

## *Inflation Expectations of Households: Do They Influence Wage-Price Dynamics in India?*

The paper by Sitikantha Pattanaik, Silu Muduli and Soumyajit Ray examines the usefulness of survey-based information on inflation expectations of households in the analysis of inflation dynamics in India. As household inflation expectations do not satisfy the statistical properties of rationality and unbiasedness, hybrid versions of New Keynesian Phillips Curve (NKPC) are used to study whether survey-based measures of inflation expectations can be used as proxy for forward looking expectations to predict inflation in India. While both 3-months ahead and 1-year ahead household inflation expectations

emerge statistically significant in explaining and predicting inflation, effectively they work as substitutes of backward looking expectations given that household expectations are found to be adaptive. When transmission of inflation expectations to inflation is assessed through wage dynamics, no robust evidence is found for expectations induced wage pressures influencing CPI inflation. Short-term food and fuel shocks explain significant part of variations in inflation expectations of households. Notwithstanding limited evidence on spillover of inflation expectations of households to wages and prices, the high degree of observed inflation persistence and significant sensitivity of inflation expectations to food and fuel shocks warrant sustained emphasis of monetary policy on well-anchored inflation expectations.