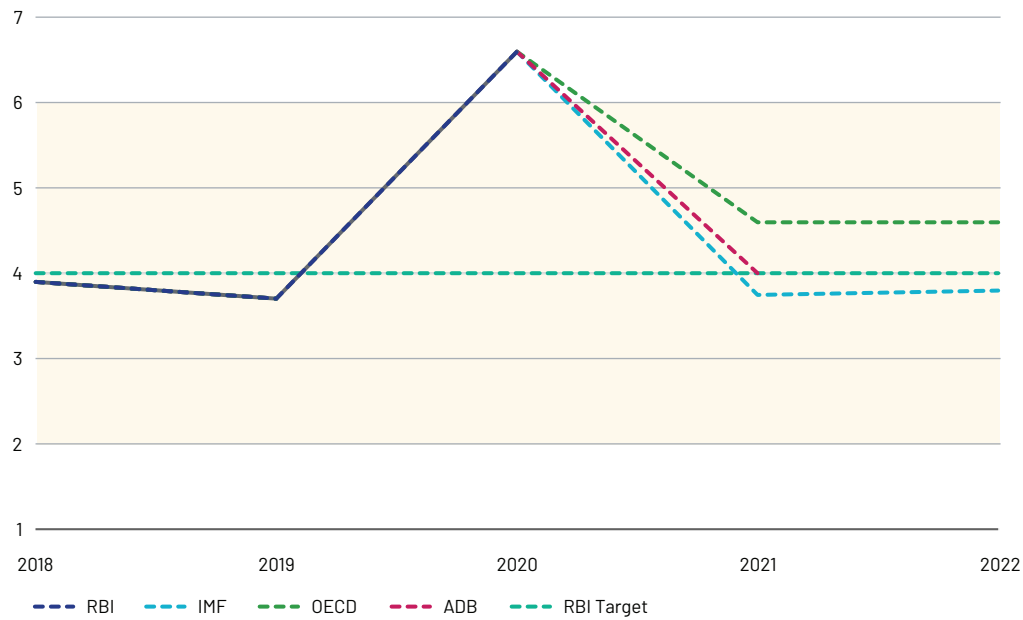


Chart 27: with range-bound inflation

Source: Various Institutions, Acuity Knowledge Partners

* The RBI's inflation target is fixed in the range of 2-6%, with 4% as the mean inflation target

^ The base effect is a distortion in inflation owing to a sudden fall/spike in prices in the same period a year ago



- » In 2020, CPI inflation averaged higher than initially expected. At 6.6%, it was well above the upper limit of 6% - driven by supply-chain disruptions and an acceleration in food prices
- » However, the outlook for 2021 is well within the range* as it is expected to ease, partially helped by favourable base effects^