

Outlook

5.53 The overall inflation rate in terms of WPI remained below 5 per cent for most of the weeks during the first three quarters of the current financial year. Inflation rates for manufactured products and for fuel, oil and lubricants group decelerated significantly in 2005-06 from 2004-05. The general decline in the inflation rate during 2005-06 was due to sound macro-economic management along with effective management of supply and demand for essential items. Given these trends, the annual point-to-point inflation rate is likely to remain around 5 per cent at the end of March 2006.

5.54 Discounting the uncertainty associated with high and volatile international petroleum prices, the near and medium-term inflation risks in the Indian economy appear to be manageable. The danger of an unexpected oil price increase is ever present. However, given sufficient foreign exchange reserves and Government's commitment to further trade and tariff reforms, strict fiscal prudence, monetary discipline and orderly movement of the exchange rate of rupee, the annual inflation rates in terms of both wholesale and consumer price indices are likely to witness declining trends in the medium term and to remain within tolerable limits.