

Fragile Five to Top Five: How India had become the fifth largest economy in 2021 itself

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On 20 October, Prime Minister Narendra Modi opened the newest stretch of line on the metro in Bengaluru. A journey across India's technology capital could have taken hours even on a good day. Now it takes 45 minutes. The same day, the Prime Minister also opened the first section of a new high speed railway system around Delhi. Excited Youtubers now post videos of themselves riding high above small towns in western Uttar Pradesh at 150 kilometers an hour. Eventually, the network will spread to three states. This will bring millions of new people, who live hundreds of kilometers from Delhi, into the thriving National Capital Region. That week, India also welcomed the first ship to a new deep water seaport in the south. It is the first transshipment port of its kind in India, built to compete with Dubai and Singapore.

That was just one week in the life of new India. Each day is part of the relentless march ahead. Each week that goes by without making something new, now feels like a waste. India is set for yet another year as the fastest growing economy, according to the IMF. A just released report by Morgan Stanley ranks India as their standout market, the first among all emerging economies. Since the growth numbers for the latest quarter came out, India's GDP projections have been raised by the IMF, Goldman Sachs, Fitch, OECD and SBI Research. What a difference from 2013, when India was seen as a Fragile Five economy, public sector banks were struggling with bad loans, and people asked if Indonesia should replace India in BRIC. It is also a loss of face for naysayers like Raghuram Rajan who said India would be "lucky" to get "even 5 percent" growth this year. The IMF's latest *World Economic Outlook* report comes with a simple message. Do not bet against India.

The IMF's big report is published twice a year, in April and October. Apart from compiling economic data from around the world, the report contains predictions for the next five years. The October 2023 report has been somewhat lost in the news cycle. Perhaps due to news of so much conflict in the outside world, or because of the festive season in India. So here is a summary. Because there is a lot to cheer for India.

India to remain the world's fastest growing economy till 2028

By now, we have come to expect this. The IMF has upgraded India's GDP forecast for 2023 to 6.3 percent. At the same time, they have downgraded China to 5 percent. The most exciting part is this. The IMF expects India to be the fastest growing economy till 2028 at least, growing above 6 percent every single year! Do you know what this means? It means that for 11 of the 15 years since 2014, India would be the fastest growing economy. For comparison, how many years were there between 2004 and 2013 when India was the fastest growing economy? Unfortunately, zero.

In the last two fiscal years, India's GDP grew 9.1 percent and 7.2 percent respectively. Most countries posted high growth numbers in 2021, as they bounced back from the pandemic in 2020. But very few could keep up the pace like India did. The United States grew 5.9 percent in 2021. But it came down to barely 2 percent in 2022. China posted 8.4 percent growth in 2021, but only 3 percent in 2022. The European economies showed a similar path, coming down from 6-7 percent to 2-4 percent. And in the next five years, they might only do 0-2 percent, sometimes even falling below zero. But India is expected to stay comfortably above 6 percent. In other words, the IMF is counting on India to lead global growth for a long time to come.

India became the 5th largest economy in 2021 itself

When India became the world's 5th largest economy this year, there was a lot of cheer all around. But as it now turns out, these celebrations were a bit delayed. The latest data show that India had become the 5th largest economy in 2021 itself. India's GDP in 2021 was estimated at \$3.15 trillion. This was ahead of the UK at \$3.12 trillion, and France at \$2.96 trillion.

This means that beyond a doubt, the last 10 years have been the most successful for India since independence. The Nehruvian style command economy adopted in the early years knocked India down from 6th largest economy in 1950 to only 12th largest by 1991. Things changed remarkably after 1991. But it was still slow progress up the world economic ranks. From 12th in 1991 to merely 10th in 2014. And now, India has jumped 5 ranks in just 7 years.

The only question now is this. How soon can India jump two more places and reach the 3rd position? The IMF expects that India will become 4th largest in 2026, ahead of Japan. And then 3rd largest by 2027, overtaking Germany.

Inflation in India to stay under control, around 4 percent

In the last several years, one thing that India has always done well is manage inflation. For inflation, the 'comfort zone' of the RBI is around 6 percent. This is entirely reasonable for a developing economy like India. The IMF projects that India will do even better, with inflation around 4-4.5 percent during each of the next five years.

During the recovery from the pandemic, much of the western world went through a wave of inflation. In the US, it soared at times above 9 percent, and above 10 percent in the UK. For any developed economy, such numbers are shocking. But in India, inflation never went beyond the 6-7 percent range. Further, the gamble with high inflation did not pay off for the West. In 2021, their economies did recover from the shock of 2020, but they lost steam in 2022 and 2023. GDP growth crashed to around 2 percent, and many countries went into recession. India has managed to keep inflation low, and still hold on to high growth.

India's \$5 trillion goal is essentially on target

Of course, it is not just the global ranking of the GDP that matters, but also its absolute size. In this respect, India in 2019 had set an ambitious target of achieving \$5 trillion in GDP in the next five years. But that target had been set before the pandemic.

What happened then to the \$5 trillion goal? The IMF says that India will reach this milestone by 2026. Or \$4.95 trillion by 2026, if you would like to be exact. Like the rest of the world, India lost two years to the pandemic. But India bounced back strongly, and did not let things slip any further. In fact, with the \$5 trillion goal now in sight, there is a new buzz about \$7 trillion. First there were officials at J P Morgan, who talked of \$7 trillion by 2030. A more precise number came from S&P Global Intelligence the other day, that of \$7.3 trillion by 2030. Indeed, if India reaches the \$5 trillion target by 2026 as predicted, a further increase to \$7 trillion by 2030 seems well within reach.

The gap between India and China is finally reducing a little bit

In the geopolitical great game between India and China, the biggest headache for India is the much bigger size of China's economy. In the 2000s and early 2010s, India did well. But China grew much faster, leaving India far behind. In 2004, India's economy was 37 percent of that of China. By 2014, this had shrunk to just 19 percent! In other words, relative to China, India's economy had been nearly cut in half. This was also the period when India's economy was surpassed by Brazil and Russia, leaving India as the smallest economy among the BRIC countries.

Since then, India has managed to stop the decline. And get back a little bit of lost ground. The Indian economy is now up to 21 percent of that of China. Over the next five years, the IMF expects that India will consistently grow above 6 percent, while China will be stuck in the 3-5 percent range. If these projections hold, India's economic size relative to China will grow to 25 percent by 2028. Still a huge gap. For India, this is a time for bold economic decisions.

India has no room for getting complacent

As India has gone up the global GDP ranks in the last few years, some dangerous myths have been floating around. Some people say India just got lucky. Others say that India's rise is inevitable. It will continue no matter what decisions we make as a nation. Clearly, these people do not understand the importance of hard work and good policymaking. Nor do they realize how difficult it is to rise to the top and keep going. Look at Japan. There was a time in the 1980s when people thought they would replace the United States as the world's largest economy. But that never happened. Instead, China pushed them down to the 3rd position. This year, the IMF says that Germany's economy has also overtaken Japan.

So you cannot take anything for granted. Especially not with an ever more powerful China to the north. India is doing extremely well, for now. But India will need years of good economic decisions and the right leadership in order to complete our rise to the top. As with any democracy, our fate is in the hands of our people.

Abhishek Banerjee (@AbhishBanerj on "X") is an author and columnist. Karuna Gopal (@KarunaGopal1 on "X") is President, Foundation for Futuristic Cities. Views expressed in the above piece are personal and solely that of the author. They do not necessarily reflect Firstpost_'s views._