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**RBI Working Paper No. 01/2019:
Inflation Expectations of Households:
Do They Influence Wage-Price Dynamics in India?**

The Reserve Bank of India today placed on its website a Working Paper titled [“Inflation Expectations of Households: Do They Influence Wage-Price Dynamics in India?”](#) under the Reserve Bank of India Working Paper Series*. The Paper is authored by Sitikantha Pattanaik, Silu Muduli, and Soumyajit Ray.

This paper examines the usefulness of survey based information on inflation expectations of households in the analysis of inflation dynamics in India. Hybrid versions of New Keynesian Phillips Curve (NKPC) are used to study whether inflation expectations of households work as proxy of forward looking expectations to predict inflation. Both three months ahead and one year ahead inflation expectations emerge statistically significant in explaining and predicting inflation, but they effectively 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 on 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.

* 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.