

## PRICES AND DISTRIBUTION

The major highlight of the price behaviour in the current financial year was that (i) the overall annual inflation rate based on wholesale prices at the end of 2nd week of January, 1997 was 7.6 per cent, (ii) prices of agricultural products (primary articles) rose sharply by about 11.7 per cent, (iii) fuel and energy prices rose by about 17.4 per cent, (iv) the manufactured commodity group prices rose very modestly by about 3.6 per cent, and (v) terms of trade for agriculture improved by about 3.9 per cent.

### Annual Inflation

2. The current financial year started with an inflation rate of 4.8 per cent. It remained steady at this level of less than 5 per cent during the first quarter, April-June, 1996. The long overdue adjustment (by 18 per cent) in the administered prices of petroleum products in the first week of July, 1996 pushed the wholesale price index up from 306.4 to 310.4, and the inflation rate rose to 5.8 per cent in the first week of July, 1996. By mid-December, 1996, the inflation rate crossed the 7 per cent level reflecting an undercurrent of renewed inflationary pressures brought about primarily by a sharp escalation in prices of cereals, especially wheat. For much of this financial year, the price rise in the manufactured products group remained steady at about 4 per cent level, and dampened to some extent the effect of the rise in the prices of primary articles. The relative modest rise in the prices of manufactured products provides the basis for hoping that this latest inflationary undercurrent would abate by the end of the financial year if other macro variables such as money supply growth and fiscal deficit are held under prudent limits, and good agricultural production moderates inflation in primary articles.

3. The uptrend in the inflation rate in the second half of 1996-97 so far has been still modest compared to the wholesale price movement in the preceding four years (Table 5.1). Consequently, the 52 - week

average inflation rate in 1996-97 was still the lowest in the four years of post reform period, 1992-93 to 1996-97 as shown below.

	Annual Inflation (per cent)	
	End of year (Point-to-point)	52 weeks Average
1992-93	7.0	10.1
1993-94	10.8	8.4
1994-95	10.4	10.9
1995-96	4.4	7.6
1996-97 (January 11)	7.6	5.7

4. The consumer price index for industrial workers, CPI (IW) is the most commonly used among the three consumer price indices (Box 5.1 and Table 5.1). The trend in the retail price movement as measured by CPI (IW), shows that the moderate uptrend seen in WPI is also reflected in the CPI (IW) as well in the second half of the current financial year (Table 5.1 and Fig 5.1). Large divergence in the inflation rates in the two price series observed in the first half of the year is explained by the larger weight (almost twice) of food items in the CPI (IW) relative to that in the WPI. The rising trend in foodgrains prices pushed up the CPI(IW) much more than the WPI in the first half of the year.

5. Primary articles having a weight of 32.3 in the wholesale price index, accounted for over half of the rise of the annual growth of 7.6 per cent in wholesale prices up to January 11, 1997, whereas the contribution of manufactured products with weight of 57.04 was limited to 26.6 per cent (Table 5.2 and Fig. 5.2). Among primary articles, the major share of the annual growth in inflation was contributed by food articles (45.8 per cent). There was sharp rise in the prices of cereals. Wheat price rose by as much as 32.8 per cent. Fruits and vegetables too recorded a steep rise of 37.9 per cent. Among manufactured products, the key products that recorded a higher annual rise than last year and contributed the major part in the annual growth of prices in the manufacturing

TABLE 5.1

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

(Per cent)

Year	Month	WPI	CPI	CPI	CPI
	Base	1981-82	1982	1984-85	1986-87
1992-93	Apr	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
	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	10.4	12.4
	July	8.4	11.4	10.3	14.5
	Aug	8.8	10.9	10.2	14.1
	Sept	8.9	10.1	9.7	13.2
	Oct	8.4	10.4	9.6	11.6
	Nov	8.4	10.3	10.0	10.1
	Dec	6.4	9.7	9.2	8.2
	Jan	5.0	9.0	N.A.	7.8
	Feb	4.6	8.6	N.A.	6.8
	Mar	5.1	8.9	N.A.	7.2
1996-97	Apr	5.0	9.8	N.A.	8.1
	May	4.5	9.3	N.A.	9.0
	June	4.5	8.8	N.A.	8.8
	July	6.0	8.3	N.A.	7.2
	Aug	6.2	8.9	N.A.	7.1
	Sept	6.5	8.5	N.A.	7.9
	Oct	6.6	8.5	N.A.	8.3
	Nov	6.5 *	8.7	N.A.	N.A.
	Dec	7.2 *	N.A.	N.A.	N.A.
	Jan 11	7.6 *	N.A.	N.A.	N.A.

\* Provisional. NA= Not available

BOX 5.1

## Coverage of Price Index Numbers

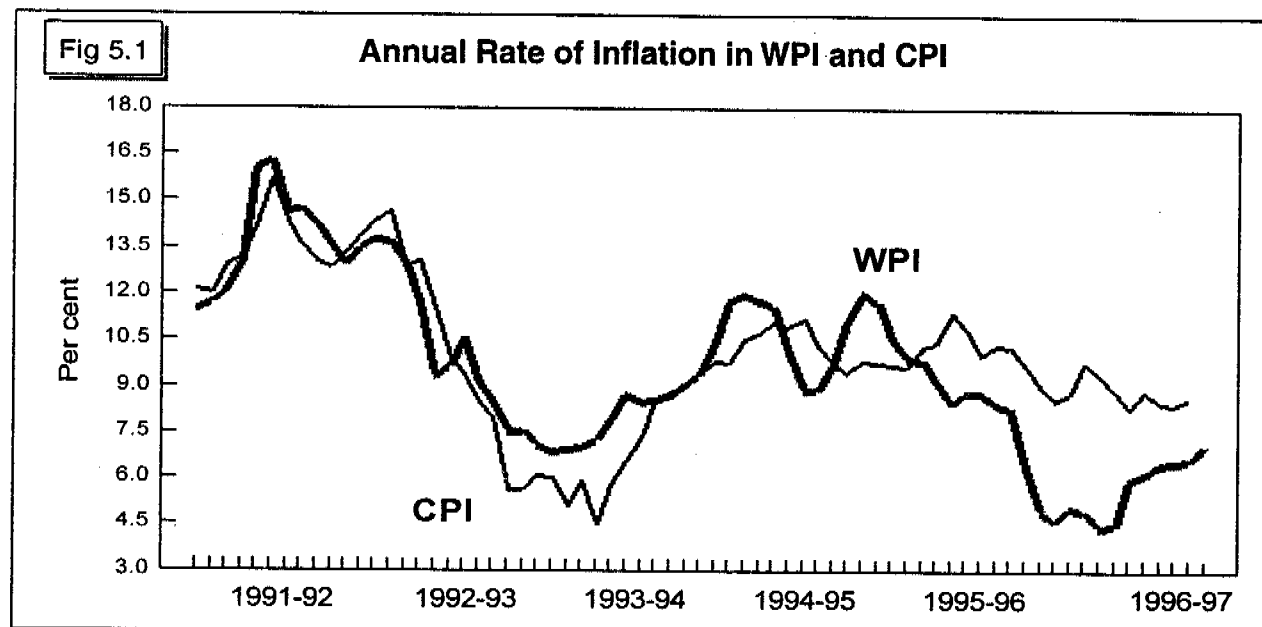
- The present series of Wholesale Price Index (WPI) is based on wholesale prices of traded goods in primary, fuel/power and manufacturing sectors. The present series with base 1981-82 covers a basket of 447 commodities drawn from 3 distinct sub-sectors namely, (i) primary sector which include food articles and raw materials (mostly agro non-food articles and minerals); (ii) fuel/ power sector which includes coal, petroleum products and electricity; and (iii) manufactured sector which includes food products, beverages, tobacco, textiles, wood, paper, leather, rubber and plastic, chemicals, non-metallic minerals, basic metals, machinery, transport equipments and other miscellaneous manufactured products. The series is compiled, constructed and reported on a weekly basis.
- The movements in retail prices are monitored in respect of four different segments of the population based on their location and consumption behaviour. There are four distinct series of Consumer Price Index Numbers: (1) Consumer Price Index for Industrial Workers, CPI-IW, with base 1982; (2) Consumer Price Index for Urban Non-Manual Employees, CPI-UNME, with base 1984-85; (3) Consumer Price Index for Agricultural Labourers, CPI-AL, with base 1986-87; and (4) Consumer Price Index for Rural Labourers, CPI-RL, with base 1986-87. The CPI-RL was introduced in November 1995. The basket of commodities for CPI-IW covers 260 commodities, CPI-UNME 180 commodities, CPI-AL and CPI-RL 180 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. Weighting diagrams are distinct for each of these index numbers.
- The existing WPI series with base 1981-82 is under review by a Working Group. The Group is likely to suggest a new base year and incorporation of the impact of structural changes in the economy and the consequent changes in the relative importance of the commodities constituting the basket.

sector were food products. Food products contributed more than one-third of the rise in the prices of manufactured products.

## Financial year changes in WPI in 1996-97

6. The current financial year beginning April, 1996 recorded a WPI inflation rate of 6.8 per cent up to January 11, 1997. The first quarter (April-June) of the current financial year saw a rather subdued rise of 2.3 per cent as against a rise of 3 per cent in the first quarter of the preceding year. However, the WPI rose by 1 percentage point in July, 1996 consequent to the adjustment of prices of petroleum products to make up for the deficit in the Oil Pool Accounts. Revision in the prices of coal (except power grade

<b>TABLE 5.2</b> <b>Annual (point-to-point) Inflation Rate</b> <b>As on 11 January 1997</b> <b>(Base:1981-82=100)</b> <b>(Per cent)</b>					
Group/sub-group commodity	Weight	Annual rate of inflation		Contribution to inflation	
		1996-97 Jan 97/Jan 96	1995-96 Jan 96/Jan 95	1996-97	1995-96
<b>All Commodities</b>	<b>100.000</b>	<b>7.6</b>	<b>4.9</b>	<b>100.0</b>	<b>100.0</b>
<b>Primary Articles</b>	<b>32.295</b>	<b>11.7</b>	<b>2.6</b>	<b>50.4</b>	<b>18.0</b>
Food articles	17.386	18.1	2.4	45.8	9.6
Food-grains	7.917	18.1	3.8	19.8	6.7
Cereals	6.824	19.2	3.6	17.3	5.1
Rice	3.685	13.7	6.0	7.0	4.7
Wheat	2.248	32.8	-0.6	9.0	-0.3
Pulses	1.093	13.4	5.1	2.6	1.6
Fruits & Vegetables	4.089	37.9	10.9	20.2	8.7
Fruits	2.798	26.9	11.4	10.0	6.3
Vegetables	1.291	63.3	9.8	10.2	2.4
Milk	1.961	3.6	-0.0	1.0	-0.0
Eggs, Fish & Meat	1.783	8.5	-1.3	2.6	-0.7
Condiments & Spices	0.947	8.5	-9.1	1.7	-3.3
Other food articles	0.689	3.4	-8.4	0.4	-1.8
Non-food articles	10.081	2.7	2.4	3.9	5.6
Fibres	1.791	-11.3	-5.7	-3.3	-2.9
Oil seeds	3.861	5.7	1.8	2.8	1.4
Minerals	4.828	2.2	5.4	0.7	2.8
<b>Fuel, Power, Light &amp; Lubricants</b>	<b>10.663</b>	<b>17.4</b>	<b>1.1</b>	<b>23.3</b>	<b>2.3</b>
<b>Manufactured Products</b>	<b>57.042</b>	<b>3.6</b>	<b>6.9</b>	<b>26.6</b>	<b>79.4</b>
Food products	10.143	7.3	2.1	9.1	4.3
Sugar, Khandsari & gur	4.059	-0.8	-1.4	-0.3	-1.0
Sugar	2.013	1.0	2.1	0.2	0.7
Edible Oils	2.445	0.1	3.0	0.0	1.6
Rape & Mustard Oil	0.276	-8.5	5.9	-0.3	0.3
Groundnut Oil	0.526	-1.1	6.6	-0.1	0.7
Oil cakes	0.432	15.3	4.9	0.9	0.5
<b>Other selected products</b>					
Textiles	11.545	1.9	11.0	2.9	24.8
Cement	0.860	-4.4	19.3	-0.5	2.8
Iron & steel	2.441	4.8	5.2	1.5	2.6
Fertilizers	1.748	-0.8	4.8	-0.1	1.2
Non-ferrous metals	0.571	-4.0	0.1	-0.4	0.0
<b>Administered items</b>	<b>15.929</b>	<b>14.5</b>	<b>0.9</b>	<b>23.9</b>	<b>2.3</b>
1. Petroleum crude etc.	4.274	2.3	0.0	0.6	0.0
2. Petroleum products	6.666	19.6	-0.3	13.5	-0.3
3. Coal Mining	1.256	22.3	0.2	4.5	0.1
4. Electricity	2.741	11.8	3.6	5.2	2.5
5. Urea (Fertilizer)	0.992	-0.1	-0.1	-0.0	-0.0
<b>Seasonal items</b>	<b>34.403</b>	<b>10.5</b>	<b>2.1</b>	<b>50.3</b>	<b>16.2</b>
<b>Raw materials</b>	<b>14.909</b>	<b>2.6</b>	<b>3.0</b>	<b>4.6</b>	<b>8.4</b>
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.					



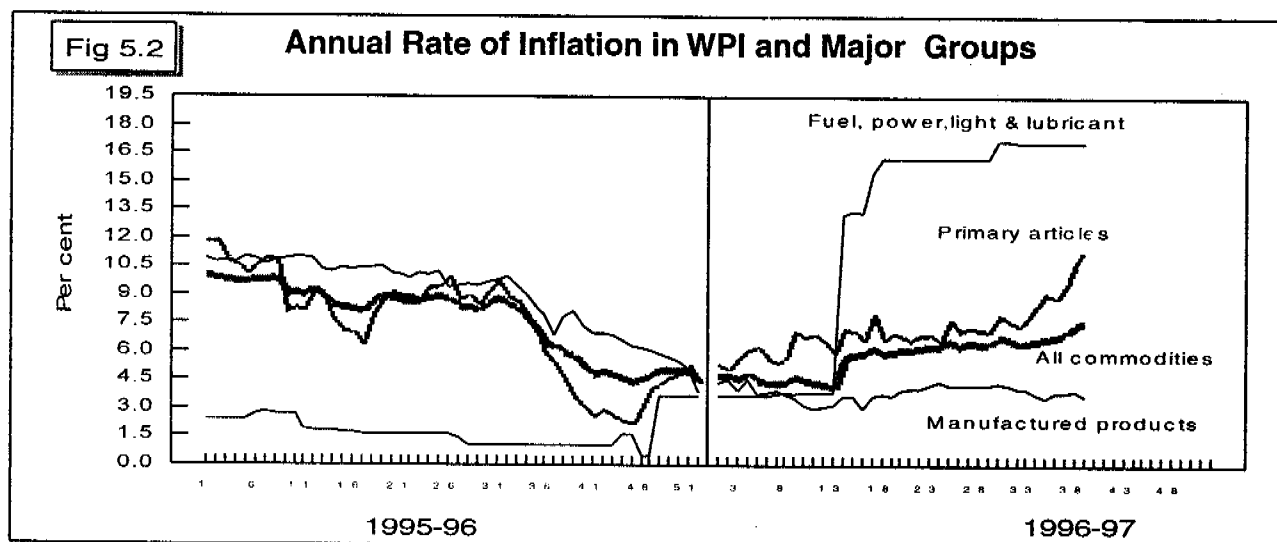
coal) and escalation in prices of cereals fostered a cumulative impact in the second quarter (July-September) resulting in the wholesale price index rising by 5.9 per cent compared to the rise of 4.5 per cent in the corresponding period last year. Coal prices were revised again in November. A further spurt in foodgrains prices especially, rice and wheat, pushed up the aggregate rise in WPI to 6.8 per cent at the end of the second week of January, 1997 (Table 5.3).

7. The wholesale price movement observed since the beginning of the eighties (Table 5.4) reveals that: (i) the maximum escalation in prices occurs during the first and second quarter (April-Sept.); (ii) prices decelerate during the third quarter (Oct-Dec.) and become almost steady during the fourth quarter (January-March); and (iii) upward movement in the prices in the first half are generally offset by the slower downward movement in second half. However, there

is deviation from the above pattern in the years of high inflation when significant price rises occur in each of the four quarters, thereby raising quarterly variation and rate of inflation, as witnessed during 1990-91, 1991-92, 1993-94 and 1994-95.

#### Primary Articles

8. During the current financial year so far (April, 1996-Jan 11, 1997), the wholesale price of primary articles rose by 9.7 per cent, which was much higher than the rise of 3.6 per cent in the corresponding period of last year. The rise in the price of primary articles is attributed mainly to the sharp rise of 14.7 per cent in the prices of foodgrains, vegetables (36 per cent), condiments and spices (11.4 per cent) and tea (11 per cent). Amongst foodgrains, wheat recorded the highest rise of 28.3 per cent up to the second week of January, 1997. Non-food articles rose by 5.5 per cent (Table 5.3 and Table 5.5).



**TABLE 5.3**  
**Financial Year Increase in Wholesale Price Index**  
**(since end March)** (Per cent)

Commodity group	Weight	1995-96		1996-97		
		Apr-Jan	Qrt 1 Apr-Jun	Qrt 2 Jul-Sep	Qrt 3 Oct-Dec	Apr-11Jan
<b>ALL COMMODITIES</b>	<b>100.000</b>	<b>4.2</b>	<b>2.3</b>	<b>3.6</b>	<b>0.8</b>	<b>6.8</b>
Primary articles	32.295	3.6	4.4	3.0	1.3	9.7
Fuel, power, light and lubricants	10.663	-0.1	0.1	11.8	0.9	13.2
Manufactured products	57.042	5.3	1.6	2.2	0.1	3.9
Administered items	15.929	-0.1	0.0	9.9	0.7	11.1
Seasonal items	34.403	3.2	5.1	3.6	0.4	9.8
Raw materials	14.909	1.6	2.2	4.4	-2.7	4.9
Essential commodities	21.770	4.1	6.7	4.1	1.7	12.4

### Manufactured Products.

9. Prices of manufactured products in the first quarter( April-June) of the current financial year registered a rise of 1.6 per cent, about half of the rise of 3.3 per cent recorded in the corresponding period last year. Although the rise in the second quarter was higher, the over-all rise in the first half of the current financial year (April-September) was 3.8 per cent compared to 4.8 per cent in the corresponding period last year. Prices in this group have remained almost stable thereafter and registered a modest rise of 3.9 per cent up to January 11, 1997 (Table 5.3 ). Escalation in the prices of

almost all the subgroups, except food products and other miscellaneous manufacturing products, have been lower than last year. The index for food products rose by 11 per cent relative to the rise of 2.8 per cent last year (Table 5.5).

### Seasonal Items

10. Unlike last year, the prices of seasonal items have been under pressure since the beginning of the current financial year, and have registered a rise of 9.8 per cent between April, 1996 to January 11, 1997. Prices of seasonal items escalated by 5.1 per cent in the first quarter (April-June) which was much higher than the rise of 3.6 per cent in the corresponding period

**TABLE 5.4**  
**Quarterly Movements in Wholesale Prices**  
**(Base:1981-82)** (Per cent)

Year	Quarterly rise in WPI				Variation between Quarters	Annual Inflation
	Qrt.1 Apr-Jun	Qrt.2 Jul-Sept	Qrt.3 Oct-Dec	Qrt.4 Jan-Mar		
1982-83	2.1	3.2	1.0	1.0	1.9	7.2
1983-84	3.2	2.6	1.0	0.9	1.8	7.2
1984-85	2.2	3.4	-0.2	0.0	1.6	6.0
1985-86	2.6	1.2	-0.4	1.1	0.8	4.8
1986-87	2.6	2.7	0.3	0.2	1.4	5.1
1987-88	2.5	4.1	1.7	1.5	3.1	10.7
1988-89	2.2	2.3	1.0	0.4	1.5	5.7
1989-90	2.6	3.8	0.8	0.9	2.4	9.1
1990-91	3.4	3.1	2.7	3.2	3.3	12.1
1991-92	2.3	6.2	2.1	2.2	3.8	13.6
1992-93	2.4	3.2	1.4	0.3	1.9	7.0
1993-94	2.0	4.2	2.0	1.3	2.7	10.8
1994-95	4.0	2.6	1.7	2.7	2.5	10.4
1995-96	3.0	1.5	-0.4	0.9	1.0	5.0
1996-97	2.3	3.6	0.8	0.1*	-	7.6*

\* As on 11.01.1997

last year (Table 5.3). The seasonal impact was visible in the rising prices of foodgrains, especially rice, wheat and gram; eggs, fish and meat; condiments and spices among food articles; oilseeds and sugarcane among non-food articles; and khandsari and gur among food products. Export of rice and wheat, shortfall in production and procurement of wheat, and upward revision in Statutory Minimum Prices were some of the reasons for the rise in prices. Prices of foodgrains by the end of the second quarter (July-September) were higher by 10 per cent which was more than three times the rise registered last year. A sharp rise in the prices of raw cotton, groundnut seeds and mustard seeds caused an abrupt rise in the prices of the sub-group of non-food articles. Thus, during the first two quarters, the prices of seasonal items registered a rise of 8.7 per cent which was more than one and half times the rise in this period of last year.

11. Prices of rice, wheat and gram continued to rise even after September, 1996. The Government's decision to step up open market sale of wheat to 6 lakh tonnes per month from December together with the import of 2 million tonnes to augment public stocks,

began to ease the tight supply situation from late December. Deceleration in the prices of raw cotton and oilseeds because of the fresh arrivals, after harvest in October, 1996, brought some relief to prices of seasonal items in the third quarter (Table 5.3).

### Raw Materials

12. The raw materials group exhibited only a moderate rise of 4.9 per cent this year upto January 11, 1997 as against the rise of 1.6 per cent last year. In the third quarter (October-December), raw material prices actually declined by 2.7 per cent (Table 5.3).

### Administered Items

13. Administered items include mostly energy inputs - petroleum, electricity, coal and urea fertilizer. No rise was recorded in their prices during April-June 1996. But the upward revision by an average of 18 per cent in the prices of petroleum products, effected from July 3, 1996, and revisions in the prices of coal by 22.3 per cent have raised the contribution by this group to 26.4 per cent in the aggregate rise of 6.8 per cent in the price level by January 11, 1997 (Table 5.3 and Table 5.5).

**TABLE 5.5**  
**Wholesale Price Movement in Major Commodity Groups**  
**As on 11 Jan, 1997**  
**Base: 1981-82=100**

(Per cent)

Commodity group/sub-group	Weight	Inflation (Financial Year) (Jan/Mar)		Annual inflation (Jan/Jan)		Share in Inflation (Jan/Mar)(Jan/Jan)	
		1996-97	1995-96	1996-97	1995-96	1996-97	1996-97
<b>All Commodities</b>	<b>100.000</b>	<b>6.8</b>	<b>4.2</b>	<b>7.6</b>	<b>4.9</b>	<b>100.0</b>	<b>100.0</b>
<b>Primary Articles</b>	<b>32.295</b>	<b>9.7</b>	<b>3.6</b>	<b>11.7</b>	<b>2.6</b>	<b>45.3</b>	<b>50.4</b>
Food articles	17.386	12.9	5.0	18.1	2.4	36.5	45.8
Foodgrains	7.917	14.7	3.3	18.1	3.8	17.9	19.8
Rice	3.685	11.5	4.7	13.7	6.0	5.7	7.0
Wheat	2.248	28.3	-1.1	32.8	-0.6	9.1	9.0
Pulses	1.093	6.0	9.2	13.4	5.1	1.7	2.6
Vegetables	4.089	36.0	2.4	63.3	9.8	6.0	10.2
Milk	1.961	2.4	1.1	3.6	-0.0	0.5	1.0
Eggs, Fish & Meat	1.783	12.3	1.3	8.5	-1.3	2.6	2.6
Condiments & Spices	0.947	11.4	13.9	8.5	-9.1	2.6	1.7
Other food articles	0.689	8.1	7.0	3.4	-8.4	1.1	0.4
Non-food articles	10.081	5.5	0.8	2.7	2.4	8.1	3.9
Fibres	1.791	-3.4	-10.4	-11.3	-5.7	-1.1	-3.3
Raw Cotton	1.335	1.3	-18.7	-15.7	-14.3	0.2	-3.3
Raw Jute	0.160	-23.9	32.1	-3.0	46.6	-1.2	-0.1
<b>Fuel, Power, Light and Lubricants</b>	<b>10.663</b>	<b>13.2</b>	<b>-0.1</b>	<b>17.4</b>	<b>1.1</b>	<b>25.8</b>	<b>23.3</b>
<b>Manufactured Products</b>	<b>57.042</b>	<b>3.9</b>	<b>5.3</b>	<b>3.6</b>	<b>6.9</b>	<b>29.1</b>	<b>26.6</b>
Food products	10.143	11.0	2.8	7.3	2.1	13.4	9.1
Edible Oils	2.445	3.2	0.8	0.1	3.0	0.8	0.0
Textiles	11.545	1.9	7.8	1.9	11.0	2.7	2.9
Non-metallic mineral products	2.477	6.7	11.3	6.4	16.0	2.0	2.2
Cement	0.860	-7.5	6.5	-4.4	19.3	-0.9	-0.5
Basic metals, alloys & metal products	7.632	2.2	5.1	2.3	6.1	2.8	2.6
<b>1. Administered items</b>	<b>15.929</b>	<b>11.1</b>	<b>-0.1</b>	<b>14.5</b>	<b>0.9</b>	<b>26.4</b>	<b>23.9</b>
<b>2. Seasonal items</b>	<b>34.403</b>	<b>9.8</b>	<b>3.2</b>	<b>10.5</b>	<b>2.1</b>	<b>49.7</b>	<b>50.3</b>
<b>3. Raw materials</b>	<b>14.909</b>	<b>4.9</b>	<b>1.6</b>	<b>2.6</b>	<b>3.0</b>	<b>8.9</b>	<b>4.6</b>
<b>4. Essential commodities</b>	<b>21.77</b>	<b>12.4</b>	<b>4.1</b>	<b>12.4</b>	<b>3.3</b>	<b>39.3</b>	<b>35.2</b>

## Essential Commodities

14. The wholesale prices of 30 essential commodities increased by 12.4 per cent up to January 11, 1997. During the first quarter (April-June), its index rose by 6.7 per cent, which was higher than the previous year's rise of 4.9 per cent. Wheat and jowar among cereals; gram, moong and masur among pulses; atta; tea; edible oils; fish; and gur were the major contributors to this rise. By September, the prices of essential commodities rose by 10.8 per cent as against the rise of 7.5 per cent in the corresponding period of the previous year. Prices of rice, wheat and jowar among cereals and gram among pulses

maintained the rising tempo. Prices of gur escalated to 44.6 per cent as against 25.8 per cent in April-June 1996. Due to the revision in the prices of petroleum products and coal, the prices of kerosene and soft coke also rose abruptly in the second quarter (July-September). In the third quarter, prices of edible oils decelerated, and by December, they attained stability, except in the case of coconut oil whose price rose sharply. Price of rice remained stable but that of wheat soared high by 27 per cent. Among cereals, the price of Jowar also maintained the rising tempo. Among pulses, the price of gram rose sharply over last year while price rise for masur was less than last year (Table 5.3 and Table 5.6).

**TABLE 5.6**  
Annual Rate of Inflation in Essential Commodities  
(November, 1996)

Commodities	Weight (%)		Financial year changes Nov/March				Annual rate of inflation Nov/Nov			
			1996-97		1995-96		1996		1995	
			CPI	WPI	CPI	WPI	CPI	WPI	CPI	WPI
			(Per cent)							
<b>All Commodities</b>	<b>100.00</b>	<b>100.00</b>	<b>9.4</b>	<b>6.5</b>	<b>9.6</b>	<b>5.1</b>	<b>8.7</b>	<b>6.5</b>	<b>10.3</b>	<b>8.4</b>
Rice	12.45	3.69	9.7	10.7	5.5	6.6	7.4	10.0	6.7	6.9
Whole wheat	4.43	2.25	20.8	23.0	37.1	-2.7	-8.6	29.2	38.7	-1.4
Wheat atta	1.75	0.76	24.9	28.9	2.0	-1.5	29.8	39.3	2.9	0.6
Jowar	0.46	0.42	6.2	11.5	12.5	-6.4	4.5	15.2	49.2	24.2
Bajra	0.16	0.18	-3.0	-3.3	0.7	11.0	-0.6	-4.2	13.9	23.7
Moong	0.53	0.20	3.7	-6.1	12.1	20.9	11.9	5.5	14.1	24.2
Gram	0.08	0.41	31.4	38.0	-17.3	-22.9	29.6	48.8	-35.4	-43.4
Masur	0.41	0.05	11.8	19.9	27.8	43.7	17.3	17.2	31.1	27.0
Arhar	1.69	0.27	7.4	4.1	39.7	43.2	1.9	-0.4	52.1	53.4
Urad	0.35	0.15	1.5	-6.0	-3.7	-3.1	-0.3	4.0	8.1	4.6
Coconut oil	0.09	0.17	23.0	18.4	23.9	11.6	27.3	19.6	17.9	16.9
Groundnut oil	2.27	0.53	2.8	1.6	1.2	1.5	-3.4	-1.6	9.5	18.8
Mustard oil	1.44	0.28	0.0	-2.6	4.9	3.5	-6.9	-8.1	9.7	11.0
Vanaspati	0.78	0.52	0.0	1.2	4.9	-4.2	-6.6	-3.2	7.9	2.0
Goat meat	2.12	0.52	7.8	4.0	7.6	7.2	16.6	15.6	18.6	11.0
Fresh fish	1.31	0.51	0.2	9.3	0.8	-2.7	10.2	-17.4	12.8	19.1
Milk	5.52	1.96	6.8	2.8	9.2	0.9	8.9	3.6	11.8	-0.1
Salt	0.15	0.04	4.4	6.3	18.4	93.2	10.8	17.2	32.6	104.0
Chillies	0.63	0.32	7.5	10.3	37.5	45.1	-1.4	-3.1	54.4	62.7
Onions	0.67	0.16	37.7	18.4	148.2	153.7	-23.0	-13.5	37.1	12.9
Potatoes	1.23	0.47	60.3	85.7	122.1	144.7	0.6	11.6	31.7	42.0
Sugar	2.24	2.01	-1.6	1.4	3.3	3.4	-3.4	1.8	2.1	3.2
Gur	0.47	1.75	35.7	30.8	10.7	8.1	17.6	4.7	-2.2	-8.5
Tea leaves	0.82	0.56	4.7	5.9	3.6	55.3	13.4	-15.6	3.5	51.0
Soft coke	0.80	0.35	10.6	32.8	6.8	0.0	14.4	32.8	9.8	0.0
Kerosene oil	1.82	0.87	11.4	1.1	0.2	0.0	16.2	1.1	0.2	0.0
Matchboxes	0.23	0.23	26.3	-0.1	10.7	4.8	34.9	-0.1	4.7	4.8
Washing soap	1.33	0.59	5.2	9.4	6.6	5.4	6.1	8.4	10.7	8.3
Long cloth	0.20	0.36	4.1	0.9	5.8	-1.3	8.1	1.2	13.5	7.8
Dhoties	0.35	1.19	3.4	10.2	8.4	1.8	4.8	13.5	12.1	11.5
Sarees	2.05		4.5		8.5		7.3		14.2	
<b>Essential Commodities</b>	<b>48.83</b>	<b>21.77</b>	<b>10.3</b>	<b>13.0</b>	<b>14.3</b>	<b>7.9</b>	<b>4.9</b>	<b>8.8</b>	<b>15.5</b>	<b>7.4</b>

### Inflation based on Consumer Price movement

15. Inflation based on Consumer Price Index for Industrial Workers (CPI-IW), data for which are available till November, 1996, declined from 9.8 per cent in April, 1996 to 8.7 percent in November, 1996 (Table 5.1). The price movement in CPI-IW indicates that during this financial year, upto November, 1996, the retail prices registered an increase of 9.4 per cent, which was a little lower than the rise in the corresponding period last year (Table 5.7). However, the pattern followed in the current financial year is different from last year. Lower increases than last year have been registered in the retail prices of food, clothing and bedding, but higher rise than last year have been recorded in the prices of the groups of pan, supari, fuel and light and the services (Table 5.7).

#### BOX 5.2

##### Steps taken to control Inflation

###### Supply side measures

- Continuation of FCI's open market sale of rice and wheat through 1996-97 to check market price of foodgrains. By mid January, 1997 2.25 lakh tonnes of rice and 27 lakh tonnes of wheat had been sold in the domestic market.
- Bringing wheat and wheat products under the purview of licencing and stock limits to curb hoarding and black marketing.
- Import of wheat to augment the public stocks, FCI's monthly sales of wheat raised to 6 lakh tonnes from December, 1996.
- Allowing import of edible oils (except coconut oil) under OGL at a reduced duty rate of 20 per cent.
- Import of 2 lakh tonnes of palmolein oil by STC for supply through PDS during 1996.
- Pulses import under OGL with duty reduced to 5 per cent. About 1.90 lakh tonnes of pulses were imported during the first five months (April-August) of the current financial year.
- Substantial reduction in excise duties on a number of items expected to accelerate the pace of industrial growth. Strengthening of public distribution system and supplementing supplies under the liberal import policy for essential commodities such as sugar, edible oils, skimmed milk powder and pulses.

###### Demand side measures

- Reduction of fiscal deficit in the budget proposals for the current financial year to 5 per cent of GDP as against 5.9 (RE) per cent in the last financial year.
- Containing monetary growth to 15.5 - 16.0 per cent in 1996-97 through prudent monetary policies. Strengthening of PDS and supplementing supplies if necessary by imports would be given top priority.

TABLE 5.7

#### Movement in CPI(IW) - Major Commodity Groups

Major group	Weight	Per cent change			
		1996-97		1995-96	
		(%) Apr-Jun	Apr-Nov.	Apr-Jun	Apr-Nov.
General	100.00	4.4	9.4	4.4	9.6
Food	57.00	6.5	11.8	6.4	12.9
Pan, supari etc.	3.15	2.4	6.6	2.1	5.0
Fuel & light	6.28	2.6	9.1	1.2	5.2
Housing	8.67	0.0	4.1	0.0	4.1
Clothing, bedding	8.54	1.5	3.4	3.3	6.2
Miscellaneous (services)	16.36	2.0	6.9	1.4	4.9

### Measures taken to control inflation

16. Like last financial year, monetary policy in the current financial year had the objective of containing inflation and to provide for easy access to credit to meet the requirement of industrial sector. To realise these objectives, it was announced that the growth of money supply would stay within the targeted growth of 15.5 - 16.00 per cent in 1996-97 and, attempts would be made to contain the fiscal deficit to 5 per cent of GDP. Further more, several other supply-side measures were taken to control inflation (Box 5.2).

### Public Distribution System

17. Public Distribution System (PDS), a key component of supply management of essential commodities, ensures availability of foodgrains-mainly rice, wheat, sugar, edible oils and kerosene - through a net work of outlets or fair price shops (FPSs), numbering about 4.37 lakhs. About 3.48 lakhs FPSs were operating in rural areas, and 0.89 lakh in urban areas. Each FPS is envisaged to serve a population of 2000. Besides, a Revamped Public Distribution Scheme (RPDS), which supplies additional items like tea, soap, pulses and iodized salt to households located in tribal, hill and arid areas having poor infrastructure, was operating in 1775 blocks. Under RPDS, 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. The need for restructuring PDS has been debated for quite sometime. Towards the end of December, 1996 the government has announced new policy measures for streamlining the PDS (Box 5.3).

### Foodgrains Allocation and Off-take in PDS

18. Offtake of foodgrains has shown a sharp rise in 1996-97, in contrast to the three preceding years, reflecting a widening gap between the PDS price which was last revised in February, 1994 and, the current market price. Offtake of wheat was 66 per cent higher than last year ( for April-December period) as



**BOX 5.3**  
**Targetting of PDS**

Following the recommendations of the Chief Ministers' Conference in July 1996, the Government decided to streamline the public distribution system, the essential features of which are:

- States to identify families Below the Poverty Line (BPL) who would be issued 10 kgs. of foodgrains per month per family at prices less than the Central Issue Price (CIP)
- Population above the poverty line (non-poor) now under PDS to continue to receive normal entitlement at the full CIP.
- Supply of foodgrains for the BPL at 10 kgs. per month per family shall be guaranteed to States by the Centre. Additional quantities required by States would depend on the availability of stocks in the Central Pool.
- States will be free to add to the quantum, coverage and the subsidy from their own resources.
- Subsidized foodgrains will also be issued to all beneficiaries under the EAS/ Jawahar Rojgar Yojana as per guidelines at the rate of 1 kg. per manday for which food coupons would be issued to beneficiaries for exchanging at FPS.

market prices soared by over 31 per cent during the period. Even in rice, the offtake was higher by 1.36 million tonnes during April-December, 1996. It appears that 1996-97 offtake of foodgrains may exceed the previous peak offtake of 19 million tonnes in 1991-92. Against a total procurement of 16.8 million tonnes in 1995-96, the offtake of 19 million tonnes meant that stocks, especially of wheat, would need to be replenished so as to maintain the minimum buffer stock level. For wheat, the stock had dropped marginally below the minimum norm from October, 1996 (Table 5.8 and Table 5.9).

19. Wheat prices started rising from July, 1996 and by November rose by 30 per cent over the year. This was due to a production shortfall and lower

procurement which caused distortions in its distribution and availability. The most important step taken by the Central Government to dampen the speculative price rise in wheat was to accelerate FCI's open market sales to 6 lakh tonnes from December onwards. Simultaneously, the Government took recourse to importing wheat to augment the depleting FCI's stocks.

### Sugar and Edible Oils

20. Levy sugar price supplied to PDS consumers at Rs. 9.05 per kg. had remained unchanged for three years since February, 1994 despite periodic revisions in the statutory minimum price of cane paid to sugarcane growers. Consequently, PDS supply of sugar was heavily subsidised and, in order to reduce part of the subsidy, the Government raised the issue price of sugar for PDS to Rs. 10.50 per kg. in February, 1997. Even then, the PDS retail price was still cheaper compared to the market price ranging between Rs. 15 to Rs. 16.50 per kg. Sugar supplies for PDS were maintained at an average level of 3.27 to 4.03 lakh tonnes per month during 1995-96. Allocations in November, 1996 were raised to 4.06 lakh tonnes of levy and 7.8 lakh tonnes of free sale sugar to meet festival season's requirements. Sugar production during 1995-96 was expected to record an all time peak of 164 lakh tonnes. The carryover stock (levy and non levy) at the start of the sugar year beginning October, 1996 was 80.78 lakh tonnes as against 54.95 lakh tonnes during the corresponding period last year. The Government arranged import of 2 lakh tonnes of edible oil (palmolein) at a concessional duty rate for distribution through the PDS. In the current financial year, about 8.77 lakh tonnes of edible oils have already been imported under OGL by the end of October.

### Mid-Day Meal Scheme

21. The mid-day meal scheme was launched by the Ministry of Human Resource Development from August, 1995, initially for the benefit of students enrolled in Primary Schools in 2368 RPDS/EAS blocks. It was proposed to be extended to 2006 Low Female Literacy (LFL) blocks during 1996-97 and to all primary schools in the country (828 blocks and 3,000 Nagar Palikas) during 1997-98. A quantity of 1.91 lakh tonnes of wheat and 4.19 lakh tonnes of rice was lifted by States/UTs under the scheme up to December in the current financial year. The foodgrains for the scheme are supplied free of cost to States/UTs. In addition, handling/transport charges are reimbursed to States by the Ministry of HRD (Department of Education) subject to a ceiling of Rs.25 per quintal. The FCI, however, charges economic cost of the foodgrains (rice and wheat) supplied by it to States/UTs under this scheme from the Ministry of

<b>TABLE 5.8</b> <b>Foodgrains Allocation and Offtake</b> <b>Under the Public Distribution System</b> <b>(Million Tonnes)</b>				
Year	Wheat		Rice	
	Allocation	Offtake	Allocation	Offtake
1991-92	10.36	8.83	11.36	10.17
1992-93	9.25	7.47	11.48	9.55
1993-94	9.57	6.15	12.41	9.07
1994-95	10.80	5.11	13.32	8.01
1995-96 (P)	11.31	5.29	14.61	9.46
1995-96 Apr-Dec(P)	8.24	3.67	10.81	6.92
1996-97 Apr-Dec(P)	7.81	6.01	11.23	8.28
(P) - Provisional				

**TABLE 5.9**  
**Central Pool Stocks and Minimum Buffer Stock Norms**

(Million Tonnes)						
Beginning of the month	Wheat		Rice		Total	
	Min. norm	Actual Stock	Min. norm	Actual Stock	(wheat and rice) Min. norm	Actual Stock
<b>January-1992</b>	7.7	5.3	7.7	8.6	<b>15.4</b>	<b>13.9</b>
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
<b>January-1993</b>	7.7	3.3	7.7	8.5	<b>15.4</b>	<b>11.8</b>
April	3.7	2.7	10.8	9.9	14.5	12.6
July	13.1	14.9	9.2	9.3	22.3	24.2
October	10.6	13.7	6.0	7.2	16.6	20.9
<b>January-1994</b>	7.7	10.8	7.7	11.2	<b>15.4</b>	<b>22.0</b>
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
<b>January-1995</b>	7.7	12.9	7.7	17.4	<b>15.4</b>	<b>30.3</b>
April	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	16.9	6.0	13.0	16.6	29.9
<b>January-1996 (P)</b>	7.7	13.1	7.7	15.4	<b>15.4</b>	<b>28.5</b>
April	3.7	8.2	10.8	14.0	14.5	22.2
July	13.1	13.9	9.2	12.9	22.3	26.8
October	10.6	10.4	6.0	9.3	16.6	19.7
<b>January-1997 (P)</b>	<b>7.7</b>	<b>6.9</b>	<b>7.7</b>	<b>12.9</b>	<b>15.4</b>	<b>19.8</b>
<b>'Provisional' - (P)</b>						

HRD. The Ministry of HRD has placed a revolving fund of Rs.150 crores at the disposal of FCI for implementation of the scheme.

#### Open Market Sale of Foodgrains by FCI

22. To dispose of some of its surplus stock of rice and wheat and to check the rise in their market prices, FCI sold 27 lakh tonnes of wheat and 2.25 lakh tonnes of rice in the current financial year upto the middle of January, 1997.

#### Foodgrains Procurement and Stocks

23. Procurement of foodgrains is one of the central pillars of the food management policy. It serves the twin purpose of providing a remunerative price to the farmers, thereby avoiding chances of distress sale of foodgrains at prices below the support price fixed by the Government and also to enthruse them to increase production and ensuring a build up of public stocks of grains. Procurement operations are carried out by the FCI and State agencies in consultation with State Governments. Procurement prices are based on

support prices announced by the Department of Agriculture & Co-operation.

24. The Central Government maintains food stocks commensurate to the requirements of (i) the prescribed minimum buffer stock for food security, (ii) operational stock for monthly releases of foodgrains for supply through the PDS (each state is allocated a quota in the light of its past demand, offtake trends, relative needs and other related factors), and (iii) market intervention stock for release in the open market (to augment supply and help moderate the open market prices).

25. Wheat procurement (during April-June, 1996) at 8.18 million tonnes was lower by over 4 million tonnes over last year's procurement of 12.33 million tonnes. The fall in the quantity of procurement of this magnitude was rather unexpected, given the earlier assessment of a normal 1995-96 wheat crop. It was only in late 1996, that a fresh assessment of crop output revealed that the 1995-96 wheat crop may have been lower by about 3 million tonnes over the preceding year's production of 65.5 million tonnes. Consequently, 1995-96 foodgrains output was scaled

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

Marketing Year	(Million Tonnes)			
	Wheat (April - March)		Rice (Oct - Sept)	
	Qty	%change	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	15.7
1994-95	11.87	-7.5	13.40	-1.8
1995-96	12.33	3.9	9.95	-25.7
1996-97	8.18	-33.6	8.06*	

(\*) as on 28.1.1997.

down to 185 million tonnes as against the earlier estimate of 191 million tonnes. In the current rice year 1996-97, 80.58 lakh tonnes of rice had been procured between October, 1996-January, 1997 as against 64.37 lakh tonnes during the corresponding period of the last year (Table 5.10). Current indications are that procurement of rice in 1996-97 (October, 1996 - September, 1997) may be a little better than last year's 99.50 lakh tonnes.

26. The comfortable stock position that characterised 1995-96 became somewhat difficult in the later part of 1996-97, especially for wheat. Wheat stock in July, 1996, at 13.9 million tonnes, was only marginally above the buffer stock norm but fell short

**TABLE 5.11**  
**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	17.42	12.88	30.30
1996 Provisional	15.41	13.15	28.56
1997 Provisional	12.90	6.90	19.80
<b>Buffer Norms for 1st January</b>	<b>7.70</b>	<b>7.70</b>	<b>15.40</b>

of the latter in the beginning of October, 1996 (Table 5.9). To meet the situation, Government has already announced the import of upto two million tonnes of wheat and permitted roller flour mills to import wheat under OGL. Position of rice stock in the Central Pool continues to be comfortable and as on 1st October, 1996, about 9.34 million tonnes of rice was in stock as against 6 million tonnes buffer stock norm for that month. The rice surplus of over three million tonnes was, however, less than half the surplus on the corresponding date of the last year (Table 5.9 and 5.11).

#### Central Issue Prices for PDS/RPDS

27. The Central Issue Prices (CIP) for the PDS have not been revised since 1st February, 1994 despite the year to year upward revisions effected in minimum support prices. CIP for PDS for wheat was Rs. 402 per quintal (Rs. 352 per quintal for RPDS) and for rice Rs. 537 per quintal for the common variety, Rs.617 per quintal for fine and Rs. 648 per quintal for super fine quality respectively (Table 5.12). For RPDS areas, CIP is Rs.50 per quintal less than the CIP for PDS areas. Constant CIP of rice and wheat has resulted in a higher food subsidy burden on the Government.

**TABLE 5.12**  
**Periodical Revisions in PDS Central Issue Price (CIP)**

					(Rs./quintal)	
Date of revision	Rice			Wheat		
	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	

28. The State Governments fix the 'retail end' prices for PDS and RPDS after taking into account the transportation cost and dealers' commission, etc. Some States have fixed the 'retail end' prices for PDS and RPDS consumers even lower than the CIP (Table 5.13). The Government of Andhra Pradesh, Tamil Nadu and Orissa are operating a scheme for rice at Rs.2 per kg., and Government of Gujarat is operating a scheme for wheat at Rs. 2 per kg. and the consequent additional subsidy is therefore borne by these States.

**TABLE 5.13**  
**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 <sup>1</sup>	-	6.50	6.80	3.90	5.12	5.92	6.23
	(White Cards)	-	2.00 <sup>4</sup>	-	-	-	2.00 <sup>4</sup>	-	-
	(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.	Gujarat	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 <sup>2</sup>	-	-	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 <sup>5</sup>	-	-	-	-	-	-	-	-
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 <sup>3</sup>	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 <sup>2</sup>	-	-	-	-	-	-
	(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 <sup>5</sup>	-	-	-	-	-	-	-	-
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<sup>1</sup>

4.02

5.37

6.17

6.48

3.52

4.37

5.67

5.98

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

## Food Subsidy

29. Subsidy on foodgrains borne by the Central Government has risen over the years and was Rs.5,343 crores in 1995-96 (Revised Estimate) and has been estimated at Rs. 6,114 crores in 1996-97 (Revised Estimate). The consumer subsidy which was Rs.136.02 per quintal on rice and Rs.147.7 per quintal on wheat in 1995-96, has risen to Rs.191.96 per quintal in the case of rice and Rs.195.40 per quintal in the case of wheat in 1996-97. Table 5.14 lists the subsidy incurred on foodgrains since 1991-92.

## Agriculture Price Support and Food Security Policy

30. The objective of the Government's food security policy is to ensure availability of foodgrains to the public at an affordable price. The Public Distribution System has existed in the country since the Second World War. The support price 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 because of high prices prevailing in the open market and, therefore, no stocks of coarse foodgrains are available in the Central Pool for distribution through the PDS.

31. Wheat and rice are the two principal foodgrains used by the Central Government for market price stabilisation and for ensuring food security through

the Public Distribution System. Rice is mainly procured for the Central Pool from a levy imposed on the rice millers/traders under the Essential Commodities Act, 1955 and the levy orders issued by the State Governments. The foodgrains stock maintained in the Central Pool by the Government is basically utilised for distribution to states for the PDS.

32. In the years, when public stocks fall below the minimum buffer stock norms or when production shortfalls are anticipated, the Government takes recourse to imports for augmenting the buffer stocks. However, depending on the behaviour of the open market prices and the stock position in the Central Pool, the public stock of foodgrains is also utilised for market intervention as an instrument of supply management policy.

33. Based on a study by a technical group, minimum buffer stocking levels were 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. The stock position of foodgrains in Central Pool was very high during 1995-96. The excess stock of rice facilitated export of 1.5 million tonnes of rice from public stocks in addition to over 5 million tonnes of rice exports by private trade during the 18 month period beginning April, 1995. Wheat stocks too were in excess of buffer stock norms and resulted in liberal open market sales to the extent of over 6.3 million tonnes in 1995-96.

**TABLE 5.14**  
**Foodgrains Subsidy**

Fiscal year	Rupees per quintal							Total Food subsidy (Rs.crores)
	Economic cost		FCI/ Average Sales Realization		Consumer Subsidy		Carrying Cost	
	Wheat	Rice	Wheat	Rice	Wheat	Rice	(Wheat & Rice)	
1991-92	390.79	497.04	251.68	365.58	139.11	131.46	77.55	2850
1992-93	504.10	585.27	279.36	442.40	224.74	142.87	103.65	2800*
1993-94	532.03	665.10	355.88	500.42	176.15	146.68	117.16	5537
1994-95	551.17	694.71	407.89	600.75	143.28	93.96	125.46	5100*
1995-96(RE)	563.57	746.72	415.87	610.70	147.70	136.02	131.44	5343*
1996-97(RE)	618.14	814.70	422.74	622.74	195.40	191.96	144.50	6114*

\* Inclusive of sugar subsidy.

34. The Minimum Support Prices (MSP) for major crops are recommended to the Government each year by the Commission for Agricultural Costs and Prices (CACP) on the basis of a detailed study of costs of production and other relevant factors. Cereals for which CACP recommends MSPs are paddy, wheat, jowar, bajra, maize, ragi. It also

recommends prices for four pulses namely, 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 5.15).

**TABLE 5.15**  
**Minimum Support Price for Crops**  
(Crop year basis)

(Rs/Quintal)

No.	Commodities	Variety	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	Increase in 1996-97 over 1995-96	
									Absolute	%Change
1	Paddy (P)	Common	230	270	310	340	360	380	20	5.6
		FAQ	240	280	330	360	375	395	20	5.3
		Super fine	250	290	350	380	395	415	20	5.1
2	Wheat (P)	FAQ	275 <sup>1</sup>	330 <sup>1</sup>	350	360	380	415	35	9.2
3	Coarse cereals	FAQ	210	245	265	290	310	320	10	3.2
4	Maize	FAQ	210	245	265	290	310	320	10	3.2
5	Barley	FAQ	210	260	275	285	295	305	10	3.4
6	Gram	FAQ	500	600	640	670	700	740	40	5.7
7	Arhar	FAQ	545	640	700	760	800	840	40	5.0
8	Moong	FAQ	545	640	700	760	800	840	40	5.0
9	Urad	FAQ	545	640	700	760	800	840	40	5.0
10	Sugarcane <sup>2</sup> (S)	FAQ	26	31	34.5	39.1 <sup>6</sup>	42.5			
11	Cotton	F-414/H-777	695	800	900	1000	1150	1180	30	2.6
		H-4	840	950	1050	1200	1350	1380	30	2.2
12	Groundnut	FAQ	645	750	800	860	900	920	20	2.2
13	Jute	TD-5	375	400	450	470	490	510	20	4.1
14	Rape and mustard (S)	FAQ	670	760	810	830	860	890	30	3.5
15	Sunflower	FAQ	670	800	850	900	950	960	10	1.1
16	Soyabean	Black	395	475	525	570	600	620	20	3.3
		Yellow	445	525	580	650	680	700	20	2.9
17	Safflower	FAQ	640	720	760	780	800	830	30	3.8
18	Toria	FAQ	645	725	780	800	825	-		
19	Tobacco	VFC F-2 <sup>3</sup>	1475	1600	1800	1850	1900	1900	-	
		L-2 <sup>4</sup>	1600	1750	2000	2100	2150	2200	0.50	2.3
20	Copra (milling)	FAQ <sup>5</sup>	1700	-	2150	2350	2500			
	Copra balls	FAQ <sup>5</sup>	1850	-	2350	2575	2725			
21	Sesamum	FAQ	-	-	-	-	850	870	20	2.4
22	Niger seed	FAQ	-	-	-	-	700	720	20	2.9

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 1991, 1992, 1993, 1994, 1995 and 1996.

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 0.80 for every 0.1 percentage point increase in the recovery above 10 per cent.

- Not announced.

### Movement of Agricultural Prices Relative to Industrial Prices

35. The movement in the indices for agricultural and manufactured products since early eighties indicates, that agricultural product prices have moved faster than the prices of manufactured products. This has resulted in the terms of trade moving in favour of the agricultural sector. This trend is clearly visible in the

<b>TABLE 5.16</b> <b>Index Numbers of Wholesale Prices of</b> <b>Agricultural Commodities</b> <b>Relative to Manufactured Products</b> <b>(Base: 1981-82=100)</b>				
Year	General Index of Wholesale Prices	Price Index of Agricultural Products <sup>1</sup>	Price Index of Manufactured Products	Agriculture Price Index as percent of Manufacturing
Weight	100.00	27.47	57.04	
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	143.5	161.8	138.5	116.8
1988-89	154.2	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	295.8	330.5	293.1	112.8
1996-97 <sup>2</sup>	312.4	355.9	303.6	117.2
<sup>1</sup> = Composite index of the sub-groups - Food Articles and Non-food Articles <sup>2</sup> = Annual average April-December, 1995 Source: Office of Economic Adviser, Ministry of Industry.				

movement in the index of prices of agricultural products relative to the index of prices of manufactured products from 103.5 in 1989-90 to 117.2 in 1996-97 (Table 5.16). The current agricultural price policy has attempted to correct the earlier policy bias favouring industry through reduction of certain tariffs on manufactured products and by lifting some of the restrictions on agricultural trade, and thus improved the incentives regime for agricultural producers.

### Outlook

36. The annual (point-to-point) inflation rate in the first half of the current financial year (April-September) ranged between a low of 4.2 per cent to a high of 6.6 per cent. The price rise of this magnitude could be regarded as modest given the hefty increase of 18 per cent in the administered prices of petroleum products in early July, 1996. Even in the next two months October-November 1996, the annual price rise was still below 7 per cent. However, there was a clear indication of inflationary pressures resurfacing due to the persistent rise in the prices of many of the agricultural commodities - mainly foodgrains - right from the middle of current financial year. By the end of December 1996, the annual inflation rate had crossed 7 per cent. The normal seasonal decline in the post-harvest period generally seen during November-December did not happen this year and hence the uptrend in prices was unabated in the third quarter of 1996-97. The containment of inflationary pressures in 1997-98 will require prudent fiscal and monetary policies and appropriate supply side policy measures to control price increases in primary articles.