

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:616

ANSWERED ON:08.05.2015

INFLATION RATE

Chandrappa Shri B.N.;Patole Shri Nanabhau Falgunrao

Will the Minister of FINANCE be pleased to state:

- (a) Whether annual rate of inflation in terms of Wholesale Price Index has shown an increasing trend in the country, if so, the details thereof during the last three years and the reasons therefor;
- (b) The impact of inflation on Indian rupee and on demand/supply of consumer goods in the market;
- (c) Whether the Government has assessed the impact of damage of crops due to recent rains on food inflation;
- (d) If so, the details and the outcome thereof; and
- (e) The efforts made by the Government/RBI to curb the inflation particularly food inflation?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

(a) to (e): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 616 BY SHRI B.N. CHANDRAPPA AND SHRI NANA PATOLE DUE FOR ANSWER ON MAY 08, 2015

(a) No, Madam. Average inflation in terms of Wholesale Price Index (WPI) declined from 7.4 per cent in 2012-13 to 6 per cent in 2013-14 and further to 2 per cent in 2014-15.

(b) The domestic value of rupee and inflation are inversely related. An increase in inflation leads to decline in the value of rupee (purchasing power) and vice versa. Higher inflation in India viz-a-viz other countries leads to appreciation of the real effective exchange rate (REER) which in turn impacts competitiveness of India's exports. During the period March 2014 to March 2015, REER has appreciated by 11.3 per cent, of this 4 percentage points was contributed by the higher inflation in India relative to its trading partners, while the remaining 7.3 percentage points accounted for by the rupee strengthening in nominal terms against other currencies. As far as the impact of inflation on demand/supply of consumer goods are concerned, the estimates of Central Statistics Office (CSO) indicate that the rate of growth of Private Final Consumption Expenditure (PFCE) increased to 7.1 per cent in 2014-15 from 6.2 per cent in 2013-14. While in the short run, higher prices are incentives for producers to increase output, in the medium to long term sustained increase in price level could lower real income and impact aggregate consumption demand adversely.

(c)& (d) As on 5th May 2015, an estimated 182.38 lakh hectares of area under crops were affected in the country due to unseasonal rains and hailstorms. However, the surplus stocks of foodgrains would help the country to deal with the situation appropriately. To moderate the open market prices especially in the deficit regions, FCI sells surplus stock of wheat and rice in the open market under Open Market Sale Scheme (OMSS). Approximately 42 lakh Metric Tonnes of wheat has been sold in open market under this scheme during 2014-15 and sale of wheat has been also continued beyond 1st April, 2015.

(e) Government took a number of measures to curb inflation, particularly food inflation. Some of the major steps taken recently are:

Higher allocation of rice to BPL and APL families in states and, higher allocation of wheat under Open Market Sales Scheme (Domestic) for 2014-15. Approximately 42 lakh Metric Tonnes of wheat has been sold in open market under this scheme during 2014-15.

Moderation in increases in the Minimum Support Prices during the last and current season;

Advisory to the states to allow free movement of fruits and vegetables by delisting them from the APMC Act;

Government has signed with the Reserve Bank of India (RBI), a Monetary Policy Framework Agreement thereby mandating the RBI to administer monetary policy to keep CPI inflation within a range of +1-2 percentage points of 4 per cent for 2016-17 and all subsequent years.

Apart from the administrative and fiscal measures taken by the Government, the RBI has taken necessary measures to manage

liquidity to the levels consistent with the capacity of the economy.