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May 7, 2012

**RBI Working Paper Series :
Estimation of Capacity Utilisation in Indian Industries:
Issues and Challenges**

The estimation of capacity utilisation (CU) derives significance from the fact that, if properly assessed, it may provide a reliable indication of incipient inflationary pressure in an economy. Measurement of CU is not confined to a unique method and can be measured for an economy, industry or plant through surveys or the use of production data.

International experience suggests official estimates of CU are not released by many countries. In almost all the cases, the official estimates of capacity utilisation of the manufacturing sector are based on the results of various business tendency surveys conducted by the central bank, government or their agents. In India, there is no official estimate of CU.

In [this paper](#) an attempt has been made to identify the more suitable method of estimating CU in Indian industries through a comparative analysis of the time series and survey method and a study of the international practices. The findings of the study reveal that the time series estimates of CU can capture the business cycle fluctuations and the inflationary pressures in the economy fairly well. But the international experience and the methodological limitations of the time series measures put forward survey method as the more suitable model for estimating CU in the Indian industries. It is important, however, to compare the CU estimates obtained from the survey of select firms, with those obtained from time series methods to ensure that the appropriate macroeconomic picture is captured and both series reflect similar trends.

Press Release : 2011-2012/1762

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