India's inflation hits highest level in 16 years
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India's inflation rate shot up to its highest level in more than 16 years this month, increasing the chances of the fourth rise in interest rates in Asia's third, largest economy since June.

The commerce ministry said stubbornly high prices for food and other essential commodities had driven inflation up 12.63 per cent on a year earlier in the week ending August 9, compared with 12.44 per cent the previous week.

Stocks fell ahead of the announcement amid concern that higher inflation will force the central bank, the Reserve Bank of India, to try to apply the brakes more firmly on an already slowing economy.

The Bombay Stock Exchange's benchmark Sen-sex index fell 3 per cent to 14,243.73 points.

The gradual climb in inflation towards the 13 per cent mark in the past three weeks fits with economists' forecasts. Most believe it will peak at between 13 and 14 per cent in the coming two to three months on the back of high oil, steel, cement and food prices and a low base effect from last year. The trend is alarming the Congress party-led ruling coalition, which must face elections before May next year in an electorate that has traditionally been hypersensitive to inflation.

The RBI has already expressed concern that despite a series of monetary tightening measures in recent weeks, underlying demand in the economy remains strong, putting further potential upwards pressure on prices.

Inflation remains twice the RBI's preferred comfort zone of below 5.5 per cent and is approaching double its target for the end of this fiscal year next March of 7 per cent.

Last month, the RBI raised its key "repo" lending rate by half a percentage point to a seven-year high of 9 per cent.

It also increased the cash reserve ratio, the amount of money banks must keep on deposit at the central bank, from 8.75 per cent to 9.

The prime drivers behind inflation in the week of August 9 were rising prices for pulses - or chickpeas -and vegetables, sugar, textiles and cement.

Inflation is expected to get an extra fillip in the coming months from moves to increase the salaries of India's 5m central government civil servants by 21 per cent at a cost of $3.6bn (€2.4bn, £1.9bn) this financial year.

The move is expected to be followed by state governments and state-owned enterprises, providing a stimulus to the economy and making the RBI's task of limiting inflation more difficult.

While it is down from its peak growth rates of above 9 per cent, India's economy is still expanding rapidly.

An advisory council report to Manmohan Singh, the prime minister, last week forecast that the economy would grow 7.7 per cent this financial year.

Fonte: Financial Times, London, August 22 2008. Primeiro Caderno. p. 7.