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India's Economic Evolution: From command to a high-growth market economy

Structural Reforms, Growth Inflection Points and the Long Arc to “Viksit Bharat 2047”

- Since 1947, India has transitioned from a state-led, agrarian economy to a market-oriented emerging giant, with liberalization post-1991 serving as a key inflection point
- Real GDP growth has averaged 6.0% since 1980, with recent momentum underscored by a 7.4% YoY expansion in Q4 FY2024–25 despite global volatility
- The medium-term outlook remains positive, underpinned by robust consumption, improving investment dynamics and ongoing fiscal consolidation efforts
- The “Viksit Bharat 2047” agenda outlines a long-term roadmap to high-income status, though execution risks remain amid structural bottlenecks
- Rising geopolitical tensions, particularly with Pakistan, and persistent structural inefficiencies pose downside risks
- Favourable demographics, digitalization and strong FDI flows offer structural support

Introduction

India’s post-independence economic trajectory has been marked by deep structural transformation, progressive macroeconomic recalibration and a measured shift toward global integration. From the state-led development model of the early decades after World War II to the liberalization reforms of the 1990s, the economy has evolved from import-substitution to export-oriented growth. While the path has not been linear, this transition has firmly established India as a rising global economic force—evidenced by its ascent to the position of the world’s fifth-largest economy in nominal USD terms as of 2024. At present, India finds itself at a critical inflection point. Against a backdrop of intensifying geopolitical fragmentation, evolving global supply chains and elevated macro-financial volatility, investor attention has focused on the sustainability of India’s growth narrative. With Prime Minister Narendra Modi securing a third term the market’s attention is now squarely on policy continuity, reform execution and the delivery of the long-term “Viksit Bharat 2047” development agenda. This note explores India’s economic evolution across growth dynamics, capital formation, demographic shifts, external sector performance and reform progress, framed within a

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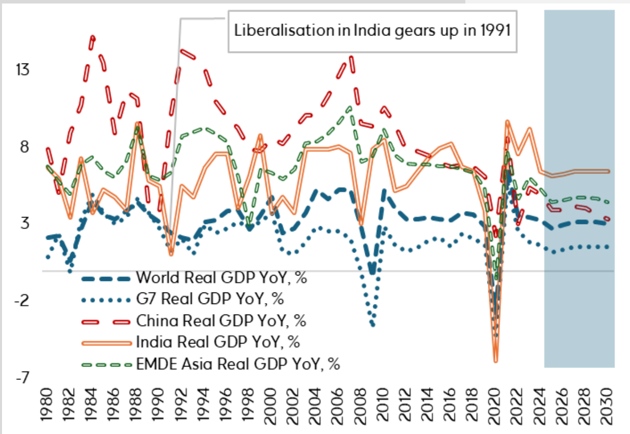
rapidly shifting global order. It also evaluates downside risks, including renewed geopolitical tensions with Pakistan, that may weigh on the medium-term macroeconomic outlook.

From command to competitive economy

Since gaining independence from British rule in 1947, India has undergone a profound transformation—from a centrally planned, agrarian economy to one of the world's fastest-growing major economies. India's favourable long-term growth trajectory can be traced back to reform efforts initiated in the early 1980s and accelerated in 1991 in response to a balance of payments crisis. By mid-1991, India faced a full-blown macroeconomic crisis, marked by depleting foreign exchange reserves, elevated fiscal deficits, surging oil prices after the Gulf War, an erosion of investor confidence and political instability. In order to avert sovereign default, India turned to the IMF and secured emergency support via a Stand-By Arrangement in 1991, contingent on sweeping structural reforms. These included a sharp rupee devaluation, trade liberalization, openness to foreign investment and privatization of state-owned enterprises. The IMF-mandated reforms stabilised the economy in the near term and catalysed a landmark shift toward liberalization, collectively known as the LPG (Liberalization, Privatization, Globalization) reforms.

From 1992 to 2008, India recorded an average real GDP growth rate of 6.2%, substantial poverty reduction and progression to lower-middle-income status. However, the post-2008 period saw a loss of growth momentum amid policy drift, investment stagnation and rising financial sector stress, culminating in the so-called twin balance sheet problem[1]. In the most recent decade, India's economic trajectory has been significantly influenced by Modi's policy agenda. In office since 2014—and having just secured a third term, albeit with a coalition—Modi's administration has continued to shape the country's medium-term growth outlook. Between 2014 and 2023, India's GDP per capita (PPP) rose from approximately USD5,000 to ca USD10,000, a near 50% increase over nine years. Taking a longer view, average annual real GDP growth stood at 5.3% between 1980 and 1991, 6.3% from 1992 to 2013, and 6.2% during the Modi era (2014–2024). Adjusting for the pandemic-driven contraction of -5.8% in 2020, the average growth rate during Modi's tenure would have been closer to 7.2%,

Figure 1: India's post-pandemic growth has outpaced China, Asian EMDEs, and the G7—and is set to remain ahead



Source: IMF WEO April 2025, Eurobank Research

[1] The twin balance sheet problem in India refers to the concurrent financial strain experienced by over-leveraged corporates and the consequent rise in non-performing assets on bank balance sheets, notably within public sector banks, beginning around 2011–2012.

underscoring the resilience and continued structural evolution of India's economy. His governmental agenda is reform-oriented, centred on specific key pillars, each aimed at tackling long-standing structural inefficiencies and positioning India for sustained growth. Foremost among these has been the push for formalisation and digitalisation. The rollout of the UPI[2] and JAM Trinity[3] have significantly widened financial inclusion, curtailed subsidy leakages and deepened the digital payments ecosystem. Based on data published by the World Bank, the annual number of digital transactions per capita in India saw a substantial increase, rising from 2.4 in 2014 to 22.4 in 2019. On the fiscal side, the introduction of the Goods and Services Tax (GST) marked a pivotal structural shift, unifying India's previously fragmented indirect tax system. This reform has broadened the tax base, improved compliance, and advanced the formalisation of economic activity. In parallel, the government has sought to ease supply-side bottlenecks through large-scale investment in infrastructure and manufacturing. Flagship programmes such as Make in India[4], the PLI[5] schemes and the NMP[6] initiative have collectively enhanced logistics efficiency and boosted domestic industrial capacity. The financial sector has also seen significant reform. A USD32 billion bank recapitalisation effort, alongside the establishment of the Insolvency and Bankruptcy Code (IBC), has helped clean up legacy non-performing assets and restore credit discipline in the banking system. Together, these measures have addressed key structural weaknesses across informality, infrastructure and financial intermediation laying the foundations for more resilient, inclusive and investment-friendly growth.

Solid Macro Foundations Support Above-Trend Growth Outlook

India's economy surprised to the upside in the final quarter of FY2024–25[7], with real GDP expanding by 7.4% YoY in the January-March quarter, well above market expectations of 6.7% and marking the strongest quarterly performance over the past fiscal year. The upside was primarily driven by solid gains in construction and manufacturing output, alongside a robust increase in tax revenue collections. Full year growth came in at 6.5%, down from 9.2% in FY2023–24, with the deceleration largely reflecting unfavourable base effects. Underlying momentum remained resilient despite a confluence of global and domestic headwinds.

India is poised for another above-trend performance in FY2025–26, with growth projected near 6.5%. This pace is expected to be sustained through FY2029–30, according to the latest IMF World Economic Outlook. The medium-term outlook remains positive, underpinned by strengthening private consumption—fuelled by rising real incomes, moderate inflation and recent tax relief measures. A tightening labour market is also

[2] UPI stands for Unified Payments Interface and was launched in 2016. It is the dominant retail payments system, facilitating real-time, contactless transactions and accounting for 80% of retail electronic payments in India by mid-2023.
[3] JAM Trinity stands for Jan Dhan, Aadhar, Mobile. It is rendered an instrumental initiative in preparing the ground for widespread adoption of various digital technologies, promoting financial inclusion and public service delivery.
[4] A flagship initiative launched in 2014 to promote domestic manufacturing, attract foreign investment and position India as a global manufacturing hub.
[5] Production-Linked Incentive (PLI) schemes: Sector-specific incentives introduced since 2020 to boost domestic production, enhance export competitiveness and reduce import dependence across strategic industries.
[6] PM Gati Shakti National Master Plan (NMP): A digital infrastructure blueprint launched in 2021 to coordinate multimodal connectivity and streamline infrastructure delivery across ministries.
[7] In India, the fiscal year starts on April 1 and ends on March 31 the following year

expected to support household spending. Investment activity should remain buoyant, bolstered by a benign interest rate environment and continued public sector capex. On the flipside, export growth is likely to moderate amid softer global demand, elevated US tariffs and rising trade policy uncertainty.

Headline inflation is forecast to remain well-anchored, averaging 4.1% in FY2025–26 before edging down to 4.0% over the medium term. Key risks to the inflation trajectory include a weaker-than-expected monsoon or a renewed surge in global commodity prices, which could place upward pressure on food inflation.

On the fiscal front, the general government deficit is projected to narrow to 6.9% of GDP in FY2025–26, down from 9.0% in the previous year. This reflects ongoing fiscal consolidation efforts following the pandemic-era peak of 12.8% in FY2020–21. The deficit is expected to revert toward its pre-pandemic 20-year average of 7.8% of GDP by the end of the decade. Public debt, which surged to nearly 90% of GDP in FY2020–21 from 75% a year earlier, has since moderated to around 81% in FY2024–25. A further decline to approximately 75% by FY2029–30 is anticipated, though this remains elevated by emerging market standards[8]. Public debt dynamics, as outlined herein, are consistent with its sovereign credit rating, which is placed within the investment-grade category but at the lowest rung (Baa3/BBB-). While rated a couple of notches below China, India stands ahead of most major developing economies in South Asia, reflecting growing macroeconomic resilience and credible fiscal consolidation efforts. Notably, India's sovereign debt is overwhelmingly domestically held, with commercial banks, insurance firms and pension funds as key investors. While foreign interest is rising, especially with ongoing bond index inclusion, regulatory caps help preserve a balanced and stable investor base.

Turning to external accounts, the current account deficit (CAD) has narrowed materially, expected at 0.8% of GDP in FY2024–25, down from 2.0% in 2022, largely on the back of favourable terms of trade. Over the forecast horizon to FY2029-30, the CAD is expected to gradually widen to 2.2% of GDP, though this should be well-supported by resilient Foreign Direct Investment (FDI) inflows. India continues to rank among the most attractive EM destinations for FDI, which rose to USD81bn in FY2024–25, up 14% YoY. The services sector remained the largest recipient, followed by computer software and hardware.

By sector, services dominate Indian GDP, accounting for over 50% of output and maintaining the highest growth trajectory. Agriculture and manufacturing each contribute roughly 20%, with the remaining 10% attributed to industrial activity excluding manufacturing[9]. On the expenditure side, private consumption comprises nearly 60% of GDP, while gross capital formation has an ~30% share on GDP and government consumption ~15%. Historically, net exports have exerted a drag of nearly 5% of GDP. However, in FY2024–25, their contribution turned marginally positive, appearing to be more broadly linked to the overall reduction in the import bill (due to factors like lower oil prices) and a general rebound in export performance that outweighed the import-driven drag.

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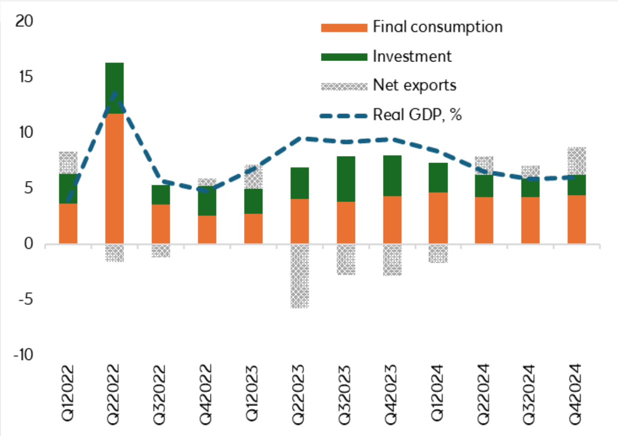
[8] Recent references over sustainable levels of debt in developing economies in IMF's fiscal monitor, World Bank's International Debt Statistics and OECD's Sovereign Borrowing Outlook indicate a range between 40% and 70% of GDP.

[9] According to the National Accounts Statistics of India, the industrial activity excluding manufacturing category includes the sub-sectors of mining, utilities, and construction

Figure 2: India's post-pandemic growth primarily driven by consumption and GCF contributing positively



Source: OECD, Eurobank Research

Cumulatively, India's average real GDP growth of 6.0% since 1980 has elevated it to the position of the world's fifth-largest economy in nominal USD terms as of 2024, behind only the US, China, Germany, and marginally Japan. This trajectory reflects India's rising macroeconomic weight, even amid a more fragmented global trade and geopolitical backdrop. Over the past four decades, India has not only expanded rapidly but has also steadily converged with the two largest advanced economies, the United States and the European Union. India's GDP stood at just 16% of US GDP and 14% of EU GDP in 1990. By 2010, these shares had doubled, and by 2025 are expected to reach 58% and 60%, respectively. Looking ahead, India's GDP is projected to rise to 72% of EU GDP and 77% of US GDP by 2030, underscoring the speed of convergence. While GDP per capita convergence remains more gradual, owing to differing population growth dynamics, the gains are nonetheless significant. In 1990, India's per capita GDP was just 5% and 6% of the US and EU levels, respectively. By 2025, these figures are estimated at 14% and 19%, with a further rise to near 20% by 2030. Although absolute gaps persist, the direction of course is clear: India is steadily narrowing the economic divide with the biggest developed economies, both in aggregate terms and, albeit more slowly, on a per capita basis[10].

Long-Term Growth Vision: "Viksit Bharat" aka "Developed India" by 2047

In a strategic bid to avert the middle-income trap and elevate India to developed economy status by 2047—coinciding with the centenary of its independence—Modi has articulated an ambitious national vision branded Viksit Bharat 2047. First announced in his Independence Day address in August 2022 and reaffirmed in 2023, the agenda underscores a commitment to long-term structural reform and sustained economic expansion. The "middle-income trap" refers to the prolonged stagnation many middle-income countries (MIC) experience, coined by the World Bank as remaining in the MIC band for a prolonged period, without achieving high-income status.

[10] Calculations in this section that refer to convergence are in ppt terms and based on the IMF WEO April 2025 dataset.

India's pathway to high-income status hinges on three critical growth levers: capital formation, labour force expansion and gains in total factor productivity. Viksit Bharat 2047 provides a strategic anchor that implicitly aligns policy direction with this growth triptych:

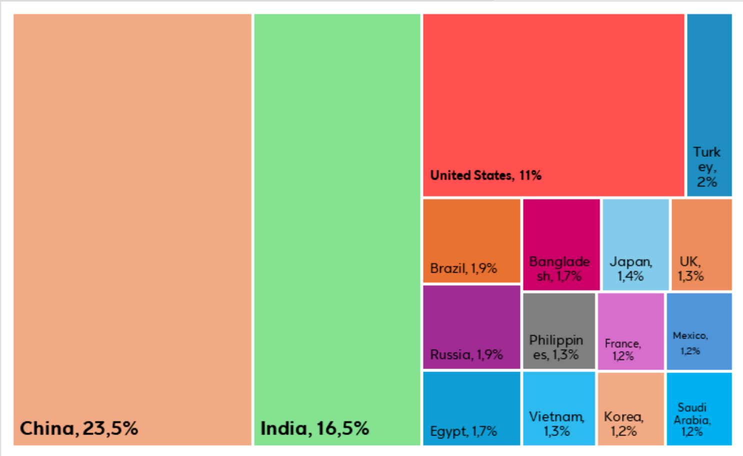
- Capital Formation: Gross fixed capital formation has recovered in the post-pandemic period, rising to 30.8% of GDP in FY2023–24 from a low of 27.3% in FY2020–21. This rebound has been largely driven by investment in dwellings and increased public sector outlays, while private corporate investment has remained subdued, particularly when viewed against historical benchmarks. Despite the overall improvement, total investment remains below its FY2007–08 peak of 35.8% of GDP. Of greater concern, private corporate investment in machinery and equipment, which is critical for expanding productive capacity, stood at just 4.3% of GDP in FY2022–23, well below the 5.9% average recorded between FY2011–12 and FY2015–16. Sustained policy emphasis on large-scale infrastructure, particularly in transport, energy, digital networks and productive investments will be essential to raise India's capital stock and support long-term growth momentum.

- Labor Force Expansion: Growth in India's economically active population reflects a complex interaction of demographic trends, human capital formation, socio-economic dynamics and policy efforts. As of 2023, the working-age population (aged 15–64) is estimated at approximately 970 million or around 68% of the total population, having grown at an average annual rate of 2% over the past two decades. Despite this demographic strength, India's overall Labour Force Participation Rate (LFPR) has historically trailed that of many other emerging and developing economies, declining from 58% in 2000 to 49% in 2019. Encouragingly, this trend has reversed since 2022, with the LFPR rising to between 56.4% and 60% in FY2023–24, depending on the measurement method. A key contributor to this recovery is the sustained rise in female labour force participation (FLFPR), which has become an increasingly important source of labour market depth. The FLFPR has climbed for seven consecutive years, reaching 41.7% in FY2023–24 from 23.3% in FY2017–18. This improvement has been driven largely by rural women, while gains in urban areas are increasingly associated with formal sector employment, particularly among regular wage earners, suggesting both quantitative and qualitative enhancements in India's labour market dynamics.

- Total Factor Productivity (TFP): TFP has consistently made a significant contribution to India's growth trajectory since the early 2000s. This performance reflects not only the individual impact of physical investment and technological advancement, but also the interaction between the two. The diffusion and widespread adoption of new technologies, particularly in digital and IT-related domains, have raised productivity across sectors. This has been further reinforced by strategic investment in physical capital and the buildout of quality infrastructure, creating a virtuous cycle that amplifies efficiency gains and supports sustained economic expansion. Enhancing productivity remains critical for achieving long-run output gains, particularly in the context of slowing global trade and capital flows. India's ascent as the world's second-largest startup ecosystem by number of firms, after the US, offers a powerful tailwind to innovation-driven growth. Startups are expected to catalyse technology diffusion, digital adoption and sectoral efficiency, all of which are key to TFP improvement.

While there is no universally codified threshold for "developed" economy status, common metrics include high per capita income (above USD13,846[11] per the World Bank's 2022–23 high-income cutoff), industrial diversification, broad infrastructure access, and elevated living standards. Achieving this 2047 vision will require sustained strong macroeconomic performance over a multi-decade horizon. While not without precedent, this trajectory is ambitious by historical standards[12], especially amid persistent global headwinds, domestic structural bottlenecks and productivity asymmetries across sectors. India enters a pivotal phase in its long-term development trajectory, with a major structural tailwind: it is now the world's most populous nation and the fastest growing among major economies. The population is expanding at an estimated annual rate of 0.9%, adding approximately 13.6 million people each year, an unparalleled scale globally. As highlighted in the labour force analysis, the working-age population currently accounts for around 68% of the total and is expected to rise modestly to 69% by 2040, before stabilising. To harness this demographic window—projected to remain open until the early 2040s—policy efforts must remain focused on expanding access to quality education, vocational training, healthcare and infrastructure. At the same time, sustaining a pro-business regulatory framework will be essential to foster private sector-led job creation. In an era marked by ageing populations and labour constraints across advanced and many emerging economies, India's expanding and youthful workforce stands out as a core macroeconomic strength with the potential to drive long-term growth, productivity and global competitiveness.

Figure 3: World growth set to rely even more heavily on BRICS and India per se up to 2030



Source: IMF WEO April 2025, Eurobank Research

Trade Liberalization: Structural Reforms, Persistent Constraints, and the Strategic Promise of IMEC

As already inferred, one of the most consequential structural reforms in India's post-independence economic history was the liberalization of 1991, which marked the country's formal integration into the global

[11] The World Bank's threshold for high-income status (as of FY2024) is GNI per capita ≥ USD 13,846 (Atlas method, 2022 data) with India's quote (2022, Atlas method) ≈ USD 2,390 (World Bank estimate) lagging considerably.

[12] According to an article published in the Reserve Bank of India's July 2023 Bulletin, India would need to achieve a compound annual real GDP growth rate of at least 7.6% between 2022 and 2047 to surpass the high-income threshold, assuming global inflation averages 2.0% over the period.

economy. Trade as a share of GDP, historically subdued at 7–15% during the 1960s to 1980s, expanded significantly, rising to 30–40% by 2000 and peaking at approximately 55% in 2012. Since then, trade openness[13] has stabilized in the 45–50% range, relatively modest when juxtaposed with peers such as Vietnam, whose trade-to-GDP ratio reached a striking 190% in 2023.

India has made notable progress on the path of economic reform, yet political economy dynamics have slowed the pace of deeper liberalization. According to the 2023 edition of the Fraser Institute's Index of Economic Freedom (reflecting 2022 data), India scored 6.58 out of 10, ranking 84th among 165 countries. While the score has remained relatively stable over the past 15 years, pointing to some enduring structural challenges, it also highlights the untapped potential for future reforms that could unlock greater economic dynamism.

China, the United States and the United Arab Emirates continue to be India's largest trade partners, collectively accounting for over 20% of its merchandise trade in FY2023-24. Against the backdrop of shifting global trade dynamics and active negotiations over bilateral and multilateral trade agreements, India has emerged as a principal stakeholder in the India–Middle East–Europe Economic Corridor (IMEC). If successfully implemented, IMEC could represent a transformative development in India's geoeconomic trajectory and global trade integration.

Underlying stakes: IMEC & Taming geopolitical risks

IMEC envisions a transformative leap in trade connectivity as it is designed to enhance commercial ties between India and Europe via the Middle East and Greece. It is also positioned as a viable and cost-efficient complement to the Suez Canal. By diversifying trade routes and reducing dependency on a single maritime chokepoint[14], the corridor directly addresses a key vulnerability in global supply chains—offering both strategic and commercial upside. From an economic perspective, the initiative aligns with India's broader economic agenda: expanding logistics capacity, accelerating cross-border integration and attracting supply chain relocations amid global realignments. Ongoing regional instability in the Middle East, despite current de-escalation in the Red Sea, reinforces the value proposition of resilient and diversified trade corridors. India's proactive engagement in IMEC underscores its ability to turn geopolitical risk into opportunity through partnerships and infrastructure-led growth.

While geopolitical tensions persist, ranging from the Russia-Ukraine war to Middle East hostilities and India-Pakistan frictions, the material risk to macroeconomic stability or investor returns in India remains limited. The probability of large-scale conflict with Pakistan is assessed as low, with tactical risks being managed through established diplomatic and security channels.

Overall, India's pragmatic approach to regional security, coupled with expanding global partnerships and an ambitious connectivity agenda, positions it as a resilient and increasingly attractive destination for trade and investment. In this context, IMEC is more than a strategic response to global uncertainties as it

[13] Trade openness is typically measured as (exports + imports) / GDP

[14] A notable example remains the March 2021 blockage, when a lodged container vessel halted two-way traffic and underscored systemic fragility in the existing route.

represents a forward-looking platform to unlock India's next phase of economic growth and geopolitical influence.

Conclusion

India's macroeconomic outlook presents a balanced mix of strengths and challenges. Its foremost advantage is a robust demographic dividend, underpinned by the world's fastest-growing young workforce, which drives sustained growth and strong domestic demand. The economy has delivered steady GDP expansion, supported by an ambitious reform agenda. Fiscal discipline and credible monetary policy underpin macroeconomic stability, while sectoral diversification and resilient consumption help cushion the impact of external shocks.

Execution risks remain the primary challenge to growth, with challenges in reform delivery, infrastructure development and labour market policies constraining productivity and investment. Labour market issues such as skill shortages and informality continue to affect workforce quality. External vulnerabilities, including commodity dependence and geopolitical tensions, pose risks to the current account and financial markets. Additionally, protectionist trade policies limit credit availability, exports, and foreign investment. Effectively managing these risks while building on India's structural strengths will be crucial to maintaining its growth momentum.

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