

Inflation Outlook

5.24 With the opening up of the Indian economy, subdued inflation rates of major trading partner countries have a bearing on the domestic economy, influencing to some extent the domestic inflation rate. Thus the present low inflation rate may be a manifestation of globalisation and a more liberalised trade regime. The opening up of trade has increased competition for Indian industries and low inflation in competitor countries have had a sobering effect on domestic prices in the

manufactured sector. Further, lower international prices of crude oil exerted less pressure on domestic energy prices. Adequate supply of most primary products and over supply of foodgrains caused inflation in the primary sector also to remain low this year.

5.25 Good agricultural performance in 2001-02 should result in higher rural incomes, thus generating fresh demand in the construction sector as also for other industrial products. If there are no external energy price shocks, the moderate inflationary expectations may continue through 2002-03.