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**RBI Working Paper No.02 / 2023: Tail Risks of Inflation in India**

Today the Reserve Bank of India placed on its website a Working Paper titled, "Tail Risks of Inflation in India" under the Reserve Bank of India Working Paper Series[1]. The paper is co-authored by Silu Muduli and Himani Shekhar.

This paper estimates the tail risks, *i.e.,* the upside and downside risks to consumer price index (CPI) inflation in India using a quantile regression framework. The paper examines the impact of various domestic and global macroeconomic factors, besides the role of the flexible inflation targeting (FIT) regime in influencing inflation tail risks. A rise in domestic income, household inflation expectations, elevated global commodity prices - both fuel (*i.e.,* crude oil) and non-fuel, and easy financial conditions pose upside risks to CPI headline inflation. Both lower and upper tail risks to inflation have stabilised in the FIT period. The paper concludes that macroeconomic factors help in capturing the tail risks to India's inflation target band of 2 to 6 per cent reasonably well.

**(Yogesh Dayal)**
Chief General Manager

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[1] The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors, when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.