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RBI'S ANTI INFLATIONARY MEASURES DURING TWELFTH FIVE YEAR PLAN

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ABSTRACT

The people of India have been greatly troubled by the rise in prices of the commodities in the recent past. The inflation has been a source of concern over the past few years due to the increase in the prices of essential commodities affecting the lives of common man. The rise in the prices of commodities, especially of food and fuel, are adding to the economic woes of low income families. Besides, the fall in the value of money is increasing the level of poverty in the country.

This paper provides insights into the inflationary situation witnessed in India during the twelfth five year plan period. It examines the reasons behind the phenomenon of inflation and describes the various measures taken by RBI to control the rising inflationary trend in the country.

Keywords: Inflation, Eleventh plan, inflationary measures, Wholesale Price Index

Inflation Meaning

Inflation refers to a situation of general rise in the prices of goods and services resulting in increased cost of living and fall in the purchasing power of money. When the price level rises, each unit of currency will buy fewer goods and services; consequently, leading to decrease in the purchasing power of money. It is a loss of real value in internal medium of exchange and a unit of account in the economy. Thus apparently the situation of rising prices affects the life of common man juggling with basic needs of life. Inflation is the key parameter on which the monetary policy of the central bank is based.

Measures of Inflation

In India two primary measures of inflation are the Wholesale Price Index (WPI) and the Consumer Price Index (CPI). The wholesale price index measure reflects the average change in the prices of all the products that are bought and sold in the wholesale market. It was first published on 10th January 1942 taking 1939 as the base year. WPI has however been revised at different point of times with base years 1952-53, 1961-62, 1970-71, 1981-82, 1993-94, 2004-05.

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The Current series of WPI (Base 2004-05) was launched on September 2010 and the Seventh revision based on the recommendations of Working Group chaired by Late Dr. Saumitra Chaudhari is with base year 2011-12 with a view to include commodities to make the basket representative of latest economy. The new Item basket consist of 697 items as against 676 in existing base.

Comparative statement of weights, number of items and number of quotations

Major 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	20.118	22.62	102	117	579	983
FUEL&POWER	14.910	13.15	19	16	72	442
MANUFACTURED PRODUCTS	64.972	64.23	555	564	4831	6906

WPI is monitored and updated on monthly basis and is considered as the primary measure of inflation. Also it does not take into consideration the change in the prices of services. Since it only takes the price variations in wholesale market it apparently fails to account for the actual burden of inflation born by the common man.

The other measure of inflation is consumer price index (CPI) which is based on the weighted average price of particular set of goods and services at the distribution level hence attempts to measure the actual inflation that affects the end user in retail market. However there are three consumer price indices prevalent in India the consumer price index for urban non-manual employees the consumer price index number for agricultural laborers, and the all-India consumer price index for industrial workers.

Since CPI measures the inflation depending upon the consumer prices, it is a better measure than Wholesale Price Index. Hence RBI has started taking CPI based inflation data while framing various monetary measures of controlling inflation while the WPI was taken as the basis of formulating various policies earlier.

Historical Background of Five year plans in India

The concept of planned development in India started with the setting up of Planning Commission in 1950 with the main objectives of rapid economic development with equality and social justice. This commission was entrusted with the responsibility of formulating plans for the development of balanced growth of the economy. The first five year plan (1951-56) based on Harrod Domar Model mainly focused on the development of the primary sector to meet severe food shortage in the country. The country

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achieved the growth rate of 3.6% as against the targeted growth rate of 2%. Inflation rate in the first five year plan was only 1.1% in terms of CPI.

The second five year plan (1956-61) laid major emphasis on making the economy more dynamic by stressing on the development of public sector representing heavy and basic industry such as iron and steel and rural based industry such as handloom and handicraft. The recorded inflation was as low as 1.85 in 1960-61 in terms of CPI. The third plan (1961-66) emphasized on making economy self reliant with greater emphasis on growth of agriculture sector and defense of course. The targeted growth rate could not be achieved due to the major drought that took place in 1965 which led to the failure of third plan. Hence there were no plans for the period 1966-69. Fourth plan (1969-74) was however characterized by green revolution and nationalization of banking system in india. The main focus of the fourth plan remained "Garibi hatao".

Fifth five year plan (1974-79) was a significant step in the removal of poverty with better utilization of resources. This plan was followed by two sixth plans (1979-80 and 1980-85) designed to reconcile the objective of higher production so as to generate greater employment opportunities in the economy. The seventh plan (1985-1990) again focused on alleviation of poverty and attainment of self sufficiency while Eighth plan (1992-1997) was launched in 1992 amid various structural changes in the political system at the centre with major emphasis on modernization of industries.

The Ninth Five-Year Plan (1997-2002) stressed on the joint efforts of both the public and the private sectors in ensuring economic the economic development of the country. Hence various structural transformations and new initiatives were taken as corrective steps to meet the challenges of the economy. The tenth plan (2002-2007) was introduced in 2002 and was a very comprehensive plan including reduction of poverty and providing gainful employment to the youth.

By the time eleventh plan (2007-2011) started in India the country had already emerged as the fastest growing economy. Industrial sector had flourished as against high competition in the global market. The plan included several components like generating more employment, environment sustainability, reducing gender gap disparities, ensuring basic infrastructural facilities to BPL families etc. the eleventh plan was so well implemented that it recorded a growth rate of 9.3% in the very first year of its implementation. But in 2011-12 there was a considerable fall in the growth rate to 6.2% resulting from the combined impact of number of factors including global financial unrest in Europe.

The eleventh five year plan approved on 19th Dec 2007 was addressed to the challenge of making growth in the country faster and inclusive. The target of 9% rate of growth was set for the plan period from 2007-08 to 2011-12.

However the very first year of the Eleventh Plan witnessed a steep increase in inflation especially in the last quarter mainly due to the rise in international prices of oil and food grains. The rate of inflation as measured by the Wholesale Price Index (WPI) showed a declining trend through the first three quarters of 2007/08 as inflationary tendencies tended to stabilise. But the surging international prices of commodities

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– from oil to steel to chemicals to food – erupted into the domestic economy towards the end of 2007, and disrupted the process of stabilisation.

Inflation rate in India in the early 2007 (starting of the 11^{th} five year plan) as measured by the whole sale price index was around 4.8%. On February 15, 2007, the inflation rate reached a two-year high of 8.1%.

Inflation, based on variations in the wholesale price index (WPI) on a year-on-year basis, eased to 3.8 per cent as on January 12, 2008 from its peak of 6.4 per cent at the beginning of the financial year and from 6.2 per cent a year ago.

In December 2009, the WPI inflation climbed to 7.15%,. In new series of WPI, inflation had remained in the negative zone in June 2009 and July 2009 and turned positive in August 2009 and thereafter it reached to double digits in March, 2010. The average WPI inflation rate for last 12 months (February 2010 to January 2011) was 9.4 per cent as compared to 2.4 per cent during corresponding period in 2009-10.

It however continued to rise, and was at peak in April 2010, at 11%. In august 2010 the headline inflation came down to single digit i.e. 8.8%. In November 2010 it was recorded at 8.1%. Inflation in food articles jumped to 13.6% in December 2010.

Due to the damage to the onion crops in 2010, the supply of onion was badly affected, thereby increasing the prices of onions. The supply bottlenecks in vegetables, milk, eggs, tomatoes, onion, fruits and fish was the main reason behind increased prices of food articles in December 2010. Food price inflation during 2010-11 was mainly because of increase in the prices of pulses, cereals and sugar due to bad monsoons.

Inflation during Twelfth Five year plan in India

The twelfth plan (2012-2017) was mainly aimed at 'faster, sustainable and inclusive growth'. The plan emphasized on attaining sustainable growth through the development of human capital along with environment sustainability. The major challenge to the twelfth five year plan was the financial crisis that the economy was facing at that time. The financial unrest at global level and the domestic constraints were the major hurdle in achieving the targeted growth rate. The biggest challenge however remained the inflationary tendencies during the period.

Ever since the revision of base year for whole sale price Index from 2004-05 to 2011-12 there has been recorded a sharp decline in the inflation rates in terms of both WPI and CP Indices. The wholesale Price Inflation (All commodities) has gone down from 5.24% in 2013-14 to 1.73% in 2016-17. More interestingly the WPI even recorded a negative growth rate in 2015-16 in all categories of articles though it again rose to 1.73% in 2016-17 due to hardening of global commodity prices.

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Wholesale Price Inflation

(Base: 2011-12=100)

	2013-14	2014-15	2015-16	2016-17
All commodities	5.24	1.24	-3.69	1.73
I PRIMARY ARTICLES	9.87	2.21	-0.40	3.45
I (A). FOOD ARTICLES	12.26	5.62	2.59	4.00
II FUEL & POWER	7.10	-6.10	-19.68	-0.23
III MANUFACTURED PRODUCTS	3.04	2.49	-1.80	1.37

Source: Office of the Economic Adviser, DIPP.

General inflation based on different price indices (in %)

	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 (Industrial Worker)	10.4	9.7	6.3	5.6	4.1
CPI (Agriculture labourer)	10.0	11.6	6.6	4.4	4.2
CPI (Rural Labourer)	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).

It can however be noticed that Inflation both in terms of Consumer Price Index – Combined (CPI-C) and Wholesale Price Index (WPI) has decreased in recent years. CPI inflation declined to 4.5 per cent during 2016-17, with broad based price decline in all major commodity groups.

In terms of Consumer food price Index the inflation rate was 9% in 2012 which rose to 10% in 2013 and then came down to 5.9% in 2014-15, 4.9 % in 2015-16 and further 4.5% in 2016-17 with a record low rate of just 1.5% in June 2017. The sharp decrease in food items inflation is due to the offsetting of the high inflation rate in some food items like vegetables and sugar being offset by the decreased rate of inflation in cereals and pulses.

In 2013, the consumer price index replaced the wholesale price index (WPI) as a main measure of inflation. In India, the most important category in the consumer price index is Food and beverages (45.86 percent of total weight), of which Cereals and products (9.67 percent), Milk and products (6.61 percent), Vegetables (6.04 percent), Prepared meals, snacks, sweets, etc. (5.55 percent), Meat and fish (3.61 percent), and Oils and fats (3.56 percent). Miscellaneous accounts for 28.32 percent, of which Transport and communication (8.59 percent), health (5.89 percent), and education (4.46 percent), Housing accounts

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for 10.07 percent; Fuel and light for 6.84 percent; Clothing and footwear for 6.53 percent; and Pan, tobacco and intoxicants for 2.38 percent.

Consumer Price Inflation (Industrial Workers)

Base 2001=100

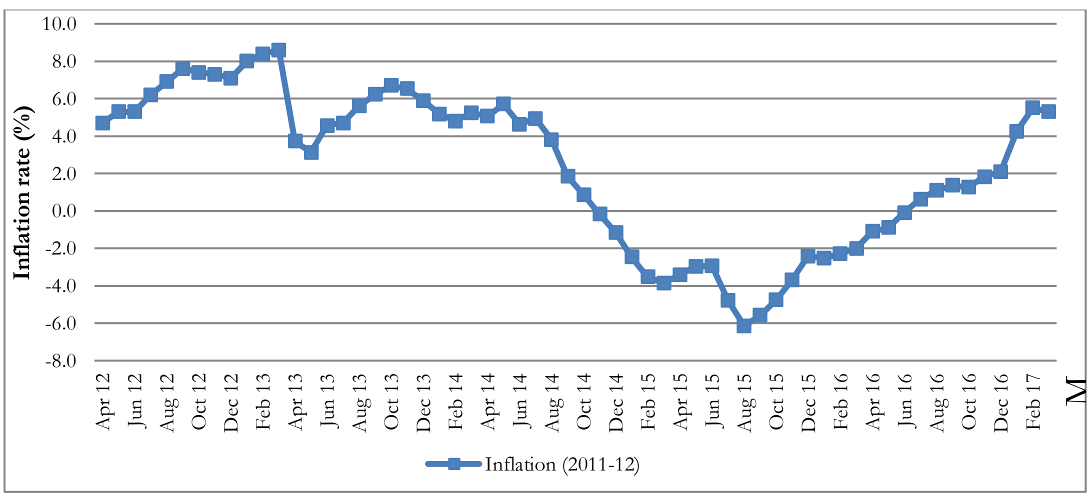
Index/Inflation	2012	2013	2014	2015	2016	2017
CPI-IW (Index)	209	232	247	261	274	281
CPI-IW (Inflation)	9.3	10.9	6.4	5.9	4.9	2.5

Source: Labour Bureau

So far as the consumer price index for industrial workers is concerned sharp decline in inflation is observed from 2013 onwards. From 9.3% in 2012 it rose to 10.9% in 2013 and after that it went down to the recorded low of 2.5% in 2017.

Inflation in terms of WPI has also shown downwards trend since 2012 and even recorded a negative growth rate in 2015-16. Since the revision of wholesale price Index from 2004-05 to 2011-12 the gap between the inflation under two indexes has been seen as narrowing.

Comparison of inflation rates during twelfth five year plan (2012-17)



It can be clearly inferred from the above graph that the inflation rete for "All Commodities" in the new series of WPI (2011-12) is in general lower than 2004-05 series due to very low inflation rete recorded in Fuel & Power and Manufactured Products groups in 2011-12 series and the Updation of weights in tune with the structural changes that have occurred in the economy since 2004-05.

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RBI's Monetary policy and measures taken

A number of measures are taken by the Reserve bank of india in Monetary Policy to curb the tendency of rising prices. Monetary policy refers to the set of measures taken by the central bank to manage the supply of money in the economy. It is through the monetary policy only that the reserve bank of india achieves its objectives of ensuring price stability in the economy along with economic growth. Maintaining the price stability in the economy is of paramount importance. RBI has resorted to various measures in various five year plans to curb the cyclical fluctuations in money supply for the smooth functioning of the economy. Before coming to the measures adopted by RBI it is important to understand the history of five year plans in India.

Cash reserve Ratio (CRR) is the amount of Cash (liquid cash like gold) that the banks have to keep with RBI. This Ratio is basically to secure solvency of the bank and to drain out the excessive money from the banks. If RBI decides to increase the percent of this, the available amount with the banks comes down and if RBI reduces the CRR then available amount with Banks increased and they are able to lend more. Due to this increase in CRR, the ability of banks to lend money goes down. Now banks also want to show profit for their business. So to keep their profit up, they increase the lending rate which essentially decreases the availability of cheap loans. As the cost of loans goes up, people tend to spend less on frivolous purchases or at the least try to keep them at the minimum. Thus demand of goods goes down in general. Consequently inflation goes down.

Effective date	Rate
09-02-2013	4.00
03-11-2012	4.25
22-09-2012	4.50
10-03-2012	4.75
28-01-2012	5.50

Reverse Repo Rate is the rate at which the central bank accepts deposit from Banks is called reverse repo rate. A reduction in the repo rate helps the banks to get loans at a cheaper rate. RBI raises the reverse repo rate when it intends to make the borrowings from RBI expensive.To borrow from RBI bank have to submit liquid bonds /Government Bonds as collateral security, so this facility is a short term gap filling facility and bank does not use this facility to Lend more to their customers.

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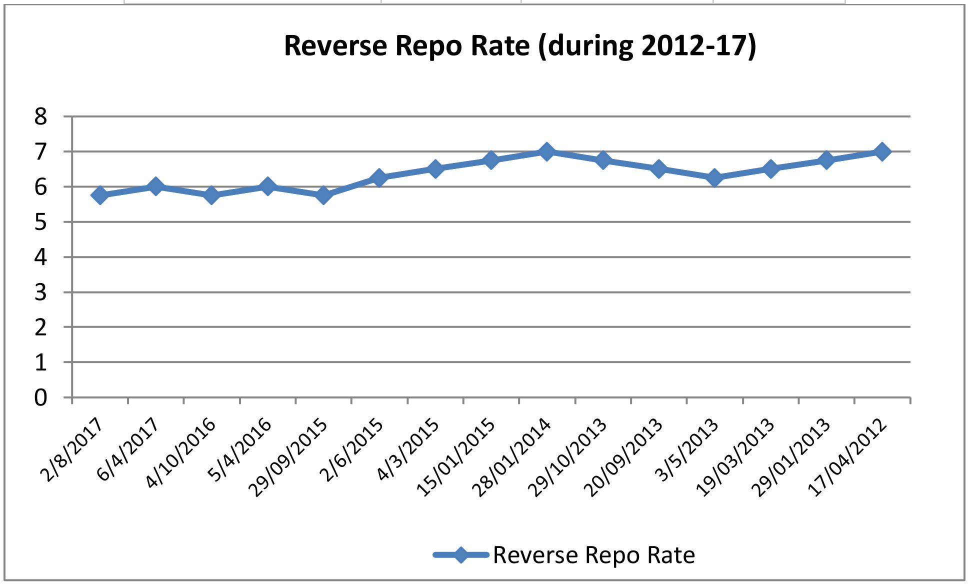
Effective Date	Rate	Effective Date	Rate
06/06/2018	6.00	15/01/2015	6.75
02/08/2017	5.75	28/01/2014	7.00
06/04/2017	6.00	29/10/2013	6.75
04/10/2016	5.75	20/09/2013	6.50
05/04/2016	6.00	03/05/2013	6.25
29/09/2015	5.75	19/03/2013	6.50
02/06/2015	6.25	29/01/2013	6.75
04/03/2015	6.50	17/04/2012	7



Statutory Liquidity Ratio: the commercial banks are required to maintain some proportion of their bank's Net Demand and Time Liabilities (NDTL) in certain specified assets. That proportion is called statutory liquidity ratio and is used by the central bank to control funds with banks to give away as loans. The SLR has been reduced from 23% in 2012 to 20.5% in 2017.

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Effective Date	SLR Rate
07/06/2017	20.50
22/07/2016	21
07/02/2015	21.5
09/08/2012	22
14/06/2012	22.5
11/08/2012	23

Repo Rate: The rate at which the commercial banks get loans from RBI is called repo rate and is an important tool used in monetary policy to control money supply in the economy. This ratio has been changed for number of times. It was 8% in 2012 an was eventually reduced to 6% in 2017.

Effective Date	Rate	Effective Date	Rate
02/08/2017	6.25	28/01/2014	8.00
02/08/2017	6.00	29/10/2013	7.75
04/10/2016	6.25	20/09/2013	7.50
05/04/2016	6.50	03/05/2013	7.25
29/09/2015	6.75	19/03/2013	7.50
02/06/2015	7.25	29/01/2013	7.75
04/03/2015	7.50	17/04/2012	8
15/01/2015	7.75		

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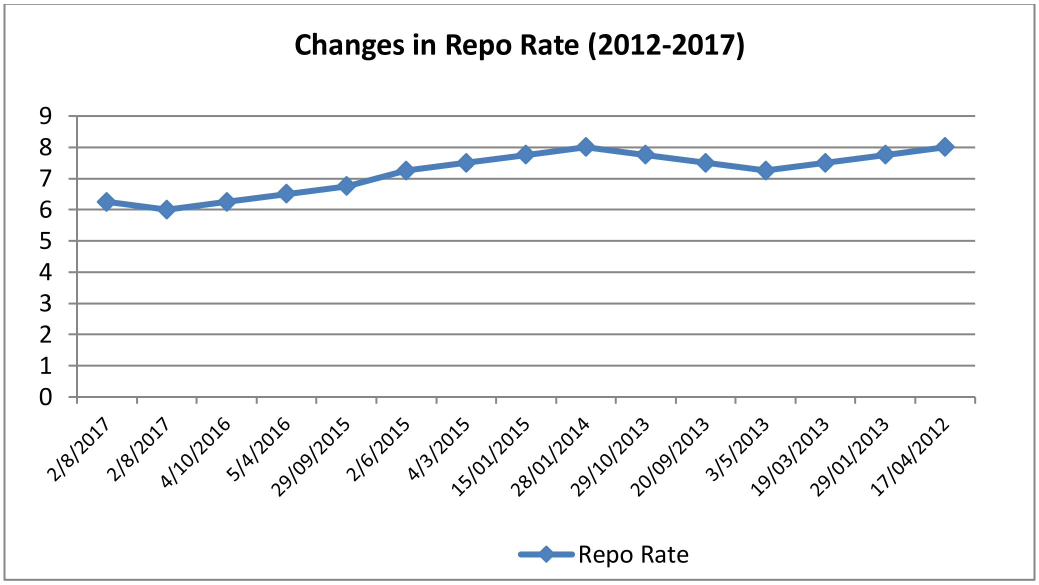

Review of RBI's anti-inflationary policy

A number of monetary and fiscal measures had been adopted by the government of india and RBI to control inflation during 2012-17. Irrespective of the curtailing down various rates such as CRR and repo rate the central bank has neither yet been able to achieve the targeted growth rate nor the inflation rate. However the decline of CPI inflation to 4.5 per cent during 2016-17 is a landmark and the trend in declining inflation of food items is a historic moment in inflation history.

Liquidity conditions remained tight which made lending tough to fuel growth. The reduction in the policy rate will be conditioned by signs of sustainable moderation in inflation. However, the persistence of tight liquidity conditions could disrupt credit flow and further exacerbate growth risks. In this context, the CRR is the most effective instrument for permanent liquidity injections over a sustained period of time. The reduction can also be viewed as a reinforcement of the guidance that future rate actions will be towards lowering them.

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