# 5

# PRICES AND DISTRIBUTION

Inflationary pressures which had resurfaced from mid-October 1994 started decelerating after January 1995, when the annual inflation rate had peaked at 12 per cent. By mid April, it had declined to single digit level and, at the close of 1995, it decelerated steeply to touch a low of 6 per cent. January 1996 saw the inflation rate decline further to 5 per cent (provisional). Reasonably good rainfall and comfortable food stock situation together with liberal imports of some essential commodities to make up for the shortfall in domestic supply aroused expectations of a declining trend in the prices. But these expectations were sustained largely by the sharp drop in monetary growth which curbed excessive demand side pressures on inflation.

2. The recurrence of inflationary undercurrents after the second half of the last financial year, 1994-95, was ascribed mainly to the pressures generated by expansion in aggregate demand fostered by excess liquidity in the system from the spill-over effect of higher fiscal deficit in 1993-94 and, high growth of monetary variables. Despite the measures taken for curbing the automatic monetisation of fiscal deficit and renewed stress on fiscal stability, the generation of excess liquidity in the system continued mainly for the unique and non-traditional reason of a strong build up of foreign exchange reserves through 1994-95. All this resulted in the inflation rate spiralling once again towards double digit level by December 1994 and thereafter upto the end of fiscal 1994-95.

3. A number of monetary policy measures were taken by Reserve Bank of India to contain the growth of money supply, namely, (1) increase of Cash Reserve Ratio (CRR) from 14 to 15 per cent; (2) imposition of CRRs on FCNR(B) and Non Resident Non Repatriable(NRNR) accounts; (3) lowering of interest rate on NRE accounts; (4) phasing out of exchange guarantee by Government under the FCNR scheme to moderate the foreign exchange inflow through Non Resident deposits; and (5) a hike in ceiling interest rate on domestic term deposits by one percentage point. Apart from efforts to contain demand side pressures, supply side policy was geared to ensure availablity of key commodities in short supply like cotton, sugar and edible oils through import, besides vigorous open market sale from central food stocks which helped dampen further price escalation in foodgrains. By the end of March 1995, the inflation rate had dropped to 10.4 per cent.

4. The movement of wholesale prices during the past five years 1991-92 to 1995-96, throws up three phases of very distinct growth paths. The first phase represented escalating inflationary path with annual inflation rate attaining a peak level of over 16 per cent in September, 1991, that is just about the time the new economic reform policies became operational. The next phase saw a gradually decelerating growth path with inflation rate touching a low of 6.9 per cent in April-May 1993. The third phase (1994-95) exhibited again an uptrend in growth of prices, but the inflationary undercurrent was not as strong as it was in the first phase (1991-92) and it peaked at about 12 per cent by January 1995 (Table 5.1 and Fig 5.1). We are now at the beginning of fourth phase with inflation rate decelerating to about 5 per cent level in January 1996.

## Annual Inflation

5. There was a continuous, though gradual, decline in inflation rate based on movement of wholesale prices - from 10.4 per cent at the beginning of the current financial year, to 8.11 per cent (final) by the end of July 1995. The inflation rate hovered around this level through November 1995 but thereafter, dropped further to 6 per cent (provisional) by the end of December 1995 as against 11.3 per cent in the corresponding period last year (Table 5.2).

## Box 5.1
## Monitoring Movement in Prices

- Price movements are recorded by two sets of index numbers. Wholesale Price Index (WPI) Numbers reflect movement in wholesale prices. The present series with base 1981-82 covers the movements in wholesale prices of 447 commodities of all traded goods in Primary Sector, Fuel and Power Sector and Manufacture Sector by a suitably designed weighting pattern. The series is compiled/constructed on weekly basis.
- The movement in retail prices affect the cross-section of population differently and are, therefore, recorded by three distinct series of Consumer Price Indices for (1) Industrial Workers, CPI-IW, with base 1982; (2) Urban Non-Manual Employees, CPI-UNME, with base 1984-85; and (3) Agricultural Labourers, CPI-AL, with base 1960-61. CPI-IW covers 260 commodites, CPI-UNME 180 commodities and CPI-AL 60 commodities, grouped as (1) food; (2) pan, supari, tobacco and intoxicants; (3) housing ; (4) fuel and light; (5) clothing, bedding and footwear; and (6) a number of services grouped as miscellaneous.
- The existing CPI-AL series with base 1960-61 in vogue since 1964, is being replaced by a new series with base 1986-87 effective November, 1995. This series will thus reflect more realistically the structural changes in the consumption behaviour of the rural area population including agricultural labourers.

6. The most remarkable phenomenon this year was that growth in prices of primary articles was only 4.4 per cent (December 1995/December 1994) as against 14.4 per cent in the same period of preceding year (Table 5.2). The fuel, power, light sub-sector representing mostly energy products whose prices are still administered, recorded a modest growth of just 1.1 per cent at the end of 1995 (December 1995 over December 1994) thus contributing very little to current year's inflation.

7. The manufactured sector recorded an inflation rate of 8 per cent by the end of December 1995 over December 1994 as against 10.8 per cent in the corresponding period of previous year. Primary articles contributed 24.5 per cent to the annual growth of prices (6 per cent) whereas manufactured products group contributed a disproportionately large share of about 74 per cent, solely because this group registered 8 per cent growth in prices compared to only 4.4 per cent growth in primary articles. Thus this year's sharp deceleration in the annual inflation rate should therefore be seen more as a result of stronger influence of much slower growth of prices in primary articles (Table 5.2).

8. Among primary articles major part of the annual growth has been contributed by food articles (14.2 per cent) attributed to the sharp rise in the prices of fruits and vegetables. Among manufactured products the key products that recorded a higher

### TABLE 5.1
### Annual Rates of Inflation based on WPI and CPI (point-to-point)

(per cent)

| Year | Month | WPI | CPI (IW) | CPI (UNME) | CPI (AL) |
|---|---|---|---|---|---|
| 1991-92 | Apr | 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 |
| | Aug | 16.1 | 14.2 | 15.1 | 18.3 |
| | Sept | 16.3 | 15.7 | 15.7 | 23.1 |
| | Oct | 14.7 | 14.4 | 14.2 | 23.1 |
| | Nov | 14.7 | 13.6 | 14.0 | 21.1 |
| | Dec | 14.3 | 13.1 | 13.3 | 21.7 |
| | Jan | 13.6 | 12.9 | 12.4 | 20.4 |
| | Feb | 12.9 | 13.4 | 13.0 | 20.6 |
| | Mar | 13.6 | 13.9 | 13.6 | 21.9 |
| 1992-93 | Apr | 13.8 | 14.4 | 13.5 | 22.6 |
| | May | 13.8 | 14.7 | 14.0 | 23.9 |
| | Jun | 13.0 | 12.9 | 13.2 | 21.9 |
| | July | 11.7 | 13.1 | 12.8 | 20.6 |
| | Aug | 9.4 | 11.5 | 10.9 | 19.0 |
| | Sept | 9.6 | 10.0 | 10.9 | 14.1 |
| | Oct | 10.6 | 9.4 | 10.8 | 11.0 |
| | Nov | 9.1 | 8.4 | 9.6 | 8.6 |
| | Dec | 8.5 | 8.0 | 9.6 | 5.9 |
| | Jan | 7.6 | 5.7 | 7.3 | 1.9 |
| | Feb | 7.6 | 5.7 | 7.3 | 1.9 |
| | Mar | 7.1 | 6.1 | 6.8 | 0.7 |
| 1993-94 | Apr | 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 |
| | Aug | 8.0 | 5.8 | 5.9 | -2.3 |
| | Sept | 8.8 | 6.6 | 6.4 | 0.1 |
| | Oct | 8.5 | 7.4 | 6.3 | 3.2 |
| | Nov | 8.6 | 8.6 | 7.3 | 6.5 |
| | Dec | 8.8 | 8.6 | 7.8 | 9.3 |
| | Jan | 9.1 | 9.1 | 7.8 | 9.4 |
| | Feb | 9.5 | 9.5 | 8.3 | 10.2 |
| | Mar. | 10.5 | 9.9 | 8.3 | 12.1 |
| 1994-95 | Apr | 11.8 | 9.8 | 8.7 | 12.1 |
| | May | 12.0 | 10.6 | 9.7 | 13.2 |
| | June | 11.8 | 10.8 | 9.5 | 12.5 |
| | July | 11.6 | 11.1 | 9.9 | 13.4 |
| | Aug | 10.2 | 10.9 | 9.8 | 13.1 |
| | Sept | 8.9 | 11.2 | 9.7 | 12.4 |
| | Oct | 8.9 | 10.3 | 10.1 | 11.6 |
| | Nov | 9.8 | 9.8 | 9.1 | 11.2 |
| | Dec | 11.2 | 9.5 | 8.6 | 11.2 |
| | Jan | 12.1 | 9.9 | 9.5 | 10.8 |
| | Feb | 11.7 | 9.8 | 9.5 | 10.8 |
| | Mar | 10.6 | 9.7 | 9.9 | 10.6 |
| 1995-96 | Apr | 10.0 | 9.7 | 10.3 | 12.1 |
| | May | 9.9 | 10.3 | 9.7 | 12.0 |
| | June | 9.1 | 10.5 | | 12.4 |
| | July | 8.4 | 11.4 | | 14.5 |
| | Aug | 8.8 | 10.9 | | 14.1 |
| | Sept | 8.9 | 10.1 | | 12.9 |
| | Oct | 8.4 | 10.4 | | 11.5 |
| | Nov | 8.4 | 10.3 | | 10.0 |
| | Dec | 6.7* | 9.7 | | |
| | Jan 27 | 5.0* | | | |

*Provisional.

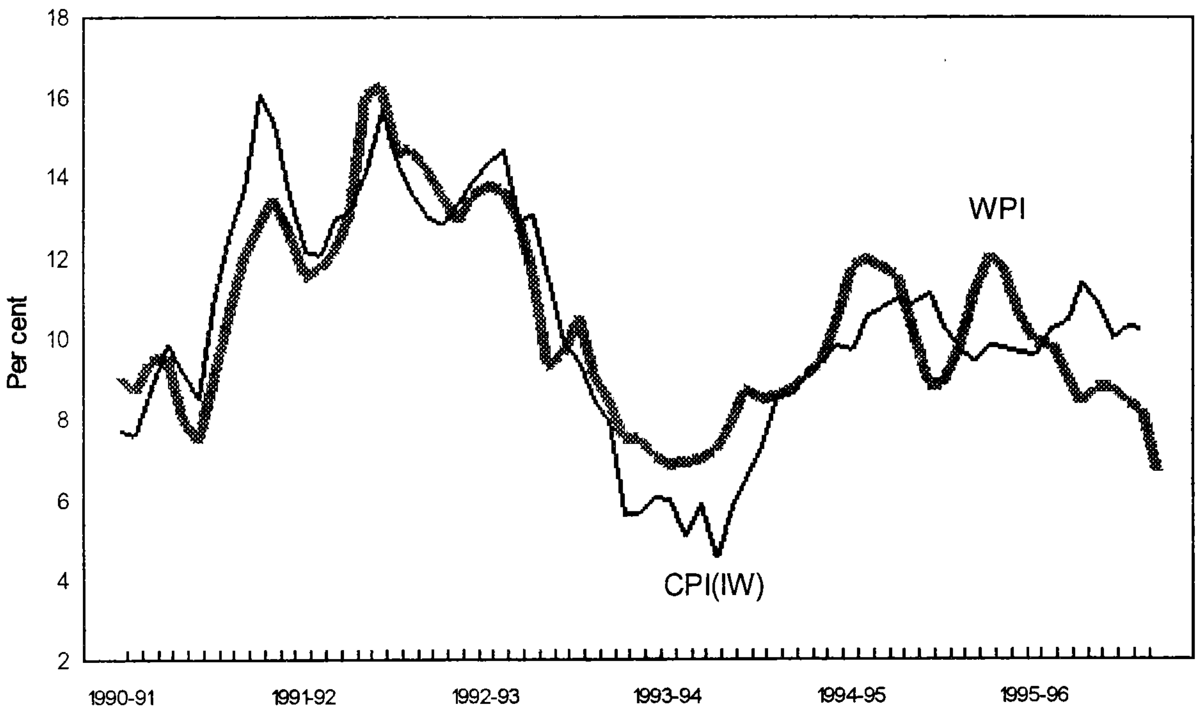
## TABLE: 5.2
## Annual (point-to-point) Inflation Rate
(As on December end)
(Base : 1981-82=100)

(per cent)

| Commoditiy group/sub-group | Weight | Annual rate of inflation (Dec 95/Dec 94) | | Contribution to inflation | |
|---|---|---|---|---|---|
| | (%) | 1995-96 | 1994-95 | 1995-96 | 1994-95 |
| ALL COMMODITIES | 100.00 | 6.0 | 11.3 | 100.0 | 100.0 |
| **I PRIMARY ARTICLES** | **32.29** | **4.4** | **14.4** | **24.5** | **41.5** |
| (A) Food articles | 17.39 | 4.3 | 12.9 | 14.2 | 22.4 |
| (a) Food-grains | 7.92 | 3.3 | 12.9 | 4.7 | 9.8 |
| 1. Cereals | 6.82 | 3.4 | 13.3 | 4.1 | 8.3 |
| (i) Rice | 3.69 | 5.1 | 12.4 | 3.4 | 4.4 |
| (ii) Wheat | 2.25 | -0.2 | 9.0 | -0.1 | 1.8 |
| 2. Pulses | 1.09 | 2.3 | 10.9 | 0.6 | 1.5 |
| (b) Fruits and vegetables | 4.09 | 17.1 | 0.4 | 11.0 | 0.1 |
| (i) Fruits | 2.80 | 12.7 | 7.9 | 5.6 | 1.9 |
| (ii) Vegetables | 1.29 | 26.4 | -12.7 | 5.4 | -1.8 |
| (c) Milk | 1.96 | 0.6 | 14.9 | 0.2 | 2.8 |
| (d) Eggs, fish and meat | 1.78 | -1.3 | 29.3 | -0.5 | 5.5 |
| (e) Condiments and spices | 0.95 | -3.4 | 23.1 | -0.9 | 3.1 |
| (f) Other food articles | 0.69 | -1.5 | 13.4 | -0.2 | 1.2 |
| (B) Non-food articles | 10.08 | 4.2 | 19.0 | 7.8 | 17.6 |
| 1. Fibres | 1.79 | -8.7 | 43.6 | -3.6 | 7.4 |
| 2. Oil seeds | 3.86 | 10.4 | 14.1 | 6.4 | 4.5 |
| (C) Minerals | 4.83 | 5.9 | 6.1 | 2.5 | 1.4 |
| **II FUEL,POWER,LIGHT & LUBRICANTS** | **10.66** | **1.1** | **5.3** | **1.9** | **5.3** |
| **III MANUFACTURED PRODUCTS** | **57.04** | **8.0** | **10.8** | **73.9** | **53.2** |
| Food products | 10.14 | 3.2 | 10.7 | 5.3 | 9.3 |
| 1. Sugar, khandsari and gur | 4.06 | -0.7 | 5.9 | -0.4 | 2.0 |
| (i) Sugar | 2.01 | 2.2 | 4.4 | 0.6 | 0.7 |
| 2. Edible oils | 2.45 | 5.4 | 12.3 | 2.2 | 2.7 |
| (i) Rape and mustard oil | 0.28 | 5.9 | 14.2 | 0.2 | 0.3 |
| (ii) Groundnut oil | 0.53 | 17.7 | 12.9 | 1.4 | 0.5 |
| 3. Oil cakes | 0.43 | 5.5 | 15.4 | 0.4 | 0.6 |
| **Other Selected Products** | | | | | |
| Textiles | 11.55 | 15.3 | 14.6 | 27.3 | 13.4 |
| Cement | 0.86 | 18.0 | 14.1 | 2.1 | 0.9 |
| Iron & steel | 2.44 | 4.6 | 6.6 | 1.9 | 1.5 |
| Fertilizers | 1.75 | 5.1 | 11.3 | 1.1 | 1.3 |
| Non-ferrous metals | 0.57 | 0.0 | 21.8 | 0.0 | 1.5 |
| **Administered items** | **15.93** | **0.9** | **5.9** | **1.9** | **7.3** |
| 1. Petroleum crude etc. | 4.27 | 0.0 | 5.6 | 0.0 | 1.0 |
| 2. Petroleum products | 6.67 | -0.3 | 6.5 | -0.2 | 3.3 |
| 3. Coal mining | 1.26 | 0.2 | 5.2 | 0.1 | 0.8 |
| 4. Electricity | 2.74 | 3.6 | 3.5 | 2.1 | 1.1 |
| 5. Urea | 0.99 | -0.1 | 21.4 | -0.0 | 0.9 |
| **Seasonal items[1]** | **34.40** | **3.9** | **14.0** | **24.3** | **45.3** |
| **Raw materials[2]** | **14.91** | **4.5** | **16.4** | **10.3** | **19.0** |

[1] Seasonal items include, food articles, non-food articles, sugar, khandsari and gur, edible oils and oil cakes.
[2] Raw materials include non-food articles and minerals.

Fig. 5.1 Annual Rates of Inflation in WPI and CPI




annual rise than last year and contributed the major proportion in the annual growth of prices in manufacturing sector were textiles (27.3 per cent), paper and paper products (6.8 per cent), rubber and plastic products (3.7 per cent), non-metallic mineral products (6.3 per cent) and transport equipment and parts (2.6 per cent).

## Financial year changes in WPI in 1995-96

9. The 4.3 per cent growth in prices in the first three quarters (April-December) of this financial year, was almost half of the growth registered in the corresponding period of last year. From 3 per cent growth recorded in the WPI in the first quarter, the second quarter (July-September 1995) growth was only 1.5 per cent. Thus the cumulative rise in wholesale prices of 4.5 per cent in the first-half of 1995-96 was much lower than 6.1 per cent rise in the first half of the last year, thus confirming the effectiveness of supply and demand management policies adopted in early 1995-96. In the third-quarter prices decelerated further and actually declined by 0.2 per cent. The cumulative growth in prices was thus 4.3 per cent during April-December, which

**TABLE 5.3**
**Increase in Wholesale Price Index**
**(since end March)**

(per cent)

| | Weight (%) | 1994-95 Apr-Dec | 1995-96 Qrt1 Apr-Jun | Qrt2 Jul-Sep | Qrt3 Oct-Dec | Total Apr-Dec |
|---|---|---|---|---|---|---|
| **All commodities** | **100.00** | **8.6** | **3.0** | **1.5** | **-0.2** | **4.3** |
| Primary articles | 32.30 | 12.6 | 3.7 | 1.7 | -1.2 | 4.2 |
| Fuel, power, light, lubricant | 10.66 | 1.2 | -0.1 | 0.0 | 0.0 | -0.1 |
| Manufactured products | 57.04 | 7.8 | 3.2 | 1.6 | 0.4 | 5.2 |
| Seasonal items | 34.40 | 11.9 | 3.5 | 1.9 | -1.5 | 3.9 |
| Raw materials | 14.91 | 10.2 | -0.6 | 2.0 | -0.2 | 1.2 |

was half of the price rise in the same period of last financial year (Table 5.3).

**Primary Articles**

10. The wholesale prices of primary articles increased by 4.2 per cent in the first three quarters of the financial year, which is about one-third of the rise (12.6 per cent) in the corresponding period last year (Table 5.3). In the first quarter (April-June) of 1995-96 the rise in wholesale prices was only 3.7 per cent compared to the rise of 6.9 per cent in the first quarter of last year (Table 5.3). This modest rise indicated strong disinflationary trend in the current year even though major part of the rise during the quarter was contributed by the food articles where the escalation in the prices of foodgrains, fruits and vegetables and tea was larger than last year. This trend persisted through the third quarter and hence foodgrains, fruits and vegetables and tea remained the major contributors to the rise in the prices of primary group of articles. Prices of food articles- gram, eggs, fish and meat and coffee- registered negative growth during the current financial year (Table 5.4). Contrary to this, non-food articles which include cotton, registered negative growth of 1.7 per cent in the first quarter but rose in the second quarter, though marginally, and through the year registered a rise of only 0.3 per cent which was largely due to the escalation in the prices of oilseeds. This was a very modest rise compared to the rise of 11.2 per cent in the last financial year. Prices of minerals, the third constituent of the primary articles sub-group, rose by 5.1 per cent which is only marginally lower than the rise of 5.7 per cent in the same period last year.

**Manufactured products**

11. During the current year prices of manufactured products registered a rise of 5.2 per cent which is a lower rise as against the rise of 7.8 per cent in the preceding year (Table 5.4). Rise of 3.2 per cent in the first quarter (April-June), was almost same as the rise in the corresponding period last year. By the end of second quarter (July-September) the rise of 4.8 per cent was a subdued rise compared to the rise of 6.1 per cent registered last year (Table 5.3). The price rise was lower in cement (4.8 per cent), chemicals and chemical products (3 per cent) and machinery and machine tools (3.3 per cent). But other manufactured items showed a sharper rise than last year. These are textiles (7.9 per cent), paper (10.5 per cent), rubber and plastic products (7.8 per cent), metals and transport equipment (over 4 per cent).

Fig. 5.2 Financial Year Changes in WPI (All Commodities and Major Groups)

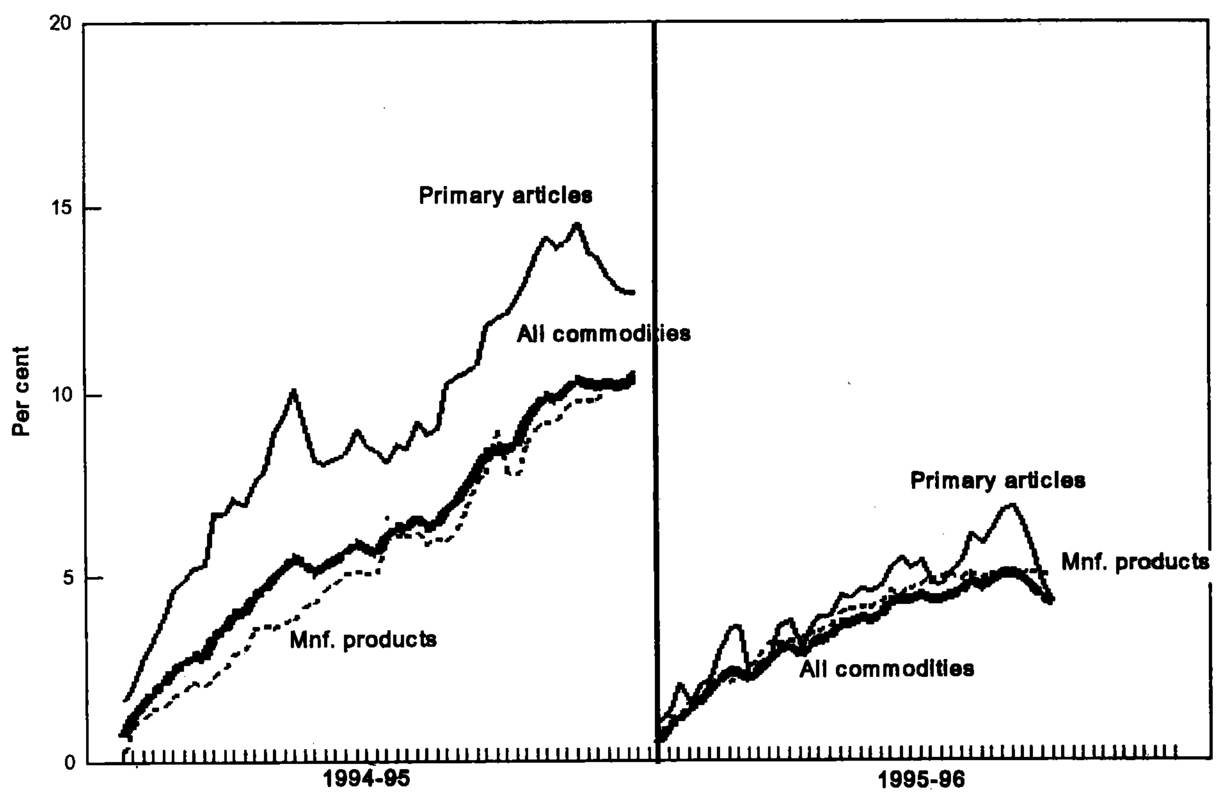


**TABLE 5.4**
**Wholesale Price Movements in Major Commodity Groups**
**(As on December end)**
**(Base : 1981-82=100)**

(per cent)

| Commodity group/sub-group | Wt (%) | Inflation (Financial Year) (Apr-Dec) 1995-96 | Inflation (Financial Year) (Apr-Dec) 1994-95 | Annual Inflation (Dec/Dec) 1995-96 | Annual Inflation (Dec/Dec) 1994-95 | Percentage share in Inflation (Apr-Dec) 1995-96 | Percentage share in Inflation (Dec/Dec) 1995-96 |
|---|---|---|---|---|---|---|---|
| **ALL COMMODITIES** | **100.000** | **4.3** | **8.6** | **6.0** | **11.3** | **100.0** | **100.0** |
| **I. PRIMARY ARTICLES** | **32.295** | **4.2** | **12.6** | **4.4** | **14.4** | **32.8** | **24.5** |
| (A) Food articles | 17.386 | 6.5 | 14.3 | 4.3 | 12.9 | 28.9 | 14.2 |
| Food-grains | 7.917 | 4.3 | 9.7 | 3.3 | 12.9 | 8.5 | 4.7 |
| Rice | 3.685 | 6.7 | 10.6 | 5.1 | 12.4 | 6.1 | 3.4 |
| Wheat | 2.248 | 0.5 | 0.9 | -0.2 | 9.0 | 0.2 | -0.1 |
| Pulses | 1.093 | 8.0 | 15.6 | 2.3 | 10.9 | 2.6 | 0.6 |
| Fruits and vegetables | 4.089 | 15.1 | 8.7 | 17.1 | 0.4 | 13.7 | 11.0 |
| Milk | 1.961 | 1.8 | 9.2 | 0.6 | 14.9 | 0.9 | 0.2 |
| Eggs, fish and meat | 1.783 | -1.1 | 20.0 | -1.3 | 29.3 | -0.6 | -0.5 |
| Condiments and spices | 0.947 | 12.6 | 30.5 | -3.4 | 23.1 | 4.1 | -0.9 |
| Other food articles | 0.689 | 11.9 | 70.1 | -1.5 | 13.4 | 2.5 | -0.2 |
| (B) Non-food articles | 10.081 | 0.3 | 11.2 | 4.2 | 19.0 | 0.9 | 7.8 |
| Fibres | 1.791 | -14.1 | 2.7 | -8.7 | 43.6 | -8.5 | -3.6 |
| Raw cotton | 1.335 | -20.2 | 2.7 | -14.9 | 60.0 | -9.6 | -4.8 |
| Raw jute | 0.160 | 2.7 | -10.6 | 14.0 | -10.7 | 0.1 | 0.4 |
| **II. FUEL,POWER,LIGHT and LUBRICANTS** | **10.663** | **-0.1** | **1.2** | **1.1** | **5.3** | **-0.3** | **1.9** |
| **III. MANUFACTURED PRODUCTS** | **57.042** | **5.2** | **7.8** | **8.0** | **10.8** | **67.8** | **73.9** |
| (A) Food products | 10.143 | 3.0 | 7.9 | 3.2 | 10.7 | 6.8 | 5.3 |
| Edible oils | 2.445 | 0.9 | 13.3 | 5.4 | 12.3 | 0.6 | 2.2 |
| Textiles | 11.545 | 7.9 | 6.9 | 15.3 | 14.6 | 20.8 | 27.3 |
| Non-metallic mineral products | 2.477 | 10.7 | 4.4 | 15.7 | 5.5 | 6.3 | 6.3 |
| Cement | 0.860 | 4.8 | 10.6 | 18.0 | 14.1 | 0.9 | 2.1 |
| Basic metals,alloys etc. | 7.632 | 4.2 | 8.9 | 5.9 | 10.4 | 8.3 | 8.3 |
| **1. Administered items[1]** | **15.929** | **-0.1** | **2.5** | **0.9** | **5.9** | **-0.3** | **1.9** |
| **2. Seasonal items[2]** | **34.403** | **3.9** | **11.9** | **3.9** | **14.0** | **33.3** | **24.3** |
| **3. Raw materials[3]** | **14.909** | **1.2** | **10.2** | **4.5** | **16.4** | **3.9** | **10.3** |
| **4. Essential commodities** | **21.767** | **5.3** | **10.4** | **4.3** | **11.6** | **26.8** | **15.9** |

[1]Administered items include, Petroleum crude and natural gas, Petroleum products, Coal mining, Electricity, and Urea.
[2]Seasonal items include, food articles, non-food articles, sugar, khandsari and gur, edible oils and oil cakes.
[3]Raw materials include non-food articles and minerals.

### Seasonal Pressure on Prices

12. Pressure on prices of seasonal items has been quite subdued from the very beginning of the current financial year (Table 5.3). The rise of 3.5 per cent in first quarter was a modest rise compared to 8.2 per cent rise in the corresponding period of last year. The prices of the seasonal items under pressure last year contributed almost three-fourth (74 per cent) of the aggregate rise in the index in the first quarter (April-June) in contrast to the contribution of 43.4 per cent in the current financial year. The movement in the prices of seasonal items during the current financial year beside being slow, followed a pattern quite distinct from last year. The prices of non-food articles tended to decline in the first quarter compared to increase in their prices last year. Prices of edible oils showed a tendency towards stability as against the high rise last year (Table 5.4), mainly because of liberal import policy. Thus even at the end of the current year (April-December), the total rise of 3.9 per cent is quite a subdued rise in the seasonal items compared to 11.9 per cent in the corresponding period last year (Table 5.3).

13. In 1994-95 the inflationary build up in the prices of seasonal items in first quarter was the spill-over effect of substantial increase effected in last quarter of the previous financial year (1993-94) in procurement and issue prices of foodgrains, revisions in prices of other administered prices and supply shortfalls in some key commodities like cotton, sugar, edible oils etc. Contrary to this, the

factors that contributed to the dampening of their prices during the current financial year have been (1) the open market sale of rice and wheat by FCI; and (2) relaxations in import of essential commodities in short supply such as sugar, edible oils and pulses.

**Raw Materials**

14. Raw materials group includes sub-groups of primary articles, non-food articles and minerals. This group registered a decline of 0.6 per cent by the end of first quarter April-June, 1995 as against a rise of 2.2 per cent in the same period of last year. During the second quarter, however, their prices rose marginally by 1.4 per cent but by the end of third quarter, October-December 1995, total growth in their prices was only 1.2 per cent which is quite a moderate rise as against the rise of 10.2 per cent in the corresponding period of last year (Table 5.3).

**Administered Items**

15. Administered items include mostly energy inputs - petroleum, electricity and urea. Their prices show a marginal decline in the current financial year in contrast to a rise of 2.5 per cent last year (Table 5.4).

**Essential Commodities**

16. The wholesale price of 30 essential commodities recorded a rise of 5.3 per cent during the current year upto December, 1995 as against last year's rise of 10.4 per cent. The contribution of this group to current year's inflation was nearly 27 per cent, and like last year, was disproportionate to its weight in WPI (Table 5.4).

## Consumer Price Index Movement

17. The movement in retail prices as measured by various Consumer Price Index Number series, namely (1) Industrial Workers (CPI-IW), (2) Urban Non-Manual Employees (CPI-UNME), and (3) Agricultural Labourers (CPI-AL), indicate that inflationary undercurrent in retail prices moved in tandem with wholesale prices recording a peak rise in July 1994 (11.1 per cent in CPI-IW and 13.4 per cent in CPI-AL). But in CPI-UNME which had a slower rise, the peak rise was reached late in October, 1994. The distinctive feature of the CPI series this year is that even when there was a gradual deceleration in the growth of wholesale prices, the point-to-point annual inflation based on CPI has stayed at two-digit level through November 1995 (Table 5.1). This indicates that deceleration in retail prices is slower so far compared to wholesale prices since May, 1995. This is apparently so because the consumer price series assign higher weightage to food items than the wholesale price series and since inflation rate based on WPI was still over 8 per cent upto end of November 1995, the sharp fall recorded in December

Fig. 5.3 Annual Rates of Inflation in Essential Commodities (Based on WPI and CPI)

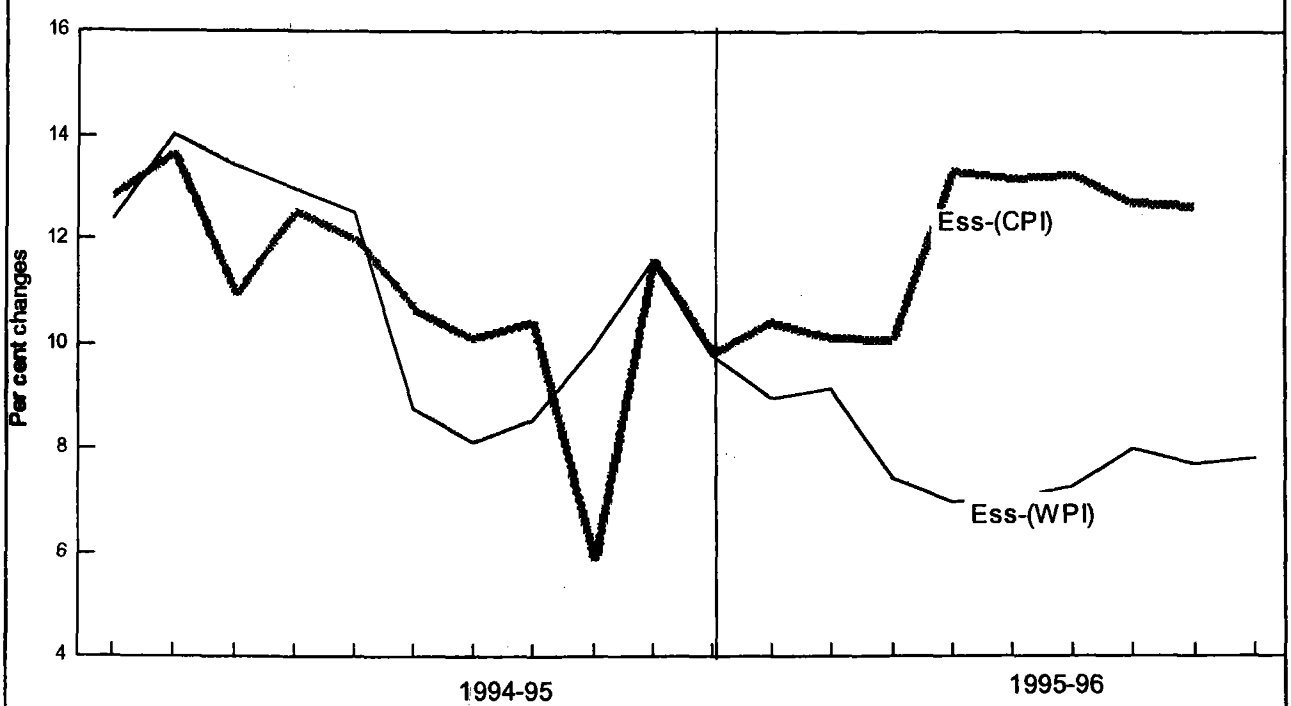


**TABLE: 5.5**
**Annual Rate of Inflation in Essential Commodities**
**(October 1995)**

(Per cent)

| Comodities | Weight (%) CPI | Weight (%) WPI | Financial year changes October/March 1995-96 CPI | 1995-96 WPI | 1994-95 CPI | 1994-95 WPI | Annual rate of inflation October/October 1995 CPI | 1995 WPI | 1994 CPI | 1994 WPI |
|---|---|---|---|---|---|---|---|---|---|---|
| GENERAL INDEX | 100.00 | 100.00 | 8.9 | 4.4 | 8.2 | 6.6 | 10.4 | 8.3 | 10.3 | 8.9 |
| Rice | 12.45 | 3.69 | 5.6 | 6.2 | 8.1 | 7.7 | 6.9 | 7.7 | 18.7 | 6.6 |
| Whole wheat | 4.43 | 2.25 | 0.1 | -2.1 | -1.5 | -5.4 | 3.1 | 2.1 | 11.5 | 5.2 |
| Wheat atta | 1.75 | 0.76 | 1.7 | 3.4 | -2.2 | -1.1 | 4.0 | 8.1 | 4.9 | 9.0 |
| Jowar | 0.46 | 0.42 | 13.0 | -4.1 | 9.8 | 15.4 | 53.9 | 33.2 | 13.7 | 27.7 |
| Bajra | 0.16 | 0.18 | 0.8 | 5.2 | 10.7 | -9.2 | 13.3 | 19.6 | 47.2 | 19.8 |
| Moong | 0.53 | 0.20 | 10.0 | 7.4 | 8.8 | 0.9 | 17.9 | 15.1 | 18.6 | 19.0 |
| Gram | 0.08 | 0.41 | -15.7 | -20.5 | 10.2 | 14.1 | -32.6 | -42.6 | 15.2 | 16.1 |
| Masur | 0.41 | 0.05 | 19.4 | 25.9 | 23.0 | 35.3 | 27.5 | 20.8 | 27.7 | 33.2 |
| Arhar | 1.69 | 0.27 | 37.3 | 36.0 | 9.4 | 8.9 | 51.6 | 44.4 | 7.1 | 7.4 |
| Urad | 0.35 | 0.15 | 1.4 | 5.8 | 55.0 | 39.2 | 26.7 | 24.6 | 73.8 | 61.7 |
| Coconut oil | 0.09 | 0.17 | 24.1 | 9.0 | 1.2 | -1.3 | 22.3 | 17.1 | -12.1 | -8.4 |
| Groundnut oil | 2.27 | 0.53 | 4.7 | 4.0 | 15.0 | 14.7 | 10.4 | 19.7 | -0.0 | -0.9 |
| Mustard oil | 1.44 | 0.28 | 2.9 | 2.1 | 13.8 | 13.5 | 11.7 | 12.2 | -7.1 | 8.4 |
| Vanaspati | 0.78 | 0.52 | 5.4 | -4.0 | 14.4 | 6.7 | 8.7 | 5.3 | 6.6 | -2.4 |
| Goat meat | 2.12 | 0.52 | 5.7 | 6.1 | 6.3 | 14.8 | 18.3 | 14.6 | 13.9 | 25.3 |
| Fresh fish | 1.31 | 0.51 | 5.1 | 3.0 | 1.9 | 16.7 | 19.1 | 16.5 | 10.3 | 33.0 |
| Milk | 5.52 | 1.96 | 8.9 | 1.8 | 3.9 | 11.9 | 11.5 | 0.5 | 5.2 | 11.4 |
| Salt | 0.15 | 0.04 | 18.3 | 36.6 | 8.6 | 3.7 | 33.3 | 44.0 | 12.4 | 1.7 |
| Chillies | 0.63 | 0.32 | 30.6 | 20.0 | 29.6 | 32.7 | 58.2 | 49.3 | 34.0 | 61.8 |
| Onions | 0.67 | 0.16 | 120.4 | 124.2 | 38.8 | 33.7 | 21.2 | 4.0 | -2.0 | -7.7 |
| Potatoes | 1.23 | 0.47 | 116.9 | 147.4 | 59.8 | 56.7 | 45.9 | 49.9 | -5.9 | -14.5 |
| Sugar | 2.24 | 2.01 | -2.2 | 3.2 | 0.2 | 0.4 | -4.3 | -0.9 | 14.1 | 12.5 |
| Gur | 0.47 | 1.75 | 12.6 | 13.0 | 9.5 | 19.9 | -3.1 | -7.1 | -8.5 | -1.0 |
| Tea leaves | 0.82 | 0.56 | 2.7 | 41.0 | 0.6 | 7.1 | 2.3 | 39.1 | 1.2 | -20.1 |
| Soft coke | 0.80 | 0.35 | 3.5 | 0.0 | 1.6 | 5.2 | 6.5 | 0.0 | 3.2 | 5.2 |
| Kerosene oil | 1.82 | 0.87 | 0.7 | 0.0 | 0.6 | 0.0 | 0.8 | 0.0 | 1.1 | 0.0 |
| Matchboxes | 0.23 | 0.23 | 10.9 | 4.7 | 7.3 | 0.5 | 13.8 | 4.7 | 8.1 | 0.6 |
| Washing soap | 1.33 | 0.59 | 4.0 | 3.4 | 2.6 | 9.7 | 8.2 | 5.6 | 4.1 | 15.4 |
| Long cloth | 0.20 | 0.36 | 5.0 | -1.3 | 11.5 | 8.5 | 13.7 | 7.8 | 14.9 | 35.0 |
| Dhoties | 0.35 | 1.19 | 4.4 | 3.3 | 10.6 | 9.8 | 9.7 | 12.5 | 15.1 | 14.0 |
| Sarees | 2.05 | | 7.7 | | 8.6 | | 13.9 | | 12.2 | |
| **Essential commodities** | 48.83 | 21.77 | 10.2 | 7.7 | 8.0 | 9.0 | 12.7 | 7.7 | 10.2 | 8.1 |

1995 to 6 per cent would get reflected in CPI series only thereafter. Already in December 1995, it had declined to 9.7 per cent.

18. The CPI-IW, the most common and widely used series indicates that by October 1995 in the current financial year the retail prices registered a growth rate of 8.9 per cent as against 8.2 per cent in the corresponding month last year (Table 5.6). The higher rate of growth is mainly ascribed to the uptrend seen in the group of essential commodities (which have a weight of 49 per cent in CPI-IW series) whose prices were higher by 10.2 per cent in October 1995. Apparently, vegetables especially potatoes, onions, arhar amongst pulses and edible oils were the major contributors to the uptrend in prices at retail level (Table 5.5 and Fig. 3).

**Measures taken to control inflation**

19. The stance of the monetary policy at any point of time is to draw a judicious balance between the growth in production and the general price level. This is normally done by RBI through its slack season and the busy season monetary policy. In view of its expectation of a GDP growth rate of 5.5 per cent in 1995-96, and the desirability of limiting the inflation rate to below 8 per cent, the expansion in money supply ($M_3$) was to be contained within

**TABLE 5.6**
**Movement in Major Consumer Commodity Groups Based on CPI (IW)**

| | Weight | Variation in Consumer Prices(%) | | | |
|---|---|---|---|---|---|
| | | 1995-96 | | 1994-95 | |
| | (%) | Apr-Jun | Apr-Oct | Apr-Jun | Apr-Oct |
| **General** | **100.00** | **4.4** | **8.9** | **3.7** | **8.2** |
| Food | 57.00 | 6.4 | 11.9 | 4.6 | 10.7 |
| Pan, supari etc. | 3.15 | 2.1 | 5.0 | 3.7 | 4.8 |
| Fuel & light | 6.28 | 1.2 | 4.4 | 0.8 | 1.7 |
| Housing | 8.67 | 0.0 | 4.1 | 0.0 | 3.0 |
| Clothing, bedding, footwear | 8.54 | 3.3 | 5.0 | 5.7 | 10.0 |
| Miscellaneous | 16.36 | 1.4 | 4.2 | 2.3 | 5.8 |

the projected increase of 15.5 per cent. In the credit policy of the second half of the current financial year also the RBI reiterated the need to ensure that the growth of money supply stayed within this targeted growth. This had a salutary effect on the growth of prices, and the inflation rate deceleration, though slower in the first half of the year, began to fall rather steeply in December 1995. The important steps taken both on demand side and supply side to control inflation are given in Box 5.2.

**Box 5.2**
**Steps taken to Control Inflation**

**Supply side measures**

- Continuation of FCI's open market sale of rice and wheat through 1995-96 to check market price. By November, 1995, 7.09 lakh tonnes of rice and 30.10 lakh tonnes of wheat had been sold/ lifted.
- Allowing import of edible oils (except coconut oil) under OGL at a reduced duty of 30 per cent.
- Importing 1.5 lakh tonnes of palmolein at concessional duty of 20 per cent for supply through PDS.
- Continuing OGL import policy for sugar and allowing import of 2 lakh tonnes for augmenting PDS stocks.
- Increase by 5 per cent allocation of levy sugar for PDS effective August, 1995.
- Pulses import under OGL with duty reduced to 5 per cent.
- Adjustment in trade and tariff policies in the Budget for current year to ensure that domestic prices of industrial products remain competitive.
- Substantial reduction in excise duties on a number of items expected to accelerate the pace of industrial revival and raise industrial growth.
- Strengthening of public distribution system and its expansion in RPDS areas.

**Demand side measures**

- Reduction of fiscal deficit in the budget proposals for current financial year to 5.5 per cent of GDP as against 6.7 per cent in the last financial year.
- Placing a cap on Central Government's borrowings from the RBI through the issue of ad-hoc Treasury Bills and containing monetary growth through a series of measures including raising of CRR and sale of Government securities by the RBI.

## Public Distribution System

20. Availability of foodgrains-mainly rice and wheat, sugar, edible oils and kerosene is ensured through a net work of fair price shops (FPSs) where each such shop is envisaged to serve a population of 2000. From over 4 lakhs in March, 1992 the number of FPSs rose to over 4.33 lakhs as on 31 March, 1995, of which the number operating in rural areas rose from 3.05 lakhs to 3.30 lakhs. In urban areas their number rose from 94 thousand to 1.02 lakhs. For the tribal, hill and arid area populations remotely located and having poor infrastructure, additional items like tea, soap, pulses and iodised salt are made available under the scheme known as Revamped Public Distribution Scheme (RPDS). This scheme, started in June, 1992 in 1700 blocks, is now operating in 1775 blocks. Additional quantity of 3.1 lakh tonnes of foodgrains of rice and wheat are envisaged to be distributed in these areas. By December 1995, the number of fair price shops operating in RPDS areas is reported to be 102264 out of which, 54500 fair price shops had been brought under the door step delivery scheme. It has now been decided that the geographical coverage of RPDS would be extended to all the 2446 Employment Assurance Scheme (EAS) Blocks. Foodgrains - rice and wheat - are allocated to States/ UTs for RPDS blocks at prices lower by Rs.50 per quintal than the issue price for normal PDS and, it is ensured further, that the retail price at RPDS shops is not higher than CIP by more than 25 paise/ kg.

21. Supply of sugar for PDS was maintained at a level of 3.36 to 3.88 lakh tonnes per month during

1995-96. Allocations were raised to 4.02 lakh tonnes in October and 3.60 lakh tonnes in November 1995 to meet the festival season requirement. During 1994-95, the Government imported 9.77 lakh tonnes and in 1995-96 about 2 lakh tonnes of sugar exclusively for augmenting PDS stocks. Government also arranged import of 1.5 lakh tonnes of edible oil (palmolein) at concessional duty of 20 per cent, well in advance of the festival season for distribution in States so as to check speculative price spurt in edible oils.

### Foodgrains

22. Central Government's food stocks have three important functional components - food security reserve, operational stocks and market intervention stocks. Stocks are released each month for distribution to the State Governments for supply through the PDS. Each State is allocated a prescribed quantity based on past demand, off-take trends, relative need and other related factors besides adhering to the norm of maintaining the prescribed minimum buffer stock for meeting food security needs. Stocks are also released for open sale to augment supplies and help moderate the open market prices.

### Foodgrains Allocation and Off-take

23. Allocation of 11-12 million tonnes of rice and 9-10 million tonnes of wheat to States for distribution through PDS has generally been the norm in the past few years. However, the actual offtake by the States in three successive years, 1992-93 to 1994-95, has been much lower, reflecting perhaps better free market access and narrowing down of price differential between PDS retail price and the free market price. The offtake had particularly dropped more in case of wheat (Table 5.7). During 1995-96 (till November 95), the offtake of wheat has been only 3.17 million tonnes, a little more than the corresponding period last year. As for rice, the annual allocation has continuously increased from 9.61 million tonnes in 1990-91 to 13.32 million tonnes in 1994-95. As against these allocations the annual offtake of rice which was 9.95 million tonnes in 1991-92, dropped to 8.88 million tonnes in 1993-94 and further down to 7.98 million tonnes in 1994-95. In 1995-96, however, rice offtake was 6.21 million tonnes till November 1995 which is higher than the offtake of 5.20 million tonnes in the corresponding period last year. Overall offtake for PDS in 1995-96 is likely to be higher over the preceding year.

**TABLE 5.7**
**Foodgrains Allocation and Offtake Under Public Distribution System**
(Million Tonnes)

| Year | Wheat | | Rice | |
|---|---|---|---|---|
| | Allocation | Offtake | Allocation | Offtake |
| 1990-91 | 9.50 | 7.08 | 9.61 | 7.87 |
| 1991-92 | 10.36 | 8.79 | 11.36 | 9.95 |
| 1992-93 | 9.24 | 7.47 | 11.48 | 9.55 |
| 1993-94(P) | 9.56 | 5.86 | 12.41 | 8.88 |
| 1994-95(P) | 10.80 | 4.83 | 13.32 | 8.00 |
| 1994-95(P)Apr-Nov | 6.97 | 2.79 | 8.78 | 5.20 |
| 1995-96(P)Apr-Nov | 7.41 | 3.17 | 9.74 | 6.21 |

(P) - Provisional

### New Schemes for Utilisation of Surplus Food Stocks

24. The Prime Minister in his Independence Day Speech on 15th August 1994, announced New Schemes for utilisation of surplus public stocks of foodgrains for the benefit of the economically and socially weaker sections of the society. The Schemes now under operation are:

**(i) Release of Subsidised Wheat to MFIL and its Franchised Units**

A quantity of 1.87 lakh tonnes of wheat was earmarked for supply to the Modern Food Industries India Ltd. (MFIL) during 1994-95 priced at Rs.3020 per tonne, which was Rs.1,000 per tonne lower than the Central Issue Price for PDS. Out of 1.87 lakh tonnes, 1.5 lakh tonnes was meant for bread manufacturing and the remaining 0.37 lakh tonnes for production of energy foods. The supply of low priced wheat was to ensure reduction in the prices of bread by 50 paise for 800 gms. loaf and 25 paise for 400 gms. loaf and keeping the price of energy foods frozen during the period of supply of wheat at concessional rate. Subsequently, it was decided to release 2358 tonnes wheat per month from March 1995 to the 'franchised units' of MFIL for bread manufacturing at par with MFIL and subject to same terms and conditions. Since the inception of the scheme, 1.60 lakh tonnes of wheat has been lifted by MFIL and its franchised units till November 1995 Government has extended the scheme for a further period of one year upto 31st October 1996.

**(ii) Supply of Subsidised Foodgrains to SC/ST/OBC Hostels**

This Scheme was launched in October, 1994. A quantity of 1.68 lakh tonnes of foodgrains (rice and wheat) per annum was earmarked to be issued to Hostels having at least two-third inmates belonging to SC/ST/OBC categories, at a price which is Rs. 500 per tonne lower than the Central Issue Prices for PDS. Since the inception of the scheme in October 1994, a total quantity of about 1.26 lakh tonnes of foodgrains comprising 0.04 lakh tonnes of wheat and 1.22 lakh tonnes of rice had been lifted till August 95.

### (iii) Employment Generation Scheme

An annual quantity of 5 lakh tonnes of foodgrains (rice and wheat) for a period of 5 years, was allocated at concessional price which was Rs.1,000 per tonne lower than the Central Issue Prices for PDS, for Employment Generation through manufacture of food products by families falling below poverty line . Out of this allocation, 3.5 lakh tonnes was for rural areas and the balance 1.5 lakh tonnes for urban areas. Since the inception of the scheme a total quantity of 3192 tonnes (2651 tonnes wheat and 541 tonnes rice) has been lifted under the scheme by States/UTs till September 1995.

### Mid-Day Meals Scheme

25. The Ministry of Human Resource Development has launched on 15 August 1995 the Mid-Day Meals Scheme for the benefit of students enrolled in Primary Schools in 2368 RPDS/EAS Blocks. About 0.89 million tonnes of foodgrains would be required for distribution to States/UTs under this scheme during 1995-96 (8 months). The foodgrains for the Scheme are supplied to States/UTs free of cost. In addition, handling/transport charges will also be reimbursed to States by the Ministry of HRD (Department of Education) subject to a maximum ceiling of Rs.25 per quintal. The FCI would, however, charge economic cost of the foodgrains (rice and wheat) supplied by it to States/UTs under this scheme from the Ministry of HRD. The Ministry of HRD have placed a revolving fund of Rs.150 crore at the disposal of FCI for implementation of the scheme. The scheme is to be extended to all other Low Female Literacy (LFL) Blocks (2005) during 1996-97 and to all Primary Schools in the country, 828 Blocks and 3,000 Nagar Palikas during 1997-98. A total quantity of 50892 tonnes of wheat and 68618 tonnes of rice has been issued by FCI to States/UTs under the Mid-Day Meals Scheme from 15th August 1995 to November, 1995.

### Open Market Sale of Foodgrains by FCI

26. Food Corporation of India (FCI) was authorised to sell wheat and rice in the open market to serve the twin objective of disposing of some of its surplus stock and to check the rise in their market prices as a part of its market intervention function to moderate supply side effects on inflation. It sold 79.47 lakh tonnes of wheat from October, 1993 to March, 1995 and 30.10 lakh tonnes of wheat in the

**TABLE 5.8**
**Central Pool Stocks and Minimum Buffer Stock Norms**

(Million Tonnes)

| Beginning of the month | Wheat | | Rice | | Total (wheat and rice) | |
|---|---|---|---|---|---|---|
| | Min norm | Actual Stock | Min. norm | Actual Stock | Min norm | Actual Stock |
| **Janurary-1992** | 7.7 | 5.3 | 7.7 | 8.6 | **15.4** | **13.9** |
| April | 3.7 | 2.2 | 10.8 | 8.9 | 14.5 | 11.1 |
| July | 13.1 | 6.5 | 9.2 | 7.4 | 22.3 | 13.9 |
| October | 10.6 | 4.4 | 6.0 | 5.1 | 16.6 | 9.5 |
| **January-1993(P)** | 7.7 | 3.3 | 7.7 | 8.5 | **15.4** | **11.8** |
| April | 3.7 | 2.7 | 10.8 | 9.9 | 14.5 | 12.6 |
| July | 13.1 | 14.9 | 9.2 | 9.3 | 22.2 | 24.2 |
| October | 10.6 | 13.7 | 6.0 | 7.2 | 16.6 | 20.9 |
| **January-1994(P)** | 7.7 | 10.8 | 7.7 | 11.2 | **15.4** | **22.0** |
| April | 3.7 | 7.0 | 10.8 | 13.5 | 14.5 | 20.5 |
| July | 13.1 | 17.5 | 9.2 | 13.3 | 22.3 | 30.7 |
| October | 10.6 | 15.6 | 6.0 | 10.9 | 16.6 | 26.5 |
| **January-1995(P)** | 7.7 | 12.9 | 7.7 | 17.2 | **15.4** | **30.1** |
| Ap-ril | 3.7 | 8.7 | 10.8 | 18.1 | 14.5 | 26.8 |
| July | 13.1 | 19.2 | 9.2 | 16.4 | 22.3 | 35.6 |
| October | 10.6 | 16.8 | 6.0 | 13.0 | 16.6 | 29.8 |
| **January-1996 (P)** | 7.7 | 13.12 | 7.7 | 11.5 | **15.4** | **24.6** |

'Provisional' - (P)

current financial year upto the end of November, 1995. FCI also sold 4.7 lakh tonnes of rice from January, 1994 to March, 1995. The Government has decided to continue open sale of 15 lakh tonnes of rice (fine and superfine variety) during 1995-96. Against this authorisation, 7 lakh tonnes of rice has been sold by FCI upto the end of November, 1995.

### Foodgrain Procurement and Stocks

27. During 1995-96, 12.33 million tonnes of wheat was procured compared to 11.87 million tonnes procured during 1994-95. Rice procurement for Central Pool during 1994-95 (Oct 94 - Sept 95) was 13.29 million tonnes as against 13.65 million tonnes procured during 1993-94. The procurement of rice in the Central Pool during 1995-96 kharif marketing season beginning October 1995, has been 6.72 million tonnes till 31st January 1996 as against 10.37 million tonnes in the corresponding period of the previous kharif marketing season (Table 5.10). Current indications are that procurement of rice in 1995-96 (October 1995 - September 1996) may be substantially lower than last year.

28. The stock position of foodgrains in the Central Pool continued to be excellent during 1995-96. The record procurement during the last three years had pushed up stocks of both rice and wheat far in excess of the minimum norms. As on 1st April, 1995 the Central Pool had a total stock of 26.80 million tonnes comprising 18.08 million tonnes of rice and 8.72 million tonnes of wheat. As on 1st July 1995, the stock position of foodgrains in the Central Pool was 35.62 million tonnes which was the highest level ever achieved. At the start of the Kharif marketing season on 1st October 1995, the Central Pool had 13 million tonnes of rice and 16.78 million tonnes of wheat, totalling 29.78 million tonnes of foodgrains, as against the minimum buffer stock level of 16.6 million tonnes prescribed for October (Table 5.8 and 5.9).

**TABLE 5.9**
**Central Pool Stocks**
(Million Tonnes)

| As on 1st January | Rice | Wheat | Total |
|---|---|---|---|
| 1980 | 8.58 | 8.15 | 16.73 |
| 1981 | 6.21 | 4.91 | 11.12 |
| 1982 | 5.34 | 5.01 | 10.35 |
| 1983 | 4.77 | 6.99 | 11.76 |
| 1984 | 4.34 | 10.45 | 14.79 |
| 1985 | 6.74 | 14.54 | 21.28 |
| 1986 | 9.06 | 14.93 | 23.99 |
| 1987 | 8.50 | 13.93 | 22.43 |
| 1988 | 5.91 | 7.35 | 13.26 |
| 1989 | 4.09 | 4.44 | 8.53 |
| 1990 | 5.65 | 5.61 | 11.26 |
| 1991 | 8.66 | 9.24 | 17.90 |
| 1992* | 8.63 | 5.28 | 13.91 |
| 1993* | 8.52 | 3.28 | 11.80 |
| 1994* | 11.17 | 10.82 | 21.99 |
| 1995* | 17.24 | 12.88 | 30.12 |
| 1996* | 11.50 | 13.12 | 24.62 |
| Buffer Norms for Ist January | 7.7 | 7.7 | 15.4 |

* 'Provisional'

### Central Issue Prices for PDS/RPDS

29. The Central Issue Prices (CIP) for Public Distribution System (PDS) which are uniform for all States remained unchanged since 1st February 1994 when CIP for PDS for wheat was fixed at Rs. 402 per quintal (Rs. 352 per quintal for RPDS) and for rice at Rs. 537 per quintal for common variety, Rs.617 for fine and Rs. 648 for super fine rice (Table 5.11). For RPDS areas, CIP is Rs.50 per quintal less than the CIP for PDS areas.

30. Although the minimum support prices of wheat and paddy have been raised each year and the procurement prices of levy rice have also been revised upward consequent to the revision of the minimum support price, there has been no corresponding revision in the CIP of rice and wheat since February 1994. This has resulted in higher food subsidy burden on the Government. The Central Issue Prices of foodgrains for PDS/RPDS are fixed deliberately much below the economic cost of foodgrains with a view to making foodgrains available to PDS consumers at reasonable prices.

31. While the Central Issue Prices (ex-FCI godowns) are fixed by the Central Government for PDS as well as RPDS, the 'retail end' prices for PDS and RPDS are fixed by the State Governments, taking into account the transportation cost and the dealer's commission etc. For RPDS, however, a maximum ceiling of Rs.25 per quintal has been fixed by Central Government on account of transportation cost etc. which can be built up by State Government in fixing retail prices for RPDS. There are States

**TABLE 5.10**
**Procurement of Wheat and Rice**
**(Central Pool)**
(Million Tonnes)

| Marketing Year | Wheat (April - March) Qty | % change | Rice (Oct - Sept) Qty | % change |
|---|---|---|---|---|
| 1985-86 | 10.34 | 11.3 | 8.86 | 1.2 |
| 1986-87 | 10.53 | 1.8 | 8.24 | -7.0 |
| 1987-88 | 7.88 | -25.2 | 6.33 | 23.0 |
| 1988-89 | 6.58 | -16.5 | 6.94 | 9.6 |
| 1989-90 | 8.94 | 35.9 | 10.88 | 56.8 |
| 1990-91 | 11.07 | 23.7 | 11.74 | 7.9 |
| 1991-92 | 7.75 | -29.9 | 9.24 | -21.3 |
| 1992-93 | 6.38 | -17.7 | 11.79 | 27.6 |
| 1993-94 | 12.83 | 101.1 | 13.65 | 15.8 |
| 1994-95 | 11.87 | -7.5 | 13.29 | -2.7 |
| 1995-96 | 12.33* | | 6.72$ | |

(*) - Position up to Dec 1995. ($) - Position as on 31.01.1996.

which have fixed the 'retail end' prices for PDS and RPDS consumers even lower than the CIP. This involves additional subsidy burden which is borne by the States. The Government of Andhra Pradesh, Tamil Nadu and Orissa are operating Rs.2 per kg. scheme for rice and Government of Gujarat is operating Rs.2 per kg. wheat scheme and the consequent additional subsidy is therefore borne by these States (Table 5.11 and 5.12).

**TABLE 5.11**
**Periodical Revisions in PDS Central Issue Price (CIP)**

(Rs./quintal)

| | Rice | | | Wheat | |
|---|---|---|---|---|---|
| Date of revision | Common | Fine | Superfine | Date of revision | |
| 1982 (Oct) | 188 | 200 | 215 | 1982 (Aug) | 160 |
| 1984 (Jan) | 208 | 220 | 235 | 1983 (Apr) | 172 |
| 1985 (Oct) | 217 | 229 | 244 | 1986 (Feb) | 190 |
| 1986 (Feb) | 231 | 243 | 253 | 1987(May) | 195 |
| 1986 (Oct) | 239 | 251 | 266 | 1988(Mar) | 204 |
| 1987 (Oct) | 239 | 264 | 279 | | |
| 1989 (Jan) | 244 | 304 | 325 | | |
| 1990 (Jun) | 289 | 349 | 370 | 1990(May) | 234 |
| 1991 (Dec) | 377 | 437 | 458 | 1991(Dec) | 280 |
| 1993 (Jan) | 437 | 497 | 518 | 1993 (Jan) | 330 |
| 1994 (Feb) | 537 | 617 | 648 | 1994 (Feb) | 402 |

## Food Subsidy

32. The total food subsidy borne by the Central Government which was Rs.2,000 crore in 1987-88 has been rising progressively over the years and was Rs.5,537 crore in 1993-94, Rs.5,100 crore in 1994-95 and has been budgeted at Rs.5,250 crore in 1995-96 (Revised Estimate). The consumer subsidy which was Rs.125.78 per quintal on rice and Rs.163.47 per quintal on wheat in 1994-95, has risen to Rs.128.37 per quintal in case of rice and Rs.143.67 per quintal in the case of wheat in the Revised Estimates for 1995-96.

## Agriculture Price Support and Food Security Policy

33. The objective of the Government Food Security Policy is to ensure availability of foodgrains to the public at an affordable price. The Public Distribution System which has existed in the country since the 2nd World War, strives to meet these twin objectives. The price support for production, procurement and maintenance of public stocks of rice and wheat, are the principal operative instruments of the country's food security and public distribution policy. The procurement of coarse grains has been negligible over the years due to higher prevailing prices in the open market and therefore, no stocks of coarse grains are available in the Central Pool for distribution through PDS.

34. The country has been able to sustain appreciable growth in the production of foodgrains especially since early seventies by following the mechanism of minimum support prices to ensure that farmers get remunerative prices for their produce and there is no exploitation of farmers by the trading community, particularly during the harvesting season. The Commission for Agricultural Costs and Prices (CACP) recommends farm support prices for wheat, paddy, coarse grains and pulses etc. before the onset of the rabi and the kharif marketing seasons. The Food Corporation of India (with the active cooperation and participation of the State Governments and State level procuring agencies) is the principal operating agency for implementing the price support policy of the Government. Rice is mainly procured for the Central Pool under levy imposed on the rice millers/traders under the Essential Commodities Act, 1955 and the levy orders issued by the State Governments. In years when there is likely shortage of foodgrains in the Central Pool, Government resorts to import of foodgrains to augment domestic stocks. The stock of foodgrains in the Central Pool is basically utilised for distribution to PDS consumers. However, depending on the behaviour of the open market prices and the stock position in the Central Pool, the public stock of foodgrains are also utilised for market intervention as an instrument of supply management policy.

35. Based on a study by a technical group, minimum buffer stocking levels have been prescribed for rice and wheat to be maintained in the Central Pool as on 1st January, 1st April, 1st July and 1st October in a year during the Eighth Plan period. As already explained, the stock position of foodgrains in Central Pool continued to remain much above the prescribed minimum norms for 1995-96.

36. The Minimum Support Price (MSP) for major crops is recommended to the Government each year by the Commission for Agricultural Costs and prices (CACP) based on a detailed study of costs of production and other relevant factors. Cereals for which CACP recommends MSPs are paddy, wheat, jowar, bajra, maize and ragi. It also recommends prices for four pulses i.e. gram, arhar, moong and urad; six oilseeds, namely, groundnut, sunflower, soyabean, rapeseed/mustard, safflower, toria and one tree crop, namely copra. It also recommends MSPs for four non-food crops i.e. cotton, jute, sugarcane and tobacco (Table 5.13).

## Movement of Agricultural Prices Relative to Industrial Prices

37. The ratio of agricultural prices to the price of manufactured products indicates a more favourable movement for agricultural sector since 1991-92. The ratio of the agricultural price index to the index of prices of manufactured products in the current financial year (up to December) was 113.3, a little

## TABLE 5.12
## F.P.S. level Prices of Foodgrains in Various States/UTs
## (Position as on 01.02.1994)

(Rs./kg.)

| Sl. No. | States/UTs | Public Distribution System | | | | Revamped P. D. S | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Wheat | Rice | | | Wheat | Rice | | |
| | | | com | fine | s'fine | | com | fine | s'fine |
| 1. | Andhra Pradesh | 4.45[1] | - | 6.50 | 6.80 | 3.90 | 5.12 | 5.92 | 6.23 |
| | (White Cards) | - | 2.00[4] | - | - | - | 2.00[4] | - | - |
| | (Pink Cards) | - | - | 6.50 | 6.80 | - | 5.12 | 5.92 | 6.23 |
| 2. | Arunachal Pradesh | 3.77 | 5.12 | 5.92 | 6.23 | 3.77 | 5.12 | 5.92 | 6.23 |
| 3. | Assam | 5.06 | 5.95 | 6.83 | 7.17 | - | 5.10 | - | - |
| 4. | Bihar (Upto 5 kms) | 4.57 | 6.07 | 6.89 | 7.25 | 3.77 | 5.12 | 5.92 | 6.23 |
| | (6 to 16 kms) | 4.58 | 6.08 | 6.90 | 7.26 | - | - | - | - |
| 5. | Delhi | 4.27 | 5.73 | 6.57 | 6.90 | - | - | - | - |
| 6. | Goa | 4.30 | 5.70 | 6.55 | 6.85 | 3.77 | 5.12 | 5.92 | 6.23 |
| 7. | Gujrat | 4.90 | 6.60 | 7.60 | 8.00 | 3.77 | 5.12 | 5.92 | 6.23 |
| 8. | Haryana | 4.22 | - | - | 6.92 | 3.77 | - | - | 6.22 |
| 9. | Himachal Pradesh | 4.32 | 7.35[2] | - | - | 3.77 | 5.12 | - | 6.23 |
| 10. | Jammu & Kashmir | 4.37 | 6.05 | 7.25 | - | 3.77 | 5.12 | 6.23 | - |
| | (Atta) | 4.67 | - | - | - | 3.88 | - | - | - |
| 11. | Karnataka (Urban) | 4.45 | 5.95 | 6.75 | 7.05 | - | - | - | - |
| | (Saffron Cards) | 4.45 | 5.95 | 6.75 | 7.05 | 3.95 | 5.35 | 6.15 | 6.45 |
| | (Tricolour Cards) | 3.45 | 5.10 | 5.35 | 5.45 | 3.45 | 5.10 | 5.35 | 5.45 |
| 12. | Kerala | 4.38 | 5.75 | 6.56 | 6.87 | 3.85 | 5.20 | 6.00 | 6.31 |
| 13. | Madhya Pradesh | 4.60 | 6.00 | 6.80 | 7.15 | 3.77 | 5.12 | 5.92 | 6.23 |
| 14. | Maharashtra | 5.00 | 6.60 | 7.50 | 7.90 | 3.00 | 4.40 | 5.20 | 5.50 |
| | | - | - | - | - | 4.00 | 6.00 | 7.00 | 7.25 |
| 15. | Manipur | 4.21 | 6.00 | 6.86 | 7.20 | - | 5.12 | 5.92 | 6.23 |
| 16. | Meghalaya | 4.10 | 5.40 | 6.20 | 6.50 | - | 5.38 | 6.18 | 6.49 |
| 17. | Mizoram | 3.52 | 5.12 | 5.92 | 6.23 | 3.52 | 5.12 | 5.92 | 6.23 |
| 18. | Nagaland[5] | - | - | - | - | - | - | - | - |
| 19. | Orissa | 4.70 | 6.22 | 7.09 | 7.43 | 3.77 | 5.12 | 5.90 | 6.23 |
| 20. | Punjab | 4.05 | - | - | 6.79 | - | - | - | - |
| | (Atta Loose) | 4.59 | - | - | - | - | - | - | - |
| | (Atta Packed) | 4.89 | - | - | - | - | - | - | - |
| 21. | Rajasthan | 4.45 | 5.90 | 6.70 | 7.00 | 3.85 | 5.25 | 6.10 | 6.40 |
| 22. | Sikkim | 4.35 | 5.70 | 6.53 | 6.85 | 4.10 | 5.33 | 6.13 | 6.45 |
| 23. | Tamil Nadu[3] | 4.50 | 2.50 | 3.75 | 3.75 | 3.80 | 2.25 | 3.75 | 3.75 |
| 24. | Tripura | 4.55 | 5.90 | 6.70 | 7.00 | 4.05 | 5.40 | 6.20 | 6.50 |
| 25. | Uttar Pradesh | 4.50 | 6.00 | 6.90 | 7.21 | 3.77 | 5.12 | 5.92 | 6.23 |
| 26. | West Bengal | 4.55 | 5.90 | 6.80 | 7.15 | 3.77 | 5.12 | 5.92 | 6.23 |
| 27. | A & N Islands | 4.70 | 6.20 | 7.10 | 7.40 | 3.77 | 5.12 | 5.92 | 6.23 |
| 28. | Chandigarh | 4.51 | 6.85[2] | - | - | - | - | - | - |
| | (Atta Packed) | 4.82 | - | - | - | - | - | - | - |
| 29. | D & N Haveli | 4.51 | - | - | 6.23 | 3.77 | - | - | 6.23 |
| 30. | Daman & Diu | 4.15 | - | - | 6.63 | 4.15 | - | - | 6.23 |
| 31. | Lakshdeep[5] | - | - | - | - | - | - | - | - |
| 32. | Pondicherry | 4.27 | 5.55 | 6.35 | 6.65 | - | - | - | - |
| | Mahe | 4.37 | 5.66 | 6.47 | 6.79 | - | - | - | - |
| | Yanam | 4.35 | 5.85 | 6.70 | 7.05 | - | - | - | - |
| | **Central Issue Prices[1]** | **4.02** | **5.37** | **6.17** | **6.48** | **3.52** | **4.37** | **5.67** | **5.98** |

1 For all card holders. 2 Variety not mentioned 3 With effect from 01.04.1995 4 All varieties. 5 Wholly tribal states.

**TABLE 5.13**
**Procurement and Minimum Support Prices**
(Crop year basis) (Rs/quintal)

| No. | Commodities | Type | Variety | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Paddy | P | Common | 205 | 230 | 270 | 310 | 340 | 360 |
| | | | Fine | 215 | 240 | 280 | 330 | 360 | 375 |
| | | | Super fine | 225 | 250 | 290 | 350 | 380 | 395 |
| 2 | Coarse cereals | P | FAQ | 180 | 205 | 240 | 260 | 280 | 300 |
| 3 | Maize | P | FAQ | 180 | 210 | 245 | 265 | 290 | 310 |
| 4 | Wheat | P | FAQ | 225 | 275[1] | 330[1] | 350 | 360 | 380 |
| 5 | Barley | M | FAQ | 200 | 210 | 260 | 275 | 285 | 295 |
| 6 | Gram | M | FAQ | 450 | 500 | 600 | 640 | 670 | 700 |
| 7 | Arhar | M | FAQ | 480 | 545 | 640 | 700 | 760 | 800 |
| 8 | Moong | M | FAQ | 480 | 545 | 640 | 700 | 760 | 800 |
| 9 | Urad | M | FAQ | 480 | 545 | 640 | 700 | 760 | 800 |
| 10 | Sugarcane[2] | S | FAQ | 23 | 26 | 31 | 34.5 | 39.1[6] | 42.5 |
| 11 | Cotton | M | F-414/H777 | 620 | 695 | 800 | 900 | 1000 | 1150 |
| | | M | H-4 | 750 | 840 | 950 | 1050 | 1200 | 1350 |
| 12 | Groundnut | M | FAQ | 580 | 645 | 750 | 800 | 860 | 900 |
| 13 | Jute | M | TD-5 | 320 | 375 | 400 | 450 | 470 | 490 |
| 14 | Rape and mustard | S | FAQ | 600 | 670 | 760 | 810 | 830 | 860 |
| 15 | Sunflower | M | FAQ | 600 | 670 | 800 | 850 | 900 | 950 |
| 16 | Soyabean | M | Black | 350 | 395 | 475 | 525 | 570 | 600 |
| | | M | Yellow | 400 | 445 | 525 | 580 | 625 | 680 |
| 17 | Safflower | M | FAQ | 575 | 640 | 720 | 760 | 780 | 800 |
| 18 | Toria | M | FAQ | 570 | 645 | 725 | 780 | | |
| 19 | Tobacco | M | VFC F-2[3] | 1325[3] | 1475[3] | 1600[4] | 1800 | 1850[3] | 1900 |
| | | M | L-2 | 1425[4] | 1600[4] | 1750[4] | 2000 | 2100[4] | 2150 |
| 20 | Copra (milling) | M | FAQ | 1600[5] | 1700[5] | - | 2150 | 2350 | 2500 |
| | Copra balls | M | FAQ | 1850 | - | - | - | 2575 | 2725 |

M Minimum support price. P-Procurement price. FAQ-Fair average quality. S - Statutory minimum price.
[1] Including a central bonus of Rs.25.00 per quintal.
[2] These prices are linked to a basic recovery of 8.5 per cent with a proportionate premium for every 0.1 per cent increase above that level.
[3] Black soil. [4] Light soil. [5] For calendar years 1989, 1990, and 1991.
[6] Linked to a basic recovery of 8.5 per cent, subject to a premium of Rs.0.46 for every 0.1 percentage point increase in the recovery above that level upto 10 per cent and Rs 0.60 for every 0.1 percentage point increase in the recovery above 10 per cent.
\- Not announced.

**TABLE 5.14**
**Index Numbers of Wholesale Prices of Agricultural Commodities Relative to Manufactured Products**
**(Base: 1981-82=100)**

| Year | General Index of Wholesale Prices | Price Index of Agricultural Products[1] | Price Index of Manufactured Products | Agriculture Prices as per cent of Manufacturing |
|---|---|---|---|---|
| Weight | 100.00 | 27.47 | 57.04 | (Col.3/Col.4)x100 |
| 1982-83 | 104.9 | 107.3 | 103.5 | 103.7 |
| 1983-84 | 112.8 | 121.4 | 109.8 | 110.6 |
| 1984-85 | 120.1 | 129.2 | 117.5 | 109.9 |
| 1985-86 | 125.4 | 129.1 | 124.4 | 103.8 |
| 1986-87 | 132.7 | 142.8 | 129.2 | 110.5 |
| 1987-88 | 143.6 | 161.8 | 138.5 | 116.8 |
| 1988-89 | 154.3 | 170.9 | 151.6 | 112.7 |
| 1989-90 | 165.7 | 174.4 | 168.6 | 103.5 |
| 1990-91 | 182.7 | 198.3 | 182.8 | 108.5 |
| 1991-92 | 207.8 | 236.8 | 203.4 | 116.4 |
| 1992-93 | 228.7 | 255.5 | 225.6 | 113.2 |
| 1993-94 | 247.8 | 271.4 | 243.2 | 111.6 |
| 1994-95 | 274.7 | 307.7 | 268.8 | 114.5 |
| 1995-96[2] | 295.0 | 330.8 | 291.9 | 113.3 |

[1] = Composite index of the sub-groups - Food Articles and Non-food Articles
[2] = Annual average April-December, 1995
Source: Office of Economic Adviser, Ministry of Industy.

lower than the preceding year's annual average of 114.5. The Government's agricultural price policy has attempted to correct the earlier policy bias favouring industry thus creating conditions to bring about a more favourable trade regime for agricultural producers.

## Outlook

38. The deceleration in the growth of wholesale prices resulting in the inflation rate falling sharply to 5 per cent by end of January 1996 is likely to continue through this financial year. Much of the success in controlling inflation in the current financial year is attributable to the success of the Government and the Reserve Bank in Containing monetary growth and managing the supply of essential commodities. Market prices of rice and wheat remained subdued in 1995-96 mainly because of open market sale of foodgrains by Food Corporation of India. Given the high level of public stocks in January 1996, the supply side factors should by and large continue to remain favourable through the next year and, if the 1996 Monsoon turns out to be favourable, a moderate inflation rate should be a reasonable prognosis.