

2. Index of Industrial Production

The Ministry of Statistics and Programme Implementation (MoSPI) is set to revise the base year of the Index of Industrial Production (IIP) to 2022–23, aligning it with the new base year proposed for GDP estimation.

Introduction – Understanding the IIP

Definition – The Index of Industrial Production (IIP) is a key statistical indicator that measures the growth rate and volume of industrial output over a specified period, reflecting the level of industrial activity and production trends in the economy.

Purpose and Relevance – It serves as a short-term indicator of industrial performance and is crucial for

1. Policymaking and economic forecasting by the Government and RBI.
2. Assessment of industrial sector health for planning and investment.
3. Compilation of national accounts and early signals of industrial growth trends.

Responsible Agency – Compiled and released by the Central Statistical Organisation (CSO) under the Ministry of Statistics and Programme Implementation (MoSPI).

Periodicity – Monthly.

Current Base Year – 2011–12.

Structure and Classification of the IIP

Computation Method – IIP is compiled as a simple weighted arithmetic mean of production relatives, using the Laspeyres formula (a fixed-base method).

Classification of Industries – The IIP measures the growth of industrial output across two main dimensions –

1. Broad Sectors –

1. Mining
2. Manufacturing
3. Electricity

2. Use-based Classification –

1. Basic Goods
2. Capital Goods
3. Intermediate Goods

Significance – Provides a composite picture of industrial performance, making it a crucial input for GDP estimation and policy planning.

Need for Revising the Base Year

a. Structural Transformation of the Economy – Since the last base year (2011–12), India's economic composition has changed significantly –

1. Services sector now contributes over 62.5% of GVA,
2. Agriculture around 15%,
3. Industry about 22%. This evolution highlights the need to align industrial indices with contemporary economic realities.

b. Technological and Product Evolution – The rise of digital manufacturing, automation, renewable energy, and new-age products (e.g., EVs, semiconductors) has redefined industrial output. The older base year no longer reflects current product diversity or production technologies.

c. Alignment with International Standards – The United Nations recommends revising base years every five years to maintain relevance and accuracy. India's 2011–12 base is over a decade old, making revision overdue.

d. Economic Policy and Data Accuracy – Outdated base years lead to distorted growth estimates and weaken policy calibration. Aligning the IIP with a 2022–23 base will improve data comparability, accuracy, and policy responsiveness.

e. Expert Recommendation – The Technical Advisory Committee on Base Year Revision of IIP (TAC–IIP) under MoSPI recommended updating the base to 2022–23, considering digitalization, product diversification, and industrial transformation.

Proposed Improvements in the New IIP Series

a. Expanded Scope and Coverage – Outdated items (e.g., kerosene, fluorescent tubes) to be replaced with modern and relevant products such as – LED bulbs, laptops, mobile phones, solar modules, vaccines, and aircraft components. For the first time, inclusion of minor minerals and gas supply – aligning with the International Recommendations for the Index of Industrial Production (IRIIP, 2010).

b. Refinement of Data and Classifications – MoSPI reviewed 276 “not elsewhere classified (n.e.c.)” items. 95% reassigned to specific product categories. Only 5% remain unclassified – improving precision and reducing ambiguity in industrial groupings.

c. Substitution of Non-operational Factories

Earlier Issue – Inactive factories remained in the sample frame, skewing results.

New Mechanism – Introduces dynamic replacement of closed or non-operational units. Ensures continuity and comparability through overlapping data and statistical bridging.

d. Seasonal Adjustment of Data

Introduction of a seasonally adjusted IIP series for the first time.

Benefits –

1. Filters out regular seasonal fluctuations (e.g., festive demand, monsoons).
2. Enhances trend identification, cyclical analysis, and short-term economic forecasting.

e. Integration with Digital Databases

Greater use of digital and administrative data sources for real-time industrial monitoring. Integration with –

1. GST Network (GSTN)
2. MCA21 corporate filings
3. E-way bills and electronic invoices

Enhances accuracy, reduces reporting delays, and supports data-driven policymaking.

Challenges in Implementing the Revised IIP

a. Data Gaps and Coverage Limitations – MSMEs and informal sector units remain underrepresented due to weak reporting mechanisms and lack of structured data. Reliance on voluntary data submission can cause underestimation of output.

b. Timeliness of Data Collection – Real-time or near-real-time data flow from thousands of industrial units is logistically difficult, particularly in dispersed manufacturing hubs.

c. Transition and Comparability Issues – Revising the base year introduces statistical breaks that may affect time-series comparisons. Proper linking factors and overlapping series are needed to maintain data continuity.

d. Institutional Capacity Constraints – Data collection and validation at the state and local level often face manpower and training deficits. Ensuring uniform data standards across states remains challenging.

The Way Forward

a. Strengthening Industrial Surveys – Expand the Annual Survey of Industries (ASI) and Index of Eight Core Industries to include emerging sub-sectors. Promote technology-based data reporting, including IoT-enabled industrial sensors for automated data capture.

b. Integration with Digital Ecosystems – Utilize GSTN, MCA21, and e-way bill data for triangulated verification and cross-platform consistency. Adopt data interoperability frameworks for industrial statistics.

c. Periodic and Predictable Updates – Institutionalise base year revision every 5–7 years in line with UN recommendations. Establish a rolling mechanism for sample frame renewal and item inclusion.

d. Capacity Building and Data Governance – Train field statisticians and data validation officers in

digital data management, AI-assisted analytics, and industrial coding systems. Ensure data quality assurance protocols at every reporting level.

e. Enhancing Transparency and Public Access – Make anonymised industrial data accessible for researchers and policymakers to encourage evidence-based decision-making.

Conclusion

The base year revision of the IIP to 2022–23 marks a crucial step toward modernising India's industrial statistics system. It will improve policy precision, capture emerging industries, and align India with global statistical standards. A robust, dynamic, and digitally integrated IIP will not only enhance economic forecasting but also strengthen India's industrial policy framework and growth monitoring architecture.

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