Controversial “Base Year Revision” Plans

What is the issue?

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- Presently the base year for most national statistics calculations is 2011-12.
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- The Union ministry of statistics and programme implementation (MoSPI) has proposes to change the base year to 2017-18.
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What parameters are likely to be rebased?

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- MoSPI plans to rebase the calculations for the GDP, Index of Industrial Production (IIP), and the consumer price index (CPI) to the year 2017-18.
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- These changes will be implemented in 2018-19 after the latest Employment Survey and Household Expenditure Survey are tabulated.
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- Fiscal and monetary policies are both tied to changes in GDP, which provides the reference for all other variables such as revenue collections and deficits.
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- IIP measures factory and mining output while the CPI is the official benchmark used by the RBI for assessing inflation.
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- It is only normal practice to revise base years regularly for indexing key macroeconomic statistics to accurately reflect the changes in the economy.
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What are the challenges with rebasing?

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- **Continuity -** Base year revisions and changes in calculation methodology

must be accompanied by backward calculations for better analysis.
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- Without the back series (based on older methods), it becomes difficult to make substantial and meaningful assessments about the changes.
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- However, the back series for the pervious base year revision was not released, which made credible trend analysis difficult for a while.
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- **Stable Referencing -** If base year changes are brought about too frequently, they can also cause confusion and make it very hard to read economic trends.
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- As this will distort our analysis of policy impact, there needs to be a rational and an apolitical logic in changing base years for better analysis.
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- But the current proposal seems too early a revision, considering that many metrics were revised only recently.
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- **Recently Revised Metrics -** The base year for GDP and wholesale price index (WPI) calculations was last revised in 2014-15 from 2004-05 to 2011-12.
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- In fact, even the calculation methodology for GDP was radically changed and the data sample was greatly expanded to include more companies.
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- The proportional weights of sectors and base year for IIP was revised even more recently, in 2017 (from 2004-05 to 2011-12).
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- A new integrated Consumer Price Index (CPI) was also introduced to make it possible for the central bank to shift its focus for targeting inflation.
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What is problem with choosing the base year as 2017-18?

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- Traditionally, only normal years are identified for basing macroeconomic parameters, in order to avoid anomalies in trends and ensure credible analysis.
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- Hence, while 2014-15 would’ve been an ideal year for such calculations, MoSPI’s proposal has chosen 2017-18, which is contentious.
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- Notably, data for 2017-18 hasn’t even been finalised yet and it is also a year that had the lingering effects of demonetisation and GST disruptions.
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- Hence, instead of making more changes to the base year, MoSPI should prioritise restoring credibility and comparability, through back series data.
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Source: Business Standard

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