



GDP Base Year Revision

For Prelims: [Gross Domestic Product](#), [Index of Industrial Production](#), [Annual Survey of Industries](#), [Deflator](#), [CPI](#), [WPI](#), [Unorganised Sector](#), [Base Year](#), [Advisory Committee on National Accounts Statistics](#), [Goods and Services Tax](#), [ASUSE \(Annual Survey of Unincorporated Sector Enterprises\)](#).

For Mains: Concept of a base year, Need for its regular updation, Challenges associated.

[Source: BS](#)

Why in News?

Recently, the [Ministry of Statistics and Programme Implementation \(MoSPI\)](#) brought together many **economists and forecasters** to discuss the revision of the **base year** for India's [Gross Domestic Product \(GDP\)](#).

- It underscores the importance MoSPI places on **wider consultation**, especially given the **criticism and debates** surrounding previous base year revisions.
- The previous base year revision in **2015** changed the base year from **2004-05 to 2011-12** but faced **criticism** due to perceived flaws in the methodological changes.

What are the Previous Base Year Revision Controversies?

- **Methodological Concerns:** Previous revision of base year replaced computing GDP of the [private corporate sector \(PCS\)](#) directly from the **audited balance sheets** of the Ministry of Corporate Affairs (MCA) database and the use of **PCS data for estimating manufacturing sector GVA**.
 - It mostly discarded the [Index of Industrial Production \(IIP\)](#) and [Annual Survey of Industries \(ASI\)](#) data in the process.
- **Single Deflator Criticism:** Many experts questioned the **single deflator** used to calculate **real GDP growth** from **nominal GDP growth**, rather than the internationally standard technique of **double deflation**.
 - **Single deflator** involves deflating the **nominal value-added** in each sector by various price indices e.g., [CPI](#), [WPI](#) while **double deflation** involves deflating **output by output prices and inputs by input prices**.
 - The GDP price deflator measures the **change in the value** of all of the goods and services produced in an economy when **inflation is taken into account**.
- **Discrepancies in GDP Estimates:** While overall GDP growth seems robust, **consumption appears weak** and this is a sign of **serious measurement problems**.
 - Also, there is a **discrepancy** between [production methods](#) and the [expenditure methods](#) of calculating GDP.
 - Weak consumption may indicate **underreported economic activities** or problems calculation of inflation in GDP calculations.
- **Under-reporting of Data:** In the last three decades, there has been significant growth in the

number of **registered companies**, particularly in the services sector, especially finance.

- However, their contribution to domestic output is unclear because many do not file their **audited balance sheets** with the **Registrar of Companies (RoC)**.

- **Underestimating Unorganised Sector:** The 2015 revision of base year faced criticism for the use of **balance sheets** of the **unorganised sector** to calculate GDP, instead of taking value-added figures from the producing units.
 - It means a **lower coverage** for informal sector producers, who are not listed as companies.
- **Averaging Problem:** Averaging production and expenditure sides is acceptable in **advanced countries** but not in developing countries, as India does not measure the two sides of GDP independently.
 - Also, the data on the expenditure side of which consumption is a part is quite poor.

What is a Base Year?

- **About Base Year:** A **base year** is a **specific reference year** against which **Gross Domestic Product (GDP)** figures for subsequent and prior years are **calculated**.
- **Need for a Base Year:** It provides a **stable reference point** and serves as a **benchmark** for measuring economic performance and allows for **comparisons over time**.
 - By pegging GDP figures to a specific year, analysts can accurately **interpret trends and shifts** in economic performance.
- **Features of a Base Year:** The base year should be a **normal year** i.e., it must not experience any **abnormal incidents** such as droughts, floods, earthquakes, **pandemic**, etc. Also, it should **not be too distant** in the past.
- **Reasons for Revising the Base Year:**
 - **Fluid Nature of Indicators:** The indicators for computing GDP are **dynamic** and can change over time due to **shifts in consumer behaviour, economic structure, and commodity composition**.
 - Additionally, evolving data compilation methods may require the incorporation of **new classification systems** and data sources.
 - As such, revisions ensure that the GDP figures reflect the current economic reality.
 - **Impact on Economic Indicators:** When new data sets are incorporated through base year revisions, it can lead to **adjustments in GDP levels**.
 - These changes have a **ripple effect** on a wide array of economic indicators, including trends in public expenditure, taxation, and public sector debt.
 - **International Standard Practice: United Nations-System of National Accounts 1993** requires countries to revise computation practices from time to time.
- **Frequency of Base Year Revisions:** The base year should ideally be **revised every 5 to 10 years** to keep national accounts in line with the latest available data.
- **History of Base Year Revisions:** Since the first national income estimates were published in **1956** with **FY 1949 as the base year**, India has revised its base year **seven times**.
 - The most recent revision changed the base year from **FY 2005 to FY 2012**.

What are the Considerations for the New Base Year?

- **Formation of the Advisory Committee:** In June 2024, MoSPI set up a **26-member Advisory Committee on National Accounts Statistics (ACNAS)** to decide the base year for GDP data, under the chairmanship of **Biswanath Goldar**.
 - The committee will also take a call on the **alignment** of GDP with other macro indicators like the **WPI, CPI, and IIP**.
- **Potential Base Years:** The committee is leaning towards **2022-23** as the new base year for GDP, although **2023-24** is also under consideration.
 - Year **2016 (Demonetisation)**, **2017-18 (ripple effects of GST)** and **2019-21 (Covid-19)** are not considered because of **abnormal changes** in the economy.
- **Utilising GST Data:** Discussions are underway regarding the inclusion of the **Goods and Services Tax (GST) database** for GDP calculations to include new databases to capture a better picture of the economy.
- **Methodological Improvements:** The advisory committee is also considering changing the composition of indices e.g., inclusion of **ASUSE (Annual Survey of Unincorporated Sector**

Enterprises) and exploring the double deflation method to improve GDP measurement accuracy.

Conclusion

In light of past controversies surrounding **India's GDP base year revisions**, the current initiative by MoSPI to engage experts and establish an **advisory committee** underscores the necessity for a transparent and methodologically sound approach. The inclusion of updated data sources and rigorous methodologies aims to enhance the **accuracy and reliability** of GDP estimates.

Drishti Mains Question:

Explain the concept of a base year in economic measurements. Why is it essential for accurately interpreting GDP data?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. A rapid increase in the rate of inflation is sometimes attributed to the “base effect”. What is “base effect”? (2011)

- (a) It is the impact of drastic deficiency in supply due to failure of crops
- (b) It is the impact of the surge in demand due to rapid economic growth
- (c) It is the impact of the price levels of previous years on the calculation of inflation rate
- (d) None of the statements (a), (b) and (c) given above is correct in this context

Ans: (c)

Mains

Q. Explain the difference between computing methodology of India's Gross Domestic Product (GDP) before the year 2015 and after the year 2015. (2021)