

BRAINSTORM OVER BASE YEAR

Mospi's move to change GDP's base year aims to improve accuracy, address controversies, and align with economic realities

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On September 24, the Ministry of Statistics and Programme Implementation (Mospi) hosted a conference in Mumbai, bringing together over 50 economists and forecasters from various organisations to discuss the revision of the base year for India's Gross Domestic Product (GDP).

This event underscores the importance Mospi places on wider consultation, especially given the criticism and debates surrounding previous base year revisions. The involvement of such a large number of experts highlights the ministry's intent to ensure transparency and address the concerns raised during earlier base year changes.

GDP is a broad measure of a country's economic size and is commonly used to compare the economic performance of different countries, particularly in terms of the growth rate of economic activity.

It is usually more meaningful in "real" terms, i.e., netting out the effect of price changes or inflation over the years. Macroeconomic data like GDP requires a base year to provide a reference point for measuring economic growth over time. The base year for macroeconomic data is revised periodically to ensure that the economic measurements accurately reflect the current structure of the economy and account for changes in the relative prices and output composition.

PC Mohanan, former acting chairman of the National Statistical Commission (NSC), said that a base year enables inter-year comparisons as it gives an idea about changes in purchasing power of the people and allows calculation of inflation-adjusted growth estimates.

"However, the indicators that constitute the calculation of GDP in a particular base year become obsolete, which renders the inter-year comparisons pointless as the economy is continually undergoing structural changes. This prompts the need for determining a new base year, which leads to the reconstitution of the indicator basket and provides a more accurate picture of economic growth and trends over time," he added.

Controversies surrounding current base year

The last base year revision was undertaken by Mospi in January 2015, when the base year for GDP computation was changed to 2011-12 from 2004-05.

However, the exercise was marred by several controversies. Primary among them was the replacement of 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, mostly discarding the Index of Industrial Production (IIP) and Annual Survey of Industries (ASI) data in the process.

R Nagaraj, currently a distinguished senior fellow at the Centre for Liberal Education, IIT Bombay, had then contended that historically, PCS (more precisely, non-financial PCS) was small, and its output mostly came from a small number of large companies, accounting for most of the paid-up capital (PUC) as captured in the Reserve Bank of India (RBI) dataset. The sample estimates were then scaled up for the PCS universe, that is, all registered companies.

"However, the last three decades have witnessed phenomenal growth in the number of registered companies, diversifying away from the manufacturing sector into services, especially in the financial sector. But their contribution



to domestic output remains unknown as they mostly do not file their audited balance sheets with the registrar of companies (RoC) — a statutory requirement. Since the PUC of the universe of working companies is unknown, the blowing-up method led to misleading estimates," he contended.

The 2015 exercise also faced criticism for underestimating the unorganised sector in the country, as the use of balance sheets to calculate GDP, instead of taking value-added figures from the producing units, means a lower coverage for informal sector producers, who are not listed as companies.

Fast forward to September 2023, former chief economic advisor Arvind Subramanian and economist Jose Felman, in a piece in *Business Standard*, questioned the single deflator (deflating the nominal value-added in each sector by various price indices) used to calculate real GDP growth from nominal GDP growth, rather than the internationally standard technique of double deflation (deflating output by output prices and inputs by input prices).

In a 10-point rebuttal posted on X (earlier known as Twitter), the finance ministry said that arguing nominal GDP growth is more reliable because India has issues with its calculation of the GDP deflator is to invent an argument where none exists. "This is just to justify the linking for nominal GDP growth because it has been moderating in recent quarters after the high growth in

PAST CONTROVERSIES

- Replacement of IIP and ASI data for computing GDP of the private corporate sector with audited balance sheets of the Ministry of Corporate Affairs
- Since the paid up capital of the universe of non-financial operational firms is unknown, the blowing-up method led to misleading estimates for the share of non-financial PCS

- Underestimating the unorganised sector in the country due to lower coverage for informal sector producers who are not listed as firms

- Use of the single deflator to calculate real GDP growth from nominal GDP growth, instead of using double deflation method

the first financial quarter of FY23. In other words, critics want to latch on to anything that does not paint the Indian economy in a good light," it said.

In April this year, Felman and Subramanian, in another piece, argued that while overall GDP growth seems robust, consumption, according to other sources of government data, appears tepid and this is "a sign of

serious measurement problems". Also, there is a discrepancy between two methods of estimating GDP — the production method and the expenditure method — along with how the Indian system accounts for the effect of inflation on GDP growth.

Meanwhile, former chief statistician Pronab Sen said that 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, and the data on the expenditure side (of which consumption is a part) is quite poor.

"On deflator, the criticism that it is a derived figure is not correct. We do calculate WPI directly, where the prices of various goods and services are measured through an established basket and markets; though, the issue is that we need to revise the base year for it as well," Sen added.

The new base year

In June this year, Mospi set up a 26-member Advisory Committee on National Accounts Statistics (ACNAS) to decide the base year for gross domestic product (GDP) data, under the chairmanship of Biswanath Goldar, former professor of the Institute of Economic Growth. The revision process is expected to be completed by February 2026.

Besides deciding the new base year, the panel is also slated to take a call on

the alignment of GDP with other macro indicators like the WPI, CPI, and IIP. MoSPI is leaning towards using 2022-23 as the new base year for GDP, though 2023-24 is also being considered by the committee.

Madan Sabnavis, chief economist at Bank of Baroda, said that choosing FY23 as a base year is fraught, as there is still a huge downward bias in the economy. According to him, FY19 is a better year as inflation was within the central bank's Monetary Policy Committee (MPC) target.

"During FY2014-19, there was an increase of around ₹42 trillion in real terms. In contrast, between 2020 and 2024, the real increase has been in the order of just ₹34 trillion. Hence, while GDP growth rates have been impressive in the last three years, they have come over low numbers from FY20 and FY21. We are clearly not yet back to normal. Also, inflation has been unusually high for the last four years, which will tend to depress the numbers going ahead," he added.

New datasets and sources

To address the methodological criticisms associated with the current 2011-12 base year, the advisory committee will also look to include new databases and change the composition of indices to capture a better picture of the economy.

"There were discussions on including the goods and services tax (GST) database for the purpose of calculating GDP, and discussions are happening with the finance ministry. Till now, the Goods and Services Tax Network (GSTN) has been reluctant to share such data with MoSPI, citing confidentiality concerns. Also, the issue of double deflation was discussed, with participants suggesting a potential move to this method," said a participant, who attended the MoSPI conference last week in Mumbai, requesting anonymity.

However, Mohanan argues that the GST database is not stable due to the frequent changes in rate structure and input tax credit, which lead to large and frequent fluctuations in the figures. Also, the provision of input tax credit makes it difficult to tell whether there was real production.

Since India is soon going to have a new base year for its national accounts, it would be prudent for the government to engage in wider consultations so that some of the issues that plagued the earlier revision do not recur.