3. IMF Gives India A 'C' On Its GDP - Economy

The International Monetary Fund (IMF) has assigned India a 'C' grade for the quality of its national accounts statistics, marking one of the lowest ratings for a major economy

IMF Gave India a 'C' Grade

Outdated Base Year (2011–12) - India continues using the 2011–12 base year for national accounts (GDP), inflation measurement (CPI), and industrial output (IIP). Over the past decade, the Indian economy has undergone significant structural shifts—digital infrastructure growth, GST-induced formalisation, rising services share, and changes in consumption patterns. With such rapid change, an old base year results in misaligned sectoral weights, inaccurate inflation estimates, and distorted real growth data. International standards recommend frequent base-year revisions to reflect current economic realities, ensuring that deflators, price indices, productivity trends, and household consumption models remain up-to-date.

Inaccurate Representation of Inflation - The IMF specifically downgraded CPI to a 'B' grade instead of the expected 'A'. The CPI basket still reflects 2011–12 consumption patterns, which overweights food items and underweights modern expenditures such as digital services, mobility, private healthcare, and education. Due to this outdated structure, CPI may overstate or understate true inflation, affecting RBI's monetary policy decisions related to repo rate, liquidity levels, and inflation targeting under the Flexible Inflation Targeting Framework. A misaligned CPI basket reduces the effectiveness of macroeconomic management, especially when inflation dynamics are heavily driven by fuel prices, services inflation, and global supply-chain factors not adequately captured in the outdated basket.

Weak Capture of the Informal Sector - India's informal sector contributes an estimated 45–50% of employment and 20–30% of GDP, yet remains largely outside formal statistical systems. Informal enterprises typically maintain no formal accounts, operate on cash transactions, and avoid regulatory filings, making their measurement difficult. As a result, GDP estimates may systematically undervalue actual economic activity, especially in rural and unorganised-sector-dominated states. Employment data becomes less reliable, often missing cyclical distress patterns, labour mobility, disguised unemployment, and underemployment. Welfare assessments may also be skewed—policies based on incomplete data may fail to target vulnerable groups effectively.

Delays in Data Revisions - According to global best practices (IMF, UN SNA), base-year revision should ideally occur every 5 years. India has gone over a decade without updating the base year, weakening the serviceability and timeliness component of DQAF. A delayed revision creates mismatches between survey cycles, economic structure, technological adoption, and price patterns, reducing reliability across datasets. It also affects the credibility of long-term trend analysis, such as productivity measurement, sectoral transition patterns, and household welfare changes.

Need for Better Use of Modern Data Sources - India has begun integrating modern datasets such as MCA-21, which contains audited corporate financial filings. However -

1. Coverage gaps exist for small and medium firms not filing consistently.
2. Validation protocols for MCA-21 data remain incomplete, affecting reliability.

Integration of GSTN data for estimating value added in manufacturing and services is still evolving.

3. GST data could significantly improve measurement of the formal and semi-formal sector.
4. Full operational use requires robust reconciliation, cross-verification, and methodological clarity.

The IMF expects India to leverage these digital datasets more effectively to reduce dependence on outdated surveys and administrative records.

IMF's Data Grades Work (DQAF Framework)

Purpose of DQAF - The **Data Quality Assessment Framework (DQAF)** evaluates countries on their statistical systems under parameters like -

1. Methodological soundness
2. Accuracy and reliability
3. Serviceability (timeliness, periodicity, consistency)
4. Accessibility of data to the public
5. Integrity and independence of statistical institutions

Grade Meanings - Grade A - High compliance with international statistical standards; data is reliable for policymaking and global surveillance. Grade B - Good structure but with noticeable deficiencies, implying medium confidence. Grade C - Significant methodological or institutional weaknesses that materially affect accuracy. Grade D - Poor-quality datasets that constrain economic analysis and forecasting. India's 'C' grade indicates risks to policymaking and reduced precision in economic forecasting.

Possible Implications of the 'C' Grade

Weak Policymaking Precision - Outdated inflation and GDP data may result in misaligned fiscal planning, erroneous budget projections, and inaccurate demand–supply assessments. Sector-specific policies—agriculture, MSMEs, welfare schemes—could be based on incomplete or skewed data.

Reduced Credibility of Economic Numbers - Investors, credit rating agencies, and multilateral institutions may view India's macroeconomic statistics with caution. Perceived data opacity can influence sovereign risk assessments, foreign investment decisions, and loan conditions.

Inaccurate Growth and Welfare Assessment - Undercounting the informal sector can -

1. Underestimate true GDP
2. Mask rural distress
3. Misrepresent unemployment trends
4. Reduce clarity on consumption slowdown cycles

Welfare benefits may become mis-targeted if poverty levels and household vulnerabilities are not measured accurately.

Impaired Monetary Policy - Since RBI's inflation targeting relies on CPI, outdated weights may distort understanding of true price pressures. This affects decisions on repo rates, liquidity management, credit flows, and inflation expectations. Consequently, growth–inflation trade-offs may be misjudged.

Pressure for Statistical Reforms - The IMF grading increases momentum for -

1. Updating base years for GDP, IIP, CPI
2. Conducting more frequent household, labour, and consumption surveys
3. Strengthening autonomy of the National Statistical Office (NSO)
4. Better integration of digital administrative databases (GSTN, MCA-21)

Reforming India's statistical ecosystem becomes crucial for accurate planning and international credibility.

Basic Terminologies (Expanded for Clarity)

National Accounts - A comprehensive statistical framework capturing total economic activity—production, income, consumption, savings, investment. Serves as the basis for calculating GDP, fiscal deficit ratios, productivity, and sector-wise contributions.

Base Year - A reference year against which price and volume changes are measured. Must be periodically revised to reflect modern consumption and production patterns, ensuring accurate real estimates.

GDP (Gross Domestic Product) - Total value of all goods and services produced within the country. Reflects overall economic performance and is used for budget planning, growth assessment, and global rankings.

GVA (Gross Value Added) - Measures economic contribution by subtracting intermediate consumption from total output. Helps assess sector-specific performance (agriculture, manufacturing, services).

CPI (Consumer Price Index) - Measures retail inflation based on a representative consumption basket. Key tool for RBI's monetary policy decisions.

IIP (Index of Industrial Production) - Measures physical output of the industrial sector. Acts as a high-frequency indicator of industrial health and business cycle conditions.

Informal Sector - Consists of unregistered, unorganised enterprises operating outside tax and regulatory systems. Hard to measure, yet central to India's employment and livelihood structure.

MCA-21 - Digital repository of corporate filings submitted to the Ministry of Corporate Affairs. Essential for compiling corporate sector data, profitability trends, and formal-sector value added.

Source - [https - //www.thehindu.com/business/Economy/imf-gives-india-a-c-on-its-gdp-and-other-national-accounts-data-the-second-lowest-grade/article70330780.ece](https://www.thehindu.com/business/Economy/imf-gives-india-a-c-on-its-gdp-and-other-national-accounts-data-the-second-lowest-grade/article70330780.ece)