INDIA OVERTAKES JAPAN TO BECOME THIRD-LARGEST ECONOMY

IN PURCHASING POWER PARITY

NEW DELHI: Its economy may be in the grips of a slowdown, its polity paralysed and markets morose, but all this hasn't prevented India from overtaking Japan to become the world's third-largest economy in purchasing power terms.

Data just released by the International Monetary Fund (IMF) shows that India's gross domestic product in purchasing power parity (PPP) terms stood at $4.46 trillion in 2011, marginally higher than Japan's $4.44 trillion, making it the third-biggest economy after the United States and China.

India's share in world GDP in terms of PPP, a measure of relative consumer prices across countries, stood at 5.65% in 2011 against Japan's 5.63%, with the gap expected to widen significantly by 2017. In five years, the IMF estimates the share of India's GDP in PPP terms would grow to 8.09% compared with 4.8% for Japan.

Economists said India's move up the league table was a reminder of the boundless potential the country offered, despite the prevailing mood of pessimism.

"This basically turns the spotlight back on the tremendous opportunity India's growth story has even under the given conditions. If India plays its cards correctly through policy measures we can actually achieve much more in the next 5-10 years," said Saugata Bhattacharya, chief economist with Axis Bank.

Added Samiran Chakraborty, chief economist with Standard Chartered India: "This shows that India is no longer an emerging economy. It has already emerged. But beyond that there are not many conclusions one can take from the data." The PPP system allows GDP comparisons to be made by asking how much money would be needed to purchase the same goods and services in two countries and using that to calculate an implicit foreign exchange rate.

Under this method, a dollar should be able to buy the same amount of goods anywhere in the world and exchange rates should adjust accordingly. It also strips away distortions that come with market exchange rates, which are often volatile, affected by political and financial factors that do not lead to immediate changes in income and tend to understate the standard of living in poor countries.

The Economist magazine's proprietary Big Mac Index, which takes the price of a McDonald burger across 120 countries to calculate the 'real' price of their currencies, is another crude way to measure PPP. India was included in the index recently. It showed that the Indian rupee was undervalued by 62% against the US dollar in January.

PPP methods help adjust income to prices for a meaningful comparison on quality of life in countries with widely different prices and incomes.

"The PPP comparison is more useful while comparing the standards of living between countries," said Ulrich Bartsch, a senior macroeconomist in the World Bank's India office, adding that while the per capita GDP in PPP terms shows that India still has some distance to go to reach Japanese levels, "the difference is less than the comparison of per capita GDP in nominal dollar terms would indicate".

India, according to the IMF's calculations, was able to overtake Japan in 2011 because its economy grew 7.24% whereas in the case of Japan, it shrank 0.75%, hit by a tsunami that ravaged the country and exacerbated the adverse impact of global economic slowdown.