

SERVICES: NEW CHALLENGES FOR THE OLD WAR HORSE

The service sector has been fuelling growth both domestically and globally. In FY25 so far, services propped up GDP growth when manufacturing has been affected by dampening global merchandise trade. The critical role of services exports in strengthening India's external balance and the increasing 'servicification' of the industrial sector adds to its importance to the Indian economy. Logistics services have regained their pre-pandemic momentum and are enhancing the user experience through digitisation. India continues to be an important partner in the changing global technology landscape through the adoption of digital technologies in business processes. Initiatives such as Open Network for Digital Commerce (ONDC) are making these transformations more inclusive. Equipping the labour force with requisite skills and creating an enabling environment through simple and transparent processes of grassroots level governance will go a long way in realising the full potential of commercial services and building resilience to global headwinds.

INTRODUCTION

8.1 Services value added accounts for about 62 per cent of the global GDP¹. Services have been the growth engine for middle-income countries like China, Thailand, and India in the last decade. Presently, the Euro area is reeling under a slowdown but is expected to improve in 2025 on the back of improving services activity. However, higher nominal wage growth compared to pre-pandemic wage growth has kept service inflation high. This has caused the current cycle of global disinflation to slow down².

8.2 The Global Services PMI Business Activity Index rose to a four month high of 53.8 in December 2024. This signals expansion for the twenty-third consecutive month. Growth of new order intakes and employment also strengthened, while business sentiment edged higher³. However, global supply chains continue to face significant disruptions due to geo-political uncertainty, i.e., the rise of protectionism, wars, and

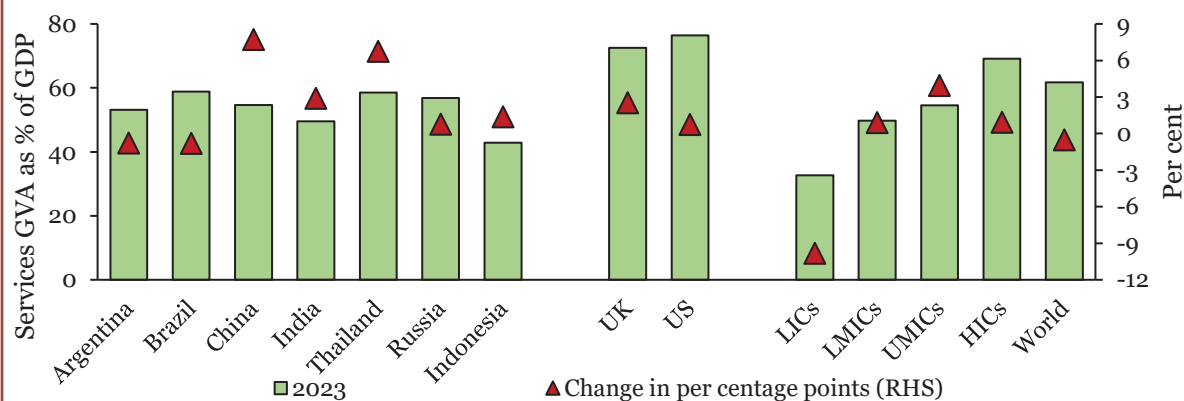
¹ World development indicators - World Bank

² The IMF World Economic Outlook, October 2024

³ S&P Global. (2025, January 6). JP Morgan Global Composite PMI. Retrieved from <https://www.pmi.spglobal.com/Public/Home/PressRelease/f94e193ddf214de5bdfa79062611f26c>

climate-related challenges. These disruptions in supply chains pose a risk to the global services landscape.

Chart VIII.1: Services value added as per cent of GDP in 2023 and decadal change



Source: World development indicators - World Bank

Note: LICs-Low income countries, HICs-High income countries, LMICs-Lower middle income countries, UMICs-Upper middle income countries

8.3 India's share in global services exports has been steadily rising for the last two decades. This has helped compensate the impact of oscillation in the share of merchandise exports in global merchandise exports to some extent. In 2023, the United States led global services exports with a dominant 13 per cent share, followed by the United Kingdom with 7.4 per cent, Germany with 5.5 per cent and Ireland, China, and France, each accounting for approximately 5 per cent. India ranks seventh globally, representing a 4.3 per cent share in the global services export.

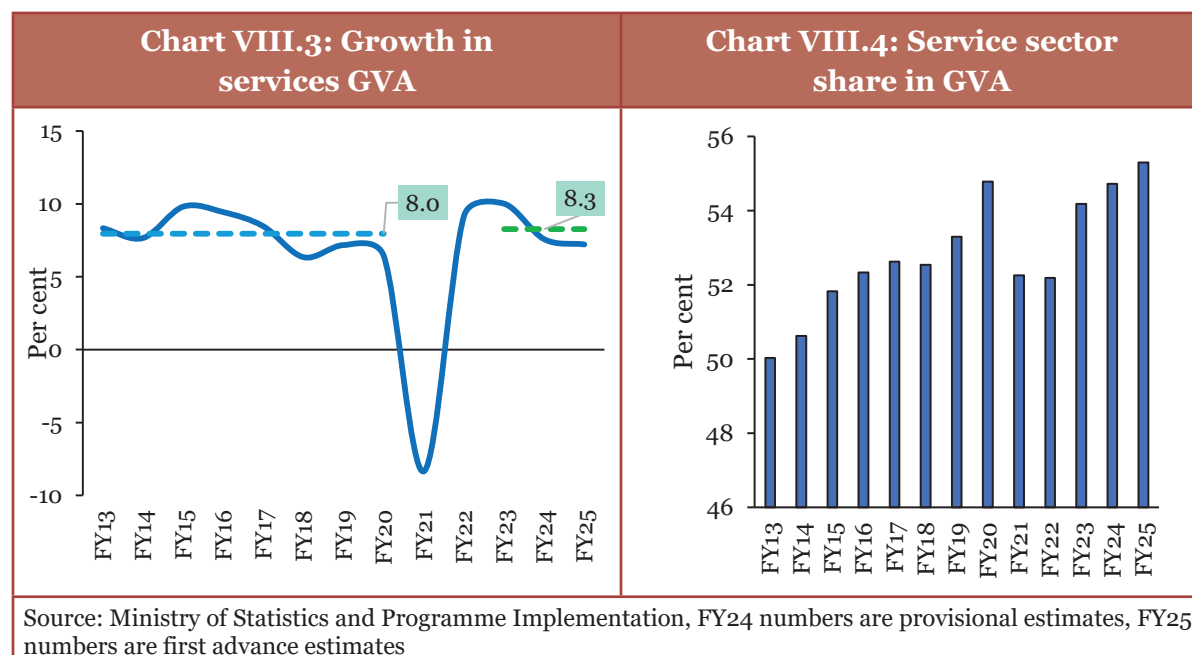
Chart VIII.2: India's share in global services and merchandise exports



Source: United Nations Conference on Trade and Development

SERVICES SECTOR PERFORMANCE IN INDIA

8.4 India's services sector has been the steadiest contributor to the gross value added (GVA) in the economy. Its contribution to the total GVA at current prices has increased from 50.6 per cent in FY14 to about 55 per cent in FY25. It also provides employment to approximately 30 per cent of the workforce. Services also contribute indirectly to the GDP through the servicification of manufacturing, i.e., increasing utilization of services in manufacturing production and post-production value addition⁴.



8.5 The growth in the service sector, as measured by YoY change in the real GVA by services, has been above six per cent in each year in the last decade, except for the Covid-19 pandemic that affected FY21. The average services growth rate before the pre-pandemic year was eight per cent. The average services growth in the post-pandemic year i.e. FY23 to FY25 has risen to 8.3 per cent.

8.6 The service sector is divided into the following sub-sectors: (i) trade, repair, hotels and restaurants, (ii) transport, storage, communication & services related to broadcasting, (iii) financial services, (iv) real estate, ownership of dwelling & professional services, (v) public administration and (v) other services.

8.7 Within the service sector, public administration services have accounted for a share in the range of 11-12 per cent of the total services GVA during FY13 to FY23. Information and computer related services had the maximum buoyancy among the

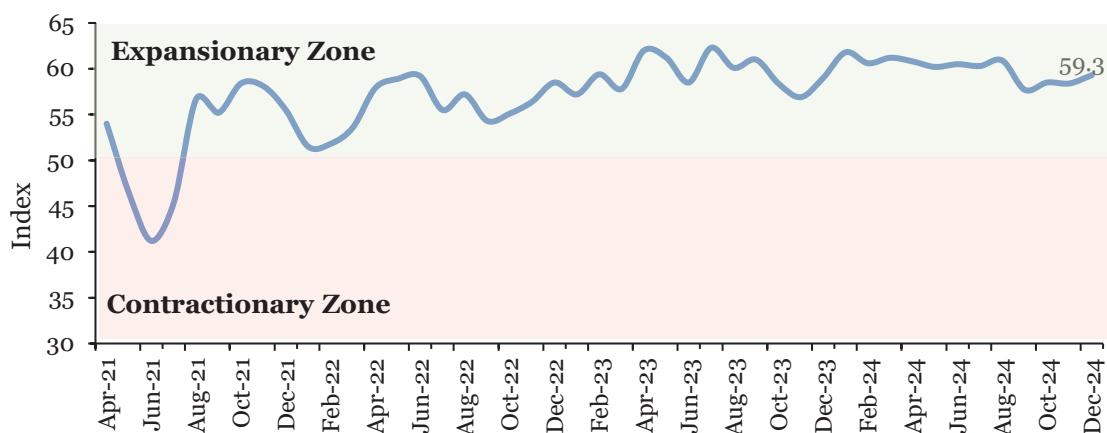
⁴ Pant, S., & Chakraborty, D. (2024). Is service orientation benefitting manufacturing exports from low-middle income countries? Firm-level empirical evidence from WBES data [Working Paper]. Indian Institute of Foreign Trade (IIFT)

services during the last decade (FY13 to FY23) which grew at a trend rate of 12.8 per cent during the last decade and stepped up its share in overall GVA from 6.3 per cent in FY13 to 10.9 per cent in FY23. This service has shown outstanding resilience both during and after the pandemic.

Purchasing manager's index (PMI)- services

8.8 HSBC's India services PMI shows that the service sector remained in the expansionary zone for continuous 41 months since August 2021. The index remained above the 60 mark for the first five months of FY25. However, in September, the index witnessed a ten-month low, but it quickly rebounded in October. The recent data⁵ indicates demand buoyancy continued to drive new business inflows higher, which in turn supported output growth and prompted firms to recruit additional workers. Finance & insurance registered strongest increases in both new orders and business activity at the sub-sector level.

Chart VIII.5: PMI services stay strong in FY25, backed by strong fundamentals



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.

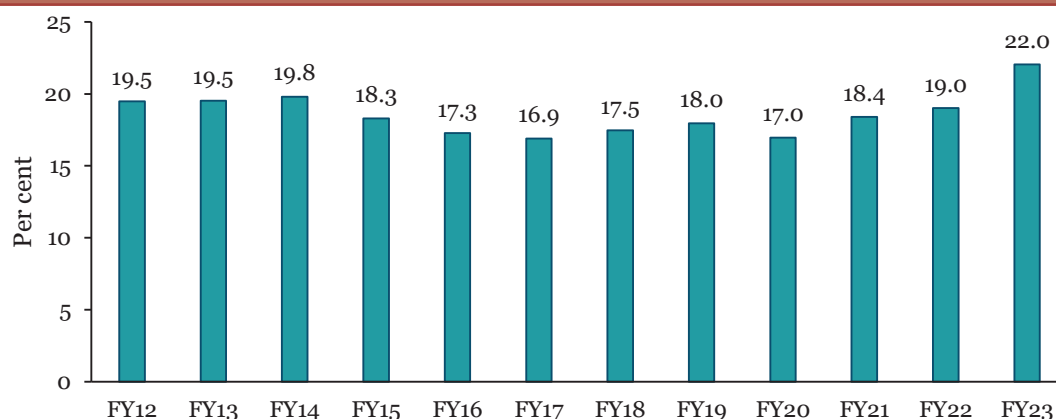
Trade in the services

8.9 The export of services grew at a trend rate of 11 per cent during FY14 to FY23, at constant prices. Computer services and business services exports account for around 70 per cent of India's services exports. India remained amongst the top five major countries in terms of growth in services exports in FY25 (April-September)⁶. India's services export growth accelerated to 12.8 per cent in April-November FY25 from 5.7 per cent in FY24. In April-November FY25, services imports grew by 13.9 per cent, in contrast to a decline of 2.9 per cent during the same period in FY24.

⁵ HSBC PMI Services report for December 2024

⁶ WTO Stats

Chart VIII.6: Services exports as per cent of services GVA (net of public administration)

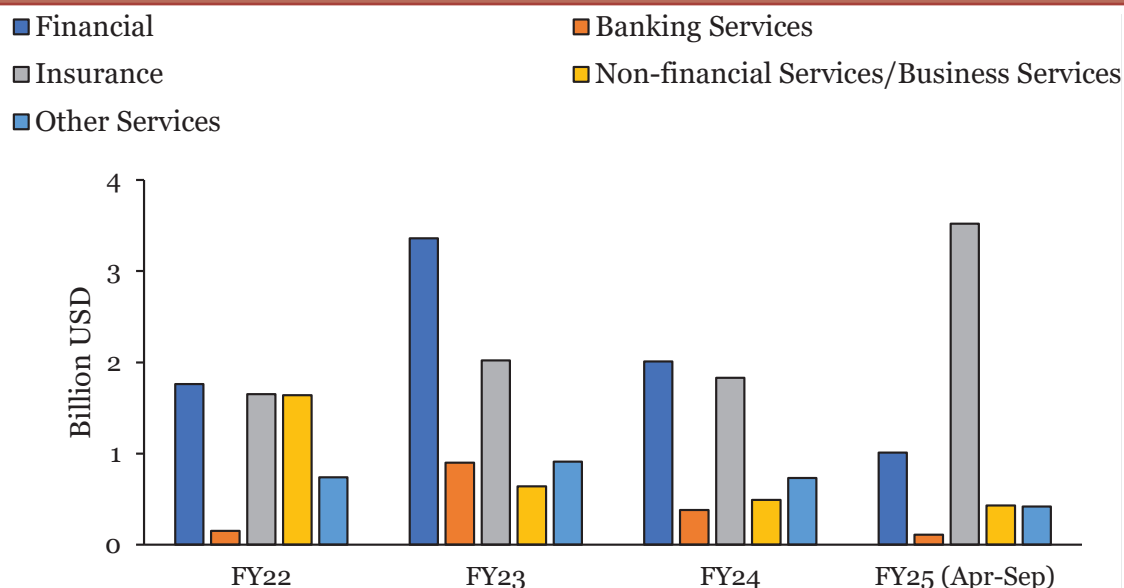


Source: Ministry of Statistics and Programme Implementation

SOURCES OF FINANCING: BANK CREDIT AND FDI

8.10 Total outstanding bank credit⁷ to services sector stands at 48.5 lakh crore as of November 2024. The YoY growth in the credit to the services sector was recorded at 13 per cent. Within the service sector, computer software and professional services recorded the highest YoY credit growth at 22.5 and 19.4 per cent respectively.

Chart VIII.7: FDI inflow within the service sector



Source: DPIIT, FY25 numbers are provisional

8.11 FDI equity inflows⁸ stood at USD 29.8 billion in FY25 (April- September), while the services sector witnessed USD 5.7 billion inflow in the same period. In FY25 (April-

⁷ RBI's Sectoral Deployment of Bank Credit – November 2024, https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59430.

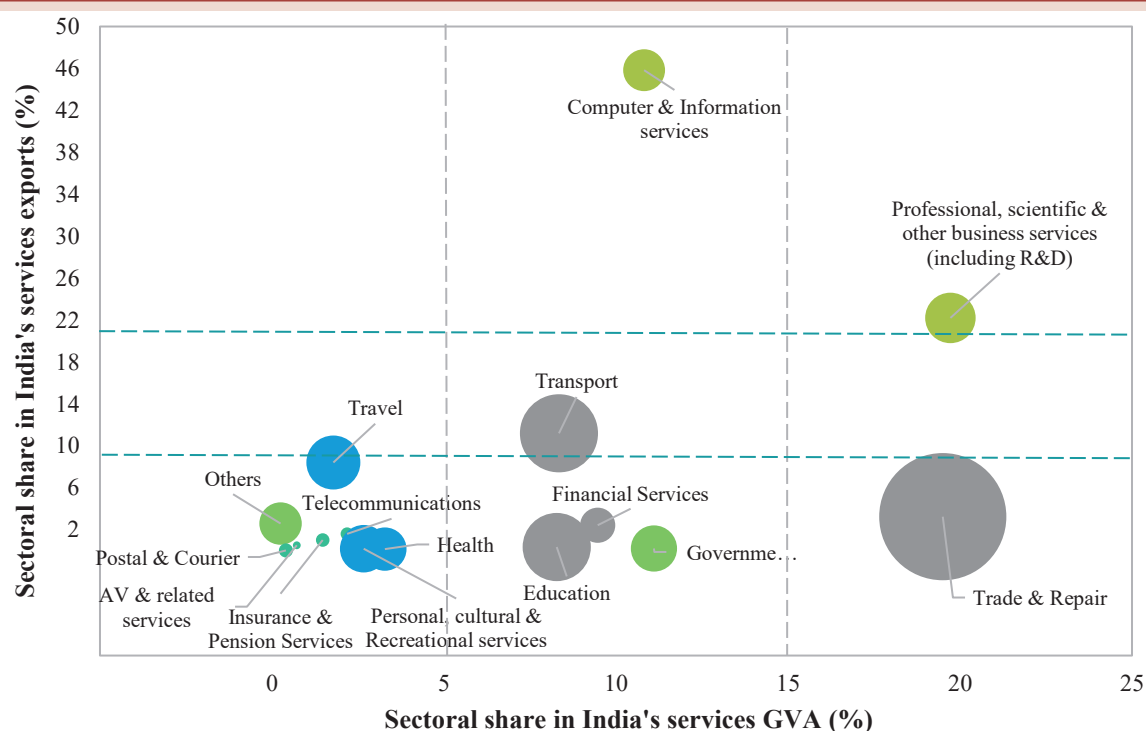
⁸ Quarterly Fact Sheet on FDI Inflow, <https://dpiit.gov.in/sites/default/files/FDI%20Factsheet%20September%202024.pdf>

September)⁹, insurance services received the highest FDI inflows of over 62 per cent, followed by the financial sector, which received over 18 per cent of the total FDI equity inflows to the services sector.

Box: VIII.1: Strategy for services – multi-dimensional analysis

NITI Aayog working paper on “Identifying Potential Service Sub-Sectors: Insights from GVA, Exports, and Employment Data” studies the potential of services in transforming the Indian economy from various dimensions such as the contribution to output /value added, employment and exports. Based on the analysis of the performance of the various service sub-sectors on these key dimensions, services are classified into four categories each with its own set of policy recommendations: defend, accelerate, transform, and untapped.

Chart VIII.8: Sectoral share of services sector in terms of GVA, exports and employment



Note: *Bubble size represents sectoral share in India's services sector employment. Construction services have been excluded from services exports, while real estate services (employment and GVA) are included under 'Other Business Services'. This sector is not considered due to challenges in mapping it within the GVA and employment dimensions. Based on data from RBI (exports), PLFS (employment) and MoSPI (GVA)

● Sectors to defend ● Sectors to accelerate ● Sectors to transform
 ● Untapped sectors ● Other sectors

Sectors to defend

sectors with high export & GVA, low employment share	computer & information services, professional, scientific & other business services
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Sectors to accelerate

sectors with low-moderate export, moderate-high GVA & employment share	trade & repair, transport, education, financial services
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Sectors to transform

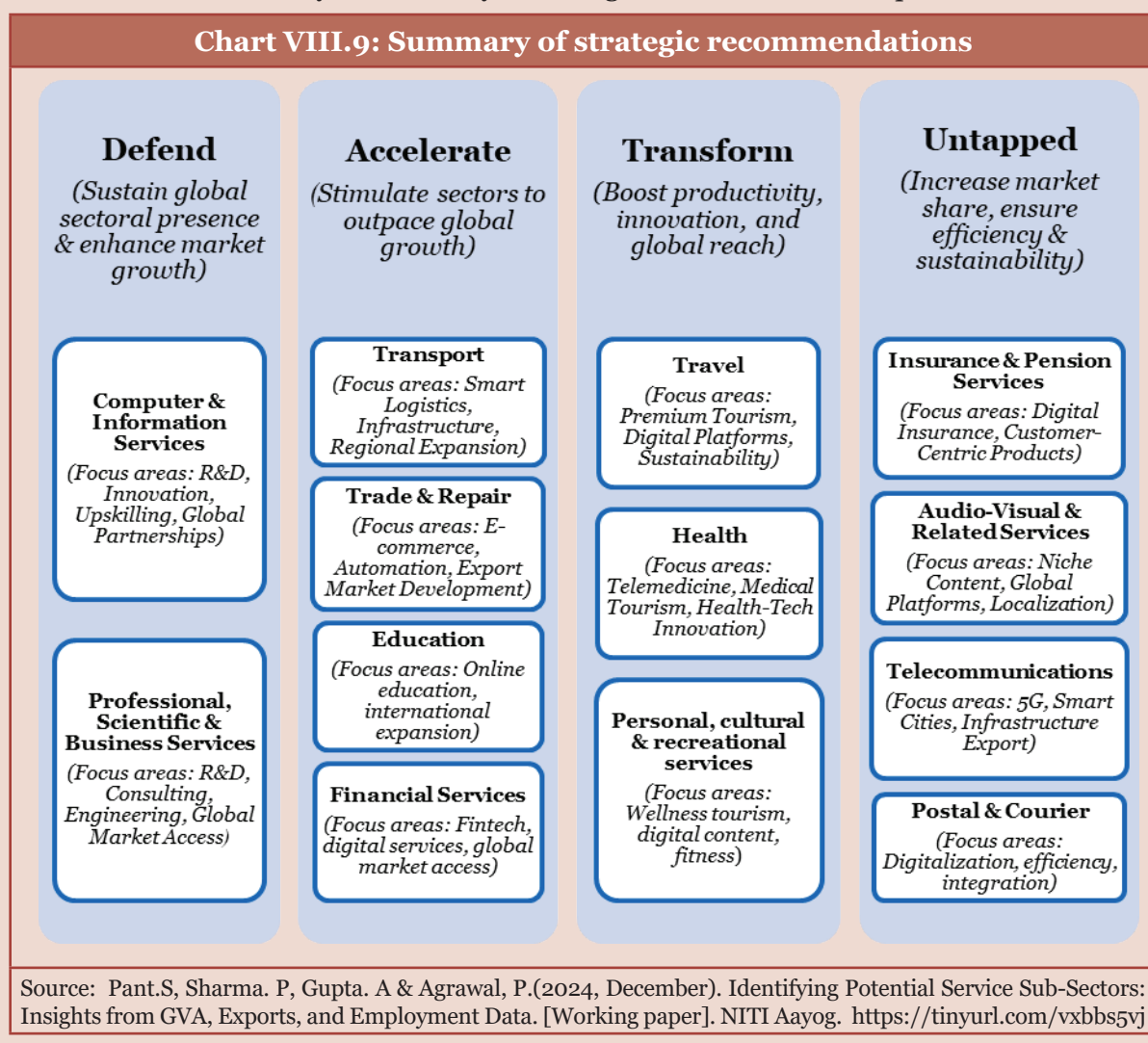
sectors with low export, GVA & employment share	travel, health, personal, cultural & recreational services
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Untapped sectors

sectors with negligible export, GVA & employment share	telecommunications, insurance & pension services, AV & related services, postal & courier
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Based on the above analysis, summary of strategic recommendation is presented as below:

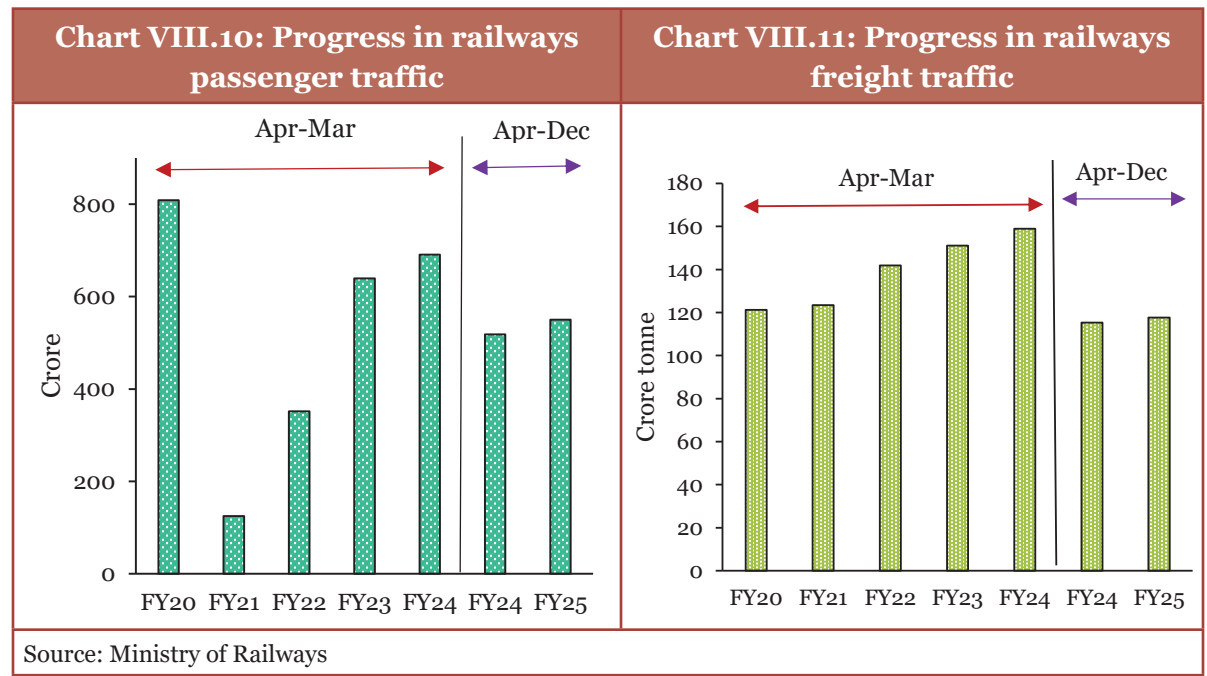
Chart VIII.9: Summary of strategic recommendations



PROGRESS IN LOGISTICS AND PHYSICAL CONNECTIVITY-BASED SERVICES

Indian Railways: keeping the development on track

8.12 Indian Railways (IR) is the fourth largest network in the world. Passenger traffic originating in IR achieved a growth of 8 per cent over the previous year. Revenue-earning freight in FY24, achieved a growth of 5.2 per cent.



8.13 In view of the rising passenger traffic, the government is taking various steps to upgrade passenger amenities. Out of a total of 7,325 railway stations across the nation, train indication boards have been provided at 1351 stations, coach guidance systems at 866 stations, digital clocks at 5605 stations, and public address systems at 6071 stations as of November 2024. Wi-Fi facility has been provided at 6112 stations to date. A new policy for the management of mobile catering services was introduced in 2023. As of date, 557 base kitchens have been commissioned catering to 468 pairs of trains.

8.14 As a result of the push toward digitalization in IR, E-ticketing has touched 86 per cent in the reserved sector as of October 2024. Ticketing through digital means in the unreserved sector has increased from 28 per cent at the beginning of the current financial year to around 33 per cent in October 2024. IR has also transformed the refund process enabling refunds in eligible cases within 24 hours in around 98 per cent of cases. Dynamic QR code-based payment has been enabled across all the counters. The passenger reservation system is being redeveloped using cloud-native technologies.

The new application will have features like high scalability, high performance, high availability, high level of security, ease of operations, and high agility.

8.15 To encourage tourism, Bharat gaurav trains have been introduced as theme-based tourist circuit trains that showcase India's rich cultural heritage and magnificent historical places. Under this scheme, the service provider is to provide comprehensive tour services comprising meals, accommodation, transport, sightseeing, tour guide, etc. As of date, a total of 325 trips of Bharat gaurav trains carrying 1,91,033 tourists have been operated covering various tourist destinations.

Road transport

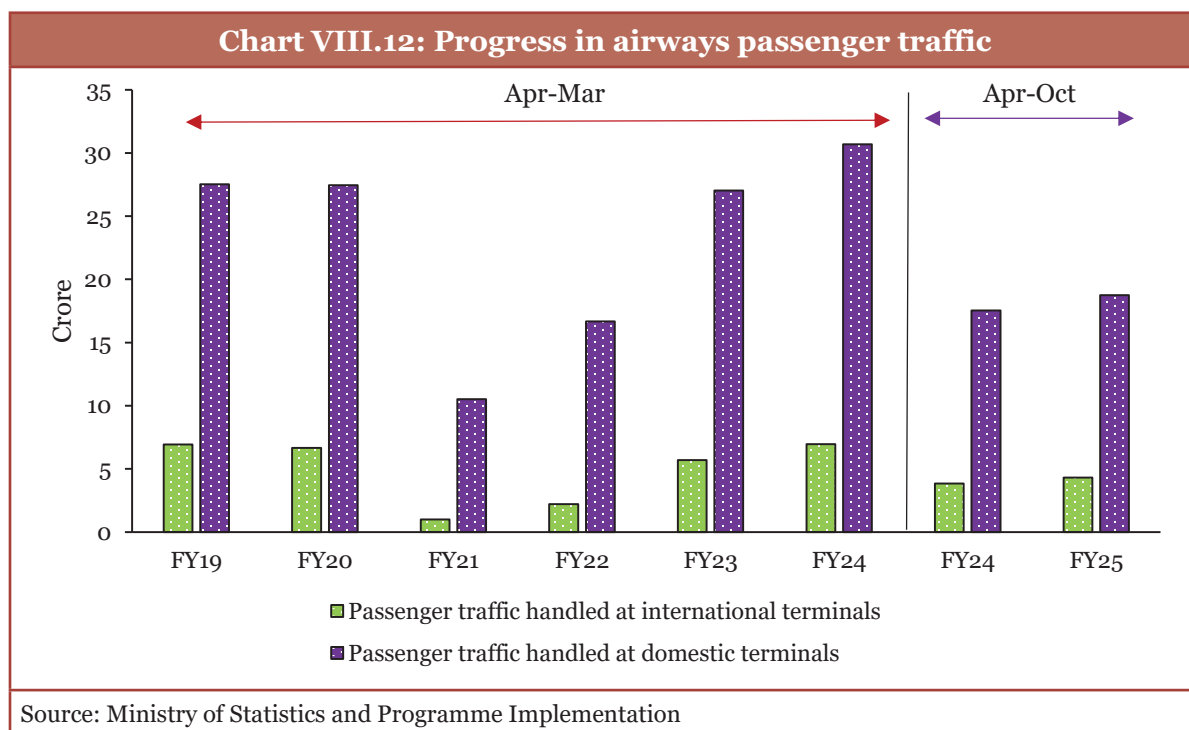
8.16 Road transport generates the highest GVA within transport services. During FY23, road transport accounted for 78 per cent of the total GVA of transport services. Enhancing user convenience on national highways is central to the growth of road transport. In this direction, the government has moved from traditional ways of tolling to digitised tolling by adopting electronic toll collection through FASTag. This has reduced the average waiting time at toll plazas from 734 seconds to 47 seconds¹⁰. The government has targeted the rollout of barrier-free tolling on all four lane plus NHs and high-speed corridors by FY29. The government has planned to establish more than one thousand wayside amenities in the next five years to provide world-class facilities and amenities to highway users in line with global standards along the NHs at every 40-60 kms on both sides.

8.17 In a major step towards road safety, the government has formulated a comprehensive strategy to improve road safety standards on NHs. A cashless treatment scheme for road accident victims has been initiated. Institute of driving training and research, regional driving training centres, and driving training centres at the state/district level have been set up. The government is also working towards road safety through initiatives like supporting truck driver health with the Abhay project, and providing eye tests and health checks for drivers.

Aviation: flying high

8.18 India is the fastest-growing aviation market globally. To accommodate the substantial growth in air traffic, Indian airlines have placed amongst the largest orders for aircraft globally.

¹⁰ <https://sansad.in/getFile/loksabhaquestions/annex/1712/AS302.pdf?source=pqals>

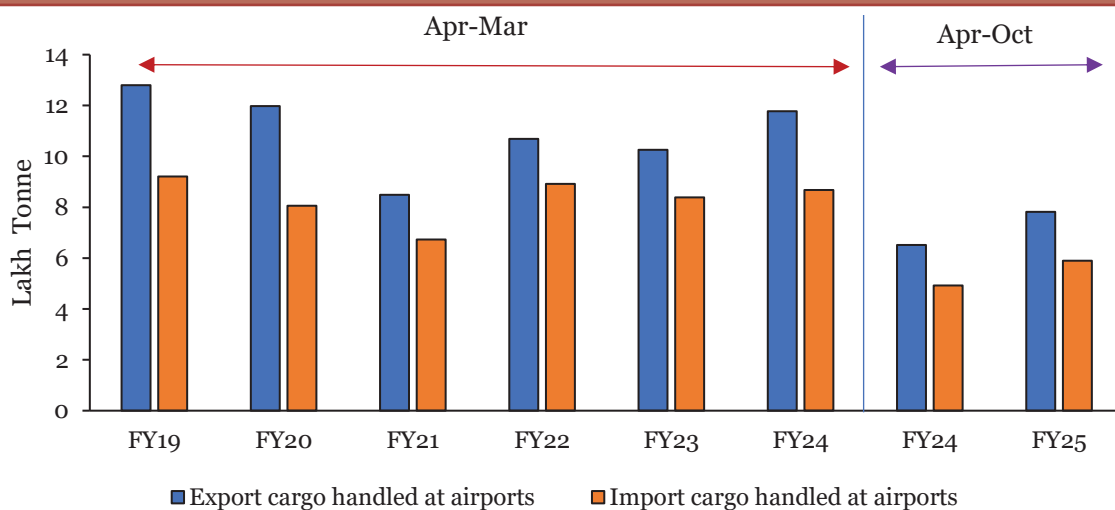


8.19 In the sphere of the maintenance, repair, and overhaul (MRO) industry, the government is encouraging original equipment manufacturers to establish facilities in India and has introduced policies to align the sector with global standards.

Box VIII.2: New segments – drones, leasing and MRO

- As of October 31, 2024, India has seen a notable rise in drone activities, with 140 remote pilot training organisations, 18,862 remote pilot certificates issued, 26,659 registered drones, and 82 approved drone models (DGCA type certificates). About ₹ 60.6 crore have been disbursed under the PLI scheme to support drone manufacturing.
- As of November 30, 2024, 32 aircraft leasing entities (including provisional) have registered in the GIFT-IFSC, leasing 105 aviation assets, including 53 aircraft and 52 engines.
- On July 12, 2024, the government announced a uniform 5 per cent integrated goods and services tax on imported aircraft parts and tools, applicable regardless of HSN classification.

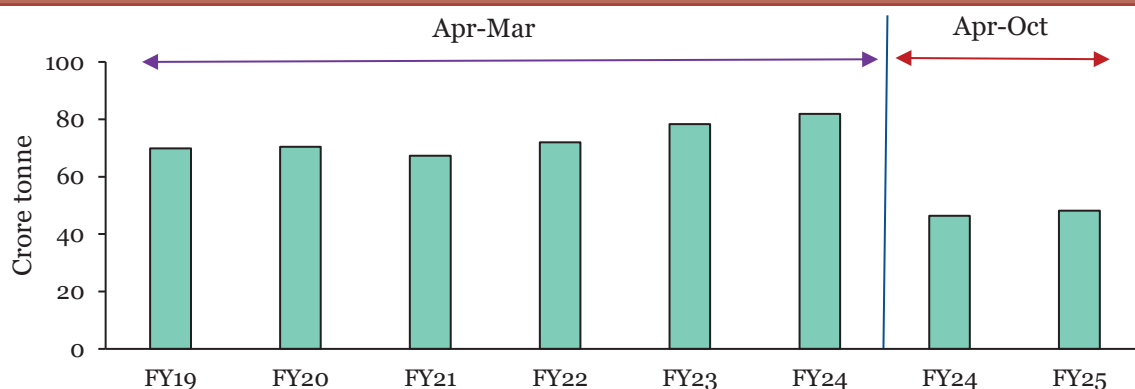
8.20 The PM Gati Shakti initiative aims to create a seamless multimodal connectivity network across the country. Under this initiative, the aviation sector is being integrated with other modes of transport, such as railways, roads, and waterways.

Chart VIII.13: Progress in airways cargo traffic- international

Source: Ministry of Statistics and Programme Implementation

Port, Waterways and Shipping: Sea of opportunities

8.21 Major ports of India are enhancing their capacity to accommodate increased trade demand. The cargo movement in FY24 was 819 MT. In FY25, in line with the annual target of 870 MT, around 622 MT has been handled upto December 2024.

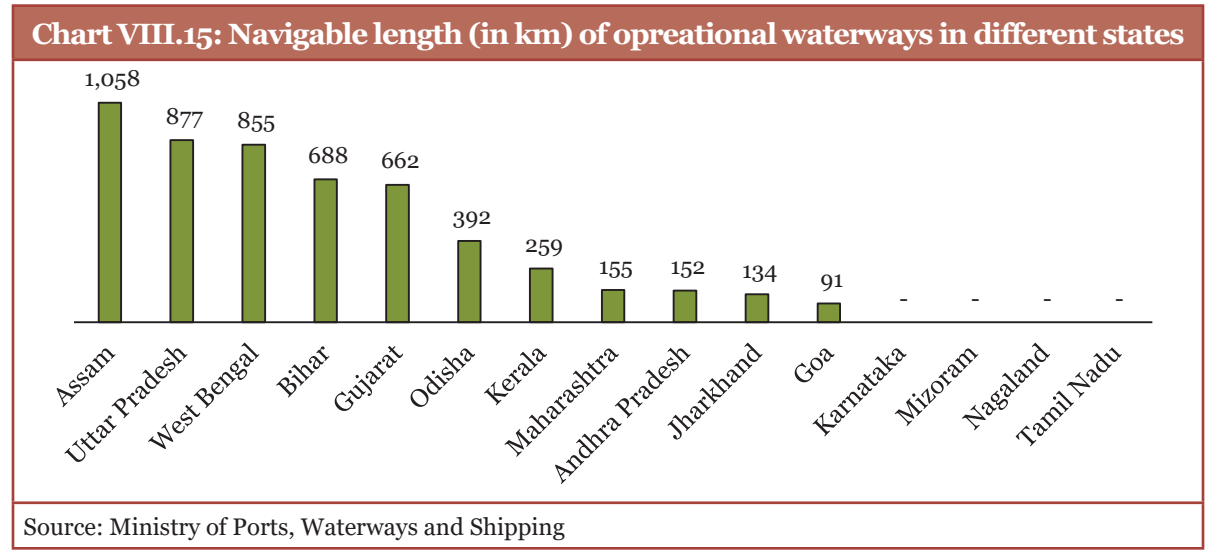
Chart VIII.14: Progress in port traffic: cargo handled at major ports

Source: Ministry of Statistics and Programme Implementation

8.22 The government of India has launched the Maritime India Vision 2030 and Maritime Amritkaal Vision 2047 with the aim of positioning Indian shipbuilding and ship repair among the top five globally by 2047.

8.23 Inland water transport holds great untapped potential as a means for the transport of goods and passengers. India has a large endowment of rivers, canals, and other waterways. The total navigable length of waterways in India is around 14,850 km. As of October 2024, the country has 26 operational waterways of more than 4,800 km. The government is also putting efforts into promoting river cruise tourism on national

waterways. Passenger movement on national waterways in Q2 of FY25 was more than 3.36 crore, increasing from approximately 67 lakh passengers in Q2 of FY24.

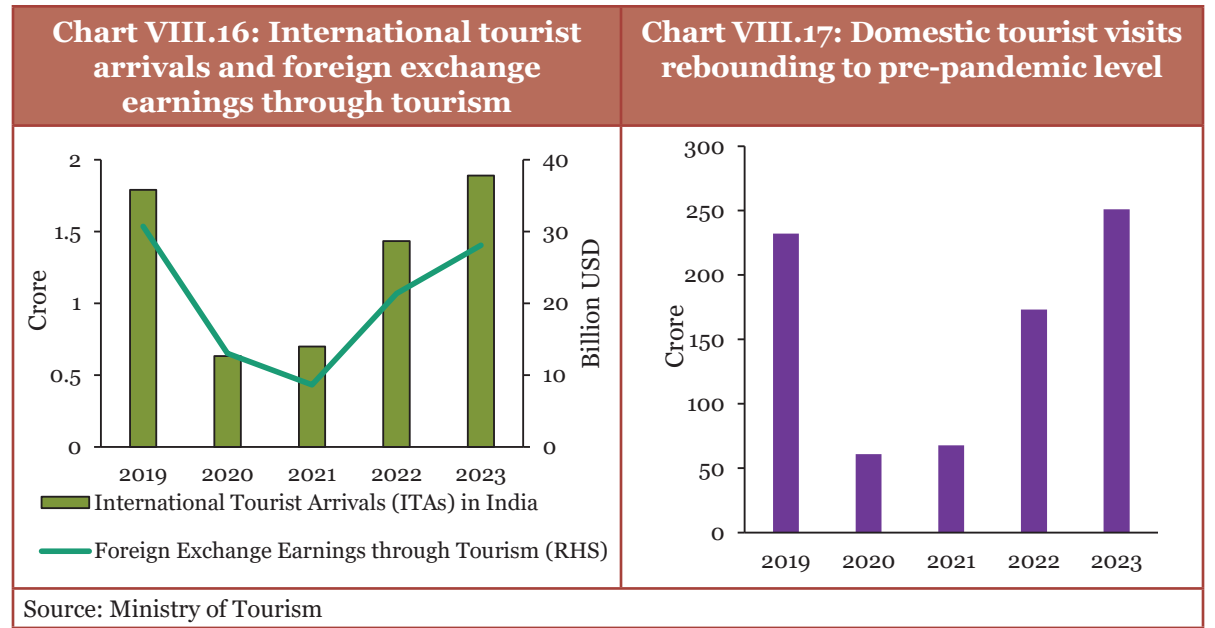


OTHER SERVICES

Tourism and hospitality

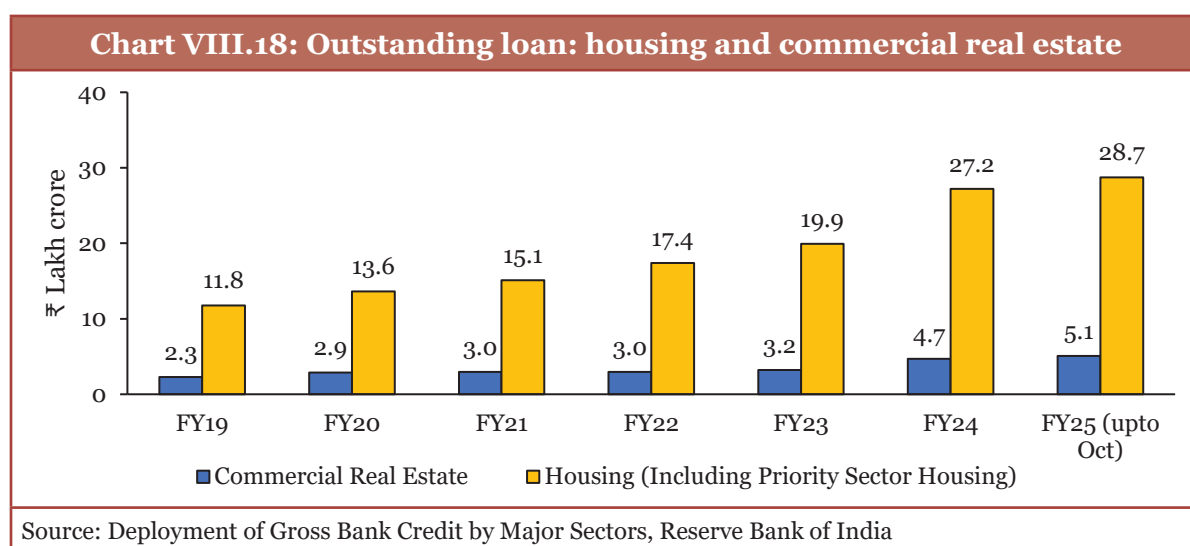
8.24 The tourism sector’s contribution to GDP regained the pre-pandemic level of 5 per cent in FY23. The tourism sector created 7.6 crore jobs in FY23.

8.25 International tourist arrivals (ITAs) in India have rebounded to pre-pandemic level in 2023. The share of India’s ITAs in World ITAs stands at 1.45 per cent in 2023. Foreign exchange earnings through tourism were 28 billion USD. India received 1.8 per cent of world tourism receipts and attained a rank of 14th worldwide in world tourism receipts during 2023.



Real Estate: Building the economy

8.26 India's real estate market witnessed robust performance under office demand as well as residential sales driven by economic stability and positive market sentiment. After the enactment of the Real Estate Regulatory Authority, India ranked 31st out of 89 countries in the Global Real Estate Transparency Index in 2024¹¹. The demand for real estate is emerging not only in tier 1 and tier 2 cities but across the country due to the expansion of metro networks, enhancement to road networks, and improvements in connectivity. Housing demand in India is expected to touch 93 million units by 2036¹². The rise of real estate investment trusts (REITs) further amplifies the positive trajectory of the commercial sector. The residential real estate market scaled an 11-year high in sales volume in the first six months of 2024. During this period, total sale across top eight cities recorded 11 per cent YoY growth¹³.



8.27 The Real Estate (Regulation and Development) Act has brought numerous improvements in the real estate sector, including protection against fraud, increased transparency, timely project deliveries, and measures to prevent misuse of funds, among other benefits. GST has helped to simplify the taxation structure in real estate transactions by applying a single unified tax system across states. It has encouraged proper invoicing and documentation, thus reducing the scope for tax evasion. The government introduced REITs as an investment vehicle in commercial real estate, allowing investors to pool funds and invest in income-generating real estate. This helps increase commercial real estate market liquidity and attracts institutional investors. Implementation of online platforms for the submission and approval of building plans has led to a reduction in delays and brought more transparency to the process. The

¹¹ <https://www.jll.co.in/en/trends-and-insights/research/global-real-estate-transparency-index>

¹² Confederation of Real Estate Developers Associations of India

¹³ Monthly Industry Update Reports, Hotels & Hospitality Overview, HVS ANAROCK

digital India land records modernization programme aims to create a comprehensive, accessible, and transparent land record management system.

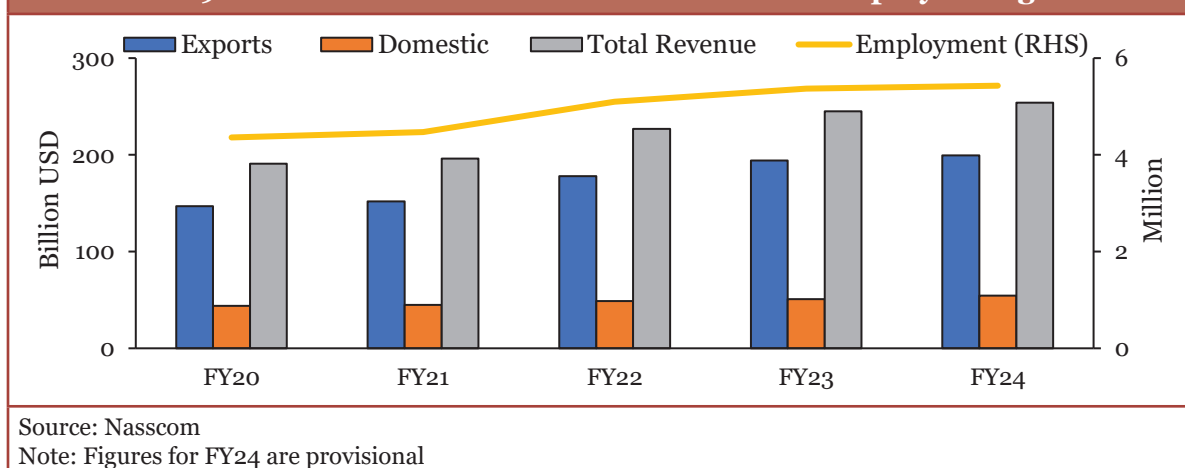
BUSINESS SERVICES

Information Technology (IT) Services

8.28 The Indian IT/ ITeS industry has a leading position globally and has been a significant contributor to the growth of exports. According to NASSCOM Strategic Review Report 2024, India's tech industry¹⁴ demonstrated extraordinary resilience in FY24, amidst macroeconomic pressures and geopolitical tensions. The industry has estimated revenues of USD 254 billion, marking a 3.8 per cent YoY growth in FY24 (excluding e-commerce). Tech exports reached nearly USD 200 billion, reflecting a growth of 3.3 per cent, while the domestic market is expected to expand by 5.9 per cent, crossing USD 54 billion in FY24. The sector maintained its position as a net hirer, adding 60,000 employees to reach a workforce of 5.43 million in FY24.

8.29 The abolition of the angel tax (on investments made by investors in startups) is expected to boost the country's global innovation and entrepreneurial competitiveness. Expanding the scope of safe harbour rules and streamlining transfer pricing assessment procedures are expected to make the country's transfer pricing regime more attractive and competitive, boost IT exports, and ease business for Global Capability Centres and the IT services industry. Other reforms include the abolition of the 2 per cent equalisation levy, reduction in tax deduction at source on payment made by e-commerce operators to e-commerce participants, relief from GST on data centre exports, reduction of rate of tax collection at source to be collected by e-commerce operators etc.

Chart VIII.19: Performance of IT services: revenue and employment generation



¹⁴ Tech industry revenues include information technology services, business process management, engineering research and development, software products, and hardware.

Global Capability Centers

8.30 India's Global Capability Centres (GCCs) are emerging as strategic hubs reshaping the Indian corporate landscape while influencing global business dynamics. The number of GCCs in India has grown from approximately 1430 in FY19 to over 1700 in FY24. As of FY24, GCCs in India employ nearly 1.9 million professionals. Over the past five years, India has remained at the forefront of the global GCC expansion strategy, with more than 400 new GCCs and around 1100 new units established.

8.31 GCCs are fundamentally altering the technology landscape. Leading organisations are centralising their tech ecosystems in India. This is particularly evident in sectors like aerospace, defence, and semiconductors, where companies are advancing their engineering efforts to focus on next-generation platforms, products, and technologies. Over the last five years, the setup rate of engineering research & development GCCs has grown 1.3 times faster than the overall GCC setup, highlighting a continued shift towards high-value-added work.

8.32 India has established itself as a prominent player in leveraging its vast talent pool, which accounts for 28 per cent of the global (science, technology, engineering, mathematics) STEM workforce and 23 per cent of the global software engineering talent. Over the past decade, the GCC ecosystem in India has matured significantly, advancing into high-end engineering roles such as product managers and architects, with 35 per cent of transformation hubs exhibiting a strong presence of architects¹⁵. Furthermore, global roles within GCCs are expanding rapidly, expected to grow from currently 6,500 to over 30,000 by 2030, supported by robust training programs to develop leadership. The adoption of Artificial Intelligence (AI) and Machine Learning (ML) and the establishment of AI centres of excellence further enhance the GCC landscape by tapping into India's strong middle-management talent.

Box VIII.3: AI adoption in the services sector in India

The services sector, including banking, financial services, and insurance (BFSI), healthcare, telecom, retail, and transport and logistics, stands out for its rapid AI adoption, supported by various national initiatives and technologies.

Finance: Several financial institutions and banks in India are using AI to enhance their operations, improve customer experiences, and streamline their services. For example, SBI Intelligent Assistant (SIA) by SBI is a chatbot used to provide support to customers. Banks are also using AI for fraud detection and risk management. ML algorithms are used to identify suspicious transactions by analysing customer data.

Telecom: AI improves customer support, network optimisation, and predictive maintenance. Several telecom companies in India are leveraging AI to improve their services, optimize operations, and enhance customer experience. For example, AI-driven platforms

for end-to-end telecom network management. Built on top of state-of-the-art big data architecture touching upon every aspect of the network – from the core and radio to the business functions of a telecom service provider are being used. Cloud-native data lake platform tailored for carriers to enable smarter operations through ML as a service are also being used. They leverage ML to detect anomalous network patterns and create reports and alert based on these patterns for proactive root cause analysis and resolution before the network symptoms start affecting operations.

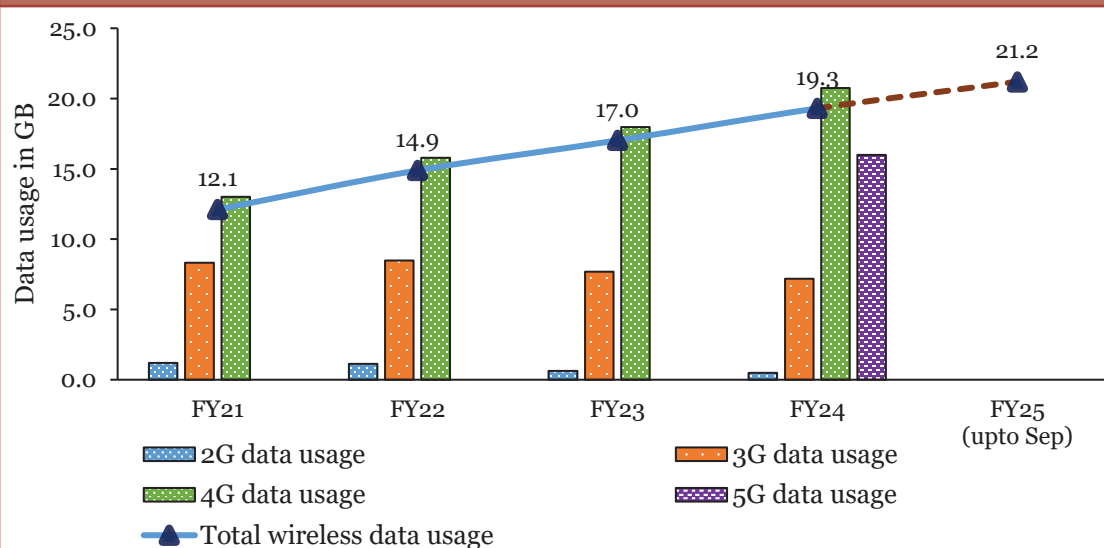
Retail and e-commerce: AI enables personalised marketing, inventory management, and customer experience enhancement. The fashion e-commerce giants are using advanced features to enable customers to have an enhanced and discovery-led shopping experience.

Transport and logistics: AI applications streamline operations and improve delivery accuracy, helping companies cut costs and enhance customer satisfaction. AI is used for route planning and optimization to ensure timely delivery of packages. AI-based robotic systems are being used in their fulfilment centres to streamline the sorting, packaging, and inventory management processes, reducing human intervention and increasing efficiency.

Telecommunication

8.33 India's telecom sector is expanding with the smartphone boom, surging data consumption, and the advent of technologies like 5G. India stands as the second-largest telecommunications market, with over 1.18 billion telephone subscribers, an overall teledensity of 84 per cent, and 941 million broadband users¹⁶ as of 31st October, 2024. The country also leads in mobile data consumption per subscriber and offers the world's most affordable data rates. India's achievement of the fastest 5G rollout globally highlights its technological prowess in the telecom sector.

Chart VIII.20: Average wireless data usage per data user per month



Source: Department of Telecommunication

8.34 There has been a paradigm shift in India's telecom technology space that underscores an ongoing effective transition from a technology importer to a technology developer and exporter.

Box VIII.4: C-DOT- the catalyst of India's telecom revolution

The Centre for Development of Telematics (C-DOT) has been committed to research and development of indigenous solutions and reducing dependency on foreign technologies.

C-DOT has consistently spearheaded next-generation telecom technologies:

4G and 5G core networks: C-DOT has been instrumental in developing indigenous 4G and 5G core solutions, reducing reliance on global vendors and helping in reduction of telecom imports. Its innovations support the deployment of secure, scalable networks tailored to India's needs.

Quantum communication systems: Recognising the rising importance of cybersecurity, C-DOT has developed quantum encryption solutions, ensuring secure communication for government and strategic sectors.

Disaster management solutions: Technologies like geo-targeted and automated multi-hazard, multi-media early warning alerts to citizens have reinforced India's resilience against natural disasters.

Cybersecurity and resilience: As telecom infrastructure evolves, so do the threats. C-DOT has developed indigenous cybersecurity tools that monitor and protect critical infrastructure. These tools are pivotal in mitigating risks associated with cyber warfare and ensuring national security. C-DOT has developed the SAMVAD app to provide secure call and chat for sharing text, image, audio, and video files and deployed in strategic organizations.

Uplifting domestic telecom ecosystem: Through its CCRP (C-DOT Collaborative Research Program), C-DOT fosters indigenous telecom innovation by partnering with industry players. This initiative strengthens India's telecom research ecosystem, with C-DOT offering funding and expertise to help companies develop advanced technologies. C-DOT also supports startups incubated under the CCRP framework. The national initiative for developing and harnessing innovations (NIDHI) and Avishkar programme have been launched by the government to nurture innovations and ideas into startups.

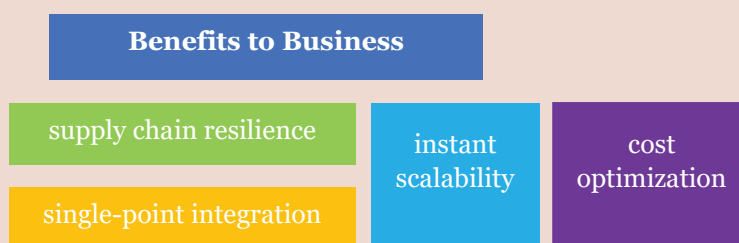
C-DOT's journey can exemplify India's transition from a telecom consumer to a technology innovator, propelling the nation towards a future of digital sovereignty and inclusive connectivity.

Box VIII.5: Open Network for Digital Commerce: thinking beyond platforms

The pandemic underscored the critical role of digital commerce in enabling business continuity and consumer access to essentials. Digital commerce played role in enabling resilience in the economy. The prevailing platform-centric model of digital commerce globally, and increasingly in India, calls for attention. A few large e-commerce players dominate the market, which affects participation and flexibility of smaller sellers, such as local retailers, artisans, and MSMEs. Sellers often have to conform to terms and conditions, from customer data access to product visibility, reducing their market leverage and fostering dependence on these platforms.

The Open Network for Digital Commerce (ONDC) represents a paradigm shift, promoting a democratic and interoperable digital commerce ecosystem thus fostering inclusivity and equity. ONDC enables buyers and sellers to transact seamlessly across different platforms. It helps by reducing customer acquisition costs, enhancing business efficiencies, and expanding choices for merchants and consumers.

ONDC recorded more than 14 million transactions in the month of November 2024 across 1100+ cities. 7 lakh+ sellers and service providers are active on the ONDC network spread across 600+ cities and towns across India. 190+ network participants are live on the network. Presently, over 7000 farmer producer organisations (FPOs) have registered to be a part of the ONDC network through various seller network participants. Around 400 self-help groups (SHGs), micro-entrepreneurs, and social sector enterprises have been onboarded on the network. Mobility through the ONDC network is live in 15+ cities with around 5.45 lakh taxi and auto drivers onboarded.



Scaling new frontiers: thinking beyond traditional e-commerce

Logistics as a service: ONDC is integrating hyperlocal and inter-city logistics service providers to ensure a seamless supply chain with unified first-mile, middle mile, and last-mile connectivity across 1200+ cities.

Financial services: ONDC's financial services category was launched in August 2024. It integrated with 9 lending service providers applications and 3 lenders, to enhance accessibility and efficiency in credit services. It integrates account aggregator for data, digilocker / Aadhaar for KYC, eNACH / eMandate for repayment and Aadhaar eSign for agreement signing. It facilitates low-cost distribution and innovation in financial products, enabling personal loans, health insurance, and mutual funds.

Expanding coverage: enhancing inclusion

The platform today has 10 active domains, 110 network participants, and close to 6.5 lakh sellers/service providers. It has attracted an increasing number of transactions since its launch. In the retail category, the platform has seen over 4.4 crore orders transacted, across 814 districts and with 2.83 lakh sellers involved.¹⁷

ONDC in collaboration with Bhashini, an AI-driven language translation tool, launched Saarthi, a reference application to assist businesses in creating their buyer-side apps. In October 2024¹⁸, the platform joined hands with the National Cooperative Consumers' Federation of India, and Otipy to make onions available at affordable prices across the NCR region, in order to help reduce the prices.

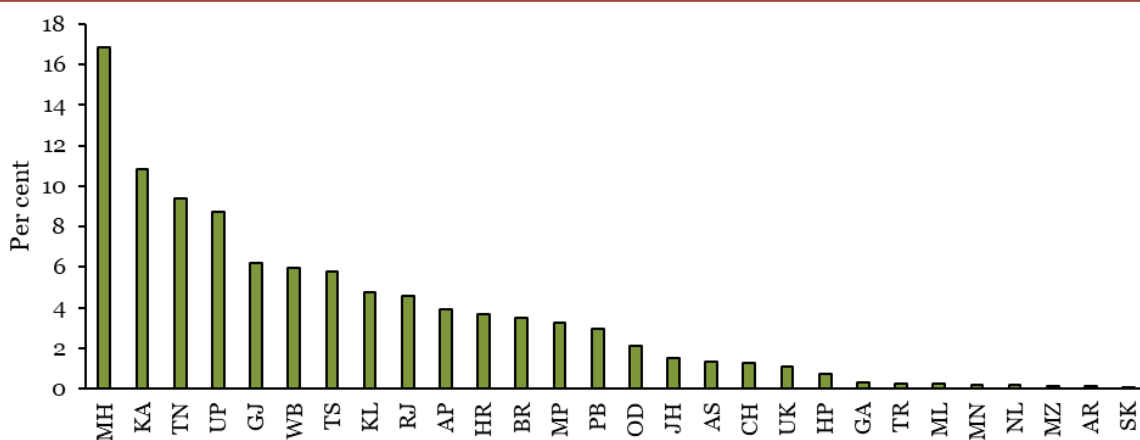
¹⁷ <https://opendata.ondc.org/>

¹⁸ ONDC Press Release, 16 October, 2024 <https://ondc.org/press-releases-details/?id=30>

STATE WISE ANALYSIS OF SERVICE SECTOR PERFORMANCE

8.35 The context for presenting the state-specific patterns in industrial and service gross state value added (GSVA)¹⁹ has been mentioned in Chapter 7 of this Survey. The service sector accounts for about 55 per cent of the national GVA in FY25. However, the distribution of service sector activity across Indian states reveals a pronounced geographic dispersion. For FY23, Karnataka and Maharashtra account for more than one fourth of the total service sector GSVA of all the states. These states along with Tamil Nadu, Uttar Pradesh, and Gujarat together share more than 50 per cent of the total service sector GSVA. These states also have more than 50 per cent of the total industrial GSVA, suggesting that both feed into each other. On the other hand, another set of 19 states collectively account for only one fourth of the service sector GSVA of all the states (Chart VIII.21).

Chart VIII.21: State-wise share in services GSVA at constant prices for FY23



Source: Directorate of Economics & Statistics of respective State Governments hosted by MoSPI
Note: State codes used in this section;

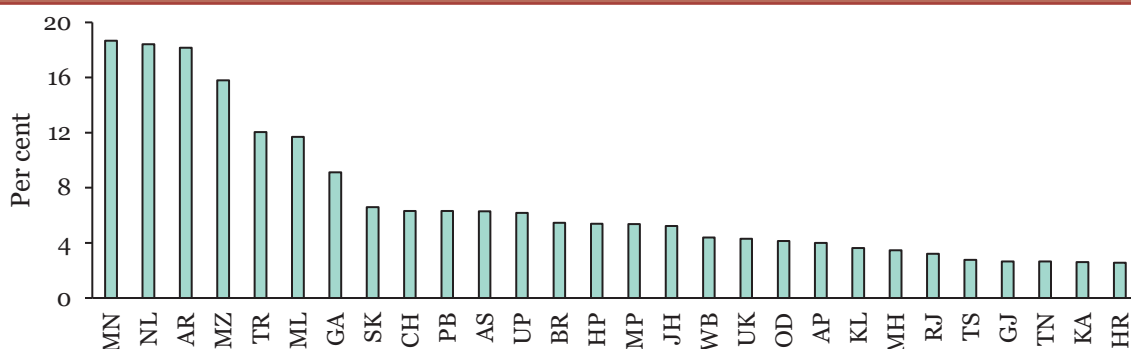
State	Code	State	Code	State	Code	State	Code
Andhra Pradesh	AP	Haryana	HR	Manipur	MN	Sikkim	SK
Arunachal Pradesh	AR	Himachal Pradesh	HP	Meghalaya	ML	Tamil Nadu	TN
Assam	AS	Jharkhand	JH	Mizoram	MZ	Telangana	TS
Bihar	BR	Karnataka	KA	Nagaland	NL	Tripura	TR
Chhattisgarh	CH	Kerala	KL	Odisha	OD	Uttarakhand	UK
Goa	GA	Madhya Pradesh	MP	Punjab	PB	Uttar Pradesh	UP
Gujarat	GJ	Maharashtra	MH	Rajasthan	RJ	West Bengal	WB

8.36 Among the different service activities, public administration is a unique category that reflects the strength of the state machinery in the state. This is majorly determined by the strength of state's own revenues, central transfers including tax devolution and

¹⁹ In this chapter, service sector gross state value added (GSVA) refers to FY23 and it is taken at constant prices (2011-12). These GSVA numbers are estimated by the respective State Directorates of Economics & Statistics and hosted by MoSPI. The aggregate of state GSVA may differ from the national GVA estimated by MoSPI. State population, wherever used, refers to figures of the respective state governments for their GSDP calculations.

borrowing of the state, which together define the spending capacity of the state. This is independent of other services which are largely commercially driven.

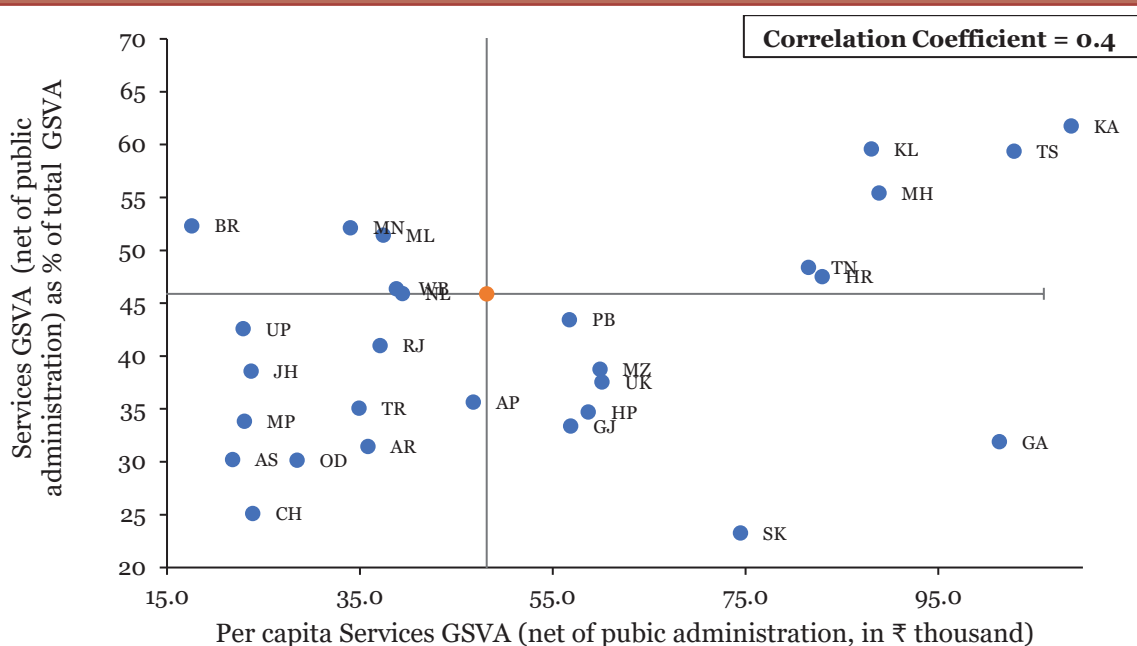
Chart VIII.22: GSVA from public administration as % of overall GSVA



Source: Directorate of Economics & Statistics of respective State Governments hosted by MoSPI

8.37 The economies of many north eastern states have considerable dependence on the resources of the state and central government because there are natural disadvantages to those regions to pursue large-scale industrialisation and commercial services. (Chart VIII.22)

Chart VIII.23: Services share in total GSVA and services GSVA per capita (net of public administration)



Source: Directorate of Economics & Statistics of respective State Governments hosted by MoSPI

8.38 There are four different scenarios in the relationship between services share in total GSVA (defined as service intensity of the state economy), and, services GSVA per capita.

- i. low service intensity, low per capita service GSVA;
- ii. low service intensity, high per capita service GSVA;
- iii. high service intensity, low per capita service GSVA; and,
- iv. high service intensity, high per capita service GSVA.

8.39 Category (ii) above indicates that the productivity of commercial services is high. In contrast, category (iii) represents high dependence on commercial service activities without their being productive enough to generate high levels of income. Firm conclusions cannot be drawn from states falling in the other two categories without analysing supplementary information. However, in category (iv), some state patterns are very clear—Karnataka's, and to an extent, Telangana's positions are majorly explained by the large presence of IT services, Maharashtra's position is largely due to its strength of financial intermediation activities, and, Kerala's position mainly because of the strong presence of trade, financial and real estate services. The following three charts present service activities that constitute more than two-thirds of the total services GSVA net of public administration. These three charts provide some explanation for the patterns seen in Chart VIII.23.

Chart VIII.24: Trade & repair, hotels and restaurants services: intensity and per capita GSVA across states

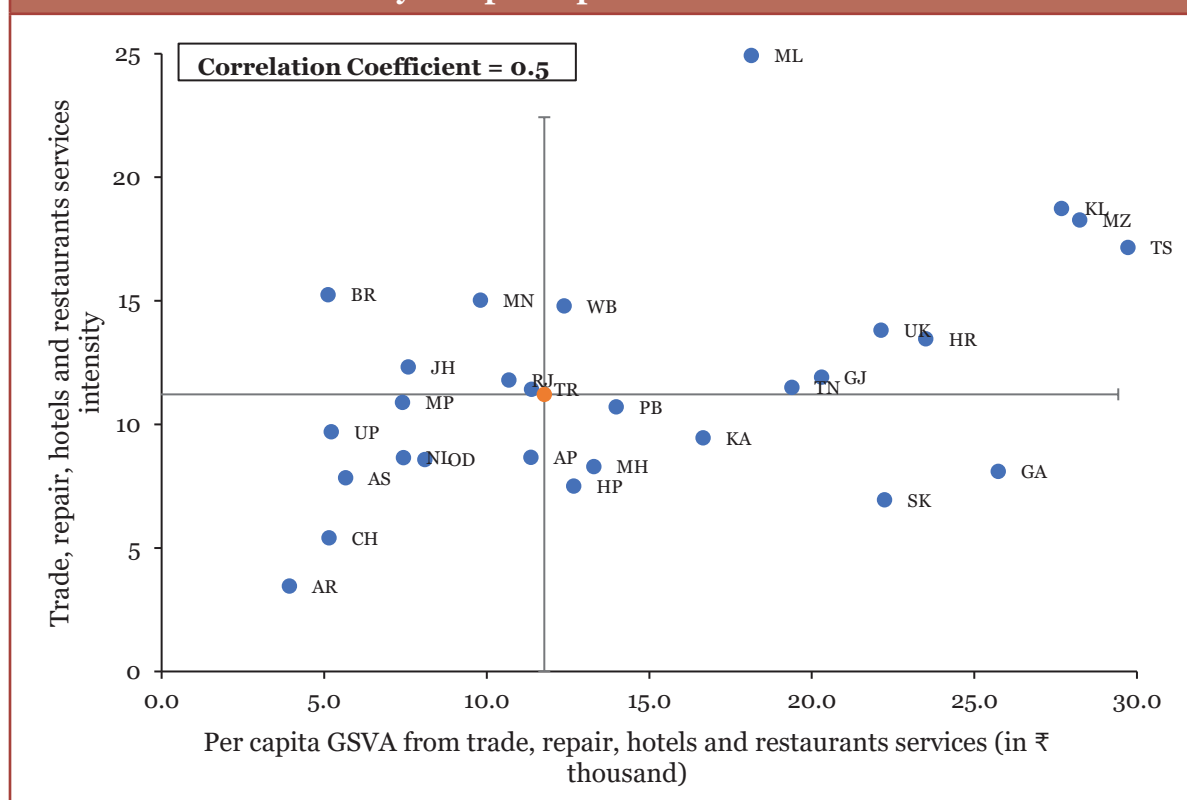


Chart VIII.25: Financial services: intensity and per capita GSVA across states

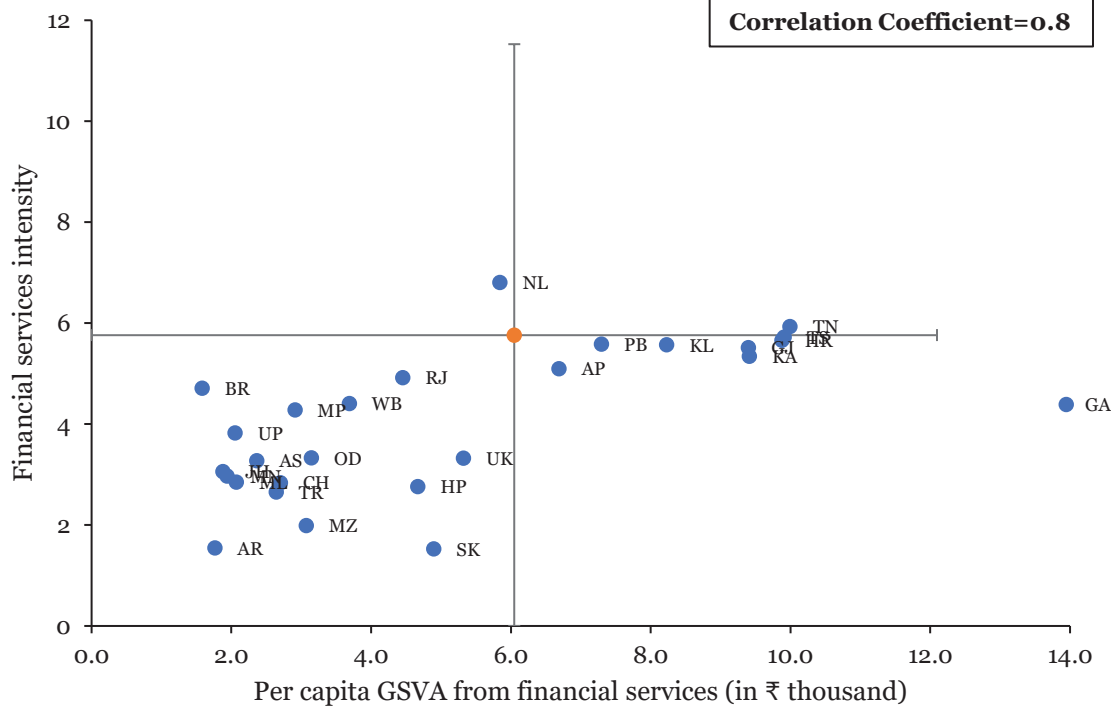
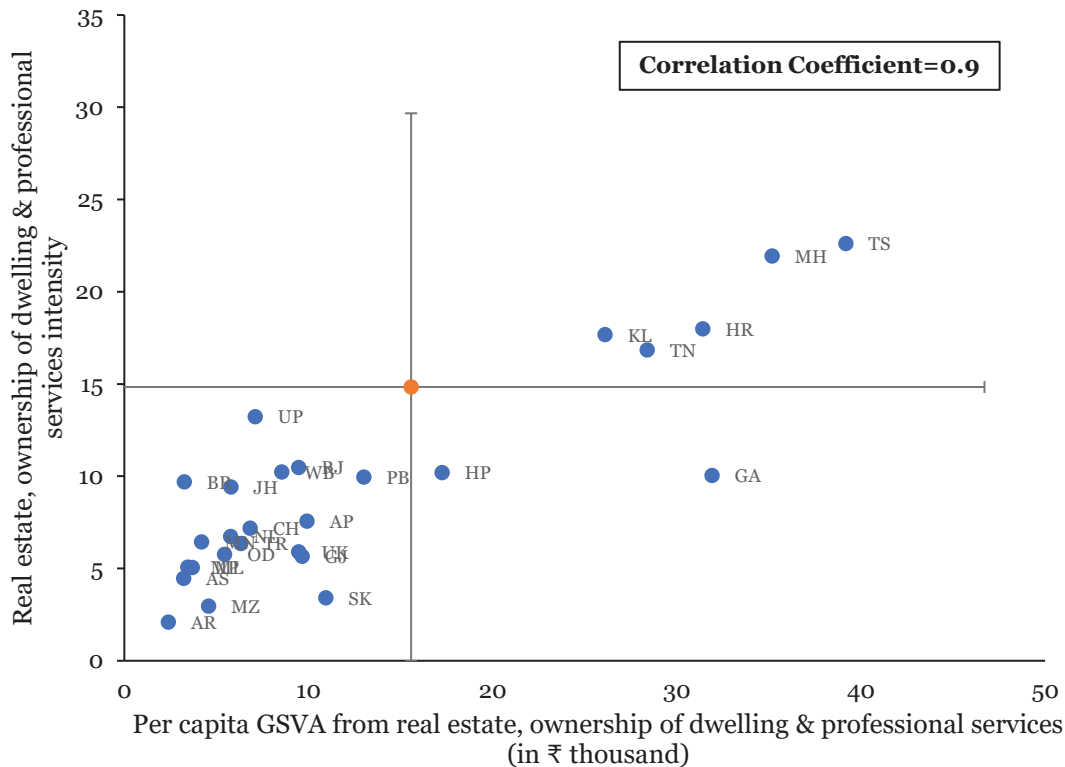


Chart VIII.26: Real estate, ownership of dwelling & professional services: intensity and per capita GSVA across states

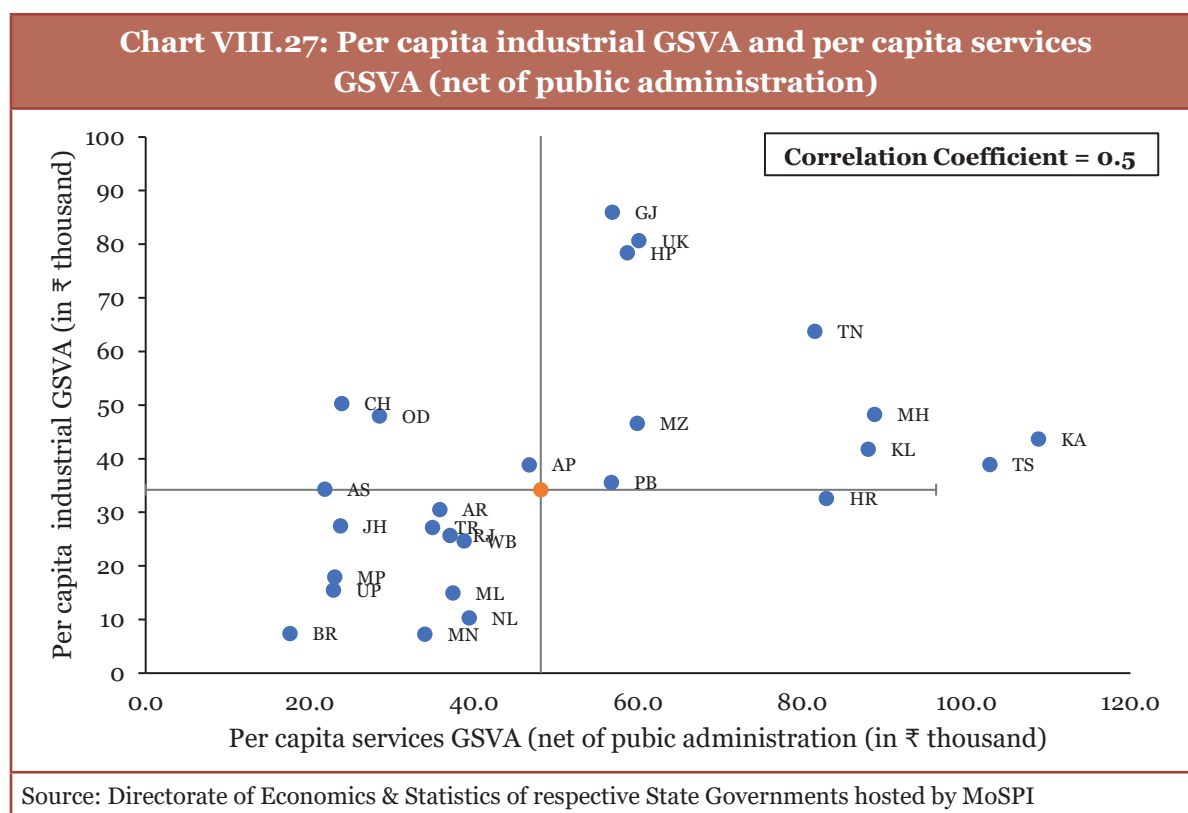


Source: Directorate of Economics & Statistics of respective State Governments hosted by MoSPI

8.40 The states like Meghalaya, Uttarakhand, and Mizoram have more than a third of their services GSVA coming from trade, repair, hotels, and restaurants, partly because of tourism. Many bigger states have trade and repair intensity of close to or higher than the national average indicating a large presence of low value adding trade in these states. Many of these states are relatively less industrialised also (Refer Chapter 7).

8.41 Financial, real estate and professional services have very high levels of concentration in a few states. Within the service sector, financial services are highly concentrated with Maharashtra (Mumbai), Tamil Nadu, Gujarat (GIFT City) and Karnataka accounting for more than 50 per cent of total financial services GSVA. (Maharashtra is not presented in the chart because it is a big positive outlier).

8.42 Karnataka, Maharashtra, Telangana, Haryana, Tamil Nadu have more than one third of their services GSVA coming from real estate, ownership of dwelling & professional services. (Karnataka is not presented in the chart because it is a positive outlier). Karnataka (Bengaluru), Telangana (Hyderabad) and Maharashtra (Mumbai), Haryana (Gurugram) and Tamil Nadu (Chennai) have concentration of IT and fintech services leading to high demand for office and residential space.



8.43 Chart VIII.27 combines the state patterns flowing from this chapter and chapter 7. (Sikkim and Goa are not presented here because they are outliers). It largely indicates the comparative advantages of different states.

8.44 On the basis of the above analysis, states can be classified into four distinct categories based on their service and industrial performance in terms of per capita GSVA.

- i. States with high per capita industrial GSVA: These are states like Gujarat, Uttarakhand, and Himachal Pradesh. States like Chhattisgarh and Odisha perform reasonably well in the industrial sector while they have low service sector presence. This indicates that these states will stand to gain largely by accelerating their industrialisation and industrial productivity which will strengthen their service sectors through the ongoing trends in greater ‘servicification’ of industries.²⁰
- ii. Strong service sector performers: States such as Karnataka, Telangana and Kerala excel in services, with high per-capita service GSVA and service shares in GSVA but exhibit only around average industrial per capita GSVA. These regions largely depend on urbanised service-driven economies.
- iii. Dual strengths—industrial and service: Maharashtra and Tamil Nadu typically represent states with reasonably strong industrial and service sectors. Their diversified economies integrate manufacturing with trade, financial services, real estate & professional services.
- iv. States with reform potential: While the need for business reforms cuts across states in general, the fourth category specifically includes states that have significant potential for reform led development. These states are Arunachal Pradesh, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Rajasthan, Tripura, Uttar Pradesh and West Bengal.

8.45 As per DPIIT’s Business Reforms Action Plan (BRAP)²¹, which ranks states based on their performance in introducing business reforms, the states with service intensity backed by industry are the states which have introduced larger numbers of reforms in comparison to their peer states and fall in top achiever and achiever’s category. Thus, introducing business reforms is essential to industrial as well as service development in the state.

8.46 As per annual survey of unincorporated sector enterprises 2022-23, the number of estimated enterprises belonging to the unincorporated sector stands at 6.5 crore. 72.6 per cent of these enterprises operate in the service sector. Many states like Uttar Pradesh and West Bengal have a substantial presence of these enterprises. These enterprises, though contributing to the overall development of the economy in terms of employment and income, are losing out on benefits normally offered by incorporation such as tax benefits, and credibility which could help them build better client relationships, access

²⁰ Pant, S., & Chakraborty, D. (2024). Is service orientation benefitting manufacturing exports from low-middle income countries? Firm-level empirical evidence from WBES data [Working Paper]. Indian Institute of Foreign Trade (IIFT)

²¹ https://eod.dpit.gov.in/Home?year=wM54HFmV7pBOTrogIzA97w_eee_eee_

to credit and durability which would help them provide continuity to their business operations etc. States, through policy nudges reducing compliance difficulties, can accelerate the incorporation of these enterprises.

CONCLUSION AND WAY FORWARD

8.47 In the Economic Survey 2023-24, we reported that 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. At the helm of this change are financial and professional services. In the first half of FY25, about 45 per cent of the total service sector GVA growth in India was due to financial, real estate, rental and professional services; almost as much as they did during the last decade. Globally, services are presently shoring up growth even in countries where there is a manufacturing slowdown inflicted by moderation in merchandise trade buoyancy. This presents an upside of possibilities to services exports and hence domestic services output.

8.48 At the same time, new risks have surfaced in the growth of IT and professional services in view of the recent changes in global policies following key electoral outcomes. Regulators, have expressed concerns about the potential impact of offshore work on the quality of audits. The general concerns expressed seem to stem from the breakdown of traditional apprenticeship model, inadequate direct supervision, language barriers and inability to communicate instructions effectively in complex cases, information gaps of the remote auditors, risks of loss of confidentiality and differences in regulatory provisions in the countries involved, resulting in compliance gaps. These perceived risks present a downside risk to export-led services growth.

8.49 Domestically, the embedded service content of the non-service economic activities has increased significantly, as evidenced by the National Accounts Statistics. There is also growing literature emphasising the 'servicification' of manufacturing, i.e., increasing utilization of services in manufacturing production and post-production value addition²². This means that growth in manufacturing has a significant bearing on service sector growth, and vice versa. At the same time, the increasing penetration of digital technologies and artificial intelligence in manufacturing and service sector activities like finance, retail and commerce, telecom, and, transport and logistics is changing the very composition of demand for embedded services.

8.50 This picture of the emerging services landscape auto-generates two conclusions. First, it is widely believed that the manpower (and sectors) with suitable digital

²² Pant, S., & Chakraborty, D. (2024). Is service orientation benefitting manufacturing exports from low-middle income countries? Firm-level empirical evidence from WBES data [Working Paper]. Indian Institute of Foreign Trade (IIFT)

and technical skills stand to benefit from AI penetration. Hence, one of the primary conditions for manufacturing and service sector progress is the focus on appropriate skilling of the labour force. The significant initiatives taken in the Budget 2024-25 need to be carried forward into action by the synergic efforts of all tiers of the government, private sector and skilling institutions. Second, there is an urgent need to review and amend complicated procedures at the grassroot level, regulations and rules that hinder both manufacturing and services. Chapter 5 offers several suggestions in this regard. These will help build resilience against the likely persistent global headwinds.
