Funding India's Economic Growth

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Any country's economic growth is not just about GDP but more so about the factors that build that GDP and per capita GDP. One of the most important factors that influence GDP growth is demographic distribution.

As per various estimates by 2047, India will have a 1.1 billion population in the age group of 15-64 years which is going to be 1.6 times the entire population of Europe. It is expected that less than 15% of the population will be engaged in agricultural employment from the current 43% levels. Thus, more jobs will be required in the space of manufacturing and services. To achieve a minimum of USD 32 trillion economy by 2047, the per capita income will increase to about USD 18,800 by 2047 from USD 2,450 estimated in 2022.

When we look at the past three decades, India's growth story has been exceptional. But this journey has not been without its challenges, particularly in the financial sector, both in India and globally as well. As India continues to forge its economic path, the influence of the financial system will remain vital. The trajectory of this system will directly impact the futures of over a billion people in India and carry substantial implications for the global economy. One of the strongest points is India's resilience to growth amidst global headwinds such as inflation in most global economies, excessive borrowing by countries during COVID times leading to economic failure and several geopolitical factors. Many of these challenges have continued to weigh in 2023 and are likely to continue for several years to come. Yet, India has emerged as the fifth-largest economy in the world and is treading towards a higher growth trajectory.

Some of the important factors shaping India's growth include a growing and thriving environment for investments, both domestic and foreign, and competitive demographics with the largest youth population in the world, which provides prospective investors with a highly skilled workforce and a strong work ethic. India's huge domestic consumption, led by the private sector, has played a major role in the country's growth. India has an estimated middle class of 400 million people who are the main drivers of consumption expenditure. This emerging middle class and increasing disposable incomes are the largest factors behind the increasing domestic consumption in India. It is estimated that the private consumer market in India will increase four times by 2030 to about USD 6 trillion. According to a report by World Economic Forum (WEF), India is expected to become the world's third-largest consumer market by 2030 after US and China[1]. The Government is also focusing on rural areas and farmers, as rural India is also emerging as an upcoming market for all types of consumer goods.

A host of Government initiatives has also enabled India's investment growth, which includes developing India's financial system, improving the infrastructure and relaxing FDI norms. The Government has propagated an investor friendly FDI policy, in which most sectors are open for 100% FDI under the automatic route. India's FDI policy is also reviewed on an ongoing basis to ensure that India remains an attractive and investor-friendly destination.

Retail investors, mutual funds and private equity and venture capital (PE/VC) firms have all stepped up their domestic investments in the Indian market. Over the past years, we have seen that retail investors have invested over INR 11,000 crores per month via SIPs against about INR 6,000 crores in December 2017[2]. Assets under Management (AUM) of the Indian mutual fund industry as on 31st May 2023 stood at INR 43.20 lakh crore[3]. As a result, when about a year ago when FPIs withdrew huge sums from Indian financial markets, the market was resilient enough to absorb that shock. The share of retail investors in companies listed on the National Stock Exchange (NSE) reached an all-time high of 7.42% as of 31 March 2022, from 7.33% as of December 31, 2021. In the same time period, in rupee terms, retail holding in companies listed on NSE reached an all-time high of INR 19.16 lakh crore, up from INR 19.05 lakh crore on December 31, 2021.

On the FDI front, in FY22, India received its highest-ever annual FDI inflow, standing at USD 83.57 billion, a staggering 85.09% growth from USD 45.15 billion FDI inflows in FY15. In the manufacturing sector, FDI equity inflows stood at USD 21.34 billion in FY22, a 76% year-on-year growth from USD 12.09 billion in FY21.

Singapore (27%) was the country with the highest FDI equity inflow in India in FY22, followed by the US (18%) and Mauritius (16%).

India's PE/VC investment environment is also scaling new heights, with increases in deal size, deal activity and fundraising, as well as improvements in term sheets and benchmarking practices. In the first half of 2022 (January till June), PE/VC investment activity stood at USD 34.1 billion across 714 deals, a 28% growth year-on-year. Among these, startup investments were the highest, standing at USD 13.3 billion across 506 deals[4].

Recent speedy infrastructure investments, the inclusion of more sectors under the Production Linked Incentive (PLI) scheme, increase in public investments, and increasing PE/VC activity have led to plenty of investments in the Indian market. A stabilizing economic backdrop and financial oversight have provided investors with the perfect opportunity to invest in the country and have made India a rising economic powerhouse. Some of the recent investments and developments in this space are:

- In September 2022, PE/VC investments in India stood at USD 2 billion across 73 deals.
- Infrastructure was the top sector in September 2022, with USD 795 million in PE/VC investments across 4

deals.

- In the third quarter of FY 22 (July-September), USD 8.3 billion was invested in PE/VC investments.
- In FY22, net inflows into mutual funds stood at INR 2.46 lakh crore (USD 30.93 billion).
- Startup PE/VC investing in India stood at USD 28.5 billion in 2021, a 290% year-on-year growth.
- Technology (USD 16.3 billion), e-commerce (USD 15.9 billion) and financial services (USD 11.7 billion) accounted for 57% of the total PE/VC investments by value in 2021.
- In March 2022, FDI equity inflow into India stood at USD 4.59 billion[5].

The noteworthy steps taken by the Government during the last few years have started showing results, as is evident from the record volume of FDI inflow that was received in the country in FY22. The Government has launched policies that have significantly simplified the ease of doing business in India.

India currently enjoys the position of one of the most important players in the global economic landscape. Increased government investment is expected to attract private investment, both domestic and foreign. The Government's key PLI schemes in multiple sectors will provide significant support to the manufacturing sector. The PLI schemes in 14 different sectors can lead to additional production of INR 30 lakh crore (USD 401 billion) over the next five years, as well as create employment for 60 lakh people.

Gradual opening up of the economy by relaxing FDI norms, record vaccinations to combat the pandemic, increase in consumer demand and income, improving financial infrastructure of the country, and continued policy support towards industries by the Government in the form of the Atmanirbhar Bharat Abhiyan and various PLI schemes have led to an upturn in the performance of the investment sector in India, which is set to scale new heights in the coming years.

Given the global challenges, the pace of reforms is indeed very heartening. Some experiments like having a unified regulator for the GIFT city have also started showing positive results. The recent budget announcement for revision to regulations by all financial sector regulators in consultation with the public, and announcement of INR 10 lakh crore for capital investment is also very welcome among a slew of other major announcements. It is now time that private sector investments start taking the lead.

For achieving the same, the regulators should increasingly take the role of a facilitator, move to principle-based governance from rule-based governance and focus on inter regulatory issues to achieve common goals.

On ease of doing business, the Government should take a larger perspective to further encourage the MSMEs and attract new investments to increase employment opportunities, which has to be supported by relevant skilling opportunities while retaining the focus on ESG commitments to rest of the world.

With a combination of public and private funding as well as innovative funding mechanisms, India's growth will remain on the fast track.

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[1] World Economic Forum Report
[2] Economic Times
[3] AMFI
[4] India Brand Equity Foundation
[5] India Brand Equity Foundation