

DPIIT close to finalising model to launch PPI

Producer price index may eventually replace WPI

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New Delhi, 4 July

The Department for Promotion of Industry and Internal Trade (DPIIT) is close to finalising a model to launch a Producer Price Index (PPI) in India that may eventually replace the Wholesale Price Index (WPI).

PPI measures wholesale prices from the point of view of producers of goods and services by tracking prices at different stages of production. It has replaced WPI in most countries as it is conceptually in line with the internationally agreed System of National Accounts (SNA) to compile measures of economic activity.

“Consultations with the Ministry of Statistics and Programme Implementation (Mospi) have been done. The National Statistical Commission should see it once at least before it is placed before higher authorities... The model from our side is final and we have taken the International Monetary Fund’s advice on the methodology. The procedural clearances required will be worked on. That process is on, but I can’t give a timeline,” DPIIT Secretary Rajesh Kumar Singh said on Thursday.

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IDEA BEHIND REPLACING WPI

- ▶ WPI has an inbuilt bias due to double counting of same product
- ▶ Doesn’t include exports and imports
- ▶ Excludes the service sector, which covers about 55% of GDP
- ▶ PPI is conceptually in line with international standards
- ▶ A better deflator for calculating real GDP than WPI

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Easier visa norms for non-PLI firms in the works

The Centre is working towards streamlining the application process for Indian business visas for firms that are not beneficiaries under the production-linked incentive (PLI) scheme but have set up units across the 14 sectors covered under the scheme.



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WPI, PPI to co-exist in transitional phase

Eventually, WPI may get replaced by PPI since it is used by most developed countries, Singh said, adding that a decision regarding this was still at a consultation stage. “However, there will be a transitional phase where both WPI and PPI will co-exist.”

P C Mohanan, former acting chairman of NSC, said the process to shift from WPI to PPI was likely to take more time as the government would have to grapple with the issues of preparing the right samples, assigning the weighting, and deciding on the periodicity of the price collection.

“The biggest issue will be to identify which services to include. What sort of services will serve as the correct representative of the sector? Then, there will be the issue of assigning weightings to the chosen goods and services. These are bound to take time. Also, the periodicity of price collection, whether monthly or weekly, has to be determined,” he said. The government is trying to determine the methodology for constructing a PPI in the Indian context for over two decades, the biggest challenge being finalising one that would make an improvement to the existing WPI. According to a report submitted in 2017 by a working group on PPI, under the commerce and industry ministry and headed by

economist B N Golder, many advanced and emerging economies have switched to PPI from WPI since the 1970s. “The underpinning thrust of shifting from WPIs to PPIs in all those nations has been to do away with the bias of double/multiple counting inherent in WPI, and to compile indices that are consistent with the National Accounts Statistics for use as deflators,” the report said.

Besides, the current WPI series has limited scope due to the exclusion of the service sector, which covers a major chunk of GDP. However, due to the much longer history, the WPI is still the most widely followed measure of inflation. It is used as one of the deflators along with the CPI to calculate real GDP from nominal GDP. Singh said the government was separately working towards changing the current base year of 2011-12 for WPI. “The Centre looks at other statistical indicators, such as CPI and various other indicators. I suppose you can expect some sort of an update of the base year. But whether there will be one particular base year or different — because our studies show that other countries have multiple base years for different types of indices— it’s an ongoing process,” Singh said.

Shiva Rajora contributed to the story

