

## PRICES AND DISTRIBUTION

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The uptrend in prices from January 1994, when the annual inflation rate based on wholesale price index (WPI) reached 9 per cent, continued through the first quarter of 1994-95, with the annual inflation rate peaking at 12 per cent by late April 1994. The first quarter, April-June, registered relatively higher price increase in primary articles, as also in manufactured products. Thereafter, there was a distinct deceleration in the growth of prices and the annual inflation rate (final) dropped to a low of 8.4 per cent by the first week of October, 1994. However, from mid October, there was again some uptrend, caused mainly by the spurt in prices of primary products, as also intermediate products in the manufacturing sector. The provisional rate of inflation by the first week of February 1995 at 11.4 per cent is indicative of the final rate being still close to the 12 per cent level. Whereas supply side factors have been largely favourable this year (except briefly in the case of sugar and later for edible oils and cotton), the renewed inflationary undercurrent from October 1994 can be ascribed to a relatively higher growth of the money supply, which, during April-December, expanded at an annual rate of 20 per cent against 13 per cent in the corresponding period of last year.

2. The renewed inflationary pressures observed in the last quarter of 1993-94, when the inflation rate rose from 9.1 per cent in January, 1994 to 10.5 per cent in March 1994, persisted and spilled over into the current financial year, reaching a peak of 12 per cent in the first quarter of 1994-95, further reflecting the effects of administered price revisions in respect of sugar, rice, wheat, petroleum and other energy inputs in the last quarter of 1993-94. After that there was a marked deceleration and by the end of September 1994, the inflation rate dropped significantly and even reached a low of 8.4 per cent in the first week of October. The second quarter deceleration continued almost through October, but was soon reversed and, in the third quarter (October-December), the annual inflation rate was

again back in the 9 per cent to 11 per cent range. The current trend of provisional WPI data up-to February 1995 indicates that the present financial year may end with an annual inflation rate at around 11 per cent.

### Inflation Based on WPI and CPI

3. The country's inflation rate is most commonly gauged by the wholesale price index (WPI). Retail prices are monitored through the movement of the consumer price index (CPI) for three groups of consumer categories, namely, industrial workers, urban non-manual employees and agricultural labour households. (see Box 4.1).

4. The annual inflation rate based on consumer price index for industrial workers CPI(IW) - the most commonly used of the three CPI series - moved almost in tandem with the WPI. From a low of 4.5 per cent in July 1993, the CPI (IW) based inflation rate touched 9.1 per cent in January 1994 (same as the WPI) and peaked at 11.2 per cent in September 1994, but dropped to 9.5 per cent in December, 1994. The pattern was a little different in the case of prices for urban non-manual employees, the CPI (UNME), where the monthly inflation rate has been consistently lower than all the other series. For agricultural labourers, the available data on CPI shows that the peak rate of inflation was 13.4 per cent in July 1994, which dropped to 11.2 per cent by November (Table 4.1).

### Financial year changes in WPI

5. The growth in prices in the first three quarters (April-December) of this financial year had three distinct phases. In the first phase, corresponding to the first quarter April-June, there was clearly an uptrend with the WPI recording a rise of 4 per cent (over end March 1994). The second phase (July-September) witnessed a very modest rise of only 1.6 per cent. Thus the cumulative rise in prices by 5.6 per cent in the first half of 1994-95 was much lower than 7.8 per cent rise in the first half of the preceding year, confirming the effectiveness of supply management

**Box 4.1**  
**Composition of Price Index Numbers**

- The current series of Wholesale Price Index (WPI) with base 1981-82 reflects changes in prices of 447 commodities covering all traded goods in primary sector, fuel and power sector and, manufacturing sector. The primary sector includes all farm food and non-food products and minerals. Fuel, power and light group includes coal mining, petroleum products and electricity. Manufactured group which includes the largest number of commodities (334) includes agro-industrial products of food; beverages, tobacco and tobacco products; textiles; wood and wood products; paper and paper products; leather and leather products; rubber and plastic products; chemicals and chemical products; non-metallic mineral products; basic metals, alloys and metal products; machinery and machine tools; transport equipments and parts; and other miscellaneous manufacturing industries.
- The movements in prices at retail level are reflected by three different series of Consumer Price Indices (CPI) for industrial workers CPI(IW), urban non-manual employees CPI(UNME) and agricultural labourers CPI(AL), constructed regularly on monthly basis presently with base of 1982, 1984-85 and 1980-81 respectively. The basket of commodities for the respective series consists of items of food; pan, supari, tobacco and intoxicants; housing; fuel and light; clothing, bedding and footwear and a number of services grouped as miscellaneous. The series for industrial workers covers 260 commodities, for urban non-manual employees 180 commodities and, for agricultural labour households 60 commodities.

policies. In the third phase (October-December), instead of the seasonal downturn in the WPI, prices actually rose further by about 1.5 per cent. Thus the total price rise in the first nine months (April-December) of the current financial year was 7.3 per cent, a little less than the 8.1 per cent increase observed over the corresponding period of 1993-94. However, further rise of 2.2 per cent in January 1995 (up-to 4th February) pushed up total price rise to 9.6 per cent compared to 8.5 per cent in the same period of last year (Table 4.2).

**TABLE 4.1**  
**Annual Rates of Inflation in WPI and CPI**  
**(Point-to-point)**

Year	Base→	(Per cent)			
		WPI 1981-82	CPI (IW) 1982	CPI (UNME) 1984-85	CPI (AL) 1980-81
	1	2	3	4	5
1991-92	APR	11.6	12.2	12.6	14.7
	MAY	11.8	12.1	11.8	13.7
	JUN	12.2	13.0	12.3	15.4
	JUL	13.1	13.2	13.3	15.9
	AUG	16.1	14.2	15.1	18.3
	SEP	16.3	15.7	15.7	23.1
	OCT	14.7	14.4	14.2	23.1
	NOV	14.7	13.6	14.0	21.2
	DEC	14.3	13.1	13.3	21.7
	JAN	13.6	12.9	12.4	20.4
	FEB	12.9	13.4	13.0	20.6
	MAR	13.6	13.9	13.6	21.9
1992-93	APR	13.8	14.4	13.5	22.6
	MAY	13.8	14.7	14.0	23.9
	JUN	13.0	12.9	13.2	21.9
	JUL	11.7	13.1	12.8	20.6
	AUG	9.4	11.5	10.9	19.0
	SEP	9.6	10.0	10.9	14.1
	OCT	10.6	9.4	10.8	11.0
	NOV	9.1	8.4	9.6	8.6
	DEC	8.5	8.0	9.6	5.9
	JAN	7.6	5.7	7.9	5.0
	FEB	7.6	5.7	7.3	1.9
	MAR	7.1	6.1	6.8	0.7
1993-94	APR	6.9	6.1	6.7	-0.7
	MAY	6.9	5.1	6.2	-1.9
	JUN	7.0	5.9	6.6	-1.0
	JUL	7.3	4.5	5.4	-2.0
	AUG	8.0	5.8	5.9	-2.3
	SEP	8.8	6.6	6.4	0.1
	OCT	8.5	7.4	6.3	3.2
	NOV	8.6	8.6	7.3	6.5
	DEC	8.8	8.6	7.8	9.3
	JAN	9.1	9.1	7.8	9.4
	FEB	9.5	9.5	8.3	10.2
	MAR	10.5	9.9	8.3	11.6
1994-95	APR	11.8	9.8	8.7	12.1
	MAY	12.0	10.6	9.7	13.2
	JUN	11.8	10.8	9.5	12.5
	JUL	11.6	11.1	9.9	13.4
	AUG	10.2	10.9	9.8	13.1
	SEP	8.9	11.2	9.7	12.4
	OCT	8.9	10.3	10.1	11.6
	NOV	9.8	9.8	9.1	11.2
	DEC	9.9 <sup>1</sup>	9.5		
	JAN	11.1 <sup>1</sup>			
FEB 4	11.4 <sup>1</sup>				

<sup>1</sup> Provisional

### Primary Articles

6. The WPI of Primary Articles increased by 10.2 per cent in the first three quarters of this financial year. This increase, on top of the 10.3 per cent increase in the corresponding period of 1993-94, should be an area of serious concern as this group includes wage goods and most essential commodities. Obviously it was the high rise of 7 per cent during the first quarter, April-June, apparently a consequence of administered price increases of foodgrains in February, 1994, that may

**TABLE 4.2**  
**Financial Year Increase (April to February 4)**

(Per cent)						
	1993-94		1994-95			
	April-Feb	1st Quarter Apr-June	2nd Quarter July-Sep.	3rd Quarter Oct-Dec <sup>1</sup>	4th Quarter Jan-Feb <sup>1</sup>	Total Apr-Feb <sup>1</sup>
1	2	3	4	5	6	7
All Commodities	8.5	4.0	1.6	1.5	2.2	9.6
Primary Articles	9.8	6.9	2.0	1.3	2.8	13.7
Fuel, Power, Light etc.	10.0	0.4	0.3	0.6	-	1.2
Manufactured Products	7.4	3.1	2.0	1.5	0.4	9.0
<sup>1</sup> Provisional.						

have caused the sharp rise in the price index for primary articles this year (Table 4.2).

Primary articles, which have a weight of 32.3 in the WPI, contributed 46 per cent of this year's inflation (April-February 4), much higher in proportion to its weight. Within the primary articles group, it was the food articles group that recorded a sharp rise of 14.7 per cent in 1994-95, thus accounting for almost one third of this year's inflation as against 5.4 per cent rise in the same period of 1993-94 with only 11.9 per cent contribution to inflation (Table 4.3).

7. Even though the rise in foodgrain prices (April 94-February 4, 1995) was lower (8.7 per cent) than last year's rise (18 per cent) due mainly to stable wheat prices, the rise in non-cereal food articles such as fruits and vegetables (7.1 per cent), milk (10.1 per cent), eggs, fish and meat (22.9 per cent), tea/coffee (79.2 per cent) and spices (36.4 per cent) was much higher. The price rise in non-food articles, mostly fibre crops, was lower this year (13.8 per cent), contributing only 15.7 per cent to this year's inflation as against last year when wholesale price index of this group rose by over 17 per cent, (Table 4.3) and contributed 18.5 per cent of total inflation.

#### Manufactured Products

8. The price index for Manufactured Products group rose by 9 per cent during the current financial year (up-to February 4, 1995) with much of the rise occurring in the first six months (5.1 per cent). Within this group, inflation in food products (which includes sugar and edible oils) was lower (9.3 per cent) than last year (10.3 per cent) and, the contribution to this year's inflation was also lower. The price of sugar had actually declined this year. The rise in edible oil prices was higher (18.3 per cent) this year, compared to the 4.8 per cent rise last year. Vital intermediate products such as chemicals, metals and cement registered a much higher inflation rate in the current year, and together with textiles,

contributed over 28 per cent to this year's inflation (Table 4.3).

#### Raw Materials

9. The raw materials group, which has a weight of 14.9 per cent in the WPI, recorded a much lower inflation of 12.3 per cent this year (April 94 to 4 February 1995), as against 17.4 per cent last year. The contribution to inflation by this group was also much less (17.3 per cent), compared to 23.4 per cent in 1993-94 for the corresponding period.

#### Administered Products

10. Petroleum and petroleum products, coal mining, electricity and urea-fertilizer are the only items with fully administered prices with a total weight of 15.9 per cent in the WPI. The price index for this group rose modestly by 2.5 per cent (compared to 13.3 per cent last year) and contributed only 3.6 per cent to this year's inflation as against 20.1 per cent in 1993-94.

#### Essential Commodities

11. The 30 essential commodities which have a weight of 21.77 per cent in the WPI, recorded an inflation of 10.1 per cent up to February 4, 1995 which was a little lower than last year's 11.7 per cent mainly because of decline in sugar prices. However, this group's contribution to current year's inflation was 23 per cent, which, like last year, was disproportionate to its weight in the WPI (Table 4.3).

### Annual Inflation

#### All Commodities

12. The Wholesale Price Index (WPI) for the 45th week ending February 4, 1995 had reached 283.1 (provisional) representing 11.4 per cent rise over 254.2 (final index) recorded on the corresponding date last year. For the first 21 weeks of the current financial year (April-August) annual inflation rate

**TABLE 4.3**  
**Wholesale Price Movements in Major Commodity Groups**  
 (As on February 4)  
 (Base: 1981-82=100)

Commodity group/sub-group	Weight	Inflation (Fin. Year)		Annual Inflation (Point to Point)		Share in Inflation		
		(%)					Fin. Year	Annual
			1994-95 (Apr.-Feb.)	1993-94 (Apr.-Feb.)	1994-95 (Feb./Feb.)	1993-94 (Feb./Feb.)	1994-95 (Apr.-Feb.)	1994-95 (Feb./Feb.)
1	2	3	4	5	6	7	8	
<b>ALL COMMODITIES</b>	<b>100.00</b>	<b>9.6</b>	<b>9.1</b>	<b>11.4</b>	<b>9.5</b>	<b>100.0</b>	<b>100.0</b>	
<b>I. PRIMARY ARTICLES</b>	<b>32.29</b>	<b>13.7</b>	<b>9.9</b>	<b>15.4</b>	<b>8.7</b>	<b>46.2</b>	<b>43.8</b>	
(A) Food articles	17.39	14.7	5.4	13.7	3.7	28.9	23.3	
Foodgrains	7.92	8.7	18.0	8.1	18.7	7.8	6.2	
Rice	3.69	7.9	10.8	9.8	12.4	3.3	3.4	
Wheat	2.25	-0.5	21.2	-2.7	22.1	-0.1	-0.6	
Coarse Cereals	0.89	27.7	11.5	36.9	10.6	2.3	2.4	
Pulses	1.09	15.8	38.8	7.4	36.7	2.3	1.0	
Fruits and Vegetables	4.09	7.1	-8.8	7.4	-7.7	2.9	2.5	
Milk	1.96	10.1	0.1	13.8	0.1	2.3	2.6	
Eggs, Fish & Meat	1.78	22.9	12.2	29.7	9.6	5.3	5.6	
Condiments & Spices	0.95	36.4	-17.4	34.0	-24.3	5.2	4.3	
Other food articles (Tea & Coffee)	0.69	79.2	9.6	24.6	-9.5	5.4	2.1	
(B) Non-food articles	10.08	13.8	17.3	21.2	16.5	15.7	19.4	
Fibres	1.79	5.7	44.7	34.0	56.2	1.6	6.3	
Raw Cotton	1.34	4.4	41.2	42.9	54.6	1.0	5.8	
Raw Jute	0.16	6.7	74.7	6.2	109.6	0.2	0.1	
<b>II. FUEL, POWER, LIGHT &amp; LUBRICANTS</b>	<b>10.66</b>	<b>1.2</b>	<b>12.6</b>	<b>1.6</b>	<b>15.2</b>	<b>1.5</b>	<b>1.6</b>	
<b>III. MANUFACTURED PRODUCTS</b>	<b>57.04</b>	<b>9.0</b>	<b>7.8</b>	<b>11.1</b>	<b>8.9</b>	<b>52.4</b>	<b>54.7</b>	
(A) Food products	10.14	9.3	10.3	11.3	12.2	9.6	9.8	
Sugar	2.01	-3.6	16.6	-2.3	28.6	-0.7	-0.4	
Edible Oils	2.45	18.3	4.8	20.0	0.4	4.6	4.2	
Textiles	11.55	11.0	10.5	17.3	12.2	12.4	15.9	
Chemicals & Chemical products	7.36	11.7	5.1	14.4	5.7	7.5	7.7	
Non-metallic mineral products	2.48	5.1	10.5	6.2	12.0	1.4	1.4	
Cement	0.86	13.6	-1.3	15.9	-1.1	1.0	1.0	
Basic metals, alloys & metal products	7.63	9.6	7.7	10.1	9.8	8.4	7.6	
<b>1. Administered items<sup>1</sup></b>	<b>15.93</b>	<b>2.5</b>	<b>13.3</b>	<b>2.6</b>	<b>15.4</b>	<b>3.6</b>	<b>3.3</b>	
<b>2. Seasonal items<sup>2</sup></b>	<b>34.40</b>	<b>13.2</b>	<b>9.9</b>	<b>15.3</b>	<b>9.3</b>	<b>50.0</b>	<b>48.8</b>	
<b>3. Raw materials<sup>3</sup></b>	<b>14.91</b>	<b>12.3</b>	<b>17.4</b>	<b>17.9</b>	<b>17.1</b>	<b>17.3</b>	<b>20.6</b>	
<b>4. Essential Commodities</b>	<b>21.77</b>	<b>10.1</b>	<b>11.7</b>	<b>10.4</b>	<b>12.0</b>	<b>23.0</b>	<b>20.3</b>	

<sup>1</sup> Administered items include, Petroleum crude & natural gas, Petroleum products, Coal Mining, Electricity, and Urea N<sub>2</sub> content.

<sup>2</sup> Seasonal items include, non-food articles, sugar, khandisari & gur, edible oil & oil cakes.

<sup>3</sup> Raw materials include non-food articles and minerals.

remained at two digits level ranging between a minimum of 10.16 per cent to a maximum of 12.1 per cent. It dropped to single digit level (9.57 per cent) in the last week of August, hovering thereafter, between 8 per cent to 9 per cent level up to mid-October 1994. Some uptrend was again visible pushing up the annual rate, on point to point basis, to 10 per cent level in November and to 11.4 per cent by 4 February. The price behaviour since late December is indicative of some slight acceleration and therefore the year-end annual rate of inflation may hover around 11 per cent (Table 4.4).

#### Primary Articles

13. The annual inflation rate for primary articles as on 4 February 1995 was 15.4 per cent compared to 8.7 per cent on the corresponding date in 1994. Food articles, which account for over half the weight of the primary

articles group, recorded a rise of 13.7 per cent contributing over 23 per cent of this year's annual inflation. In 1993-94 this group's contribution to inflation was only 7.9 per cent (Table 4.4). Unlike last year, this year's higher rise in the food articles group is more due to a sharp escalation in non-cereal prices such as eggs, fish and meat (29.7 per cent), spices and condiments (34 per cent), coffee (137.4 per cent) and milk (13.8 per cent).

14. Non-food articles, which have a weight of 10.1 in the WPI, recorded an annual inflation rate of 21.2 per cent, higher than last year's 16.5 per cent. Much of the rise in the price of non-food articles was again, like last year, traceable to a rise in raw cotton prices. The price of oilseeds also rose quite steeply this year, registering, 25.7 per cent inflation as against only 6.1 per cent last year. Groundnut recorded a relatively high inflation rate (43.6 per cent).

**TABLE 4.4**  
**Annual (point to point) Inflation Rate**  
**(Percentage)**

Commodity group/sub-group	(Per Cent)				
	Annual Inflation		Contribution to Inflation		
	1993-94	1994-95	1994-95	1993-94	
1	2	3	4	5	6
<b>ALL COMMODITIES</b>	<b>100.00</b>	<b>11.4</b>	<b>9.6</b>	<b>100.0</b>	<b>100.0</b>
<b>I PRIMARY ARTICLES</b>	<b>32.20</b>	<b>16.4</b>	<b>8.7</b>	<b>43.8</b>	<b>30.0</b>
(A) Food articles	17.30	13.7	3.7	23.3	7.9
(a) Foodgrains	7.82	8.1	18.7	6.2	15.9
1. Cereals	6.82	8.2	15.4	5.2	11.1
(i) Rice	3.80	9.8	12.4	3.4	5.0
(ii) Wheat	2.25	-2.7	22.1	-0.6	5.3
2. Pulses	1.00	7.4	36.7	1.0	4.8
(b) Fruits & Vegetables	4.00	7.4	-7.7	2.5	-3.8
(i) Fruits	2.80	11.8	-15.7	2.7	-5.6
(ii) Vegetables	1.20	-1.5	14.0	-0.2	1.9
(c) Milk	1.98	13.8	0.1	2.6	0.0
(d) Eggs, Fish & Meat	1.78	29.7	9.6	5.6	2.2
(e) Condiments & Spices	0.95	34.0	-24.3	4.3	-5.3
(f) Other food articles	0.80	24.8	-9.5	2.1	-1.2
(B) Non-food articles	10.08	21.2	16.5	19.4	17.0
1. Fibres	1.70	34.0	56.2	6.3	8.7
2. Oil seeds	3.88	25.7	6.1	7.7	2.3
(C) Minerals	4.83	4.8	19.6	1.1	5.0
<b>II FUEL, POWER, LIGHT &amp; LUBRICANTS</b>	<b>19.88</b>	<b>1.6</b>	<b>18.2</b>	<b>1.6</b>	<b>17.6</b>
<b>III MANUFACTURED PRODUCTS</b>	<b>57.84</b>	<b>11.1</b>	<b>8.9</b>	<b>54.7</b>	<b>52.4</b>
(A) Food products	10.14	11.3	12.2	9.8	12.4
1. Sugar, Khandsari & gur	4.06	3.7	29.3	1.2	9.8
(i) Sugar	2.04	-2.3	28.6	-0.4	4.6
2. Edible Oils	2.45	20.0	0.4	4.2	0.1
(i) Rape & Mustard Oil	0.28	19.4	7.8	0.4	0.2
(ii) Groundnut Oil	0.80	31.3	13.9	1.3	0.7
3. Oil cakes	0.43	17.2	18.0	0.7	0.8
Others					
1. Textiles	11.56	17.3	12.2	15.9	13.1
2. Cement	0.86	15.9	-1.1	1.0	-0.1
3. Iron & steel	2.44	7.0	11.0	1.6	2.8
4. Fertilizers	1.75	10.6	-0.1	1.2	-0.0
5. Non-Ferrous metals (other than aluminium)	0.57	21.5	-1.3	1.4	-0.1
Administered Items	15.80	2.6	15.4	3.3	21.8
1. Petroleum crude & natural gas	4.27	4.0	21.2	0.7	4.2
2. Petroleum products (Mineral oils)	6.67	-0.1	7.4	-0.1	4.9
3. Coal Mining	1.26	5.2	17.9	0.8	3.0
4. Electricity	2.74	2.8	29.2	0.9	9.7
5. Urea N <sub>2</sub> content	0.80	21.4	0.0	0.9	0.0
Seasonal items <sup>1</sup>	34.40	16.3	9.3	48.8	36.6
Raw materials <sup>2</sup>	14.91	17.9	17.1	20.6	21.9

<sup>1</sup> Seasonal items include, non-food articles, sugar, khandsari & gur, etc.

<sup>2</sup> Raw materials include non-food articles and minerals.

### Fuel, Power, Light and lubricants

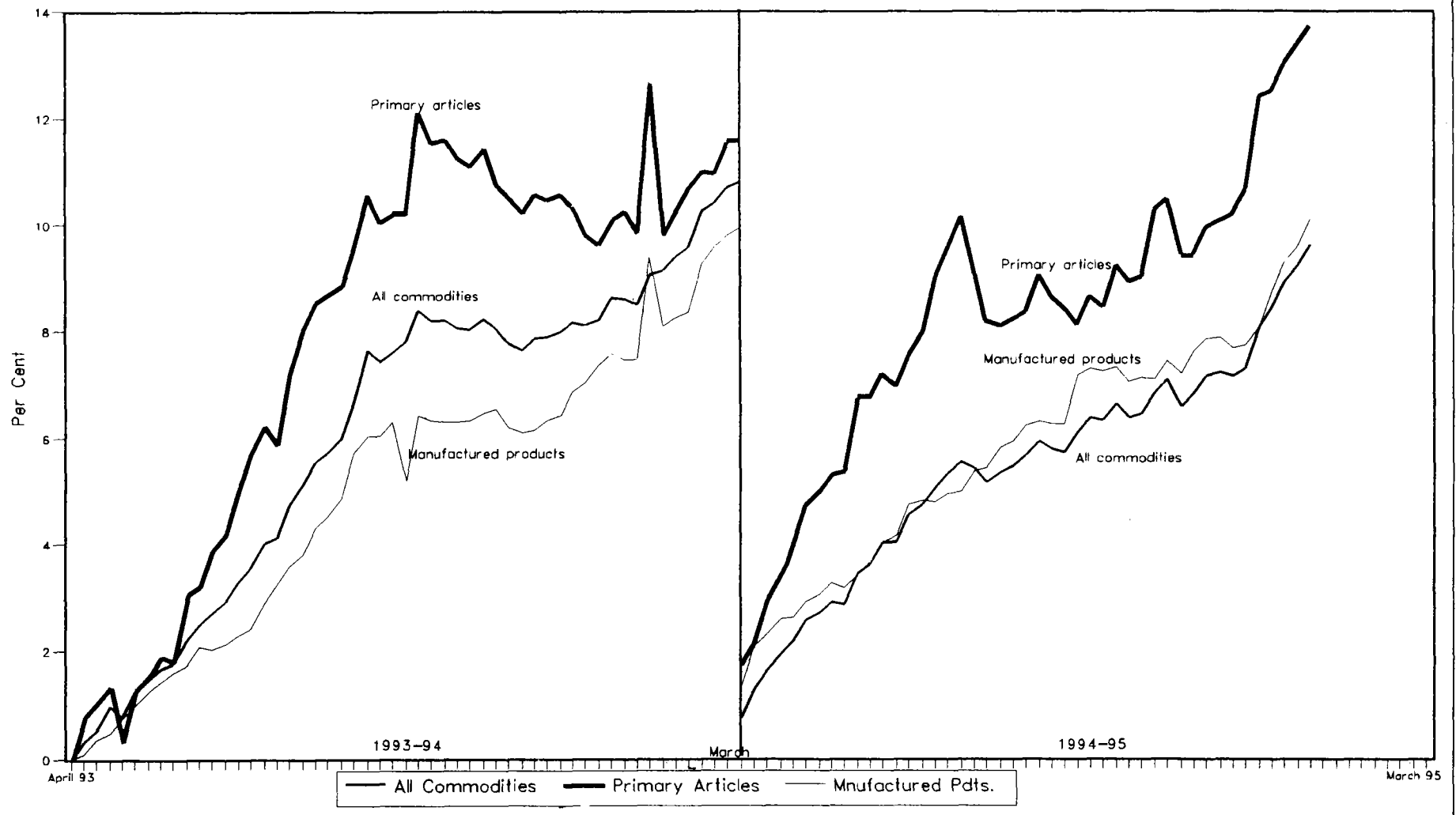
15. This group with a weight of 10.7 per cent, was less volatile this year registering an annual inflation rate of only 1.6 per cent compared to 15.2 per cent in 1993-94. The three key components in this group, namely, coal mining, mineral oils, and electricity registered modest price increases unlike last year, when prices of coal and electricity were raised quite substantially. The prices of this group are largely administered.

### Manufactured Products

16. The annual inflation rate of 11.1 per cent in manufactured products was higher this year than 8.9 per cent last year. The key products that recorded a much higher rise over last year's level, were edible oils (20 per cent), beverages (11.7 per cent), textiles (17.3 per cent), chemicals and chemical products (14.4 per cent), urea (21.4 per cent), cement (15.9 per cent) and non-ferrous metals (21.5 per cent).

**Fig. 4.1**

# FINANCIAL YEAR CHANGES IN WPI ALL COMMODITIES & MAJOR GROUPS



### Commodity Aggregates

17. Administered items recorded a lower rise of 2.6 per cent this year as against a 15.4 per cent rise last year, contributing much less (3.3 per cent) to total inflation this year as compared to 21.8 per cent contributed in the preceding year. The seasonal items, which include seasonal primary articles as well as seasonal manufactured items, recorded a higher rise of 15.3 per cent compared to 9.3 per cent last year and contributed 48.8 per cent to inflation in this year, compared to last year's 35.6 per cent. The raw materials group recorded a 17.9 per cent rise, which was slightly higher than last year's 17.1 per cent, contributing 20.5 per cent to this year's inflation, a little less than 21.9 per cent last year. Based on WPI movements, the prices of essential commodities rose by 9.2 per cent (November, 1994 over November, 1993), and based on CPI(IW), this group recorded an annual inflation rate of 10.5 per cent (Table 4.5 and Fig. 4.2).

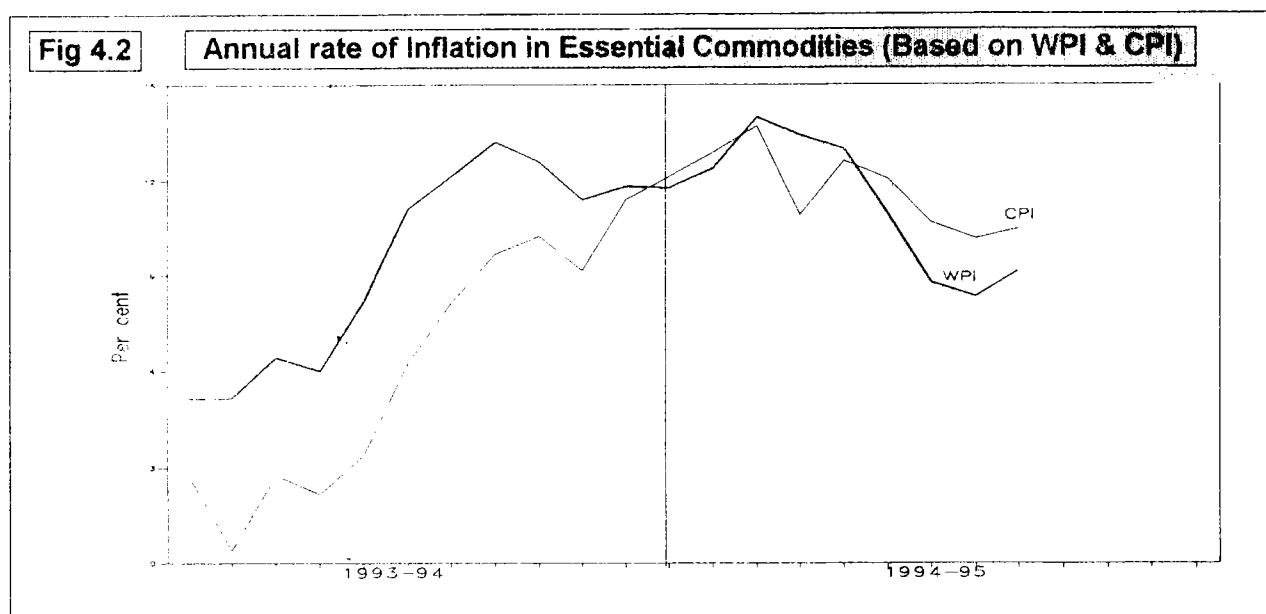
### Monetary Growth and Inflation

18. Inflation is the result of an interplay of various factors operating on the demand and supply sides of the economy. In the current financial year, the supply side factors have by and large remained favourable, except for sugar for a brief period. The uptrend in the general price level in the current financial year, particularly since mid-October 1994, appears therefore, to have been caused by demand side factors arising out of the excess liquidity in the system.

19. In 1993-94, the growth in the fiscal deficit of the Government had led to the building up of inflationary pressure in the system. Fiscal deficit and, more particularly, monetised deficit (RBI credit to Government) adds to the growth of reserve money and consequently money supply, which aids in exacerbating inflationary demand pressures. The Centre's fiscal deficit increased from

Rs. 40,173 crore in 1992-93 to Rs. 58,551 crore in 1993-94. The monetised deficit also recorded a higher rate of growth of 15.6 per cent, as against 11.4 per cent in 1992-93. From the end of 1993-94, however, it is the rapid growth in net foreign exchange assets which has been the major factor in the expansion of reserve money. In 1993-94 net RBI foreign assets growth was 105 per cent, as against only 17.6 per cent in 1992-93. As a consequence reserve money growth was pushed up to over 25 per cent in 1993-94 and money supply growth accelerated from 15.7 per cent in 1992-93 to 18.2 per cent at the end of 1993-94. The annual rate of inflation similarly shot up to 10.8 per cent at the end of 1993-94, from a low of 7 per cent at the end of 1992-93.

20. In the current financial year, excess liquidity in the system has been sought to be curbed by limiting the growth of RBI credit to the Central Government through ad-hoc treasury bills by stipulation of a ceiling of Rs. 6,000 crore for the year as a whole and a maximum temporary access to Rs. 9,000 crore for ten consecutive working days during the year. For the past six months in the current financial year up to January 20, 1995, the budget deficit of the Central Government has remained negative. Between March 31, 1994 and January 20, 1995, RBI credit to the Government has declined by 4 per cent, as against its expansion by 7.4 per cent in the corresponding period of the last financial year. However, generation of excess liquidity in the system continued, following rapid growth of net foreign exchange assets of the RBI up to the end of November 1994, by which time they recorded a 36.3 per cent growth as against 27 per cent growth in the preceding year. Only in December 1994, consequent to a number of policy actions in the previous months, has there been some deceleration in the growth of foreign exchange assets of RBI. RBI credit to commercial and cooperative banks, expanded by a



**TABLE: 4.5**  
**Annual Rate of Inflation in Essential Commodities**  
**(November 1994)**

(Per cent)

Commodity	Weight		Financial year changes (November/March)				Annual rate of inflation (November to November)			
	CPI(W)	WPI	1994-95		1993-94		1994		1993	
			CPI(W)	WPI	CPI(W)	WPI	CPI(W)	WPI	CPI(W)	WPI
1	2	3	4	5	6	7	8	9	10	11
<b>GENERAL INDEX</b>	<b>100.00</b>	<b>100.00</b>	<b>9.0</b>	<b>7.2</b>	<b>9.1</b>	<b>7.9</b>	<b>9.8</b>	<b>9.8</b>	<b>8.6</b>	<b>8.6</b>
Rice	12.45	3.69	8.1	8.9	5.5	13.9	16.8	7.5	5.4	11.0
Whole wheat	4.43	2.25	0.2	-2.7	5.7	8.4	13.9	8.3	7.8	13.7
Wheat atta	1.75	0.76	-1.0	1.3	10.2	6.3	5.7	7.7	7.9	6.0
Jowar	0.46	0.42	12.7	20.8	-2.2	-13.5	14.3	32.8	-21.7	-24.8
Bajra	0.16	0.18	10.0	-7.5	9.1	14.9	37.2	17.1	7.1	5.9
Moong	0.53	0.20	14.6	23.1	4.5	9.5	23.3	41.0	10.2	21.2
Gram	0.08	0.41	12.8	-2.9	43.2	49.0	10.2	-6.7	66.8	76.7
Masur	0.41	0.05	28.1	52.6	9.5	20.0	32.7	50.5	3.4	8.9
Arhar	1.69	0.27	11.0	53.3	13.3	16.5	5.7	50.1	10.5	18.8
Urad	0.35	0.15	72.7	-24.0	4.4	21.1	93.5	-19.0	-1.7	12.0
Coconut oil	0.09	0.17	4.8	2.3	-16.8	-18.7	-6.4	-4.9	-20.0	-20.9
Groundnut oil	2.27	0.53	12.0	6.7	24.9	30.2	5.4	-2.3	4.5	9.2
Mustard oil	1.44	0.28	18.2	19.1	13.2	10.7	14.4	15.4	-0.3	-0.9
Vanaspati	0.78	0.52	14.6	50.7	13.1	8.0	8.1	41.0	-0.9	-8.8
Goat meat	2.12	0.52	7.9	19.7	4.0	5.8	14.6	29.3	9.5	10.0
Fresh fish	1.31	0.51	3.3	7.8	3.8	13.0	12.7	22.5	14.5	19.7
Milk	5.52	1.96	4.0	11.6	6.9	3.8	5.5	9.7	7.1	3.7
Salt	0.15	0.04	9.4	3.4	3.9	4.9	12.7	1.5	7.1	12.5
Chillies	0.63	0.32	39.9	47.3	-21.1	-21.5	45.2	77.3	-47.6	-52.4
Onions	0.67	0.16	38.2	39.4	106.5	75.0	-32.8	-24.9	193.2	179.2
Potatoes	1.23	0.47	81.4	63.6	94.0	102.3	4.3	-7.2	41.3	30.8
Sugar	2.24	2.01	-0.8	-3.4	3.1	6.7	12.7	6.7	19.3	17.0
Gur	0.47	1.75	6.6	16.6	41.5	39.5	-8.1	5.1	47.9	51.7
Tea leaves	0.82	0.56	0.3	8.7	15.1	-3.5	0.8	-21.2	23.8	20.0
Soft coke	0.80	0.35	1.7	5.2	3.3	4.8	2.9	5.2	6.5	20.4
Kerosene oil	1.82	0.87	0.6	0.0	1.1	0.0	1.0	0.0	1.8	0.0
Matchboxes	0.23	0.23	16.3	0.5	4.4	8.2	16.9	0.6	8.5	13.1
Washing soap	1.33	0.59	2.8	9.1	4.0	-6.2	3.4	14.8	3.9	-6.2
Long cloth	0.20	0.36	12.6	8.5	11.0	2.6	16.1	35.7	7.6	9.4
Dhoties	0.35	1.19	12.4	9.1	11.3	10.5	15.9	12.1	8.3	12.4
Sarees	2.05		9.1		12.3		11.1		11.7	
<b>Essential commodities</b>	<b>48.83</b>	<b>21.77</b>	<b>9.2</b>	<b>10.1</b>	<b>10.8</b>	<b>12.7</b>	<b>10.6</b>	<b>9.2</b>	<b>9.7</b>	<b>13.2</b>

large margin following pick up in the non-food bank credit and pushed up the Reserve money growth to 14.2 per cent during 1994-95 up to January 20, 1995 as against 18 per cent in the corresponding period of 1993-94. On an annual basis, the reserve money growth is much higher than a year ago (21.2 per cent as against 20.3 per cent). The larger reserve money growth has also exacerbated money supply growth. On annual basis it is 18.6 per cent on January 20, 1995 as against 17.5 per cent a year ago. Thus continued liquidity growth (and consequent excess liquidity) in the system has added to excess demand, thereby fuelling inflationary pressures in the system. Rising annual rate of growth in  $M_3$  from 18.6 per cent on June 24, 1994 to 20.2 per cent at the end of the next quarter and further to 21.8 per cent on November 26, 1994, clearly shows why annual rate of inflation has, after a brief downturn in second quarter, shown again an uptrend from late October 1994, (Table 4.6).

#### Underlying Causes of Inflation in 1994-95

21. Sharp rise of 4 per cent in the WPI during the first quarter (April-June) of 1994-95 was the spillover effect of rise from February 1, 1994 in the central issue price of rice (23 per cent), wheat (21.8 per cent) and sugar (9 per cent). Rise in price of wage goods generally causes all other prices to rise with some lag in time. Besides, there was the effect of short term supply imbalances due to production shortfall in sugar, cotton, jute and groundnut that may have added further buoyancy to inflationary pressures. That may also be the reason for this year's inflation being more generalised across a much broader spectrum of commodities than was the case last year. But that is only a partial explanation. A significant explanation for this year's inflationary pressures is on the side of aggregate demand, notably the substantial acceleration in monetary aggregates.



**TABLE 4.6**  
**Inflation and Money Supply Growth**

(Per cent)									
1	Financial year changes				6	Annual Rate			
	1994-95		1993-94			1994-95		1993-94	
	M <sub>3</sub>	Inflation	M <sub>3</sub>	Inflation		M <sub>3</sub>	Inflation	M <sub>3</sub>	Inflation
2	3	4	5	7	8	9	10		
Apr-Jun	5.2	4.0	4.9	3.3	June 24	18.6	11.6	13.1	7.1
Apr-Sep	9.7	5.7	7.8	7.8	Sept 30	20.2	8.6	12.1	8.5
Apr-Oct	12.2	6.3	9.1	8.0	Oct 28	21.6	9.1	12.6	8.2
Apr-Nov	13.4	6.5	10.0	7.6	Nov 26	21.8	9.7	13.4	8.6
Apr-Dec	14.1	7.1	12.4	8.1	Dec 23	21.2	9.8	15.4	8.9
Apr-Jan	14.3	8.9	14.6	8.6	Jan 20	18.6	11.1	17.5	9.1

22. Broadly the factors that have operated during the year to fuel the inflationary undercurrent are:

- (i) spillover effect of higher fiscal deficit in 1993-94 which put pressure on prices of non-tradeable goods and those items whose import is still restricted.
- (ii) high growth of monetary variables, mainly because of strong build up of foreign exchange reserves.
- (iii) production shortfalls in 1993-94 in sugar, cotton, jute and groundnut caused short term supply imbalances thus triggering sharp rise in their prices.
- (iv) spillover effects of administered price increases in wheat, rice, sugar, and energy products in latter months of 1993-94.
- (v) cumulative impact of large increases in minimum support prices continuously for the past three years has resulted in higher primary product prices and produced upward pressure on the wage goods.

#### Anti-inflationary Measures

23. The renewal of inflationary uptrend late last year, when the year finally ended with an inflation rate of 10.8 per cent prompted the Government to initiate a number of steps to bring about moderation in the growth of prices. An important step was the determination to contain fiscal deficit of the Central Government, the operational framework for which was outlined in the 1994-95 Budget. Major highlight of this framework was to put a ceiling on net RBI credit to Central Government through the issue of *ad hoc* treasury bills to Rs.6000 crore and not allow the issue of such treasury bills to exceed Rs.9000 crore for more than ten consecutive days failing which RBI would automatically sell fresh Government paper in the market to reduce the level of *ad hoc* treasury bills.

24. The RBI also intervened with a set of anti-inflationary monetary policy measures to contain the growth of money supply (M<sub>3</sub>) within 16 per cent in 1994-95 as against actual M<sub>3</sub> growth of 18.2 per cent in 1993-94. Cash reserve ratio (CRR) was increased from 14 to 15 per cent in May 1994 to moderate monetary growth.

With the same objective, CRRs were imposed on FCNR (Banks) and Non Resident Non Repatriable (NRNR) accounts while the maximum interest rate on NRE accounts was brought down. The FCNRA scheme (under which Government bears the exchange guarantee) was eliminated in a phased manner so as to moderate the foreign exchange inflows through Non Resident Deposits. RBI also conducted open market sales of Government Securities to mop up the excess liquidity in the system. Finally, in February, 1995 prime lending rate was raised by banks by 1 percentage point following a hike in ceiling interest rate on domestic term deposits by one percentage point.

25. On the supply side, the major highlight of this fiscal year was the stability in wheat prices, brought about primarily by open market sales of wheat (3.4 million tonnes till January 1995) from the Central Pool maintained by the FCI, as against 2.8 million tonnes off-loaded in 1993-94. The price of wheat in January 1995 in major producing states was almost the same as in January 1994. Open market sale of rice was 2.8 lakh tonnes. The sales of rice have picked up after the FCI announced reductions in selling prices in January 1995.

26. Sugar prices soared in mid May 1994, touching Rs. 17 per Kg in the wholesale market, consequent to a sharp decline in sugar production in 1993-94 (October-September). Placing sugar imports under OGL at zero duty in April 1994 and import of nearly 10 lakh tonnes on the Government account for supply through the PDS, helped bring down the wholesale prices to Rs.12-13 by December 1994. Similarly, import of cotton was placed on OGL in April 1994 with zero duty, to help bridge the domestic supply-demand gap. Placing import of palmolein oil on OGL in April 1994 contained speculative trends generally observed in edible oils before the festival season but the uptrend in edible oil prices in the last quarter of 1994-95 prompted the government to place all major edible oils, except coconut oil, on OGL at a reduced duty of 30 per cent with effect from March, 1995.

## The Public Distribution System

27. Foodgrains—mainly rice and wheat, sugar, edible oils and kerosene are distributed to the public through a network of fair price shops (FPS) licensed by the State/U.T. administrations. There were more than 4.24 lakh such shops as on 31 March, 1994, of which 3.24 lakh were located in rural areas and 99 thousand in urban areas.

28. Each FPS is generally required to serve a population of 2000. From June 1992, a special scheme to revamp the PDS (RPDS) was introduced where additional items like tea, soap, pulses and iodised salt began to be supplied by state Governments to serve tribal, hill and arid area populations in 1775 blocks located in backward and remote areas characterised by poor infrastructure. Additional quantities of 3.1 million tonnes of foodgrains (rice and wheat) for RPDS, over and above the normal allocations to states, are assured for distribution in these 'revamped' FPSs at a price which is lower than the central issue price (CIP) by Rs.50 per quintal as compared to normal PDS elsewhere. The State Governments are also advised to ensure that the retail prices at the 'revamped' fair price shops are not higher than CIP by more than 25 paise/Kg. Besides the existing 1775 RPDS blocks, Government have identified additional 409 blocks for inclusion under the RPDS Scheme.

29. Monthly sugar supplies for PDS were maintained at the average level of 3.35 to 3.50 lakh tonnes. During the festival season, allocations were raised to 3.65 lakh tonnes in September and 3.80 lakh tonnes in October 1994. Between May-December 1994 the Government imported 9.8 lakh tonnes of sugar exclusively for augmenting PDS stocks.

30. To meet marginal shortfalls in domestic output of edible oils, especially during the festival season, 1.08 lakh tonnes of palmolein oil was imported between July

and October 1994, at a concessional duty of 20 per cent, for supply through PDS. Between April-December, 93000 tonnes of imported palmolein oil was lifted by State Governments for distribution through the PDS. The imported oil was allocated to states at CIPs of Rs.24000 per tonne for bulk and Rs.27000 per tonne in 15 Kg tins. It was left to the State Governments to fix the final consumer price of imported oil delivered through the PDS.

### Foodgrains

31. The central plank of Central Government's food security operations lies in building up public stocks of foodgrains and its release each month for distribution to the State Governments for supply through the PDS. Each State is allocated a prescribed quantity based on past records, demand, off-take trends, relative need and other related factors. At any given point of time, a minimum stock of rice and wheat is maintained as a central buffer stock for meeting food security needs. In case there is a shortfall, the stock is replenished through imports. If there is an excess of stocks, as has been the case since last year, the stocks are released for open sale to improve supplies and moderate prices in the open market.

### Foodgrains Allocation and Off-take

32. Out of over 9 million tonnes of wheat allocation each year since 1990-91, the off-take has of late been going down. From 8.78 million tonnes in 1991-92, it declined to a low of 5.86 million tonnes in 1993-94. The wheat off-take for April-December 1994 was only 3.20 million tonnes, as against 4.3 million tonnes, in the same period last year (Table 4.8). As for rice, the annual allocations have been more than 11 million tonnes since 1991-92 and even higher at 12.20 million tonnes in 1993-94. The annual off-take has ranged between 8.74 million tonnes in 1993-94 to 9.94 million tonnes in 1991-92. Off-take of both wheat and rice has declined during the last three years, reflecting consumer

	1st Qtr	2nd Qtr	3rd Qtr
	1	2	3
Reserve Money 1993-94	3.5	9.7	14.2
1994-95	6.5	5.7	11.3 <sup>1</sup>
Sources (1994-95)			
i) Net RBI credit to Govt.	-0.7	-10.6	-7.8 <sup>1</sup>
ii) Net FE assets of RBI	13.3	30.3	33.0 <sup>1</sup>
iii) Other sources	-23.0	-23.3	-53.5 <sup>1</sup>

<sup>1</sup> Up to December 23, 1994.

Year	Wheat		Rice	
	Allocation	Off-take	Allocation	Off-take
	1	2	3	4
1990-91	9.50	7.09	9.61	7.87
1991-92	10.36	8.78	11.36	9.94
1992-93	9.24	7.41	11.48	9.36
1993-94 P	9.56	5.86	12.41	8.88
1993-94(Apr-Dec) <sup>3</sup>	7.01	4.03	9.03	6.77
1994-95 <sup>1</sup> (Apr-Dec) <sup>2</sup>	7.91	3.20 <sup>2</sup>	9.90	5.86 <sup>2</sup>

<sup>1</sup> Up to December 22, 1994.  
<sup>2</sup> Includes likely off-take for Dec.94.  
<sup>3</sup> Provisional.

preference for a free market. The main reason for this appears to be the narrowing of price differentials between the PDS price and the open market price. This is particularly so in the case of wheat in wheat consuming States.

#### Foodgrain Procurement and Stocks

33. Wheat procurement of 11.87 million tonnes in 1994-95 was marginally lower than the preceding year's 12.83 million tonnes. With the next harvest due in April 1995, the stock position is likely to improve further. Last year's rice procurement of 13.65 million tonnes (October 1993 to September 1994) was a record. This year's rice procurement (from October 1994 to September 1995) is likely to be the same or even better than last year. By the end of December 1994, the first three months of the current rice year (Kharif marketing year 1994-95 October-September), procurement in the Central Pool had crossed 8 million tonnes, which was almost equal to the corresponding period of last year (Table 4.9 and Table 4.11).

34. Excellent procurement performance for the second year in succession has pushed up the public stocks in the central pool to unprecedented levels. Whereas the country imported 3 million tonnes of wheat in 1992-93, the current stock situation is such that we would have over 5 million tonnes wheat stock in excess of minimum buffer stock norms of 3.7 million tonnes by the end of this financial year. In the case of rice, the situation is no

different. At the end of September 1994, rice stocks in the Central Pool were 10.86 million tonnes, as against a minimum buffer stock norm of 6 million tonnes. By the end of September 1995, when the current rice year ends, surplus stocks may even exceed 8 million tonnes over the minimum buffer stock norm.

35. Stocks reached a high of 22 million tonnes in January 1994 (10.8 million tonnes of wheat and 11.2 million tonnes of rice), as against a minimum buffer stock norm of 15.4 million tonnes. In January 1993, the total stock was 11.8 million tonnes and in January 1992, it was 13.9 million tonnes (see Table 4.10). Following the procurement of wheat April-June 1994, the total stocks touched 30.7 million tonnes in July 1994, which was over 6 million tonnes more than July 1993 and, more than double the stocks in July 1992. Total stocks were still 30.7 million tonnes at the beginning of December 1994, almost twice the minimum buffer requirement for this month.

#### Central Issue Price

36. The raising of minimum support price (MSP) for various agricultural commodities and the consequent increase in the procurement price of foodgrains necessitates periodic revisions in the Central Issue Price (CIP). The last major revision in CIP for wheat, rice and sugar, the three principal essential commodities for PDS, was done on February 1, 1994, when the Central Issue Price of wheat was raised to Rs. 402 per quintal from Rs. 330

Beginning of the month	Wheat		Rice		Total	
	Min. norm	Actual Stock	Min. norm	Actual Stock	Min. norm	Actual Stock
1	2	3	4	5	6	7
January - 1992	7.7	5.3	7.7	8.6	15.4	13.9
April	3.7	2.2	10.8	8.9	14.5	11.1
July	13.1	6.5	9.2	7.4	22.3	13.9
October	10.6	4.3	6.0	5.1	16.6	9.4
January-1993	7.7	3.3	7.7	8.5	15.4	11.8
April	3.7	2.7	10.8	9.9	14.5	12.6
July	13.1	14.9	9.2	9.3	22.3	24.2
October	10.6	13.7	6.0	7.2	16.6	20.9
January-1994	7.7	10.8	7.7	11.2	15.4	22.0
April	3.7	7.0	10.8	13.5	14.5	20.5
July	13.1	17.5	9.2	13.2	22.3	30.7
October	10.6	15.6	6.0	10.9	16.6	26.5
January-1995 <sup>1</sup>	7.7	12.9	7.7	17.4	15.4	30.3

<sup>1</sup> Provisional.

As on 1st January	Wheat	Rice	Total
1	2	3	4
1980	8.58	8.15	16.73
1981	6.21	4.91	11.12
1982	5.34	5.01	10.35
1983	4.77	6.99	11.76
1984	4.34	10.45	14.79
1985	6.74	14.54	21.28
1986	9.06	14.93	23.99
1987	8.50	13.93	22.43
1988	5.91	7.35	13.26
1989	4.09	4.44	8.53
1990	5.65	5.61	11.26
1991	8.65	9.27	17.92
1992	8.63	5.28	13.91
1993	8.46	3.29	11.75
1994	11.17	10.82	21.99
1995 <sup>1</sup>	12.88 <sup>1</sup>	17.42	30.30
Buffer Norm for 1st January	7.7	7.7	15.4

<sup>1</sup> Provisional.

Marketing year wise	Wheat (Apr-March)		Rice (Oct-Sep)		Total (Wheat & Rice)	
	Qty.	% change	Qty.	% change	Qty.	% change
	1	2	3	4	5	6
1985-86	10.34	11.3	8.86	1.2	19.20	5.1
1986-87	10.53	1.8	8.24	-7.0	18.77	-2.2
1987-88	7.88	-25.2	6.33	-23.0	14.21	-24.2
1988-89	6.58	-16.5	6.94	9.6	13.52	-4.8
1989-90	8.94	35.9	10.88	56.8	19.82	48.6
1990-91	11.07	23.7	11.74	7.9	22.81	15.1
1991-92	7.75	-29.9	9.24	-21.3	16.99	-25.5
1992-93	6.38	-17.7	11.80	27.7	18.18	7.0
1993-94	12.83	101.1	13.85	15.7	26.68	45.7
1994-95 <sup>1</sup>	11.87	-7.5	9.67	-	21.54	-

<sup>1</sup> Till 19 January, 1995.

per quintal (Table 4.12). This increase reflected, though belatedly, the earlier raise in MSP of wheat from Rs. 280 to Rs. 330 per quintal for the April 1993 harvest. Subsequently, the MSP for wheat was again raised to Rs. 350 per quintal payable to farmers for the April 1994 harvest. This revision in MSP would have warranted raising once again the Central Issue Price from Rs. 402 to Rs. 440 per quintal with effect from April 1994. This revision has, however, not been effected in view of the renewed inflationary undercurrent through 1994. For the wheat harvest due in April 1995, the MSP for wheat was again raised to Rs. 360 per quintal. Hence the Central Issue Price that may have to be announced in the near future, would have to reflect not only the higher MSP of wheat for the April 1993 harvest, but also of the 1994-95 crop harvested in April 1995. The situation is similar in the case of rice, where the revised MSP for the 1993-94 crop already procured and 1994-95 crop currently under procurement, has not been reflected in the CIP in 1994-95. The revised Central Issue Price of rice which was to be increased by Rs. 60 per quintal for common rice, fine rice and superfine rice, effective October 1 1994, has been kept in abeyance on account of its likely impact in accelerating further the recent uptrend in prices.

37. Unwillingness or delay in making necessary correction in the CIP consequent to a rise in the MSP/procurement price, would cause the food subsidy budget to rise quite substantially from the budgeted Rs. 4000 crore in 1994-95. In addition, this is the first time that Indian rice has become uncompetitive in the international market. Exporting wheat does not seem to be a feasible option as well. India produces soft wheat which fetches a very low export price (about \$100 per tonne f.o.b.), as against hard wheat traded globally at \$130 to \$160 per tonne. Hence, even in wheat exports, we are at a disadvantage unless we shift to producing

Date of revision	Rice			Wheat	
	Common	Fine	Superfine	Date of revision	
	1	2	3	4	5
1982(Oct)	188	200	215	1982(Aug)	160
1984(Jan)	208	220	235	1983(Apr)	172
1985(Oct)	217	229	244	1986(Feb)	190
1986(Feb)	231	243	253	1987(May)	195
1986(Oct)	239	251	266	1988(Mar)	204
1987(Oct)	239	264	279		
1989(Jan)	244	304	325		
1990(Jun)	289	349	370	1990(May)	234
1991(Dec)	377	437	458	1991(Dec)	280
1993(Jan)	437	497	518	1993(Jan)	330
1994(Feb)	537	617	648	1994(Feb)	402

hard durum wheat. The Government will need to be careful henceforth in announcing procurement prices which do not reflect the market reality of excess supply, mounting public stocks and limited export opportunities, as also, the narrow differential between the open market and the PDS consumer-end price.

38. It is important to point out that whereas the Central Government issues foodgrains to states for PDS at a uniform CIP, the consumer-end retail price fixed by State Governments for the PDS, varies considerably between states. Maharashtra and Gujarat have the highest PDS consumer-end price for wheat and Tamil Nadu has the lowest for rice (Table 4.13). In those States where consumer-end PDS prices of foodgrains are lower than CIP, for example in Tamil Nadu and Andhra Pradesh, State Governments bear the additional subsidy.

#### **Agricultural Price Support and Food Security Policy**

39. The objective of the Government's food security policy is to ensure availability of foodgrains to the public at an affordable price. The public distribution system, which has existed in the country since the second world war, strives to meet these twin objectives. Rice and wheat constitute the bedrock of country's food security and public distribution system. Procurement of these cereals and some limited quantities of coarse cereals is the centrepiece of the Government's intervention for ensuring the availability and price stability of basic food. Availability is ensured by procuring and maintaining the required stocks of foodgrains through domestic purchases of grain at prices which also serve as farm support prices, the latter being an important element of the country's agricultural price policy.

40. The Government's procurement operations as an instrument of agricultural price policy is intended to

**TABLE 4.13**  
**State-wise Consumer-end PDS Retail Prices of Rice and Wheat, effective Feb. 1, 1994**

Centre State/UT	Rs/Quintal							
	Rice						Wheat	
	Common (CIP Rs. 537)		Fine (CIP Rs. 617)		Super fine (CIP Rs. 648)		(CIP Rs. 402)	
	Retail PDS Price	% Increase Of PDS/CIP	Retail PDS Price	% Increase Of PDS/CIP	Retail PDS Price	% Increase of PDS/CIP	Retail PDS Price	% Increase Of PDS/CIP
1	2	3	4	5	6	7	8	9
<b>WEST</b>								
Gujarat	660	22.9	760	23.2	800	23.5	490	21.9
Maharashtra	660	22.9	750	21.6	790	21.9	500	24.4
Madhya Pradesh	600	11.7	680	10.2	715	10.3	460	14.4
Goa	570	6.1	655	6.2	685	5.7	430	7.0
Daman & Diu	-	-	-	-	-	-	415	3.2
<b>SOUTH</b>								
Kerala	575	7.1	656	6.3	687	6.0	438	9.0
Tamil Nadu	350	-34.8	475	-23.0	475	-26.7	450	11.9
Pondichery	555	3.4	635	2.9	665	2.6	427	6.2
Karnataka	595	10.8	675	9.4	705	8.8	-	-
Andhra Pradesh (Pink card)	675	25.7	-	-	-	-	-	-
(White card)	350	-35.0	-	-	-	-	-	-
(Hostel / S.wel)	265	-51.0	-	-	-	-	-	-
Andaman & Nicobar Islands	660	22.9	740	19.9	775	19.6	500	24.4
<b>NORTH</b>								
Haryana	-	-	-	-	692	6.8	422	5.0
Himachal Pradesh	-	-	-	-	745	15.0	432	7.5
Jammu & Kashmir (PDS)	560	-4.3	605	-1.9	665-725	2.6-11.9	432-437	7.5-8.7
(RPDS)	512	-4.7	-	-	623	-3.9	377	-6.2
Punjab	-	-	-	-	679	4.8	405	0.7
Rajasthan	490	-8.8	670	8.6	700	8.0	445	10.7
Uttar Pradesh	600	11.7	690	11.8	721	11.3	450	11.9
Delhi	473	-11.9	657	6.5	690	6.5	427	6.2
Chandigarh	-	-	-	-	685	5.7	451	12.2
<b>EAST</b>								
Bihar	608	13.2	690	11.8	726	12.0	458	13.9
Orissa	622	15.8	709	14.9	743	14.7	455	13.2
West Bengal	590	9.9	680	10.2	715	10.3	455	13.2
Sikkim	600	11.7	-	-	708	9.3	435	8.2
<b>NORTH EAST</b>								
Assam	605	12.7	693	12.3	726	12.0	-	-
Arunachal pradesh (RPDS)	487	-9.3	567	-8.1	598	-7.7	352	-12.4
Manipur	600	11.7	686	11.2	720	11.1	-	-
Meghalaya (RPDS)	540	0.6	620	0.5	650	0.3	-	-
Nagaland (RPDS)	512	-4.7	592	-4.1	623	-3.9	377	-6.2
Tripura (RPDS)	590	9.9	670	8.6	700	8.0	455	13.2
Mizoram (RPDS)	512	-4.7	592	-4.1	623	-3.9	-	-

provide a benchmark remunerative return to the farmer, and prevent a sharp fall in prices at harvest time. In other words, procurement prices serve as a protective shield against price uncertainty which, in turn, provides a sustained incentive for the farmer to improve productivity and rationally reallocate resources between various crops. Minimum Support Prices (MSPs) thus ensure stability of market supply.

41. MSPs are formulated each year by the Commission for Agricultural Costs and Prices (CACP), whose

recommendations are based on a detailed study of costs of production and other relevant factors. Cereals, for which CACP recommends MSPs, are: paddy, wheat, jowar, bajra, maize, ragi and barley. It also recommends prices for four pulses: gram, arhar, moong and urad; seven oilseeds, namely, groundnut, sunflower, soyabean, rapeseed/mustard, safflower, toria and copra. It also recommends MSPs for four non-food crops: cotton, jute, sugarcane and tobacco (Table 4.14).

42. Procurement prices announced by the Government

are based on the MSPs recommended by the CACP and Government's perception of the replenishment needs for food stocks as also free market price behaviour. During the past three years, procurement prices for various crops were raised quite substantially (Table 4.14). Procurement price for wheat due for harvest in April 1995 (for 1994-95 crop) has been fixed at Rs.360 per quintal, a modest raise of 2.9 per cent over 1993-94. However, compared to April 1992, when the procurement price was Rs. 280 per quintal, the April, 1995 procurement price at Rs. 360 per quintal is higher

by 29 per cent. Paddy procurement price is announced for three varieties - common, fine and superfine. The procurement price for common paddy for 1994-95 season (October, 1994 to September, 1995) was raised to Rs.340 per quintal from Rs.310 in 1993-94 season, representing 9.7 per cent increase. The fine variety price was raised to Rs.360 from Rs.330 and the superfine variety to Rs.380 from preceding year's Rs.350 per quintal. By and large, the raise in MSP for foodgrain crops ranged between 3 per cent to 9.7 per cent in 1994-95. In case of sugarcane the raise was 13.3 per cent and for H-4 cotton 14.3 per cent. (Table 4.14).

**TABLE 4.14**  
**Procurement and Minimum Support Prices**  
(Crop year basis)

(Rs per Quintal)									
Commodity	Type	Variety	1990-91	1991-92	1992-93	1993-94	% Increase		
							1994-95	1994-95	
1	2	3	4	5	6	7	8	9	
1. Paddy	P	Common	205	230	270	310	340	9.7	
		Fine	215	240	280	330	360	9.1	
		Super fine	225	250	290	350	380	8.6	
2. Coarse cereals	P	FAQ	180	205	240	260	280	7.7	
3. Maize	P	FAQ	180	210	245	265	290	9.4	
4. Wheat	P	FAQ	225	275 <sup>1</sup>	330 <sup>1</sup>	350	360	2.9	
5. Barley	M	FAQ	200	210	260	275	285	3.6	
6. Gram	M	FAQ	450	500	600	640	670	4.7	
7. Arhar	M	FAQ	480	545	640	700	760	8.6	
8. Moong	M	FAQ	480	545	640	700	760	8.6	
9. Urad	M	FAQ	480	545	640	700	760	8.6	
10. Sugarcane <sup>2</sup>	S	FAQ	23	26	31	34.5	39.1 <sup>5</sup>	13.3	
11. Cotton	M	F-414/H777	620	695	800	900	1000	11.1	
	M	H-4	750	840	950	1050	1200	14.3	
12. Groundnut	M	FAQ	580	645	750	800	860	7.5	
13. Jute	M	TD-5	320	375	400	450	470	4.4	
14. Rape and mustard	S	FAQ	600	670	760	810	830	2.5	
15. Sunflower	M	FAQ	600	670	800	850	900	5.9	
16. Soyabean	M	Black	350	395	475	525	570	8.6	
	M	Yellow	400	445	525	580	625	7.8	
17. Safflower	M	FAQ	575	640	720	760	780	2.6	
18. Toria	M	FAQ	570	645	725	-	-	-	
19. Tobacco	M	VFC F-2	1325 <sup>3</sup>	1475 <sup>3</sup>	1600 <sup>4</sup>	-	1850 <sup>5</sup>	-	
	M	L-2	1425 <sup>4</sup>	1600 <sup>4</sup>	1750 <sup>4</sup>	-	2100 <sup>4</sup>	-	
20. Copra (milling)	M	FAQ	1600 <sup>5</sup>	1700 <sup>5</sup>	-	-	2350	-	
Copra balls	M	FAQ	1850	-	-	-	2575	-	

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

### Movement of Agricultural Prices Relative to Industrial Prices

43. The ratio of agricultural prices to the price of manufactured products indicates a more favourable movement for agricultural sector since 1991-92. The ratio of the agricultural price index to the index of prices of manufactured products in the current financial year (up to August) was 113.1, a little higher over the preceding year's annual average of 111.6 (Table 4.15). The Government's agricultural price policy has attempted to correct the earlier policy bias favouring industry and thus bring about a more favourable trade regime for agricultural producers.

### Outlook

44. This financial year is likely to end with an annual inflation rate of around 11 per cent, almost the same as recorded at the end of 1993-94. The causes that fuelled inflationary pressures witnessed in the first quarter of 1994-95, had more or less dampened as the year advanced, but the acceleration in monetary growth in the first half of the year generated renewed inflationary pressure by late October. This is one reason why this year's inflation was more generalized across commodities than was the case in 1993-94.

45. On the supply side Government has ample scope for manoeuvrability in containing speculative pressures especially in major essential commodities such as rice, wheat, sugar and edible oils, through its policy of open market sale from the accumulated large public stocks and liberalised import policy, facilitated by high foreign exchange reserves. It shall be the Government's policy to continue to supplement domestic supplies

**TABLE 4.15**  
**Index Numbers of Wholesale Prices of**  
**Agricultural Commodities Relative to**  
**Manufactured Products**  
(Base 1981-82=100)

Year	General Index of Wholesale Prices Weight-> 100.00	Price Index of Agricultural Products <sup>1</sup> 27.47	Price Index of Manufactured Products 87.04	Agriculture Prices as per cent of Manufacturing Prices (Col.2/Col.4)*100
1	2	3	4	5
1982-83	104.9	107.3	103.5	103.7
1983-84	112.8	121.4	109.8	110.6
1984-85	120.1	129.2	117.5	109.9
1985-86	125.4	129.1	124.4	103.8
1986-87	132.7	142.8	129.2	110.5
1987-88	143.6	161.8	138.5	116.8
1988-89	154.3	170.9	151.6	112.7
1989-90	165.7	174.4	168.6	103.5
1990-91	182.7	198.3	182.8	108.5
1991-92	207.8	236.8	203.4	116.4
1992-93	228.7	255.5	225.6	113.2
1993-94	247.8	271.4	243.2	111.6
1994-95 <sup>2</sup>	271.0	303.0	264.9	114.4

<sup>1</sup> Composite index of the sub-groups - Food Articles and Non-food Articles.  
<sup>2</sup> Annual average April-December, 1994  
Source: Office of Economic Adviser, Ministry of Industry.

through liberal imports of goods in which the domestic output is inadequate. Liberal imports, coupled with a more active consumer movement, can play a substantial role in countering monopolistic and oligopolistic pricing practices by domestic producers. On the demand side, Government must maintain strong discipline on fiscal deficits and the growth of money supply.