

Enablement to Expansion : India's Path to a \$5 Trillion Economy



A Scientific Deep Dive into India's Nominal Growth Drivers

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Enablement to Expansion : India's Path to a \$5 Trillion Economy

THE MACHINE IS BUILT

The foundations for the next phase of growth are in place

- 6.5-7% sustainable real GDP growth
- \$5.1-5.9T potential GDP by FY29
- \$8-11T potential GDP by FY35

Indian businesses increasingly positioned to scale across domestic and global markets.



A Scientific Deep Dive into India's Nominal Growth Drivers

When the target of \$5 Trillion was set in FY19, India's \$2.7 trillion economy required nominal USD GDP growth of 10.2% annually to reach \$5 trillion by FY25. Actual GDP reached \$3.8 trillion in FY25, i.e. a nominal USD CAGR of 5.7% from FY19 and \$4.1 trillion in FY26.

What held India back?

Real GDP contracted 4.15% in FY21, while the twin balance-sheet problem had constrained credit creation and private investment. The subsequent recovery was also partially offset by INR depreciation.

In FY26, an exceptional 12.3% depreciation against the US dollar.

The foundations are now stronger

Real GDP growth averaged 7.4% over FY22-FY26, compared with 6.2% over the preceding 20 years. Banking system and corporates have cleanest balance sheets in two decades, creating greater capacity for private capex and credit-led expansion.

Our base case of 6.5% real growth, 4% inflation and 2.5% INR depreciation implies 8% nominal USD GDP growth, taking India to \$5.1T by FY29 and \$8T by FY35.

In an optimistic scenario, 7% real growth and 1.95% INR appreciation imply 13% growth initially and 11% thereafter, taking GDP to \$5.9T by FY29, \$11T by FY35.

The enablement phase has largely been completed. India is now entering the entrenchment phase. The next stage is to translate these foundations into sustained private-sector expansion and a much larger economy.

The Hardest Part: Building the Machine

"The first billion is a hell of a lot of work. The second billion is almost inevitable."

T. Boone Pickens (American Oil Businessman & Investor)

The foundation takes a "a hell of a lot of work" to build, but once it is built, the future growth is inevitable. But what does that "a hell of a lot of work" mean?

Henry Ford, the Elon Musk from 100 years ago, said:

"The hardest part of any journey is building the machine that makes the journey effortless."

Now we understand that the foundation or Enablement phase, whether for personal wealth creation, establishing a large company or creating a global economic powerhouse, all require a phase of "building the machine". For an economy enablement means world-class physical & logistics, digital, regulatory and free market infrastructure.

Availability of capital (Bank/VCs/Stock Markets) and visionary & talented entrepreneurs to deliver the Entrenchment in chosen domestic and global markets with "right to win".

After this Expansion is inevitable.

The Enablement phase, articulated in FY18-19, as an ambitious \$5T economic target to be achieved by FY24-25 was supported with capital allocation to infrastructure in the following Government of India budgets and National Innovation Foundation. However, the actual GDP reached at the end of FY25 was \$3.8T.

What were the possible assumptions and high-level economic model behind the original target? What were the reasons for the gap? What will help achieve it in the near future? We do a scientific deep dive to understand the drivers for the gap and the remaining target.

The Economic Model

There are 3 variables at play when computing the nominal GDP growth in USD terms :

- **Real GDP growth:** The percentage increase in the quantity of goods and services produced by an economy, adjusted for changes in prices.
- **Inflation:** The sustained increase in the general price level of goods and services in an economy, resulting in a decline in the purchasing power of money.
- **Currency depreciation:** A decline in the value of a country's currency relative to another currency. For example, if the INR depreciates against the USD, more rupees are required to purchase one US dollar.

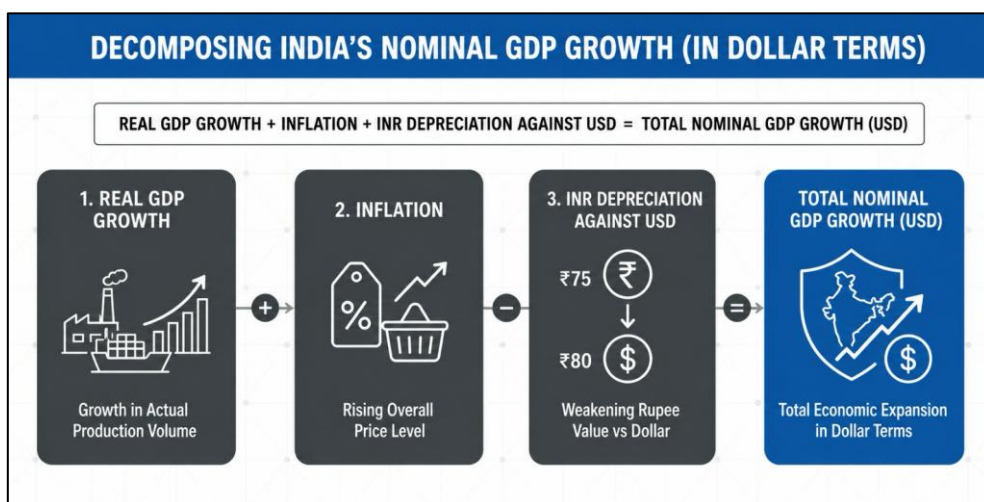


Exhibit 1 : Understanding the Dollar GDP Growth

The primary driver is the real GDP growth rate, followed by domestic inflation. If we stopped here, we would get the nominal GDP growth rate in INR terms. If either real growth was high or inflation was high the nominal growth rate would look high. However, the first case it would be good and “real”, while in the second case it would be bad and “illusionary”.

The third driver is the depreciation rate of the INR against the USD. Inflation and depreciation would typically both be either high or low. Only in rare cases would inflation be low but depreciation be high. We meet this rare situation during this period!

India up to 2019 : When Government set a \$5Tn target, What was the Outlook?

This historical experience provides a useful benchmark for assessing the feasibility of the \$5 trillion target. Varied combinations of real GDP growth and inflation had previously enabled India to sustain nominal GDP growth above 10%. So, understanding the composition of nominal growth, particularly the contribution from real growth versus inflation and currency movements is critical to understanding the path to \$5 trillion.

Past	Period	Real GDP Growth ¹	Inflation ²	INR Depreciation ³	Nominal USD GDP Growth
20 years	1999-19	6.6%	6.40%	2.46%	10.54%
10 years	2009-19	6.7%	7.10%	3.43%	10.37%
5 years	2014-19	7.0%	4.20%	2.95%	8.25%

Exhibit 2 : Historical Decomposition of India's Nominal Dollar GDP Growth (upto 2019)

The past shows that growth rates touching 10% (in nominal terms) are possible. Preceding 5 years leading up to 2019 (2014-19) had been hobbled with the bank capital stuck in resolving past NPAs. A 10.2% nominal GDP growth over the following years could achieve the rise from a \$2.7 trillion (FY19) economy to a \$5 trillion economy over the next 6 years (FY25).

¹ Source : MoSPI, accessed 11 Aug 2026 <https://www.mospi.gov.in/themes/product/6-gross-domestic-product#database>

² Source : MoSPI, accessed 10 Aug 2026 <https://www.mospi.gov.in/themes/product/9-consumer-price-index-cpi>

³ Source : FRED, accessed 10 Aug 2026 <https://fred.stlouisfed.org/series/DEXINUS>

All table entries referencing macroeconomic growth, inflation, and currency movements in this report derive from these underlying datasets.

But What Happened?

The outcome, however, fell short of the trajectory required to reach the \$5 trillion target by FY25. While real GDP growth remained relatively strong in several years, the conversion of this growth into USD terms was significantly affected by currency movements and the disruption caused by COVID-19.

In dollar terms, India grew at a nominal CAGR of only 5.7% upto 2025 and 5.4% upto 2026, starting from 2019. In absolute terms, India's GDP was \$3.8 Trillion in 2025 and \$4.1 Trillion in 2026. In FY20, the real GDP growth and extraordinary INR depreciation were unfavorable. FY21 was the Covid-19 year and FY23 was again due to extraordinary INR depreciation.

Period (FY)	Real GDP Growth	Inflation	INR Depreciation	Nominal GDP Growth (\$)	Target
2019-20	3.94%	5.84%	7.81%	1.42%	10.20%
2020-21	-4.15%	5.52%	-1.44%	2.60%	10.20%
2021-22	9.38%	6.95%	3.35%	13.06%	10.20%
2022-23	7.21%	5.66%	7.01%	5.35%	10.20%
2023-24	8.56%	4.85%	1.96%	11.60%	10.20%
2024-25	6.41%	3.80%	1.26%	9.07%	10.20%

Exhibit 3 : Decomposition of India's Nominal Dollar GDP Growth, from 2019-25

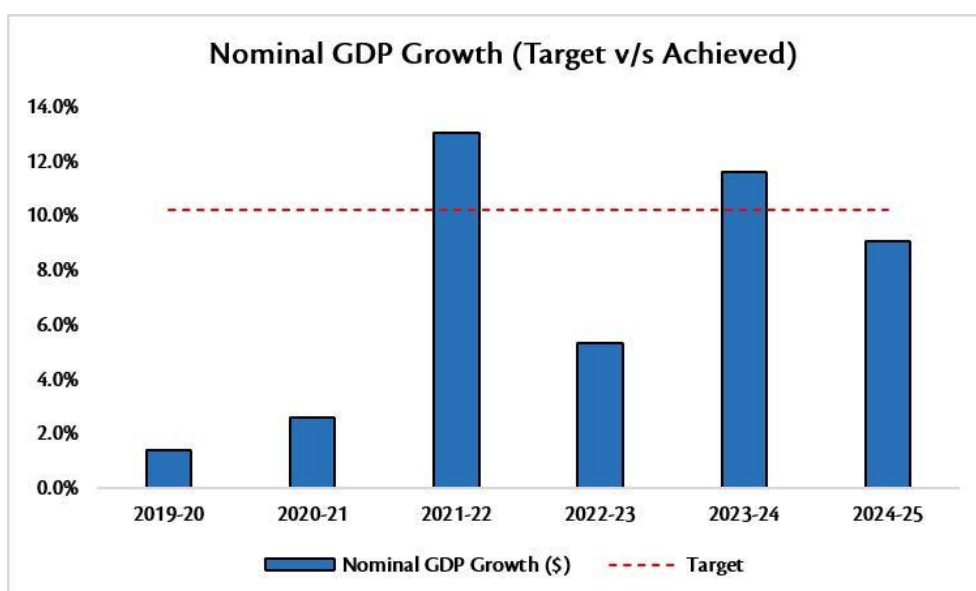


Exhibit 4 : India's Nominal Dollar GDP Growth : Target vs Achieved

Primary reasons behind the missed target for FY25:

- COVID-19: In FY21, India suffered a 4.15% contraction due to Covid-19!. Sequence of returns effect did the rest. This lowered the long-term CAGR despite the recovery in later years
- Twin Balance Sheet problem: Banks & Corporates were struggling with NPAs and overleverage.

In FY26, had an exceptional INR depreciation (12.3%) against the USD driven by large FPI outflows from India towards the “AI Trade” in Korea and Taiwan. By end of FY2026, India was \$4.1T economy despite strong real GDP growth and moderate inflation.

Currently, in FY26, the Banks have the cleanest balance sheets in 20 years and the corporates are ready for capex - an inflection point for a potential rebound!

What's Ahead?

With the gap to the original target and the underlying reasons now established, the next question is by when could India reach the target of \$5 Trillion economy. Since we assessed each component of nominal USD GDP growth independently, we now use historical trends and policy frameworks to establish a reasonable range of assumptions.

Real GDP Growth Rate

The past real GDP growth shows that 6% real GDP growth is possible over the long-term. Last 4 years, in fact we seem to have moved to a higher trajectory of 7.4%, despite all the challenges.

Period	Real GDP Growth
2006-26 (20 years)	6.2%
2016-26 (10 years)	5.8%
2022-26* (4 years)	7.4%

*2022 baseline used to adjust for 2021 low-base effects and pent-up demand distortions

Exhibit 5 : India's Historical Real GDP Growth

Inflation

RBI is mandated to maintain the inflation in the 2% to 6%. 4% is the midpoint of the range. Actual inflation in last 5-10 year period has been close to this midpoint.

Period	Inflation CAGR
2006-26 (20 years)	6.40%
2016-26 (10 years)	4.50%
2021-26 (5 years)	4.50%

Exhibit 6 : India's Historical Inflation

INR Depreciation against USD

INR has depreciated by around 2.4% over a 5-year period between 2020 and 2025. Analysis is capped at 2025 to capture structural exchange rate movements while stripping out outlier FX dislocations in 2026 when INR depreciated by 12.3% against USD.

Period	INR Depreciation
2005-25 (20 years)	3.40%
2015-25 (10 years)	2.90%
2018-25 (7 years)	3.50%
2020-25 (5 years)	2.40%

Exhibit 7 : Historical INR Depreciation against USD

When INR appreciated against the USD.

In recent years, two episodes of 7% appreciation of INR against the USD have been observed over short periods of 9 months and 23 months. In the optimistic case, 7% appreciation of INR vs USD over 36 months is modelled, resulting in 1.95% CAGR.

Period	Total Appreciation	Months	CAGR
May-2002 to Apr-2005	11.37%	35	4.06%
Jul-2006 to Jan-2008	15.44%	18	10.56%
Feb-2009 to Apr-2011	13.05%	26	6.25%
May-2012 to April-2013	4.79%	11	5.22%
Aug-2013 to May-2014	9.97%	9	13.10%
Feb-2016 to Jan-2018	6.79%	23	3.59%
Oct-2018 to Jul-2019	6.95%	9	9.18%

Exhibit 8 : Historical INR Appreciation against USD

We can now combine these assumptions to assess the possible paths for India's nominal GDP in USD terms.

Base case :

- Real GDP growth rate: 6.5%
- Inflation: 4%
- INR depreciation against USD: 2.5% CAGR

We arrive at a combined growth rate of 8% nominal GDP growth.

At this pace, India could be a \$5.1Tn by FY29, \$5.4Tn economy by FY30 and an \$8Tn economy by FY35. Even IMF and Government of India estimates are at \$5Tn by FY29.

Optimistic case :

- Real GDP growth rate: 7%
- Inflation: 4%
- INR appreciation against USD: 1.95% CAGR (FY26 to FY29). No appreciation or depreciation is assumed after that

We arrive at a combined growth rate of 13% nominal dollar GDP growth for first 3 years and 11% thereafter.

At this pace, India could be a \$5.9Tn by FY29, \$6.56Tn economy by FY30 and \$11Tn economy by 2035.

Conclusion

India has now moved beyond the most difficult part of the journey: building the machine (**Enablement**). Over the past decade, significant investments have been made in physical and digital infrastructure, repairing the banking system and the regulatory framework has become more conducive to the mobilisation of capital.

India is now entering the **Entrenchment phase**, where these enablers need to translate into deeper domestic and global market positions for Indian businesses. Once this entrenchment takes hold, **Expansion** becomes the natural next phase.

Enablement, Entrenchment, Expansion!

Key References:

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