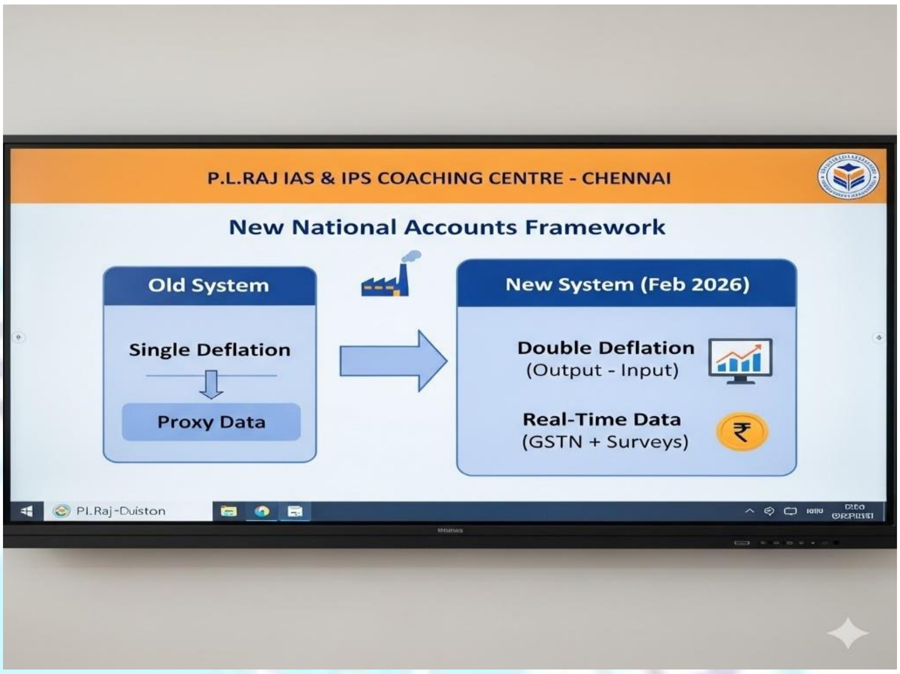
P. L. RAJ MAINS Q & A – DAY 66

Re-engineering India's Economic Engine - The New National Accounts Framework.

Introduction



The credibility and accuracy of a nation's Gross Domestic Product (GDP) data are the bedrock of effective policymaking. As India marches towards becoming a $5 trillion economy, the Ministry of Statistics and Programme Implementation (MoSPI) has announced a significant overhaul of India's National Accounts Statistics (NAS). Set to be released in February 2026, this new series aims to address long-standing data gaps, specifically regarding the informal economy and inflation adjustments. For a Civil Services aspirant, understanding the transition from "Single Deflation" to "Double Deflation" and the integration of the "Informal Sector" is crucial for General Studies Paper III (Economy).

The Need for Revision - Current Limitations

India currently calculates its GDP using the 2011-12 base year. Over the last decade, the economic landscape has changed drastically, but the measurement tools have lagged.

1. **Single Deflation Issue -** Currently, India uses a single deflation method for many sectors. This means the nominal value of output is adjusted for inflation using a price index (like WPI), but the inputs (raw materials) are not separately deflated. In periods where input prices rise faster than output prices (e.g., global oil shocks), this can overstate growth.
2. **The Informal Blind Spot -** A significant portion of India's economy is informal/unincorporated. The current series relies on "proxy indicators" (like cement production or steel usage) to estimate the output of this sector, which often leads to inaccuracies.
3. **Global Concerns -** Institutions like the International Monetary Fund (IMF) have raised concerns regarding "data adequacy," specifically the reliance on the Wholesale Price Index (WPI) for deflating the services sector, which is technically a mismatch.

Key Features of the New National Accounts Series

The proposed overhaul introduces structural changes to make data more granular and robust -

1. The Shift to Double Deflation

The most significant technical shift is the adoption of Double Deflation across all sectors.

What is it? Double deflation involves adjusting for inflation separately for the **Gross Output** (what is sold) and **Intermediate Inputs** (raw materials bought).

Why it matters - This provides a clearer picture of the "Real Value Added." It ensures that if raw material prices skyrocket but final product prices remain stable, the GDP calculation reflects the squeeze on manufacturers' profits, providing a true health check of the economy.

2. Integrating New Data Sources

Moving away from outdated proxies, the new series will use direct data from -

ASUSE (Annual Survey of Unincorporated Sector Enterprises) - To get real data on informal businesses.

PLFS (Periodic Labour Force Survey) - To accurately map employment trends.

GSTN & PFMS - The ministry plans to use "Data Triangulation" by cross-referencing survey data with real-time data from the Goods and Services Tax Network (GSTN) and the Public Financial Management System (PFMS). This integrates the formal tax data with production estimates.

3. Aligning with Producer Price Index (PPI)

Currently, India uses the Wholesale Price Index (WPI) to deflate GDP figures. However, WPI measures a basket of goods, not necessarily the cost of production. The new series aims to align closer to a Producer Price Index (PPI) and a Service Price Index (SPI), which track the prices received by producers, offering a more accurate reflection of industrial performance.

The Conundrum of the Informal Economy

A major debate within the overhaul is the measurement of the informal sector, which employs nearly 50% of India's workforce.

The Definition Problem - NITI Aayog has pointed out that International Labour Organization (ILO) definitions may not fit the Indian context.

The Accounting Blur - The Chief Economic Adviser (CEA) V. Anantha Nageswaran noted a structural issue - many Indian small businesses are Sole Proprietorships. These owners often mix personal and professional accounts. This leads to them being classified as "informal" not because they evade the system, but because their accounting is intermingled.

Potential Overestimation - The CEA argued that due to these structural blind spots, the size of the informal economy might be overestimated. The new series aims to use clearer definitions to distinguish between genuine informality and mere accounting overlaps.

Environmental and Digital Accounts

Aligning with the System of National Accounts (SNA) 2025, the new series recognizes data as a separate asset class. It is also developing "Satellite Accounts" to measure the economic contribution of the environment (forests, oceans) and the digital economy, ensuring that GDP figures reflect sustainability and modern digital commerce.

Way Forward

The transition to the new series requires immense capacity building, especially at the state level, to handle the "Triangulation" of real-time GST data with survey data.

1. **State-Level Capacity -** State Directorates of Economics and Statistics (DES) must be equipped to handle big data analytics.
2. **Standardization -** As noted by the Secretary of MoSPI, data across ministries must follow common classifications and be machine-readable to allow seamless integration.
3. **Moving Beyond WPI -** Accelerating the creation of a robust Service Price Index is critical, given that services contribute over 50% to India's GDP.

Conclusion

The revision of the National Accounts is not just a statistical exercise; it is an economic necessity. By adopting double deflation and leveraging digital footprints (GSTN), India is moving towards a statistical system that mirrors the complexity of its modern economy. While the CEA has rightly defended the resilience of Indian growth against selective skepticism, a more robust data framework will silence critics and provide the government with the high-quality data needed to steer the economy through global headwinds.

Main Practice Question

1. "The shift to a double deflation methodology in the proposed National Accounts series aims to fix structural infirmities in GDP calculation. However, accurately capturing the 'informal economy' remains a challenge amidst data triangulation efforts. Critically Analyse." (15 Marks)

Answer Guidelines

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1. Introduction - Contextualize with the MoSPI's announcement of the new National Accounts series (release in Feb 2026). Define the core shift - Moving from single deflation (proxy-based) to double deflation (value-added based).

2. Body

1. The Case for Double Deflation -

Explain the limitation of the current single deflation method (it fails to capture input cost inflation, potentially overstating growth during high inflation). Highlight how double deflation (deflating output and input separately) aligns India with global best practices (SNA 2025) and provides a realistic "Real GDP" figure.

2. The Informal Economy Challenge -

Discuss the reliance on ASUSE and PLFS data.

Critical Point - Highlight the CEA's argument regarding "Sole Proprietorships." The blurring of personal and professional accounts leads to misclassification/overestimation of the informal sector. Mention the challenge of using formal proxies (like GSTN) to measure a sector that is largely outside the tax net.

3. Conclusion - Conclude that while double deflation improves technical accuracy, the "real-time triangulation" of data (GSTN + Surveys) is vital. Success depends on distinguishing between "unorganized" and "informal" to prevent policy blind spots.