

VI. Price Situation

The headline inflation has started to soften after staying in double-digits for five months up to July 2010, reflecting favourable base effects and some moderation in manufacturing price pressures. Despite a normal monsoon inflation remains above the comfort level mainly led by food inflation, which seems to have assumed structural character. The new series on Wholesale Price Index (WPI), with base shifted from 1993-94 to 2004-05, gives a better representation of the more recent production and consumption pattern, without any major difference in the overall trends in inflation. The inflation pressures persist and further moderation would be necessary for easing the concerns for the conduct of monetary policy. Different measures of consumer price inflation fell below double digit levels after more than a year, but still remain elevated tracking high food and fuel inflation.

VI.1 With headline inflation measured by WPI (base 2004-05) remaining in double digits for consecutive five months from March to July 2010 and the inflation process turning more generalised, the Reserve Bank's balance of policy shifted from 'managing the recovery' to containing inflation and anchoring inflationary expectations. This was reflected in the calibrated normalisation of monetary policy between January and September 2010.

VI.2 In the second quarter of 2010-11, headline inflation exhibited some moderation but remained elevated. The pace of increase in non-food manufactured products prices has moderated in recent

months indicating some slowing down of the pace of generalisation of inflation as well as gradual stabilisation of price pressures. Food inflation, however, continues to remain high despite a normal monsoon, as price pressures have amplified for certain non-cereal items like milk, eggs, fish and meat whose output is less responsive to monsoon. Significant increase in primary articles and minerals prices along with building up pressures in a number of commodities globally pose upside risks to domestic inflation. Though various measures of consumer price inflation declined to single digits after more than a year, they continue to remain high. As headline inflation still remains elevated, containing inflation and anchoring inflationary expectations would continue to be a challenge for monetary policy during 2010-11.

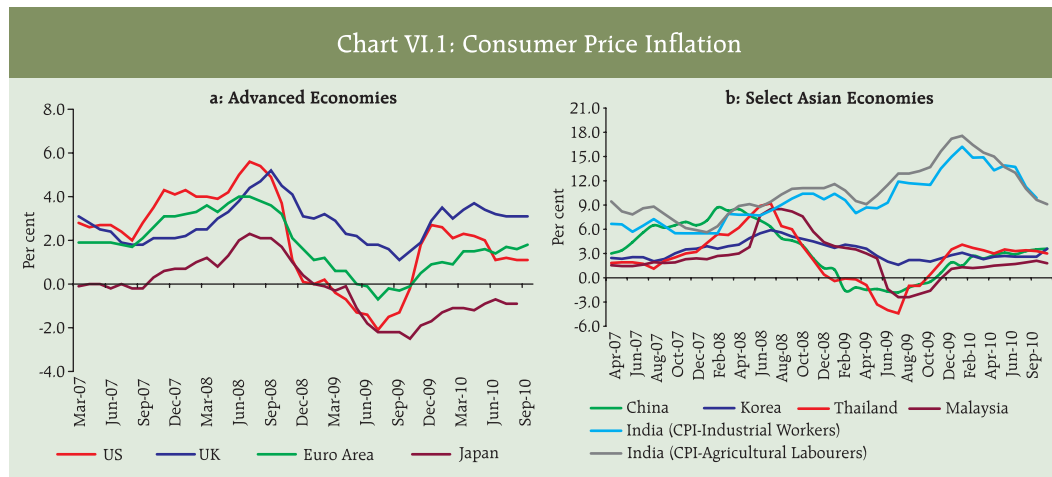
Global Inflation

VI.3 The global inflation environment continues to remain moderate with rising divergence in inflation trends between advanced economies, which face subdued inflationary environment as recovery remains weak, and emerging and developing countries where signs of pickup in inflation coincided with their stronger recovery. The October 2010 World Economic Outlook of the IMF predicts modest increase in prices in advanced economies in 2010 with consumer price inflation expected to increase from near zero in 2009 to 1.4 per cent in 2010 and 1.3 per cent in 2011. Inflation in emerging and developing economies, however, is projected to accelerate to 6.2 per cent in 2010 from 5.2

per cent in 2009, before decelerating back to 5.2 per cent in 2011. Excess capacity in most advanced economies and sluggish labour markets with unemployment rate likely to remain over 8 per cent through 2009-11 is expected to keep price pressures subdued. Soft global inflationary environment may prevail for some more time even though most advanced economies experienced some increase in headline inflation in recent months, largely from increasing energy and food prices. Core inflation in advanced economies, however, has remained subdued, indicating absence of demand side pressures on prices. This provides them the space for continuing with expansionary monetary policy to support the recovery (Chart VI.1 a).

VI.4 Year-on-year consumer price inflation in the OECD countries, which increased to 2.0 per cent in May 2010, moderated to 1.6 per cent in August 2010 following a decline in core inflation (excluding food and energy to 1.2 per cent in August 2010 from 1.6 per cent in January 2010). Private consumption demand remains relatively weak in the OECD countries, which along with lower capacity utilisation levels indicates that the low inflation conditions may continue for an extended period of time.

VI.5 Inflation in most of the EMEs increased in recent months, but remains moderate (Chart VI.1b). Significant increases in international commodity prices from their historic low levels recorded in early 2009 translated into increases in inflation as the base effect of high prices in the first half of 2008 waned. The impact of any increase in international commodity prices



on inflation is more in the case of developing countries as their consumption baskets have larger shares of commodities, especially food and oil. The divergent nature of the global recovery, with a relatively strong recovery and faster closing of output gaps for the EMEs, also poses a challenge for emerging markets. As international prices of commodities are now responding more to increase in growth in EMEs, stronger growth could amplify the risk of high imported inflation.

VI.6 Policy rates in advanced economies continue to remain near zero/very low levels as the concerns on sustainability of recovery became more prominent in the second quarter of 2010-11. Assessment of most central banks pointed towards absence of pressures on inflation from demand side during the medium-term. As the pace of recovery was slowing, the Bank of Japan decided to reduce the policy rate. Israel and Canada, on the other hand, increased their policy rates in Q2 of 2010-11, recognising the inflation risks going forward. Among the

emerging economies, China and Thailand raised their policy rates during Q2 of 2010-11 while South Africa reduced it (Table VI.1).

Global Commodity Prices

VI.7 During August-September 2010, international commodity prices increased again on account of the supply disruptions in many commodities. Commodity prices earlier recorded some decline during May-June 2010, as concerns over euro area recovery and sustainability of high growth in demand in emerging economies spilled over to commodity markets. (Chart VI.2).

VI.8 Uncertainties in global recovery impacted significantly on crude oil prices. The average crude oil price for Q2 of 2010-11 was US\$ 75.5 per barrel, lower than US\$ 78.2 per barrel recorded in Q1. However, crude oil prices firmed up in recent weeks and the WTI crude prices were at US\$ 82.2 per barrel as on October 28, 2010. According to the US Energy Information Administration, despite a slight reduction in projected global

MONETARY POLICY
STATEMENT 2010-11

Macroeconomic and Monetary
Developments Second Quarter
Review 2010-11

Table VI.1: Policy Rates and Inflation in Select Economies

(Per cent)

Country/ Region	Key Policy Rate	Policy Rate (as on Oct. 20, 2010)	Changes in Policy Rate (basis points)		CPI Inflation (y-o-y)	
			Apr. 09 - Aug. 09	Since Sep. 09	Sep. 2009	Sep. 2010
1	2	3	4	5	6	7
Developed Economies						
Australia	Cash Rate	4.50 (May 5, 2010)	(-) 25	175	1.3#	3.8#
Canada	Overnight Rate	1.00 (Sep. 8, 2010)	(-) 25	75	-0.9	1.9
Euro area	Interest Rate on Main Refinancing Operations	1.00 (May 13, 2009)	(-) 50	0	-0.3	1.8
Japan	Uncollateralised Overnight Call Rate	0.00 to 0.10 (Oct. 5, 2010)	0	(-) 10	-2.2*	-0.9*
UK	Official Bank Rate	0.50 (Mar. 5, 2009)	0	0	1.1	3.1
US	Federal Funds Rate	0.00 to 0.25 (Dec. 16, 2008)	0	0	-1.3	1.1
Developing Economies						
Brazil	Selic Rate	10.75 (Jul. 21, 2010)	(-) 250	200	4.3	4.7
India	Reverse Repo Rate	5.00 (Sep. 16, 2010)	(-) 25	175	11.6	9.8
	Repo Rate	6.00 (Sep. 16, 2010)	(-) 25	125 (100)		
China	Benchmark 1-year Lending Rate	5.56 (Oct. 19, 2010)	0	25 (150)	-0.8	3.6
			0			
Indonesia	BI Rate	6.50 (Aug. 5, 2009)	(-) 125	0	2.8	5.8
Israel	Key Rate	2.00 (Oct. 1, 2010)	(-) 25	150	2.8	2.4
Korea	Base Rate	2.25 (Jul. 09, 2010)	0	25	2.2	3.6
Philippines	Reverse Repo Rate	4.00 (Jul. 9, 2009)	(-) 75	0	0.6	3.5
Russia	Refinancing Rate	7.75 (Jun. 1, 2010)	(-) 200	(-) 225	10.7	7.0
South Africa	Repo Rate	6.00 (Sep. 10, 2010)	(-) 250	(-) 100	6.1	3.2
Thailand	1-day Repurchase Rate	1.75 (Aug. 25, 2010)	(-) 25	50	-1.0	3.0

#: Q3. *August.

Note: 1. For India, data on inflation pertain to CPI for Industrial Workers.

2. Figures in parentheses in column (3) indicate the dates when the policy rates were last revised.

3. Figures in parentheses in column (4) and (5) indicate the variation in the cash reserve ratio during the period.

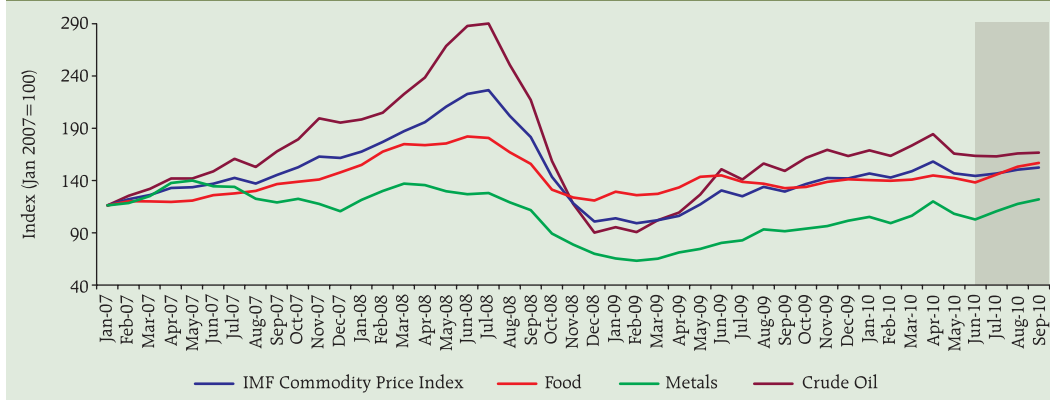
Source: International Monetary Fund, websites of respective central banks.

demand growth, oil prices may firm up due to gradual reduction in global oil inventories.

VI.9 International food prices, which moderated marginally during January-June 2010, firmed up in recent months (Chart VI.3). Weather related supply disruptions in a number of commodities contributed to the increase in prices. Wheat prices increased by 72 per cent during June-

September 2010 because of weather related output losses in Russia and other producers and Russia's subsequent ban on grain exports. Coarse cereal prices also increased on account of expected smaller crops in the US and higher export demand given the tight wheat market condition. Edible oils prices were affected due to soyabean losses from drought in the EU and the Black Sea region, and concerns regarding next season's crop in South America. Cotton

Chart VI.2: International Commodity Prices



prices have increased on account of a decline in output reflecting floods in Pakistan, which is a major producer and exporter of raw cotton. Metal prices have also increased as China reduced the production. Simultaneous increase in prices of a number of commodities poses the risk of high imported inflation in those commodities, particularly where the domestic prices are more responsive to global trends. Administrative measures to mitigate the adverse impact of supply

disruptions by countries could also lead to restrictive trade practices, which could further push up global prices.

Inflation Conditions in India

Wholesale Price Inflation

VI.10 WPI inflation increased at a faster pace since November 2009 to reach 11.0 per cent (year-on-year) by April 2010 and remained elevated in the first quarter of 2010-11 (Chart VI.4 a and b). During May-August 2010, however, some moderation in inflation was visible, indicating that inflation might have peaked off (8.6 per cent provisional in September 2010 as per the new series of WPI with base 2004-05=100). The pace of increase in WPI, which was secular since March 2009, also seems to have declined significantly in recent months and the financial year build-up in inflation is seen to be lower than the previous years (Chart VI.4 c). This was also reflected in low month-on-month seasonally adjusted annualised inflation, except in September 2010 (Chart VI.4 d).

Chart VI.3: International Food Prices

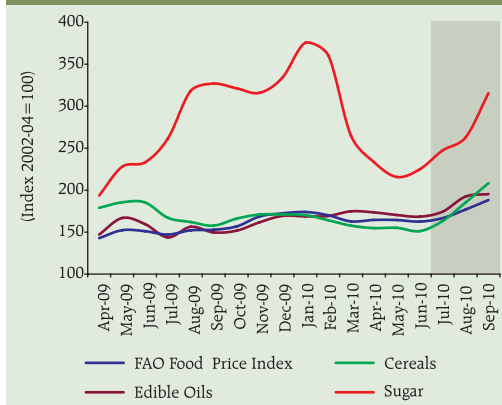
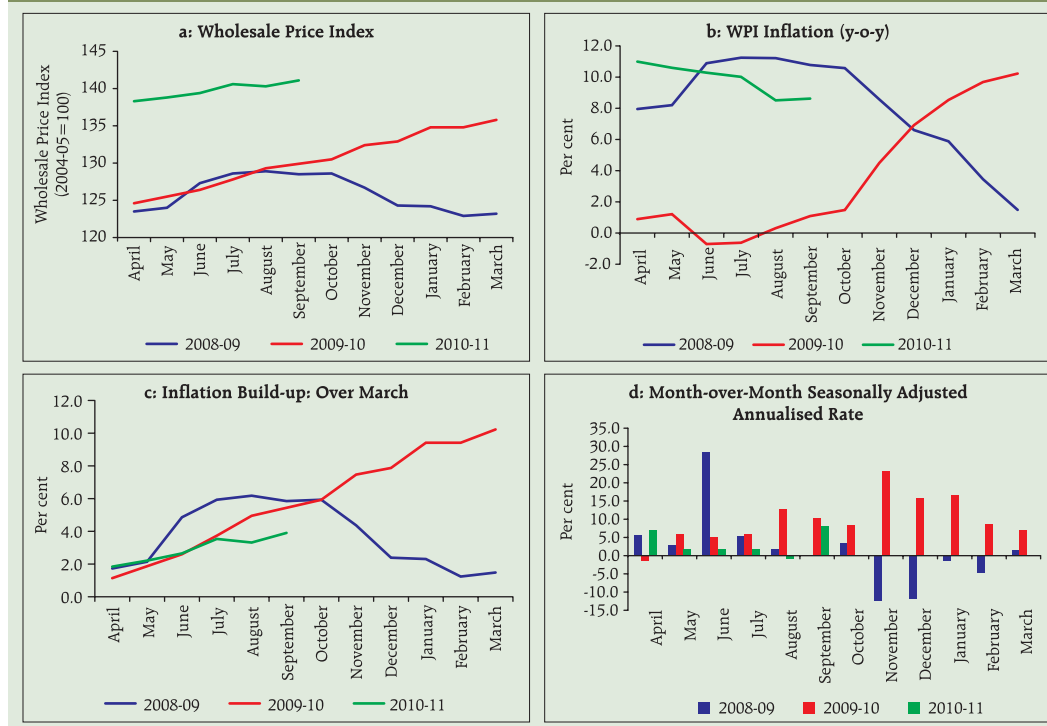


Chart VI.4: Trends in Wholesale Price Inflation



New Series of Wholesale Price Index¹

VI.11 On September 14, 2010, the new series of WPI with base year 2004-05 was introduced replacing the 1993-94 series. The new series reflects some shifts in the weights towards fuel and power and manufactured products from primary articles. Although changes in the weights for manufactured products are not substantial for the group as a whole, there has been a

tilt in the weights towards non-food manufactured products, besides substantial increase in the new items added/ revised that reflects changes in the production pattern over a decade (Table VI.2). Thus, in terms of the level of the price index, the difference between the old and the new series is primarily contributed by the manufactured products group, which reflects the impact of large number of new items included in this group (including

¹ The Office of Economic Adviser, Ministry of Commerce and Industry have indicated that for the purpose of research and analysis, data of the new series of WPI (Base: 2004-05) can be used from April 2005. For other than research purpose, the WPI Series (Base: 2004-05) is effective only from August 2010, its date of first release *i.e.*, September 14, 2010.

Table VI.2: Major Changes in the Weights and Commodities in the Revised WPI Series

Items	Weights		No. of Commodities		
	New Series (Base:2004-05)	Old Series (Base:1993-94)	New Series (Base:2004-05)	Old Series (Base:1993-94)	New Items added/revised
1	2	3	4	5	6
All Commodities	100.00	100.00	676	435	417
I. Primary Articles	20.12	22.03	102	98	11
Food	14.34	15.40	55	54	1
Non-Food and Minerals	5.78	6.63	47	44	10
II. Fuel and Power	14.91	14.23	19	19	0
III. Manufactured Products	64.97	63.75	555	318	406
Food	9.97	11.54	57	41	25
Non-Food	55.00	52.21	498	277	381

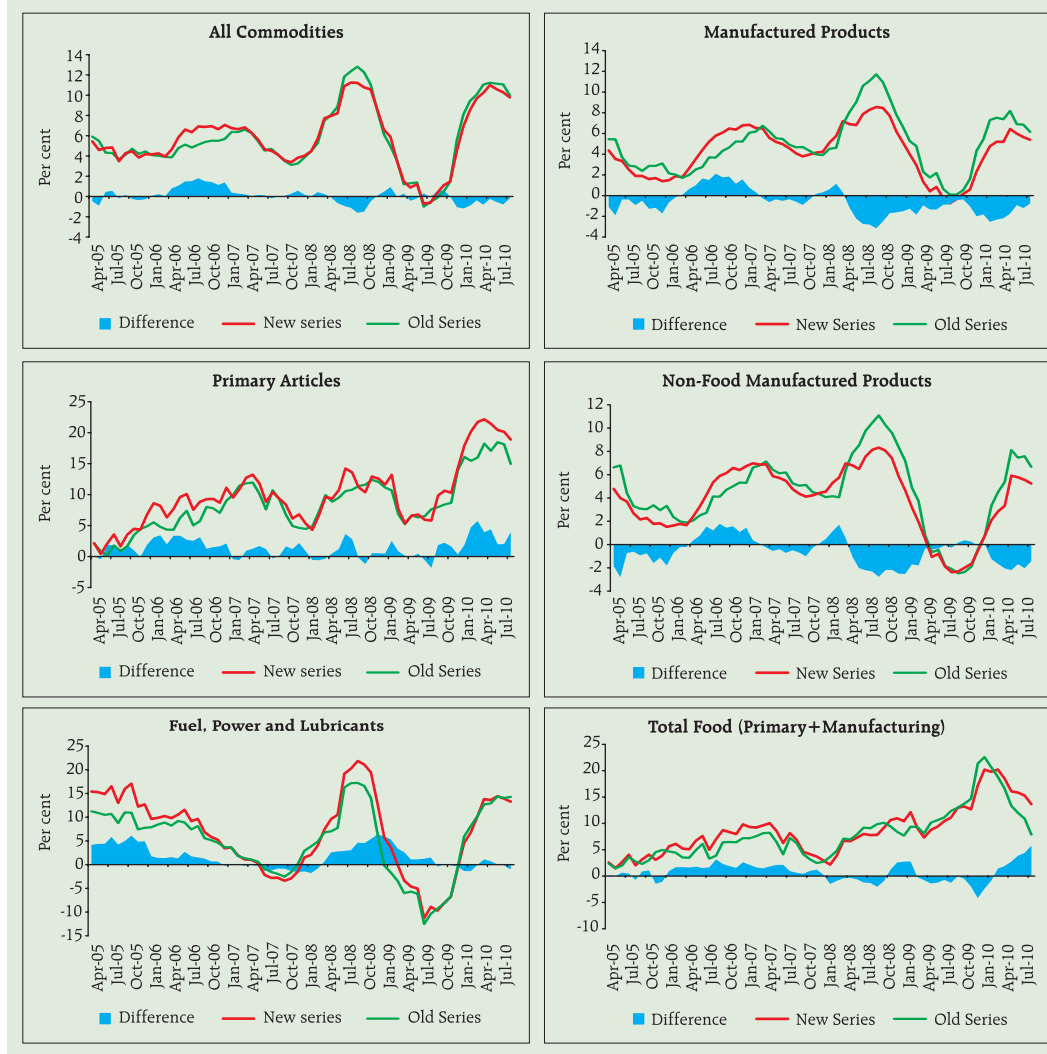
revisions in the existing items). The number of commodities included in the new WPI series has increased from 435 to 676, even after dropping/revising 176 items from the old series. The total number of price quotations for WPI has also been increased substantially from 1,918 in the old series to 5,482 in the new series.

VI.12 The average overall inflation rate, according to the new series and the old series, is about 5.5 per cent for the past five years (*i.e.*, 2005-06 to 2009-10) indicating that there is not much difference in inflation between the two series. Occasional divergence in the inflation between the new and the old series was observed during different periods and in terms of rate of inflation (y-o-y), the maximum difference in any month has been about 1.8 percentage points. The differences in inflation across commodity groups, however, have been larger. Higher food inflation (both primary and manufactured) in the new series for 2010-11 is largely offset by the lower inflation in the non-food manufactured products, as a result of which the magnitude of the difference in the headline inflation remains relatively low (Chart VI.5). The

inflation in non-food manufactured products, which is particularly significant for assessment of generalisation and the role of demand-side factors, suggests: (a) some moderation in recent months as per the trends in both series, and more importantly, (b) the inflation as per the new series is lower, in the range of 1.4 to 2.2 percentage points during 2010-11 (up to July), relative to the old series, which is largely due to a substantial change in the basket with the introduction of a number of new items (406 manufactured products added/revised).

VI.13 The new series of WPI, thus, marks a major change in terms of scope and coverage of commodities and is more representative of the changing underlying economic structure. It adequately captures the present underlying economic structure, which is consistent with changes in the production and the consumption pattern. The non-food manufactured group covers a larger basket in the new series, which includes electronic items and communication equipments, whose prices have declined overtime. The food inflation in the new series is, however, higher than

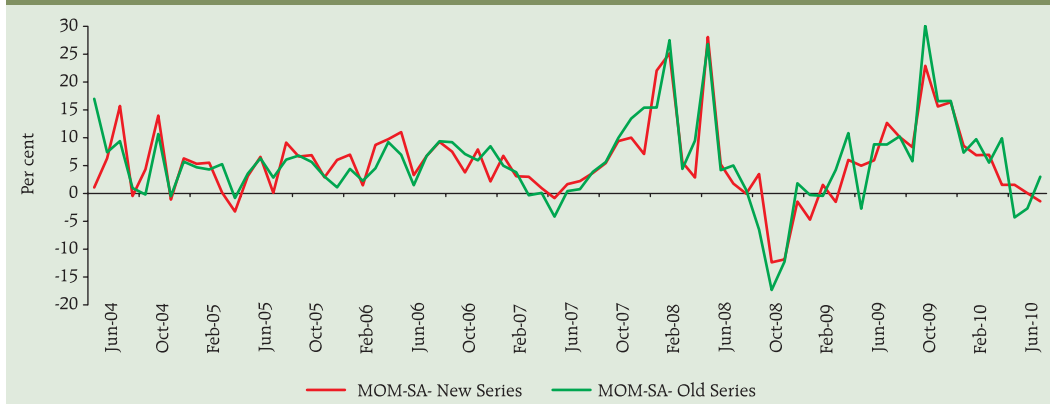
Chart VI.5: WPI Inflation – A Comparison of Old and New Series



in the old series, which reflects significant shifts in the pattern of household consumption in favour of protein-rich items such as egg, meat and fish, milk and pulses, where price rise has been high with changing income levels and supply response does not appear to be commensurate with the rising demand.

VI.14 The month-over-month momentum (seasonally adjusted, annualised) in both the series exhibits similar pattern, even though in recent months the new series showed generally softening bias, unlike the old series (Chart VI.6). However, price level again increased in September 2010 on the back of food price pressures.

Chart VI.6: Annualised Month-over-Month (Seasonally Adjusted) Inflation Rate



VI.15 Although the WPI inflation exhibited some decline in recent months, it still remains significantly high. The contribution of food inflation to overall inflation has declined since January 2010 as the manufactured food products inflation declined, led by sugar. The contribution of the non-food manufacturing group remained more or less the same during the last few months with marginal decline in August and September 2010 (Chart VI.7).

VI.16 The key commodities, which continue to contribute significantly to

headline inflation, are mineral oils, food articles like milk, egg, fish and meat, minerals and textiles (Chart VI.8). Increase in food prices continues to have a significant impact on overall inflation as primary food article inflation alone contributed about 31 per cent to overall inflation in September 2010.

VI.17 Inflation across different sub-groups followed the trend in headline inflation and exhibited moderation in recent months (Chart VI.9). The decline in food inflation

Chart VI.7: Contribution to Overall Inflation- Major Groups

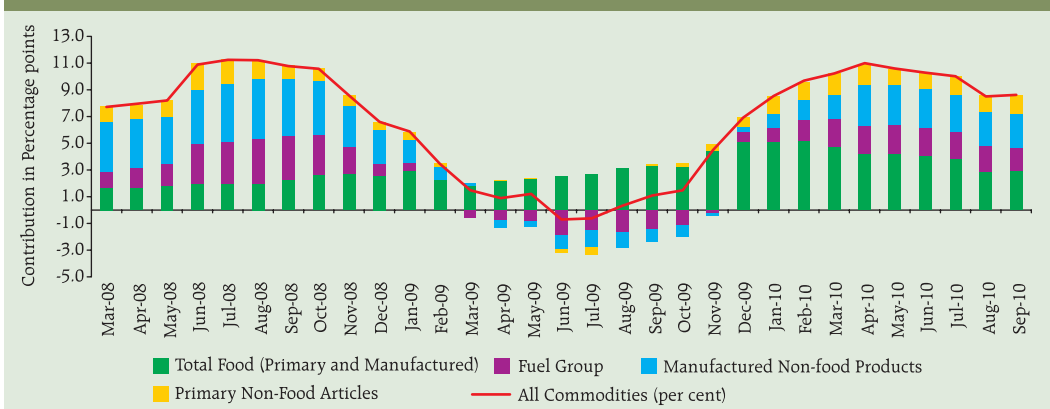
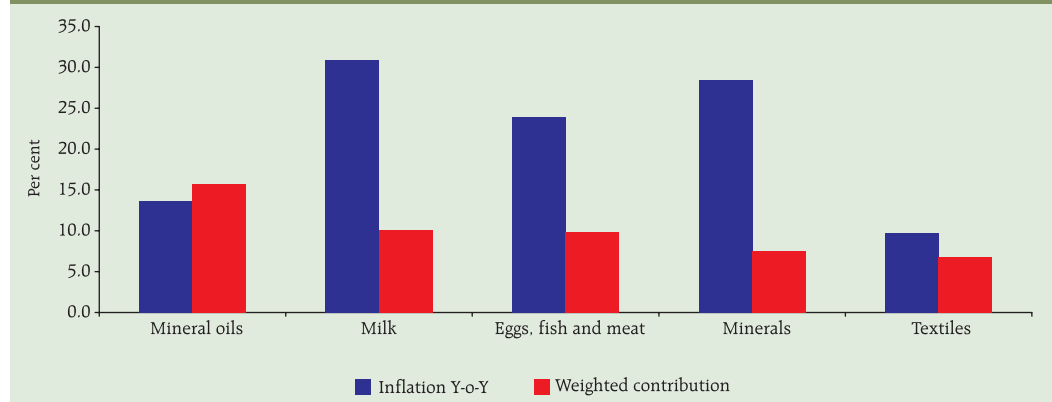


Chart VI.8: Major Contributors to WPI Inflation: September 2010



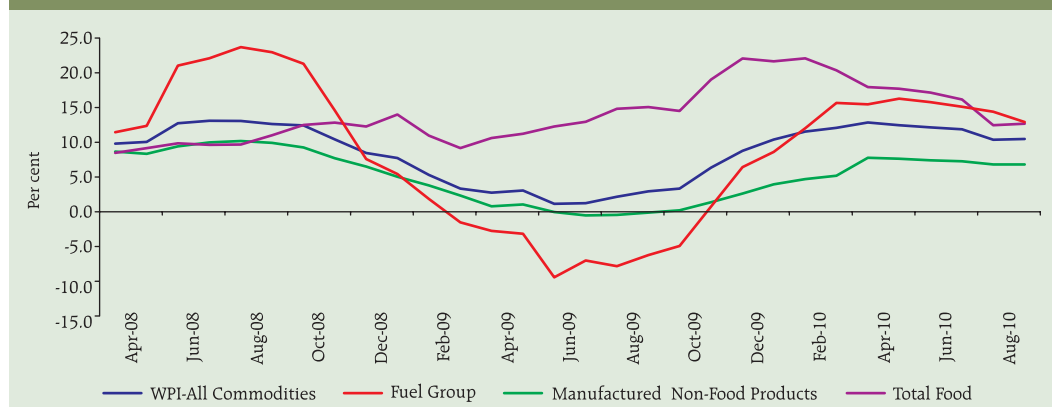
was largely led by manufactured food products. The increase in manufactured non-food products inflation seems to have contained and fuel inflation also exhibits moderate decline more on account of the base effect of last year's increase in prices.

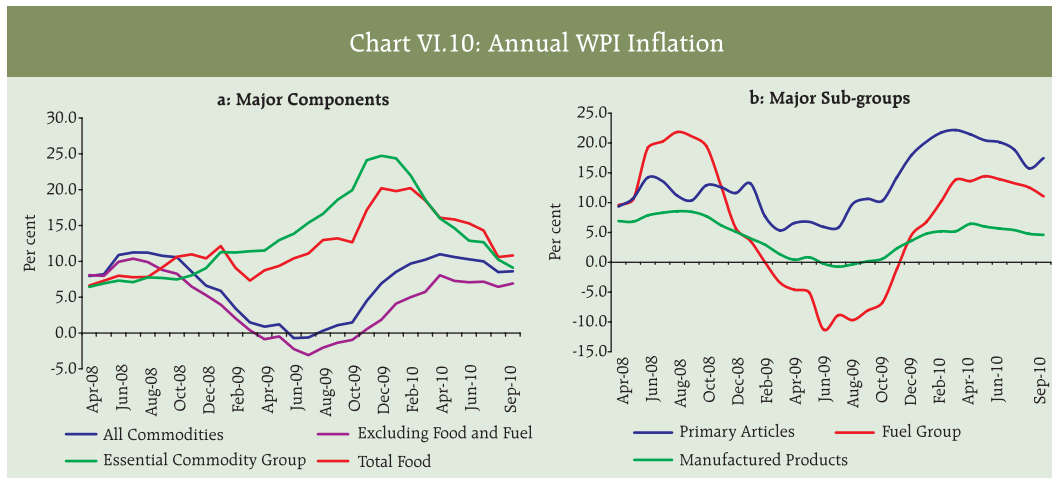
VI.18 Inflation in essential commodities group, which remained significantly divergent from the overall trend during 2009-10, has also moderated (Chart VI.10a). The convergence of different sub-components of inflation, due to both the decline in food inflation and high non-food

inflation points to the generalised nature of inflation process in recent months.

VI.19 Amongst the major groups, primary articles inflation, y-o-y, declined since February 2010 but exhibited some uptrend in September 2010 (Chart VI.10b). The decline in primary articles inflation, however, was more on account of the base effect of sharp increases in prices recorded a year ago. Primary food articles inflation (y-o-y) moderated to 13.8 per cent for the week ended October 16, 2010 from the peak of 22.9 per cent in mid-June 2010. However,

Chart VI.9: WPI Inflation: Major Sub-categories

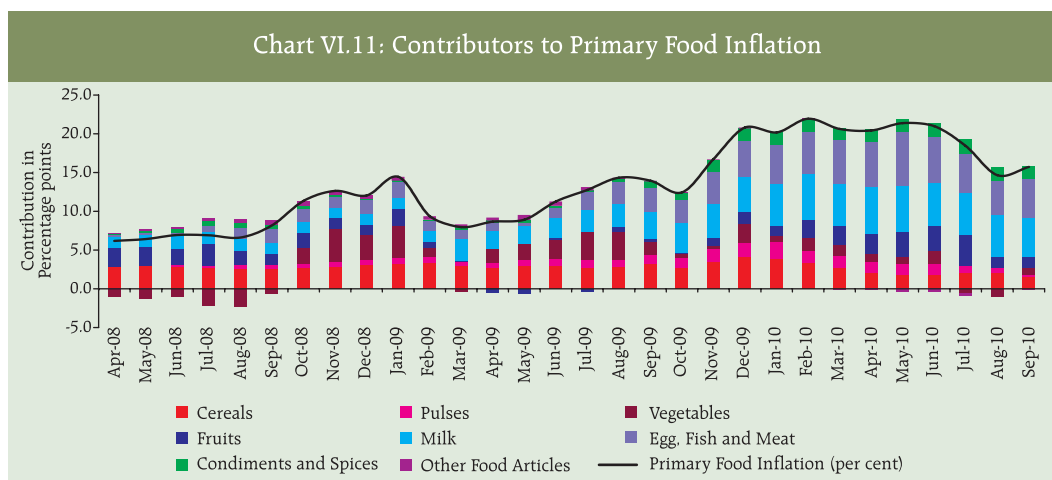




since March 2010, primary articles index of WPI has increased by 8.6 per cent (as on October 16, 2010) led by food articles.

VI.20 Presently, an important concern from the point of view of inflation management is the downward rigidity in the primary food articles prices even after a good monsoon. With a normal monsoon, it was expected that the prices of food articles would moderate substantially. However, food articles inflation continues to remain in double digits. It needs to be emphasised that with increase in

income levels, the consumption basket is getting diversified more in favour of non-cereal items such as milk, vegetables, fruits, meat, poultry and fish, which are important from the nutritional angle. The decomposition of food inflation indicates that during the recent period the key drivers of food inflation are non-cereals. In fact, since November 2009, much of the food inflation is contributed by protein rich items like milk, eggs, fish and meat, which are less responsive to monsoon (Chart VI.11). About two thirds of the primary food inflation (y-o-y) currently



emanates from the two sub-groups, milk and 'egg fish and meat'. Inflation in pulses, however, remains moderate largely reflecting the base effect of very high prices recorded a year ago. Thus, despite a decline in the contribution of cereals and vegetables to inflation in recent months, food inflation continues to remain firm.

VI.21 The sustained high level of food prices, especially of protein-based items, whose share in consumption basket has increased over time along with increases in income, points to the risk that food price inflation could acquire a structural character and become more persistent. Given the tight demand-supply conditions in food globally and prospects of firming up of commodity prices, import as an option to control food inflation may not be available for most commodities. This calls for the effective management of supply augmenting measures in the medium term to address the food inflation.

VI.22 Non-food primary articles inflation also remains high at above 20 per cent, reflecting the revision in sugarcane index by about 50 per cent in March 2010 and increase in iron ore and raw cotton prices. Iron ore prices have doubled since December 2009, while raw cotton prices increased by more than 20 per cent in September 2010. Increase in raw cotton and sugar prices in recent months in the wake of increase in global commodity prices, despite significant increase in domestic production, points towards the risk of spillover even with favourable production conditions.

VI.23 Fuel group inflation is influenced both by decisions of the Government on the

administered prices and movements in freely priced petroleum products prices. As on a monthly average basis crude prices (Indian basket) have remained range bound between US \$ 75-85 during 2010-11 so far, the non-administered prices under the fuel group remained more or less the same. Motivated by fiscal as well as fuel efficiency considerations, the Government increased the price of diesel (by ₹2 per litre), PDS kerosene (by ₹3 per litre) and domestic LPG (by ₹35 per cylinder) and deregulated petrol prices on June 25, 2010. The direct impact of these measures was about 0.9 percentage point increase in WPI inflation, with the indirect impact on prices through input cost escalation with a lag likely to raise the full impact to about 2 percentage points, assuming partial pass-through. As the deregulated petrol prices remained almost constant during the period July-September 2010 tracking the trends in international crude prices, the pressure on headline inflation remained contained. Fuel group inflation, nevertheless, continues to remain in double digits (11.3 per cent as on October 16, 2010).

VI.24 Manufactured products inflation has declined since April 2010, led by decline in prices of food products. The manufactured products price index, however, remains almost the same during 2010-11 so far indicating that the decline in inflation was largely contributed by the high base of the previous year. Non-food manufactured products inflation declined to 5.0 per cent in September 2010 (Table VI.3).

VI.25 The inter-temporal volatility in core inflation in India, measured in terms of standard deviation of the non-food

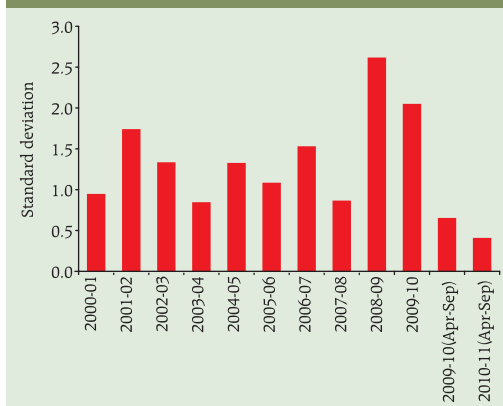
Table VI.3: Wholesale Price Inflation in India
(2004-05=100) (year-on-year)

(Per cent)							
Commodity	Weight	2009-10 (March)		2010-11 (September)		Financial Year (over March 2010)	
		Inflation	C*	Inflation	C*	Inflation	C*
1	2	3	4	5	6	7	8
All Commodities	100.0	10.2	10.2	8.6	8.6	3.9	3.9
1. Primary Articles	20.1	22.2	4.9	17.5	4.1	8.3	2.0
<i>Food Articles</i>	14.3	20.6	3.3	15.7	2.7	9.4	1.6
i. Rice	1.8	8.1	0.2	4.6	0.1	0.9	0.0
ii. Wheat	1.1	14.7	0.2	8.7	0.1	0.1	0.0
iii. Pulses	0.7	25.0	0.2	5.1	0.1	-0.1	0.0
iv. Vegetables	1.7	13.6	0.2	6.0	0.1	37.1	0.6
v. Fruits	2.1	18.2	0.4	12.0	0.3	3.6	0.1
vi. Milk	3.2	24.9	0.9	24.0	0.9	5.8	0.2
vii. Eggs, Fish and Meat	2.4	35.5	0.9	30.9	0.9	15.2	0.5
<i>Non-Food Articles</i>	4.3	20.4	0.9	18.2	0.8	4.6	0.2
i. Raw Cotton	0.7	20.0	0.1	27.5	0.2	14.0	0.1
ii. Oilseeds	1.8	6.7	0.1	5.2	0.1	3.1	0.1
iii. Sugarcane	0.6	53.3	0.3	53.3	0.3	0.0	0.0
<i>Minerals</i>	1.5	37.9	0.8	28.5	0.6	7.3	0.2
i. Crude Petroleum	0.9	58.3	0.5	9.7	0.1	-1.1	0.0
2. Fuel and Power	14.9	13.8	2.1	11.1	1.7	5.4	0.8
i. Coal	2.1	7.9	0.2	7.9	0.2	0.0	0.0
ii. Mineral Oils	9.4	18.6	1.7	13.6	1.4	6.8	0.7
iii. Electricity	3.5	3.4	0.1	5.0	0.1	5.0	0.1
3. Manufactured Products	65.0	5.2	3.3	4.6	2.8	1.6	1.0
i. Food Products	10.0	15.1	1.5	2.8	0.3	-1.7	-0.2
<i>of which: Sugar</i>	1.7	44.3	0.8	-4.4	-0.1	-12.8	-0.3
Edible Oils	3.0	0.4	0.0	4.9	0.1	4.2	0.1
ii. Cotton Textiles	2.6	12.7	0.3	14.9	0.3	4.7	0.1
iii. Man Made Textiles	2.2	8.4	0.2	9.4	0.2	3.5	0.1
iv. Chemicals and Products	12.0	3.7	0.4	4.3	0.5	1.7	0.2
<i>of which: Fertilisers</i>	2.7	1.9	0.0	7.5	0.2	4.8	0.1
v. Non-Metallic Mineral Products	2.6	3.2	0.1	2.2	0.1	0.9	0.0
<i>of which: Cement & Lime</i>	1.4	2.3	0.0	1.7	0.0	0.4	0.0
vi. Basic Metals, Alloys and Metal Products	10.7	1.4	0.2	6.0	0.6	3.4	0.3
<i>of which: Ferrous Metals</i>	8.1	0.5	0.0	6.2	0.5	3.7	0.3
vii. Machinery and Machine Tools	8.9	1.5	0.1	2.9	0.2	0.8	0.1
<i>of which: Electrical Machinery</i>	2.3	-1.1	0.0	2.7	0.1	0.8	0.0
viii. Transport Equipment and Parts	5.2	1.2	0.1	4.2	0.2	2.3	0.1
<i>Memo:</i>							
Food Items (Composite#)	24.3	18.5	4.8	10.8	3.0	5.2	1.4
Food Items (Protein Based)\$	6.4	28.7	2.0	23.9	1.9	8.6	0.7
Manufactured Non-food Products	55.0	3.3	1.8	5.0	2.5	2.3	1.1
WPI Excluding Food	75.7	7.4	5.5	7.8	5.6	3.4	2.5
WPI Excluding Fuel	85.1	9.6	8.2	8.2	6.9	3.6	3.1
Essential Commodities	14.4	18.6	2.9	9.1	1.5	2.9	0.5
* : Contribution to inflation in percentage points. #: Primary Food Articles+Manufactured Food Products.							
\$: Includes milk, egg, fish and meat and pulses.							

manufactured inflation, which is relevant for policy purposes, exhibited significant increase in 2008-09 and 2009-10, after a long

period of relative stability (Chart VI.12). The rise in volatility in non-food manufactured inflation, to an extent, could be attributed

Chart VI.12: Volatility in Non-food
Manufactured Inflation



to the global commodity shocks, as rising prices of inputs tend to cause pressure on manufactured product prices domestically. The data available for 2010-11 so far, however, suggest a significant moderation in the volatility.

Consumer Price Inflation

VI.26 Inflation, as measured by various consumer price indices, continued to moderate in 2010-11 so far. Available measures of inflation, as measured by

various CPIs indicate that it remained in the range of 9.1-9.8 per cent in September 2010 (Table VI.4). The divergence between WPI and CPI inflation also reduced in recent months. (Chart VI.13).

VI.27 With strengthening of domestic growth prospects, inflation management assumed prime importance, which was reflected in the normalisation of monetary policy. Overall, the inflationary process, which originated from supply shocks, and then turned increasingly generalised, seems to have now moderated but remains elevated at beyond the comfort level. Upward revision of administered prices and lagged reporting of past price increases added momentum to the uptrend in WPI. Among the positive developments, given the expected better agricultural output than last year, food price pressures may soften during the course of the year. Nevertheless, current trends suggest a possible ratchet effect, with food inflation appearing sticky and somewhat impervious to generally expected favourable impact of a normal monsoon, thus posing a key risk to the overall inflation environment. The

Chart VI.13: CPI and WPI Inflation

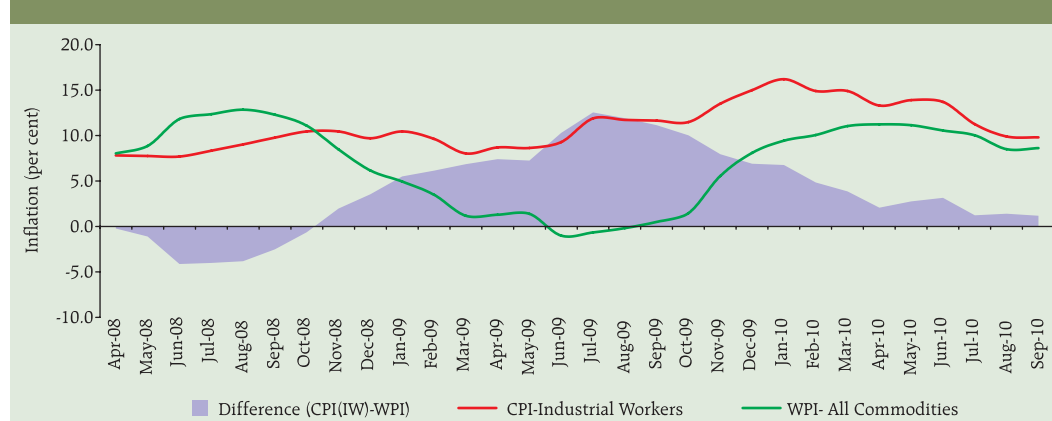


Table VI.4 : Consumer Price Inflation - Major Groups

(Year-on-year variation in per cent)											
CPI Measure	Weight	Mar-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Jul-10	Aug-10	Sep-10
1	2	3	4	5	6	7	8	9	10	11	12
CPI-IW (Base: 2001=100)											
General	100.0	7.9	8.0	9.3	11.6	15.0	14.9	13.7	11.3	9.9	9.8
Food Group	46.2	9.3	10.6	12.2	13.5	21.3	16.0	13.9	11.6	9.8	–
Pan, Supari <i>etc.</i>	2.3	10.9	8.3	8.1	8.0	8.6	9.1	13.0	12.9	12.1	–
Fuel and Light	6.4	4.6	7.4	1.4	4.2	3.4	3.4	6.9	10.3	11.5	–
Housing	15.3	4.7	6.0	6.0	22.1	22.1	33.1	33.1	21.1	21.1	–
Clothing, Bedding <i>etc.</i>	6.6	2.6	5.0	4.1	4.1	4.1	4.0	4.8	4.7	5.5	–
Miscellaneous	23.3	6.3	7.4	6.6	5.7	4.2	4.8	4.8	5.4	4.0	–
CPI-UNME (Base: 1984-85=100)											
General	100.0	6.0	9.3	9.6	12.4	15.5	14.9	14.1	11.5	10.3	–
Food Group	47.1	7.8	12.2	13.6	14.4	21.4	16.3	13.9	11.7	9.2	–
Fuel and Light	5.5	4.6	5.9	1.3	4.2	3.5	3.3	6.9	10.2	11.6	–
Housing	16.4	4.0	5.8	6.0	22.0	22.0	33.2	33.2	21.0	21.0	–
Clothing, Bedding <i>etc.</i>	7.0	4.3	3.3	4.2	4.1	4.1	4.0	4.8	4.6	5.4	–
Miscellaneous	24.0	4.8	8.6	7.3	6.0	4.6	5.3	5.1	5.0	5.0	–
CPI-AL (Base: 1986-87=100)											
General	100.0	7.9	9.5	11.5	13.2	17.2	15.8	13.0	11.0	9.6	9.1
Food Group	69.2	8.5	9.7	12.4	14.6	20.2	17.7	13.7	11.3	9.1	8.8
Pan, Supari <i>etc.</i>	3.8	10.4	15.3	14.2	15.5	14.6	15.4	16.6	14.1	11.3	10.8
Fuel and Light	8.4	8.0	11.5	11.0	12.0	14.3	15.2	15.5	14.6	16.6	16.1
Clothing, Bedding <i>etc.</i>	7.0	1.8	7.4	8.3	8.1	8.2	9.1	9.6	9.9	10.1	10.2
Miscellaneous	11.7	6.1	6.5	6.1	7.1	7.0	7.6	7.7	7.0	6.3	6.0
CPI-RL (Base: 1986-87=100)											
General	100.0	7.6	9.7	11.3	13.0	17.0	15.5	13.0	11.2	9.7	9.3
Food Group	66.8	8.2	10.0	12.4	14.6	20.4	17.7	13.9	11.5	9.5	8.8
Pan, Supari <i>etc.</i>	3.7	10.6	15.0	14.1	15.4	14.4	15.5	16.7	14.3	11.8	11.1
Fuel and Light	7.9	8.0	11.5	11.0	12.0	14.1	15.0	15.3	14.5	16.4	15.9
Clothing, Bedding <i>etc.</i>	9.8	2.8	8.2	8.8	9.5	10.3	9.8	10.3	10.2	10.3	9.5
Miscellaneous	11.9	6.2	6.7	6.2	6.9	6.6	7.2	7.3	6.8	6.1	5.8
WPI Inflation											
BaseYear:2004-05=100		7.7	1.5	-0.7	1.1	6.9	10.2	10.3	10.0	8.5	8.6
GDP Deflator based Inflation*		4.9	7.9	0.9	0.7	5.8	4.5	11.8	–	–	–

*: Data for March pertain to full year.

IW : Industrial Workers. UNME : Urban Non-Manual Employees. AL : Agricultural Labourers. RL : Rural Labourers.

persistence of food inflation not only has adverse welfare effects as the poor have larger share of food in their consumption basket, but could also impact the core inflation after a lag, causing a generalisation of price pressures. Another important risk

to inflation could emanate from the recent upward momentum witnessed in the global commodity prices, which could partly get imported even with record domestic production, as has been the case for cotton. Capacity constraints, in some sectors, along

MONETARY POLICY
STATEMENT 2010-11

Macroeconomic and Monetary
Developments Second Quarter
Review 2010-11

with increasing pricing power of firms in the context of stronger growth momentum, is a source of risk to the inflation process. While non-food manufactured inflation has

shown some moderation in recent months suggesting that monetary actions are having an impact, inflation still remains above the comfort level.