CHAPTER 5

PRICES

During the current fiscal year, the Wholesale Price Index (WPI) increased by 5.9 per cent (upto 24 January 1987) and after taking into account seasonal factors on the present trends it is likely that 1986-87 will end with an inflation rate of around 6.5 per cent. This is well below the average annual price increase of 7.9 per cent over the last decade and suggests that the overall price situation in the economy is well within control. However, the rise in the Consumer Price Index (CPI) [for industrial workers] this year was once again higher than the WPI, increasing by 7.8 per cent between March and December, 1986 and is a cause for concern. Since the normal seasonal decline of the CPI began after November, it is to be hoped that this index will come closer in alignment with the WPI over the next three months.

5.2 Prices of food articles in 1986-87 have been far more stable than in 1985-86, increasing at an underlying rate of about four per cent compared to around 6.5 per cent last year [see Table 5.1]. On the other hand, prices of non-food agricultural products have increased sharply. In the previous year, excess supply conditions existed in a number of fibres and commercial crops, causing their prices to fall sharply : jute prices fell by 72 per cent, raw cotton fell by 16 per cent, tea fell by 11 per cent, condiments and spices fell by 16 per cent and oilseeds fell by 1 per cent. The production of many of these commercial crops have stabilized at lower levels this year and their prices have risen to more normal levels.

5.3 The impact of these sharp changes in the supply and the prices of this group of items was to cut about 3 per cent off the inflation rate last year, and to add an extra 2 per cent to the current inflation rate as the prices of these crops increased from the extremely low levels reached last year. If this unusual volatility in prices of this group of commercial crops is averaged over the last two years, the inflation rate for both the years centres around 4-5 per cent per year which is a more accurate reflection of the underlying inflation rate in 1985-86 and 1986-87, the first two years of the Seventh Plan. In the current year, upto December prices of non-food items in the CPI, with a weight of 39.08 (e.g. transport, fuel and light, tobacco and liquor, personal effects, etc.) increased by about 1.7 percentage points more than the non-food group in the WPI. The increase in the price of tea (which declined sharply last year) of about 30 per cent has a major differential impact on the two series since the weight in the CPI is more than double the weight in the WPI. On the other hand, factors that would have helped reduce the divergent rates of increase of the two indices are the falling prices of wheat (−4.0 per cent) and pulses (—19.0 per cent) which have a higher weight in the CPI than in the WPI. In addition to the contribution of these individual items, there are other factors, such as the extent of the lag between wholesale and consumer prices, which make the comparison of the WPI and CPI a complex issue. The increase in prices of edible oils this year contributed to the rise in both price indices, the CPI and the WPI, while the price increase in oilseeds only affected the WPI. Edible oils prices increased by about 37 per cent during the period March 29, 1986 to January 24, 1987. Oilseed prices have recorded only a marginally lower increase during this year. The current year's price increase, however, should be seen in the context of the falling prices of these items over the last two years (Table 5.2). Considered over a three-year period, the average rise in prices of oilseeds was 4.9 per cent per year.

5.4 The Government's policy is to boost domestic production of edible oils and reduce imports in order to save foreign exchange. Consequently, the falling price trends of oilseeds and edible oils over the last two years needed to be reversed if farmers are to receive remunerative prices for growing oilseeds. The rise in prices this year counteracts this declining trend and attempts at redressing the balance between the farmer and the consumer. The recent two-year sugar policy is an example of how production increases in response to appropriate price signals and the provision of a stable policy environment for farmers. Sugar prices which increased sharply in 1985-86, were only

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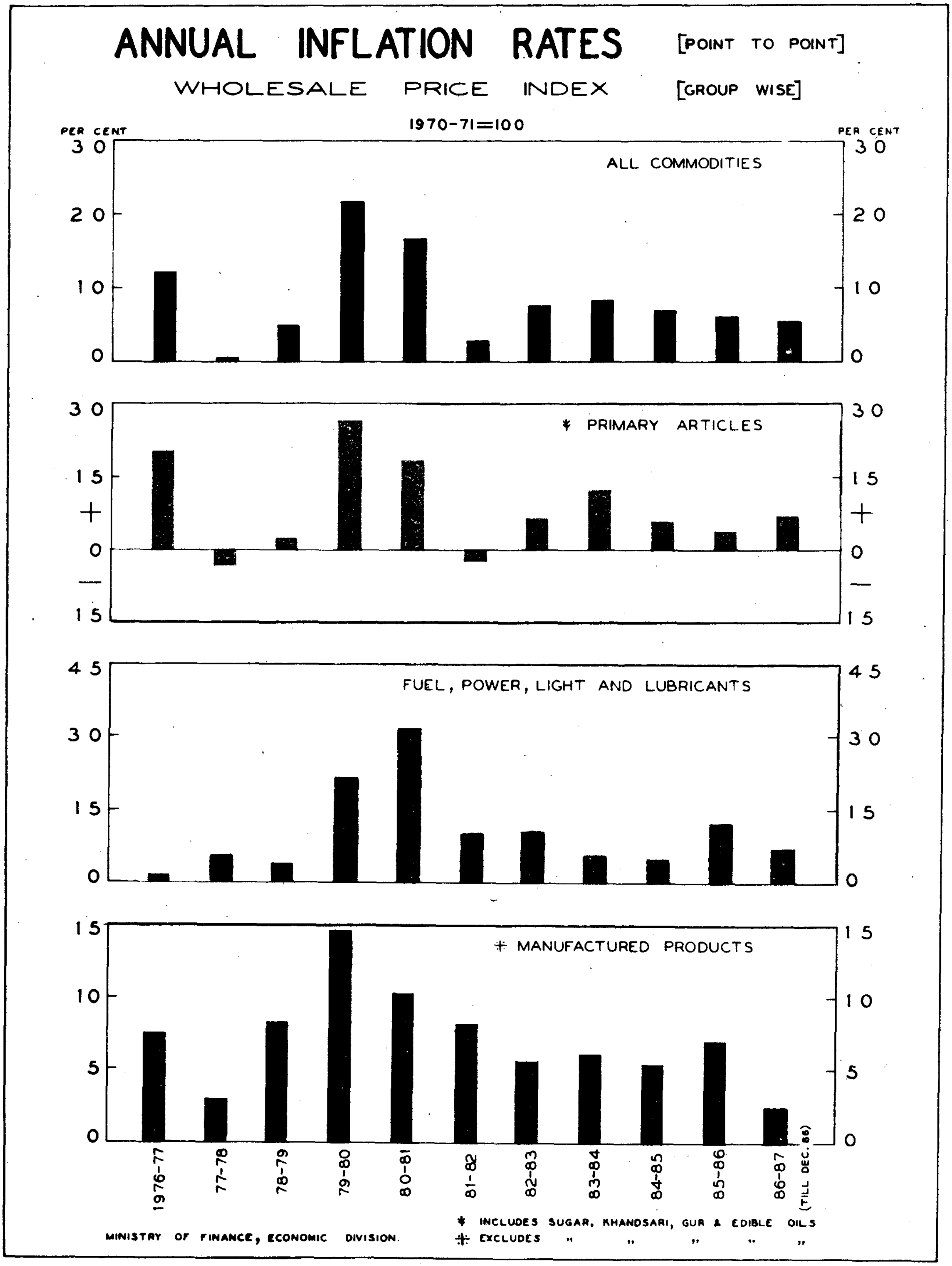
TABLE 5.1

Wholesale Price Index for Major Groups for the Week ending 24-1-87

Description	Weight (per cent)	Index: Percentage change over March end: This year	Index: Percentage change over March end: Last year	Deseasonalised: Percentage change over March end: This year	Deseasonalised: Percentage change over March end: Last year	Current†† underlying inflation rate	Annual inflation rate: Percentage increase over a year ago
1	2	3	4	5	6	7	8
ALL COMMODITIES	100.00	5.93	3.38	5.95	3.40	7.20	6.31
Food (Cereals, pulses, vegetables etc.)	29.80	4.93	6.15	3.78	4.99	4.57	6.53
Non-food Agriculture (Jute, Cotton, Oilseeds, etc.)	10.62	19.88	—7.79	16.48	—10.40	19.93	17.38
Processed food (Sugar, Edible oils, etc.)	13.82	12.64	6.59	12.06	6.04	14.58	11.20
Raw Materials	11.87	13.62	—5.44	10.41	—8.12	12.58	11.99
Manufactured products	49.87	5.72	3.36	5.86	3.49	7.09	5.41
Minerals	1.25	—0.68	0.52	—3.43	—2.27	—4.15	—0.57
Coal Mining	1.15	—0.03	13.16	1.48	14.87	1.79	0.93
Mineral Oils	4.91	0.08	0.08	2.25	2.25	2.72	2.65
Electricity	2.40	7.98	21.21	7.42	20.58	8.97	10.63
Processed Food (Sugar, Edible oils, etc.)	13.32	12.64	6.59	12.06	6.04	14.58	11.20
Beverages, Tobacco and Tobacco Products	2.71	7.64	23.52	9.86	26.07	11.92	7.84
Textiles	11.03	3.68	—6.1	4.45	—5.41	5.39	1.71
Paper & Paper products	0.85	0.00	1.06	—0.19	—1.24	—0.22	5.00
Leather and Leather products	0.38	0.81	18.20	0.44	17.76	0.53	0.81
Rubber and Rubber products	1.21	5.60	0.61	6.28	1.26	7.69	6.07
Chemicals and Chemical products	5.55	4.42	2.63	3.84	2.06	4.64	6.90
Non-metalic mineral products	1.41	1.85	—1.31	2.92	—0.28	3.53	1.94
Basic Metals, Alloys and Metal products	5.97	1.61	2.02	2.07	2.48	2.50	0.08
Machinery and Transport equipment	6.72	2.71	8.94	3.03	9.27	3.66	4.37
Misc. products	0.72	2.27	—0.25	1.85	—0.66	2.23	2.60
Food grains	12.92	—0.53	8.15	—2.53	5.96	—3.06	1.00
Cereals	10.74	2.04	7.47	0.56	5.90	0.67	6.23
Rice	5.13	5.67	1.81	6.85	2.95	8.28	8.40
Wheat	3.42	1.53	8.58	—3.79	2.89	—4.59	9.20
Pulses	2.18	—8.28	10.02	—12.23	5.27	—14.80	—13.33
Fruits and Vegetables	6.13	6.27	13.93	8.70	16.54	10.53	13.63
Milk and Milk Products	6.15	9.65	0.85	10.46	1.60	12.65	11.29
Eggs, Fish and Meat	1.90	9.15	12.22	4.16	7.09	5.03	8.87
Condiments and Spices	1.09	0.43	—15.75	0.69	—14.81	0.84	—5.24
Other Food Articles	1.60	19.46	—10.53	23.07	—7.83	27.80	5.05
Tea	1.15	24.17	—11.38	27.78	—8.80	33.59	6.69
Coffee	0.16	7.80	2.58	6.11	0.98	7.39	6.21
Fibres	3.17	20.38	—31.20	19.64	—31.62	23.75	10.40
Raw Cotton	2.25	25.38	—15.62	24.17	—16.43	29.22	11.20
Raw Jute	0.43	14.06	—71.92	14.58	—71.79	17.64	14.91
Oil Seeds	4.20	35.18	—0.93	30.57	—4.31	36.96	30.85
Sugar, Khandsari and Gur	7.24	2.08	12.42	5.39	16.07	6.52	—0.18
Sugar	2.19	1.72	21.84	3.37	23.81	4.07	2.86
Khandsari	0.49	—4.75	1.52	—4.09	2.22	—4.95	14.14
Gur	4.56	2.90	10.43	7.25	15.10	8.77	—2.33
Edible Oils	3.72	37.08	—0.13	35.57	—1.24	43.01	36.85
Groundnut Oil	1.42	33.72	4.20	34.26	4.62	41.44	30.62
Mustard Oil	0.67	59.34	3.64	51.38	—1.53	62.13	56.95
Oil Cakes	0.91	31.68	—12.02	25.36	—16.24	30.67	29.50

†† (%age change in deseasonalised index since March) $\times \dfrac{\text{No. of Weeks in a year (i.e. 52)}}{\text{No. of Weeks since March}}$. Seasonal factors for WPI series are calculated by the RBI for the last 10 years using the moving average method.



MGIP/PLU/302/1/FIN/86-87

1.7 per cent higher in January 1987 over March 1986, as a result of a much higher domestic production of sugar.

TABLE 5.2

Oilseeds and Edible Oils : Percentage Change in Wholesale Prices during each Financial Year

	1984-85	1985-86	1986-87 (Apr.—Dec.)	Average increase per year since March 1984
Oilseeds . .	—7.9	—2.3	26.8	4.9
Edible Oils .	—2.7	—0.9	33.0	9.4
Major Oilseeds :				
Groundnuts .	—6.4	6.7	12.7	4.4
Rapeseed & Mustard	—17.5	0.9	55.9	9.9
Cotton seed .	18.8	—8.5	2.6	4.1

Price Behaviour in 1985-86

5.5 There was a noticeable abatement of inflationary pressures during 1985-86. The annual rate of inflation in 1985-86 was 3.8 per cent—the lowest since 1981-82 when the rate had declined to 2.4 per cent. Continuing the deceleration for the third year in succession the increase in the Wholesale Price Index (WPI), was reduced to half the previous year's rate of 7.6 per cent and less than half the rate of 8.2 per cent in 1983-84 (Table 5.3). Much of the increase in prices was accounted for by a few primary agricultural commodities like Cereals, Pulses, Fruits and Vegetables, Milk and Milk Products and Eggs, Fish and Meat (Table 5.3). These items with a combined weight of about 27.1 per cent in the Index accounted for over two-thirds of the total increase in prices during the year. Part of the increase was, however, offset by a decline in the prices of condiments and spices, other food articles, fibres and oilseeds. Administered prices as a group went up by 5.3 per cent. These included petroleum products, coal, electricity, fertilizers, iron, steel and ferro-alloys and non-ferrous metals and alloys. There was, however, a decline of 6.0 per cent in cement, prices of which are only partially controlled.

5.6 The Consumer Prices Index for industrial Workers (1960=100) recorded a rise of 8.9 per cent in 1985-86 as against 5.0 per cent in 1984-85. This higher increase in the CPI during 1985-86 was because of the price behaviour of food items. Prices of food items have a higher weight in the CPI than in the WPI and thus have a greater impact on the CPI. On the other hand, the sharp decline in prices of agro-based raw materials (cotton, jute, coconut, tea etc.) which brought down the WPI inflation rate considerably had a negligible impact on the CPI.

5.7 In 1985-86 the prices of important seasonal items, as a group, with a weight of 48 per cent in the WPI, increased by 3.6 per cent while all other commodities went up by 3.9 per cent. Individual commodities/groups which pushed up the Index included cereals, pulses, fruits and vegetables, milk and milk products, eggs, fish and meat and sugar, khandsari and gur. This increase was partly neutralised by a decline in prices of condiments and spices, tea, raw cotton, raw jute and oilseeds.

5.8 Seasonal pressure on prices normally begins from April and lasts upto September. In line with this seasonal pattern there were three distinct phases in the movement of prices during 1985-86 (1) between April—July, 1985 when there was an increase of 5.4 per cent in the Index compared with a rise of 7.2 per cent between April—July, 1984, (b) between August—November, 1985 when the Index declined by 2.4 per cent compared with a fall of 1.5 per cent during August—November, 1984, and (3) between December, 1985—March, 1986 when the Index rose by 0.9 per cent compared with a rise of 1.9 per cent during December, 1984—March, 1985.

5.9 The deceleration in WPI during the year was largely on account of fall in prices of cotton, jute and tea following increased production. While cotton prices declined by 25.2 per cent, raw jute fell by a record 71.7 per cent. Despite a decline in production the prices of oilseeds declined due to greater availability and carry over stocks from the preceding year.

5.10 The contribution of administered items to the price rise during 1985-86 was 35.6 per cent compared with 41.0 per cent contributed by seasonal items and 23.4 per cent by all other commodities. The seasonal increase in the WPI during the year was due to rise in prices of important primary articles like cereals, pulses, fruits and vegetables, eggs, fish and meat and the sugar group (Table 5.4). There were also increases in administered prices of petroleum products, coal, aluminium, fertilizers, electricity and non-ferrous metals.

TABLE 5.3

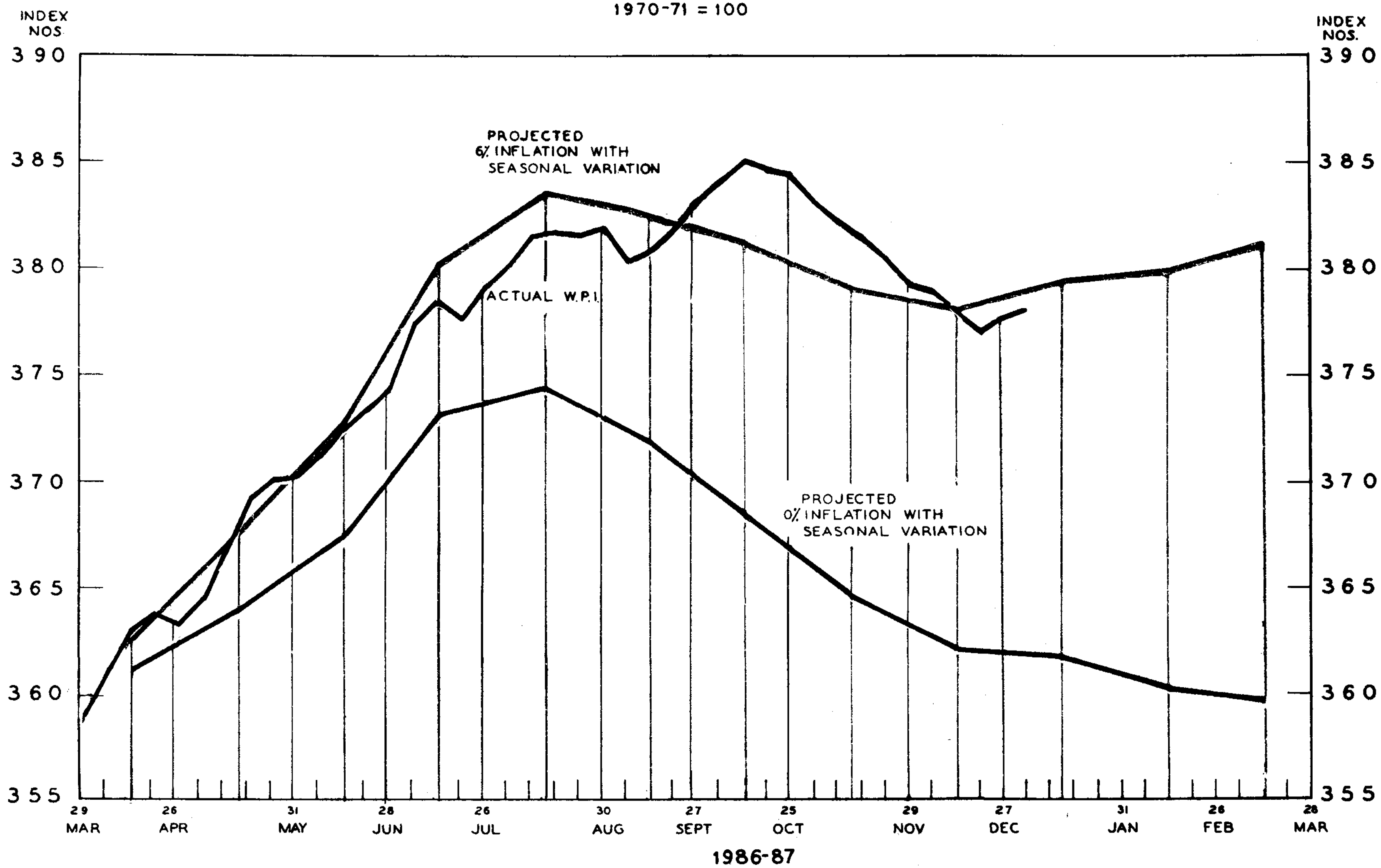
Movements in the Index Numbers of Wholesale Prices
(1970-71=100)

	Weight (Per cent)	Per cent Variation					
		2-4-83 / 27-3-82	31-3-84 / 2-4-83	30-3-85 / 31-3-84	29-3-86 / 30-3-85	12-10-85 / 30-3-85	11-10-86(P) / 29-3-86
1	2	3	4	5	6	7	8
ALL COMMODITIES	100.00	7.3	8.2	7.6	3.8	3.8	7.2
I. Primary articles	41.67	8.1	9.3	4.4	2.8	2.4	8.9
(a) Food Articles	29.80	12.2	6.7	5.8	7.8	6.9	8.9
Foodgrains	12.92	12.2	0.9	3.6	9.8	10.5	0.4
Cereals	10.74	16.0	—5.0	0.2	11.9	9.6	2.8
Pulses	2.18	—1.6	26.0	14.9	4.0	13.1	—6.9
Fruits and vegetables	6.13	16.1	3.1	11.1	21.8	11.6	21.1
Milk and milk products	6.15	1.5	16.0	1.4	2.4	4.8	13.5
Eggs, fish and meat	1.90	14.7	—4.5	18.7	11.9	7.1	—1.9
Condiments & spices	1.10	—3.4	38.9	12.5	—19.8	5.5	2.5
Other food articles	1.60	41.3	35.2	—1.0	—21.3	—19.7	23.5
Tea	1.15	51.2	35.3	—7.0	—23.9	—23.3	29.0
(b) Non-Food Articles	10.62	7.5	20.5	1.9	—9.7	—9.1	13.0
Raw cotton	2.25	0.6	25.4	—4.6	—25.2	—9.7	—7.1
Raw jute	0.43	44.5	41.1	93.9	—71.7	—69.5	8.6
Oilseeds	4.20	8.4	25.0	—5.7	—4.1	—2.2	35.5
(c) Minerals	1.25	—11.2	2.0	1.4	0.6	0.5	—0.7
Petroleum crude and natural gas	0.60	—13.3	No ch.	0.7	No ch.	No ch.	—0.9
II. Fuel, Power, Light and Lubricants	8.46	11.3	4.4	9.9	8.9	3.1	1.6
Coal mining	1.15	18.9	25.2	0.3	13.2	No ch.	Neg.
Mineral oils	4.91	4.7	0.1	12.8	2.7	Neg.	0.2
Electricity	2.40	29.7	3.7	9.4	24.2	14.3	6.7
III. Manufactured Products	49.87	5.5	8.5	9.8	3.1	5.2	7.5
Food products	13.32	1.2	19.0	7.9	5.2	13.0	22.2
Sugar, khandsari and gur	7.24	—3.3	25.6	13.3	9.9	26.0	19.3
Edible oils	3.72	5.9	14.4	—2.0	—0.3	—5.2	34.3
Textiles	11.03	6.1	9.0	8.6	—7.9	—4.4	1.1
Paper & paper products	0.85	—0.2	12.7	11.2	3.9	0.1	No ch.
Leather & leather products	0.38	4.4	9.4	4.5	18.2	15.2	1.5
Chemicals & chemical products	5.55	4.4	3.2	6.7	5.1	1.8	3.4
Non-metallic mineral products	1.41	6.7	6.1	8.5	—1.2	0.6	1.5
Basic metals, alloys and metal products	5.97	11.9	4.0	20.5	0.5	1.8	1.0
Machinery and transport equipment	6.72	5.4	1.3	7.6	10.7	8.0	2.4
Miscellaneous products	0.72	3.7	4.1	7.4	0.1	—0.4	1.3

(P)—Provisional.

SEASONAL MOVEMENT OF WHOLESALE PRICE INDEX

1970-71 = 100



MINISTRY OF FINANCE, ECONOMIC DIVISION

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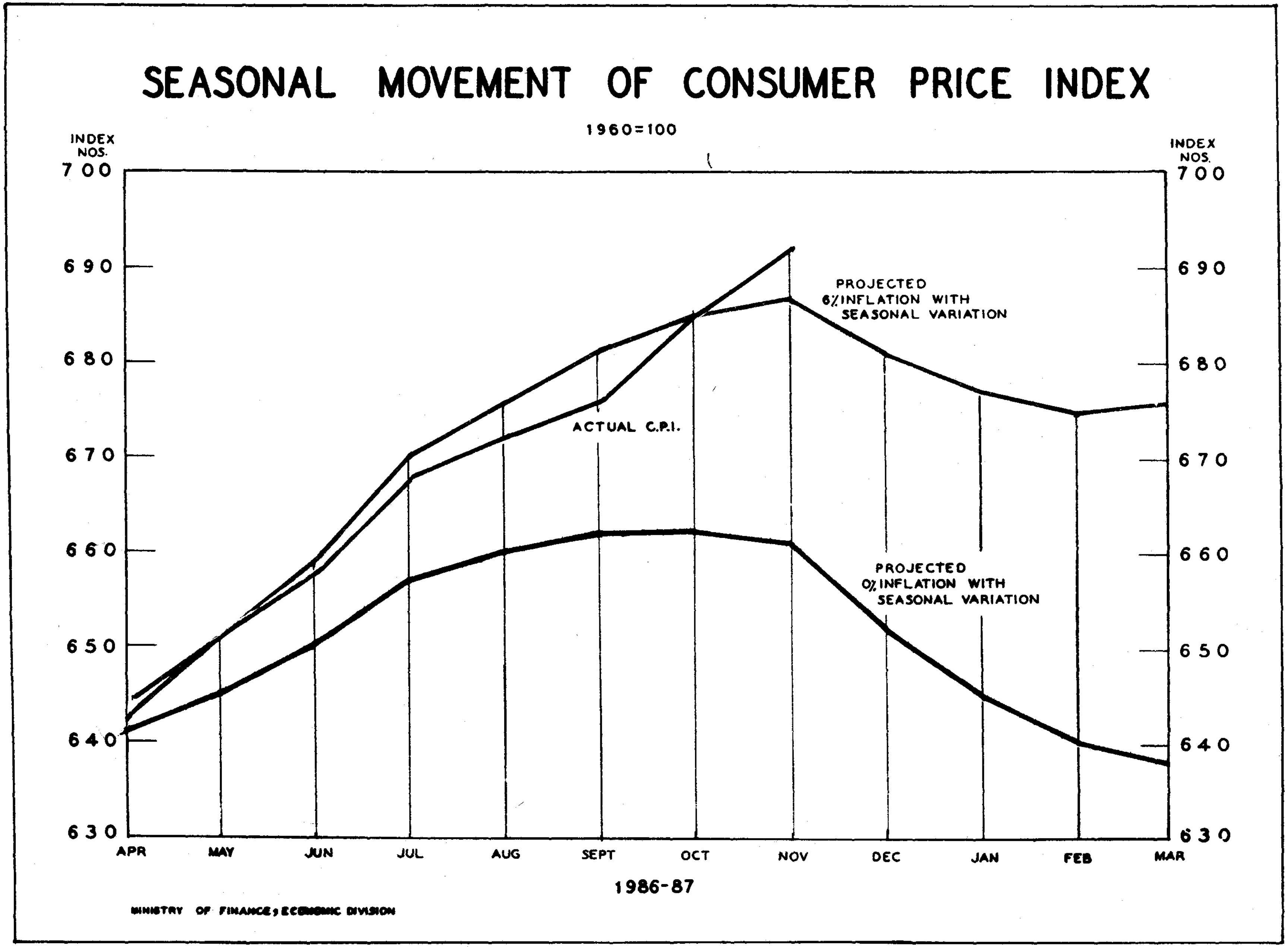

SEASONAL MOVEMENT OF CONSUMER PRICE INDEX
1960=100
INDEX NOS.
700
690
680
670
660
650
640
630
PROJECTED 6% INFLATION WITH SEASONAL VARIATION
ACTUAL C.P.I.
PROJECTED 0% INFLATION WITH SEASONAL VARIATION
APR
MAY
JUN
JUL
AUG
SEPT
OCT
NOV
DEC
JAN
FEB
MAR
1986-87
MINISTRY OF FINANCE; ECONOMIC DIVISION

TABLE 5.4

Variations in Wholesale Prices of certain Commodities/Groups

	Weight (Per cent)	Between week ended 31-3-85 and 29-3-86		30-3-85 and 12-10-85		29-3-86 and 11-10-86(P)	
		Percentage change	Percentage share	Percentage change	Percentage share	Percentage change	Percentage share
ALL COMMODITIES	100.00	3.8	100.0	3.8	100.0	7.2	100.0
A. ADMINISTERED PRICES :							
(Selected)	15.66	5.3	35.6	1.9	12.8	0.9	3.1
(i) Petroleum crude	0.60	..	..	..	..	—0.9	—0.4
(ii) Petroleum products	4.91	2.7	6.1	Neg.	0.1	0.2	0.2
(iii) Coal mining	1.15	13.2	7.4	No ch.	..	Neg.	Neg.
(iv) Electricity	2.40	24.2	19.1	14.3	11.0	6.7	3.3
(v) Fertilizers	1.25	10.1	2.5	No ch.	..	Neg.	Neg.
(vi) Iron, steel and ferro alloys	3.47	1.1	1.6	0.7	1.0	0.2	0.2
(vii) Non-ferrous metals	1.18	1.8	0.6	3.0	1.1	—1.3	—0.2
(viii) Cement	0.70	—6.0	—1.6	—1.5	—0.4	0.4	Neg.
B. SEASONAL ITEMS							
(1) Sugar, Khandsari and Gur and Edible Oils	10.96	6.7	18.5	16.3	43.8	23.6	34.6
(i) Sugar, Khandsari and Gur	7.24	9.9	18.8	26.0	48.1	19.3	20.1
Sugar	(2.19)	23.2	9.8	12.9	5.3	—2.0	—0.5
Khandsari	(0.49)	21.7	2.5	20.8	2.3	—6.6	—0.5
Gur	(4.56)	4.8	6.5	30.4	40.5	29.5	21.1
(ii) Edible Oils	3.72	—0.3	—0.3	—5.2	—4.3	34.3	14.5
(2) Other seasonal items	37.17	2.7	22.5	2.9	24.3	10.9	47.5
(i) Cereals	10.74	11.9	24.0	9.6	19.1	2.8	3.2
of which							
Rice	(5.13)	4.7	5.0	9.4	9.8	11.3	6.3
wheat	(3.42)	16.4	9.2	6.3	3.5	—3.3	—1.1
(ii) Pulses	2.18	4.0	2.9	13.1	9.2	—6.9	—2.6
(iii) Fruits and vegetables	6.13	21.8	31.5	11.6	6.4	21.1	18.6
(iv) Milk and milk products	6.15	2.4	3.0	4.8	16.0	13.5	8.8
(v) Eggs, fish and meat	1.90	11.9	7.1	7.1	4.2	—1.9	—0.6
(vi) Condiments and spices	1.10	—19.8	—4.4	5.5	1.2	2.5	0.2
(vii) Other food articles	1.60	—21.3	—11.1	—19.7	—10.1	23.5	4.9
of which							
Tea	(1.15)	—23.9	—9.9	—23.3	—9.4	29.0	4.6
(viii) Fibres	3.17	—36.9	—26.8	—27.8	—19.7	—4.2	—1.0
of which							
Raw cotton	(2.25)	—25.2	—10.5	—9.7	—3.9	—7.1	—1.1
Raw jute	(0.43)	—71.7	—13.6	—69.5	—12.8	8.6	0.2
(ix) Oil seeds	4.20	—4.1	—3.8	—2.2	—2.0	35.5	16.0
C. ALL OTHER COMMODITIES	36.21	2.7	23.4	2.3	19.1	3.3	14.8

(P)—Provisional.

Price Behaviour in 1986-87

5.11 Compared with the preceding year, prices have registered a weak seasonal decline in the current financial year partly because of a poor monsoon and a decline in kharif production. The WPI registered an increase of 5.9 per cent between 29th March, 1986 and 2nd August, 1986 and further by 1.3 per cent upto 11th October, 1986. The WPI reached a peak for the financial year on 11th October, 1986 when it increased by 7.2 per cent over end March as against an increase of 3.8 per cent upto 12th October, 1985. The cumulative increase in WPI during the current fiscal year upto 24th January, 1987 works out to 5.9 per cent. The annual rate of inflation which had declined to 4.0 per cent upto 2nd August, 1986 went up to 7.1 per cent by 11th October but came down to 6.3 per cent by 24th January 1987. Reflecting this same trend the CPI rose by 8.5 per cent upto November, 1986 but declined to 7.8 per cent by December, 1986.

TABLE 5.5

Composition of Price Rise between March 29, 1986 and December 20, 1986*

(Seasonal items)

Between week ended

Commodities/Groups	Weight (Per cent)	29-3-86 and 11-10-86***		11-10-86 and 20-12-86	
		Percentage change	Percentage share	Percentage change**	
1	2	3	4	5	
I. Foodgrains	12.92	0.4	0.6	—2.3	(—1.7)
1. Cereals	10.74	2.8	3.2	—1.3	(—2.2)
of which :					
(*a*) Rice	(5.13)	11.3	6.3	—4.6	(—7.0)
(*b*) Wheat	(3.42)	—3.3	—1.1	3.1	(2.4)
2. Pulses	2.18	—6.9	—2.6	—4.8	(—0.5)
II. Fruits and vegetables	6.13	21.1	18.6	—9.9	(3.5)
III. Milk and milk products	6.15	13.5	8.9	—4.1	(—1.5)
IV. Eggs, fish and meat	1.90	—1.9	—0.6	8.9	(5.8)
V. Condiments and spices	1.10	2.5	0.2	—3.6	(—10.3)
VI. Other food articles	1.60	23.5	4.9	—3.0	(9.8)
(*a*) Tea	(1.15)	29.0	4.6	—3.8	(17.7)
(*b*) Coffee	(0.16)	—3.4	Neg.	8.9	(4.2)
VII. Non-Food Articles	10.62	13.0	14.7	1.1	(—0.2)
1. Fibres	3.17	—4.2	—1.0	18.3	(—8.5)
(*a*) Raw Cotton	(2.25)	—7.1	—1.1	25.8	(—10.7)
(*b*) Raw Jute	(0.43)	8.6	0.2	—2.9	(—5.8)
2. Oil Seeds	4.20	35.5	16.0	—5.8	(2.3)
VIII. Sugar, khandsari & gur	7.24	19.3	20.1	—14.6	(—14.3)
(*a*) Sugar	(2.19)	—2.0	—0.5	2.4	(7.8)
(*b*) Gur	(4.56)	29.5	21.1	—20.1	(—20.7)
IX. Edible oils	3.72	34.3	14.6	—1.2	(5.9)
(*a*) Groundnut oil	(1.42)	38.8	6.7	—7.7	(6.0)
(*b*) Mustard oil	(0.67)	46.7	2.9	2.9	(4.2)
X. Oil cakes	0.90	31.9	3.1	—7.3	(2.7)
XI. Total (I to X)	52.28	13.4	85.1	—4.7	(—2.0)
XII. Other Groups/Items	47.72	2.0	14.9	—0.3	(Neg.)
XIII. ALL COMMODITIES	100.00	7.2	100.00	—2.1	(—0.9)

*Based on Wholesale Price Index (1970-71 = 100) Provisional.

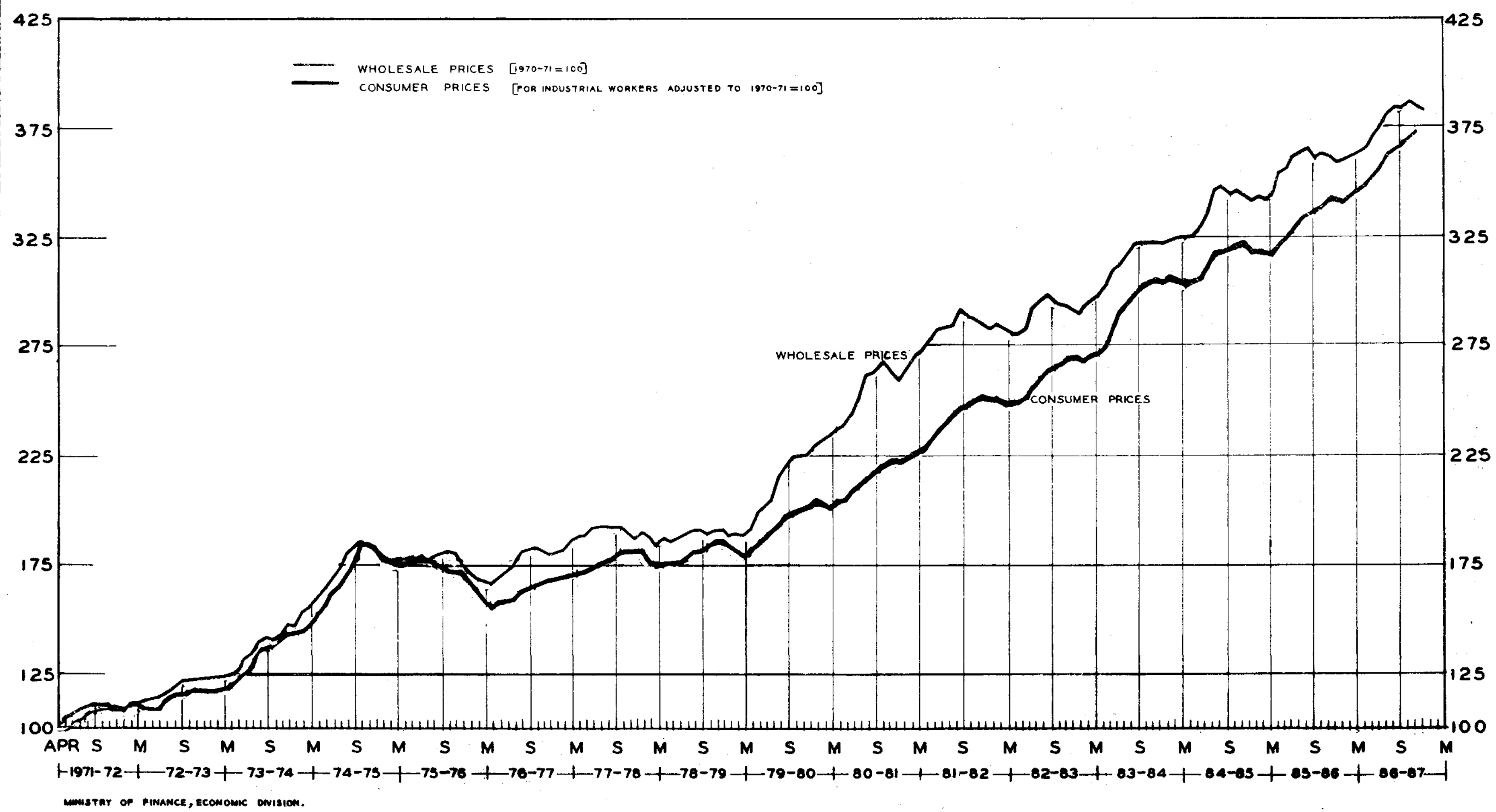
**Figures in bracket relate to the corresponding period of 1985.

***The overall Wholesale Price Index reached a peak on 11-10-1986.

5.12 The analysis of the price rise shows that the weak seasonal decline this year has been because of commodity groups like foodgrains, fruits and vegetables, condiments and spices, oilseeds and edible oils whose availability has been adversely affected by deficient monsoon and restricted imports of edible oils. In the period from 29th March, 1986 to 11th October, 1986 seasonal commodities accounting for 48 per cent of the total weight in the WPI rose by 13.4 per cent while all other commodities registered an increase of only 2.0 per cent (Table 5.5). The seasonal groups/items which were responsible for the sharp increase in prices were fruits and vegetables (21.1%), milk and milk products (13.5%), tea (29.0%), raw jute (8.6%), oilseeds (35.5%), sugar, khandsari and gur (19.3%), edible oils (34.3%) and oilcakes (31.9%).

5.13 The seasonal decline began from 11th October, 1986 and continued upto December 20, 1986. The ten groups of seasonal items which had increased by 13.4 per cent in the first 28 weeks of the current financial year declined by 4.7 per cent in the next 10 weeks ending 20th December, 1986 while all other commodities showed a decline of 0.3 per cent (Table 5.5). Some of the groups/items which have, however, continued to be under pressure are wheat (3.1%), eggs, fish and meat (8.9%), coffee (8.9%), fibres (18.3%), mustard oil (2.9%) and sugar (2.4%). Jute/cotton prices reflect a recovery from the sharp decline in the earlier period and the upward revision of support prices. The movement of both the WPI and the CPI, during the current financial year is indicative of increased pressure on the prices of essential commodities. This is largely on account of set back

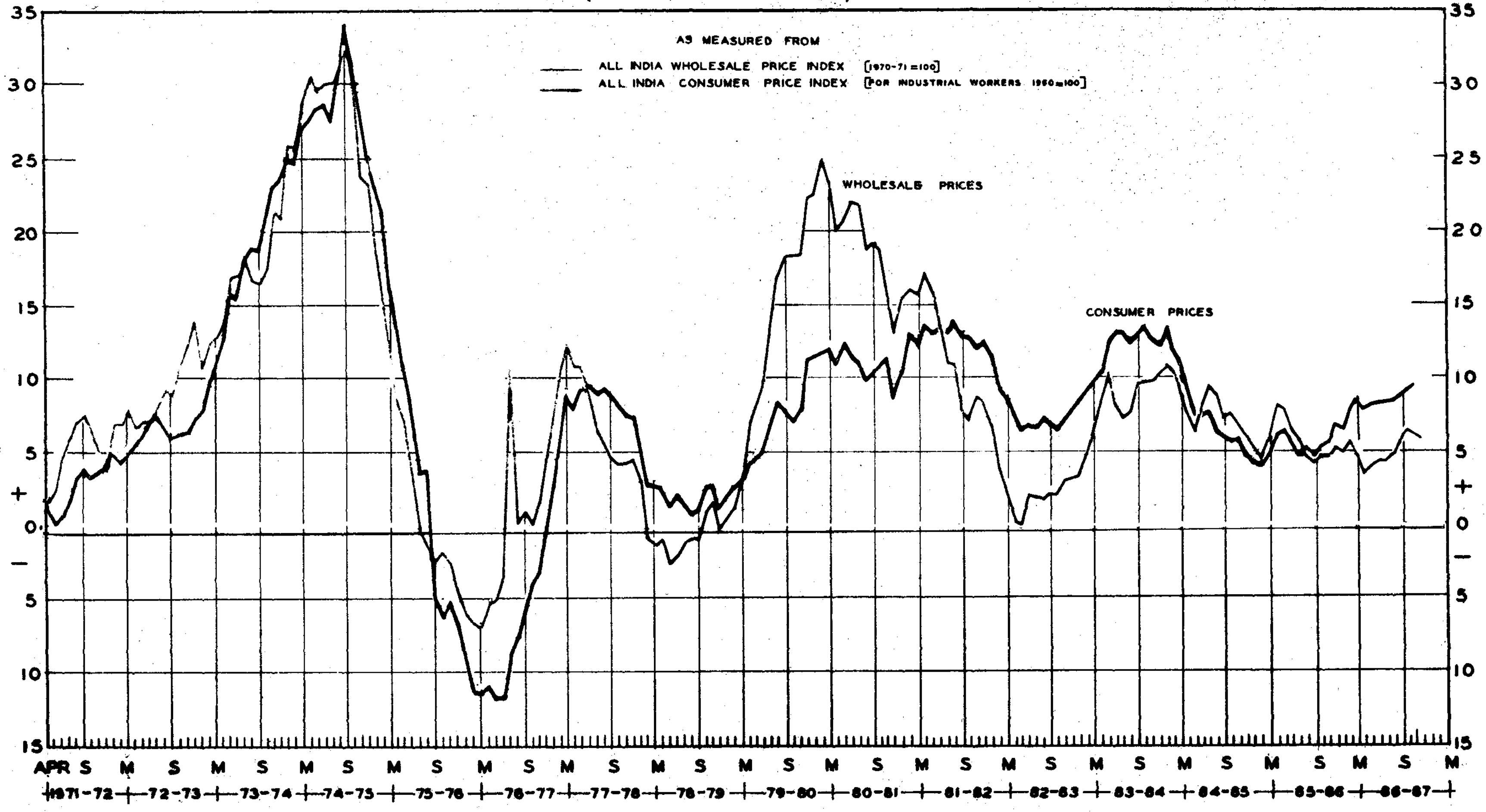
INDEX NUMBERS OF PRICES



MGIP/PLU/302/1/FIN/86-87

ANNUAL RATE OF INFLATION

(% CHANGE OVER 12 MONTHS)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

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to the production of many items due to adverse weather.

5.14 The index for fruits and vegetables has registered an increase of 19 per cent upto the week ending December 6, 1986. This increase is on account of very poor weather conditions which led to a shortfall in production of potatoes. There has also been a sharp increase in prices of onions for similar reasons. In order to reduce the inter-seasonal fluctuations in the prices of potatoes and onions, the Department of Civil Supplies has recommended to the State Governments to arrange for the sale of fruits and vegetables (including potatoes and onions), eggs, tea etc. through the retail outlets and mobile vans of Super Bazars, State Civil Supplies Corporations and Consumer Cooperatives. Although the prices of black pepper had risen substantially, there was no significant change in the price level of condiments and spices as a groups between April-December, 1986. Garlic, an important spice not covered by the WPI has also recorded a substantial fall in output over the last two years from the peak level of 1983-84. This has resulted in a large increase in garlic prices. A proposal to import some quantities of garlic is under consideration of the Government.

5.15 After the substantial decline last year, tea prices have recorded an appreciable increase during 1986-87. The index for tea has gone up by 26.4 per cent upto the week ended 6th December, 1986 as against a fall of 14.9 per cent during week ended 7th December, 1985.

5.16 A substantial part of the increase in the wholesale prices in the current financial year is attributable to oilseeds and edible oils. The prices of these two groups upto 6th December, 1986 are about 30 per cent higher over end=March 1986. The increase in prices during this year is mainly because of shortfall in production in Gujarat, Andhra Pradesh and a few other States. It may be pointed out that the supply of edible oils in recent years has been short of demand which has been satisfied through large imports. The increase in the prices of oilseeds and edible oils this year is partly on account of the strategy of the Government of increasing of price incentives to indigenous producers with a view to reducing country's dependence on edible oil imports. The strategy of self-sufficiency appears to be working as imports of edible oils this year are likely to be substantially lower by over 50 per cent in value terms and about 22 per cent in volume as compared to the previous year.

5.17 On the other hand, the prices of the sugar group, on the whole, have remained more or less stable during the current financial year in contrast to the sharp increase experienced last year. In 1985-86, following a marked shortfall in sugar production, and the resulting need to import, the Government for the first time announced a Two-Year Sugar Policy. The Two-Year policy has been continued this year and further incentives were provided to sugarcane growers through an increase of the statutory minimum price of sugarcane to Rs. 18 per quintal for the 1987-88 season. This announcement was made well in advance of the sowing of the next crop. Also the proportion of free sale sugar has been increased from 45 per cent to 50 per cent. These policy measures have been successful as is evident from the relative stability of the prices of sugar group. Also it has resulted in sharp reduction in sugar imports and an increase in domestic production.

5.18 During the current financial year the CPI has increased by 7.8 per cent upto December, 1986. Based on the analysis of seasonal factors operating over the years it has been observed that the seasonal decline in CPI begins after November in each year and continues upto March the following year. However, in 1985-86 the seasonal decline was weak during this period. Since adverse weather conditions in 1986 have caused a drop in kharif output, the seasonal decline in CPI this year again may not be sharp. Moreover, there are specific price factors in operation this year which have caused divergence between CPI and WPI for the second year in succession. In 1985-86 the rate of increase in WPI was substantially below the CPI because the prices of a number of commercial crops had declined. This decline did not affect the CPI because these items are not included in the CPI at all.

5.19 The inflationary pressure during the current year is more pronounced at the retail level as may be seen from the movement of the CPI. The CPI has registered an increase of 7.8 per cent during the first nine months of 1986-87 as against 7.5 per cent in the corresponding months of 1985-86. The annual rate of inflation, on a point to point basis in terms of the CPI rose from 8.2 per cent in April, 1986 to 9.2 per cent in December, 1986 (latest available). The rates of increase in the corresponding months of 1985-86 were 6.3 per cent and 7.1 per cent respectively. The reasons for the divergence in the CPI and the WPI have been discussed above and in detail in earlier Economic Surveys. This is mainly due to the lag in transmitting the changes from the wholesale level to the retail level, and increase in certain items which are not included in WPI (e.g., housing and personal services).

Policy Framework and Developments

5.20 Price policy during the year laid emphasis on the need to moderate inflationary pressures, acting both on demand as well as supply side, through effective price surveillance and specific measures to soften the impact of inflation. As the price situation continued to be a subject of concern, both inside and outside the Parliament, the Government considered it appropriate to initiate a debate on various issues relating to the price policy in respect of administered prices for wider public comment and discussion. Two papers drawing attention to various policy options available to the government in regard to the need for and timing of changes in public sector prices and agricultural prices were presented to the Parliament. These are discussed in the following paragraphs.

Agricultural Prices

5.21 A policy paper entitled "Agricultural Price Policy-a Long Term Perspective" was presented to the Parliament in November 1986. The paper highlighted the three most important pre-conditions for stepping up production of any crop : (i) a productive technology package, (ii) efficient delivery of inputs and services for adopting such profitable technology and (iii) remunerative and stable market prices to the farmers for their produce. It stresses that these three pre-conditions need to be present together since any one or two of them alone reduce the effectiveness substantially. In line with this perspective, the focus of Government policies since the mid-sixties has been on modernisation of technology, supply of modern inputs like improved seeds, fertilizers, pesticides etc. at reasonable prices and evolution of price support mechanism and purchase mechanism for market intervention. Necessary institutional arrangements were made for the implementation of this policy. These included creation of an Agricultural Prices Commission (re-named in 1985 as the Commission for Agricultural Costs and Prices) and the setting up of the Food Corporation of India. While the CACP is the agency to advise the Government on a continuing basis, an effective infrastructure for price support to the farmers through market intervention has been established. Besides FCI, other specialised agencies like the Jute Corporation of India, Cotton Corporation of India and the National Agricultural Cooperative Marketing Federation (NAFED) have been set up to help implement the policy in respect of the commodities assigned to them. Over the years all the important agricultural commodities/groups covering cereals/pulses, oilseeds, cotton, jute, sugarcane and tobacco have been brought into the ambit of price support operations.

5.22 The main aim of developing long-term policy on the price front is to provide more assured income to farmers and thus encourage production response by reducing uncertainty. While there has been a large increase in agricultural production and a significant shift in cropping pattern, nevertheless, heavy imports of sugar and edible oils in recent years reflect certain imbalances in the cropping pattern. An objective of the long-term policy is to provide conditions for removal of these imbalances. The other objectives which *inter alia* are to be kept in view are the need to provide incentives to growers, reasonable prices to consumers, need for encouragement to agricultural exports, demands of regional development and rational utilisation of resources. There is need to strengthen the infrastructure to implement the price policy and to prescribe a desirable time frame for announcement of procurement/support prices well in advance of the sowing season.

Administered Prices

5.23 The paper entitled "Administered Price Policy-A Discussion Paper", presented to the Parliament in August, 1986 points out that administered prices have a pervasive influence on the growth and development of the economy and the welfare of a broad cross-section of consumers. While the term administered prices cover a wide range of products and services etc. the focus of the paper is limited to a sub-set of these items covering commodities produced by the public sector and a range of other important commodities whose prices are administered by the Government. The paper identifies principles which may be used in the determination of the level of administered prices and points out that price increases should be undertaken only after measures for improving efficiency and reducing costs have been fully utilised. Through direct measures of intervention, the Government plays an important role in improving the distribution of real incomes and ensuring a much greater degree of equality in the society. The Public Distribution System has a particularly vital role in ensuring the availability of essential commodities to the lower income groups at reasonable prices The Discussion Paper reaffirms the Government's policy to provide basic necessities to the poorest sections and to strengthen the public distribution system as an integral part of its pricing strategy.

5.24 An increase in the prices of administered products affects the overall inflation rate both directly and indirectly. The direct impact of an increase in administred prices is reflected in the Wholesale Price Index to the extent of the weight of these commodities in the total weight of commodities included in the Index. The indirect impact is reflected when the price of a basic or intermediate good constituted an input to a number of other commodities.

5.25 An analysis of price behaviour of the different categories of items viz. core items, partially or fully administered items and their impact on the Wholesale Price Index during the last 15 years shows that while the average inflation rate in terms of Wholesale Price Index during the last 15 years was of the order of 9.12 per cent, the average annual contribution of administered prices (with a weight of 25.34 per cent in the WPI) was 2.16 per cent, of fuel price (with a weight of 5.51 per cent in WPI) was 1.27 per cent and of non-administered prices (with a weight of 69.15 per cent in WPI) was 5.68 per cent. While the increase in the administered prices undoubtedly contributed towards the overall infiation, there was no direct or simple relation. Stable administered prices did not necessarily guarantee that there would be no inflation, neither did periods with an increase in administered prices necessarily lead to an unusually high rate of inflation in the economy. The paper concluded that the performance of administered prices, though far from ideal, tended to be much less destabilising than was generally believed.

5.26 The paper stresses the importance of pricing policy for the public sector and states that prices should be set so as to reward efficiency and highlight inefficiencies. For the purpose of evolving a price policy a distinction should be made between fixing a desired price level at one point of time and providing justifiable changes on the prices overtime. The desired level of prices should be fixed on the basis of norms for efficient levels of operations (e.g. capacity utilization, output per unit of investment, per worker, per hour etc.). Such efficiency norms should be determined by an appropriate public agency. While the base level prices would be fixed for the medium term, arrangements will have to be made for price revisions necessitated by unavoidable changes in input costs.

5.27 In certain public sector industries the production costs were high due to inefficient operations. To the extent that this was due to internal fact factors which were under the control of the management, it would be necessary to introduce urgent corrective measures in a time bound programme. But in case these were due to external factors, various alternative ways of absorbing the higher cost of production would need to be thought of and the implications of choosing between Government subsidies or passing on the unavoidable cost increases examined in detail.

5.28 Another consideration which needed to be kept in view was whether the product concerned was a basic input or a final product. Prices of basic inputs should be revised only as a last resort and only when fully justifiable. Final products, on the other hand, could be priced according to criteria such as considerations of income distribution or intervention to break a monopoly situation without any significant negative impact on the structure of the economy. As such all inputs for industry which were subject to price control should, as far as possible, be supplied at their minimum economic price. While commodity inputs must not be over-priced the suppressing of administered prices below their minimum economic levels resulted in severe distortions in the structure of relative prices leading to waste and inefficiency in the utilisation of resources and also of unjustified subsidization of the private sector by the public sector. Thus, in principle, it should be the objective not to raise input prices above economic levels but this should be in line with the demand pattern and the resource position of the country.

5.29 It is important to evaluate the various policy options available whenever there was an unavoidable increase in the operating costs of a production unit. When there is an increase in costs, the options are limited :

(i) The most preferred option is to absorb, to the extent possible, the burden of the cost increase by improving the productivity and efficiency of the concerned enterprises.

To the extent that unavoidable cost increases cannot be so absorbed, the other options available to Government are :

(ii) Raising administered prices and thereby causing other prices to also increase.

(iii) Holding the administered prices unchanged, leading to higher losses (or lower profits), which may be met by higher subsidies from the Budget. This, in turn, can be sustained by either :

(a) tolerating a higher budget deficit, which may have at least as much inflationary impact as raising administered prices;

(b) reducing Plan expenditure, at the expense of development.

5.30 The importance of increasing the surpluses of public sector undertakings, through increases in efficiency, cannot be overestimated. However, if such improvements are not forthcoming and there is a shortfall in resources available for financing the Plan, the issue arises as to what action Government should take to protect the Plan. The paper also discusses the question of using price as an instrument for raising resources from the Public Sector for financing the Seventh Plan.

Changes in Procurement|Minimum Support Prices

5.31 The price policy for agriculture crops continued to be guided by the objectives and principles enunciated in Agricultural Price Policy paper mentioned above : to increase production of crops by providing assured and remunerative prices to the farmers. Broad changes in the procurement/minimum support prices of important crops are indicated in the Table 5.6 below.

5.32 As recommended by the CACP, Government announced on August 29, 1986 an increase of Rs. 4 per quintal in the procurement prices of paddy for all varieties—common, fine and superfine for 1986-87 marketing season. The increase was expected to act as a stimulus to the farmers in the Eastern region where a special rice production programme has been launched. A similar increase has been allowed in the procurement price of wheat for the 1986-87 crop to be marketed in 1987-88 season. The procurement prices of coarse grains viz. jowar, bajra, maize and ragi were raised by Rs. 2 per quintal to Rs. 132 per quintal for 1986-87 marketing season.

TABLE 5.6

Minimum Support/Procurement Prices of Agricultural Commodities

(Rs. per quintal)

	Commodity		Marketing year*						
			1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
1.	Wheat	(Procurement Price)	130	142	151	152	157	162	166
2.	Paddy (Common Variety) .	—do—	115	122	132	137	142	146**	..
3.	Coarse grains . . .	—do—	116	118	124	130	130	132	..
4.	Barley	(Minimum support price)	105	..	122	124	130	132	135
5.	Gram	—do—	..	..	235	240	..	260	280
6.	Arhar	—do—	..	215	245	275	300	320	..
7.	Moong	—do—	..	240	250	275	300	320	..
8.	Urad	—do—	..	230	245	275	300	320	..
9.	Mustard	—do—	..	..	355	360	385	400	415
10.	Groundnut . . .	—do—	270	295	315	340	350	370	..
11.	Sunflower seed . . .	—do—	250	250	275	325	335	350	..
12.	Soyabean (Black variety) .	—do—	210	220	230	240	250	255£	..
13.	Cotton (Kapas 320F/J-34) .	—do—	..	380	400***	410***	425***	430***	..
14.	Sugarcane . . .	(Statutory minimum price)	13.00	13.00	13.50	14.00	16.50	17.00	18.00
15.	Jute (W-5 Grade Ex-Assam)	—do—	175	175	185	195	215	225	240

* Marketing year (April—March) for wheat, gram, barley and mustard (July—June) for Jute, (September—August) for cotton and (October—September) for paddy and other kharif crops.

** Rs. 150 per quintal for fine variety and Rs. 154 per quintal for superfine variety.

.. Not announced.

£ Rs. 290 per quintal for yellow variety.

*** F-414/H-777 variety. For a long staple variety, Hybrid-4, the price was Rs. 527per quintal during 1983-84 season and Rs. 535 per quintal during 1984-85 and 1985-86 season. For 1986-87 season it is Rs. 540 per quintal.

5.33 The minimum support prices for kharif pulses (arhar, moong and urad were raised by Rs. 20 per quintal to Rs. 320 per quintal. A higher increase was allowed for pulses with a view to provide an incentive to the farmers to increase acreage and to raise the productivity of the crop. In the case of oilseeds the Government is guided by the objective of increasing price incentive to indigenous producers and reducing our dependence on edible oil imports. In pursuance of this policy the minimum support price for kharif oilseeds were raised in September, 1986. The increases ranged from Rs. 5 per quintal for soyabean (black variety) to Rs. 20 per quintal for groundnut (in shell). Thus the minimum support price for groundnuts was fixed at Rs. 370 per quintal, for soyabean (yellow variety) at Rs. 290 per quintal, for soyabean (black variety) at Rs. 255 per quintal and for sunflower seeds at Rs. 350 per quintal. The National Agricultural Cooperative Marketing Federation (NAFED) was designated the agency for ensuring the minimum prices. In order to ensure remunerative prices to farmers Government is also following a contra-cyclical policy of low releases of imported edible oils during the harvest period so that domestic oilseed prices remain buoyant for farmers and higher releases during the lean period to keep off-season prices in check.

5.34 In the case of lean period to keep off-season price was increased to Rs. 415 a quintal for mustard and safflower and Rs. 375 a quintal for toria. This price was higher by Rs. 15 a quintal compared with the previous year.

5.35 For sugarcane, the statutory minimum price for 1987-88 season (beginning October, 1987) has been announced in advance at Rs. 18 per quintal. This step is within the framework of the two-year sugar policy announced last year.

5.36 The minimum support prices of the various varieties of raw cotton in the long and superior long staple group have been fixed on the basis of a price of Rs. 540 per quintal for H-4 variety. The prices for varieties in the staple groups other than long and superior long staple have been fixed on the basis of prices of F-414 and H-777 varieties at Rs. 430 per quintal. The statutory minimum price for W-5 grade of raw jute in Assam for the 1987-88 season has been fixed at Rs. 240 per quintal. This represents an increase of Rs. 15 per quintal over the previous year's level.

Industrial Prices

Cement—At the time of partial de-control of cement, a single ex-factory retention price was fixed for levy cement for all cement factories. In view of the increase in the prices of various inputs like coal, power tariff, freight on coal etc., the cement industry was compensated twice, first in July, 1984, partly by increase in the retention price and partly by reduction in levy quota and again in June, 1985, by way of reduction in the levy quota. Keeping in view the further escalation in various inputs the Government decided in December, 1986 to increase the retention price of levy cement by Rs. 24.50 per tonne. The increase in the retention price was to be met from the savings of the Cement Regulation Account. Hence the consumers will continue to get the levy cement at the price fixed earlier.

Naptha—The prices of naptha used for steam generation called the MR Naptha, were revised with effect from 1-10-86 from Rs. 1982.31 a tonne to Rs. 3211 a tonne. The prices of naptha used by the fertilizer industry as feedstock (SR Naptha) were, however, kept unchanged.

Drugs—On 8th December, 1986 the Government announced the new Drug Policy to help the growth of drug industry. The policy contained measures to cover areas like quality control, rationalisation of use of drugs so as to ensure their abundant availability at reasonable prices and the setting up of an Apex Body, called the National Drug and Pharmaceutical Authority, to function as an advisory body on matters of development of pharmaceutical industry. As against the existing three categories of drugs and pharmaceuticals there would be only two "price-controlled" categories in future. The first category would consist of drugs necessary for the national health programme and the second category that of other essential drugs. The rest of the pharmaceuticals would be in the de-controlled category. The main plank of the new policy with regard to pricing is that as a result of greater incentives, production, specially in the more essential categories of pharmaceuticals, would pick up and with abundant availability, prices would automatically stabilise through the operation of market forces. It is envisaged that the increase in the maximum allowable post manufacturing expenses would not push up prices and atleast in some cases the prevailing market prices would be lower than those fixed by the Government, as a result of increased production and improved availability.

5.37 Prices of drugs in the de-controlled category would be constantly and closely monitored and effective monitoring system developed in this regard. Protection to indigenous industry is sought to be provided where necessary through tariff mechanism. In order to increase production, the policy envisages reduction in the existing span of price control over drugs and pharmaceuticals.

Public Distribution System

5.38 The Public Distribution System (PDS) has a particularly vital role in ensuring the availability of essential commodities to the lower income groups at reasonable prices. The Government is determined to provide the basic necessities to the poorest sections of the society and to strengthen the PDS as an integral part of its pricing strategy. The PDS also forms an important component of the 20-Point Programme. Action has been taken to expand the PDS and streamline its operations. The number of fair price shops has been increased from 2.39 lakhs in March, 1979 to 3.30 lakhs in September, 1986. About 78 per cent outlets are in the rural areas and more than one-fifth are run by cooperatives. During 1985-86, as against a target of opening 6025 fair price shops, 9044 fair price shops were opened. During 1986-87 a target of opening 6565 shops has been fixed. At present seven key essential commodities are distributed through PDS. These are wheat, rice, sugar, imported edible oils, kerosene, soft coke and controlled cloth. All these commodities are procured and supplied to the States by the Central Government for distribution through the network of fair price shops. The State governments are empowered to include in their PDS such other commodities as they consider important. Some of the State Governments like West Bengal, Orissa, Tamil Nadu, Himachal Pradesh etc. have included pulses and also some manufactured items like matches, torch cells etc. to supply to consumers through selected PD outlets of their respective areas. The Central Government has from time to time drawn the attention of the States to strengthen the PDS and to make it more effective for meeting the requirements of the population. The intention is to provide easy physical access to consumers both in rural and urban areas. The State Governments are also required to improve infrastructural facilities such as storage and transportation of essential commodities to the final link, i.e., the fair price shops particularly in the backward, remote and inaccessible areas. The State Governments have also been advised to arrange for proper monitoring at various levels viz. block, district and state headquarters in respect of supplies and distribution of essential commodities. They have also been advised to prepare advance estimates of their requirements of different commodities.

5.39 The procurement of foodgrains by public agencies has been rising from year to year. The higher procurement is dictated by the need to purchase supplies for meeting the requirement of public distribution system. Higher purchases are necessitated also by the Government's commitment to purchase all quantities of rice and wheat offered at procurement prices fixed for these cereals (for other commodities this support is provided at the level of minimum support prices). Thus total procurement of foodgrains has gone up to over 20 million tonnes in 1985-86 from 19.4 million tonnes in 1984-85 and 15.9 million tonnes in 1983-84. As will be seen from the Table 5.7 below, the procurement of rice reached a peak of 9.92 million tonnes in 1984-85 but declined thereafter. The procurement of wheat has continued to rise every year. The trends in the public distribution of foodgrains have been somewhat different. Distribution of foodgrains declined from 15.28 million tonnes in 1983-84 to 13.36 million tonnes in 1984-85 but rose sharply to 17.39 million tonnes in 1985-86. The decline in the public distribution in 1984-85 was due to the bumper crop of the previous year and the increase in 1985-86 reflects sub-normal production and liberalised releases of wheat. The total offtake from PDS during the first ten months of the current year is likely to remain at last year's level. As a result of these developments the level of food stocks continues to remain high. It may be recalled that on the recommendation of a Technical Group on Buffer Stock Policy, Government had decided to step up buffer stock of 10 million tonnes of foodgrains (5 million tonnes each of rice and wheat) over and above the full provision for operational stock for a period of 12 months which works out to 11.4 million tonnes (5.0 million tonnes of rice and 6.4 million tonnes of wheat). As on 1st July, 1986 the level of stocks was much higher at 28.2 million tonnes (9.3 million tonnes of rice and 18.9 million tonnes of wheat). As the cost of carrying excessive stocks is high and puts a heavy burden on the exchequer efforts have been made during the last couple of years to bring down the level of total stocks to recommended levels. The steps taken in this direction include open market sales of wheat by FCI, increasing allocation of foodgrains under Rural Works Programme for poverty alleviation programmes, exports of wheat if possible etc. Additional allocations of rice were made to several States particularly those which were affected by droughts and floods. As a combined result of these measures the stocks of foodgrains as on December, 1986 have come down from the level in December, 1985.

TABLE 5.7

*Procurement, Public Distribution and Stocks of Foodgrains**

('000 tonnes)

	1984-85	1985-86 Full year	1985-86 Upto Dec. 1985	1986-87 Upto Dec. 1986
A. Procurement				
Rice	9918	9614	6941	6404
Wheat	9300	10389	10347	10526
Total Foodgrains	19393	20114	17390	16953
B. Public Distribution				
Rice	6591	7266	5487	6614
Wheat	6705	10009	6238	4657
Total Foodgrains	13358	17393	11748	11469
C. Stocks**				
Rice	8545	10436	7976	9460
Wheat	12751	10609	15827	14096
Total Foodgrains	21420	21222	24006	23596

* Provisional.

** End-period basis.

5.40 Due to sharp decline in domestic production Government has made arrangements for import of sugar on a large scale during 1985-86 so as to maintain domestic availability, particularly the supplies through the PDS. Total imports in 1985-86 (sugar year) were increased to 16.26 lakh tonnes from 12.17 lakh tonnes in 1984-85. Thus releases of sugar (both levy and free-sale) amounted to 85.46 lakh tonnes in 1985-86 against 81.96 lakh tonnes in 1984-85. During the current financial year upto February, 1987 a quantity of 83.47 lakh tonnes was released. It was 5.9 per cent higher over the quantities released during the last year.

5.41 Consequent to the increase in the procurement prices of rice, the issue price of rice being sold through the fair price shops was increased by Rs. 8 per quintal (or 8 paise per kg.) for all the three varieties with effect from October 1, 1986. The revised rates were fixed at Rs. 239, Rs. 251 and Rs. 266 per quintal respectively for common, fine and superfine varieties. The central issue price of rice for distribution in the integrated tribal development programme areas and tribal states was kept unchanged at Rs. 160 per quintal for common variety, Rs. 170 per quintal for the fine variety and Rs. 185 per quintal for the superfine variety. The issue price of wheat which was raised to Rs. 190 per quintal with effect from February, 1986 was kept unchanged at that level. However, the issue price for supply to roller flour mills was increased from Rs. 190 per quintal to Rs. 220 per quintal with effect from 1st April, 1986. This was, however, reduced subsequently to Rs. 205 per quintal with effect from 16th July, 1986.

5.42 The issue price of levy sugar supplied through the public distribution system was raised by 5 paise per kg. to Rs. 4.85 per kg. with effect from 15th December, 1986. This increase was consequent upon the increase in the statutory minimum price of sugarcane.

TABLE 5.8

Monthly Pattern of off-take of major items of distribution by the Public Distribution System ('000 tonnes)

Month	Rice* (Off-take)		Wheat* (Off-take)		Edible Oils@ (Allocation)		Sugar** (Releases)	
	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87
April	512	603	508	448	68.7	48.9	683	713
May	537	623	477	449	43.4	56.7	673	763
June	564	667	429	478	43.3	65.5	738	763
July	655	773	622	563	51.0	70.0	688	763
August	720	828	760	638	57.8	94.5	763	763
September	692	853	795	741	58.0	101.9	763	813
October	663	829	915	479	58.0	119.9	763	813
November	565	703	836	399	57.3	81.9	763	763
December	579	735	896	462	48.1	57.6	688	738
January	621		1143		50.4	56.0	688	713
February	547		993		49.4	55.9	673	742
March	611		1639		48.0		663	
TOTAL	7266	6614 (5487)	10009	4657 (6238)	633.4	808.8 (585.4)	8546	8347 (7883)

* Provisional.

** Total of levy and free sale sugar.

@ Including small packs.

NOTE : Figures in brackets give total for the corresponding months of 1985-86.

5.43 The allocation of imported oils to the State Governments etc., is made by the Centre on the monthly basis keeping into account the demand and supply position including the requirements for the festival seasons. As the prices of edible oils remained under pressure during the year, the supply of imported edible oils for PDS was kept at a high level throughout the year (Table 5.8). However, in view of the out-go of foreign exchange on imports of edible oils the allocation of imported edible oils for the production of vanaspati was reduced. The supply of imported edible oils at the concessional price was reduced from 60 per cent to 30 per cent in November, 1986 and further to 10 per cent from December, 1986. However, keeping in view the sharp increase in prices of edible oils in recent months, Government has decided to restore the allocation to 30 per cent for February and to raise it further to 40 per cent for March and April 1987. Imports of edible oils to maintain the increased allocation will be arranged as necessary.