India's New GDP Series – Base Year Revision and the Challenge of Rising Discrepancies

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India's New GDP Series Latest News

- The Ministry of Statistics and Programme Implementation (MoSPI) recently released a new GDP data series with **2022–23** as the base year, replacing the earlier 2011–12 base year.
- GDP statistics are central to economic policymaking, fiscal planning, investment decisions, and macroeconomic assessment in India.
- However, despite the technical improvements in the new series, concerns remain about large statistical **discrepancies** and the **credibility** of real GDP growth estimates.

Understanding GDP and Base Year Revision

- **What is GDP?**
  - Gross Domestic Product (GDP) measures the **market value** of all final goods and services produced within a country's geographical boundaries in a given year.

  - It is the primary indicator of economic performance used by governments and policymakers.
- **Two ways of measuring economic output:**
  - **Production approach**: Measured through Gross Value Added (GVA), capturing the value added by different sectors of the economy.
  - **Expenditure approach**: Measured through GDP, it calculates total spending in the economy.
  - **Relationship between GDP and GVA:** GDP = GVA + Net Indirect Taxes (Net Indirect Taxes = Indirect Taxes – Subsidies).
  - In theory, both methods should produce identical estimates of economic output.
- **Change in the base year:**
  - The base year provides a **benchmark** for price and production comparisons over time.
  - **Reasons** for periodic revision are changes in production patterns and consumption basket, emergence of new sectors and technologies, updating price structures, and improving data sources and methodology.
  - India periodically revises the base year. **For example**, earlier series (base year: 1999–2000), next revision (2004–05), previous series (2011–12), and new series (2022–23).
  - This is the **8th revision** of GDP base year in independent India.

Major Criticisms of the Previous GDP Series (2011-12 Base Year)

- **Overestimation of GDP growth:**
  - Critics argued that GDP growth appeared higher than what ground-level economic indicators suggested.
  - **For example**, nominal GDP growth (FY26) was about 8%, while the real GDP growth was ~7.4%.
  - This implied inflation of only about 0.6%, which many believed underestimated actual price rise.
- **Credibility concerns raised by economists:** Former Chief Economic Adviser, Arvind Subramanian argued that India’s GDP numbers might overstate growth due to measurement issues.
- **Mismatch with economic reality:** Several analysts noted that high GDP growth did not align with sluggish job creation, weak consumption demand, and declining private investment.

What are ‘Statistical Discrepancies’?

- **Mismatch:**
  - Often, production-side and expenditure-side estimates **do not match**. The difference is called Statistical Discrepancy.
  - **Reasons for discrepancies:**
    - Incomplete expenditure data
    - Delayed reporting of consumption or investment
    - Difficulty in tracking household spending
    - Estimation errors
  - To reconcile the mismatch, MoSPI adds a balancing component called “discrepancies.”
- **Problems with high discrepancies:**

    - **Large discrepancies**: Reduce credibility of GDP estimates, suggest data gaps, and raise doubts about real growth figures.
    - Experts suggest that discrepancies should ideally remain below 2% of GDP.

Structure of India's GDP (Expenditure Side)

- **Private Final Consumption Expenditure (PFCE):** It includes household spending on goods and services, and is the largest contributor (~**60**% of GDP).
- **Gross Fixed Capital Formation (GFCF):** Investment by firms and government in factories, machinery, infrastructure. It contributes ~**30**% of GDP.
- **Government Final Consumption Expenditure (GFCE):** Government spending on salaries, pensions, operational expenses. It contributes ~**10**% of GDP.
- **Other components:** Net Exports (Exports – Imports), Change in Stocks (Inventory changes), Valuables, Discrepancies.

Key Findings from the New GDP Series

- **FY24 data:**
    - Overall real GDP growth: 7.2%
    - Growth of main GDP components (PFCE, GFCF, GFCE): 5.7%
    - The gap is explained by sharp increases in discrepancies (increased to ₹1 lakh crore) and inventory changes (change in stocks increased by 116%).
- **FY25 data:**
    - Overall real GDP growth: 7.1%
    - Growth of main components: 6.1%
    - But, discrepancies increased by 230% (to ~₹3.5 lakh crore).
- **FY26 estimate:** Discrepancies projected at ₹4.9 lakh crore, indicating rising mismatch between production and expenditure estimates.

Reasons for Rising Discrepancies

- **Lack of complete consumption data**: Reliable expenditure data exists mainly for government spending, imports and exports, and corporate investment. However, household consumption and investment data are limited.
- **Dependence on sample surveys**: Data such as the Household Consumption Expenditure Survey uses sample surveys, not full census-level data. Thus, it provides ratios rather than precise levels of spending.
- **Quality of price deflators:**
    - When calculating real GDP, nominal values are adjusted using price deflators.
    - As time passes from the base year (2022–23), price measurement becomes less accurate, deflator errors increase.
    - To improve accuracy, MoSPI has increased the number of deflators from 180 to about 600.

Challenges in Estimating India's GDP and Way Forward

- **Data gaps in consumption expenditure:** Strengthen data collection systems. Improve household consumption and investment surveys.
- **Large informal sector:** Reduce informal sector data gaps – Strengthen labour, enterprise and MSME data systems.
- **Limited real-time data:** Develop real-time digital data sources. Use GST data, digital payments data, and satellite data to track economic activity.
- **Weak price deflators:** Improve deflator quality. Regular updates in price indices and sectoral deflators.
- **Rising statistical discrepancies:** Improve Supply and Use Tables (SUT). Better matching of production and expenditure data.

Conclusion

- The revision of the GDP base year to 2022–23 marks an important step in updating India's national income accounting framework.
- However, the persistence of large statistical discrepancies raises concerns about the accuracy of real GDP estimates.
- Thus, **enhancing the credibility** of India's GDP statistics is crucial for sound economic policymaking and global investor confidence.

Source: IE