Why have India's statistical databases been upgraded? | Explained

What key economic indicators have been revised? Why was an overhaul of the databases necessary? What changes were made to the national accounts and GDP estimates? How has the measurement of industrial output been improved? What changes have been made to India's inflation indicators?

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In June, MoSPI also updated the Index of Industrial Production (IIP), which captures how industrial activity in the economy is doing on a monthly basis. Representational file image. | Photo Credit: Reuters

The story so far:

Last November, the Indian government received a 'C' grade, the second-lowest grade, by the International Monetary Fund for the quality of its national accounts statistics. Over the last few months, it has made several upgrades to its statistical databases, improving their timeliness, representativeness, accuracy, and coverage. These improvements have been wide-ranging, covering the way India measures its gross domestic product (GDP), the value addition in the economy, industrial output, and price levels at the retail, wholesale, and producer levels.

What are the metrics that have been updated?

The most significant of these changes was made to India's national accounts statistics in February this year by the Ministry of Statistics and Programme Implementation (MoSPI). National accounts include several key metrics such as GDP, gross value added (GVA), sector-wise output and growth figures, and the contributions of each of the engines of growth to the economy — government expenditure, private investment, household consumption, and trade. These are released on a quarterly and annual basis.

In June, MoSPI also updated the Index of Industrial Production (IIP), which captures how industrial activity in the economy is doing on a monthly basis. This includes key sectors such as manufacturing, mining, electricity, infrastructure, capital goods, and consumer goods. Apart from providing a regular snapshot of how the industrial sectors are doing, these monthly figures also feed into the GDP and GVA metrics.

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The third broad set of upgrades were to how India measures inflation. Price changes at the retail level, which is meant to capture the consumer-end of the market, are measured by the Consumer Price Index (CPI). Similarly, price changes at the wholesale level, which is ideally meant to capture the prices that producers get, are measured by the Wholesale Price Index (WPI). MoSPI releases the CPI while the Ministry of Commerce and Industry releases the WPI. Both these indices have been significantly updated and upgraded — the CPI in February and the WPI in June.

In June, the Commerce Ministry also introduced a new index — the Producer Price Index (PPI) — which not only captures the price impact on producers more accurately, but will also replace the WPI entirely in five years.

Why was an update needed?

These databases were outdated and were becoming less representative of reality with each passing year. The GDP and GVA data, for example, had a base year of 2011-12, as did the IIP. The economy has changed substantially in the years since then, with the contribution of several sectors to the economy growing while others have diminished in importance. An outdated base year weakens the overall measurements and makes them less representative of the current reality.

Before they were updated, the WPI and CPI had base years of 2011-12 and 2012, respectively. Here, too, the outdated indices were measuring price changes and index values based on household consumption patterns that were about 15 years old. Several items used back then, such as DVDs and cassettes, were included in the indices even though they are not used now. Conversely, several items that are being used now were not captured by the indices because they were not in use back then.

More accurate price information is important not just for policymaking but also for a more accurate measure of the size of the economy and its growth. The RBI's Monetary Policy Committee, for example, uses the CPI to gauge inflation and decide on interest rates. The Dearness Allowance and Dearness Relief given to current and former government employees, respectively, are pegged to inflation. The rate of growth of the real economy, which is the commonly accepted metric used to measure growth worldwide, is arrived at after having adjusted the impact of inflation on the economy.

What changes were made to the national accounts?

First, the base year was updated to 2022-23, immediately making the data more representative of the current situation. Apart from this, the new series of national accounts has also incorporated several methodological changes and measurement improvements.

One of the most important changes, and one that has long been advocated by statisticians, was the incorporation of the 'double deflator' method for estimating real GDP growth. This adjusts input and output prices separately, providing a much more accurate picture of the impact of price changes. Currently, the 'double deflator' method is being used for agriculture and manufacturing. It is expected to be adopted for the other sectors as well over time.

The other important change was the segregation of activities in multi-activity enterprises. There are several companies that are active across different sectors. Earlier, the data would capture the company's entire output and allocate it to the main sector within which it was operating. This yielded a somewhat inaccurate measure of sectoral activity. Now, the output will be allocated to each sector proportionately, providing a more accurate picture.

The new series also incorporates new data sources such as the Goods and Services Tax data and the Periodic Labour Force Surveys. It also incorporates several improvements in statistical methodology that will reduce discrepancies.

What other changes were made to output measures?

MoSPI updated the base year of the IIP to 2022-23 and expanded its coverage by including sectors such as gas supply, water supply, sewerage, and waste management activities, while retaining the previous sectors. Simultaneously, the index was revamped to provide greater granularity in terms of sources of electricity (renewable and non-renewable), and the types of minerals produced.

The revised item basket consists of 1,042 products mapped to 463 item groups, compared to 839 items mapped to 407 item groups in the previous series.

What are the inflation-related changes?

The base year of the CPI was updated to 2024, and the basket of items it measures as well as their relative weightages were pegged to the latest Household Consumption Expenditure Survey of 2023-24. The price change metrics now better reflect the current consumption patterns of households.

The data is also more illustrative, with the tables providing 12 different categories of items compared to the six groups in the previous series. Overall, the total number of items measured — including both goods and services — has increased from 299 to 358.

These additions of goods and services include for the first time inclusion of rural house rent, modern consumption items such as online media services and fuels such as CNG and

PNG, and improvements in the measurement of telephone charges, rail fare, air fare, fuel, postal charges and online media and streaming services. Items that are no longer used, such as VCRs, DVD players, radio, tape recorders, and cassettes, were removed from the CPI.

The WPI was similarly updated, with its base year revised to 2022–23 and the number of items expanded from 697 to 957. The new series also incorporates several methodological refinements.

The data have also been reorganised more logically. For instance, crude petroleum and natural gas have been moved from the ‘Primary Articles’ category to the ‘Fuel and Power’ major group, which already includes other key fuels such as coal, electricity and petroleum products.

The third major change introduced by the Commerce Ministry was the adoption of a PPI. Unlike the WPI, the PPI separately tracks the prices producers pay for inputs and the prices they receive for their outputs. The PPI excludes additional costs such as transport and indirect taxes, which the WPI includes. This makes the PPI a more accurate representation of prices at the producer level. It also incorporates both goods and services, which makes it more holistic. The government has indicated that the WPI will be phased out over the next five years, leaving the CPI and PPI as the country’s two principal price indices.

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