



Introduction

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

As of 2018, 31.45 per cent of India's employed population is working in the services sector.

Market Size

The services sector is the key driver of India's economic growth. The sector has contributed 54.17 per cent of India's Gross Value Added at current price in 2018-19*. India's services sector GVA grew at a CAGR of 6.96 per cent to US\$ 1,356.49 billion in FY19* from US\$ 846.84 billion in FY12. Net export estimate from April to November 2019 in services is US\$ 142.02 billion and import is US\$ 89.24 billion.

Nikkei India Services Purchasing Managers' Index (PMI) stood at 52.7 in November 2019. The expansion in services activity was driven by boost in capacity and demand along with favourable public policies.

Investments

Some of the developments and major investments by companies in the services sector in the recent past are as follows:

- Services sector is the largest recipient of FDI in India with inflows of US\$ 74.94 billion between April 2000 and June 2019.
- Leisure and business travel and tourism spending are expected to increase to US\$ 234.4 billion and US\$ 12.9 billion in 2018, respectively.
- India's earnings from medical tourism could exceed US\$ 9 billion by 2020.
- Indian healthcare companies are entering into merger and acquisitions with domestic and foreign companies to drive growth and gain new markets.

Government Initiatives

The Government of India recognises the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.

The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

- Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Central Government increased incentives provided under Services Exports from India Scheme (SEIS) by two per cent.

- Government of India is working to remove many trade barriers to services and tabled a draft legal text on Trade Facilitation in Services to the WTO in 2017.

Achievements

Following are the achievements of the government in the past four years:

- India's rank jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of doing business - "Getting Electricity" ranking.
- In FY19, traffic at major ports stood at 699.05 million tonnes growing at a CAGR of 2.74 per cent from FY08-19 and reached 405.39 million tonnes in FY20T (up to October 2019).
- Five times more growth in major ports' traffic between 2014-18, compared to 2010-14.
- Six-fold increase in Government spending on telecommunications infrastructure and services in the country – from Rs 9,900 crores (US\$ 1.41 billion) during 2009-14 to Rs 60,000 crores (US\$ 8.55 billion) (actual + planned) during 2014-19.
- Ministry of Tourism sanctioned 18 projects covering all the North Eastern States for Rs 1,456 crore (US\$ 211.35 million) for development and promotion of tourism in the North Eastern Region under the Swadesh Drashan and PRASHAD Schemes.
- A total of 11 projects worth Rs 824.80 crore (US\$ 127.98 million) were sanctioned under the Swadesh Darshan scheme.
- Statue of Sardar Vallabhbhai Patel, also known as 'Statue of Unity', was inaugurated in October 2018 and the total revenue generated till November 2019 is Rs 82.51 crore (US\$ 11.81 million).
- Highest ever revenue was generated by Indian IT firms at US\$ 167 billion in 2017-18.

Road Ahead

Services sector growth is governed by both domestic and global factors. The Indian facilities management market is expected to grow at 17 per cent CAGR between 2015 and 2020 and surpass the US\$19 billion mark supported by booming real estate, retail, and hospitality sectors.

By 2023, healthcare industry is expected to reach US\$ 132 billion. India's digital economy is estimated to reach US\$ 1 trillion by 2025. By end of 2023, India's IT and business services sector is expected to reach US\$ 14.3 billion with 8 per cent growth.

The implementation of the Goods and Services Tax (GST) has created a common national market and reduced the overall tax burden on goods. It is expected to reduce costs in the long run on account of availability of GST input credit, which will result in the reduction in prices of services.

Note: Conversion rate used as on September 2019, Re 1 = US\$ 0.014019

References: Media Reports, Press Releases, DIPP publication, Press Information Bureau,

*Note: P - Provisional, ^As per Motilal Oswal, Q1 2018-19 – April-June 2018, *As per second advance estimates*

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