

Prices and Food Management

Inflation

In the current year, annual point-to-point inflation in terms of the Wholesale Price Index (WPI), after accelerating from 4.5 per cent on April 3, 2004 to a peak of 8.7 per cent on August 28, 2004, has been on a decelerating trend since September 2004. It stood at 5.2 per cent on January 29, 2005, significantly lower than 5.9 per cent recorded a year ago (Figure 5.0). However, because of the higher inflation in the early part of the year, the 52-week average inflation rate of 6.5 per cent on January 29, 2005 was higher than 5.5 per cent registered a year ago.

5.2 During the post-reforms period, inflation has had a distinct decelerating trend as liberalisation of both internal and external trade and continual reduction and rationalization of taxes has led to greater competition and cost-efficiency. Average annual WPI inflation decelerated from 10.6 per cent in the first half of 1990s to 4.1 per cent during 2001-02 to 2003-04 (Table 5.1).

Table 5.1 : Inflation in terms of Wholesale Price Index (WPI) since 1991-92 (Based on 52 week average inflation rates)

Annual average WPI inflation (%)				
	All commodities	Primary Fuel	Manufactured	
Period ↓				
Weights →	100.0	22.03	14.23	63.75
1991-92 to 1995-96	10.6	11.3	11.3	10.1
1996-97 to 2000-01	5.1	5.4	13.0	3.1
2001-02 to 2003-04	4.1	3.7	7.0	3.3
2004-05 as on 29-01-2005	6.5	3.9	9.2	6.5
2003-04 as on 31-01-2004	5.5	4.8	6.9	5.3

5.3 The trend was reversed in 2004-05 with pressures on prices across all groups. Erratic and delayed monsoon in 2004-05 with uneven

Fig. 5.0

Trends of WPI inflation in 2003-04 and 2004-05

Fig. 5.0a Trends of WPI (point-to-point inflation)

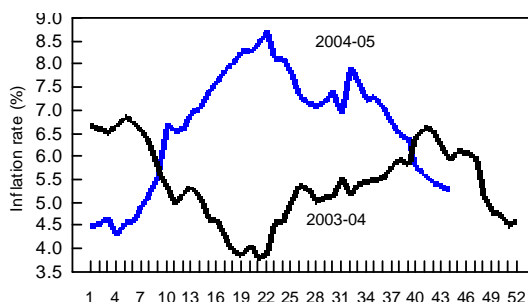
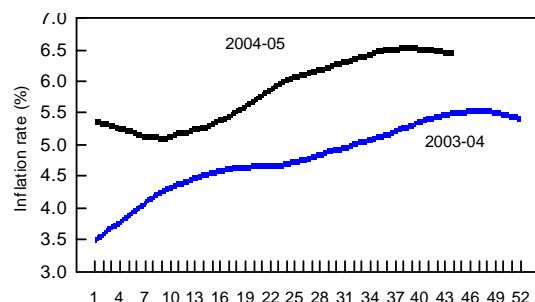


Fig. 5.0b Trends of WPI (52 week average inflation)



distribution of rainfall over time and space had an adverse impact on the expectation about the kharif crops and fueled inflation of some agro-based products. Inflationary pressures were exacerbated by hardening of international prices of crude oil, minerals and metal related products. With prices of these items shooting up in world markets, imported inflation played a crucial role in domestic inflation in 2004-05.

Developments in 2004-05 so far

5.4 Inflation rates for both manufactured products and primary articles were lower at 5.1 per cent and 1.5 per cent, respectively as on January 22, 2005, compared with 6.6 per cent and 4.1 per cent, respectively on the corresponding date last year. But, there was an acceleration of inflation for the fuel and power group from 7.7 per cent last year to 10.1 per cent this year due to hardening of international prices of oil and minerals and rise in domestic production cost.

Primary products

5.5 Primary products recorded an inflation of 1.5 per cent on January 22, 2005 compared to 4.1 per cent a year ago. Primary items with weights of 22 per cent in WPI contributed 6.2 per cent to overall inflation this year, lower than 14.9 per cent a year ago. Primary food articles with a weight of 15.4 per cent and average inflation of 2.1 per cent contributed 6.1 per cent to overall inflation in the current year compared to 4 per cent a year ago.

5.6 Primary items with high inflation include potato (40.7 per cent), bajra (18.8 per cent), tea (11.3 per cent), coffee (17.7 per cent), raw jute (26.7 per cent), fish inland (10.6 per cent), salt (20.1 per cent) and minerals (135.5 per cent). These items with combined weights of only 1.73 per cent in the WPI contributed 11.5 per cent to current inflation compared to negative contribution last year. It may be further noted that prices of these items declined last year. So their prices in the current year are recovering to the levels prevailing earlier. Other primary items have either negative inflation or moderate price rise in the current year.

Fuel, power, light and lubricants

5.7 This group with a weight of 14.2 per cent recorded an inflation rate of 10.1 per cent on January 22, 2005, substantially higher than 7.7 per cent a year ago, and contributed 39.1 per cent to overall inflation in the current year compared to 25.3 per cent a year ago. In this group, hike in electricity tariffs were moderate having inflation rate of only 1.6 per cent compared to 4.1 per cent last year, and contributed 2.3 per cent to the current inflation compared to 5.1 per cent last year. Major contribution to inflation was made by coal (5.9 per cent) and petroleum products (30.9 per cent) (Table 5.2).

Manufactured products

5.8 The Manufacturing group (with total weight of 63.75 per cent in WPI) recorded an

Table 5.2 : Annual WPI Inflation rate (per cent) as on January 22, 2005

Year	Annual point to point Inflation rate (per cent)				52-week
	Primary articles	Fuel, power, light, lubricants	Manufactured products	All commodities	Average (All commodities)
Weights (per cent)	22.0	14.2	63.8	100.0	100.0
2000-01	1.6	15.2	4.1	5.6	7.2
2001-02	3.8	3.8	-0.1	1.6	3.6
2002-03	6.1	10.8	5.1	6.5	3.4
2003-04	1.6	2.5	6.7	4.6	5.5
2004-05 on 22-01-05	1.5	10.1	5.1	5.4	6.5
2003-04 on 24-01-04	4.1	7.7	6.6	6.2	5.5
	Contribution to annual inflation (per cent)				
2004-05 on 22-01-05	6.2	39.1	54.4	100	100
2003-04 on 24-01-04	14.9	25.3	59.5	100	100

Table 5.3: WPI inflation of major commodities (43rd week ended January 22, 2005)

Items	Weight (per cent)	Annual inflation (per cent)		Contribution to inflation (per cent)	
		2004-05	2003-04	2004-05	2003-04
1	2	3	4	5	6
All commodities	100.0	5.4	6.2	100.0	100.0
Primary article	22.0	1.5	4.1	6.2	14.9
Food articles	15.4	2.1	1.5	6.1	4.0
Food grains	5.0	1.4	0.9	1.3	0.8
Cereals	4.4	1.7	0.7	1.4	0.5
Rice	2.5	2.4	-0.5	1.0	-0.2
Wheat	1.4	-1.5	6.3	-0.4	1.5
Pulses	0.6	-0.6	2.6	-0.1	0.3
Gram	0.2	-1.5	0.8	-0.1	0.0
Fruits & vegetables	2.9	2.4	5.7	1.3	2.8
Vegetables	1.5	-5.9	18.6	-1.3	3.2
Potatoes	0.3	40.7	-11.2	1.0	-0.3
Onions	0.1	-44.7	119.9	-1.0	1.2
Fruits	1.5	7.6	-1.2	2.6	-0.4
Milk	4.4	4.5	2.8	3.6	2.0
Eggs, meat & fish	2.2	3.3	-5.5	1.4	-2.3
Condiments & spices	0.7	-13.3	7.0	-1.9	0.9
Other food articles	0.2	13.2	-5.5	0.3	-0.1
Tea	0.2	11.3	-7.0	0.2	-0.1
Coffee	0.1	17.7	-1.9	0.1	0.0
Non-food articles	6.1	-6.4	11.0	-7.9	11.2
Fibres	1.5	-23.0	28.1	-6.9	6.0
Raw cotton	1.4	-27.2	31.2	-7.4	5.9
Raw jute	0.1	26.7	-2.0	0.4	0.0
Oil seeds	2.7	-3.0	8.0	-1.5	3.4
Groundnut seed	1.0	-2.4	-2.0	-0.5	-0.4
Rape & mustard seed	0.6	-11.5	31.5	-1.3	2.6
Other non-food articles	2.0	1.2	4.7	0.5	1.7
Sugarcane	1.3	-0.7	6.5	-0.2	1.8
Minerals	0.5	135.5	-1.9	8.0	-0.1
Fuel, power, light & lubricants	14.2	10.1	7.7	39.1	25.3
Coal mining	1.8	16.2	9.2	5.9	2.8
Minerals oils	7.0	14.9	10.1	30.9	17.5
Liquefied petroleum gas	1.8	16.4	1.3	9.0	0.6
Kerosene	0.7	-0.3	-0.3	-0.1	-0.1
Petrol	0.9	12.1	11.2	2.1	1.6
High speed diesel oil	2.0	20.7	13.3	14.0	7.3
Electricity	5.5	1.6	4.1	2.3	5.1
Manufactured products	63.8	5.2	6.6	54.5	59.5
Food products	11.5	5.3	8.5	10.6	14.4
Sugar, khandsari & gur	3.9	26.7	9.7	15.2	4.6
Sugar	3.6	29.9	7.1	14.0	2.8
Khandsari	0.2	40.4	6.3	0.9	0.1
Gur	0.1	34.6	9.3	0.3	0.1
Edible oils	2.8	-5.8	11.2	-2.7	4.3
Rape & mustard oil	0.5	-11.4	22.1	-1.1	1.7
Groundnut oil	0.2	-2.5	-4.5	-0.1	-0.1
Oil cakes	1.4	-8.7	1.3	-2.7	0.4
Beverages tobacco & pdts.	1.3	5.9	0.2	1.7	0.0
Textiles	9.8	-2.6	10.5	-3.6	12.1
Wood & wood products	0.2	-0.6	0.3	0.0	0.0
Paper & paper products	2.0	1.5	-0.7	0.5	-0.2
Leather & leather products	1.0	7.3	15.1	1.2	1.9
Rubber & plastic products	2.4	-1.4	0.8	-0.5	0.3
Chemicals & products	11.9	3.1	1.3	6.8	2.6
Fertilisers	3.7	0.9	-0.5	0.6	-0.3
Urea	2.2	0.0	-0.5	0.0	-0.2
Non-metallic min products	2.5	3.1	3.4	1.2	1.2
Cement	1.7	-0.6	2.4	-0.2	0.6
Metals alloys & metals prod	8.3	16.0	20.8	24.7	24.4
Iron & steel	3.6	19.2	35.2	14.5	18.0
Other non-ferrous metals	0.6	3.9	5.8	0.4	0.4
Machinery & machine tools	8.4	7.3	1.8	8.5	1.9
Transport equip & parts	4.3	5.0	1.0	3.3	0.6
30 essential items	63.8	5.2	6.6	54.5	59.5

annual inflation of 5.1 per cent on January 22, 2005, lower than 6.6 per cent a year ago. The price rise is due to high inflation rates in two groups viz. sugar, gur and khandsari (26.7 per cent), and basic metals, alloys and metal products (16 per cent), particularly iron and steel (19.2 per cent). Except these items, price rise of other manufactured items is moderate. Fertiliser prices are almost stable, and there was decline in the prices of edible oils, oil cakes, textiles, wood and wood products, cement and rubber and plastic products. Manufactured products with a weight of 63.8 per cent in the WPI contributed 54.4 per cent to overall inflation in the current year, lower than 59.5 per cent a year ago (Table 5.3).

5.9 The price rise in the manufacturing group in recent years has helped arrest the erosion in the domestic terms of trade of manufacturing group vis-à-vis agricultural products. Thus, the terms of trade of the manufacturing group, which recorded continued deterioration until 2002-03, staged a recovery in 2003-04 and 2004-05 so far (Table 5.4).

Table 5.4 : Movement of manufactured prices vis-à-vis agricultural prices				
Year/ Month	General wholesale prices	Index of manufactured products	Index of agricultural products@	Index of manufactured products as per cent of index of agricultural products
Weights	100.00	63.75	21.54	(col 3/ col4) X 100
1	2	3	4	5
1994-95	112.6	112.3	116.1	96.7
1995-96	121.6	121.9	125.9	96.8
1996-97	127.2	124.4	136.4	91.2
1997-98	132.8	128.0	140.3	91.2
1998-99	140.7	133.6	157.2	84.9
1999-00	145.3	137.2	159.1	86.3
2000-01	155.7	141.7	163.6	86.6
2001-02	161.3	144.3	169.5	85.1
2002-03	166.8	148.1	175.3	84.5
2003-04	175.9	156.5	182.8	85.6
2004-05 *	186.7	165.5	188.5	87.8
P- Provisional * April - December(average)				

Essential commodities

5.10 Thirty essential commodities, important for the common person, with a weight of 17.6 per cent in WPI, registered an average annual inflation rate of 6 per cent on January 22, 2005, compared to 3.7 per cent a year ago, and contributed 19.2 per cent to overall inflation compared to 10.6 per cent a year ago. According to the classification of 30 essential items by price rise, 12 items witnessed decline in absolute prices over the last year, and annual inflation was less than five per cent for 8 items as on January 22, 2005 (Table 5.5).

Table 5.5 : Grouping of essential items according to price rise as on January 22, 2005	
Rate of inflation	Items
1. Decline of absolute prices over last year	Wheat, Gram, Arhar, Onion, Rape & Mustard oil, Groundnut oil, Masur, Chillies, Atta, Kerosene, Laundry soap, Safety matches
2. Annual inflation, less than 5 per cent	Rice, Vanaspati, Jowar, Moong, Urad, Milk, Mutton, Dhotis and Saris
3. Annual inflation, 5 to 10 per cent	Tea, Coconut oil, Long cloth
4. Annual inflation above 10 per cent	Potato (40.7%), Tea (11.3%), Sugar (29.9%), Salt (20.1%), Bajra (18.8%), Fish (10.6%), Gur (34.6%), Cooking coal (26.9%)

5.11 There is high inflation for potato, tea, sugar, gur, salt, bajra, fish and coking coal. Absolute prices of these items, except sugar, gur and coking coal, declined last year. So their prices are recovering to the levels prevailing in January 2003. Current absolute prices of rice, wheat, pulses, mustard oil, groundnut oil, potato are moderate.

Items responsible for high inflation

5.12 Major groups (weights 0.5 per cent or more) having high inflation include fish inland, minerals, coal, POL, sugar group, and basic metals and products. These items with weights of 22 per cent in the WPI contributed 86 per cent to the inflation up to January 22,

Table 5.6 : Main contributors to Inflation (per cent) as on 22 January 2005

Items	Weights	Annual inflation rate (per cent)		Contribution to inflation (per cent)	
		2004-05	2003-04	2004-05	2003-04
Fish-Inland	0.5	10.6	-10.5	1.4	-1.3
Minerals	0.5	140.7	-1.9	8.2	-0.1
Coal	1.8	16.2	9.2	5.8	2.7
POL	7.0	14.9	11.0	30.8	18.0
Sugar group	3.9	29.2	9.3	16.4	4.2
Metal group	8.3	16.0	21.1	24.5	23.5
Total	22.0	–	–	87.0	46.9

2005, compared to 48 per cent a year ago (Table 5.6). There has been a hardening of international prices of minerals, metals and POL due to a surge in global demand. Therefore, a major part of the inflation rate can be said to be imported.

5.13 There are no supply constraints in the domestic market. Domestic production of minerals, coal, POL, and metals group except steel has performed well in the current year. Furthermore, all these products are tradable. Therefore, current high inflation is not of the demand-pull variety, but basically of the cost-push type, driven by a hardening of international prices of oil, minerals and metals.

Consumer Price Index for Industrial Workers (CPI-IW)

5.14 It is generally argued that WPI inflation is not an appropriate index to determine the impact of price rise on the cost of living of the common man. Rather, the Consumer Price Index for Industrial Workers (CPI-IW), which also includes selected services and is measured on the basis of retail prices, and is used to determine the dearness allowance of employees in both the public and private sectors, is the appropriate indicator of general inflation. In sharp contrast to the WPI, CPI-IW inflation has been stable and moderate (Figures 5.1 & 5.2). This is because food items have higher weights in CPI-IW than in WPI, and in general the price increases of these items have been moderate in the current year.

5.15 Trends of average monthly WPI and CPI-IW inflation for food items and all commodities since April 2003 (Table-5.7) indicate the following:

- (1) In general, inflation for the food group has been lower than the overall inflation in terms of both CPI-IW and WPI.
- (2) CPI-IW inflation was lower than WPI inflation for all months. This is because the food group, which had lower inflation, has higher weights of 57 per cent in the CPI-IW basket compared to only 27 per cent in the WPI basket.
- (3) Food group inflation had a declining trend throughout 2003-04. This was reversed by an increasing trend in the current year since April 2004. This is true for both CPI-IW and WPI and may have been caused by the contrast between the very good monsoon accompanied by a bumper crop last year and erratic and deficient monsoon this year with an adverse impact on kharif crop.
- (4) Annual point-to-point CPI-IW inflation declined from 5.1 per cent in April 2003 to 3.5 per cent in March 2004 and further to 2.2 per cent in April 2004 (Table-5.7). CPI-IW inflation rate was on an increasing trend from April 2004 to reach 4.8 per cent in

Table 5.7 : Trend of WPI and CPI inflation for selected groups Annual Inflation Rate (per cent)						
Year	Period Weight → Months ↓	CPI-IW (General) 100.0	Food Group (CPI) 57.0	WPI (All Commodities) 100.0	WPI (Essential Commodities) 17.6	Food Group (WPI) 26.9
2003-04	APR	5.1	5.4	6.7	0.0	4.6
	MAY	4.7	7.7	6.5	0.2	5.7
	JUN	4.4	6.5	5.3	0.7	5.3
	JUL	4.2	4.2	4.7	1.0	4.0
	AUG	3.1	2.5	3.9	1.2	1.8
	SEP	2.9	1.9	4.9	0.8	3.2
	OCT	3.3	2.9	5.1	1.3	5.0
	NOV	3.1	2.9	5.4	1.6	4.0
	DEC	3.7	3.5	5.7	2.9	4.5
	JAN	4.3	4.6	6.5	3.8	5.0
	FEB	4.1	4.2	6.1	5.3	4.4
	MAR	3.5	3.1	4.8	5.3	3.6
2004-05	APR	2.2	1.2	4.5	4.5	3.4
	MAY	2.8	1.8	5.0	4.9	3.6
	JUN	3.0	2.0	6.7	4.9	2.3
	JUL	3.2	1.2	7.6	4.8	3.6
	AUG	4.6	3.4	8.5	4.8	5.6
	SEP	4.8	3.9	7.9	5.9	4.9
	OCT	4.6	3.4	7.2	5.2	3.6
	NOV	4.2	2.6	7.5	5.1	4.6
	DEC	3.8	1.8	6.7	5.0	4.1

September 2004. Post-September, resuming its declining trend, it reached 3.8 per cent in December 2004, which was substantially lower than the average WPI inflation at 6.7 per cent in the same month.

- (5) Food group inflation is lower in CPI-IW than in WPI, implying that food

prices in the wholesale market increased faster than in the retail markets.

5.16 Trends of quarterly inflation in terms of CPI (W) for major groups indicated continual decline of quarterly inflation rates over previous quarter in 2003-04, followed by some increase of quarterly rate in the current year (Table 5.8).

Table 5.8 : Trends of quarterly inflation in terms of CPI (IW) for major groups (Percentage change over previous quarter)								
Group	Weight	2003-04				2004-05		
		Apr-June	July-Sep	Oct-Dec	Jan-Mar	Apr-June	July-Sep	Oct-Dec
General	100.00	2.1	1.0	0.7	0.2	0.8	2.5	0.6
Food	57.00	3.1	1.0	0.7	-0.8	0.8	2.1	0.5
Pan, supari, tobacco & intoxicants	3.15	0.8	1.3	0.8	1.3	0.5	0.4	0.9
Fuel & light	6.28	2.1	-0.3	1.6	3.2	1.8	2.5	1.7
Housing	8.67	0.0	2.3	0.0	1.5	0.0	10.0	0.0
Clothing, bedding & footwear	8.54	0.8	0.5	-0.5	1.1	1.3	0.2	-0.3
Misce. group	16.36	0.6	0.7	0.9	1.0	0.5	0.8	1.2

Updating the indices

5.17 The Labour Bureau is in the process of revising the base year of the existing series of CPI-IW (1980=100) to a more recent year, namely 2001, to take into account the temporal changes in the consumption pattern of industrial workers. This is in consonance with the recommendation for updating the index as frequently as possible by the International Labour Organisation (ILO), Second National Commission on Labour, and the National Statistical Commission. The index with the new base will be released after due consultations with all stakeholders. The weighting diagrams for all the 78 selected centres have been derived on the basis of the expenditure data from the Working Class Income & Expenditure Survey conducted during 1999-2000 at these centres.

5.18 Another expert group under the Chairmanship of Dr. Abhijit Sen, Member,

Planning Commission is working to shift the base of the Wholesale Price Index (1993-94=100) to a more recent year and to appropriately revise the weighting diagrams for construction of the index. The Group is also examining the feasibility of switching over from WPI to a more comprehensive Producers Price Index (PPI) as in most other countries (Box 5.1).

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

Box 5.1 : A note on compilation of Producer Price Index (PPI) in India

A Working Group on Revision of Wholesale Price Index (WPI) (1993-94=100), under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission, is inter-alia, looking into the feasibility of switching over from WPI to a Producer Price Index (PPI) in India. PPI measures price change from producers' perspective as against the Consumer Price Index (CPI), which measures price change from consumers' perspective. The Group is also examining alternative weighting diagrams based on concepts like gross value of output, value added, and net output concepts.

Most of the countries have switched over to PPI from WPI. In PPI, only basic prices are used for compilation, while taxes, trade margins and transport costs are excluded. PPIs, apart from measuring inflation, are used as deflators in the compilation of GDP. PPI is considered to be a better measure of inflation as price changes at *crude and intermediate stages* can be tracked before it creeps into the finished goods stage.

Three alternative variants of PPIs can be considered :

- a) Commodity indices: Here the commodity classification structure of PPI organizes products by similarity of end use, and indices are more akin to the current WPI series, except for the difference in definition of prices. However, all commodities PPI, like all commodities WPI, are affected by multiple counting of price change at successive stages as the weights are based on gross value of output.
- b) *Stage of processing (SOP): SOP structure organizes PPIs by class of buyer and degree of fabrication. SOP indices partially correct the multiple counting defects, as the indices are compiled separately for 'Crude' goods, 'Intermediate' goods and 'Finished' goods.*
- c) Industry net output indices: Here the commodities are grouped according to standard industry and product classification. Net output indices consistently correct the multiple counting of price changes at all levels of aggregation as the weights are based on the total value of industry output net of the value of output consumed within the industry. The industry net output indices are considered more useful because of their concordance with the classification structure of national income and production indices.

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.

Commodity profiles

5.26 Among essential commodities, seven items, namely jowar, potato, tea, sugar, gur, coking coal and groundnut, exhibited high inflation rates in 2004-05. An analysis of trends of weekly WPI inflation rates of these items since 2002-03 indicates the following:

- (a) Jowar prices rose rapidly in drought-affected 2002-03, declined in 2003-04 and started increasing again in the current year. Price increase was moderate until the end of July 2004, but the rate of increase reached double digits in August and November 2004. Price pressure started easing from mid-December 2004.
- (b) Potato prices declined sharply in 2002-03 and 2003-04, but picked up in 2004-05.
- (c) Tea prices declined sharply in the first half of 2002-03. Although prices recovered somewhat in the second half of 2002-03, they declined again throughout 2003-04. Tea prices are recovering since May 2004.
- (d) Coking coal prices remained unchanged in 2002-03 and during the first quarter of 2003-04. After a moderate increase by 8.8 per cent in

July 2003, prices remained unchanged until May 1, 2004. Thereafter, inflation accelerated to reach 26.9 per cent in August 2004. Coal prices have remained unchanged since then.

- (e) Sugar and gur prices remained subdued throughout 2002-03 and until the third quarter of last year. Prices started increasing since February 2004. However, the prices of sugar have started softening since the middle of January, 2005.
- (f) Inflation rate for groundnut oil was very high throughout 2002-03 and until the middle of August 2003, after which prices declined throughout 2003-04 and until the end of August 2004. Prices increased to some extent during the festival season September-October 2004, but started declining since then.
- (g) Inflation rates for jowar, potato, tea, gur and groundnut oil have decelerated significantly in the recent weeks, that of coking coal has remained stable, and there is a steady increase of the inflation rate in the case of sugar. Absolute prices of these items have settled at higher levels as on January 22, 2005. Last year at this point of time, inflation rates of groundnut oil, potato and tea were negative; inflation rate for jowar was almost negligible and those of sugar, gur and coking coal were moderate.

Coarse cereals

5.27 In contrast to rice and wheat, which have experienced low inflation in the current year, two coarse cereals, viz., jowar and bajra, witnessed high inflation because of the

adverse impact of delayed and erratic monsoon on kharif production of coarse cereals (Table 5.9). As indicated in Chapter 8 on agriculture, according to the second advance estimates of agricultural production released by the Ministry of Agriculture, the total output of coarse grains (comprising jowar, bajra, maize, ragi, small millets and barley) at 31.9 million tonnes in 2004-05 would be lower by almost 6 million tonnes than 37.80 million tonnes achieved in 2003-04. Total foodgrains production in 2004-05, estimated at 206.4 million tonnes, is significantly lower than 212 million tonnes achieved in the previous year.

Potato

5.28 Production of potato has remained almost stagnant around 25 million tonnes since 1999-2000. Production declined marginally from 25 million tonnes in 1999-2000 to 24.44 million tonnes in 2000-2001 and 2001-2002 and increased to 26.5 million tonnes in 2002-2003. Potato production declined again to 24.5 million tonnes in 2003-04.

5.29 Potato prices have followed a cyclical pattern over the years. Wholesale prices of potato, after declining sharply in both 2002-03 and 2003-04, picked up in the current year. Higher wholesale potato prices in June-September 2004 reflected the lean season with limited availability of supplies from cold storages. The unseasonal rains in producing areas had an unfavourable impact on production and subsequent supply to the markets. The price hike in diesel also tended to add to the transportation cost of vegetables at all stages from producing areas to ultimate consumers. With the arrival of new crop in mandis in large quantities from Punjab and other producing areas, potato prices

Table 5.9 : Annual WPI inflation (per cent)

Items	Weight	24-01-2004	01-01-2005	08-01-2005	15-01-2005	22-01-2005
Rice	2.45	-0.5	2.5	2.6	2.0	2.4
Wheat	1.38	6.3	-1.1	-1.3	-1.1	-1.5
Jowar	0.22	0.1	10.6	7.9	6.4	4.8
Bajra	0.11	-20.3	19.0	13.1	21.2	18.8

Months	2003	2004
January	4.1	5.1
February	5.1	5.2
March	5.1	4.5
April	2.3	1.4
May	3.7	4.4
June	4.7	5.4
July	5.4	5.2
August	4.9	4.7
September	5.5	7.0
October	7.1	5.7
November	NA	9.4
December	8.2	8.5

Source: Department of Food and Civil Supply.

started to decline from November 2004 (Table 5.10).

5.30 In contrast to high inflation (40.7 per cent) of wholesale prices of potato as on January 22, 2005 retail prices of potato remained moderate. On January 22, 2005 retail prices of potato per kilogram in four metropolitan cities (Chennai, Delhi, Kolkata and Mumbai) ranged between Rs.3 in Kolkata and Rs.7.50 in Mumbai. Retail prices were higher a year ago in these cities except in Delhi indicating that retail margins for potato might have declined.

Tea

5.31 Lower levels of production coupled with sustained exports of tea in the current year put pressure on tea prices. Production of tea in April-October 2004 at 623 million kgs was significantly lower than 653 million kgs produced in April-October 2003 (Table 5.11).

According to the Tea Board, exports of tea in April-October 2004 amounted to 104 million kgs compared to 102 million kgs in April-October 2003.

5.32 Retail prices of loose tea in metropolitan cities were more or less stable during the last five years. This year prices are recovering from the low levels. In general, there has been an increasing trend of average auction prices at all centres. Annual WPI inflation as on January 22, 2005 was 11.3 per cent compared to negative inflation (-7 per cent) a year ago.

5.33 The Government is working on a relief package to boost the tea industry, which has been languishing due to low productivity and non-remunerative prices. However, it is a medium term programme whose impact would be felt only after some time lag.

Sugar and gur

5.34 Production of sugar had been consistently higher than domestic consumption between 1999-2000 and 2002-03. Consequently, the sugar industry faced the problem of surplus stocks and near stagnant sugar prices.

5.35 With carry over stock of 116.16 lakh tonnes from the 2002-03 sugar season, total availability of sugar during sugar year (October to September) 2003-04 amounted to 261.27 lakh tonnes as against consumption requirement of 175 lakh tonnes and export of 2.94 lakh tonnes.

5.36 In view of high carry forward stocks of sugar, decline in sugar prices in the open market and high cane price arrears,

Year	Production	Exports		Imports		Domestic consumption
		Quantity	Value	Quantity	Value	
1998-99	855	206	2192	8.9	65	620
1999-00	835	192	1933	10.4	62	638
2000-01	848	204	1890	15.2	95	658
2001-02	847	190	1696	16.0	83	678
2002-03	838	184	1665	19.7	91	698
2003-04	850	180	1553	8.3	51	719
Apr-Oct 2004	623	104	905	19.1	82	...
Apr-Oct 2003	653	102	975	5.0	32	...

Source : Ministry of Commerce and Industry.

Government decided to create a buffer stock of 20 lakh tonnes of sugar for a period of one year with effect from December 18, 2002. In view of the persistence of the problem, Government extended the period of maintenance of buffer stock of sugar by one more year beyond December 17, 2003.

5.37 Area sown under sugarcane during kharif 2004 declined to 39 lakh hectares from 46 lakh hectares in kharif 2003. Production of sugar in sugar year 2003-04 is estimated at 137.3 lakh tonnes compared to 201 lakh tonnes in 2002-03. Sugar production is projected to be only 125 lakh tonnes in sugar year 2004-05. The shortfall of production is due to drought in major sugar producing states like Maharashtra, Andhra Pradesh and Karnataka. Lower anticipated production and an increase in the statutory minimum price (SMP) of sugarcane from Rs.73 per quintal to Rs.74.50 per quintal for the sugar season 2004-2005 have put pressure on prices of both sugar and gur.

5.38 Carryover stock from previous sugar season 2003-2004 (Oct-Sept) was 8.5 million tonnes. With anticipated import of sugar at 1.43 million tonnes, the total availability of sugar for the current sugar season is expected to be 22.43 million tonnes. Domestic consumption of sugar is expected to be 18 million tonnes, which will leave a stock of 4.43 million tonnes at the end of the current sugar season.

5.39 Taking into account the rising trend in prices, Government has been releasing higher free sale quota of sugar every month. For the quarter October-December 2004, Government released 40 lakh tonnes of free sale sugar quota. For the next quarter January-March 2005, a total of 40.45 lakh tonnes of sugar (both free sale and levy quota) have been released. In addition to this, another 4 lakh tonnes have also been announced for release for this quarter.

5.40 The retail prices of sugar indicate a steady increase during the last two months. On January 25, 2005, retail prices of sugar in four metropolitan cities ranged between Rs18.50 and Rs. 20.50 per kg.

Edible oils

Production, demand and imports

5.41 In recent years, edible oils demand of around 9 to 10 million tonnes has exceeded domestic production of around 5 to 6 million tonnes leading to heavy dependence on imports. Oilseeds production attained a record level of 25.1 million tonnes in 2003-04, and improved domestic production of oil to over 7 million tonnes in 2003-04 (Table 5.12). Kharif production of oilseeds in 2004-05, estimated at 15.4 million tonnes exceeds the preceding year's estimate of 15 million tonnes. The current rabi acreage under oilseeds also exceeds last year's sown area. As a result, production of oilseeds in 2004-05 is expected to exceed last year's record level.

Year	Production of oilseeds	Net domestic availability of oils
1998-99	24.8	6.96
1999-00	20.7	6.01
2000-01	18.4	5.50
2001-02	20.7	6.20
2002-03	15.1	4.73
2003-04	25.1	7.08

5.42 Import of edible oils has been in the range of 4 to 5 million tonnes in recent years, accounting for almost 50 per cent of domestic requirement (Table 5.13). The import of edible oils in 2003-04 oil year (November-October) at 4.4 million tonnes was lower than 5.1 million tonnes imported in 2002-03, on account of

	Quantity (million tonnes)		Percentage share	
	2002-03	2003-04	2002-03	2003-04
	Nov.-Oct.			
Palm oil	3.8	3.4	74	78
Soft oil	1.3	1.0	26	22
Total	5.1	4.4	100	100
Refined oil	0.3	0.8	7	18
Crude oil	4.8	3.6	93	82

higher domestic production of edible oils coupled with high international prices. Palm oil accounted for over 70 per cent of total edible oils imports in recent years, while other edible oils (mainly soyabean, sunflower and rapeseed oil) accounted for the remaining 30 per cent.

Customs duty & tariff value

5.43 Imports of edible oils are subject to differential customs duty ranging from 45 per cent to 90 per cent (Table 5.14). In order to check under-invoicing of edible oil imports, Government had fixed tariff values on import of certain edible oils with effect from August 3, 2001. Since then, tariff values on these oils have been revised from time to time. In order to contain rising prices of edible oils, the Department of Revenue vide Notification No.105/2004-Customs (NT) dated September 15, 2004, reduced tariff values of crude palm oil and its fractions and of crude soyabean oil by 10 per cent from their previous tariff values. The Department of Revenue again reduced tariff values for crude palm oils and other palm oils while increasing import duties on these oils with effect from February 15, 2005 to take care of interest of both the farmers and the consumers.

Domestic and international prices of edible oils

5.44 The domestic prices of edible oils, after remaining high in 2003 as compared to 2002, softened in 2004. Record production of

oilseeds, combined with softening of international prices, had a sobering impact on domestic prices of edible oils during 2004. International prices of edible oils, after remaining high in 2003, softened in 2004 (since the second half of 2004) with the US Department of Agriculture forecast of a record world oilseeds output of 379.1 million tonnes in 2004-05, up 43.2 million tonnes from 335.9 million tonnes for 2003-04. A significant part of the global production increase would come from soyabean. All the three major producers -the US, Brazil and Argentina - were forecast to harvest record soyabean crop, with higher acreage driven by attractive prices in 2003-04.

5.45 The subdued outlook for the international prices of edible oils in the coming months combined with good prospects for domestic oilseeds crop in 2004-05 is expected to keep the domestic prices of edible oils at a moderate level in the coming months.

II

Food management

5.46 With active food management by the Government, stocks of food grains reached a record level of 64.7 million tonnes in June 2002, with the attendant problems of high carrying costs and food subsidies. The drought of 2002-03, which in a way made the task of disposal of excess stocks somewhat easier, kept the food managers pre-occupied with the pressing needs of the relief operations. With the stock level gradually reducing through the year, the problem of surplus stock took a back seat. With the onset of a good monsoon, the year 2003-04 set the stage for new challenges in food management. The decline in stocks continued during 2004-05; but the stocks remained consistently higher than the buffer norms.

Procurement of foodgrains

5.47 The year 2003-04, a normal agricultural year, saw good procurement of foodgrains. Rice procurement during the kharif marketing season (KMS) (October-September) 2003-04 at 22.83 million tonnes was not only higher by a substantial margin of over 6 million tonnes than that in the previous season, but also over the past record of 22.13 million tonnes

Table 5.14 : Present custom duty structure of crude and refined edible oils			
<i>(in per cent)</i>			
Item	WTO binding	Current rates on crude edible oils	Current rates on refined edible oils
Soyabean oil	45	45	45
Palmolein	300	80	90
Palm oil	300	80	90
Groundnut oil	300	75	85
Sunflower/ Safflower oil	300	75	85
Coconut oil	300	75	85
Rapeseed/ Mustard oil	75	75	75
Other oils	120/300	75	85

Table 5.15 : Procurement of wheat and rice (Central pool)

Marketing Year	<i>(Million tonnes)</i>			
	Wheat		Rice	
	Qty	per cent change	Qty	per cent change
1995-96	12.33	3.88	10.07	-26.55
1996-97	8.16	-33.82	12.97	28.80
1997-98	9.30	13.97	15.59	20.20
1998-99	12.65	36.02	12.60	19.18
1999-00	14.14	11.78	18.23	44.68
2000-01	16.35	15.63	21.28	16.73
2001-02	20.63	26.18	22.13	3.99
2002-03	19.05	-7.66	16.42	-25.80
2003-04	15.80	-17.06	22.83	39.04
2004-05	16.80	6.33	14.34*	—

* As on January 14, 2005

Source : Department of Food and Public Distribution.

achieved in KMS 2001-02 (Table 5.15). Wheat procurement during Rabi Marketing Season (RMS) (April-March) 2004-05, which has come practically to an end, was 16.80 million tonnes compared to 15.80 million tonnes in the previous season.

5.48 As per the second advance estimates released by the Ministry of Agriculture on January 19, 2005, the production of rice in 2004-05 is likely to be 87.80 million tonnes, compared to 87 million tonnes in the previous

year. Progress of procurement of rice during KMS 2004-05, which started from October 2004, indicates that procurement up to January 14, 2005 of 14.34 million tonnes was nearly one million tonnes higher than 13.41 million tonnes procured in the corresponding period of 2003-04.

5.49 Till recently, it was a common grievance of many States that their farmers have not benefited much from the price support operations, since the procurement of foodgrains by the Food Corporation of India (FCI) had been largely concentrated in a few states, such as Punjab, Haryana, Uttar Pradesh and Andhra Pradesh. Two States, Punjab and Haryana, accounted for more than 80 per cent of the procurement of wheat by the FCI in the years 2002-03 to 2004-05, and the States of Punjab, Haryana, Uttar Pradesh and Andhra Pradesh accounted for nearly 80 per cent of the rice procured by the FCI in the years 2001-02 and 2002-03 (Tables 5.16 and 5.17). In order to address the concerns of the other surplus rice growing states, FCI strengthened the procurement of rice from Bihar, Chhattisgarh, Orissa, Tamil Nadu, and West Bengal, resulting in higher rice procurement in these states in 2003-04. As a result, the share of rice procurement from the four states of Andhra Pradesh, Haryana, Punjab, and Uttar Pradesh declined to 73 percent in 2003-04.

Table 5.16 : Procurement of wheat (lakh tonnes)

State/U.T.	Quantity (Lakh tonnes)			Percentage Share		
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
Bihar	0.41	0.01	0.15	0.22	0.01	0.09
Haryana	58.88	51.22	51.15	30.95	32.42	30.46
Himachal Pradesh	0.02	0.01	0.00	0.01	0.01	0.00
Madhya Pradesh	4.38	1.88	3.49	2.30	1.19	2.08
Punjab	98.80	89.38	92.40	51.85	56.57	55.02
Rajasthan	4.61	2.59	2.79	2.42	1.64	1.66
Uttaranchal	1.84	0.67	0.54	0.97	0.42	0.32
Uttar Pradesh	21.10	12.13	17.41	11.07	7.68	10.37
Chandigarh	0.16	0.00	0	0.08	0.00	0.00
Delhi	0.34	0.12	0.02	0.18	0.08	0.01
Total	190.54	158.01	167.95	100	100	100

Source : Department of Food and Public Distribution.

Table 5.17 : Procurement of rice (lakh tonnes)

State/U.T.	Quantity (Lakh tonnes)			Percentage Share		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Andhra Pradesh	64.26	26.35	42.30	29.04	16.04	18.53
Bihar	0.89	1.59	3.63	0.40	0.97	1.59
Chhattisgarh	19.21	12.91	23.74	8.68	7.86	10.40
Haryana	14.84	13.24	13.34	6.71	8.06	5.84
Maharashtra	1.29	1.52	3.08	0.58	0.93	1.35
Orissa	12.53	8.90	13.73	5.66	5.42	6.02
Punjab	72.83	79.40	86.62	32.91	48.35	37.94
Tamil Nadu	8.52	1.07	2.07	3.85	0.65	0.91
Uttar Pradesh	19.36	13.60	25.54	8.75	8.28	11.19
West Bengal	0.48	1.26	9.25	0.22	0.77	4.05
Others	7.08	6.39	4.98	3.20	2.67	2.18
Total	221.29	164.23	228.28	100.00	100.00	100.00

Source : Department of Food and Public Distribution.

Offtake of foodgrains from the central pool

5.50 The offtake of foodgrains from the central pool declined from 342.73 lakh tonnes during April-November 2003 to 256.73 lakh tonnes during April-November 2004, as a result of decline in exports, open market sales and off-take under welfare schemes. The offtake of foodgrains under the targeted public distribution system (TPDS) registered an increase from 154.55 lakh tonnes in April-November 2003 to 180.96 lakh tonnes in April-November 2004 due to an all round improvement in the offtake of foodgrains under the below poverty line (BPL), above poverty line (APL) and Antyodaya categories (Table 5.18). The increase in the APL offtake was particularly impressive. The recovery in the

APL offtake, which started in 2003-04 with the market prices of foodgrains remaining above the APL issue prices, continued in 2004-05. The increase in the offtake of foodgrains under the Antyodaya Anna Yojana was on account of expansion of the coverage of the scheme from 1.5 crore families to 2 crore families in the Budget 2004-05.

5.51 The rather sharp decline in the offtake of foodgrains on account of export was due to a deliberate policy of food management. With declining food stocks in the central pool, commitments for fresh export of foodgrains from the central pool were stopped with effect from August 2003. The decline in the open market sales also reflected the comfortable supply situation of foodgrains in different parts

Table 5.18 : Offtake of foodgrains from central pool (lakh tonnes)

Schemes	Foodgrains (Rice+Wheat)					April –November	
	1999-00	2000-01	2001-02	2002-03	2003-04	2003-04	2004-05
TPDS of which	170.76	120.42	138.36	201.30	241.94	154.55	180.96
<i>BPL</i>	69.95	96.53	100.52	135.13	147.51	104.49	108.56
<i>APL</i>	100.82	23.65	21.06	30.78	42.17	24.03	40.75
<i>Antyodaya</i>	–	0.24	16.78	35.39	38.24	27.10	35.59
Welfare schemes	14.26	31.93	71.84	113.80	135.00	96.22	71.79
Open market sale	45.51	14.88	55.98	56.61	13.30	7.54	1.69
Export	–	20.85	63.15	124.64	101.40	83.31	9.67
Total	230.53	188.08	329.33	496.35	491.64	342.73	256.73

Source : Department of Food and Public Distribution.

of the country during 2004-05. Offtake of foodgrains under the welfare schemes declined with the reduction in the need for drought related relief programmes in 2004-05.

Buffer stock

5.52 The years 2001-02 and 2002-03 witnessed high levels of stock build up in the central pool (Table 5.19). The foodgrain stocks reached a peak of 64.7 million tonnes, an all time record, in June 2002. The year 2003-04 witnessed a general easing in the foodgrain stocks with the FCI, because of relatively lower procurement of rice and wheat following a bad agricultural year in 2002-03 combined with relatively high offtake of foodgrains, especially for drought related relief operations under the welfare schemes. The steady reduction in stocks prompted the Government to stop fresh allocation of rice and wheat for export with effect from August 2003, which has continued till date. The year 2004-05 started with a much lower level of stock at 20 million tonnes on April 1, 2004 as

compared to the stock level of 32.8 million tonnes on April 1, 2003. The foodgrain stocks have, however, remained consistently higher than the buffer requirement during the ten nine months of 2004-05, on account of good procurement of rice and wheat and relatively lower offtake than in the previous year.

Minimum support prices

5.53 Keeping in view the interests of the farmers as also the need for self-reliance, Government has been announcing minimum support prices (MSP) for 24 major crops, such as paddy, wheat, jawar, bajra, maize, ragi, pulses, oilseeds, copra, cotton, jute, sugarcane, and tobacco.

5.54 There were substantial increases in the MSPs of rice and wheat after the mid-nineties. MSP of wheat was increased by a whopping Rs 95 (including bonus) per quintal in 1996-97 and MSP of paddy was increased by Rs 35 per quintal in 1997-98. Increase of MSP of foodgrains by large magnitudes continued till

Table 5.19 : Central foodgrains stock and minimum buffer norms

(Million Tonne)

Beginning of the month	Wheat		Rice		Total (wheat and rice)	
	Buffer norm	Actual stock	Buffer norm	Actual stock	Buffer norm	Actual stock
January-2001	8.4	25.0	8.4	20.7	16.8	45.7
April	4.0	21.5	11.8	23.2	15.8	44.7
July	14.3	38.9	10.0	22.8	24.3	61.7
October	11.6	36.8	6.5	21.5	18.1	58.3
January -2002	8.4	32.4	8.4	25.6	16.8	58.0
April	4.0	26.0	11.8	24.9	15.8	50.9
July	14.3	41.1	10.0	21.9	24.3	63.0
October	11.6	35.6	6.5	15.8	18.1	51.4
January -2003	8.4	28.8	8.4	19.4	16.8	48.2
April	4.0	15.6	11.8	17.2	15.8	32.8
July	14.3	24.2	10.0	11.0	24.3	35.2
October	11.6	18.4	6.5	5.2	18.1	23.6
January- 2004	8.4	12.7	8.4	11.7	16.8	24.4
April	4.0	6.9	11.8	13.1	15.8	20.0
July	14.3	19.1	10.0	10.8	24.3	29.9
October	11.6	14.2	6.5	6.0	18.1	20.2
January- 2005	8.4	8.9	8.4	12.8	16.8	21.7

Figures from 2002 onwards provisional.

Source : Department of Food and Public Distribution.

Table 5.20 : Minimum support/procurement price of wheat and paddy							
(Rs/quintal)							
Crop Year	Wheat		Paddy				
	MSP	per cent change	Common	per cent change	Fine	Super fine	Grade'A'
1994-95	360	2.9	340	9.7	360	380	-
1995-96	380	5.6	360	5.9	375	395	-
1996-97	475	25.0	380	5.6	395	415	-
1997-98*	510	7.4	415	9.2	-	-	455
1998-99	550	7.8	440	6.0	-	-	470
1999-00	580	5.5	490	11.4	-	-	520
2000-01	610	5.2	510	4.1	-	-	540
2001-02	620	1.6	530	3.9	-	-	560
2002-03	620\$	-	530\$	-	-	-	560\$
2003-04	630	1.6	550	3.8	-	-	580
2004-05	640	1.6	560	1.8	-	-	590

For MSP of other crops, see appendix-5.5

* Effective 1997-98, MSP is fixed for two varieties of paddy, common and grade-A.

\$ One time special drought relief of Rs.20/- per quintal for rice and Rs 10/- per quintal for wheat was given over and above the MSP.

Source : Ministry of Agriculture.

2000-01 (Table 5.20). Such increases resulted in a large gap between the cost of production (C2 costs) and the MSP of wheat and rice. There were a number of inter-related developments, such as prices of foodgrains in the primary grain markets remaining below MSP in many parts of the country, near elimination of private trade from the grain markets in the major producing and procuring States of Punjab and Haryana, and excessive burden on the FCI for procurement of foodgrains. With market prices below APL prices, there was a flight of APL families away from the public distribution system (PDS) fold, and a substantial fall in the APL offtake of foodgrains. All these resulted in a build up of foodgrain stocks with the FCI to an unprecedented level of 64.7 million tonnes in June 2002, almost three times the buffer requirements. Escalating carrying costs combined with the disposal of the foodgrains at subsidized rates resulted in mounting food subsidy.

5.55 The economic compulsions of aligning MSP with the cost of production has weighed

heavily in recent announcements of price policy of rabi and kharif crops. The increase in the MSP of foodgrains during 2002-03, 2003-04 and 2004-05 was rather moderate (Table 5.20). Keeping in view the hardships suffered by farmers in the drought year of 2002-03, a one-time special drought relief of Rs.20 per quintal was announced in the case of paddy. A one-time special drought relief of Rs.10 per quintal was also announced for wheat in 2002-03. The MSP for paddy and wheat for 2003-04 crop year was fixed by absorbing the special drought relief for rice and wheat in their respective MSPs. A marginal increase of Rs 10 per quintal in the MSPs of wheat and rice has been announced for the crop year 2004-05.

Economic cost of foodgrains to FCI

5.56 The economic cost of foodgrains to FCI is of strategic importance, as it influences not only the food subsidy bill but also the country's competitiveness in international markets for foodgrains. The FCI is reimbursed the difference between the economic cost of foodgrains and the issue price. The economic

Table 5.21 : Economic cost of rice and wheat*(Rupees per quintal)*

Year	1999-00	2000-01	2001-02	2002-03	2003-04(P)	2004-05(P)
Rice						
Procurement incidentals	56.1	69.89	66.8	61.7	74.9	76.4
Distribution Cost	187.5	189.94	119.6	157.7	207.5	192.9
Economic Cost \$	1074.8	1137.07	1098.0	1165.0	1253.0	1262.5
Wheat						
Procurement incidentals	117.1	128.20	134.7	137.6	156.3	156.8
Distribution Cost	202.0	166.15	126.7	145.5	174.5	140.3
Economic Cost	887.5	883.78	852.9	884.0	952.5	924.8
\$ Weighted average of common and grade-A rice taken together.						

cost of foodgrains to FCI has been on the rise over the years (Table 5.21). The increase in the MSPs of rice and wheat, high State-level levies, which account for almost 50 percent of the procurement incidentals for foodgrains, and the rising trend in distribution costs have contributed to the increase in the economic costs of foodgrains over the years.

5.57 Fixing the MSP at a level equal to C2 cost (all cost in cash and kind, including the imputed cost of family labour) of the least cost State would help in containing the rising trend in economic cost of foodgrains. The major procurement States- Punjab, Haryana and Andhra Pradesh - have been imposing State taxes and levies of over 10 per cent ad valorem on the procurement of foodgrains, thereby inflating the economic cost. There is scope for rationalisation of these State levies. More decentralised procurement will help in containing the increase in the distribution and hence economic costs.

5.58 The 2004-05 (BE) projects a reduction in economic cost of wheat from Rs 952.51 per quintal in 2003-04 to Rs 924.82 per quintal and a marginal increase in the economic cost of rice from Rs 1,253.04 per quintal in 2003-04 to 1,262.51 per quintal in view of decline in distribution cost of both wheat and rice in 2004-05.

Decentralised procurement scheme

5.59 The decentralised procurement scheme of the Government of India is in operation since 1997. Under this scheme, the

designated States procure, store and also issue foodgrains as per allotments indicated by the Central Government under TPDS. The difference between the economic cost of the State Governments and the Central Issue Price is passed on to the State Governments as subsidy. The decentralised system of procurement, apart from helping to cover more farmers under the MSP of the Central Government, has the merit of economising the transport and administrative costs involved in procurement and distribution operations. Further, it helps in minimising the dependence of State Governments on the FCI for PDS requirements and reducing the complaints about quality, as consuming States themselves are the custodians of the procured foodgrains.

5.60 However, the scheme has evoked limited response from the State Governments. Out of the State Agencies' share of nearly 58 percent of total rice and 80 percent of total wheat procured by the FCI, only 33 percent rice and 13 percent wheat are contributed by the States with decentralised procurement. At present, the State Governments of West Bengal, Madhya Pradesh, Uttar Pradesh, Chhattisgarh, Uttaranchal and Tamilnadu are implementing this scheme in a limited way. The States of Assam and Nagaland and the Union Territory of Andaman & Nicobar Islands have also evinced interest in the scheme.

5.61 The concerns of the State Governments broadly relate to financing of operations (RBI valuation norms for stocks of

foodgrains) and reimbursement of expenses and release of subsidy by the Central Government (fixation of economic cost of foodgrains of State Governments and delays in the release of the subsidy). The concerns relating to the reimbursement of expenses and release of subsidy have been largely addressed through a process of consultation of the stakeholders concerned. On the request of the States, the issues relating to valuation norms have been taken up with the RBI.

Central issue price

5.62 Wheat and rice are issued by the Central Government at uniform central issue prices (CIPs) to States and Union Territories for distribution under TPDS (Table 5.22). The difference between the economic cost and issue price of foodgrains is reimbursed to the FCI by the Central Government in the form of subsidy. The periodic revision of issue prices of foodgrains in alignment with the increase in MSP and therefore economic cost, thus assumes importance. There has been no revision of issue prices of foodgrains since July 2002.

Year	Wheat	Per cent change	Rice	Per cent change
1995-96	402	0.0	537	0.0
1996-97	402	0.0	537	0.0
1997-98				
BPL	250	-	350	-
APL	450	-	700	-
1998-99				
BPL	250	0.0	350	0.0
APL	650	44.4	905	29.3
1999-00				
BPL	250	0.0	350	0.0
APL	682	4.9	905	0.0
2000-01				
BPL	415	66.00	565	61.40
APL	830	21.70	1130	24.90
2001-02				
BPL	415	0.00	565	0.00
APL	610	-26.50	830	-26.50
2002-03				
April				
BPL	415	0.00	565	0.00
APL	510	-16.40	730	-12.00
July				
BPL	415	0.00	565	0.00
APL	610	19.6	830	13.7

Food subsidy

5.63 The food security system in the country, which has the dual objective of providing minimum nutritional support to the poor at an affordable price and ensuring price stability in different parts of the country (by supplying foodgrains to the deficient areas), involves subsidy from the exchequer. Food subsidies grew steeply at annual rates between 28 per cent and 45 per cent during the period 2000-01 and 2002-03, and even as a proportion of GDP (Table 5.23). But, attainment of self-

Table 5.23 : Growth of food subsidies in India

Year	Food subsidy* (Rs crore)	Annual growth (per cent)	As per cent of GDP
1990-91	2450		0.43
1991-92	2850	16.33	0.44
1992-93	2800	-1.75	0.37
1993-94	5537	97.75	0.64
1994-95	5100	-7.89	0.50
1995-96	5377	5.43	0.45
1996-97	6066	12.81	0.44
1997-98	7900	30.23	0.52
1998-99	9100	15.19	0.52
1999-00	9434	3.67	0.49
2000-01	12060	27.84	0.58
2001-02	17499	45.10	0.77
2002-03	24176	38.16	0.98
2003-04(RE)	25800	6.72	0.93
2004-05** (April-Nov)	17639	-	-
2003-04** (April-Nov)	20033	-	-

* Other than that on sugar.
** Controller General of Accounts, Review of Union Government Accounts, November 2004.
Source : Budget documents, various issues and CSO.

sufficiency in foodgrains production (with implication for reduced need for price stabilisation operation), and reduction in the proportion of people belonging to the BPL category should actually lead to decline in the levels of food subsidy. There is also unanimity that the targeting of food subsidy leaves a lot of scope for improvement.

5.64 National Common Minimum Programme (NCMP) of the Government pledges that all subsidies will be targeted sharply to the poor and the truly needy. In order to achieve this objective, the Ministry of Finance with the assistance of the National Institute of Public Finance and Policy (NIPFP) prepared a report on "Central Government Subsidies in India". The report examines major subsidies including food and fertilisers and recommends policies for reforms in subsidies. As regards food subsidies, the report suggests that the minimum support prices should be kept at the C2 level recommended by the CACP. To contain operational costs, reimbursement of expenses of the Food Corporation of India should be based on normative unit costs and actual quantities involved. With respect to the public distribution system, it is suggested that the system of dual prices, which encourages leakages, may be replaced by a uniform price policy along with a system of food coupons for the BPL families.

5.65 Government took special measures during 2001-02 which continued through 2002-03, such as release of foodgrains from the FCI at concessional rates for exports, offloading of the old and low quality foodgrains through tender sale and reduction in the APL issue price to bring back APL population to the PDS fold, to dispose of the excess stock of foodgrains. These measures helped in reducing the excess stock of foodgrains with the FCI. Further, the Government also adopted the policy of restraint in the announcement of the MSPs of wheat and rice (as discussed earlier in the section on minimum support price), as part of its strategy to remove market distortions, and to restore the role of private trade in the grain market, thereby easing the pressure of procurement on the FCI. Some success has been achieved in this respect, because the market prices of rice and wheat, which remained below the MSP in different parts of the country during 2001-02 and 2002-03 recovered to prevail at a level higher than the MSP during 2003-04 and, 2004-05. All these helped in tackling the problem of excess stock of foodgrains with the FCI and as already discussed earlier, the declining trend in stock

levels, which started in 2003-04, continued through 2004-05.

5.66 Carrying costs of foodgrains accounted for almost 20 to 25 per cent of the food subsidy during 2001-02 and 2002-03. The decline in food stocks during 2003-04 and 2004-05 with implications for reduction in the carrying cost and the gradual decline in the disposal of subsidised foodgrains have resulted in a considerable deceleration in the growth of food subsidy during 2003-04 and, in fact, a decline in the level of food subsidy during the first 8 months of the fiscal 2004-05 as compared to the corresponding period of the fiscal 2003-04 (Table 5.23).

Outlook

5.67 The total foodgrains stock in the central pool of FCI was 21.7 million tonnes as on January 1, 2005, as against the buffer norm of 16.8 million tonnes. Although the stock of wheat on January 1, 2005 at 8.9 million tonnes was marginally higher than the corresponding buffer norm (8.4 million tonnes), the withdrawal of wheat from the central pool during the remaining months of the current fiscal is expected to be relatively lower as compared to last year, because of the lower offtake of foodgrains under the welfare schemes, open market sales and exports. Thus it is unlikely that the wheat stock with FCI would be reduced to levels below the buffer norm of 4 million tonnes as on April 1, 2005. The Agriculture Ministry, in its second advance estimates released on January 19, 2005, has projected a higher level of wheat production for the crop year 2004-05 at 73.03 million tonnes as compared to 72.06 million tonnes last year. This has implications for procurement of wheat, which would commence from April, 2005 onwards.

5.68 The robust procurement of rice during the KMS 2004-05, already reaching 15.70 million tonnes by January 31, 2005 (over one million tonnes higher than the corresponding period last year), has improved the stock position of rice to 12.7 million tonnes on January 1, 2005 compared to the last year's corresponding stock level of 11.7 million tonnes, and 6 million tonnes on October 1,

2004. In the second advance estimates, the Agriculture Ministry has projected the production of rabi rice at 14.51 million tonnes, almost 1.5 million tonnes higher than last year's production. This has favourable implications for procurement of rabi rice, which would start from April, 2005. In all probability, total procurement of rice during 2004-05 would exceed last year's record level of 22.83 million tonnes. The stock position of rice in the coming months is, therefore, likely to remain comfortable.

5.69 Unfavourable monsoon at home and hardening of international prices of minerals,

metals, crude oil and related products led to acceleration of WPI inflation since May 2004, which reached 8.7 per cent on August 28, 2004. However, sound macro-economic management by the Government coupled with specific monetary and fiscal measures led to continual deceleration of WPI inflation since then. The current point-to-point WPI inflation is running around 5.2 per cent compared to 5.9 per cent a year ago. In general there is a downward trend of prices particularly for the agro-based products during January-March every year due to seasonality of prices. The current year is no exception to this general trend.