

CHAPTER 5

PRICES, PRICE POLICY AND PUBLIC DISTRIBUTION SYSTEM

Monsoon failures generate strong inflationary pressures because of the consequent supply squeeze in agriculture and its effects in the rest of the economy. Usually these inflationary pressures spill over to the subsequent financial year, until the next Kharif harvest eases the supply situation. However, the sharp price increase triggered by the drought of 1987 had already been moderated by the last quarter of fiscal 1987-88, thanks largely to a comprehensive package of demand and supply management measures. The spill over effects during the current financial year have also been negligible. Accordingly, the annual inflation rate in terms of the Wholesale Price Index (WPI), which had gone up to 10.6 per cent during 1987-88 on a point to point basis had come down to 5.4 per cent by the week ending January 21, 1989. The increase in the Wholesale Price Index, on a point to point basis, during the current financial year was only 5.0 per cent upto January 21, 1989 as against 10.2 per cent in the corresponding period of last year. The Consumer Price Index has also registered a lower increase of 8.6 per cent during April-December, 1988 as against 9.6 per cent in the corresponding period of 1987 (Table 5.1). It may be mentioned that a revised series of CPI for Industrial Workers has been introduced with effect from October, 1988 with the base 1982=100. The conversion factor from the new base to the old base of 1960 for the General Index is 4.93.

Price Situation in 1987-88

5.2 The set back in agricultural production resulted in an inflation rate of 10.6 per cent during 1987-88. However, this was significantly lower than what had been expected in view of the severe drought. The Wholesale Price Index had recorded an increase of 8.8 per cent between April—October, 1987. From November, 1987 upto end March, 1988 the WPI registered an increase of only 1.7 per cent. This significant slow down in the rate of price rise was made possible by the comprehensive package of demand and supply manage-

TABLE 5.1  
Movement in Prices

	Percentage change	
	1987-88	1988-89
<b>A. Wholesale Price Index (1970-71=100)</b>	<b>upto 23-1-88</b>	<b>upto 21-1-89</b>
1. Annual Rate . . . . .	+10.0	+5.4
2. Financial Year . . . . .	+10.2	+5.0
3. First Quarter . . . . .	+4.8	+2.3
4. Second Quarter . . . . .	+3.0	+1.9
5. Third Quarter . . . . .	+1.1	-0.7
6. Level of Index . . . . .	416.8	439.3
<b>B. Consumer Price Index (1960=100)</b>	<b>upto Dec., 1987</b>	<b>upto Dec., 1988</b>
1. Annual Rate . . . . .	+9.3	+8.8
2. Financial Year . . . . .	+9.6	+8.6
3. First Quarter . . . . .	+4.2	+3.9
4. Second Quarter . . . . .	+4.2	+3.1
5. Third Quarter . . . . .	+0.9	+1.5
6. Level of Index . . . . .	752	818*
Average of 12 months ending December . . . . .	719.25	786.75

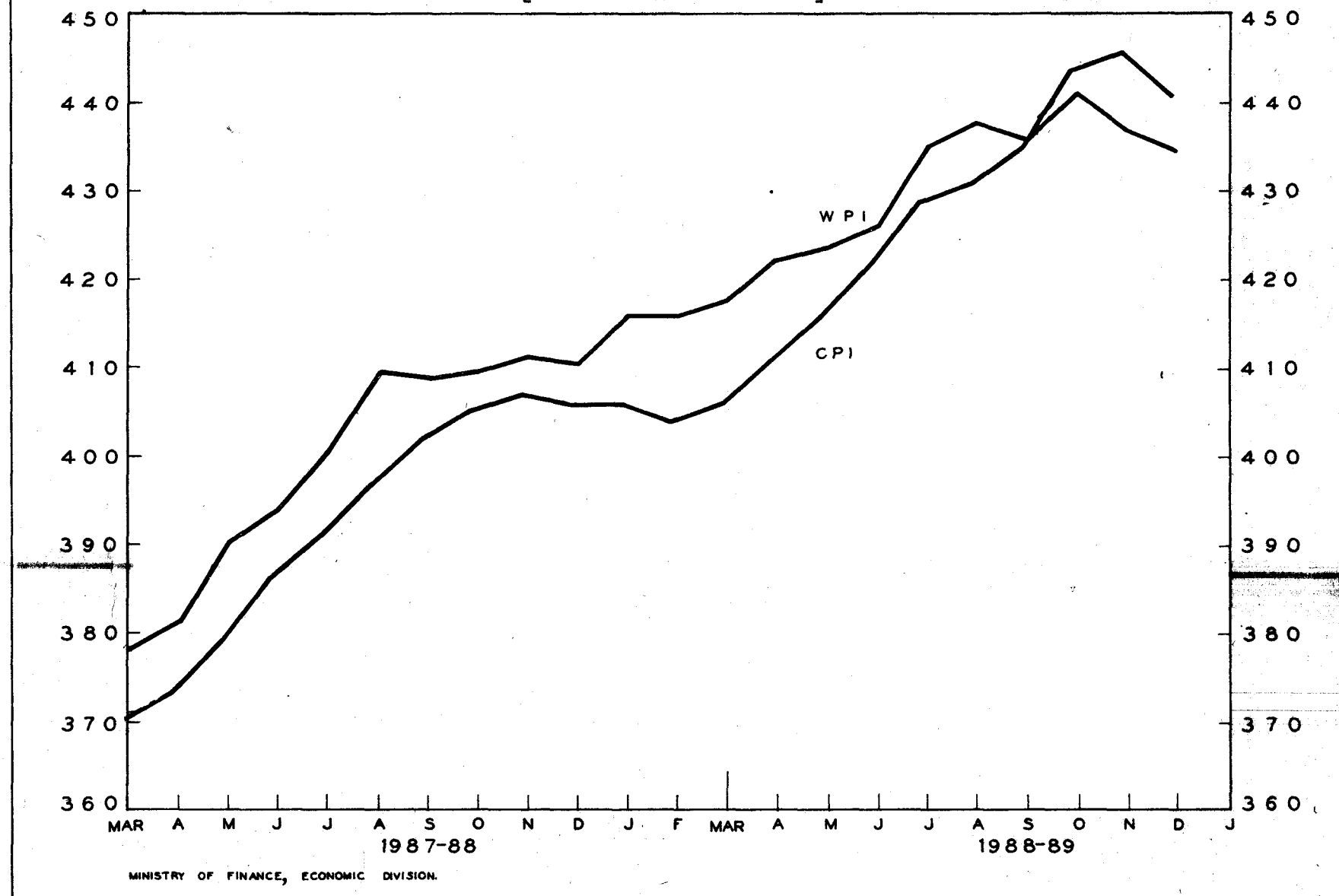
\*New series for CPI base 1982=100 introduced w.e.f. October, 1988 with a conversion factor 4.93. The CPI for the month of December, 1988 stands at 166.

ment policies adopted by the Government, which reinforced the seasonal tendency of prices to soften from around September.

5.3 Limiting the loss in crop production was only one aspect of the measures adopted last year to contain the adverse impact of the drought. Other measures of perhaps even greater urgency had to be undertaken in order to ensure the availability of foodgrains at reasonable prices, either through Government channels or in the open market and launch relief operations to compensate, to the extent possible, for the widespread loss of entitlements and increased deprivation following the collapse of agricultural operations in the worst affected regions. Both these operations were greatly facilitated by the large stocks of foodgrains through the normal rural employment programmes, as well as through special relief programmes, in the worst affected States like Gujarat and Rajasthan, in addition to augmented releases through the Public Distribution System. Thus as a matter of deliberate

# MOVEMENT IN CPI AND WPI

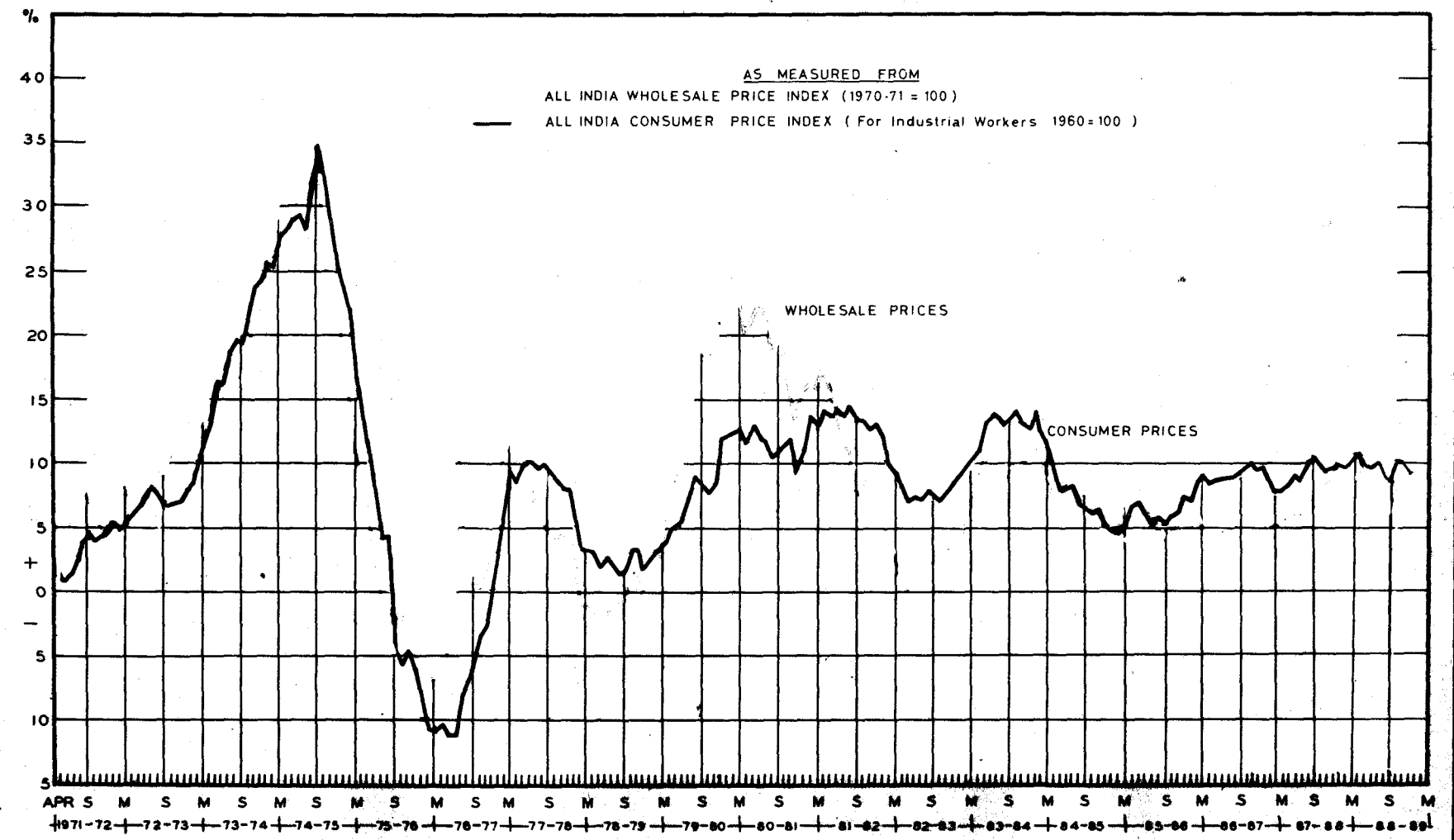
[COMMON BASE :- 1970-71=100]



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# ANNUAL RATE OF INFLATION

(% CHANGE OVER 12 MONTHS)



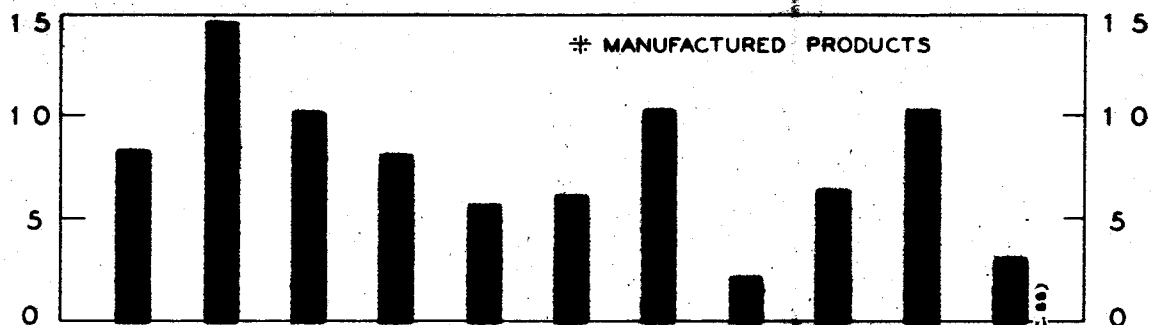
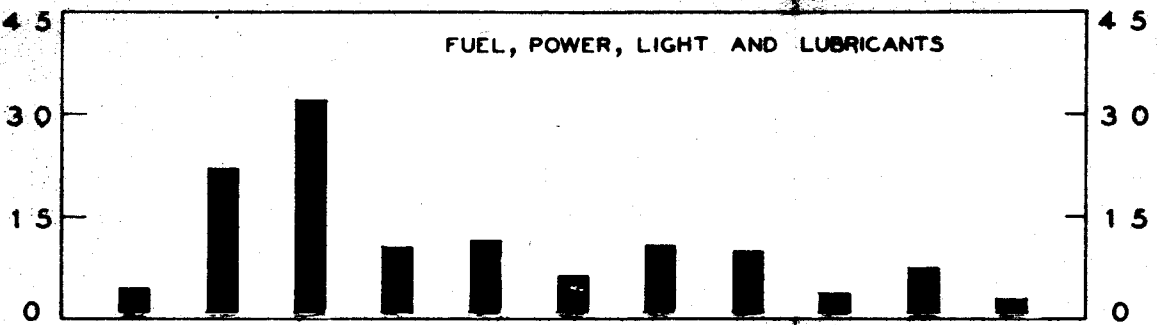
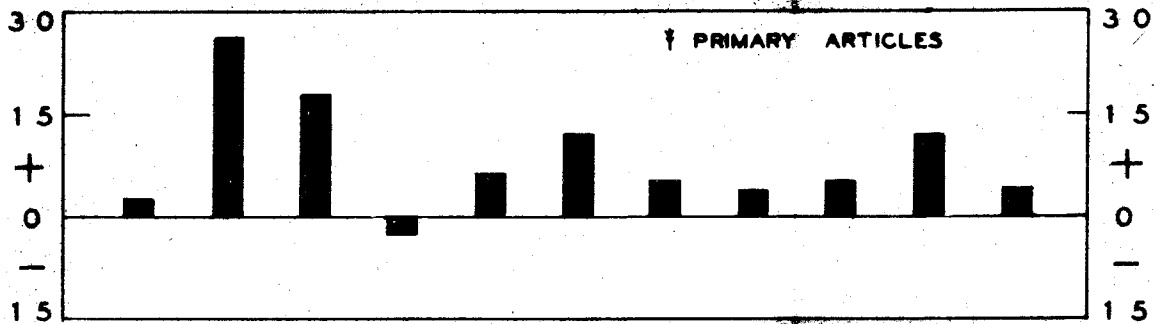
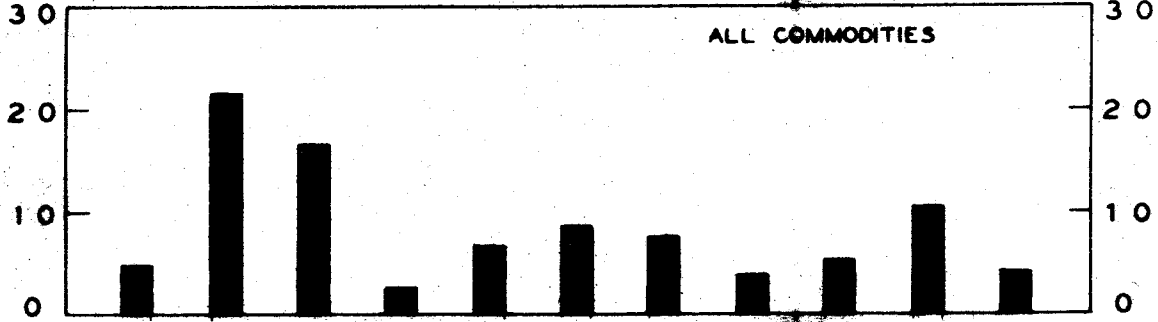
# ANNUAL INFLATION RATES

WHOLESALE PRICE INDEX

[POINT TO POINT]

[GROUP WISE]

1970-71=100



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† INCLUDES SUGAR, KHANSARI, GUR & EDIBLE OILS  
 ‡ EXCLUDES " " " " "

policy food stocks were brought down from over 23 million tonnes at the end of June, 1987 to about 8 million tonnes at the end of October, 1988, an unprecedented net draw down of over 15 million tonnes over a period of 16 months.

5.4 These measures apart from reducing distress, also had a significant dampening impact on price expectation and containing the foodgrain supply shock. Thus between November, 1987 and March, 1988 foodgrain prices increased by only 5 per cent as against nearly 14 per cent during April—October, 1987.

5.5 Apart from foodgrains, Government also maintained the availability of edible oils, pulses, milk and milk-products by undertaking substantial imports to off-set the shortfall in domestic production. The establishment of an effective, countrywide system of daily monitoring of prices and availability of essential commodities, which ensured quick responses to localised shortages, also helped a great deal in dampening inflationary

expectations. On the demand side, the Reserve Bank of India tightened selective credit controls while the Government maintained a strict control on the budgetary deficit in order to help contain money supply growth. Towards this end additional resource mobilisation was undertaken, and expenditure contained elsewhere, in order to meet the additional expenditure on drought relief operations.

5.6 In terms of its composition, almost the entire increase in prices in the first seven months of the year was accounted for by seasonal items of agricultural origin. The most important among these were rice and other cereals, pulses, vegetables, oilseeds, edible oils and gur (Table 5.2). However, it is significant that the sharp seasonal rise in their prices was followed by a notable seasonal decline especially between November and January, the period during which the full brunt of the supply shock in agriculture should have been felt.

TABLE 5.2  
Seasonal Movement of Prices of Selected Items

Items	Weight in WPI	Percentage Change (point to point basis)			
		1987-88		1988-89	
		April— Oct.	Nov.— 23rd Jan.	April— Oct.	Nov.— 21st Jan.
<b>Seasonal Items £</b>	<b>52.29</b>	<b>15.71</b>	<b>-1.52</b>	<b>7.48</b>	<b>-2.61</b>
<b>Food Articles</b>	<b>29.80</b>	<b>9.67</b>	<b>-0.16</b>	<b>10.82</b>	<b>0.93</b>
Food Grains	12.92	14.11	3.95	14.00	0.22
Cereals	10.74	10.64	3.58	4.29	4.02
Rice	5.13	11.56	-0.68	7.55	-2.20
Wheat	3.42	5.93	10.50	7.90	7.88
Pulses	2.18	25.69	5.06	42.42	-7.88
Fruits & Vegetables	6.13	6.97	-9.58	7.39	-4.09
Vegetables	2.49	54.24	-38.57	43.12	-29.76
Milk & Milk Products	6.15	11.90	-0.72	8.08	5.85
Eggs, Fish & Meat	1.90	-4.71	11.04	4.59	1.00
Condiments & Spices	1.09	42.83	2.72	33.72	3.72
Other Food Articles	1.60	-2.63	-4.53	8.93	10.14
Tea	1.15	0.24	-6.01	11.11	12.72
Coffee	0.16	-2.91	2.05	8.28	4.56
<b>Non-Food Articles</b>	<b>10.62</b>	<b>25.55</b>	<b>0.95</b>	<b>-3.31</b>	<b>-3.16</b>
Fibres	3.17	17.22	13.37	-0.06	-3.98
Raw cotton	2.25	19.21	16.04	-4.94	-5.00
Raw jute	0.43	19.90	-5.28	6.41	6.62
Oil seeds	4.20	34.84	-1.79	-10.77	-8.99
<b>Sugar, Khandsari &amp; Gur</b>	<b>7.24</b>	<b>21.58</b>	<b>-8.48</b>	<b>23.05</b>	<b>-14.50</b>
Sugar	2.19	2.10	3.11	7.67	-2.53
Khandsari	0.49	11.06	1.10	14.64	-12.12
Gur	4.56	30.13	-12.77	29.64	-18.46
<b>Edible Oils</b>	<b>3.72</b>	<b>23.70</b>	<b>-5.58</b>	<b>-5.55</b>	<b>-3.95</b>
Groundnut oil	1.42	26.68	-4.05	-8.84	-7.81
Mustard oil	0.67	52.36	-16.32	-5.93	-6.26
Oil cakes	0.91	19.08	6.65	-24.47	-2.44
<b>All Commodities</b>	<b>100.00</b>	<b>8.75</b>	<b>1.34</b>	<b>5.09</b>	<b>-0.09</b>

£ Includes Food Articles; Non-Food Articles; Sugar, Khandsari & Gur; Edible Oils and Oilcakes.

5.7 Thus the prices of vegetables which had increased by about 54 per cent upto October declined by 39 per cent between November, 1987 and January, 1988. The prices of oilseeds which had increased by nearly 35 per cent, declined by about 2 per cent, and of edible oils which had increased by 24 per cent, declined by about 6 per cent. Gur prices which had increased by about 30 per cent upto October declined by nearly 13 per cent thereafter. In the case of cereals and pulses, though their prices did not actually decline, there was significant deceleration in the rate of increase. Prices of pulses which increased by 26 per cent during April—October, 1988 increased by only about 5 per cent during November to January. (Table 5.2).

5.8 The administered prices of some industrial items were increased by the Government towards the end of 1987-88. These included coal, steel and petrol. The revision in prices of coal and steel was made in order to cover the increase in cost of production of public sector units. Petrol prices were raised to restrict the rate of consumption and conserve foreign exchange. The issue prices of rice and sugar in the PDS were also raised consequent to the increase in the procurement price of rice and the statutory minimum price (SMP) of sugarcane which governs the prices which the Government pays to sugar factories for levy sugar.

5.9 As mentioned earlier, the overall increase in WPI during 1987-88 was 10.6 per cent. The corresponding increase in the Consumer Price Index during the year was less at 9.8 per cent.

#### Price Behaviour During 1988-89

5.10 It has already been mentioned above that the inflation rate in terms of Wholesale Price Index has been considerably moderated during the current financial year. Available data indicate that the WPI has registered an increase of 5.0 per cent in the current year upto the week ending January 21, 1989. This is much less than

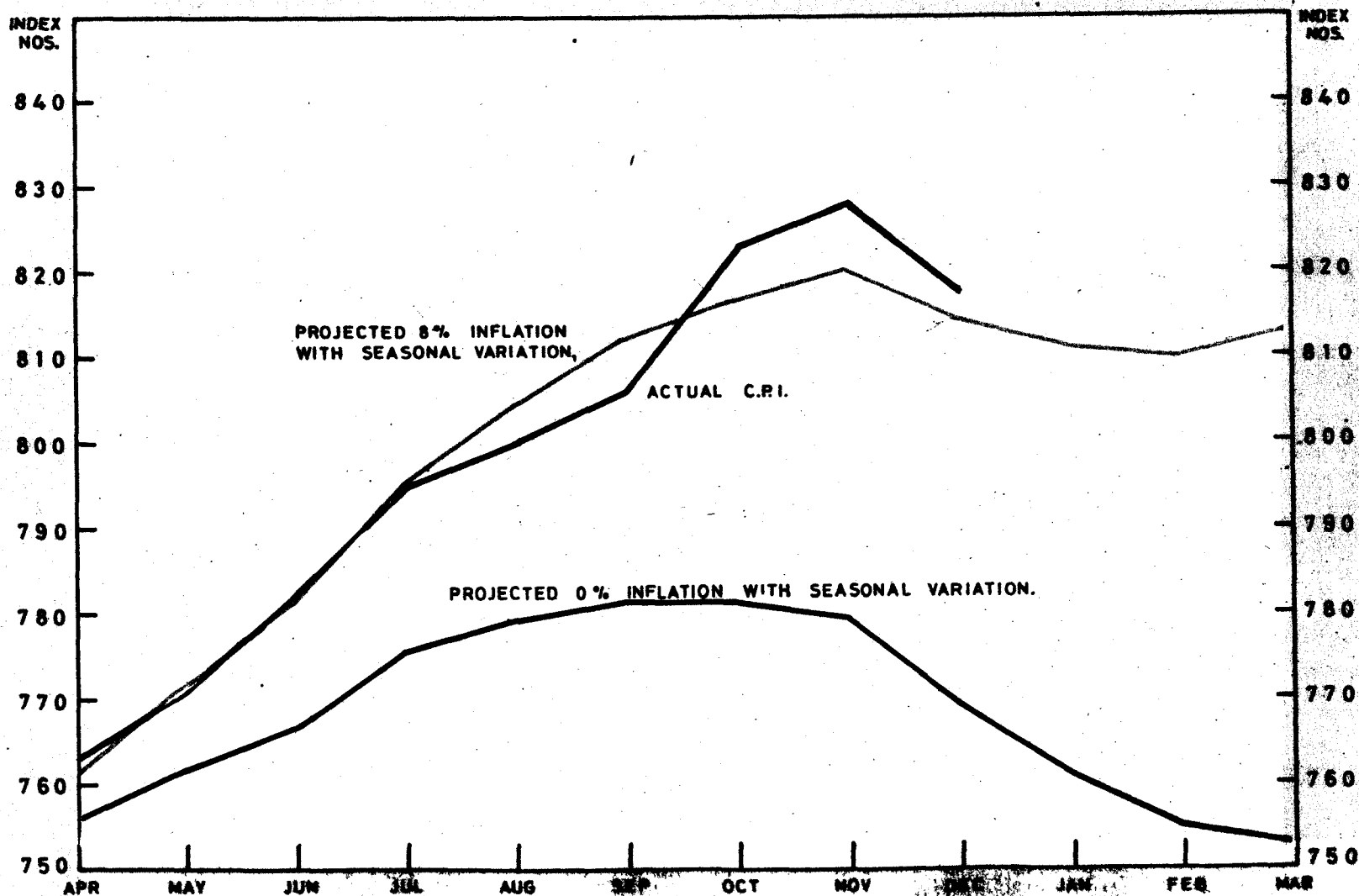
the increase of 10.2 per cent recorded in the corresponding period of 1988 (Table 5.3). Price movements during the year usually follow a seasonal pattern which gravitates around the harvesting of kharif crop. A seasonal rise in WPI upto September is followed by a decline between October and December. This year the seasonal pattern has been disturbed. The seasonal rise in prices upto the end of September, 1988 was a modest 4.2 per cent. Thereafter the behaviour of prices during October-November, 1988 was erratic. The WPI registered a contra-seasonal rise of nearly 1.0 per cent during October, 1988. This rise is presumably attributed to inflationary expectations generated by widespread floods in Punjab and Haryana during September and October. Supplies in the northern grain belt were dislocated as evidenced in low procurement and poor market arrivals of paddy at that time. As the situation improved the normal seasonal decline in the wholesale prices commenced from November onwards.

5.11 This dislocation also led to a sharp rise of 2.1 per cent in the Consumer Price Index during the month of October, followed by a further increase in November, 1988. Consequently, the increase in the CPI during the current financial year, which had been contained at 7.0 per cent upto September went upto 9.8 per cent by November. Subsequently, the CPI came down in December to 8.6 per cent with the commencement of the seasonal decline. It is expected to decline further in subsequent months in line with the decline in the WPI, which the CPI usually follows with a time lag.

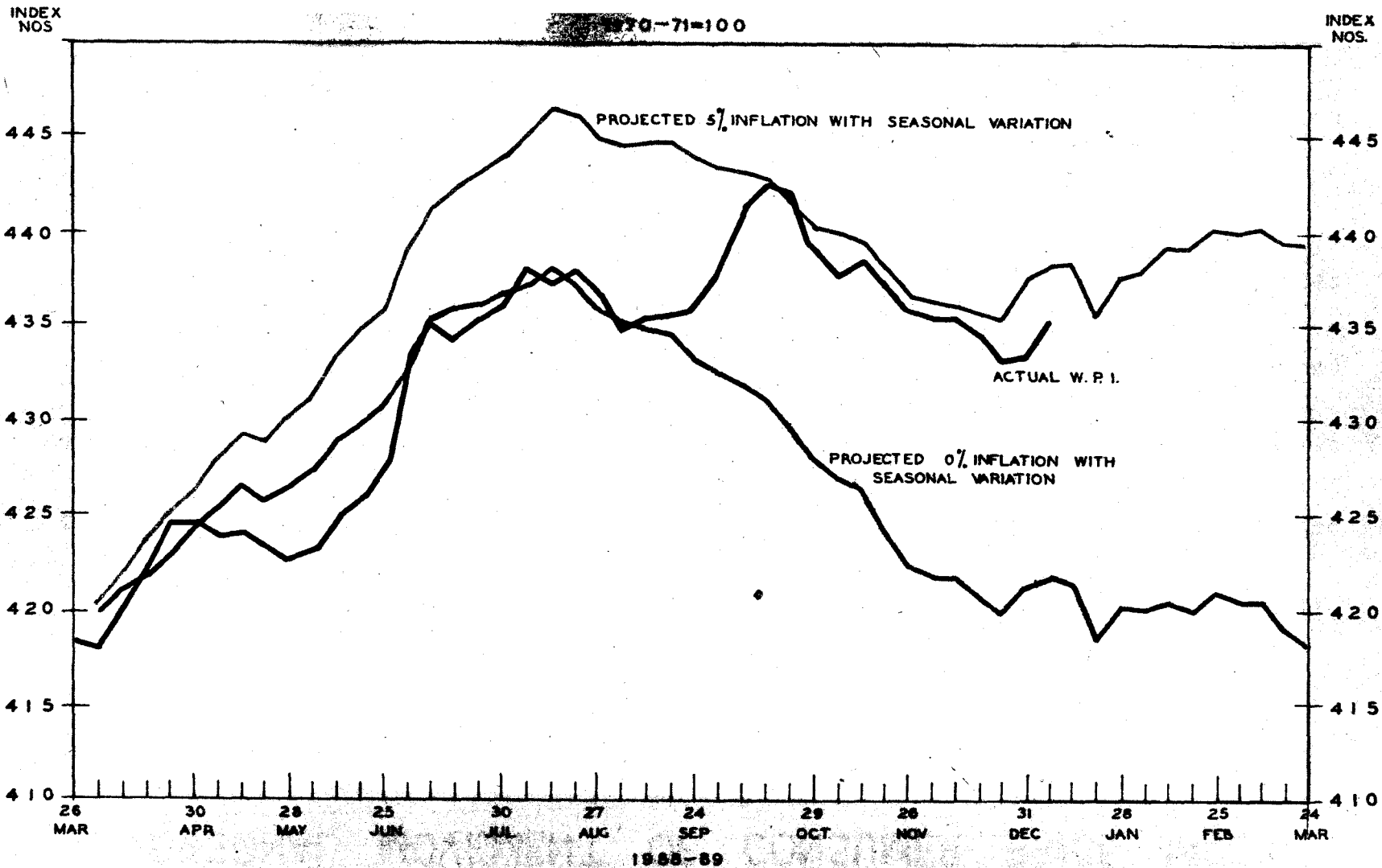
5.12 While the overall increase in prices of seasonal items during the rising April—October phase was significantly lower compared to the corresponding period of 1987-88, there was a sharp rise in the prices of some specific items such as pulses, condiments and spices, sugar, khandsari and gur. The rise persisted also during the subsequent phase in the case of pulses and condiments and spices. On the other hand, the prices of raw cotton, oilseeds and edible oils registered a contra-seasonal fall even during April—October as a result of policy measures introduced by the Government.

# SEASONAL MOVEMENT OF CONSUMER PRICE INDEX

1960 = 100



# SEASONAL MOVEMENT OF WHOLESALE PRICE INDEX



MINISTRY OF FINANCE, ECONOMIC DIVISION.



TABLE 5.3  
Composition of Price Rise Measured in Terms of WPI

(1)	Weight (%)	1987-88				1988-89	
		Whole Year (April—End March)		End March to 23rd January		End March to 21st January	
		% change	% share	% change	% share	% change	% share
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ALL COMMODITIES . . . . .	100.00	10.63	100.00	10.21	100.00	5.00	100.00
A. Seasonal Items § . . . . .	52.29	12.96	57.87	13.95	64.90	4.68	45.38
Food Articles . . . . .	29.80	10.95	27.72	9.49	25.01	11.85	64.02
1. Cereals . . . . .	10.74	16.06	11.81	14.60	11.19	8.48	13.93
(i) Rice . . . . .	5.13	13.52	5.19	10.80	4.32	5.18	4.34
(ii) Wheat . . . . .	3.42	15.90	3.31	17.05	3.69	16.40	7.61
(iii) Bajra . . . . .	0.57	31.34	1.17	21.02	0.82	-18.92	-1.79
(iv) Barley . . . . .	0.23	34.36	0.53	45.68	0.73	12.69	0.50
2. Pulses . . . . .	2.18	32.07	7.09	32.05	7.38	31.20	17.51
(i) Gram . . . . .	1.04	37.41	3.62	38.08	3.84	63.04	16.14
(ii) Arhar . . . . .	0.62	24.38	1.75	32.66	2.44	-16.11	-2.77
(iii) Masoor . . . . .	0.16	27.64	0.46	31.09	0.54	40.58	1.65
3. Fruits & Vegetables . . . . .	6.13	4.35	2.78	-3.27	-2.18	3.00	3.84
(i) Vegetables . . . . .	2.48	-11.63	-2.15	-5.25	-1.01	0.53	0.17
(a) Potatoes . . . . .	1.01	-19.18	-0.92	-15.29	-0.76	-1.50	-0.11
(b) Onions . . . . .	0.19	10.44	0.24	16.44	0.39	-16.21	-0.79
4. Condiments & Spices . . . . .	1.09	45.39	2.60	46.71	2.79	38.70	6.20
(i) Chillies . . . . .	0.50	101.83	1.66	107.65	1.82	115.53	7.30
5. Tea . . . . .	1.15	-10.57	-1.28	-5.79	-0.73	25.24	5.28
Non-Food Articles . . . . .	10.62	22.92	19.36	26.74	23.52	-6.36	-12.70
1. Fibres . . . . .	3.17	29.49	5.55	32.89	6.45	-4.04	-1.90
2. Oilseeds . . . . .	4.20	27.04	9.81	32.42	12.25	-18.79	-16.66
Food Products . . . . .	13.32	9.84	11.90	13.70	17.25	-1.25	-3.19
1. Sugar, Khandsari & Gur . . . . .	7.24	7.23	4.57	11.28	7.43	5.20	6.79
(i) Sugar . . . . .	2.19	4.62	0.77	5.28	0.91	4.95	1.66
(ii) Gur . . . . .	4.56	8.02	3.43	13.51	6.01	5.70	5.06
2. Edible Oils . . . . .	3.72	11.07	4.15	16.79	6.56	-9.28	-7.44
(i) Groundnut Oil . . . . .	1.42	13.70	2.03	21.55	3.32	-15.95	-5.16
(ii) Mustard Oil . . . . .	0.67	12.56	0.74	27.49	1.68	-11.82	-1.50
3. Oilcakes . . . . .	0.91	24.50	2.06	27.12	2.37	-26.31	-5.29
B. Administered Items . . . . .	15.66	7.72	17.38	7.48	17.53	4.90	22.83
1. Petroleum, Crude & Natural Gas . . . . .	0.60	0.00	0.00	0.00	0.00	0.00	0.00
2. Petroleum Products . . . . .	4.91	3.21	2.44	3.21	2.54	0.47	0.70
3. Coal Mining . . . . .	1.15	16.29	3.34	16.29	3.48	12.23	5.61
4. Electricity . . . . .	2.40	7.35	2.59	6.71	2.46	4.83	3.51
5. Fertilisers . . . . .	1.25	-0.14	-0.01	-0.14	-0.01	0.00	0.00
6. Iron, Steel & Ferro Alloys . . . . .	3.47	15.89	7.48	15.29	7.49	7.92	8.30
7. Non-Ferrous Metals & Alloys . . . . .	1.18	12.75	1.66	9.69	1.32	16.72	4.73
8. Cement . . . . .	0.70	-1.52	-0.12	2.93	0.25	-0.20	-0.03
Manufactured Products . . . . .	49.87	9.77	43.92	9.05	42.38	3.90	36.98

§ Includes Food Articles; Non-Food Articles; Sugar, Khandsari & Gur; Edible Oils and Oilcakes.

5.13 In the case of pulses, the price rise was mainly due to a shortfall in production which greatly reduced the availability of this essential item. The decline in production during 1987-88, moreover, was from a level at which production had stagnated came on top of stagnation in the

production over a long period. A quantity of nearly 7.5 lakh tonnes of pulses was imported under OGL. In the absence of these imports the prices of pulses would have gone up even further. The seasonal increase in the index of condiments and spices was mainly

due to a sharp rise in the prices of chillies caused by decline in production. The position may, however, be reversed if the production of chillies recovers during the current season.

5.14 Another item for which the seasonal rise in prices was unduly high was khandsari (about 15%) and gur (about 30%). These price increases are presumably attributable to lower production of these items, as larger quantities of sugarcane were diverted to the mills for the production of sugar. Such diversion was facilitated by the deliberate policy of the Government which allowed increase in the Statutory Minimum Price (SMP), high quota for free-sale sugar, payment of off-season rebate and other incentives to the sugar mills enabling them to pay attractive prices to the farmers for sugarcane supplies. As a result, the production of sugar during the current season remained high and the increase in the price of sugar was relatively modest.

5.15 From November onwards the prices of seasonal items have on the whole shown a declining trend. Even the prices of pulses have begun to moderate. The prices of sugar, khandsari and gur have actually registered an appreciable decline. Moreover, the prices of raw cotton, oilseeds and edible oils, which had shown a contra-seasonal decline in the first half of the year have come down further. It is expected that the extent of seasonal decline of prices during the current year will be stronger than in the last two years because of the good monsoon and agricultural recovery. The production of foodgrains exceed the target and agricultural production as a whole is also expected to record high growth.

5.16 Among manufactured products, while the overall price rise during the current year has been very modest, there has been appreciable increase in the price of non-ferrous metals and alloys. The increase in the prices of non-ferrous metals reflects the spurt in international prices as we continue to be dependent on imported metals. The price of cement also went up appreciably in the first half of the year despite a marginal increase in production. However, with better availability of power, particularly in Andhra Pradesh and other southern states, there has been

a substantial increase in production leading to softening of cement prices. In 1987-88 the price of cement had softened due to slack demand.

5.17 Despite the moderation of inflationary pressures during the current year both the Government and monetary authorities have maintained most of the supply and demand management measures which were deployed last year during the current year. Imports of edible oil, pulses and some rice and wheat were also undertaken to support the supply management measures. This was done as a precautionary measure since the underlying supply situation remained under strain until the arrival of the new kharif harvest.

5.18 Agricultural production is expected to recover the momentum of growth lost last year and foodgrain production, in particular, is being projected to exceed the target of 166 million tonnes or more. It is also expected that industrial production will also maintain a high growth rate. Despite pressures on the balance of payments efforts have been made to maintain availability of essential raw materials for industries. The investment climate is also buoyant and infrastructure support has been fairly strong. It is, therefore, expected that prices will be kept under reasonable check in the coming months.

#### **Administered Price Policy and Government Intervention**

5.19 References have been made above to policies of aggregate demand management which the Government pursues, in cooperation with the Reserve Bank of India, in order to promote growth along with stability in the general level of prices. Apart from such policies directed at the general price level, Government also pursues sectoral price policies where it wholly or partially administers prices of particular products with a view to meeting specific objectives. These products fall into two broad groups, e.g., essential commodities of agricultural origin and products of public sector undertakings. Price policy in respect of agricultural commodities has the twin objectives of ensuring remunerative prices to farmers and at the same time, making supplies available to consumers at reasonable rates which are affordable even by those who belong to the low income groups. In pursuance of these objectives,

the Government employs three operational instruments:

- (a) Procurement of important agricultural commodities at the predetermined procurement/minimum support prices which offer an adequate return to farmers;
- (b) supply of selected commodities through PDS at reasonable prices; and
- (c) open market releases of foodgrains, edible oil, sugar, pulses etc. in order to maintain open market prices of these commodities within a reasonable range.

#### Procurement/Minimum Support Prices

5.20 The responsibility for advising the Government on procurement/minimum support prices of important agricultural commodities has been entrusted to the Commission for Agricultural Costs and Prices (CACP). The Commission, while making its recommendations, takes into account, inter alia, changes in input costs, inter-crop price parity, and also parity between the prices received by the farmers for their produce and the prices paid by them for purchases.

5.21 Even though the FCI procurement accounts for less than a quarter of the rice and

wheat sold by the farmers, the procurement price serves as the effective floor for farm gate prices at the farmers' end because farmers know they can sell their entire crop, if necessary, to the FCI at these pre-committed procurement prices. Other agencies perform a similar function for other commodities e.g., Cotton Corporation of India (CCI) for cotton, Jute Corporation of India (JCI) for jute and so on.

5.22 *Foodgrains* : On the recommendations of the Commission for Agricultural Costs and Prices (CACP) Government increased the procurement price of paddy (common) from Rs. 150 per quintal for 1987-88 to Rs. 160 per quintal for the marketing year 1988-89. The prices of fine and superfine varieties were increased from Rs. 154 to Rs. 170 per quintal and from Rs. 158 to Rs. 180 per quintal respectively. The procurement price of wheat was increased by Rs. 10, i.e., from Rs. 173 in 1988-89 to Rs. 183 per quintal in 1989-90. The procurement price of coarse cereals viz. jowar, bajra, maize and ragi was also raised by Rs. 10 per quintal from Rs. 135 to Rs. 145. A similar increase was also allowed in the case of barley from Rs. 135 to Rs. 145 per quintal. Details may be seen in Table 5.4

TABLE 5.4  
Minimum Support/Procurement Prices of Agricultural Commodities

Commodity	Marketing year*						
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1. Wheat . . . . . (Procurement Price)	151	152	157	162	166	173	183
2. Paddy (Common Variety) . . . . . -do-	132	137	142	146	150	160**	
3. Coarse grains . . . . . -do-	124	130	130	132	135	145	
4. Barley . . . . . (Minimum Support price)	122	124	130	132	135	135	145
5. Gram . . . . . -do-	235	240	..	260	280	290	325
6. Arhar . . . . . -do-	245	275	300	320	325	360	
7. Moong . . . . . -do-	250	275	300	320	325	360	
8. Urad . . . . . -do-	245	275	300	320	325	360	
9. Mustard . . . . . -do-	355	360	385	400	415	430	460
10. Groundnut . . . . . -do-	315	340	350	370	390	430	
11. Sunflower seed . . . . . -do-	275	325	335	350	390	450	
12. Soyabean (Black variety) . . . . . -do-	230	240	250	255	260	275 £	
13. Cotton (F-414/H-777) . . . . . -do-	400	410	425	430	440	500	
(Kapas Hybrid-4) . . . . . -do-	527	535	535	540	550	600	
14. Sugarcane . . . . . (Statutory Minimum Price)	13.50	14.00	16.50	17.00	18.50	19.50	20.00
15. Jute (W-5 Grade Ex-Assam) . . . . . -do-	185	195	215	225	240	250@	
16. VFC Tobacco (F-2) (Black soil) . . . . . -do-	..	1115	1115	1115	1125	1175	

\*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. 170 per quintal for fine variety and Rs. 180 per quintal for superfine variety.

.. Not announced. £ Rs. 320 per quintal for yellow variety

@ Minimum Support Price.

5.23 *Pulses*: The support prices of pulses were raised substantially. The support price for kharif pulses, arhar, moong, urad were raised by Rs. 35 per quintal from Rs. 325 to Rs. 360 per quintal for the marketing year 1988-89. The support price for gram was raised by Rs. 35 from Rs. 290 to Rs. 325 per quintal for the marketing year 1989-90.

5.24 *Oilseeds*: In the case of oilseeds the minimum support price of groundnut (in shell) was raised by Rs. 40 per quintal to Rs. 430 per quintal for 1988-89. The minimum support price for sunflower seed was raised by as much as Rs. 60 per quintal to Rs. 450 per quintal. The minimum support price of soyabean (black variety) was raised by Rs. 15 to Rs. 275 per quintal and that of yellow variety to Rs. 320 per quintal. For safflower the minimum support price has been fixed at Rs. 440 per quintal. In the case of rabi oilseeds the minimum support prices of rapeseed and mustard for the 1989-90 marketing season has been raised by Rs. 30 to Rs. 460 per quintal.

5.25 *Sugarcane*: The statutory minimum price (SMP) of sugarcane was raised from Rs. 18.50 to Rs. 19.50 per quintal for 1988-89 marketing year linked to a recovery of 8.5 per cent. For 1989-90 the SMP for sugarcane has been raised to Rs. 20.00 per quintal linked to 8.5 per cent recovery.

5.26 *Fibres*: The minimum support price for raw cotton of fair average quality (F-414/H-777) has been raised by Rs. 60 to Rs. 500 per quintal and of long staple hybrid-4 variety by Rs. 50 per quintal to Rs. 600 per quintal. In the case of jute, the minimum support price has been raised by Rs. 10 to Rs. 250 for W-5 grade Ex-Assam.

5.27 *Tobacco*: For tobacco the minimum support price for VFC tobacco (F2) for black soil has been raised by Rs. 50 to Rs. 1175 per quintal.

#### Foodgrain Operations

5.28 As pointed out earlier, the effect of a drought in any year usually spills over to the earlier part of the following year. Keeping this in view, the releases of both rice and wheat for the Public Distribution System continued to be maintained at a high level until June, 1988. After that the demand from the PDS declined following the harvesting of wheat crop.

5.29 With reduced production during 1987-88 and higher prices prevailing in the market, the procurement of wheat has been lower during April—December was lower at 6.53 million tonnes against 7.85 million tonnes in the corresponding period last year. (Table 5.5). The procurement of rice during April—December, 1988 was 5.14 million tonnes as against 4.69 million tonnes in the corresponding period last year.

TABLE 5.5  
Procurement, Public Distribution and Stocks of Foodgrains  
('000 Tonnes)

	1986-87	1987-88		1988-89*
		Full Year	Upto Dec., 87	Upto Dec., 88
<b>A. Procurement</b>				
Rice . . . . .	9476	6883	4685	5142
Wheat . . . . .	10536	7880	7854	6529
Total Foodgrains	20031	14938	12611	11738
<b>B. Public Distribution</b>				
Rice . . . . .	8974	10171	7511	6870
Wheat@ . . . . .	7213	9222	6205	5554
Total Foodgrains	16417	19483	13787	12610
<b>C. Stocks**</b>				
Rice . . . . .	10015	5914	6483	4633
Wheat . . . . .	9471	3341	7569	4743
Total Foodgrains	19536	9427	14143	9481

\*Provisional.

\*\*End period basis.

@ Public distribution of wheat does not include open sale of wheat by FCI which was of the order of 29.17 lakh tonnes in 1986-87, 35.97 lakh tonnes in 1987-88 and over 8 lakh tonnes in 1988-89 (authorised upto December).

5.30 With reduced procurement and a high level of demand, the level of stocks with the Government got depleted even further. The wheat stocks as on December 31, 1988 were down to 4.7 million tonnes as against 7.6 million tonnes held a year ago. Stocks of rice on the same date stood at 4.6 million tonnes this year against 6.5 million tonnes in the corresponding period last year. With a decline in the level of stocks, particularly of rice, it became necessary to import limited quantities of rice and wheat and to moderate the releases of cereals under PDS. The supply of wheat by the FCI to the Roller Flour Mills was substantially curtailed.

5.31 The issue price of wheat for the PDS was increased from Rs. 195 per quintal to Rs. 204 per

quintal with effect from March, 1988. The issue price of rice (common variety) sold through the PDS was marginally raised from Rs. 239 to Rs. 244 per quintal with effect from January 25, 1989. This marks an increase of only 5 paise per kg.

#### *Edible Oil Operations*

5.32 Under the impact of drought, prices of edible oils had risen quite sharply in 1987-88. Government, therefore, had to undertake large imports of edible oils at a high level in order to maintain releases both for PDS and for the vanaspati industry at adequate levels. During 1987-88 a quantity of over 14.37 lakh tonnes of edible oils was released for PDS against less than 8.7 lakh tonnes in the previous year. For the vanaspati industry also, the allocation of imported edible oils was kept at a high level during 1987-88. In return the vanaspati industry agreed on voluntary price control. However, because of the wide gap between prices of edible oils in the domestic market and the issue price of imported edible oils for PDS Government decided in December, 1987 to raise the issue price by Rs. 2,000 per tonne. At the same time, the production of rapeseed and mustard turned out to be better than anticipated. The pressure of demand also apparently eased after the festival season. As a result, prices of oilseeds and edible oils started declining. With satisfactory monsoon the production of oilseeds during the current year is expected to register a significant increase.

5.33 As the new crop started coming into the market, oilseeds and edible oil prices registered a further decline. By the end of December, the index of oilseeds prices had come down by 11 per cent and that of edible oils by 5 per cent. It, therefore, became necessary to prevent an undue fall in prices of edible oils. In the light of these developments and the growing pressure on balance of payments, the Government has taken a number of measures in the course of the current financial year to regulate the edible oil economy.

5.34 The Government has decided to cut down imports substantially from the high level of the previous year. The issue price of imported edible oil was raised further to Rs. 16.60 per kg. (in tins) with effect from September 1, 1988 so as to bridge the gap between the prices of domestic and imported edible oils. Also the supply of

imported edible oils to the vanaspati industry at concessional rates was discontinued. However, they can still purchase imported edible oils from STC at an open window rate of Rs. 19,000 PMT, with no reimbursement of freight, sales tax etc. The releases of edible oils for PDS were also reduced during April—November, 1988 to 6.30 lakh tonnes as against 9.25 lakh tonnes in the corresponding period of 1987. Incentives were also provided for increasing the production of minor oils such as rice-bran oil and for increasing the utilisation of such oils in the manufacture of vanaspati. The Government also decided to supply the maximum quantity of imported edible oils for PDS in small packs of 5 kgs. and less to reduce the chance of leakage to non-PDS use.

5.35 Furthermore, the stock limits for wholesale dealers of edible oilseeds, edible oils and hydrogenated vegetable oils which were reduced in September, 1987 due to country-wide drought last year were first restored to the levels prevalent prior to September, 1987 and then have been doubled with effect from January 6, 1989. Moreover, the use of expeller groundnut/mustard/sesame oils has been allowed in the manufacture of vanaspati to the extent of 20 per cent with effect from January 10, 1989 for a period of two months. Following the improvement in oilseeds production the provisions of selective controls on oilseeds and vegetable oils have also been relaxed by the Reserve Bank of India with effect from February 10, 1989. The level of credit ceilings in respect of bank advances against oilseeds, vegetable oils including vanaspati have been raised from the present 85 per cent to 100 percent of peak level of credit maintained by the party in any of the three years ending Oil Year 1985-86. The margin on bank advances against the stock of these commodities has been reduced across the board by 15 percentage points.

#### *Sugar Operations*

5.36 The Government has been following a partially controlled dual pricing system for sugar. Under this policy a specified percentage of total production of each factory is secured by the Government at controlled levy prices for distribution through the PDS at a uniform retail price and the balance production is allowed to be sold by factories in the open market as free-sale sugar.

In view of rising consumption of sugar the Government had adopted a long-term policy to encourage higher production by enabling the sugar mills to offer such prices as may attract higher quantities of cane. Government also provided off season rebate to the mills as an incentive for higher production. Under this policy the proportion of free sale and levy sugar was changed from 45:55 in 1985-86 to 50:50 for 1986-87 and 1987-88 seasons and the SMP for sugarcane for 1987-88 season was increased to Rs. 18.50 per quintal from Rs. 17 per quintal in 1986-87. For 1988-89 season the SMP has been increased further to Rs. 19.50 per quintal. The free sale quota has been increased to 55 per cent for 1988-89. The issue price of levy sugar for PDS has been increased from Rs.

5.10 per kg. to Rs. 5.25 per kg. with effect from January 1, 1989.

5.37 During 1988-89 while prices of sugar remained relatively stable, those of khandsari and gur continued to be high for most of the year because of lower production resulting from diversion of greater quantities of cane for sugar production. The only instrument available to the Government to influence of the prices khandsari and gur is to moderate the prices of sugar by enhancing releases of sugar in the market. To this end the releases of sugar were kept at a high level. A quantity of 83.75 lakh tonnes of sugar was released during April, 1988-January, 1989 as against 79.00 lakh tonnes released in the corresponding period of the previous year (Table 5.6).

TABLE 5.6  
Monthly Pattern of Off-take of Major Items by the Public Distribution System

Month	Rice (Off-take)*		Wheat (Off-take)*@		Edible Oils £ (Allocation)		Sugar** (Releases)	
	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89
	April	675	764	384	544	58.8	62.3	752
May	681	766	467	525	59.9	64.3	762	782
June	758	779	743	604	65.0	77.4	762	772
July	928	809	625	655	70.4	83.0	762	832
August	923	798	791	614	126.3	94.8	762	832
September	945	764	845	643	158.8	93.9	857	842
October	869	739	699	626	185.9	96.9	857	917
November	871	704	804	619	189.4	86.2	782	932
December	861	747	847	724	188.9	38.5	782	852
January	856		878		149.1	40.6	822	832
February	879		991		100.6		782	
March	925		1148		74.3		782	
Total	10171	6870 (7511)	9222	5554 (6205)	1427.4	737.9 (1252.5)	9464	8375 (7900)

\* Provisional.

\*\*Total of levy and free sale sugar.

£ Including small packs.

@ Total off-take of wheat does not include open sale of wheat by FCI which was of the order of 29.17 lakh tonnes in 1986-87, 35.97 lakh tonnes in 1987-88 and over 8 lakh tonnes in 1988-89 (authorised upto December).

Note :—Figures in brackets give total for the corresponding months of 1987-88.

5.38 As the package of incentives to the sugar industry remained available during 1988-89, sugar production during sugar year (October-September) 1987-88 increased to over 91 lakh tonnes from 85 lakh tonnes in 1986-87 and 70 lakh tonnes in 1985-86. Keeping in view the increase in production, the stock limits for dealers have been doubled so as to prevent undue fall in sugar prices. The period of turn-over of stocks by sugar and khand-sari dealers has also been increased from seven days to ten days.

#### Administered Prices for Industrial Products

5.39 The administered prices of industrial products are usually adjusted in line with changes in costs or, in some cases, to control consumption. The administered prices of some industrial products had to be raised during 1988-89.

5.40 *Coal*: In view of rising input costs and also to cover the additional cost of wages the weighted average price of coal produced by Coal

India Ltd. has been raised by 13.7 per cent with effect from January 1, 1989 taking the price to Rs. 249 per tonne from Rs. 219 per tonne. However, the prices of soft coke used for domestic purposes and hard coke used in kilns have been exempted from the price rise. It may be noted that the last price hike of December, 1987 did not cover the entire cost escalation. Total increase in the average coal price, including the present one, since 1985-86 works out to only 18.6 per cent.

5.41 *Steel*: The prices of pig iron and steel produced by the integrated steel plants have been raised by the JPC, on an average, by 8 per cent with effect from January 8, 1989. This price rise was allowed mainly to compensate the producers for the increase in input costs. The Joint Plant Committee (JPC) took into account, among other things, the BICP guidelines for compensating the main producers for cost upswing on various counts.

5.42 *Cement*: The policy regarding maintenance of dual prices of cement was continued but the price of levy cement was raised by Rs. 47 per tonne or 12 per cent.

5.43 *Aluminium*: The ex-factory sale price of aluminium was raised from Rs. 25,309 to Rs. 29,749 per tonne, registering an increase of 17.5 per cent with effect from November 18, 1988. The increase in prices was mainly due to cost escalation. Despite this increase the domestic price of aluminium continues to be less than the international price of Rs. 36,000 per tonne prevailing in the spot market at the time of writing.

5.44 *Other non-ferrous metals*: The selling prices of non-ferrous metals such as copper, zinc, lead and nickel, which are imported by the MMTC, were revised by the Government from time to time, on the advice of an inter-ministerial committee constituted for the purpose. The prices of these metals during the year have been

raised in view of sharp rise in international prices and the change in the exchange rate of the rupee.

5.45 *Fertilisers*: The statutory maximum consumer prices of fertilisers have been kept unchanged during the last four years. However, the drought of 1987-88 adversely affected the fertiliser consumption while domestic production of fertiliser continued to increase. Consequently there was an accumulation of heavy stocks with the manufacturers. Following the announcement made by the Finance Minister in his budget speech, the Government directed the manufacturers of urea to give a discount of 7.5 per cent to farmers in order to reduce stocks and to encourage higher fertiliser consumption during the current year. The Government reimbursed the manufacturers for this discount upto September 30, 1988. The fertiliser companies have been permitted to offer a discount of 7.5 per cent on urea in the rabi season also on their own account, without reimbursement by the Government.

5.46 *Drugs*: Under the provisions of the new Drug Price Control Order 1987, the Government has notified fair prices for a large number of price controlled bulk drugs and ceiling prices for formulations, thereby enabling the manufacturers to sell the formulations at uniform prices. The prices of many important drugs like Rifampicin, Ethambutol, Pyrazinamide used in the treatment of TB, Leprosy etc., were reduced. In the case of decontrolled drugs the prices of some bulk drugs and formulations have been brought down through Government intervention. The availability position of many important drugs like vaccines, sera and anti-cancer drugs has improved significantly. Two more bulk drugs, namely Vitamin A and Vitamin C, have also been brought under price control recently. Excise and Custom duties have been reduced/rationalised in a number of drugs and drug intermediates.