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Inflation zooms to 6.58%

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New Delhi: There seems to be no respite from price rise despite steps taken by the government, raising worries for UPA on the eve of tough assembly elections in Uttarakhand and Punjab with a mega poll battle to follow in UP.

The rate of inflation, measured by wholesale price index, touched 6.58% during the week-ended January 27 — the highest since December 11, 2004 — on account of higher food and manufactured goods prices. Inflation was estimated at 6.11% in previous week and 4.04% during the corresponding period last year.

With little signs of a dip in prices and the effect of last year's low base effect showing for some more time, economists predict inflation will remain in the 6-6.5% range for a few more weeks. The government's political worry lines will only deepen.

Data showed that primary products, particularly food items, were the prime drivers of inflation as prices of fruits, milk, vegetables, egg, mean and fish were rising fast. Onion retail is already at Rs 24 a kg. Manufactured goods, too, have played their part as firms have been passing on the increase in raw material costs to end-consumers, who still lap up white goods, mobiles and cars thanks to rising income levels.

With the middle class and the lower income segments affected the most due to the steep rise in the monthly food bill, you could expect some duty cuts in the coming days as the government tries to contain prices. On the flip side, interest rates too could rise as RBI tries to rein in inflation by slowing down economic growth rates.

While the impact of interest rate hikes typically take 12-18 months to show, economists believe, duty cuts appeared to be the more likely step to control prices in the short-term. Besides, bankers said, RBI had raised rates only recently. Last month, the government reduced import duties on cement, capital goods, steel, aluminium, copper and other industrial raw materials, as well as palm and sunflower oils. The government is already faced with a demand to lower duty on petro goods, including fuels.

For the moment, however, price rise has given enough fodder to BJP, the main opposition party, with party spokesperson Prakash Javadekar saying, "Nobody trusts the finance minister now. Prices are surging and there is no check on inflation."

But Congress, while expressing concern over inflation, said there was no magic wand to contain it. "There is no switch-on or switch-off button... Let us wait for the budget as war against inflation has been launched," party spokesperson Abhishek Singhvi confessed.

"There is no single measure that can take care of the situation since there is pressure from all sides. There is demand pull, there are cost push factors like costlier raw materials and there are supply side constraints. Government and RBI have taken steps but the rise in primary product prices is worrisome. We have ignored agriculture for a long time," said DK Joshi, principal economist, Crisil.