

SERVICES: FUELLING GROWTH OPPORTUNITIES

Through the vicissitudes of the last three decades, the services sector stood as the bulwark of India's economic growth. Its post-pandemic dynamics, particularly the trends and patterns that emerged and solidified during FY24, indicate an ongoing transformation in domestic service delivery systems and their demands. Aided by the focus on policy and procedural reforms, physical infrastructure and logistics, all significant business, personal, financial and infrastructure-based services have emerged strongly from the pandemic. However, the transformation lies in the fast-paced shift towards digital services like online payments, e-commerce, and entertainment platforms, as well as the increase in the demand for high-tech services as inputs in other productive activities. India's young and tech-savvy population offers an opportunity to enhance the country's vocational and educational ecosystem further. This will equip the labour force with the required digital and high-tech skills in a time-bound manner, helping India reap the full dividends of these opportunities.

INTRODUCTION

11.1 India's services sector encompasses a wide array of economic activities, which can be broadly classified into two categories: contact-intensive and non-contact-intensive services. The former includes trade, hospitality, transport, real estate, social, community and personal services. The latter comprises financial, information technology, professional, communication, broadcasting, and storage services. The sector also incorporates public administration and defence services.

11.2 The services sector continues to be a significant contributor to India's growth, accounting for about 55 per cent of the total size of the economy in FY24. Several demand and supply side factors determine the performance of the services sector. The significant domestic demand for services such as education, healthcare, finance, tourism, hospitality, and entertainment is underpinned by a large and young population. Rapid urbanisation supports transportation, housing, sanitation, and utility services. The expansion of e-commerce platforms has generated heightened requirements for logistics, digital payments, and related services. Information technology and business services will likely retain their prominent international presence in the medium term. However, studies suggest that the application of Artificial Intelligence (AI) is likely to restrain the growth opportunities for business services progressively and, therefore, poses a challenge to long-term sustainability and job creation. Thus, focusing on human capital

to take advantage of the agglomeration effects of large, well-functioning cities is critical for the growth of services, especially those with global market potential.¹

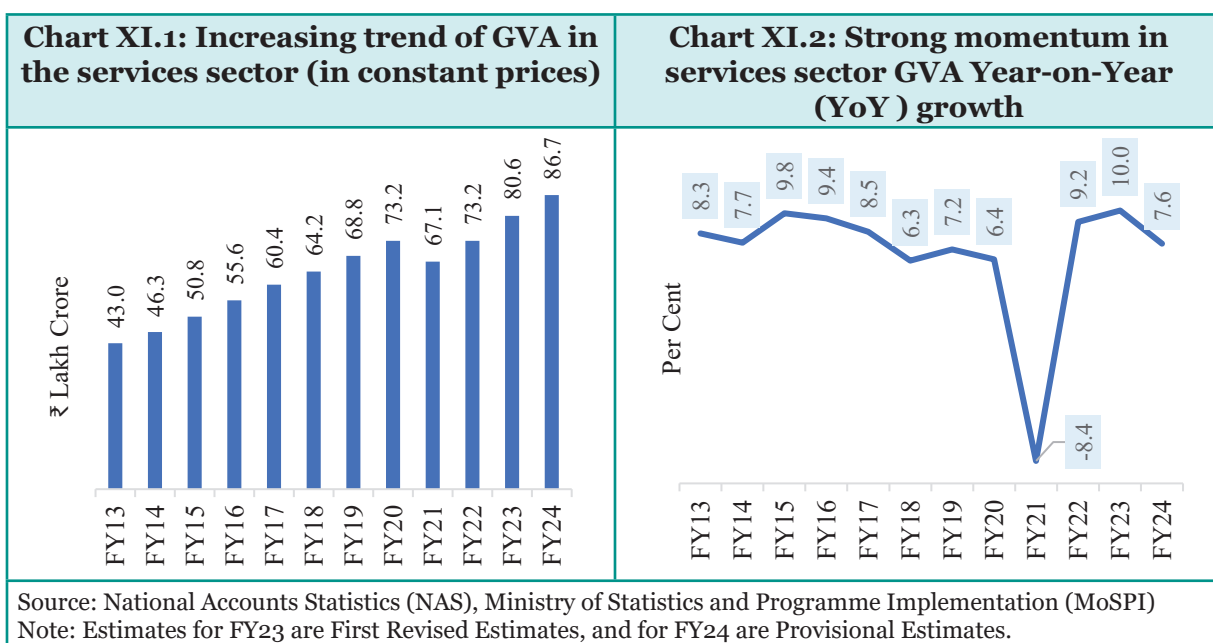
11.3 The Government has played a crucial role in fostering the growth and competitiveness of India's services sector by creating an enabling environment, promoting investment, enhancing skills, and facilitating market access. For instance, the Digital India campaign has fostered growth in digital services, export promotion schemes have encouraged services exports, infrastructure development has boosted logistics, tourism, and hospitality industry, and skill development initiatives have provided increased opportunities for the workforce. Furthermore, targeted efforts in healthcare and tourism have enhanced accessibility and development, ensuring a promising future for India's services sector.

11.4 The remaining sections of the chapter are organised with the emerging services landscape in the country as outlined above in view. The following section provides an overview of the performance of the services sectors in terms of domestic output and international trade activity, followed by a section on financial flows into the services sector. This is followed by a deep dive into the performance of various services sub-sectors and related policy initiatives. It may be noted that the developments in important social services like education and health are dealt with in Chapter 7 of this Survey. The last two sections highlight the challenges and opportunities in the services sector and concludes with a future outlook.

OVERVIEW OF THE SERVICES SECTOR PERFORMANCE

Gross Value Added (GVA) in the services sector

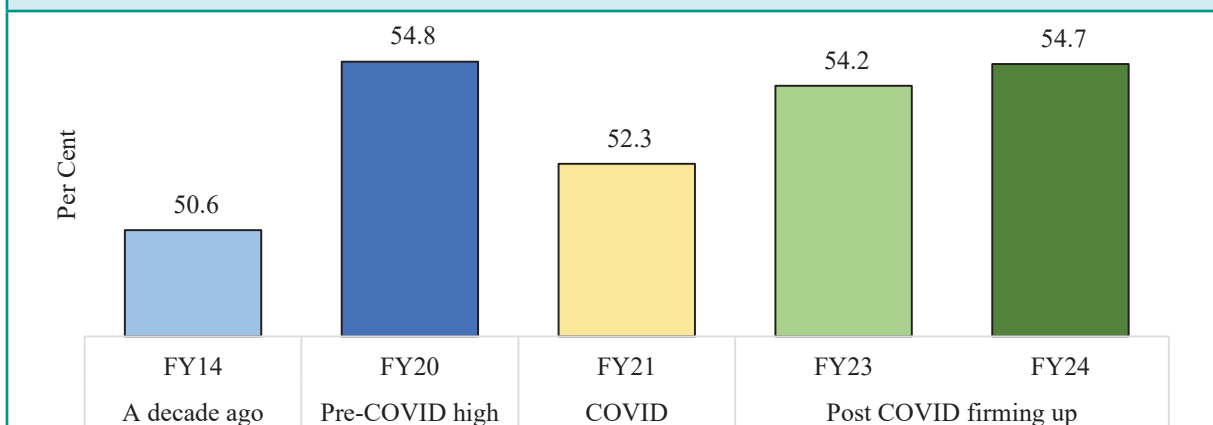
11.5 The services sector witnessed a real growth rate of more than 6 per cent in all the years in the last decade except in the pandemic-affected FY21. Globally, India's services exports constituted 4.4 per cent of the world's commercial services exports in 2022.



¹ The Economist (24 June 2024). Will services make the world rich? <https://www.economist.com/finance-and-economics/2024/06/24/will-services-make-the-world-rich>

11.6 The contribution of the services sector to the overall GVA has increased significantly in the last decade. The sector's share dropped in FY21 due to the pandemic-induced contraction. However, as shown in Chart XI.3, the sector's share has almost recovered to the pre-COVID levels.

Chart XI.3: Post-COVID firming up in the share of the services sector in overall GVA

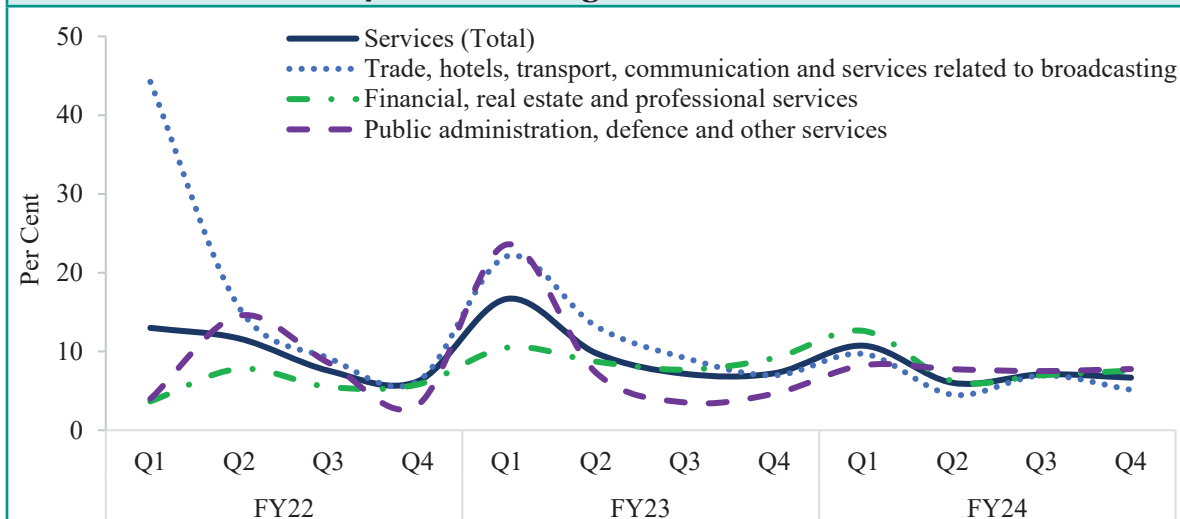


Source: National Accounts Statistics (NAS), MoSPI

Note: Estimates for FY23 are First Revised Estimates, and for FY24 are Provisional Estimates.

11.7 For a decade before COVID, the services sector's real growth rate consistently exceeded the overall economic growth. However, in FY21, the services sector saw a sharper contraction of 8.4 per cent compared to a 4.1 per cent decline in overall GVA. Non-contact intensive services, primarily financial, information technology and professional services, experienced positive and steady growth due to fewer disruptions and increased demand for digital services. The contraction was concentrated in contact-intensive services due to lockdowns, restricted travel, and reduced demand for hospitality, entertainment, and personal services due to preventive measures. As the restrictions were lifted, these sectors rebounded, aided by the supportive policy environment. Hence, post-COVID, the services sector's growth outpaced overall GVA growth in FY23 and FY24, reclaiming its role in driving the economy's upward trajectory.

Chart XI.4 Broad-based growth in the services sector



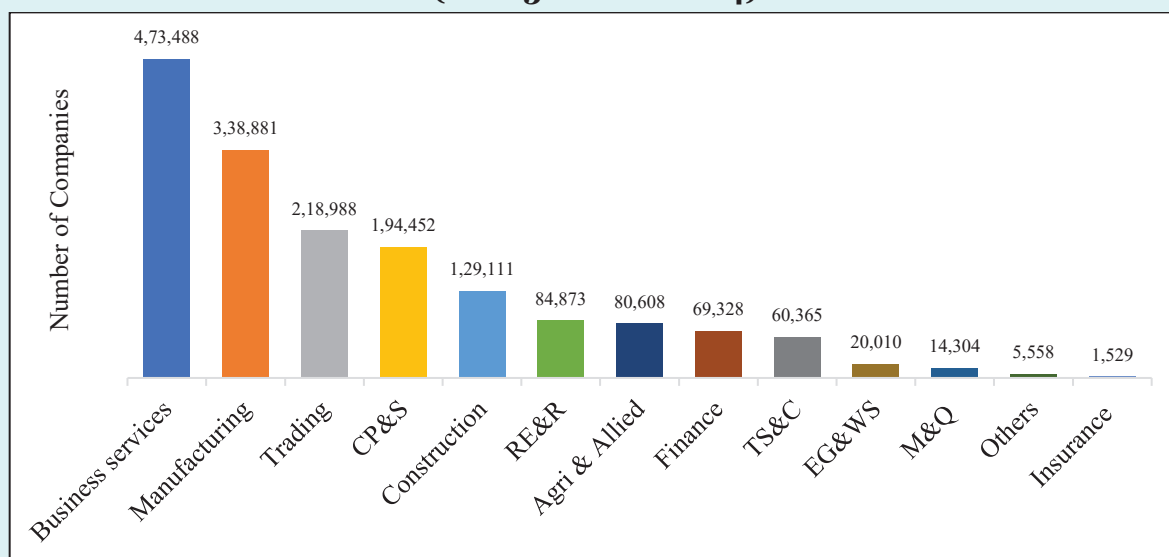
Source: National Accounts Statistics (NAS), MoSPI

11.8 As per the Provisional Estimates, the services sector is estimated to have grown 7.6 per cent in FY24. Various high-frequency indicators support the services sector's growth story. Both GST collections and the issuance of e-way bills, reflecting wholesale and retail trade, demonstrated a double-digit growth. The gross GST collection reached ₹20.18 lakh crore² in FY24, marking 11.7 per cent increase from the previous year, underscoring robust domestic trading activity. Average daily electronic toll collection, total air passengers handled, and rail freight traffic registered a YoY growth of 18.9 per cent, 15 per cent and 5.3 per cent, respectively, in FY24, supporting the steady growth of transportation services. However, there is some catching up left to be achieved in the pre pandemic trend in the levels of trade, hotel and transport sector, as pointed out in Box I.1 of Chapter 1 of this Survey. Bank credit and deposits expanded YoY by 20.2 per cent and 12.9 per cent, respectively, as of March 2024, suggesting continued buoyancy in financial services. The residential property market also demonstrated a promising trend in 2023, with demand and new supply experiencing double-digit growth.³

Box XI.1: The services sector continues to command the highest share in the number of registered companies

A total number of 16,91,495 active companies exist in India as of 31 March 2024. The services sector has the highest number of active companies (65 per cent). Within the services sector, business services has the highest number of active companies (28 per cent), followed by trading (13 per cent) and community, personal and social services (11 per cent). In FY24 alone, 1,85,312 new companies were registered, out of which 71 per cent were services sector companies.⁴

Chart XI.5: Economic activity-wise distribution of active companies (as of 31 March 2024)



Source: Monthly Information Bulletin (March 2024), Ministry of Corporate Affairs

Note: CP&S - Community, Personal and Social Services, Agri & Allied - Agriculture and Allied Activities, RE&R - Real Estate and Renting, TS&C - Transport, Storage and Communications, EG&WS - Electricity, Gas and Water Supply Companies, M&Q - Mining and Quarrying. Services sector companies include Trading, Business services, CP&S, TS&C, RE&R, Finance, and Insurance.

2 PIB release dated 01 April 2024, Ministry of Finance. <https://pib.gov.in/PressReleasePage.aspx?PRID=2016802>

3 PropTiger (04 January 2024). New home sales record 33% YoY growth in 2023: PropTiger.com report. <https://www.proptiger.com/guide/post/new-home-sales-record-33-yoy-growth-in-2023-proptiger-com-report>

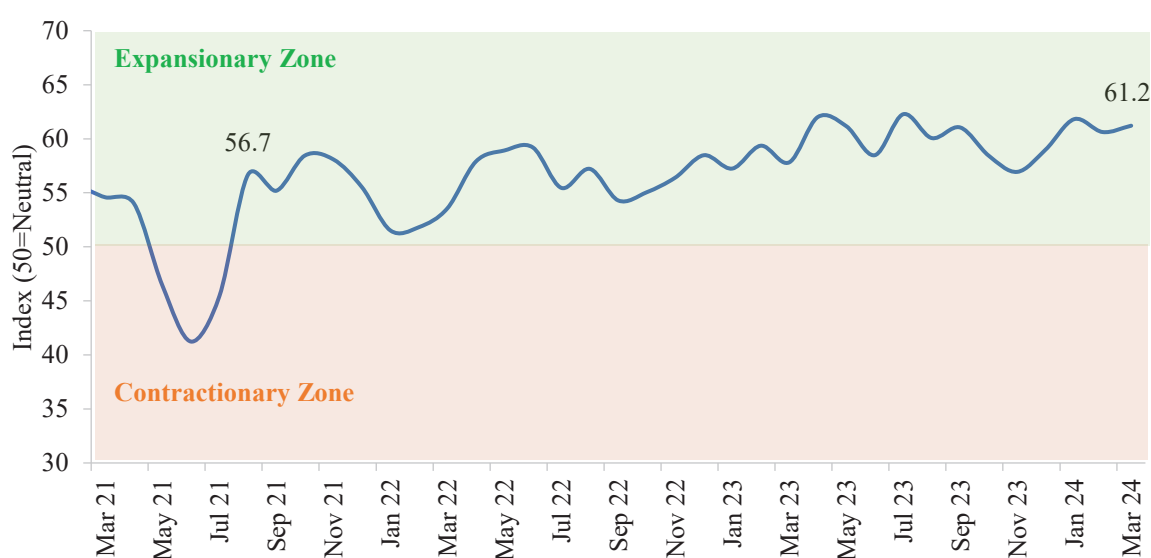
4 Ministry of Corporate Affairs. Monthly Information Bulletin (March 2024). <https://www.mca.gov.in/bin/dms/getdocument?mds=jRBDSS%252FnmHQx90z9wOfBCA%253D%253D&type=open>

A major factor driving interest in the services sector is the rising share of digitally delivered services, which have seen exponential growth in global exports. The rapid formalisation of the services sector, increased demand for digital, financial, and entertainment services, integration into the global supply chain, and the availability of skilled professionals for start-ups are driving the sector's growth in the economy.

Purchasing Managers' Index (PMI)- Services

11.9 Business activity in the services sector in India transcended the obstacles of the pandemic and other disruptions worldwide. The sector picked up significantly from April 2023 and remained resilient throughout the financial year. HSBC's India Services Purchasing Managers' Index (PMI)⁵ is a widely used high-frequency indicator that supports the overall services sector growth narrative. In March 2024, services PMI soared to 61.2, marking one of the sector's most significant sales and business activity expansions in nearly 14 years. This was primarily attributed to the latest upturn in business activity due to healthy demand conditions, efficiency gains and positive sales developments. PMI services averaged 60.3 in FY24 for the entire year compared to 57.3 in FY23.⁶ As can be seen from Chart XI.6, the services PMI has remained above 50 since August 2021, implying continuous expansion for the last 35 months. The sector has continued to expand amidst dynamic market conditions.

Chart XI.6: PMI Services touched new heights in FY24 amidst global flux



Source: Compiled from various monthly HSBC India Services PMI reports

Note: The index varies between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month and below 50, an overall decrease.

⁵ The services PMI include consumer (excluding retail), transport, information, communication, finance, insurance, real estate, and business services.

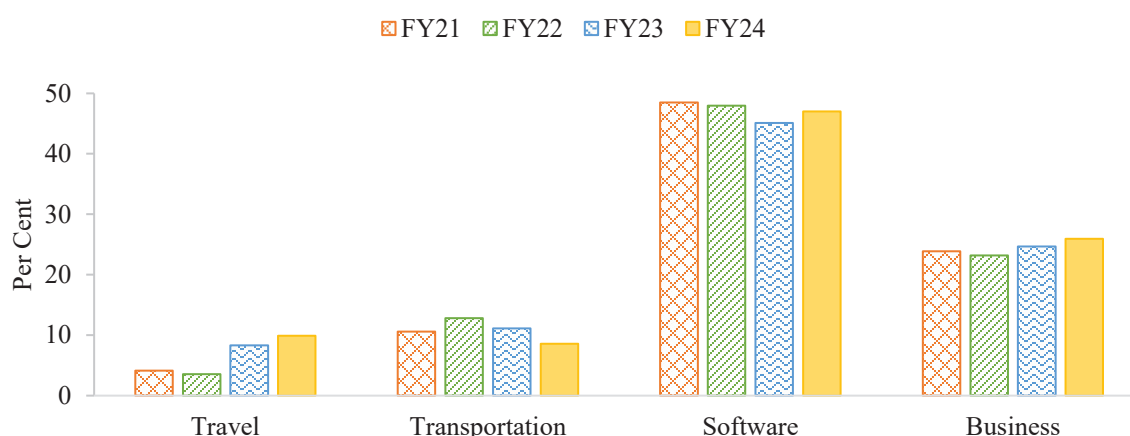
⁶ S&P Global (04 April 2024). HSBC India Services PMI. <https://www.pmi.spglobal.com/Public/Home/PressRelease/5964f1602e374900a1b109fcef7e2f3>

Trade in the services sector

11.10 Over the past three decades, India's export of services has seen remarkable growth, surpassing that of merchandise goods exports and constituting a significant portion of global exports. Post-pandemic, services exports have maintained a steady momentum and accounted for 44 per cent of India's total exports in FY24.

11.11 The weakening of global trade weighed down India's services exports during FY24, with a deceleration in growth to 4.8 per cent from 27.8 per cent a year ago. However, India ranked fifth⁷ in services exports, with other countries being the European Union (excluding intra-EU trade), the United States, the United Kingdom, and China. Computer services and business services exports accounted for about 73 per cent of India's services exports and witnessed a 9.6 per cent growth YoY in FY24. The export of travel services experienced a significant growth of 24.6 per cent YoY, benefitting from the continued recovery in tourism post-pandemic restrictions. On the contrary, transportation receipts declined by 19.1 per cent, primarily induced by a decrease in global freight rates, also reflected by a decline in the average Baltic Dry Index.⁸, which decreased by 3.9 per cent on a YoY basis during FY24.

Chart XI.7: Export contributions of four key sub-sectors within services



Source: RBI Handbook of Statistics on the Indian Economy (Table No.196 - India's Overall Balance of Payments-Quarterly- US Dollars)

Note: Other services not presented in the chart include- Insurance, Government not included elsewhere (G.n.i.e), Miscellaneous, financial and communication services.

11.12 Recently, the growth in the 'other business services' segment has been primarily driven by sectors such as business and management consultancy, public relations, engineering services, advertising, trade fair services and other technical services, including scientific and space services. India's growing reputation as the preferred destination for Global Capability

⁷ World Trade Organization. (2023). World Trade Statistical Review 2023 (Page 63). https://www.wto.org/english/res_e/booksp_e/wtsr_2023_e.pdf

⁸ Baltic Dry Index (BDI) is an index that tracks the price of transporting dry bulk cargo like cement, coal, iron ore, and grain on bulk freighters. As many of these commodities are raw materials that go into the production of finished goods, the BDI is often considered an indicator of economic growth and production. The index is maintained by the London-based Baltic Exchange.

Centres (GCCs) by multinational corporations seeking efficiency gains and reduced business costs has significantly boosted software and business services exports. Over the years, the share of travel and business services has increased while transportation has marginally fallen. Furthermore, the pandemic has catalysed a structural shift in global demand towards digitally delivered services. Consequently, India's share in digitally delivered services exports globally increased to 6.0 per cent in 2023 from 4.4 per cent in 2019.⁹

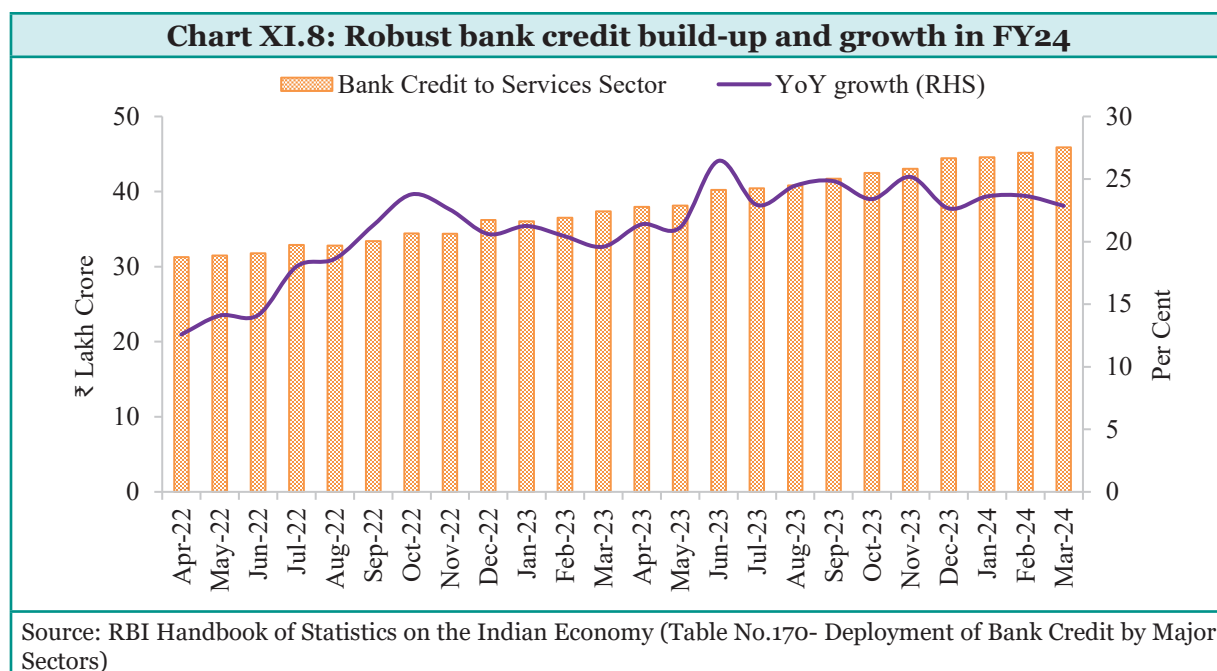
11.13 During FY24, services imports stood at USD 178.3 billion, a 2.1 per cent decrease on a YoY basis, dragged down by a reduction of global freight rates. The rise in services exports, coupled with a fall in imports, led to an increase in net services receipts on a YoY basis during FY24, which helped cushion India's current account deficit.

FINANCING SOURCES FOR SERVICES SECTOR ACTIVITY

11.14 The services sector fulfils its financing needs domestically through credit from domestic banks and capital markets and internationally through Foreign Direct Investment (FDI) and External Commercial Borrowings (ECBs). The following section explores in detail how the services sector secures its financing.

Bank credit

11.15 FY24 witnessed an upward trajectory of credit inflow in the services sector, with YoY growth rates surpassing the 20 per cent mark each month since April 2023. The financial year ended with an outstanding services sector credit of ₹45.9 lakh crore in March 2024, with a YoY growth of 22.9 per cent.¹⁰



⁹ World Trade Organization. (2024). Trade outlook 2024. (Appendix Table 5: Leading exporters of digitally delivered services, 2023) https://www.wto.org/english/res_e/booksp_e/trade_outlook24_e.pdf

¹⁰ RBI's Monetary Policy Report (April 2024) <https://rbi.org.in/Scripts/PublicationsView.aspx?id=22435>

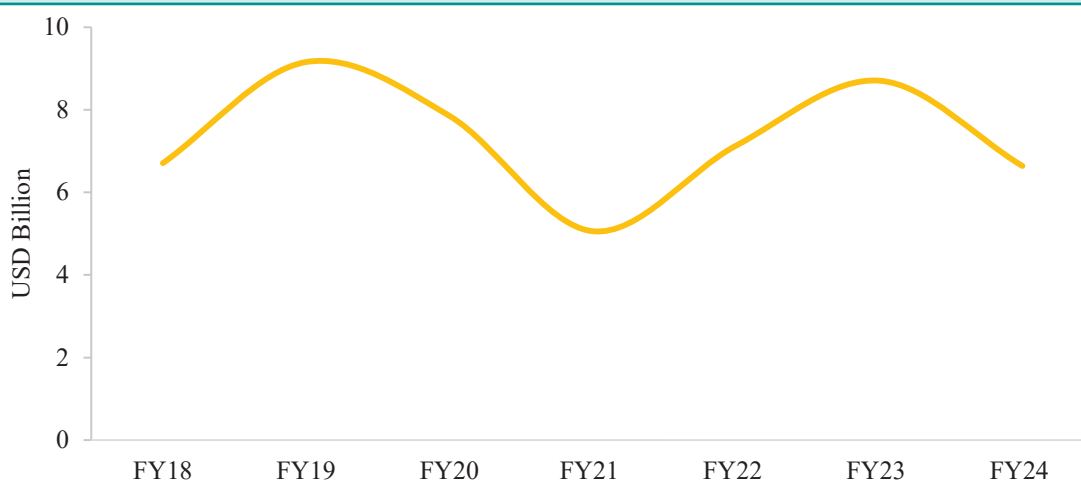
11.16 Credit to the services sector flowed across sub-sectors like transport operators, tourism, hotels and restaurants, aviation, professional services, trade, and commercial real estate. The aviation sector experienced the most significant credit inflow YoY growth of 56 per cent, attributed to increased aircraft leasing, hiring and a positive medium to long-term growth outlook.

External Financing

11.17 The United Nations Conference on Trade and Development (UNCTAD) has published the World Investment Report 2024 (WIR 2024) and has ranked India 15th in terms of FDI inflow (top 20 host economies) for the year 2023. As per the WIR 2024, India is the 2nd largest host country in terms of number of international project finance deals and 4th largest in terms of number of Greenfield project announcements.¹¹

11.18 FY24 witnessed a decline in the FDI equity inflows to the services sector (Chart XI.9), as in the case of the overall FDI equity inflows to India. Higher interest rates, geopolitical conflicts, heightened global uncertainties and rising protectionism that favour domestic sourcing have all contributed to lower FDI inflows into the sector.

Chart XI.9: Moderation in FDI equity inflows in the services sector



Source: Department for Promotion of Industry and Internal Trade (DPIIT) Publication- Quarterly FDI Statistics

Note: (i) The services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Others.

(ii) Values for FY23 and FY24 are provisional.

11.19 The services sector accounted for 53 per cent share in total external commercial borrowing (ECB) inflows in FY24. The sector received inflows of USD 14.9 billion in FY24, thereby registering a YoY growth of 58.3 per cent, as opposed to a growth of 23.3 per cent in FY23.¹²

MAJOR SERVICES: SECTOR-WISE PERFORMANCE

Physical connectivity-based services

11.20 Myriad services are offered to ensure the seamless movement of goods, people, and information across diverse infrastructure networks. Transportation services encompass

¹¹ United Nations Conference on Trade and Development (UNCTAD). (2023). World Investment Report 2023. <https://unctad.org/publication/world-investment-report-2023>

¹² Source: RBI. Data is mapped with the nearest possible industry classification.

a broad spectrum, ranging from passenger transport via trains, buses, taxis, and airlines to freight transport facilitated by shipping companies, freight forwarders, and courier services. Ancillary services such as vehicle maintenance and airport ground handling further complement these transportation offerings. Logistics services are crucial in optimising supply chains. The following sections shed light on services offered in roadways, railways, waterways and airways. It may be noted that the progress in the build-up of physical infrastructure in these sectors is covered in Chapter 12 and not repeated here.

Roadways

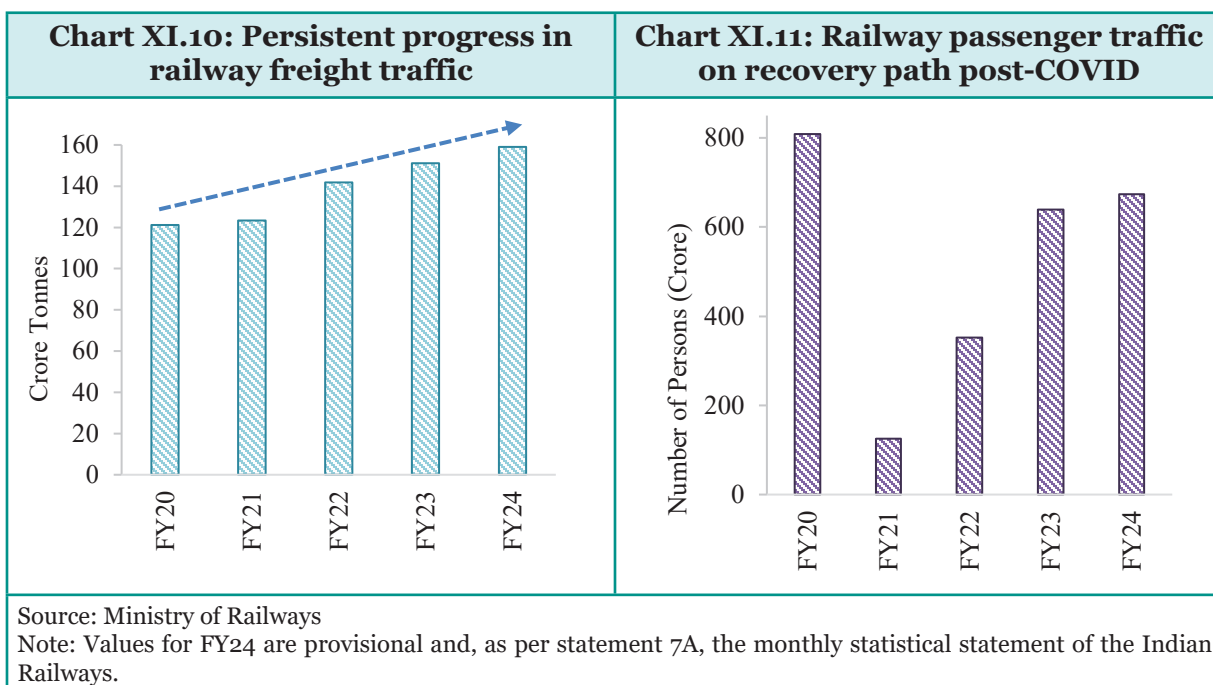
11.21 A considerable portion of India's cargo is transported via road. Accordingly, improving user convenience on National Highways (NH) is pivotal to enhancing overall NH quality. Toll digitisation has drastically reduced waiting times at toll plazas, from 734 seconds in 2014 to 47 seconds in 2024. Initiatives like free flow tolling through Automatic Number Plate Recognition and the Global Navigation Satellite System will enhance tolling efficiency in the future. Ministry of Road Transport and Highways (MoRTH) has also devised a comprehensive '4E' strategy - Engineering (roads and vehicles), Enforcement, Emergency Care, and Education - to elevate road safety standards on NHs. The Government has utilised the PM Gati Shakti National Master Plan portal for network planning and congestion projections, leveraging big data from e-waybills and FASTag to estimate future transportation demand and enhance logistics efficiency. The focus on development of access controlled high-speed corridors has impacted the quality of NH network. The development of expressways and economic corridors is reducing travel time significantly, thereby spurring economic development.¹³ The exceptional improvements in the development of highways are detailed in the section on Road Transport in Chapter 12.

11.22 Roadway services in India face challenges such as continuous ribbon development along highways, slow onboarding of digital land records and long clearance cycles, leading to delays in project execution. However, the Government is proactively addressing these issues by focusing on developing access-controlled national highways and upgrading existing ones. Implementing single-window clearances is crucial for enhancing roadway services' efficiency and effectiveness in India's transportation network. Addressing these challenges will help realise the full potential of road infrastructure.

Indian Railways

11.23 Indian Railways (IR) hosts many services to enhance user experience, efficiently manage the train system and build capacity for a Viksit Bharat. Passenger traffic originating in IR was 673 crore in FY24 (provisional actuals), increasing by about 5.2 per cent compared to the previous year. IR carried 158.8 crore tonnes of revenue-earning freight in FY24 (excluding Konkan Railway Corporation Limited), showing an increase of 5.3 per cent over the previous year. The freight loadings of the railways achieved CAGR of 7.1 per cent from FY20 to FY24, with the special emphasis on capacity addition, new rolling stock and improving operational efficiencies. Further details on IR are mentioned in the section on Rail Transport in Chapter 12.

¹³ PIB release dated 05 January 2024, MoRTH. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1993425>



11.24 To upgrade the passenger experience, railways have introduced Wi-Fi facilities at 6108 stations, bridging the digital divide between rural and urban citizens. Indian Railway Catering and Tourism Corporation's (IRCTC) online ticketing system has emerged as one of the largest e-commerce websites in the country and Asia Pacific, and it is easily accessible through the website, mobile app, and IRCTC authorized agents. The Freight Operations Information System comprehensively manages all facets of freight operations, encompassing booking, electronic demand registration, transfer of railway receipts, and consignment tracking. The Rail Sugam App and Freight Business Development Portal have also been created to enhance customer convenience.

11.25 IR's train management system offers a comprehensive view of trains running with real-time train IDs. It contributes to train punctuality through improved planning and swift responses to emergencies. Maintenance of locomotives, coaches, and wagons has been digitised by applications such as Locomotive Asset Management, Coaching Management System, and Freight Wagon Management System software. The finance system of railways is Information Technology (IT) enabled. Bill passing is entirely electronic, with 99.9 per cent of expenditure and more than 90 per cent of revenue transactions being cashless. IR has digitised its procurement through a comprehensive IT system for material management known as the Indian Railways e-Procurement System and Integrated Material Management System. Railway's Human Resource Management System provides fully automated and centralised payroll, pensions, employee self-service, performance appraisal, pass, eService record, provident fund, etc.

11.26 To build capacity, IR has introduced eight centralised training institutes for its personnel in diverse fields. About 6.5 lakh railway officials have undergone training in FY24. Railways has also developed railway-specific learning content on the iGOT Karmayogi platform, where over 80 per cent of its officials are onboarded, and 12 per cent are currently enrolled in at least one course.

Ports, Waterways and Shipping

11.27 Increased decentralisation of decision-making, integration of professional expertise, and adoption of public-private partnership models have improved effectiveness and strengthened the management of ports. The port sector is leveraging the Sagar Setu application to streamline daily vessel and cargo operations, aspiring to become a central hub for all maritime engagements. Sagar Setu is also integrated with all the 13 major ports of India, along with 22 non-major ports and 28 private terminals.

11.28 There is a push for promoting river cruise tourism on national waterways. The development aimed at cargo ships also benefits tourist vessels, as improved waterways and facilities enhance their operations. Consequently, there has been a staggering 100 per cent surge in overnight cruise trips during FY24. Lighthouses are also emerging as significant tourist attractions. To attract visitors, development works such as museums, amphitheatres, and cafeterias at 75 lighthouses have been undertaken.

Chart XI.12: Sustained increase in shipping tonnage capacity



Source: Ministry of Ports, Shipping and Waterways

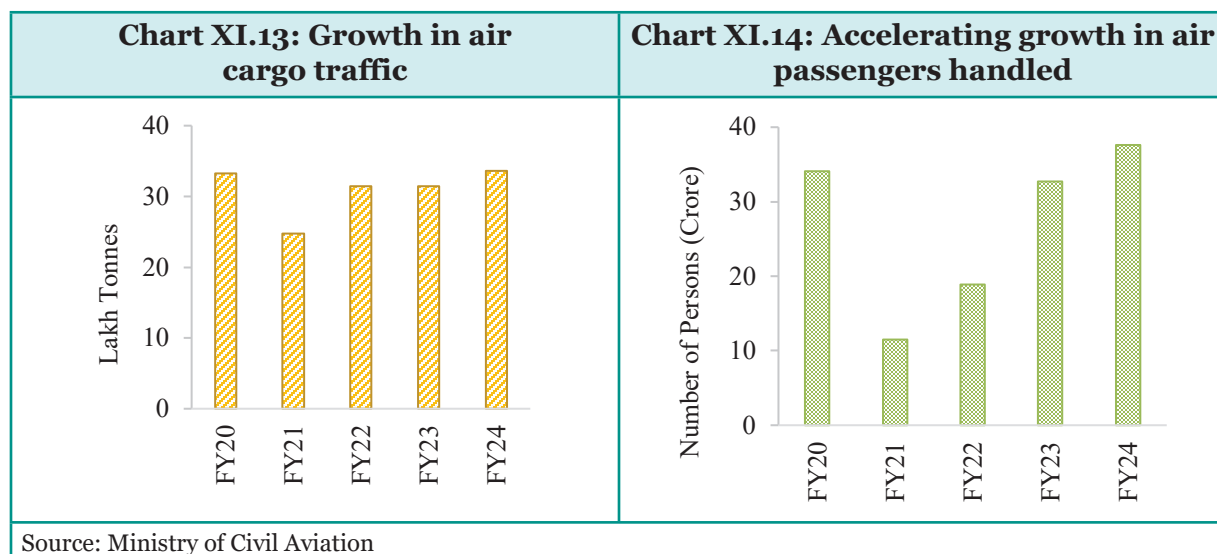
Airways

11.29 India is the third-largest domestic aviation market and one of the fastest-growing major aviation markets globally. The aviation sector in India has shown substantial growth, with a 15 per cent YoY increase in total air passengers handled at Indian airports reaching 37.6 crore in FY24.

11.30 In FY24, the domestic air passenger traffic handled increased by 13 per cent YoY to 30.6 crore, and international air passenger traffic handled increased by 22 per cent YoY to 7 crore. The growth in international traffic was higher than domestic traffic due to the lower recovery of international connectivity in FY23 from the COVID-19 impact. As against a 98 per cent recovery in FY23 for domestic passenger traffic, the international recovery was 86 per cent compared to pre-COVID levels. Air cargo handled at Indian airports increased by 7 per cent YoY to 33.7 lakh tonnes in FY24.

11.31 The civil aviation sector in India has tremendous potential owing to growing demand, increased economic activity, tourism, higher disposable incomes, favourable demographics, and

greater penetration of aviation infrastructure. Progressive government policies further support this growth momentum. The Government has approved 21 greenfield airports nationwide and operationalised new terminal buildings to increase passenger handling capacity backed by a solid capex plan. To promote regional equity, the ‘Ude Desh Ka Aam Nagrik’ (UDAN) scheme¹⁴ launched in 2016 facilitated the travel of over 141 lakh domestic passengers across various 579 Regional Connectivity Scheme routes connecting 85 unreserved and underserved airports since its inception.



11.32 Initiatives like Digi Yatra¹⁵ are enhancing efficiency through technology. Since its launch, more than 2.5 core passengers have benefited from this program. It is to be implemented at all airports in a phased manner.

11.33 The future of aviation services in India is anchored in the growth of the Maintenance, Repair, and Operations sector and the burgeoning drone industry. India aims to become a global drone hub by 2030, supported by liberalised regulations and incentives. Recent progress includes increased training organisations, remote pilot certificates, registered drones, and approved drone models. The promotion of the International Financial Services Centre (IFSC) at GIFT City has facilitated aviation leasing and financing, exemplified by Air India's recent aircraft acquisition. As of 31 March 2024, 27 entities have registered for the aircraft leasing business, and have leased more than 20 aircrafts, indicating the sector's promising outlook.

11.34 Economic growth necessitates the growth of the aviation industry and the need for expanded airport capacity, which, in turn, brings up sustainability concerns and the need for more skilled workers. As per the Directorate General of Civil Aviation, there are approximately 10,000 pilots with various airlines in India.¹⁶ Indian aviation sector stands out positively, with women constituting 15 per cent of the country's pilots, which is almost three times higher than

14 The objective of UDAN scheme is to connect small and medium cities with big cities through air service. Under the UDAN scheme, the airfare for a one-hour journey by a 'fixed wing aircraft' or half an hour's journey by a helicopter for about 500 km, has been fixed at (indexed to) ₹4000.

15 Digi Yatra uses facial recognition to verify passenger identities at various checkpoints, such as check-in, security, and boarding gates, without needing physical documents.

16 PIB release dated 23 March 2023, Directorate General of Civil Aviation (DGCA). <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1909941>

the global average, thus presenting greater opportunities for women in the sector.¹⁷ In the year 2023, a total of 1622 commercial pilot licenses were issued, of which 18 per cent were issued to women. Ministry of Civil Aviation and its associated organisations have taken steps to increase the number of pilots in the country. The Airports Authority of India issued award letters for nine new Flying Training Organisations (FTO) at five airports, namely Belagavi, Jalgaon, Kalaburagi, Khajuraho and Lilabari, in the first phase and six more FTOs at five airports, namely Bhavnagar, Hubballi, Kadapa, Kishangarh and Salem in the second phase.¹⁸ The sector holds significant potential, requiring collaborative efforts between the government, industry stakeholders, and international partners. Investments in infrastructure, skill development, and sustainability initiatives will fuel the future expansion of the aviation sector in India.

Tourism

11.35 The tourism sector in India is rapidly expanding, with India being ranked at the 39th position in the World Economic Forum's Travel and Tourism Development Index (TTDI) 2024.¹⁹ Showing positive signs of revival post-pandemic, the industry witnessed over 92 lakh foreign tourist arrivals²⁰ in 2023, implying a YoY increase of 43.5 per cent. India has significantly earned foreign exchange receipts amounting to over ₹2.3 lakh crore through tourism, indicating a 65.7 per cent YoY increase. India's share of foreign exchange earnings in world tourism receipts increased from 1.38 per cent in 2021 to 1.58 per cent in 2022.

Chart XI.15: Steady progress in India's ranking in International Tourist Arrivals (ITA)

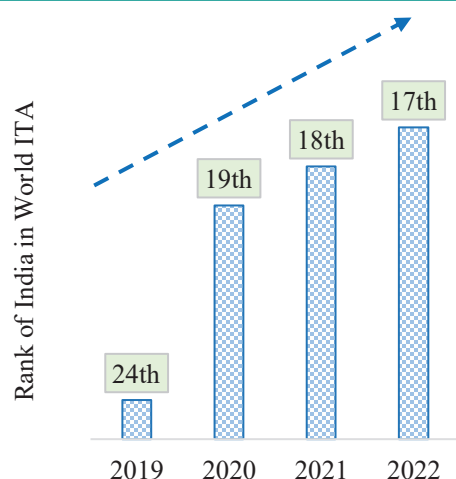
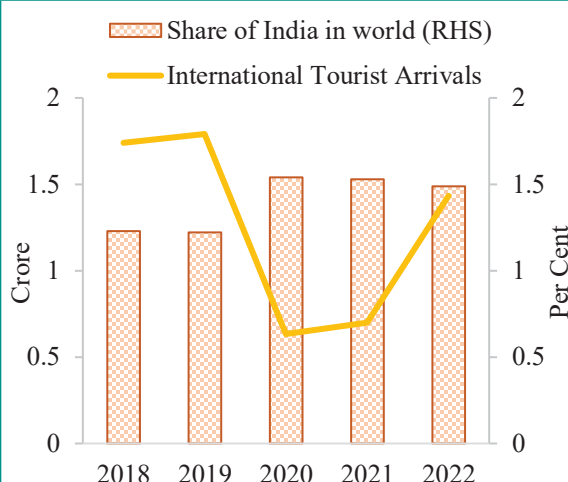


Chart XI.16: Resilient recovery of International Tourist Arrivals (ITA)



Source: Data for 2019 and 2020 is from the Bureau of Immigration Source. Data for 2021 and 2022 is from the UNWTO barometer for January 2024.

Note: (i) For chart XI.15, values for 2021 and 2022 are provisional

(ii) For chart XI.16, the value for 2022 is provisional.

17 PIB release dated 19 January 2024, Prime Minister's Office. <https://pib.gov.in/PressReleasePage.aspx?PRID=1997799>

18 PIB release dated 05 February 2024, Ministry of Civil Aviation. <https://pib.gov.in/PressReleasePage.aspx?PRID=2002542>

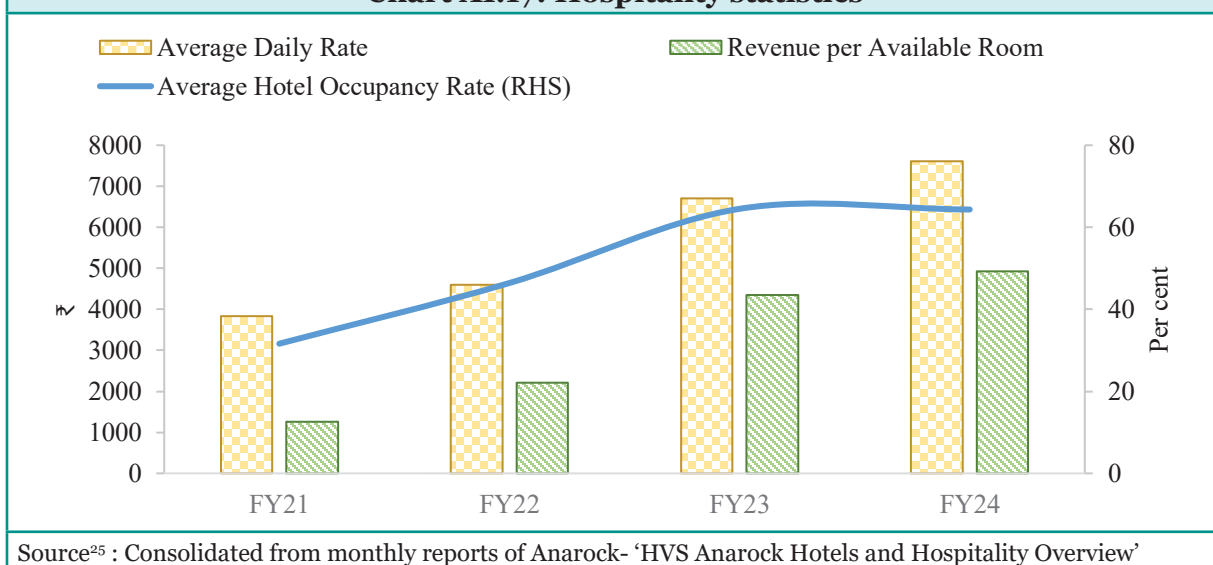
19 World Economic Forum. (2024). WEF Travel and Tourism Development Index 2024. https://www3.weforum.org/docs/WEF_Travel_and_Tourism_Development_Index_2024.pdf

20 As per the UNWTO definition, International Tourist Arrivals (ITAs) comprises two components, namely Foreign Tourist Arrivals (FTAs) and Arrivals of Non-Resident Nationals.

11.36 The hospitality industry has risen to meet the increasing number of tourists' needs and to elevate the overall guest experience. In 2023, the highest amount of new supply was created with the addition of 14,000 rooms, bringing the total inventory of chain-affiliated rooms to 183,000 in India.²¹ Hoteliers are increasingly leveraging technology to personalise guest experiences and improve operational efficiencies. Hotels are also adopting innovative operational strategies, such as leasing or managing external restaurant, spa, and lounge brands, to capitalise on established concepts that attract hotel residents, thereby boosting revenue.²² In FY24, the average daily rate increased from ₹6704 to ₹7616, marking a YoY growth of 13.6 per cent.²³

11.37 India holds enormous potential in expanding tourism, and several government initiatives support the sector's progress. Under the 'Pilgrimage Rejuvenation and Spiritual Augmentation Drive' (PRASHAD)²⁴ scheme, 29 new sites have been identified for tourism infrastructure development, and 12 have been inaugurated. Swadesh Darshan 2.0, focusing on integrated tourism destination development, targets 55 destinations across 32 states and Union Territories. India chaired the first Shanghai Cooperation Organisation (SCO) Tourism Expert Working Group, deliberating on collaborative strategies among SCO member nations. The Ministry organised the 11th International Tourism Mart and Bharat Parv 2023 to promote tourism and cultural exchange. Alongside these efforts, the Government has implemented various measures to support the tourism industry, including policy reforms and infrastructure development.

Chart XI.17: Hospitality statistics



21 Horwath HTL. (February 2024). India Hotel Market Review Report 2023. <https://horwathhtl.com/wp-content/uploads/sites/2/2024/02/India-Hotel-Market-Review-Report-2023.pdf>

22 HotelAssociationofIndia&BenoriKnowledge.Vision2047:IndianHotelIndustry.<https://hotelassociationofindia.com/Vision%202047%20-%20March%2030.pdf>

23 Consolidated from monthly reports of Anarock (HVS Anarock Hotels & Hospitality Overview) from March 2023 to April 2024.

24 This scheme focuses on developing and identifying pilgrimage sites across India for enriching the religious tourism experience. It aims to integrate pilgrimage destinations in a prioritised, planned and sustainable manner to provide a complete religious tourism experience.

25 It is consolidated using monthly reports (HVS Anarock Hotels & Hospitality Overview) from April 2020 to March 2024. Annual averages are calculated using monthly data from the respective months' report.

11.38 The tourism sector has embraced the digital revolution. One such initiative is E-Marketplace, designed to facilitate interactions between tourists and certified tourist facilitators and guides through web and mobile applications. The Union Government, in collaboration with State Governments and Union Territory administrations, is actively working on registering accommodation units nationwide in the National Integrated Database of Hospitality Industry (NIDHI) portal. This database will aid in formulating effective policies and strategies for promoting tourism. Another noteworthy initiative is SAATHI (System for Assessment, Awareness and Training for Hospitality Industry), which aims to prevent further transmission of viruses by educating the hospitality industry on government COVID regulations.

Table XI.1: India ranked 39th in Travel and Tourism Development Index, 2024

Enabling Environment					T&T Policy and Enabling Conditions			Infrastructure and Services			T&T Resources			T&T Sustainability		
Business Environment	Safety and Security	Health and Hygiene	Human Resources and Labour Market	ICT Readiness	Prioritisation of T&T	Openness to T&T	Price Competitiveness	Air Transport Infrastructure	Ground and Port Infrastructure	Tourist Services and Infrastructure	Natural Resources	Cultural Resources	Non-Leisure Resource	Environmental Sustainability	T&T Socioeconomic Impact	T&T Demand Sustainability
3.79	5.06	3.47	2.85	3.84	4.11	4.13	5.66	4.59	4.43	1.6	5.8	5.62	5.05	3.64	4.01	4.55

Source: World Economic Forum's (WEF) Travel and Tourism Development Index (TTDI) 2024 Report²⁶
 Note: T&T – Travel and Tourism

11.39 India's travel and tourism (T&T) sector has been influenced by global inflationary pressures and delays in the recovery of T&T capacity, similar to other economies. However, the decline in price competitiveness since 2021 has been minimal compared to its peers, with only a 0.7 per cent drop. India's decline is particularly slight at just 0.1 per cent from 2021 levels, which reflects the Government's consistent efforts to maintain stability despite the slowdown caused by the COVID-19 pandemic. WEF's TTDI 2024 report emphasizes the need for improvements in tourist services and infrastructure, and the development of a skilled workforce. In a challenging environment for employment generation in services due to the rise of AI and manufacturing due to rising protectionism, transportation costs and supply concerns, the tourism sector represents a relatively low-hanging fruit for job creation. India has to seize the opportunity. To formalise employment within this sector, the Ministry of Tourism has initiated the Incredible India Tourism Facilitator Certificate Programme²⁷. This program aims to create a skilled cadre of tourist facilitators nationwide through a digital platform that offers online learning opportunities and certification courses.²⁸

²⁶ World Economic Forum (May 2024)- Travel and Tourism Development Index (TTDI) 2024. https://www3.weforum.org/docs/WEF_Travel_and_Tourism_Development_Index_2024.pdf

The scores assigned to the 17 pillars mentioned in the table are calculated based on data derived from the Executive Opinion Survey (the Survey) and quantitative data from other sources. The survey data ranges in value from 1 (worst) to 7 (best) and Quantitative data indicators are normalised to a 1-to-7 scale in order to align them with the Executive Opinion Survey's results.

²⁷ Link of the website - <https://iitf.gov.in/>

²⁸ PIB release dated 21 July 2024, Ministry of Tourism. <https://pib.gov.in/PressReleasePage.aspx?PRID=1843507>

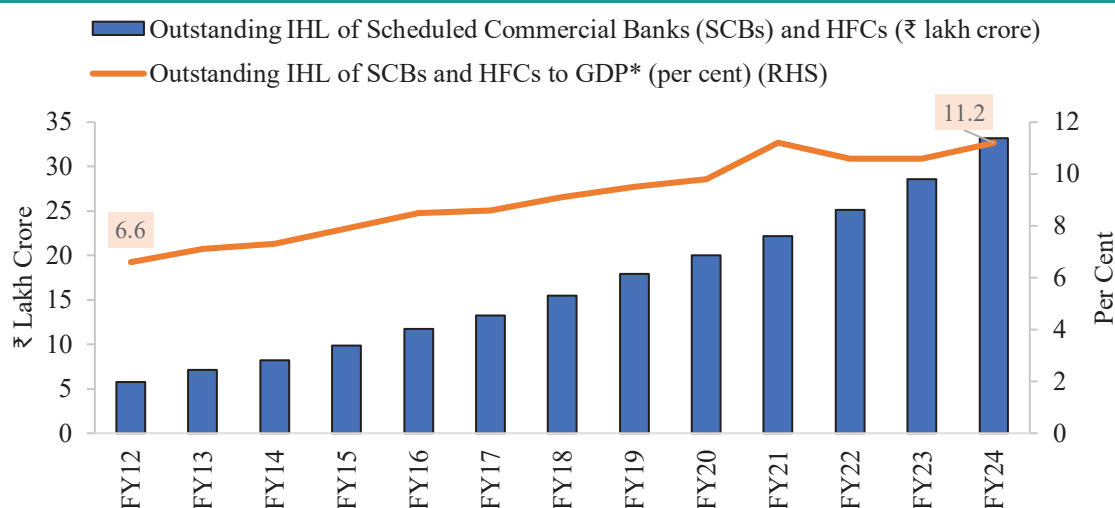
Real Estate

11.40 Real estate and ownership of dwellings have accounted for over seven per cent of the overall GVA in the past decade, highlighting their integral role in the economy. Following two challenging years of pandemic-induced lockdowns and economic instability, the real estate sector has experienced a robust recovery. The pandemic has shifted homebuyers' preferences toward larger, sustainable spaces with additional amenities, driven by remote and hybrid working trends. This shift has also spurred interest in peripheral areas close to city centres. Factors contributing to the sector's growth include rapid urbanisation, rising income levels, the emergence of nuclear families, new entrants in the market, and improved financial options for developers and homebuyers. The strong desire for home-ownership was reinforced during the pandemic, acting as a catalyst.

11.41 In 2023, residential real estate sales in India were at their highest since 2013, witnessing a 33 per cent YoY growth, with a total sale of 4.1 lakh units in the top eight cities. The new supply witnessed an all-time high, with 5.2 lakh units launched in 2023, as against 4.3 lakh units in 2022. The momentum continued in Q1 of 2024, witnessing record-breaking sales of 1.2 lakh units, clocking a robust 41 per cent YoY growth. New supply has consistently exceeded one lakh units since Q2 of 2022, underscoring persistent demand-supply dynamics in the housing market.²⁹

11.42 Further, the rising demand for housing loans reflects the underlying demand for real estate. Housing loans as a percentage of GDP increased from FY12 to FY24 (Chart XI.18). Traditionally, banks have been the most significant players in the housing finance sector. However, Housing Finance Companies (HFCs) have significantly contributed to this landscape over the years. They played a complementary role with banks in providing housing credit to the bottom of the pyramid. The share of outstanding housing loans as a percentage of total loans of HFCs stood at 70.8 per cent as of 31 March 2024.

Chart XI.18: Increase in Individual Home Loans (IHL)



Source: RBI & National Housing Bank (NHB)

*Note: GDP at current prices is considered.

²⁹ PropTiger. (04 January 2024). New home sales record 33% YoY growth in 2023: PropTiger.com report. <https://www.proptiger.com/guide/post/new-home-sales-record-33-yoy-growth-in-2023-proptiger-com-report>

11.43 The housing sector's growth has been due to several key factors. The Pradhan Mantri Awas Yojana-Urban (PMAY-U), launched in 2015, has sanctioned over 1.2 crore houses for urban beneficiaries, ensuring durable housing. Policy reforms like the Goods and Services Tax, Real Estate (Regulation and Development) Act, and the Insolvency and Bankruptcy Code have boosted transparency and investor confidence in real estate. Initiatives like the Affordable Housing Fund and Special Window for Affordable and Mid-Income Housing (SWAMIH) Investment Fund have supported affordable housing projects. PMAY(U)-Credit Linked Subsidy Scheme interest subvention has been a primary demand-side driver, with the National Housing Bank (NHB) releasing ₹49,460.1 crore in subsidies benefiting over 21.1 lakh households by March 2024. The co-lending model, combining bank liquidity with HFCs', aims to extend housing credit to a broader segment, including low-income groups. The Urban Infrastructure Development Fund, managed by NHB with an initial corpus of ₹10,000 crore, is expected to improve urban infrastructure, attracting real estate investment.

Box XI.2: Building Trust: How RERA is Reshaping Real Estate

The Real Estate (Regulation & Development) Act, 2016 (RERA), was enacted to bring about much-needed reform in India's real estate sector. The main objective of RERA is to encourage greater transparency, citizen-centricity, accountability, and financial discipline, thus empowering home buyers and boosting the economy. All States/ Union Territories (UTs) have notified rules under RERA except Nagaland, which is in the process of notifying the rules.

Key measures and outcomes from RERA's implementation

- **Developer Accountability:** Developers frequently failed to deliver promised project features, layouts, and amenities, thereby misleading homebuyers. RERA now mandates an 'Agreement to Sale' at the time of registration and requires two-thirds consent from allottees/homebuyers for any layout changes. RERA also specifies provisions for refund, compensation, and penalties applicable to all stakeholders in cases of obligation contraventions.
- **Fair Transactions:** Before RERA was enacted, there were many cases of builders not delivering flats or homes despite full payments from homebuyers. To address this, under RERA, it is mandated that 70 per cent of funds collected from homebuyers for a project must be maintained in a separate bank account dedicated to project construction and land costs.
- **Disclosures and Mandatory Registration:** RERA has also made it mandatory for developers and project promoters to make all necessary disclosures about projects, including permissions secured from authorities, date of launch, promised date of delivery, project specifications, and amenities.³⁰ Further, homebuyers' interests are protected as only the projects (above 500 square metres and above eight apartments) registered with RERA can be launched, thereby obviating the possibility of any misrepresentation or false promises by the developers.³¹ As of 01 July 2024, over 1,30,186 real estate projects and 88,461 real estate agents have been registered under RERA.

30 PIB release dated 12 October 2018, Ministry of Housing and Urban Affairs. <https://pib.gov.in/PressReleasePage.aspx?PRID=1549548>

31 PIB release dated 01 November 2021, Ministry of Housing and Urban Affairs. <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2021/nov/doc202111121.pdf>

- **Dispute Resolution:** RERA provides for the establishment of a fast-track dispute resolution mechanism for the settlement of disputes. As of 01 July 2024, 32 States and UTs have set up the Real Estate Regulatory Authority, and 1,24,947 complaints have already been disposed of.

After the enactment of RERA, India is ranked 36th in the Global Real Estate Transparency Index in 2022.

11.44 The outlook for the real estate sector is encouraging. With increasing urbanisation, the housing industry is poised for a significant transformation. As per the United Nations, by 2050, half of India's population is projected to dwell in urban regions, compared to 31 per cent in 2011.³² This underscores the need to adapt strategies and policies to meet the rising demand for housing and offer viable, cost-effective, sustainable solutions.

11.45 Digitisation of land records is poised to improve transparency in land transactions, diminish property ownership conflicts, and enhance the efficiency of land management. Implementing a single-window clearance system for construction approvals will also accelerate construction processes, minimising delays and uncertainties. The streamlining of approvals is set to consolidate and systematise India's residential real estate sector further.

11.46 The legacy stalled real estate projects is a challenge. Approximately 4.1 lakh stressed dwelling units, involving ₹4.1 lakh crore, are affected, as estimated by the Indian Banks' Association (IBA). The Ministry of Housing and Urban Affairs (MoHUA) established a committee to recommend solutions for completing stalled projects to address this issue.³³ The committee identified the primary cause of stress as lack of financial viability, resulting in cost overruns and delays. Its recommendations include mandatory project registrations with RERA, execution of registration and sub-lease deeds for occupied units, ensuring possession of substantially completed projects, proposing state government rehabilitation packages for promoter-led resolutions, establishing frameworks for RERA and administrator-led project revivals, financing stalled projects, and utilising IBC as a last resort for resolving projects.

11.47 According to a report by Crisil, the housing loan market in India grew at a CAGR of approximately 13 per cent from FY18 to FY23. It is expected to continue growing at a CAGR of 13 to 15 per cent reaching ₹42 lakh crore to ₹44 lakh crore by FY26. NHB has introduced a Residential Mortgage-Backed Securities (RMBS) platform to address funding options limitations. This platform aims to attract long-term resources from diverse investor groups, including Pension Funds and Insurance Funds, to support the expansion of housing finance and deepen the debt market for primary mortgages. The RMBS platform will help reduce asset-liability mismatches for lending institutions, ensuring adequate liquidity in the housing finance sector.

32 United Nations. (2018). World Urbanization Prospects: The 2018 Revision – Highlights (Page 23). <https://population.un.org/wup/Publications/Files/WUP2018-Highlights.pdf>

33 Ministry of Housing and Urban Affairs. (July 2023). Report of the Committee to examine the issues related to legacy stalled real estate projects. [https://mohua.gov.in/upload/uploadfiles/files/report\(1\).pdf](https://mohua.gov.in/upload/uploadfiles/files/report(1).pdf)

11.48 Going forward, the demand for housing is expected to be driven by affordability and increased access to credit. As of March 2024, the shares of Southern, Western and Northern states in the individual housing loans outstanding are 35.4 per cent, 31.2 per cent and 26.2 per cent, respectively. The Eastern States at 6.9 per cent and the eight North-eastern and Hilly states combining to 0.95 per cent share present an opportunity for undertaking initiatives for improving penetration.

11.49 Sustainability and technology have emerged as significant disrupters for the real estate sector. Sustainability will influence green construction practices and energy-efficient designs, while technology will revolutionise smart homes and data-driven insights. With more significant environmental concerns, the focus will be on energy-efficient systems, rainwater harvesting and smart building technologies.

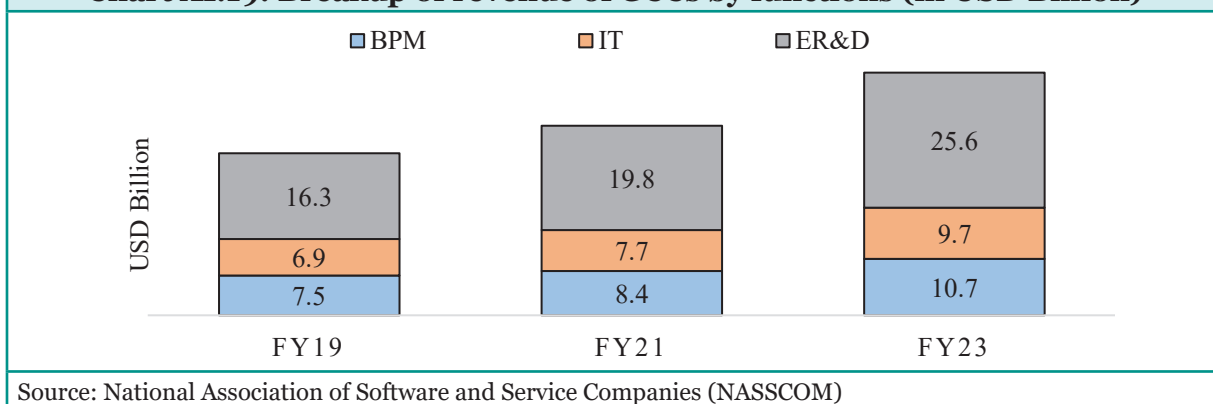
Information Technology Services, Tech start-ups and Global Capability centres

Information Technology (IT) services

11.50 Over the past decade, information and computer-related services have become increasingly significant, with their share of total GVA rising from 3.2 per cent in FY13 to 5.9 per cent in FY23. Despite the pandemic-induced economic downturn, this sector achieved a real growth rate of 10.4 per cent in FY21. The COVID-19 pandemic expedited the advancement and uptake of technology-driven solutions, fuelling the growth of this sector. The IT and IT-enabled services have been instrumental in maintaining the country's external balance through export earnings, which are set to increase further. The flourishing growth of IT services has also supported the expansion of Global Capability Centres (GCCs) and the tech start-up ecosystem in India.

Global Capability Centres

11.51 Global Capability Centres (GCCs) in India have grown significantly, from over 1,000 centres in FY15 to more than 1,580 centres, with over 2,740 units by FY23. These centres contribute to economic growth by providing high-quality employment. In FY23, the total talent employed in Indian GCCs exceeded 16.6 lakh. Of this workforce, over 42 per cent are engaged in engineering, research, and development (ER&D), 34.5 per cent in business process management (BPM), and 23.4 per cent in IT services. The software, internet and banking, financial services, and insurance (BFSI) sectors collectively account for about 58 per cent of India's IT GCC talent. Revenue from India's GCCs has increased from USD 19.4 billion in FY15 to USD 46 billion in FY23, growing at a compound annual growth rate (CAGR) of 11.4 per cent.

Chart XI.19: Breakup of revenue of GCCs by functions (in USD Billion)

11.52 As per National Association of Software and Service Companies (NASSCOM), the key drivers for the growth of ER&D in India include strategic long-term partnerships, extensive digitalisation, and the adoption of cloud technologies. The IT services segment has expanded due to increased demand for application modernisation, cloud migration, platform development, and enhanced cybersecurity measures. The BPM sector in Indian GCCs has grown by transitioning from traditional services to more intelligent operations and data-driven solutions.

11.53 The technology sectors are dynamic and continually evolving, making them lucrative for employees and businesses. IT positions remain among the most in-demand roles in the global job market. Despite the high demand, these sectors are experiencing a talent gap, with a shortage of IT, data science, and cybersecurity workers. As per a survey³⁴, for Q3 2024, 76 per cent of IT employers reported difficulty in finding the skilled talent required globally. To incentivise GCCs in India, promoting specialisations in higher education is essential. Focus areas should include Blockchain, Artificial Intelligence (AI), Machine Learning, Internet of Things, Cybersecurity, Cloud Computing, Big Data Analytics, Augmented Reality, Virtual Reality, 3D Printing, and Web and Mobile Development.

11.54 Several initiatives are in place to bridge the talent gap. Conceived as a first-of-its-kind initiative, 'Future Skills PRIME', which is a joint initiative by Ministry of Electronics & Information Technology (MeitY) and NASSCOM, aims to create an up-skilling and re-skilling ecosystem in focus areas to facilitate the continuous enhancement of skills of IT professionals in line with their aspirations and aptitude.³⁵ The Government initiated a Digital Skilling program in emerging and future technologies, aiming to skill, reskill, and upskill one crore students through internships, apprenticeships, and employment opportunities.³⁶ Pradhan Mantri Kaushal Vikas

³⁴ ManpowerGroup. (2024). Global Employment Outlook: Third Quarter 2024. https://go.manpowergroup.com/hubfs/GLOBAL_EN_MEOS_Report_3Q24.pdf

The ManpowerGroup Employment Outlook Survey is a forward-looking employment survey used globally as a key economic indicator. The Survey is based on interviews with 40,374 public and private employers across 42 countries and territories to measure anticipated employment trends each quarter.

³⁵ PIB release dated 29 October 2021, MeitY. <https://pib.gov.in/PressReleasePage.aspx?PRID=1767604>

³⁶ PIB release dated 06 June 2022, Ministry of Education. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1831624>

Yojana (PMKVY 4.0) focuses on skill development among youth, offering training in cutting-edge fields such as Industry 4.0³⁷, AI, robotics, mechatronics, Internet of Things, and drones.³⁸

Technology start-ups in India

11.55 The COVID-19 pandemic fuelled consumer and enterprise demand for technology-backed solutions. The number of technology start-ups in India rose remarkably from around 2,000 in 2014 to approximately 31,000 in 2023. As per NASSCOM, the sector witnessed the inception of roughly 1000 new tech start-ups in 2023.

11.56 The top sectors for start-ups in 2023 were EdTech (16 per cent), EnterpriseTech (12 per cent), BFSI (10 per cent), Advertising and Marketing (7 per cent), RetailTech (6 per cent), Media and Entertainment (5 per cent), ConsumerTech (5 per cent), Professional services (4 per cent) and Gaming (4 per cent).

11.57 Several factors have contributed to the rise of start-ups in various sectors. Changes in consumption patterns and increased internet penetration paved the way for retail tech start-ups. The BFSI sector saw a surge in start-ups starting in 2016, driven by significant events such as the introduction of UPI. The demand for scalable and efficient cloud solutions led to the growth of Software as a Service (SaaS) start-ups, resulting in 21 unicorns since 2014. The COVID-19 pandemic accelerated growth in sectors like HealthTech and EdTech, spurred by the increased need for tele-consulting and remote learning solutions.

11.58 As per NASSCOM, India's tech start-up ecosystem ranks third globally and has performed considerably better than the USA and the UK.³⁹ The strength of the Indian tech start-up ecosystem lies in its large pool of start-ups, unicorns, and ability to scale. With 16 per cent of the world's AI talent, India positions itself as an innovation hub, showcasing rapid adoption of AI skills.

11.59 The Start-up India Initiative and Start-up hubs across ministries and departments of the Government of India have aided the growth of tech start-ups. Some other significant initiatives are the National Deep Tech Start-up Policy, the Drone Shakti Program and custom duty exemptions for EV-related capital goods and machinery. Targeted efforts undertaken to tap this start-up potential further are elaborated below.

- **Accelerating and strengthening the deep-tech ecosystem:** As of 31 March 2024, there are more than 1.25 lakh DPIIT-recognized start-ups spanning across all sectors of the economy, out of which there are over 13,000 start-ups that cover sectors like AI, Internet of Things, Robotics, and Nanotechnology. The draft National Deep Tech Start-up Policy (NDTSP)⁴⁰ is a comprehensive framework to tackle deep tech start-ups' challenges.

³⁷ Industry 4.0 is a term given to the current trend of automation, interconnectivity and data exchange in manufacturing technologies to increase productivity.

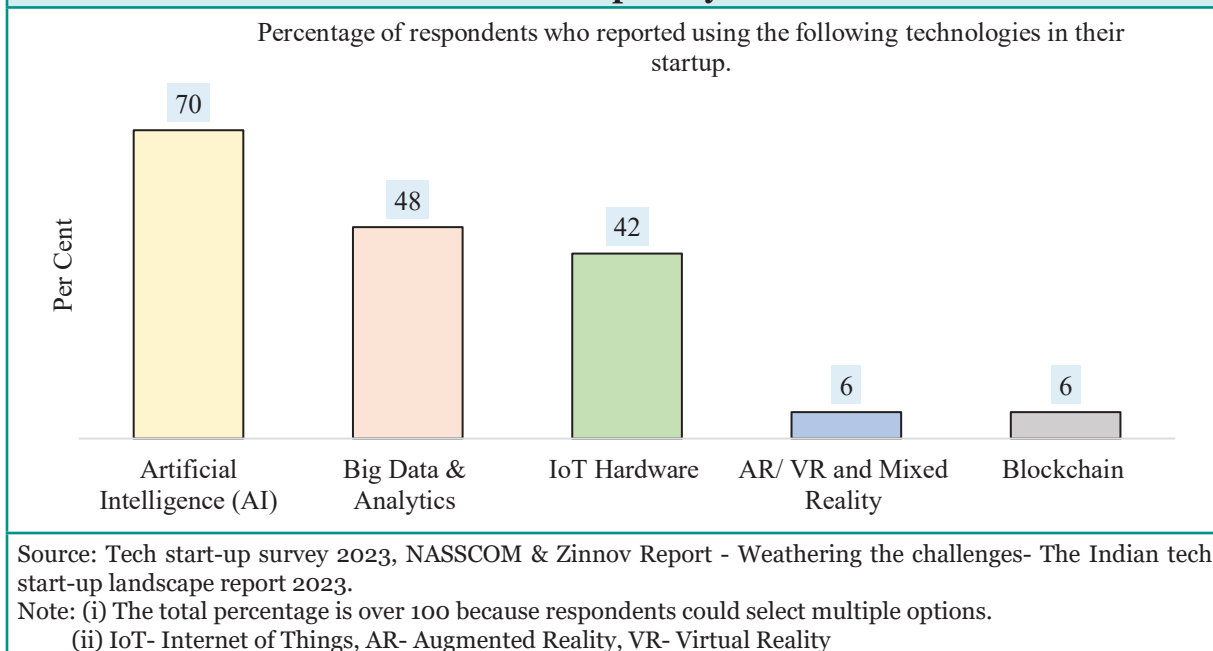
³⁸ PIB release dated 26 December 2023, Ministry of Skill Development and Entrepreneurship. <https://pib.gov.in/PressReleasePage.aspx?PRID=1990495>

³⁹ NASSCOM & Zinnov (2023). Weathering the challenges -The Indian tech start-up landscape report 2023. <https://www.nasscom.in/knowledge-center/publications/weathering-challenges-indian-tech-start-landscape-report-2023>

⁴⁰ Draft National Deep Tech Start-up Policy 2023 (Page 3). <https://psa.gov.in/CMS/web/sites/default/files/process/NDTSP.pdf>

The policy addresses vital barriers such as limited funding, resource and infrastructure constraints, and understanding the risks associated with cutting-edge technologies. It intervenes by designing funding mechanisms that embrace the concept of ‘failing by design’, conducting funding awareness programs for start-up founders to diversify their funding sources, establishing a centralised core mission office to streamline approval processes and facilitate intellectual property protection, fostering awareness in Tier 2 and 3 cities, and designing a monitoring mechanism based on mapping key performance indicators.

Chart XI.20: DeepTech usage is becoming mainstream in India’s tech Start-up ecosystem



- Strengthening domestic capital flow:** The Government has established a Fund of Funds for Start-ups with a corpus of ₹10,000 crores to meet the funding needs of start-ups. It has not only made capital available for start-ups at an early stage, seed stage and growth stage but also played a catalytic role in facilitating the raising of domestic capital, reducing dependence on foreign capital and encouraging homegrown and new venture capital funds. Recognising the importance of early-stage support for enterprise growth, the Start-up India Seed Fund Scheme, launched in 2021, aims to provide financial assistance to start-ups for proof of concept, prototype development, product trials, market-entry, and commercialisation.⁴¹
- Leveraging initiatives such as Start-Up India:** The Start-up India initiative helps connect the Indian start-up ecosystem to global start-up ecosystems. Start-up India has engaged in several bilateral and multilateral forums to build cross-border knowledge exchange systems and facilitate cross-border incubation and acceleration programs.⁴²

41 PIB release dated 29 March 2023, Ministry of Commerce & Industry. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1911913>

42 Department for Promotion of Industry and Internal Trade (DPIIT). States' start-up ranking 2022 (Page 25). https://www.startupindia.gov.in/srf-2022/SRF_2022_Result_page/National_Report_14_01_2024.pdf

Telecommunications

11.60 Telecommunication is the gateway to the fast-paced growth of digital services in India. The overall teledensity (number of telephones per 100 population) in India increased from 75.2 per cent in March 2014 to 85.7 per cent in March 2024.⁴³ The number of wireless telephone connections stood at 116.5 crore at the end of March 2024. The Government has placed considerable emphasis on the growth of internet and broadband as part of the Digital India campaign. As a result, internet subscribers jumped from 25.1 crore in March 2014 to 95.4 crore in March 2024, of whom 91.4 crore are accessing the internet via wireless phones. The internet density also increased to 68.2 per cent in March 2024. The cost of data has declined substantially, vastly improving the average wireless data usage per subscriber.

11.61 5G services were first launched in India in October 2022. Currently, India is amongst the fastest-growing 5G networks in the world. After the launch of 5G services, India's international rank in mobile broadband speed has improved from 118 to 15 (March 2024). The '5G Test Bed', dedicated to the nation in 2022, provides an end-to-end testing facility, enabling R&D teams in Indian academia and industry to validate their products, prototypes, and algorithms and demonstrate various services. The Bharat 5G Portal propels India's 5G capabilities and fosters innovation, collaboration, and knowledge-sharing within the telecom sector.

11.62 Based on the recommendations of the Technology Innovation Group on 6G, the Bharat 6G Vision document was launched in March 2023 to develop and deploy 6G network technologies in India. It also led to the constitution of Bharat 6G Mission and an Apex Council to lay down the Phase-wise objectives of the 6G Mission. The Bharat 6G Alliance was also launched in July 2023 as a collaborative platform of public and private companies, academia, research institutions and standards development organisations to enable India to become a leading global supplier of IP, products and solutions of affordable 5G, 6G and other future telecom solutions.

11.63 The Amended BharatNet Program is now being rolled out to provide broadband connectivity to all Gram Panchayats in the country. As of 31 March, 2024, 6,83,175 kilometers of Optical Fibre Cable (OFC) has been laid, connecting a total of 2,06,709 Gram Panchayats (GPs) by OFC in the BharatNet phase I & II.

11.64 The Government has also implemented multiple structural and procedural reforms to promote healthy competition, reduce the regulatory burden on telecom service providers, and protect consumers' interests. These include rationalising the definition of adjusted gross revenue, spectrum-related reforms like allowing sharing and trading of spectrum and rationalising spectrum usage charges, permission for 100 per cent foreign direct investment in the telecom sector under automatic route subject to safeguards, etc. The Telecommunications Act 2023 amends and consolidates the laws relating to telecommunication services and telecommunication networks, assignment of spectrum, etc.

11.65 Telecommunication technology development requires significantly large and patient capital for R&D and commercialisation. To address this, the Government has decided that

⁴³ Press Release No.36 dated 04 July 2024. Telecom Regulatory Authority of India https://www.trai.gov.in/sites/default/files/PR_No.36of2024.pdf

an allocation of 5 per cent of annual collections from the Universal Services Obligation Fund⁴⁴ (USOF) would be made available for funding R&D in the telecom sector. The Telecom Technology Development Fund formulated in 2022 has seen significant participation from start-ups, MSMEs, academia and industry.

11.66 New courses have been suggested to align engineering programs in electronics and communications with evolving needs in the industry. Skill courses related to 5G and 5G-enabled technology have been approved by the National Council for Vocational Education and Training (NCVET). All India Council for Technical Education (AICTE) has also included 5G as a thrust area in the AICTE Training and Learning Academy scheme for the faculty development program.

11.67 Sanchar Saathi portal⁴⁵, launched in May 2023, is a citizen-centric initiative to empower mobile subscribers, strengthen their security and increase awareness. Sanchar Saathi portal has several components, including the Chakshu facility, launched in March 2024, to report suspected fraud communications. Based on complaints received, appropriate actions are being taken.

E-Commerce

11.68 The Indian e-commerce industry is expected to cross USD 350 billion by 2030. The Indian retail market is largely unorganised. However, over the next 3 to 5 years, the share of modern retail (including e-commerce) will increase to 30-35 per cent of the total retail.⁴⁶

11.69 India's e-commerce market has gained significant momentum during the past few years owing to technological advancements, evolving new-age business models coupled with government initiatives like the Digital India program, UPI, One District - One Product (ODOP) initiative, Open Network for Digital Commerce (ONDC), new foreign trade policy, relaxation in FDI limits and Consumer Protection (E-Commerce) (Amendment) Rules 2021. At the heart of the rapid expansion of e-commerce is the diversity of benefits the e-marketplace offers sellers and consumers compared to traditional brick-and-mortar markets.

11.70 The rise of e-commerce is constrained by inadequate skills required for online selling, such as cataloguing. Data privacy issues and increasing online fraud have turned out to be the most significant hurdle in the growth of e-commerce in India. It becomes imperative to educate users on the safe use of e-commerce platforms. For starters, the Government has implemented several initiatives to ensure the safe use of e-commerce platforms. Key regulations include the Consumer Protection (E-Commerce) Rules, 2020, to safeguard consumers from unfair trade practices in e-commerce and the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021, ensuring digital platform accountability. The Digital Personal Data Protection Act, 2023 provides a comprehensive data protection framework, further safeguarding consumer information.

44 The Universal Service Obligation Fund (USOF) aims to provide quality and affordable mobile and digital services across the rural and remote areas of the country, allowing non-discriminatory access to mobile and network services along with equitable access to knowledge and information dissemination, leading to rapid socio-economic development with improved standard of living.

45 Link of the website - <https://sancharsaathi.gov.in/>

46 Invest India. E-commerce: Fastest growing e-commerce market in the World. <https://www.investindia.gov.in/sector/retail-e-commerce>

11.71 To raise awareness, the Government runs the Jago Grahak Jago campaign, providing consumers with information on their rights and safe e-commerce practices. The National Consumer Helpline (NCH) offers guidance and resolves consumer grievances.⁴⁷ Various consumer awareness programs, including digital literacy workshops and cyber safety sessions, are organised in collaboration with NGOs and educational institutions. Additionally, interactive sessions and webinars with experts and officials keep consumers informed about the latest trends and safety measures in the e-commerce sector.

11.72 The buyer ecosystem in India is evolving at a very sharp rate, and business models will need to innovate to serve the needs of a diverse shopper base regarding service expectations, price sensitivity and language requirements. Local language platforms are needed as the shopper base expands to tier-2 and tier-3 cities. Growing start-ups and innovative social media platforms provide an opportunity to test unique business models that might be targeted to specific demographic cohorts.⁴⁸ E-commerce's future is built on the enhanced user experience through AI, seamless digital payment methods, innovations like UPI, and business engineering data analytics for business operations and enhancements. Further, platforms such as ONDC and Government e-Marketplace (GeM) increase the outreach of e-commerce capabilities.

Box XI.3: ONDC- Democratising Digital Commerce

Open Network for Digital Commerce (ONDC) is a pioneering initiative of the Department for Promotion of Industry and Internal Trade, aimed to democratise digital commerce and enable small businesses to capitalise on the benefits of digital commerce by creating a level playing field. The ONDC network is premised on the fundamentals of unbundling and making various components of digital commerce interoperable. ONDC started in January 2022 and rapidly expanded its twin domains of mobility and food and beverage to various domains like grocery, fashion, beauty and personal care, home and kitchen, on-network logistics, agriculture, gift cards, Farmer Producers Organisations (FPOs) and artisanal works.

Growth Map of ONDC

68 million Transactions since inception	1200+ Cities	65 Seller Applications	12 Logistic Service Providers
85% Small sellers	535,000+ Sellers	9 million Transactions per month	22 Buyer Applications

Update of Key Domains

- **Food and Beverage:** The network offers cost-effective benefits to restaurant partners, easing the burden of high fees charged by dominant aggregators. During Q4 FY24, there was an 18 per cent rise in orders owing to a strong network of over 95,000 restaurants

47 PIB release dated 06 December 2023, Ministry of Consumer Affairs, Food & Public Distribution. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1983226>

48 Bain & Company. (13 December 2023). How India Shops Online 2023. <https://www.bain.com/insights/how-india-shops-online-2023/#>

and top brands serving 347 cities. Big names like Tata Neu, Dominos, and Ola have added food services to their apps, while others like MagicPin and PayTM focus on competitive pricing and special deals. The network is expanding its reach by training 350 street food vendors in Delhi-NCR and Lucknow.

- **Grocery:** In Q4 FY24, a growth of 52 per cent in grocery orders was achieved, facilitated by a network of 12,585 sellers catering to over 665 cities. Leading players such as Paytm and Otipy are investing in advanced digital storefronts and QR code technology. Collaborations with brands like Catch are enhancing product offerings, which currently include 6.3 million stock-keeping units (SKUs). Initiatives such as Kiko Live are actively digitising local Kirana stores, supported by major corporations like Hindustan Unilever Limited and ITC, who are advancing strategies to digitise 1.3 million Kirana stores on the ONDC platform.
- **Fashion, Beauty and Personal Care:** Q4 of FY24 witnessed a growth of 11 per cent on the back of more than 6400 sellers, offering an extensive choice of over 15 Lakh SKUs in about 900 cities. During the quarter, prominent brands such as Jockey, Kalyan Silk, Bella Vita and Emami Beauty joined the network.
- **Agriculture:** The ONDC Network holds promise in substantially improving the livelihoods of farmers and artisans. Around 5,700 FPOs have joined the network so far, with them collectively doing more than 23,000 transactions during Q4 of FY24. National Agriculture Market (eNAM) and Small Farmers' Agri-Business Consortium's (SFAC) digital applications have also been integrated into the network.

Digitally Empowered Inclusive Stories

- Sri Vidhya Handlooms in Kanchipuram, Tamil Nadu, transitioned to digital commerce via ONDC. This family-owned business expanded its reach to 54 cities and increased its product listings from 20 to 400 digital catalogues. Monthly revenues rose to nearly ₹2 lakh, compared to previous earnings of ₹10,000 to ₹20,000 on mainstream platforms. Lower commission rates on ONDC enhanced profitability.
- ONDC has empowered over a million women across 76 SHGs, including the Mann Deshi Foundation and Kudumbashree, facilitating over 1,200 orders. Innovative marketing and sustainable practices supported rural employment. The average order volume and revenue margins increased by 46 per cent.
- KalpNil Naturals in Maharashtra, produces cold-pressed oils and transitioned to ONDC in April 2023. With 13 SKUs listed, the brand expanded to 44 cities and generated ₹2.5 lakh in revenue by September 2023. The founder emphasised ONDC's role in boosting profit margins by eliminating intermediaries, significantly enhancing business growth.
- Namma Yatri, a ride-hailing platform integrated with ONDC, eliminates commissions and operates on a subscription fee. Launched in collaboration with the Auto Rickshaw Drivers' Union in Bengaluru, it increased driver earnings and reduced cancellation rates.

CHALLENGES AND OPPORTUNITIES

11.73 This section summarises the challenges and growth opportunities that cut across different segments of services, presented in different sections above.

- The rapid digitisation in the services sector necessitates a skilled workforce to keep pace with technological advancements. However, there is a gap in the availability of workers with relevant digital and high-tech skills. The Government has been focusing on skill development initiatives through programs like Skill India and the National Education Policy to equip the workforce with the necessary skills. Upskilling in the technology sector via an ecosystem fostered by government initiatives in collaboration with industry can help India emerge as a high-value partner specialising in areas such as cybersecurity, enterprise management, financial risk management and insurance.
- In recognition of the importance of logistics and transport services for economic activity, several initiatives have been undertaken to ease infrastructure bottlenecks, logistics costs, and regulatory compliances. Additionally, leveraging India's extensive coastline and river network for enhanced services such as port operations and inland waterways promises significant potential to streamline transportation routes, reduce costs, and improve efficiency. The Netherlands boasts Europe's densest network of inland waterways, covering approximately 6,000 kilometres of rivers and canals. These waterways serve various purposes, including drainage and navigation. Key commercial routes (Class IV and higher), totalling 2,200 kilometres, handle about 40 per cent of international freight movements and 20 per cent of domestic freight within the country.⁴⁹ Kerala's use of its backwaters for tourism, commerce, and transportation, particularly the Kochi Water Metro, which is expected to benefit 33,000 islanders, highlights the potential of inland waterways.⁵⁰ Adopting similar strategies nationwide can enhance India's inland water transport system, support sustainable growth, and ease congestion.
- Accessing finance can pose difficulties, particularly for small and medium enterprises operating in the services sector.⁵¹ Several initiatives, such as Mudra Yojana, Start-up India and Stand-up India, have been implemented to ease credit accessibility. Building on these efforts, focusing on streamlining loan processes, expanding the outreach of credit guarantee schemes, adopting alternative credit appraisal methods, and innovating supply chain financing can further augment credit flow to the sector. Governments at appropriate levels may also set up agencies to assist in project documentation and to improve the bankability of projects.
- The regulatory landscape in the services sector, which used to be complex, is undergoing positive transformations. Initiatives like GST simplification, Start-up India, and sector-specific policies such as the Real Estate (Regulation and Development) Act are fostering a more conducive business environment. Further enhancing the simplification of procedures

49 World Canals. Netherlands. Retrieved on 30 June 2024, from <http://worldcanals.org/english/netherlands.html#:~:text=About%206000km%20of%20rivers%20and,Rhine%20Canal%2C%20completed%20in%201953>

50 Kochi Water Metro. Retrieved on 30 June 2024, from <https://watermetro.co.in/about>

51 International Finance Corporation. Financing India's MSMEs - Estimation of Debt Requirement of MSMEs in India (Page 65). <https://www.ifc.org/content/dam/ifc/doc/mgrt/financing-india-s-msmes-estimation-of-debt-requirement-of-msmes-in-india.pdf>

through single-window systems, streamlining legal provisions, and digitising government processes at all administrative levels can significantly boost economic efficiency.

- Data privacy and cybersecurity have become critical concerns with the increasing digitisation of services. Given this, the Government is spearheading data protection laws and cybersecurity policies to safeguard consumer data and strengthen cybersecurity measures in the services sector. To further embrace technology with confidence, ensuring the adoption of strong security measures, compliance with privacy regulations, and fostering innovation in security technologies are essential.

CONCLUSION AND WAY FORWARD

11.74 Historically, India's services sector has thrived on low-cost offerings. The digitisation of services, coupled with appropriate policy nudges, kept progressively transforming the nature of service delivery almost irreversibly during the early part of the last decade. This trend accelerated post the pandemic. Another distinct pattern that emerged during the last three years is that the contact-intensive business and personal services—prominently trade, transport, real estate and their ancillary services — that underwent a steep decline during the pandemic are recovering, embedding greater technology and digital content in them. At the same time, India's services exports are diversifying beyond software to include Human Resources (HR), legal, and design services in line with emerging global demands. Thus, two significant transformations are reshaping India's services landscape: the rapid technology-driven transformation of domestic service delivery and the diversification of India's services exports.

11.75 The country is emerging as a hub for Global Capability Centres. Domestically, start-ups drive innovation, improving access to credit, raw materials, and markets. Aided by the deep technology ecosystem and the consistent policy push, many technology start-ups are digitising manufacturing and other services. The embedded service content of the non-service economic activities has increased significantly, as evidenced by the National Accounts Statistics. The post-production value addition in activities is also increasingly dependent on services like e-commerce, innovative packaging and advertisement and modern logistics services.

11.76 As India looks forward to creating millions of jobs by 2030, dovetailing this transformation in the demand-supply dynamics of services is pivotal to meeting the hiring requirements in the medium term. The emerging job demands in the services sector entail greater and more focussed skills. The World Economic Forum's report⁵² highlights an increasing focus on cognitive abilities (like complex problem-solving and creative thinking), digital literacy, and proficiency in AI and big data. This shift underscores the strategic imperative for businesses and the workforce to adapt to technological advancements and meet global market demands. Focus areas should include blockchain, AI, machine learning, Internet of Things, cybersecurity, cloud computing, big data analytics, augmented reality, virtual reality, 3D printing, and web and mobile development. Thus, the immediate task of the skilling programme in India is to

⁵² World Economic Forum. (2023). WEF Future of Jobs 2023 (Page 7). https://www3.weforum.org/docs/WEF_Future_of_Jobs_2023.pdf

plan and equip itself to meet these requirements adequately. A report by Capital Economics argues that AI could lead to a slowing down of India's services export growth, cutting it by 0.3-0.4 percentage points a year over the next decade.⁵³ This only underscores the importance of the relatively less skill-dependent tourism sector for employment generation. Therefore, public policy should pay particular attention to boosting the tourism sector. Governments at all levels and the private sector must work together to realise the sector's potential.⁵⁴

11.77 In the short run, tentative global economic outlook and commodity price uncertainties present a serious challenge to input costs and demand for services⁵⁵. Thus, sustaining positive demand trends and effectively managing rising costs and competitive pressures will be critical for the services sector's continued growth and resilience in the upcoming year. The post-pandemic dynamism shown by the economy and the services sector, in particular, should help transcend these uncertainties and challenges.

53 The Economist (24 June 2024). Will services make the world rich? <https://www.economist.com/finance-and-economics/2024/06/24/will-services-make-the-world-rich>

54 Hotel Association of India & Benori Knowledge. Vision 2047: Indian Hotel Industry (Page 29). <https://hotelassociationofindia.com/Vision%202047%20-%20March%2030.pdf>

55 As per the latest Supply and Use Tables for 2019-20 published by the Central Statistics Office, bulk of the inputs used in the production of services in India originate from commodity-producing (agricultural and industrial) sectors. So, pressure on commodity prices can significantly affect the input cost of services and, hence, their demand.

