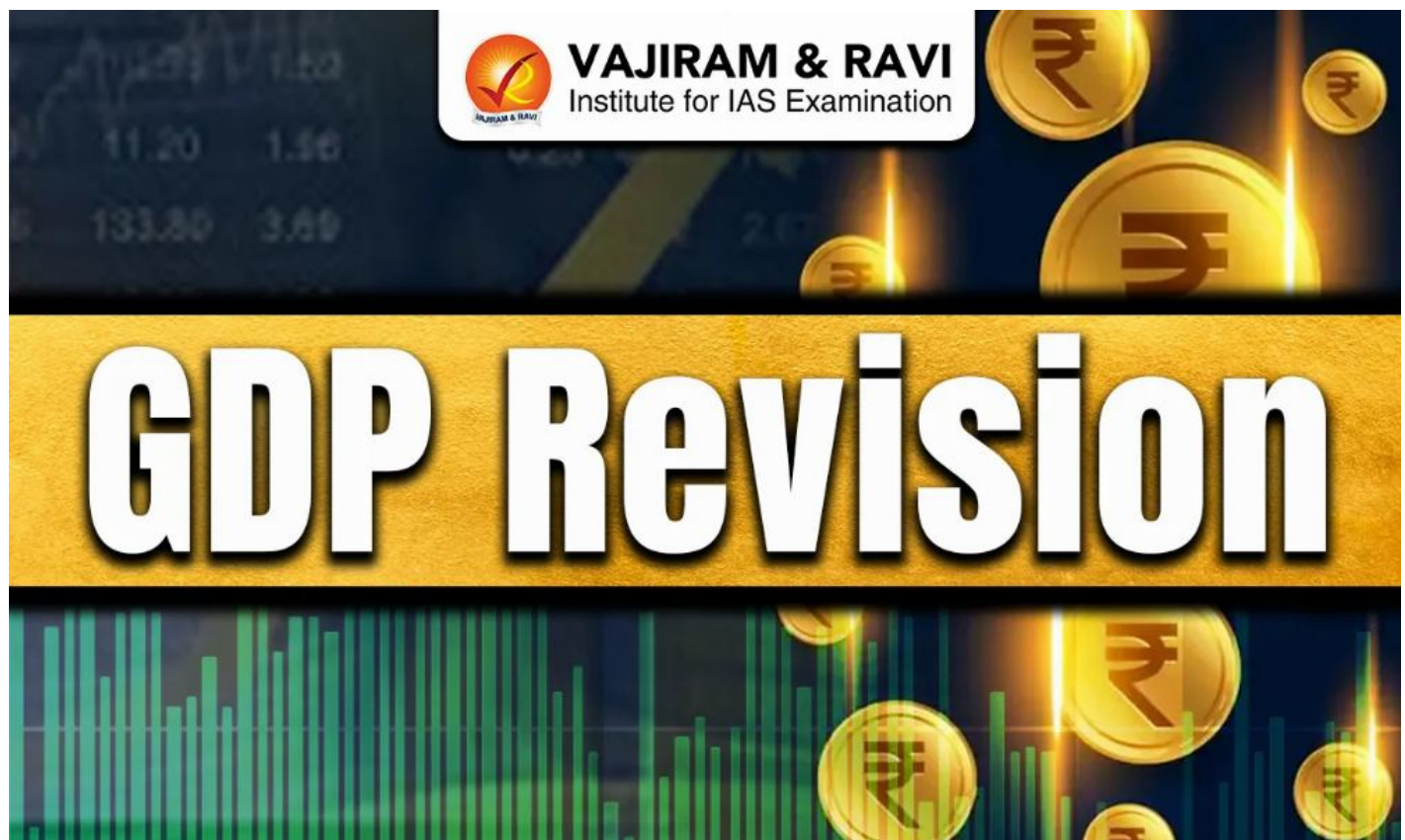


GDP Revision and New Series - Explained

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GDP Revision Latest News

- The Ministry of Statistics and Programme Implementation (MoSPI) has introduced a new GDP series with 2022-23 as the base year, leading to a downward revision in nominal GDP and higher fiscal deficit ratios.

Background of the New GDP Series

- GDP rebasing is a standard statistical practice undertaken periodically to reflect structural changes in the economy, incorporate improved data sources, and refine estimation methodologies.
- India has shifted the base year for GDP calculations to 2022-23 from the earlier base year.
- According to MoSPI, the revised series reflects better databases and updated methods, which generally lead to adjustments in GDP levels.
- However, unlike some past revisions that increased GDP size, the latest revision has reduced India's nominal GDP estimates for recent years.

Key Changes in Growth and Size

- One of the most notable changes is in the real GDP growth rate for 2023-24. Growth, earlier estimated at 9.2% under the old series, is now revised to 7.2% under the new series.
- More importantly, the nominal GDP level has been reduced by around 3-4% for 2025-26 and the previous three years.
- For 2025-26, the second advance estimate under the new series places nominal GDP at Rs. 345 lakh crore, about 3.3% lower than earlier estimates.
- This downward revision means that the overall size of the Indian economy, in rupee terms, is now assessed to be smaller than previously calculated.

Impact on Fiscal Deficit Ratios

- A reduction in nominal GDP has direct implications for fiscal metrics because ratios such as fiscal deficit-to-GDP and debt-to-GDP depend on the size of GDP.
- The Union Budget had targeted a fiscal deficit of 4.4% of GDP for 2025-26. However, using the revised nominal GDP figure under the new series, the fiscal deficit ratio increases to 4.5%.
- Similarly, earlier years' fiscal deficits have also been revised upward:
 - 2022-23: from 6.5% to 6.7%
 - 2023-24: from 5.5% to 5.7%
 - 2024-25: from 4.8% to 4.9%
- For 2026-27, the government has set a fiscal deficit target of 4.3% of GDP, amounting to Rs. 16.96 lakh crore.
- Achieving this target under the new GDP base will require nominal growth of 13-14%, significantly higher than the 10% nominal growth assumption used in the Budget.
- This creates pressure on fiscal consolidation efforts and may require recalibration of borrowing plans.

Debt-to-GDP Ratio and Fiscal Anchor

- The GDP revision also affects the debt-to-GDP ratio, which has become an important fiscal anchor in recent years.
- Estimates suggest that the Centre's debt-to-GDP ratio could rise from 56.2% to 58.1% in 2025-26 under the revised GDP figures.
- Even with 10% nominal growth in 2026-27, the debt ratio may remain above the target of 55.6% outlined in the Budget.
- Thus, while the fiscal deficit in absolute rupee terms remains unchanged, its ratio to GDP becomes less favourable due to a smaller denominator.

Implications for the \$4-Trillion Economy Goal

- Becoming a \$4-trillion economy is seen as a milestone on India's path to becoming a developed nation by 2047.
- However, the reduction in nominal GDP under the new series makes this goal more challenging.
- At an exchange rate of Rs. 90.98 per US dollar, India's GDP in 2025-26 is estimated at around \$3.8 trillion.
- Assuming 10% nominal growth and a stable exchange rate, India could cross the \$4-trillion mark in 2026-27.

- However, exchange rate dynamics play a crucial role. A depreciation of the rupee reduces GDP in dollar terms even if rupee GDP rises. The example of Nigeria, where rebasing significantly altered GDP size, illustrates how statistical revisions and currency movements can influence global economic rankings.
- Thus, both domestic growth and currency stability will determine progress toward the \$4-trillion milestone.

Broader Significance of GDP Rebasing

- GDP rebasing is not unusual and reflects improvements in statistical systems. According to MoSPI, revisions typically become smaller as databases improve over time.
- For policymakers, however, such revisions have real consequences. They influence fiscal planning, borrowing strategies, international comparisons, and macroeconomic credibility.

Source: IE

Source: <https://vajiramandravi.com/current-affairs/gdp-revision-explained/>

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