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July 03, 2017

RBI WPS (DEPR): 08/2017:
Phillips Curve Relationship in India: Evidence from State-Level Analysis

The Reserve Bank of India placed on its website today a Working Paper titled "[Phillips Curve Relationship in India: Evidence from State-Level Analysis](#)" by Harendra Behera, Garima Wahi and Muneesh Kapur under the Reserve Bank of India Working Paper Series.

The paper revisits the issue of determinants of inflation in India in a Phillips curve framework and makes two key contributions in relation to existing studies. First, in the context of the Reserve Bank moving towards a flexible inflation targeting framework based on consumer price index (CPI) inflation, this paper attempts to model dynamics of the CPI inflation. Second, this paper explores the Phillips curve relationship using sub-national data in a panel-approach. The estimates in this paper confirm the presence of a conventional Phillips curve specification, both for core inflation and headline inflation. Excess demand conditions have the expected hardening effect on inflation, with the impact being more on core inflation. Exchange rate movements are also found to have a significant impact on inflation. Overall, the paper's findings provide support for the role of a counter-cyclical monetary policy to stabilise inflation and inflation expectations.

* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.

Press Release: 2017-2018/12

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