The Index of Services Production (ISP)

Mains: *GS III – Economy*

Why in News?

The Ministry of Statistics and Programme Implementation (MoSPI) will launch the Index of Services Production (ISP).

What is the background?

- **Transformation of Indian economy** – India's economy has undergone a structural transformation over the past three decades, with the services sector emerging as its largest contributor.
- **Increased Contribution of Service sector** – Today, services account for over **50% of India's Gross Value Added (GVA)**, making them the primary driver of economic growth, employment, investment, and exports.
- **Concerns** – Despite this dominant role, India has lacked a comprehensive high-frequency indicator to measure monthly changes in services sector output, unlike the **Index of Industrial Production (IIP)** for manufacturing and industry.
- **Idea of ISP** – The Ministry of Statistics and Programme Implementation (MoSPI) will launch the Index of Services Production (ISP) With **base year 2024-25**.
- Initially released as **trial indices from July 2026**, the ISP represents a major reform in India's statistical architecture and aligns the country with international best practices in economic measurement.
- **Need for the ISP –** The services sector has become the backbone of the Indian economy through rapid expansion in banking, telecommunications, trade, transport, hospitality, information technology, real estate, and professional services.
- However, policymakers have traditionally relied on quarterly GDP estimates and indirect indicators to assess its performance.
- **Limitation of existing data** – The absence of a monthly services output indicator created several limitations:
    - Lack of timely assessment of economic activity.
    - Difficulty in identifying sector-specific slowdowns.
    - Inadequate support for short-term monetary and fiscal policy decisions.
    - Limited data for business cycle analysis and economic forecasting.
- The ISP seeks to fill this critical statistical gap by providing a monthly measure of real output growth in the formal services sector, similar to the role played by the IIP in the industrial sector.

What is the Index of Services Production?

- **Index of Services Production (ISP)** – It is a **short-term volume index** that measures changes in the real output produced by service industries relative to a specified base year (2024–25).
- Unlike nominal turnover, the ISP measures **real production after removing the effect of price changes**, thereby reflecting actual changes in service output over time.
- **Primary objectives:**
    - To complement the Index of Industrial Production (IIP).
    - To strengthen India's short-term macroeconomic indicators.
    - To provide high-frequency information on the services sector.
    - To support evidence-based policymaking and economic analysis.
- **Institutional Framework –** Recognising the complexity of measuring services output, MoSPI constituted a **Technical Advisory Committee (TAC)** in May 2025 under the chairpersonship of **Debjani Ghosh**, Distinguished Fellow, and NITI Aayog.

What are the sectors included and excluded in ISP?

- **Coverage of the ISP –** The ISP primarily covers the **formal services sector**, using administrative and GST-based data.
- Major sectors included:
    - Wholesale and retail trade
    - Repair and maintenance services
    - Road, rail, water and air transport
    - Warehousing and logistics
    - Banking
    - Insurance
    - Telecommunications
    - Hotels and restaurants
    - Real estate
    - Information technology and computer services
    - Professional, scientific and technical services
    - Administrative and support services
    - Arts, entertainment and recreation
- **Sectors to be Included Later**
    - Health services (excluding government)
    - Education services (excluding government)
- They will be incorporated after sufficient data become available through the **Annual Survey of Incorporated Services Sector Enterprises (ASISSE).**
- **Services Excluded from the ISP –** Certain services are excluded because they are predominantly non-market activities, government services, or difficult to measure through market transactions.
- These include following sector:
    - Public administration and defence
    - Government health and education
    - Central banking activities

- Social work without accommodation
    - Membership organisations
    - Personal services
    - Household services
    - Extraterritorial organisations
    - Gambling and betting activities

What are the data sources used in ISP?

- **Administrative Data –** Used for sectors where reliable operational statistics already exist, Air transport, Railways, Banking and Insurance.
- **Goods and Services Tax (GST) Data –** GST outward supply data from **GSTR-1** forms the backbone of ISP for most service industries.
- Coverage includes, trade, hospitality, telecommunications, information technology, professional services, real estate, logistics, administrative services and entertainment.
- Importantly, MOSPI uses **aggregated service accounting code (sac)-wise data**, ensuring confidentiality of individual taxpayers.
- **Annual Survey of Incorporated Services Sector Enterprises (ASISSE) –** ASISSE will provide benchmark estimates for sectors that are largely GST-exempt, particularly, Health and Education.

What are the benefits of the ISP?

- **Better Macroeconomic Monitoring –** It provides timely assessment of service sector performance between quarterly GDP releases.
- **Improved Policy Formulation –** Government and RBI can respond more quickly to sector-specific economic changes.
- **Stronger National Accounts –** ISP will improve estimation of quarterly and annual GDP by supplying robust high-frequency indicators.
- **Enhanced Business Cycle Analysis –** Economists and researchers can identify cyclical turning points earlier.
- **Better Investment Decisions –** Businesses gain access to reliable monthly information on sectoral trends.
- **International Comparability –** The ISP aligns India with advanced statistical systems followed in many developed economies.

What are the challenges ahead?

- Coverage is restricted largely to the formal sector.
- Informal service activities remain outside the index.
- Dependence on GST data may be affected by compliance behaviour.
- Limited availability of Service Producer Price Indices reduces methodological precision.
- Health and education sectors will initially remain partially uncovered.
- Continuous refinement of SAC-NIC mapping will be necessary.
- These issues are expected to improve gradually as administrative databases become more comprehensive.

What lies ahead?

- The **Index of Services Production (ISP)** represents one of the most important statistical reforms in recent years.
- By providing a **monthly measure of real services sector output**, it complements the Index of Industrial Production and fills a long-standing gap in India's macroeconomic data framework.
- Leveraging GST-based administrative data, modern statistical methods, and internationally accepted practices, the ISP will significantly strengthen economic surveillance, policy formulation, forecasting, and national accounts compilation.
- As India's economy becomes increasingly service-driven, the ISP is poised to become an indispensable tool for policymakers, researchers, businesses, and investors, contributing to more informed and evidence-based governance.

References

1. The Hindu| ISP

2. PIB| ISP

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