INSTITUT Montaigne

[Scenarios] India: The Middle-Class Polarization Challenge

EXPLAINER - JUNE 2026

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Institut Montaigne's Explainers are analytical short-reads, setting out key facts and figures to make sense of the world we live in and how it is evolving.

Foreword

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

Executive Summary

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.

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Introduction

A country's level of development has long been gauged by the growth of its middle class, understood to be a sign of its transition from an agricultural economy to one dominated by industry and services. In India, the rise of the middle class began only recently but has quickly gained momentum. Until the 1990s, the Indian middle class consisted mainly of professionals, civil servants, and "businessmen," a category that included merchants and a small number of industrialists. Although civil servants were poorly paid, they enjoyed social security and pensions that remain highly valued today. The 1991 economic liberalization paved the way for the rise of a new social segment composed of corporate executives and engineers, particularly IT professionals. The IT sector and the business world in general expanded rapidly due to massive domestic and foreign investment—especially in the first decade of the twentieth century, when India's growth rate approached double digits. From then on, "the great Indian middle class"—to borrow the title of a well-known 1998 book[1]—defined itself by its income, the consumption that income enabled, and a high-caste ethos that shaped, for example, its rejection of affirmative action policies for lower-caste groups.

The Indian middle class has swelled demographically but remains difficult to define and measure[2]. This paper begins by assessing its size and examining its two subsets: the lower middle class and the upper echelon of society, two groups that have diverged for years, with the former facing crisis and the latter enjoying substantial and growing prosperity. It then explores the reasons behind this divergence and the middle class's broader demographic stagnation. It also examines why the growing importance of the IT sector in the Indian economy has not changed the stagnation in the size of the Indian middle class.

[1] *Pawan Verma, The Great Indian Middle Class (New Delhi: Viking, 1998), 232.*

[2] *Hence the endless debates, as evidenced by many articles, e.g., "India's Middle Class Is Almost Impossible to Define," Quartz, December 22, 2015, https://qz.com/india/578793/indias-middle-class-is-almost-impossible-to-define and "India's Middle Class Is Actually the World's Poor," Quartz, December 21, 2015, https://qz.com/india/562578/indias-middle-class-is-actually-the-worlds-poor.*

Finally, it turns to Indian consumers: How does this social category —which must be distinguished from the "middle class"—break down and behave?

1 The Indian Middle Class: Between Growth and Stagnation

Although a growing number of Indians have identified as members of the middle class since the first decade of the twenty-first century, measuring this category remains difficult. In 2012, India's National Council of Applied Economic Research (NCAER) defined the middle class as households with an annual income between INR 250,000 and INR 1,250,000[3]. This corresponded to 28.4 million households, or approximately 142 million people out[4] of a population of 1.2 billion at the time (according to the 2011 census), representing approximately 12 percent of the population. Meanwhile, economist Rajesh Shukla developed an indicator combining income, savings, and consumption, according to which 120 million Indians belonged to the middle class in 2007–2008, with the share of this social category rising from 5.7 percent of households in 2001–2002 to 12.8 percent by 2009–2010.[5]

These estimates have been contradicted by other more optimistic ones. Economists Anirudh Krishna and Devendra Bajpai concluded based on consumption levels alone that the middle class rose from 11 percent in 1992 to 20 percent in the first decade of the twentieth century.[6] India's Centre for the Study of Developing Society reached the same conclusion using different criteria, taking members of the middle class to be those who identify as such and possess at least two of the following four characteristics: (1) at least ten years of schooling; (2) ownership of

[3] *INR = Indian rupee = ₹. US$1 = INR 89.95550 on January 1, 2026.*

[4] *Christian Meyer and Nancy Birdsall, "New Estimates of India's Middle Class," Center for Global Development, Technical Note, November 2012, https://www.cgdev.org/sites/default/files/archive/doc/2013_MiddleClassIndia_TechnicalNote_CGDNote.pdf.*

[5] *Rajesh Shukla, How India Earns, Spends and Saves: Unmasking the Real India, Sage, 2010, https://www.researchgate.net/publication/329522272_How_India_Earns_Spends_and_Saves_How_India_Earns_Spends_and_Saves_Unmasking_the_Real_India.*

[6] *Anirudh Krishna and Devendra Bajpai, "Layers in a Globalizing Society and the New Middle Class in India: Trends, Distribution, and Prospects," Economic and Political Weekly 50, no. 5 (2015): 69–77, https://www.jstor.org/stable/24481337.*

at least three of the following four items: a motor vehicle, a television set, an electric pump, or non-agricultural land; (3) a solid-construction home (made of brick or cement); (4) a white-collar job.[7] This very broad set of criteria allows for the inclusion in the middle class of people whom others would classify as working class.

Regardless of exactly how membership of the middle class is defined, there is general consensus that this group experienced rapid growth during the first decade of the twentieth century, a period marked by a torrent of sociological studies on this very topic. Projections at the time by McKinsey, Ernst & Young, and Goldman Sachs, respectively, forecast that the Indian middle class would reach 583 million people —or just under a third of the population—by 2025, 475 million people by 2030,[8] and would even constitute "the vast majority of society" by 2040. Following a decade of strong growth from 2004 to 2013, Narendra Modi—then chief minister of Gujarat—introduced the concept of the "neo-middle class" to the public sphere to describe the emergence of a new transitional group: rural migrants to the city who could take advantage of urban growth to secure lower-middle-class jobs. After Modi became prime minister in 2014, his finance minister, Arun Jaitley, used this term during the 2015 budget session—but by the following year, it had disappeared from the government's vocabulary.[9] Since then, the expansion of India's middle class has no longer been a topic of discussion; instead, the focus has shifted to the crisis of the middle class, as reflected by newspaper headlines such as "Economic Boom for the Top 10%, Slowdown for the Rest."[10]

[7] *Aslany, Maryam. Contested Capital: Rural Middle Classes in India. Cambridge, United Kingdom; New York, Ny: Cambridge University Press, 2020.*

[8] *"India's Middle Class Is Almost Impossible to Define," Quartz.*

[9] *Udit Misra, "How Jaitley Went From Neo-Middle Class to Farmers, Jobs to Welfare," The Indian Express, March 1, 2016, https://indianexpress.com/article/explained/how-jaitley-went-from-neo-middle-class-to-farmers-jobs-to-welfare/.*

[10] *See, e.g., Shakshi Jain and Arup Roychoudhury, "Economic Boom for the Top 10%, Slowdown for the Rest," Deccan Herald, November 11, 2023, https://www.deccanherald.com/business/economic-boom-for-the-top-10-slowdown-for-the-rest-2767285, and Saurabh Mukherjea and Nandita Rajhansa "Educated and Employed but Still Struggling: India's Middle Class Under Strain," BBC, March 29, 2026, https://www.bbc.com/news/articles/cvg5g3pjy06o.*

1.1. STAGNATION

The Indian middle class reached a plateau in the mid-2010s and has been unable to resume its upward trajectory since then. In 2017, the Pew Research Center estimated that 108 million people belonged to the Indian middle class, defined as individuals with incomes in the range of $10–$50 per day in purchasing power parity terms. By this account, the middle class represented just 8 percent of the population. If the definition were expanded to include the 3 percent earning more than $50 per day, the middle class would be as large as roughly 11 percent of the population—a proportion similar to the NCAER figures from 2012.[11] Other data from beyond 2017 suggest that the number of Indians earning between $10 and $50 per day has not increased since then.

According to a detailed study of Indian taxpayers, members of the middle class—defined as those with annual incomes between INR 500,000 and INR 10 million—saw their incomes stagnate in real terms between 2013–14 and 2023–24.[12] This conclusion is supported by trends in real wages for employees in key sectors of the economy: In manufacturing, the real daily wage for employees fell from INR 302 to INR 292; in nonmanufacturing industrial enterprises (mining, energy, etc.), it fell from INR 469 to INR 427, and in services, it fell from INR 406 to INR 403, even though real wages in these sectors had already stagnated between 2013 and 2017.[13] This phenomenon can be explained by persistent inflation through the mid-2020s, driven in particular by food prices,[14] and stagnant incomes. As a result, between 2017–18 and 2022–23, the real income of the urban

[11] *M. K. Venu, "Consumption Data Shows the Indian Middle Class Is Shrinking," The Wire, October 27, 2024, https://thewire.in/macro/consumption-data-shows-the-indian-middle-class-is-shrinking. Note that in 2017, the Pew Research Center estimated that 61 percent of Chinese people earned more than $10 per day in PPP terms.*

[12] *"India's Middle Class Is Losing Ground to the Rich & the Poor," Marcellus, January 23, 2025, https://marcellus.in/blogs/indias-middle-class-is-losing-ground-to-the-rich-and-the-poor.*

[13] *Santosh Mehrotra and Rakesh Ranjan Kumar, "Why the 2023 Consumption Survey Is Not Comparable with Previous Rounds," The Wire, February 27, 2024, https://thewire.in/economy/why-the-2023-consumption-survey-is-not-comparable-with-previous-rounds.*

[14] *Praveen Paramasiram and Shivangi Acharya, "India's Middle Class Tightens Its Belt, Squeezed by Food Inflation," Reuters, November 13, 2024, https://www.reuters.com/world/india/indias-middle-class-tightens-its-belt-squeezed-by-food-inflation-2024-11-13/.*

population at large grew by only 0.1 percent, according to official figures from the Periodic Labor Force Surveys. Another report from Blume Ventures shows that wage growth in the IT sector between 2019 and 2023 lagged behind inflation (4 percent versus 5.7 percent); this was also the case in retail, logistics, and other sectors.[15]

Based on both income and consumption, Blume Ventures estimated that in 2024, there were around 30 million households (or approximately 120 million people) in India with an annual per capita income of around $15,000 and around 300 million Indians earning between $3,000 and $15,000.[16] These figures reveal a dual dynamic: On the one hand, the middle class did not grow as much from 2015 to 2025 as it did during the previous ten years; on the other hand, it underwent significant internal differentiation.

1.2. BIFURCATION

There has been a significant internal shift in the composition of the middle class. Some households that were classified in this category fifteen years ago now belong to the economic elite, even as the bulk of the middle class has stagnated or even declined. This dual phenomenon is clearly evident in figures from the World Inequality Lab, whose latest report shows that the share of national income held by the top 10 percent fell from 37 percent of the total in 1947 to 30 percent in 1982 (its lowest point), rose to 33.5 percent in 1990, and skyrocketed to 57.7 percent in 2022–23.[17] Within this top 10 percent, "the Indian

[15] *Sajith Pai, Anurag Pagaria, Nachammai Savinthiri, and Dhruv Trehan, Indus Valley Annual Report 2025, Blume, 2025, https://docsend.com/view/pyxuqunkm9ejw38q.*

[16] *Abhishek Mukherjee, "Urban Slowdown: What Happened to the Great Indian Middle Class?," Mint, November 24, 2024, https://www.livemint.com/economy/urban-slowdown-great-indian-middle-class-fmcg-consumers-11732449514468.html.*

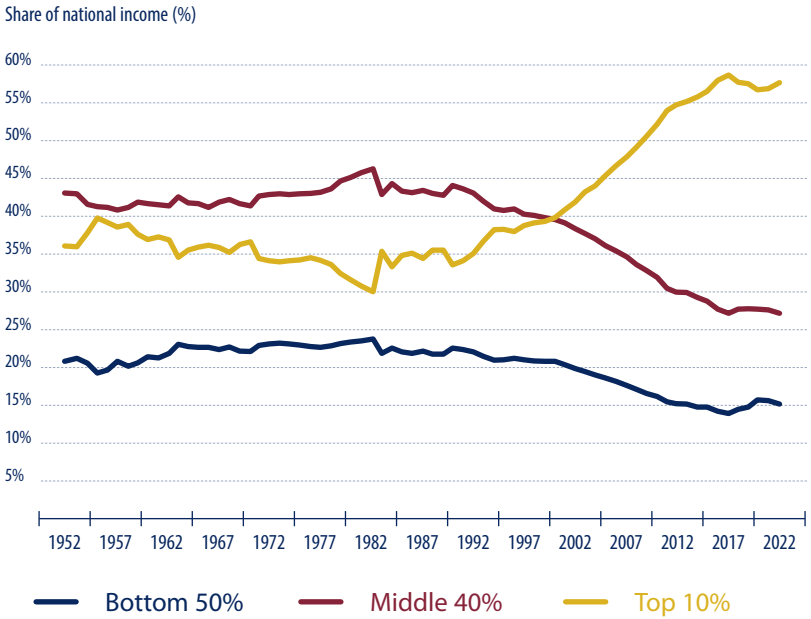
[17] *Unless otherwise noted, the data presented here come from this source: Nitin Kumar Bharti, Lucas Chancel, Thomas Piketty, and Anmol Somanchi, "Income and Wealth Inequality in India 1922–2023," World Inequality Lab, Working paper No. 2024/09, March 2024, https://wid.world/www-site/uploads/2024/03/WorldInequalityLab_WP2024_09_Income-and-Wealth-Inequality-in-India-1922-2023_Final.pdf.*

1 percent" is experiencing the fastest growth in wealth. Whereas this sharpest tip of Indian society accounted for 6.1 percent of annual national income in 1982, its share rose to 22.6 percent in 2022–23. Meanwhile, the top 0.1 percent accounted for 10 percent of annual national income at that time. It is worth noting that the number of billionaires in India continues to rise, according to the list published annually by Hurun: India had 308 billionaires in 2025, 24 more than the previous year. Only the United States and China have comparable numbers.[18] Conversely, the 40 percent of the population below the top 10 percent saw their share of national income drop from 44.1 percent in 1990 to 27.3 percent in 2022–23 (Figure 1). As for "the rest"—the poorest 50 percent—their share fell from 22.4 percent in 1990 to 15 percent in 2022–23.[19] Using this method, India emerges as the country where the "top 1 percent" and the top decile account for the largest and second-largest shares of national income, respectively (Figure 2).

[18] Vanshika Tyagi, "Hurun Rich List 2026: India's Total Number of Billionaires Rises to 308; Mukesh Ambani, Gautam Adani, Roshni Nadar Malhotra Top List; Know Their Net Worth," DNA India, March 8, 2026, https://www.dnaindia.com/business/photo-gallery-hurun-rich-list-2026-india-s-total-number-of-billionaires-rises-to-308-mukesh-ambani-gautam-adani-roshni-nadar-malhotra-tops-list-know-their-net-worth-3202602/mukesh-ambani-3202603.

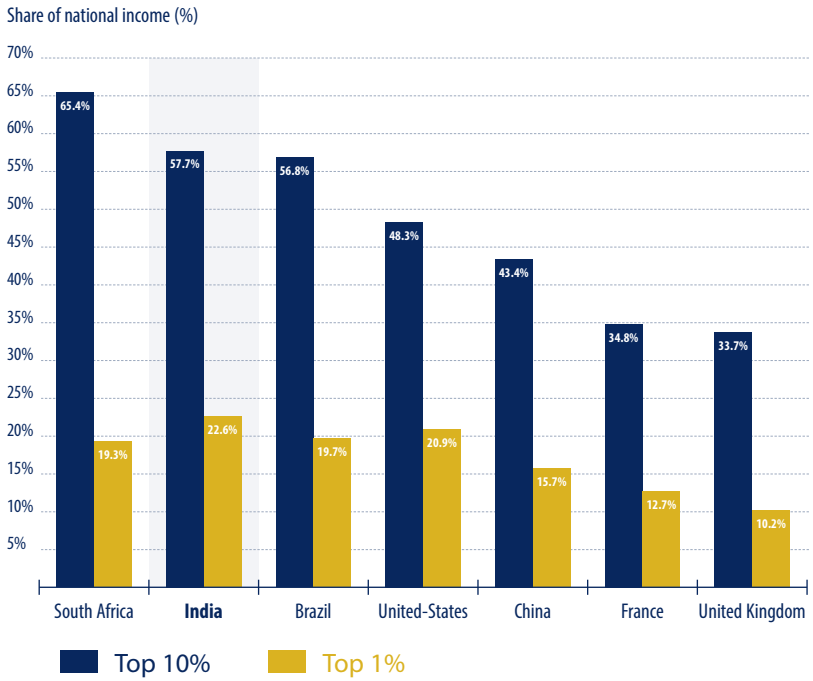
[19] If we stop thinking in terms of flows (income) and instead consider stocks (wealth), the conclusion is the same: The share of national wealth held by "the Indian 1 percent" rose from 13 percent of the total in 1961 to 39.5 percent in 2023 (within this group, "the 0.1 percent" held 29 percent of the total, "the 0.01 percent," 22 percent, and "the 0.001 percent," 16 percent). The wealthiest 10 percent, meanwhile, saw their share of the total rise from 45 percent in 1961 to 63 percent in 2012 before falling to 61 percent in 2018, rising again to 65 percent in 2022. Finally, the poorest 50 percent saw their share drop from 8.8 percent in 1991 to 6.9 percent in 2002, a level at which it has remained ever since. Whereas this bottom 50 percent and "the Indian 1 percent" held an equal share of the national wealth in 1961, the latter group now holds a share five times larger than the former.

Figure 1 • Distribution of national income by decile (1952-2022)



Source: N.K. Bharti, L. Chancel, T. Piketty, and A. Somanchi, Income and wealth inequality in India 1922–2023, Working Paper No. 2024/09, March 2024.

Figure 2 • Share of national income held by the richest 10% and 1% in India and elsewhere in the world



Source: N.K. Bharti, L. Chancel, T. Piketty, and A. Somanchi, Income and wealth inequality in India 1922–2023, Working Paper No. 2024/09, March 2024.

One might argue that India appears less unequal if the extreme deciles—the first and the last—are excluded from the analysis. But the impression of homogeneity that then prevails is one of widespread poverty, an observation confirmed by the fact that since the COVID-19 pandemic, 800 million Indians have been eligible for food aid. Today, if the richest 5 percent are excluded from the analysis, the per capita income of the remaining 95 percent drops to $1,130[20]—less than in most countries in sub-Saharan Africa. These figures align with World Bank data, which show that per capita income in India in 2021 was $1,907, compared to $3,189 in Indonesia, $2,981 in Iran, $3,732 in Iraq, $1,790 in Kenya, and $1,772 in Mauritania, to give just a few examples.[21] These data confirm the evanescence of the Indian middle class, as it is difficult to apply this label to the wealthiest 10 percent, and the subsequent deciles have fallen behind this elite. Chancel and Piketty go so far as to speak of a "missing middle class."[22] How can we explain this reversal of the expansion of the middle class seen in the first decade of the twenty-first century and the 2010s?

[20] *M.K. Channan, "India's GDP Numbers: The Myth of Prosperity and the Reality of Inequality", South Asia Monitor, 7 August 2025, https://www.southasiamonitor.org/spotlight/indias-gdp-numbers-myth-prosperity-and-reality-inequality.*

[21] *"Adjusted Net National Income per Capita (Current US$) | Data," The World Bank, https://data.worldbank.org/indicator/NY.ADJ.NNTY.PC.CD.*

[22] *Lucas Chancel and Thomas Piketty, "Indian Income Inequality, 1992–2015: From British Raj to Billionaire Raj?," Review of Income and Wealth 65, no. S1 (2019): S33–S62, http://piketty.pse.ens.fr/files/Chancel-Piketty2019RIW.pdf.*

2 White-Collar Workers Seeking a Second Wind: The Case of IT Services

2.1. STALLED MOMENTUM FOLLOWED BY A "K-SHAPED" RECOVERY

The relative stagnation of the Indian middle class is all the more puzzling given India's national growth rates, which—except during the COVID years—have consistently hovered around 7–8 percent since 2014. However, economists have long disputed these figures.[23] In 2025, the suspicion surrounding these figures was reinforced by the IMF's assessment of the quality of Indian data in its annual report on the country's macroeconomic situation: It awarded a "C"—the second-worst grade on its rating scale—to India's national accounts, which include the calculation of gross domestic product (GDP).[24] This criticism led the government to change the calculation basis (dating back to 2011) it had been using until then and to revise the weight of the informal sector (80 percent of the economy) downward. As a result, India's economic performance figures were adjusted to levels considered more realistic by experts—the annual growth rate had in fact been overestimated by 1.5 to 2 percentage points.[25]

[23] *Devesh Kapur and Arvind Subramanian, "The GDP Measurement Mess," in A Sixth of Humanity, HarperCollins, 2025, 98–99.*

[24] *Clément Perruche, "Le chiffre du PIB est erroné à près de 50 %": en Inde, des économistes mettent en doute la fiabilité des statistiques nationales" [GDP figures are off by nearly 50%": In India, economists question the reliability of national statistics], Les Echos, December 17, 2025, https://www.lesechos.fr/monde/asie-pacifique/le-chiffre-du-pib-est-errone-a-pres-de-50-en-inde-des-economistes-mettent-en-doute-la-fiabilite-des-statistiques-nationales-2205227.*

[25] *Abhishek Anand, Josh Felman, and Arvind Subramanian, "India's 20 Years of GDP Misestimation: New Evidence," Peterson Institute for International Economics, Working Paper 26-3, March 2026, https://www.piie.com/publications/working-papers/2026/indias-20-years-gdp-misestimation-new-evidence.*

The loss of momentum in the Indian economy during the second half of the last decade can be attributed to major cyclical factors. In 2016, the country first suffered the shock of "demonetization," a term referring to the abrupt withdrawal from circulation of 500 rupee and 1,000 rupee banknotes—representing 85 percent of the money supply—in the name of fighting corruption. This decision, which unfortunately did not eliminate corruption, dealt a devastating blow to the informal economy (which, as mentioned above, accounts for 80 percent of the total economy) by suddenly depriving it of liquidity. The following year, the introduction of the Goods and Services Tax (GST)—India's version of VAT—a major innovation aimed at modernizing indirect taxation and simplifying transactions for all businesses—severely disrupted business operations, particularly those of SMEs. India had barely recovered from these two shocks when it was hit hard by the COVID-19 pandemic. The lockdowns, which lasted for months in 2020 and 2021, sent millions of precarious workers onto the roads as they sought to return to their villages and plunged the growth rate into double-digit negative territory—to say nothing of the approximately three million deaths recorded by independent observers.[26]

Since the early 2020s, the economic recovery following the pandemic has taken the form of a "K-shaped" growth curve in India, with its two diverging branches reflecting a widening of inequality: The wealthy are reaping the full benefits of the growth—which remains robust—while others are no longer advancing and are even falling behind, including those who fifteen years ago were part of the middle class (or their children), either because they cannot find jobs or because their jobs no longer pay well. In 2024, three-quarters of Indians earned less than INR 15,000 (€140) per month.[27]

[26] *The official figures are seven to eight times lower—see Prabhat Jha and Yashwant Deshmukh, "Mortality Studies of COVID in India," accessed May 19, 2026, https://unstats.un.org/iswghs/documents/1-Prabhat-Jha-India-COVID-mortality.pdf.*

[27] *Surajit Das and Preksha Mishra, "3 in 4 Indian Laborers Earn Less Than Rs 15,000 a Month. Budget 2025 Should Help Them," Outlook, January 30, 2025, https://www.outlookbusiness.com/columns/3-in-4-indian-labourers-earn-less-than-rs-15000-a-month-budget-2025-should-help-them.*

2.2. THE PARADOX OF GRADUATE UNEMPLOYMENT

Surprisingly, Indian graduates are unable to find work easily, leading to mass unemployment among educated urban youth. In 2017–18, the unemployment rate for young people (aged fifteen to twenty-nine) with bachelor's degrees and master's degrees was 35.8 percent and 37.3 percent, respectively, compared to 19.2 percent and 21.3 percent in 2011–12.[28] In 2024, a survey by the International Labour Organization showed that the unemployment rate among "graduates" (those with a bachelor's degree) had reached 29.1 percent, nine times higher than that of illiterate individuals. It stood at 18.4 percent among those who had left the school system after completing secondary school.[29]

This situation stems from the mismatch between the expectations of job seekers and those of employers. On the one hand, the government has invested little in the education system, which is all the more understaffed given that India's population continues to grow by fourteen million people each year. The decline in public education is leading families to turn to private institutions where tuition fees are often prohibitive, sometimes resulting in significant debt that prompts young graduates to reject jobs where salaries are deemed too low and the professional responsibilities seem out of step with the skills they are supposed to have acquired.

On the other hand, employers say they cannot find the skilled workforce they need, as private universities do not meet their requirements any better than public ones, and top-tier programs remain highly exclusive—graduates of the renowned Indian Institutes of Technology (IITs), for example, still account for only 5 percent of engineers. As a result, in

[28] *Santosh Mehrotra and Jajati K. Parida, "India's Employment Crisis: Rising Education Levels and Falling Non-Agricultural Job Growth," Centre for Sustainable Employment – Azim Premji University, 2019, 9, https://rsk.iitk.ac.in/media/document/Youth_Emplyment-Mehrotra_Parida_India_Employment_Crisis.pdf.*

[29] *"Young Indians More Likely to Be Jobless If They're Educated," Mint, March 29, 2024, https://www.livemint.com/news/india/young-indians-more-likely-to-be-jobless-if-they-re-educated-11711671692506.html.*

2023, the employability rate for engineers holding a bachelor's degree or equivalent stood at 57 percent (up 11 percentage points from 2021, but still very low).[30] Even the IITs are struggling to place their students. In 2023–24, the number of job offers made to their graduates plummeted by 50 percent.[31] Based on data provided by the Indian government, employment specialists Santosh Mehrotra and Jajati Parida conclude that "28 million unemployed educated youth [aged 15 to 29] are looking for decent jobs, and about 100 million educated youth (mostly women) are not actively looking for employment" ("educated" here refers to someone who has attained a bachelor's degree).[32]

The scale of the problem becomes clear when one sees the flood of applications in response to the announcement of even the most modest vacancies in the civil service, as graduates eventually resign themselves to applying for jobs for which they are "overqualified" and where they will be underpaid. In 2018, more than 93,000 people, including 3,700 PhD holders, 50,000 "graduates," and 28,000 "postgraduates," responded to the announcement of sixty-two police officer positions to be filled in Uttar Pradesh—positions that required no qualifications beyond those acquired in "Class V" (the equivalent of fifth grade). In Rajasthan, 129 engineers, 23 law graduates, and 393 postgraduates were interviewed for positions as general laborers (peons) in the state administration.[33]

[30] *On this point, the nuanced testimony of an expert proves most instructive—see Harshad Shah, "Why Indian Engineers Are Unemployable & What's the Solutions," LinkedIn post, November 7, 2023, https://www.linkedin.com/pulse/why-indian-engineers-unemployable-whats-solutions-harshad-shah-atfqf/.*

[31] *Sheena Sachdeva, "IIT Placements 2024: As Job Offers Dip by 50%, Students Allege Favoritism by Placement Teams," News by Careers 360, December 12, 2023, https://news.careers360.com/iit-placements-2023-2024-job-offers-drop-50-percent-bombay-delhi-kanpur-salary-package-btech-students.*

[32] *Santosh Mehrotra, "India's Unemployment Trends Are Sending a Distress Signal," Scroll.in, May 26, 2025, https://scroll.in/article/1082642/indias-unemployment-trends-are-sending-a-distress-signal.*

[33] *"Over 93,000 Candidates, Including 3,700 PhD Holders, Apply for Peon Job in UP," The Economic Times, August 30, 2018, https://economictimes.indiatimes.com/news/politics-and-nation/over-93000-candidates-including-3700-phd-holders-apply-for-peon-job-in-up/articleshow/65604396.cms.*

2.3. INDIA'S IT SECTOR FACES THE CHALLENGE OF ARTIFICIAL INTELLIGENCE

India's IT sector—whose companies are often based in Bangalore, the "Silicon Valley" of India—has long been one of the country's engines of growth and has contributed significantly to the rise of its middle class. For this sector, the turn of the twenty-first century marked the beginning of a new era of prosperity, as fear of the "Y2K bug"—a term referring to the risk of a widespread computer system crash on the evening of December 31, 1999—led many Western multinationals to outsource the rewriting of a vast number of computer programs to Indian companies in the sector—which they succeeded in doing at minimal cost and in record time.[34]

These companies were able to offer such good value for money because India had already trained large numbers of computer scientists through programs of excellence such as the IITs, which were established in the 1950s. These programs were subsequently promoted by the Electronics Committee, which for nearly a decade from 1966 to 1975 steered public policies supporting this sector. One of the key measures involved creating Special Economic Zones for firms specializing in software, where companies are exempt from standard taxation and the labor laws in force elsewhere. There are now 276 such SEZs reserved for the IT sector (out of the total 425 SEZs in India), 145 of which are dedicated to exports. The first of these SEZs was established in Mumbai in 1973.[35]

Gradually, the Indian IT sector came to be embodied by a few leading companies such as Tata Consultancy Services (founded in 1967), Infosys (1981), Satyam (1985), and Wipro (which entered the sector in the 1990s

[34] *In fact, "This growth was initially sparked by the recognition of Indian IT expertise during the Y2K crisis, where thousands of Indian engineers used COBOL to address issues for global firms." – Ajay Srivastava. "Services Exports Must Go Beyond IT," BusinessLine, May 14, 2024, https://www.thehindubusinessline.com/opinion/services-exports-must-go-beyond-it/article68175677.ece.*

[35] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation, November 2025, https://www.ibef.org/industry/indian-it-and-ites-industry-analysis-presentation.*

following a radical diversification). If these firms have experienced spectacular growth, it is largely due to the quality of India's engineers—who were trained by the IITs and other educational institutions and sometimes went on to found their own companies, such as Infosys, the brainchild of men such as Narayan Murthy and Nandan Nilekani.

The Indian IT sector has gained considerable weight in the Indian economy, accounting for 7.4 percent of GDP in 2022, compared to just 1.2 percent in 1998. Its revenue rose from $167 billion in 2018 to $227 billion in 2022. In 2022–23, it stood at $244 billion, of which $125 billion was from IT services, $47 billion from business process management (BPM), $54 billion from software products and engineering services, and $18 billion from hardware.[36]

This sector is driven by exports. Of the $244 billion the sector generated in 2022–23, $193 billion came from exports, compared to $126 billion in 2018, $117 billion in 2010 (the first year the sector exported more than it imported), $52 billion in 2005, and $5 billion in 1991.[37] In 2023–24, the sector's exports grew by 3.63 percent to surpass the $200 billion mark.[38] The share of the IT sector of the country's total exports rose from 4 percent in 1998 to 25 percent in 2012.[39] Of the $193 billion recorded in 2022–23, 54 percent came from IT services, 22 percent from BPM, and 24 percent from software sales. Over the 2019–24 period, the compound annual growth rate (CAGR) for goods exports stood at 5.8 percent, compared to 10.5 percent for services, meaning that if these growth rates remain unchanged, India will export more services than goods by 2030.[40]

[36] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

[37] *Srivastava, "Services Exports Must Go Beyond IT."*

[38] *"India's Software and IT Services Exports Reach $200 Billion in 2023–24: Report," ET Government, March 14, 2025, https://government.economictimes.indiatimes.com/news/economy/indias-software-and-it-services-exports-reach-200-billion-in-2023-24-report/119010552.*

[39] *"Indian IT-BPO Industry," NASSCOM, February 2012, https://web.archive.org/web/20121220032358/http://www.nasscom.in/indian-itbpo-industry.*

[40] *Srivastava, "Services Exports Must Go Beyond IT."*

The United States is the leading destination for these foreign sales: It accounted for 62 percent of Indian IT exports in 2023, followed by a wide margin by the United Kingdom at 17 percent and continental Europe at 11 percent.[41] In 2024, the US share of Indian IT exports rose to as high as 70 percent.[42] This represents a major vulnerability, given the threat Donald Trump poses to Indian engineers' access to the US through H-1B visas. Although Indian engineers previously accounted for 73 percent of recipients of this type of visa, following a 100-fold increase in their cost (from $1,000 to $100,000), these visas have become inaccessible to them.

In the early 2020s, following the post-COVID return to growth, the Indian IT sector reached a plateau. First, the sector's revenue growth rate slowed: It fell from 8.4 percent in 2022–23 to 3.8 percent in 2023–24[43] before rebounding to 5.1 percent in 2024–25[44]—far from the 7 percent CAGR observed over the 2018–24 period.[45] This is due, in part, to a decline in investment. Private equity investments fell from $23.4 billion in 2021 to $12.3 billion in 2022, which admittedly remains a significant figure.[46]

More concerning is the Indian IT sector, which already employs a relatively small number of people—in 2017, it created only 5.4 million direct jobs and 15 million indirect jobs[47]—and is now seeing its workforce barely grow due to process automation and the advent of artificial intelligence (AI). According to an expert report, "Automation and artificial intelligence further threaten 40 percent of IT jobs."[48] This is because

[41] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

[42] *Srivastava, "Services Exports Must Go Beyond IT."*

[43] *Debangana Ghosh and Reshab Shaw, "IT Industry Growth Halves to 3.8% in FY24 vs 8.4% in FY23: Nasscom," Moneycontrol, February 17, 2024, https://www.moneycontrol.com/news/technology/tech-industry-revenue-growth-slows-down-to-reach-253-9-billion-in-fy24-nasscom-12290951.html.*

[44] *"India's Tech Sector FY25 Revenue to Grow 5.1% to $282.6 Billion: Nasscom," Business Standard, February 24, 2025, https://www.business-standard.com/industry/news/indian-tech-sector-fy25-revenues-to-grow-5-1-to-282-6-billion-nasscom-125022400454_1.html.*

[45] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

[46] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

[47] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

[48] *"India's Services Export Revolution: Set to Outpace Merchandise by 2030," Global Trade Research Initiative, Report no. 88, November 20, 2024, https://gtri.co.in/gtriFlagshipReports.*

many employees in the sector hold low-skilled positions—more than 1.4 million of the 5.4 million mentioned above work in BPM,[49] where they perform tasks that are more easily automated.

Call centers are a prime example. This segment of the BPM sector employs 1.65 million people in India. It hired 177,000 in 2021–22, 130,000 in 2022–23, and just 17,000 in 2023–24—a reflection of the fact that many call centers have turned to AI.[50] This trend clearly illustrates the view held by Marcellus Investment Managers (MIM)—a consulting firm behind one of the most in-depth studies on the state of India's middle class—that automation is the primary driver of the middle class's decline.[51]

As early as 2022, so-called tech companies laid off nearly 165,000 employees.[52] Since then, large companies have begun "downsizing." In 2023–24, for the first time in its history, Infosys saw its workforce shrink from 347,234 to 317,240, a reduction of 7.6 percent. Similarly—and in an equally unprecedented move—Wipro's workforce fell from 250,000 to 234,000 (–6.5 percent). Even TCS, the industry leader, saw its workforce decline for the first time since its founding, from 614,795 to 601,546. Capgemini maintained its workforce in 2024 but reduced it by 5.3 percent—from 359,567 to 340,443—in 2023. Only Accenture continued to hire, with its workforce reaching 774,000 people in 2024.[53] TCS, the industry leader, announced that in 2025–26, it would further reduce its workforce of 600,000 people worldwide by 3.5 percent. The reason given, aside from the impact of AI and the Trump measures cited

[49] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

[50] *"Meet the AI Chatbots Replacing India's Call-Center Workers," Channel News Asia, October 15, 2025, https://www.channelnewsasia.com/business/meet-ai-chatbots-replacing-indias-call-center-workers-5403026.*

[51] *"Why Is the Indian Middle Class Suffering?," Marcellus, November 2024, https://marcellus.in/blogs/why-is-the-indian-middle-class-suffering/.*

[52] *"Over 4.25 Lakh Tech Employees Lose Jobs in 2023, Layoffs Continue during Holidays," ET CIO, December 26, 2023, https://cio.economictimes.indiatimes.com/news/corporate-news/over-4-25-lakh-tech-employees-lose-jobs-in-2023-layoffs-continue-during-holidays/106283378.*

[53] *"For the First Time in 20 Years, TCS, Infosys, and Wipro Together Report a Massive Loss of 63,759 Employees in FY24," The Hindustan Times, April 19, 2024, https://www.hindustantimes.com/business/in-a-first-in-20-years-tcs-infosys-wipro-together-report-huge-loss-in-employee-strength-in-fy24-63759-101713529862998.html.*

above, is worth noting, as company executives cited a "skill and capability mismatch."[54] The mismatch between the training received by Indian engineers and the needs of companies is not a new problem—as early as 2012 and 2013, an annual study of 55,000 graduates showed that 30 percent of them lacked basic skills.[55] The country remains hampered by a serious training problem.

Salaries in this sector have also fallen: In March 2023, Infosys cut the variable portion of its employees' salaries by 40 percent, for example.[56] In 2022, however, the salaries of IT engineers in Bangalore were already much lower, at $12,000 per year, than those of their Chinese, Singaporean, or South Korean counterparts, at $46,000, $47,000, and $51,000, respectively.[57]

Even though their wages are stagnant or even declining in real terms, employees—who form the core of the middle class—pay a great deal of taxes because they are the only taxpayers the tax authorities can easily reach. In 2023, only 1.6 percent of the population of India paid income tax.[58] Even so, in 2022–23, income tax generated more revenue for the government than corporate tax, reflecting both a rise in the income tax rate and a fall—for the first time—in the corporate tax rate.

[54] *"Tata Consultancy Services Cuts 19,755 Jobs in Its Largest Workforce Reduction amid AI and U.S. Tensions," The Business Times, October 10, 2025, https://www.businesstimes.com.sg/companies-markets/telcos-media-tech/tata-consultancy-services-slashes-19755-jobs-biggest-workforce-cut-amid-ai-us-strains.*

[55] *"India's Engineering Graduates Cannot Solve Simple Mathematical Problems," India Today, May 7, 2012, https://www.indiatoday.in/india/north/story/india-engineering-graduates-cannot-solve-simple-mathematical-problems-101371-2012-05-06 and "30% of Indian IT Engineers Lack Basic Skills: Report," The Hindustan Times, October 12, 2013, https://www.hindustantimes.com/mumbai/30-indian-it-engineers-lack-basic-skills-report/story-GUGqOwEJeSUfHvbIA5X3SK.html.*

[56] *Divyanshi Sharma, "In Just One Year, Over 67,000 Jobs Lost at Infosys, TCS, Wipro, and Tech Mahindra," India Today, February 22, 2024, https://www.indiatoday.in/technology/news/story/in-just-one-year-over-67000-jobs-gone-at-infosys-tcs-wipro-and-tech-mahindra-2505495-2024-02-22.*

[57] *"World's Most Affordable Coders? Bengaluru Techies Earn Just $12,000 a Year; Here's What Other Global Cities Offer," Times of India, June 25, 2025, https://timesofindia.indiatimes.com/city/bengaluru/worlds-most-affordable-coders-bengaluru-techies-earn-just-12000-a-year-heres-what-other-global-cities-offer/articleshow/122060411.cms.*

[58] *Yudhajit Shankar Das, "How the Middle Class Pays More Taxes Than Corporations, and Gets Ignored Too," India Today, July 23, 2024, https://www.indiatoday.in/business/budget-2024/story/union-budget-2024-nirmala-sitharaman-middle-class-income-tax-burden-data-corporate-tax-numbers-2570554-2024-07-23.*

2.4. SALVATION THROUGH GLOBAL CAPABILITY CENTERS?

The traditional IT company is being replaced by a new model: Global Capability Centers (GCCs), which differ from the companies we have just reviewed more in form than in substance. They are still service-oriented operations, but as they are established by foreign multinationals that own them outright, they are freed from the need to continue outsourcing certain tasks to other Indian companies, as was previously the case. For these companies, the goal remains to benefit from the low labor costs of Indian engineers as well as the specialized skills of certain individuals that enable them to tackle complex problems. In this new setup, in addition to IT services, tasks related to financial management and human resources have been outsourced to India by companies that, until then, had kept them at their headquarters or nearby. Major banks have played a very important role here. For example, JP Morgan Chase employs 50,000 people in five cities across India.[59] Some GCCs have proven themselves to the point of enjoying increasing autonomy from their parent companies and becoming hubs of innovation that create value.[60]

In 2025, India had approximately 1,700 GCCs, employing 1.9 million people.[61] Their annual growth rate since 2022 has been 19 percent. GCCs are expected to continue growing, not only for the reasons cited above but also due to US visa policy. If multinationals can no longer benefit from the services of Indian engineers in the United States, they will likely choose to establish GCCs in India itself. India's reliance on the US market for IT services exports is indeed a major vulnerability, given Donald Trump's decision to restrict Indian engineers' access to the US

[59] *Chloe Cornish, "India's Back-Office Boom Sparks 'War' for IT Service Workers," Financial Times, November 20, 2023, https://www.ft.com/content/13f32219-483c-4030-b252-a0a76c625576.*

[60] *Prakash Bagri, Yagna Prakash, Aarushi Ray, Prince Khandelwal, "Evolution of Global Capability Centers (GCCs) in India: Lessons for Setting Up, Scaling, and Transforming Businesses," Indian School of Business Working Paper, 2024, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4921764.*

[61] *Srivardhini K. Jha and Anilesh Seth, "Global Capability Centers: Emerging Opportunities and Challenges," IIMB Management Review 37, no. 3 (Sept. 2025), https://doi.org/10.1016/j.iimb.2025.100595.*

through H-1B visas (see above). This decision has, in fact, caused the stock prices of companies in the sector to plummet.[62]

The other sector poised for growth in India is none other than the AI industry. We use the term "industry" deliberately here because India is positioning itself primarily in the data center niche, which involves both infrastructure and human capital, even though the latter was the main focus when India hosted the AI Impact Summit, attended by twenty heads of state and government, in February 2026. On the industrial front, India is striving to become a hub for data centers, which play a vital role in AI. New Delhi has thus decided to exempt all foreign investors who establish such centers in India to create "cloud services" from all taxes until 2047. This decision was followed by an immediate announcement by Google regarding plans to invest $15 billion in India over five years.[63] But the most numerous announcements came from Indian companies, many of which are known for their industrial and commercial activities—for example, a joint venture between Reliance Industries and Canadian and American companies committed to investing $11 billion, the Adani Group $5 billion, and L&T $2.5 billion. If these commitments are fulfilled, India will play a key role in the development of the infrastructure necessary for AI.

However, GCCs require a workforce better trained than the IT professionals of the previous generation (so-called legacy IT workers). While the number of job openings in the sector began to rise again in 2025, one informed observer noted, "The IT market has not returned to mass hiring. It has returned to targeted hiring."[64] Of the 1.8 million

[62] *Jason Chau, "Indian Tech Stocks Fall as New U.S. Visa Rules Weigh," The Wall Street Journal, September 22, 2025, https://www.wsj.com/finance/investing/indian-tech-stocks-fall-as-new-u-s-visa-rules-weigh-7d450ac6.*

[63] *M. G. Arun, "What's Driving the Growth of Data Centers in India," India Today, February 9, 2026, https://www.indiatoday.in/india-today-insight/story/whats-driving-growth-of-data-centres-in-india-2865563-2026-02-09.*

[64] *"India's IT Hiring in 2025: The Boom Is Real, but Not the One Engineering Students Were Waiting For," The Times of India, December 29, 2025, https://timesofindia.indiatimes.com/education/news/indias-it-hiring-in-2025-the-boom-is-real-but-not-the-one-engineering-students-were-waiting-for/articleshow/126228400.cms.*

job openings recorded, 65 percent were indeed for individuals with between four and ten years of experience—a significant shift partly linked to the rise of the GCCs, which accounted for 27 percent of openings, up from 15 percent in 2024. Yet "GCCs do not hire at scale from campuses. They hire specialists."[65]

In 2024, "NASSCOM … projected that India's technology sector will require over one million engineers with advanced skills in AI and other cutting-edge technologies within the next two to three years. Additionally, the demand–supply gap for digital talent is poised to widen from the current 25 percent to almost 30 percent by 2028."[66] Another Achilles' heel of India's IT sector is its low level of investment in R&D, even though in 2024, the country climbed seven spots in the Global Innovation Index to rank thirty-ninth.[67]

[65] *"India's IT Hiring in 2025," The Times of India.*

[66] *Sunainaa Chadha, "Only 10% of India's 1.5 Million Engineering Graduates to Secure Jobs This Year," Business Standard, September 16, 2024, https://www.business-standard.com/finance/personal-finance/only-10-of-india-s-1-5-mn-engineering-graduates-set-to-secure-jobs-this-yr-124091600127_1.html.*

[67] *"Indian IT & BPM Industry Analysis," India Brand Equity Foundation.*

3 Understanding the Indian Consumer

The income inequalities we examined in the first part of this note naturally reappear when we consider the same individuals no longer as "breadwinners" but as consumers—a perspective a recent study by the Indian government allows us to explore in relatively fine detail.[68] The study shows that the poorest 50 percent of urban residents spend an average of less than INR 5,000 (€60) per month, the richest 5 percent spend INR 20,824 (€233)—four times as much—the next 5 percent spend INR 12,399 (€139), the next 10 percent spend INR 9,582 (€107), and the rest—between the poorest 50 percent and the richest 20 percent—spend between INR 5,662 and INR 7,673 (between €63 and €86) per month.

This distribution aligns with income distribution in a rather logical way. One could, of course, argue that beyond their income, Indians could draw on their savings to spend. But they have already done so—particularly following the COVID-19 pandemic—and the current savings rate is the lowest in five years:[69] It fell from an average of 32.5 percent between 2010 and 2019 to 29.2 percent between 2020 and 2023 (compared to nearly 45 percent in China during the same period).[70] In addition to their savings, households are turning to borrowing to finance their purchases. At 43 percent of GDP, their debt-to-income ratio has reached an unprecedented level—it was only 34 percent in 2016.[71] Despite this, demand for consumer goods is slowing. Consumption expenditure per

[68] *See the Survey on Household Consumption Expenditure: 2022–23, Government of India, Ministry of Statistics and Programme Implementation, National Sample Survey Office, 2024, https://www.mospi.gov.in/sites/default/files/publication_reports/Report_591_HCES_2022-23New.pdf.*

[69] *Household net savings fell to 5.3 percent of GDP in 2022–23—see Soutik Biswas, "What's Behind a Dramatic Fall in Indian Families' Savings," BBC, April 26, 2024, https://www.bbc.com/news/world-asia-india-68874403.*

[70] *Pai et al., Indus Valley Annual Report 2025.*

[71] *Pai et al., Indus Valley Annual Report 2025.*

capita (CEPC) doubled over thirteen years, between 2010 and 2023, but at $1,493, it lags far behind that of Indonesia ($2,656) or China ($4,936).[72]

Major brands in the fast-moving consumer goods sector (such as Nestlé, a giant in India) and the durable goods sector (such as Maruti, which accounts for 40 percent of the automotive market) are seeing a decline in the segment of the middle class that made up the bulk of their customer base.[73] The slowdown in passenger vehicle purchases is a particularly telling indicator of the economic difficulties facing the middle class. While in 2020, the car ownership rate in India was only 3.1 percent (compared to 12.4 percent in South Africa, 18.1 percent in China, and 28.3 percent in Brazil),[74] the first half of the decade saw car sales stagnate—they even fell by 0.8 percent between July 2024 and July 2025.[75] Maruti-Suzuki CEO R. C. Bhargava estimated in 2025 that only 12 percent of the Indian population could afford to buy a car—those earning INR 1.2 million (approximately €12,000) per year. In fact, car sales are barely growing anymore—they grew by only 2 percent between 2023–24 and 2024–25. Maruti has also seen its revenue stagnate and its stock price eroded.

3.1. 140 MILLION CONSUMERS

The automotive sector illustrates the process of differentiation we described in the first part of this note: Whereas Maruti saw a decline in sales of small cars (–12.6 percent over the 2023–24/2024–25 period), its core business—sales of SUVs and high-performance vehicles—is growing.[76]

[72] *Pai et al., Indus Valley Annual Report 2025.*

[73] *Gurbir Singh, "Who Shrank India's Middle Class?," The New Indian Express, November 2, 2024, https://www.newindianexpress.com/business/2024/Nov/02/who-shrank-indias-middle-class.*

[74] *Abhishek Waghmare, "Vehicle Ownership in India," Data for India, accessed July 30, 2025, https://www.dataforindia.com/vehicle-ownership/.*

[75] *"No U-Turn Yet, Vehicle Sales Keep Sliding," The Economic Times, August 7, 2025, https://economictimes.indiatimes.com/industry/auto/auto-news/no-u-turn-yet-vehicle-sales-keep-sliding/articleshow/123173375.cms.*

[76] *Deepak Patel, "Only 12% of Indian Households Can Afford to Buy a Car: Maruti's R C Bhargava," Business Standard, April 25, 2025, https://www.business-standard.com/companies/news/car-buying-restricted-to-12-households-in-india-maruti-s-r-c-bhargava-125042501243_1.html.*

Overall, the share of SUVs has risen from 17 percent in 2015–16 to 65 percent in 2024–25.[77] Admittedly, SUVs are relatively less expensive than they were ten years ago due to the introduction of smaller vehicles, but their cost remains, on average, 15 to 20 percent higher than that of a sedan, which is lighter, consumes less fuel, and has lower insurance costs.[78]

As Blume writes, the consumer base is not widening but deepening in the sense that the segment of the wealthiest consumers—above the middle class—can afford more expensive and sophisticated goods. The automotive sector offers a good illustration of this process: Its annual growth rate (4.5%) was lower than the official rate for the overall economy, which was 6 percent between 2018 and 2024, but over this period, SUV sales grew faster, with this market segment rising from 23 percent to 50 percent of the total![79] In 2025, the Indian automotive industry experienced a surge that served as an "exception that proves the rule": To boost sales, the government lowered the GST (India's version of VAT) from 28–31 percent to 18 percent on base models and from 43–50 percent to 40 percent on high-end models. As a result, in the second half of the year, manufacturers increased their sales by 7.7 percent, a sign that the price barrier was decisive, but also an indication that this market is still only growing slowly.[80]

The real estate sector experienced its worst quarter—in terms of sales—since 2021 in the fourth quarter of 2025, with a 16 percent decline in apartment and home sales compared to the fourth quarter of 2024 and a 10 percent contraction over the year. It is true that, according to the Times of India, an Indian family of four belonging to the top 5 percent

[77] *Srinjoy Bal, "What's Driving the Boom in India's SUV Segment? We Explain," Mint, October 16, 2025, https://www.livemint.com/auto-news/whats-driving-the-boom-in-india-s-suv-segment-we-explain-11760601873888.html.*

[78] *Shamshuddin S., "SUV vs Sedan: Key Differences, Pros & Cons, and How to Choose," Coverfox, January 13, 2026, https://www.coverfox.com/car-insurance/articles/sedan-vs-suv-comparison/.*

[79] *Pai et al., Indus Valley Annual Report 2025.*

[80] *Rajesh Menon, "2025: A Landmark Year That Reset India's Auto Growth Trajectory," ET Auto, December 26, 2025. https://auto.economictimes.indiatimes.com/news/industry/2025-a-landmark-year-for-indias-automobile-industry-growth/126181372.*

of earners and saving 30 percent of their income would need to wait an average of thirty years to purchase a 110-square-meter home in one of India's ten largest cities.[81]

A 2025 estimate by Blume put the number of consumers in India at 140 million (or 30 million households).[82] While this figure is fairly comparable to that of fifteen years ago, the "K" growth observed since the early 2020s has led to a redefinition of who these consumers are: Today, they are the wealthiest Indians, not the middle class—even if this elite group prefers being called middle class to avoid drawing attention to itself. In fact, the primary target for companies is now mainly consumers with proportionally greater purchasing power than fifteen years ago who are also more demanding—particularly because they are worldly, have traveled, and want to find products they used in the West.

The overrepresentation of the wealthiest consumer segment is also evident in the real estate market. While luxury residences accounted for only 7 percent of the real estate market in 2019, their share rose to 21 percent of total transactions in 2024, amounting to $38 billion. This growth is partly attributable to Indians in the diaspora—particularly those in the United States—who increased their share of buyers from 10 percent to 25 percent.[83]

The same pattern is evident in the hotel market: Whereas luxury establishments (the famous "five-star" hotels) are experiencing very strong growth, the "mid-scale and budget segments" are lagging behind.[84] Similarly, the number of business-class air travelers increased by 50 percent

[81] *Atul Thakur, "House in Mumbai: Richest 5% Need 109 Years' Savings," The Times of India, June 14, 2025, https://timesofindia.indiatimes.com/india/house-in-mumbai-richest-5-need-109-years-savings/articleshow/122035515.cms.*

[82] *Pai et al., Indus Valley Annual Report 2025.*

[83] *"Trends and Innovations in India's Luxury Residential Market," India Brand Equity Foundation, September 2, 2024, https://www.ibef.org/blogs/luxury-living-redefined-trends-and-innovations-in-india-s-luxury-residential-market.*

[84] *Growth of the Hotel Industry in India, India Brand Equity Foundation, 2024, 13, https://www.ibef.org/download/Growth-of-Hotel-Industry-in-India.pdf.*

in 2024, prompting two of the major airlines, Indigo and Air India, to reevaluate the seating configuration on their aircraft.[85]

3.2. IMPLICATIONS FOR EUROPEAN COMPANIES?

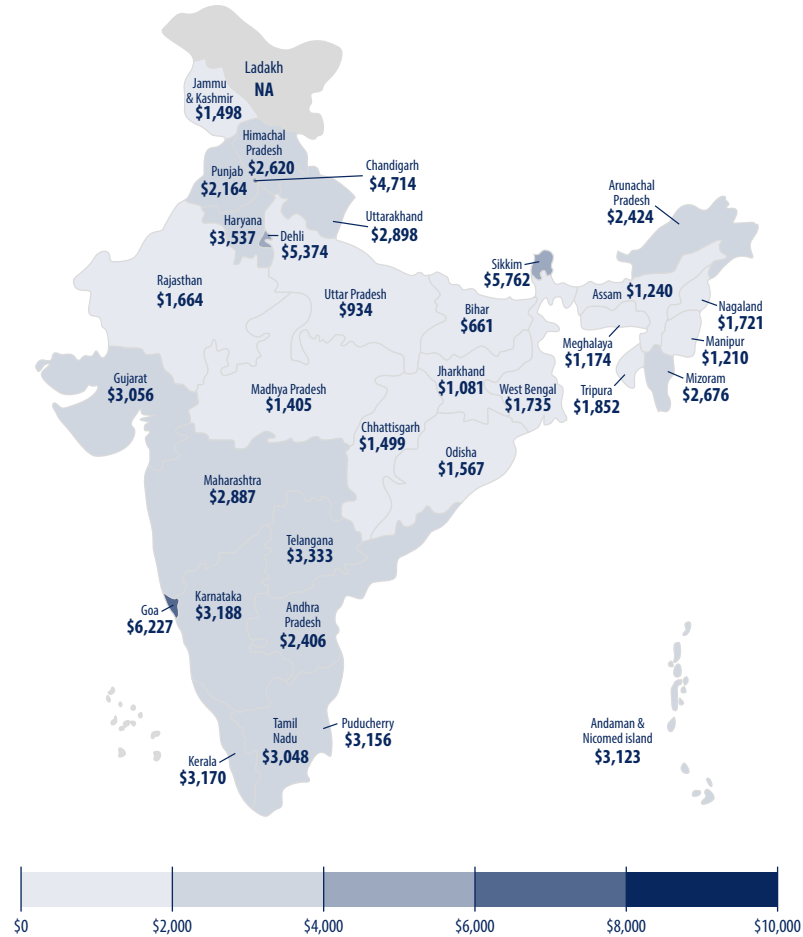
The above study of Indian society has shown that its middle class has not increased but "deepened," as is evident from the emergence of a rich elite of consumers. While this consumer base of roughly 140 million people is as large as the population of some of the world's major countries, it is spread across a subcontinent covering more than 3 million square kilometers. Reaching them is thus no easy task, particularly for European companies that are relatively unfamiliar with the Indian market. How can European companies—whether operating from abroad or within the country—reach Indian consumers?

3.3. REGIONAL CONTRASTS

The first answer to this question lies in geographical terms. Certain regions of this vast country enjoy income levels well above average. This is particularly true of the southern states of the Indian Union. The per capita income map for the fiscal years 2019–20 and the GDP per capita in 2024–25 map show that both are four to five times higher in the South than in northern India and that the gap is widening. For example, in 2024-25, Karnataka was 5.7 times richer than Bihar, whereas the multiplier(not for the per capita GDP but for the per capita income) was only 4.8 in 2019–20. Similarly, the ratio between Tamil Nadu and Uttar Pradesh has risen from 3.3 for the per capita income to 3.9 for the GDP per capita (see maps below).

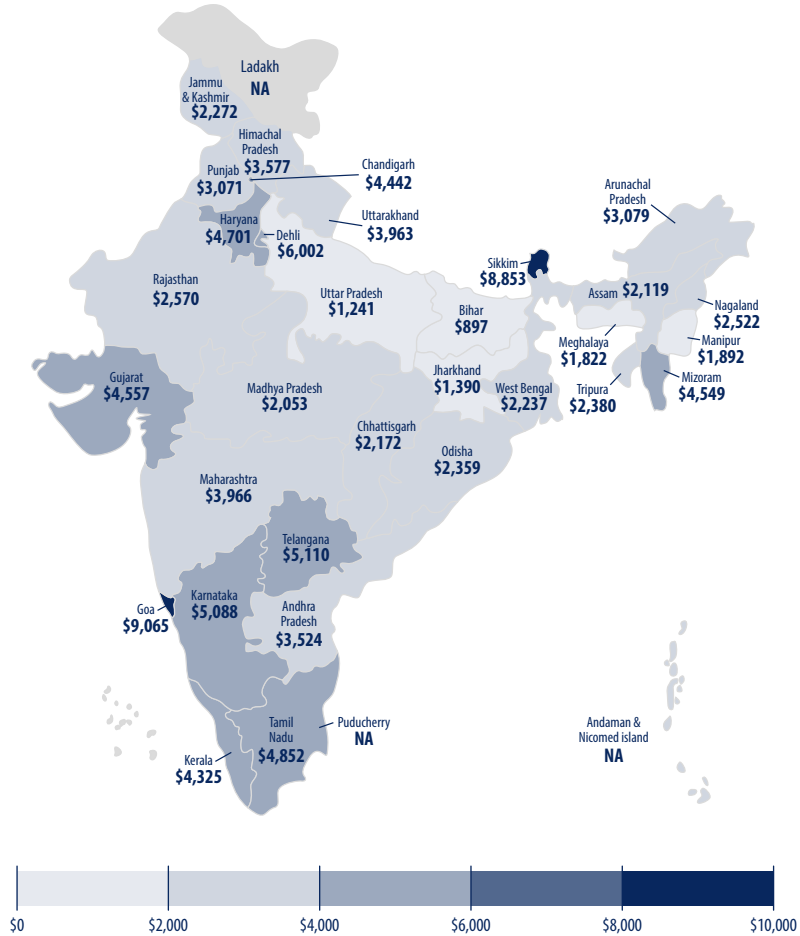
[85] *Raghav Aggarwal, "More Indians Want to Fly Business Class This Holiday Season," Financial Express, December 18, 2024, https://www.financialexpress.com/business/airlines-aviation-more-indians-want-to-fly-business-class-this-holiday-season-3693993/.*

Figure 3a • Per Capita Income by state in the Indian Union[86] (Between 2019-20, in USD)



[86] *Data from Population Projections for India and States 2011-2036, National Portal of India, July 2020, https://ruralindiaonline.org/en/library/resource/population-projections-for-india-and-states-2011-2036/ and GDP of Indian States and Union Territories, Forbes India, September 19, 2024, https://www.forbesindia.com/article/explainers/gdp-of-indian-states-union-territories/88157/1.*

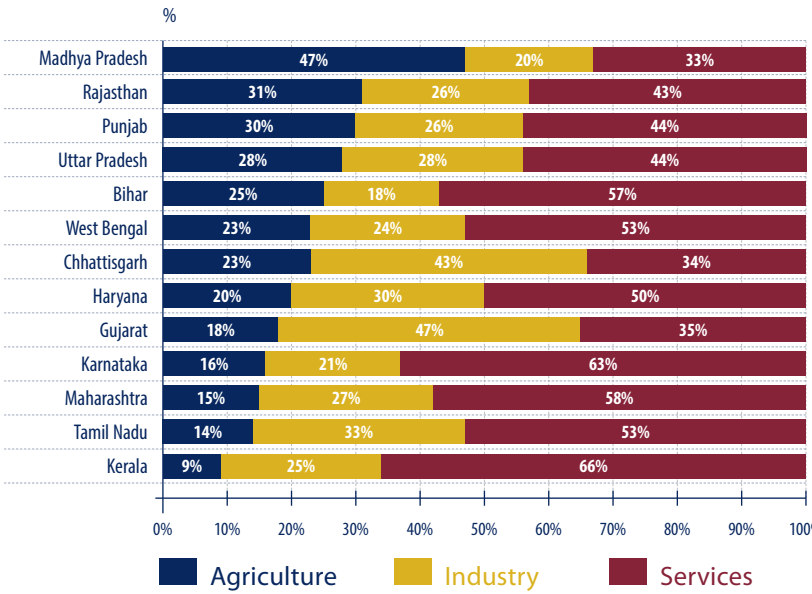
Figure 3b • Estimated GDP Per Capita by state in the Indian Union[87] (Between 2024-25, in USD)



[87] *PRS Legislative Research. "State of State Finances Report." PRS Legislative Research, n.d. https://prsindia.org/budgets/states. Reserve Bank of India. "Reserve Bank of India - Publications." www.rbi.org.in, n.d. https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=22089.—Figure 3a and Figure 3b are based on maps aggregated by @slimjerry2001 and shared on Reddit.*

Although not as developed as the South, western India—Maharashtra and Gujarat—also has considerable purchasing power, as do Haryana and Delhi, two states that owe their high rankings here to the presence of Gurgaon and New Delhi within their borders. States where agriculture still accounts for nearly a quarter of GDP are generally among the poorest (see the chart below). Of India's 1,687 dollar millionaires, 548 live in Maharashtra and 223 in Delhi, with the remainder residing in Karnataka, Tamil Nadu, Gujarat, and Telangana.[88]

Figure 4 • The share of the three economic sectors in the GDP of the major states of the Indian Union (2021-22)



Source: Abhishek Waghmare, "The Economies of Indian States," Data for India, November 11, 2024, https://www.dataforindia.com/state-economies/.

[88] *Parth Parikh, "India's Billionaires Live in Just Ten States and the Rest Are Watching," The Financial Express, October 6, 2025, https://www.financialexpress.com/money/insights/indias-billionaires-live-in-just-ten-states-and-the-rest-are-watching/3999523/.*

3.4. BEYOND THE MEGACITIES

In addition to India's regional geography, the distribution of its population along an urban/rural axis is also significant. There is a strong correlation between the level of urbanization and the overrepresentation of members of the upper middle class, as the graph below shows clearly.[89]

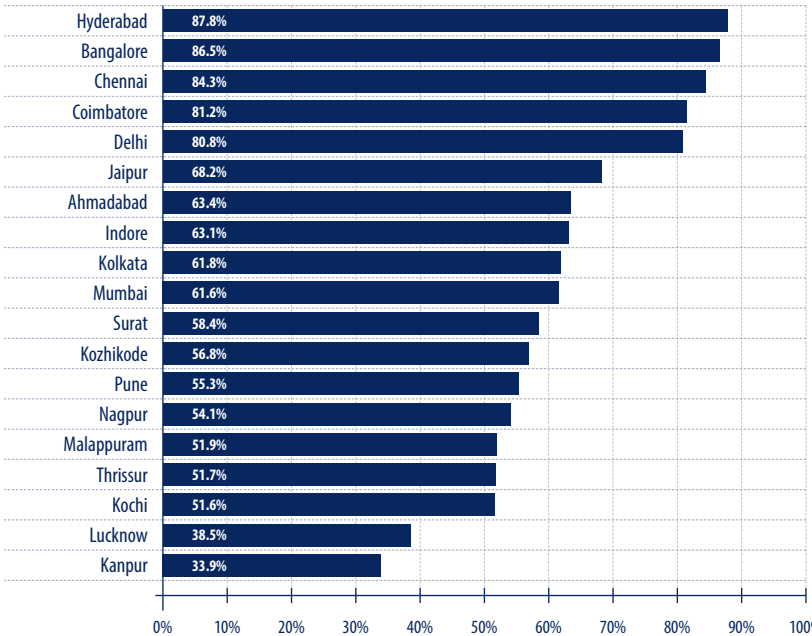
Mumbai is a prime example: in 2014–15, Mumbai had 2,700 rupee millionaires and thirty of the sixty-eight billionaires then in India.[90] By 2023, their number in Mumbai had risen to sixty-six. In 2024, for the first time, the city had more billionaires than any other city in Asia.

However, the cities with the highest percentage of consumers are all in the South, as is evident from the graph below, where Hyderabad, Bangalore, Chennai, and Coimbatore show a strong representation of this group.

[89] *See also: Rajesh Shukla, "Developed Rural Is Home to 15% of Super Rich," PRICE, 2023, https://www.price360.in/publication-details.php?url=developed-rural-is-home-to-15-of-super-rich.*

[90] *"The Rich List: Over 2,700 People in Mumbai Are Worth More Than Rs 60 Crore," Forbes, August 6, 2014, https://www.firstpost.com/business/living-business/the-rich-list-over-2700-people-in-mumbai-are-worth-more-than-rs-60-crore-1982771.html.*

Figure 5 • Share of consumers in India that earn at least the equivalent of the top 40 percent of global income earners worldwide (2024, by city)



Source: Statista, "India: Middle Class Consumers by City," 2026, https://www.statista.com/statistics/1487.

We should note that pockets of prosperity also exist in smaller cities. In 2022, the Hurun India Rich List mapped the 178 rupee millionaires living in second- and third-tier cities, that is, those with city centers containing between 50,000 and 100,000 inhabitants and between 20,000 and 30,000 inhabitants, respectively. These data show that these second- and third-tier cities also have many consumers[91]—even if the number of great fortunes is much smaller.

[91] *Sahil Grover, "Wealth Beyond Tier-1 Cities: Deciphering the Fundamentals That Make Bharat's Billionaires Tick," Forbes, March 21, 2024, https://www.forbesindia.com/blog/wealth-management/wealth-beyond-tier-1-deciphering-the-fundamentals-that-make-bharats-billionaires-tick-330111.html.*

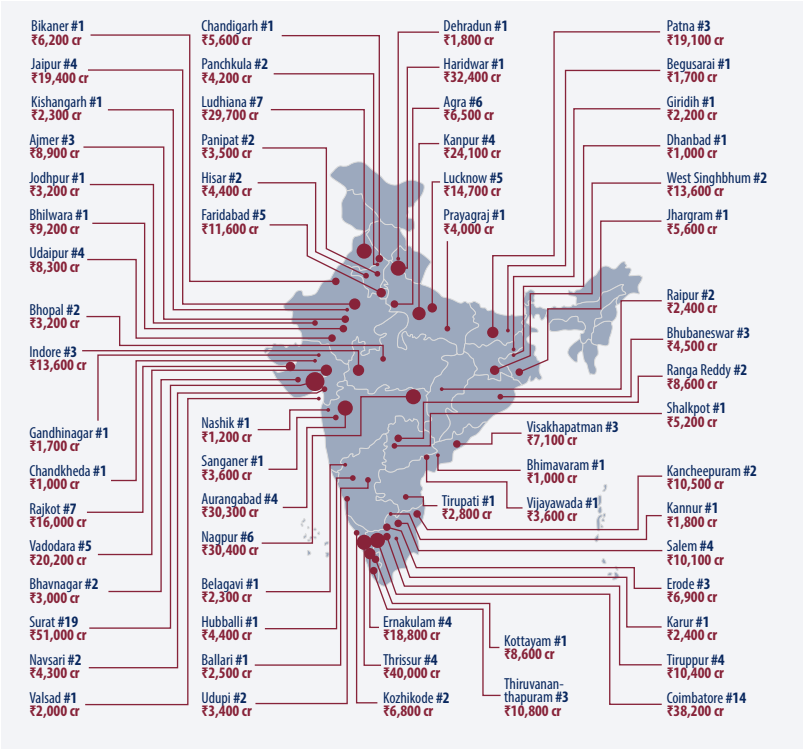
Figure 6 • The presence of wealthy Indians outside major megacities

A Rich Countryside

India's smaller cities have given us 178 tycoons whose net worth exceed Rs 1,000 crore. That Coimbatore and Surat have the most is no surprise, Thrissur is the wealthiest.

Total wealth generated
₹6,37,800 cr

Name of the small town
#X (No. of wealth generators)
Wealth generated



Source: Arun, M. G. "Small-Town Tycoons," India Today, November 21, 2022, https://www.indiatoday.in/magazine/cover-story/story/20221121-small-town-tycoons-2296311-2022-11-12.

Furthermore, rural towns themselves are home to the newly wealthy who have made their fortunes by selling part of their land on the outskirts of cities, whether to build factories or luxury housing. Some rural districts are home not only to wealthy residents but also to factories and even service companies. As a result, according to a survey by HDFC Bank, India now has 112 rural districts where per capita income has already reached $2,000 in 2025. Southern states are overrepresented in this sample.[92]

In summary, India's consumers are more dispersed around the country than one might anticipate. Certainly, the middle class is larger in the southern states than in the North, but the rich are massively overrepresented in big cities of western India (including Mumbai and Ahmedabad) and in the North (such as Delhi and Gurgaon). At the same time, much smaller places also attract the wealthy or are the crucibles of the making of local fortunes.

3.5. E-COMMERCE AND SHOPPING MALLS

The distribution of Indian consumers just mentioned presents challenges for brands. Some, if their products lend themselves to it, can focus on highly promising "niches" such as the upper middle class in major cities. Others, to go a step further, can form alliances with Indian companies that have already built their networks over time. This is how Allianz created a joint venture with the scooter manufacturer Bajaj, which has dealerships throughout India, to sell its insurance policies.

[92] *Varun Lohchab, Amit Kumar, Anuj D., Aryan Singh Dalal, Rural India: Shifting Economic Foundations, HDFC Securities, June 30, 2025, https://www.hdfcsec.com/hsl.docs//Rural%20India%20-%20Jun25%20-%20HSIE-20250630132230804820 9.pdf.*

These strategies are partly driven by the unique nature of shopping centers in India. To protect small retailers, large retailers have not been allowed to open supermarkets despite lobbying by Walmart and other chains. Only single-brand stores are permitted. These are highly sought-after retail spaces for brands that are well recognized by consumers due to their brand awareness. The alternative favored by the majority of economic players, however, is the "shopping mall," the Indian equivalent of French-style department stores but on a much larger scale. Often located on the outskirts of major metropolitan areas, these venues—which also feature restaurants and movie theaters—can span areas ranging from 1.5 to 2 million square feet and house more than three hundred stores. For everyday consumer goods and services, shopping malls are often the best way to reach what we referred to earlier as "consumers," as they generally attract the upper middle class. For the elite ready to purchase luxury goods, the shopping arcades of major hotels are certainly even better suited, even if the two worlds overlap to some extent.

For most shoppers, however, the internet has become the preferred shopping channel. Indeed, e-commerce has experienced considerable growth in India in recent years. The number of e-commerce users was estimated at 312.5 million in 2022, with revenue projected to reach $147.3 billion by 2024.[93] This growth—at a rate of nearly 19 percent annually—is driven by increased internet penetration, falling mobile phone prices, and the widespread adoption of online payments, particularly through the UPI system. While intermediaries such as Amazon continue to play a major role, the trend is toward "D2C" (direct to consumers), with brands preferring to sell directly to consumers without going through a third party. To sum up, according to the targeted market, foreign companies eager to sell their products in India should

[93] *Statista, "Number of Digital Buyers in India in 2021, with Estimates Until 2025," 2023, https://web.archive.org/web/20230801054316/https://www.statista.com/statistics/251631/number-of-digital-buyers-in-india/ and "The E-Commerce Landscape in 2025: Trends, Growth, and the Role of D2C Brands," Indian Retailer, December 22, 2024, https://www.indianretailer.com/article/d2c-new-commerce/eretail/e-commerce-landscape-2025-trends-growth-and-role-d2c-brands.*

focus on a specific channel—like the shopping malls and, especially for luxury goods, the galleries of five-star hotels—or rely on e-commerce, a trading technique that is gaining momentum and allows manufacturers to reach consumers across the country, even in semirural parts.

3.6. THE EU–INDIA FTA, A GAME CHANGER?

In the coming years, access to the Indian market should be made much easier if the Free Trade Agreement between the EU and India is finalized along the lines that both parties agreed upon earlier this year. On January 27, Ursula von der Leyen, president of the European Commission, dubbed the trade agreement signed by Narendra Modi and herself "the mother of all deals." At the same time, the text was far from final. Both parties had stepped up the pace and wrapped up negotiations just in time to coincide with von der Leyen's invitation to India's national holiday on January 26, the famous "Republic Day," and to demonstrate to Donald Trump—who imposed record tariffs on India in 2025—that they had alternatives to their "American friend."

However, what has been announced so far is promising in terms of market access for Europeans. 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 European exports will be capped at 250,000 vehicles per year. In the aviation sector, customs duties—averaging 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 (now averaging 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.

Negotiations are still ongoing in several key domains about which no decision has been announced so far. While the EU, for years now, is making a point of including chapters on procurement markets in its FTAs with other countries (including Indonesia and New Zealand), there is no mention of such a chapter in the official communiqués between India and the EU.[94] Also absent from them are references to data flows —which accompany trade in the services sector and e-commerce—no doubt because of the inadequate protection of personal data on the Indian side, whereas the EU swears by the GDPR. Nor have detailed explanations been provided regarding safeguards for intellectual property, one of the Europeans' main concerns. Similarly, the consideration of environmental and social standards—which the EU has been championing for years—will probably have to be clarified. The Carbon Border Adjustment Mechanism, which has been in place since the start of this year, may be a bone of contention, as may New Delhi's reluctance to recognize the rules of the International Labor Organization, to which the EU itself subscribes. These issues could delay the completion of the negotiations and result in intense debates in the European Parliament. However, both parties are displaying a great deal of political will, and some agreement, therefore, should see the light of the day in the near future.

[94] *"How Big a Deal Is the EU-India Trade Agreement? With Nicolas Köhler-Suzuki and Ajay Srivastava," Financial Times, January 30, 2026, https://www.ft.com/content/693f16b3-cb80-436d-9ddc-19db5217cb76.*

Conclusion

While from the early 2000s to the beginning of the following decade, India's growth fueled the rise of a new type of middle class composed of engineers and corporate executives, the country has seen its economic momentum weaken since 2012–13. This process, partly linked to economic shocks such as demonetization or the COVID-19 pandemic, has affected the middle class as well as other social groups; however, in the case of the middle class, it has been exacerbated by structural factors with lasting effects that particularly impact the IT sector, which is the engine of growth in the services sector and a major provider of white-collar jobs. The lack of employability among engineers and the impact of AI on the job market are the most notable factors.

These developments, which have primarily hurt the middle and lower segments of the middle class, combined with the "K-shaped" recovery of 2021 and beyond, have resulted in a very clear divide: While one segment of this class—the most vulnerable part—is experiencing genuine stagnation or even a form of downward mobility, the upper segment is middle class in name only (a label to which it is very attached!), as it has come to resemble an elite. It is from this group that Blume's "consumers" are drawn. In fact, their purchasing power allows them to acquire large amounts of high-priced goods—this social category has the means to indulge in luxury.

While reaching these consumers is no longer as difficult as it was in the recent past—thanks to e-commerce, shopping malls, and the retail galleries of major hotels—understanding their tastes is not straightforward. On the one hand, they still attach a certain value to foreign brands, but on the other hand, the rise of nationalism and Hindu religiosity in the public sphere sometimes forces manufacturers to make sociological, even anthropological, adaptations.

Looking ahead to the next ten years, if the Indian economy can maintain a growth rate of around 6 percent, this should contribute to the expansion of India's middle class. Another factor is that the closure of the borders of certain Western countries—starting with the United States—to migration flows previously fueled by highly educated social groups from India is likely to swell the ranks of this middle class.

New sectors may also develop in a robust manner. While we have mostly focused on the future of services in this note, we would like to close by referring to some promising developments on the industrial front. In 2020, the Modi government launched the Production-Linked Incentive (PLI) Scheme, which was initially supposed to support fourteen sectors of the economy, including the automotive, aviation, chemicals, electronics, agri-food, medical equipment, minerals, pharmaceuticals, renewable energy, telecoms, textiles, white goods, and drones sectors. The sums spent by the government under these PLIs are considerable but are designed as a way of attracting private investors who are expected to contribute further to the pot. Thus, in the automotive sector, the government has allocated $7.5 billion to develop electric vehicles and the batteries required to power them, notably under the FAME (Faster Adoption and Manufacturing of Electric Vehicles) program.[95]

Over time, other sectors eligible for PLI have been added to the initial ones, including semiconductors. In 2022, India set up a $10 billion fund for this sector through PLIs, enabling investors to receive up to the equivalent of their own capital contribution from the

[95] *N. Prasad, "Cabinet Clears Rs 26,000 Crore Scheme for Auto Sector to Boost Production," NDTV, December 8, 2023, https://www.ndtvprofit.com/business/cabinet-clears-26-000-crore-new-scheme-for-auto-sector-to-boost-production-special-focus-on-electric-vehicles-2541513-10169495; S. Chari, "India Doesn't Need Speed Breakers. Modi Govt Right to Help Automobile, Telecom," The Print, September 17, 2021, https://theprint.in/opinion/india-doesnt-need-speed-breakers-modi-govt-right-to-help-automobile-telecom/734816/; "Cabinet Gives Nod to Electronics Component PLI Scheme Worth Rs 22,919 Cr," Economic Times, March 28, 2025, https://economictimes.indiatimes.com/news/economy/policy/cabinet-gives-nod-to-electronics-component-pli-scheme/articleshow/119646866.cms; "Centre Clears 22 Projects Under Electronics Components PLI Scheme; Rs 41,863 Crore Investment Expected," Economic Times, January 2, 2026, https://economictimes.indiatimes.com/industry/cons-products/electronics/centre-clears-22-projects-under-electronics-components-pli-scheme/articleshow/126300752.cms.*

government. In addition, the taxes for which they are liable can be reduced by 30 percent. Micron's investment marked a fresh start in 2023, although aside from the modest scale of the investment made by the American company compared to the subsidy granted by the Indian government—70 percent of the $2.75 billion invested—the aim was merely to establish a "packaging" facility rather than a manufacturing plant.[96] If India were to become part of the manufacturing chain for semiconductors, the electronics sector could become the driving force behind industrialization fueled by FDI, primarily from firms seeking to break free from their dependence on China.

[96] *"Press Release: State-of-the-Art Site in Sanand, Gujarat, Expands Micron's Global Footprint and Advances India's Semiconductor Ecosystem," Micron, February 28, 2026, https://investors.micron.com/news-releases/news-release-details/micron-celebrates-opening-indias-first-semiconductor-assembly.*

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Veolia
Verian
Verlingue
VINCI
Vivendi
Vodafone Group
Wavestone
White & Case
Willis Towers Watson France
Zurich

India is often portrayed as the world's next great middle-class society. With its rapid economic growth and booming technology sector, the country appears destined to become one of the largest consumer markets of the twenty-first century.

Yet the reality is more complex. Despite decades of sustained growth, India's middle class is no larger today than it was fifteen years ago. This paper explores one of the most important questions in India's economic transformation: what happened to the Indian middle class? Drawing on the latest economic and social data, it examines how demographic change, unemployment, inflation, technological disruption, and public policy have reshaped India's social structure. It also analyzes the emergence of a new consumer elite and the profound implications of these developments for foreign businesses.

At a time when India and the European Union are deepening their economic partnership and moving toward a landmark trade agreement, understanding who can actually consume in India has become a strategic imperative.

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