



It is no longer
‘Great’
Britain

India becomes world's 5th
largest economy beating UK



FOREWORD

From
Dr. Goyal's
Desk

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Applause. And lots of it. All well deserved. On India nudging out 'Great' Britain as the world's 5th largest economy.

It has been an eventful journey.

- At the time of independence, India had a population of **340 million**. Its literacy level was also alarmingly low pegged at around **12 per cent**. Over the last seven decades or so, India's population has risen to nearly **1.4 billion** but our literacy rate of **74.37 per cent** has been quite a remarkable achievement.
- When India declared its independence in **1947**, its GDP was a mere **2.7 lakh crore** accounting for a paltry **3 per cent** of the world's total GDP. India currently has a **7.74 per cent** of global GDP (accounting for purchasing power parity).

This share is projected to rise to nearly **10 per cent** in a few years.

- At the time of independence, more than half of India's GDP came from the agriculture industry. In 1947, the nation produced around **50 million tonnes** of food grains, and despite producing more than five times that today, agriculture now makes up just under **16 per cent** of the Indian economy, signifying the immense structural shifts that the Indian economy has experienced, particularly following the implementation of liberalisation policies in the early **1990s**.

So, good going, India! Time to celebrate.



A nation once ruled by the **British Raj**, has now overtaken its **former coloniser** in terms of economy. India recently surpassed the UK to become the **fifth-largest economy** in the world, in the fourth quarter of 2021. Only four countries today have economies larger than India's in dollar terms – the **US, China, Japan and Germany** are the only countries ahead of us.

SUPER SIX		
Nominal GDP (\$ billion)		Share of world GDP (%)
USA	26,695	24.1
China	21,865	19.80
Japan	5,291	4.8
Germany	4,565	4.1
India	3,894	3.5
UK	3,687	3.3

Source: IMF, SBI Research

According to experts, India will have the third-largest economy in the world by 2030. The United Kingdom has dropped to sixth place as a result of the hard shock of a **“high cost of living”**. India has now defeated the UK twice in terms of economy; the first time was in 2019. According to a **Bloomberg report**, the Indian economy had 'nominal' cash of **US\$ 854.7 billion** in the quarter ending in March. On the other hand, UK's nominal cash was **US\$ 814 billion**. This was calculated on an adjusted basis and using the dollar exchange rate on the last day of the relevant quarter. According to GDP data from the **International Monetary Fund (IMF)** which is calculated in terms of US dollars, India's lead increased significantly in the first quarter of the current fiscal year.

Bloomberg





BANK OF ENGLAND

According to the **Bank of England**, the UK is currently experiencing its greatest rate of inflation growth in four decades and faces the possibility of a recession that could stretch well beyond 2024. The Indian economy, on the other hand, is anticipated to expand by more than **7%** this year.



Also, as per an official announcement,

"**Real GDP** or gross domestic product (GDP) is anticipated to hit a level of **Rs 36.85 lakh crore** in Q1 2022-23, as against **Rs 32.46 lakh crore** in Q1 2021-22, demonstrating a growth of **13.5 percent** as compared to **20.1 percent** in Q1 2021-22".



The country's **gross value added (GVA)**, which is GDP minus net product taxes and denotes an increase in supply, climbed up by **12.7%** between April and June 2022, as per the recent most data made public by the **National Statistical Office (NSO)**.



Uday Kotak, Managing Director of Kotak Mahindra Bank, praised India for reaching this remarkable milestone but cautioned about the "**population denominator**" as well.



He tweeted -

Proud moment for India to pip UK, our colonial ruler, as the 5th largest economy: **India US\$3.5 trn** vs the UK US\$3.2 trn. But a reality check of population denominator: **India 1.4 bn** vs **UK.068 bn**. Hence, per capita GDP we at US\$2,500 vs US\$47,000. **We have miles to go... Let's be at it!** India's GDP per capita is lower than UK's since it has a population that is 20 times larger than the UK's. India was placed 11th among the major economies a decade ago, while the UK held the sixth spot. According to a recent report from SBI, Indian economy, at its present growth rate would surpass that of **Germany in 2027** and, most likely, that of **Japan by 2029**, making it the third-largest in the world".



India's GDP grew by **13.5%** in the **April–June quarter**, the fastest and the quickest rate in a year, helping it maintain its title of the **fastest-growing major economy** in the world. However, the momentum may decelerate in the upcoming quarters due to rising interest rates and the probability of a global recession.

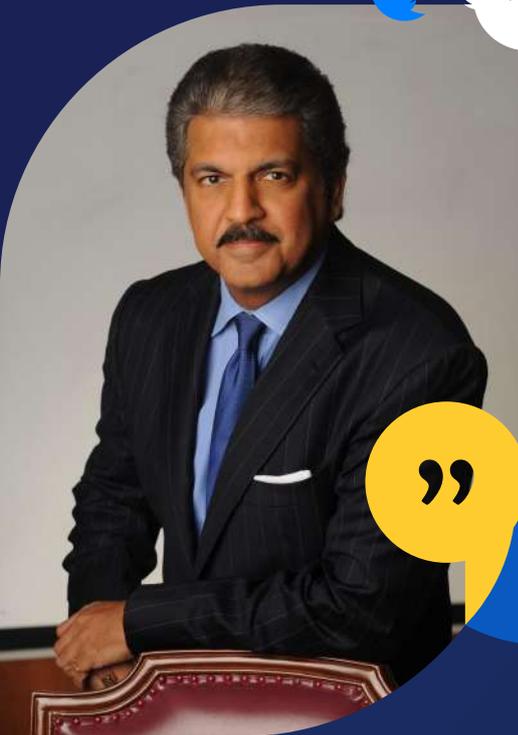


The rise was driven by consumption and indicated a recovery in domestic demand, notably in the services sector, even though it was **less than the Reserve Bank of India's (RBI's) estimate of 16.2%**.

Also, consumption is being driven by pent-up demand as consumers have been able to start spending again after two years of not being able to step out of their homes due to the pandemic. In fact, the beginning of the festival season will aid the recovery of the services' sector.

Even, **Mahindra Group chairman, Anand Mahindra**, while celebrating the feat of India overtaking the UK, said in a tweet–

The law of Karma works. News that would have filled the hearts of every Indian that fought hard & sacrificed much for freedom. And a silent but strong reply to those who thought India would descend into chaos. **A time for silent reflection, gratitude.** 🙏 🇮🇳





EY

Building a better
working world

As per a report by **Ernst & Young (EY)** on the assessment of India's growth potential, one key determinant is the availability of human resources, which pertains to the size and **growth of the working age population** in India. The potential contribution of the country's growing population to India's GDP growth would depend, among other factors, on the rate of growth, size of total population and its contribution to the size of working age population who may be absorbed in productive employment.



Additionally, it would also depend on the rise in **labour productivity** and how **rising per-capita income** would affect capital formation and savings. According to estimates, the working age population will decline at a slower rate than the total-general population. Even if the working age population is ageing over time, a better rate of absorption into **productive employment and an improvement in productivity** can offset its negative effects on the potential growth rate.



A brief highlight of the the **Economic Survey 2021–22** which was presented in Parliament by **Smt. Nirmala Sitharaman, Union Minister for Finance & Corporate Affairs**, are given below:

The Economic Situation

9.2% ↑
(FY2021-22)

7.3% ↑
(FY2020-21)

8% to 8.5% ↑
(FY2022-23)



- First advanced projections predict that the Indian economy will expand by **9.2 percent** in real terms in **2021–2022** after contracting by **7.3 percent** in **2020–2021**.
- In **2022–2023**, the GDP is anticipated to rise by **8–8.5 percent** in real terms.
- The financial system is well-positioned to support the economy's recovery, and the year ahead is expected to see an increase in private sector investment. This projection is comparable to the most recent real GDP growth projections from the **World Bank** and **Asian Development Bank**, which call for **8.7% and 7.5% growth rates** for 2022–23, respectively.
- Agriculture and related industries are anticipated to grow by **3.9%**, industry by **11.8%**, and services by **8.2%** in **2021–2022**.



External Sectors



- Net capital flows were higher at **US\$ 65.6 billion** in the first half of 2021-22, on account of continued inflow of foreign investment, revival in net external commercial borrowings, higher banking capital and additional special drawing rights (SDR) allocation.
- **Foreign Exchange Reserves** crossed **US\$ 600 billion** in the first half of 2021-22 and touched **US\$ 633.6 billion** as of December 31, 2021.
- As of end-November 2021, India was the **fourth largest forex reserves holder** in the world after China, Japan and Switzerland.



China
3,223,762
Mn US\$



Japan
1,311,254
Mn US\$



Switzerland
964,084
Mn US\$



India
553,105
Mn US\$

Monetary Management and Financial Intermediation



Sensex @

61,766

Nifty @

18,477

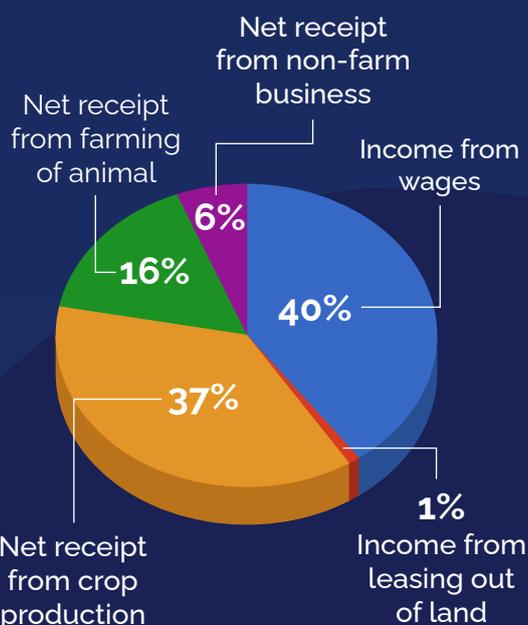


- The liquidity in the system remained in surplus.
- **India International Bullion Exchange (IIBX)** was established in July 2022 to facilitate efficient price discovery and ensure standardisation, quality assurance and sourcing integrity in addition to providing impetus to the financialisation of gold in India.
- 2021 was an exceptional year for the capital markets:
 - **Rs. 89,066 crore** was raised via **75 Initial Public Offering (IPO)** issues in April-November 2021, which is much higher than in any year in the last decade.
 - **Sensex** and **Nifty** scaled up to touch peak at **61,766** and **18,477** on October 18, 2021.
 - Among major emerging market economies, **Indian markets** outperformed peers in April-December 2021.

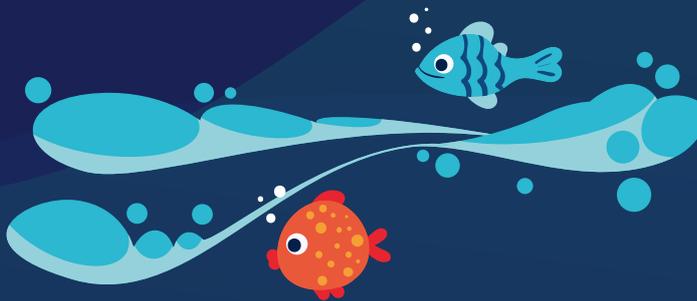
Agriculture and Food Management



SAS Report 2021



- The **Agriculture sector** experienced buoyant growth in the past two years, accounting for a sizeable **18.8%** (2021-22) in Gross Value Added (GVA) of the country registering a growth of **3.6%** in 2020-21 and **3.9%** in 2021-22.
- **Minimum Support Price (MSP)** policy is being used to promote crop diversification.
- Allied sectors including **animal husbandry, dairying** and **fisheries** are steadily emerging to be high growth sectors and major drivers of overall growth in agriculture sector.

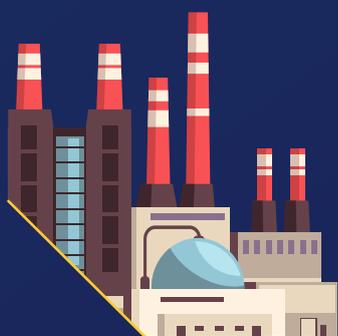


CAGR
8.15%
↑



- The **Livestock** sector has grown at a **CAGR** of **8.15%** over the last five years ending 2019-20. It has been a stable source of income across groups of agricultural households accounting for about **15%** of their average monthly income.
- India runs one of the **largest food management** programmes in the world.
- Government has further extended the coverage of food security network through schemes like **PM Gareeb Kalyan Yojana (PMGKY)**.

Industry and Infrastructure



- **Index of Industrial Production (IIP)** grew at **17.4 percent (YoY)** during April-November 2021 as compared to **(-)15.3 percent** in April-November 2020.



₹ **155,181**
crores
2020-21

↑ ₹ **215,058**
crores
2021-22

↑ **36.5**
Kms
2020-21

28.0
Kms
2019-20



- Capital expenditure for the Indian railways has increased to **Rs. 155,181 crores** in **2020-21** from an average annual of **Rs. 45,980 crores** during **2009-14** and it has been budgeted to further increase to **Rs. 215,058 crores** in **2021-22** – a five times increase in comparison to the 2014 level.
- Extent of road construction per day increased substantially in 2020-21 to **36.5 kilometres** per day from **28 kilometres** per day in 2019-20 – a rise of **30.4 percent**.
- Net profit to sales ratio of large corporates reached an all-time high of **10.6 percent** in July-September quarter of **2021-22** despite the pandemic (RBI study).
- Introduction of **Production Linked Incentive (PLI)** scheme, provided a major boost to infrastructure - both physical as well as digital, along with measures to **reduce transaction costs and improve ease of doing business**.



Services



FDI
16.7
 billion US\$
 FY 2021-22

↑
54%



- GVA of services crossed pre-pandemic level in July-September quarter of 2021-22; however, GVA of contact intensive sectors like **trade, transport**, etc. still remain below pre-pandemic level.
- Overall service Sector GVA is expected to grow by **8.2 percent** in 2021-22.
- During April-December 2021, rail freight crossed its pre-pandemic level while **air freight** and **port traffic** almost reached their pre-pandemic levels. **Domestic air** and **rail passenger traffic** are increasing gradually. Growth was much more muted as compared to during first wave.
- During the first half of 2021-22, the service sector received over **US\$ 16.7 billion FDI** – accounting for almost **54 percent** of total FDI inflows into India.
- Major government reforms have included removing telecom regulations in **IT-BPO sector** and opening up of space sector to private players.



- India has become **3rd largest start-up** ecosystem in the world after US and China. Number of new recognized start-ups increased to over **14000** in 2021-22 from **733** in 2016-17. **44 Indian start-ups** have achieved unicorn status in 2021 taking overall tally of unicorns to **83**, most of which are in services sector.
- As of **7th September 2022**, India is home to **107 unicorns** with a total valuation of **\$ 340.79 billion**.

Celebration Time?



”

“Recently, India achieved the feat of becoming the **world's fifth largest economy**. This achievement gave us confidence to work harder and achieve bigger goals in this **Amrit Kaal**,” **PM Modi** said. “This is no ordinary progress. It fills every Indian’s heart with pride. **We need to maintain this enthusiasm**,” he added.

A report in **The Print** provides additional dimensions. **India had been breathing down UK’s neck since last year**. A difference in the method of calculation probably made India wait a little bit more. Figures for other countries are calculated on a calendar year basis, but those for India are computed on a fiscal year (April-March) basis. **So, 2021 would mean 2022 for India**.



”

If the figures are rounded off, both UK and Indian economies were roughly placed at **USD 3.2 trillion** in 2021. Investment Information and Credit Rating Agency (ICRA) **Chief Economist Aditi Nayar** predicted in July 2022 that India would overtake the UK within months.



It may be useful here to recall the story of how **earlier India overtook France as the sixth largest economy in the world**, for a perspective. India was on a level with France in 2017. Then next year in 2018 too, both the economies were tied at **USD 2.7 trillion**, but by **2019** India overtook France, by **USD 100 billion**. The gap widened to **USD 210 billion** in 2021.

In fact, if the ranking of national economies were based on **purchasing power parity (PPP)**, which takes into account the cost of living in a country while converting currency into dollars, India's position would be even stronger.



In **PPP** terms, India continued to be the third largest economy in the world in 2021. The economy stood at **USD 10.22 trillion**, which was almost twice the size of Japan, which was the fourth largest economy in the world in PPP terms, with a **USD 5.4 trillion** economy.

The rise of the Indian economy to the fifth largest position was accompanied by several other recent positive developments. India's weighting in the **Morgan Stanley Capital International (MSCI)** emerging markets rose to the second spot, behind only China.



In October 2020, India's weighting was around **8.1 pc**, with **87 stocks** being part of the index. By November 2021, the weighting leapt to **12.3 pc** with **106 Indian stocks** now entering the fray.



THE STRAITS TIMES



At the same time, India has been taking rapid strides in export, penetrating markets earlier monopolized by China. According to US Customs data, as quoted in a report in **The Straits Times** on September 5, **seaborne shipments of festival goods and accessories to America touched USD 20 million**, almost triple the value from the year-ago period.

India has now become one of the top five suppliers of Christmas decorative items and T-shirts to the United States. The trend is not limited to Christmas goods. Exporters in Asia's third-largest economy have been observing a significant uptick in orders from both the US and Europe. The rising demand is noticed particularly in low-cost, labour-intensive sectors such as apparel, handicrafts and non-electronic consumer goods.

China's continued decoupling from the global economy offers an opportunity for India to focus its investment in longer-term competitiveness and prioritize **"winnable"** sectors.

According to a report by management consulting firm **Kearney** and the **World Economic Forum**, by 2030, India is projected to have the **world's largest labour force**, and could contribute more than **USD 500 billion** annually to the global economy.

KEARNEY

WORLD
ECONOMIC
FORUM



A REPORT BY



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