# YEAR WISE REVIEW OF INFLATIONARY TRENDS IN INDIA: 1950 TO 2011

## 3.1 Indian Economy Overview:

<table>
<thead>
<tr>
<th>Data Categories</th>
<th>Unit</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP and Related Indicators</strong></td>
<td>₨ Crore</td>
<td>6477827</td>
<td>7784115</td>
<td>9009722</td>
<td>10113281</td>
<td>11355073</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>%</td>
<td>15.1</td>
<td>20.2</td>
<td>15.7</td>
<td>12.2</td>
<td>12.3</td>
</tr>
<tr>
<td>GDP (factor cost 2004-05 prices)</td>
<td>₨ Crore</td>
<td>4516071</td>
<td>4918533</td>
<td>5247530</td>
<td>5482111</td>
<td>5741791</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>%</td>
<td>8.6</td>
<td>8.9</td>
<td>6.7</td>
<td>4.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Savings Rate</td>
<td>% of GDP</td>
<td>33.7</td>
<td>33.7</td>
<td>31.3</td>
<td>30.1</td>
<td>na</td>
</tr>
<tr>
<td>Capital Formation Rate</td>
<td>% of GDP</td>
<td>36.5</td>
<td>36.5</td>
<td>35.5</td>
<td>34.8</td>
<td>na</td>
</tr>
<tr>
<td>Per Capita Net National Income (factor cost at current prices)</td>
<td>₨</td>
<td>46249</td>
<td>54021</td>
<td>61855</td>
<td>67839</td>
<td>74380</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food grains</td>
<td>Million tonnes</td>
<td>218.1</td>
<td>244.5</td>
<td>259.3</td>
<td>257.1</td>
<td>264.4</td>
</tr>
<tr>
<td>Index of Industrial Production</td>
<td>(growth)</td>
<td>5.3</td>
<td>8.2</td>
<td>2.9</td>
<td>1.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Electricity Generation</td>
<td>(growth)</td>
<td>6.1</td>
<td>5.5</td>
<td>8.2</td>
<td>4.0</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation (WPI) (average)</td>
<td>%</td>
<td>3.8</td>
<td>9.6</td>
<td>8.9</td>
<td>7.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Inflation CPI (IW) (average)</td>
<td>%</td>
<td>12.4</td>
<td>10.4</td>
<td>8.4</td>
<td>10.4</td>
<td>9.7</td>
</tr>
<tr>
<td><strong>External Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export (in US$ terms)</td>
<td>% change</td>
<td>-3.5</td>
<td>40.5</td>
<td>21.8</td>
<td>-1.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Import (in US$ terms)</td>
<td>% change</td>
<td>-5.0</td>
<td>28.2</td>
<td>32.3</td>
<td>0.3</td>
<td>-8.3</td>
</tr>
<tr>
<td>Current Account Balance (CAB/GDP)</td>
<td>%</td>
<td>-2.8</td>
<td>-2.8</td>
<td>-4.2</td>
<td>-4.7</td>
<td>-1.7</td>
</tr>
<tr>
<td>Foreign Exchange Reserves</td>
<td>US$ Billion</td>
<td>279.4</td>
<td>304.8</td>
<td>294.4</td>
<td>292.0</td>
<td>304.2</td>
</tr>
<tr>
<td>Average Exchange Rate</td>
<td>₨/US$</td>
<td>47.44</td>
<td>45.56</td>
<td>47.92</td>
<td>54.41</td>
<td>60.5</td>
</tr>
<tr>
<td><strong>Money and Credit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad Money (M3) (annual)</td>
<td>% change</td>
<td>16.9</td>
<td>16.1</td>
<td>11.2</td>
<td>13.6</td>
<td>13.3</td>
</tr>
<tr>
<td>Scheduled Commercial Bank Credit</td>
<td>% change</td>
<td>16.9</td>
<td>21.5</td>
<td>17</td>
<td>14.1</td>
<td>13.9</td>
</tr>
<tr>
<td><strong>Fiscal Indicators (Centre)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Fiscal Deficit</td>
<td>% of GDP</td>
<td>6.5</td>
<td>4.8</td>
<td>5.7</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Revenue Deficit</td>
<td>% of GDP</td>
<td>5.2</td>
<td>3.2</td>
<td>4.4</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Primary Deficit</td>
<td>% of GDP</td>
<td>3.2</td>
<td>1.8</td>
<td>2.7</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>Million</td>
<td>n.a.</td>
<td>1260</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: All India Economic Survey 2013-14
Salient features

- Inflation has ceased but is still above comfort levels
- Improvements are visible on the fiscal front and in the current account balance.
- Sustenance of early signs of growth pick-up depends on amelioration of structural constraints.
- Favourable monsoons helped agricultural growth and power generation. Slowdown in industry continued.
- Revival of growth in services depends on growth revival in commodity producing sectors. Industrial revival is central to sustained revival in overall growth.
- Share of private consumption in GDP has declined in recent years.
- Fixed investment rate declined steeply in 2013-14.
- Reduced private corporate investment rate is the primary reason for decline in overall investment rate.
- Moderate revival of exports, coupled with decline in imports, helped improve net exports.
- Fiscal consolidation was achieved with lower-than budgeted expenditure in 2013-14.
- Raising the tax-GDP ratio and furtherance of subsidy reforms are essential for fiscal consolidation.
- Savings rate has declined significantly since 2007-08.
- In recent years, households tended to save more in physical than in financial assets.
- Food inflation has been much higher than non-food inflation.
- Tight monetary policy stance was followed by RBI for containing inflation and restoring stability in the foreign exchange market.
- Demand slowdown and restrictions on non-essential imports resulted in reduced trade deficit and lower CAD.
- Capital flows moderated, but foreign exchange reserves increased in 2013-14.
• Priorities for growth revival include: investment revival, strengthening of macro-economic stability, creation of non-agricultural jobs, strengthening of infrastructure, and boost to agricultural development.

• Despite some measures undertaken to address structural constraints, reversion to a growth rate of around 7–8 per cent can only occur beyond the ongoing and the next fiscal.

• With expectation of better performance in manufacturing, improved balance of payments situation and modest global growth revival, the economy is expected to grow in the range of 5.4-5.9 percent in 2014-15.

• The year 2013-14 witnessed record food grains production.

• Productivity levels of rice and wheat have not increased significantly after the 1980s.

• Mining output contracted for the third successive year in 2013-14.

• Slowdown in industry was reflected in lower sales growth in the corporate sector.

• Growth of credit flow to industry was lower in 2013-14.

• Unless timely action is taken, the potential for reaping the demographic dividend is unlikely to last indefinitely.

• Significant reduction was noticed in the number and proportion of persons below the poverty line in 2011-12.

• India’s per capita carbon emissions were 1.7 metric tons in 2010, well below the world average of 4.9 metric tonnes.

• New climate deals must ensure that developing countries are granted the required ‘carbon space’ and ‘development space’.

3.2 Inflationary Trends in India: An Overview:
Inflationary Trends in India show a wide fluctuation during the six decades with varied degree of ups and downs. The year 1964-65, 1973-74, and 1990-91 witnessed all time high inflation in India. The price rise during 1964-65 was the outcome of Chinese invasion and Indo-Pak conflict, while the galloping inflation during 1973-74 caused by price increase in the crude oil in the international market. High inflationary pressure during 1990-91 was the result of mismatch between the supply and demand.
The current wave of inflation in India is unique in the sense that despite negative inflation rate in June 2009, the prices of agricultural commodities were rising at a fast pace. Prior to the eruption of global meltdown, the global economy faced severe price rise of agricultural commodities during 2006-08 because of natural disasters such as droughts and cyclone, speculative activities in financial markets, failure of government to maintain required buffer stocks and changing consumption habits of consumers in major developing countries of the world.

India is the only country in the world which witnessed negative WPI-based inflation rate in June 2009. But, that was not a sign of depression or recession, as is generally associated with the fall in the prices, but was the result of decline in prices from a high base in June 2008. Uniqueness in the price rise was the wide gap between the WPI-based inflation rates. CPI-RL-based inflation rate in June 2009 was more than twice of WPI-based inflation rate.

The raging inflation and rising prices of commodities, particularly of mass consumption, is a matter of concern for the policy makers, Central Bank and Ministry of Finance - galloping inflation severely hurts the common man whose real income decrease with every rise in prices of essential commodities. Moderate inflation rate between 4-6 % acts as catalyst for the growth of the economy. It encourages investors to expand the production base and reap the benefits of price rise.

In the present context of hyper inflation in India, Central Government seems to be in compromising position with the rising prices just to achieve 9 % plus growth rate of GDP. Because of this thinking the government has left the responsibility of price control on the Central Bank. This has adopted a tight monetary policy in 2010. There is a pervasive belief that inflation can be reduced only at the cost of giving up growth, despite evidence to the contrary. A major determinant of results, as have been observed in many countries, is the policy mix and instruments used to reduce inflation and promote growth. Indian economy disapproved this theory during the entire period of Tenth Five Year Plan, which achieved 7.9 % growth rate in GNP at 1999-00 prices along with the average WPI-based inflation rate of 4.47 %.

3.3 History of the Wholesale Price Index (WPI) in India:

The Office of the Economic Adviser to the Government of India (Ministry of Industry) undertook to publish for the first time, an index number of wholesale prices, with base week ended August 19, 1939 = 100, from the week commencing January
10, 1942. The WPI was calculated as the geometric mean of the price relatives of 23 commodities. Each item was assigned equal weight and for each item, there was a single price quotation. From 1947, the series included as many as 78 commodities, covering 215 individual quotations, classified into five groups: food articles; industrial raw materials; semi-manufactures; manufactures; and miscellaneous. In accordance with the recommendations of the Standing Committee of the Departmental Statisticians, the Economic Adviser’s Office issued a revised series of WPI, with 1952-53 as price base and 1948-49 as weight base, consisting of 112 commodities, and 555 individual quotations. The commodities were classified into five groups: food articles; liquor & tobacco; fuel, power, light & lubricants; industrial raw materials; and manufactures. The weighted arithmetic average was adopted in preference to the weighted geometric mean used for the earlier series. A new series of WPI with base 1961-62 = 100 and with an improved coverage of non-agricultural commodities was issued from July 1969. It covered 139 commodities and 774 quotations. For commodity classification, the ‘Standard International Trade Classification’ (SITC) with slight alterations made to fit in with the Indian conditions was followed. While introducing the series with base 1961-62, it was decided to constitute a working group to go into the methodological aspects of the index relating to the revised series, with a more recent year as the base. Accordingly, a new series, with the base year as 1970-71, was introduced in January 1977. The wider coverage of this series extended to 360 items and 1,295 price quotations. For non-agricultural items, commodities with a total value of production of more than Rs one crore each according to the Annual Survey of Industries, 1965, and items whose indigenous outputs were small but imports were substantial, were generally included. In the case of agriculture, selection of commodities was done in consultation with the Directorate of Economics & Statistics, Ministry of Agriculture. For a more representative sample, weights were assigned on the basis of the entire wholesale transactions in the economy and the values of transactions of the non-selected commodities were assigned to selected commodities whose nature and price trends were similar. To bring about greater uniformity, the ‘National Industrial Classification’ (NIC) was adopted, and the commodities were divided into three major groups: primary articles; fuel, power, light & lubricants; and manufactured products. The WPI series underwent another restructuring in terms of its base and weighting diagram from the beginning of 1989. The new series with 1981-82 as the base year continued the
conceptual tradition followed by its predecessors. As against 360 items in the 1970-71 series, the 1981-82 series included 447 distinct commodities and 2,371 price quotations. The method of compilation and assigning of weights, as well as the classification into three major groups continued. The latest WPI series with the new base year 1993-94 follows the same methodology as earlier. There are altogether 435 articles/items in the new series, comprising of 98 ‘primary articles’, 19 items of ‘fuel, power, light and lubricants’, and 318 ‘manufactured products’.

A new WPI series with 2004-05 bases was released on 14 September 2010. A representative commodity basket comprising 676 items has been selected and weighting diagram derived for the new series. The total number of price quotations has also increased from 1918 in the old series to 5482 in the new series, indicating better representation of the prices in the wholesale markets. Sector-wise price quotations have increased from the old to new series from 455 to 579 in primary group and from 1391 to 4831 in the manufactured products group. A comparison of the weighting diagram and number of commodities between the old and new series for the major groups is drawn in Table 4.1. Some of the important items included in the new series basket are flowers, lemons, and crude petroleum in primary articles and ice cream, canned meat, palm oil, ready-made/instant food powder, mineral water, computer stationery, leather products, scooter / motorcycle tyres, polymers, petrochemical intermediates, granite, marble, gold and silver, construction machinery, refrigerators, computers, dish antenna, transformers, microwave ovens, communication equipment (telephone instruments), TV sets, VCDs, washing machines, and auto parts in manufactured products.
Table no. - 3.1
Major Changes in the Weights and Commodities in the Revised WPI Series:

<table>
<thead>
<tr>
<th>Items</th>
<th>Weights</th>
<th>No. of Commodities</th>
<th>New items added/ revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Commodities</td>
<td>100</td>
<td>100</td>
<td>676</td>
</tr>
<tr>
<td>Primary Articles</td>
<td>20.12</td>
<td>22.03</td>
<td>102</td>
</tr>
<tr>
<td>Food Articles</td>
<td>14.34</td>
<td>15.4</td>
<td>55</td>
</tr>
<tr>
<td>Non-Food &amp; Minerals</td>
<td>5.78</td>
<td>6.63</td>
<td>47</td>
</tr>
<tr>
<td>Fuel and power</td>
<td>14.91</td>
<td>14.23</td>
<td>19</td>
</tr>
<tr>
<td>Manufactured Products</td>
<td>64.97</td>
<td>63.75</td>
<td>555</td>
</tr>
<tr>
<td>Food Products</td>
<td>9.97</td>
<td>11.54</td>
<td>57</td>
</tr>
<tr>
<td>Non- Food product</td>
<td>55</td>
<td>52.21</td>
<td>498</td>
</tr>
</tbody>
</table>

Source:- Economic Survey of India 2010-11.
The year under review was one of considerable anxiety. The strain on the country’s economy reflected in the rising level of prices and the threat of inflation was aggravated during the year by severe natural calamities like the earthquake in Assam, the floods in certain parts of Bihar and Uttar Pradesh, the failure, for the fifth year in succession of the North-East monsoon over a large area of Madras and serious droughts in Bihar and certain parts of the country. Meanwhile, the slow return to normal conditions in the post-war years all over the world was violently upset by the outbreak of hostilities in Korea.

The problem of holding the prices in check was one of the major preoccupations of Government in the years following the end of the war. The step was taken included the devaluation of the rupee in September 1949. After this event, price cuts in certain essential commodities were made in an effort to counter the possible effects of devaluation, and this assisted in holding the price level for some time. In fact, the general price index fell by 12 points from 393.3 at the end of October 1949 to 381.3 at the end of December 1949. It did not, however, prove possible to check for long the upward pressure on prices generated by devaluation, and by June 1950 the gain
secured during the closing months of the previous year had been lost, the index number standing at 395.6. The outbreak of the Korean War gave a further impetus to the rise in prices and by September the index number had risen to 412.5. This increase in price was, however, not peculiar to India and to a very great extent it reflected the upward movement in prices in other countries which supplied important categories of our imports.

With the approval of Parliament, powers were taken by the Centre to make laws for a period of one year from the 15th August 1950 in respect of two subjects falling in the State list, namely, trade and commerce and production and supply and distribution of goods. The main object was to evolve a uniform policy for the whole country in regard to production and distribution and the regulation of prices. The Essential Supplies (Temporary Powers) Act was also amended to prescribe drastic penalties for the hoarding of food grains. An ordinance was promulgated in September to regulate the supply and prices of a number of essential consumer goods which were likely to disappear into hoards and to be black-market. Government also set up a Prices Advisory Board, consisting of representatives of trade and industry, to advise them on the fixation of prices and other matters connected with the administration of the ordinance.

One result of the development in the international situation, following the outbreak of the Korean War, was to intensify the demand for some of the principal exports from this country like jute goods, raw cotton, cotton waste and raw wool. The external prices of these commodities rose very steeply and in view of both the interests of the exchequer and the necessity for countering inflation, it was decided that this difference should be intercepted by Government through the enhancement or levy of export duties. Export duties on jute goods and raw cotton were accordingly enhanced while new duties were imposed on exports of cotton waste and wool. In the rapidly changing conditions, Government also considered it necessary to obtain from Parliament temporary powers to enhance, if necessary, existing export duties and to levy new duties. All these measure had a steadying effect on prices although it was not possible wholly to arrest an upward trend.
The vagaries of the monsoon again left the country to face a substantial deficit in food grains. In other respect, the year’s result were, however, more encouraging. The steady rise in prices, which was one of the disconcerting features in the country’s economy since the commencement of the Korean War, was halted and from July 1951 onwards there was a steady downward movement in the price level. This welcome development could be traced as much to the world-wide trend of falling commodity prices as to the general disinflationary effect of the very large revenue surplus realized during the year under review and the withdrawal of a substantial volume of purchasing power from the public by the sale of imported wheat purchased from the American loan. The level of production in the principal industries of the country was also higher than in the previous year and the larger supplies thus made available for internal consumption had a steadying effect on prices. Agricultural production also showed some improvement although in the case of food grains, the increased production secured by the Grow More Food campaign was more than wiped out by the shortages created by adverse seasonal conditions.

The steady drop in prices had been taking place from July 1951 onwards. At the end of January 1952 the general index number of wholesale prices stood at 430.3, a drop of nearly six per cent from the peak figure of 457.5 reached in April 1951. Between
January and March there was a more pronounced fall in the index number, which dropped to 364.9 points i.e. by a further fourteen per cent by the middle of March. The measures taken by the Government from time to time to meet the situation created by the abruptness of the fall in prices with particular reference to its effect on the country’s export earnings included the following:

The export duty on hessian was reduced from Rs. 1,500 per ton to Rs. 750 per ton and was further reduced to Rs. 275 per ton. The duty on sacking was also similarly reduced from Rs. 350 per ton to Rs. 175 per ton. Export duties on raw cotton and cotton waste were also reduced, while the duties on wool and groundnut oil and some oil seeds were abolished. Licensing restrictions on the export of jute goods were almost completely withdrawn. In the case of cotton textiles, in which there was, as in the other exporting countries in the world, a sharp reversal of the relative strength of demand and supply, distribution controls were relaxed and mills were allowed freely to sell the entire production of fine and super-fine cloth and 80 per cent of the production of coarse and medium cloth. They were also permitted to export fine and super-fine cloth freely for shipment up to the end of September 1952. Government also permitted the free export of coarse and medium cloth for the shipment up to the end of August 1952. Government also assisted the industry in purchasing foreign cotton by arranging special credit facilities, while the concomitant fall in the price of raw cotton was arrested by government’s offer to purchase the cotton at floor price if necessary, backed by the necessary organization.
The year under review witnessed a marked improvement in the economic conditions in the country. Prices, on the whole, remained steady at lower levels, industrial as well as agricultural production showed an increase while the balance of payments position was also slightly more favourable than preceding year.

The fall in price had the inevitable consequence of reducing income in certain sectors but more significant, perhaps, than this was the fact that the possibilities of large or quick profits by traders and middlemen were reduced. While with production at its existing level, there was little possibilities of any unemployment in industrial labour, the contraction of profits in trade and commerce was, perhaps, having the effect of creating some measure of unemployment in the urban areas. Agricultural labour was also not materially affected by the fall in prices except in the tea gardens where some amount of unemployment seemed inevitable if the marginally uneconomic gardens had to close down.
Like other countries, India was going through a process of return to more normal conditions after the War, a process which was disturbed and delayed by the outbreak of the Korean War and its aftermath. The return to “normality” commenced in 1952 and continued during 1953. Thus, while at the end of December 1951 the price index of all commodities had risen from 397.1 immediately before the commencement of Korean War to 432.2 by the end of December 1952, it had fallen to 374.5, well within the level reached at the time of the outbreak in Korea. In 1953, the variation in prices were within a narrower range than in the previous year and at the end of December 1953, the index number had risen by a little under 5 per cent and stood at 392.6. Throughout the earlier months of the year end until about the middle of August, there was a continuous but a moderate rise in prices, largely caused by temporary factors. The supply position was slightly difficult and the difficulty was aggravated by exceptions of lower output in certain important commodities like black pepper, sugar, cotton and groundnut. The demand for certain commodities like sugar and cotton also rose owing to increased internal consumption and the physiological effect of all these factors was to generate an upward movement of prices. Measures were taken from
time to time to improve the supply position and bring down prices which included the following:

I. Imposition of the ban on the export of sugar and gur.
II. Restriction on the export of groundnut oil.
III. Liberalization of imports of coconut oil and copra.
IV. Reduction in import duties on palm oil, copra, sugar and cotton seed oil.
V. Opening of fair price shops.
VI. Issue of a large quantity of foodgrains.
VII. Reduction in the price of imported wheat supplied by the centre.

These measures played an important part in arresting the upward movement of prices and between August and December of the year under review there was a continuous decline. The general index number at the end of December was 20 points less than the peak figure reached in the middle of August.

1954-55
There was a substantial increase in money supply during the year to meet the needs of increasing production and growing economic activity. The note circulation was increased by Rs. 75 Crore and demand liabilities of Scheduled Banks by about Rs. 55 Crore. The increased money supply was due, almost entirely, to expansionary factors within the country, the external payments position being more or less in balance. There were distinct signals of a revival of investor confidence and the capital market reacted well to the general improvement in the country’s economy. The response to both Government and private borrowings in 1954 was heartening, especially in comparison with the previous two years. Monetary policy and the structure of interest rates, except for a slight rise in short term rates, remained unchanged during the year.

Economic conditions during the year under review were generally satisfactory. Rainfall was seasonal and adequate in the country as a whole, although in certain parts of the country floods caused extensive damage. There was no other major climatic upset. In the aggregate, the outturn of crops was good and the overall stability attained by the economy in 1953 was maintained.

The trend of prices for the greater part of the year was one of downward adjustment. The general index of wholesale prices which had stood at 392.6 at the end of December 1953 rose moderately to 404.2 by the middle of April 1954. Thereafter, prices fell after sharply to 378.4 by the end of June and, except for a slight rise up to the end of September, there was a further fall with the harvesting of the Kharif crop, and the index at the end of January 1955 stood at 360.
The First Year Plan was completed generally to a satisfactory extent. The country was able to lay sound foundations for a more massive superstructure in building up the country’s economy.

Economic conditions in the country changed for the better in 1953 and 1954 and the Indian economy achieved greater strength and vigour in the course of 1955-56. The decline in agricultural prices which set in after August 1953 was halted by May 1955 and over the remaining part of the year an upward trend was registered. In most industries production reached significantly higher levels, and, aided by favourable factors, the performance in regard to agricultural production was satisfactory. The rate of planned outlay was stepped up considerably without apparently releasing inflationary pressure. Aggregate demand and supply tend to balance at a higher level. The slack in the economy which came into evidence after the collapse of the Korean boom had virtually disappeared. The First plan had thus strengthened the economy a great deal and stage was now set for more rapid development.
In the course of the First Plan, there were inflationary or deflationary forces in evidence from time to time, but on the eve of the Second plan, the situation appeared to be more or less one of balance.

During the year, money supply increased by about Rs. 132 crore. This increase occurred in spite of the large balance of payments deficit which resulted in a precipitous fall in the Reserve Bank’s foreign exchange holdings. The increase in rupee securities held by the Reserve Bank worked out as Rs. 273 crore over the past twelve months. This was clearly an expansionary factor which reflected the growing borrowings of Government from the Reserve Bank; in part, it arose from the pressure on commercial banks to replenish their resources by selling securities. Scheduled banks lending to the private sector was up by Rs. 147 crore during the year. The liquidity of the banks had in the process been strained and money rates hardened. Stringency in the money market continued. This stringency was a usual accompaniment of a phase of economic boom when investments tend to outturn savings. It was not an indication of an insufficiency of the monetary media. An abatement of monetary stringency had at that stage to be sought not through general
increase in the supply of credit to less essential uses and through the creation of special institution or facilities for supplying selectively, the type of credit needed for priority developments.

Prices showed an upward trend during 1956-57. The rising price trend was due in part to the insufficiency of food production in relation to the demand, and in part it was attributable to certain external factors. There were, however, clear signs of demands in the economy tending to outstrip the supplies available.

Money supply with the public recorded a rise of Rs. 97 crore in 1957 as compared to Rs. 132 crore in 1956 and Rs. 215 crore in 1955. Although the rate of increase of money supply thus slowed down, the increase of Rs. 97 crore occurred in spite of the contractionist effect of the decline in the foreign assets of the Reserve Bank by Rs. 327 crore this year as against Rs. 199 crore in the previous year. The main expansionary factor was an increase of Rs. 478 crore in net indebtedness of the Central and State Governments to the banking system as compared to an increase of Rs. 242 crore in 1956 and Rs. 146 crore in 1955. On balance, there was thus a net decrease of Rs. 121 crore in the net indebtedness of the private sector to the banking system, which contrasted with the increase in net indebtedness by about Rs. 129 crore in 1956 and about Rs. 50 crore in 1955. Firstly, part of the increase in time liabilities
of the scheduled banks was in respect of the deposit, with one of them of Government payments to the account of the U.S. Government against receipts of P.L. 480 imports. The decline in the expansion of bank credit in the latter part of 1957 coupled with an increase of Rs. 252 crore in the deposit resources of the banking system was reflected in a fall in the credit-deposit ratio from 72 per cent at the end of 1956 to about 65 per cent at the end of 1957.

The index of wholesale prices (1952-53=100) rose steadily from 100 in April 1956 to about 109 by November of that year. It declined thereafter to 106 by March 1957 when the upward trend was resumed again, the index reaching a level of 112 in July-August. Since September, there was a fairly continuous downward trend.

The changes in the general price index mentioned above followed closely the trends in the prices of cereals. In contrast with cereals and other food articles, the index for manufacturers was remarkably steady around 106-109. Industrial raw materials exhibited a rising trend in the middle of 1957, the index going up from 117 in March-April to 122 in July. Thereafter, the trend was downward, the index being 115 towards the end of the year.

By and large, the upward pressure on prices was felt mainly on cereals; it was particularly at this point that domestic supply, augmented as it was by sizeable imports, was short relative to demand.

The All-India index remained steady at around 113 since August, the average for the eleven months of 1957 being 110 as compared to 105 for 1956. The indices for some of the industrial centers like Bombay, Calcutta and Jamshedpur rose more sharply during the year than the All-India index, and they showed no signs of recession.
There was, during the year, a further slowing down in the rate of increase of money supply in the hands of the public. Over the twelve months of 1958, the increase in money supply with the public was Rs. 74.9 crore as compared to an increase of Rs. 96.3 crore in 1957 and of Rs. 131.5 crore in 1956. The net indebtedness of Government to the banking system increased by Rs. 407 crore during the year as compared to an increase of Rs. 477 crore in 1957 and Rs. 244 crore in 1956. A large part of this expansionary impact on money supply in 1958 was countered by the decline in the foreign assets of the Reserve Bank and a diminution in the indebtedness of the private sector to the banking system. The decline in the foreign assets held by the Reserve Bank was Rs. 108.8 crore in 1958 as compared to Rs. 327.5 crore in 1957.

The sharp decline in agricultural production in 1957-58 and a slowing down of the rate of growth of industrial production accentuated the pressure on prices during 1958-59. The index of wholesale prices (1952-53=100) which had registered a decline in the latter part of 1957 started rising from March 1958; it went up from 105 in that month to 116 in August, the rise being accounted for mainly by the upward movement of the index for food articles from 102 to 120 in this period. Prices were more or less stable in September and October and showed a downward trend in November and December, the general index reaching a level of 110-111 by December-end and early
January 1959. There was again a rise since then; the index of wholesale prices for the week ending 7th February being 114.

On the whole, the rise in the wholesale price level as measured by the average of monthly indices for the year was 2.1 per cent in 1958 as compared to 5.9 per cent in 1957. The All-India cost of living rose sharply during the year, the index going up from 110 in March 1958 to 123 in October, and receding to 122 in November and 119 in December.

Over the twelve months of 1959, money supply in the hands of the public increased by Rs. 170 crore; the increase in the previous two years was lower at Rs. 75 crore in 1958 and Rs. 96 crore in 1957. The major expansionary factor in 1959 was an increase in the net indebtedness of Government to the banking system amounting to Rs. 247 crore. This was offset by a decrease of Rs. 107 crore in the net indebtedness of the private sector to banks. On the other hand, the increase of Rs. 24 crore in the foreign exchange assets held by the Reserve Bank during this period added to the money supply.
Despite increase in production mentioned earlier, wholesale price showed on the whole a rising trend in 1959. The rate in the average level of the index for 1959 worked out at about 4 per cent as compared to a rise of 2 per cent in 1958 over 1957. The movements in the general index of prices between 1956 and 1958 followed, in the main, the course of foodgrains prices. The index for cereals (which had a weight of nearly 20 per cent in the general index) went up from 92 to 105 over this period. The index for industrial raw materials on the other hand, increased from 113 to 115, and the index for manufactured articles rose from 105 to 108. Of the rise in wholesale price in 1959, food articles other than foodgrains accounted for nearly two-thirds, industrial raw materials for about one-sixth and manufacturers for about one-tenth. For the first time since 1951, industrial raw materials and manufacturers contributed more to the rise in prices than foodgrains, mainly because the increase in the production of raw materials had tended to lag behind the increase in demand. Evidently, increased production of raw materials was essential in a developing economy as an adequate output of foodgrains.

1960-61

| Sharp rise in industrial raw material | Money supply became more pronounced |
| Trend in prices governed by foodgrain prices | Drawing down of sterling balances |
| WPI was declined |

The trend towards an increased rate of expansion of money supply noticed in 1959 became more pronounced in 1960. The major factor accounting for this change was
that while up to the end of 1958, the drawing down of sterling balances exerted a markedly constructionist influence, this factor later on became less significant.

The general index of wholesale price (1952-53=100) which was 117.9 at the end of 1959 rose almost continuously to a level of 127.4 around the middle of October 1960. There was a decline, mainly seasonal, after that, the index at the end of December 1960 being 124.2. The index rose again thereafter; for the week ending January 28, 1961, it was 126.3 as compared to 119.2 a year earlier.

Up to 1958, the trend in prices was mainly governed by the increase in prices of foodgrains, which rose by 14.5 per cent since 1956. The rise in the case of industrial raw materials and manufactures during that period was relatively small. In 1959, food articles other than foodgrains accounted for nearly two-thirds of the rise in wholesale price. A feature of the price situation in 1960 was the sharp rise in the prices of industrial raw materials (16 per cent) and manufactures (10 per cent). Since the commencement of the Second Plan, wholesale price had risen by about 25 per cent.

The average level of the consumer price index for 1960 came to 124 as compared to 121 for 1959 and 116 in 1958.

1961-62

The trend towards an accelerated increase in money supply which was in evidence in 1960 was reversed in 1961. Money supply with the public increased by Rs. 141 crore (5.1 per cent) in 1961 as compared to an increase of Rs. 216 crore (8.6 per cent) in 1960 and Rs. 171 crore (7.3 per cent) in 1959. Despite a large increase in
government’s indebtedness to the banking system than in 1960, the increase in money supply in 1961 was smaller due mainly to the fact that bank credit to the private sector increased at a slower pace (Rs. 137 crore in 1961 as against Rs. 243 crore in 1960). Another factor which tended to slow down the rate of increase in money supply in 1961 was the somewhat larger decline in the foreign assets held by the Reserve Bank than in the preceding two years.

The general level of prices in the country showed more or less continuous increase during the Second Plan period. With the restoration of a better balance between supply and demand in the aggregate, the increase in prices was checked during the year under review. The general trend in prices during the first half of 1961 was upward. But since July 1961, there was a reversal of this trend. As a result, the average level of prices in 1961 was higher than in 1960; but over the year, the index of wholesale price receded from 124.6 in December 1960 to 122.9 in December 1961. The decline of 1.4 per cent in the general price level during 1961 was explained by the decline in the prices of industrial raw materials. Food articles as a whole registered a small increase in prices whereas prices of manufactures remained virtually stable.

1962-63

In the light of these trends, the process of an orderly and gradual increase in interest rates, which had been under way over the past few years, was carried a stage further
in the current year. The three-tier system of Reserve Bank lending rates in operation since October 1960 was replaced in July 1962 by a four tier system which meant in effect an increase in the average lending rate of the Bank by $\frac{1}{2}$ per cent or more and this was reflected in a corresponding increase in the cost of commercial bank credit. The lending rates of financial institution such as the Industrial Finance Corporation were raised correspondingly by $\frac{1}{2}$ per cent. Mark borrowing by the Central and State Government and semi-public institutions was undertaken at rates of interests which represented an increase of between $\frac{1}{4}$ and $\frac{1}{2}$ per cent on medium and long term debt. The rate of return on post office savings accounts was also raised by $\frac{1}{2}$ per cent to stimulate small savings which had shown a declining trend for some time.

In the slack season of 1963 there was an unusually large contraction of bank credit to the private sector. Government borrowings from the banking system were significantly larger than in the previous year and money supply with the public increased substantially. The deposit resources of the banking system expanded; but time deposits increased less than demand deposits, partly as a result of the offer by non-financial institutions of high rates of return on funds deposited with them. After a review of monetary trends, a modification was made in the Reserve Bank’s policy in
regard to accommodation to the scheduled banks to enable them to meet the genuine credit needs during the busy season.

The expansion of bank credit to the private sector was substantially larger than in the previous year whereas government borrowings from the banking system were significantly smaller. In part, the larger credit creation for the private sector reflected the expected increase in agricultural production and the replenishment of stocks which, in all probability, were run down during the previous year. The accent of monetary policy was on realistic interest rates which reflected the real cost of capital to the economy.

The decline in agricultural production and the consequent scarcity of supplies of consumables had begun to exert a pressure on prices during the early months of 1963. Accordingly, apart from limiting the scale of deficit financing, the budget for 1963-64 avoided large increases in indirect taxation on items of mass consumption which were produced domestically. Even so, there was a steady upward pressure on prices in general over most of the year.

The normal seasonal tendency for wholesale price in general to decline over the second half of the fiscal year was not evident during the year under review. The wholesale price index (1952-53=100) which had reached 136 at the end of October 1963 declined to 134 by the end of November, but it rose again in December and on January 25, 1964 it was 137.

The rise in the price level was a matter of major concern throughout the year. To give relief to the lower income groups, the Compulsory Deposit Scheme was withdrawn in September 1963 so far as non-income tax-payers were concerned. There was an increase in pensions and a liberalization of the terms of the Family Pension Scheme for Government employees in addition to compensation for the rise in cost of living. A number of steps were taken to reverse the rising trend in prices. In view of the expected larger crop of rice, Government decided to step up the procurement programme with the object of building up a substantial stock. State Governments were advised to stipulate margins to be maintained by traders and also to regulate trading practices through more effective supervision and inspection of trade transactions. Restrictions were imposed on the movement of cotton in some areas and imports were arranged. While these remedial measures were taken, it became increasingly clear that the primary approach to price stability was to be in terms of stimulating production and productivity.
The assurance of a fair minimum return was recognized as being necessary to secure higher levels of agricultural production. The price support and buffer stock schemes for raw jute had resulted in increased output in 1961-62 and a comfortable stock position since then. During the year under review, minimum prices of wheat and procurement prices of rice were raised. Minimum prices of jowar were also fixed for the first time, thus extending the coverage of the price support schemes to major food and commercial crops. In order to encourage the cultivation of sugarcane and improve the yield and quality, the minimum prices of sugarcane were increased. Fiscal incentives were also given to factories to stimulate larger production of sugar during the 1963-64 seasons.

Considerable attention was given to the intensification of agricultural programmes since the Emergency. The ‘package’ approach was extended to the production of important commercial crops in view of the increasing requirements of industry and exports. In July 1963, an Agricultural Refinance Corporation was set up to facilitate medium and long term credit for the development of agriculture and allied activities. Reappraisal by the National Development Council of the Third Five Year Plan in November 1963 indicated that a concerted drive was necessary to achieve the 5 per cent annual rate of growth visualized at the beginning of the Plan and that improved organizations was required particularly in the field of agriculture. Following this appraisal, an Agriculture Production Board, with the Central Ministers and a Member of the Planning Commission as members, was set up to ensure in integrated approach in matters of agricultural policy.

Both fiscal and price policies were employed to stimulate production in priority industries. An increase in price for additional production was allowed in 1962-63 to the cement industry as a result of which it was able to maintain high levels of production during that year. The development rebate for the coal industry was increased from 20 per cent to 35 per cent with a view to encouraging investment and output. While the basic import duties on machinery were raised, concession was given for coal mining machinery and fertilizer manufacturing equipment.

There was increasing recognition of the fact that while a measure of control over basic items in short supply was necessary in a planned economy, it was equally important to ensure that basic industries secure returns adequate to finance expansion and to attract capital which would otherwise go into non priority industries. Apart from this, controls in actual operation over a long period do not always serve the purposes for
which they were set up therefore a continuing examination of the operation of
controls is an important task of policy. In keeping with this policy, controls on many
items including rayon yarn, staple fibre, various chemicals, soap and natural rubber
were removed during the year. The problems of steel, coal and electricity called for
more detailed examination. A committee of economists reviewed the operation of the
distribution and price controls on steel. The question of adjusting electricity tariffs in
order to secure an adequate return on power generation and the need for revision of
coal prices was examined by inter-departmental committees.
A number of steps to improve industrial efficiency and speed up the process of
development were taken. In the public sector, measures were adopted to strengthen
management and expedite decision making. The procedures with regard to the control
of expansion of industrial capacity in the private sector were simplified.
Arrangements were made to take prompt decision on proposals submitted by potential
foreign investors. The exemption limit for licensing under the industries
(Development and Regulation) Act was raised to Rs. 25 lakh of fixed assets and
capital issues below this amount were also freed from control. A committee of non-
officials recommended a revised procedure for considering applications for
establishing capacity in certain key industries, and its proposals were accepted by the
Government. At the same time, the laws relating to banking and company operations
were amended to provide safeguards against the concentration of economic power and
against malpractices in business administration.
There was a slackening in the raising of fresh capital and in the starting of new
projects by private industry after the Emergency. While the foreign exchange required
for import of equipment, components, etc. remained scarce, in the case of projects for
which foreign exchange had been arranged, difficulties of rupee finance needed to be
removed. Steps were therefore taken towards the end of the year to stimulate the flow
of savings into industries of high priority. In order to enable priority projects to move
forward, additional financial resources were made available by Government to the
IFC and the ICICI and as a measure of immediate relief it was announced that no
premia for Emergency Risk Insurance would be collected during January-March
1964.
As longer term measure, a Unit Trust was set up to channel small savings into
industrial investment and Government announced that a Development Bank would be
established to finance private industrial expansion. The Bank would coordinate the
activities of existing financial institutions and give assistance for the promotion of key industries as also industries requiring special assistance.

1964-65

The growing pressure of demand on the economy was seen from monetary trends during the year under review. Money supply with the public was increased by nearly 31 per cent during the first three years of the Third Plan. The expansion in monetary circulation was particularly marked in 1963-64 when money supply increased by about 14 per cent. The pace of monetary expansion, however, was reduced sharply during 1964-65. During the first nine and a half months of this year, money supply with the public increased by 6 per cent as against 10.1 per cent in the corresponding period last year.

Wholesale prices had remained stable over the first two years of the Third plan period. A small decline in prices during 1961-62 was followed by a corresponding increase in the following year. The virtual stagnation in the output of foodgrains over the past three years together with the growing pressure of demand, however, led to a disturbing increase in prices over the past two years. Wholesale prices increased by 9.1 per cent in 1963-64 and by another 14 per cent during the first ten months of 1964-65. The bulk of the increase in prices was accounted for by foodgrains and agricultural raw materials; prices of finished manufactured articles advanced only by some 7 per cent.
Wholesale prices had stable over the first two years of the Third Plan period. A small decline in prices during 1961-62 was followed by a corresponding increase in the following year. The virtual stagnation in the output of foodgrains over the past three years together with the growing pressure of demand, however, led to a disturbing increase in prices over the past two years. Wholesale prices increased by 9.1 per cent in 1963-64 and by another 14 per cent during the first ten months of 1964-65. The bulk of the increase in prices was accounted for by foodgrains and agricultural raw materials; prices of finished manufactured articles advanced only by some 7 per cent.

1965-66

Incentives for additional production

Higher prices of food articles

Poor Kharif Crop

Manufactures prices rose

Wholesale prices which had risen by 8.7 per cent in 1964-65, following an increase of 9 per cent in 1963-64 rose further during the year under review, though at a slower rate. The rise in prices was largely due to higher prices of food articles. Foodgrains prices rose in spite of the good crop last year probably due to expectations of a poor kharif crop in 1965-66. Prices of manufactures also rose during the year. In part, these price increases were intended to provide incentives for additional production.

Wholesale prices which had risen by 8.7 per cent in 1964-65, following an increase of 9 per cent in 1963-64 rose further during the year under review, though at a slower rate. The rise in prices was largely due to higher prices of food articles. Foodgrains prices rose in spite of the good crop last year probably due to expectations of a poor
kharif crop in 1965-66. Prices of manufactures also rose during the year. In part, these price increases were intended to provide incentives for additional production.

**1966-67**

The objective of monetary policy was to prevent an undue rise in the price level, particularly as a result of the speculative holding of commodities. The rate of growth of the money supply was reduced to 7.1 per cent in 1966-67 as compared to 11.1 per cent in 1965-66. The rise in money supply was no doubt higher than the increase in output over the year. It was, however, necessary to ensure that while an appropriate degree of monetary discipline was maintained, production was not hampered by a severe shortage of credit. Of the increased credit during the busy season, 80 per cent was required to be made available to industrial borrowers and against imports and exports.

There was a considerable increase in the quantities of foodgrains distributed through ration or fair-price shops; and substantial supplies were also distributed free in drought affected areas. Nevertheless, in view of the overall shortage, there was a substantial rise in the prices of foodgrains and of many other agricultural commodities. This, in turn, led to increase in prices of manufactures as a result of higher raw material and wage costs. The higher prices of imported materials consequent on devaluation also had some impact on the price levels, though in many
cases these higher costs were absorbed in margins previously accruing to manufacturers and traders. The rise of 16.5 per cent in the wholesale price index over the year was a matter for serious concern as it came in the wake of an increase of 25 per cent in the preceding two years.

Monetary policy was designed to provide a reasonable volume of credit, particularly to priority sectors like exports and agriculture, while avoiding an undue overall expansion of the money supply. There was a considerable increase in the provision of finance to agriculture through the co-operative system. The Reserve Bank’s arrangements for the grant of accommodation to the banks continued to provide for preferential treatment of the financing of priority sectors. The money supply expanded by 7.6 per cent during the twelve months till January 19, 1968 as compared with 9.6 per cent during the preceding twelve months.
The Reserve Bank of India continued a policy of liberalized credit to the priority sectors in the busy season of 1968-69. A number of selective controls on credit were also relaxed. Nevertheless, in view of the budgetary developments and the substantial increase in time deposits with the banks, the growth in money supply was only 6.5 per cent higher at the end of 1968 as compared to a year earlier.
The average level of prices during the twelve months ending December 1969 was higher by 2.1 per cent as compared to 1968. There was renewed upward pressure and the monthly average of wholesale prices during January 1970 was 6.8 per cent higher than a year ago. With good crop conditions during the year under review, it was possible to maintain the climate of relative price stability.
Prices showed continued tendency to rise. Although foodgrains production increased, prices of foodgrains had not fallen steeply because of the price support extended by government through its procurement policy. Over the year, the wholesale price index on the average was higher by nearly 5.6 per cent as compared to the previous year. Although steps were taken to arrange for larger imports of steel, cotton and vegetable oils, these could not arrive on time to augment domestic supplies. Monetary restraints had to be applied to curb demand.

Money supply with the public, which rose at the rate of 10.8 per cent during 1969-70, witnessed an increase of 11.0 per cent in 1970-71. Monetary expansion in 1970-71 was attributed primarily to credit creation in favour of the domestic sectors, particularly for Government. Reflecting the impact of a fairly restrictive policy, credit expansion in the 1970-71 busy season at Rs.392 crore was smaller than in the preceding busy season (Rs. 563 crore).

The average rise in the general wholesale price index during 1970-71 came to 5.5 per cent. The sharp increase – averaging approximately around 10 per cent during the year – in the price level of raw materials was principally responsible for this over-all rise, which could not be subdued by the larger availability of foodgrains. Even though prices of foodgrains were still appreciably higher in 1971-72 than what they were a
year ago, the rise in the price index for food articles as a whole was less. On the other hand, the price index for non-food articles behaved somewhat differently, presumably because of the pronounced stickiness in the other elements of cost despite a leveling off in the price index for raw materials.

1972-73

A principal task of credit policy both in 1971-72 and 1972-73 was to contain the expansionary impulses operating from the side of the budget. Efforts were made to siphon off the excess liquidity of the banking system, which might have otherwise added to the inflationary pressures in the economy. The credit policy for the 1972-73 busy seasons provided for an increase in statutory liquidity ratio from 29 to 30.

In 1972, particularly since the month of May, prices showed an abnormal increase. The wholesale price index in December 1972 was 13.7 per cent higher than its level during December 1971. The increase in the price index averaged 7.8 per cent in 1972 as against an increase of less than 4 per cent in 1971.

The steep rise in prices since May 1972 was a matter of legitimate public concern, more so because prices of important basic necessities of life such as foodgrains, vegetable oils and sugar rose sharply. Among foodgrains, prices of coarse grains rose more than those of rice and wheat. The rise in prices in 1972 was largely due to a shortfall in the production of foodgrains, vegetable oils and sugar.
During the year under review, major efforts were made to contain the inflationary pressure and to relieve distress caused by the rising prices and the drought. The public distribution system was considerably strengthened. Releases of food grains from government stocks were greatly increased. The emphasis of credit policies continued to be on restraint consistent with the need to stimulate production. Arrangements were also made to supplement domestic production by increased imports to the extent feasible.

1973-74

The most important characteristic of the economic situation in 1973-74 was a sharp acceleration in price inflation. The wholesale price index on December 29, 1973 was 26 per cent higher than at the end of December 1972. This order of increase, coming, as it did, in the wake of an increase of nearly 14 per cent in wholesale price between December 1971 and December 1972, was bound to cause widespread hardships to the people. Because of a severe decline in agricultural production in 1972-73, the price situation remained a cause for serious concern and anxiety during 1973. This fact, coupled with a number of other factors, such as, inadequate procurement, the steep increase in international prices of food grains, inadequacy of stocks of food with the public sector agencies and large budget deficits, strengthened the inflationary psychology.
Despite continued emphasis by the Reserve Bank on credit restraint, credit expansion to the commercial sector recorded an unusually large increase in the 1973 slack season. Money supply with the public was increased by Rs. 407 crore in the busy season. In the calendar year 1973, money supply with the public increased by 15.8 per cent. This indicated the persistence of a sizeable imbalance between aggregate demand and supply in the economy.

By all accounts, 1974-75 was a year of unprecedented economic strains in the history of independent India. However, it was also a year of determined action on the part of the government, demonstrating, vividly the basic resilience of our democratic polity in grappling with crisis situation.

The first half of the year recorded the sharpest rate of increase in prices in the post-war years. There was a disproportionate expansion of money supply inherited from the two previous years. Inflationary tendencies received an added impetus in the earlier part of the year because of unsatisfactory production and procurement of foodgrains during 1974 rabi season. There was also a large increase in prices of various petroleum products as well as fertilizers in the beginning of the year. The overall international environment of inflation, leading to a sharp increase in prices of
a large number imported product of basic importance to the economy, gave further
stimulus to the already strong inflationary impulses operating in the economy.
The Wholesale Price Index reached its highest peak in the week ending September 21,
1974. In the following three months, prices declined by about 5 per cent. The average
value of the wholesale price index in 1974 went up by 27.3 per cent as compared to
the average increase of 19.2 per cent in 1973. This was an indication not only of the
continuing strength of the inflationary forces in the economy but also of severe
distortions that inflation had introduced in the economic structure.
Faced with the gravity of the economic crisis, the government took vigorous measure
designed unduly large accumulation of stocks. The combined result of the tax
proposals contained in the regular Annual Budget for 1974-75 as well as the second
Finance Act, the increase in postal rates and the enhancement of railway fares and
freight twice in the year, was the mobilization of a record amount of Rs. 690 crore by
way of additional financial resources by the Central Government in 1974-75. The
States also put in significant efforts at additional resources mobilization, yielding Rs.
358 crore in 1974-75. On any reckoning, this was an impressive attempt at resource
mobilization. It was, however, unfortunate that a large part of these resources was
absorbed by inescapable commitments of non-developmental, though by no means
non-essential expenditure.
Measure for additional resource mobilization was supplemented by more direct
attempts at regulation of disposable consumer incomes. Thus, the legislation
impounding a part of additional dearness allowances and the entire increase arising
from revision of wages and salaries, imposition of restrictions on declaration of
dividends beyond stipulated limits and compulsory savings for tax payers in higher
income brackets, represented a serious effort at moderating the growth of household
spending. The increase in interest rates and exercise of greater discipline since the 1974
slack season in the expansion of bank credit to the commercial sector were designed
to encourage savings and to provide a disincentive to excessive accumulation of
inventories.
As part of a package of anti-inflationary measures, Government also intensified its
operations against smugglers, hoarders and black marketers. The active use of MISA
against smugglers and other anti-social elements seems to have immobilized a part of
black money, hitherto being used to finance an undue accumulation of inventories.
Government arranged to import about five million tons of foodgrains in 1974-75. Moreover, in order to influence the state of price expectations, in the closing months of 1974, the government firmly resisted sectional pressures for higher procurement prices.

The government made strenuous efforts to maintain the tempo of investment activity in the vital sectors of the economy. During the course of the year, additional funds were allocated to these sectors to meet the unavoidable increase in project costs. To the extent various measures of resource mobilization had led to a reduction in the magnitude of deficit financing and slowed down the expansion of money supply, they helped to create a macro environment conducive to greater economic stability.

As a result of a more selective credit policy, the rate of growth of bank credit to commercial sector during the under review was significantly less than last year. Thus between March 31, 1974, and January 31, 1975 the increase of Rs. 959 crore in bank credit to commercial sector was considerably lower than the increase of Rs. 1,287 crore last year.

As combined result of smaller expansion in bank credit both to government and to the commercial sector, and a decline in foreign assets of the banking system, there was a visible reduction in the rate of growth of money supply during the year. The expansion in money supply amounted to Rs. 337 crore between March 31, 1974 and January 31, 1975 as against Rs. 960 crore witnessed during the corresponding period of 1973-74.
The credit policy for the busy season of 1975 sought to maintain adequate monetary discipline while facilitating an increase in production. Though the broad structure of interest rates was left unchanged, there was a selective liberalization of credit. Thus, the Reserve Bank withdrew the advice given to banks in November 1973 regarding additional margins on book debts and inventories. The minimum limit for prior credit authorization was raised from Rs. 1 crore to Rs. 2 crore. The maximum interest on term loans by banks was fixed at 15 per cent for periods beyond three years. In addition, with the restructuring of the existing system of cash credit accommodation into a loan component and a demand cash credit component, the system of levying a commitment charge of 1 per cent per annum on the unutilized portion of cash credit was also withdrawn. The Reserve Bank also initiated action for progressive application of the recommendations of the Study Group to Frame Guidelines for Follow-up of Bank credit. The most important recommendation of the Study Group related to fixation of norms for inventories and book debts for 15 industries to begin with, and fixation of norms for the scale of financing by the banking system. The Reserve Bank recognized the need for a certain degree of flexibility in the implementation of this report.

The wholesale price index which showed a declining trend during the second half of 1974-75 exhibited a generally rising tendency during the first three months of 1975-
However, as a result of an intensification of the drive against hoarders, black marketers and smugglers after July 1975, the rising tendency was brought under control. The average of the index for 1975-76 as a whole showed a decline in sharp contrast to a steep increase of 23.4% recorded in 1974-75.

1976-77

Money supply increased by 17.1 per cent during 1976-77. The most important factor responsible for such a sharp rise was an unprecedented increase in foreign exchange assets of the banking system. The amount of credit extended for buffer stock operations and meeting the increased credit requirement of expanding industrial production also contributed to the growth of money supply. Credit policy was, therefore, aimed at reducing the scope for credit creation by banks and at the same time ensuring the availability of funds for priority sectors. A number of selective credit controls on commodities such as oilseeds, edible oils and raw cotton, whose prices were soaring were made more stringent. Lendable resources with banks were sought to be reduced by increasing the statutory cash reserve ratio from 4 to 6% of deposit liabilities.

The most important feature of the economic situation in 1976-77 was a reversal of the declining tendency in prices, which had begun in September 1974 and continued throughout the year 1975-76. The wholesale price index which had declined by 11.6
% between September 28, 1974 and March 20, 1976 rose by 11.9% by March 26, 1977. The All India Industrial Workers Consumer Price Index also showed a tendency to rise and rose from 286 in March 1976 to 312 in March 1977. This price rise which occurred following the record agricultural production in 1975-76 seemed to be essentially due to the shortfall in the production of a few basic commodities. It also reflected the restructuring emergence of a substantial imbalance between aggregate demand and supply in the economy.

The price behavior in 1976-77 again emphasized the substantial impact which fluctuations in agricultural production could have on the price level, particularly when a sharp increase in the monetary resources in the economy had occurred. To achieve price stability under such circumstances, agricultural productivity needed to be raised as far as possible. The large buffer stock and the substantial volume of foreign exchange reserves offered considerable maneuverability in this regard. Use was made of this favourable situation during 1976-77 by importing large quantities of edible oils and raw cotton to make up for the shortfall in domestic production. The impact of such a policy on the price situation was somewhat limited.

1977-78

During the fiscal year 1976-77, money supply increased by 20.3%. The factors primarily responsible for such a large increase were the sharp rise in the foreign
exchange assets of the banking system, the expansion of credit by the banks both for
financing food and non-food sectors and to a smaller extent the budgetary operations
of the government. All the three factors, viz. an increase in credit to the commercial
sector and an increase in net bank credit to government contributed in more or less
equal measure to this expansion.

In order to insulate the economy from the impact of these monetary pressures the
restrictive credit and monetary policy initiated last year was continued. Lendable
resources with banks were sought to be regulated by maintaining the statutory cash
reserve ratio at 6 % of deposit liabilities, by impounding 10 % of the incremental
deposits from January 14, 1977 and by restricting the refinancing facilities to the
commercial banks. Selective credit controls in respect of lending against sensitive
commodities like oilseeds and edible oils were tightened. These measures coupled
with a relatively low demand for credit from the food as well as the non-food sectors
of the economy kept credit expansion under some check.

Because of last year’s experience, continued vigilance was exercised with regard to
the expansion of credit and its development. While monetary policy sought to check
the expansion of money supply and the lendable resources of banks, credit policy
sought to ensure that credit for productive purposes.

Therefore, the only two ways of raising more resources were: to increase the surpluses
of public enterprises by more efficient working and by taxing those sectors of the
economy which were under-taxed. There were well off farmers who did not pay direct
taxes and who received a number of agricultural inputs at concessional prices.
Therefore, measures were to be devised to make this section also to contribute its fair
share to the exchequer.

It was necessary to control expenditure as well. The rate of growth of non
developmental expenditure needed to be checked if more resources gathered by the
States were to be made available for productive use. Substantial economies needed to
be made in expenditure on administration and subsidies and the resources saved
needed to be transferred to investment.

The wholesale price index, which had fallen to 162.2 for the week ending March 20,
1976, reversed direction and rose to 182.1 for the week ended March 26, 1977. At this
level, the index was 12 % higher than a year earlier. The Consumer Price Index,
however, showed a larger increase than the wholesale price index. Between March
1977 and December 1977, the index increased by 5.8 % as against an increase of less than one per cent in the wholesale price index during the same period.

The price behavior in 1977-78 reflected to an extent the success of the policy of Government of large and steady imports of sensitive commodities like edible oils and raw cotton, more liberal issues from government held stocks and a tight monetary and credit policy. Prices were well regulated during the year because of Government’s determination to contain prices, advance planning and prompt implementation. The case for having a substantial step up in investment was made on various grounds. The question that was legitimately raised in this context was whether government would have the necessary resources to undertake a much larger volume of investment. Government saving had not been rising and the surpluses of public enterprises were also not showing the required kind of lift. The position of State Government was a shade worse if anything.

**1978-79**

During 1977-78, money supply increased by 14.7 %. The factors primarily responsible for this increase were the sharp rise in foreign exchange assets of the banking system and the expansion of credit by banks to government and the commercial sector. Bank credit to the Government which was an important expansionary factor affecting money supply last year had shown a smaller increase of Rs. 703 crore in the year under review. The growth of time deposits, which was an
important contraction factor in money supply expansion was, however, lower at 19.5 % compared to 20.7 % last year.

Monetary policy was relatively successful in containing the impact of increased money supply on the price situation. Although money supply increased by over 40% since the beginning of 1976-77, it could not be denied that prices were reasonably steady. This was partly due to a very tight credit and monetary policy. The success of the monetary policy had been partly due to a lack of inflationary expectations, brought about by adequate stocks of foodgrains and sugar and sizeable imports of edible oils, cotton and artificial fibres.

The price situation during the year was characterized by a remarkable degree of stability. The wholesale price index (1970-71=100) which stood at 182.9 for March 1978 – it was the same for March 1977 – rose to 184.8 in December 1978, an increase of 1%.

The stability of the wholesale price index was in contrast with the movements in the Consumer Price Index. The latter had risen from 321 in March 1978 to 340 in November 1978 before declining to 335 in December 1978, showing an increase of 4.4 % as against the 1.0 % increase in wholesale price.

High rates of monetary expansion, which typically contributed to buoyant aggregate demand, played an important role in the inflationary process. Increase in money
supply during the three years 1976-77 to 1978-79 gave an annual average of 18.3 \% recorded in 1978-79, but even this was quite high in a year in which output declined. The strict monetary and credit control which the Reserve Bank had been operating enabled it to ensure that the increase in bank credit to the commercial sector in 1979-80 was at a rate less than in 1978-79 i.e. 17.4 \% against 20.0 \%. Reserve Bank credit to the Government, however, had risen at a much higher rate i.e. 28.3 \% as against 16.0 \% in 1978-79. The steady increase in government expenditures every year from 1976-77 onwards led to a heavy refinance on deficit finance in 1978-79 and again in 1979-80, with the expected impact on money supply. In 1979-80, in particular, the Central budget deficit in the revised estimates amounted to Rs. 2,700 crore which was substantially larger than Rs. 1382 crore originally anticipated in the budget.

Monetary and credit policy was on a tight leash continuously throughout 1979-80. In spite of this, the growth of money supply in 1979-80 was only about 3 \% lower than the 18.7 \% growth recorded in 1978-79. This expansion had occurred because reserve money continued to grow. Monetary restraint in 1980-81 depended crucially upon the ability to keep deficit financing under control. In general, the task of aggregate demand management was to be shared between fiscal and monetary policies and not fall exclusively on the latter. However, the fiscal situation was not easy. Fiscal policy was operating under severe constraints. The scope for additional resources mobilization through taxation was somewhat limited in view of the lack of growth in the economy and the substantial burden imposed by the large oil price increase.

In fact, after two years of near complete price stability, prices began to rise sharply from the last month of 1978-79. The price rise gained momentum during the first six months of 1979-80 and the increases in the early months were extremely sharp. In July it was 4.6 \% and in August it was 3.2 \%. The Consumer Price index rose from 332 in March 1979 to 373 in March 1980 i.e. by 12.3 \%. Because of the difference in coverage and the time lag in the adjustment of retail prices to changes in wholesale price, the consumption price index showed a lower rate of inflation.

Although the price rise was widespread, the sharpness of the rise was because of a few commodities such as gur, sugar, oilseeds, edible oils, coal, petroleum and natural gas, iron, steel, and ferro-alloys.

Inflation in 1979-80 was dominated by the sharp increases in the prices of a few commodities like sugar, gur, khandsari, oilseeds and edible oils. To a large extent, these price increases reflected the decline in agricultural production. A normal
monsoon would have helped to contain pressures on these fronts. Industrial product prices were continuously increasing over the past two years because of steadily rising costs including wage costs. Inflationary expectations, which had already been built up to a significant extent accentuated. A combination of policies which increase productivity while at the same time restraining the growth of money incomes within the limits of real productivity growth, needed to be pursued in order to restrain cost push factors.

1980-81

Expansion monetary resources and bank credit was brought under reasonable control during 1980-81. The impact of the restrictive policy was more clearly visible on bank credit to commercial sector, which had risen by 10.3% during March 31, 1980 to January 9, 1981 as against 17.5% in the corresponding period of 1979-80. The important reasons for this deceleration were the sharp drop in food credit due to lower food procurement and delayed recovery in industrial production. However, bank credit to government increased by 21.4% during March 31, 1980 to January 9, 1981 as against an increase by 17.0% last year. To a certain extent, this reflected the continued increase in government’s budgetary deficit. Although the growth in aggregate bank deposits was somewhat sluggish to begin with, it picked up later and the liquidity position of banks remained comfortable.
The upsurge in prices which began in early 1979 proved difficult to control because of the other-hand of excess liquidity, severe drought and the inescapable impact of imported inflation. Several steps were taken to moderate inflationary pressures. March 29, 1980 to January 17, 1981, the wholesale price index showed a rise of 13.2 % as compared with 19.1 % during the same period last year. The Consumer Price Index for Industrial Workers (1960=100) increased from 373 in March 1980 to 408 in December 1980 i.e. by 9.4 %.

The agricultural pricing policy during the year sought to ensure remunerative prices to farmers. Energy prices were adjusted on account of increase in the international prices of crude and petroleum products and with a view to contain demand. Administered prices of certain industrial inputs were also adjusted to reflect increased costs, to reduce losses of public sector enterprises and to restrict budgetary subsidies. The prices of certain mass consumption commodities such as foodgrains, sugar and kerosene were sought to be maintained at reasonable levels by expanding and revitalizing the Public Distribution System. However, inflationary pressures in the economy, through moderated, still persisted and control of inflation remained an important objective of economic policy.

Price pressures, especially those on account of international factors continued. The oil prices were shock of 1979 triggered substantial cost-push on prices. Besides, some of the administered prices of commodities such as petroleum products, coal and steel had to be raised.

Control of inflation depended critically on ensuring significant increases in aggregate supply and checking domestic cost pressures. A broadband industrial development and a substantial improvement in the performance of the infrastructure were necessary to generate a larger supply response and help moderate inflationary pressures. Greater industrial discipline combined with fair and efficient processes for dealing with the demands of labour was necessary for ensuring high productivity and an abatement of the rate of inflation.

The anti-inflationary package of policies inevitably involved fiscal and monetary discipline. It was necessary to minimize increase in non-developmental expenditure, keep deficit financing within reasonable limits and improve efficiency of investment. At the same time, monetary policy had to be carefully balanced so as to avoid growth of excess liquidity in the system while catering adequately to the growing requirement
of credit by the productive sectors of the economy. Credit to the priority sectors was also stepped up so that their growth was not hampered.

The public distribution system had to be further extended and streamlined to effectively serve a large population, especially in the rural areas, and to ameliorate the impact of inflation.

Although short-term policy focused on the requirements of price stability, medium-term policies aimed at accelerating economic growth. The Sixth Plan presented a medium-term perspective for this purpose. It emphasized the following.

1) A significant step up in the rate of growth together with more efficient use of existing resources through improved productivity.

2) Strengthening the impulses of modernization for the achievement of economic and technological self-reliance.

3) Progressive reduction in poverty and unemployment and regional inequalities.

4) Speedy development of indigenous energy sources and efficiency in energy use.

5) Conservation of natural resources.

6) A minimum programme for the economically and socially handicapped section of the population.

7) Promotion of policies for controlling population.

Another important objective of the Plan was to strengthen the redistributive bias of public policies and services in favour of the poor. The achievement of these objectives and the target growth rate of 5.2 % critically depended upon the mobilization of the needed resources, effective implementation and the extent to which the long term problems which had been building up over the past several years were overcome.
Despite significant deceleration of inflationary pressures in the economy achieved during the last two years, prices of several commodities continued to rule firm. The economy also remained susceptible to the impact of international factors.

In the context of persistent inflationary pressures, monetary policy during the year sought to achieve objectives of restraining the expansion of money supply and credit on one hand, and the mobilization of bank deposits and the flow of credit to the priority and productive sectors of the economy on the other. A number of steps were taken during 1981-82, including restructuring of interest rates on bank lending and on new deposits, increase in the bank rate from 9 to 10 %, increase in the statutory liquidity ratio from 34 to 35 % and appropriate increases in the refinance and restructuring-discounting rates.

As a result of these measures, monetary expansion in 1981-82 was kept within reasonable limits. Aggregate monetary resources increased by 11.3 % during 1981-82 compared with 13.4 % last year.

Inflationary pressures eased considerably during 1981-82. The annual rate of inflation on a point to point basis, as measured by the wholesale price index, came down to 5.4 % as on January 16, 1982 from 16.2 % as on January 17, 1981 and 22.8 % as on January 19, 1980. The annual rate of inflation as measured by the Consumer Price Index peaked in August 1981 to 14.4 %. It was 13.4 in September, 13.3 % in October and 12.7 % in December 1981.
The anti-inflationary strategy adopted by the government stressed both supply and demand management. Various measures were taken to raise production and supplies in the economy. Improvement in infrastructure performance was given high priority because of its importance for industrial production. The public distribution system was further strengthened and played an important role in providing essential commodities at reasonable prices throughout the country. While the necessary, essential commodities such as edible oils, wheat and sugar were imported to augment domestic supplies. Various steps were taken to remove artificial bottlenecks and scarcities by curbing the activities of anti-social elements. The agricultural pricing policy continued to ensure remunerative prices to farmers with a view to encouraging agricultural production.

Continued stability in prices was possible, if in addition to augmenting domestic production, the growth of aggregate demand in the economy was kept under control through appropriate restraints on expansion of domestic credit and government’s budgetary deficit. The budgets in the last two years had tried to achieve a balance between investment requirements and consumption needs of a developing economy.

1982-83

In view of the abatement of inflationary pressures and the success in mopping up excess liquidity in the system, monetary policy in 1982-83 was gradually relaxed in order to
improve the flow of bank credit to productive and priority sectors during the year. Aggregate monetary resources (M3) increased by 14.2 % during the year compared with 10.7 % in the same period last year. This may be compared with 12.3 % growth in financial year 1981-82 and 17.6 % in 1980-81. The larger increase in M3 during the year was due to a significant growth of currency with the public and aggregate deposits with banks. Money supply (M1) had increased by 6.3 % in 1981-82, 16.8 % in 1980-81 and 15.7 % in 1979-80.

There was larger expansion in bank credit to the government during the year. As against an increase of Rs. 1,206 crore up to September 3, 1982, bank credit to the commercial sector increased by Rs. 5,818 crore during the current financial year.

As part of the effort to restrain credit expansion during 1981-82, the bank rate, cash reserve ratio and the statutory liquidity ratio were raised and restraints placed on refinancing facilities. As a result, the expansion in bank credit was checked but the growth in the bank deposits was also adversely affected particularly in the last quarter of 1981-82. The busy season credit policy for 1982-83 carried the process further by including measures for providing additional finance to State Electricity Boards and State Transport Corporations for increasing their off take of equipment and capital goods.

Prices showed a considerable degree of stability during 1982-83. The annual inflation rate fluctuated around 2 % at the beginning of September 1982. It was 2.8 % in the week ended January 15, 1983 compared with 6.4 % in the corresponding week of last year. The annual rate of increase in Consumer Price Index in December 1982 was also much lower at 8.0 % as against 12.7 % in December 1981.

The major source of increase in prices was the continued increase in the prices of cereals, fruits and vegetables, egg, meat and fish. The prices of milk and milk products, edible oil and oilseeds also showed some increase.

The thrust of anti-inflationary policies continued to be both on demand and supply side. Monetary policy remained cautious. Public foodgrains stock was augmented by timely imports. The growing capability of the public distribution system in distributing the essential commodities throughout the country also played an important role in maintaining relative price stability in the country. These efforts were supplemented by the deflationary effect of the continued decline in the net foreign exchange assets of the banking sector. However, the demand and supply situation in the economy remained finely balanced in respect of several essential commodities.
The need for a careful watch over the price situation continued to be as strong as ever. A spurt in international commodity prices and deterioration in the performance of the infrastructure sector could easily create further pressures, as industrial output expanded. It was necessary to keep the aggregate demand situation in the economy under careful control, while ensuring adequate availability of essential goods and services.

The year began with an excess of liquidity in the banking system and liquidity continued to increase with a rapid growth in primary money which in turn led to rapid growth of deposits with scheduled commercial banks. The RBI raised the CRR in successive steps from 7% with effect from November 12, 1983 scheduled commercial banks were also required to maintain an incremental cash reserve ratio of 10% of the increase in demand and time liabilities. The CRR was further raised from 8.5% to 9% with effect from February 4, 1984. As a result of these measures, there was a perceptible slowing down in the growth of aggregate monetary resources (M3) in the second half of the year. The increase in M3 in 1983-84 up to January 13, 1984 was 15.1% compared with 13.5% in the same period of the previous year. The increase in money supply (M1) in the same period was 11.3% compared with 11% in the previous year. An important factor underlying the more rapid expansion of money supply in 1983-84 was the much smaller decrease in the net foreign assets of the
banking system than in the previous year as a consequence of the improvement in the balance of payments position.

Price behaviour in 1983-84 was a cause for concern as prices came under pressure towards the end of 1982-83, and the rate of inflation began to rise through 1983-84. The wholesale price index had increased by 9.7 % up to January 14, 1984 compared with 5.2 % in the same period of the previous year. The annual rate of inflation as measured by the wholesale price index (WPI) on January 14, 1984 also increased to 10.7 %. The annual rate as measured by the Consumer Price Index (CPI) in December 1983 was 12.5 %.

An important feature of the rise in prices in 1983-84 was its concentration in a few commodities, namely gur, oilseeds, edible oils, pulses, milk and milk products and tea. The price was accounted for mainly by the increase in the prices of these commodities. As these commodities carried a larger weight in consumer prices, the CPI recorded a faster rise. Excess liquidity in the system also exacerbated inflationary pressures. The price behaviour during the year was rather unusual.

The government acted on several fronts in the course of the year 1983-84 to contain the inflationary pressure. On the demand side, the monetary policy throughout the year was geared the mopping up excess liquidity in the banking system and steps were taken to reduce government’s expenditure wherever possible. On the supply side, incentives were given to stimulate production in order to ensure that essential commodities were available at reasonable prices. Supplies of edible oils, rice and wheat through the public distribution system were stepped up and their availability supplemented by imports. A release of sugar was also increased.
1984-85

Monetary policy in 1984-85 was formulated against a background of a high rate of
growth of both money supply (M3) and reserve money in the previous year. Efforts
were made to reduce the rate of expansion in these monetary aggregates to more
acceptable levels, consistent with the objectives of reducing the rate of inflation in the
economy. The SLR was raised from 35 % to 36 % in a two-phased adjustment
completed during the first half of 1984-85. The incremental cash reserve ratio of 10 %
on the addition to deposits which was imposed in November 1983 was maintained
during 1984-85 and this helped to dampen the monetary consequences of reserve
money expansion. However, these measures were not able to reduce the rate of
growth of M3 below the level observed in the previous year. M3 growth in 1984-85
up to 25th January, 1985 was 15.4 % compared with 14.6 % in the corresponding
period of the previous year.
The relatively high rate of monetary expansion during the year was partly due to the
larger than expected expansion in the net bank credit to government. The resources
position of the public sector had come under severe strain during the year and
remained difficult in the Seventh Plan period. Tax revenues were not rising at a rate,
which was sufficient even to meet increases in non-plan expenditure on account of
items such as defence, interest payments and subsidies. Moreover, additional
resources generation had to come from increased efficiency in operation, as the scope
for further price increases was limited.
If the targets stipulated in the plans were to be realized, there had to be much greater fiscal discipline than in the past. There was scope for realizing more revenue from taxes through better administration and fiscal rationalization.

Prices had come under pressures in 1983-84 because of the lagged effect of the drought in the previous year, and the pressure on prices continued into the early part of 1984-85 also. The WPI moved up by 7.4 % between 31st March and 25th August 1984. However, there was a marked improvement in the later part of the year, reflecting higher production and effective supply management.

The major factor accounting for the moderation in inflationary pressure in the year under review was clearly the maintenance of the high levels of foodgrains production in 1984-85, following the bumper harvest of 1983-84. Prices of cereals, which had declined by 5% in 1983-84, showed a further decline of 2 % up to end December, 1984. However, the prices of pulses, which had increased by 26 % in 1983-84, increased further by 24 % up to end December, 1984. Prices of sugar, khandsari and gur group also came under pressure in the first part of the year, as also of edible oil and tea. The public distribution system was actively and successfully used to combat these price pressures. Imports of sugar and edible oils were arranged to augment domestic supplies. Exports of tea were restrained in the course of the year to increase domestic availability and counter the pressure on prices.

On the whole, economic management in the Sixth Plan period succeeded in keeping the rate of inflation to a reasonable level. The rate of inflation in the first year of the Plan was 16.7 %, mainly a spillover of the inflation, which began in 1979-80. Thereafter, the annual rate declined sharply to 2.4 % in 1981-82. Despite a bad monsoon in 1982-83, the rate of inflation was kept at the single digit level thereafter.
A distinct decline in the rate of growth of money supply (M3) was more significant development in the monetary sector. Between April 1985 and January 1986, M3 increased by 13.3 % compared with 14.5% during the same period in 1984-85. Deceleration in reserve money was an important reason behind this improvement in the control over M3 growth. Non-food credit, in fact, rose by Rs. 4,629 crore in 1985-86 in comparison with Rs. 3,886 crore in 1984-85.

The WPI increased by 3.1 % between end March, 1985 and January 25, 1986, the lowest increase for this period for the last seven years. During January and February 1986, certain administered prices were raised. However, even after taking these into account, the rate of inflation in 1985-86 was lower than in 1984-85. This slow down in the inflation rate was achieved as a result of effective supply management policies and by maintaining a tight control on the growth in money supply.

While prices of manufactured items remained fairly stable in 1985-86, agricultural prices were volatile with the prices of some items rising and of others falling as a result of a glut in the market (in particular, jute, cotton, tea, and coconut). Prices of a large number of food items, however, either remained stable or somewhat declined. The Two-year Sugar Policy aimed at encouraging sugarcane production through a sharp increase in the statutory minimum price of cane (raised from Rs. 14 in 1984-85 season to Rs. 16.5 per quintal for 1985-86) and reducing uncertainty by announcing the statutory minimum price one year in advance (Rs. 17 per quintal for 1986-87).
The impact of a rise in prices of agricultural commodities, particularly food items, was much greater in the CPI where these items were given a higher weight. Consequently, CPI rose faster than WPI, recording an increase of 7.5 % between March and November, 1985.

Fluctuations in the prices of agricultural commodities were caused by volatility in agricultural output. A long-term price policy in agriculture was an important determinant of assured and consistent output growth and formed a critical input for improved demand and supply management in this sector.

1986-87

- Sharp Increase in Agricultural Commercial Crop
- Growth in Overall liquidity in the Economy
- Introduce new 182 days T-Bills
- Implementation of major recommendations

In 1985-86, the growth in overall liquidity in the economy (M3) was contained at 15.9 % as compared with an annual average increase of 18.5 % in the preceding two years. The growth of M3 during the year was faster, with an increase of 15.7 % in the first nine months (up to January 2, 1987), as compared to a rise of 13.3 % in the same period of 1985-86. Of particular concern was the marked increase of Rs. 5,048 crore (up to January 2, 1987) in net RBI credit to the government, as compared to a rise of Rs. 3,186 crore in the same period last year.

The year under review also saw the implementation of some of the major recommendations of the Committee to Review the Working of the Monetary System, including the introduction of monetary targeting on an experimental basis, the
decision to modify the presentation of information relating to the Government’s budgetary deficit, the introduction of new 182 days Treasury Bills with flexible rates determined on the basis of monthly auctions and increased yields on long term Government securities together with reduction of the maximum maturity period.

The year 1986-87 ended with an inflation rate of around 6.5 % according to WPI. This was considerably below the average annual price increase of about 8 % over the last decade and suggested that the overall price situation in the economy was within control. However, the rise in the CPI (for industrial workers) of 7.8% between March and December 1986 was once again higher than for the WPI.

Prices of food articles in 1986-87 were far more stable than in 1985-86, increasing at an underlying rate of about 4 % compared to around 6.5 % last year. On the other hand, prices of agricultural commercial crops increased sharply.

**1987-88**

Prices came under pressure right from the beginning of this year as a consequence of the poor weather and shortage of some essential agro-based commodities experienced during 1986-87. These pressures were further aggravated around July 1987, when it became apparent that the country was going to experience another drought. Up to the third week of January 1988, the WPI had registered an increase of 9.8 %, on a point to point basis, since the end of March, 1987. The CPI, which was a more appropriate measure of price increases being faced by consumers, showed an increase of 9.6 %.
A major part of the inflation which had occurred during the year under review was accounted for by the rise in prices of seasonal items of agricultural origin, which had a weight of about 52% in the WPI. Agricultural prices had risen by over 14% up to the middle of January 1988. Even in the case of manufactured products, the increase in prices was largely on account of agro-based items. The individual items which had shown the maximum increase in prices during the year included edible oils and oilseeds, condiments and spices, cotton, pulses, gur, khandsari and cereals. It was, therefore, quite clear that the driving force behind inflation was the shortfall in agricultural production.

As a part of its policy to contain inflation, the government attempted to keep a check on the size of the budgetary deficit, despite the large unforeseen increase in drought and food relief expenditure. The cautious monetary and fiscal policies being pursued by the Government and the RBI were necessary in order to avoid any aggravation of the price situation.

The maintenance of adequate supplies of foodgrains, primarily through the public distribution system and relief and other employment programmes, had been the backbone of supply management policy. The enhanced releases of rice and wheat were backed up by similar large releases of imported edible oils and pulses, both in the PDS and in the open market. The PDS was substantially expanded with the addition of about 5600 new FPS outlets, of which around 3000 new fair price shops and a large number of mobile PDS outlets were located in drought affected states.
The inflation last year was contained at 10.6 % as compared to 21 % recorded during the previous major drought year of 1979-80 and did not spill over to the current year. Thus the overall inflation rate, measured in terms of the WPI on a point to point basis, came down from over 10 % at the end of March 1988 to less than 5% in January 1989.

The CPI inflation rate had come down from around 10 % at the end of March 1988 to around 8% in September 1988. Subsequently, food procurement operations were disturbed by floods in Punjab and Haryana, resulting in a temporarily spurt in prices and the CPI annual inflation rate again rose to 10 % in November 1988.

Containment of the inflation rate at 10.6 % last year was possible mainly on account of the timely introduction of a range of anti-inflationary measures. On the demand side, the huge additional expenditure on drought relief was financed through economies elsewhere, additional resource mobilization and additional external assistance. The budget deficit was not allowed to grow beyond manageable levels. This stance, along with the tightening of selective credit controls and a restrictive monetary policy pursued by the RBI last year, helped to keep inflationary pressures in check at the macro level.

On the supply side, Government ensured adequate availability of foodgrains and other essential commodities through a vastly expanded public distribution system, the various employment programmes and the relief operations. Additional imports were
undertaken where necessary, as in the case of edible oils and pulses, in order to maintain supplies.

The success of the foodgrains operations last year entailed a huge draw down of stocks. Consequently, stocks remained low during most of the year and a little over two million tonnes of foodgrains had to be imported in order to maintain a minimum level of food security stocks.

In edible oils, the Government introduced some important policy measures during the year to rationalize the management of the oil economy and stabilize edible oil prices in support of the objectives laid down for the Technology Mission on Oilseeds (TMO). The supply of such imported edible oils at concessional rates to the vanaspati industry was terminated while the issue price of imported oils supplied through the PDS was raised. Meanwhile, the National Dairy Development Board was appointed as a market intervention agency for stabilizing the open market prices of edible oils within a reasonable range through its open market operations.

The stabilization of consumer prices of key essential items such as foodgrains, edible oils, sugar etc was one aspect of the price policy pursued by the Government. With regard to agricultural commodities, the desired procurement support prices were determined by the Commission on Agricultural Costs and Prices every year while agencies like the Food Corporation of India, NAFED, Jute Corporation of India, Cotton Corporation of India and State Governments agencies undertook procurement operations to support agricultural prices. During the year, the administered prices of coal, steel and aluminum were revised in accordance with this policy. The prices of non-ferrous metals such as nickel, copper and zinc were also revised to accommodate the sharp increase in international prices of these metals since the bulk of domestic requirement of these items was met through imports.
During the financial year under review, the growth in money supply (M3) was 14.9% compared with a growth of 14.5% in the last year. Time deposits with banks registered a lower growth of 14.6% in this period as against 17.6% last year. However, currency with the public grew at a faster rate of 15.6% compared with a 9.0% during the corresponding period of 1988-89. Demand deposits grew at a higher rate of 16.3% compared with 9.7% a year ago. There was a large expansion in the Net RBI Credit to Central Government by 26.2% compared with 18.0% in the corresponding period of 1988-89.

The price situation remained under pressure from the beginning of the year despite a satisfactory monsoon and a bumper crop achieved for the second year in succession. In terms of new series of WPI, the rate of inflation during 1988-89 was contained at 5.7% compared with 10.7% during the drought year 1987-88. During the year, the WPI registered an increase of 7% compared with 5% in the last year. The annual rate of inflation in terms of WPI worked out to 7.7% compared with 5.3% last year. The increase in prices was particularly marked in the June-September period and the seasonal decline in prices which normally starts in September was delayed this year.

The increase in CPI worked out to 5.5 during the financial year up to January, which was significantly lower than 7.8% recorded up to January last year. The increase in price during the year was largely contributed by agro based items like pulses, tea, oilseeds, sugar, gur and khandsari, and groundnut oil where production had either
remained stagnant or had declined. Among manufactured items, textiles, beverages, paper and paper products, leather and leather products, tobacco products and basic metals showed considerable increase. The increase in prices of metals, machinery and paper products was mainly due to higher import prices and those of textiles and leather products, to some extent, reflected increasing demand.

In order to contain the inflationary pressure, the RBI tightened selective credit controls and took certain measures to mop up excess liquidity. On the supply side, Government maintained supplies of foodgrains and other essential commodities through the PDS. Additional imports were undertaken, to the extent feasible as in the case of edible oils, pulses rice and sugar in order to maintain adequate supplies.

As of 1990, stocks of foodgrains with public agencies stood at 12.60 million tons, which was higher by 36.2 % over their level last year.

During the year, administered prices of industrial items except for iron and steel and non-ferrous metals were kept unchanged. However, there were substantial upward revisions in support procurement prices of major agricultural commodities mainly to provide remunerative price environment and to augment production and procurement of various agricultural commodities. The Government set up a Committee to examine, inter alia, the existing system and criteria for fixing agricultural prices and to suggest modifications for fixation of remunerative agricultural prices.
The price situation remained under pressure throughout the year 1990-91 despite a satisfactory monsoon and a bumper crop for the third year in succession. The annual rate of inflation in terms of the WPI at 12.1% in 1990-91 was higher than the rate of inflation at 9.1% in 1989-90. The increase in the CPI for Industrial Workers was much higher at 13.6% during 1990-91 compared with 6.6% during 1989-90. The major concern about inflation during 1990-91 was that it seemed to be concentrated in essential commodities such as foodgrains, vegetables, pulses and edible oils.

The buildup of inflationary pressures was due to (a) fiscal imbalances resulting in a higher increase in money supply, liquidity overhang and thus effective demand, (b) supply and demand imbalances in sensitive commodities mainly due to shortfall in domestic production and inability of the Government to import desired quantities because of persistent pressure on the balance of payments and the consequent inflationary expectations.

Apart from the underlying inflationary pressures arising from macroeconomic imbalances, the substantial increase in the prices of essential commodities during 1990-91 may be attributed to the following specific factors:

1) The increase in prices of cereals, particularly rice and wheat, was attributable to the substantial increase in procurement prices and the consequent rise in issue prices which set the trend for open market prices.
2) The continued increase in the prices of pulses was caused by the persistent excess demand against the situation of near stagnation in domestic production in the last two decades.

3) The sharp increase in prices of edible oils was mainly due to shortfalls in the domestic production for two successive years and the inability of Government to import larger quantities on account of the foreign exchange constraint.

4) The Gulf surcharge of 25 % on domestic prices of petroleum products imposed with effect from 15th October, 1990, had an overall impact of 1.5 % on the WPI.

5) The increase in transportation costs and transport bottlenecks created by the oil crisis combined with law and order problems aggravated the situation.

In order to contain the inflationary pressures, Government took a number of steps. The RBI tightened selective credit controls and took certain measures to mop up excess liquidity. The Statutory Liquidity Ratio (SLR) was increased from 38 to 38.5 % on all deposits of commercial banks. On the supply side, Government maintained the supply of foodgrains and other essential commodities through the public distribution system. Import of edible oils and pulses were used to supplement domestic supplies of these essential commodities.
The rapid loss of reserves had prompted the Government to take a number of counter-measures in the second half of 1990-91. In October 1990, RBI imposed a cash margin of 50 % on imports other than those of capital goods. Corresponding period imports were allowed only against foreign sources of credit. In December 1990, the Government imposed a surcharge of 25 % on the prices of petroleum products except domestic gas. It also raised the auxiliary customs duties. The cash margin imposed by Reserve Bank was raised to 133.3 % in March 1991 and 200 % in April 1991. In May 1991, the RBI imposed a 25 % surcharge on interest on bank credit for imports. These stringent measures had the expected effect of forcing a considerable degree of import compression.

The year 1991-92 was an exceptionally difficult year for the economy with the deepening of the crisis which began in 1990-91. The balance of payments problems, which emerged in 1990-91, had reached crisis proportions by June 1991. A severe import squeeze, introduced in the course of 1990-91 in response to the shortage of foreign exchange, disrupted industrial production, which began to decline early in the year 1991-92. Inflation, which had begun to accelerate in 1990-91, reached a peak level of 16.7 % in August 1991.

The new Government, which assumed office in June 1991, took a series of corrective measures to bring the situation under control. These included short-term measures aimed at crisis management as well as long-term measures of structural reform, aimed
as improving efficiency and productivity and putting the economy back on the path of sustainable growth with equity and social justice.

1992-93

The role of monetary policy had long been a passive one, confined to financing the fiscal deficit at administered interest rates in order to minimize the cost to the Government. It was necessary to make a decisive break from this pattern. With the reduction in the fiscal deficit, the Government was working towards a situation where interest rate distortions were reduced and monetary policy could be actively used for short-term macro-economic management. The statutory liquidity ratio had been reduced, releasing resources to the banks for deploying additional funds in the commercial sector. Government borrowing was also being shifted market-related rates; the 364-day bills were introduced with market-related interest rates. Other interest rates on securities were raised to bring them closer to market rates. RBI also conducted repurchase operations in securities for short-term liquidity management.

Inflation was by far the most pressing problem for the common man in 1991-92, especially as the rate of inflation for food articles was much higher than for all commodities. The situation improved considerably in 1992-93 with a gradual decline in the annual rate of inflation in the course of the year. The annual rate of inflation as measured by the wholesale price index declined from 13.6 % at the end of 1991-92 to
6.9 % on 30 January 1993. The decline in inflationary pressure was especially marked in primary articles including foodgrains.

The moderation in inflationary pressure in 1992-93 was partly due to the good performance of agriculture but it was in large part also due to the reduction in the Central Government’s fiscal deficit, which was a key element in the strategy for macro-economic management and control of inflation. The progress achieved in reducing the fiscal deficit in the past two years was substantial. The Central Government’s gross fiscal deficit was reduced from 8.4 % of GDP in 1990-91 to 6.2 % in 1991-92 and the 1992-93 budget envisaged a further fall to 4.9 %. This massive fiscal correction had a major disinflationary influence in the period.

Equally important were the changes in the sources of finance for financing the fiscal deficit. Of the decline of 3 % of GDP in the gross fiscal deficit between 1989-90 and 1992-93, 1.5 % or almost half was in the budget deficit. After growing by 15.3 in 1991-92, M3 slowed down during the year with a growth of 12.3%.

Although money supply growth decelerated in line with the reduction in the fiscal deficit and its monetized component, the budgetary deficit and the growth of m3 remained higher than the targeted level of around 10.5 % for the year as a whole. This was in part due to the fact that although budget deficits as measured at the end of the year were declining as a percentage of the total deficit, and also as a percentage of GDP, the average level of the deficit in the course of the year had not declined commensurately. The strategy of reducing the budget deficit needed to be reinforced by techniques of evening out the spread of Government expenditure within the year.
The annual rate of growth of money supply (M3) was less than 14.2 % for most fortnights of 1993-94. Increase in net RBI credit to the Central Government and the rapid accumulation of net foreign exchange assets by the RBI were the main sources of this growth. Net bank credit to Government grew at an annual rate of 17 %.

Bank credit to the commercial sector had grown by 6 % during the financial year 1993-94 as compared to 13 % over the corresponding period of last year. Growth of “other bank” credit to the commercial sector (i.e. excluding RBI) had fallen even more, from 14.2 % during 1992-93 to 6.2 % during 1993-94. The data for scheduled commercial banks showed that much of the growth had been for food credit. The growth rate of non-food credit fell dramatically, from about 17 % during 1992-93 to less than 3 % during 1993-94.

A number of policy changes were introduced to impart greater flexibility to monetary operations. Interest rate on deposits and loans were reduced in line with falling inflation: the minimum lending rate for bank loans above Rs. 2 lakh was reduced by three percentage points to 15 % during 1993. The Cash Reserve Ratio (CRR) was reduced in two phases and was brought down to 14 %. The Statutory Liquidity Ratio (SLR) was reduced to 34.75 % effective October, 1993, from 37.75 % at the beginning of the financial year. The incremental SLR on any increase in net demand and time liabilities was brought down to 25%.
Inflationary pressures in the economy were restrained by the monetary control established last year. Annual (point-to-point) inflation declined to 6.9% for April and May 1993, and averaged 7% for the five months from March to July 1993. There was, however, a rise in inflation from August, triggered by two proximate factors. First, the truckers strike in August-September disrupted movement and supplies of raw materials and essential commodities. The second reason was the speculative increase in prices of rice and oil-seeds following the localized dry spell in some regions. As a result, inflation accelerated to 8.0% in August and 8.2% in September.

1994-95

With this year’s historic accord between the Government and the RBI limiting the former’s unilateral access to the latter for borrowing through ad hoc Treasury Bills, the linkage between fiscal and monetary policy was sharply weakened, resorting much more autonomy to monetary policy. The capacity for effective monetary management and inflation control needed to be further strengthened through rapid deepening and broadening of primary and secondary markets for Government securities.

The rate of growth of money supply, M3 (currency + all bank deposits), displayed a gradual but sustained uptrend till November 1994. There was an even stronger acceleration in the annual rate of growth of narrow Money (currency + demand
deposits of banks). The annual growth rate of M3, which peaked at 22 % in November 1994, subsequently declined to 18.6 % as of January 20, 1995. RBI credit to government had shown a decline in growth, while growth of RBI’s net foreign exchange assets had accelerated. The net result was acceleration in the annual rate of growth of reserve money since the middle of 1993-94. Reserve money growth peaked in February 1994, and after fluctuating at fairly high levels, it declined to an annual rate of 21.2 % on January 20, 1995. The large accretion of net foreign exchange assets, which propelled the growth of reserve money, was a reflection of the strong build-up of foreign exchange reserves, arising from improvements in the current and capital accounts of the balance of payments.

What was more remarkable about the growth of reserve money in 1994-95, was the dramatic fall in the contribution of the monetized deficit of the Central Government. A decline in net RBI credit to Government was accompanied by a reduction in the growth of “other banks” credit to Government from 27.1 % in 1993-94 to 15 % in 1994-95. The slowing down of the growth of Government borrowing was due to a reduction in the fiscal deficit in 1994-95 from the previous year.

Bank credit to the commercial sector was much buoyant in the current financial year. By January 20, 1995, it had grown by 13.6 %, which was more than double the growth of 6.3 % in the comparable period of 1993-94. Unlike last year, when most of bank credit by commercial banks went into food credit, the acceleration in growth of non-food credit by scheduled commercial banks was dramatic. In the financial year up to January 20, 1995 this had grown by 17 % compared to only 4.4 % in the corresponding period of last year. The strong recovery of industrial production was the principal reason for this growth.

Two major initiatives were taken to improve the working of the monetary system. One was to initiate a process to break the link between the Central Government’s fiscal deficit and reserve money growth. A historic agreement was signed in September 1994 between RBI and the Ministry of Finance to phase out by end 1996-97 of Central Government’s borrowing from RBI through ad hoc Treasury Bills. The agreement also specified the budget estimate of Rs. 6000 crore as ceiling for the year 1994-95.

During the current financial year up to February 4, 1995, the general price level rose by 9.6 % compared to 9.1 % in the same period last year. The annual growth rate for February 1995 was, however, closer to 11 %.
Both supply and demand factors contributed to high inflation. Among supply side factors were the cumulative effect of large increases in minimum support prices, production shortages in key commodities and the spill-over effect of administered price increases.

A number of measures were taken to control money growth. The cash reserve ratio (CRR) was raised from 14% to 15% to moderate monetary growth.

On the supply side, a number of measures were taken since March 1994, to moderate prices of primary articles.

1) Sugar was put on OGL in April 1994 with zero duty (leading to estimated import of about 9 lakh tones in 1994-95) and 10 lakh tones were imported on Government account for supply through PDS.

2) Open market sales of wheat from record high public stocks continued with sale of 3.4 million tonnes in 1994-95 (till January 1995), on top of 2.8 million tonnes sold in 1993-94.

3) 2.8 lakh tones of rice were also sold from stocks up to January 1995. FCI was advised to reduce the price sharply from January 1995 to increase the pace of open market sales.

4) Imports of cotton were placed on OGL in April 1994 with zero duty, and sizeable import of viscose staple fibre was allowed at concessional duty.

1995-96

- Providing necessary credit support for Production & Investment
- Sharp deceleration in the Growth of WPI
- Slow Monetary Growth
The point-to-point annual rate of inflation, based on movement of the WPI touched a
low of 5 % (provisional) on January 27, 1996. There was a sharp deceleration in the
growth of WPI during fiscal year 1995-96 (April-December), 4.3 % as against 8.6 %
during the same period of 1994-95.
The deceleration in the growth of prices was seen in all three sub-groups during the
first nine months of 1995-96. The primary articles sub-group showed a modest
increase of 4.2 %. In the case of foodgrains, the outcome was also satisfactory, with a
modest rise of 4.3 %, which was less than half of last year’s rise. The sub-group
comprising fuel, power, light and lubricants representing mainly goods whose prices
were administered showed no increase.
The most important factor in the decline of inflation during 1995-96 was the slowing
of monetary growth. Other factors included the reduction in the fiscal deficit from 6.7
% of GDP in 1994-95 to 5.5 % of GDP in 1995-96, opening of international trade in
agricultural commodities and the active supply management of essential
agricultural/food products.
Monetary management in 1995-96 was aimed at the twin objectives of reducing
inflation and providing necessary credit support for production and investment. The
sharp upward trend visible in the growth of money supply in the second half of 1994-
95 was reversed in 1995-96. With money supply (M3) growing by only 7.4 % in
1995-96 up to January 5, 1996, the annual (point-to-point) growth of M3, declined
from 22.2 % on March 31, 1995 to 15.1 % on January 5, 1996. With liquidity
conditions tightening in the third quarter of 1995-96, the Reserve Bank undertook a
phased reduction of the Cash Reserve Ratio between November 1995 and January
1996, which injected more than Rs. 7,000 crore of primary liquidity into the system
and helped ease credit constraints. As a result of rising commercial demand for credit,
banks which had an excess holding of Government and other approved securities,
contributed only Rs 9,483 crore to the market borrowing of the Government during
the first three quarters of 1995-96 up to January 5, 1996.
The deceleration in inflation, initiated last year through a reduction in monetary growth, continued the first of 1996-97. As measured by the wholesale price index, the annual (point-to-point) inflation rate reached a level of 4.5% in May and June 1996. Since then, the rate crept up gradually to reach 7.5% in mid-January 1997. Despite the rising trend in the growth of the WPI, the average inflation for 1996-97 was one percentage point less than the average inflation in 1995-96. This was primarily due to continuing restraint on money supply growth, a reduction in the fiscal deficit (as a proportion of GDP) and the effect of competitive pressures on tradable goods consequent to the opening up of international trade in manufactures.

Money supply growth was higher in 1996-97 so far than in 1995-96. Till January 17, 1997, broad money (M3) grew by 10.6% as against 8.2% growth in the corresponding period of 1995-96. The annual growth of M3 was 13.2% on March 31, 1996, against the planned growth of 15.5% due to a somewhat tight monetary policy. This, along with the high real interest rates brought about by a sharp decline in inflation, gave rise to perceptions of a liquidity squeeze, and hence, a need to expand money supply in 1996-97.

The fall in reserve money growth was primarily due to sharp reduction in refinance taken from the RBI by commercial and co-operative banks, because of easy liquidity conditions following the reduction in the CRR.
The easing of monetary policy during 1996-97 was reflected in relatively low call money rates from the very beginning of 1996-97. The average call money rate declined from a high of 13.75% at the beginning of the current financial year to a range of 5 to 11% in September 1996, and ruled between 10 and 11% in December 1996, before falling to low single digit in January 1997.

1997-98

The annual rate of inflation which was 6.7% at the start of 1997-98, had fallen to an eleven-year low of 3.4% by the end of August 1997. The concern (based on historical closed economy conditions) that the increase in the administered prices of petroleum products and electricity during the year would lead to cost push inflation proved unfounded. The deceleration in the rate of inflation from the beginning of the year reflected moderate money supply growth, sluggish demand, abundant agricultural supplies from high production in 1996-97 and competitive price discipline in an increasingly open economy.

The low inflation rate of less than 4% was maintained up to end November 1997. Thereafter, there was a slight upward drift in the growth rate (caused by the increase in prices of some primary products) to over 5% in December 1997 and close to 6% in January 1998. By mid-February 1998, the annual inflation rate was just 5.4% and this low growth rate was maintained through March with the year end inflation...
reaching 5% (provisional). The average inflation for 1997-98 was 1.4 % point less than the average inflation in 1996-97.

The variance of sectoral price trends declined during 1997-98. Price growth decelerated sharply for ‘primary articles’ and ‘fuel, power, light and lubricants’, and marginally for the ‘manufactured products’ group. The annual rate of price increase for ‘fuel and power’ decelerated from 16.9 % in 1996-97 to 9.4 % in 1997-98 and for ‘primary articles’ from 7 % to 5.5 %. The rate of growth of ‘manufactured goods’ prices was decelerated to 3.8 % from 4.9 % in the previous year.

Prices of primary products, which included major essential commodities, rose only by 5.5 % on a point to point basis at the end of March 1998. Wheat prices, which had escalated very sharply in 1996-97 by about 31 %, registered a decline of 11 % in 1997-98, bringing relief to the wheat consumers. The decline in the WPI of wheats could be attributed to higher production of wheat in 1996-97 and increased availability in the market due to imports contracted last year. The Targeted Public Distribution System replaces the erstwhile PDS from June 1997. Under the new system, a two-tier subsidies pricing system was introduced to benefit the poor. Under the system, each below poverty line (BPL) family was entitled to 10 kgs of foodgrains per month at specially subsidized prices. The State Governments were to streamline the PDS by issuing special cards to BPL families and selling essential articles under PDS to them at specially subsidized prices with better monitoring of the delivery system.

The RBI set a lower indicative target of 15 to 15.5 % for broad money (M3) growth in 1997-98 based on a projected real GDP growth of about 6 % and an anticipated inflation rate of the same order. The expansion in broad money in 1997-98 at 17.0 % was higher than 16.0 % in the previous financial year.

The RBI’s flexibility and autonomy in conducting monetary policy was enhanced by the new system of Ways and Means Advances introduced with effect from April 1997. This replaced the practice of issuing of ad-hoc treasury bills, which in earlier years resulted in automatic monetization of the budget deficit.

Despite the easy liquidity situation, especially in the first half of 1997-98, credit growth continued to be low because of weak demand for credit and banks cautious approach to lending. Non-food credit, however, expanded by 14.2 % during 1997-98 as against 10.9 % growth in 1996-97. The total flow of funds from commercial banks to the commercial sector (comprising investments in equity, bonds, debentures,
commercial paper and non-food credit) expanded by 17.9 % in 1997-98. In contrast, growth in total flow of funds was only 11.9 % in 1996-97.

In an effort to increase the depth of the call money market, the SLR and the CRR on inter-bank liabilities were removed from April 26, 1997. The SLR and CRR requirements with respect to total net time and demand deposit liabilities (NDTL) however, remained. The SLR was also simplified into a single uniform rate of 25 % on total NDTL with effect from October 25, 1997. Actual investment in government securities was, however, in excess of the SLR requirements, with banks’ credit to government rising by Rs. 29,888 crore. Banks preferred to invest in zero risk Government securities, given their concern to contain expansion in non-performing assets. This enabled the Central Government to complete most of its budgeted market borrowing by September 1997.

RBI reactivated the Bank Rate by making it a reference rate of key interest rates in the market and a signal for its monetary policy stance. A general refinance facility was introduced, under which Banks could avail up to 1 % of their fortnightly average aggregate outstanding deposits at an interest rate linked to the Bank Rate. The one percentage point reduction in the bank Rate each in April, June and October 1997 was followed by reduction in Banks’ lending and deposits rates.
The Monetary and Credit Policy of April 1998 reduced the Bank Rate to 9 %. The CRR was reduced to 10 % in April 1998 but it was raised to 11 % in August 1998 so as to reduce liquidity. This was needed to calm the heightened volatility in the foreign exchange market, following a rise in risk perception of emerging markets (including India) in the immediate aftermath of the Russian economic crisis. To facilitate mobilization of long term external deposits, the interest rate ceiling on FCNR (B) deposits of one year and above, was raised by 50 basis points and for such deposits below one year and for floating rate deposits, the ceiling was reduced by 25 basis points.

Among the liberalization measures announced in April 1998 were: (a) interest rates on loans up to Rs. 2 lakh were set so as not to exceed PLR applicable to prime borrowers of over Rs. 2 lakh; (b) all advances against term deposits were set at interest rates equal to or less than PLR, the minimum maturity period of term deposits was reduced from 30 to 15 days.
Broad money (M3) growth was 16.6 % (annual point to point) on January 14, 2000. Growth of M3 during the financial year till January 14, 2000 at 12 % was lower than the 13.7 % in the corresponding period of last year. Reserve money growth during this period was negative as against an increase of 10.7 % in the corresponding period of the previous financial year. The decline in RBI credit to the commercial sector and slower growth in net foreign exchange assets also contributed to negative growth in reserve money.

Interest rate deregulation measures included permission to banks:

1. To operate different PLRs for different maturities.
2. To offer fixed rate for all term loans subject to the Asset-Liability Management guidelines.
3. To charge interest rates on loans to micro-credit organizations as per normal policy.
4. To charge interest rates without reference to PLR on loans to intermediary agencies, advances against domestic/NRE term deposits and FCNR (B) deposits and loans covered by DFI refinancing schemes.
The important monetary measures undertaken in the current financial year related to transition to a full-fledged Liquidity Adjustment Facility, increase in the permissible level of commercial banks' exposure to the capital market, improvements in credit delivery system with special focus on the small scale industry, and renewed efforts aimed at speedier recovery of funds locked up in the non-performing assets of commercial banks.
The year-on-year growth in broad money (M3) as on January 11, 2002 was 14.4 % compared with 16.6 % a year ago. The sharp decline in money supply since November 16, 2001 reflected the sudden expansion in volume of broad money resulting from India Millennium Deposits with effect from the corresponding date in the previous year. Among the various components of money supply, only currency with the public registered a higher rate of growth during the year (till January 11, 2002) compared to the corresponding period of the previous year. As far as sources of broad money were concerned, growth in bank’s investment in government securities and the expansion in net foreign exchange assets of RBI contributed significantly to the broad money growth during the year. The financial year under review witnessed a deceleration in the growth of net domestic assets of RBI as compared to the corresponding previous period. This was partly offset by the pronounced acceleration in the growth of net foreign exchange assets of RBI. Reserve money registered a growth of 2.6 % during the financial year (till January 2002) as compared with 5 % during the corresponding previous period.

The point to point inflation rate according to the WPI for the week ending January 19, 2002 was 1.3 % which was the lowest in the last two decades. The 52-week average inflation rate declined from 7.0 % at the beginning of the year to 4.7 % for the week ending January 19, 2002.
The price situation remained under control during 2001-02. The impact of the fuel price increases announced first during 1999-2000, and subsequently twice during 2000-01, bottomed out during the year, reducing inflation to below 5% by September 2001. The deceleration in prices continued through the months of October and November 2001. Inflation was recorded at 2.21% at the beginning of December 2001 (the lowest since December 1999) and reduced further to 1.3 at the end of January 2002.

2002-03

The monetary multiplier – the ratio of broad money (M3) to reserve money – which had increased from 4.3 to 4.4 in the previous year, increased further to 4.8 as on January 10, 2003. During the financial year up to January 10, 2003, broad money grew at 9.8% (net of merger of ICICI and ICICI Bank) as compared with 11.2% in the corresponding period of last year. The year-on-year growth in M3 as on January 10, 2003, amounted to 12.8% (net of mergers) compared with 14.5% last year.

In spite of the slower growth of money supply, the year was characterized by easy liquidity conditions. There were signs of a pick-up in non-food credit and a fall interest rates, including the yields on government securities. A declining trend in sanctions and disbursements by All India Financial Institutions was observed mainly on account of a reduction in the number of project proposals seeking financial
assistance, the weak financial position of IDBI and IFCI, and the spread of universal banking.

**2003-04**

The focus of the monetary policy in 2003-04 was, thus, on dealing with this surge in reserves. The RBI had to moderate the impact of these inflows (Rs. 1,24,169 crore in domestic current terms) through open market sale of Government securities and repo operations through the Liquidity Adjustment Facility. Moreover, outward foreign investment policies were liberalized and interest spreads over LIBOR on various non-resident deposit schemes were reduced.

In 2003-04, the total flow of agricultural credit from all lending institutions was estimated at around Rs. 80,000 crore. The number of Kisan Credit Cards increased from 6.1 lakh at the end of March 1999 to 413.79 lakh at the end of March 2004. To strengthen credit delivery to rural areas, a pilot project of linking self help groups (SHGs) of the rural poor with the banking system was launched in 1992. A unique feature of this programme was the absence of subsidies. By March 2004, 10.8 lakh SHGs were linked with banks, with 90% of these formed exclusively by women. Cumulative assistance extended by over 30,000 branches of 504 banks that participated in the programme amounted to Rs. 3,905 crore by March 31, 2004. In the year 2003-04, 3.62 lakh new SHGs were extended loans by banks as compared with 2.56 lakh new SHGs in 2002-03.
The downward trend in interest rates continued in 2003-04. RBI reduced the Bank Rate from 6.25 % to 6.00 % from the close of business on April 29, 2003. Also, the CRR was reduced by 25 basis points to 4.50 % in June 2003. Lending rates remained sticky and had not fallen by as much as the deposits rates. As a result, interest spread of commercial banks witnessed an increase in recent years. The RBI advised scheduled commercial banks to announce benchmark prime lending rates based on their actual costs, and this fortified that soft interest rate regime. A significant development in 2003-04 was the lower than budgeted market borrowings by the Central Government which was facilitated by an improvement in the cash position. During the year 2003-04, SCBs improved their profitability on account of higher income from treasury operations and higher spread.

2004-05

The stance of monetary policy as announced by the RBI in its annual policy statement for 2004-05 was (a) to ensure the provision of adequate liquidity to meet credit growth and support investment and export demand in the economy while keeping a very close watch on the movements in the price level and (b) consistent with the above, while continuing with the status quo, to pursue an interest rate environment that is conducive to maintaining the momentum of growth and macroeconomic and price stability.
The RBI faced two main challenges in the conduct of monetary policy during the year under review. The first was a liquidity overhang of over Rs. 81,000 crore from the previous year. The sharp increase in reserve money in the previous year on account of large capital flows further complicated the problem of liquidity.

The second related to an acceleration in the inflation rate beyond about 5.0% anticipated at the time of annual policy formulation on the assumption of no significant supply shocks and appropriate management of liquidity. Headline inflation, as measured by the WPI, touched a high of 8.7% by end-August 2004.

Taking the two challenges into account, the RBI, in its mid-term review in October, 2004, announced that its overall monetary policy in the second half of 2004-05 would be (a) to ensure provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability, (b) consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth, and (c) to consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilizing inflationary expectations.

During the year, the RBI took monetary measures from time to time in response to the evolving situation. The RBI addressed the problem of liquidity overhang through the use of Market Stabilization Scheme (MSS) and Liquidity Adjustment Facility (LAF).

For enabling the RBI to effectively deal with the problem of liquidity overhang, the limit under MSS was raised from Rs. 60,000 crore to Rs. 80,000 crore on August 26, 2004, after the threshold limit of Rs. 50,000 crore was crossed. Liquidity absorption through MSS amounted to Rs. 54,499 crore as on January 28, 2005.

The RBI discontinued the auction of 7-days and 14-days reverse repo with an overnight fixed rate repo and reverse repo from November 1, 2004, taking into account the bunching of liquidity due to 7-day minimum tenure of LAF repo. This facilitated management of liquidity in a more flexible manner. In September 2004, on review of liquidity conditions, the RBI announced raising of the CRR, in two stages, by 50 basis points to 5.0%. This reduced the liquidity in the banking system by over Rs. 9,000 crore. The decision to increase the CRR was partly for absorbing excess liquidity in the system, but more importantly for moderating the inflationary expectations by reiterating the importance of stability in financial market conditions.
In additions, the slow-down in capital inflows during the current year and a higher credit demand helped in bringing down the excess liquidity. A noticeable development during the year related to a significant increase in the flow of bank credit to the commercial sector. The pickup in non-food credit witnessed since the second half of 2003-04 not only continued but accelerated through the current year. Market borrowings by the Central Government remained at a lower level. Up to January 21, 2005, the Government’s net market borrowings, through issuances of dated securities, were lower at Rs. 65,684 crore, including an amount of Rs. 25,000 crore raised under MSS, as compared to Rs. 91,816 crore raised in the corresponding previous period, reflecting pre-payment of high cost loans by States under the debt-swap scheme.

As regards the price situation, the annual point-to-point inflation in terms of the WPI, after accelerating from 4.5 % on April 3, 2004 to a peak of 8.7 % on August 28, 2004, had been on a decelerating trend since September 2004. It stood at 5.2 % on January 29, 2005, significantly lower than 5.9 % recorded a year ago. However, because of the higher inflation in the early part of the year, the 52-week average inflation rate of 6.5 % on January 29, 2005 was higher than 5.5 % registered a year ago. During the post-reforms period, inflation has had a distinct decelerating trend as liberalization of both internal and external trade and continual reduction and rationalization of taxes had led to greater competition and cost-efficiency. Average annual WPI inflation decelerated from 10.6 % in the first half of 1990s to 4.1 % during 2001-02 to 2003-04. The trend was reversed in 2004-05 with pressures on prices across all groups. Erratic and delayed monsoon in 2004-05 with uneven distribution of rainfall over time and space had an adverse impact on the expectation about the kharif crops and fueled inflation of some agro-based products. Inflationary pressures were exacerbated by hardening of international prices of crude oil, minerals and metal related products. With prices of these items shooting up in world markets, imported inflation played a crucial role in domestic inflation in 2004-05.
After a growth of 7.5 % and inflation of 5 % in the previous year, 2005-06 started with signs of a growth rebound accompanied by some inflationary pressured stemming from hardening petroleum and primary product prices in the international markets. Recognizing the emerging trend, the RBI, in April 2005, in its Annual Policy Statement for the year 2005-06, identified the need for assuring appropriate liquidity in the system and at the same time for pursuing polices for macroeconomic stability to facilitate growth. Furthermore, in the liberalized financial sector, banks and other financial institutions were designing new products at competitive prices, which had transformed the operating framework. Recognizing the greater systemic risks, RBI initiated a series of regulatory and supervisory measures in tune with the best international practices to strengthen and safeguard the monetary framework.

In 2004-05, the higher demand for bank credit induced by a robust performance of the industrial and services sectors resulted in a 13.3 % increase in net domestic credit from the banking system from Rs. 17,59,053 crore at end-March 2004 to Rs. 19,93,371 crore at end-March 2005. The Annual Policy Statement of the RBI in April 2005 projected GDP growth at 7.0 % and the rate of inflation in the range of 5.0-5.5 % for 2005-06. Consistent with this, broad money (M3) was projected to grow at 14.5 % during 2005-06. Monetary developments during 2005-06 were characterized by (a) rapid increase in credit, (b) reduction in SLR investments by banks to meet rising
non-food credit demand, (c) slow down in accretion of foreign exchange reserves and hence net foreign assets of the banking system and (d) higher international commodity and crude oil prices influencing expectations about the impact on domestic inflation. Accordingly, the monetary policy stance calibrated the extent of operations of Market Stabilisation Scheme (MSS), as well as the Liquidity Adjustment Facility (LAF) through reverse repo/repo operations and introduction of second LAF to modulate liquidity in the system. With prudent monetary management, the redemption of India Millennium Deposits (IMDs) by the SBI in end-December 2005 could go through smoothly. Owing to the timely and apposite initiatives, the liquidity and interest rates in the system continued to catalyze growth.

The upbeat growth trend of 8.1 % in the first half of 2005-06 was reflected in a steady increase of 17.5 % in net domestic credit from the banking system from Rs. 19,84,330 crore on January 21, 2005 to Rs. 23,32,326 crore on January 20, 2006. The growth in net domestic credit during the year up to January 20, 2006 was 14.4 %. Price stability despite a rapid increase in money supply during the current year testified the investment-driven nature of the credit growth and stability of inflation expectations based on confidence in the appropriate stance of monetary and fiscal policies.

Annual point-to-point inflation rate in terms of the WPI increased from 4.6 % at end-March 2004 to 5.1 % at end-March 2005. The year 2005-06 started with an inflation rate of 5.7 % on April 2, 2005, which was followed by a softening trend until August 27, 2005 when it reached a trough of 3.3 %. While the rate rose steadily thereafter, it remained below 5 %. At 4.5 % on January 21, 2006 it was significantly lower than 5.4 % recorded a year ago. Average WPI inflation decelerated from 10.6 % in the first half of 1990s to 4.7 % during 2001-02 to 2004-05.

The downward secular trend in inflation observed since the beginning of reforms in 1991 came under threat with this rapid rise in international price of crude and petroleum products. Annual average WPI inflation in the fuel group was 9-10 % both at end of 2004 and 2005. Nevertheless, there was successful containment of the inflationary pressures with the overall annual average inflation rate declining from 6.5 % at end-2004 to 4.7 % at end-2005.

In line with the decelerating trend in inflation observed since the last quarter of 2004-05, inflation rate for manufactured products was lower at 2.8 % on January 21, 2006 compared to 5.4 % a year ago, but there was acceleration in the inflation rate for primary articles to 5.7 % from 1.0 % in the same reference period. The prices of
petroleum products (diesel and motor spirit) were revised twice on June 20 and September 6, 2005, but the timings and extent of the revisions as well as fiscal intervention ensured that the large increases in the world price of crude and petroleum products were only partially passed through to the consumers and the rest of the economy.

2006-07

During the year under review, monetary policy continued to reconcile the twin objectives of facilitating the momentum of economic growth and containing inflation. Monetary developments were characterized by the following trends.

1) Continued robust expansion in the credit, particularly non-food credit by scheduled commercial banks.
2) Pick-up in the growth of deposits with scheduled commercial banks but lower than the corresponding growth in credit.
3) Turn around in investment in approved securities for the purpose of the statutory liquidity ratio (SLR), from a declining to an increasing trend between 2005-06 and 2006-07.
4) Continued growth in foreign exchange assets of the banking sector through inflows of foreign exchange reserves.

Price situation in the domestic economy was adversely affected due to continued high levels of crude oil prices during the first half of the year and rising
primary commodity prices in the international market. Considering the emerging trends, the RBI’s Annual Policy Statement for 2006-07 had the following objectives.

1) To ensure a monetary and interest rate environment that enables continuation of the growth momentum consistent with price stability while being in readiness to act in a timely and prompt manner on any signs of evolving circumstances impinging on inflation expectations.

2) To focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic stability and, in particular, financial stability.

3) To respond swiftly to evolving global developments.

RBI articulated its monetary policy stance for 2007-08 in its Annual Policy Statement (APS) released in April 2007. The policy recognized the need to manage the transition to a higher growth path while at the same time containing inflationary pressures. For policy purposes, the RBI assumed real GDP for the year to grow at 8.5 %, inflation close to 5 %, and monetary expansion in the range of 17-17.5 %. The APS placed primacy on price and financial stability. It also focused on greater credit penetration and financial inclusion.
The RBI in its mid-term review of the APS 2007-08 reiterated the policy stance announced in April 2007 with an additional resolve to be in readiness to take recourse to all possible options for maintain stability and the growth momentum in the economy in view of the unusual heightened global uncertainties.

Inflation as measured by the WPI hovered around 4% in 2007-08. To contain inflation in essential commodities, customs duty on wheat was reduced to zero and duty on edible oils was reduced considerably in the 2007-08 budget. Similarly, duty on crude palm oil was reduced in two tranches from 60% before budget to 45% effective July 23, 2007. Duty on refined palm oil was reduced by 15% points to 52.5%. Duty on soybean oil was also reduced from 45% to 40%. A 20% point reduction in duty on sunflower crude and refined oil was also affected.

Containment of inflation remained high on the Government’s agenda. The anti-inflationary policies of the Government included, inter alia, strict fiscal and monetary discipline, rationalization of excise and import duties of essential commodities to lighten the burden on the poor, effective supply-demand management of sensitive items through liberal tariff and trade policies and strengthening the PDS.

To augment availability of wheat, the public sector agencies such as STC, MMTC and PEC imported wheat during 2007-08. To maximize procurement of wheat and paddy, the Government approved an incentive bonus of Rs. 100 per quintal during the kharif marketing season 2007-08 for paddy. This raised the procurement price of Grade a paddy to Rs. 745 per quintal. The support price for wheat inclusive of bonus was raised to Rs. 850 per quintal in 2006-07 and further raised to Rs. 1,000 per quintal in 2007-08. There remained a ban on export of wheat and pulses. Import of wheat and pulses by private trade was permitted at zero duty.

To maintain price stability, the Central Issue Price for rice and wheat has not been revised since July 2002. There has been a continuous reduction in the import duty on edible oils. Keeping in view the prevailing price situation, the Central Government issued a Central order dated August 29, 2006, under the Essential Commodities Act, 1955 to enable the State Governments to invoke Stock Limits in respect of wheat and pulses for a period of six months. By virtue of this order, the State Government/UT Administrations were empowered to take effective action to bring out the hoarded stock of these items to ensure their availability at reasonable prices. The validity of the Central Order was extended up to March 1, 2008.
In the context of monetary management, the Finance Minister made the following observation in his budget speech for the year 2008-09, “We have also witnessed capital inflows that are far in excess of the current account deficit. This poses a challenge to monetary management. The solution lies in increasing the absorptive capacity of the economy in the medium term. In the short term, it is our responsibility to manage the flows more actively. Government will, in consultation with the RBI, continue to monitor the situation closely and take such temporary measures as may be necessary to moderate the capital flows consistent with the objective of monetary and financial stability”.

The Minister informed the Parliament that world prices of crude oil, commodities and foodgrains had raised sharply in the period April 2007 to January 2008. The prices of wheat and rice had increased in the world market by 88 % and 15 % respectively. All these trends were inflationary and there was pressure on domestic prices, especially on the prices of food articles. Consequently, the management of the supply side of food articles would be the most crucial task in 2008-09.
During the first half of 2009-10, the headline year-on-year inflation remained significantly low at 0.36 % on account of sharp increases in prices recorded in 2008-09. The second half of 2009-10 showed increasing food prices on account of unfavourable agricultural supply conditions coupled with the waning base effect, leading to sharp increase in inflation. Thereafter, the headline inflation reached 10.23 % in March 2010.
The year 2010-11 started with 11% headline inflation in April 2010. During 2010-11, the monsoon situation has been better than last year. As per the Second Advance Estimates, production of foodgrains in 2010-11 is likely to be 232.07 million tonnes as compared to 218.11 million tonnes last year. However, demand pressures became visible in early 2010. At disaggregate level, the price behavior of three major commodities groups has been in marked contrast to the previous year when inflation remained low on account of global decline in commodity prices. From March to July 2010, headline inflation remained in double digits. The major contributors to this were primary articles whose inflation hovered in the range of 14.7% to 21.5% and fuel which recorded inflation in the range of 10.3% to 14.4%. However, the inflation in manufactured products remained in the lower range of 4.5 to 6.4% during the year.

In 2010-11, inflation in primary food articles was mainly driven by rice, vegetables, potatoes, onions, fruits, milk, eggs, meat and fish, condiments and spices, and tea. However, the WPI of manufactured food products with 2004-05 bases is in the comfortable zone. It was 142.7 in December 2010 as against 142.2 in December 2009. This has marginally increased due to vanaspati oil, groundnut oil, sunflower oil, rice bran extraction, tea and coffee process, and malt liquor. The inflation in terms of the CPI-IW remained in double digits from July 2009 to July 2010. The inflation in terms of the CPI-AL and CPI-RL had reached double digits in May 2009 and continued so until July 2010. Further, inflation in terms of the CPI-AL and CPI-RL was higher than
inflation based on the CPI-IW during all these months. In August 2010, the inflation in terms of all price indices has come down to single digit for the first time in 15 months.

At 9.47 %, inflation in the CPI-IW has substantially declined in December 2010 from its peak of 16.22 % in January 2010. The CPI maintained higher levels last year relative to the WPI, mainly because of the larger weight assigned to food items. In consumer price indices, food items contribute a weight of 46.20 % in the CPI-IW and 69.15 in the CPI-AL as against 24.31 % in the WPI. The food inflation has decelerated after reaching its peak in January 2010. As result CPI inflation rates have gone down substantially.

During 2010-11, M1 growth has generally been higher than in 2009-10, though there was significant deceleration during the latest fortnight for which data are available. On a financial year basis, M1 increased by 3.1 % during the current year compared to increase of 5.1 % during the corresponding period of the previous year. On a year-on-year basis, as on 3 December 2010, M1 growth was 16.5 % as compared to 18.3 % a year earlier. During the current financial year 2010-11 the growth in M3 was 8.2 % as compared to 9.6 % during the corresponding period of the previous year.
References:-


11. Various years of Economic Survey of India, Govt. of India.