GOVERNMENT OF INDIA

MINISTRY OFFINANCE

RAJYA SABHA

QUESTION NO02.03.2010

ANSWERED ON

IMPACT OF RISING INFLATION ON DEMAND AND SUPPLY .

474 Dr. Gyan Prakash Pilania

Will the Minister of COALHEALTH AND FAMILY WELFAREINFORMATION AND BROADCASTINGFINANCE be pleased to state :-

(a)the rate of inflation for the last six months, month-wise;

(b)its impact on demand and prices in the market;

(c)whether it is a fact that the retail prices of food items are on a steady rise despite inflation being below zero; and

(d)the role played by the liquidity risk management policy of the Reserve Bank of India (RBI) in this regard?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI NAMO NARAIN MEENA)

(a)&(b) Inflation refers to rise in price index, which is a measure of the price level in the economy. It can happen because of general increase in prices of commodities due to imbalance in aggregate demand and aggregate supply. Exogenous imbalances in the global demand and supply situation can also influence domestic price and inflation. The rate of inflation based on the wholesale price index (WPI) during the last six months are given below:

Month	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
All commodities	-0.17	0.46	1.46	5.55	7.31	8.56

(c) The retail prices of food items are better measured through food inflation in consumer price index for industrial workers (CPI-IW). The following table gives the overall inflation based on WPI and food inflation based on CPI-IW: -

Year-on-year inflation in WPI and CPI-food during 2009 (%)

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Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
WPI-all	5.0	3.5	1.2	1.3	1.4	-1.0	-0.5	-0.2	0.5	1.5	5.6	7.3
CPI-IW-Food (Wt.-46.20)	13.9	13.0	10.6	10.4	11.7	12.2	14.7	13.7	13.5	13.8	17.6	21.3

(d) The Reserve Bank of India constantly monitors the liquidity condition and price situation. The monetary policy stance of the RBI for 2009-10 has been:

(i) To maintain a monetary and interest rate regime, consistent with price stability and financial stability, and supportive of the growth process.

(ii) To keep a vigil on the trends in inflation and be prepared to respond swiftly and effectively through policy adjustments to stabilise inflationary expectations; and

(iii) To monitor the liquidity situation closely and manage it actively to ensure that credit demands of productive sectors are adequately met while also securing price stability and financial stability. As a follow up of this policy stance, the RBI in the second quarter review of the monetary policy on October 27, 2009 decided to restore the Statuary liquidity Ratio (SLR) to 25 per cent of net demand and time liabilities with effect from November 7, 2009. In the third quarter review of monetary policy announced on January 29, 2010, the RBI decided to increase Cash Reserve Ratio (CRR) of scheduled commercial banks by 75 basis points from 5 per cent to 5.75 per cent in two stages. The first stage of increase of 50 basis point became effective from February 13, 2010 and the next stage of increase of 25 basis points would take effect from February 27, 2010.