

### 3. PRICES

Inflation, an upward movement of the general prices of goods and services, has a considerable impact on the average consumers. This economic variable is estimated as the percentage rate of change in the price Index over the reference period. The fiscal year 2008-09, was a very unusual year marked by extremes in price movements. External and supply side factors played a dominant role in accelerating the inflation to double digit level. In the following sections, inflation based on Wholesale Price and Consumer Price Indices, is dealt with in detail.

#### **Inflation Based on Wholesale Price Index: Tamil Nadu and All India:**

The headline inflation measured by the Wholesale Price Index (WPI), has the commodity basket of three constituent groups viz. Primary Articles, Fuel, Power, Light and Lubricants and Manufactured Products. The price trends prevailed among these three commodity groups, since 2000-01 is given in the following table. As the base year for all India and Tamil Nadu is different, a strict comparison between these two Indices is not attempted. However, the directions of movement noted between these two Indices are studied to understand the inflationary pressure on the economy.

**Table – 1 : Annual Inflationary Rate: Based on Wholesale Price Index  
(Points to Point Basis)**

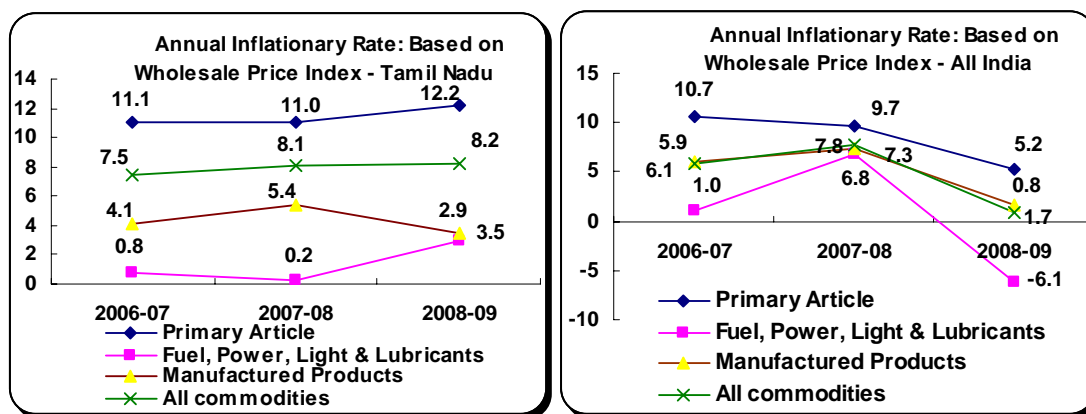
| Year    | Primary Article |           | Fuel, Power, Light & Lubricants |           | Manufacture d Products |           | All commodities |           | Annual average (All commodities) |           |
|---------|-----------------|-----------|---------------------------------|-----------|------------------------|-----------|-----------------|-----------|----------------------------------|-----------|
|         | Tamil Nadu      | All India | Tamil Nadu                      | All India | Tamil Nadu             | All India | Tamil Nadu      | All India | Tamil Nadu                       | All India |
| 2000-01 | 0.9             | 1.5       | 14.6                            | 15.1      | 3.1                    | 4.0       | 2.5             | 5.5       | 6.0                              | 7.2       |
| 2001-02 | (-)1.2          | 3.9       | 0.7                             | 3.9       | 2.6                    | 0.0       | 0.5             | 1.6       | 1.9                              | 3.6       |
| 2002-03 | 8.6             | 6.1       | 9.6                             | 10.8      | 5.3                    | 5.1       | 7.2             | 6.5       | 2.7                              | 3.4       |
| 2003-04 | 0.6             | 1.6       | 6.8                             | 2.5       | 3.1                    | 6.7       | 2.0             | 4.6       | 4.9                              | 5.5       |
| 2004-05 | (-)1.4          | 1.3       | 1.2                             | 10.5      | 1.8                    | 4.6       | 0.1             | 5.1       | 1.8                              | 6.5       |
| 2005-06 | 5.2             | 5.4       | 6.8                             | 8.9       | 0.6                    | 1.7       | 3.3             | 4.1       | 0.9                              | 4.4       |
| 2006-07 | 11.1            | 10.7      | 0.8                             | 1.0       | 4.1                    | 6.1       | 7.5             | 5.9       | 6.3                              | 5.4       |
| 2007-08 | 11.0            | 9.7       | 0.2                             | 6.8       | 5.4                    | 7.3       | 8.1             | 7.8       | 6.0                              | 4.7       |
| 2008-09 | 12.2            | 5.2       | 2.9                             | (-)6.1    | 3.5                    | 1.7       | 8.2             | 0.8       | 10.2                             | 8.4       |

*For Tamil Nadu, Base Year is 1970-71=100; All India, Base year is 1993-94=100*

*Source: Economic Survey 2008-09, Government of India.*

*Department of Economics and Statistics, Chennai – 6.*

The annual average inflationary rates prevailed at the National level during the nine year period since 2000, had exceeded the 6.0 per cent level in three occasions, viz., 2000-01, 2004-05 and 2008-09 (on an average basis), with 2008-09 recording the highest rate of 8.4 per cent. Over the latest five year span between 2004-05 and 2008-09, inflation remained below 7 per cent except for two breaches. The first breach was in the second half of 2004-05, when the price of crude oil per barrel rose from US\$ 38 in 2004 to US\$ 54 in 2005 coupled with an erratic, delayed and unevenly spread monsoon. The second breach began from March 2008, prior to the onset of the fiscal year.



In the State, on an average, the inflationary pressure was above 6.0 per cent, since 2006-07. The increase registered during 2006-07 (6.3%) was followed in 2007-08 (6.0%) and reached a very high rate of 10.2 per cent in 2008-09. The movement of the Index, on a point to point basis also indicates a higher order pressure of 7.5 per cent, 8.1 per cent and 8.2 per cent respectively. Hence, a higher base set by the Index in the recent periods has paved way for pressure on the State economy.

### Price Trend: Tamil Nadu:

The Wholesale Price Index of the State in 2007-08 had witnessed a higher increase of 8.1 per cent, on a point to point basis and 6.0 per cent, on an average basis. Over and above these, the year 2008-09 had a rate of 10.2 per cent (point to point) and 8.2 per cent (average). These higher rates were attributed to 'primary articles' only. The movement of the all commodity Index during the year 2008-09, in comparison with that of 2007-08, is narrated in the following sections.

### Movement of Wholesale Price Index : Month-wise:

The WPI of the State had an overall inflationary rate of 10.2 per cent in 2008-09 against that of 6.0 per cent in 2007-08, on an average basis. The month-wise movement of the index, on a point to point basis also indicates a faster rate during 2008-09 as against that of 2007-08. In 8 out of 12 months, double digit rate was seen. However, at no stage, the rate of increase was lower than that of the previous year. The year had a higher rate of 8.5 per cent increase in April 2008. The Index accelerated in the subsequent months to reach 12.2 per cent in October 2008. From then onwards, smaller declines occurred every month which gave an optimistic outlook for the consumers. The Index settled at 8.2 per cent only by the end of March 2009 against 6.1 per cent in the corresponding period of 2008. In the coming year, the inflationary rate has to fight against this high base.

**Table – 2: Monthly Movement of WPI  
(point-to-point basis) (Per cent)**

| Year      | 2007-08 | 2008-09 |
|-----------|---------|---------|
| April     | 5.6     | 8.5     |
| May       | 5.9     | 8.7     |
| June      | 4.9     | 10.0    |
| July      | 5.6     | 10.4    |
| August    | 6.2     | 10.4    |
| September | 6.1     | 10.7    |
| October   | 5.5     | 12.2    |
| November  | 5.3     | 12.1    |
| December  | 6.4     | 11.6    |
| January   | 5.5     | 10.8    |
| February  | 6.8     | 9.2     |
| March     | 6.1     | 8.2     |

*Source: Computed by DEAR.*

**Movement of Wholesale Price Index : Quarter-wise:**

The movement of groups by the end of each of the Quarter over the corresponding period of the previous year was seen, to analyse the impact of the seasons on the price increases.

**Table – 3 :Quarter-wise movement of WPI  
(per cent)**

|                                | 2007-08   |            |             |            | 2008-09   |            |             |            |
|--------------------------------|-----------|------------|-------------|------------|-----------|------------|-------------|------------|
|                                | I Quarter | II Quarter | III Quarter | IV Quarter | I Quarter | II Quarter | III Quarter | IV Quarter |
| Primary Article                | 2.5       | 4.2        | 0.4         | 3.7        | 5.0       | 5.5        | 1.7         | (-)0.5     |
| Fuel, Power, Light & Lubricant | (-)0.9    | 0          | 0           | 1.1        | 2.9       | 0          | 0           | 0          |
| Manufactured products          | 1.0       | 1.9        | 0           | 2.4        | 1.2       | 1.4        | 0.5         | 0.3        |
| All Commodity Index            | 1.7       | 3.0        | 0.2         | 3.0        | 3.4       | 3.6        | 1.1         | (-)0.2     |

*Source: Computed by DEAR.*

Among the four quarters, the last or the fourth quarter of both 2007-08 and 2008-09, was found to be of lesser pressure period, as it covers the harvest season. The 'primary articles' group increased in the second quarter of both the years, declined in the subsequent quarter. During the last quarter of 2008-09, a much favourable situation of negative growth was seen in the primary articles group, as against that of 2007-08, wherein, the Index was at 3.7 per cent.

The fuel, power, light and lubricant group had a meager increase of 1.1 per cent in January - March period of 2007-08 and continued to rise in the first quarter of 2008-09 to the tune of 2.9 per cent. Otherwise, in the rest of the quarters, the Index of this group was static. The movement of the 'manufacturing' group was contained in the range of 0.5 to 2.4 per cent in all the eight quarters of 2007-08 and 2008-09.

## Movement of Wholesale Price Index: Group-wise:

The degree of influence of the major groups such as primary articles, fuel, power, light and lubricants and manufactured products over the all commodity Index depends on their assigned weights. In the State, the primary articles group which has a higher weight attracts the overall Index towards its own direction. During 2008-09, the primary articles group moved at a much faster rate of 12.2 per cent (on point-to-point basis) against that of the manufactured products group's 3.5 per cent and fuel, power, light and lubricants' increase of 2.9 per cent. However, due to the primary articles influence, the overall index was pushed up to register a higher 8.2 per cent by the end of the year 2008-09.

**Table – 4 : Movement of WPI : Group-wise  
(Percentage change over previous year)**

|                                | 2007-08              |               | 2008-09              |               |
|--------------------------------|----------------------|---------------|----------------------|---------------|
|                                | Point to point basis | Average basis | Point to point basis | Average basis |
| Primary Article                | 11.0                 | 8.0           | 12.2                 | 15.6          |
| Fuel, Power, Light & Lubricant | 0.2                  | 2.1           | 2.9                  | 3.4           |
| Manufactured products          | 5.4                  | 4.9           | 3.5                  | 4.9           |
| All Commodity Index            | 8.1                  | 6.0           | 8.2                  | 10.2          |

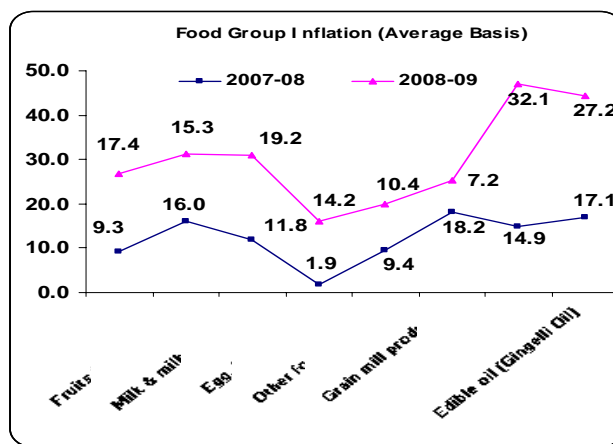
Source: Computed by DEAR.

Going by the annual average basis, the Overall Index showed an increase of 10.2 per cent in 2008-09 against 6.0 per cent in 2007-08. The primary articles had an average rate of increase of 15.6 per cent against 8.0 per cent in the previous year. This indicates that the index of primary articles was at its highest rate throughout the year.

## Food Inflation:

The food index was computed, by clubbing the sub-groups 'food articles' and 'food products' from the major groups 'primary articles' and 'manufactured products' respectively.. The primary food articles, with a weight of 32.26, has nine sub groups, while manufactured food products, a sub group of manufactured products, carry a weight of 6.76 per cent in the WPI basket, with seven sub groups. If oil cakes (weight-0.75) and animal food under other food products (weight - 0.01) are taken away from the food

index, the weight of food group would be 38.26 in the WPI basket. By adopting this method, the food group inflationary rate for the years 2007-08 and 2008-09, were calculated and presented in the following table.



**Table - 5 :Food Group Inflation  
(Average basis)**

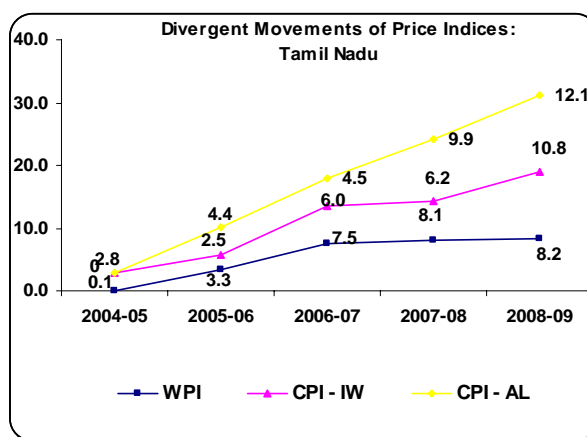
| Items   | Weight | Inflation (%) |         | Contribution (%)* |         |
|---|--------|---------------|---------|-------------------|---------|
|   |        | 2007-08       | 2008-09 | 2007-08           | 2008-09 |
| Food Index combined                                   | 38.26  |               |         |                   |         |
| 1. Food articles                                      | 32.26  | 7.0           | 17.1    | 45.5              | 65.5    |
| Foodgrains  | 12.26  | 9.3           | 17.4    | 21.0              | 23.7    |
| Fruits & Vegetables                                   | 5.41   | 16.0          | 15.3    | 19.4              | 12.0    |
| Milk & milk products                                  | 4.71   | 11.8          | 19.2    | 6.6               | 6.7     |
| Egg, Fish & Meat                                      | 3.38   | 1.9           | 14.2    | 2.7               | 11.1    |
| Condiments & spices                                   | 4.65   | (-)6.4        | 26.6    | (-)4.8            | 10.2    |
| Other food articles                                   | 1.85   | 9.4           | 10.4    | 2.7               | 1.8     |
| 2. Food products (excluding oilcakes and animal feed) | 6.00   |               |         |                   |         |
| Dairy products  | 0.03   | (-)5.6        | 0.0     | (-)0.03           | 0       |
| Grain mill products                                   | 0.10   | 18.2          | 7.2     | 0.29              | 0.1     |
| Bakery products                                       | 0.18   | (-)0.4        | 1.2     | (-)0.01           | 0.01    |
| Sugar   | 2.11   | 14.9          | 32.1    | 4.9               | 6.7     |
| Edible oil (Gingelli Oil)                             | 3.46   | 17.1          | 27.2    | 8.5               | 8.8     |
| Salt  | 0.12   | 16.7          | 17.9    | 0.3               | 0.2     |

\* Weighted contribution to all-commodity Index

Source: Computed by DEAR

### Consumer Price Index:

The Wholesale Price Index reflects the movement of the prices prevailing at the wholesale market, and the retail level movements are taken care of by the Consumer Price Index. As there is no single Index to cover the entire population, separate and diverged indices covering different baskets of goods and services and geographical areas are in existence. These Indices with different base years reflect the changes in the prices of commodities used by different segment of consumer category. The CPI(IW), measures the price variations of goods and services consumed by the working class people. The CPI(AL), reflects the consumption pattern of agricultural labourers and thus helps to revise the minimum wages of this segment of population. The CPI (UNME), designed to absorb the expenditure pattern of urban non-manual employees, had 1984-85 as its base year. The price collection for updating the Index was discontinued since April 2008, citing the outdated base year. The directions of movement of varied price indices, in the State are presented in the following table:



The directions of movement of varied price indices, in the State are presented in the following table:

**Table-6: Divergent Movements of Price Indices: Tamil Nadu  
(year- on- year basis) (per cent)**

| Indices                  | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|--------------------------|---------|---------|---------|---------|---------|
| Wholesale Price Index    | 0.1     | 3.3     | 7.5     | 8.1     | 8.2     |
| Consumer Price Index of- |         |         |         |         |         |
| - Industrial Workers     | 2.8     | 2.5     | 6.0     | 6.2     | 10.8    |
| - Agricultural Workers   | Nil     | 4.4     | 4.5     | 9.9     | 12.1    |

Source: Computed by DEAR

## Consumer Price Index for Industrial Workers ( CPI-IW):

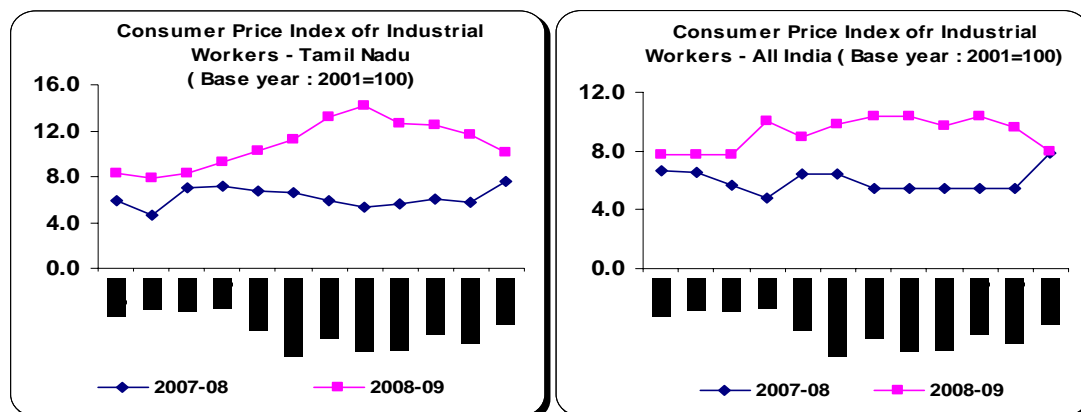
The Consumer Price Index For Industrial Workers with the base year of 2001=100, is being constructed and maintained by the Labour Bureau of Government of India, Simla. The Index measures the temporal changes in the retail prices of fixed basket of goods and services consumed by an average working class family. As the movement of this Index is linked with the Dearness Allowance of the Central and State government employees, it is considered as a crucial one, in the process of shielding these employees from the inflationary spiral. The movement of the Index in Tamil Nadu and all-India is given in the table.

**Table-7: Consumer Price Index for Industrial Workers  
(Base year:2001=100) (Point-to point basis)**

|                     | 2007-08(%) |           | 2008-09(%) |           |
|---------------------|------------|-----------|------------|-----------|
|                     | Tamil Nadu | All India | Tamil Nadu | All India |
| April               | 5.9        | 6.7       | 8.3        | 7.8       |
| May                 | 4.7        | 6.6       | 7.8        | 7.8       |
| June                | 7.0        | 5.7       | 8.3        | 7.7       |
| July                | 7.1        | 4.8       | 9.2        | 10.0      |
| August              | 6.8        | 6.4       | 10.2       | 9.0       |
| September           | 6.6        | 6.4       | 11.2       | 9.8       |
| October             | 5.9        | 5.5       | 13.2       | 10.4      |
| November            | 5.3        | 5.5       | 14.2       | 10.4      |
| December            | 5.6        | 5.5       | 12.7       | 9.7       |
| January             | 6.1        | 5.5       | 12.5       | 10.4      |
| February            | 5.7        | 5.5       | 11.6       | 9.6       |
| March               | 7.6        | 7.9       | 10.1       | 8.0       |
| April-March (Aveg.) | 6.2        | 6.0       | 10.8       | 9.2       |

Source: Computed by DEAR.

The month-wise movement of the consumer price index for industrial workers was contained at an average rate of 6.2 and 6.0 per cent in the State and all- India respectively; in the year 2008-09, the rate of increase was 10.8 and 9.2 per cent respectively. On a point-to- point basis, the rate of increase in the State, was contained below 7.1 per cent (July) in 2007-08. However, in 2008-09, the maximum rate recorded was 14.2 per cent (November). Similarly, the all-India Index had the highest rates of 7.9 per cent (March-2008) and 10.4 per cent (October, November 2008 and March, 2009) were noted.



For the construction of the Index, data from 54 Centers spread over the country are being collected and Tamil Nadu is represented by Chennai, Coimbatore, Coonoor, Salem, Thiruchirappalli and Madurai centres. Looking at the behaviour of this Index among the six centers, Coonoor (7.4%) center in 2007-08 and Salem(12.3%) center in 2008-09 were found to be costlier centers.

**Table-8: Movement of CPI-IW: Center wise  
(Base year: 2001=100) ( year on year basis)**

| Center            | 2007-08(%) | 2008-09(%) |
|-------------------|------------|------------|
| 1.Chennai         | 5.7        | 10.7       |
| 2.Coimbatore      | 6.3        | 8.8        |
| 3.Coonoor         | 7.4        | 8.8        |
| 4.Salem           | 6.2        | 12.3       |
| 5Thiruchirappalli | 6.8        | 14.7       |
| 6. Madurai        | 5.5        | 11.0       |

*Source: Computed by DEAR*

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

Consumer Price Index for Agricultural Labourers has been compiled by the Labour Bureau, since September 1964. The existing series of CPI numbers for Agricultural Labourers has 1986-87-100 as its base year, from 1995 onwards. Field operations division of the National Sample Survey Organisation collects month-wise data on prices from 600 sample villages selected from 20 States in a specially designed schedule for compilation of agriculture labourer index which covers the households of agricultural labourers.

**Table – 9: Consumer Price Index for Agricultural Labourers  
(point-to-point basis)**

|             | 2007-08 (%) |           | 2008-09 (%) |           |
|-------------|-------------|-----------|-------------|-----------|
|             | Tamil Nadu  | All India | Tamil Nadu  | All India |
| April       | 5.3         | 9.4       | 10.3        | 8.9       |
| May         | 5.5         | 10.3      | 10.7        | 9.1       |
| June        | 5.8         | 9.6       | 11.7        | 7.8       |
| July        | 8.7         | 8.6       | 11.1        | 7.4       |
| August      | 8.4         | 8.8       | 12.6        | 8.8       |
| September   | 8.1         | 7.9       | 14.7        | 11.0      |
| October     | 7.4         | 7.0       | 15.1        | 11.1      |
| November    | 7.6         | 6.2       | 14.9        | 11.1      |
| December    | 7.3         | 5.9       | 15.1        | 11.1      |
| January     | 6.9         | 5.6       | 15.0        | 11.6      |
| February    | 6.9         | 6.4       | 14.4        | 10.8      |
| March       | 9.9         | 7.9       | 12.1        | 9.2       |
| April-March | 7.3         | 7.8       | 13.2        | 9.9       |

*Source: Computed by DEAR*

Inflation for Agricultural Labourers in Tamil Nadu measured in terms of Consumer Price Index stood at 9.9 per cent in March 2008 over the corresponding period of 2007. This highest rate, in latter months moved at a faster, double digit rate through out 2008-09. In almost all the twenty four months starting from April 2007, the rate of increase in the all-India Index was at a lower rate than that of Tamil Nadu. Average inflation in Tamil Nadu during April – March 2007-08, was 7.3 per cent and 13.2 per cent

in 2008-09. Corresponding rates prevailed in the all- India index was 7.8 and 9.9 per cent respectively.

**Table-10: Consumer Price Index for Agricultural Labourers :  
Tamil Nadu and All-India (Per cent)**

| Year       | 2007-08              |               | 2008-09              |               |
|------------|----------------------|---------------|----------------------|---------------|
|            | Point-to-point Basis | Average Basis | Point-to-point Basis | Average Basis |
| Tamil Nadu | 9.9                  | 7.3           | 7.9                  | 7.8           |
| All-India  | 12.1                 | 13.2          | 9.2                  | 9.9           |

Source: Computed by DEAR

Both in 2007-08 and 2008-09, the pace of increase of the Index was faster at the all-India level than that of Tamil Nadu.

### Wholesale and Consumer Price Indices: A comparison:

Following noticeable difference between WPI and CPIs, the question of appropriate index to track inflation came to surface. The IMF statistics reveal that 24 countries utilise WPI and 157 countries make use of CPI to measure inflation. CPI measures the increase in retail prices, a consumer has to pay for the designated commodity basket. In our country, there is no single aggregate CPI to measure the trend and so sectional CPIs for different consumer categories like industrial workers, agricultural labourer, urban non-manual employees and rural labourers are in vogue. The critical differences between the WPI and the CPI indices are brought in the following table.

**Table --11: Differences in WPI and CPI indices**

| Item Description                | WPI                    | CPI-IW   | CPI-UNME   | CPI-RL                  | CPI-AL  |
|---------------------------------|------------------------|----------|--|-------------------------|---------|
| <b>Weighting diagrams</b>       |                        |          |  |                         |         |
| Food group                      | 25.43                  | 46.2     | 47.13  | 66.77                   | 69.15   |
| Fuel, power etc.                | 14.23                  | 6.43     | 5.48   | 7.90                    | 8.35    |
| Beverages, tobacco              | 1.34                   | 2.27     |  | 3.70                    | 3.79    |
| Clothing, bedding, footwear     | 10.82                  | 6.57     | 7.03   | 9.76                    | 6.98    |
| Others                          | 48.18                  | 23.26    | 23.95  | 11.87                   | 11.73   |
| Housing                         |                        | 15.27    | 16.41  |                         |         |
| Total                           | 100.00                 | 100.00   | 100.00   | 100.00                  | 100.00  |
| <b>Differences of degree</b>    |                        |          |  |                         |         |
| Base year                       | 1993-94                | 2001     | 1984-85  | 1986-87                 | 1986-87 |
| No. of items covered            | 435                    | 120-360  | 146.365  | 260                     |         |
| No. of centres / quotations     | 1918*                  | 78       | 59   | 600#                    | 600#    |
| Time lag                        | 2 weeks                | 4 weeks  | 6 weeks  | 3 weeks                 |         |
| Treatment of services           | Excluded               | Included |  | Included, minus housing |         |
| <b>Differences of structure</b> |                        |          |  |                         |         |
| Basis                           | Wholesale transactions |          | Consumer expenditure surveys                               |                         |         |
| Price quotations                | Bulk transactions      |          | Purchase price actually paid by the consumer               |                         |         |
| Nature of the index             | Single, national       |          | Weighted average of the centre indices                     |                         |         |
| Weighting diagram               | Country-wide, unique   |          | Horizontal summation of weights of centre-specific indices |                         |         |
| Capital & intermediate goods    | Included               |          | Excluded   |                         |         |
| Frequency                       | Weekly                 |          | Monthly  |                         |         |

\*: Indicates quotations. #: Sample villages spread over 20 States.

Source: Economic Survey, 2008-09, GOI.

**Box - 1**  
**Estimated Domestic (National) Production of Crops (MMT)**

| Food crops  | 2006-07 | 2007-08 (Fin. Est.) | 2008-09 3 <sup>rd</sup> Adv. Est. | % increase 2008-09 | Cash crops              | 2006-07 | 2007-08 | 2008-09 | % change |
|-------------|---------|---------------------|-----------------------------------|--------------------|-------------------------|---------|---------|---------|----------|
| Food grains | 217.28  | 230.78              | 229.85                            | (-)0.9             | Sugar-cane              | 355.52  | 348.19  | 289.23  | (-)59.0  |
| Cereals     | 203.08  | 216.02              | 215.68                            | (-)0.3             | Edible oil*             | 59.00   | 69.64   | 52.79   | (-)24.2  |
| Rice        | 93.35   | 96.69               | 99.37                             | 2.7                | Ground-nut              | 11.19   | 21.12   | 15.22   | (-)27.9  |
| Wheat       | 75.81   | 78.57               | 77.63                             | (-)0.9             | Rape & mustard          | 23.05   | 18.08   | 21.62   | 19.6     |
| Pulses      | 14.20   | 14.76               | 14.17                             | 13.6               | Sunflower               | 4.05    | 4.83    | 3.67    | (-)24.0  |
| Gram        | 6.33    | 5.76                | 6.38                              | 0.6                | Soya-bean               | 14.16   | 17.55   | 14.47   | (-)17.6  |
| Tur         | 2.31    | 3.08                | 2.37                              | (-)0.7             | Imports (in lakh tones) |         |         |         |          |
| Moong       | 1.12    | 1.52                | 0.9                               | (-)0.6             | Pulses                  | 24.91   | 29.52   | 16.92   | (-)42.68 |
| Urad        | 1.44    | 1.46                | 0.94                              | (-)0.5             | Edible oil              | 43.17   | 56.08   | 70.69#  | 26.05    |
| Others      | 3.00    | 2.95                | 2.58                              | 0.3                |                         |         |         |         |          |

\*Edible oils in lakh tones; # April – December, 2008.

Source: Economic Survey, 2008-09, GOI.

**Anti-inflationary measures:**

A number of anti-inflationary measures were taken by the Governments at the Centre and State. Rationalisation of import duties of essential commodities, effective supply–demand management strategies through trade and tariff policies and strengthening of the public distribution system are the important ones. Besides all these efforts, the government took many fiscal and monetary measures also to curtail price increases. To enhance supply and availability of food articles, minimum support price of cereals was systematically increased which in turn would raise acreage, production and productivity. To avoid depletion of domestic foodgrains stock, the exports of wheat and non-basmati rice were banned. Likewise, export of pulses and edible oils were also discontinued. Import duties of rice, wheat, pulses, edible oils, maize, butter and ghee were kept at zero. That of rainfed and hydrogenated oil and vegetable oil had been reduced to 7.5 per cent. Due to reduced customs and import duties of the above essential items, import of vegetable oils had increased.

Macro economic policy measures like monetary and fiscal policy measures alone are not adequate to contain price increases. The foodgrain prices started rising significantly even when the overall inflation was negative. In view of the current short fall in foodgrain production, too much reliance can not be placed on additional procurement by public agencies. Imports could be the alternative but the rice availability in the international market is not encouraging. So, the Government has to release 7-8 million tonnes of rice from the Central pool to discourage private traders to hoard, more

over, the release has to be through PDS particularly to the rice consuming States like Tamil Nadu, Andhra Pradesh, Karnataka and Kerala.

- The issue price of rice to APL should be closer to market price.
- State Governments should be involved in the management of food economy. States should be given the primary responsibility in foodgrain procurement, storage and distribution. States should be given incentives by extending required resources like financial support to carry out enlarged procurement operations, storage, warehousing and distribution of foodgrains.
- To contain food inflation, Centre and relevant State Government departments like Finance, Planning, Agriculture and Civil Supplies should take coordinated steps.
- To ensure coordination Zonal Production Commissioners may be appointed.
- To maximize the production of Rabi crops, steps already taken should be accelerated. Adequate and timely supply of seeds and fertilizers are to be ensured till the last man. The defunct seed corporations in the States are to be revived. Private sector should be given incentives to engage in quality seed production for cereals. Likewise incentives to the manufacturers of non-nitrogenous fertilizers and micro-nutrients.
- Timely and adequate supply of credit to the farmers is also an important factor to be considered. The credit disbursal under the agricultural sector of the commercial banks is increasing. However, the credit outgo to small farmers seeking loans of less than Rs.25000 is decreasing. Hence, it is for the RBI to ensure that 10 per cent of the loans are disbursed to the weaker sections especially to small and marginal farmers. In the issue of Kisan credit cards also, these farmers should get their due share.

#### **Future Scenario: Measures Needed:**

In the last two years, agricultural production has fallen to the tune of 140 per cent in 2008-09, (71.02 lakh tones) compared to that of (-) 20.3 per cent in 2007-08, (65.82 lakh tonnes). At the national level, foodgrain production is likely to be down by 2.0 per cent or even more. This deceleration has serious implications because the rice production accounted for a major share. Eventhough, there is adequate food stock; food shortages could be occurred in the coming year unless the storage is enhanced by the rabi production. During the current inflation-prone situation, immediate steps are necessary to control the sharp rise in the prices of essential commodities such as foodgrains.

Macro economic policy measures like monetary and fiscal policy measures will not be adequate to contain price rises. Prices of food items like cereals, pulses, vegetables, fruits, eggs and milk are increasing at a faster rate. The same is triggered by the prices of foodgrains which had already showed 19 per cent increase. The prices of foodgrains are soaring higher even when the overall rate of inflation was negative.

A reliable alternative to the Government at this grim situation is to release 7.8 million tonnes of rice from the Central pool. This action would discourage the hoarding

attempts of private traders. The additional release of foodgrains should be distributed through PDS to avoid open market operations. The price of rice for BPL and APL should be differentiated. The system of Universal PDS could be considered when the supply position becomes comfortable.

At this critical situation, State Governments are to be actively involved in the management of food economy by giving primary responsibility to foodgrain procurement, storage and distribution. In the earlier attempts, the States hesitated for the simple reason that such a move was not backed by the necessary resource.

The success of the measures to contain inflation especially on the foodgrain prices depend on the coordinated efforts taken by the Centre and States, besides the intra departmental coordination of the State Governments. As suggested in the Eleventh Plan, Zonal Production Commissioners are to be appointed to ensure coordination among States and Centre.

At the production side, emphasis should be placed on adequately and timely supply of seeds and fertilizers to the ultimate end man. The defunct seed corporations in the States should be revived. Private sectors should be motivated to engage in quality seed production for cereals. Commercial banks are to be relied upon in the absence of cooperative system for the credit support. Credit outgo to small farmers seeking loans of less than Rs.25000 are to be encouraged as the borrowing capacity of the small and marginal farmers (who cultivate 40 per cent of the land) is not likely to be more than Rs.25000. Ultimately, steps to control the foodgrain prices should be taken as an immediate need and not as a long term agenda.