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3. WPI To PPI Transition- Economy

The government has approved a phased replacement of the Wholesale Price Index (WPI) with the Producer Price Index (PPI) by 2031, with revised index series based on the new 2022-23 base year to improve inflation measurement accuracy. The revised WPI series featuring an expanded basket of 957 items (from 697) was released on June 15, 2026, alongside the new Output Producer Price Index (OPPI). Both WPI and PPI will run in parallel until 2031, giving industry a predictable transition window while the Ministry of Finance's Department of Expenditure will direct all new long-term contracts extending past 2031 to be linked to PPI instead of WPI.

1. Key Highlights of Recent Changes

Larger Item Basket

1. WPI items tracked - 697 → 957 reflecting India's modern industrial footprint

Green Energy Inclusion

1. Solar energy, wind energy, nuclear electricity added under 'Electricity' group matching India's green energy transition

Better Energy Grouping

1. Crude petroleum, natural gas moved from 'Primary Articles' to 'Fuel and Power'
2. Keeping all energy products (coal, electricity, oil) in one integrated group

Gross Value of Output (GVO) for Weights

1. Old series - Net Traded Value (GVO + Imports - Exports) for item weights
2. New series - Pure GVO (total value of goods produced domestically before trade adjustments)
3. Reflects domestic production and true value to local producers

Chain-Based Method

1. Comparing prices of current month to immediate previous month and linking them
2. Replacing rigid, long-term formula used in past
3. More responsive to current economic conditions

Targeted Mean Imputation

1. Missing price data estimated using prices of similar items
2. Replacing previous practice of carrying forward last known price
3. Improving statistical accuracy

Linking Factor

1. Created using geometric mean of prices from FY 2024-25
2. Helps compare old data with new data during transition

2. Why the Transition is Needed (Limitations of WPI)

Exclusion of Services

1. WPI only tracks physical goods
2. Services sector contributes over 50% of India's GDP
3. WPI failing to capture massive portion of economic activity

Double Counting

1. WPI measures prices at intermediate wholesale distribution points

2. Same raw material counted multiple times moving down supply chain
3. Distorting true inflation picture

Price Distortions

1. WPI includes trade, transport margins rather than pure cost of production
2. Skewing actual picture of factory-gate inflation
3. Misrepresenting producer-level price pressures

3. About the Producer Price Index (PPI)

Definition

1. Measures changes in prices received by producers before products, services reach consumers
2. Weights derived from Supply and Use Tables of India's National Accounts

Three Separate Indices

Output Producer Price Index (OPPI) -

1. Tracks average change in prices domestic producers receive for goods, services before entering market
2. **Pricing Rule -** Basic Price (excludes net taxes, transport/trade costs)
3. **Release -** Monthly from June 15, 2026 (including 37-month back-series from April 2023)
4. Starts with 125 items; expanding to 1,500 items once WPI discontinued

Trial Input Producer Price Index (IPPI) -

1. Tracks cost of raw materials, inputs bought by industries
2. **Pricing Rule -** Purchaser's Price (includes transport costs, trade margins)
3. **Release -** Monthly experimental basis for Manufacturing Sector only from March 2026
4. Testing data quality before full rollout

Services Producer Price Index (Service PPI) -

1. Tracks price changes in services sector
2. Plugging major loophole in India's inflation tracking
3. **Release -** Quarterly basis (starting January-March 2026 quarter)
4. **Initial 7 services covered -** Banking, Securities Transactions, Insurance, Pension Fund Management, Railways, Air Passenger Services, Telecommunications

4. Significance of the Reform

Macroeconomic Policy and Data Precision

1. **Accurate National Accounting -** Government currently uses rough mix of WPI and CPI to deflate Nominal GDP into Real GDP; IMF long advised using PPI; Output PPI serves as ideal GDP Deflator accurately calculating Gross Value Added (GVA) of industries
2. **Better Policy Framing -** Comparing Input PPI with Output PPI shows how rising raw material costs affect factory-gate prices; tracks pass-through effect of supply-side inflation helping RBI spot industrial stress points before hitting retail consumers (CPI)
3. **Global Comparability -** Most G-20 nations (US, China, Japan, Germany, France) already use PPI systems making international economic comparisons easier

Broader Data Modernization

1. Aligns with parallel updates across India's central statistics ecosystem
2. IIP (Index of Industrial Production) base year also revised to 2022-23 by MoSPI
3. Comprehensive statistical modernization framework

Microeconomic and Contractual Adjustments

1. WPI remains vital for businesses as indexing tool in price-escalation clauses for long-term construction, raw material supply, infrastructure contracts
2. **5-Year Parallel Run (2026-2031) -** Both WPI and PPI published together allowing existing commercial contracts to finish smoothly
3. **Ministry of Finance Directive -** Department of Expenditure advising all new long-term contracts extending past 2031 to be linked to PPI

5. Key Distinctions - WPI vs CPI vs PPI

Aspect	WPI	CPI	PPI
Measures	Wholesale prices	Retail/consumer prices	Producer/factory-gate prices
Covers	Goods only	Goods + Services	Goods + Services (expanded)
Used by	Business contracts	RBI monetary policy	GDP deflation, policy
Stage	Intermediate	Final consumption	Production stage
Services	No	Yes	Yes (new)

6. Way Forward

1. Expand OPPI basket from 125 to 1,500 items before 2031 WPI discontinuation
2. Gradually extend Services PPI beyond initial 7 services to cover healthcare, education, real estate
3. Strengthen statistical capacity at MoSPI for PPI data collection, verification
4. Industry awareness campaigns on transition from WPI to PPI-linked contracts
5. International collaboration with IMF, World Bank on PPI methodology refinement

7. Conclusion

India's phased WPI-to-PPI transition by 2031 with new 2022-23 base year represents landmark statistical modernization — expanding item basket to 957, adding green energy components, using GVO weights, chain-based method, and targeted mean imputation while introducing three PPI indices (OPPI, IPPI, Services PPI) covering factory-gate prices, input costs, and services sector. The reform addresses WPI's fundamental limitations (services exclusion, double counting, price distortions) and positions India's inflation measurement in line with G-20 best practices, enabling accurate GDP deflation, better monetary policy transmission tracking, and global economic comparability.

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