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Food inflation soars to 20%

A 10-Year-High; Govt Plans Import To Boost Supply; RBI May Tighten Policy

TIMES NEWS NETWORK

New Delhi: Food prices have hit a 10-year-high as supply shortages due to poor monsoon and floods in some parts finally bit hard, forcing a worried government to announce a step-up in imports and strengthening expectations of RBI tightening policy to stop a breakout of inflation in the wider economy.

Prices of potato, other vegetables and pulses drove inflation to 19.95% in the year to December 5, surging from 19% in the previous week. The rise in food prices comes in a scenario when the economy is picking up strength after a dip in late 2008 and early 2009. This has sparked fears that to check demand, RBI may go for higher interest rate regime.

On an annual basis, potato prices zoomed 136% and pulses became costlier by over 40%. Onion prices rose 15.4%. Other food items that became costlier include wheat 14%, milk 13.6%, rice 12.7% and fruits 11%.

"Food prices are going up and this is an area of concern... we have to take appropriate measures to see what best could be done by augmenting supply through imports," finance minister Pranab Mukherjee told reporters. On November 24, Mukherjee had said the government could import rice to curb price rise, the first time in 20 years that India talked of such imports.

Mukherjee's statement came even as a parliamentary committee criticised his ministry for not taking timely action to check price rise. Besides other things, the report of the standing committee on finance asked the government to amend the Essential Commodities Act to check hoarding and speculation. "The ministry of finance... has obviously failed to intervene timely and squarely address this burning issue (price rise) with due seriousness," the report said.

Monthly price data for November showed manufacturing prices rose an annual 4%. Many saw this as a pointer to firms being able to pass on higher costs on the back of a robust recovery in the economy. The annual wholesale price inflation, which stood at 1.34% in October, rose to 4.78% in November. This has spurred analysts to predict an 8% inflation by the end of the fiscal, much higher than 6.5% forecast by RBI.

Earlier this week, chairman of PM's Economic Advisory Council C Rangarajan had said by the end of March 2010, inflation could be close to 7%. "We need to watch for behaviour of prices in December... possibly some action will be taken (by the RBI), which can have a moderating effect (on inflation)," he had said.

Many feel RBI may raise CRR (cash reserve ratio, or money that banks need to retain) to suck out excess liquidity from the financial system when it announces credit policy in January. This could be the first step and may be followed by other measures to tighten purse-strings.

Costlier Living

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