EY
Building a better working world

INDIA@100

Realizing the potential of a US$26 trillion economy

FOREWORD

N. Chandrasekaran, Executive Chairman, Tata Sons

India's progress over the past decade has been quite remarkable. The economy's position has gone from the tenth largest ten years ago to the fifth largest today. India has been the fastest growing major economy for the third year in a row—a bright spot in a global economy facing strong recessionary impulses, multi-decade high inflation, record levels of public debt and the squeezing of real household incomes.

Looking over the next few decades, the country presents a major growth opportunity. **India@100: Realizing the potential of a US$26 trillion economy** details the path ahead, from demographics to domestic consumption to reform. The following pages explain how India is most likely to overtake Germany and Japan and will become the third largest economy after China and the US by 2030. In 25 years, at a size of US$26 trillion, our per capita GDP would be over US$15,000, six times its current level.

I have full faith in our ability to achieve this Amrit Kaal vision because of several unique factors today. First of all, today's geo-political realignment contains numerous opportunities. We have a real India-plus opportunity in nearly every sector on the precipice of dramatic disruption—from energy and automobiles to pharmaceuticals and medical devices. New manufacturing methods combined with new supply routes are a chance to claim a more central position in the new economy.

Second, there is massive potential of technology to address many of our most persistent development challenges, both in the private and public sectors. Whether it is generating jobs, improving access to healthcare and education, increasing the degree of formalization in the economy, public services delivery or getting more women into the workforce—technology will play a crucial role in solving these fundamental challenges.

Our technology strength means that we are well placed to continue reimagining our national blueprint using digital. If we use technology in the right way — and put our people first — it can fix structural problems that have held us back for decades.

But this is not just about domestic development. It is about becoming a global hub for technology that will drive exports, fuel growth and raise incomes even faster. India has already led the world in reimagining ways of work once before, during the transition from hardware to software. As traditional ways of doing things continue to be transformed by the accelerating digital revolution, we can lead again.

***

This is a crucial decade for India to shape its own future, and even beyond, to chart a path for other developing countries in a global context that has been transformed by the pandemic, conflict and the generational fight against climate change.

The big question is, how do we spread the future to everyone, from workers in the informal sector to agricultural workers and to women who want to participate in the workforce.

It is our responsibility to shape the best path that will ensure a future India, that is one with massive opportunities for all.

EXECUTIVE SUMMARY

As per EY projections:

India's GDP will be **US$26 TRILLION** in market exchange rate terms by 2047-48

India's per capita income would exceed **US$15,000**, by 2047-48, putting it among the ranks of developed economies

In the medium term, India would remain **THE FASTEST GROWING LARGE ECONOMY**

India celebrated its 75th anniversary of independence in 2022. Milestones like these not only give an opportunity to celebrate the achievements of the past but are also an occasion to envisage a vision for the country. The Government of India has set for itself the goal of becoming a "developed" economy by 2047.

The next 25 years have been deemed as the 'Amrit Kaal' by Prime Minister Narendra Modi, a term drawn from Vedic inspiration, which means a uniquely auspicious period and represents India's opportunity to herald a new world era.

India's success is important for the world economy as it is home to approximately 1/6th of the global population. In 2023, India is slated to become the largest country in terms of population, enabling it to become the largest contributor to the global workforce for the next several decades.

The enthusiasm for India's growth prospects is palpable given the slowing global growth buffeted by recent headwinds of unprecedentedly high levels of global debt to GDP, inflation, decelerating global population growth and plateauing global trade to GDP. These trends have been further exacerbated by rising protectionism amidst rising geopolitical tensions.

India has attained critical mass as the fifth largest economy in the world, realized primarily on account of its policies of economic liberalization, which made it more market-oriented, allowed for a greater role for private capital and in the process increased its global competitiveness. The growth projections for the Indian economy are the highest for any large economy over the coming decades.

This report demonstrates that even while maintaining a stable yet modest growth rate averaging about 6% per annum, India would become a US$26 trillion economy (in market exchange rate terms) by 2047-48 (in nominal terms), with a per capita income exceeding US$15,000 (nearly six times the current value).

The recent accelerated pace of economic reforms of the last few years in the domains of fiscal, digital, physical infrastructure and social inclusion, has positioned India for higher and sustainable growth. This, together with the largest, broadest and deepest labor pool, with a relatively inelastic labor market, provides a long runway for improving productivity at a pace faster than growth in wages. This enhances the global competitiveness of enterprises doing business in India.

In this context, there are a few key enablers of growth that uniquely strengthen India's position in the global economy over the next decade and beyond, which are summarized ahead.

WORLD'S INFORMATION TECHNOLOGY AND SERVICES HUB >

India's strong services exports have grown by 14% over the last two decades and stood at US$254.5b in 2021-22. A large part of services exports is from the Information

Technology (IT) Services and Business Process Outsourcing (BPO) services with US$157b in 2021-22.

This growth has been driven by both Indian headquartered and global IT companies. Besides, other global corporations are leveraging Indian talent through their capability centers in India, which employ over 5 million people[1]. What began as a cost arbitrage has now become a key source of high-quality talent and leading-edge innovation. The 1,500 Global Capability Centers (GCCs) in India representing 45% of global GCCs are an acknowledgement that these centers are scalable with access to manpower skilled in new technologies, while adhering to business processes of the highest quality and efficiency. All of these have converged to give *India an opportunity to become "office of the world" for corporations* as they look to adopt technology at a global scale.

India is well-positioned to leverage this success and cater to more skill-intensive and increasingly digitized services. Indian and global IT services players will leverage India for higher value services such as consulting, experience design, full stack digital engineering, product development for Industry 4.0 and incubate and industrialize new business process management use cases and processes often considered core to businesses today. Most Indian and global IT services players will have their centers of excellence for Cloud, analytics and AI and other new age technology in India. Besides, great strides are being made in IP-based platform and product businesses, which are more scalable, sticky and differentiated, creating a potent ecosystem for India Hyperscalers to emerge over the next two decades.

Similarly, in non-IT services segments, India has a unique opportunity to fill in the talent gap as developed economies face a shortage of skilled talent due to demographic changes. This would be in areas such as education and healthcare, where services are increasingly being delivered over digital channels.

DIGITALIZATION: A FORCE MULTIPLIER >

A large telecom subscriber base of 1.2b and 837m internet users combined with government's focus on building digital platforms have laid foundations for a digital economy, enabled the development of a robust digital payment ecosystem and strengthened governance. A special focus and consistent backing of the GoI over the last decade in creating India's uniquely scalable Digital Public Infrastructure has borne fruit, yielding economic benefits and growth of innovation and entrepreneurship. Over the period 2014–19, in absolute US

1 https://pib.gov.in/Pressreleaseshare.aspx?PRID=1847841

dollar terms, the digital economy grew by 15.6%, which was 2.4 times faster than the growth of the Indian economy.

Several service delivery platforms such as Cowin (COVID vaccinations), Ayushman Bharat (healthcare), DIKSHA (education and teacher training), GSTN (Tax), GeM (public procurement), UMANG (e-Gov services) have been implemented successfully and several other platforms such as AgriTech Stack, DESH for skilling and LiveStock are being planned.

The India Stack pioneered in India is now the global benchmark for most countries and provides a competitive advantage for growing businesses while addressing some of the complexities of the Indian economy. The uniqueness of the India Stack lies in its population scale, open architecture facilitating transactions, catering to very high volumes and designed to be low cost, based on 1.3b digital identities (Aadhaar).

Riding on the Stack and the wide-scale adoption of Unified Payments Interface (UPI) by 260m unique users, India today accounts for the highest volume of real-time digital payments among businesses globally, with a share of over 40% of all such transactions[2]. This has enabled formalization of the economy with greater financial inclusion and created a market opportunity for entrepreneurship, which is reflected in the growing start-up ecosystem with over 84,000 recognized[3] start-ups.

Going forward, platforms like Open Credit Enablement Network (OCEN) are expected to democratize credit at scale by enabling credit penetration at a low cost and making credit decisions/disbursals cash-flow based. Open Network of Digital Commerce (ONDC) is another platform which can be transformative as it will onboard micro, small and medium enterprises and small traders on a single platform, thereby giving more choice and access to a variety of products to customers and open e-commerce to buyers and sellers of all sizes.

The digital public infrastructure and its adoption by people, provides India a unique competitive advantage of not only reducing the cost of doing business, but also formalizes the economy and supports financial inclusion and creates new business opportunities.

2 https://www.livemint.com/news/india/40-of-global-real-time-payments-originated-in-india-in-2021-report-11650973119569.html

3 Recognised by Department for Promotion of Industry and Internal Trade (DPIIT)

FILLING THE CREDIT GAP TO FUEL GROWTH >

Accelerated credit growth and development of the corporate bond market would drive consumption through higher levels of personal credit and provide capital for investments in manufacturing and infrastructure.

India's debt to GDP at 55% remains amongst the lowest among large economies globally. The Indian banking sector had a high level of non-performing assets (NPAs) in the past, which have significantly reduced and there has been a progressive deleveraging of stressed balance sheets. Despite the pandemic, gross NPAs as of September 2022 have reached a seven-year low of 5%[4].

The Micro Small and Medium Enterprises (MSMEs), which contribute 30% to the GDP, face a shortfall in supply of credit estimated at US$250-US$300b.

While there has been a slow but steady progress of the corporate bond market to 16% of GDP, the ratio is significantly lower than other large economies.

At the same time, digitization of the economy and availability of data provides a more objective and comprehensive basis for credit assessment and thereby enhanced lending to both individuals and businesses. This is a significant opportunity for the financial services sector, while addressing the credit needs of the Indian diaspora and businesses.

4 RBI's latest financial stability report released in December 2022

THRIVING ENTREPRENEURSHIP SPURRED BY PRIVATE CAPITAL >

India's entrepreneurial spirit has always been its distinct advantage. Over the last few years, this entrepreneurship culture has got further bolstered backed by digitalization and supportive policy environment, giving a new and unprecedented scale to Indian enterprises.

Start-ups have grown remarkably over the last six years, with India emerging as the third largest ecosystem for start-ups globally. Over the past four years (since FY 2017-18), there has been 66% year-on-year growth in the number of additional unicorns being added every year. As of August 2022, India had 107 unicorns[5] with a total valuation of US$341b[6].

PE/VC investments in India have been at record levels touching US$82b[7] in FY 21-22. There have been a significant number of successful exits for these funds to the tune of US$42.5b in FY21-22, further demonstrating rising confidence in investments flowing into India. Though there would be short-term volatility owing to changes in financial conditions globally, the long-term trajectory for investments in India is clearly positive.

The spurt of new-age companies across technology and other sectors on the back of rapid digitalization and strong capital availability would be instrumental in delivering differential growth to the Indian economy.

REAPING THE DEMOGRAPHIC DIVIDEND >

India is projected to become the most populous country in the world in 2023. Currently, about 67%[8] of India's population lies in the working age group. Approximately 25% of the incremental global workforce over the next decade will come from India. By 2030, India's working-age population will exceed 1b. On the other hand, the population is rapidly ageing in the developed world.

5 Why Indian economy is steady even as world faces turbulence - Times of India (indiatimes.com)
6 https://www.investindia.gov.in/indian-unicorn-landscape
7 RBI, EY analysis
8 https://data.oecd.org/pop/working-age-population.htm

With nearly 49% of the total enrolment in higher education consisting of female students[9], India should expect a much larger proportion of women in the workforce in the years to come.

This presents a unique opportunity for India to support the global workforce with its skill-based talent, which also includes the largest pool of English speaking STEM graduates with an annual addition of 2.14m (47% women) and 6.2m healthcare professionals which includes doctors and nursing staff.

The large pool of skilled and unskilled labor with a relatively inelastic labor market, provides a long runway for improving productivity at a pace faster than the growth in wages.

With a median age of 28.4 years, it is a young India which not only reinforces India's competitive advantage in the services and manufacturing sectors, but also unleashes the consumption power of a young population towards discretionary expenditure.

Domestic consumption has been important pillar of the Indian economy having grown at 11.5% in nominal terms over the last decade and thereby increasing the share of private consumption expenditure in the Indian GDP from 55%-60%.

Indian consumers have been opening up to credit driven consumption, evident from the fact that scheduled commercial banks have doubled disbursements of personal loans to ~ US$ 425b, credit card debt has grown 3 times to US$ 18.5b, vehicle loans have grown to US$ 50b and housing loans have grown to US$ 200b. The credit offtake from non-banks would be in addition.

This shift in consumer behaviour of a largely young population is supported by structural changes, driven primarily by the digital infrastructure and an enabling digital payments ecosystem.

6X growth in per-capita income by 2047 of more than 1.7 billion Indians would unleash an unprecedented consumer boom.

Combined with a shift in consumption patterns towards aspirational products and services would make India the fastest growing consumer market.

9 All India Survey on Higher Education (AISHE) 2019-20

MAKING DOMESTIC MANUFACTURING COMPETITIVE >

Disruptions during the pandemic along with geopolitical conflicts have forced several global players to diversify their supply chains. Recognising this as a great opportunity to establish itself as a manufacturing hub, GoI has introduced various initiatives including 'Atmanirbhar Bharat' (self-reliant India).

Growth in manufacturing would help create new job opportunities for the 43% labor pool currently engaged in agriculture. Manufacturing growth also drives investments in infrastructure to move goods quickly and efficiently besides spurring further growth in services.

The initiative to aid manufacturing comprises competitive direct tax rates, a simplified indirect tax regime, incentives under Production Linked Incentives (PLI), a better quality of infrastructure, access to renewable energy and other factors. PLI scheme, by far, has been the most transformative reform, covering 14 sectors, which have attracted investment commitments to the tune of INR 2.5t (US$31.3b). Many labor-intensive sectors such as textiles and food processing are covered by this scheme.

At the same time, sectors that would become more dominant and important in the future (for both India and the world) or where the economy could be vulnerable to supply chain bottlenecks are also a part of the PLI scheme. Examples of such sectors include semi-conductors, electric vehicles, new energy related products like solar panels, advanced chemical cell batteries, green hydrogen, electrolysers, drones, among others. Whichever country establishes a competitive manufacturing eco-system in these products would have a significant advantage in the foreseeable future.

Success in complex, high value and emerging sectors would position India as a manufacturing hub catering to both domestic and global markets.

The Indian EV ecosystem, which is poised to see manifold growth in terms of adoption of EVs to the tune of over 100m vehicles by 2030, is a good example of such a sunrise sector. GOI has committed US$14.5b for covering supply and demand side incentives and creation of charging infrastructure. On the back of this private investments are being made encompassing the entire value chain. This would serve as an opportunity for domestic and global players to not only cater to domestic but also service global markets.

The scale of manufacturing operations, which has been a challenge so far, is also being addressed by a recalibration of the definition of Medium and Small Enterprises. There are ongoing efforts for simplification of labor laws considered a material impediment to the scaling of enterprises. This would be a definitive step toward improving the ease of doing business and making manufacturing more competitive.

BUILDING THE INFRASTRUCTURE OF THE FUTURE >

Acceleration in infrastructure investment, especially transportation and logistics, is directly boosting growth while steadily improving competitiveness for enterprises. After massive upgrades in roadways, the focus is now on rail, air, water transport along with the 'Gati Shakti' initiative which is aimed to improve intermodal visibility and synergies.

Investment in physical infrastructure is being supplemented by IT-based ease-of-doing-business initiatives such as the National Logistics Policy which aims to increase the speed and lower the cost of movement.

The target is to reduce the cost of logistics from 14-18% of GDP to global best practice of 8% by 2030[10].

These are likely to show the greatest improvement in the next 3-5 years.

The National Infrastructure Pipeline (NIP) of US$1.4t underpins the large infrastructure investment opportunity in India, duly supported with tax concessions for Sovereign Wealth and Pension Funds and an enabling market for Infrastructure Investment Trusts (InViTs) to monetize developed infrastructure assets and free up capital.

TRANSITION TO SUSTAINABLE ENERGY >

Rising global temperatures and associated climate risks are both a risk to the global economy and represent an opportunity to develop businesses relating to new sources of energy.

Recognizing the importance, the GoI has set a target to be net zero by 2070 and reduce carbon intensity by 45% by 2030 vis-à-vis

10 https://www.investindia.gov.in/team-india-blogs/national-logistics-policy-india

2005 levels. It has also set a target of 50% of power generation capacity from non-fossil fuel sources by 2030. These targets have been supported by policy changes and administrative actions covering a plethora of subjects such as green hydrogen policies, incentives for manufacturing Advanced Chemistry Cell (ACC) batteries, tendering for renewable energy capacity, tripling nuclear energy capacity and open access for sourcing green hydrogen.

The policy changes have spurred investments led by private players. Renewable energy capacity has increased from 40 GW in 2014 to 166 GW by 2022, with a target of non-fossil fuel based generation capacity of 500 GW by 2030. Over 7,000 kms of transmission lines have been constructed for providing green open access.

More recently, GoI has committed an incentive of US$2.2b to achieve annual capacity of 5m metric tonnes of green hydrogen supported by associated renewable energy capacity of 125GW.

Besides cutting emissions in hard to abate sectors, development of green hydrogen can help India in its endeavour to achieve energy independence through cutting import of hydrocarbons. The goal is to meet 10% of global hydrogen demand by 2030. Private sector players along with state owned enterprises have committed over US$ 200b to be invested till 2030 to meet India's new energy roadmap. There is significant excitement among Indian enterprises and entrepreneurs to strengthen India's plan for energy transition and its supporting ecosystem, given the strong economic value creation opportunity.

Ongoing investments by private players and strong policy support provides optimism that round the clock emission-free energy may become a reality sooner than what most commentators expect.

We believe these drivers of growth will impact sectors across the economy and will be key to India's growth and development cycle over the next 25 years.

Focus on social inclusion for equitable growth

What is distinctive to India's growth so far is the equal focus on the social sector. This is especially important and challenging to implement in a country with a population of over 1.3b with extensive diversity. The country has used technology to effectively broaden and improve service delivery to the base of the pyramid and reflect the thrust on using digital technologies for equitable growth for 'Bharat', a vast majority of India's population.

Rural employment and public distribution of food have both been valuable instruments during the pandemic to serve the base of the pyramid, and the effectiveness of this public spending is expected to increase with time. India has achieved near-universal electrification of its rural households. Under the Jal Jeevan Mission, access to tap water has been extended since 2019, to nearly 76m rural households (56% of total rural households). These are clear indicators of the effect of the reform agenda at a grassroot level, making a positive impact on the quality of life for most Indians.

The social sector reforms and investments would further enhance domestic consumption and ensure more equitable growth.

Realizing the potential of a billion-plus nation

With a population of over a billion people, a nation has the potential to make a truly transformative impact on the world stage. Even as these eight growth enablers accelerate the economic engine, there will be areas that would require attention of the policymakers.

Ease of doing business

Improving the ease-of-doing-business parameters and reducing the regulatory and compliance burdens for enterprises in India, would be key to enhancing competitiveness.

Some of the areas that are acknowledged and need redressal include effective contract enforcement, reduced tax disputes with faster resolution and decriminalization of economic laws.

Urbanization and power sector

After lagging most large economies in its urbanization, India is now embracing it with a new resolve. There is an opportunity to develop an India-focused model, with a greater emphasis on sustainable development. In the power sector, while the over-dependence on government support and subsidies has been recognized and steps are being taken, more is required to make the sector self-sustaining.

Energy independence

Recent geo-political issues have underscored the importance of energy independence. India currently depends on imports for meeting 35%-40% of its primary energy needs with crude oil being largest constituent. Whenever price of crude oil increases, it is accompanied by depreciation of the Rupee, high inflation and slowing down of the economy. There is a need to continually reduce India's dependence on imported energy.

The GoI should continue to provide attractive policies for increasing the production of domestic hydrocarbons and accelerating the pace of the pursuit of non-conventional energy sources as demonstrated in its national hydrogen mission.

However, large scale transformation of the energy system is a long-drawn process. For example, as the world moves forward with decarbonization and India develops new capacities, access to critical minerals like Lithium and other rare earths would become

important. Access to these materials could make countries vulnerable in the future. Therefore, strategies to address any such potential vulnerabilities would be extremely important.

Education and healthcare

Considering India's accelerating working age population ratio, it is imperative to ensure that the workforce is educated, skilled and healthy, making them suitable for emerging employment opportunities, within and outside the country. India's combined government expenditure on education was at 3.1% of GDP and for health at 1.4% in 2021-22. These levels need to be increased further to take advantage of the unfolding demographic trends.

Macro-economic stability

Incidences of the last few years such as the pandemic and the recent geo-political unrest have underscored the pivotal role of the government in addressing risks and ensuring macro-economic stability both in the short-term and the long-term. While the GoI has been strategic in its macro-fiscal response during the pandemic and the geo-political conflict, continued prudent macro-economic management focused on managing and stabilizing exchange rate, ensuring predictability in policies and pro-actively de-risking the economy would further enhance India's ability to sustain high levels of growth over an extended period.

As part of the prudent macro-economic management, the central and the state governments need to ensure that their revenue and fiscal deficits relative to GDP are within sustainable limits. In case both the central and state governments maintain a revenue account balance, the combined sustainable level of fiscal deficit of 6% of GDP supplemented by non-debt capital receipts averaging about 0.5% of GDP would enable the government to finance it capital expenditure to the extent of 6.5%

of GDP per year in a sustained way over a long period of time consistent with the budgetary ‘Golden Rule’. Prudent fiscal management should ensure that subsidies should not be committed for short term welfare objectives. Instead, maximum policy attention should be focused on increasing employment especially using investments in infrastructure and funding enhanced expenditure on education and healthcare.

The government would also do well to emphasize augmentation of savings and investment rates in India. India’s investments are financed by domestic savings, net capital inflows (or foreign capital coming in) and withdrawals from foreign exchange reserves. Since FY08, Gross Capital Formation (GCF) has averaged around 35% of GDP and domestic savings have been the primary source for financing this investment. With capital as a scarce factor, it is crucial to ensure that the savings rate is boosted while attracting global capital to further uplift investments and thereby growth.

As we crystal-gaze into the 100th year of India's independence, we certainly hope that India exceeds our growth projections, with an equal and strong focus on providing inclusive and equitable opportunities and access to education, skills and better health, covering all sections of the population including women and economically and socially disadvantaged.

The aspiration should be to provide a higher standard of living and a better quality of life to all citizens, and for businesses to thrive and grow in an enabling environment to achieve their ambitions.

India, indeed, has the potential and opportunity to become a strong and resilient pillar in the changing global economic order.

Building a better working world

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

ey.com/en_in

@EY_India   EY   EY India   EY Careers India   @ey_indiacareers