Anti-inflationary measures

5.19 Containment of inflation remains high on the agenda of the Government, as inflation hurts everybody, particularly the poor whose incomes are not indexed to prices. High inflation puts pressure on interest rates leading to a rise in project costs and investment. It also tends to reduce real interest rates, thereby adversely affecting the savings rate. Anti-inflationary policies of the Government include strict fiscal and monetary discipline, rationalisation of excise and import duties of essential commodities so that there is no undue burden on the poor, effective supply-demand management of sensitive items through liberal tariff and trade policies, and strengthening the public distribution system.

5.20 On June 15, 2004, Government reduced excise duties on selected petroleum products to keep their domestic retail prices in check in the face of hardening of international prices of oil. Excise duty on petrol was reduced from 30 per cent to 26 per cent, that on high-speed diesel from 14 per cent to 11 per cent, and that on liquefied petroleum gas (LPG) from 16 per cent to 8 per cent.

5.21 On August 18, 2004, Government further reduced excise and customs duties on selected petroleum products. Customs duty on petrol, diesel, LPG and kerosene were reduced by 5 percentage points each, while excise duty was reduced by 3 percentage points each for petrol and diesel, and by 4 percentage points for kerosene. On August 20, 2004, Government reduced customs duties on non-alloy steel and ships for breaking to 5 per cent from 10 and 15 per cent, respectively, in order to check high inflation in metals and metal products. Melting scrap of iron and steel was fully exempted from customs duty.

5.22 To check the liquidity overhang in the system, the RBI, on September 11, 2004, hiked the cash reserve ratio (CRR) to be maintained by banks, by 50 basis points to 5 per cent of their demand and time liabilities. In order to control edible oils prices and to enhance their supply, Government on September 16, 2004 cut tariff values on many vegetable oils by around US$50 per tonne.

5.23 RBI, in its Mid-Term Review of the Annual Policy Statement 2004-05 announced on October 26, 2004, hiked the reverse repo rate (i.e. the interest rate paid on bank funds placed with the RBI against Government paper) by 25 basis points to 4.75 per cent. It also revised the inflation projection for 2004-05 upward from its May 2004 projection of 5.5 per cent to 6.5 per cent.

5.24 With a fall in international petroleum prices, oil companies reduced the price of petrol by up to Rs 1.26 per litre with effect from November 15, 2004. It is expected that the strength of the rupee and the recent downward trend of world petroleum prices should contain inflationary pressures in the short-to-medium term.

5.25 Measures to contain inflation for sugar announced on January 6, 2005 included an additional release of four lakh tonnes of free sale sugar quota for January-March 2005, automatic conversion of unsold free-sale quota sugar into levy sugar at the end of every month, and an extension of the time period from the present 24 months to 36 months for the re-export of imported raw sugar. Forward Market Commission raised the margin for future trading of sugar from 8 per cent to 30 per cent.