

## Prices and Food Management

### Inflation

Annual point-to-point inflation rate in terms of the Wholesale Price Index (WPI) increased from 4.6 per cent at end-March 2004 to 5.1 per cent at end-March 2005. The year 2005-06 started with an inflation rate of 5.7 per cent on April 2, 2005, which was followed by a

softening trend until August 27, 2005 when it reached a trough of 3.3 per cent. While the rate rose steadily thereafter, it remained below 5 per cent. At 4.5 per cent on January 21, 2006 it was significantly lower than 5.4 per cent recorded a year ago (Table 5.1, Figure 5.1). Average WPI inflation decelerated from 10.6

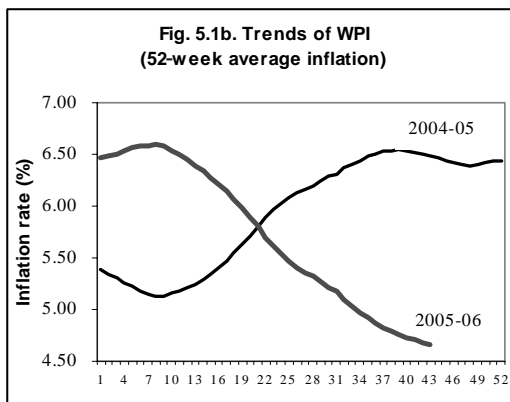
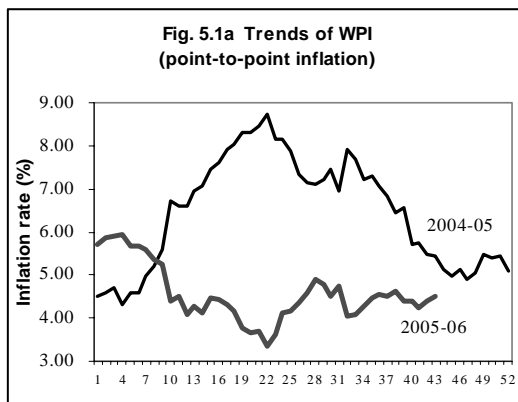
**Table 5.1 : Annual WPI Inflation rate  
(as on January 21, 2006)**

(per cent)

Year	Annual point to point Inflation rate				52-week
	Primary articles	Fuel, power, light, lubricants	Manufactured products	All commodities	Average (All commodities)
Weights (per cent)	22.0	14.2	63.7	100.0	100.0
2000-01	1.5	15.1	4.0	5.5	7.2
2001-02	3.9	3.9	0.0	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	1.3	10.5	4.6	5.1	6.5
2005-06 on 21/01/2006	5.7	7.9	2.8	4.5	4.7
2004-05 on 22/01/2005	1.0	10.2	5.4	5.4	6.5
<b>Contribution to annual inflation</b>					
2005-06 on 21/01/2006	26.9	38.3	35.2	100.0	100.0
2004-05 on 22/01/2005	4.3	39.0	56.5	100.0	100.0

**Fig. 5.1**

### Trends of WPI inflation in 2004-05 and 2005-06



<b>Table 5.2 : Inflation in terms of Wholesale Price Index since 1991-92 (Based on 52-week average inflation rates)</b>				
<b>Annual average WPI inflation (%)</b>				
	<b>All commodities</b>	<b>Primary Fuel</b>	<b>Manufactured</b>	
Period ↓				
Weights →	100.0	22.0	14.2	63.8
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				
2004-05	4.7	3.7	7.7	4.1
2005-06 as on				
28-01-2006	4.7	2.4	9.8	3.6
2004-05 as on				
29-01-2005	6.5	3.9	9.2	6.5

per cent in the first half of 1990s to 4.7 per cent during 2001-02 to 2004-05 (Table 5.2).

5.2 Average headline world price of Indian basket of crude petroleum increased by 47.9 per cent from US \$ 36.3 per barrel in April-September 2004 to US \$ 53.7 per barrel in April-September 2005. The downward secular trend in inflation observed since the beginning of reforms in 1991 came under threat with this rapid rise in international price of crude and petroleum products. Annual average WPI inflation in the fuel group was 9-10 per cent both at end of 2004 and 2005. Nevertheless, there was successful containment of the inflationary pressure with the overall annual average inflation rate declining from 6.5 per cent at end-2004 to 4.7 per cent at end-2005.

5.3 In line with the decelerating trend in inflation observed since the last quarter of 2004-05, inflation rate for manufactured products was lower at 2.8 per cent on January 21, 2006 compared to 5.4 per cent a year ago, but there was an acceleration in the inflation rate for primary articles to 5.7 per cent from 1.0 per cent in the same reference period (Table 5.1). The prices of petroleum products

(diesel and motor spirit) were revised twice on June 20 and September 6, 2005, but the timings and extent of the revisions as well as fiscal intervention ensured that the large increases in the world price of crude and petroleum products were only partially passed through to the consumers and the rest of the economy.

## **Developments in 2005-06 so far**

### *Primary products*

5.4 Primary products with a weight of 22 per cent in WPI, contributed 26.9 per cent to overall inflation this year, significantly higher than 4.3 per cent a year ago. Primary food articles with a weight of 15.4 per cent and inflation of 7.2 per cent contributed 23.9 per cent to overall inflation in the current year compared to 4.8 per cent a year ago. An analysis of the individual 98 items belonging to the primary group confirms that selected primary food items were the main drivers of the price increase during the year.

5.5 Individual primary items with high inflation include: potatoes (58.3 per cent), onions (46.2 per cent), tomatoes 82.2 (per cent), bajra (12.3 per cent), maize (10.1 per cent), urad (39.8 per cent), gram (25.1 per cent), moong (20.7 per cent), coffee (33.5 per cent), iron ore (47.7 per cent), fire clay (77.9 per cent) and fish-inland (30.3 per cent). Prices of many of these items were moderate during major parts of the previous year, and the inflationary bout in the current year could be seen as a rebound to the levels prevailing two years earlier. The increase in the annual inflation rates in primary products would have been much higher but for the declines in the rates for many items including oilseeds, condiments and spices, tea and some fruits.

### *Fuel, power, light and lubricants*

5.6 Among the three major groups, the fuel group had the highest inflation since early 2004-05 (Figure 5.2). For the fuel group, the inflation rate (over same date of the previous year) during 2004-05 had varied between 8.1 per cent and 14.3 per cent since early June 2004. After kicking off with 11.1 per cent for

the week ending April 2, 2005, inflation for the fuel group remained high until end-October, 2005 reflecting partly the increase of Rs.3 and Rs. 2 per litre in the price of petrol and diesel, respectively on September 7, 2005 in response to the rise in their international prices. The prices of kerosene in the public distribution system (PDS) and LPG (domestic) were, however, kept unchanged to shield the consumers, particularly, the vulnerable sections of society. The unchanged prices of PDS kerosene and domestic LPG resulted in severe pressure on the bottom lines of public sector oil companies.

5.7 Inflation rate for the fuel group remained at single digit levels during November-December, 2005. This group, with a weight of 14.2 per cent in WPI, recorded an inflation rate of 7.9 per cent on January 21, 2006 which while lower than the rate during corresponding period of 2005, still contributed 38.3 per cent to the overall inflation compared to 39 per cent a year ago (Table 5.1).

5.8 In view of sharp and continuous increase in prices of crude and petroleum products in the international market, Government, on October 28, 2005, constituted a high-powered Inter-Ministerial Committee headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. The Committee has looked into the various aspects of prices and taxation of petroleum products with a view to stabilizing/rationalizing their prices, keeping in view the financial position of the oil companies, conserving petroleum products and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies, and has submitted its report recently.

#### *Manufactured Products*

5.9 The decelerating trend in manufactured product price inflation observed since end-July 2004 continued in the first nine months of the current year. From a peak of 8 per cent in end-July 2004, the annual point-to-point inflation rate for manufactured products came

down to 5.5 per cent on April 2, 2005. The rate decelerated further to 2.3 per cent in end-September 2005, and this deceleration was significant in the aftermath of the introduction of value added tax (VAT) in most of the states with effect from April 1, 2005. Annual inflation rate fluctuated around 3 per cent during the last quarter of calendar year 2005.

5.10 Manufacturing group, with a weight of 63.75 per cent in WPI, recorded an annual point-to-point inflation of 2.8 per cent on January 21, 2006 and contributed 35.2 per cent to overall inflation in the current year compared to 56.5 per cent a year ago. Of the 12 broad commodity groups under manufactured products, seven groups (food products, edible oils, paper and paper products, leather and leather products, metal products, machinery and machine tools, transport equipment and parts) recorded lower annual inflation rates in 2005-06 than in 2004-05 (Table 5.3). The price rise in the group was due to high inflation in wood and wood products (16.3 per cent), rubber and plastic products (6.3 per cent), non-metallic mineral products (7.8 per cent), and other non-ferrous metals (30.9 per cent). Textile prices witnessed negative inflation, and fertilizer prices showed marginal increases. Prices of edible oils declined in both 2004-05 and 2005-06 with the impact of lower international prices. Cement prices rose by 12.7 per cent with higher demand from construction boom in the country.

5.11 Price terms of trade between agriculture and manufacturing showed some improvements in favour of manufacturing during 2004-05 and 2005-06, but with agricultural prices rising much faster than manufacturing prices in the post-reform period, relative to 1993-94, the terms of trade continued to be in favour of agriculture by about 11 percentage points in 2004-05. Since the wholesale price index of manufactured products remained at low levels during 2005-06, the trend in the terms of trade in favour of agriculture would continue in the current year (Table 5.4).

**Table 5.3 : WPI inflation of major commodities  
(week ended January 21, 2006)**

(per cent)

Items	Weight	Annual inflation		Contribution to inflation	
		2005-06	2004-05	2005-06	2004-05
<b>All Commodities</b>	<b>100.00</b>	<b>4.5</b>	<b>5.4</b>	<b>100.0</b>	<b>100.0</b>
<b>Primary Products</b>	<b>22.03</b>	<b>5.7</b>	<b>1.0</b>	<b>26.9</b>	<b>4.3</b>
Food Articles	15.40	7.2	1.7	23.9	4.8
Food Grains	5.01	7.4	1.5	7.8	1.3
Cereals	4.41	5.9	1.8	5.5	1.5
Rice	2.45	2.0	2.6	1.0	1.1
Wheat	1.38	10.7	-1.5	3.3	-0.4
Pulses	0.60	19.0	-1.1	2.3	-0.1
Gram	0.22	25.1	-2.4	0.9	-0.1
Fruits & Vegetables	2.92	13.8	0.0	8.8	0.0
Vegetables	1.46	39.0	-12.9	8.4	-2.8
Potatoes	0.26	58.3	37.2	2.2	0.9
Onions	0.09	46.2	-46.4	0.6	-1.1
Fruits	1.46	0.9	8.2	0.4	2.8
Milk	4.37	-1.5	4.5	-1.4	3.6
Eggs, Meat & Fish	2.21	16.3	2.9	8.1	1.2
Condiments & Spices	0.66	0.8	-12.3	0.1	-1.7
Other Food Articles	0.24	13.7	18.8	0.5	0.5
Tea	0.16	2.3	8.1	0.0	0.1
Coffee	0.08	33.5	43.2	0.4	0.3
Non-Food Articles	6.14	-1.8	-6.4	-2.3	-7.8
Fibres	1.52	8.8	-22.8	2.3	-6.7
Raw Cotton	1.36	9.1	-27.2	2.0	-7.3
Raw Jute	0.11	17.9	32.9	0.4	0.5
Oil Seeds	2.67	-10.3	-3.5	-5.6	-1.7
Groundnut seed	1.03	-9.6	-2.4	-2.0	-0.5
Rape & mustard seed	0.58	-1.8	-12.7	-0.2	-1.5
Other Non-Food Articles	1.95	2.1	1.4	1.0	0.6
Sugarcane	1.31	0.7	-0.7	0.3	-0.2
Minerals	0.49	34.6	127.0	5.2	7.4
<b>Fuel Power Light &amp; Lubricants</b>	<b>14.23</b>	<b>7.9</b>	<b>10.2</b>	<b>38.3</b>	<b>39.0</b>
Coal Mining	1.75	0.3	16.7	0.2	6.0
Minerals Oils	6.99	12.5	14.9	33.8	30.7
Liquified petroleum gas	1.84	0.0	16.4	0.0	8.9
Kerosene	0.69	0.0	-0.3	0.0	-0.1
Petrol	0.89	14.6	12.1	3.2	2.1
High speed diesel oil	2.02	16.0	20.7	14.8	13.9
Electricity	5.48	2.7	1.6	4.5	2.3
<b>Manufactured Products</b>	<b>63.75</b>	<b>2.8</b>	<b>5.4</b>	<b>35.2</b>	<b>56.5</b>
Food Products	11.54	1.2	5.6	2.9	11.1
Sugar, Khandsari & Gur	3.93	2.5	26.9	2.0	15.1
Sugar	3.62	2.3	30.7	1.6	14.2
Khandsari	0.17	13.4	40.4	0.5	0.9
Gur	0.06	8.2	34.6	0.1	0.3
Edible Oils	2.76	-5.3	-6.0	-2.6	-2.8
Rape & Mustard Oil	0.49	-7.9	-11.7	-0.8	-1.2
Groundnut Oil	0.17	-1.0	-4.0	0.0	-0.1
Oil Cakes	1.42	-6.9	-6.7	-2.3	-2.0
Beverages Tobacco & pdts.	1.34	5.4	7.2	1.9	2.0
Textiles	9.80	-1.9	-3.4	-2.9	-4.7
Wood & Wood Products	0.17	16.3	-0.6	0.6	0.0
Paper & Paper Products	2.04	1.0	1.8	0.4	0.7
Leather & Leather Products	1.02	4.9	7.3	0.9	1.1
Rubber & Plastic Products	2.39	6.3	-1.6	2.4	-0.5
Chemicals & Chemical Products	11.93	3.1	3.1	7.9	6.8
Fertilisers	3.69	2.4	1.1	1.8	0.7
Urea	2.16	0.0	0.0	0.0	0.0
Non-Metallic Mineral Products	2.52	7.8	3.9	3.7	1.5
Cement	1.73	12.7	-1.2	3.8	-0.3
Basic Metals Alloys & Metals pdts.	8.34	6.4	17.1	13.1	26.2
Iron & Steel	3.64	6.7	20.3	6.8	15.2
Other Non-Ferrous Metals	0.61	30.9	3.9	3.2	0.3
Machinery & Machine Tools	8.36	1.5	8.2	2.2	9.4
Transport Equipment & Parts	4.30	2.9	5.3	2.3	3.5

**Table 5.4 : Movement of manufactured prices vis-à-vis agricultural prices**

Year/ Month	General wholesale prices	Index of manu- factured products	Index of agri- cultural products@	Index of manu- factured products as per cent of index of agricultural products
Weights	100.00	63.75	21.54	(col 3/ col4) X 100
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	187.3	165.1	186.4	89.1
2005-06 P *	195.3	171.5	191.4	89.7

P- Provisional \* April - December(average)  
@ Food+nonfood

### Essential Commodities

5.12 Thirty essential commodities important for the common citizen, with a weight of 17.6 per cent in WPI, registered an annual inflation rate of 3.8 per cent on January 21, 2006 compared to 6.1 per cent a year ago, and contributed 14.5 per cent to overall inflation compared to 19.5 per cent a year ago. The annual inflation rate for essential commodities has been less than that of the overall index, which could partly reflect the importance attached by the Government to keeping the prices of essential items under check. Out of 30 essential items, relative to their prices last year, 9 items witnessed a decline, and 6 items recorded increases of less than five per cent (Table 5.5). There was upward pressure on prices of pulses from the substantial increase of minimum support prices (MSP) in the current year.

### Items responsible for high inflation

5.13 Nine items belonging to different sub-groups in the primary articles' group, namely, potatoes and onion (in the vegetables' sub-

**Table 5.5 : Grouping of essential items according to price rise (as on January 21, 2006)**

Rate of inflation	Items
1. Decline of absolute prices over last year	Arhar, mustard oil, groundnut oil, vanaspati, milk, coconut oil, kerosene, long cloth/ sheeting and safety matches.
2. Annual inflation, less than 5 per cent	Rice, tea, sugar, salt, masur and mutton.
3. Annual inflation, 5 to 10 per cent	Jowar, atta, gur and laundry soap.
4. Annual inflation above 10 per cent	Wheat, gram, potatoes onions, bajra, moong, urad, fish and chillies.

group); bajra (in coarse grain); gram, moong, and urad (in pulses); and fish inland, with combined weight of 1.5 per cent in the WPI, contributed 10.9 per cent to total inflation compared to a contribution of only 2.0 per cent in 2004-05. These items had point-to-point annual inflation rates exceeding 10 per cent, substantially higher than those in 2004-05.

### Other Consumer Price Indices - CPI-IW and CPI-AL

5.14 Compared to its weight in the WPI, food items have a higher weight in the Consumer Price index for industrial workers (CPI-IW). The CPI-IW is also based on retail prices and hence captures the impact of prices of selected essential goods and services on the household budget. Although indices of both general and food groups have showed fluctuating trends in 2005-06 so far, inflation rate for food group has been lower than that of the overall inflation. Thus, the annual rate of inflation in CPI-IW was lower than that in WPI until October 2005 (Figure 5.3).

5.15 The year 2005-06 started with CPI-IW inflation rate at 5.0 per cent, up from 4.2 per cent in March 2005. Thereafter, CPI inflation rate had a fluctuating trend and stood at 5.6 per cent in December 2005 compared to average WPI inflation of 4.4 per cent in December 2005. During April to October 2005,



**Table 5.6 : Annual Inflation Rate of WPI and CPI for selected groups**

(per cent)

Year	Month	CPI-IW (General)	Food Group (CPI)	WPI (All Commodities)	WPI (Essential Commodities)	Food Group (WPI)
		Weight→100.0	57.0	100.0	17.6	26.9
2004-05	Apr	2.2	1.2	4.5	4.6	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	5.3
	Sep	4.8	3.9	7.9	5.9	4.9
	Oct	4.6	3.4	7.3	5.3	3.6
	Nov	4.2	2.6	7.5	5.0	4.1
	Dec	3.8	1.8	6.8	5.2	3.7
	Jan	4.4	1.6	5.5	6.1	3.3
	Feb	4.2	1.2	5.0	3.8	2.3
	Mar	4.2	1.6	5.4	3.7	3.0
2005-06	Apr	5.0	2.6	5.9	4.4	2.4
	May	3.7	2.0	5.5	3.3	1.4
	Jun	3.3	1.6	4.3	3.1	2.0
	Jul	4.1	4.0	4.3	4.3	3.6
	Aug	3.4	3.1	3.7	4.2	2.8
	Sep	3.6	3.5	4.1	3.3	2.3
	Oct	4.2	4.1	4.7	4.1	3.0
	Nov	5.3	6.6	4.3	4.6	4.2
	Dec	5.6	NA	4.4	4.7	4.9

food group inflation remained less than the general index (CPI) and for the first time in November 2005, the food group inflation exceeded the general index (Table 5.6).

5.16 Inflation in terms of consumer price index for agricultural laborers (CPI-AL) worked out to 3 per cent in April 2005 over April 2004. It rose to 3.6 per cent by July 2005. In August and September 2005, the increase was 3.2 per cent and the same fell marginally in October 2005. However, it increased to 4.7 per cent in November 2005. For each of the months during 2005-06 (till October 2005) inflation in CPI-AL was lower than corresponding increase in the CPI-IW. The differential, however, fluctuated between 2 per cent in April 2005 to around 0.2 per cent in August 2005. Thus, the year 2005 witnessed success in containing inflation in terms of not only WPI but also CPI-IW and CPI-AL.

5.17 Trends of quarterly inflation in terms of CPI-IW indicated marginal increase in the first quarter of 2005 over the previous quarter. CPI inflation in the second quarter was higher by 2.2 per cent over the first quarter. The details of the variations in the sub-groups are in Table 5.7.

### Updating of the Price Indices

5.18 At present, there are four different price indices namely, the WPI with base 1993-94=100, CPI-IW with base 1982=100, Consumer Price Index for Urban Non-Manual Employees (CPI-UNME) with base 1984-85=100, and the CPI-AL with base 1986-87=100. As the consumption expenditure pattern in both rural and urban areas have undergone significant changes over the years, there is a need to shift the existing bases of these indices to a more recent year. Accordingly, several exercises are being carried out under the directives of various technical advisory committees.

**Table 5.7 : Quarterly inflation in terms of CPI-IW for major groups  
(Change over previous quarter)**

(Per cent)

Group	Weight	2004-05				2005-06	
		Apr-June	July-Sep	Oct-Dec	Jan-Mar	Apr-June	July-Sep
Food	57.00	0.8	2.1	0.5	-1.9	1.4	3.5
Pan, Supari, Tobacco & Intoxicants	3.15	0.5	0.4	0.9	0.1	0.5	0.4
Fuel & Light	6.28	1.8	2.5	1.7	0.9	-6.6	-2.4
Housing	8.67	0.0	10.0	0.0	9.5	0.0	2.0
Clothing, Bedding & Footwear	8.54	1.3	0.2	-0.3	1.3	1.1	0.4
Miscellaneous Group	16.36	0.5	0.8	1.2	1.3	0.7	1.1

Source : Labour Bureau, Shimla/Chandigarh.

### Wholesale Price Index

5.19 A Working Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission is currently engaged in the revision of the current series of WPI (Base 1993-94) (Box 5.1). The Working Group is expected to submit its report by the end of June 2006.

### Consumer Price Index for Industrial Workers

5.20 In pursuance of the recommendation made by the International Labor Organization, the Second Commission on Labor and the National Statistical Commission, for early updating of the base of the CPI-IW, Labor Bureau has completed the works relating to

#### Box 5.1 : Revision of the existing Wholesale Price Index and Compilation of Producer Price Index

The Working Group has set up four sub-groups, namely, (a) Sub-Group on Analytical issues, (b) Manufactured items & related matters, (c) Unorganized/unregistered industries, and (d) Agricultural commodities. The sub-groups (b) and (c) have already submitted their reports and the work of the sub-group on agricultural commodities is at the final stage. Based on the recommendations of the three Sub-Groups, the analytical sub-group would arrive at a consolidated picture of the commodity basket and weighting diagram for the new series of WPI. The working Group has decided to shift the base from 1993-94 to 2000-01 for the revised WPI series.

The Working Group has also decided to recommend initiating the process of compilation of Producer Price Index (PPI) simultaneously, with the objective of ultimately switching over from WPI to PPI. PPI measures price changes from producers' perspective as against the consumer price indices which measures these from consumers' perspective. Many 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 their uses as measures of 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.

The Office of the Economic Adviser, Department of Industrial Policy & Promotion (DIPP), at the instance of the Working Group, has already initiated the process of collection of price data from organized and SSI units, as identified by the concerned sub-groups. Proforma for collecting the price data has already been sent to the organized manufacturing units and the same is also currently being sent to the SSI Units. The Working Group has emphasized the need for involvement of State Governments for interacting with the various industry/trade associations/government agencies to get the required price data from source agencies. Chief Secretaries of State Governments have been requested to nominate nodal officers for assisting in price collection activity. The Office of the Economic Adviser, Department of Industrial Policy and Promotion is planning to organize interactive sessions with the local industry/ trade associations in different States in collaboration with the State Government agencies to facilitate smooth flow of price data for the new WPI series.

the shifting of the base from 1982 to 2001. All procedural, methodological and conceptual issues have been finalized under the guidance of a Technical Advisory Committee (Box 5.2).

### Consumer Price Index for Urban Non-Manual Employees (CPI-UNME)

5.21 CPI-UNME (Base 1984-85 = 100) has limited use and is basically used for determining dearness allowances of employees of some foreign companies working in India in service sectors such as

airlines, communications, banking, insurance and other financial services. It is also used under the Income Tax Act to determine capital gains and by the CSO for deflating selected service sectors' GDP at current prices to get the corresponding GDP at constant factor cost. Presently, on the advice of its governing council, the NSSO is conducting a Family Living Survey (FLS) to obtain the present consumption pattern of urban non-manual employees for shifting the present base of CPI-UNME. The CSO is also examining the

#### Box 5.2 : Revised Consumer Price Index for Industrial Workers (Base 2001=100)

- The same methodology as for the existing CPI-IW has been used; only the base has been shifted from 1982 to 2001, which was considered to be a normal year judged by broad economic factors.
- Weighting diagrams for 78 centres have been revised on the basis of a detailed consumer expenditure survey conducted by the National Sample Survey Organisation in 1999-2000 with the help of Labour Bureau, Shimla. The weighting diagram, at the all India level, is the weighted average of the weights of 78 centres. The existing weights and revised weights are indicated below:

Groups	Weighting Diagrams for CPI-IW (per cent)	
	Base 1982	Base 2001
1. Food	57.00	46.19
2. Pan, supari, tobacco and intoxicants	3.15	2.27
3. Fuel and light	6.28	6.43
4. Housing	8.67	15.27
5. Clothing, bedding and footwear	8.54	6.58
6. Miscellaneous*	16.36	23.26
<b>Grand Total</b>	<b>100.00</b>	<b>100.00</b>

\* Miscellaneous group consists of medical care, education, transport and communications, recreation and amusement, personal care and effects, laundry, domestic services, etc.

#### Consultation with all stakeholders

As per the existing practices and conventions, Labour Bureau held series of consultations with all stakeholders such as the Union and State Governments, trade unions and the employers' associations before launching the relevant data collection and construction of weighting diagrams. The State Planning and Labour Departments and the State Bureau of Economics and Statistics were also actively consulted.

The Labour Bureau also organised a multi-stakeholders meeting at Shimla on May 19-20, 2005 with trade union leaders, representatives of the employers' organisations, State labour secretaries and representatives of Central Government Ministries, amongst others.

After extensive deliberations on methodology, consumption basket, choice of centres for construction of indices, choice of markets for collection of price data and revision of weighting diagrams, all the participants, except for the trade union leaders observed that they had no objection to the release of the revised CPI series with base 2001=100.

While appreciating the hard work done by the Labour Bureau and agreeing with the need for updating the CPI series, trade union leaders opposed the release of the new series on the ground that they were not represented in the Technical Advisory Committee (TAC) and they were not consulted earlier on various issues. They particularly referred to the Report of the Rath Committee (1978), which recommended that representatives of trade unions and employers should be involved actively in the exercises on revision of CPI. Ministry of Labour and Employment has accepted the suggestion of the trade unions to reconstitute the TAC by including representatives of trade unions and employers and to examine the revised CPI series by the reconstituted TAC.



possibility of constructing a consumer price index for the urban employees.

### **Consumer Price Index for Agricultural Labourers (CPI-AL)**

5.22 CPI-AL is basically used for revising minimum wages for agricultural labour in different States. The present base of CPI-AL is 1986-87, and as in the case of other consumer price indices, the consumption pattern of agricultural labourers has changed over the years. Therefore, the NSSO is presently conducting a family expenditure survey for agricultural labourers to get the present consumption pattern and to shift the present base of CPI-AL to a more recent year. The CSO is also examining the feasibility for constructing a consumer price index for the rural sector as a whole.

### *Real Estate/ Housing Price Index*

5.23 Housing and real estate sector constitutes not only a major proportion of national wealth but also an important fast expanding service sector in the economy. Because both lenders and borrowers may have large real estate/housing exposures (direct as well indirect), financial balance sheets may be affected by any large volatility of prices in this sector. Thus, it is desirable to monitor housing and real estate prices — an important segment of asset prices — for formulation of appropriate monetary and fiscal measures.

5.24 The National Housing Bank (NHB) has set up a Technical Advisory Group (TAG) to explore the possibility of constructing a real estate price index (Box 5.3).

#### **Box 5.3 : Housing Price Indices- International Best Practices and an operational Housing Price Index for India**

There are various concepts of housing price indices, and many sources and ways for compiling price data, both private and public. The methodology for construction of indices differs from country to country depending on the use and purpose of such indices and the availability of data.

With an Adviser, Ministry of Finance as the Chairman, the TAG comprises technical experts and members from NHB, CSO, RBI, Labour Bureau, HDFC, HUDCO, LIC Housing Finance Ltd., Dewan Housing Finance Corporation Ltd., and the Society for Development Studies.

After reviewing international best practices and the methodology, sampling techniques, collection of price data for construction of real estate price indices in USA (index developed by the Office of Federal Housing Enterprise Oversight), Canada (New Housing Price Index) and UK (Halifax index), the TAG has suggested a methodology for India. The TAG decided to conduct a pilot study for Delhi and to use both the (a) hedonic regression model and (b) the basic Laspeyre's weighted index for constructing an HPI for Delhi.

The residential colonies in Delhi have been categorized as one of the 8 tax zones (A to H) as decided by the Municipal Corporation of Delhi (MCD) under the Unit Area Method for property tax assessment. The classification of the colonies is largely based on the level of services and the capital value of housing units. 30 colonies in different tax zones have been selected on the basis of transactions for the collection of basic data. These colonies are spread over all parts of Delhi.

The TAG has decided to take 2001 as the base year for the construction of HPI on a half yearly basis. The choice of base year for HPI is consistent with the base period of other indices, that is, 2001 for the revised CPI-IW series, 2000-01 for the revised WPI and 1999-2000 for the revised GDP series.

For HPI, basic data are being collected for each year since 2001. For each selected colony and for each year, information is being collected for at least 20 transactions, which actually took place during the year. At the First Phase of the pilot study, only residential houses (both independent houses and flats, and both old and new for sale) in urban areas with basic amenities are being considered. At the second stage, commercial housing units will be considered and finally land may be included in order to make it a comprehensive real estate price index.

It is well known that the registered prices of houses are grossly under-estimated due to very high registration fees and stamp duty. Due to same reasons and subsequent obligations for the payment of property tax, individual purchasers (except corporate bodies) do not reveal the exact purchase price of a house. Therefore, in addition to information from registration offices, basic data on value, plinth area, location, age and basic characteristics of houses are being collected from property dealers, Residential Welfare Associations (RWAs), Delhi Development Authority and the private builders.

## Services Price Index

5.25 Given the importance of the service sector, there is a need to develop service price indices for selected service sectors, particularly in the national accounts framework. The need for such indices was recommended by the Working Group set up to revise the WPI and reiterated by the National Statistical Commission. The Office of the Economic Adviser, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry has been implementing two plan schemes aiming at (i) switching over from the existing WPI to the PPI and (ii) developing service sector price indices, as per international best practices. Under the plan schemes, studies are being commissioned for selected services, that is, road transport, railways, air transport, port, banking, insurance, posts, telecommunication, business services and trade services, to develop service price indices.

## Anti-Inflationary Measures

5.26 High inflation hurts the poor with their incomes not indexed to prices. It also puts pressure on interest rates, and adversely affects both savings and investment. Because of its implications for the poor and its possible destabilizing effects on macro-economic stability, containment of inflation is high on the Government's agenda.

5.27 The anti-inflationary policies of the government include strict fiscal and monetary discipline; rationalization of excise and import duties of essential commodities to lighten the burden on the poor; effective supply-demand management of sensitive items through liberal tariff and trade policies; and strengthening the public distribution system. Various fiscal and monetary measures taken by the government since February 2005 include the following:

(a) Tariff values for crude palm and other palm oils were reduced in line with international prices. Simultaneously, import duties were increased on crude palm oil and crude palmolein from 65 per cent to 80 per cent, and on refined palm oil and RBD palmolein from 75 per cent

to 90 per cent with effect from February 15, 2005 to reconcile the interests of both the farmers and the consumers. Excise duty on edible oils/vanaspati/fat was withdrawn with effect from March 1, 2005.

- (b) From April 29, 2005, the RBI increased the reverse repo rate by 25 basis points under the liquidity adjustment facility (LAF) from 4.75 per cent to 5 per cent.
- (c) In June 2004, Government decided to continue the subsidy on PDS kerosene and domestic LPG on a flat rate basis till March 31, 2007. The same policy continues with the overall subsidy burden shared with the upstream and downstream oil companies.
- (d) The Budget for 2005-06 rationalized the duty structure on petroleum products in a revenue neutral manner. Import duty on crude oil was reduced from 10 per cent to 5 per cent and excise and customs duties on PDS kerosene and domestic LPG were completely removed. The loss of revenue through such reductions was made good through revision of excise duties on motor spirit and HSD. To soften the impact of crude price volatility in the world market, the specific components of excise duty on motor spirit and HSD were enhanced with a corresponding reduction in the ad valorem components.
- (e) Keeping in view the inflationary risks of a liquidity overhang in the economy, the RBI, while announcing the Mid-Term Review of the Annual Policy Statement for 2005-06, effective from October 26, 2005, raised both the fixed reverse repo and fixed repo rates by 25 basis points each to 5.25 percent and 6.25 percent, respectively, with the spread between the two unchanged at 100 basis points.
- (f) From January 24, 2006 the RBI further increased the fixed reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 5.25 per cent to 5.50 per cent. The fixed repo rate will be 6.50 per cent.

## Commodity Profiles

5.28 The overall availability and retail prices of most of the essential commodities including rice, sugar, tea, milk and edible oils were generally satisfactory. The stocks of rice with central agencies as on 1st January 2006 were satisfactory as per the buffer stocks norms. There was some concern about dwindling stocks of wheat and its impact on the prices in mid-January, 2006. Edible oils and pulses, in which the country is not self-sufficient, continued to be imported to augment their domestic availability. Annual inflation rates for selected commodities are provided in Table 5.8.

### Sugar

5.29 India is the largest consumer of sugar and the second largest producer of sugar with a share of over 15 per cent of world sugar production. Sugar industry is the second largest agro-based industry in India after textiles. The importance of sugar industry in India can be judged from the fact that about 45 million sugarcane growers and a large number of rural labourers depend on sugarcane and sugar industry for their livelihood. Sugar cultivation accounts for 3 per cent of total cultivated area and contributes 7.5 per cent of the gross value of agricultural production.

5.30 There are 571 installed sugar mills in the country with a production capacity of 19.2 million tonnes (MT) of sugar. On the back of successive good monsoons, sugar production increased rapidly from 15.5 MT in 1998-99 to 20.1 MT in 2002-03, and sugar

prices declined in 2002-03 and remained low for the major part of 2003-04 due to high stocks. The WPI for Sugar (with base 1993-94=100) at 133.1 at the beginning of April 2004 was higher than 132.3 recorded two years ago at the beginning of April 2002. Sugar industry faced a complex problem of high stocks, low prices, poor profitability, financial crunch and mounting cane price arrears.

5.31 Sugar production declined to around 14 MT in 2003-04 and 2004-05 due to droughts and pest infestation in major sugar producing states like Maharashtra, Tamil Nadu, Andhra Pradesh and Karnataka. Government also increased the statutory minimum price (SMP) of sugarcane from Rs.74.50 per quintal to Rs.79.50 per quintal for the sugar season 2005-06. International prices of sugar ruled high and increased from Rs.10, 951 per tonne on April 5, 2005 to Rs.15, 457 per tonne on December 28, 2005.

5.32 According to the fourth advance estimates of the Department of Agriculture and Co-operation, sugarcane production for 2004-05 is estimated at 232.3 MT compared to 237.3 MT in 2003-04. As per the first advance estimates, sugarcane production is expected to be 257.7 MT in 2005-06, an increase of 10.9 per cent over that in 2004-05.

5.33 On January 21, 2006, sugar group with weight of 3.93 percent in the WPI registered point-to-point annual inflation of 2.5 per cent and contributed 2 per cent to overall inflation compared to an inflation of 26.9 per cent and contribution of 15.1 per cent a year ago (Table 5.9). With higher releases of free sale quota during the lean and festival seasons,

**Table 5.8 : Annual WPI Inflation-selected commodities**

(per cent)

Items	Weight	26/3/2005	17/12/2005	24/12/2005	31/12/2005	7/1/2006	14/1/2006	21/1/2006
Rice	2.45	2.9	3.4	2.9	3.1	1.8	2.0	2.0
Wheat	1.38	-1.1	3.6	3.8	5.7	6.5	7.2	10.7
Jowar	0.22	9.9	3.0	2.2	2.7	4.5	5.5	6.6
Bajra	0.11	28.7	11.4	13.4	13.2	12.2	11.4	12.3
Gram	0.22	-1.1	24.3	24.1	23.1	23.0	22.8	25.1
Urad	0.10	-2.9	30.3	28.4	33.4	38.7	32.9	39.8
Moong	0.11	0.9	15.5	12.8	12.8	14.5	15.0	20.7
Potatoes	0.26	40.4	99.2	104.1	98.0	82.8	60.1	58.3
Onions	0.09	-27.7	98.8	99.8	68.3	53.6	49.5	46.2
Fish	0.50	6.6	31.8	29.0	27.3	32.9	39.6	30.3
Chillies	0.19	-24.7	-2.3	4.0	4.8	11.4	10.2	12.7

Items	Weight	Annual inflation		Contribution to inflation	
		2005-06	2004-05	2005-06	2004-05
		ALL COMMODITIES	100.00	4.5	5.4
Manufactured Products	63.75	2.8	5.4	35.2	56.5
Food Products	11.54	1.2	5.6	2.9	11.1
Sugar, Khandsari & Gur	3.93	2.5	26.9	2.0	15.1
Sugar	3.62	2.3	30.7	1.6	14.2
Khandsari	0.17	13.4	40.4	0.5	0.9
Gur	0.06	8.2	34.6	0.1	0.3

and an expected production of 17.5 MT, the prices of sugar exhibited a stable trend during 2005-06 sugar season. The increase in prices of sugar witnessed in 2004-05 has subsided in the current year, though the prices continue to rule at a higher level. The availability and prices of sugar in the current season are expected to remain at reasonable levels.

#### *Onion*

5.34 With excess rains in Maharashtra and Gujarat resulting in a decline in the storable rabi onion, the prices recorded a hardening trend in the retail market from end-August, 2005 and up to November 2005. Government took appropriate steps to contain the prices within reasonable limits. These included augmenting supplies by bringing stocks from

the neighbouring States; building a buffer stock of onions of 800 tonnes with the stocks from Rajasthan and Madhya Pradesh; making available onion for sale at subsidized rate by different State Governments; and effective monitoring of prices and availability of onion in different States. Price of onion declined after mid-November 2005 with the arrival of fresh crops in large quantities. The estimated production of onion in 2005-06 is expected to be higher at 6.03 MT compared with 5.94 MT in 2004-05 and 5.72 MT in 2003-04.

#### *Potato*

5.35 Potato is mainly a rabi crop and is grown mainly in U.P, Punjab, Haryana, West Bengal, Madhya Pradesh, Bihar, Andhra Pradesh, Tamil Nadu and Gujarat. During

State/UT	Kharif		Rabi		Total	
	Area	Production	Area	Production	Area	Production
	(000 hect.)	(000 tonnes)	(000 hect.)	(000 tonnes)	(000 hect.)	(000 tonnes)
Andhra Pradesh	-	-	2.00	20.00	2.00	20.00
Assam	-	-	83.00	680.00	83.00	680.00
Bihar	-	-	162.00	2225.00	162.00	2225.00
Gujarat	-	-	33.00	830.00	33.00	830.00
Haryana	-	-	10.25	325.00	10.25	325.00
Himachal Pradesh	8.43	75.00	4.30	92.00	12.73	167.00
Jammu & Kashmir	-	-	2.10	31.50	2.10	31.50
Karnataka	30.00	300.00	22.00	325.00	52.00	625.00
Madhya Pradesh	10.00	190.00	23.00	190.00	33.00	380.00
Maharashtra	10.00	175.00	6.00	97.00	16.00	272.00
Orissa	-	-	8.00	85.00	8.00	85.00
Punjab	-	-	85.00	1225.00	85.00	1225.00
Rajasthan	-	-	6.50	60.00	6.50	60.00
Tamil Nadu	3.00	58.50	4.00	73.50	7.00	132.00
Uttar Pradesh	-	-	385.00	8300.00	385.00	8300.00
West Bengal	-	-	350.00	7700.00	350.00	7700.00
Uttaranchal	18.00	360.00	5.00	140.00	23.00	500.00
Others	25.00	250.00	22.00	345.00	47.00	595.00
<b>Total</b>	<b>104.43</b>	<b>1408.5</b>	<b>1213.15</b>	<b>22744</b>	<b>1317.58</b>	<b>24152.5</b>

Source : Department of Food and Civil Supplies



2005-06, total production of potato is estimated to be 24.65 million tonnes from an area of 13.29 lakh hectares. Production of potato during 2004-05 was estimated to be 24.15 MT as compared to 23.27 MT in 2003-04. Potato production suffered in early January 2006 due to cold waves and foggy conditions in the northern parts of the country (Table 5.10).

### *Wheat*

5.36 The retail prices of wheat remained steady during 2005-06 (up to December, 2005) except some hardening in May-June 2005 across various centres in the country. Government has taken several measures to stabilize the prices of wheat such as (a) daily monitoring, (b) release of adequate quantities under TPDS and other welfare schemes, (c) augmenting domestic supplies through Open Market Sales Scheme, and (d) ensuring adequate stocks in all the regions in the country. Government also decided to import 5 lakh tonnes of wheat as a precautionary measure. Production of wheat remained nearly stable at 72 MT during 2004-05 as in the previous year. The production targets for 2005-06 incorporate a modest increase of around 3 MT over 2004-05. Procurement of wheat during marketing season 2005-06 (April-March) at 14.8 MT was lower by 2 MT from 2004-05. Stock of wheat with FCI and other State agencies at 7.6 MT on December 1, 2005 were lower compared to December 1, 2004.

### *Pulses*

5.37 The chronic demand-supply imbalance for most of the pulses observed over the last decade continues. Domestic consumption of pulses, estimated at over 15 MT per annum, is steadily increasing. Output of pulses, consistently lower at around 12-14 MT, in the last one decade has resulted in the shortfall being met through imports. During 2004-05, 1.3 MT of pulses were imported as against 1.7 MT a year ago. Imports during the first seven months of 2005-06 were 0.88 MT. Some increase in production of pulses during the last couple of years supplemented by imports helped in augmenting the domestic availability

and in ensuring price stability. Prices, however, have been under stress in recent months particularly for gram, urad and moong. As per the 1st advance estimates for 2005-06, the kharif pulses production is estimated to be marginally higher at 4.98 MT as compared to 4.95 MT in 2004-05. Area under pulses as well as the yield levels needs to be enhanced to address the situation of structural demand-supply imbalance.

### *Edible Oils*

5.38 The retail prices of edible oils were generally stable during the past two years. Wholesale prices moderated with softening of international prices. In order to minimize the impact of softening of international prices on domestic industry, while reducing tariff values for crude palm oils and other palm oils, the Government rationalized the import and excise duties, the details regarding which have already been provided in para 5.27.

5.39 Domestic annual consumption of edible oils is estimated at over 12 MT, while domestic production has been hovering around 7 MT (Table 5.11). The production of oilseeds is likely to be sustained at 2003-04 level. The demand-supply imbalance for edible oils is met mainly through imports of soyabean and palm oils, which constitute nearly 40 per cent of total domestic consumption. The estimated

**Table 5.11: Production of oilseeds and edible oils**

(Million tonnes)

Year	Production of oilseeds	Net domestic availability of oils	Domestic consumption of edible oils
1998-99	24.8	7	9.6
1999-00	20.7	6	10.2
2000-01	18.4	5.5	9.7
2001-02	20.7	6.2	10.5
2002-03	15.1	4.7	9.1
2003-04	25.1	7.1	12.4
2004-05	24.8	7.3	11.7

Source: (i) Production of oilseeds: Ministry of Agriculture as Declared on 19-01-2005.  
(ii) Net availability of edible oils: Directorate of Vanaspati, Vegetable Oils & Fat.



<b>Table 5.12 : Present custom duty structure of crude and refined edible oils</b>			
<i>(per cent)</i>			
	WTO binding	Current rates	
		on crude edible oils	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

**Source: Directorate of Sugar & Edible Oils.**

imports of 4.5 MT during 2004-05 have helped in augmenting the domestic availability and keeping the prices at reasonable levels. During the first seven months of 2005-06, imports of edible oils were 2.6 MT. The details of custom duties on crude and refined edible oils are in Table 5. 12.

## II. Food Management

5.40 Procurement higher than the offtake had resulted in a buildup of excessive stocks of foodgrains during the two successive years of 2001-02 and 2002-03. There was a diminution of the problems associated with this build up of stocks during the current year. Stocks of food grains at 19 million tonnes as on the first December 2005 though lower than

<b>Table 5.13 : Procurement of wheat and rice (Central pool)</b>				
<i>(Million tonnes)</i>				
Marketing Year	Wheat (April - March)		Rice (Oct - Sept)	
	Qty	per cent change	Qty	per cent change
	1995-96	12.33	3.88	10.07
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	24.68	8.10
2005-06	14.79	-11.96	15.88*	-

\* As on January 18, 2006  
Source : Department of Food and Public Distribution.

the stocks of 21.8 million tonnes in December 2004, were comfortable and higher than the buffer stock norms. The main reason for the decline of total stocks was due to lower stock of wheat.

## Procurement of Foodgrains

5.41 The year 2004-05 was a normal agricultural year with good procurement of foodgrains. Rice procurement during the kharif marketing season (KMS) 2004-05 at 24.7 million tonnes was higher by around 2 million tonnes over 2003-04 (Table 5.13). Wheat procurement during rabi marketing season (RMS) (April-March) 2005-06 was 14.8 million tonnes, down by

<b>Table 5.14 : Procurement of rice</b>						
State/U.T.	Quantity (Lakh tonnes)			Percentage Share		
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
Andhra Pradesh	26.35	42.3	39.04	16.04	18.53	15.82
Bihar	1.59	3.63	3.43	0.97	1.59	1.39
Chhattisgarh	12.91	23.74	28.37	7.86	10.4	11.49
Haryana	13.24	13.34	16.62	8.06	5.84	6.73
Maharashtra	1.52	3.08	2.05	0.93	1.35	0.83
Orissa	8.9	13.73	15.9	5.42	6.02	6.44
Punjab	79.4	86.62	91.06	48.35	37.94	36.89
Tamil Nadu	1.07	2.07	6.52	0.65	0.91	2.64
Uttar Pradesh	13.6	25.54	29.71	8.28	11.19	12.04
West Bengal	1.26	9.25	9.44	0.77	4.05	3.82
Others	6.39	4.98	4.69	2.67	2.18	1.9
Total	164.23	228.28	246.83	100.00	100.00	100.00

**Source : Department of Food and Public Distribution.**

State/U.T.	Quantity (Lakh tonnes)			Percentage Share		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
Bihar	0.01	0.15	0.01	0.0	0.1	0.0
Haryana	51.22	51.15	45.30	32.4	30.5	30.6
Himachal Pradesh	0.01	0.00	0.00	0.0	0.0	0.0
Madhya Pradesh	1.88	3.49	4.80	1.2	2.1	3.3
Punjab	89.38	92.4	90.10	56.6	55.0	60.9
Rajasthan	2.59	2.79	1.60	1.6	1.7	1.1
Uttaranchal	0.67	0.54	0.40	0.4	0.3	0.3
Uttar Pradesh	12.13	17.41	5.60	7.7	10.4	3.8
Delhi	0.12	0.02	0.02	0.1	0.0	0.0
Total	158.01	167.95	147.85	100.0	100.0	100.0

Source : Department of Food and Public Distribution.

2 million tonnes compared to 2004-05. In February 2006, the Government decided to import 5 lakh tonnes wheat to augment the domestic supplies.

5.42 For better regional spread, procurement of rice was extended to non-traditional surplus states such as Chhatisgarh, Orissa and Tamilnadu. As a result, the share of rice procurement from four traditional states of Andhra Pradesh, Haryana, Punjab and Uttar Pradesh declined to 71.5 percent in 2004-05 down by 2 percentage points over 2003-04 (Table 5.14). Procurement of wheat, on the other hand did not see such a sharp trend towards non-traditional states (Table 5.15).

#### **Offtake of foodgrains from the central pool**

5.43 The offtake of foodgrains from the central pool at 265.7 lakh tonnes during April-November 2005 was marginally higher by 1.50 lakh tonnes over the corresponding period of 2004-05. The offtake under Antyodaya (AAY) at 45.16 lakh tonnes during April-November, 2005 was higher by almost one third over the corresponding period of 2004. Open market sales witnessed marginal increase of 2.05 lakh tonnes and the offtake under above the poverty line (APL) category increased by 10 lakh tonnes. During April-November, 2005, the offtake of foodgrains under below the poverty line (BPL) category was, however, lower by 16 lakh tonnes (13.6 per cent) (Table 5.16).

Schemes	Foodgrains (Rice+Wheat)						April –November	
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2004-05	2005-06
TPDS of which	170.76	120.42	138.36	203.40	241.94	295.72	188.47	194.60
BPL	69.95	96.53	100.52	137.24	158.04	173.81	114.22	98.64
APL	100.82	23.65	21.06	30.78	42.24	67.28	40.79	50.80
Antyodaya	–	0.24	16.78	35.39	41.65	54.63	33.46	45.16
Welfare schemes	14.26	31.93	71.84	113.80	135.00	106.09	64.76	67.71
Open market sale	45.51	14.88	55.98	56.61	13.30	2.47	1.35	3.40
Export	–	14.86	46.84	124.64	103.08	9.66	9.67	0.00
<b>Total</b>	<b>230.53</b>	<b>182.08</b>	<b>313.02</b>	<b>498.45</b>	<b>493.32</b>	<b>413.94</b>	<b>264.25</b>	<b>265.71</b>

Source : Department of Food and Public Distribution.

## Buffer stock

5.44 In a normal year, higher level of stock buildup leads to higher subsidies through higher carrying costs. Therefore, the buffer stock policy of the government should ensure that the foodgrains stocks do not cross the norms for that year beyond a reasonable margin. Actual stocks of wheat and rice have consistently remained higher than the corresponding buffer norms during 2001-02, 2002-03, 2003-04 and first three quarters of 2004-05. During July 2005, for the first time since 2001-02, the actual stocks of food grains fell short of the buffer norms by almost 2.4 million tonnes. The shortfall in stocks however came down to only 1.1 million tonnes in October 2005. This shortfall is due to a shortfall of 0.7 million tonnes in wheat and 0.4 million tonnes in rice (Table 5.17). However, the present shortfall in the stocks over the buffer norms is not considered alarming and appears sufficient to meet the requirements

under TPDS, welfare schemes and open market sales during the current financial year. This shortfall is expected to lead to a reduction in carrying costs and the subsidies bill of the Government.

## Minimum Support Prices

5.45 The past ten years witnessed large increases in the MSPs of rice and wheat that, inter alia, resulted in a large gap between the cost of production and the MSP. One of the important impacts of this development was the regional segmentation of the markets: for example, prices of food grains in the primary grain markets remained below MSP in some Northern States that substantially reduced private trade from the grain markets and excessive financial costs to the FCI for procurement and storage of foodgrains. Reduction of private trade in wheat and rice in the northern states of Punjab and Haryana also possibly led to "crowding out" of private

**Table 5.17 : Central foodgrains stocks and minimum buffer norms**

(Million tonnes)

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(P)	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(P)	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(P)	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	6.1	18.1	20.3
January-2005(P)	8.4	8.9	8.4	12.8	16.8	21.7
April	4.1	4.0	12.2	13.3	16.2	17.4
July	17.1	14.5	9.8	10.1	26.9	24.5
October	11.0	10.3	5.2	4.8	16.2	15.1

P : Figures from 2002 onwards provisional.

Source : Department of Food and Public Distribution.

**Table 5.18 : 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
2005-06	-	-	-	-	-	-	600

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.

investment in agricultural marketing channels. Market prices were often lower than the MSPs and, therefore, there was unabated build up of food grain stocks with the FCI. At one point of time (June 2002) the stocks at 64.7 million tonnes were almost three times the buffer requirements that resulted in extremely high carrying costs and bloated food subsidy.

5.46 The situation was reviewed and, as a result, the price policy for rabi and kharif crops announced modest price increases in the past 5 years (Table 5.18). The Government's policy of restraint in announcing hike in the MSP of principal cereals in the last four seasons is likely to address the problems associated with excessive concentration on production of two crops, namely, wheat and rice.

5.47 The MSP regime needs to be rationalized based on the following considerations: (i) As MSPs help only the large farmers with high marketable surpluses and marginalize the rest of them, the non-price factors such as those related to provision of infrastructure needs to be considered; (ii) As FCI gets full reimbursement for its procurement, handling and storage costs, the

scope for its efficiency improvement through reduction in operating costs needs to be examined; (iii) State level sales taxes and marketing committee fees (mandi fees) on procurement operations in Punjab and Haryana inflate the economic cost of the foodgrains, and the average consumer in all States and the States who are net buyers of foodgrains bear the incidence of such State sales taxes and duties. There is a need to explore the possibility of combining moral suasion with some incentive/disincentive to discourage States from imposing such levies.

### **Economic cost of foodgrains**

5.48 Economic cost of rice has shown an increasing trend since 1999-2000. The increase in the economic cost of rice during 2004-05 was 6 percent over 2003-04 (Table 5.19). This increase in the economic cost was despite actual decline of 18.8 per cent in the procurement incidentals (mainly MSP, State levies). The economic cost of wheat during 2004-05, however, rose by 8.5 per cent over 2003-04. Distribution cost accounted for this increase.

Year	2000-01	2001-02	2002-03	2003-04	2004-05(RE)	2005-06(BE)
<b>Rice</b>						
Procurement incidentals	69.9	66.8	61.7	25.6	20.8	27.6
Distribution Cost	189.9	119.6	157.7	215.4	266.7	237.1
Economic Cost \$	1137.1	1097.7	1165	1231.3	1304.6	1286.2
<b>Wheat</b>						
Procurement incidentals	128.2	134.7	137.6	145.5	153.5	149.7
Distribution Cost	166.2	126.7	145.5	165.3	226.3	195.7
Economic Cost \$	883.5	852.9	884	928.7	1007.7	983.0
<b>\$ Weighted average of common and grade-A rice taken together.</b>						
<b>Source : Department of Food and Public Distribution.</b>						

5.49 As the MSP level and the State levies account for more than 50 per cent of procurement incidentals, rationalization in the MSPs must keep in view the implications of high support prices on the economic cost of foodgrains.

#### **Decentralized Procurement Scheme**

5.50 The Decentralized Procurement Scheme has evoked good response from the State Governments. The State of Karnataka and Kerala have joined this scheme in 2004-05, thereby increasing the number of States undertaking decentralized procurement (DCP) to 11 (including West Bengal, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Uttaranchal, Gujarat, Orissa, Tamilnadu and Union Territory of Andaman & Nicobar Islands). There was record procurement of 93.6 lakh tonnes of paddy/rice by DCP States in kharif 2004-05, which were 16.0 lakh tonnes more than the previous record of 77.6 lakh tonnes in kharif 2003-04. However, the concerns about the scheme relate to financing of operations (due to strict RBI valuation norms for stocks of food grains), reimbursement of expenses and release of subsidy by the Central government (due to fixation of economic cost of foodgrains procured by the State Governments and delays in the release of the subsidy).

#### **Central issue price**

5.51 The Government has followed a policy of issuing wheat and rice to States and Union

Territories through TPDS at uniform Central issue prices (CIPs). Any difference in the economic cost of foodgrains and their respective CIPs is reimbursed to the FCI by the Central Government. Any changes in the MSPs and economic cost of foodgrains affect the level of subsidy. The CIPs for APL were last fixed in July 2001, The CIPs for BPL were last fixed in July 2000 (Table 5.20).

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
<b>Source : Department of Food and Public Distribution.</b>				



**Table 5.21 : Growth of food subsidies**

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	0.48\$
2000-01	12060	27.84	0.57\$
2001-02	17499	45.10	0.77\$
2002-03	24176	38.16	0.98\$
2003-04	25160	4.07	0.91\$
2004-05(RE)	25800	2.54	0.83\$
2005-06(BE)	26200	1.55	-

\$ As per cent of GDP (new series based on 1999-00).  
\* Other than that on sugar.  
Source : Budget documents, various issues and CSO.

### Food subsidy

5.52 Provision of minimum nutritional support to the poor through subsidized foodgrains and ensuring price stability in different States are the twin objectives of the food security system. By fulfilling the obligation towards ensuring distributive justice, the Government incurs food subsidies. Food subsidies showed an annual increase of above

27 per cent during each of the three years namely 2000-01, 2001-02 and 2002-03. The annual increase came down to 4.1 per cent during 2003-04 and is expected to further decelerate to 2.54 per cent in 2004-05 (RE) (Table 5.21).

### Outlook

5.53 The overall inflation rate in terms of WPI remained below 5 per cent for most of the weeks during the first three quarters of the current financial year. Inflation rates for manufactured products and for fuel, oil and lubricants group decelerated significantly in 2005-06 from 2004-05. The general decline in the inflation rate during 2005-06 was due to sound macro-economic management along with effective management of supply and demand for essential items. Given these trends, the annual point-to-point inflation rate is likely to remain around 5 per cent at the end of March 2006.

5.54 Discounting the uncertainty associated with high and volatile international petroleum prices, the near and medium-term inflation risks in the Indian economy appear to be manageable. The danger of an unexpected oil price increase is ever present. However, given sufficient foreign exchange reserves and Government's commitment to further trade and tariff reforms, strict fiscal prudence, monetary discipline and orderly movement of the exchange rate of rupee, the annual inflation rates in terms of both wholesale and consumer price indices are likely to witness declining trends in the medium term and to remain within tolerable limits.