

## INDIA BECOMES THE WORLD'S 4TH LARGEST ECONOMY – ECONOMY

NEWS: Recently, NITI Aayog CEO B.V.R. Subrahmanyam informed that **India has surpassed Japan** to become the **world's fourth-largest economy** (nominal GDP), and poised to displace **Germany** in the next 2.5 to 3 years.

### WHAT'S IN THE NEWS?

#### India's Economic Milestones and Global Positioning

- India's **nominal GDP has reached \$4.19 trillion**, surpassing Japan's estimated nominal GDP of \$4.18 trillion, making India the **world's third-largest economy by nominal GDP value**.
- According to the **International Monetary Fund (IMF)'s World Economic Outlook**, India is projected to remain the **fastest-growing major economy**, with an anticipated growth rate of **6.2% in 2025** and **6.3% in 2026**.
- Over the last decade, India has **doubled its GDP** from approximately **\$2.1 trillion in 2015 to \$4.19 trillion**, showcasing robust and sustained economic expansion.

#### Projected Economic Ranking and Growth Dynamics

- The IMF projects India will become the **third-largest economy globally by 2028**, with an expected GDP of around **\$5.5 trillion**, surpassing Germany's economy.
- Germany's GDP growth is projected to stagnate at **0% in 2025** and marginally rise to **0.9% in 2026**, primarily due to **ongoing global trade tensions and geopolitical uncertainties**.
- India's rise is fueled by a combination of factors including demographic advantages, reforms, and strategic positioning in the global economy.

#### Key Determinants Driving India's Economic Growth

##### 1. Expanding Domestic Consumption:

- Private consumption, especially in **rural areas**, is the main driver of India's economic growth.
- Rapid **urbanization** and lifestyle changes are increasing consumption demand, with India's urban population expected to reach **600 million by 2030**, creating a large consumer base.
- India's **demographic dividend**, with a median age of **29 years**, provides a young and productive workforce supporting economic dynamism for decades.

##### 2. Infrastructure Development and Digital Transformation:

- Significant investments in **modern infrastructure**—including transportation networks, energy grids, and digital connectivity—are enhancing productivity.
- The rise of India's **Digital Public Infrastructure (DPI)**, combined with its emergence as a global startup hub, is accelerating innovation-led growth.

- The booming **IT and digital services sector** continues to be a major contributor to GDP.

### 3. Manufacturing and Services Sector Expansion:

- Initiatives like **Make in India** and **Production-Linked Incentive (PLI)** schemes have revitalized the manufacturing sector, attracting domestic and foreign investments.
- The **services sector**, including IT, financial services, and business process outsourcing, remains a backbone of economic output.

### 4. External and Global Economic Realignment:

- Strategic initiatives such as “**China Plus One**” and the **Supply Chain Resilience Initiative (SCRI)** are driving increased foreign direct investment (FDI) inflows into India.
- Global corporations are diversifying their supply chains by shifting manufacturing to India to reduce overdependence on China amid geopolitical tensions (e.g., Apple expanding manufacturing investments in India).

### 5. Reform-Driven Growth Policies:

- The introduction of **Goods and Services Tax (GST)** has unified the domestic market, simplifying taxation and boosting commerce.
- The **Insolvency and Bankruptcy Code (IBC)** has improved ease of doing business by addressing stressed assets efficiently.
- Corporate tax cuts, along with flagship initiatives like **PM Gati Shakti**, **National Infrastructure Pipeline (NIP)**, and **Atmanirbhar Bharat**, have enhanced capital formation and infrastructure development.

### Understanding GDP Metrics

- **Real GDP:** Measures the total value of goods and services produced, adjusted for inflation, reflecting true production growth using constant base-year prices.
- **Nominal GDP:** Measures the total value of goods and services at current market prices without adjusting for inflation, which means inflation can inflate nominal GDP figures without actual output increase.

### Challenges and Risks to India's Growth Trajectory

- **Global Geopolitical Uncertainty:**
  - India's economy is vulnerable to global conflicts, trade restrictions, and supply chain disruptions, which can adversely affect trade and investment.
  - The **Economic Survey 2025** highlights these geopolitical tensions as potential risks to economic stability.

- **Inflation and Price Volatility:**

- Although headline inflation has eased, **services inflation remains persistent**.
- Rising prices of essential commodities like **fuel and food** continue to challenge policymakers in maintaining price stability.

- **Employment and Workforce Challenges:**

- Automation and artificial intelligence (AI) are transforming the job market, causing disruptions.
- There is a pressing need for **upskilling and reskilling** India's workforce to maintain competitiveness and address future labor market demands.

- **Trade Deficit and Export Slowdown:**

- India's **current account deficit** has been reduced to about **1% of GDP**, reflecting improved external stability.
- However, **weak global demand** has dampened export growth, necessitating diversification of trade partners.

- **Infrastructure and Investment Needs:**

- India's **capital expenditure to GDP ratio** has risen sharply to **3.3%**, signaling strong investment in infrastructure.
- Continued and sustained investments are critical for modernizing transport, energy, and digital networks to sustain long-term growth.

### **Way Forward for India's Economic Development**

- **Diversify Trade Partnerships:** Reduce over-reliance on any single market by expanding bilateral and multilateral trade agreements to enhance resilience.
- **Strengthen Domestic Manufacturing:** Boost manufacturing competitiveness through supportive policies, skill development, and technology adoption.
- **Invest in Digital Transformation:** Promote digital inclusion, improve governance efficiency, and expand the fintech ecosystem.
- **Adopt Sustainable Economic Policies:** Balance rapid economic growth with environmental protection and resource sustainability to ensure long-term prosperity.

Source: <https://www.newsonair.gov.in/india-becomes-worlds-4th-largest-economy-surpasses-japan-niti-aayog/>