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April 25, 2018

**RBI Working Paper No. 3/2018:
Rural Wage Dynamics in India: What Role does Inflation Play?**

The Reserve Bank of India today placed on its website a Working Paper titled "[Rural Wage Dynamics in India: What Role does Inflation Play?](#)" under the Reserve Bank of India Working Paper Series*. The Paper is authored by Sujata Kundu.

The link between labour market and inflation is traditionally seen through increase in wages leading to rising production costs and hence, higher prices. Thus, from the perspective of an inflation-targeting central bank, the connection between wages and prices receives prominent attention as wage dynamics could pose possibilities of upside risks to inflation. Given a significant share of rural population in the Indian economy, the paper studies the relationship between rural wages and prices in India during January 2001-November 2017 to assess the risk of a wage-price spiral to the inflation trajectory. The paper finds that in the long-run both nominal agricultural wages and non-agricultural wages exhibit statistically significant positive relationship with rural prices. The results also point to significant stickiness in nominal wages and the presence of a statistically significant positive impact of the rural non-farm (construction sector) wages on agricultural wages. The paper does not find any robust empirical support for the risk of a wage-price spiral in India during the period of study.

* 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: 2017-2018/2823

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