India's New GDP Series – Credibility and Controversies

Mains: *GS III – Economy*

Why in News?

The release of India's Q1 FY2026-27 GDP data, showing 7.8% real growth and 10.3% nominal growth, has generated considerable debate.

What is the Issue?

- **Significance of GDP** – Gross Domestic Product (GDP) is more than a measure of economic output.
- It shapes fiscal policy, monetary decisions, investment sentiment and the international perception of an economy.
- Hence, the credibility of GDP estimates is as important as the growth rate itself.
- **The controversies** – The Raised controversies has two dimensions:
    - Criticism based on comparing the new GDP series with the discontinued old series is methodologically incorrect.
    - The substantial downward revision in historical nominal GDP under the new 2022-23 base year series raises legitimate questions about transparency.
- The appropriate response is neither unquestioning acceptance nor politically motivated rejection, but greater statistical openness.
- **Understanding the New GDP Series** – India periodically revises its national accounts to reflect structural changes in the economy, incorporate newer data sources and improve estimation methods.
- In February 2026, the Ministry of Statistics and Programme Implementation (MoSPI) introduced a new GDP series with 2022-23 as the base year, replacing the earlier 2011-12 base.
- **Importance of Base Year Change** – A base-year revision is not merely a cosmetic change.
- It allows statistical authorities to incorporate better databases, improved sectoral coverage, updated weights and refined methodologies.
- India's economy has changed significantly over the past decade, with rapid expansion of services, digital activity, formalisation and new forms of production.
- Therefore, updating the statistical framework is essential.
- The new series also addresses some long-standing methodological concerns.
    - **For instance**, the earlier practice of single deflation in certain sectors could potentially distort real output when input and output prices moved differently.
- The new series introduces double deflation for sectors such as manufacturing and agriculture, providing a more theoretically sound distinction between changes in

output and changes in input costs.
- Thus, the revision itself should not be viewed as evidence of manipulation.

Why the Criticism of 10.3% Nominal Growth is flawed?

- **Methodological Flaw in the Criticism** – The strongest criticism came from the argument that nominal GDP growth was much lower if the old-series GDP for Q1 FY2025-26 was used as the denominator.
- However, this calculation compares two incompatible statistical series.
- The Q1 FY2025-26 figure under the 2011-12 series and the Q1 FY2026-27 figure under the 2022-23 series are based on different sources, methodologies, weights and estimation frameworks.
- A meaningful growth rate requires comparable observations. Combining an old-series denominator with a new-series numerator is therefore statistically invalid.
- The same flaw becomes evident when this approach is applied to real GDP, where it can produce implausibly high growth estimates. This demonstrates the weakness of the methodology itself.
- **No Evidence of Deliberate Manipulation** – Hence, the claim that the government deliberately reduced the previous year's GDP to artificially inflate the latest growth rate is not established by such calculations.
- **Legitimate Concerns over Transparency** – However, rejecting an incorrect calculation does not mean that every question surrounding the new GDP series should be dismissed.
- Under the old series, nominal GDP for Q1 FY2025-26 was around ₹86 lakh crore, while under the new series it was revised to roughly ₹80 lakh crore. The first-half estimate also witnessed a substantial downward revision.
- **Revision Does Not Mean Economic Contraction** – Such revisions are possible and, in some circumstances, desirable when better information becomes available.
- A downward revision does not mean that the physical economy suddenly became smaller; it means that the statistical estimate of its size has changed.
- **Need for an Explanation of the Revision** – Nevertheless, the magnitude of the revision warrants a detailed explanation.
- This is particularly important because the old series was discontinued before a complete old-series annual estimate for FY2025-26 could be established.

What Should the Revision Bridge Contain?

- **Revision Bridge** – Therefore, MoSPI should publish a transparent revision bridge explaining how the old estimate was transformed into the new estimate.
- It should clearly quantify the contribution of revised source data, changes in sectoral coverage, methodological changes, taxes and subsidies, price indices/deflators and other statistical adjustments.
- **Components of the Revision Bridge** – For Q1 and Q2, MoSPI should quantify the contribution of:
    - Revised source data and administrative databases;
    - Changes in sectoral coverage;
    - Methodological improvements;

        - Revised estimates of taxes and subsidies;
        - Changes in price indices and deflators;
        - Changes in the treatment of informal-sector activity; and
        - Other statistical adjustments.
    - **Settlement of GVA** – A similar reconciliation should be provided for Gross Value Added (GVA).
    - If manufacturing, agriculture, trade, financial services or other sectors account for a substantial portion of the revision, the contribution of each should be clearly identified.
    - Such transparency would enable independent economists, researchers and citizens to reproduce and scrutinise the estimates rather than relying solely on official assurances.

What are the Evidence Supporting the Reality of Growth?

- **Methodological Improvements** – The new national accounts have improved the deflation methodology.
- The introduction of double deflation addresses an important weakness of the earlier system.
- However, the quality of double deflation ultimately depends on the quality of input-price data.
- Therefore, publishing the relevant input deflator series would further strengthen the credibility of GDP estimates.
- **Investment-Led Growth**– The composition of growth is important.
- A government attempting to manufacture an impressive growth figure might be expected to rely disproportionately on consumption, which constitutes a large part of GDP and is relatively difficult for outsiders to verify.
- Instead, the latest data indicate significant strength in fixed investment, whose growth has approached double digits.
- Investment growth, rising bank credit and relatively accommodative monetary conditions provide supporting evidence that the expansion is not merely a statistical artefact.
- **Tax Reforms and the Reality of Real Growth** – The impact of tax reductions on consumption provides another indication.
- If households are able to purchase greater quantities of goods despite slower growth in nominal expenditure, it can reflect lower effective prices following tax reductions.
- Thus, the real-growth estimate cannot automatically be dismissed merely because the headline GDP deflator appears low.

What are the Bigger Challenges for India?

- **Growth Without Adequate Employment** – The GDP debate also highlights a deeper challenge for India.
- Even strong headline growth does not automatically translate into broad-based improvements in living standards.
- India continues to face concerns regarding the creation of adequate, productive and high-quality employment, especially for its expanding youth population.

- **Ensuring Inclusive and Sustainable Growth** – The ultimate test of growth is therefore not merely whether GDP grows at 7–8%, but whether growth generates productive employment, raises real incomes, improves human capital and enhances economic security.
- **Sustaining Growth Towards Viksit Bharat 2047** – Moreover, India's ambition of becoming a developed economy by 2047 requires sustained high growth over several decades.
- A few strong quarters cannot achieve this transformation. It requires structural reforms in trade, labour and factor markets, investment, human capital, productivity and ease of doing business.

What India Needs to do?

- **Strengthen statistical transparency** – MoSPI should publish detailed methodological notes, revision bridges, input and output deflators and sector-wise explanations for major historical revisions.
- **Strengthen independent scrutiny** – GDP methodology should be subjected to periodic peer review involving economists, statisticians, academia and international experts. Greater transparency would reduce the politicisation of official statistics.
- **Improve the underlying statistical ecosystem** – India needs better enterprise surveys, updated informal-sector databases, producer-price indices, timely administrative data and stronger integration of GST, corporate, labour and financial datasets while protecting privacy.
- The objective should not be to produce a higher or lower GDP number. It should be to produce the most accurate and reproducible estimate possible.

What Lies Ahead?

- The controversy over India's new GDP series illustrates an important principle of public policy: statistical credibility rests on both methodological soundness and institutional transparency.
- It is incorrect to calculate growth by combining observations from two incompatible GDP series.
- At the same time, invoking a change of base year alone cannot adequately explain a large revision in nominal GDP.
- Legitimate questions about the revision deserve clear, quantitative answers.
- India's statistical system has made important methodological improvements, and the available evidence does provide grounds for accepting the broad picture of robust economic growth.
- But credibility should not depend on asking citizens to trust official numbers merely because they are official.
- A mature statistical democracy should make its numbers understandable, reproducible and open to interrogation.
- Transparent statistics will not weaken India's growth story; rather, they will make that story more credible—both domestically and globally.

Reference

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