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संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

Department of Communication, Central Office, S.B.S.Marg, Mumbai-400001  
फोन/Phone: 022- 22660502

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## RBI Working Paper No. 15/2020: Measuring Trend Inflation in India

Today the Reserve Bank of India placed on its website a Working Paper titled "[Measuring Trend Inflation in India](#)" under the Reserve Bank of India Working Paper Series\*. The Paper is authored by Harendra Kumar Behera and Michael Debabrata Patra.

Central to the design and conduct of monetary policy is the concept of trend inflation, the level to which actual inflation outcomes are expected to converge after short run fluctuations from a variety of sources die out. The paper seeks to estimate trend inflation in India to find the answer to a question that goes to the root of flexible inflation targeting (FIT) – is the choice of the target for inflation consistent with its trend?

The paper finds a steady decline in trend inflation to 4.1- 4.3 per cent since 2014. A target set too below the trend imparts a deflationary bias to monetary policy because it will go into overkill relative to what the economy can intrinsically bear in order to achieve the target. Analogously, a target that is fixed above trend renders monetary policy too expansionary and prone to inflationary shocks and unanchored expectations. Hence, maintaining the inflation target at 4 per cent is appropriate for India.

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(Yogesh Dayal)  
Chief General Manager

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\* 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 consider its provisional character.