



A STUDY OF POST REFORMS WHOLESALE PRICE INDEX (WPI) AND INFLATIONARY TRENDS IN INDIA (1991-2010)

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Abstract: The first half of nineties showed double digit inflation and the inflationary situation came under the control from second half of nineties. The period of 2008-09 has been exceptionally challenging for the Reserve Bank, as it had to contend with testing conditions in three dimensions of its major objectives for the economy, i.e., financial stability, growth and inflation. The overall average annual growth rate of inflation was 6.85 percent in the period 1991-2012. There is a decline in the weight allotted to the primary articles by 1.9 percent which was 22.02 percent for the old series that is reduced up to 20.12 in the new series. The highest frequency of range that is the modal range of inflation was 3 percent to 6 percent during the entire study period.

Keyword: Post-Reform period, Wholesale Price, Inflationary Trends, Financial Stability.

Introduction

India is having second rank relating to population growth in the world next to China. Indian economy has been facing many economic problems such as an inflation, economic crisis, poverty, unemployment, inequality etc. Inflation is the burning topic of the day throughout the world. Due to inflation, common people under the below poverty line and other middle class people are affected. The people under the poverty line have to struggle very hard to attain their daily requirement of food. Some people pass their day without food. In such family, the children suffer from malnourishment.

Inflation generates and widens the socio-economic inequality among the different groups of people. It creates bad relations between the labour and capital. It rises to many social and moral evils like bribery, corruption, black-marketing etc. Poverty is the root of all evils. All the economies are suffering from inflation and deflation, which can also be called as price instability.

High inflation indicates that the government doesn't play its job well. An Indian economy has one of the highest inflation rates among emerging market economies, which is danger of overheating. In India, the recent fuel price hike is followed by the sharp jump in prices of food and non-food items from recent years. Pre-reform period trade in agriculture sector was more dominant than the secondary and tertiary sector due to domestic food prices influenced by international prices. In the post-reform period, trade ratio under the agriculture sector has been reduced and increased trade ratio under manufacturing sector.

Inflation is the rate of change of general price level. Inflation is statistically measured in terms of percent increase in the price index, as a rate percent unit of time usually a year or a month. Generally, rise in the price level indicates net change in price of all produced commodity and provided services in the economy. It means there may be increase or decrease in the price of basket of some commodities in the economy. The net effect gives general rise in price level or reduction in the price level. For the measurement of the general price level, index numbers are constructed by taking weighted average of prices of individual goods and services. Usually, the Wholesale Price Index (WPI) numbers are used to measure inflation.

Table 1, Comparative Statement of the Weighting Diagram at Major Group level of the old series (Base Year: 1993-94 = 100) and New Series (Base Year: 2004-05=100).

Sr. No.	Major Group	Weight		Change
		1993-94	2004-05	
	All Commodities	100.00	100.00	0.00
I	Primary Articles	22.02	20.12	-1.90
A	Food Articles	15.40	14.33	-1.07
B	Non-Food Articles	6.13	4.26	-1.87
II	Fuel and Power	14.22	14.91	+0.69
III	Manufactured Products	63.75	64.79	+1.22

Source: RBI Monthly Bulletin, Oct. 2010

The table 2.1 shows that the comparative statement of weighting diagrams of the new series (Base year 2004-05= 100) and old series (Base year 1993-94= 100) at the major group level. There is a decline in the weight allotted to the primary articles



by 1.9 percent which was 22.02 percent for the old series that is reduced upto 20.12 in the new series. Weight under food and non-food articles has reduced in the new series. Food articles and non-food articles are showing decline (-1.07 and -1.87 respectively) weight allotted contribution in WPI in the new series of base rate. Weight under the fuel and power has increased marginally by 0.7 percent points. The change in weight of manufactured products has gone up by more than 1.22 percent points.

The graph indicates that weight under the primary articles have been reduced from 22.02 to 20.12 percent. Weight under the manufactured products has increased from 63.75 to 64.81 percent in a new series. The manufactured products have taken at least 2/3 portion of the total weight in both series.

Table 2, Annual Inflation Rate
(Base Year 1993-94=100)

Year	WPI index	WPI (in %)
1991-92	83.82	13.7
1992-93	92.25	10.1
1993-94	100	8.4
1994-95	112.6	12.6
1995-96	121.6	8
1996-97	127.2	4.6
1997-98	132.8	4.4
1998-99	140.7	5.9
1999-00	145.3	3.3
2000-01	155.7	7.2
2001-02	161.3	3.6
2002-03	166.4	3.4
2003-04	175.9	5.5
2004-05	187.3	6.5
2005-06	195.5	4.5
2006-07	206.2	5.6
2007-08	215.7	4.7
2008-09	233.9	8.4
2009-10	262.5	9.5
2010-11	268.4	9.6
2011-12	292.4	8.9
2012-13		7.4
AGR		6.87

Source: - 1) The Office of the Economic Adviser, Ministry of Commerce and Industry and Economic Survey 2013-14.
2) Handbook of Statistics on Indian Economy, RBI 2013-14.

The table 2 explains the annual rate of inflation in India through the Wholesale Price Index (WPI) in the post reforms period (1991-2013). The range of variations in the Wholesale Price Index (WPI) lies between 3.3 to 13.7 percent in the period 1991-2013. The lowest inflation rate was recorded 3.3 percent for the year 1999-2000, whereas the highest inflation rate was recorded 13.7 percent for the year 1991-92. In the year 1992-93, prices increased at an average annual rate of 10.1 percent. The main reason for the inflation was heavy fiscal deficits and a rise in administering prices. During 1995-96, the inflation rate was decreased to 8 percent and in 1996-97 to 4.6 percent. During the period of 1996-96 to 1999-2000, the inflation rates were between 3.3 to 5.9 percent. The main reason for this was control of inflation was the slow growth in the money supply. Again, inflation picked up in 2000-01 to 7.2 percent due to increase in the prices of petroleum products. WPI was recorded as 3.6 percent in the year 2001-02 which was relatively lower than the previous period. During 2005-06, the average annual rate of inflation was 4.3 percent. In the previous period in the post reform period recorded that the highest inflation rate in India during the period 1991-96. Then the middle period in the post reform period recorded considerable inflation rate in India. During 2005-06, the average annual rate of inflation was 4.3 percent. The inflationary pressure has touched 8.4 percent in 2008-09. Inflation raised again in 2010-11 to 9.6 percent due to increase in prices under the primary articles. The year 2012-



13 was marked by headline WPI inflation ruling at a lower level than in the previous two years. On an average basis, headline inflation came down to 7.4 percent from 8.9 in 2011-12.

The overall average annual growth rate of inflation was 6.85 percent in the period 1991-2012. Inflation averaged close to double digits during the year 2010-11 and 2011-12. The graph explains the trends of Wholesale Price Index (WPI) for the period 1991-2012. The inflationary trends were low during the year 1999-2000, 2001-02 and 2002-03 with the inflation rate less than 4 percent in these years. In the previous period in the post reforms the period indicated the higher rate of inflation in the year 1991-92, 1992-93, 1994-95 and 1995-96 with the inflation rates were 13.7, 10.1, 8.4 and 12.6 percent respectively. In the earlier period in the post reforms period, there was increasing trend in Wholesale Price Index in the year 2009-10, 2010-11 and 2011-12 with the Inflation rates were 9.5, 9.6 and 8.9 percent respectively.

Conclusion

The weights under the primary articles have been reduced from 22.02 to 20.12 percent. The coverage of the series the final basket of the new WPI was increased to 676 in 2004-05= 100 series base year, which itself was bigger than the old series of WPI basket of 435 commodities in 1993-94=100. The variations in the Wholesale Price Index (WPI) were from 3.3 to 13.7 percent in the period 1991-2013. The overall average annual growth rate of inflation was 6.85 percent in the period 1991-2012. The highest frequency of range that is the modal range of inflation was 3 percent to 6 percent during the entire study period. Food grains (4.08) weight is less than the non-food grains weight (4.25). During the period 1991-2012, the average annual growth rate of inflation related to food articles and non-food articles were 8.26 and 7.7 percent respectively.

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