High Growth, Low Confidence – The Challenge of India's Economic Statistics

Mains: *GS III – Economy*

Why in News?

The data on India's real GDP and the grading of Indian economy by IMF underscores a significant issue in the challenges of Economic statistics.

What are the recent issues?

- **Data of India's real GDP** – The Union Statistics and Programme Implementation Ministry reported that *India's real GDP grew 8.2%* and the *nominal GDP 8.7%* in the second quarter of the financial year 2025-26 — the strongest print in six quarters.
- **The report of IMF** – The IMF, in its data adequacy assessment, had given India's national accounts a "C" grade.
- Noting "shortcomings that somewhat hamper surveillance", even as the overall macro data set earned a "B".
- **Weaking of the statistics** – The uninterrupted decennial Census series (since 1881), which underpins most sampling frames, has been broken.
- **Lack of Continuity** – The official consumption expenditure survey, the backbone of poverty and inequality statistics and consumer price index (CPI) reweighting, was last released in 2011-12.
- The 2017-18 round was scrapped after leaked results suggested a fall in real consumption, with the government citing "data quality" problems.
- In that sense, the IMF's "C" grade distils several long-running concerns.

What are the challenges of the economic statistics of India ?

- **The base year issue** – The current GDP series *still uses 2011-12 as its base year* — a benchmark that will be 14 years out of date by the time a new series with 2022-23 as base is rolled out in February 2026.
- Real growth, obtained by deflating nominal aggregates, uses price indices derived from consumption and production patterns that no longer accurately reflect the economy's structure.
- **Gap in revision of CPI & WPI** – Both the consumer and wholesale price baskets, which should be refreshed roughly every five years, are long overdue for revision.

The Wholesale Price Index (WPI) *tracks inflation for goods at the bulk/producer level, focusing on goods only (raw materials, fuel, manufactured items).*

The Consumer Price Index (CPI*) measures inflation for households at the retail level, including both goods and services (food, housing, healthcare, education).*

- Moreover, the narrow gap between nominal and real GDP in the latest quarter, barely half a percentage point, is also significant.
- When deflators are based on outdated expenditure weights, they are prone to understating effective inflation and overstating real growth.
- Point estimates of 8%-plus growth should, therefore, be treated as only indicative.
- **The current price in-appropriation** – The current price architecture is particularly ill-suited to a services-led economy.
- *Services now account for about 55%* of the gross value added (GVA).
- Yet India still relies heavily on the wholesale price index (WPI), which omits most services, for deflating output.
- The IMF has been explicit that the absence of a comprehensive producer price index (PPI) and *"excessive use of single deflation"* are central reasons for the "C" grade.
- **Ignoring informal economy** – The treatment of the informal economy in national statistics is a serious weakness.
- The informal sector *contributes roughly 45% of the GDP,* but is not measured annually from the ground up.
- Instead, statisticians fix the formal-informal relationship in the base year and then extrapolate informal activity from formal-sector indicators such as corporate filings or GST data.
- That shortcut might work in a stable environment, but it breaks down when shocks, such as demonetisation, GST, and the pandemic, hit small, cash-dependent firms much harder than listed companies.
- Proxying kirana stores, small workshops, and petty services with large firms makes aggregate GDP look healthier precisely when vulnerability is greatest.
- **Difficulties in inferring GDP** – The quarterly GDP numbers are difficult to interpret in their current form.
- In an economy with pronounced monsoon and festival cycles, raw quarter-on-quarter changes say little about the underlying trajectory.
- Most advanced statistical systems publish seasonally adjusted series to strip out predictable intra-year patterns and identify genuine turning points.
- India does not produce such reports, leaving investors and policymakers to read the cycle off unadjusted GDP, where a festival quarter and a genuine upswing are virtually indistinguishable.

What should be the reform agenda?

- **Prioritizing the statistics** – Statistics must be treated as economic infrastructure, not an administrative by-product.
- The National Statistical Commission (NSC) should be given a firm statutory basis, its

own budget, security of tenure for members, and a clear mandate to publish data without political clearance, with protections for its Chair analogous to those of the RBI Governor.
- India was an early supporter of the UN's Fundamental Principles of Official Statistics.
- It now needs to write those principles into domestic law rather than merely endorsing them in international forums.
- **Ensuring the periodicity** – The Census, consumption, labour-force and enterprise surveys should have legislated periodicity and statutory deadlines for release, with deviations explained to Parliament.
- Anonymised microdata should be routinely available to researchers with reasonable lags to enable independent "shadow" estimates that provide external validation, as investors and multilaterals often demand.
- **Building a transparent digital data** – As digital sources multiply, the risk grows that selective high-frequency indicators (GST collections, toll data, UPI volumes) will substitute for, rather than complement, a coherent system.
- The integration of digital data into national accounts must be transparent and replicable, otherwise, dashboards will multiply, but doubts will persist.
- For global investors, weak and unreliable data mean mispriced risk; for policymakers, they mean misjudged slack, misplaced priorities and a macro stance looser than what fundamentals warrant.
- If trend growth is overstated and poverty undercounted, job creation looks less urgent than it is, and the case for safety nets and basic public goods appears weaker than it should.

What lies ahead?

- India's economic rise is real, but its statistical institutions have not kept pace.
- If the coming overhaul succeeds in building an independent, modern and transparent system, what will finally matter is not IMF's grade card, but whether an 8.2% print commands confidence, not scepticism.
- To be fair, India is moving on the reform agenda.
- A new GDP series with 2022-23 as the base, an updated CPI with 2024 weights, and a revised IIP are all slated for release in early 2026, with greater use of GST returns, corporate filings, digital payments, and recent consumption and enterprise survey data.
- If these revisions are implemented rigorously and then institutionalised as a regular cycle, India's statistical methods will come much closer to international best practice.

Reference

The Hindu| The Challenges of Indian Economic Statistics