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EDITORIAL ANALYSIS

A Better Yardstick: The IIP Swaps WPI for PPI as Its Deflator

ECONOMIC TIMES

13 July 2026 · ECONOMY · GS3

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Source: ujiyari.com — researched, fact-checked & UPSC-mapped

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THE LIFT LINE

A statistic is only as honest as the ruler behind it, and when India swaps a worn ruler for a sharper one, the story its factories tell changes even if the factories do not.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

The Ministry of Statistics and Programme Implementation has revised the Index of Industrial Production onto a new base year of 2022-23 and, in a technical but consequential change, adopted the Output Producer Price Index as the deflator (https://ujiyari.com/vocab/deflator/) for value-based industrial items in place of the Wholesale Price Index. The switch affects a large share of the basket, about 234 of the 463 item groups, representing roughly 36 per cent of the index weight, and it revises the entire back series. The reform arrived alongside an IIP reading of about 5.1 per cent industrial growth. Why should a candidate care about a deflator? Because a deflator is the instrument that strips price change out of a value figure to reveal the real, quantity-based movement of output. Choose the wrong deflator and the real growth number is distorted. This is statistical plumbing, and good statistics are the foundation on which every economic judgment, from monetary policy to Budget assumptions, is built.

GS Paper 3: Indian economy, statistical systems, growth measurement, and the mobilisation and management of resources.

For **Prelims**, hold the specifics: the Index of Industrial Production, a volume index measuring the growth of the mining, manufacturing and electricity sectors, released by the National Statistical Office under MoSPI; the base-year revision from 2011-12 to 2022-23; the Wholesale Price Index, which tracks prices at the wholesale level and covers goods only; the Producer Price Index, which measures the average change in selling prices received by domestic producers, includes services, and avoids the double counting inherent in the WPI; the use-based and sectoral classifications of the IIP; and the government's decision to run WPI alongside PPI (http s://ujiyari.com/terms/producer-price-index/) for a transition period before discontinuing it. For **Mains**, argue that credible, contemporary statistics are a public good, and that base-year revisions and better deflators are essential to keep the measurement of the economy honest.

BACKGROUND AND CONTEXT

Every price and volume index rests on a base year, a reference period whose structure of output and consumption the index assumes. As an economy changes, new industries appear, others shrink, consumption patterns shift, an old base becomes a distorting mirror. India's IIP had been anchored to 2011-12, more than a decade out of date, so shifting it to 2022-23 realigns the index with the actual shape of today's industrial economy.

The deflator change is the subtler reform. To convert a value of industrial output into a real volume, the statistician must divide out price change. The IIP had used the WPI for this. But the WPI has known weaknesses: it covers only goods and omits services, and its structure can double count as goods move through stages of production. The Producer Price Index, aligned with International Monetary Fund recommendations and global best practice, measures the prices producers actually receive, includes services, and is designed to avoid that double counting. Using PPI as the deflator therefore gives a cleaner separation of price from quantity, and a truer picture of real industrial output.

THE CORE ARGUMENT / ISSUE

Why the deflator is not a footnote

FEATURE	WHOLESALE PRICE INDEX	OUTPUT PRODUCER PRICE INDEX
What it measures	Prices at the wholesale stage	Selling prices received by producers
Coverage	Goods only	Goods and services
Double counting	Prone to it across stages	Designed to avoid it
Global alignment	Older convention	IMF-recommended best practice
Role here	Former IIP deflator	New IIP deflator

Because the deflator determines how much of a nominal change is called price and how much is called real growth, a better deflator directly improves the reliability of the headline industrial-growth number that markets, the RBI and the government all read.

Base year plus deflator, a twin upgrade

The two changes reinforce each other. A refreshed 2022-23 base captures the current weight of industries; a sounder PPI deflator then measures their real movement more accurately. Revising the entire back series on the new method also means the historical growth path is recomputed consistently, so analysts are not comparing new apples with old oranges.

The credibility dividend

Statistical reform pays a quiet but large dividend: trust. When investors, rating agencies and policymakers believe a country's numbers, decisions rest on firmer ground. Periodic base-year revisions, transparent methodology, and adoption of international standards are how a statistical system earns and keeps that trust. Running WPI in parallel during a transition, rather than discontinuing it abruptly, is itself a mark of careful reform that respects the many contracts and price-escalation clauses tied to the old index.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Treat measurement as policy infrastructure, not as accounting trivia. The transferable rule for GS3: the quality of a decision cannot exceed the quality of the data behind it, so investment in statistical capacity is investment in every downstream policy. Ask, of any headline number, what deflator and what base year produced it, because those choices can swing the real figure more than any underlying economic event. The examiner rewards the candidate who understands that a reform which does not change a single factory's output can still change the growth number, and who sees why aligning with IMF norms and refreshing bases regularly is a hallmark of a maturing statistical system rather than a dry technicality.

THE DIAGRAM IN WORDS

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Old IIP on 2011-12 base + WPI deflator (goods only, prone to double counting) -> stale weights, price and volume imperfectly separated -> reform: shift base to 2022-23 + adopt Output PPI deflator (includes services, avoids double counting, IMF-aligned) across about 234 of 463 item groups -> entire back series recomputed consistently -> cleaner split of price from real quantity -> more reliable industrial-growth reading (about 5.1 per cent) -> stronger foundation for monetary policy, Budget and investment decisions -> credibility dividend
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WAY FORWARD

1. **Institutionalise regular revisions.** Fix a predictable cycle for base-year updates across GDP, CPI, WPI and IIP so no index drifts a decade out of date again, keeping measurement aligned with a fast-changing economy.

2. **Complete the WPI-to-PPI transition carefully.** Run the WPI in parallel through the announced window so price-escalation contracts can migrate, then move fully to the PPI framework as the standard producer-price measure.
3. **Invest in statistical capacity.** Strengthen the National Statistical Office with resources, autonomy and modern data pipelines, since credible numbers are a public good that underpins every economic decision.
4. **Communicate methodology transparently.** Publish clear documentation of base years, deflators and weights so analysts, investors and citizens can trust and interrogate the figures, which is how a statistical system earns lasting credibility.

PYQ LINKAGE AND PRACTICE

UPSC has asked about GDP and index base-year revisions, the WPI and CPI, and the reliability of economic data. This editorial converts a technical deflator change into an argument about statistical credibility as policy infrastructure, which is the analytical altitude the examiner rewards.

Practice question: "Sound statistics are a public good on which the quality of economic policy depends." Discuss with reference to recent reforms in India's industrial-production and price indices, including the shift from WPI to a Producer Price Index. (250 words, 15 marks)

Sources: The Economic Times (https://economictimes.indiatimes.com/), Ministry of Statistics and Programme Implementation (https://www.mospi.gov.in/), Press Information Bureau (https://www.pib.gov.in/)

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