

Threshold Inflation Rate in India: A Re-Estimation using Combined Consumer Price Index

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Abstract: Inflation targeting is considered to be the primary policy rule of the RBI. The target range and threshold estimation are done through several techniques, along with the choice of index. In this paper, the threshold inflation is calculated using OLS estimates as an extension of Sarel's methodology, accounting for periodic structural breaks caused by the pandemic and 'extra' inflation along with a vector of control variables, to understand the growth-inflation nexus in India. CPI-Combined is used as the price index in this study, while observing the divergence in CPI and WPI indices in India, especially in recent times. The study suggests an inflection of non-linearity occurs at an inflation rate of 6.5%.

Keywords: Inflation Targeting, Threshold Inflation, OLS, CPI-Combined

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