

Publication: The Times Of India Delhi; Date: Apr 29, 2011; Section: Times Business; Page: 25



PINCHING HARD

Food inflation up, RBI set to hike key rates

TIMES NEWS NETWORK

New Delhi: Ahead of the Reserve Bank of India's monetary policy statement next week, food inflation went up marginally to 8.76% for the week ended April 16 compared to 8.74% in the previous week. During the week, prices of fruits went up 28.43%, while egg, meat and fish prices rose by over 12%. Onions, which had become a political hot potato, saw a near 11% rise on a year-on-year basis.

The good news was that food price index dipped marginally and economists expect food inflation to moderate in the coming months. But with oil and commodity prices remaining at elevated levels, economists are predicting further increase in policy rates next week. While a 25 basis point increase is a given, economists are saying that RBI could opt for a steeper 50 basis point increase (100 basis points = one percentage point).

"While the base case is that of the RBI hiking rates by 75-100 basis points through the year, due to inflationary pressures... the current debate now is whether it hikes by 25 bps or 50 bps on May 3. We place the odds at 60:40 for a 25 bps hike. Apart from rate hikes, a key factor to watch out for is the RBI's guidance on growth and inflation," Citi economist Rohini Malkani said in a note.

"With the rise in inflation related to non-food manufactured products in March 2011 and the anticipated increase in the prices of some petroleum products, the RBI is expected to maintain its anti-inflationary stance and hike the repo and reverse repo rates by 25 basis points in the upcoming review of monetary policy," Ica economist Aditi Nayar added.

RBI governor D Subbarao is due to hold consultations with finance minister Pranab Mukherjee ahead of Tuesday's announcement. We will talk with RBI governor before he announces the monetary policy. We will have a discussion," Mukherjee said, while maintaining that food inflation numbers were in line with recent trends. The central bank and the government had misread the price situation last year and latest data showed the inflation was estimated at 8.98%, higher than estimates put out by the finance ministry (7.5%) and RBI (8%). Subbarao has already hiked policy rates eight times since March 2010 to get a firmer grip over inflation, which economists say is headed upwards.

"Inflation will continue to be a major concern, unless there is an improvement in the situation in the Middle East and North Africa and oil prices come down. Inflation is also expected to remain firm because of administered coal prices increases and stickiness in manufactured nonfood products inflation," research agency NCAER said in a statement on Thursday.

Corporate India's confidence level in doing business declined in April-June period to its lowest level in six quarters due to rising prices and global uncertainties, an NCAER-MasterCard Worldwide Index of Business Confidence survey revealed. At the present level this is the lowest confidence level seen in the last six quarters.

