

# Is India still on track to becoming a \$5 trillion economy?

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India has much to be proud of. In 2019, when the \$5 trillion benchmark was first voiced, it seemed like a distant dream. Now, despite unprecedented challenges, it seems like India is in a hurry to achieve that. The economy has emerged as the world's fifth largest, with a GDP of \$3.5 trillion in 2022.

The road ahead is likely to have some speed-bumps. The International Monetary Fund (IMF) has reduced India's GDP growth projection for fiscal 2023 to 6.8 per cent, from its earlier forecast of 7.4 per cent. Other international agencies, like the World Bank and the OECD have downgraded their growth projections as well. Japanese brokerage firm Nomura says India's economy could expand by around 7 per cent in FY23 but is likely to decelerate to 5.2 per cent in FY24 due to the spill-over effect of the global economic slowdown.

Here's a look at the roadblocks ahead and whether India has the wherewithal to speed through them.



**GROWTH.** Bumpy road ahead

The pandemic dealt a massive blow to the Indian and global economies alike. Even as the world emerged from this tragedy, several challenges persisted. The supply chain bottlenecks have not completely eased. The handout of cash to households by developed economies during the pandemic has led to soaring inflation. Both these situations have been worsened by the Russia-Ukraine war.

Aggressive interest rate hikes by the Federal Reserve threaten economic growth in the US and this can have a ripple effect on India. The impact is compounded by the strengthening dollar, as India buys oil and other

imports in this currency. The energy crisis in the EU also acts as a dampener for growth. China, which was once supposed to spearhead global economic growth, has continued to announce restrictions due to the government's zero-Covid policy.

Despite these challenges, India has exhibited resilience. There are many factors that are working in its favour.

**Diversified economy** with strong relations: The Indian economy has grown steadily over the past 50 years. The economy is well-diversified, and has strong trade relations with other countries.

**Adoption of new technologies:** India has a big appetite for technology adoption. The manufacturing and financial sectors' adoption rate has increased. This improved productivity, while reducing production costs and improving quality. These factors drove profitability and, therefore, increased investments in innovation.

**Offshoring opportunity:** Covid-19 caused a secular shift in the work culture to remote teams. This plays in favour of India, as businesses from

developed nations find it more cost effective to work with people living in India.

**Young population:** India has the world's largest youth population, at around 356 million. At 64 per cent, the high percentage of India's working population not only contributes to growth in GDP and per capita income, but also represent a large customer base for companies to target and thrive.

**Renewable energy:** Around 40 per cent of India's installed electricity capacity already comes from non-fossil fuel sources. This switch to renewable energy lowers costs for individuals and businesses and reduces the country's reliance on imports.

Many experts believe that India is best positioned to overcome the recessionary headwinds projected for the global economy for 2023. Although India's growth projections have been lowered, the country is likely to remain the fastest-growing economy in 2023 and continue moving with confidence towards the \$5 trillion target.