

# Use grain stocks to rein in prices

## Council Suggests Developing Additional Distribution Channel In States

Our Bureau  
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THE prime minister's economic advisory council, or EAC, has underlined the urgent need to have an effective policy for managing the supply and prices of wheat and rice, as well as cotton, agri commodities that were brought into sharp focus last year.

Such policy intervention, in addition to a "normal" monsoon, is likely to ease supply position and price expectations through the current year, stabilising food prices in general. However, the EAC acknowledges that food price inflation remains at "unacceptably high levels" although it found an "improvement in the situation" in respect of food prices, especially food grains and sugar. Inflation in food articles is over 12%.

On the grain front, the panel has recommended leveraging "more than comfortable" public stocks to

the optimum to sustain a gradual release into the open market, both for bulk and retail consumers, through the 2010-11 to keep food prices in check. The releases should necessarily be at lower than market rates, especially since higher than open market rates were the key reason for low offtake thus far on the OMSS for bulk users. States too had found the rates too high. Over a longer term, it has said, the stability in farm produce supply should also be sustained through adequate returns through fair support prices to producers.

In addition, it suggested states should be allowed to sell OMSS retail grain releases through the public distribution system, or PDS. However, using PDS as the sole means of grain distribution could be another key reason why offtake has been low thus far. In view of this, it suggests developing additional distribution channels at the state level.

The principal contributing factor to inflation in manufactured food products through 2009-10 was the price of sugar. This category, including sugar, will see inflation drop sharply in 2010-11. However, price pressure in manufactured goods was likely to continue to remain high, the Council has said.

For pulses, prices of which have remained at a steady high through last year, the Council has pinned the entire burden of price de-escalation on hopes of a good monsoon this summer.

"Output is expected to be higher in the 2010-11 kharif season on account of special efforts taken and also more favourable rainfall conditions and this is expected to take the edge off prices, especially in arhar/tur," it contends. In the case of cotton, the Council has emphasized that policy for 2010-11 must find an "even balance" between the grower and the domestic user.

### The right policy response

- Steps to offset the impact of negative global conditions — promote business confidence and facilitate increased investment
- **Imperative to rein in high inflation** — monetary policy has to operate with a bias towards tightening
- **Release available food stocks** to dampen prices
- **Better targeting of subsidies**, rationalise food & fertiliser subsidy
- **Exchange rate management** must focus on managing excessive volatility
- **Initiating exit** from expansionary policy feasible and necessary
- **Operationalise goods and services tax**, or GST, quickly

### EAC's Key Forecast

#### BALANCE OF PAYMENTS

	2009-10	2010-11	2011-12
<b>Exports</b>	182.2	216.1	254.0
<b>Imports</b>	299.5	353.9	414.3
<b>Trade balance</b>	-117.3	-137.8	-160.3
<b>As % of GDP</b>	8.9	9.0	9.3
<b>Net invisibles</b>	78.9	96.0	109.7
<b>Current account balance</b>	-38.4	-41.8	-50.7
<b>As % of GDP</b>	-2.9	-2.7	-2.9
<b>Capital inflows</b>	53.6	72.8	90.5
<b>Accretion to reserves</b>	13.4	30.9	39.8

\$ billion & % of GDP



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