



# **DAILY EDITORIAL ANALYSIS**

**TOPIC**

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**WHY DOES INDIA'S GDP  
MEASUREMENT REQUIRES A RESET?**

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## WHY DOES INDIA'S GDP MEASUREMENT REQUIRES A RESET?

### Context

- Recent debates among economists, policymakers, and global institutions have raised concerns that India's current GDP measurement framework **may not fully capture the realities** of a rapidly changing, digital, informal, and service-driven economy.
- Henceforth, India is going to implement the **new base-year revision of GDP series** scheduled to be released in 2026 with **financial year 2022-23 as base year**.

### What is GDP & How GDP is Calculated?

- Gross Domestic Product (GDP) measures the total value of all final goods and services produced within a country in a given period.
- Methods used in India:**
  - Production (Value Added) Method
  - Income Method
  - Expenditure Method
- India mainly relies on the **production approach, using corporate and administrative databases**.
- The Central Statistics Office under India's Ministry of Statistics and Program Implementation** manages GDP data collection.
- Contribution of Sectors:** The largest contributor to India's GDP is the services sector, which accounts for 61.5% of GDP.
  - The next largest contributor was the industrial sector (23%) and then the agriculture sector (15.4%).

### What is Base Year?

- A base year is a **benchmark year** used for **comparison in economic and statistical calculations**.
- It provides a **reference point** against which **current values of indicators like GDP, CPI, and IIP are measured** to track real changes over time.
- Significance:**
  - It allows us to remove the effect of inflation and see real growth.
  - Helps in creating index numbers (like CPI = 100 in base year).
  - Ensures that the data reflects the current structure of the economy, consumption patterns, and prices.

### Why India's GDP Measurement Needs a Reset?

- Outdated Base Year (2011–12):** The structure of the Indian economy has changed significantly with digitisation, rise of services, and gig economy, but GDP still uses an old base year, distorting sectoral weights. International practice suggests revising base year every 5 years.
- Poor Capture of Informal Sector:** With nearly half of India's workforce in the informal sector, reliance on old surveys and proxy assumptions leads to inaccurate estimation, especially after GST and COVID-related disruptions.
- Over-Reliance on MCA-21 Data:** GDP estimates depend heavily on corporate filings, which exclude micro enterprises and informal firms, and include inactive or shell companies, affecting data quality.
- Weak Measurement of Services:** Services contribute about 55% of GDP, yet areas like health, education, care work, and digital platforms are inadequately measured, along with intangibles and quality improvements.
- Employment–Growth Disconnect:** High GDP growth has not translated into proportional job creation, indicating that GDP figures may not reflect inclusive or employment-intensive growth.
- Post-COVID Structural Changes Ignored:** Closure of small firms and expansion of gig and platform work are not fully reflected, as methodology still assumes a pre-pandemic economic structure.

- **Limited Use of Alternative Data:** Unlike global best practices that use satellite imagery, electricity use, and digital transaction data, India's GDP estimation remains survey-heavy and lagged.

### 2026 Base-Year Revision as an Opportunity

- Shift away from commodity-flow approach: It will move away from the commodity-flow method for estimating consumption across most items.
  - ♦ Under the earlier framework, **fixed ratios derived from a 2011–12 study** were used to allocate commodities between intermediate consumption, final consumption and other uses.
  - ♦ The revised system will instead **use dynamic rates and ratios**, allowing estimates to evolve over time as consumption patterns change.
- **Elimination of 'Discrepancies':** MoSPI plans to integrate **Supply and Use Tables (SUTs)** directly into annual GDP compilation.
  - ♦ Supply and use tables show how different goods and services are supplied by domestic industries and imports and how they are distributed between different intermediate or final uses, including exports.
  - ♦ This approach aims to limit discrepancies in early estimates and fully eliminate them in final estimates.
- **Use of Digital and Administrative Data:** Increased reliance on datasets such as;
  - ♦ e-Vahan (vehicle registrations).
  - ♦ GST and other administrative records.
- **Updated Surveys as Data Backbone:** Key surveys feeding into the new series include;
  - ♦ **Household Consumption Expenditure Survey (HCES)** 2022–23 and 2023–24.
  - ♦ Updated surveys of formal and informal enterprises.
  - ♦ These are expected to offer more granular insights into consumption behaviour and production activity than earlier benchmarks.

### Conclusion

- GDP remains a vital macroeconomic indicator, but without methodological updates, it risks misrepresenting India's structural transformation.
- A reset is essential to make GDP a more reliable tool for evidence-based policymaking, inclusive growth, and sustainable development.

### Daily Mains Practice Question

[Q] Why is revision of GDP base year and methodology important for a developing economy like India? Analyse its implications for policymaking and federal finances.

Source: LM

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