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May 12, 2020

RBI Working Paper No. 05/2020:

Core Inflation Measures in India – An Empirical Evaluation using CPI Data

Today the Reserve Bank of India placed on its website a Working Paper titled "[Core Inflation Measures in India – An Empirical Evaluation using CPI Data](#)" under the Reserve Bank of India Working Paper Series*. The paper is co-authored by Janak Raj, Sangita Misra, Asish Thomas George and Joice John.

This paper assessed eleven possible candidates for their suitability as measures of core inflation in India based on Consumer Price Index (CPI) (2012=100) for the period 2012 to 2019. These included six exclusion-based measures, viz., (i) CPI excluding food and fuel; (ii) CPI excluding food, petrol and diesel; (iii) CPI excluding food, fuel, petrol and diesel; (iv) CPI excluding food, petrol, diesel, gold and silver; (v) CPI excluding food, fuel, petrol, diesel, gold and silver; and (vi) CPI excluding food, fuel, petrol, diesel, gold, silver and housing and five statistical measures, viz., (i) median; (ii) 5 per cent trimmed mean; (iii) 10 per cent trimmed mean; (iv) 20 per cent trimmed mean; and (v) historical standard deviation. All these candidates were tested for the standard properties of core inflation, viz., ease of communication, equality of means, lower volatility, unbiasedness, reversion, co-integration and attraction conditions. Historical standard deviation-based measure satisfied all the properties of core inflation, except ease of communication - in general, use of statistical measures pose formidable challenges for monetary policy communication. All the six exclusion based measures satisfied all properties but reversion, i.e., headline inflation reverting to core inflation over the medium term. This was possibly due to a low food inflation episode from January 2017 to August 2019. Controlling for this time period, all the exclusion-based core inflation measures, other than CPI excluding food, fuel, petrol, diesel, gold, silver and housing, revert to headline inflation satisfying all the desirable properties of core inflation.

Press Release: 2019-2020/2351

Ajit Prasad
Director

* 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.