

## CHAPTER 5

### PRICES AND PRICE POLICY

The behaviour of prices in 1984-85 was characterised by continued pressure in the earlier part of the year followed by definite easing in the later part. This slackening reflected the effectiveness of the various anti-inflationary measures taken by the Government and the impact of two good harvests in succession. The seasonal rise in prices which commenced in May continued till August, 1984 and the Wholesale Price Index (WPI) increased by 7.4 per cent between 31st March and 25th August, 1984. This was followed by a seasonal decline which continued upto the end of December, 1984. By 9th February, 1985 the annual rate of inflation came down to 4.6 per cent as against 10.8 per cent in the corresponding week of 1983-84 and 3.3 per cent at the end of 1983-84. In terms of the Consumer Price Index (CPI) also the annual rate of inflation declined to 5.2 per cent in December, 1984 compared with 12.5 per cent in December, 1983.

5.2 The thrust of anti-inflationary policy continued to be on effective demand and supply management. On the demand side, measures were taken by the Reserve Bank of India (RBI) to check the growth in liquidity. These included postponing by one month of the release to banks of a portion of the additional cash balances impounded between January, 1977 and October, 1980 and the tightening, on two occasions, of access to refinance facilities in respect of food credit—once with effect from September 28, 1984 and subsequently from November 30, 1984. Government expenditure was also kept under restraint, and the ban on Government recruitment was continued. On the supply side, various steps have been taken to improve availability of essential commodities and to streamline their distribution. These include decisions to import sugar, jute, coconut oil and fatty acids (to replace tallow for manufacturing soap) and imposition of restrictions on the export of tea. Imports of edible oils and their releases through the Public Distribution System (PDS) as also for the vanaspati industry have been stepped up. Higher releases of sugar have helped to contain sugar prices.

#### Price Behaviour in 1983-84

5.3 The year 1983-84 witnessed a spurt in prices which began in the last quarter of 1982-83. The Wholesale Price Index rose sharply during the first five months of 1983-84 and the cumulative price rise upto 27th August, 1983 was 7.3 per cent. The annual rate of inflation rose from 7.1 per cent as on 2nd April, 1983 to a peak of 10.5 per cent on 24th September, 1983. Contrary to expectations in the wake of the bumper kharif crop in 1983-84, there was no significant seasonal decline in prices in the period from mid-September upto December which is the peak marketing period for the kharif crop. Instead, the WPI remained virtually stationary during this period. There was a seasonal decline in prices of cereals, fruits and vegetables, gur and groundnut oil but this was neutralised by a sharp increase in the index for pulses, condiments and spices, coffee and mustard oil.

5.4 For the year 1983-84 as a whole, prices increased by 8.3 per cent in terms of the WPI compared with 7.3 per cent in the previous year (Table 5.1). Most of the increase was due to a few agricultural commodities such as gur, oilseeds, edible oils, pulses, milk and milk products and tea (Table 5.2). These items, with a combined weight of about 22 per cent in the index, accounted for about 59 per cent of the total increase in prices during the year. A part of the increase was, however, offset by the decline in the prices of cereals, eggs, fish and meat. Administered prices as a group increased by 3.4 per cent largely due to increase in price of coal. There was a reduction of 5.3 per cent in the fertilizers prices, while the prices of petroleum crude and petroleum products remained more or less stable.

5.5 To some extent, the persistence of price pressure in the economy despite a good crop was due to the spillover effects of the previous year's drought aggravated by speculative expectation spurred by the initial delay in the outbreak of monsoon and the dwindling stocks of rice with the Government. Rice stocks

TABLE 5.1  
*Movements in the Index Numbers of Wholesale Prices*  
 (1970-71 = 100)

1	2	Per cent Variation						8
		Weight (Per cent)	28-3-81	27-3-82	2-4-83	31-3-84	28-1-84	
			29-3-80	28-3-81	27-3-82	2-4-83	2-4-83	
		3	4	5	6	7		
ALL COMMODITIES . . . . .	100.00	16.7	2.4	7.3	8.3	8.7	5.2	
I. Primary Articles . . . . .	41.67	14.8	4.6	8.1	9.6	7.2	4.7	
(a) Food Articles . . . . .	29.80	15.3	7.7	12.2	7.0	8.7	4.2	
Foodgrains . . . . .	12.92	17.8	4.1	12.2	0.9	5.5	5.1	
Cereals . . . . .	10.74	11.3	9.3	16.0	-5.0	-0.8	0.2	
Pulses . . . . .	2.18	42.0	-11.4	-1.6	26.0	32.2	20.9	
Fruits & vegetables . . . . .	6.13	17.3	5.8	16.1	3.1	5.6	0.9	
Milk & milk products . . . . .	6.15	12.8	16.9	1.5	17.6	14.6	1.1	
Eggs, fish & meat . . . . .	1.90	10.5	13.4	14.7	-4.5	1.3	13.4	
Condiments & spices . . . . .	1.10	32.1	11.1	-3.4	38.9	30.9	26.8	
Other food articles . . . . .	1.60	-0.8	3.9	41.3	35.2	26.1	-1.4	
Tea . . . . .	(1.15)	-7.1	7.1	51.2	35.3	26.2	-4.5	
(b) Non-Food Articles . . . . .	10.62	12.0	2.2	7.5	20.5	21.5	7.8	
Raw cotton . . . . .	2.25	35.1	-11.6	0.6	25.4	17.2	-5.5	
Raw jute . . . . .	0.43	-0.5	11.2	44.5	41.1	20.0	128.7	
Oilseeds . . . . .	4.20	18.0	-4.0	8.4	25.0	36.1	3.1	
(c) Minerals . . . . .	1.25	17.5	5.1	-11.2	2.0	0.1	0.6	
Petroleum crude & natural gas . . . . .	0.60	18.3	-7.2	-13.3	No ch.	No ch.	No ch.	
II. Fuel, Power Light & Lubricants . . . . .	8.46	31.9	9.3	11.3	4.4	4.5	2.4	
Coal mining . . . . .	1.15	29.6	No ch.	18.9	25.2	25.2	0.2	
Mineral oils . . . . .	4.91	39.6	9.7	4.7	0.1	0.3	0.7	
Electricity . . . . .	2.40	10.4	15.7	29.7	3.7	3.7	8.7	
III. Manufactured Products . . . . .	49.87	14.7	-1.2	5.5	8.5	8.2	6.5	
Food products . . . . .	13.32	26.4	-20.8	1.2	19.0	22.1	5.3	
Sugar, khandsari & gur . . . . .	7.24	32.1	-33.4	-3.3	25.6	25.7	6.7	
Edible oils . . . . .	3.72	20.3	2.4	5.9	14.4	21.9	1.3	
Textiles . . . . .	11.03	3.7	4.0	6.1	9.0	6.7	10.4	
Paper & paper products . . . . .	0.85	5.1	12.5	-0.2	12.7	10.5	7.1	
Leather & leather products . . . . .	0.38	3.3	-4.0	4.4	9.4	3.9	1.4	
Chemicals & chemical products . . . . .	5.55	17.2	5.1	4.4	3.2	2.7	3.5	
Non-Metallic mineral products . . . . .	1.41	9.8	25.8	6.7	6.1	5.4	7.5	
Basic Metals, alloys & metal products . . . . .	5.97	16.1	10.7	11.9	4.0	2.8	8.5	
Machinery & transport equipment . . . . .	6.72	9.6	9.5	5.4	1.3	0.6	5.9	
Miscellaneous products . . . . .	0.72	8.0	2.1	3.7	4.1	3.6	4.5	

(P) Provisional.

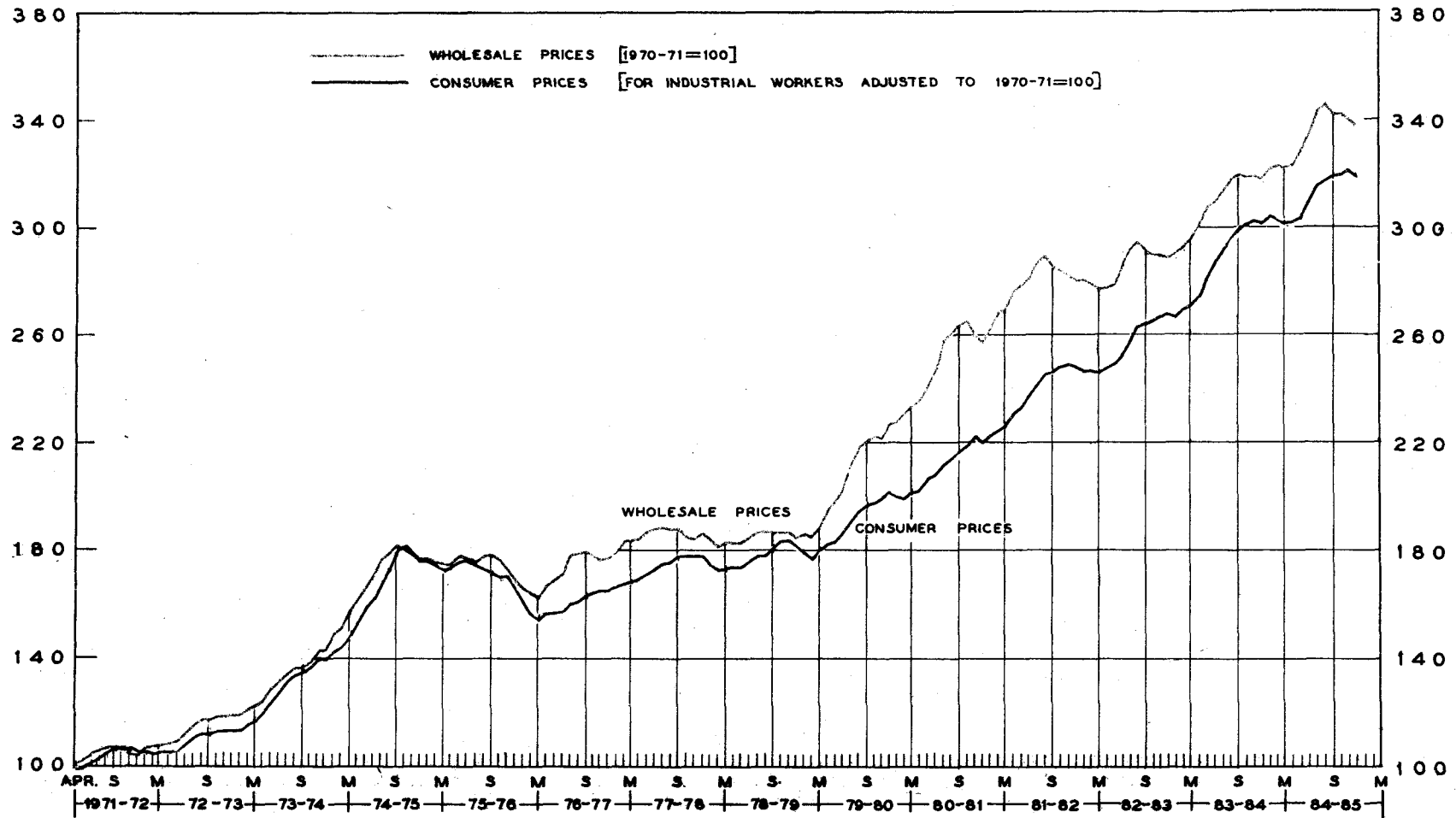
touched a low of 1.9 million tonnes out of total foodgrains stocks of 14 million tonnes (as on 1st October, 1983), necessitating some imports.

#### Price Behaviour in 1984-85

5.6 Prices continued to be under pressure in the early part of 1984-85 with the Wholesale Price Index rising sharply by 7.4 per cent in the first five months of year reaching a peak of 346.0 in August. Prices started declining thereafter and there was marked

easing of inflationary pressure in the second half of the year. Unlike in the previous year, there was an appreciable seasonal decline in 1984-85 and between 25th August and 29th December, the WPI fell by 2.5 per cent. The price rise upto 29th December, 1984 was only 4.8 per cent as against an increase of 7.7 per cent in the corresponding period of 1983-84. The annual rate of inflation which had touched 9.6 per cent in early August came down to 5.4 per cent on 29th December compared with 10.7 per cent at

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the end of December 1983. A similar deceleration in inflation was visible in the CPI also. The CPI increased by 5.4 per cent in the current financial year upto December, 1984 as against 11.4 per cent in the

corresponding period of 1983-84. The annual rate of inflation in terms of the CPI in December 1984 was 5.2 per cent as against 12.5 per cent in December 1983.

TABLE 5.2  
*Variations in Wholesale Prices of Certain Commodities/Groups*

I	Weight (Per cent)	2-4-83 & 31-3-84		2-4-83 & 28-1-84		31-3-84 & 26-1-85(P)	
		%age Change	%age Share	%age Change	%age Share	%age Change	%age Share
ALL COMMODITIES	100.00	8.3	100.0	8.7	100.0	5.2	100.0
<b>A. Administered Prices</b>	<b>15.66</b>	<b>3.4</b>	<b>10.5</b>	<b>3.3</b>	<b>9.7</b>	<b>4.1</b>	<b>19.3</b>
(i) Petroleum crude	0.60	No ch.	..	No ch.	..	No ch.	..
(ii) Petroleum products	4.91	0.1	0.1	0.3	0.3	0.7	1.0
(iii) Coal mining	1.15	25.2	5.9	25.2	5.6	0.2	0.1
(iv) Electricity	2.40	3.7	1.4	3.7	1.3	8.7	4.9
(v) Fertilizers	1.25	-5.3	-0.8	-4.7	-0.6	No ch.	..
(vi) Iron, steel and ferro alloys	3.47	2.3	1.3	2.1	1.1	27.1	9.9
(vii) Non-ferrous metals	1.18	11.0	1.7	6.3	1.0	4.2	1.1
(viii) Cement	0.70	8.4	0.9	8.4	0.9	13.0	2.3
<b>B. Seasonal Items</b>							
<b>1. Sugar, Khandsari &amp; Gur and Edible Oils</b>	<b>10.96</b>	<b>21.5</b>	<b>23.6</b>	<b>24.4</b>	<b>25.6</b>	<b>4.8</b>	<b>9.5</b>
(i) Sugar, Khandsari and Gur	7.24	25.6	17.9	25.7	17.2	6.7	8.6
Sugar	(2.19)	4.1	0.8	2.1	0.4	4.5	1.4
Khandsari	(0.49)	8.2	0.4	11.5	0.5	12.5	0.8
Gur	(4.56)	36.6	16.7	37.5	16.3	7.0	6.4
(ii) Edible Oils	3.72	14.4	5.7	21.9	8.4	1.3	0.9
<b>2. Other Seasonal Items</b>	<b>37.17</b>	<b>10.2</b>	<b>39.3</b>	<b>12.2</b>	<b>44.9</b>	<b>5.4</b>	<b>33.9</b>
(i) Cereals	10.74	-5.0	-5.6	-0.8	-0.8	0.2	0.3
of which :							
Rice	(5.13)	-1.1	-0.6	0.4	0.2	-2.3	-2.0
Wheat	(3.42)	-12.2	-4.0	-5.2	-1.6	3.6	1.5
(ii) Pulses	2.18	26.0	6.8	32.2	8.1	20.9	10.2
(iii) Fruits & vegetables	6.13	3.1	2.0	5.6	3.6	0.9	0.9
(iv) Milk & milk products	6.15	17.6	10.0	14.6	8.0	1.1	1.1
(v) Eggs, fish & meat	1.90	-4.5	-1.2	1.3	0.3	13.4	5.2
(vi) Condiments & spices	1.10	38.9	2.9	30.9	2.2	26.8	4.1
(vii) Other food articles	1.60	35.2	7.3	26.1	5.1	-1.4	-0.6
of which :							
Tea	(1.15)	35.3	6.1	26.2	4.3	-4.5	-1.5
(viii) Fibres	3.17	25.2	6.7	15.7	4.0	21.2	10.4
of which :							
Raw cotton	(2.25)	25.4	4.6	17.2	3.0	-5.5	-1.8
Raw jute	(0.43)	41.1	1.5	20.0	0.7	128.7	9.8
(ix) Oilseeds	4.20	25.0	10.4	36.1	14.4	3.1	2.3
<b>C. All Other Commodities</b>	<b>36.21</b>	<b>6.7</b>	<b>26.6</b>	<b>5.2</b>	<b>19.8</b>	<b>6.0</b>	<b>37.3</b>

(P) Provisional.

5.7 An analysis of the components of the price rise in the course of 1984-85 shows that both the increase upto August and the decline thereafter were due to the movement in prices of seasonal commodities (Table 5.3). In the period from 31st March upto 25th August, 1984, the prices of ten groups of seasonal commodities, accounting for a total weight of

52 per cent, increased by 12.1 per cent while other commodities showed an increase of only 3.3 per cent. The seasonal items which were responsible for the sharp increase during this period were pulses (15.4 per cent), fruits and vegetables (29.2 per cent), gur (28.9 per cent), edible oils (10.2 per cent) and condiments and spices (19.4 per cent).

5.8 The seasonal decline commenced from 25th August and continued upto 29th December, 1984. The ten groups of seasonal items which had increased by 12.1 per cent in the first five months declined by 6.4 per cent in the next four months while prices of all other commodities increased by 1.4 per cent. Among the seasonal items, there was a fall in the prices of fruits and vegetables (-24.4 per cent), raw cotton (-21.7 per cent), gur (-18.0 per cent), edible oils (-4.4 per cent) and rice (-7.6 per cent). There was a modest fall in the prices of milk and milk products, tea, and oilseeds also. On the other hand, some items remained under continuous pressure and their prices went up e.g., pulses (7.1 per cent), condiments and spices (12.0 per cent) and raw jute (39.8 per cent).

5.9 The most notable development during this period was the price behaviour of cereals, particularly of rice. Cereal prices which had increased by 1.7 per cent upto 25th August came down quite appreciably by 3.6 per cent between 25th August and 29th December, 1984. As a result, on 29th December, the index for cereals was 5 per cent lower than the level at the end of the previous year. This was primarily a reflection of high foodgrains production and a gradual build up of buffer stocks of rice from 5.2 million tonnes at the end of March 1984 to 7.4 million tonnes at the end of December 1984. The easy availability and high level of total stocks of foodgrains by the end of December 1984 at 22.5 million tonnes is expected to impart stability to cereal prices in the coming months.

TABLE 5.3

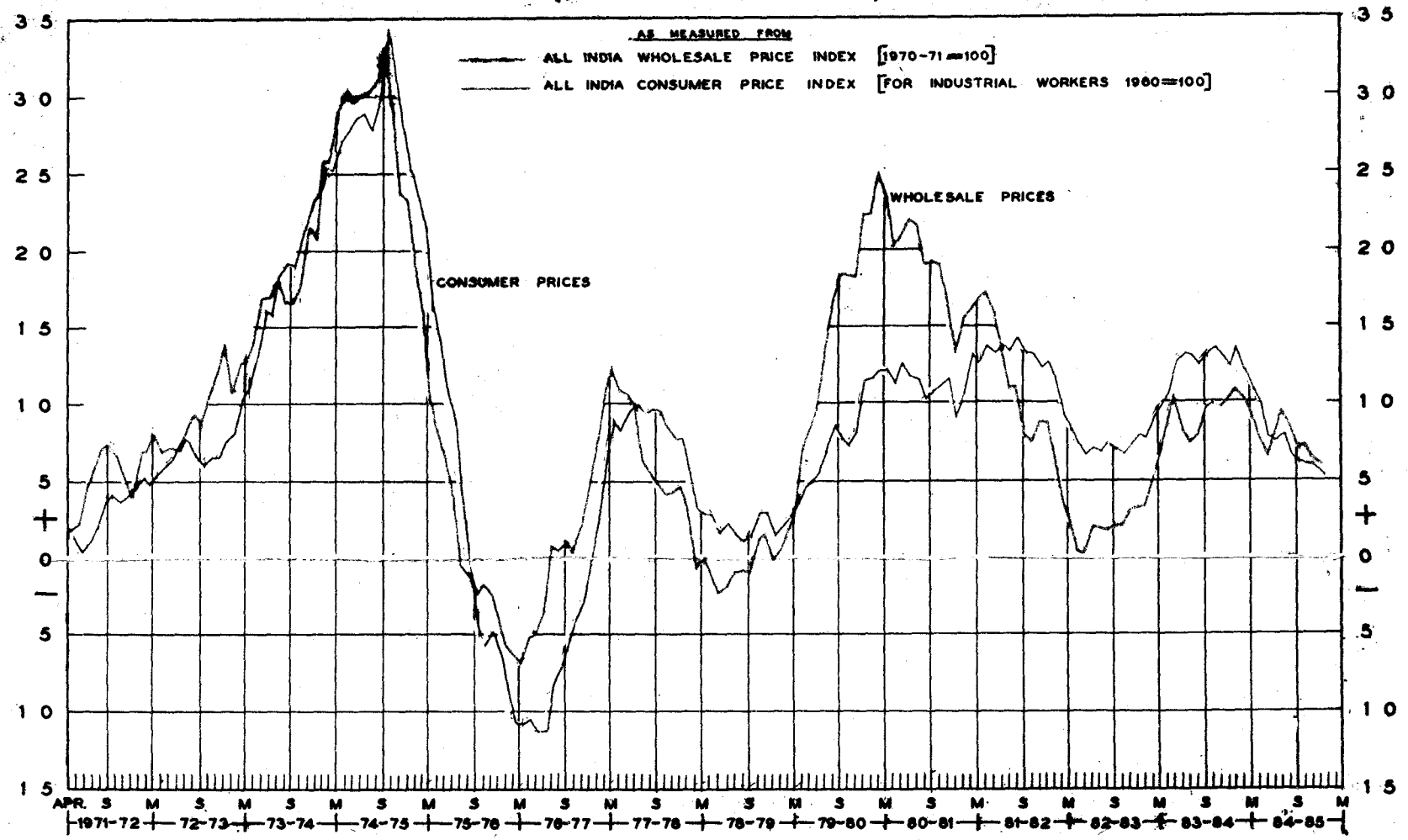
Composition of the Price Rise\* between 31st March, 1984 and 29th December, 1984  
(Seasonal Items)

Commodities/Groups	Weight (per cent)	(Between week ended)		
		31-3-84 & 25-8-84	25-8-84 & 29-12-84	
		%age Change	%age Share	%age Change
1	2	3	4	5
I. Foodgrains . . . . .	12.92	5.0	7.2	-0.9(-2.5)
1. Cereals . . . . .	10.74	1.7	1.8	-3.6(-7.4)
of which :				
(a) Rice . . . . .	(5.13)	3.7	2.2	-7.6(-14.1)
(b) Wheat . . . . .	(3.42)	-0.7	-0.2	1.4(4.6)
2. Pulses . . . . .	2.18	15.4	5.3	7.1(16.9)
II. Fruits & vegetables . . . . .	6.13	29.2	20.7	-24.4(-8.7)
III. Milk & milk products . . . . .	6.15	5.1	3.6	-3.9(9.6)
IV. Eggs, fish & meat . . . . .	1.90	10.2	2.8	6.1(-1.7)
V. Condiments & spices . . . . .	1.10	19.4	2.1	12.0(21.0)
VI. Other food articles . . . . .	1.60	0.7	0.2	-2.7(8.0)
(a) Tea . . . . .	(1.15)	1.7	0.4	-5.5(-6.1)
(b) Coffee . . . . .	(0.16)	6.7	0.1	0.3(15.5)
VII. Non-Food Articles . . . . .	10.62	9.2	12.4	-3.1(7.5)
1. Fibres . . . . .	3.17	23.7	8.2	-4.8(9.1)
(a) Raw cotton . . . . .	(2.25)	19.5	4.6	-21.7(7.8)
(b) Raw jute . . . . .	(0.43)	54.0	2.9	39.8(21.7)
2. Oilseeds . . . . .	4.20	10.6	5.7	-5.1(6.2)
VIII. Sugar, khandsari & gur . . . . .	7.24	23.1	21.0	-13.7(-11.6)
(a) Sugar . . . . .	(2.19)	5.3	1.1	1.8(0.8)
(b) Gur . . . . .	(4.56)	28.9	18.6	-18.0(-16.0)
IX. Edible oils . . . . .	3.72	10.2	4.8	-4.4(4.3)
(a) Groundnut oil . . . . .	(1.42)	11.3	2.1	-6.1(-13.0)
(b) Mustard oil . . . . .	(0.67)	14.7	1.0	-8.8(39.5)
X. Oil cakes . . . . .	0.90	9.3	1.0	3.2(5.8)
XI. Total (I to X) . . . . .	<b>52.28</b>	<b>12.1</b>	<b>76.6</b>	<b>-6.4(-9.1)</b>
XII. Other Groups/Items . . . . .	47.72	3.3	23.4	1.4(0.9)
XIII. ALL COMMODITIES . . . . .	<b>100.00</b>	<b>7.4</b>	<b>100.0</b>	<b>-2.5(6.4)</b>

\* Based on Wholesale Price Index (1970-71 = 100)—Provisional. Figures in brackets relate to the corresponding period of 1983.

# ANNUAL RATE OF INFLATION

(CHANGE OVER 12 MONTHS)



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5.10 As mentioned earlier, the items which have shown continuous pressure on prices are pulses, the sugar group, edible oils and jute. The prices of pulses have remained under continuous pressure throughout the Sixth Plan period (except 1981-83) because of a sizeable demand-supply gap. There is an added limitation that domestic availability cannot be augmented through imports because pulses are not available on a large scale from abroad.

5.11 Although oilseeds and edible oils production has increased during the Sixth Plan, the increase has not kept pace with the rising demand and the deficiency has been filled through larger imports of edible oils year after year. Edible oil imports in the oil year 1983-84 (November--October) stood at 16.3 lakh tonnes constituting nearly 1/3rd of our total requirements. These imports are used partly as raw material for the vanaspati industry and partly for distribu-

tion through fair price shops at a fixed price. Non-edible oils and fats are also imported for supply to the soap industry and other industrial users. Despite increasing imports, the prices of edible oils remained under pressure throughout 1983-84 (there was no seasonal decline) recording an increase of 14.4 per cent. The ban on import of mutton tallow created disruption of supplies of raw material for the soap industry and resulted in diversion of edible oil for non-edible uses thereby pushing up the price of edible oils. The rising trend continued in the current financial year upto the end of August 1984, by which time prices had increased further by 10.2 per cent. Thereafter, prices came down by nearly 4.4 per cent between end-August and end-December and further by 4 per cent in January 1985. The relative price stability reflects improved production during the current year.

TABLE 5.4  
Percentage Variations in Wholesale/Consumer Price Indices

Month	1981-82			1982-83			1983-84			1984-85		
	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation
1	2	3	4	5	6	7	8	9	10	11	12	13
<i>A : Index Numbers of Wholesale Prices (1970-71=100)</i>												
(Average of weeks)												
April	275.7	2.1	17.3	276.9	-0.1	0.4	300.3	1.7	8.5	323.4	0.2	7.7
May	277.9	0.8	15.8	278.1	0.4	0.1	307.4	2.4	10.5	327.5	1.3	6.5
June	279.8	0.7	13.2	285.8	2.8	2.1	309.3	0.6	8.2	334.6	2.2	8.2
July	286.2	2.3	11.0	291.5	2.0	1.9	312.9	1.2	7.3	342.7	2.4	9.5
August	289.2	1.0	11.1	294.5	1.0	1.8	317.7	1.5	7.9	346.0	1.0	8.9
September	284.8	-1.5	8.0	290.6	-1.3	2.0	319.1	0.4	9.8	342.2	-1.1	7.2
October	284.1	-0.2	7.4	289.8	-0.3	2.0	318.9	-0.1	10.0	347.6	0.1	7.4
November	281.5	-0.9	8.9	290.3	0.2	3.1	319.3	0.2	10.0	340.0	-0.8	6.5
December	279.5	-0.7	8.7	288.7	-0.6	3.3	318.7	-0.2	10.4	337.3	-0.8	5.8
January	281.1	0.6	6.8	290.6	0.7	3.4	322.3	1.2	10.9			
February	278.7	-0.9	3.7	292.7	0.7	5.0	323.2	0.3	10.4			
March	277.1	-0.6	2.6	295.3	0.9	6.6	322.9	-0.1	9.4			
<i>B : All India Consumer Price Index Numbers for Industrial Workers (1960=100)</i>												
April	427	1.7	13.9	459	0.4	7.5	508	1.2	10.7	559	0.2	10.0
May	433	1.4	13.4	462	0.7	6.7	521	2.6	12.8	562	0.5	7.9
June	439	1.4	13.7	470	1.7	7.1	533	2.3	13.4	574	2.1	7.7
July	447	1.8	13.5	478	1.7	6.9	541	1.5	13.2	585	1.9	8.1
August	454	1.6	14.4	488	2.1	7.5	549	1.5	12.5	586	0.2	6.7
September	456	0.4	13.4	489	0.2	7.2	554	0.9	13.3	589	0.5	6.3
October	460	0.9	13.3	491	0.4	6.7	558	0.7	13.7	592	0.5	6.1
November	462	0.4	12.4	496	1.0	7.4	561	0.5	13.1	595	0.5	6.1
December	460	-0.4	12.7	497	0.2	8.0	559	-0.4	12.5	588	-1.2	5.2
January	459	-0.2	11.7	495	-0.4	7.8	563	0.7	13.7			
February	458	-0.2	9.6	500	1.0	9.2	561	-0.4	12.2			
March	457	-0.2	8.8	502	0.4	9.8	558	-0.5	11.2			

Figures from January 1984 are provisional in respect of wholesale prices.

5.12 Tea prices increased inordinately—by more than 50 per cent in 1982-83 and 35 per cent in 1983-84—reflecting largely the sharp rise in prices of tea in the international market. Tea production was around 550 million kgs. in 1981 and 1982 and increased to 588 million kgs. in 1983. Production for 1984 is estimated substantially higher at 645 million kgs. Exports, however, increased from 190 million kgs. in 1982 to 209 million kgs. in 1983. For 1984, the target of 215 million kgs. was fixed. The pressure on the domestic market was sought to be contained with a variety of regulatory measures on marketing and exports such as banning of exports of CTC tea and introduction of regulations to ensure that larger proportion of the produce was sold through auctions. It was also decided to restrict exports so that the total in 1984 did not exceed 215 million kgs. These measures coupled with the increase in production had the desired effect and tea prices appear to have stabilised, though at a high level.

5.13 The commodity which has registered the highest price increase in the current financial year is raw jute. In fact, the prices of raw jute have remained under pressure from 1982-83 onwards. The pressure intensified in 1984-85. The prices of raw jute recorded a sharp increase of 128.7 per cent in 1984-85 upto 26th January, 1985 on top of a 86 per cent increase between April 1982 and March 1984. This spurt in prices has been due to setbacks in production. The demand for jute goods, however, has been buoyant. To meet the demand—supply gap, Government decided to import about 3 lakh bales of jute, which have started arriving. These imports have served to moderate the rise in prices. However, raw jute prices are still ruling high and the index for raw jute prices at the end of January, 1985 was 169 per cent higher than the level at the end of January 1984. Significant moderation in jute prices can be achieved only through increased production which in turn calls for higher relative profitability of jute cultivation.

5.14 Raw cotton prices also remained under continuous pressure in 1983-84 when the index increased by 25 per cent. Prices increased further by nearly 20 per cent upto August 1984. In the beginning of 1983-84, Government decided to export some quantity of cotton on the expectation of a good cotton crop which did not materialise. However, as the year progressed and the supplies dwindled, prices began to shoot up. In order to arrest this trend, Government

banned the export of cotton in early January, 1984. The prices of raw cotton, however, started coming down only from September, 1984 onwards as the prospects of a good crop in the cotton year 1984-85 became apparent. Between 25th August and 29th December, cotton prices registered a decline of nearly 22 per cent. There was a fall of 5.5 per cent in cotton prices during 1984-85 upto 26th January, 1985.

5.15 Sugar, khandsari and gur prices have recorded wide fluctuations in recent years reflecting variations in output and relative prices of the three components. Gur prices had declined in 1981-82 and 1982-83 but this was followed by a significant spurt (37 per cent) during 1983-84, reflecting lower sugarcane production in 1983-84. The pressure continued during the current financial year upto 25th August when gur prices increased further by about 29 per cent. There was a seasonal decline after 25th August, with a sharp decline in the month of November when market arrivals improved. The cumulative price rise in gur in 1984-85 upto 26th January, 1985 was only 7 per cent compared with an increase of about 38 per cent in the corresponding period last year. The prices of sugar have behaved better and have been subject to much less variation mainly because of the availability of sugar stocks. Sugar production in the 1983-84 sugar year declined to about 59 lakh tonnes compared with about 82 lakh tonnes in 1982-83 but the huge carry-over stocks along with the buffer-stock of 10 lakh tonnes enabled the Government to maintain monthly releases at a high level. As a result, sugar prices increased by only 4 per cent in 1983-84 and by about 4.5 per cent in the current financial year upto 26th January, 1985. On present indications, the overall production of sugar in the 1984-85 sugar year (October—September) is expected to be somewhat higher than in 1983-84. However, with rising demand and reduced stocks, the supply position in the coming months may remain under pressure and this may necessitate some imports.

5.16 In the Sixth Plan period, the average annual inflation rate, on a point to point basis, works out to around 8 per cent in terms of the WPI and 9.5 per cent in terms of the CPI. Measured over a longer period—since the beginning of 1971-72 till the end of December 1984—the annual inflation rate works out to 9.4 per cent in terms of the WPI and 9.0 per cent in terms of the CPI. However, this period includes years in which the economy had to suffer from the strain of two oil shocks, the first during 1973—75,



and again during 1979—81. If these years are left out, the average inflation rate comes to 5.4 per cent and 6.1 per cent respectively according to the two indices. Apart from the oil shocks during this period, the economy suffered two severe droughts in quick succession. Looking at the experience of other developing countries during this period, the performance of India in regard to inflation has been quite remarkable.

### Consumer Prices

5.17 As may be seen from charts 8 and 9, despite differences in their composition, weighting diagrams and coverage of commodities, etc., the movement of the CPI has in the long run followed the movement in the WPI with some time lag. In fact, not only the direction is the same, the extent of change also shows a converging trend. However, there are two interesting differences. Over the long run, the Consumer Price Index (adjusted to the same base) has generally been lower than the Wholesale Price Index. Secondly, the rate of fluctuation (on an annual basis) in the WPI has been generally greater than in the CPI.

5.18 The behaviour of prices during 1983-84 and 1984-85 (Table 5.4) follows the normal seasonal pattern. The annual rate of inflation in the WPI at the beginning of 1983-84 was 8.5 per cent which increased

to 9.4 per cent at the end of the year. The comparable rate for the CPI was 10.7 per cent rising to 11.2 per cent. In 1984-85, while the annual inflation rate in wholesale prices came down from 7.7 per cent in April 1984 to 5.8 per cent in December 1984, in terms of the CPI, it declined more sharply from 10.0 per cent to 5.2 per cent during the same period. However, there is considerable divergence in their monthly movement. As explained in the earlier Economic Surveys, apart from differences in composition etc., the main reason for the divergence in the movement of the WPI and the CPI is the lag in transmitting the changes from the wholesale to the consumer level.

### Policy Framework and Developments

#### Agricultural Prices

5.19 The price policy for agricultural products is guided by the objectives of providing remunerative prices to the producers, to facilitate procurement and also to maintain/bring about the requisite inter-crop parity. Under this policy, Government have been making upward revisions in the support/procurement prices of major agricultural commodities during the Sixth Plan period taking into account changes in input costs and other factors. The revisions made during the period 1980—85 are given in Table 5.5.

TABLE 5.5  
Minimum Support/Procurement Prices of Agricultural Commodities

Commodity	Marketing Year*					
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1	2	3	4	5	6	7
1. Wheat . . . . . (Procurement Price)	115	117	130	142	151	152
2. Paddy (Common variety) . . . -do-	95	105	115	122	132	137**
3. Coarse grains . . . . . -do-	95	105	116	118	124	130
4. Barley . . . . . (Minimum Support Price)	@	@	105	@	122	124
5. Gram . . . . . -do-	140	145	@	@	235	240
6. Arhar . . . . . -do-	165	190	@	215	245	275
7. Moong . . . . . -do-	175	200	@	240	250	275
8. Urad . . . . . -do-	175	200	@	230	245	275
9. Mustard . . . . . -do-	245	@	@	@	355	360
10. Groundnut . . . . . -do-	190	206	270	295	315	340
11. Sunflower seed . . . . . -do-	175	183	250	250	275	325
12. Soyabean (black variety) . . -do-	175	183	210	220	230	240
13. Cotton (Kapas 320F/J-34) . . -do-	275	304	@	380	400	410***
14. Sugarcane . . . . . (Statutory Minimum Price)	12.50	13.00	13.00	13.00	13.50	14.00
15. Jute (W-5 grade) . . . . . -do-	155	160	175	175	185	195

\*Marketing year (April-March) for wheat, gram, barley and mustard, (July-June) for jute, (September-August) for cotton, and (October-September) for paddy and other kharif crops.

\*\*Rs. 141 for fine variety and Rs. 145 for superfine variety.

@Not announced.

Rs. 265 for yellow variety.

\*\*\*F. 414/H-777 variety. For a long staple basic variety, Hybrid-4, the price is Rs. 535.

As may be observed, the procurement price of wheat during the period was raised by 32.2 per cent, of paddy (common variety) by 44.2 per cent and of coarse grains by 36.8 per cent. Similarly, minimum support prices of pulses, oilseeds and cotton and the statutory minimum price of jute were also raised between 37 per cent and 86 per cent. These revisions were made on the recommendations of the Agricultural Prices Commission (redesignated as Commission for Agricultural Costs and Prices) which takes into account *inter alia* the changes in the cost of production and also the terms of trade between agricultural and other sectors of the economy. It may be pointed out that while support/procurement prices were being raised from year to year, prices of fertilisers were not changed during 1982-83 and 1984-85 and were in fact reduced in 1983-84. The index of fertiliser prices came down by 5.3 per cent in 1983-84 and has remained at that level during the current year also.

5.20 The procurement prices for paddy for the 1984-85 marketing year have been fixed at Rs. 137, Rs. 141 and Rs. 145 per quintal for common, fine and superfine varieties respectively. These prices are higher than the previous year's prices by Rs. 5 per quintal for each variety. The procurement price of coarse kharif cereals (jowar, bajra, maize and ragi) was also increased by Rs. 6 per quintal to Rs. 130 per quintal. The procurement price of wheat for the 1984-85 marketing year was fixed by the Government at Rs. 152 per quintal as against Rs. 151 per quintal in 1983-84. The minimum support price for barley was fixed at Rs. 124 per quintal for 1984-85 as against Rs. 122 per quintal in the previous year. The minimum support price for gram for 1984-85 marketing year was raised to Rs. 240 per quintal from Rs. 235 per quintal in 1983-84. Prices of other pulses like arhar, moong and urad were also raised to Rs. 275 per quintal which meant an increase of Rs. 30 per quintal in arhar and urad and Rs. 25 per quintal in moong. For oilseeds, the minimum support price of mustard was raised by Rs. 5 per quintal to Rs. 360 per quintal, of groundnut by Rs. 25 per quintal to Rs. 340 per quintal, of sunflower seed by Rs. 50 per quintal to Rs. 325 per quintal and of soyabean (black variety) by Rs. 10 per quintal to Rs. 240 per quintal for the marketing year 1984-85. A higher increase was allowed in the case of sunflower seed, which is a non-traditional oilseed, to induce increased production.

For the 1985-86 marketing year the minimum support price of mustard has been raised by Rs. 25 per quintal to Rs. 385 per quintal.

5.21 The statutory minimum price for sugarcane for the 1984-85 marketing year (October—September) has been fixed at Rs. 14 per quintal, linked to a basic recovery of 8.5 per cent. The price fixed for the previous year was Rs. 13.50 per quintal. However, under the existing practice, the cane growers got a much higher price in view of the fact that the State advised prices are much higher than the statutory minimum price. The statutory minimum price is taken into account in determining the price of levy sugar.

5.22 Among fibres, for the medium staple cotton of F-414/H-777 variety, the minimum support price for the 1984-85 marketing year has been fixed at Rs. 410 per quintal compared with Rs. 400 per quintal for 1983-84. For the long staple basic variety, viz., Hybrid-4, the minimum support price has been fixed at Rs. 535 per quintal against Rs. 527 per quintal in the previous year. In the case of raw jute, the statutory minimum price for W-5 grade, Ex-Assam for 1984-85 has been increased to Rs. 195 per quintal from Rs. 185 per quintal for 1983-84.

#### *Industrial Prices*

5.23 During 1984-85 there were increases in the administered prices of iron and steel, paper, cement and aluminium. There was no major revision in the prices of petroleum products during 1984-85 except for some marginal adjustments through the levy of surcharges at varying rates with effect from June 1, 1984 in the States of Punjab, Haryana, Karnataka, Greater Bombay and the Union Territory of Delhi.

5.24 The retention price and free on rail (F.O.R.) price of levy (controlled) cement was raised by Rs. 40 per tonne with effect from July 18, 1984. The retention price of ordinary portland cement/portland slag cement was increased from Rs. 335 to Rs. 375 per tonne (*i.e.*, by 11.9 per cent), and of portland pozzolana cement from Rs. 320 to Rs. 360 per tonne (*i.e.*, by 12.5 per cent). The F.O.R. price of ordinary portland cement/portland slag cement was raised from Rs. 492 to Rs. 532 per tonne (*i.e.*, by 8.1 per cent) and of portland pozzolana cement from Rs. 477 to

Rs. 517 per tonne (*i.e.*, by 8.4 per cent). The increase in the price works out to Rs. 2 per bag and was allowed because of the increases in the price of various inputs like coal, power, freight on coal and wages. The retention price was last revised on February 28, 1982 and the F.O.R. price on July 2, 1983.

5.25 Pig iron and steel prices were revised upwards by the Joint Plant Committee (JPC), on an average, by 15 per cent with effect from June 22, 1984 taking into account the Bureau of Industrial Costs and Prices (BICP) study which had established the case for a price rise. This revision was done mainly due to the increases in costs of production, reintroduction of Engineering Goods Export Assistance Fund, increase in JPC cess, and adjustment of equalised railway freight on steel. As this increase had only partially compensated the increase in the costs of production of the main producers, and to mop up the market premia, the iron and steel prices were further increased by 15 per cent, on an average, with effect from February 21, 1985.

5.26 The Government revised the statutory prices of aluminium with effect from May 9, 1984. The price revision was based on the recommendations of the BICP which took into account *inter alia*, the increase in the cost of power as well as other inputs used in the production of aluminium. The price of EC grade ingots was increased from Rs. 18,805 to Rs. 21,965 per tonne and that of CG grade ingots from Rs. 18,679 to Rs. 21,847 per tonne. In case of wire rods, the price was raised from Rs. 19,513 to Rs. 22,660 per tonne. Excise duty on the metal, however, has been reduced from 22 per cent as on December 3, 1981 to 18.7 per cent on May 9, 1984.

5.27 The price control on Ammonium Sulphate (AS) and Calcium Ammonium Nitrate (CAN) varieties of fertilisers, which had been lifted from June 1980, has been reintroduced with effect from August 21, 1984. The new retail prices of AS and CAN 25% N from the same date are Rs. 1500 per tonne and Rs. 1550 per tonne, respectively.

5.28 The Paper (Control) Order, 1979 was amended by the Government with effect from May 11, 1984 and the price of white printing paper was raised from Rs. 5400 per tonne to Rs. 6400 per tonne. The Paper (Regulation of Production) Order, 1978

was also amended on July 27, 1984 allowing exemption to small size units from the purview of this order.

5.29 The prices of most of the bulk drugs are controlled under the Drugs (Prices Control) Order, 1979. As a result, prices of some important drugs, like Glybenclamide, Trimethoprim, Sulphamethoxazole, Ethambutol, Rifampicin, Sulphamoxole, Gentamycin and Ibuprofen, have been reduced. The manufacturers have also been compensated by allowing increases in prices of certain other bulk drugs. The prices of about 1200 leader packs of formulations and about 12,000 non-conforming packs have also been revised. It has been possible to make available several vital and important medicines at reasonable prices.

#### *Public Distribution System*

5.30 The Public Distribution System (PDS) functions through a national network of fair price shops and aims at supplying selected essential commodities, such as cereals, sugar, imported edible oils, kerosene, soft coke and controlled cloth, to the consumers, particularly the vulnerable sections of the population, at fixed prices. In addition to these items some State Governments also procure and supply pulses, vanaspati, toilet soaps, cycle tyres and tubes, battery cells, salt and tea to consumers at fixed prices through authorised retail outlets including consumer cooperative societies and super bazars. Because of its vast and expanding coverage, the PDS has played a key role in maintaining price stability during the Sixth Plan period. Efforts were being made to improve the management of supplies of essential commodities particularly through appropriate training of concerned personnel.

5.31 During 1983-84, the PDS had a definite stabilising impact on the prices of cereals, sugar and edible oils in the face of price pressure on all these items. Efforts were directed to increasing the coverage of the PDS in terms of number of fair price shops while streamlining distribution. The number of fair price shops increased to 3.11 lakhs on 1st October, 1984 from 3.05 lakhs on 1st April, 1984.

5.32 The offtake of foodgrains from the PDS declined in 1984-85 because of higher foodgrains production and improved availability in the open market. Total foodgrains distributed during the current financial year (upto December, 1984) amounted to 9.68 million tonnes which was 17 per cent less than the 11.61 million tonnes distributed in the

corresponding period last year (Table 5.6). Foodgrains distributed in 1984-85 (upto December, 1984) consisted of 5.0 million tonnes of rice and 4.6 million tonnes of wheat. Distribution of wheat in the same period amounted to 5.5 million tonnes in 1983-84 and 5.3 million tonnes in 1982-83. The total distribution of foodgrains during 1984-85 is expected to be around 12 million tonnes. The monthly pattern of releases/offtake of major items of public distribution i.e., rice, wheat, edible oils and sugar during 1983-84 and 1984-85 is brought out in Table 5.7.

TABLE 5.6

*Procurement, Public Distribution and Stocks of Foodgrains  
(1982-83 to 1984-85)*

	('000 Tonnes)		
	1982-83	1983-84 (P)	1984-85* (P)
<b>A. Procurement</b>			
Rice . . . . .	7145	7658	7276 (5622)
Wheat . . . . .	7718	8292	9289 (8272)
Total Foodgrains . . . . .	15082	15991	16656 (13923)
<b>B. Public Distribution</b>			
Rice . . . . .	7690	7672	5049 (5904)
Wheat . . . . .	7900	7467	4579 (5533)
Total Foodgrains . . . . .	15726	15353	9677 (11610)
<b>C. Stocks**</b>			
Rice . . . . .	5238	5246	7434 (4709)
Wheat . . . . .	5642	9619	14935 (10783)
Total Foodgrains . . . . .	11095	14923	22461 (15580)

\* Up to December 1984. (P) Provisional.

\*\*End period basis.

Figures in brackets relate to corresponding period of 1983.

5.33 Releases of levy sugar to the States, fixed at 3.13 lakh tonnes per month since October 1983, were maintained during the current financial year also. This was higher than the 2.94 lakh tonnes being released since April 1982. In September 1984 an additional quota of 50,000 tonnes of levy sugar was released to meet the festival demand. Releases of sugar, both levy and non-levy, totalled 82 lakh tonnes in the current financial year against 71 lakh tonnes in 1983-84. In order to contain prices of sugar, the releases of non-levy sugar were kept at a high level (3.85 lakh tonnes) in October and November. The non-levy quota of sugar for December 1984 was raised by 50,000 tonnes to a record level of 4.35 lakh tonnes for a month. The non-levy quota was 3.90 lakh tonnes in January 1985 and 3.80 lakh tonnes each in February and March, 1985.

5.34 Procurement of rice during the current financial year upto the end of January 1985 amounted to 8.5 million tonnes compared with 6.6 million tonnes during the corresponding period of last year. Wheat procurement in 1984-85 upto the end of January 1985 went up to 9.3 million tonnes against 8.3 million tonnes during the same period last year. Following better procurement and reduced offtake, the buffer stocks of foodgrains reached a record level of 22.5 million tonnes at the end of December 1984 compared with 15.6 million tonnes in the corresponding month of 1983. The stocks of wheat at the end of December 1984 stood at 14.9 million tonnes compared with 10.8 million tonnes at the end of December 1983. The stocks of rice at the end of December 1984 were 7.4 million tonnes against 4.7 million tonnes in the same month of 1983.

5.35 The issue price of wheat was revised upwards from Rs. 160 per quintal to Rs. 172 per quintal for the public distribution system and from Rs. 185 per quintal to Rs. 208 per quintal for the roller flour mills with effect from April 15, 1983. The issue price for roller flour mills was, however, reduced to Rs. 172 per quintal with effect from August 10, 1984 to benefit the consumers.

TABLE 5.7

Monthly Pattern of Off-take of Major items of Distribution by the Public Distribution System

('000 tonnes)

Month	Rice*		Wheat*		Edible Oils**		Sugar***	
	1983-84	1984-85(P)	1983-84	1984-85(P)	1983-84	1984-85	1983-84	1984-85
1	2	3	4	5	6	7	8	9
April	670	530	685	414	35.4	87.3	444	648
May	711	552	555	369	35.4	75.0	464	623
June	662	547	555	406	43.4	75.0	524	653
July	701	579	603	418	61.0	89.0	554	653
August	678	627	670	500	61.1	88.0	574	653
September	682	614	683	726	66.2	89.3	614	733
October	634	528	641	538	73.2	86.8	693	698
November	571	537	567	609	75.4	83.0	643	698
December	595	535	574	599	69.8	84.7	613	748
January	585		654		70.0	77.6	638	703
February	562		651		75.0	77.6	638	693
March	621		629		75.3	74.4	668	693
Total	7672	5049 (5904)	7467	4579 (5533)	741.2	987.7	7067	8196

(P) Provisional.

\*Off-take.

\*\*Allocations.

\*\*\*Releases (Total of levy and free sale).

Note :—Figures in brackets give total for the corresponding months of 1983-84.

5.36 The allocation of imported edible oils for the PDS for direct consumption during 1984-85 was increased to 9.88 lakh tonnes from 7.41 lakh tonnes in 1983-84 i.e., by 33 per cent. The issue price of imported edible oils for sale in loose form to the State Governments through the fair price shops was raised from Rs. 7 per kg. to Rs. 8 per kg. with effect from May 24, 1984. The scheme of supplying imported edible oils at fixed prices in small packs is getting popular.

5.37 Imported edible oils continued to be supplied to the vanaspati industry at a fixed concessional rate to meet 60 per cent of their input requirements. Some quantity is also supplied at commercial rates. With effect from May 22, 1984 the concessional and commercial rates of edible oils were raised by Rs. 1,000 per tonne to Rs. 9,500 and Rs. 13,000 per tonne, respectively. Allocation of imported edible oils to the industry at commercial rates was also raised in 1984-85 in stages, from 15 to 20 per cent, and then to 35 per cent. However, from January 1985, in view of easier availability of domestic oils, this has been reduced to 25 per cent. Since February, 1985 this has been further changed to 15 per cent obligatory and 10 per cent optional. A total quantity of S/5 M of Fin/84—7.

8.95 lakh tonnes of imported edible oils was allocated to the vanaspati industry during the oil year 1983-84 as against 6.88 lakh tonnes during 1982-83. Following a fresh voluntary agreement reached by the Government with the vanaspati industry in May 1984, the retail prices of various packs of vanaspati (excluding local taxes) were revised with effect from May 22, 1984. The price of 20 Kg. tin was fixed at Rs. 304. Vanaspati supplied in pouches of 1 Kg. and  $\frac{1}{2}$  Kg. was priced at Rs. 16 and Rs. 8.25, respectively.

5.38 The production of controlled cloth by the National Textiles Corporation (NTC) during 1983-84 was 295 million square metres of cotton cloth and 8 million metres of polyester cotton blended shirting. During 1984-85 (upto September 1984) about 110 million square metres of cotton cloth and 3.61 million metres of polyester cotton blended shirting were produced.

5.39 Under the Handloom Janata Cloth Scheme, 348 million square metres of Janata cloth was produced in 1983-84. The Government has also approved a scheme for the handloom sector to manufacture polyester cotton blended shirting during 1984-85 with

a subsidy of Rs. 3.70 per metre as in the case of production of controlled cloth by the National Textiles Corporation. The subsidy introduced during 1984-85 is subject to the condition that there is corresponding reduction in the production of dhoties/sarees by 2.5 metres for each metre of polyester blended shirting. The subsidy on Handloom Janata Cloth (Cotton) has also been increased from Rs. 1.50 per square metre continuing since July 1, 1981 to Rs. 2.00 per square metre with effect from October 1, 1984.

### **Problems and Prospects**

5.40 Sustained increase in production in response to rising demand holds the key to price stability. There are a few problem areas of continued supply-demand imbalance in essential commodities like pulses, edible oils, sweetening agents and raw jute. It has not been possible to achieve technological breakthroughs in production of pulses, edible oils and raw jute, while sugarcane production is marked by cyclical fluctuations.

5.41 The problem posed by the demand-supply gap in pulses is compounded by the fact that the supply of pulses cannot be augmented significantly through imports. In the case of edible oils and sugar, which are highly prone to speculation, the strategy has been, in addition to the thrust on production, to import

edible oils on a regular basis and to import sugar as and when necessary. A reasonable level of pipeline stocks tends to dampen speculation in these sensitive items and provides a powerful leverage to the Government to influence their prices through regulated releases. In the case of raw jute the price of which has more than doubled during the last two years, unless production soon responds to high prices, jute economy may suffer a permanent damage.

5.42 From the macro economic point of view, the maintenance of reasonable stability in prices is likely to pose an important challenge during the period of the Seventh Plan. The high level of food-stocks and foreign exchange reserves are two important sources of strength. But our options in respect of importing commodities in short supply are likely to be constrained because of repayment liabilities on account of external loans incurred during the previous Plan. There has also been a sharp build-up of liquidity in the system because of large expansion in money supply in each of the three years since 1982-83. This could easily disturb the delicate supply-demand balance in the event of a less than satisfactory monsoon in the next year or two. The need for vigilance on the price front and pursuit of policies for increasing domestic production of sensitive commodities would have to remain high on the agenda in the coming years.