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Why govts revise GDP base year and methodology, why the proposed 2026 revision matters for India’s global standing

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. At present, the base year is 2011-12. Why is the govt changing it? All you need to understand.

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The remarkable thing about GDP is that it promises to capture the vast and varied reality of an economy in just one number. But if one spends some time on the definition of GDP, it will become clear that it is not easy to calculate it.(Photo: Freepik)

Dear Readers,

In an **interview to *The Indian Express*, Saurabh Garg, Secretary to Government** of India in the Ministry of Statistics and Programme Implementation, stated that the ministry is in the process of revising the "base year" for the calculation of Gross Domestic Product (GDP).

The GDP is the central metric to assess the annual economic growth or the overall size of an economy and the so-called "base year" refers to the year that works as a starting point for calculations. At present, the base year is 2011-12. In other words, the GDP in 2011-12 is used as a "base" over which the GDP growth of any following year is calculated. The new base year for GDP calculations will be 2022-23 and the revised series of data will be released on February 27, 2026.

Garg also confirmed that some other key macroeconomic metrics will also undergo changes in base years. 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.

Is this the first time such a revision is happening?

No. The revision slated for 2026 will be the eighth such.

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.

Since then, as more and better quality data became available, the Central Statistics Office (CSO) undertook comprehensive reviews of the methodology used for calculating GDP. Apart from shifting base years of national accounts series, the CSO also tried making improvements in the compilation of national accounts series, in terms of coverage of activities, incorporation of latest datasets and latest international guidelines.

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.

It is important to note that revisions in base year and the broader updates in the methodology of estimating the GDP go together.

What is the rationale behind GDP base year revisions?

The short answer is: To more accurately understand and report the state of the economy. 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).

But calculating or, more accurately, estimating the GDP of a large country such as India is not as straightforward as it may appear at first glance.

The remarkable thing about GDP is that it promises to capture the vast and varied reality of an economy in just one number. ***Read this piece for a more detailed explainer on GDP***. It can be calculated in different ways; say, either by looking at how much people spend or, alternatively, how much they earn. But if one spends some time on the definition of GDP, it will become clear that it is not easy to calculate it.

On paper, GDP measures the current market value of all final goods and services produced within a country in a given period of

time (say a quarter or a year).

The word “final” is crucial, but often receives very little attention. Its implication is that the GDP will only include those goods and services that are bought by the final consumers or users.

For instance, a cricket bat is a final good. But, of course, it is made of many things: the rubber grip, the wood, the adhesives, the labour used to make the bat, etc. Each of these things likely went through its own production process. For instance, the rubber grip on the handle is a finished product in itself that uses other “intermediate” and “primary” (say rubber) products. Same holds true for the wood and how it was cut and sold and processed before it was bought by the cricket bat maker.

The use of the word “final” in the GDP definition means that only the final monetary value (in current day prices) will be used in GDP. That, in turn, means weaning away all the other prices (of intermediate and primary goods and services that went into making the bat) out of the GDP calculations. Even if all the data is available, the complexity of calculations is quite apparent.

However, the fact is, all the required data isn’t always available in the absolute accurate manner.

Moreover, and very importantly, the economy itself undergoes fundamental change as the years roll by.

India started off as a predominantly agrarian economy. That meant most of the people were involved in agriculture or related activities and most of the GDP came from those activities. With each passing decade, India’s economic structure has changed. Today, most of the GDP (around 55%) comes from the so-called “services” sector while agriculture etc. contribute less than 20%. However, the number of people involved in agriculture has not fallen in the commensurate manner. Estimating GDP from the farm and estimating from the services sector requires different data sets and different methodologies.

Further, these methodologies also change with the improvements in data as well as understanding of the linkages in the economy. For instance, it is noteworthy that up until 1999, India saw the GDP series being revised once in a decade, changing the

base to a year that ended with 1.

This was no coincidence.

The informal (or unorganised) sector playing a major role in the Indian economy and the workforce estimates for the unorganised sector were obtained from the Population Census conducted decennially in the years ending with 1. As such, it was natural to make such years the base years for each revision.

However, 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.

How do regular revisions of base year and methodology help?

Regular revisions in base years help in two broad ways.

One, they capture the changes in the way India’s economy functions — new industries can be included and outdated ones removed from the calculations.

Two, they provide a more accurate picture of the “real” economic growth, which is the economic growth after removing the effect of inflation. For argument’s sake, an economy’s GDP could double in a year in two very contrasting ways: The total output remains the same but the prices double or the prices remain the same and the “real” output (say cars manufactured inside the country) doubles. The reality lies somewhere in the middle and revising the base year provides a more accurate understanding of how the real economy is growing.

Why was the base year not changed five years after 2011-12?

The fact is that the government led by Prime Minister Modi had announced in 2017 that a new GDP series will be released with 2017-18 as the new base year. The government had hoped to use the results of Consumer Expenditure Survey (CES) as well as the Periodic Labour Force Survey (PLFS was an annual survey replacing the quinquennial Employment-Unemployment Surveys), both of which were slated in 2017-18, to update the GDP data.

However, both the surveys ran into trouble with the government itself raising data quality issues. The PLFS for 2017-18 had shown that the unemployment rate had risen to a 45-year high and the CES for 2017-18 showed that poverty had risen (as evidenced by a fall in spending) since 2011-12, a historic reversal of trend. Although after the election results of 2019, the government accepted PLFS findings, the CES results were never accepted.

Eventually, these data gaps led to the government dropping 2017-18 as the new base year because it wasn't "normal". It must be noted that 2017-18 experienced the ramifications of key policy led-disruptions such as the government's decision to overnight 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. 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.

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.

Why is this particular revision crucial for India's global standing?

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. In particular, many experts claimed that the methodological changes incorporated in 2015 meant that India was overestimating (i.e. overstating) its GDP.

These dissenting voices even included the government's own Chief Economic Advisor Arvind Subramanian, who questioned the credibility of India's GDP soon after he left office. ***Read this piece*** to understand the whole controversy better.

Experts such as Prof R Nagaraj, formerly associated with the Indira Gandhi Institute of Development Research and now with IIT Bombay, have repeatedly written that the methodological changes in 2015 overstate India's GDP.

In a 2021 paper published in the *Economic and Political Weekly*, Nagaraj found that the growth rates in the manufacturing sector are far more muted if one looks at the Annual Survey of Industries data (published by MoSPI) as against the Ministry of Corporate Affairs' MCA-21 database for the Private Corporate Sector (PCS) that is used in GDP calculations.

The new base year revision and the new GDP series will be coming out after India has already missed a cycle of revisions in 2017-18, which, in turn, implies that some inaccuracies may have crept in GDP estimation.

Moreover, over the past decade, thanks to the controversies surrounding the PLFS and CES data as well as long-standing gaps in poverty and inequality data, not to mention the absence of Census data, the credibility of India's macroeconomic data as well as the government's claims have been increasingly questioned.

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 scrutinise 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.

Do you trust India's GDP data? If not, what can the government do to improve the credibility of its GDP data?

Share your views and queries at udit.misra@expressindia.com