**EXPLAINER** - June 2026

# [Scenarios]
# India: The Middle-Class Polarization Challenge


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This paper is part of the Institut Montaigne's series of international studies that employ a scenario-based approach, drawing on academic research and extensive field discussions. Its objective is not so much to formulate definitive conclusions as to highlight structural developments and trends whose understanding can help inform long-term strategic decision-making. Since 2019, the Institut Montaigne has maintained a regular dialogue with the Indian government, business leaders, and the country's think tanks, and is therefore focusing on the deepening of a relationship that is set to play an increasingly strategic role.

Serving both as a compass for more effective marketing strategies that identify the Global South as a geography of growth, and as a ten-year planning tool in the context of the future EU–India treaty, this paper offers a glimpse of new strategies for economic actors seeking to strengthen their presence in India, taking into account the complexity of regional specificities and the evolving consumption patterns of a middle class numbering 150 million people.

This paper examines two questions that may shape economic relations between Europe and India over the next twenty years: what is the reality of India's middle class today, and what structural dynamics will determine its evolution? To what extent is the EU–India Free Trade Agreement likely to create new growth opportunities for European companies in the Indian market?

At a time when the transatlantic alliance is facing profound challenges and confrontation with China is intensifying on both economic and strategic fronts, the development of a reliable partnership with India appears to be a major pillar of French and European foreign policy.

Marie-Pierre de Bailliencourt,
**Institut Montaigne's Managing Director**

Current estimates of the size of India's middle class put it at roughly 140 million people. What is striking is that this figure is broadly comparable to estimates from fifteen years ago. Over the same period, the population of India has grown by around fourteen million people per year. The apparent stagnation of the middle class raises questions about the inclusiveness of India's economic transformation and the extent to which the country's rapid growth has translated into a genuine expansion of middle-class prosperity. How can the seeming stagnation of the middle class be explained? What are its consequences for India's economic partners as they seek to deepen their partnerships with the country?

The development of a sizable middle class is generally seen as both a marker and a driver of success in emerging economies. Beyond reflecting rising living standards, this social group sustains economic development by providing skilled labor, entrepreneurial capacity, and large consumer markets that attract investment. India appeared to be moving in this direction following the economic liberalization of the 1990s. The opening of the economy triggered significant domestic and foreign investment and fostered the rise of new professional categories, from private sector executives to information technology (IT) engineers. By the turn of the 2010s, these dynamics had contributed to the emergence of what was already estimated to be a group of 120–140 million people.

The middle class has also been affected by the "K-shaped" growth experienced by Indian society, which has increased the gap between India's richest 10 percent and poorest 50 percent to levels not seen since colonial times. On the one hand, the lower middle class has suffered a degree of impoverishment linked to the 2016 demonetization, the COVID-19 pandemic, and stagnating incomes due to chronic unemployment and persistent inflation. So much so that they cannot be seen as a class of consumers by foreign companies. On the other hand, the upper middle class has become much wealthier, to the point where they constitute a class of consumers of—still—about 140 million people.

This divergence is clearly evident from two statistical indicators. First, unemployment among young urban graduates is at record levels, with 37 percent of those holding a bachelor's or master's degree currently seeking employment. Second, the trajectory of the IT sector—one of the main drivers of Indian growth from the late twentieth to the early twenty-first century and a major source of the middle class—is facing difficulties: Major companies such as TCS, Infosys, and Wipro not only barely increased salaries or headcounts but also laid off employees in the first half of the 2020s. This slowdown is partly linked to the advent of artificial intelligence (AI), which can now perform some functions previously carried out exclusively by humans. However, the impact of AI on jobs is still uncertain, and 2026 seems to offer reason for optimism on that front. The Indian IT sector will no doubt find a new lease of life thanks to its Global Capability Centers and data centers—but only the most highly qualified engineers are likely to benefit from this, further increasing the gap between the elite and the struggling lower middle class.

## IMPLICATIONS FOR EUROPE

For European companies seeking to enter the Indian market, these developments are encouraging them to position themselves primarily in the higher-end consumer goods segment. The share of SUVs in car sales, for example, rose from 17 percent in 2016 to 65 percent in 2025 (even though these vehicles are 15 to 20 percent more expensive than sedans). However, while India has 140 million consumers who can afford products such as SUVs, they are scattered across a territory as large as the European Union. To reach them, market research must account for regional income disparities, bearing in mind that India's southern and western states are now between three and five times wealthier (in terms of per capita income) than those in the north. This mapping must, however, be combined with another level of analysis focused on urbanization. In a country that is still predominantly rural, major cities are a prime target but not the exclusive one—as beyond the megacities of Delhi, Mumbai, Bangalore, and so forth, cities with over five million inhabitants (such as Hyderabad, Chennai, Jaipur, and Ahmedabad) are also home to a large consumer base.

To reach these markets, European companies now have a choice of several commercial approaches, depending on their products. In addition to placing their products in shopping malls, which are widespread across India, or, for luxury goods, shopping arcades in five-star hotels, foreign companies can establish dealerships and single-brand boutiques. For small-sized products, the rapidly growing e-commerce sector offers another possibility.

Furthermore, European companies must prepare for the implementation of the Free Trade Agreement (FTA) between India and the European Union, parts of which were made public during Ursula von der Leyen's visit to New Delhi in January 2026. The FTA is expected to be signed in the coming months. In the automotive sector, tariffs on European cars are set to fall from 110 percent to 10 percent. However, this reduction will only take place over the next five to ten years, and imports of cars from Europe to India will be capped at 250,000 vehicles per year. In the aviation sector, customs duties—which currently average 11 percent—are set to be completely abolished. The situation is similar for machine tools and electrical equipment, as the agreement provides for the elimination of customs duties (which currently average 44 percent) within ten years. The timeframe is the same—but the scale of the reduction is half as much—for European steel and chemical products, which had previously faced average tariffs of 22 percent. Similarly, exports of wines and spirits, on which India levied an average tariff of 150 percent, are set to benefit from a reduction in tariffs to 75 percent within ten years and to 40 percent thereafter.

While the FTA should be finalized over the course of 2026, a new chapter will also open this year with new talks about an Investment Protection Agreement (IPA)—another sign of the political will of Brussels and New Delhi to draw closer economically. For the governments of Europe and India, this rapprochement is seen as necessary in order to emancipate these Middle Powers from the domination of the US and China. Whether the private companies on both sides share this point of view remains to be seen and will depend, among other things, on the opportunities that export markets will—or will not—offer.