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October 10, 2011

RBI Working Paper Series No. 17 for September 2011

The Reserve Bank of India today placed a Working Paper titled "[Why Persistent High Inflation Impedes Growth? An Empirical Assessment of Threshold Level of Inflation for India](#)" by Sitikantha Pattanaik, G.V. Nadhanael. The paper revisits the growth-inflation tradeoff debate and uses empirically estimated threshold inflation for India to highlight why persistent generalized inflation at above the threshold level is a downside risk to the growth trajectory. The paper discusses multiple channels through which inflation could impede growth and outlines in brief cross country evidences on the relationship between economic growth and inflation to highlight the varying nature of non-linearity and threshold effects in empirical relationships between economic growth and inflation. The major inference that this paper draws from the review of theoretical and empirical research is that "beyond a threshold level of inflation the conventional Phillips Curve bends backward". In the paper, empirical estimates of threshold inflation covering annual data and based on three different methodologies have been worked out viz., (i) spline regression, (ii) non-linear specification of growth inflation relationship, and iii) vector autoregression (VAR) and accordingly the paper concluded that the threshold level of inflation in India is around 6 per cent.

The paper has indicated that the RBI's inflation objective of containing the inflation perception in the range of 4 to 4.5 per cent is consistent with the need for balance between "growth maximizing threshold inflation" of about 6 per cent and the "welfare maximizing low inflation" objective.

The Reserve Bank of India introduced in April this year, a 'RBI Working Paper Series' (RBI - WP) to provide a platform to the Reserve Bank Staff for presenting their research studies as well as to receive feedback from informed researchers.

The views expressed in all the research publications of the Reserve Bank, including the RBI Working Papers Series, do not necessarily reflect the views of the Reserve Bank and as such should not be reported as representing the views of the Reserve Bank of India.

Feedback, if any, on the papers could be addressed to the respective authors of the research studies.