



Dear member,

For the week ended March 15, 2008 inflation touched 5.5 percent. It rose to 6.68 percent. Inflation was sudden and sharp. Prices of vegetables and essential commodities went up by more than 50 percent in the past few months. While this has adversely affected all sections of population, as is believed, no benefit accrued to the cultivators. Price hike has not been able to offset the growing costs of cultivation.

The Central government acted swiftly in announcing a series of fiscal measures in a bid to check inflation. The measures announced include reduction of import tariffs to zero on all edible oils including crude palm and soya oils and to 7.5 per cent on refined oils such as hydrogenated vegetable fats and oils. The import duty on butter and clarified butter (ghee) was lowered to 30 percent from 40 percent. A ban was imposed on all the low varieties of non-basmati rice. Only those varieties at the top end would be open to export with an increase from minimum export price (MEP) from US\$ 1,100 FOB a ton to US\$ 1,200 FOB a ton. Restrictions are also imposed on the export of Basmati rice to Russian Federation. The Basmati rice including (Dehusked Brown), semi milled, milled both and either paraboiled or raw condition is permitted for export only if the minimum FoB price is US\$ 1200 per ton or Rs. 48,000 per ton. This specific measure aimed at increasing availability of rice in the domestic market. On maize, import tariff was reduced from 15 percent to zero with a quantitative ceiling of 500,000 tons. The state governments and Union Territories Administrations were advised to impose limits on stocks of commodities under the Essential commodities Act, 1955. The manufacturers of steel were strongly urged not to increase steel prices as the Central government promised to bring together producers of iron ore and steel to resolve price issues. Export benefits were withdrawn on manganese and chrome to discourage their exports.

The government is preparing to tackle rising inflation from all fronts. While it has taken a number of fiscal measures as specified above to improve and ease the supplies of essential commodities, particularly food products, it is strongly believed that RBI will also take measures to help control the price rise. To start with, RBI will allow rupee to appreciate. The Central government has reduced its market intervention since last one week to buy dollar, when the inflation suddenly spurted. The appreciation of rupee will help containing inflation as it will bring down the prices of imported commodities. Rupee appreciation will make it possible as landed price of imported prices will come down automatically. This will boost supply at lower prices without forcing government to reduce or do away with import tariffs on essential commodities. At present India wants to buy almost all food articles from the international market to remove shortage at home.

Food prices in the international market are much higher than that in the domestic market. So, it remains to be seen, if the measures announced will be able to bring down prices of commodities, food grains and pulses swiftly. However, it is believed that inflation may not decline unless downtrend in agricultural production is reversed. Therefore, decisive policy initiatives based on sound technological footing must be introduced. Dependence on monsoon has to be reduced by stepping up irrigation facilities. Remunerative prices to neutralize rising cost of cultivation need to be evolved. Reforms must be also introduced in the public distribution system.

Thanks for your cooperation.

  
Atluri Subba Rao