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**RBI WPS (DEPR): 03/2017:
A Measure of Finance-Neutral Output Gap for India**

Reserve Bank of India placed on its website today a Working Paper titled "[A Measure of Finance-Neutral Output Gap for India](#)" by Deba Prasad Rath, Pratik Mitra and Joice John under the Reserve Bank of India Working Paper Series.

In the Indian context, the present literature on estimation of potential output - the level of output that an economy can produce sustainably over the medium term - is based on an understanding that sustainability is characterised as output consistent with low and stable inflation. However, there are episodes when economic growth has been on an unsustainable path in spite of stable inflation suggesting that there could be other sources instilling imbalance into the system. Informed by the recent literature which has recognized the key role played by the financial variables in explaining the output gap, this paper suggests that inclusion of information from the financial sector yields measures of output gaps that are significantly different from the traditional output gap estimates, especially in case of recent period which demonstrates higher slack in the economy.

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