INDIA BECOME FOURTH LARGEST ECONOMY: ECONOMY

NEWS: India's economy may overtake Japan soon, but with caveats
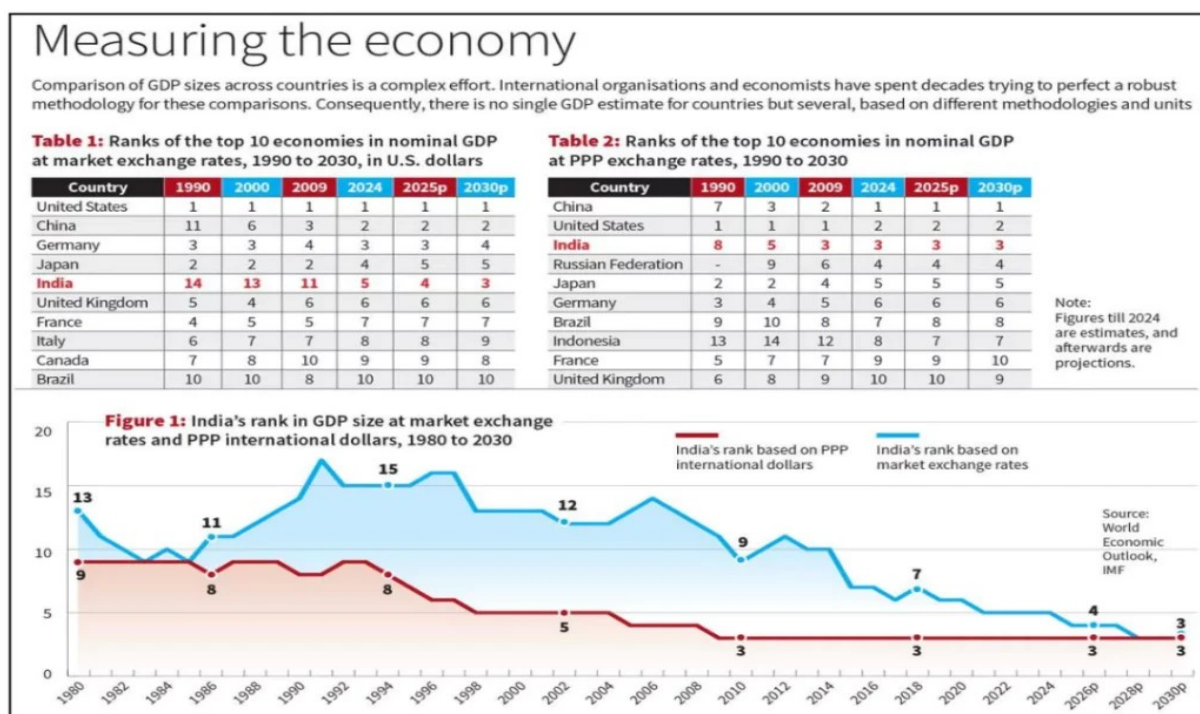
WHAT'S IN THE NEWS?

India is projected to become the world's fourth-largest economy by nominal GDP in 2025, driven by domestic reforms and global realignments. However, challenges like low per capita income, informal labour, and social disparities underline the need for a more inclusive and holistic growth narrative beyond headline GDP rankings.

Context

- India is projected to become the world's fourth-largest economy in 2025 by nominal GDP, surpassing Japan, according to IMF estimates.

- India's nominal GDP in 2025 is estimated at $4,187.03 billion, marginally higher than Japan's GDP.

- India is now the fourth-largest economy by market exchange rate (MER) GDP, behind the United States, China, and Germany.

Current Status of Indian Economy

- India's nominal GDP (MER) for 2025 is approx. $4.19 trillion.

- By Purchasing Power Parity (PPP), India has been the world's 3rd largest economy since 2009.

- Per capita GDP in India was $2,711 in 2024 in current dollar terms, ranking in the lower segment of "lower middle-income countries."

Measuring the economy

Comparison of GDP sizes across countries is a complex effort. International organisations and economists have spent decades trying to perfect a robust methodology for these comparisons. Consequently, there is no single GDP estimate for countries but several, based on different methodologies and units

Table 1: Ranks of the top 10 economies in nominal GDP at market exchange rates, 1990 to 2030, in U.S. dollars

Country	1990	2000	2009	2024	2025p	2030p
United States	1	1	1	1	1	1
China	11	6	3	2	2	2
Germany	3	3	4	3	3	4
Japan	2	2	2	4	5	5
India	14	13	11	5	4	3
United Kingdom	5	4	6	6	6	6
France	4	5	5	7	7	7
Italy	6	7	7	8	8	9
Canada	7	8	10	9	9	8
Brazil	10	10	8	10	10	10

Table 2: Ranks of the top 10 economies in nominal GDP at PPP exchange rates, 1990 to 2030

Country	1990	2000	2009	2024	2025p	2030p
China	7	3	2	1	1	1
United States	1	1	1	2	2	2
India	8	5	3	3	3	3
Russian Federation	-	9	6	4	4	4
Japan	2	2	4	5	5	5
Germany	3	4	5	6	6	6
Brazil	9	10	8	7	8	8
Indonesia	13	14	12	8	7	7
France	5	7	7	9	9	10
United Kingdom	6	8	9	10	10	9

Note: Figures till 2024 are estimates, and afterwards are projections.

Figure 1: India's rank in GDP size at market exchange rates and PPP international dollars, 1980 to 2030

India's rank based on PPP international dollars

India's rank based on market exchange rates

Source: World Economic Outlook, IMF

Market Exchange Rate (MER) Vs Purchasing Power Parity (PPP)

Aspect	GDP @ MER	GDP @ PPP
Definition	GDP converted into USD using current market exchange rates.	GDP adjusted based on domestic price levels for a common basket of goods/services.
Purpose	Useful for international trade flows, investment, foreign reserves.	More realistic comparison of domestic living standards and consumption capacity.
Sensitivity	Highly volatile, influenced by currency fluctuations and financial markets.	More stable over time, reflects real cost-of-living differences.
Example	A Big Mac costs $12 in New York and ₹385 (~$4.50) in Mumbai.	Captures price difference, shows higher real value of Indian currency domestically.
India's Rank (2025)	4th largest economy.	3rd largest economy.
India's GDP (2025)	Approx. $4.19 trillion.	Approx. $15 trillion.
Misinterpretation Risk	May distort strength due to currency movements.	May inflate size in poorer countries due to low wages/price levels.
Policy Relevance	Used in financial markets, investor decisions, budgetary planning.	Relevant for development analysis, poverty estimation, global comparisons.

India's Target Under 'Viksit Bharat'

- Vision: To become a developed, high-income country by 2047.

- Timed with India's centenary of independence.

Challenges with India's Growth Story

Misleading Narratives

- GDP based on MER rankings can misrepresent domestic well-being.

Low Per Capita Income

- Per capita GDP (MER) in 2024: $2,711 → ranked 144th out of 196 countries.

- PPP-based per capita GDP rank is 127th.

- India lags behind Sri Lanka ($4,325) and Vietnam ($4,536) in per capita GDP (MER), despite larger overall economy.

Informal Sector and Employment Quality

- GDP growth has not proportionately improved employment quality or income security.

- Large informal sector and unpaid female labour remain outside formal GDP calculations.

- 76% of casual workers in agriculture and 70% in construction earn below minimum wages (ILO, 2024).

Sectoral Disparities and Underperformance

- Non-traded sectors like health, education, and housing are underfunded.

- Economic gains have disproportionately favoured capital over labour.

- GDP does not fully reflect realities like nutrition, education access, or health infrastructure.

Drivers of India's Growth: Domestic Structural Reforms

Unified Indirect Tax Regime (GST)

- Simplified India's tax structure, improving compliance and revenue stability.

- Example: Average gross GST collections ₹1.84 lakh crore/month in early FY 2024–25, 9.1% YoY growth.

Production-Linked Incentive (PLI) Schemes

- Catalysed manufacturing in electronics, pharma, and autos by incentivising domestic value addition.

- Example: Mobile phone manufacturing value surged from ₹18,900 crore in FY14 to ₹4,22,000 crore in FY24.

Record Infrastructure Capital Expenditure

- Accelerated highways, railways, and energy projects.

- Example: Infrastructure capex rose from 1% of GDP in FY14 to 3.5% of GDP in FY24.

Digital Public-Goods and Financial Inclusion

- UPI and related reforms expanded payment and credit access, boosting SME activity and consumption.

- Example: UPI processed 16.58 billion financial transactions in a single month.

Labour and Ease-of-Doing-Business Reforms

- Simplified registration, compliance, and dispute resolution processes.

- Example: India's Doing Business ranking improved from 142nd in 2014 to 63rd in 2019.

Drivers of India's Growth: Global Economic Realignments

Supply-Chain Diversification ("China + 1")

- Multinationals shifted production to India to diversify beyond China.

- Example: Foxconn announced $1.5 billion display-module plant in Tamil Nadu in 2025 to boost iPhone output.

Surging FDI Inflows

- Liberalised caps and investor-friendly policies attracted record foreign capital.

- Example: $81 billion in FDI in FY 2024–25, more than double its FY 2013–14 level.

Demographic Dividend

- Young workforce expanded labour pool, supporting growth in services, manufacturing, and consumption.

- Example: Working-age population share rose to 65%, highest among major economies.

Boom in IT-BPM Exports

- Geopolitical tensions prompted firms to offshore IT and back-office work to India.

- Example: IT-BPM revenues hit $254 billion in FY24, with $200 billion from exports.

Green Energy and Climate Finance

- Global capital flowed into India's renewable energy under decarbonisation drives.

- Example: Renewable energy's share in India's FDI surged from ~1% in FY21 to nearly 8% in FY 2024–25.

Way Forward

Adopt Complementary Indicators

- Integrate HDI, Gini coefficient, and employment data alongside GDP for a holistic development picture.

Improve Data Transparency and Quality

- Strengthen statistical systems and consistency, minimise political interference in national accounts.

Improve Employment Quality and Formalisation

- Strengthen minimum wage enforcement and labour market reforms.

- Focus on skill development and digital inclusion.

Invest in Human Capital

- Boost public spending on healthcare, education, and nutrition for sustainable development.

Reform Economic Narrative

- Avoid over-reliance on headline GDP rankings.

- Recognise structural challenges in inequality, job creation, and institutional capacity.

Conclusion

- India's rise to the fourth-largest economy by nominal GDP is a significant achievement but offers an incomplete picture.

- For effective policymaking, GDP must be supplemented with socio-economic indicators to prioritise inclusive growth, employment quality, and social well-being over pure economic size.

About GDP

- GDP (Gross Domestic Product) is a **monetary measure** of the total market value of all final goods and services produced within a country over a specific period.

- **Purpose**: Used to assess the overall **economic health** of a country or region.

Types of GDP

Nominal GDP

- Measures economic output using **current prices**, without adjusting for inflation.

- Calculation: All goods and services are valued at their **selling prices** in the year they are produced.

- Reflects changes in both **output and price levels**.

Real GDP

- An **inflation-adjusted** measure of economic output.

- Reflects the **actual quantity** of goods and services produced, independent of price changes.

- Provides a clearer picture of **real economic growth** over time.

Estimating Real GDP

- **Base year** is used to estimate real GDP; it is updated every **5 to 10 years** to reflect structural changes in the economy.

- The **National Statistical Office (NSO)** is responsible for revising the GDP base year in India to account for changes in prices and economic output.

- **Calculation method**:

    - A **GDP price deflator** is used to adjust for inflation.

    - Formula: **Nominal GDP ÷ GDP deflator = Real GDP**.

- This adjustment removes the effects of price changes between the current year and the base year.

Calculating GDP Deflator

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$\text{Nominal GDP} = \frac{(\text{Deflator}) \times (\text{Real GDP})}{100}$$

Source: https://economictimes.indiatimes.com/news/economy/indicators/indias-economy-may-overtake-japan-soon-but-with-caveats/articleshow/121430631.cms?from=mdr