Index of Industrial Production to Undergo Major Changes

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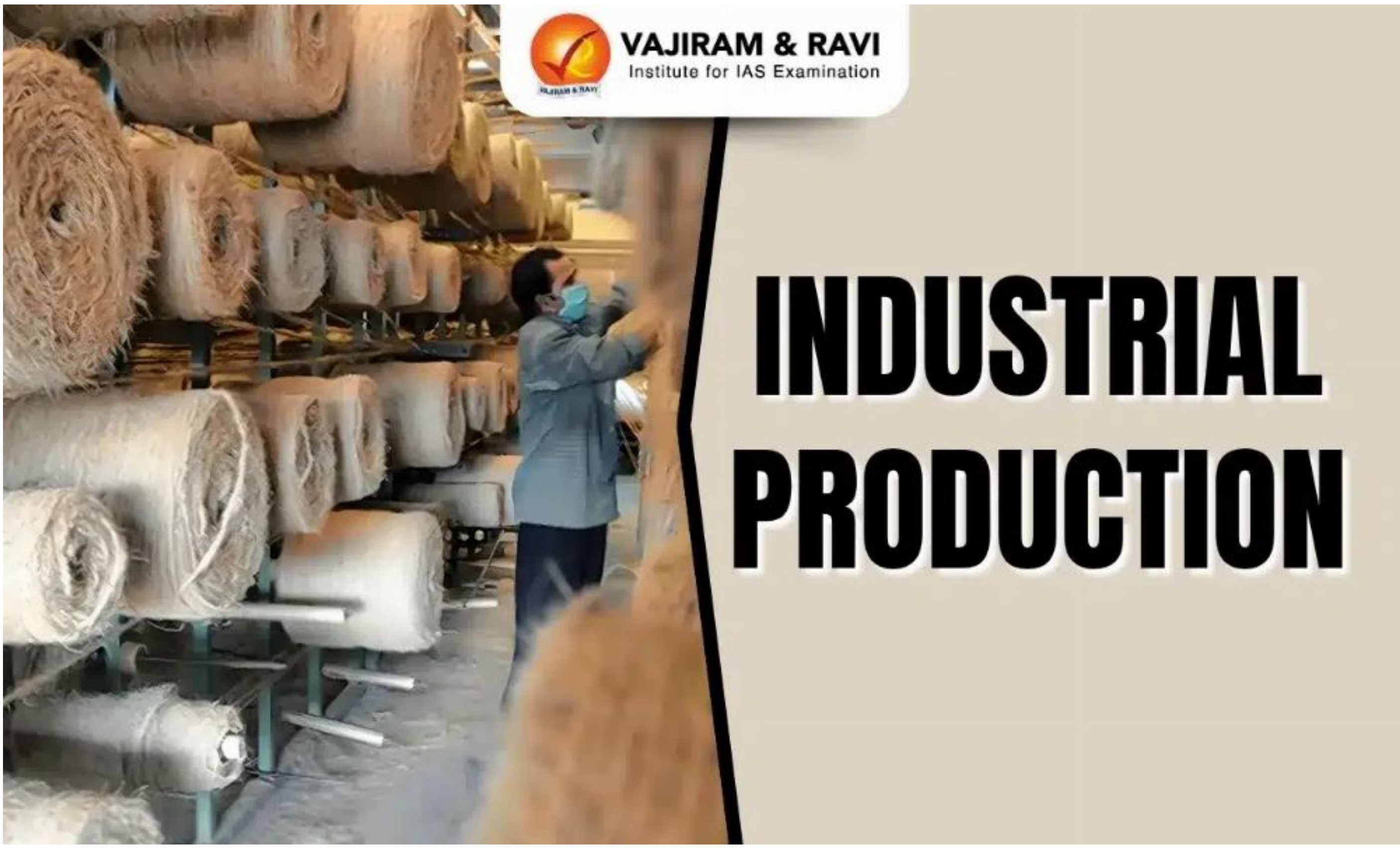

Industrial Production Latest News

- The Government of India is preparing for a **comprehensive overhaul of the Index of Industrial Production**.

Understanding the Index of Industrial Production

- The **Index of Industrial Production (IIP)** is one of India's most critical macroeconomic indicators, along with the **Consumer Price Index (CPI)**, which measures retail inflation.
- Released monthly by MoSPI, the IIP captures changes in the **volume of production in three sectors**, **mining, manufacturing, and electricity**, based on data from **14 source agencies** covering **407 items or item groups**.
- The IIP is also classified into **six use-based categories**:

    - Primary goods, Capital goods, Intermediate goods, Infrastructure or construction goods, Consumer durables, Consumer non-durables
- Currently, the IIP uses **2011-12 as its base year**, but this is set to be updated to **2022-23** to reflect more contemporary industrial structures and output patterns.

Rationale Behind the Overhaul

- According to MoSPI's discussion paper released in November 2025, the overhaul was necessitated by a major statistical challenge: the **continued inclusion of closed or non-operational factories** in the IIP sample.
    - Around **8.9% of the IIP's factory sample** reportedly consists of units that have either **shut down permanently** or **stopped producing the assigned goods**.
    - The presence of such inactive units distorts the industrial growth picture by forcing the ministry to rely on **imputation or estimation methods**, which reduces the accuracy of data.
- To address this, MoSPI has proposed an **automatic substitution mechanism**, where factories that remain non-operational or fail to report data for three consecutive months will be replaced with new, active factories of similar scale and output.
- This move, according to the ministry, will **maintain the continuity and robustness of the IIP series**, ensuring it reflects actual industrial performance rather than estimates.

How the Substitution Mechanism Will Work

- Under the proposed framework:
    - A **status check** will be initiated if a factory reports zero production for three consecutive months.
    - Upon confirmation that the unit is permanently closed or no longer produces the assigned item, it will be **removed from the sample**.
- A **new factory** producing the same or equivalent item will be added, provided:
    - It has been operational for at least **12 months**.
    - Its **Gross Value Added (GVA)** or **output value** is comparable to the replaced factory, ensuring size consistency.
- Until overlapping data between the old and new factories is established, temporary **'nil' or imputed values** may be used, leading to a short lag before substitution is fully reflected in the IIP.
- This substitution system aligns India's statistical practices with **international standards**, as similar procedures are followed by advanced economies to ensure the reliability of industrial indices.

Updating the Base Year to 2022-23

- The overhaul is also part of a **broader review of the IIP**, with MoSPI planning to shift the **base year from 2011-12 to 2022-23**. The last revision took place in **2017**, and the decade-long gap has made the index less reflective of the current industrial ecosystem.
- The updated base year will incorporate:
    - **Newly emerging industries** such as electric vehicle manufacturing, semiconductors, and green technologies.

    - **Changes in product composition and weightage** to capture shifts in consumer demand and industrial output.
    - **Integration of digital data sources** to reduce manual reporting delays.
- This recalibration will ensure that the IIP remains relevant and aligned with India's rapidly evolving industrial landscape.

Importance of IIP in Economic Policy

- The IIP serves as a crucial indicator for **policymakers, investors, and analysts** to gauge short-term industrial trends. It influences decisions on:
    - **Monetary policy:** The Reserve Bank of India (RBI) uses IIP data alongside inflation and employment indicators to assess economic health.
    - **Fiscal planning:** Government agencies rely on IIP trends to forecast tax revenues, employment potential, and infrastructure requirements.
    - **Private sector investment:** Businesses use IIP data to identify growth sectors and assess market demand.
- As of September 2025, India's industrial output grew by **4% year-on-year**, while growth for the 1st half of FY2025-26 stood at **3%**, slightly lower than the **4.1% recorded** in the corresponding period last year.
- These figures highlight the need for a more **responsive and accurate statistical system** that reflects real-time industrial performance.

Challenges and the Way Forward

- While the proposed substitution mechanism promises greater accuracy, it also presents challenges:
    - **Timely verification** of factory status will require close coordination between state statistical offices and industry bodies.
    - **Maintaining comparability** between replaced and new units will be crucial to prevent statistical distortions.
    - **Data lags** may persist during the transition period as overlapping production data is compiled.
- To ensure a smooth transition, MoSPI has sought public feedback on the proposed methodology by **November 25, 2025**, aiming for a consensus-driven and technically robust framework.

Source: IE
