03

CHAPTER

PRICES AND INFLATION: UNDER CONTROL

The pandemic and subsequent geo-political tensions presented considerable challenges to the global economy in inflation management. The supply disruptions inflicted by the pandemic and increased commodity prices caused by heightened global conflicts markedly affected India. As a result, FY22 and FY23 witnessed price pressures in core consumer goods and services. Food prices were affected by adverse weather conditions in the last two years. The net impact of these developments was elevated inflationary pressures in FY23 and FY24. Prudent monetary policy response and calibrated trade policy measures by the Government, coupled with strong output growth, helped reduce core inflation to a four-year low in FY24. Appropriate administrative actions, including dynamic stock management, open market operations, subsidised provision of essential food items and trade policy measures, helped mitigate food inflation to a great extent. The expectation of a normal monsoon and moderating global prices of key imported items give credence to the benign and range-bound inflation projections for India made by the Reserve Bank of India and the International Monetary Fund. Beyond this, the medium to long-term inflation outlook will be shaped by the strengthening of price monitoring mechanisms and market intelligence as well as focussed efforts to increase the domestic production of essential food items like pulses and edible oils for which India has a great degree of import dependence.

INTRODUCTION

3.1 Low and stable inflation is key to sustaining economic growth. Governments and Central Banks face the challenge of keeping inflation at a moderate level while ensuring financial stability. Achieving this delicate balance requires careful monitoring of economic indicators and taking appropriate and timely corrective actions. With the commitment of the Reserve Bank of India (RBI) to the goal of price stability and policy actions by the Central Government, India successfully managed to keep retail inflation at 5.4 per cent in FY24, the lowest level since the Covid-19 pandemic period ('pandemic' hereinafter).

3.2. After the pandemic, the global economy experienced another set of supply chain disruptions beginning with the Russia-Ukraine war in the first half of FY23. In the latter half of the year and FY24, there was a decline in global inflation because of the diminishing impact of price shocks, particularly in energy prices, as well as lower core inflation and monetary tightening. According to the International Monetary Fund[1], the coordinated monetary tightening by Central Banks in

1 World Economic Outlook, April 2024: Steady but Slow: Resilience amid Divergence, pages 3-4. https://tinyurl.com/38pederj

major advanced economies during 2022-23 significantly contributed to the decline in energy prices due to its high level of synchronisation and the resulting impact on reducing global energy demand.

India's retail inflation is lower than the EMDEs and world average

3.3. Despite the synchronous tightening of monetary policy by most central banks to restore price stability, the global economy has shown unexpected resilience in 2023. This is evident in both advanced economies (AEs), and emerging markets & developing economies (EMDEs), as they are returning to their inflation targets. This trend is also observed in India. As per the IMF[2] data, where India's inflation rate was lower than the global average and that of EMDEs in 2022 and 2023.

3.4. There is a clear negative relationship between cross-country inflation and per capita GDP. Historically, inflation in advanced economies has generally been lower than in EMDEs. Factors such as established monetary policies, economic stability, well-developed and efficient markets that balance supply and demand conditions, and stable currencies contribute to the effective management of inflation (Ha, Kose & Ohnsurge, 2018)[3].

Chart III.1: India's inflation lower than EMDEs in 2023

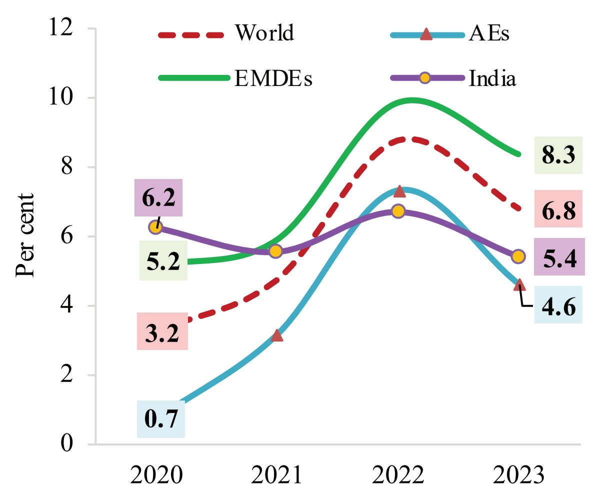
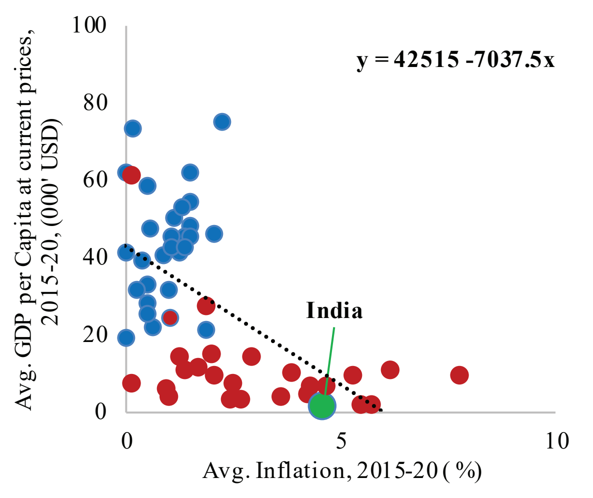


Chart III.2: AEs tend to have lower inflation compared to EMDEs



Source: World Economic Outlook Database, April 2024, IMF
Note: (i) Chart III.2 excludes countries with GDP lower than USD100 billion & double-digit inflation
(ii) In IMF data, for India 2023 represents FY2023-24 (FY24)
(iii) Blue coloured dots for AEs and Red coloured dots for EMDEs

India's inflation management was relatively better to keep it within the target

3.5. With the goal of maintaining price stability, many countries have established their own inflation targets based on various factors that serve their economic objectives best. Factors such as the level of economic development, the structure of the economy, the state of the financial

2 World Economic Outlook, April 2024: Steady but Slow: Resilience amid Divergence, page 145

3 Ha, Jongrim; Kose, Ayhan; Ohnsorge, Franziska Lieselotte (2018). Inflation in Emerging and Developing Economies: Evolution, Drivers, and Policies. World Bank Group, Washington, D.C. https://tinyurl.com yf2zzx95s

system, and the trade-off between inflation and other economic objectives may influence these targets (Jahan, Sarwat)[4]. In pursuit of specific inflation targets set by countries, they employ various policies and measures. Interestingly, India is performing better than various developed and emerging economies in relation to its inflation target.

3.6. In 2023, India's inflation rate was within its target range of 2 to 6 per cent. Compared to advanced economies like the USA, Germany, and France, India had one of the lowest deviations from its inflation target in the triennial average inflation from 2021-2023. Despite the challenges posed by global demand-supply imbalances due to ongoing geopolitical tensions, India's inflation rate was 1.4 percentage points below the global average in 2023. Against this background, the survey discusses trends and drivers of retail inflation and its constituents – headline, core, and food inflation, state-wise variations in retail inflation, rural-urban inflation differential and fiscal policy measures undertaken to contain inflation as the chapter proceeds.

Chart III.3: India is closer to its inflation target compared to most other economies

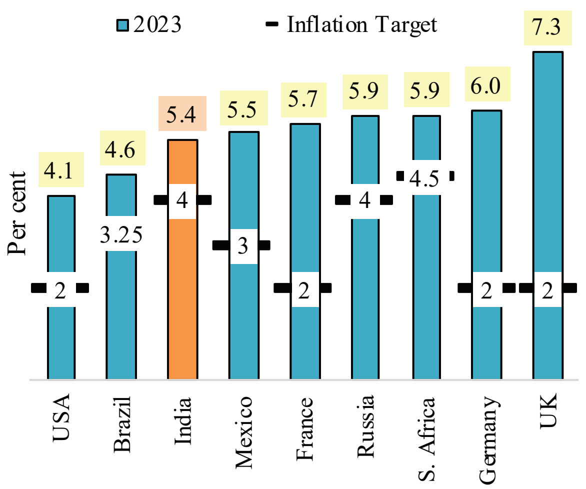
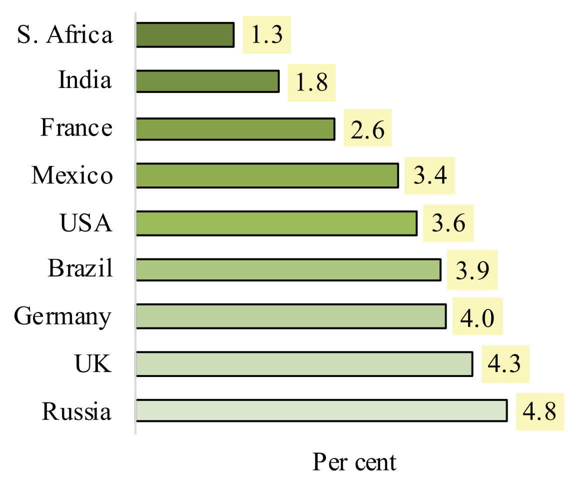


Chart III.4: India has one of the lowest average deviations (2021-2023) from inflation target



Source: World Economic Outlook Database, April 2024, IMF
Note: (i) Inflation target is taken from respective countries' Monetary Policy documents.
(ii) In IMF data, for India 2023 represents FY2023-24 (FY24)
(iii) For S. Africa, 4.5% is taken as a midpoint of 3-6% inflation target range
(iv) For Brazil, inflation target was 3.75% in 2021, 3.5% in 2022 and 3.25% in 2023

DOMESTIC RETAIL INFLATION

Retail inflation moderated gradually in FY24

3.7. Since 2020, countries have been facing challenges in controlling inflation. In FY23, Consumer Price Index (CPI) based retail inflation in India was primarily influenced by higher food inflation, while core inflation remained moderate. Externally, the Russia-Ukraine war led to price pressures, while domestically, excessive heat in the summer and uneven rainfall put pressure on food prices.

4 Jahan, Sarwat. Inflation Targeting: Holding the Line, Understanding Economics, Back to the Basics, Finance & Development, IMF https://tinyurl.com/yjwn9ff6

3.8. However, since May 2022, monetary policy broadly focused on absorbing excess liquidity in the system by increasing the policy repo rate by 250 basis points from 4 per cent in May 2022 to 6.5 per cent in February 2023. Thereafter, the policy rate was kept unchanged by focusing on the gradual withdrawal of accommodation, aiming to align inflation with the target, while simultaneously fostering growth. Consequently, the persistent and sticky core inflation observed in FY23 declined to 3.1 per cent in June 2024.

Chart III.5: Retail headline inflation was lowest in FY24 since the pandemic

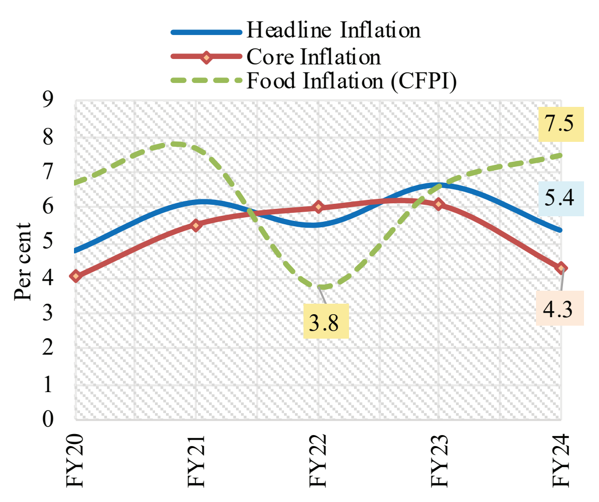
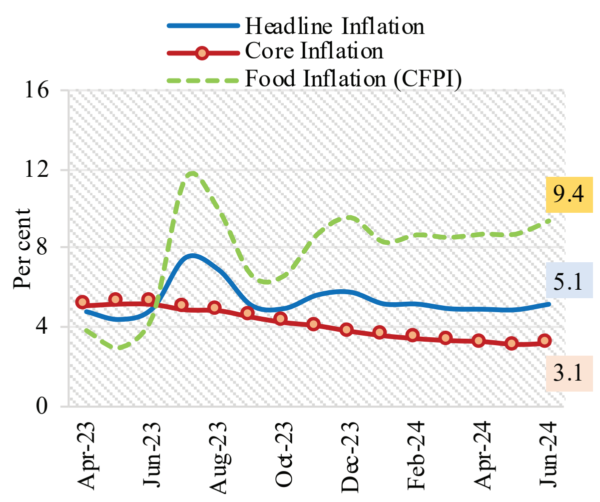


Chart III.6: Declining trend in headline and core inflation

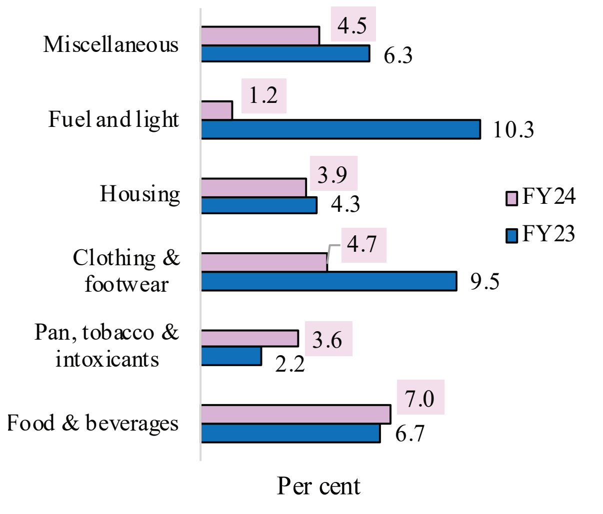


Source: Consumer Price Indices released by CSO, MoSPI

3.9. As the global energy price index experienced a sharp decline in FY24, retail fuel inflation also stayed low. The Central Government's announcement of price cuts for LPG, petrol, and diesel led to lower LPG and petroleum product inflation. In August 2023, the price of a domestic LPG cylinder was reduced by ₹200 per cylinder in all markets across the country. As a result, LPG inflation rate has been in the deflationary zone since September 2023. Again in March 2024, the price of non-subsidised LPG cylinders was reduced by ₹100 per cylinder. Similarly, in March 2024, the Central Government lowered the prices of petrol and diesel by ₹2 per litre. Subsequently, retail inflation in petrol and diesel used in vehicles moved to the deflationary zone in March 2024. Additionally, global commodity prices declined in 2023, reducing price pressure in energy, metals, minerals, and agricultural commodities through the imported inflation channel. Low fuel and core inflation ensured a downward trajectory for headline inflation, despite volatility in food prices in FY24.

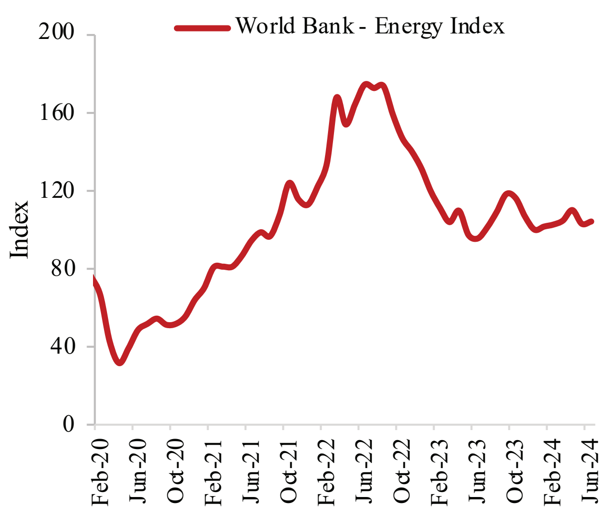
3.10. Thus, moderation in inflation was largely the result of prudent administrative measures and monetary policies implemented during the post-pandemic economic recovery phase. As per the recent data released by MoSPI, the retail inflation rate was 5.1 per cent in June 2024. In view of this, the following section examines the detailed trends and patterns in core and food inflation.

Chart III.7: 'Clothing & Footwear' and 'Fuel & Light' groups saw a substantial decline in inflation rate in FY24



Source: Consumer Price Indices released by CSO, MoSPI

Chart III.8: Decreasing global energy index in FY24



Source: Pink sheet, World Bank

Chart III.9: Decrease in LPG inflation rate due to price cut/subsidy

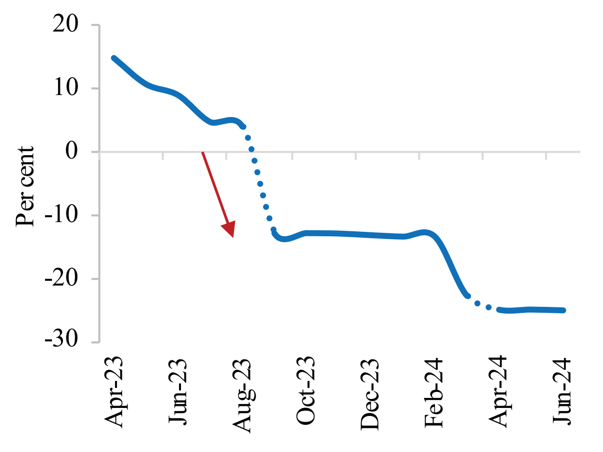
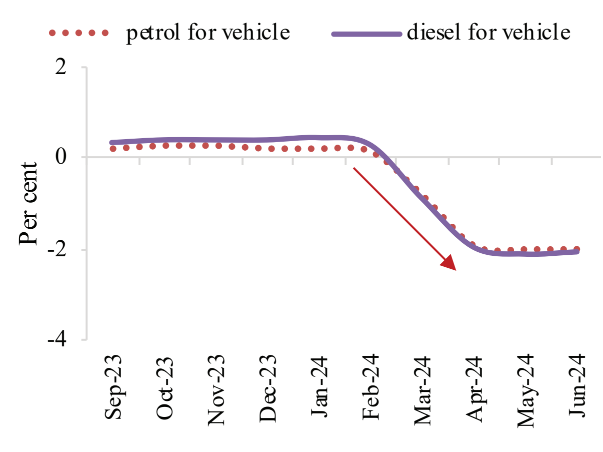


Chart III.10: Decline in petrol and diesel inflation rate due to price reduction measures



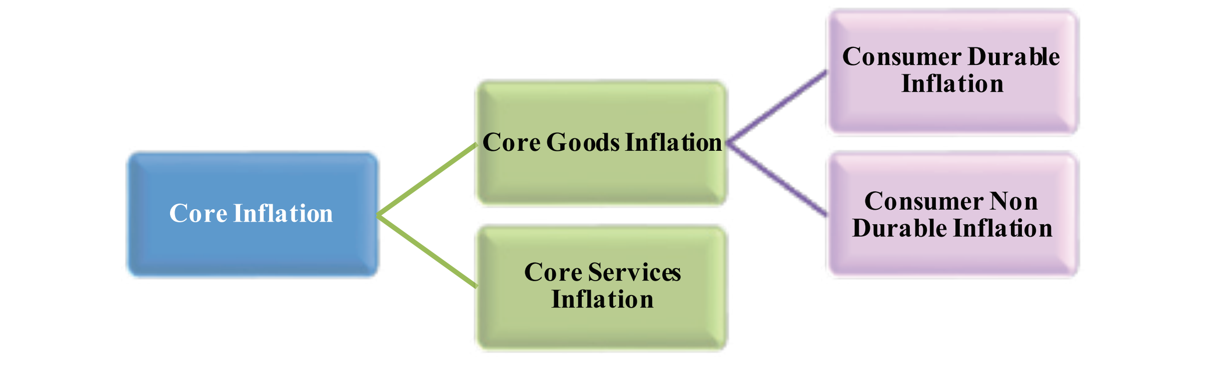
Source: Consumer Price Indices released by CSO, MoSPI

CORE INFLATION DYNAMICS IN THE POST-PANDEMIC WORLD

Core inflation hits a four-year low in FY24

3.11. Core inflation is measured by excluding food and energy items from CPI headline inflation. It assesses the underlying price trends by largely eliminating the impact of price volatilities arising from transitory supply shocks. The following discussion splits core inflation into its goods and services components. Core goods are further split into consumer durables and consumer non-durables. The items and weights to segregate core goods and services indices is given in Annexure 1. The breakdown of core inflation into its components is given in Chart III.11.

Chart III.11: Breakdown of core inflation into its components

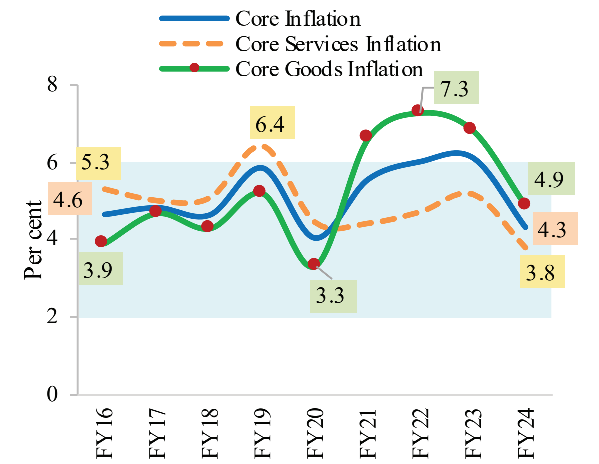


3.12. From the pandemic-driven highs, inflationary pressures in India eased in FY22, aided by softening food inflation. However, core inflation had risen to 6 per cent at the same time, driven primarily by rising international commodity prices. As Chart III.12 shows, core services inflation inched up in the year, but the increase was lower than that of core consumer goods.

3.13. Inflationary pressures firmed up in FY23 yet again driven by the Russia-Ukraine war disrupting the recouping supply chains leading to a rise in food and fuel prices. As economic activity gained momentum, core inflation also increased slightly and was primarily driven by core services inflation as house rents went up, with people returning to urban areas (Chart III.15). In FY24, the price situation improved. CPI inflation moderated, driven by a decline in core inflation -both goods and services. Core services inflation eased to a nine-year low in FY24; at the same time, core goods inflation also declined to a four-year low.

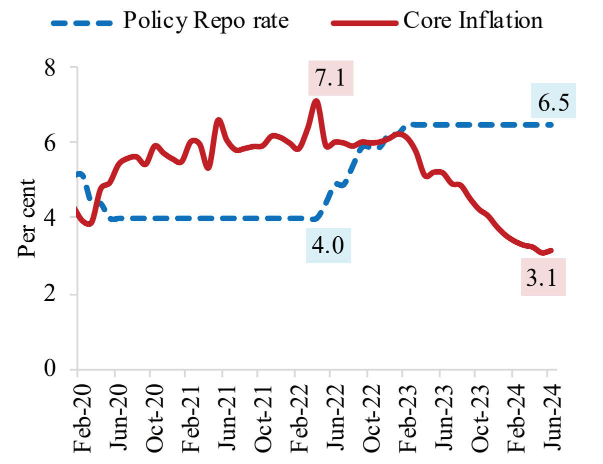
3.14. Trends in core inflation are important in determining the contours of monetary policy. Assessing the emerging patterns of price pressures, the RBI increased the repo rate gradually by 250 basis points since May 2022 to reign inflationary pressures. Chart III.13 indicates the impact of monetary policy transmission on core inflation, which declined around 4 percentage points between April 2022 and June 2024.

Chart III.12: Core inflation declined to 4 year low in FY24



Source: Consumer Price Indices released by CSO, MoSPI

Chart III.13: Monetary policy transmission evident in easing core inflation



Source: (i) Consumer Price Indices released by CSO, MoSPI, (ii) Various MPC Reports of RBI

A steep decline in service prices hastens moderation in core inflation

3.15. Stubborn core services prices are a risk factor for the inflation outlook of advanced economies (Box III.1). In contrast, India's core services inflation reached a nine-year low in FY24. This was aided by moderation in housing rental inflation, with a significant increase in the stock of new houses in 2023[5].

Chart III.14: Contribution of core services inflation in FY24 lower than pre-pandemic level

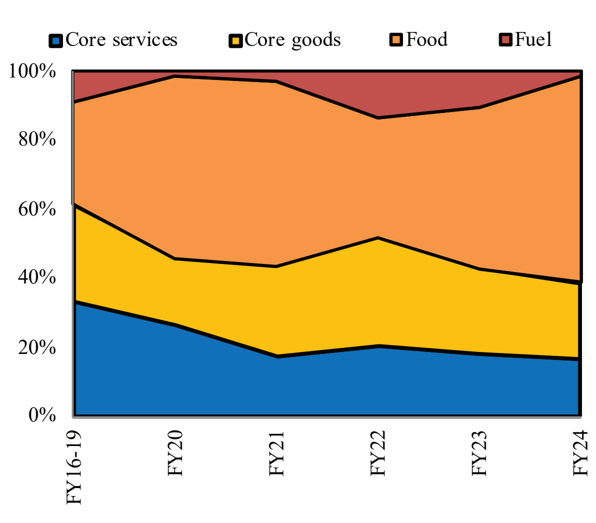
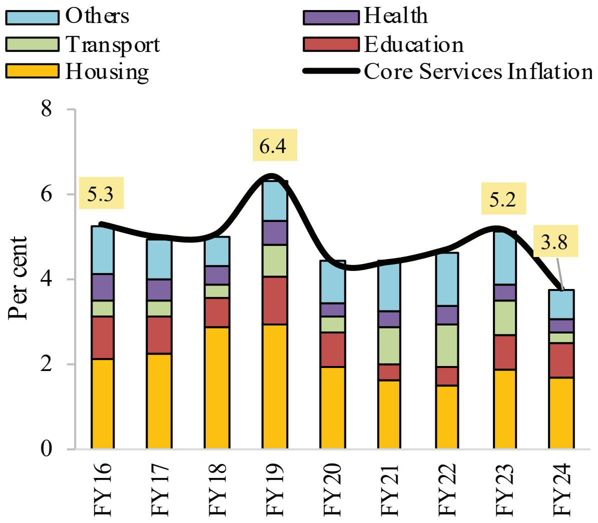


Chart III.15: 9-year low core services inflation driven by lower housing inflation



Source: (i) Consumer Price Indices released by CSO, MoSPI
(ii) Survey's calculations using Consumer Price Indices released by CSO, MoSPI

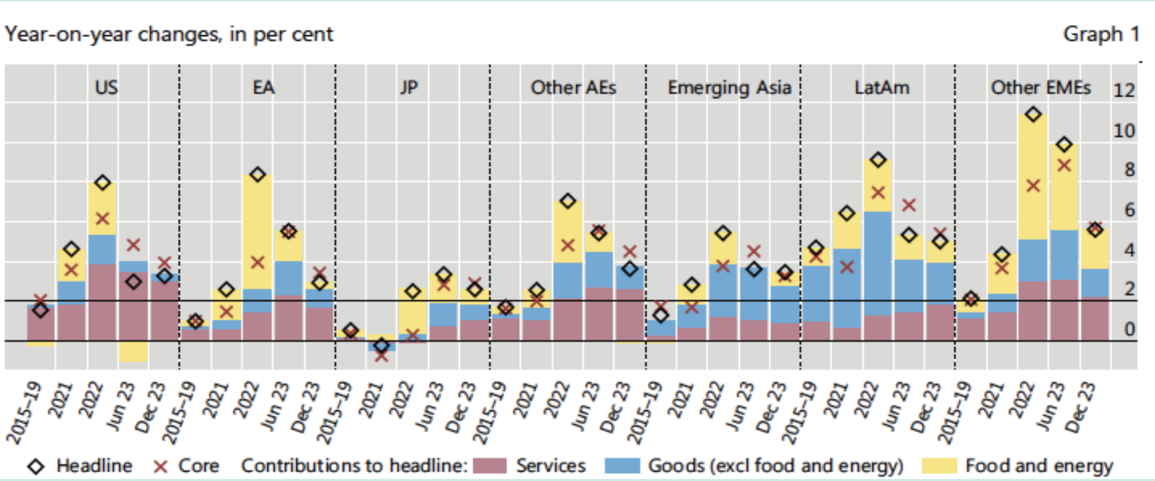
Box III.1: Elevated risks for core services inflation in advanced economies

As per the March 2024 Quarterly Review of the Bank of International Settlements[6], while there was a discernible retreat in the prices of food, energy and core goods following the gradual normalisation of the supply chain in 2023, the core services inflation remained elevated in 2023. The review also showed that the recent pace of deceleration in core goods prices closely matches the previous cases, while at the same time, the price growth in services has been more stubborn than it was in past inflation episodes. The persistent nature of service inflation is because of the much higher labour intensity in services. Rising housing prices also contributed to this.

These dynamics have played out similarly across countries and regions but less so in Asian emerging market economies and Latin America (Chart III.16). Going ahead, the persistence in the inflation of services has larger implications for AEs than for Emerging Market Economies (EMEs). This is because services carry a larger share in consumer price indices of AEs, posing a greater risk to their headline inflation outlook.

5 https://www.proptiger.com/guide/post/new-home-sales-record-33-yoy-growth-in-2023-proptiger-com-report
6 BIS Quarterly Review, March 2024, Sectoral price dynamics in the last mile of post-Covid-19 disinflation. https://www.bis.org/publ/qtrpdf/r_qt2403d.htm

Chart III.16: Persistent core services inflation risk in AEs



Source: Adapted from BIS Quarterly Review, March 2024, Sectoral price dynamics in the last mile of post-Covid-19 disinflation, Graph 1.

Consumer durable inflation remains elevated but softens in FY24

3.16. Consumer durables inflation increased progressively between FY20 and FY23 by more than 5 percentage points. FY21 witnessed a considerable increase in gold prices, a key component of the personal care category of CPI. In FY22 and FY23, clothing, which accounts for 48 per cent of weightage in the consumer durable index, was a major driver of inflation. The surge in the prices of key input materials used by apparel manufacturers, particularly cotton, led to this. With the improvement in the supply of key raw materials, the inflation rate for consumer durables declined in FY24. However, record-high gold prices, driven by anticipated Fed rate cuts and escalating geopolitical uncertainty, have exerted upward pressure on overall durables inflation.

Chart III.17: Consumer durables inflation closing to pre-pandemic levels

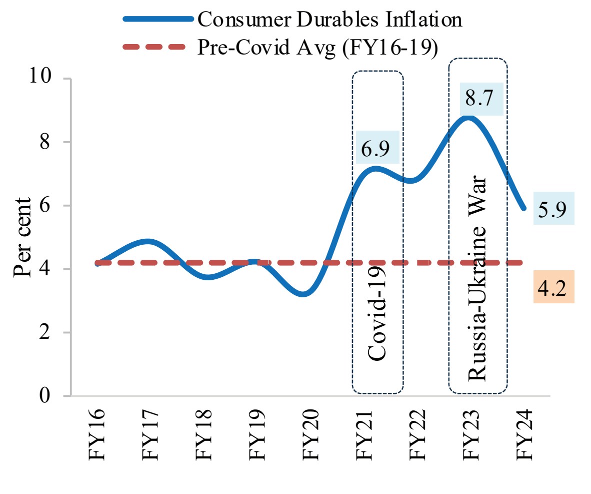
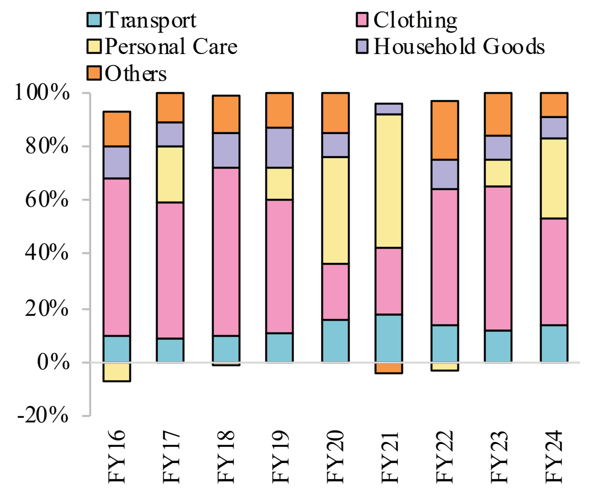


Chart III.18: Increased gold and cloth prices drove up inflation in durables

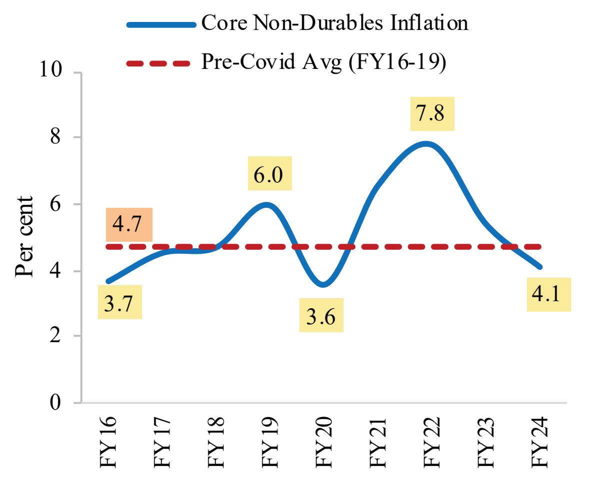


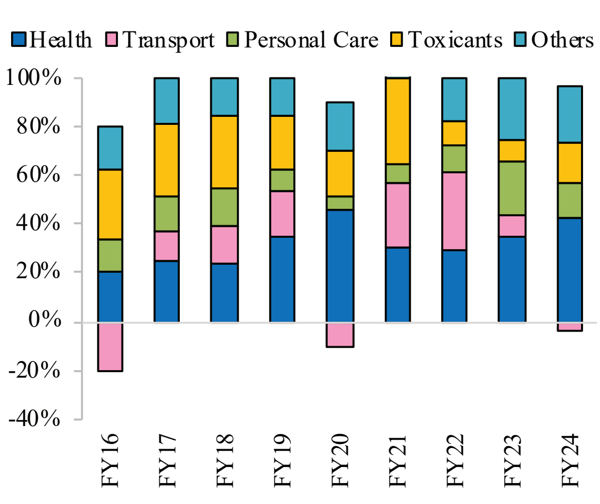
Source: Survey's calculations using Consumer Price Indices released by CSO, MoSPI

Core consumer non-durable inflation declines steeply

3.17. Consumer non-durables (CND) in the CPI basket have three components—food and beverages, fuel and other consumption items (details in Annexure 1). This section examines the other core consumer non-durable components (other consumption items of CND) only. Subsequent sections will examine 'food and beverages' while 'fuel and light' has already been elaborated in paragraph 3.9. While the core CND inflation plunged in FY20, it started to inch up in FY21, reached an all-time in FY22, and declined sharply in FY23 and FY24. The underlying cause for this has mainly been changes in the cost of transport components.

Chart III.19 (a) & (b): Declining transport component led to easing core consumer non-durable inflation





Source: Survey's calculations using Consumer Price Indices released by CSO, MoSPI

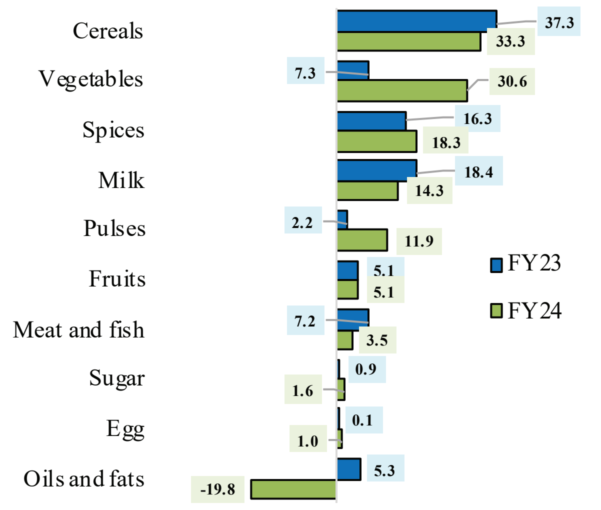
FOOD INFLATION

Food price pressures due to adverse weather conditions

3.18. Food inflation has been a global phenomenon in the last two years. Research[7] indicates the rising vulnerability of food prices to climate change – heat waves, uneven monsoon distribution, unseasonal rainfall, hailstorms, torrential rainfall and historic dry conditions (Patra, John & George, 2024). In FY23 and FY24, the agriculture sector was affected by extreme weather events, lower reservoir levels, and damaged crops that adversely affected farm output and food prices. So, food inflation based on the Consumer Food Price Index (CFPI) increased from 3.8 per cent in FY22 to 6.6 per cent in FY23 and further to 7.5 per cent in FY24.

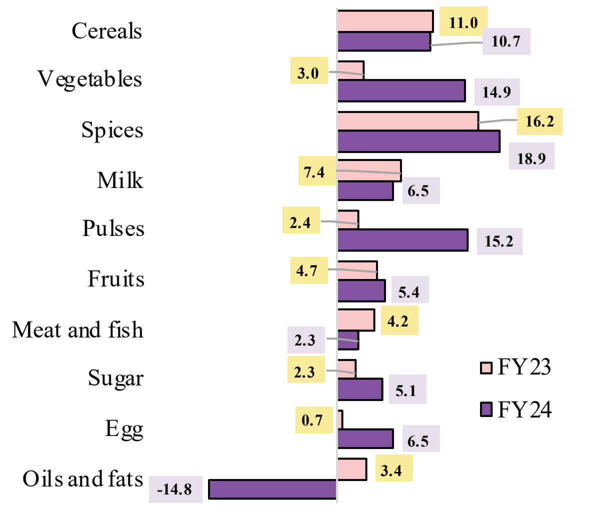
7 Patra, M. D., John, J., & George, A. T. (2024). Are Food Prices the 'True' Core of India's Inflation? RBI Bulletin, 78(1): 87-98. https://tinyurl.com/cv839ese

Chart III.20: Contribution (%) of food items to food inflation



Source: Survey's calculations using Consumer Price Indices released by CSO, MoSPI

Chart III.21: Elevated inflation rate (%) in vegetables, pulses and spices



Source: Consumer Price Indices released by CSO, MoSPI

Reasons for price pressures in major food items

3.19. The production prospects of vegetables and pulses were particularly impacted by unfavourable weather conditions. The increase in tomato prices in July 2023 was caused by seasonal changes in crop production, region-specific crop diseases such as white fly infestation, and the early arrival of monsoon rains in the northern part of the country. There were also logistics disruptions in isolated areas due to heavy rains. The spike in onion prices was due to several factors, including rainfall during the last harvesting season affecting the quality of rabi onions, delays in sowing during the kharif season, prolonged dry spells impacting kharif production, and trade-related measures taken by other countries.

3.20. The prices of pulses, particularly of tur, increased due to low production over the past two years, caused by adverse weather conditions. Urad production was affected by slow sowing progress in the rabi season coupled with climatic disturbances in the southern states. The area and output of gram was also lower compared to the previous rabi season.

3.21. Since the beginning of 2023, there has been an increase in the price of milk. This is due to a decrease in artificial inseminations during the peak days of the pandemic, as well as higher costs for animal feed. The milk cooperatives increased the price of milk and milk products to account for increased costs. The milk price increase moderated by the end of FY24.

3.22. However, the government took prompt actions, including open market sales, retailing in specified outlets, and timely imports, to ensure an adequate supply of essential food items (Box III.2). Additionally, to ensure food security for the poor, the Pradhan Mantri Garib Kalyan Anna Yojana, which provides free food grains to more than 81 crore beneficiaries, was extended for a period of five years starting from January 2024.

Box III.2: Administrative measures to contain food inflation in FY24

Wheat/Atta

- Export of wheat flour, maida and semolina was placed under a prohibited category since August 2022.
- To prevent hoarding and unscrupulous speculation, stock limits were imposed on wheat from June 2023 to March 2024.
- In November 2023, the Government introduced Bharat Atta at a subsidised price of ₹27.50 per kg to make it affordable for consumers.
- Wheat and rice are offloaded periodically from the central pool under open market sale.

Rice/Paddy

- The Government placed the export of broken rice and non-basmati rice under the prohibited category in September 2022 and July 2023, respectively.
- To prevent the export of non-basmati rice under the garb of basmati rice, the floor price for the export of basmati rice was fixed in October 2023.
- To maintain adequate stock and to keep domestic prices under check, the Government imposed a 20 per cent export duty on parboiled rice until 31 March 2024.
- In February 2024, the Government mandated to declare the stock position of rice/paddy by traders/wholesalers, retailers, big chain retailers and processors/millers.
- In February 2024, the Government introduced Bharat Rice at a subsidised price of ₹29 per kg for selling through NAFED, NCCF and Kendriya Bhandar.

Pulses

- Calibrated release of stocks from the buffer of pulses is being done to ensure availability and affordability to consumers.
- To augment domestic availability and moderate the prices of pulses, import of tur and urad has been kept under 'Free Category' until 31 March 2025. Basic import duty on masur was reduced to zero until 31 March 2024.
- The Government launched Bharat Dal in July 2023 to convert chana stock into chana dal for retail disposal at a highly subsidised rate. Later, the Bharat Dal was extended to include Moong Dal and Moong Sabut.
- Besides, India imported considerable quantities of Tur (mainly from Mozambique, Myanmar, Tanzania, Sudan and Malawi), Masur (mainly from Australia, Canada and Russia) and Urad (mainly from Myanmar) in FY24.

Onion

- The onion buffer size under PSF was increased from 1.00 LMT in FY21 to 7.00 LMT in FY24. The stock was released through retail sales, e-Nam auctions and bulk sales in wholesale markets.
- The Government placed a Minimum Export Price on specific varieties of onion from October 2023 to December 2023.
- In December 2023, the export policy of onions was amended from the 'free' to the 'prohibited' category until 31 March 2024.

Edible Oils

- The basic duty on crude palm oil, crude soyabean oil, and crude sunflower oil was cut from 2.5 per cent to nil. The agri-cess on oil was reduced from 20 per cent to 5 per cent. In January 2024, this duty structure was extended until 31 March 2025.
- The reduced basic duty structure on refined soybean oil, refined sunflower oil and refined palm oil was extended until 31 March 2025.
- Free import of refined palm oils was extended till further orders.

Sugar

- In October 2023, the Government extended the date of restrictions on the export of sugar (raw sugar, white sugar, refined sugar and organic sugar) beyond 31 October 2023 until further orders.

Global food prices and domestic inflation

3.23. In India, the edible oil market heavily depends on imports, with more than 50 per cent of the total edible oil requirement being imported[8], making it sensitive to global prices. The Food and Agriculture Organisation (FAO) edible oils price index fluctuation is a key indicator of these global price trends. The recent downward trend in this index is broadly correlated with the decline in domestic edible oil prices in India. As a result, the Government closely monitors global market trends to ensure the availability of edible oils for consumers at an affordable price. Efforts are also made to balance imports with domestic production to mitigate the risks associated with global price volatility. In this context, the National Mission on Edible Oils - Oil Palm aims to increase domestic crude palm oil production to reduce the import burden.

3.24. In the case of sugar, the Government announced restrictions on export in June 2022 to ensure sufficient local supplies and thereby manage sugar inflation. These export restrictions have indeed played a role in stabilising domestic sugar prices. As a result, even though the global sugar price index inflated and has been showing volatility since February 2023, domestic sugar prices have remained much less volatile.

Chart III.22: Co-movement of global and domestic edible oil prices

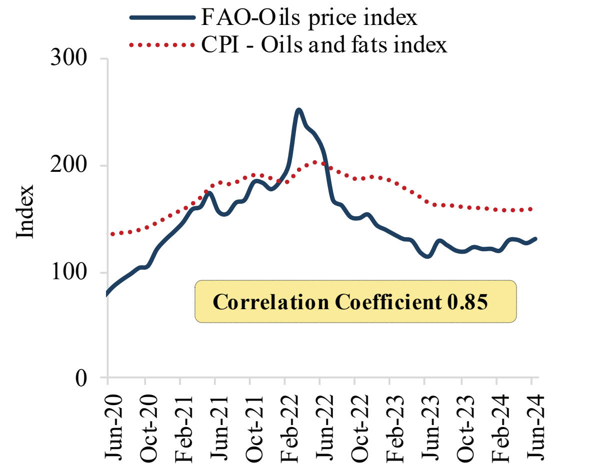
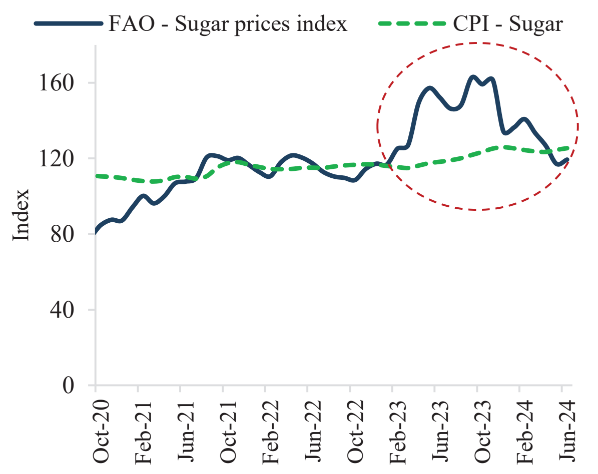


Chart III.23: Export ban on sugar led to stable sugar prices in India



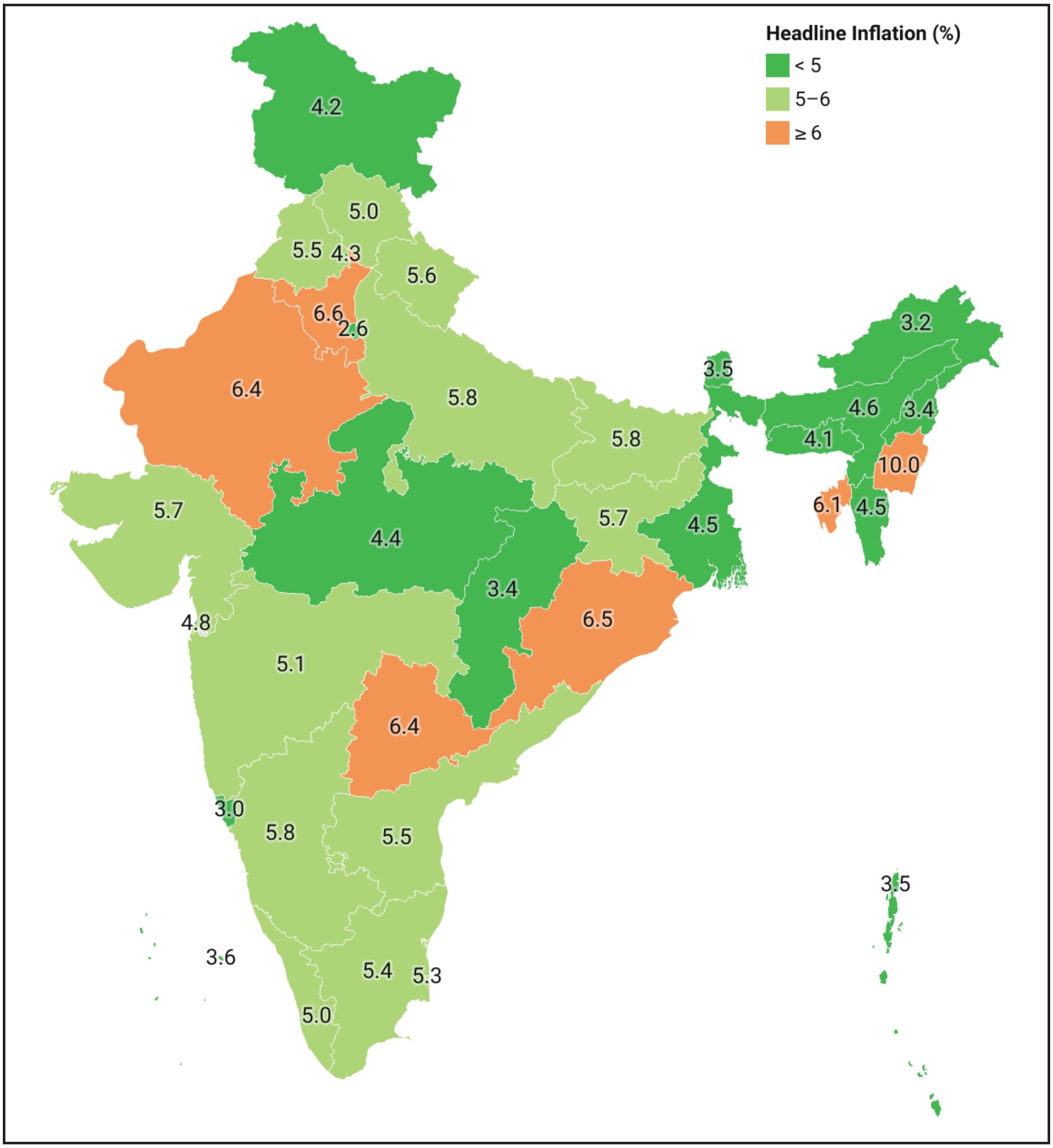
Source: (i) Consumer Price Indices released by CSO, MoSPI (ii) Food price indices data released by FAO

8 PIB release dated 14 March 2024, Ministry of Agriculture and Farmers Welfare. https://tinyurl.com/3w92nx5f

INTERSTATE VARIATIONS IN RETAIL INFLATION

3.25. Consistent with the decline in the all-India average retail inflation rate in FY24 compared to FY23, inflation in most States and Union Territories (UTs) decreased. The inflation rate was less than 6 per cent in 29 out of the 36 States and Union Territories.

Chart III.24:Interstate variations in retail inflation (%) in FY24

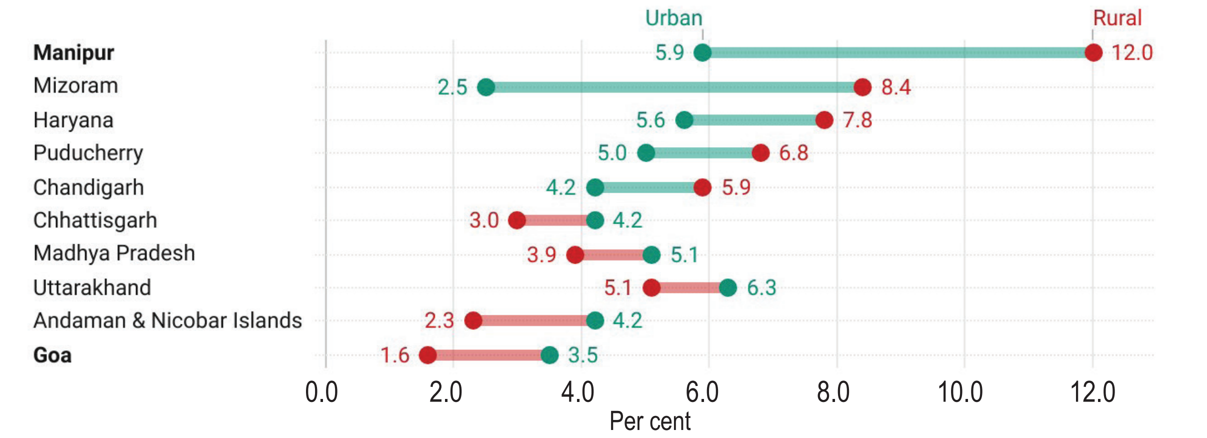


Source: Prepared from Consumer Price Indices released by CSO, MoSPI

Interstate variations in inflation are more pronounced in rural areas

3.26. The rural consumption basket has a much higher weightage of food items (47.3%) than the urban (29.6%). Hence, in the last two years, States that witnessed elevated food prices also experienced higher rural inflation. It is also found that the inter-state variation calculated through standard deviation is higher in rural than urban inflation. Besides, States with higher overall inflation also tend to exhibit a wider rural-to-urban inflation gap, with rural inflation exceeding urban inflation. A scatter plot of overall inflation for different States against their rural-to-urban inflation ratio reveals a positive correlation. For instance, the difference between rural and urban inflation in Haryana was much wider compared with Goa, which had relatively lower inflation.

Chart III.25: Interstate variations in rural-urban inflation gap in FY24 (Top 5 States/UTs with highest and lowest gap)



Source: Consumer Price Indices released by CSO, MoSPI

Chart III.26: Interstate variations in inflation rate are higher in the rural sector

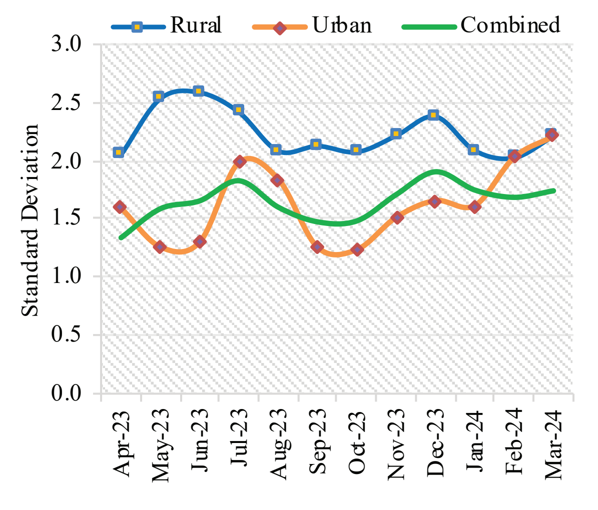
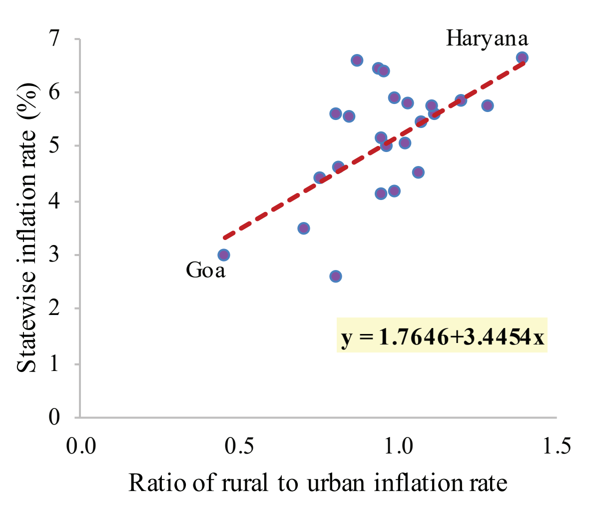


Chart III.27: States with higher inflation rate show a wider rural-urban gap (FY24)



Source: Consumer Price Indices released by CSO, MoSPI
Note: The scatter plot is based on a sub-sample of 23 major states and NCT of Delhi

OUTLOOK AND WAY FORWARD

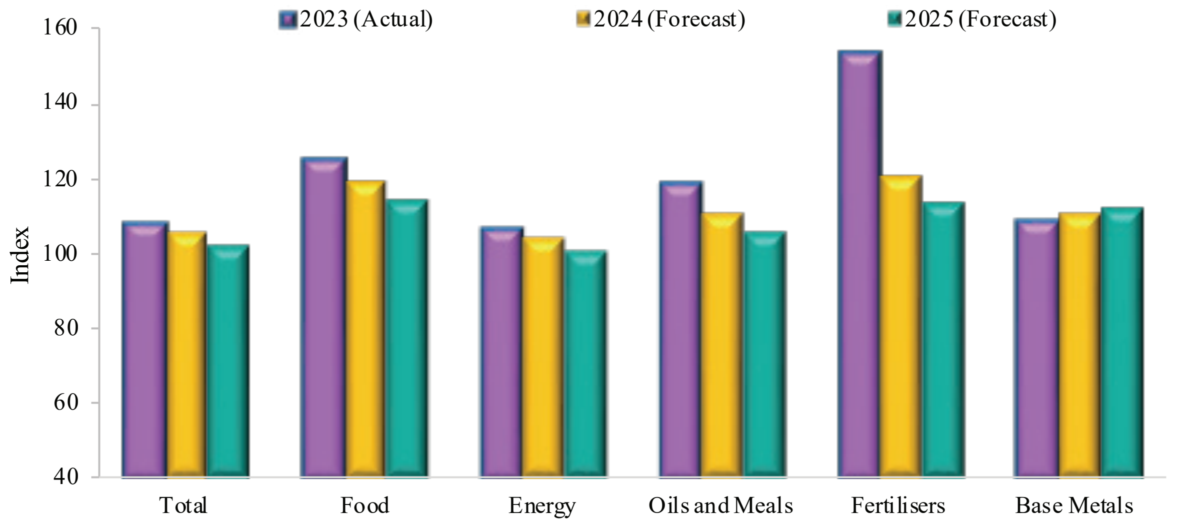
3.27. The RBI and the IMF have projected that India's consumer price inflation will progressively align towards the inflation target in FY26. Assuming a normal monsoon and no further external or policy shocks, the RBI[9] expects headline inflation to be 4.5 per cent in FY25 and 4.1 per cent

9 Monetary Policy Report, April 2024, Page 7. https://tinyurl.com/39p6phfu

in FY26. IMF[10] has projected an inflation rate of 4.6 per cent in 2024 and 4.2 per cent in 2025 for India.

3.28. The World Bank[11] expects that the global supply of commodities will increase, and so will their demand due to improved industrial activity and trade growth. It projects a 3 per cent decline in the commodity price index in 2024 and a 4 per cent decrease in 2025, mainly driven by lower energy, food and fertiliser prices. The energy price index is expected to reduce due to significant declines in coal and natural gas prices this year. Fertiliser prices are likely to weaken but remain above 2015-2019 levels due to strong demand and export restrictions. Base metal prices are projected to rise, reflecting increased global industrial activity and clean energy production. In general, the current downward movement in the prices of commodities imported by India is a positive for the domestic inflation outlook.

Chart III.28: Expected decline in global commodity prices in 2025



Source: World Bank Commodity Price Forecast released in April 2024
Note: (i) Total price index is composed of energy and non-energy prices (excluding precious metals), weighted by their share in 2002-04 exports.
(ii) The energy price index includes coal (Australia), crude oil (Brent), and natural gas (Europe, Japan, U.S.).
(iii) Metals & minerals include iron ore, aluminium, copper, lead, nickel, tin, and zinc.

3.29. On balance, the short-term inflation outlook for India is benign. However, from the angle of long-term price stability, the following options may be worth exploring.

- The domestic consumption of edible oils has been increasing faster than production, leading to increased import dependence. To reverse this pattern and to stabilise domestic prices, it is important to make focused efforts to increase the production of major oilseeds such as sunflower and rapeseed & mustard, and explore the potential of non-conventional oils such as rice bran oil and corn oil. The possibility of expanding the scope of the National Mission on Edible Oils beyond palm oil to other major oilseeds is worth an examination.

10 World Economic Outlook, April 2024, page 36. https://tinyurl.com/38pederj
11 World Bank's Commodity Markets Outlook Report of April 2024. https://tinyurl.com/2vzxr694

- India faces a persistent deficit in pulses and consequent price pressures. Production of pulses is concentrated in a few states and districts in the country, and is vulnerable to biotic and abiotic stresses. More efforts are needed to expand the area under pulses, particularly lentils, tur, and urad, in more districts and rice-fallow areas. It is also worth considering promoting the summer cultivation of urad and moong in areas with assured irrigation facilities.
- There have been many efforts by the Government to improve the storage and processing facilities for vegetables. In view of the continuing seasonal surges in the prices of vegetables like tomato and onion, it is important to assess the progress in developing modern storage facilities conducive to such specific crops, and evaluate the viability of such facilities whose services have highly seasonal demand.
- FY24 witnessed swift and effective administrative action by the Government to deal with price flare-ups in specific items. This was based on daily monitoring of prices at more than 500 centres. Prospectively, an important factor that can improve the swiftness and effectiveness of such action is complete clarity on prices and their indices. On this front, it may be important to fine-tune and expedite the ongoing action in the following areas.
  - The high-frequency price monitoring data for essential food items collected by different departments may be linked in such a way that the build-up of prices at each stage from the farm gate to the final consumer is quantifiable and monitorable.
  - The ongoing efforts to construct the producer price index for goods and services may be expedited to have a greater grasp of episodes of cost-push inflation. Further, considering that the results of the household consumer expenditure survey, 2022-23 of MoSPI are available, it may be appropriate to expeditiously revise the consumer price index with fresh weights and item baskets.

Annexure 1: Group of items and their weights used for the derived consumer prices indices for the components of core inflation

					Core goods			
	Core services		Core goods		Consumer non-durables		Consumer durables	
Major Groups/sub-groups	**No. of Items**	**Total Weight**	**No. of Items**	**Total Weight**	**No. of Items**	**Total Weight**	**No. of Items**	**Total Weight**
Pan, tobacco and intoxicants	–	–	16	2.4	16	2.4	–	–
Clothing and footwear	2	0.5	25	6.0	–	–	25	6.0
Household goods and services	4	0.9	44	2.9	8	1.7	36	1.2
Health	4	1.8	3	4.1	2	4.0	1	0.1
Transport and communication	13	4.6	8	4.0	3	2.4	5	1.6
Recreation and amusement	8	1.1	9	0.6	1	0.2	8	0.4
Education	3	3.5	2	1.0	2	1.0	–	–
Personal care and effects	1	0.6	15	3.3	7	2.1	8	1.3
Housing	10	10.1	–	–	–	–	–	–
Total	**45**	**23.0**	**122**	**24.3**	**39**	**13.7**	**83**	**10.6**

Source: Calculated from the Consumer Price Indices released by CSO, MoSPI

Note: The total weight of core goods and services in the Consumer Price Index is 47.3 per cent, which is the total of the weights of core goods and core services. The total weights of consumer non-durables and consumer durables add up to the total weights of core goods.

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