



GDP Base Year Revised to 2022-23

For Prelims: [Gross Domestic Product \(GDP\)](#), [Industrial Production \(IIP\)](#), [Consumer Price Index, Base Year](#), [Periodic Labour Force Survey \(PLFS\)](#), [Consumer Expenditure Survey \(CES\)](#), [MCA-21](#), [UN System of National Accounts \(SNA\)](#), [International Monetary Fund \(IMF\)](#), [World Bank](#), [Production Linked Initiative \(PLI\)](#). —

For Mains: Key features of GDP base year, Need and challenges related to GDP base year revision, Steps needed to make India's GDP base year revision more reliable.

[Source: IE](#)

Why in News?

The [Ministry of Statistics and Programme Implementation \(MoSPI\)](#) announced that the government is revising the [Gross Domestic Product \(GDP\)](#) base year from **2011-12** to **2022-23**. The revised data will be released on **27th February 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](#) will be revised to **2023-24**.

Note: 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**. It also focused on aligning **GDP** with other key **macro indicators** such as the **WPI**, **CPI**, and **IIP**.

What is the GDP Base Year?

- **About GDP Base Year:** **GDP** is the key metric for measuring a country's **annual economic growth** or its **overall economic size**, and the "[base year](#)" serves as the **reference point** for these calculations.
 - Currently, **2011-12** is the base year, meaning the **GDP of 2011-12** is used as the benchmark to compute the **growth of subsequent years**.
- **Need:** The **base year revision** ensures the inclusion of **new industries**, removal of **outdated ones**, adoption of **better data sources** and methods, and more **accurate measurement of real economic growth** after adjusting for [inflation](#).
- **Features:** 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**.
 - The **base year** should ideally be updated every **5 to 10 years** to ensure national accounts reflect the **most recent data**.
- **Frequency of GDP Base Year Revision:** The upcoming **2026 revision** will be the **eighth base**

year update, following seven earlier revisions, starting from **1948-49 to 1960-61** in **August 1967** and most recently from **2004-05 to 2011-12** on **30th January 2015**.

- The first **national income estimates** for India were compiled by the **National Income Committee** (chaired by **P.C. Mahalanobis**) in **1949**.

▪ **2017-18 Base Year Update Deferred:** The plan to revise the base year to **2017-18** was dropped due to:

- Data quality concerns in **Periodic Labour Force Survey (PLFS)** (showed 45-year high unemployment).
- Rejection of **Consumer Expenditure Survey (CES)** 2017-18 data (indicated rising poverty).
- Impact of **demonetisation (2016)** and **Goods and Services Tax (GST)** introduction (2017) and **Covid-19** made the subsequent years **abnormal** for **economic assessment**.

GDP AND RELATED TERMS

GROSS DOMESTIC PRODUCT (GDP):

- Total monetary value of all finished goods/services produced within a country in one year
- 3 methods to calculate GDP - **expenditures, production, income Method**
- Provides an economic snapshot to estimate a country's economy/growth rate
- GDP is not an accurate measure of the overall living standard/well-being of a country
- $GDP = \text{Goods and services consumed (C)} + \text{Investments (I)} + \text{Govt expenditures (G)} + (\text{Exports (X)} - \text{Imports (M)})$

Nominal GDP (NGDP)

- GDP at current prices
- Includes inflation/pace of rising prices
- Used to compare different quarters of output (in same year)

Real GDP (RGDP)

- Inflation-adjusted GDP
- More accurate reflection of the output of an economy than NGDP
- Used to compare GDP of 2 or more years
- Calculated using a GDP Price Deflator
- $RGDP = NGDP \div \text{GDP Deflator}$

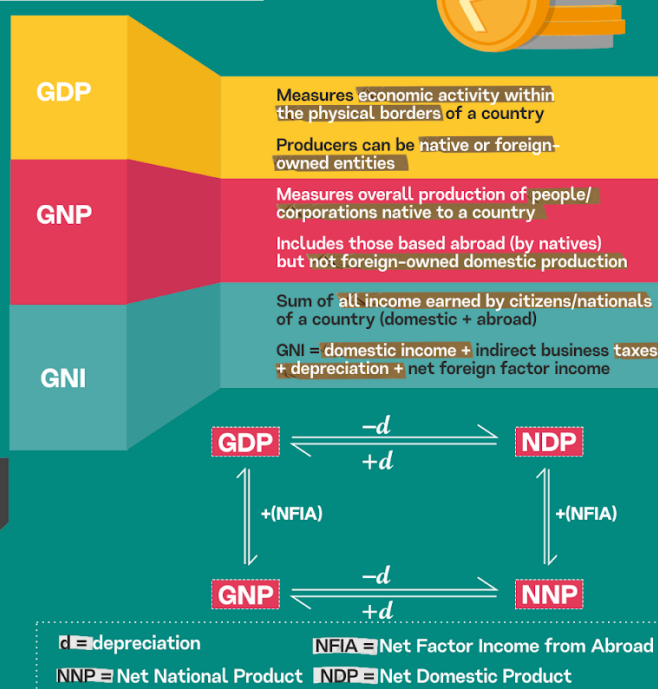
$$\text{GDP Price Deflator} = (NGDP \div RGDP) \times 100$$

Example: Assume a country that only produces bread

Year 2021: It produced 100 units of bread @ price Rs 10 (each)
Then, GDP @ current price - Rs 1000

Year 2022: It produced 110 units of bread @ price Rs 15 (each)
Then, GDP @ current price - Rs 1650

RGDP for year 2022 (base year - 2021) = $110 \times \text{Rs } 10 = \text{Rs } 1,100$
Here, **GDP Deflator** would be - $1,650 \div 1,100 = 1.50$ (or 150%)



- **Factor Cost (FC)** = Total value of the inputs that go into manufacturing a good
- **Market Price (MP)** = Factor Cost + Indirect Taxes - Subsidies
- **GDP at FC** = GDP at MP + Subsidies - Indirect Taxes
- **GDP at MP** = $GVA \times MP$
- **GDP at MP** is the measure of GDP in India
- **Gross Value Added (GVA)** = GDP + subsidies on products - taxes on products



Drishti IAS

What is the Rationale Behind GDP Base Year Revisions?

- **Reflects Structural Changes in the Economy:** India's economy has shifted

from **agrarian-dominated (pre-1990s)** to **services-led** (now **55% of GDP**), requiring a new **base year** to reflect these changes.

- It ensures inclusion of **emerging sectors** like **digital services**, [gig economy](#), **renewable energy**, and reassessment or exclusion of **declining industries** like **traditional manufacturing**.
- **Improves Data Accuracy & Methodology:** Better data sources, such as [MCA-21](#) for the corporate sector, replace outdated surveys, and updates align with [UN System of National Accounts \(SNA\)](#) guidelines.
 - **Informal sector estimates** (e.g., **small traders**, [MSMEs](#)) are revised using fresh [NSSO](#) and [PLFS](#) data.
- **Removes Inflation Distortions:** A new **base year** applies updated **price weights** to separate **real growth** from **inflation effects**. Using outdated prices (e.g., **2011-12**) can overweight sectors like **IT** that were cheaper then.
 - It also ensures **GDP growth rates** remain **comparable over time** by anchoring estimates to a recent **“normal” year**.
- **Policy & Investment Decisions:** Accurate **GDP data** guides **fiscal policies** on **taxation** and **spending**, while businesses depend on **GDP trends** for **expansion plans**.
 - It also strengthens **global credibility**, as bodies like the [International Monetary Fund \(IMF\)](#), [World Bank](#), and **rating agencies** assess India's economy using this data.
- **Corrects Past Anomalies:** The **2015 revision** drew criticism for **overestimating growth** due to methodological changes like greater reliance on **corporate data**, while delays since **2011-12** (skipping **2017-18** due to **demonetisation/GST disruptions**) make this update essential.
 - The new **2022-23 base year** will reflect [Covid-19 impacts](#) (e.g., healthcare's rising GDP share) and **policy changes** like **GST formalisation** and [Production Linked Initiative \(PLI\)](#) schemes.

What are the Key Challenges in GDP Base Year Revision?

- **Methodological Concerns:**
 - **Over Reliance on Corporate Data:** The **2015 GDP revision** shifted to using the **MCA-21 database for Private Corporate Sector (PCS) GDP**, mostly discarding the **IIP** and **ASI**.
 - This led to **under coverage** as many registered companies (especially in services) **don't file audited balance sheets**, and created a **large firm bias** by **overstating big firms' profits** while **missing smaller enterprises**.
 - It overlooked actual **value-added** by small producers, despite **93% of India's workforce** being in the **informal sector** (Economic Survey 2018-19), where data is patchy (e.g., street vendors, small workshops).
 - **Single vs. Double Deflation Debate:** India uses a **single deflator** (adjusting **nominal GDP** via **CPI/WPI**) rather than **double deflation** (adjusting **output** and **input prices** separately), which may **distort real GDP growth**, especially in **manufacturing** where **input costs** like **oil** and **metals** vary sharply.
- **Data Discrepancies Issues:** While **GDP growth** appears robust, **private consumption** remains **sluggish** due to possible **underreporting** and **incorrect inflation adjustments** in GDP deflators.
- **Back Series & Historical Comparisons:** Revising past GDP data to align with the new base year is technically complex, as seen with the **2018 back series** that faced criticism for **understating growth** under the previous governments.
 - New revisions risk **disrupting long-term trend analysis** and **fueling political debates**.
- **Credibility & Global Perception:** The **2015 revision** faced criticism from experts, who argued that **methodological changes inflated growth rates**.
 - Improper weighting of the **digital economy** or **corporate profits** could harm **India's GDP credibility**, deterring **FDI** and triggering **market turmoil**.

How to Make India's GDP Base Year Revision More Reliable?

- **Adopt a Hybrid Data Approach:** Balance corporate and survey data by **combining MCA-21 with ASI, IIP, NSSO surveys**.
 - Strengthen data sources through **annual enterprise surveys for MSMEs/unorganized sectors** and **big data analytics from digital platforms** like **e-commerce** and the **gig economy**.
- **Coverage of Informal Sector:** Expand survey coverage by **increasing sample size and frequency of PLFS and CES** and using **Aadhaar-linked data** to track informal employment and income.
 - Integrate alternative data like **UPI transactions, GST compliance rates, and EPFO records** to better estimate informal GDP contributions.
- **Shift to Double Deflation:** Adopt **double deflation** to adjust output and input prices separately, especially for **manufacturing** and **agriculture** sectors.
 - Ensure GDP estimation aligns with **UN System of National Accounts (SNA 2008)** standards.
- **Enhance Transparency:** Publish a **technical white paper** detailing sectoral weight changes, deflator choices, back-series methodology, and addressing past criticisms like the **2015 corporate data bias**.
 - Ensure **independent peer review** by involving the **IMF, World Bank**, and academic experts to validate the revisions.
- **Institutionalize Regular Revisions:** Avoid delays in base year revisions (like **2017-18 revision**).
 - Invest in **AI-driven GDP tracking** using high-frequency indicators like **electricity demand** and **freight movement** for timely and accurate estimates.
- **Address Sectoral Gaps:** Properly weight **digital services** (UPI, OTT platforms), **renewables**, and **startups**, while recalibrating **outdated industries** like **traditional textiles** and **print media** for accurate GDP estimation.

Conclusion

India's **GDP base year revision to 2022-23** aims to reflect **economic transformations post-pandemic** and **policy reforms**. By addressing **data gaps**, adopting **hybrid methodologies**, and ensuring **transparency**, it can enhance **reliability**. However, challenges like **informal sector measurement** and **corporate data bias** must be resolved to maintain **credibility** and support India's **growth aspirations**.

Drishti Mains Question:

Why is revising the GDP base year important for India's economic policymaking? Discuss the key challenges and suggest measures to improve reliability of GDP estimates.

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)

PDF Refernece URL: <https://www.drishtiias.com/printpdf/gdp-base-year-revised-to-2022-23>

