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UNDERSTANDING THE IMF'S 2025 "C" GRADE FOR INDIA'S NATIONAL ACCOUNTS

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ABSTRACT----------
Every economy highlights the national income accounts as the most effective tool available for the assessment of overall economic performance and development. In November 2025, the International Monetary Fund assigned India's national accounts statistics, a "C" grade in its Data Quality Assessment Framework. The rating signals methodological shortcomings that somewhat hamper effective macroeconomic surveillance. The assessment focuses on technical issues rather than on the underlying performance of the Indian economy. But the issues highlighted needs to be taken care of with utmost care and significance for ensuring a transparent and efficient accounting system. This article explains the principal concerns raised by the IMF, examines their practical consequences, places India's experience in international perspective in the light of the scholarly literature on constraints of national income accounting in developing economies in general and the national income accounting framework of India. Finally, a listing of the substantial reforms in the area that are already under way with the mentioned expectations are also included.

KEYWORDS: *Gross Domestic Product (GDP), International Monetary Fund (IMF), System of National Accounts (SNA), Data Quality Assessment Framework (DQAF), Quarterly National Accounts (QNA), Base year, Deflator.----------*

1. INTRODUCTION

Accurate and timely national accounts are essential for fiscal planning, monetary policy, and international surveillance. In its 2025 evaluation the International Monetary Fund (IMF) awarded India's national accounts a "C" grade – the third of four possible ratings (A–D). A "C" grade indicates that data are produced with reasonable frequency and coverage but that important weaknesses reduce their suitability for precise analysis and cross-country comparison (IMF, 2025). The grade has prompted renewed discussion about the treatment of India's large informal sector, outdated base years, and price deflators. The national accounts have to give data on three important aggregates- the absolute size of the aggregates, the long-term trend and short-term changes or annual changes in the economy. The information is important for the assessment of development process, investment decisions and policy formulation. This implies that a faulty accounting system will affect the economy badly. The system of accounting in India follows the System of National Accounts (SNA), which is a systematically and internationally accepted accounting framework. The current standard is 2008 SNA. Prior to the development of the accounting system in India, the emphasis was only on measuring the income in the economy. Later, the accounting was started being addressed as need for planning and policy purposes. The framework undergoes drastic changes and it will continue too, as the environment of the data sources in terms of its production, computation and compilation needs reframing periodically. Hence, it is imperative for every economy that the changes are to be incorporated while application. The periodic revision of the base year which is believed to take into account the structural changes in the economy with necessary reviewing of the methodology happens in the economy. The rebasing is believed to strengthen the data framework by incorporating economic changes such as adding up of new sectors and consumption patterns, keeping up with global standards by aligning with UN best practices and improved data quality through digitalised and real time high frequency data (MoSPI, GoI). The true realisation of the mentioned advantages would not have generated a C grade for India's national accounts. In this juncture, a critical evaluation of the accounting framework is needed.

Objectives

Now, the economy has announced bringing in refinements of India's GDP estimation. This article outlines the specific concerns raised by IMF' regarding the accounting, an assessment of their implications for the economy, and attempts to document India's ongoing statistical upgradation programme in this regard. through a discussion on aspects such as common challenges of accounting in developing economies based on scholarly literature, the fundamentals of the quality assessment framework of IMF, the issues identified by IMF in India, the consequences and experiences of the economy on behalf of the flaws in the accounting and refinements and expectations in the economy. Methodologically, the paper is largely of a review type and official reports have been relied on for the major part of discussion.

DISCUSSION

Literature on common challenges in accounting for developing economies.

Every economy highlights the national income accounts as the most effective tool available for the assessment of over-all economic performance and development. But various issues that needs to be taken care of in the accounting have been highlighted different studies. in the accounting. A discussion on a few important among them is presented here.

The selection of most relevant and reliable data among the many series available is an important challenge. This aspect is more applicable in the case of developing economies where marked structural changes are less likely to happen in the short run. In such cases, benchmark data with more or less static co-efficient and assumptions may be used for extrapolating to generate reasonably closer data for some years which will degrade the ethical quality and perfection of the data. (Levy, 1968). The choice of base year comes important in this regard. For a correct accounting, slight changes in the economy are also to be taken into consideration, leaving the basics outdated if otherwise. India had this experience which is considered as one reason for a lower grade by IMF on accounting. India continued using 2011–12 as the reference year for reflecting constant-price GDP, gross value added (GVA), and the Consumer Price Index (CPI) till 2025 despite the economy undergoing rapid structural changes such as sharp expansion in services and digital activities, dramatic growth in e-commerce, commendable alterations in household consumption patterns etc. An obsolete base year distorts sectoral weights and relative prices, leading to mismeasurement of real output thereby casting a negative impact on all the statistical figures. (IMF, 2025).

The timeliness of national accounts estimates is significant being the accounts serve as the vital indicator and sign board for economic decision making. It is important for government, policy makers, central banks, business organizations and international institutions for assessing the status of the economy. It is important for boosting up investor confidence too. Delays in national income accounts lead to uncertainties and uselessness of information for all the stakeholders in the economy.

Paucity of information is another important challenge in the accounting of developing economies as its presentation in detail becomes a necessity to reflect the structural changes and adjustments in the economy that is indicative of the development process itself. The lacking in this regard causes loss of vital information that distorts the picture of economic performance which will in turn lead to adoption of less applicable policy measures.

Yet another important challenge is the difficulty in getting the information about the private consumption expenditure. Accounting on the basis of expenditure method and value-added methods are suffering serious limitations which handicaps the possibility of detecting or reflecting timely changes in the aggregate size and relative factor composition of value additions caused by technological changes, relative price changes, irregular short-term fluctuations, etc.,

Systematic surveys and data collection for proper accounting are not being done is another issue. Such a systematic data gathering and monitoring is needed for the incorporation of right sources of data and correct assignment of weightage of activities. Lack of methodological sharpness will leave the indices based on ingenuine samples of enterprises.

The focus of national accounts has witnessed a realignment. Though supply and use of goods and services remain the core, the data on income and finance have found its place of prominence in the accounts. The change was the result of global financial crises and the resultant G20 Data Gap Initiatives. Through this, risks associated with higher debt levels, currency and maturity mismatches gained significance shifting the face of accounting from mere statement of accounts to a critical analysis of the state of the economy.

Special and careful emphasis has commenced to be given on certain figures that can be used politically to capture the attention of people leaving adverse consequences for the rest of the figures which will have an impact on the overall goodness of the accounts.

Continuous efforts to reduce the burden of respondents due to societal pressures will definitely have a negative impact on productivity and cost effectiveness of the accounting process. Entrusting the further computation with less experienced staffs also can have an impact. The issue that arises here is the measurement errors rather than sample errors.

National income accounting is a complex task involving the entire economy and is therefore accompanied by numerous challenges. Consequently, economic literature emphasizes the need for utmost care in the preparation of national income accounts, as these statistics form the basis for policy formulation, economic planning, and the assessment of a country's overall economic performance. Inaccurate, delayed, or inadequately constructed national accounts may result in inappropriate government policies, including misguided monetary and fiscal measures, misleading international comparisons of economic performance, and incorrect evaluations of the standard of living. The discussion suggests the significance of an assessment mechanism for national income accounting.

Fundamentals of DQAF

The DQAF (Data Quality Assessment Framework) of IMF assesses the goodness of statistical data provided, by comparing the statistical practices within the economy with the best methodological practices accepted in the international level. The focus of the framework rests on quality aspects of statistical governance, process and products. Through the assessment, the Fund increases its surveillance on economies for a better programme plan, the concerned economies can have a chance to improve upon assessment reports and the economic agents of the economy can have the benefits of quality data dissemination. The statistical capacity building progress of an economy is presented under the DQAF frame using 18 DQAF based qualitative indicators and 16 quantitative indicators. The quality dimensions incorporated in the DQAF framework are legal, resource related, relevant and quality management prerequisites, assurance of integrity, methodological soundness, accuracy and reliability, serviceability and accessibility with their respective elements and indicators (Statistical Department, IMF, June, 2025). The DQAF framework has a cascading structure where indicators are connected sequentially where progress happens down a line. The grading categories under the assessment framework are: Grade A- High compliance with international standards, Grade B-Acceptable but with notable deficiencies, Grade C-Significant weaknesses affecting surveillance and Grade D-Poor quality data seriously limiting analysis.

Key issues in India identified by the IMF

The C grade reveals the presence of serious weakness that hinders the surveillance mechanism of the Fund and also that of the macro picture of the concerned economy. A blind assessment of the system is a pre-requisite for the full stretched reform aiming progress and, in that direction, a discussion on the identified weaknesses in the economy assumes great importance. The major points are given below.

Outdated Base Year

India has announced an 8.2 percent growth which is a six quarter hight and fastest recorded growth. But, to the wonder of the common man, IMF has given a last but one grade for the quality of the data with which the growth is calculated. In this context, apprehensions normally arise regarding the precision of the announced growth figures. The official response of the Indian economy is that IMF has no serious objections with regard to the growth figures presented and on any other fronts of statistical data such as inflation, external sector and fiscal and monetary policies and they all were given B grade that certifies the adequacy of the data despite some shortcomings. But the C grade was strictly, only on account of the outdated base year.

Reliance on the Wholesale Price Index as Deflator

The Producer Price Index (PPI) is considered as a better deflator for the GDP measurement. India lacks a comprehensive PPI. This will lead the economy to rely on less suitable deflators like Wholesale Price Index (WPI) or GDP Deflator, that misses the impact of price changes of services and taxes which will in turn lead to GDP miscalculation. IMF views lack of a good PPI as a serious weakness in measurement, as errors in deflation can lead to discrepancies in measurement from production side and expenditure side either over or under estimation of GDP. This practice introduces systematic bias in real GDP and GVA estimates, especially during periods of divergent goods and services inflation (IMF, 2025). The efforts for the development of PPI are only underway in India, for following the global best practices.

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Widening Production–Expenditure Discrepancies

Gaps between production-side and expenditure-side GDP estimates have risen from less than 1 per cent of GDP since 2016 to two to 5 percent in recent years. Divergences can be of two types- positive and negative. Positive divergences occurs when GDP calculated using income method is greater than that of from expenditure method whereas negative divergence occurs when it happens vice-versa. These divergences typically reflect incomplete capture of household consumption, informal-sector activity, and delays in state-level fiscal reporting (IMF, 2025). Increase in such discrepancy is important because a portion of the GDP is beyond the explanation of one of the methods and it is becoming rather large too leaving a lot of noise in data.

Limited High-Frequency Coverage of the Informal Sector

One of the major aspects that the data discrepancies point to, is the growing informal sector, yet incapability to account it properly. The informal sector mainly comprises of proprietary or partnership enterprises. The informal (unorganised) sector still generates approximately 45 per cent of non-agricultural GVA and employs over 40 per cent of the workforce. Because of the large size of the country and the presence of such a large informal sector, the only useful method of survey is impractical to be done frequently. In the absence of quarterly surveys, the National Statistical Office extrapolates informal-sector growth from organised-sector proxies (Index of Industrial Production, corporate sales, electricity consumption, GST filings). This method works adequately in normal times but breaks down during economic shocks, producing significant overestimation when informal activity contracts while formal indicators remain stable or rise (IMF, 2025).

Absence of Seasonal Adjustment and Modern Techniques

Theoretically, unaccounting of informal sector can lead to commendable distortions in economic data. The absence of timely national accounting led to the failure of capturing seasonal changes in the unorganised sector activities which in turn complicates short-term analysis. The supply-use tables and detailed metadata are published after long delays, reducing transparency for researchers and investors (IMF, 2025).

Consequences

A “C” grade does not imply that India’s data are unusable, but it does mean that headline indicators require cautious interpretation as there are shortcomings that cause hindrance to the surveillance. Strong production-side growth may be partly a reflection of proxy-driven estimates rather than genuine informal-sector expansion. Persistent discrepancies can lead to imprecisions in policymaking as a result of complications arising in fiscal-rule monitoring and monetary-policy transmission. Investor confidence can be hampered as they can have suspicions about the information. Outdated deflators and consumption weights further impair the accuracy of real income and welfare measures. These limitations affect both domestic policymaking and the credibility of India’s statistics in international forums.

Though India is noted considerably different from other economies on various fronts, here in the case of IMF grading on National Accounts, the country is far from unique. More than 70 per cent of low- and middle-income countries receive “C” or “D” grades for national accounts, especially when informal sector exceed 30–40 per cent of GDP (IMF, 2025). Economies like Indonesia, Brazil, South Africa, Mexico, Nigeria, and Turkey have all faced similar criticisms concerning proxy methodologies, delayed base-year revisions, and production–expenditure gaps. Along with, rapid digitalisation and complex value chains pose measurement difficulties worldwide. India’s challenges are therefore structural and typical of large emerging economies rather than exceptional.

Revisions undertaken by the Government in accounting

A comprehensive modernisation programme has been going in the economy in the Indian economy with respect to national income accounting. The major ones are the following The revision in the GDP accounting base year from 2011-12 to 2022-23 and CPI base year to 2024 in expectation of perfect accounting , incorporation of more data sources in the accounting framework in expectation of improvement in the estimates for those sectors for which no high frequency indicators were available and enhancement in the granularity in the estimation of each institutional sector, the adoption of Proportional Denton method which is a benchmarking method in line with the recommendations of IMF to keep that enables us to avoid maximum artificial discontinuities in the Quarterly National Accounts (QNA) series preserving the movement, revision in production side indicators in such a way that each segment of the sectors is taken care of for the reconciliation between the quarterly accounts with annual accounts, refinements in expenditure side indicators such as disaggregated data level collection, using up of more administrative sources of information and extrapolation of quarterly level data for arriving at final annual values and finally, the incorporation of a methodological improvement for the use of price indices in such a way that individual crop items, livestock products, and fisheries and forestry products will be inflated using their respective

WPIs in expectation of removal of over dependence on base-year WPI weights and resultant improvement of the precision of current price estimates(MOSPI, 2025). All the above said measures seem to address directly the shortcomings highlighted in the 2025 assessment and are believed to improve the accounting efficiency of the economy. Above all, the decision of India to continue its participation in IMF technical assistance and capacity-building programmes will add to the expected outcomes. (Finance Ministry, 2025).

CONCLUSION

The IMF's "C" grade reflects technical and structural constraints that requires certain methodological revisions to remove misrepresentation and signalling of economic weakness as an outcome. Outdated base years, reliance on proxy indicators for the informal sector, and incomplete price-indices have created measurement gaps in India's national accounts. However, substantial reforms that are already in progress including a new base-year series, enhanced administrative data integration, and methodological upgrading and all the measures are expected to raise data quality significantly. As these changes mature, India's statistical system would move closer to international best practice while retaining the capacity to capture the distinctive features of a vast, diverse, and partly informal economy.

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