

Outlook

5.71 In the current year, pressure on inflation may persist because of a mis-match in supply and demand for some primary articles and firm international prices. Higher demand as a result of an accelerated growth in GDP, higher growth in reserve money because of a faster increase in foreign assets, the multiplier effect of increase in broad money, and credit growth have also exerted pressure on demand side. Government has been quick in responding to these developments and has been making efforts to ease the pressure on prices. In

petroleum products only a partial pass-through of the increase in international prices was provided and later a reduction in the prices of petrol and diesel was made which kept the inflation for the group 'fuel and power' moderate. Duty reductions in some essential commodities, metals and cement and the monetary stance of the Reserve Bank of India will have an added impact on inflationary expectations; results thereof may be visible in days to come. However, unless the supply side constraints— especially in food items— are removed, the inflationary pressure will not be tamed fully.