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**RBI Working Paper No. 06/2021:
An Alternative Perspective on Demand and Supply to Forecast Inflation**

The Reserve Bank of India today placed on its website a Working Paper titled "[An Alternative Perspective on Demand and Supply to Forecast Inflation](#)" under the Reserve Bank of India Working Paper Series¹. The Paper is authored by Saurabh Sharma and Ipsita Padhi.

The paper develops a new method to construct a measure of demand-supply imbalance in the economy using a Bayesian Dynamic Factor Model. The estimated index of demand-supply mismatch is found to have a causal relationship with headline inflation. It is also found to be a competing predictor of headline inflation, as compared to other conventional measures of slack such as the output gap and level of capacity utilisation.

Press Release: 2021-2022/1373

(Yogesh Dayal)
Chief General Manager

¹ The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.