

Inflation

5.53 The falling inflation rate starting mid-February 2004, induced mainly by the falling prices of primary articles and subdued inflation in the fuel group, has continued in the new fiscal. The point-to-point inflation rate which was 4.40 per cent in the beginning of 2004-05 declined to 4.20 per cent in mid-May 2004, before crossing the 5 per cent mark marginally, mainly because of the seasonal increase in prices of fruits and vegetables during this part of the year.

5.54 Comfortable stock position of foodgrains (foodgrain stock as on May 1, 2004 was 33.7 million tonnes as against the buffer norm of 15.8 million tonnes), and Met Department's projection of a normal monsoon (the early indication of which is the advancement of Monsoon, 2004 by a fortnight resulting in widespread rainfall in the drought affected southern peninsula) augur well for the country. The conditions at present which look to be more favourable for the primary sector, which had to suffer during 2003-04 from the carry-over effect of a bad monsoon, are expected to keep the inflation rate of the primary sector in 2004-05 at a level lower than the average inflation rate of 4.2 per cent during 2003-04.

5.55 The inflation rate for the manufacturing sector, which remained above five per cent for most of the period in 2003-04, averaging 5.7 per cent for the year, has shown signs of softening beginning with the fiscal 2004-05. The rising inflation rates in sub-groups, food products (edible oils and sugar), basic metals (iron & steel), textiles, and cement, the prime movers in 2003-04, have been arrested during the fiscal 2004-05. The year 2004-05 is, therefore, likely to witness a relatively lower inflation rate in the manufacturing group as compared to the annual average of 5.7 per cent in 2003-04.

5.56 Barring the uncertainties of movement of international prices of petro-products, there is reason to believe that the inflation rate during 2004-05 would remain around 5 per cent as projected by the RBI.

Food management

5.57 The comfortable supply situation and remarkable price stability in respect of

foodgrains in different parts of the country, despite 2002 poor monsoon, have demonstrated the relevance of our food security system, notwithstanding the recent debate about its utility in the context of ongoing liberalisation of trade in foodgrains and the comfortable foreign exchange reserves position. However, the fiscal implications of the mounting food subsidy, which has grown over 10 times since the early nineties to reach the massive level at Rs 25,160 crore in 2003-04, is a serious threat to the sustainability of the country's food security system in its present form. There is need to address the issues adversely affecting the efficacy of the food security system. The fixation of the MSP of foodgrains has to bear distinct relationship to the cost of production. High MSP apart, factors such as high level of state levies on procurement, high cost of borrowing to FCI, highly centralised system of procurement and distribution, and management inefficiency, which have been adversely affecting the economic cost of foodgrains to FCI, have to be addressed expeditiously.

5.58 It is a matter of some satisfaction that the year 2003-04 has seen progress in some of these areas. There has been no hike in the MSP of both paddy and wheat during the year (with the absorption of special drought relief, the MSP of paddy and wheat remains in effect at the last year's level). The Government has permitted FCI to float its own bond to mobilise its finances at a much cheaper rate as compared to its current cost of borrowing from the banks. The States/UT such as Assam, Tripura, Orissa and A&N Islands, who are not currently covered under the scheme of decentralised procurement, have evinced an interest to participate in the scheme.

5.59 There is need for carrying forward these good initiatives. Thus there has to be restraint in hiking the MSP of foodgrains till it equals the C2 cost of production of the least cost State. The reservation of the States for adoption of decentralised procurement has to be addressed to persuade more States to go for this cost-effective system. There has to be rationalisation of the existing high level of State levies in foodgrains. The proposal to announce a procurement price inclusive of 4 per cent State levies in lieu of the MSP, which is under the consideration of the Government, needs to be pursued.