). The increase may have been even lower except for the unprecedented 29.7 per cent price rise in sugar, khandsari and gur. Even though price of groundnut oil rose by over 11 per cent, other oils were steady or declined and hence average price of edible oils group was only slightly higher (0.4 per cent) compared to 8.4 per cent decline last year. Textiles registered over 11 per cent increase and leather products were up by 9.4 per cent. There was decline in price of non-ferrous metals but iron and steel prices were up by 9 per cent . Prices of machinery and machine tools showed an increase of 1 per cent. Transport equipment and parts rose by a modest 2.3 per cent. Overall, the rise in manufactured goods prices was rather modest at 7.5 per cent. Thus the uptrend seen in the annual inflation rate since August this year was driven mainly by the rise in primary product prices.

Contribution to Inflation by Commodity Groups

Primary Articles

18 This group accounted for 40.4 per cent of the increase in the general price level since April 1993 compared to only 23.4 per cent for the same period last year (Table 4.4). Share of foodgrains in total price rise since April 1993 was 14 per cent this year as against a drop of 1 per cent last year. Non-food articles (which include sugarcane, oilseeds and fibres) contributed 22.1 per cent to inflation in financial year 1993-94. One can, therefore, conclude, that relatively higher rise in foodgrains as also in non-food articles (oilseeds and fibres) this year was the main reason for the sharp rise in primary articles.

19 The contribution of primary articles to the annual point-to-point inflation rate (8.4 per cent as on January 15, 1994) was, 31.6 per cent compared to 11.7 per cent

TABLE 4.3

VARIATION IN WHOLESALE PRICES OF SELECTED COMMODITIES

(Per cent)

Items/groups	Weight in WPI (%)	Whole Year 1992-93	End-March to 16 Jan 1992-93	End-March to 15 Jan 1993-94	Inflation rate Jan.15, 1994	Share: Whole Year 1992-93	Share: End-March to 16 Jan 1992-93	Share: End-March to 15 Jan 1993-94	Share: Pt-to-Pt Jan.15, 1994
1	2	3	4	5	6	7	8	9	10
ALL COMMODITIES	**100.00**	**7.02**	**6.20**	**7.55**	**8.39**	**100.00**	**100.00**	**100.00**	**100.00**
I. PRIMARY ARTICLES	**32.30**	**3.02**	**4.35**	**9.47**	**8.08**	**14.36**	**23.45**	**40.38**	**31.63**
(A) Food articles	17.39	5.38	6.28	5.03	4.14	15.57	20.61	13.34	10.04
(a) Food grains	7.92	-1.93	-0.62	13.08	11.58	-2.43	-0.88	14.04	11.43
1. Cereals	6.82	-2.73	-0.99	9.28	7.36	-2.94	-1.21	8.45	6.19
(i) Rice	3.69	-0.20	1.18	8.42	6.94	-0.12	0.79	4.32	3.27
(ii) Wheat	2.25	2.65	3.78	9.27	8.08	0.90	1.45	2.80	2.24
2. Pulses	1.09	2.68	1.42	34.74	36.42	0.48	0.29	5.60	5.26
(b) Fruits & vegetables	4.09	9.66	3.85	-4.18	1.18	6.31	2.85	-2.60	0.63
(i) Fruits	2.80	7.53	5.61	-13.62	-12.05	3.59	3.03	-6.06	-4.78
(ii) Vegetables	1.29	15.45	-0.86	19.45	39.11	2.73	-0.17	3.45	5.41
(c) Milk	1.96	9.63	10.91	2.44	1.26	3.09	3.96	0.75	0.35
(d) Eggs, fish & meat	1.78	17.07	17.72	10.41	9.80	4.63	5.45	2.87	2.47
(e) Condiments & spices	0.95	2.95	16.41	-14.11	-24.04	0.83	5.20	-3.53	-6.17
(f) Other food articles	0.69	27.87	31.65	14.33	11.05	3.16	4.07	1.81	1.30
(B) Non-food articles	10.08	-1.41	1.36	17.20	14.00	-2.11	2.31	22.11	16.78
1. Fibres	1.79	-10.46	-13.28	41.23	45.82	-2.82	-4.06	8.66	8.45
2. Oilseeds	3.86	-8.71	-1.53	15.37	6.96	-4.87	-0.97	6.82	3.02
(C) Minerals	4.83	2.79	1.48	15.01	16.49	1.01	0.61	4.86	4.78
II. FUEL, POWER, LIGHT & LUBRICANTS	**10.66**	**15.18**	**10.02**	**8.78**	**13.88**	**22.57**	**16.90**	**13.08**	**17.91**
III. MANUFACTURED PRODUCTS	**57.04**	**7.89**	**6.63**	**6.23**	**7.48**	**63.00**	**60.00**	**46.67**	**50.28**
(A) Food products	10.14	6.76	5.76	10.20	11.25	9.41	9.09	13.19	13.07
1. Sugar,khandsari & gur	4.06	27.93	16.80	18.41	29.70	11.52	7.85	8.44	11.28
(i) Sugar	2.01	13.90	3.53	11.48	22.64	3.10	0.89	2.54	4.12
2. Edible oils	2.45	-7.05	-1.25	6.71	0.43	-2.90	-0.58	2.23	0.14
(i) Rape & mustard oil	0.28	-17.20	-9.98	17.44	8.02	-0.72	-0.47	0.53	0.24
(ii) Groundnut oil	0.53	-22.92	-15.88	21.24	11.08	-1.95	-1.53	1.21	0.63
3. Oilcakes	0.43	-7.11	-0.34	19.74	11.60	-0.47	-0.03	1.06	0.61
(B) Others									
1. Textiles	11.55	5.46	2.18	7.63	11.09	8.15	3.68	10.43	13.34
2. Cement	0.86	-3.55	-7.88	-3.96	0.55	-0.43	-1.09	-0.41	0.05
3. Iron & steel	2.44	12.18	8.80	5.74	9.02	4.19	3.43	1.93	2.67
4. Fertilisers	1.75	42.55	42.55	-0.05	-0.05	6.21	7.04	-0.01	-0.01
5. Non-ferrous metals (other than aluminium)	0.57	5.89	4.58	-1.65	-0.42	0.70	0.62	-0.18	-0.04
ADMINISTERED ITEMS	**15.93**	**12.41**	**8.29**	**9.88**	**14.06**	**23.02**	**17.43**	**17.92**	**22.28**
1. Petroleum crude & natural gas	4.27	1.87	1.87	19.36	19.36	0.53	0.60	4.85	4.40
2. Petroleum products (Mineral oils)	6.67	18.84	18.03	1.27	1.96	15.26	16.55	1.06	1.48
3. Coal mining	1.26	12.72	0.00	4.61	17.91	3.10	0.00	1.10	3.45
4. Electricity	2.74	9.81	0.87	26.27	37.46	4.26	0.43	10.90	12.95
5. Urea N-content	0.99	-1.63	-1.63	0.00	0.00	-0.14	-0.15	0.00	0.00
Seasonal items@	**34.41**	**4.09**	**5.04**	**9.86**	**8.87**	**21.61**	**30.17**	**47.17**	**38.85**
Raw materials*	**14.91**	**-0.59**	**1.39**	**16.76**	**14.49**	**-1.10**	**2.92**	**26.96**	**21.56**

@ Seasonal items include food articles, non-food articles, sugar, khandsari & gur, edible oils and oil cakes.
* Raw materials include non-food articles and minerals.

TABLE 4.4
Contribution to Inflation, per cent share by Commodity Groups (as on January 15, 1994)

(per cent)

	Group/ subgroup	Weight (Per cent)	Financial year 1993-94	Financial year 1992-93	Annual 1993-94	Annual 1992-93
	1	2	3	4	5	6
	Rate of Inflation		**7.6**	**6.2**	**8.4**	**7.3**
	Contribution to Inflation by sub-groups		Per cent Share			
A	**All commodities**	100.00	100.0	100.0	100.0	100.0
I	**Primary articles**	**32.30**	**40.4**	**23.1**	**31.8**	**11.7**
	Food articles	17.39	13.3	20.6	10.0	18.3
	Food grains	7.92	14.0	-0.9	11.4	-2.6
	Rice	3.69	4.3	0.8	3.3	3.0
	Wheat	2.25	2.8	1.4	2.2	-2.4
	Fruits & Vegetables	4.09	-2.6	2.8	0.6	5.7
	Non food articles	10.08	22.1	2.3	16.8	-7.1
II	**Fuel, power etc.**	**10.66**	**13.1**	**16.9**	**17.9**	**17.1**
III	**Manufactured products**	**57.04**	**46.7**	**60.0**	**50.3**	**71.2**
	Food products	10.14	13.2	9.1	13.1	7.2
	Sugar	2.01	2.5	0.9	4.1	2.4
	Edible oils	2.45	2.2	-0.6	0.1	-3.6
B.	**Essential commodities**	**21.77**	**31.8**	**16.6**	**30.0**	**11.8**

last year. Contribution of foodgrains was about 11.4 per cent to total inflation as against a decline of 2.6 per cent last year. Non-food articles contributed 16.8 per cent to this year's annual inflation rate thus providing the main thrust for the primary articles to rise this year, though the magnitude of rise was more pronounced during the financial year.

Fuel, Power, Light and Lubricants

20 This group contributed 13.1 per cent to inflation since April compared to 16.9 per cent in the corresponding period last year. Much of this year's increase was due to increase in electricity prices effected by most of the SEBs'. The price index for electricity is up by a steep 37.5 per cent over January last year, and 26.3 per cent since April 1993 (Table 4.3).

Manufactured products

21 This group contributed 46.7 per cent to inflation since April as against 60 per cent last year. On annual basis, manufactured products accounted for half the rise (50.3 per cent) in this year's general price level compared to 71.8 per cent in 1992-93.

Essential commodities

22 The group of 30 essential commodities which have a weight of 21.77 per cent in WPI accounted for 31.8 per cent of total inflation since April 1993 as against only 16.6 per cent for the same period last year (Table 4.4). Last year, primary articles including most of the foodgrains had shown an absolute decline in prices but this year, the prices of almost all essential commodities rose except jowar, chillies, coconut oil and laundry soap. Comparable CPI (IW) and WPI based price indices for 30 essential commodities show (Table 4.5) that annual rate of inflation in essential commodities (November 1993 over November 1992) was higher this year (13.2 per cent) based on WPI compared to 5.7 per cent last year. (Fig 4.3). Retail prices (CPI), however, registered 9.7 per cent inflation this year, compared to 5.3 per cent in 1992. Since April, 1993, however, both retail (CPI) and wholesale prices (WPI) for the 30 essential commodities were higher this fiscal year compared to last year.

Fig 4.3 Annual rate of inflation
(WPI & CPI) Essential commodities

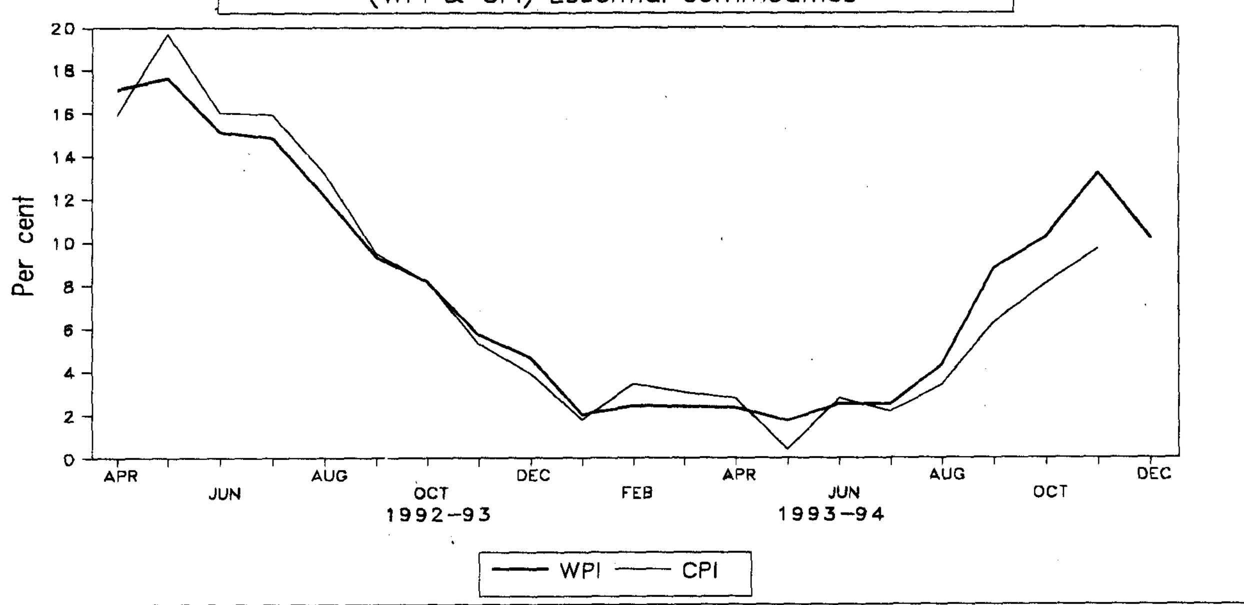


TABLE 4.5

ANNUAL RATE OF INFLATION IN ESSENTIAL COMMODITIES

(Per cent)

Commodity	Weight CPI (%)	Weight WPI (%)	Financial Yr. changes Nov./March 1993-94 CPI	1993-94 WPI	1992-93 CPI	1992-93 WPI	Annual rate of inflation Nov./Nov. 1993 CPI	1993 WPI	1992 CPI	1992 WPI
1	2	3	4	5	6	7	8	9	10	11
GENERAL INDEX	**100.00**	**100.00**	**9.1**	**7.9**	**6.6**	**6.4**	**8.6**	**8.6**	**8.4**	**9.1**
Rice	12.45	3.69	5.5	13.9	6.0	2.6	5.4	11.0	15.3	12.5
Whole wheat	4.43	2.25	5.7	8.4	-3.7	-6.9	7.8	13.7	16.8	9.4
Wheat atta	1.75	0.76	10.2	6.3	-9.4	1.4	7.9	6.0	8.7	14.4
Jowar	0.46	0.42	-2.2	-10.4	5.5	-6.5	-21.7	-22.1	6.2	11.9
Bajra	0.16	0.18	9.1	14.9	-33.9	-28.1	7.1	5.9	-20.8	-7.7
Moong	0.53	0.20	4.5	9.5	5.0	-8.2	10.2	21.2	13.1	-1.5
Gram	0.08	0.41	43.2	49.0	9.7	9.2	66.8	76.7	5.8	8.5
Masur	0.41	0.05	9.5	20.0	-0.4	2.0	3.4	8.9	-8.5	-15.3
Arhar	1.69	0.27	13.3	16.5	1.1	-5.1	10.5	18.8	-8.7	-10.6
Urad	0.35	0.15	4.4	21.1	0.5	-7.4	-1.7	12.0	-2.1	-11.5
Coconut oil	0.09	0.17	-16.8	-18.7	10.7	3.4	-20.0	-20.9	-8.1	1.8
Groundnut oil	2.27	0.53	24.9	30.2	-5.3	-6.7	4.5	9.2	-14.3	-16.1
Mustard oil	1.44	0.28	13.2	10.7	-0.6	-5.3	-0.3	-0.9	-12.5	-15.5
Vanaspati	0.78	0.52	13.1	8.0	-2.6	-2.6	-0.9	-8.8	-12.5	-11.1
Goat meat	2.12	0.52	4.0	5.8	6.9	9.0	9.5	10.0	11.2	13.9
Fresh fish	1.31	0.51	3.8	13.0	6.8	21.7	14.5	19.7	11.8	34.5
Milk	5.52	1.96	6.9	3.8	9.0	10.7	7.1	3.7	15.0	13.2
Salt	0.15	0.04	3.9	4.9	2.3	-2.6	7.1	12.5	4.7	4.0
Chillies	0.63	0.32	-21.1	-21.5	-0.8	-7.8	47.6	-52.4	-7.5	-22.1
Onions	0.67	0.16	106.5	75.0	43.7	54.6	93.2	179.2	-29.5	-34.0
Potatoes	1.23	0.47	94.0	102.3	29.8	52.5	41.3	30.8	-29.9	-31.4
Sugar	2.24	2.01	3.1	6.7	3.3	3.3	19.3	17.0	12.4	12.4
Gur	0.47	1.75	41.5	39.5	35.0	31.6	47.9	51.7	18.1	13.7
Tea leaves	0.82	0.56	15.1	-3.5	63.6	11.5	23.8	20.0	2.2	6.7
Soft coke	0.80	0.35	3.3	4.8	3.4	0.0	6.5	20.4	12.4	26.1
Kerosene oil	1.82	0.87	1.1	0.0	0.2	0.0	1.8	0.0	1.7	0.8
Matchboxes	0.23	0.23	4.4	8.2	8.1	4.5	8.5	13.1	12.0	4.5
Washing soap	1.33	0.59	4.0	-6.2	3.1	3.7	3.9	-6.2	5.8	4.4
Long cloth	0.20	0.36	11.0	2.6	12.0	-1.6	7.6	9.4	14.2	10.2
Dhoties	0.35	1.19	11.3	10.5	8.4	3.6	8.3	12.4	8.7	9.7
Sarees	2.05		12.3		9.3		11.7		9.3	
Essential commodities	**48.83**	**21.77**	**10.8**	**12.8**	**4.9**	**4.4**	**9.7**	**13.2**	**5.3**	**5.7**

Public Distribution System

23 Essential commodities such as rice, wheat, edible oils and kerosene are distributed through the PDS at prices generally lower than the market price, through an elaborate network of fair price shops (FPS). As on March 31, 1993 there were more than 4 lakh FPSs in the country; 3.13 lakh in rural areas and 96 thousand in urban areas. On an average, one fair price shop is required to cover a population of 2000. A scheme to revamp the PDS was launched on January 1, 1992 in 1752 backward and remote blocks falling in drought prone areas, desert areas, hill and tribal areas. In these areas, additional commodities like tea, soap, pulses and iodised salt are reportedly distributed by State Governments.

24 In order to ensure increased availability of foodgrains in revamped PDS (RPDS) areas, an additional quantity of 2 million tonnes of foodgrains (rice and wheat) has been earmarked for allocation to States/UTs which is a net addition to the allocations already being made to these areas by the States.

25 Foodgrains meant for distribution in the RPDS areas are issued at prices which are Rs.50 per quintal lower than the Central Issue Prices (CIP) for normal PDS. The State Governments were advised to ensure that the retail prices of these commodities in these blocks are not higher than CIP by more than 25 paise per kg. As of today, imported oil is allocated to States at Central Issue Price of Rs.22000 per tonne for bulk and Rs.25000 per tonne in 15 kg. tin. Consumer prices recommended to the States are Rs.25 per kg. for bulk supply and Rs.27.75 per kg. for supply in 15 kg. tins (excluding local taxes).

26 Allocation of quantities of foodgrains and other commodities to the State Governments and UTs for public distribution is based on past record of offtake and population norms. These allocations have been maintained at reasonable levels over the years. In 1992-93, nearly 16.77 million tonnes of foodgrains was distributed against 18.73 million tonnes in the previous year. During 1993-94, (April to December 1993) 10.8 million tonnes of foodgrains (rice 6.8 million tonnes and wheat 4.0 million tonnes) was distributed under PDS (Table 4.6).This is less than the quantity earmarked for allocation . Offtake in wheat particularly has been poor. Steps have been initiated to increase/ improve the allocation and availability of foodgrains in RPDS areas.

TABLE 4.6
Foodgrain Allocation and Offtake under Public Distribution System

(Million tonnes)

Year	Wheat allocation	Wheat offtake	Rice allocation	Rice offtake
1	2	3	4	5
1990-91	9.50	7.09	9.61	7.87
1991-92	10.36	8.78	11.36	9.94
1992-93	9.24	7.41	11.48	9.36
1992 (Jan-Oct)	7.93	7.00	9.32	8.04
1993 (Jan-Oct)	7.71	4.60	10.28	7.48
1993 (Jan-Dec)	9.29	5.81	12.31	9.12
1993-94 (Apr-Dec)	7.01	4.04	9.29	6.76

27 Even though the supply of PDS items is supplemental in nature, it has helped in protecting the real purchasing power of the vulnerable sections of the population. This is particularly so during periods in which market prices of foodgrains are higher or when availability of essential commodities becomes difficult. There is, however, a growing realisation that the PDS as it has now evolved and grown, may actually be serving only a limited proportion of vulnerable poor and that there are large variations in the coverage between the States. This aspect and the increasing subsidy burden on FCI operations should receive greater attention.

28 Two major aspects of PDS that need a national consensus are: (i) the norms of excluding the non-poor and (ii) limiting the open-ended subsidy on account of FCI operations. Various exclusion criteria for improved targetting of poor and vulnerable sections have been suggested. Exclusion of income tax payers, salaried employees in Government, public and private sector, registered shop-owners, sales tax assessees, telephone owning families, and residents of posh housing colonies, etc. are some of the suggested criteria.

29 Food subsidy budget for 1993-94 is Rs. 3000 crores. Actual amount may turn out to be twice this amount due to large volume of procurement, higher carrying cost and lower off-take from PDS in 1993-94. Subsidies arise from the difference between the issue price and the economic cost of FCI. Whereas elimination of food subsidy is neither desirable nor feasible in short and medium term, there is strong reason to contain it. Some policy changes are, therefore, necessary. One possibility could be to place a ceiling on quantity sold at below cost. For example, if total subsidy is limited to a fixed quantum of annual allocation, say 16 million tonnes, the States would then have the choice to procure additional quantities at the economic cost or at the prevailing market prices.

Procurement and Distribution of foodgrains

30 There was a record procurement of 12.83 million tonnes of wheat in 1993-94 compared to just half that quantity procured in the preceding year. The central pool carried over 3 million tonnes of wheat stock in excess of the minimum buffer stock requirement as on October, 1993 (Table 4.7). At the beginning of 1994 the emerging surplus of wheat stock (3.4 million tonnes) due to lower wheat off-take from the PDS was imposing a fiscal burden on the FCI. The wheat offtake of 4.6 million tonnes during Jan-Oct 1993 was 34 per cent lower than last year. For rice, it was 7 per cent lower (Table 4.6) for the same period. Rice procurement had reached a peak of 13.05 million tonnes in 1992-93 (Table 4.8). So far in 1993-94 (from October 1993) rice procurement as on February 1, 1994 had reached 10.9 million tonnes, which was 1.56 million tonne more than the corresponding period last year. Apparently this year, rice procurement may even exceed preceding year's level. This is likely to result in carry over stocks of both wheat and rice far exceeding the minimum buffer stock norms (Table 4.7).

TABLE 4.7
Central Pool Stocks and Minimum Buffer Stock Norms

(Million tonnes)

Beginning of month	Wheat Minimum norm	Wheat Actual Stock	Rice Minimum norm	Rice Actual Stock	Total Minimum norm	Total Actual Stock
1	2	3	4	5	6	7
April - 1992	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	4.5	6.0	5.8	16.6	10.4
January-1993	7.7	3.5	7.7	9.5	15.4	13.2
April	3.7	3.0	10.8	11.0	14.5	14.0
July	13.1	15.2	9.2	10.4	22.3	25.6
October	10.6	13.9	6.0	8.1	16.6	22.0
January-1994	7.7	11.1	7.7	12.0	15.4	23.1

ernment (NRCG or monetised deficit). The increase in reserve money, in turn leads to an increase in money supply and inflation over a period of time.

37 During 1992-93, it was possible to control inflation through a number of monetary, fiscal and other measures. The reduction in the fiscal deficit from 8.4 per cent in 1990-91 to 5.9 per cent in 1991-92 and further to 5.2 per cent in 1992-93 (R.E) helped contain aggregate demand. This also permitted a reduction in budget deficit and Central Government borrowing from the RBI which helped in controlling the growth of reserve money and money supply. The liberalisation of imports, with a view to increasing production and easing supply bottlenecks, combined with expanding domestic stocks of wheat and rice helped to reduce inflationary expectation.

38 The fiscal deficit of the Centre contracted sharply till February 1993, and started growing thereafter. The increase in inflation rate from August, must, therefore be seen in the light of the re-building of these inflationary pressures. The principal reason for the failure to meet last year's deficit reduction target was that excise and customs revenue both suffered a severe set-back during the disturbances towards the end of 1992-93.

39 At the time of formation of the 1993-94 budget there was an expectation that these were temporary set backs which would be reversed by March. Expectations on the export front, which was similarly disrupted during December 1992 to February 1993 period, have come true. The recovery of industrial growth and consequently of imports has, however, been delayed for a longer period thus reducing the base for indirect taxes. An additional reason for lower customs revenue collections is that the value of imports in rupee terms have been relatively low because of the strength of the rupee.

40 Much of the slippage in the fiscal deficit in 1993-94 is also attributable to heavy pressures on expenditures as reflected in large budgetary supplementaries on both Plan and non-plan accounts.

41 The latter part of the year also witnessed the rapid build-up of foreign exchange reserves, which contributed to the growth of reserve money and thus the potential for further inflationary pressures.

Supply Management and Policy Options

42 The support price policy for essential agricultural products has to maintain a delicate balance between providing incentives for raising production and protecting the interests of consumers. It is the Government's policy to protect farmers against sharp falls in market prices and to provide incentives for sustaining and increasing production. Recent increase in minimum support price of foodgrains (Table 4.11) have departed from the earlier practice of marginal increases in MSP. This is reflected in a narrowing during 1992 and 1993, of the differential between the open market and procurement prices. The large initial increase in MSP of wheat and rice in 1992-93 may, however, have contributed to inflation. Substantial increases in procurement prices of rice and wheat in 1992-93 and 1993-94 seasons have acted as a floor for market prices (as was the case in wheat during April-June, 1993). They have also led to an upward revision of the issue prices for PDS.

43 Revision of MSP should now be guided by the realities of the market and the fair terms due to the farming community. Future MSP increases should, therefore, tend to be broadly in line with inflation rates. These prices must also take cognisance of global prices so as to provide signals to domestic producers to strive towards international competitiveness. Whereas India is almost globally competitive in wheat and rice and possibly cotton it is not so in edible oils. With the primary product prices rising in recent weeks, extra caution is required to ensure that support prices for sensitive commodities reflect the market realities. Removal of restrictions on the movement of agricultural goods at the State level, such as on edible oils, cotton and milk, would help reduce price differentials and inflationary expectations even further.

44 The easing of the foreign exchange constraint makes imports of essential commodities an essential ingredient of short term supply management policy for basic food products(wage goods). This policy proved very successful in 1992-93 when wheat was imported to supplement domestic stocks. Similiarly, the recent decision to import one lakh tonne of edible oils to offset the spurt in domestic prices resulting from poor monsoons in Saurashtra along with the expectation of an offsetting increase in the soyabean crop has moderated prices after the sharp rise in July-August. The edible oil situation is now comfortable, but the import option continues to be available.

45 Another important element of supply management policy is open market sale of public stocks of foodgrains to moderate price increases in consumption centres. Such a policy is only feasible when there are more than adequate stocks of the good as is currently true for wheat and rice. The Government has already authorised sale of up to 3 million tonnes of wheat if the prices rise significantly during the coming months. Unloading of wheat in the open market now by FCI should be effective in preventing lean season price spurt of wheat and wheat products. Open market sale of rice by FCI from January 1994 is also likely to moderate the price rise in rice. Procurement has in the current season as also in the last season been good, and stocks are adequate to meet food security needs and still

leave a sizable quantity for free market sale. The pre-harvest spurt in prices (August 1993) for reasons considered earlier, is likely to be largely self-correcting. Restrictions on movement of rice by States do, however, magnify temporary regional supply-demand disruptions, and make the economy more vulnerable to inflation. States should be persuaded to drop such restrictions. Similarly, though international markets in rice are relatively thin, delicensing of imports could have a dampening effect on inflation even if actual imports are relatively small.

46 For preventing excessive rise in prices of sugar, the policy of enhancing periodic releases of non-levy sugar is the accepted policy. Sugar output in 1993-94 is estimated so far at 107 lakh tonnes, though industry estimates the likely output at 112 lakh tonnes. Either way, 1993-94 would end up with a considerably reduced stock which may result in speculative increases in sugar prices. Given the comfortable foreign exchange position, the option of importing some quantity of sugar during 1994 remains open.

Outlook

47 In last year's Economic Survey the end of the year inflation rate had been forecasted at 8 per cent but actually it turned out lower at 7 per cent. This rate was more or less maintained through July 1993. But the trend was reversed in August and by September the inflation rate had peaked at 8.8 per cent. Since then, the rate has shown some deceleration in the context of good prospects for rabi and unusually high foodgrain stocks, which have accorded the Government considerable flexibility to moderate increases in prices of wage goods through open market sales. Though the annual inflation rate stood at 8.2 per cent (provisional) on January 29, 1994, the underlying fiscal and monetary situation was fuelling inflationary potential. In view of this and the administered price increases at the end of January and early February, control of inflation once again emerges as an area of priority concern. In the coming year, containment and reduction in the rate of inflation will depend on measures for containing the fiscal deficit and reducing the potential for monetary expansion, recovery of industrial production and the management of the supply of foodgrains and other key essential commodities.