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Measuring India's Economic Growth: Evidence Beyond the Headline GDP

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While India's reported latest gross domestic product (GDP) figures suggests that the country is in an economic 'sweet spot' – high growth and low inflation – many analysts are sceptical about these headline figures. Vital metrics, including record-low foreign direct investment, stagnant manufacturing employment and a mismatch between corporate revenues and GDP growth, diverge from headline growth. Technical issues, specifically a GDP deflator skewed by low wholesale prices and methodological revisions dating back to 2011, have triggered international scepticism, evidenced by the International Monetary Fund's recent downgrade of India's national account statistics to 'C' grade. This suggests that official data may systematically overstate economic health, even if few doubt that India is indeed growing fast. However, restoring the credibility of statistical agencies is essential to ensure that policy interventions are based on reality rather than statistical constructions.

Introduction

In the contemporary global economic landscape, India has been increasingly characterised as a primary driver of global growth. This narrative is supported by macroeconomic data from the last six quarters, which suggest a trajectory of significant economic resilience amidst a slowing global economy and a very turbulent geopolitical landscape. According to the most recent data released by the National Statistical Office, India's real gross domestic product (GDP) grew by 7.8 per cent in the first quarter (April-June) of the 2025-26 financial year and accelerated to 8.2 per cent in the second quarter (July-September). For the full 2025-26 financial year, the first advance estimates project a growth rate of 7.4 per cent, a notable performance that builds upon the 6.5 per cent recorded in the previous financial year. Notably, India's growth figures beat expectations of international bodies and of its own government, which had predicted slower growth amid global uncertainty and the trade spat with the United States.

This momentum has led several prominent observers to conclude that the Indian economy has entered a historical 'sweet spot'. In a recent article for the Financial Times,[1] Duvvuri Subbarao, former Governor of the Reserve Bank of India (RBI), argues that India is benefiting from a rare alignment of robust growth and relatively stable inflation. Subbarao attributes this stability in part to the cumulative effect of structural reforms implemented over the last decade, such as the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code, as well as a concerted effort to clean up bank balance sheets. These reforms, he suggests,

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[1] Duvvuri Subbarao, "Has India truly entered a higher growth phase?", *Financial Times,* 5 January 2026, https://www.ft.com/content/c5a9c1a1-3eb0-47e9-9e78-2df4a85a4920.

have improved the efficiency of the banking sector and streamlined the regulatory environment, allowing the economy to absorb external shocks more effectively than in previous decades.

From this perspective, India's status as the world's fastest-growing major economy is the logical outcome of improved macroeconomic fundamentals. However, the consistency and accuracy of GDP figures warrant a deeper scrutiny (something that Subbarao himself acknowledges). While the headline growth rates are undoubtedly impressive, the extent to which they reflect the actual state of the domestic economy remains a subject of intense debate among economists.

There is a growing concern that the official narrative may overstate the health of the economy, masking underlying structural weaknesses, stagnant private consumption and significant statistical discrepancies. To what extent does the 'fastest-growing economy' narrative align with reality?

Divergent Indicators and the 'Jobless Growth' Paradox

The primary challenge to the official GDP narrative comes from a series of auxiliary indicators that appear to diverge from the high-growth trajectory. In a standard high-growth environment, macroeconomic theory suggests a corresponding surge in private investment, corporate earnings and, crucially, employment. In India, however, several key metrics suggest a significant disconnect, as highlighted by Ruchir Sharma in the *Financial Times*.[2]

First, the state of foreign direct investment (FDI) presents a stark anomaly. Despite the government's intensive efforts to position India as a global manufacturing hub through the 'Make in India' initiative and other schemes, net FDI inflows have recently fallen to historical lows. Some estimates place net FDI at approximately 0.1 per cent of the GDP – a level that is remarkably difficult to reconcile with an economy purportedly expanding at eight per cent. In a booming market, global capital typically seeks to capitalise on high domestic demand and rising productivity. The current stagnation of FDI suggests that foreign investors may perceive structural risks or growth prospects differently than the official figures imply, potentially signalling concerns over regulatory uncertainty or the actual depth of the Indian consumer market.

Second, the labour market continues to exhibit signs of acute stress. While the official GDP figures suggest a robust recovery, the pace of job creation remains insufficient to absorb the nearly 10 million youth entering the workforce annually. This decades-long 'jobless growth' is particularly evident in the manufacturing sector, which has seen its share of GDP remain stagnant for decades and the share of workers employed by the sector growing slowly.[3] The

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[2] Ruchir Sharma, "India needs to import more capital and export fewer workers", *Financial Times,* 12 January 2026, https://www.ft.com/content/999a8dd3-a494-4bf9-892f-22446b9de73b.

[3] Abhishek Waghmare, "The move away from agriculture", *Data for India,* 15 March 2024, https://www.dataforindia.com/agriculture-shift/.

quality of employment is equally concerning; a large portion of the workforce remains trapped in low-productivity agricultural work and in the informal sector.

Furthermore, there is a visible mismatch between corporate revenue growth and the reported GDP figures. In several sectors, corporate sales volumes have shown only modest increases, often in the low single digits. If the economy were truly growing at eight per cent, one would expect to see a commensurate rise in corporate revenues. Instead, we see a situation where profits are often driven by cost-cutting and margin expansion rather than a broad-based increase in demand. This discrepancy raises fundamental questions about the 'value added' components of the GDP calculation and whether they accurately reflect real-world economic activity.

The Methodological Legacy of the 2011-12 Revision

The current scepticism regarding India's national accounts is not a recent development but is rooted in a long-standing methodological debate that intensified in 2019. Arvind Subramanian, former Chief Economic Advisor to the Government of India, published a paper,[4] which argued that India's GDP growth had been systematically overestimated following a change in the base year and methodology in 2011-12.

Subramanian's analysis pointed to a fundamental shift from using 'factor costs' (the cost of inputs) to 'market prices' (the price paid by consumers) and the inclusion of new data sources for corporate activity. He argued that this shift created a significant break in the data series, leading to an overestimation of growth by approximately 2.5 percentage points per year between 2011 and 2016. The paper highlighted a 'cross-check' of 17 other key indicators, including electricity consumption, two-wheeler sales, exports, imports and private sector credit, which all showed growth rates consistent with an economy growing at roughly 4.5 per cent, not seven per cent.

The government's defence at the time was that the new methodology was in line with international standards. However, the 'credibility gap' identified by Subramanian persists today. Critics argue that the Ministry of Corporate Affairs-21 (MCA-21) database, which forms the core of the new GDP series, is prone to 'ghost firms' and lacks the historical depth to provide an accurate picture of the vast informal sector. Since the informal sector accounts for nearly half of India's GDP and the vast majority of its employment, any methodology that relies on formal corporate proxies is likely to produce skewed results, especially during periods of economic disruption like demonetisation or the GST rollout or, even more so, the COVID-19 pandemic.

[4] Arvind Subramanian, "India's GDP Mis-estimation: Likelihood, Magnitudes, Mechanisms, and Implications", *CID Faculty Working Paper*, No. 354, June 2019, Harvard Center for International Development, https://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers/india-gdp-overestimate.

Institutional Scrutiny and the Deflator Problem

These concerns have gained further weight through recent assessments by international institutions. The International Monetary Fund (IMF) has recently downgraded[5] India's national account data to a 'C' grade – the second lowest. The IMF pointed specifically to weaknesses in the methodology used to capture the quarterly activities of the unorganised sector and the lack of comprehensive, high-frequency data for rural consumption.

A specific technical issue that has resurfaced in recent quarters is the role of the GDP deflator. Real GDP growth – the headline eight per cent figure – is calculated by adjusting nominal GDP (growth at current prices) for inflation using a deflator. In the first half of the 2025-26 financial year, India's real GDP growth was unusually close to its nominal GDP growth. This occurred because the price deflator was exceptionally low, influenced by a depressed wholesale price index (WPI).

Because the WPI is heavily weighted toward global commodity prices, which have remained soft, the deflator remained low even as the consumer price index – which reflects the actual cost of living for households – remained significantly higher. This technical distortion means that the eight per cent growth figure may be more a product of low wholesale inflation than a genuine surge in economic output. Slower nominal growth also has significant implications for fiscal sustainability; tax collections and the debt-to-GDP ratio are tied to nominal figures. If nominal growth is low, the government's ability to spend on infrastructure and social welfare without increasing the deficit is constrained.

The government has acknowledged the issue and is currently in the process of updating its indices, with a new GDP series expected to be released in early 2026.[6] This update is critical, as the current base year of 2011-12 no longer reflects the structural changes in the Indian economy, such as the rise of the digital economy and shifts in consumption patterns.

Conclusion: Data Integrity and the Path Forward

Looking ahead, the outlook for the Indian economy remains one of cautious optimism tempered by institutional reality. The IMF has predicted[7] a deceleration of growth to 6.4 per cent for the 2027 financial year, a significant drop from the current highs. While the government's figures have frequently exceeded initial IMF predictions – as they did in 2025 and 2026 – this forecast suggests that the cyclical drivers of recent years, such as post-

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5 T. C. A. Sharad Raghavan, "IMF gives India a 'C' on its GDP and other national accounts data, the second-lowest grade", *The Hindu,* 27 November 2025, https://www.thehindu.com/business/Economy/imf-gives-india-a-c-on-its-gdp-and-other-national-accounts-data-the-second-lowest-grade/article70330780.ece#google_vignette.

6 Press Information Bureau, "Fix Base year for GDP, IIP and CPI", 6 August 2025, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2153067&reg=3&lang=2.

7 Siddarth Upasani, "IMF predicts big drop in India's FY27 GDP growth to 6.4% from 7.3% this year", *The Indian Express,* 19 January 2026, https://indianexpress.com/article/business/imf-india-fy27-gdp-growth-6-4-7-3-this-year-10482726/.

pandemic 'revenge' spending and high public infrastructure investment, may be reaching their limits.

Ultimately, the debate over GDP is about more than just statistics; it is about the institutional integrity of the Indian statistical apparatus and its commitment to transparency. As I argued before,[8] the questioning of GDP data is part of a broader trend. Various datasets, including unemployment figures, the National Sample Survey Office's consumption data and even census data, have been questioned by analysis and independent oraganisations. The suppression or revision of 'uncomfortable' data points has led to a perception among international investors and academics that the statistical apparatus is not as reliable as it used to be.

The GDP is, at best, a crude measure of human well-being. However, high growth is the only mechanism for lifting hundreds of millions of citizens out of poverty and generating the fiscal revenues necessary for public goods like healthcare, sanitation and education. If the data is flawed, the policy interventions based on that data – be they interest rate decisions by the RBI or social spending by the Ministry of Finance – will likely be misplaced.
For India to truly secure its place as a global economic leader and maintain its credibility in the international capital markets, it must ensure that its statistical agencies and their data are beyond reproach. The current revision of the price indexes and the announcement that the census will take place in 2027 (the last one had been conducted in 2011) are certainly steps in the right direction.

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[8] Diego Maiorano, "Politicisation of Data Under the Modi Regime", *ISAS Insights*, No. 550, Institute of South Asian Studies, 18 March 2019, https://www.isas.nus.edu.sg/wp-content/uploads/2019/03/ISAS-Insights-No.-550-Politicisation-of-Data-Under-the-Modi-Regime.pdf.