

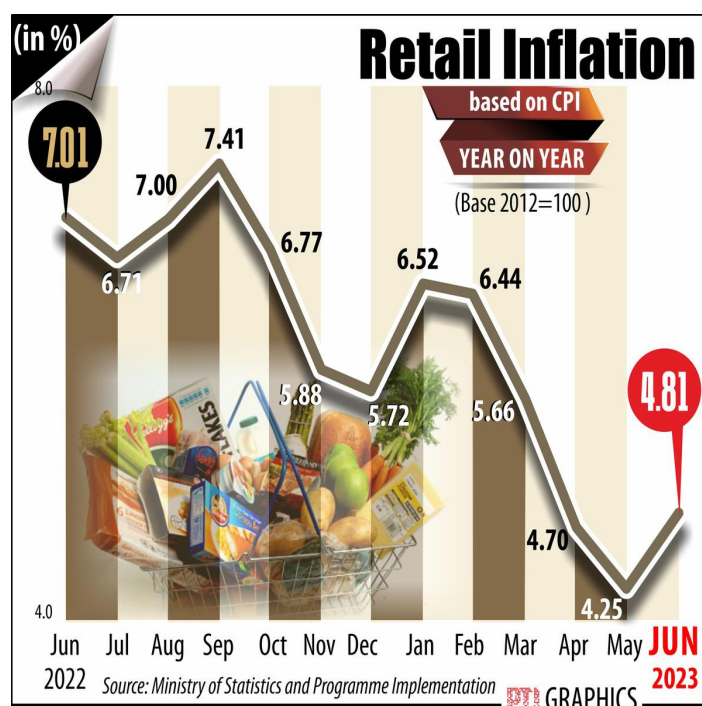
## Need for reform in CPI basket

### Why in news?

The items in the CPI basket and the weights assigned to them should not remain unchanged as it conceals the actual inflation picture.

### What is Consumer Price Index (CPI)?

- CPI is a comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure in an economy.
- Inflation is measured using CPI.
- The percentage change in this index over a period of time gives the amount of inflation over that specific period.
- The National Statistical Office (NSO) under Ministry of Statistics and Programme Implementation (MoSPI) releases Consumer Price Index (CPI) in India with the base year 2012.



### What is Household Consumption Expenditure Survey (CES) data?

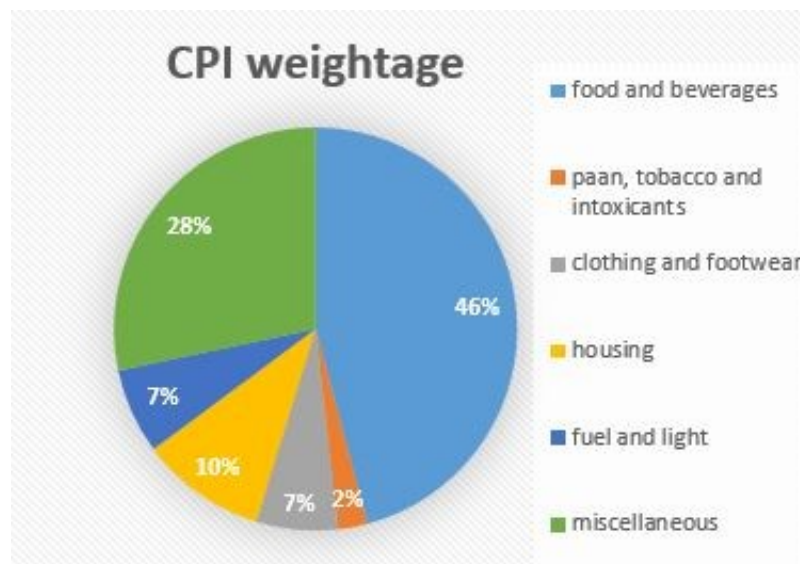
- The Household Consumption Expenditure Survey (CES) is a recurring survey taken every five years by the government's National Sample Survey Office (NSSO).
- The data from the Household CES is used to shift the weights for CPI.
- Currently, the Ministry of Statistics and Programme Implementation (MoSPI) is in the midst of the CES.
- The first round of CES is slated to conclude in July 2023 and the second round a year

later, in July 2024.

- **Effects of CES data absence** - Inability to determine the population under the poverty line accurately.
- Inability to track inflation effectively.

### What are the issues with the present CPI?

- CPI is used in accurately measuring the cost of living and economic well-being.
- The real consumption basket of a common Indian is fluid and continually evolving, mirroring the shifts in societal needs, preferences, and economic conditions.
- **Archaic parameters** - Tracking items that no longer hold the same relevance in our consumption patterns.
- According to Engel's Law, as the economy grows, the proportion of income spent on food decreases.
- **Higher food weightage** - In the current CPI (base year 2012), weightage of food and beverages is still 45.86 (46.2 in 2001).
- Over-reliance on food inflation today distinguishes Indian inflation from many other developed countries.



- **Modified consumption pattern** - The high weight of cereals (9.67) in the current CPI highlights two critical issues.
- With economic development of a country, there should be a paradigm shift in dietary habits of its people.
- The Pradhan Mantri Garib Kalyan Yojana has substantially reduced cereal expenditure for a large segment of the populace.
- This modifying consumption patterns further led to reducing the relative expenditure on cereals.
- **Dependence on TOP** - Tomatoes, onions and potatoes have a considerably higher impact on inflation. It should be lower.
- **Technical lag** - In a rapidly evolving digital economy, our data collection and inflation estimation methods must adapt and evolve in tandem.

## What are the challenges?

- CPI and inflation should accurately reflect the realities of modern-day consumption and living.
- An up-to-date consumption expenditure data is required to effectively reflect the evolution of consumption patterns in our inflation metrics.
- Efficient data processing should be given non-negotiable priority.
- Early collection and processing of data and integrated usage of technological advancements.

## Reference

1. [The Hindu - How the CPI basket conceals the inflation picture](#)

