

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1785

ANSWERED ON:16.08.2013

INFLATION

Anuragi Shri Ghansyam ;Karunakaran Shri P.;Nimmala Shri Kristappa;Rao Shri Nama Nageswara;Reddy Shri Modugula Venugopala ;Singh Shri Ganesh;Sinha Shri Yashwant

Will the Minister of FINANCE be pleased to state:

- (a) the average rate of inflation in the country during each month of the last year and the current year;
- (b) the reasons for continuous increase in the same and reaction of the Government thereto;
- (c) the efforts made and results obtained therefrom with regard to stabilising/ reducing the prices of essential commodities during the aforesaid period;
- (d) whether the Government has made any assessment of the effect/impact of inflation on demand and supply of various consumer goods in the market; and
- (e) if so, the details thereof and the future action plan chalked out by the Government to provide some respite to the common man from the ever increasing inflation?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

- (a) The average rate of inflation in the country in terms of Wholesale Price Index (WPI) during each month of the last year and the current year is indicated in Table 1.

Table 1: Month wise average WPI inflation for last two years

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2012-13	7.50	7.55	7.58	7.52	8.01	8.07	7.32	7.24	7.31	7.31	7.28	5.65
2013-14	4.77	4.70	4.86	-	-	-	-	-	-	-	-	-

- (b) Headline inflation measured in terms of WPI has been moderating in the last few months. The major group/sub-group causing inflation are Cereals and Vegetables. The need to provide income security to farmers and food security to the country requires that the farmers are incentivised to produce adequately. The MSPs are therefore fixed taking into account the cost of production (actual as well as opportunity cost) and reasonable return on investment. MSP acts as the floor price for the foodgrains. Also there is a need to have sufficient reserves to meet the emergent needs of the different parts of the country; this reduces availability of the commodity in market. Switch over of poor people to superior cereals and protein-based food items with the increase in income levels has also increased demand for these items.

- (c) & (e) Government and Reserve Bank of India monitors the price situation regularly, as price stability remains high on its agenda. Various fiscal, monetary and administrative measures have been taken to reduce the inflation. As a result, the composite inflation of 31 essential commodities in terms of WPI which averaged 10.65 per cent in 2012-13 declined to 8.80 per cent in June 2013.

Some of the specific measures already in place include reducing import duties to zero – for wheat, onion and pulses and to 7.5% for refined edible oils and imposition of stock limits on various commodities. As a measure of abundant precaution, futures trading in rice, urad and tur is suspended. To protect the weaker sections from the price-rise, the Government has maintained the Central Issue Price (CIP) for rice (at Rs 5.65 per kg for BPL and Rs 3 per kg for AAY) and wheat (at Rs 4.15 per kg for BPL and Rs 2 per kg for AAY) since 2002 among others. Also, the Government had issued the National Food Security Ordinance on 05.07.2013. Under the provision of this Ordinance, upto 75% of the rural population and upto 50% of the urban population will have uniform entitlement of 5 kg foodgrains per month at highly subsidized prices of Rs. 3, Rs. 2, Rs. 1 per kg. for rice, wheat, coarse grains respectively. In order to control inflation in cereals, the Government has recently allocated 195000 tonnes of rice and 327000 tonnes of wheat for distribution to retail consumers under Open Market Sales Scheme Domestic [OMSS (D)] for the period upto March, 2014. Keeping in view the impact of high Minimum Support Prices (MSPs) on the prices, the increase in the MSPs suggested this year is modest.

Monetary policy is also used by RBI to moderate inflation by keeping tight monetary stance. The policy rates have been retained at a high level mainly due to the WPI food inflation continuing to remain above the comfort level of 5%. The volatility and high rate of depreciation of Rupee has been, in the assessment of Government partly caused by the excessive speculation and/or the

phenomenon of over-shooting. Various measures taken by the RBI to curb the volatility includes tightening of short-term liquidity. Rate of Marginal Standing Facility has been raised to 10.25. Stiff ceiling - 0.5% of the net demand and time liabilities (NDTL) - has been placed on the entitlement under the Liquidity Adjustment Facility (LAF). It has been mandated that 99% of CRR requirement has to be maintained by the banks on daily basis. Liquidity is also being mopped up by issue of Cash Management Bills (CMBs) worth Rs.22000 crore per week. These monetary measures, though aimed at reducing volatility in the exchange rate, would have sobering impact on inflation by reducing liquidity in the economy. The Government and RBI would continue to monitor the price situation and take steps till the price situation is under control.

(d) Though no specific study has been conducted on the impact of price rise on demand and supply, it is likely that the demand for the commodities with high prices would have declined, particularly where there are no substitutes and where the demand is not very inelastic.