

Outlook

3.86 The rapid rise in credit growth in recent years has reflected and also helped the growth momentum of the economy. Both credit as well as money, as a proportion of GDP, are low in India by international standards. Hence, they will continue to outpace GDP in terms of growth in the years to come. But, it is unlikely that they will grow as fast as they have in the recent past.

3.87 Monetary policy will continue to face the challenge of taming inflation while not hurting the gathering momentum of growth. The challenge on the inflation front is

compounded by the supply-side nature of the basic impetus. Addressing the inflation-related supply-side problem of primary commodities requires a continuation of the move to integrate the rural sector in general and agriculture in particular with the organised financial sector. Increasing the outreach of the banking system to these hitherto neglected sectors remains a major unfinished task of economic reform. Furthermore, with buoyant capital flows through the balance of payments, monetary and credit policies will have to steer a careful path of maintaining the international competitiveness of domestic economic activities.