Upgrade of India's Statistical Databases

Mains: *GS-III – Economy*

Why in News?

Over the last few months, India has made several upgrades to its statistical databases, improving their timeliness, representativeness, accuracy, and coverage.

What are the metrics that have been updated?

- **Updates to National Accounts** – The most significant changes were made to India's national accounts statistics by the Ministry of Statistics and Programme Implementation (MoSPI).
- These include several key metrics such as
  - GDP,
  - Gross Value Added (GVA),
  - Sector-wise output and growth figures, and
  - Contributions of each of the engines of growth to the economy — government expenditure, private investment, household consumption, and trade.
- These figures are released quarterly and annually to track the economy's performance.
- **Index of Industrial Production (IIP)** – MoSPI updated the IIP, which captures how industrial activity in the economy is doing monthly.
- 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.
- **India's Inflation Measures** – India tracks inflation through two main indices
  - **Consumer Price Index (CPI)** – Price changes at the retail level, which is meant to capture the consumer-end of the market, released by MoSPI.
  - **Wholesale Price Index (WPI)** – Price changes at the wholesale level, which is ideally meant to capture the prices that producers get, released by the Ministry of Commerce & Industry.
- Both these indices have been significantly updated and upgraded — the CPI in February and the WPI in June.
- **Producer Price Index (PPI)** – It was introduced recently by the Union Commerce

Ministry.
- The PPI not only captures the price impact on producers more accurately than the WPI but will also replace the WPI entirely in five years.

Why was an update needed?

- **Outdated Base Years** – India's key economic databases were outdated and were becoming less representative of reality with each passing year.
- For example, the GDP, GVA, IIP, and WPI data had a base year of 2011-12 & CPI in 2012.
- 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.
- **Changing Consumption Patterns** – The outdated indices were measuring price changes and index values based on household consumption patterns that were about 15 years old.
- Several items like DVDs and cassettes were included in the indices even though they are not used now, but several new items that are being used now were not included by the indices.
- This mismatch weakened the accuracy of price and consumption measurement.
- **Importance of Accurate Prices** – Accurate price data is essential not only for policy decisions but also for correctly measuring the economy's size and its growth.
- **Policy decisions** – e.g., RBI's Monetary Policy Committee uses CPI to set interest rates.
- **Government allowances** – Dearness Allowance (for employees) and Dearness Relief (for pensioners) are linked to inflation.
- **Global Relevance** – The real economy's growth rate, which is the standard measure worldwide for comparing economies, is calculated after adjusting for inflation; outdated indices risked distorting India's growth picture.

*Recently, the Indian government received a 'C' grade, the second-lowest grade, by the **International Monetary Fund** for the quality of its national accounts' statistics.*

What changes were made to the national accounts?

- **Updated Base Year** – The base year for national accounts has been updated to *2022–23*, making the data more representative of today's economy.
- Alongside this, several methodological improvements have been introduced.
- **Double Deflator Method** – One of the most important changes is the adoption 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 applied to agriculture and manufacturing, with plans to extend to other sectors.
- **Multi-Activity Enterprises** – Earlier, a company's entire output was counted under its main sector, even if it operated in multiple industries; this gave an inaccurate

picture of sectoral activity.
- Now, the company's output is split proportionately across all sectors it works in; this provides a more accurate measure of each sector's contribution.
- **New Data Sources** – 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?

- **Updated Base Year** – MoSPI has updated the IIP base year to *2022–23,* making the index more relevant to today's economy.
- Expanded Coverage – The IIP now expanded its coverage by including new sectors such as
    - Gas supply,
    - Water supply,
    - Sewerage, and
    - Waste management activities.
- These are added while retaining the earlier sectors like manufacturing, mining, and electricity.
- **Greater Detail** – The index was revamped to provide greater granularity in terms of sources of electricity (renewable and non-renewable), and the types of minerals produced.
- **Larger Item Basket** – 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.
- This broader basket ensures a more accurate reflection of industrial output.

What is the inflation-related changes?

- **Updated CPI Base Year** – The base year for CPI was *updated to 2024,* and the basket of items and 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.
- **Expanded Item Basket** – The categories increased from 6 groups to 12.
- Total items rose from 299 to 358, covering both goods and services.
- New inclusions include -
    - Rural house rent
    - Modern items like online media services
    - Fuels such as CNG and PNG
    - Improved measurement of telephone charges, rail fare, air fare, postal charges, and streaming services
    - Outdated items like VCRs, DVD players, radios, tape recorders, and cassettes were removed.
- **Updated WPI –** The WPI base year was *revised to 2022–23* and the number of item coverage expanded from 697 to 957.

- The new series incorporated methodological refinements to improve accuracy.
- **Data Reorganized More Logically** — e.g., crude petroleum and natural gas moved from Primary Articles to Fuel and Power, alongside coal, electricity, and petroleum products.
- **Introduction of PPI** – Unlike the WPI, the PPI separately tracks the prices producers pay for inputs and the prices they receive for their outputs.
- It excludes transport costs and indirect taxes, unlike WPI & covers both goods and services, making it more holistic.
- The government plans to phase out WPI in five years, leaving CPI and PPI as the two main price indices.

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Reference

The Hindu | Why have India's statistical databases been upgraded?