



CIO Special

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India: why it will be a USD 7 trillion economy by 2030

Key takeaways

- India's GDP is set to double over the next seven years, aided by several inherent demographic advantages and policy-led changes.
- The demographic dividend of a young population combined with a large middle class has been amplified by a slew of structural reforms.
- Physical and digital infrastructure, clean energy transition and rapid financialization are paving the way for high, sustainable growth.
- The country's recent leapfrogging to a high level of digitization is already boosting productivity and efficiency in many ways.

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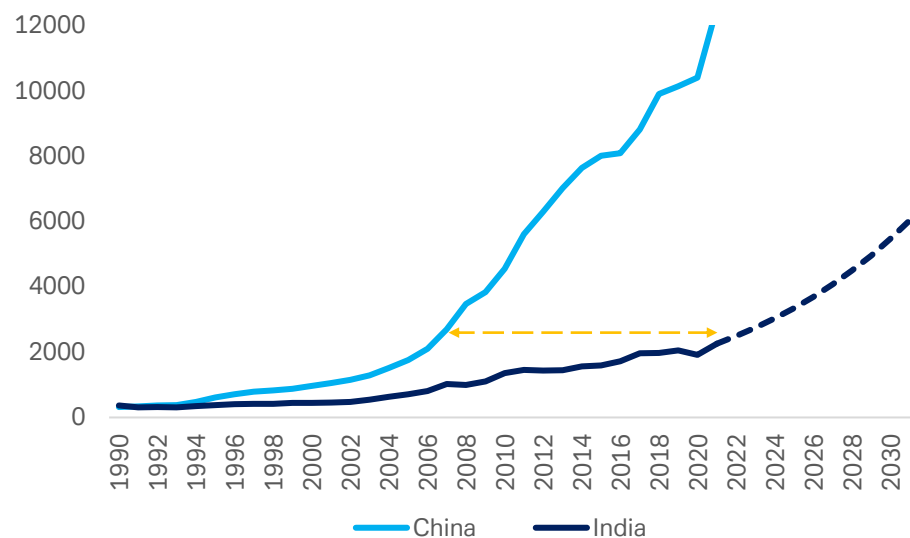
01 Introduction

The Indian economy seems set to double current annual GDP of close to USD3.5tn to USD7tn by 2030. Achieving such high growth consistently over a medium-term time frame will need more than demographics or consumption, often recognized as India's twin strengths. In this report, we look at a multitude of other factors that will continue to drive India's growth trajectory through the current decade.

The likely positive impact of a young population will be complemented by a slew of policy measures to spur on growth. Furthermore, digitization has added to productivity, financialization has vastly reduced the parallel economy and the transition to clean energy will also increase efficiency.

We analyze each of these aspects below.

Figure 1: Per capita GDP (USD) forecast for India: China was at India's current level in 2006-07



Source: Refinitiv, DataStream, Deutsche Bank AG. Data as of February 2023.



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02 Demographic dividend

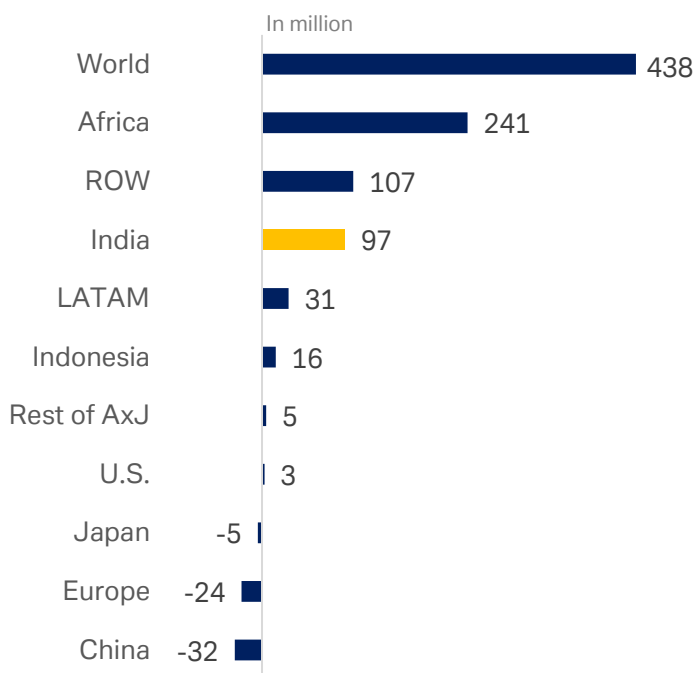
India has now overtaken China to become the most populous country in the world and is forecast to add 97mn people to its working population over the next 10 years. With the current median age at 28.4 years and rising to just 31.7 by 2030, the demographic advantages of a young populations are ready to be utilized. Interestingly, the size of India's working age population is right where China's was in 2007. The overall GDP and the per capita GDP are also similar on this comparison.

Over the next decade, India will enjoy the largest workforce growth of any single country in the world, and account for 22% of global workforce growth. (Africa, as a continent, will add 241mn people to its workforce.)

As affluence has risen, India has also become home to the largest middle class in the world, now estimated at 371mn, which will continue to provide purchasing power from within. The combination of a young population and a huge middle class bodes well for consumption over many decades to come.

A number of reforms have also paved the way for women in rural areas to participate in economic activities rather than only do household-related activity – a major demographic change. Electricity, cooking gas and clean water has released many free hours in a day from the previous need to fetch firewood and water. Rather than simply providing welfare gains, the unoccupied time has been converted into commercial enterprise, with self-employed activities such as handicrafts and poultry farming increasing economic wellbeing of households.

Figure 2: India is expected to add 22% of world's working-age population over the next decade



Source: UN population estimates, Morgan Stanley, Deutsche Bank AG. Data as of February 2023.

03 Policy-led transformation

However, creating jobs for such a large cohort can be a challenge for any government, perhaps more so in a democracy. A string of reforms have been executed which have increased productivity, reduced subsidy leakage, provided welfare and have created opportunities for economic enterprise.

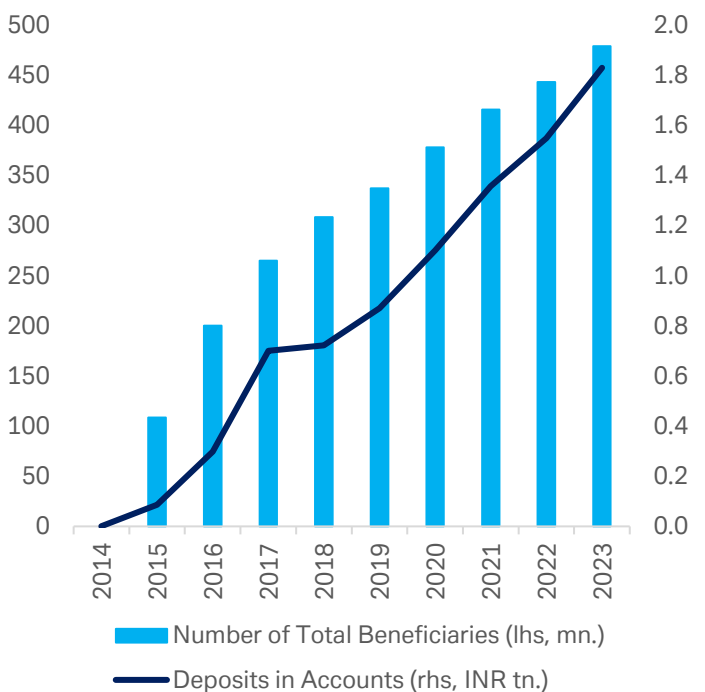
Fingerprinting and iris scanning a billion Indians for the unique national ID card (Aadhaar), linking it to the financially inclusive low-cost bank account (Jan Dhan) and connecting this to a mobile phone number for communication was only the beginning. This so-called JAM Trinity (Jan Dhan account, Aadhaar, Mobile) has plugged subsidy leakage and through the Direct Benefit Transfer has helped millions. This also forms the backbone of identity proof systems across platforms nationally.

A massive push to create a road network is ongoing, with a daily construction of 36 kms. A total of 73,000 kms of roads has been built over the past 10 years.

India is now fully electrified – only 20 years ago this figure was just 60%. Clean water in every house in every village is the latest initiative through the Jal Jeevan Mission. 56% coverage has already been achieved, with a 2024 target for full coverage.

The Production Linked Incentive scheme for manufacturing industry has incentivized new investments (largely export focused) across 14 sectors with an aim to create 6 million jobs. Electronic manufacturing has been the first sector to benefit with many more global corporations setting up shop already.

Figure 3: Jan Dhan low-cost bank accounts



Source: Govt. of India, Deutsche Bank AG. Data as of February 2023.



04 On the cusp of an energy shift

Given that the old ways of 'carbon-intensive' industrialisation are no longer sustainable, India is in the process of executing an ambitious plan for a shift to cleaner energy sources. Renewable energy in India promises to be an enabler of several key strategic objectives such as: advancing sustainable economic development; improving energy security (and reducing the trade deficit, since the country is a net fossil fuel importer); and mitigating climate change.

In recent years, India has made remarkable progress in providing access to electricity and clean cooking methods for its citizens. Nearly 100% household access to electricity was achieved in 2019. In parallel, the share of biomass in energy mix has declined by more than half.

In terms of renewable energy targets, India has become the only G20 nation to achieve its 2030 targets from COP21 – and no less than nine years ahead of schedule in 2021. At present, 157 GW of the country's 393 GW installed capacity (approx. 40%) is fuelled by renewable sources.

As regards the new national energy pledges from COP27, India is poised to add over 340 GW of renewable capacity by 2030, taking renewable capacity contribution above 60%. Most of the new addition is expected to come from solar (227 GW) and wind (100 GW) (Figure 4) aided by rapidly declining capital costs. With green hydrogen, industrial usage can gradually switch away from coal, while transportation fuel can be replaced with EVs. We remain optimistic about the likelihood of most of these targets being met over the next few years.

05 The digital revolution

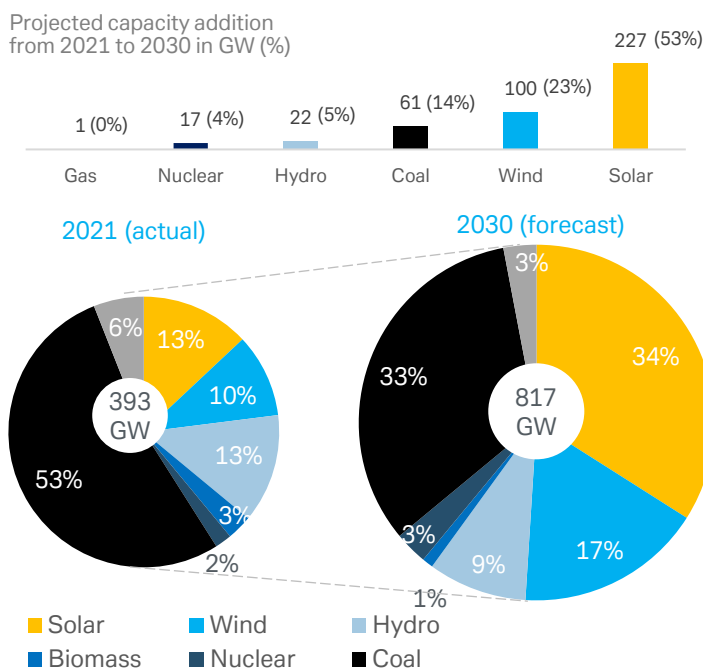
Aided by its large and thriving information technology sector, the government has digitized not only most of its services, but also enabled stacks for vertical services like payments and e-commerce marketplaces. On UMANG, the Government's "super app", a massive 1,682 services across federal and state level are available to citizens. Decades-old land records are being digitally converted for minimizing litigations and improving ease of transfer. The latest initiative through the Ayushman Bharat Digital Mission is to integrate digital health infrastructure including personal health records. In fact, the world's largest ever vaccination drive happened through the digital channel on the Aarogya Setu app which was created in a matter of weeks. Over 2.2 billion vaccinations were enabled and validated through the app.

The UPI (Unified Payments Interface) is probably the most successful digital payments stack worldwide. Linking all banks and account holders through mobile numbers, it enables individuals to transfer money to each other or to businesses seamlessly. It has now the highest payment transaction volumes globally – 2-10 times those of many developed nations.

The latest initiative – ONDC (Open Network for Digital Commerce) – aims to revolutionize e-commerce, by offering a network-centric model for connecting buyers and sellers, irrespective of the platforms they originate from, a UPI for online marketplaces.

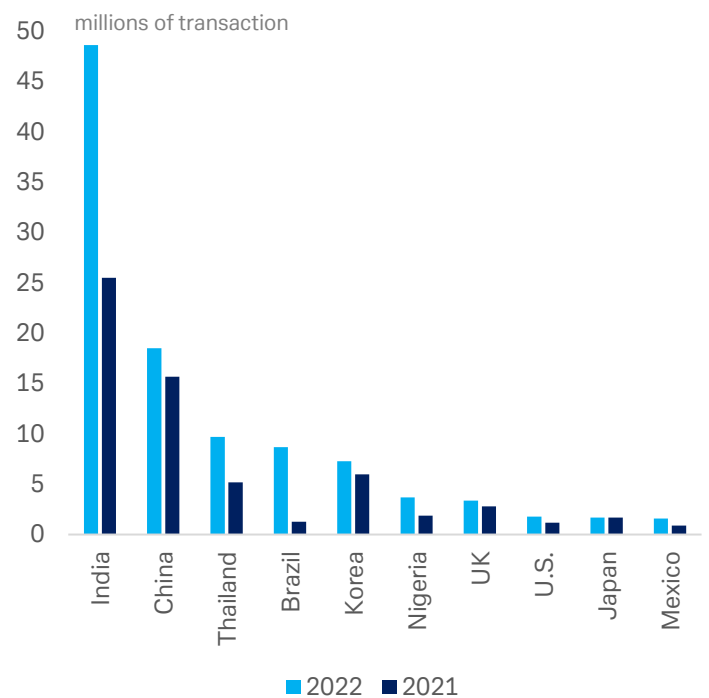
Each of these initiatives has boosted productivity, sharply reduced transaction costs and leapfrogged the country into a digital era in way unparalleled across the world.

Figure 4: Solar and wind energy to fuel most of India's power capacity in the future



Source: BloombergNEF, Central Electricity Authority, Deutsche Bank AG. Data as of 2022. Note: 2030 values are from CEA's report on optimal power generation capacity.

Figure 5: Volume of real-time digital payments



Source: ACI Worldwide, "Prime Time for Real-Time" in collaboration with GlobaData, Deutsche Bank AG. Data as of 2022.



06 Financialization

Enabled by the JAM trinity, as mentioned earlier, millions of people have been integrated into the Indian banking system. Over 481mn beneficiaries now have INR1.89tn (over USD23bn) in bank accounts. The data from this hitherto unbanked cluster now provides invaluable inputs for fintechs to enable lending to daily wage and self-employed people.

The Goods and Services Tax (GST) was implemented with many hurdles and snags, but now contributes almost USD20bn on a monthly basis to the governments' coffers.

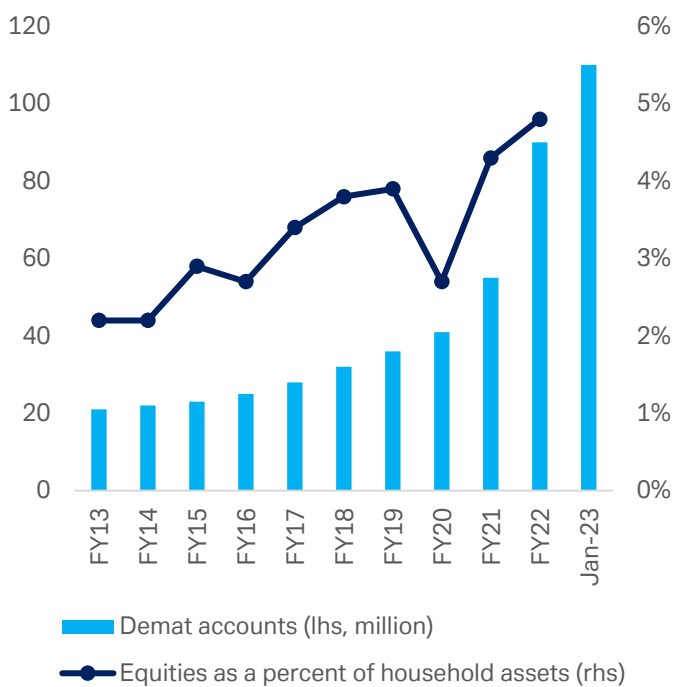
Banking formalization, increasing compliance through digital payments and Covid-induced low interest rates has led to higher allocation into equity markets, both through mutual funds and directly.

The number of custody (demat) accounts, essential to hold stocks, now exceeds 108 million – having doubled just in the last two years. Participation in equity mutual funds through Systematic Investment Plans (SIPs) has risen to an annualized run rate of USD20bn, making the domestic retail investor the largest public participant in the markets, eclipsing foreign portfolio investors, whose actions had previously determined market direction for years.

Even so, these growing numbers still account for only 4.8% of all household assets, giving much scope for equity allocation to increase.

As per capita GDP ratchets up to the USD4,000 inflection point, financialization of assets is also expected to double, moving away from the traditional saving routes of land and gold.

Figure 6: Financialization of Indian households



Source: MOFSL, CDSL, NSDL, Deutsche Bank AG. Data as of February 2023.

07 Conclusion

India's growth story is at a turning point. It is uniquely positioned among major economies with its large and growing middle class and a young working-age population. There exist some notable similarities between China of 2007 and India of today in terms of working-age population or per capita GDP.

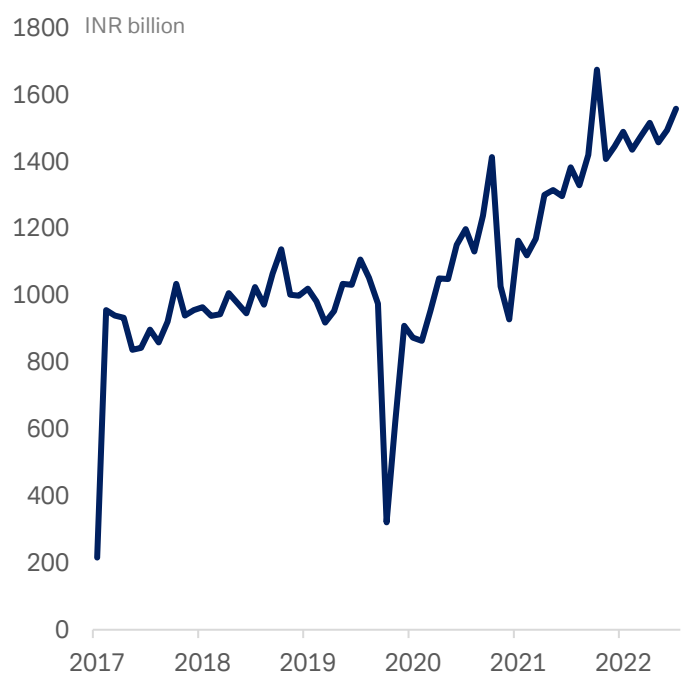
Of course, India has been witnessing relatively high growth rates for a couple of decades, but we have only recently seen the consolidation of several structural tailwinds in the last few years, and these have the potential to catapult India to a USD7tn economy by 2030. Besides the demographic advantage, policy reforms aimed at creating an environment that is conducive to investment and entrepreneurship has been critical to increasing consumption, investments and savings.

India has already achieved ambitious targets in terms of the shift to clean energy for strategic and economic objectives. Aided by government subsidy and geography, it currently has access to one of the world's cheapest renewable energy supplies.

In under a decade, nearly 100% of the country's population has been given a digital identity, something which is now powering a digital revolution providing tremendous efficiency gains in both public and private sectors.

Finally, aided by the above trends, the country's massive informal sector is now being rapidly included into the formal economy leading to increasing financialization of assets. All these structural shifts set the stage for India to become the fourth largest economy in the world by the end of this decade.

Figure 7: Improved digital compliance has seen soaring GST (tax) revenue for government



Source: Refinitiv, DataStream, Deutsche Bank AG. Data as of February 2023..



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Glossary

Aadhaar is the world's largest biometric ID system and constitutes a 12-digit unique identity number for the citizens of India

COP21, United Nations Climate Change Conference was held in Paris, France in the year 2015.

COP27, United Nations Climate Change Conference was held in Sharm El Sheikh, Egypt in the year 2022.

A **Demat** account (short for "dematerialized account") is a necessary account to hold financial securities (equity or debt) in a digital form and to trade shares in the share market.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries

Goods and Services Tax (GST) is an indirect tax (or consumption tax) used in India on the supply of goods and services.

INR stands for Indian Rupee, the currency of India

Open Network for Digital Commerce (ONDC) is an initiative aiming at promoting open networks for all aspects of exchange of goods and services in India over digital or electronic networks.

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts (**Jan Dhan accounts**), Remittance, Credit, Insurance, Pension in an affordable manner.

A **systematic investment plan (SIP)** is an investment vehicle offered by many mutual funds to investors, allowing them to invest small amounts periodically.

USD is the currency code for the U.S. Dollar.

UMANG provides a single platform for all Indian Citizens to access pan India e-Gov services ranging from Central to Local Government bodies.

Unified Payments Interface (UPI) is an instant real-time payment system developed by National Payments Corporation of India (NPCI). The interface facilitates inter-bank peer-to-peer (P2P) and person-to-merchant (P2M) transactions.



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