Revision of GDP Base Year

> Mains Syllabus: GS III - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.

Why in the News?

Ministry of Statistics and Programme Implementation, is in the process of revising the “base year” for the calculation of Gross Domestic Product (GDP).

What is the need for revising the base year?

- **Reference Point** - The GDP is the central metric to assess the annual economic growth or the overall size of an economy and the 'base year' refers to the year that works as a starting point for calculations.

> *GDP measures the current market value of all final goods and services produced within a country in a given period of time.*

> *At present, the base year is 2011-12 and this is used to find the real growth rate of an economy.*

- **Accurate Economic Measurement** – Revision of base year provides a more accurate picture of the “real” economic growth, which is the economic growth after removing the effect of inflation.
- **Understanding the Growth** – It also provides a more accurate understanding of how the real economy is growing.
- **Better Policy Making** - An accurate reporting, in turn, is an essential requirement both for policymakers as well as all the other economic agents (from large business firms to budding entrepreneurs).
- **Reflecting the Changes in Economy** – The base year revision captures the changes in the way India’s economy functions — new industries can be included and outdated ones removed from the calculations.
- India started off as a predominantly agrarian economy, but today, most of the GDP (around 55%) comes from the so-called “services” sector while agriculture etc. contribute less than 20%.
- **Informal Sector Workforce Estimation** - Since the 1993-94 series, the CSO started using the work force estimates from the results of Employment and Unemployment Surveys of National Sample Survey Organisation (NSSO), which are conducted once in

every five years.
- As a result, since 1999, the base year has been changed every five years (until 2015).
- This practice was also in line with the recommendation of the National Statistical Commission that all economic indices should be "rebased" at least once in every five years.

Previous Base Year Revisions

• The first set of estimates of national income (GDP) for India was compiled by the "National Income Committee", under the chairmanship of PC Mahalanobis in 1949.
• The first and final reports of national income by this committee were brought out in 1951 and 1954 respectively.
• Up until 1999, India saw the GDP series being revised once in a decade, changing the base to a year that ended with 1.
• The base year of national accounts have been revised on seven different occasions:
- From 1948-49 to 1960-61 in August 1967;
- From 1960-61 to 1970-71 in January 1978;
- From 1970-71 to 1980-81 in February 1988;
- From 1980-81 to 1993-94 in February 1999;
- From 1993-94 to 1999-2000 in January 2006;
- From 1999-2000 to 2004-05 in January 2010; and
- From 2004-05 to 2011-12 on January 30, 2015.
• The revision slated for 2026 will be the eighth such.
- The new base year for GDP calculations will be 2022-23 and the revised series of data will be released on February 27, 2026.
- The base year for Index of Industrial Production (IIP) will also be revised to 2022-23 while the base year for Consumer Price Index, which is used to assess the rate of inflation faced by consumers, will be revised to 2023-24.
• Revisions in base year and the broader updates in the methodology of estimating the GDP go together.

What are the challenges in revision base year?

- **Qualities of Survey Data** - In 2017 , It was announced that a new GDP series will be released with 2017-18 as the new base year and the results of Consumer Expenditure Survey (CES) as well as the Periodic Labour Force Survey were to be used.
- However, both the surveys ran into trouble with the government itself raising data quality issues.
- **Key Policy Led-Disruptions** –Government's decision such as to demonetise 86% of India's currency base in November 2016 as well as the introduction of a Goods and Services Tax regime (replacing multiple indirect taxes) in July 2017 affects the economic measurement and projections.
- India's GDP growth rate registered a sharp deceleration starting 2017-18, falling from more than 8% in 2016-17 to less than 4% in 2019-20.
- **COVID Pandemic Impact**- Since the start of 2020, the Covid pandemic-induced disruptions have meant that neither 2020 nor the years immediately after it could be treated as "normal" years.
- **Data Gaps** – Delay in conducting censuses affect the accurate evaluation of economic data and their validation.

Till 1993, the workforce estimates for the unorganised sector were obtained from the Population Census conducted decennially in the years ending with 1.

- **Controversies** - Although it is true that each revision improved the estimation of India's GDP, yet the last revision in 2015 created a lot of controversy that dented India's global standing.

What lies ahead?

- The new series will also come at a time when India will be on the verge of becoming the third-largest economy after the US and China (in nominal GDP terms).
- That, in turn, means global investors and analysts are likely to scrutinize the results very carefully.
- Accuracy of the new series will be central not just for the fortunes of billions of dollars of investor money but also for the credibility of India's data and its usefulness for domestic policymaking.

Reference

Indian Express | Base Year Revision

