

Prices and Inflation

The economy has undergone a transition - possibly structural and permanent - from high to low inflation in the last three years. CPI inflation declined during 2016-17 with broad based decline in all commodity groups. Food inflation, which was the main driver of inflation in the past, declined significantly during the year because of improvements in supply of pulses and vegetables on the back of a normal monsoon. Core inflation-indicative of underlying trends -- too declined in the last few months. There has been convergence between CPI and WPI inflation in the last few months. Similarly, there has been narrowing of gap between rural and urban inflation. Many States/UTs witnessed decline in CPI inflation in 2016-17 as compared to the previous year.

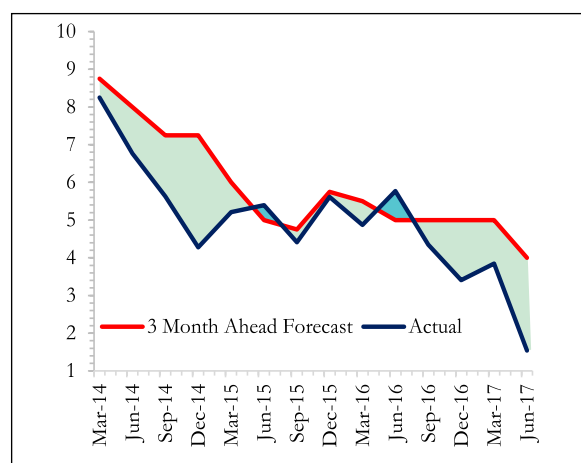
I. PARADIGM SHIFT TO LOW INFLATION?

4.1 Is India undergoing a structural shift in the inflationary process toward low inflation?

4.2 Research indicates that consumer price inflation has undershot professional forecasts fairly consistently over the last 5

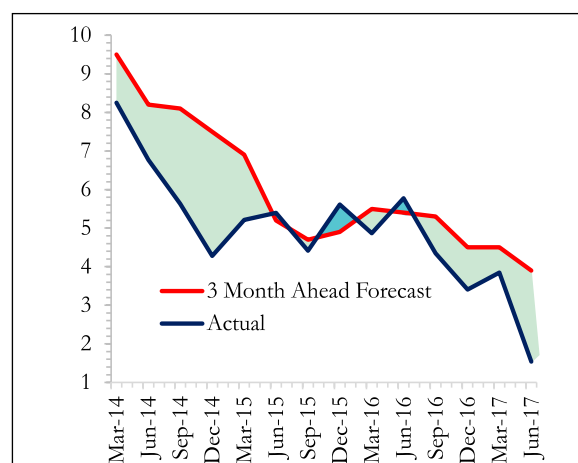
years or so, globally as well as in the advance economies. In the Indian context, evidence seems to be pointing to same conclusion-- though the errors have been on both side over longer time horizon. More recently such shifts seem to have been missed (Figure 1 and Figure 2, respectively)^{1a}. For example,

Figure 1. CPI Inflation - RBI Forecast and Actual



Source: RBI and Survey Calculations

Figure 2. CPI Inflation -Professional Forecast and Actual

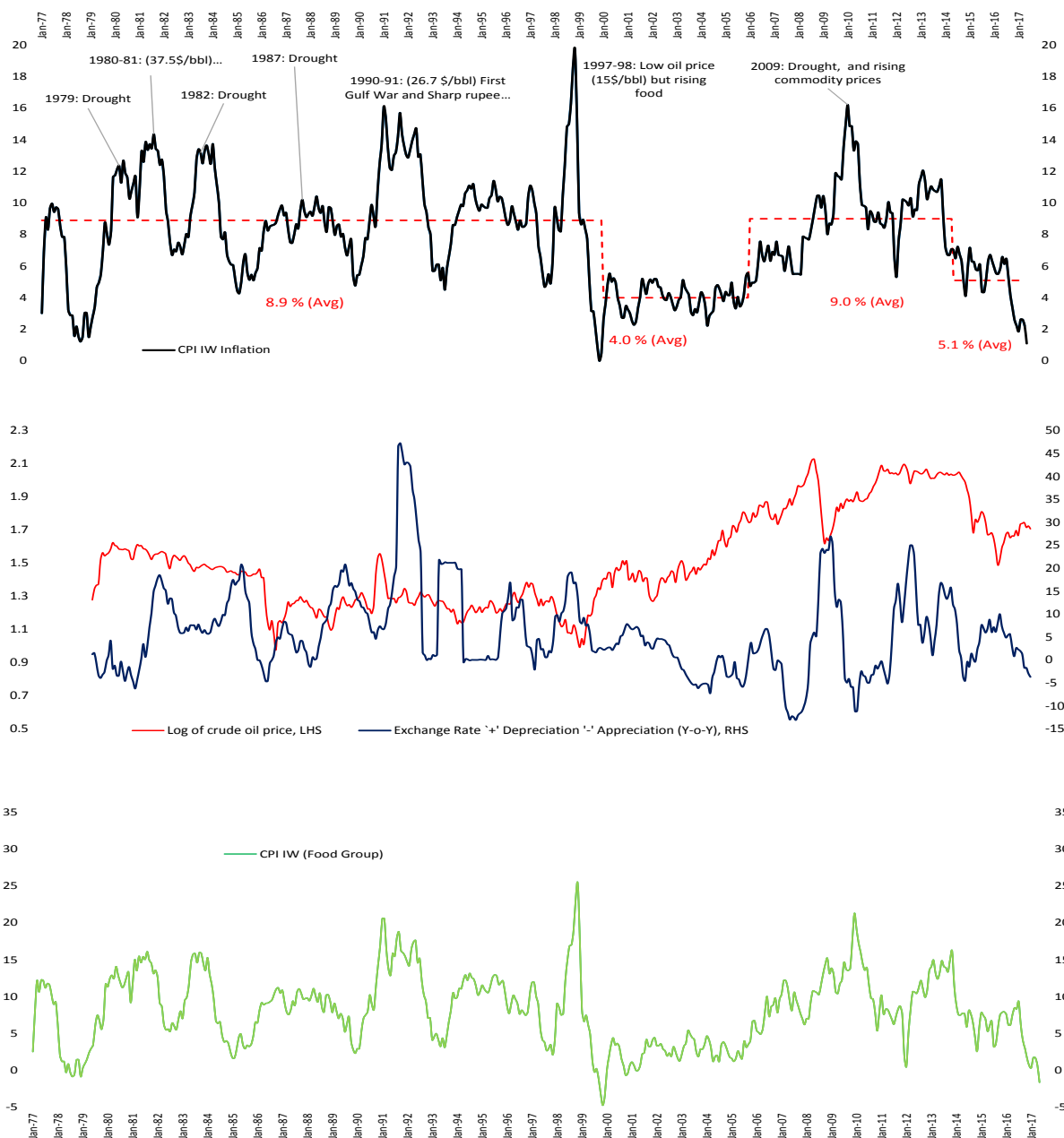


^{1a} In Figure 1, the inflation forecast is estimated as the mid-point of the confidence bands in the fan charts of respective monetary policy statements.

in the last 14 quarters, inflation has been overestimated by more than 100 basis points in six quarters (three in 2014 and three in the most recent period) with an average error of 180 basis points (and that too for a

very short-term forecast, just three months ahead) (Figure 1). It must also be noted that during this period the forecast was within 50 bps of the outcome in 4 out of 14 quarters (March 2014, June, September and

Figure 3. Long term Inflation^{1b} (1977-2017)



Source: Labour Bureau, Reserve Bank of India and World Bank.

^{1b} Inflation based on Consumer Price index for Industrial Worker (CPI-IW) released by Labour Bureau is used since it is available for longer period instead of inflation based on new series of Consumer Price Index – Combined (CPI-C) released by Central Statistics Office (CSO). CPI –IW inflation figures for base year 1960 (January, 1977 to September, 1988), base year 1982 (October, 1988 to December, 2005) and base year 2001 (January, 2006 to May 2017) is used. CPI-IW and CPI-C based inflation moves very closely with a correlation coefficient of 0.9383 (for period January, 2012 to April, 2017). Crude oil is Crude Brent (global basket). Exchange rate in rupee per US dollar.

December 2015) and within 25 bps in 1 out of 14 quarters (December 2015). The record of professional forecasters is similar (Figure 2). Actual lesser inflation than forecast could well reflect the extraordinary developments such as the durable collapse of international oil prices.

4.3 The question going forward is whether there is a paradigm shift in inflation and what it implies for monetary management.

4.4 Consider first a long term perspective on inflation in India shown in Figure 3. Over the last four decades (beginning 1977), there have been broadly four phases: high inflation, averaging 9 percent, for about 23 years; low inflation of about 4 percent for 5 years between 2000 and 2005; a resurgence of inflation back to about 9 percent during the period 2006-2014; and now a new phase of relatively low, possibly very low, inflation^{2a}.

4.5 Figure 3 helps identify understand the drivers of inflation. Broadly, high inflation, and especially inflation peaks, coincide with surges in commodity prices, especially for oil and food; in some cases, they are caused by one-off factors such as sharp exchange rate depreciation.

4.6 So, if there are structural changes in the oil market and in domestic agriculture, the inflationary process could also experience structural shifts. As elaborated below, there are reasons to believe that both changes are underway.

Oil

4.7 It has become almost an involuntary reflex to cite geopolitics in the list of risks to oil prices, and hence to domestic inflation. But these risks may well be diminishing substantially. The oil market is very different today than a few years ago in a way that

imparts a downward bias to oil prices, or at least has capped the upside risks to oil prices.

4.8 The exploitation of shale oil and gas—courtesy of sophisticated new technologies such as hydraulic fracturing—have increased the supply of oil from non-OPEC countries, especially from North America. Moreover, this supply has two significant properties. It is profitable at prices close to \$50 per barrel and supply responds more quickly to price changes because of much lower capital costs than for conventional oil. As a result, OPEC has less control over oil prices than it used to. Figure 4 plots OPEC's swing capacity and oil prices. Before 2014, the two moved closely together but since then, the two have completely decoupled.

4.9 Figure 5 plots the worldwide count of rigs and oil prices. Here too the relationship is striking, with rig capacity declining in response to lower prices and quickly expanding as oil prices rise^{2b}. This accordion-like quality of shale combined with estimates that viability is achieved close to \$50 per barrel means that oil prices are broadly capped.

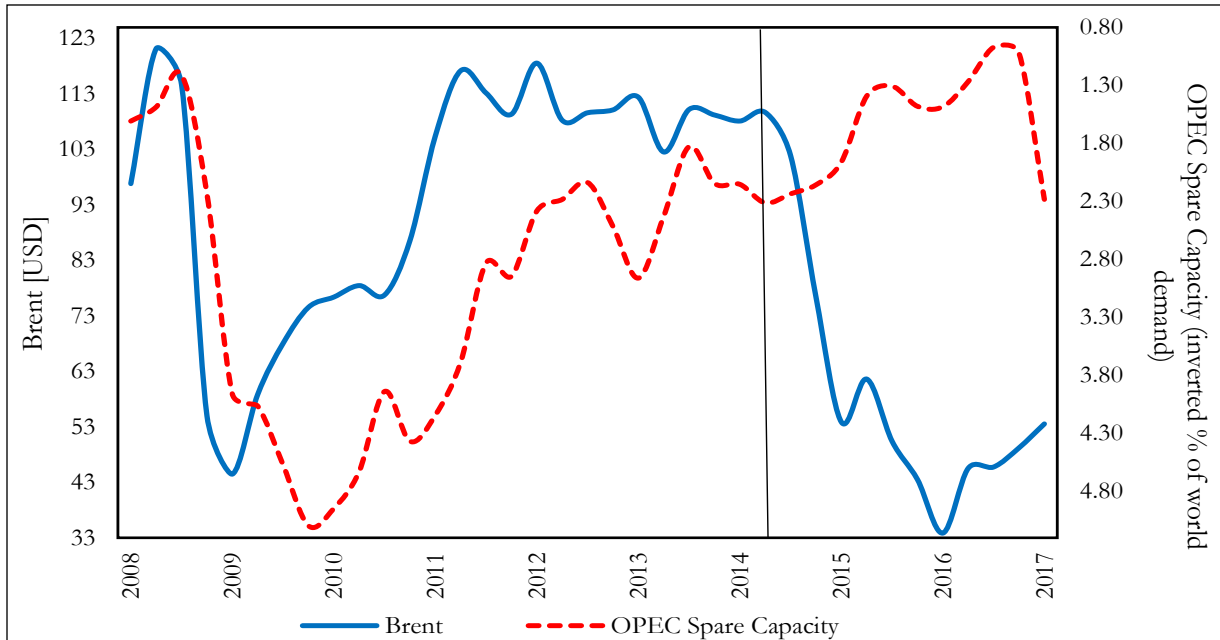
4.10 Going forward, therefore, it is not that prices will not be volatile nor is it the case that they will never rise above the \$50 “ceiling.” Rather, shale technology will ensure that prices cannot remain above this ceiling for any prolonged period of time because of rapid supply responses which will take the prices toward the marginal cost of production of shale. The dramatic decline in the cost and prices of renewables will only re-inforce this tendency.

4.11 In sum, geopolitical risks are simply not as risky as earlier. Technology has rendered India less susceptible to the vicissitudes of geo-economics (OPEC) and geo-politics

^{2a} Headline CPI inflation is now below 2 percent but even refined core (which strips out all the volatile food and fuel components), has now gone below 4 percent. This compares very favorably with India's long-run inflation performance of close to 9 percent and with the average of refined core inflation of 6.8 percent in the CPI-New Series from January 2011 onwards.

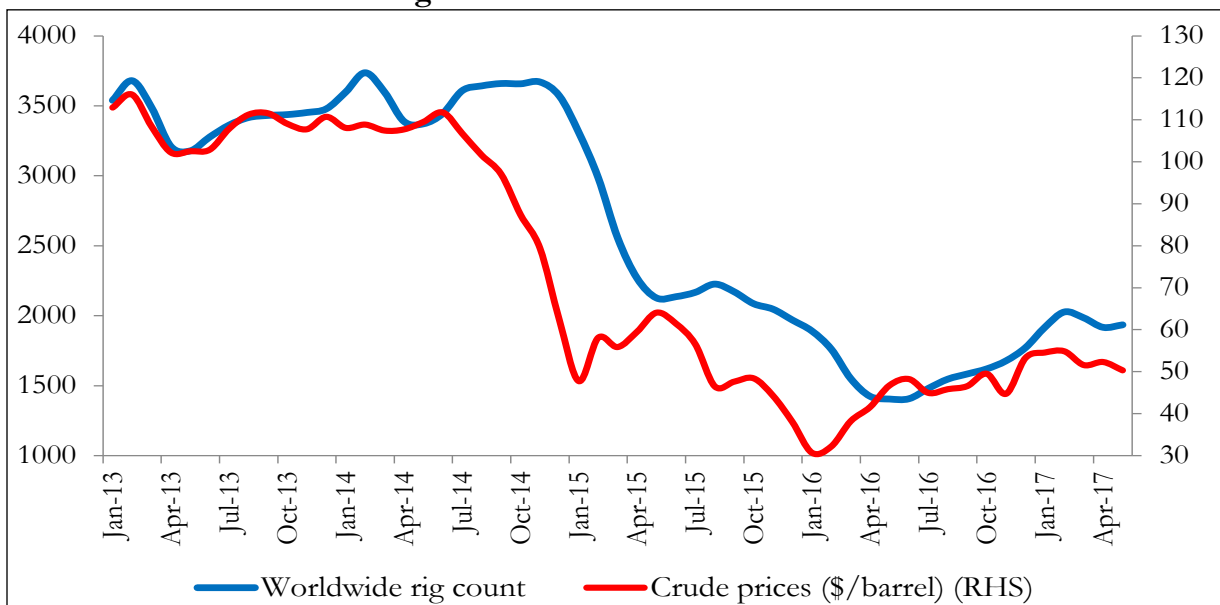
^{2b} A broadly similar relationship holds between the flow of rigs and oil prices.

Figure 4. OPEC's Fading Market Power?



Source: U.S. Energy Information Administration (USEIA).

Figure 5. The Shale “Accordion”



Source: Baker Hughes and USEIA

(Middle East). If and to the extent that changes prove permanent, the consequences for the inflationary process need to be taken into account.

II. VARIABILITY OF INFLATION ACROSS ITEM GROUPS AND STATES

4.12 Inflation based on Consumer Price

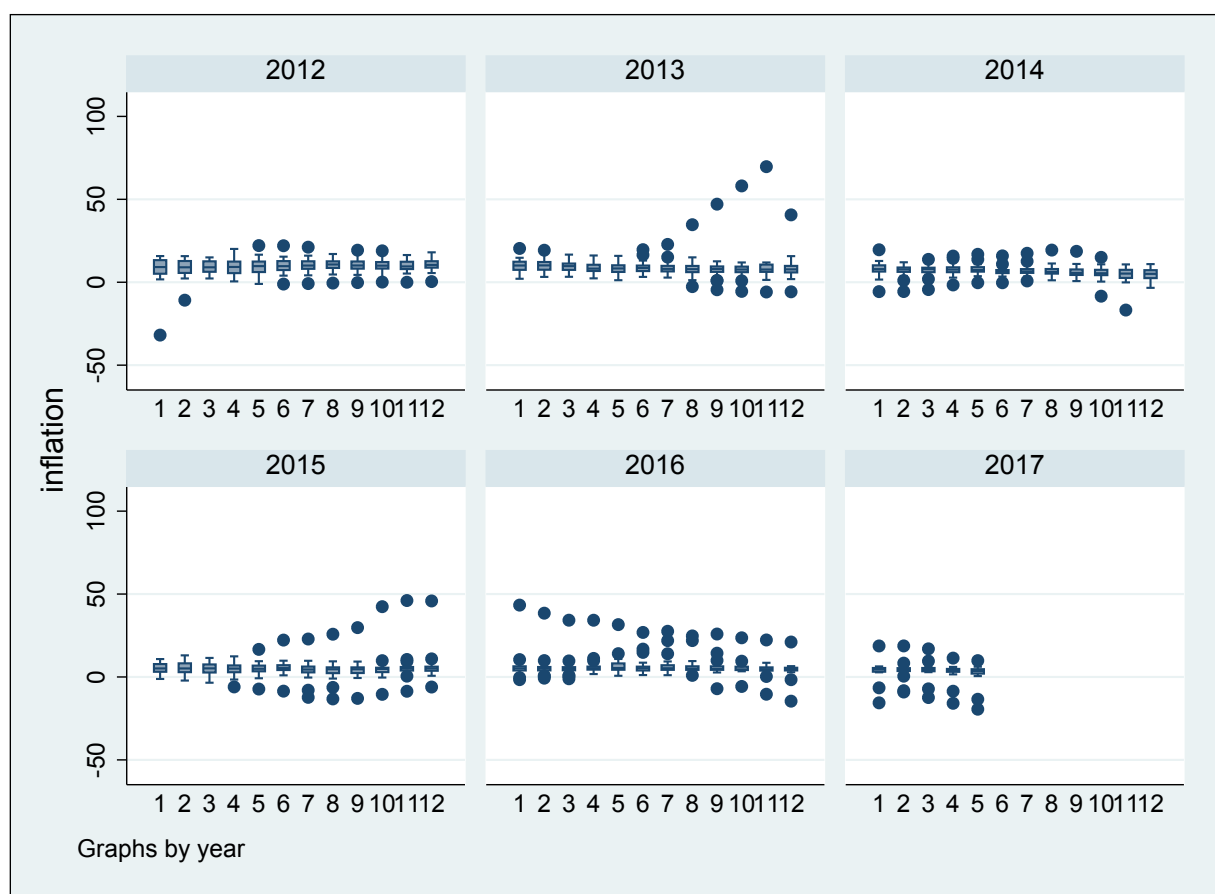
Index – Combined (CPI-C) has shown a declining trend from around 9 per cent in 2012 to around 3 per cent in 2017, except in 2013 when it increased to around 10 per cent. Figure 6 shows the variability of inflation across major item groups. Starting from mid-2013, the inflation of vegetables

has been consistently higher (reaching a high of around 70 per cent in November 2013) than the rest of the item groups for the rest of the year. Inflation of pulses started rising since May 2015 and has been higher than the rest of the item groups till mid-2016. Overall, the inflation in major item groups (Figure 6) and across major States (Figure 7) does not exhibit any definite trend during the period (2012-17); however, there has been less variability across different item groups since 2016.

III. CURRENT TRENDS IN INFLATION

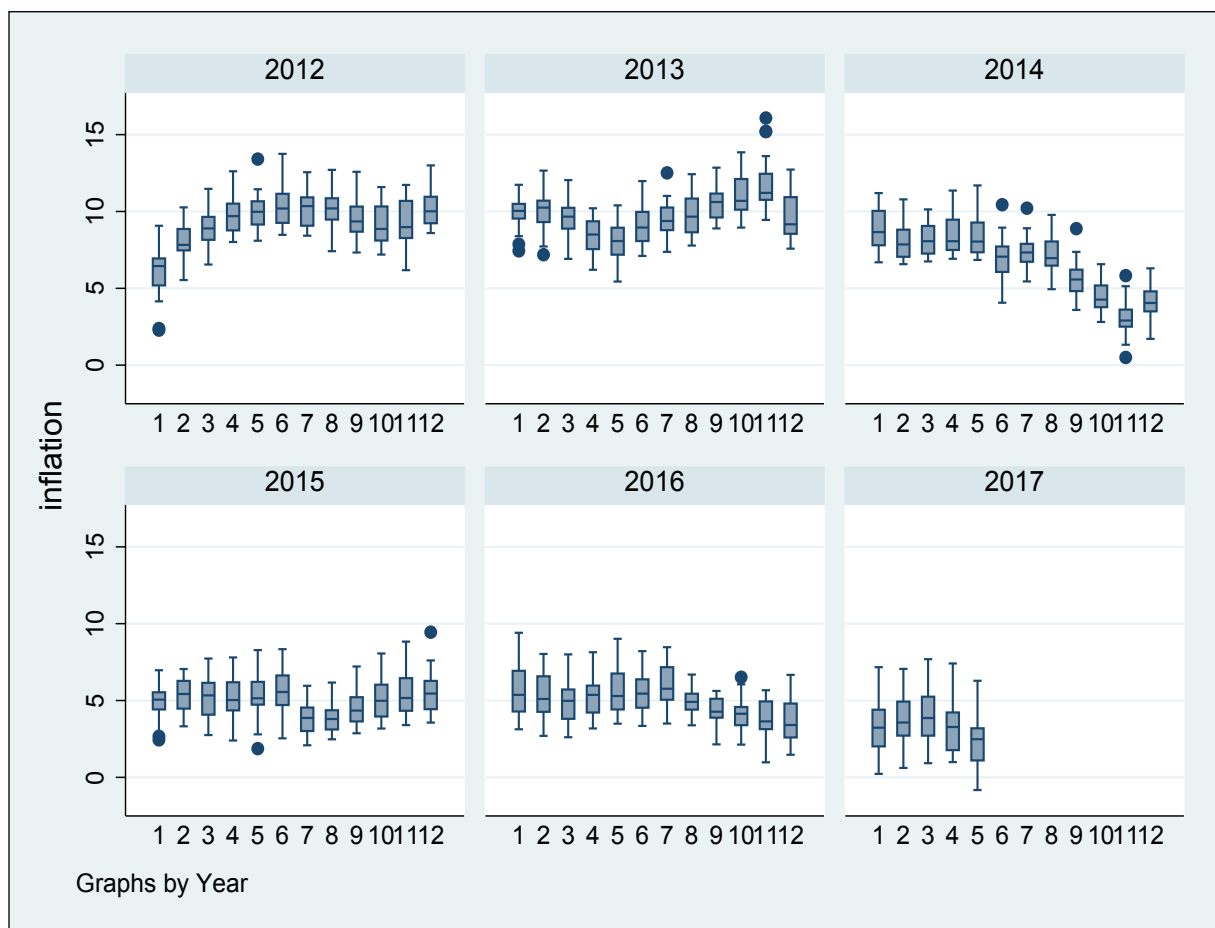
4.13 Inflation both in terms of Consumer Price Index – Combined (CPI-C) and Wholesale Price Index (WPI) has decreased in recent years with WPI registering negative growth in 2015-16. The salient aspects include secular decline in headline inflation, convergence of CPI and WPI, decline in inflation across commodity groups, notable being food, narrowing of gap between rural and urban inflation and decline in inflation across States.

Figure 6. Variability³ across major items under groups in terms of CPI- Combined



Source: CSO, Survey calculations

³ Box and whisker plots enable us to study the characteristics of a distribution. The box shows the interquartile range, that is the 75th and 25th points on the distribution. The horizontal line in the box indicates median of the distribution and the whiskers are lines running from the box to the maximum and minimum values. If a data value is very far away from the quartiles, it is sometimes designated an outside value (represented by dots in figure). The standard definition for an outside value is a number which is less than Q_1 or greater than Q_3 by more than 1.5 times the IQR ($IQR = Q_3 - Q_1$). That is, an outside value is any number less than $Q_1 - (1.5 \times IQR)$ or greater than $Q_3 + (1.5 \times IQR)$.

Figure 7. Variability of inflation across major states (2012-2017) in terms of CPI-Combined

Source: CSO, Survey calculations

4.14 First, sharp decline in inflation is observed for various price indices. Headline CPI (combined) inflation declined sharply to 4.5 per cent in 2016-17 from 4.9 per cent in 2015-16 and 5.9 per cent in 2014-15. CPI inflation has been below 4 per cent for past eight months and decreased to 1.5 per cent (lowest since the series began in 2012) in June 2017. Inflation based on CPI-Industrial workers (IW) declined to 4.1 percent in 2016-17 from 5.6 percent in the previous year. It reached a low level of 1.1 percent in May 2017. As per Wholesale Price Index (WPI) with base 2011-12, inflation increased to 1.7 percent in 2016-17 from -3.7 per cent in 2015-16 on the back of hardening of global commodity prices. A comparative picture of inflation based on the major price indices for

the last five years is given in Table 1.

4.15 Second, convergence between CPI and WPI based inflation is another notable feature. The gap between CPI and WPI based inflation which increased to a high of 10 percentage points in September 2015 has disappeared in May 2017 when both CPI and WPI based inflation stood at 2.2 per cent (Figure 8). On yearly basis, the gap between the two, after increasing from 4.7 percentage points in 2014-15 to 8.6 percentage points in 2015-16 has narrowed down to 2.8 percentage points in 2016-17 (Table 1). The convergence can be attributed primarily to firming up of prices of tradable commodities which constitute a major part of WPI basket and revision in the base year for Wholesale Price Index from 2004-05 to 2011-12.

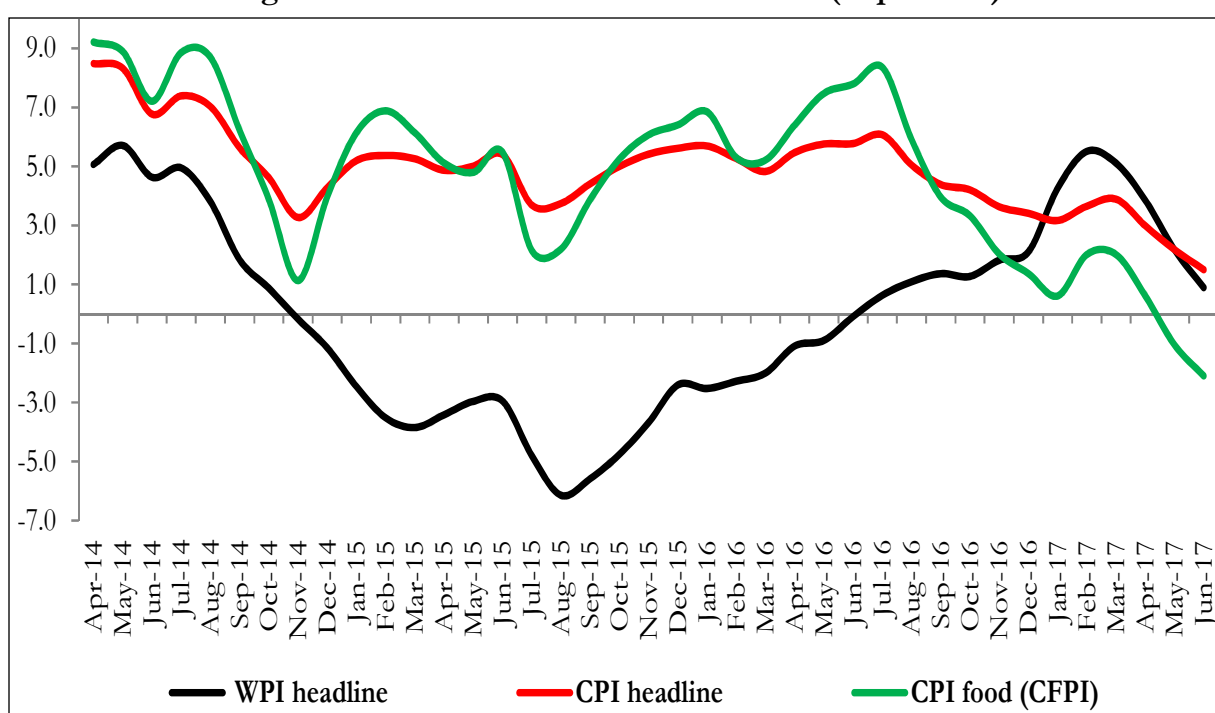
Table 1. General inflation based on different price indices (in per cent)

	2012-13	2013-14	2014-15	2015-16	2016-17
WPI	6.9	5.2	1.2	-3.7	1.7
CPI (combined)	10.2	9.5	5.9	4.9	4.5
CPI (IW)	10.4	9.7	6.3	5.6	4.1
CPI (AL)	10.0	11.6	6.6	4.4	4.2
CPI (RL)	10.2	11.5	6.9	4.6	4.2

Source: Department for Industrial Policy and Promotion (DIPP) for WPI, Central Statistics Office (CSO) for CPI (combined) and Labour Bureau for CPI (IW), CPI (AL) and CPI (RL).

Note: CPI (combined) inflation for 2012-13 and 2013-14 is based on old series 2010=100

IW stands for Industrial Workers, AL stands for Agricultural Labourers and RL stands for Rural Labourers.

Figure 8. Inflation based on WPI and CPI (in per cent)

Source: DIPP & CSO

4.16 Third, there has been broad based decline in inflation for all commodity groups, the most significant being decline in food. Food inflation based on consumer food price index (CFPI) declined to 4.2 per cent in 2016-17 from 4.9 per cent in 2015-16 and 6.4 per cent in 2014-15. High inflation in pulses, vegetables and sugar although put some pressure on CFPI in the beginning of 2016-17, favourable Monsoon leading to increase in production of cereals and pulses has led to a decline in CPI food inflation

in the second half. In order to reduce the volatility in prices of pulses, the Government has built-up buffer stocks of about 19 lakh tonnes through domestic procurement and imports. Vegetable prices, which generally flare up during lean summer seasons, have declined sharply in the past few months, as supply picked up. CPI inflation in vegetables as a result remained negative since September 2016. Sugar inflation remained persistently high during 2016-17 in the backdrop of lower production and hardening of prices in

the international market. Sugar prices at both wholesale and retail level have moderated in the last few months. The break-up of food

inflation based on CPI and WPI is at Table 2 and 3 respectively.

Table 2. Inflation in selected groups of CPI-Base 2012 (in per cent)

Description	Weights	2015-16	2016-17	Jun-16	May-17	Jun-17 (P)
All Groups	100	4.9	4.5	5.8	2.2	1.5
CFPI*	39.1	4.9	4.2	7.8	-1.0	-2.1
Food & beverages	45.9	5.1	4.4	7.5	-0.2	-1.2
Cereals & products	9.7	1.8	4.2	3.1	4.8	4.4
Meat & fish	3.6	6.3	5.6	6.6	1.8	3.5
Egg	0.4	2.3	6.7	5.5	0.7	-0.1
Milk & products	6.6	5.2	4.1	3.4	4.6	4.1
Oils & fats	3.6	4.3	4.0	4.0	2.7	2.3
Fruits	2.9	1.5	4.8	2.8	1.4	2.0
Vegetables	6.0	1.4	-2.2	14.8	-13.4	-16.5
Pulses & products	2.4	31.9	9.3	26.9	-19.5	-21.9
Sugar & confectionery	1.4	-7.0	19.6	16.8	9.8	8.7
Fuel & Light	6.8	5.3	3.3	2.9	5.5	4.5
CPI excl. food and fuel group (Core)	47.3	4.6	4.8	4.4	4.2	4.0

Source: CSO

P: Provisional

***** Consumer Food Price Index

Table 3. Inflation in selected groups of WPI- Base 2011-12 (in per cent)

	Weight	2015-16	2016-17	Jun-16	May-17 (P)	Jun-17 (P)
All Commodities	100	-3.7	1.7	-0.1	2.2	0.9
Food Index	24.4	1.2	5.8	8.0	0.1	-1.2
Food articles	15.3	2.6	4.0	7.8	-2.3	-3.5
Cereals	2.8	1.1	8.7	9.5	4.1	1.9
Pulses	0.6	34.8	17.6	27.3	-19.7	-25.5
Vegetables	1.9	-8.6	-5.3	18.6	-18.5	-21.2
Fruits	1.6	0.1	6.0	6.0	-0.7	-0.1
Milk	4.4	3.1	2.9	2.3	4.5	4.1
Egg, meat & fish	2.4	1.5	0.8	2.3	-1.0	1.9
Food products	9.1	-1.5	9.5	8.7	4.8	3.1
Sugar	1.1	-9.8	28.8	29.8	12.8	10.7
Edible oils	2.6	-3.2	8.4	4.1	2.1	1.5
Fuel & power	13.2	-19.7	-0.2	-11.6	11.7	5.3
Non-Food manufactured products (Core)	55.1	-1.8	-0.1	-1.8	2.1	2.1

Source: DIPP

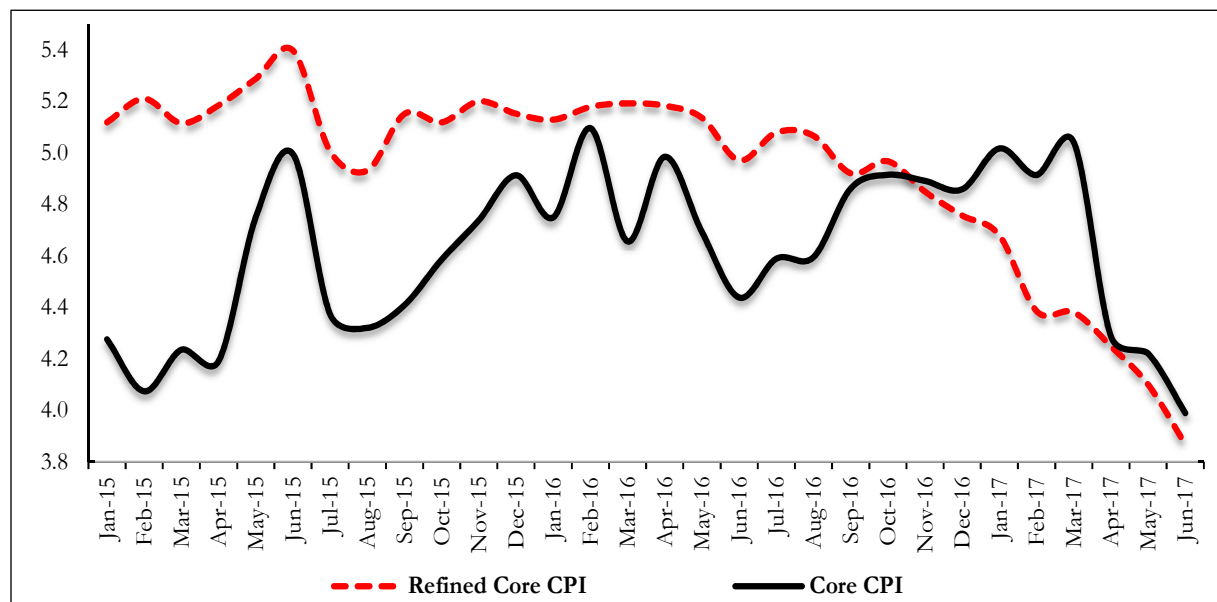
P: Provisional

4.17 Along with significant moderation witnessed in the headline and food inflation in the last three years, CPI based refined core⁴ inflation has declined from 5.2 per cent in 2015-16 to 4.9 per cent in 2016-17. CPI based core⁵ inflation though has increased marginally to 4.8 per cent in 2016-17 from 4.6 per cent in 2015-16. All the CPI based

core inflation measures have been trending down in the last few months (Figure 9).

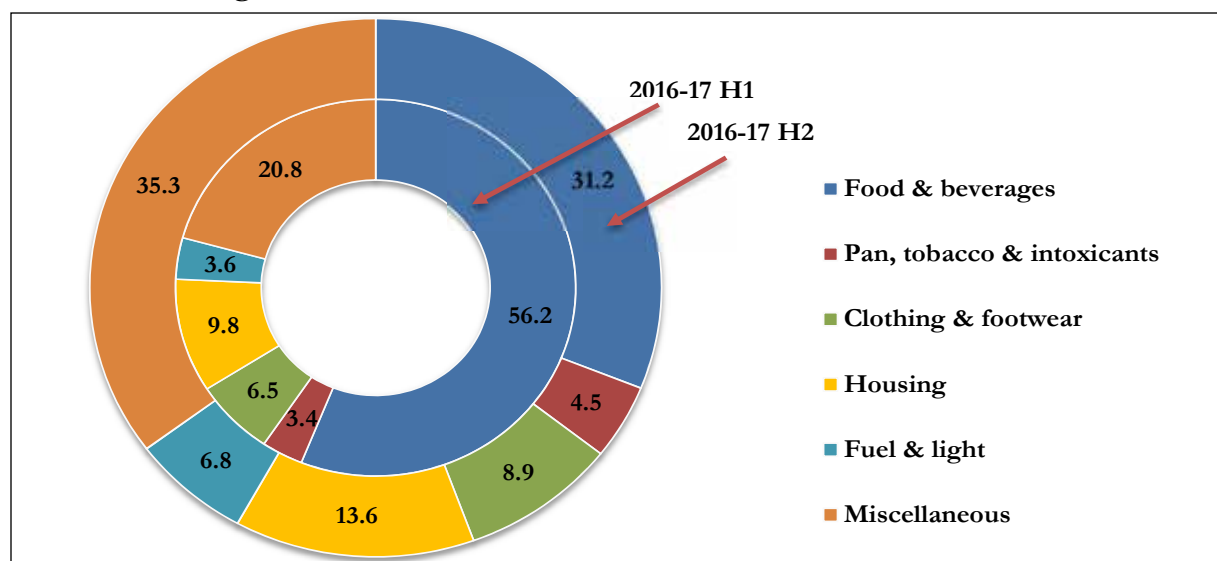
4.18 During first half of 2016-17, while CPI inflation was driven mainly by food, it was the miscellaneous group primarily services which contributed significantly in the second half (Figure 10). Housing too contributed to

Figure 9. CPI based Core Inflation (in per cent)



Source: CSO, Survey calculations

Figure 10. Contribution to CPI inflation 2016-17 H1 and H2



Source: CSO, Survey calculations

⁴ CPI excluding food and fuel group, petrol & diesel

⁵ CPI excluding food and fuel group

general inflation. A break-up of CPI inflation into goods (weight 76.6%) and services (weight 23.4%) shows a sharp fall in goods inflation since August 2016 (Figure 11). However, services inflation remained sticky and was hovering around 5 per cent during 2016-17, mainly driven by high inflation in health, education, house rent and airfare.

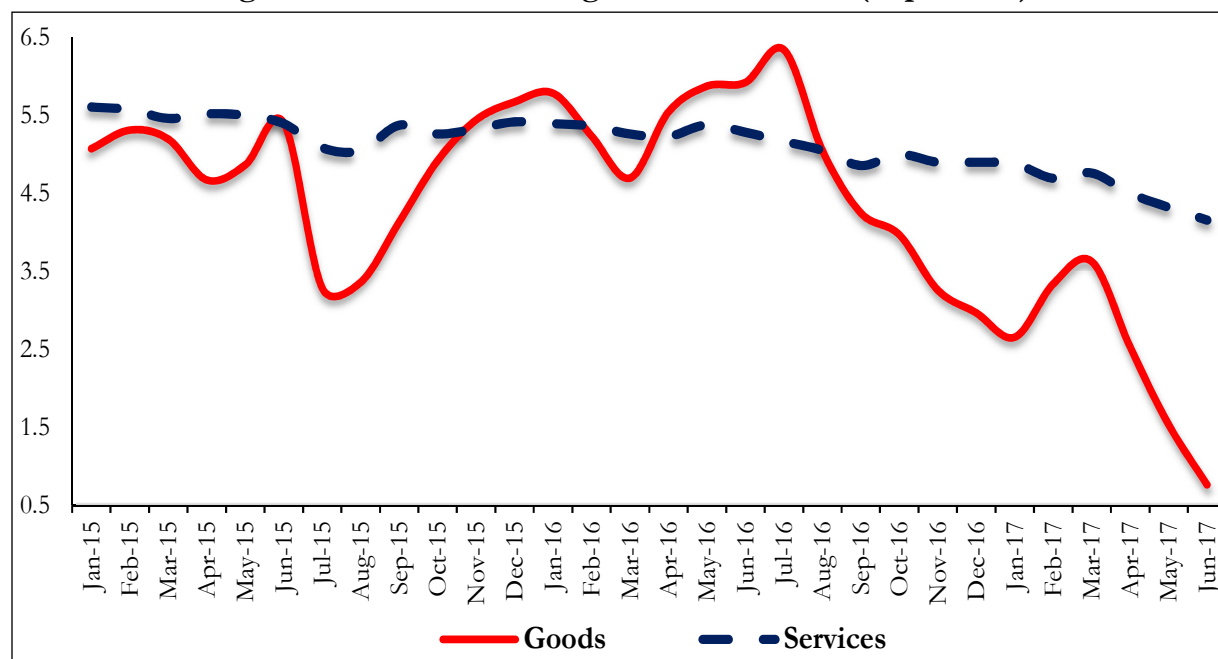
4.19 Fourth, both rural and urban inflation have declined and the gap between the two in recent months has significantly narrowed (Figure 12). Rural inflation based on CPI (rural) decreased to 5.0 per cent in 2016-17 from 5.6 per cent in 2015-16 and 6.2 per cent in 2014-15. Urban inflation based on CPI (urban) declined to 4.0 per cent in 2016-17 as compared to 4.1 per cent in 2015-16 and 5.7 per cent in 2014-15. Urban inflation remains at a lower level than rural and the difference is largely owing to variation in the weights of items in rural and urban consumption basket. The rural basket of CPI assigns significantly larger weight to cereals, vegetables, meat and fish and pulses.

4.20 The gap between rural and urban

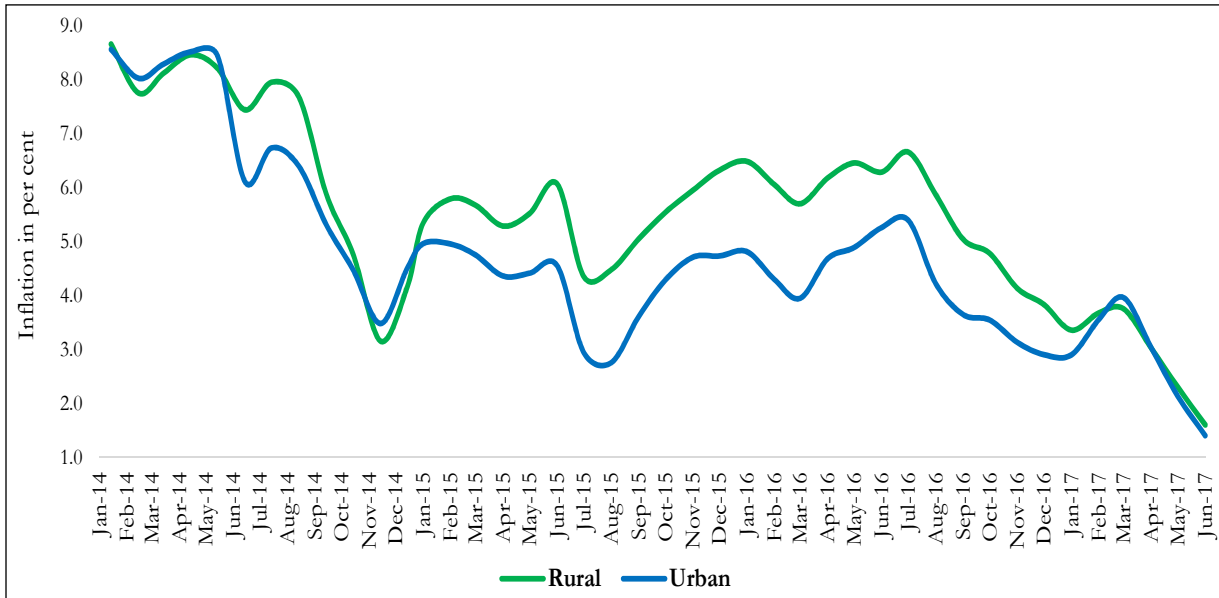
inflation based on Consumer Price Index increases sharply whenever there is increase in food and beverages group inflation (weight of 54.2 per cent in rural basket and 36.3 per cent in urban basket) (Figure 13). Fuel and light group inflation for rural area (weight 7.9 per cent) which throughout the period is higher than fuel and light group inflation of urban area (weight 5.6 per cent) also pushes up the rural inflation. Firewood & chips and dung cake together account for 2.5 per cent of weight in CPI basket (mainly associated with rural areas) experience high inflation and volatility. Inflation for Miscellaneous group in rural areas (consisting of consumer durables and services with weight 27.3 per cent) is almost always higher than miscellaneous group inflation of urban areas (weight 29.5 per cent). This could be attributed to infrastructure gaps between rural and urban areas leading to increased marketing costs in rural areas for consumer durables and services.

4.21 Finally, many of the States/UTs have witnessed fall in CPI inflation during 2016-17

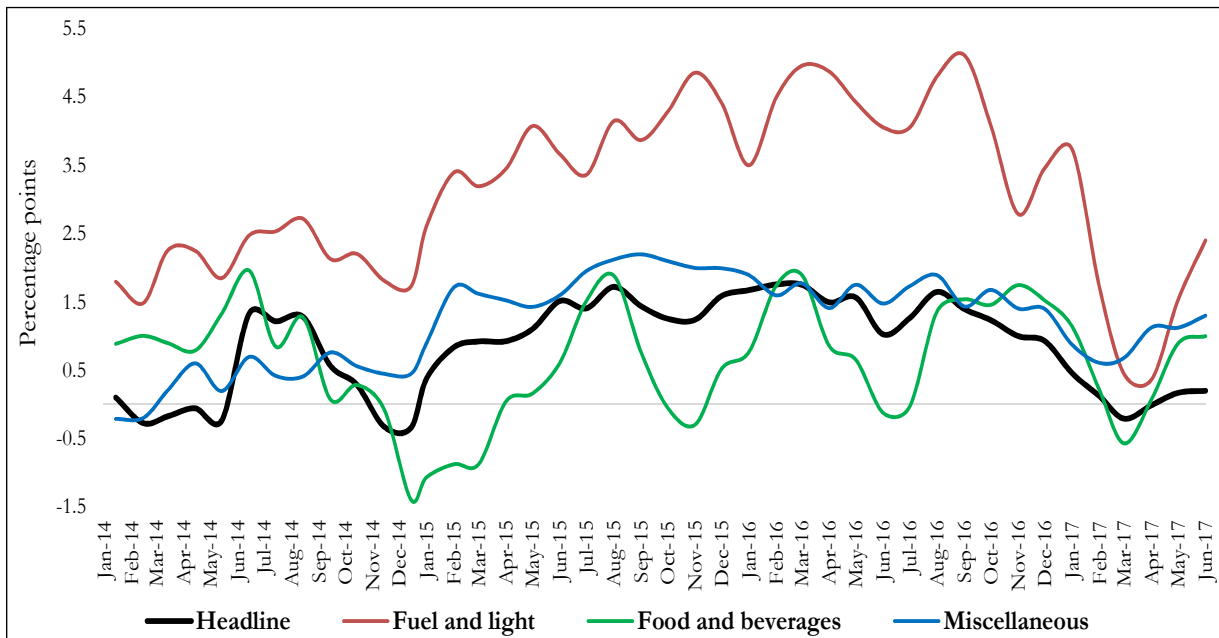
Figure 11. CPI inflation in goods and services (in per cent)



Source: CSO, Survey calculations

Figure 12. CPI Rural and Urban Inflation

Source: CSO, Survey calculations

Figure 13. Inflation differential (in percentage points) between Rural and Urban

Source: CSO, Survey calculations

especially on account of drop in food inflation (Figures 14 and 15). Inflation has been below the target of 4 per cent in 11 States/UTs. Except few north-eastern States, Andaman & Nicobar Islands and Telangana, inflation in all States is lower than the upper tolerance level of 6 per cent set in pursuance of the amended RBI Act. While four major

States viz, Karnataka, Andhra Pradesh, Odisha and Chhattisgarh, witnessed above 6 per cent inflation in 2015-16, only Telangana recorded more than 6 per cent inflation in 2016-17.

4.22 At group level, the inter-State variation in food inflation is low as compared to housing, fuel & light and pan, tobacco &

Figure 14. CPI inflation 2016-17 (in per cent)

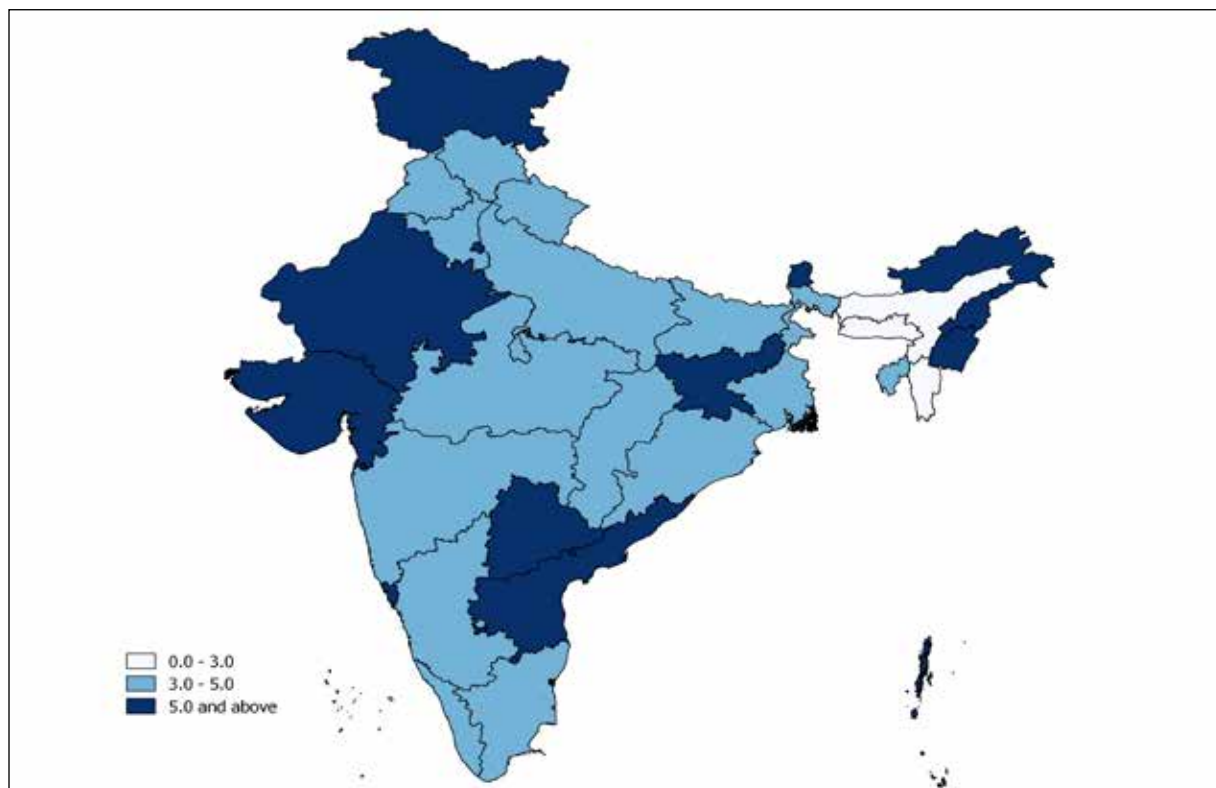
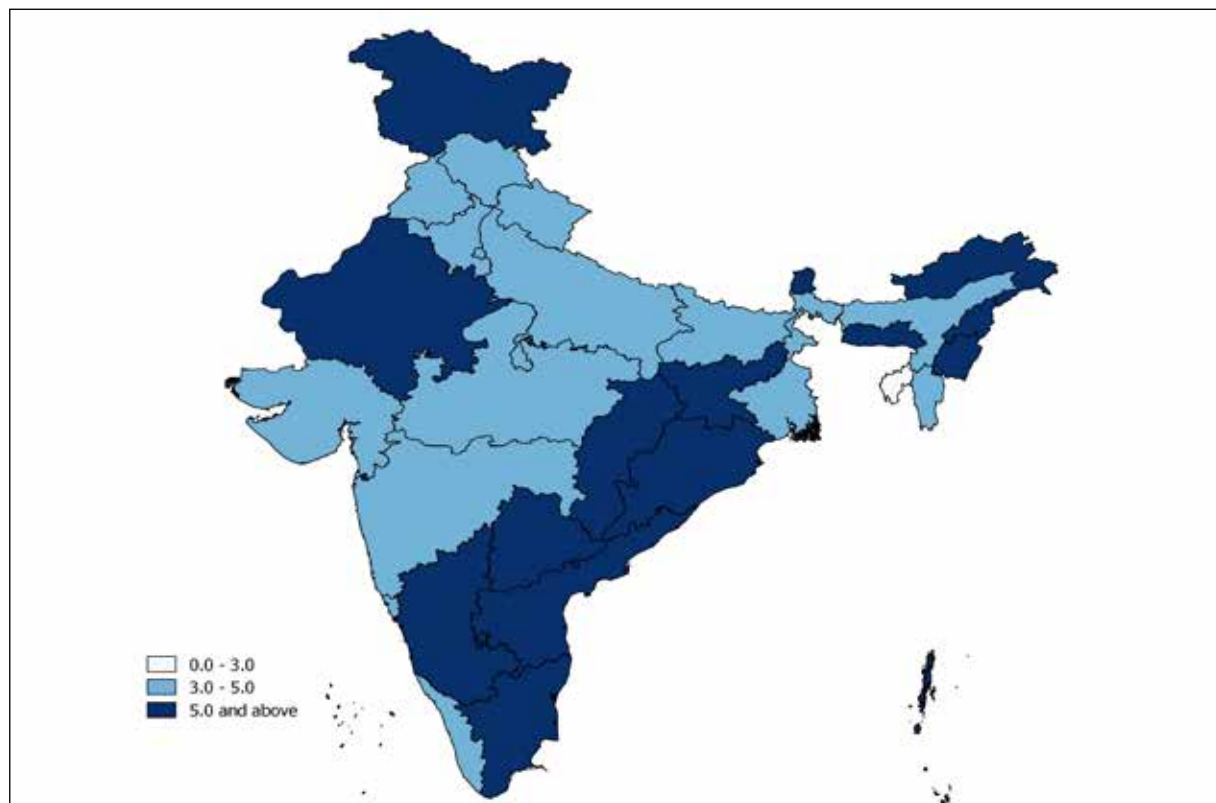


Figure 15. CPI inflation 2015-16 (in per cent)

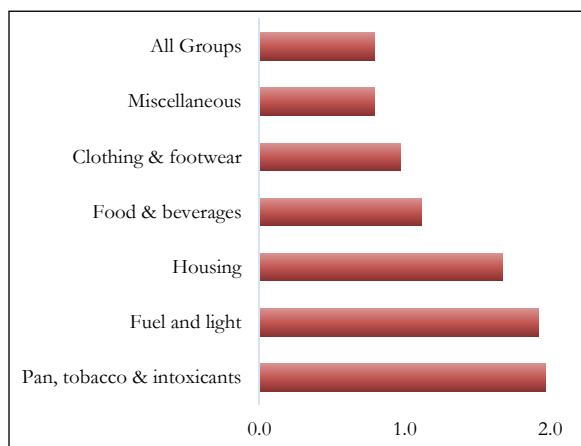


Source: CSO, Survey calculations

Note: Inflation for Arunachal Pradesh is only for Rural.

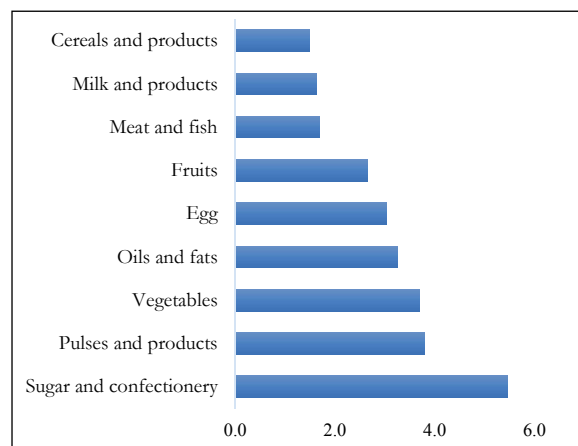
intoxicants in 2016-17 (Figure 16). Under the food category, highest inter-State variation has been observed in sugar and pulses, which

Figure 16. Variation in CPI inflation across major States in 2016-17: Standard Deviation for major groups



witnessed high inflation in 2016-17 (Figure 17). However, variation in cereals has been very low among major States.

Figure 17. Variation in CPI inflation across major States in 2016-17: Standard Deviation for food groups

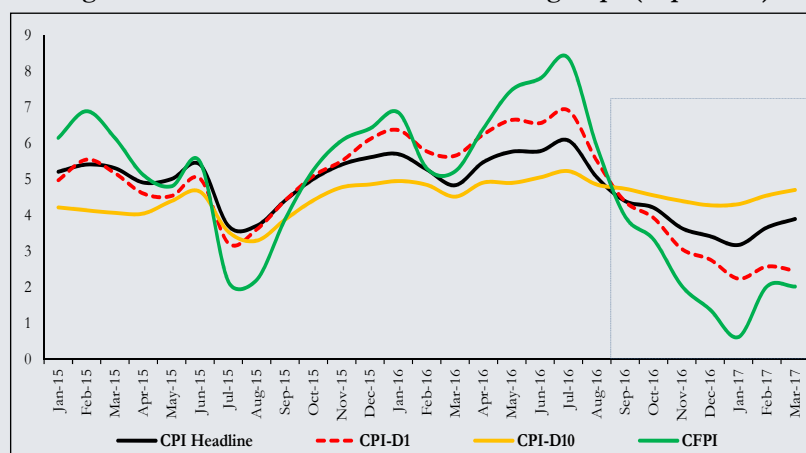


Source: CSO, Survey calculations

Box 1. Low food inflation - a relief to poor

Inflation in India in general is driven by food prices. Food which constitutes a major portion of the consumption expenditure of the poor has high weightage in the CPI basket. High inflation due to rise in food prices hits the poor more. Conversely, reduction in food inflation has a salutary impact on poorer sections of the population. Recent drop in headline CPI inflation is mainly on account of fall in food inflation, especially of pulses and vegetables. This has favourably impacted poorer segments of the population as can be seen from Figure 18.

Figure 18. CPI Inflation for different decile groups (in per cent)



Source: CSO, Survey calculations

Figure 18 reflects CPI inflation for lowest and highest deciles of the society based on the consumer expenditure data (On the basis of the 68th Round of Consumer Expenditure data of NSS, decile wise weights have been assigned and applied to the item level index of CPI-Combined to generate decile wise index and inflation). The figure shows that since September 2016 inflation for the lowest decile (D-1) is low compared to the highest decile (D-10) and the headline CPI. Moreover, CPI inflation for the lowest decile has almost followed the trend of food inflation (CFPI), owing to higher weight of food for lower deciles than higher deciles. As is evident from the figure, low food inflation benefits the poor relatively more than the rich and vice versa.

Box 2. Global and WPI inflation

Oil effect and adverse base effect pushes WPI inflation

WPI inflation remained negative from November 2014 to June 2016 and averaged (-) 3.7 per cent in 2015-16 primarily owing to weak global commodity prices. However, rebound in the global commodity prices, especially crude oil along with adverse base effect has reversed the declining trend of WPI. Global energy inflation based on World Bank energy index increased to 4.0 per cent in 2016-17 from a low of (-) 43 per cent in 2015-16 and inflation for base metals increased to 4.1 per cent in 2016-17 from (-) 20.2 per cent in 2015-16. WPI inflation in fuel and metals has almost followed the international trend and has been moving upwards (Figure 19 and 20).

Figure 19. Global Inflation based on World Bank Price Indices (%)

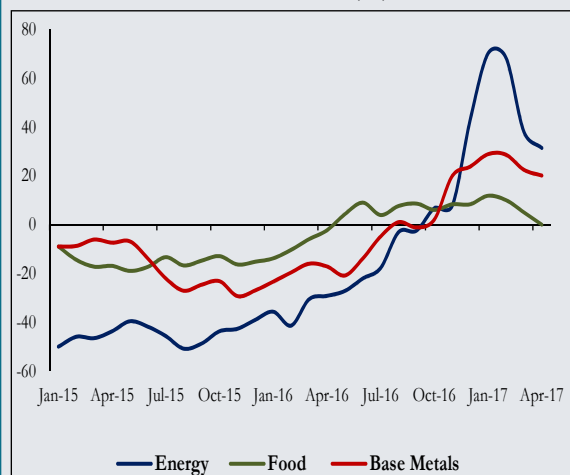
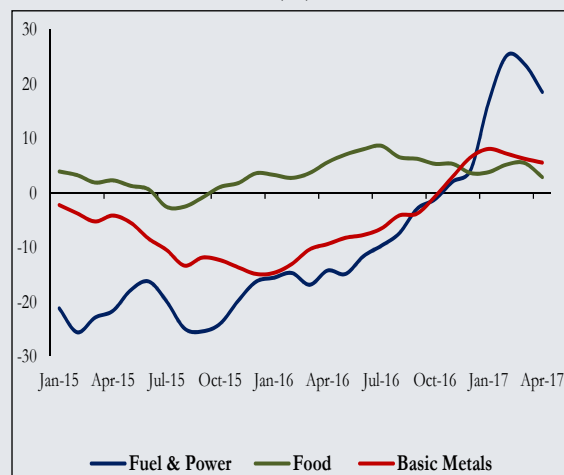


Figure 20. Inflation based on WPI (%)



Box 3. Salient features of the new series of Wholesale Price Indices with base 2011-12

The Government revised the base year of Wholesale Price Index (WPI) from 2004-05 to 2011-12 from April 2017. WPI inflation measures the average change in the prices of commodities for bulk sale at the level of early stage of transactions pertaining to four sectors namely agriculture, mining, manufacturing and electricity. The share of these four sectors in GDP at current prices was 41.4 per cent in 2011-12. The basket of the WPI covers commodities falling under three Major Groups, namely, Primary Articles, Fuel & Power and Manufactured products. The prices tracked are ex- factory prices for manufactured products, mandi prices for agricultural commodities and ex-mines prices for minerals. Weight given to each commodity covered in the WPI basket is based on the value of production adjusted for net imports. WPI basket does not cover services. The major changes in weights, number of items and quotations between WPI 2004-05 and WPI 2011-12 are given in Table 4.

In the new WPI series (2011-12) significant improvement in terms of concept, coverage and methodology has been made. The item basket has been revised with inclusion of new items and exclusion of old ones in order to capture the structural changes that have occurred in the economy. In the updated WPI basket, the number of items has been increased and special efforts have been made to enhance the number of price quotations across the major groups to ensure comprehensive coverage and representativeness.

Table 4. Comparative Statement of Weights, Number of Items & Number of Quotations

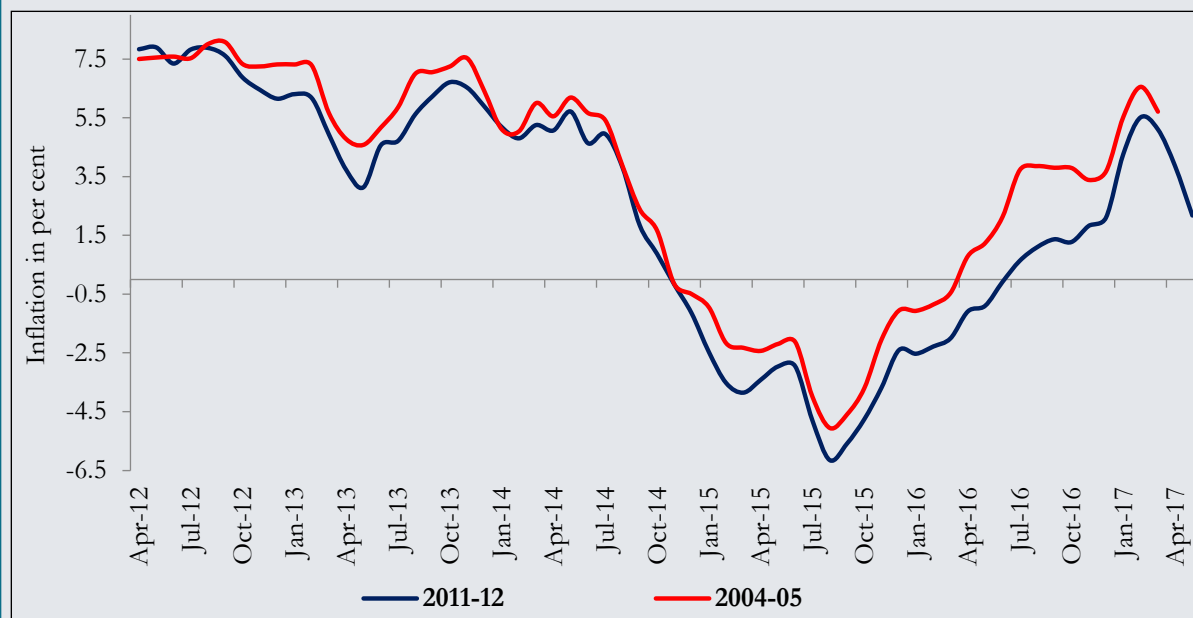
Major Group/ Group	Weights		No. of Items		No. of Quotations	
	2004-05	2011-12	2004-05	2011-12	2004-05	2011-12
All Commodities	100	100	676	697	5482	8331
Primary Articles	20.12	22.62	102	117	579	983
Fuel & Power	14.91	13.15	19	16	72	442
Manufactured Products	64.97	64.23	555	564	4831	6906

In the new WPI series the following key conceptual and methodological changes have been made:

- Prices used for compilation do not include indirect taxes in order to remove the impact of fiscal policy. This is in consonance with best international practices and makes the new WPI conceptually closer to 'Producer Price Index'. This would also not require changes in the price collection once the GST is implemented.
- The new series has the provision to compile 'WPI Food Index'. This index is compiled by combining indices of Food Articles and Manufactured Food Products. This along with CPI Food Price Index published by CSO would help in monitoring the food inflation effectively.
- Item level aggregates for new WPI are compiled using Geometric Mean (GM) following international best practice and as is currently used for compilation of All India CPI. Geometric mean is considered to be robust as it passes most of the axiomatic tests such as time reversal test etc. and the change is likely to minimise biases in the series.
- Seasonality of fruits and vegetables has been updated to account for more months as these are now available for longer duration. Large number of fruits and vegetables has been added to the basket to ensure greater representation of these items.
- The number of 2 digit groups in Manufactured products has been increased from 12 to 22 in keeping with NIC-2008. This would make WPI more useful for use as deflator in GDP and IIP.
- A high level Technical Review Committee has been set up for the first time to carry out dynamic review process in order to keep pace with the changing structure of the economy.

As depicted in Figure 21, the annual inflation estimates based on the two series are moving in tandem and do not show wide deviation, except that the new series is showing comparatively lower level of inflation as expected due to the new base.

Figure 21. Headline WPI Inflation (2011-12 Series and 2004-05 Series)



Source: DIPP

IV. EFFORTS TO CONTAIN INFLATION

4.23 Government reviews the price situation regularly as tackling inflation has been the top priority of the Government. A number of measures has been taken by the Government

to contain food inflation. The steps taken, inter alia, include:

- Increased allocation for Price Stabilization Fund in the budget 2017-18 to check volatility of prices of essential

commodities, in particular of pulses.

- Government has approved creation of a dynamic buffer of upto 20 lakh tonnes of pulses for appropriate market intervention against which buffer of around 18.75 lakh tonnes has already been built.
- Subsidized unmilled pulses from the buffer stock were offered to States/ Agencies for direct distribution to public at a reasonable rate.
- States/UTs have been empowered to impose stock limits in respect of pulses, onion, edible oils and edible oil seeds under the Essential Commodities Act.
- Export of all pulses is banned except kabuli channa and up to 10,000 MTs of organic pulses and lentils.
- Import of pulses is allowed at zero import duty except for Tur where import duty of 10% has been imposed due to its bumper production in 2016-17.
- SEBI banned new contracts in Chana to dampen speculative activities.
- Announced higher Minimum Support Prices so as to incentivize production and thereby enhance availability of food items which may help moderate prices.
- Export of edible oils was allowed only

in branded consumer packs of upto 5 kg with a minimum export price (MEP) of USD 900 per MT. This restriction has recently been liberalized.

- MEP of USD 360 was imposed on potato till December 2016.
- Reduced import duty on potatoes, wheat and palm oil.
- Imposed 20 per cent duty on export of sugar.
- Imposed stock-holding and turn-over limit on sugar till 28.10.2017 to check speculative tendencies and possible hoarding behaviour.
- Recently allowed duty free import of 500,000 tonnes of raw sugar to enhance domestic availability.

V. CONCLUSION

4.24 The current low level of inflation provides a historic moment in inflation scenario, instilling confidence in price stability. CPI inflation declined to 4.5 per cent during 2016-17, with broad based price decline in all major commodity groups. It has been below 4 per cent for past eight months. The measure of underlying trends –core inflation has been trending down in the last few months. Food inflation too has declined sharply in the last few months on the back of normal monsoon.