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EDITORIAL ANALYSIS

Measuring the Invisible — The Index of Service Production and India's Long-Overdue Statistical Reform

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THE EDITORIAL ARGUMENT

India measures its industrial output every month with a lag of about six weeks. It measures consumer prices every month. It measures wholesale prices every month. It measures its agricultural output through periodic crop surveys. What it does not measure monthly — what it has never measured monthly — is the output of the sector that contributes more than half its GDP. The MoSPI's Approach Paper for an Index of Service Production (ISP) is the first serious step toward fixing this gap. It is welcome, but it raises as many questions as it answers.

THE SCALE OF THE GAP

India's GDP composition tells the story. In FY2025-26, services contributed approximately **55% of India's GVA** at current prices. Manufacturing contributed around 17%. Agriculture, the sector that receives the most policy attention, contributed around 15%.

And yet India's monthly statistical architecture reflects a different economy:

- IIP tracks manufacturing, mining, electricity — together perhaps 27% of GDP
- WPI and CPI track prices — across both goods and services
- **Services output — the dominant sector — has zero monthly tracking**

The Reserve Bank of India, in conducting **monetary policy**, relies on the **S&P Global PMI Services Index** — a private survey of 400 purchasing managers — as its best monthly proxy for services activity. This is the statistical equivalent of measuring India's GDP using a supermarket loyalty card database. It is directionally useful but structurally inadequate.

WHAT GSTN CHANGES

The MoSPI's insight in the ISP Approach Paper is to use the **GST Network** as the foundation for services output measurement. This is a genuinely significant methodological advance.

GSTN contains monthly self-reported data from approximately **14 crore registered businesses** — including virtually every formally registered services firm in India. It covers invoicing, turnover, and inter-firm transactions in near real-time. Unlike surveys (which suffer from non-response bias and recall error), GSTN data is reported under legal obligation with penalties for non-compliance. Unlike proxy indicators (electricity consumption, freight movement), it directly measures services activity.

The methodological challenge is construction: how to convert GSTN turnover data — which measures transactions, not value added — into a production index. The Approach Paper proposes deflating nominal turnover by appropriate price indices to derive real output measures. This is technically demanding but not unprecedented — France and Germany use VAT (value-added tax) data for similar short-term economic monitoring.

THE EXCLUSION PROBLEM

The ISP's most significant limitation is what it cannot measure. Health, education, and government services are largely GST-exempt — and therefore GSTN-dark. Together, these three sectors account for perhaps **25-30% of total services GVA**:

- Government administration, defence, public sector services — entirely outside GSTN
- Education services — predominantly GST-exempt
- Health services — largely GST-exempt

This means the ISP, even when fully operational, will cover approximately **67% of services GVA** — leaving a third untracked. The RBI will still lack monthly data on government consumption (a major driver of demand) and public service delivery.

MoSPI should be explicit about this limitation and simultaneously invest in alternative measurement approaches for the excluded sectors — administrative data from states (school enrolment, health facility utilisation) that could serve as proxy indicators for the missing services GVA.

WHAT THIS MEANS FOR MONETARY POLICY

The ISP's most immediate beneficiary would be the RBI's **Monetary Policy Committee**. Currently, the MPC has monthly data on inflation (CPI, WPI), quarterly data on GDP growth, and the private PMI Services as the only monthly services activity signal. The ISP would give the MPC:

- An official monthly services activity index
- A more accurate picture of demand pressure in the non-manufacturing economy
- Better nowcasting of quarterly GDP (which itself relies partly on extrapolation from IIP)

This matters: India’s post-COVID growth has been primarily services-led. Rate decisions that assume manufacturing-led dynamics but face a services-led reality can be systematically miscalibrated. The ISP reduces that risk.

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Economy	National income accounting; GDP measurement; statistical gaps
GS2 — Governance	MoSPI; economic statistics; data-driven policymaking
GS3 — Economy	GSTN; GST formalisation; services sector; monetary policy

Mains Keywords: Index of Service Production, ISP, MoSPI, GSTN, IIP, services GDP, monetary policy, RBI MPC, national income accounting, statistical reform, PMI Services

Prelims Facts Corner

ITEM	FACT
ISP	Index of Service Production; proposed by MoSPI
Base year	2024-25
Primary data source	GST Network (GSTN)
Services share of GDP	~55% of GVA
Coverage	~67% of services GVA (formal sector)
Excluded	Health, education, government services (GST-exempt)
Current monthly proxy	PMI Services (S&P Global — private survey)
Consultation deadline	May 5, 2026
GSTN registered businesses	~14 crore
IIP covers	Manufacturing, mining, electricity — ~27% of GDP

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