Transforming India's Financial Sector and Capital Markets to Power a $30 Trillion Economy

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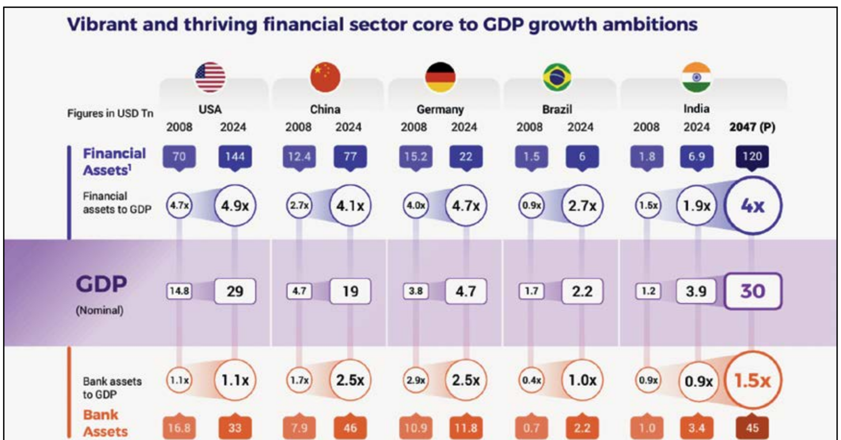
A defining economic transformation shapes every generation. For India, that transformation is already underway. Over the past decade, India has moved from a relatively closed economy to one of the world's fastest-growing major economies, with rapid digital infrastructure, vibrant democracy, and a rising demographic boon, fuelled by domestic consumption. A strong culture of entrepreneurship, favourable demographics and deeper integration with the global economy have significantly altered the country's economic trajectory.

As India works towards becoming a $30 trillion developed economy by 2047, the next phase of Viksit Bharat development will require more than sustained growth in national income. It will demand a financial system that is deeper, more efficient, more resilient and more inclusive. The experience of advanced and rapidly developing economies offers a clear lesson: durable economic progress depends on the strength of the institutions that mobilise, allocate and manage capital.

As economies expand from the current $4 trillion to $8 trillion over the next 6-8 years, their growth becomes increasingly capital-intensive. Infrastructure, manufacturing, urban development, clean energy, healthcare, technology and innovation require substantial pools of long-term finance. Meeting these requirements depends on a financial architecture capable of converting household savings into productive investment while supporting enterprises at every stage of their development. India has already established a strong foundation. Following years of balance-sheet repair, regulatory reform and improvements in governance, the banking sector is better positioned to support economic growth. The country's capital markets have also developed into some of the most dynamic among emerging economies, supported by stronger regulation, improved transparency, better corporate governance and increasing participation from domestic investors.

These developments have strengthened investor confidence and enhanced the resilience of the financial system. However, the scale of India's ambitions will require a further and more fundamental transformation. Over the next two decades, India will need unprecedented levels of investment. Significant capital will be required for transportation networks, urban infrastructure, renewable energy, semiconductor manufacturing, defence production, logistics, digital connectivity and advanced industrial capacity.

This investment cannot be financed through bank lending alone. Banks will remain central to financial intermediation, but they must



1. Financial assets consist of assets for the following entities: Banks, Central Banks, Financial auxiliaries, Insurance corporations, OFIs, Pension funds & Public financial institutions

Note: All values are reported on CY basis except for India's GDP, financial assets and banking assets which are on a FY basis

Source: Financial Stability Board; BCG analysis increasingly be complemented by deep and well-functioning capital markets capable of providing long-term funding, absorbing risk, and supporting innovation-led businesses.

Capital markets must therefore assume a more strategic role in India's development. Equity markets are not merely venues for trading securities or raising funds. They are institutions through which entrepreneurs can convert ideas into scalable enterprises, companies can finance expansion, and investors can participate in long-term wealth creation.

At the same time, the development of corporate bond markets, Infrastructure Investment Trusts, Real Estate Investment Trusts, Alternative Investment Funds and private credit is broadening the range of financing available to businesses and infrastructure projects. These instruments can reduce excessive dependence on bank balance sheets and provide capital better suited to long-duration investments.

An equally important change is taking place in the composition of household savings.

For many decades, Indian households preferred physical assets, particularly gold and real estate. That pattern is gradually changing. Mutual funds, equities, insurance products, pension schemes and fixed-income securities are becoming a larger component of household wealth.

The expansion of systematic investment plans, the rise in retail participation in equity markets and the growing acceptance of long-term financial investing indicate increasing confidence in formal financial institutions. This financialization of savings is among the most consequential structural shifts in India's economy.

A stable domestic pool of financial savings can provide the capital required to fund infrastructure, enterprise and innovation while reducing dependence on volatile external flows.

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The next stage of India's economic development will also be shaped by sectors that had little commercial significance a generation ago. Cotton, textiles, real estate, IT services, and consumption have driven the journey to date. However, the journey for Viksit Bharat will be driven by new-age sectors like Artificial intelligence, semiconductor manufacturing, financial technology, biotechnology, renewable energy, electric mobility, defence, aerospace, robotics, and space technology, which are creating new areas of economic activity.

These industries can improve productivity, generate high-skilled employment and strengthen India's position in global value chains. However, many of them require long development cycles, substantial research expenditure and a high tolerance for risk. Their growth will depend on access to patient capital through venture funds, private equity, institutional investors and deep public markets.

Artificial intelligence, in particular, may become one of the most important drivers of productivity in the coming decades. Unlike earlier waves of automation, such as banking and railway offices, which were largely focused on replacing repetitive tasks, AI has the capacity to augment judgement, improve decision-making, and enhance efficiency across a wide range of sectors.

Within the banking and financial services industry, AI has already shown use cases for better loan assessment, enhanced fraud detection, better tax compliance, regulatory compliance, risk management, customer service, and investment analysis. In manufacturing, it can improve production planning, quality control and supply-chain management. Its wider adoption could generate productivity gains across the economy and contribute meaningfully to India's long-term growth. We haven't spent money on developing AI, but for a capital-hungry country, it can unlock significant savings in our day-to-day functions.

India also possesses a distinctive institutional advantage in the form of its Digital Public Infrastructure. The largest NBFC recently announced that, through the use of AI, it is listening to almost 2 crore customer calls and has disbursed about INR 2000 crore in additional loan book. These kinds of changes are a real example of the efficiency AI brings. Many manufacturing companies, Hospitals, and pharma companies are already using technology across various processes to achieve process cost efficiencies.

Platforms such as Aadhaar (India's social security number), the Unified Payments Interface (UPI), DigiLocker, and the Account Aggregator framework have transformed the delivery of financial services to millions at low cost. They have lowered transaction costs, improved identity verification, expanded access and enabled financial innovation at exceptional scale.

This digital foundation allows banks, insurers, wealth managers, fintech companies and asset managers to serve hundreds of millions of individuals more efficiently. India has the highest per capita data usage and has recently crossed the 1 billion broadband connection mark, which shows that it has also created the basis for one of the world's most extensive and scalable digital financial ecosystems.

India has succeeded in bringing a large proportion of its population into the formal banking system. Yet access to a bank account does not automatically provide access to finance. Many individuals still lack affordable credit, adequate insurance, retirement products and suitable long-term investment options. There is a huge opportunity for companies with these tools available at their disposal.

The next phase of financial inclusion must therefore move beyond account ownership. It must focus on improving the quality, affordability and relevance of financial services available to households.

This challenge is particularly acute for Micro, Small and Medium Enterprises, which are central to employment generation, local economic activity and entrepreneurship.

Technology can materially improve this situation. Future lending models are likely to rely increasingly on digital payment histories, GST filings, banking patterns, transaction data and cash-flow analysis.

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Expanding access to credit for individuals and enterprises would have effects far beyond financial inclusion. It would support education, home ownership, business formation, investment, job creation and productivity growth.

As the economy develops, the role of financial institutions will also become more specialised.

Banks will increasingly provide sophisticated financial, insurance and advisory services over and above the traditional deposit and credit lending functions. Asset management and wealth management companies will play a greater role in mobilising household savings.

Insurance companies and pension funds can emerge as important sources of long-term capital. Fintech firms will continue to improve accessibility, efficiency and customer experience.

A mature financial system will depend not on any single category of institution, but on the interaction of banks, markets, insurers, pension funds, asset managers, fintech companies and regulators within a coherent and well-governed ecosystem.

India's ambition to become a developed economy is beyond a higher level of GDP; it includes providing more jobs, relying on the manufacturing sector, mobilising savings into productive assets, and making the economy more productive, innovative, resilient, and globally competitive.

Realising that ambition will require sustained investment, technological advancement, strong institutions and a disciplined approach to capital allocation. Funds must flow towards the sectors, enterprises and infrastructure that can generate durable economic and social value.

The financial sector, represented by over 30% weight in the index, will be the bridge between household savings and its financialization, leading to national development. Across banking, investments, access to credit, insurance, and other products, we are deeply underpenetrated. Technology will improve efficiency and inclusion, while artificial intelligence will reshape the design and delivery of financial services.

Together, these forces can create a virtuous cycle in which savings are converted into investment, investment raises productivity, and higher productivity supports broad-based prosperity.

If manufacturing builds the productive capacity of the nation, the financial system will provide the capital required to sustain it.

The coming decades may therefore be remembered not only for the scale of India's economic expansion, but also for the emergence of a sophisticated, inclusive and technology-enabled financial system capable of converting domestic savings into innovation, enterprise and enduring national progress.

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