This is the first in a 16-part data journalism series that looks at how India lives, thinks, earns and spends, based on the latest results from a survey conducted by People Research on India's Consumer Economy in 2016 and shared exclusively with *Mint*. The *Household Survey on India's Citizen Environment & Consumer Economy* (ICE 360° Survey), covering 61,000 households, is the largest consumer economy survey in the country since the National Sample Survey Office conducted the last consumer expenditure survey in 2011-12.

Richest 20% account for 45% of income

The average income of Indian households living in metros is 2.5 times that of their rural counterparts

PLAIN FACTS

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India's richest quintile accounts for 45% of aggregate household disposable income while the poorest quintile earns barely 7% of the aggregate income pie, according to the latest data from a nationally representative survey conducted this year.

The *Household Survey on India's Citizen Environment & Consumer Economy* (ICE 360° survey), covering 61,000 households, is the largest consumer economy survey in the country since the National Sample Survey Office (NSSO) conducted the consumer expenditure survey in 2011-12.

The survey results show that households in the top quintile earn nearly four times as much as households in the bottom quintile. But given that poorer households also tend to be bigger, the difference in per capita incomes is greater. The per capita income of the top quintile, at Rs7,974 per month, is nearly 6.5 times that of the bottom quintile. Given the lower income and the bigger household size, poorer households end up spending most of what they earn. The poorest quintile is able to save just 10% of household earnings. In contrast, the top quintile is able to save 47% of household earnings, the survey shows.

The survey also shows that an overwhelming majority of people living in metros belong to the top two income quintiles. In stark contrast, an overwhelming majority of those living in underdeveloped rural areas belong to the bottom three income quintiles.

What this means is that you are quite unlikely to encounter the truly poor in your daily life if you live in a metro, and those you think of as the urban poor (your maid or your driver, for instance) are likely to be closer to the top of India's income distribution than to the bottom.

The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy, headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla.

Although the sample size of the survey is lower than that of the NSSO consumer expenditure survey, the urban sample size of both the surveys are comparable.

While the NSSO surveyed 101,651 households of which 41,968 (41.3%) were urban households, the ICE 360° survey covered 61,000 households of which 36,000 (59%) were urban households. However, the rural sample of the ICE 360° survey is less than half of the NSSO sample. Nonetheless, all the estimates of each region have been derived by adjusting for the respective population of those regions.

One of the most attractive features of the survey is that it is representative at the level of economic clusters. Urban India has been divided into four clusters: metros (population of more than five million), boom towns (2.5-5 million), niche cities (1-2.5 million) and other urban towns (less than one million).

Based on a district development index, rural India has also been sliced up into three different clusters: "developed rural", "emerging rural", and "underdeveloped rural".

The first category includes districts such as Bathinda (Punjab) and Kangra (Himachal Pradesh). The second category includes districts such as Latur (Maharashtra) and Kamrup (Assam) while the last category includes districts such as Kalahandi (Odisha) and Bastar (Chhattisgarh).

The average income of households living in metros, at Rs29,690, is two-and-a-half times the average income of households living in underdeveloped rural areas. The average consumption expenditure of households living in metros, at Rs17,641, is roughly two times the average consumption expenditure of households living in underdeveloped rural areas.

Interestingly, the average income and average consumption expenditure of households in developed rural areas is roughly equal to that of households living in niche cities, shows the survey.

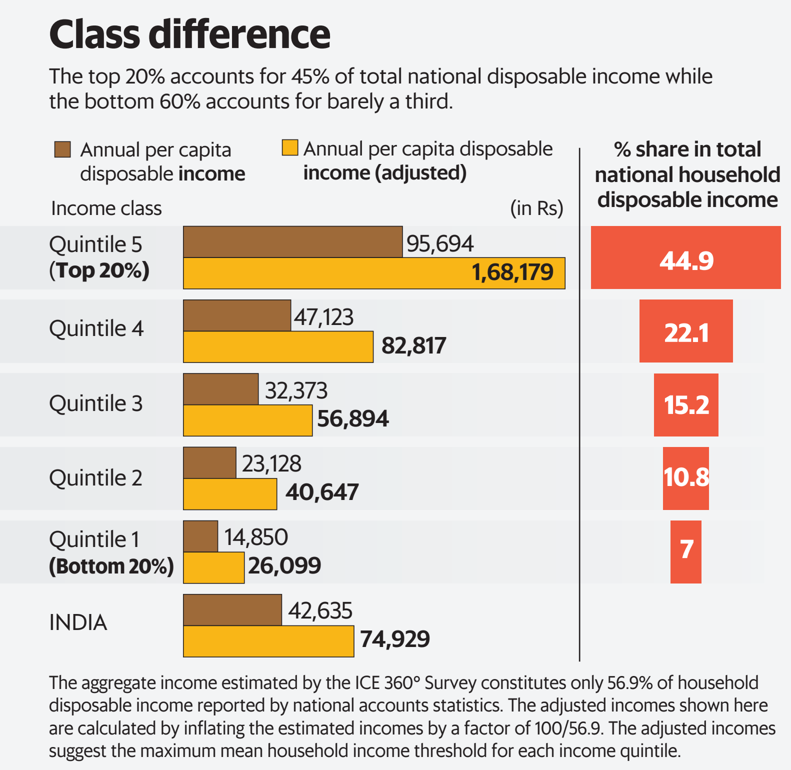
The survey underlines the profound influence of education on household earnings. While there are illiterates across all income quintiles, on average, the better educated the chief wage earner is, the better-off is the household. For instance, households with a matriculate breadwinner earn Rs20,064 a month, 39% higher than households where the chief wage earner has a primary school education. Similarly, households where the chief wage earner is a graduate earned 34% more than households where the breadwinner has just cleared 10+2.

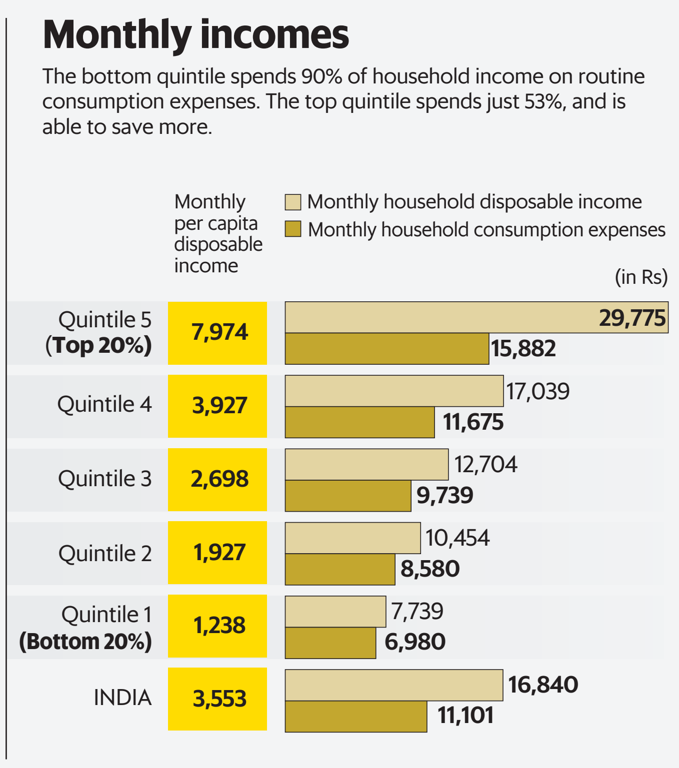
Not only are those at the bottom of the income distribution poorly educated, even those in the middle of India's income distribution have very little schooling, suggests the survey. It shows that "Middle India" (those located between the 20th and 80th percentiles of income distribution) is largely composed of those who lack a high-school education. Households with an illiterate breadwinner constitute 25% of Middle India, while 47% of households in Middle India are those where the breadwinner has just completed primary schooling. The average household income of Middle India is Rs13,636, of which 74% is spent on routine consumption expenses. The largest section of Middle India (37%) lives in underdeveloped rural areas. Only a small fraction of Middle India (6%) lives in the metros.

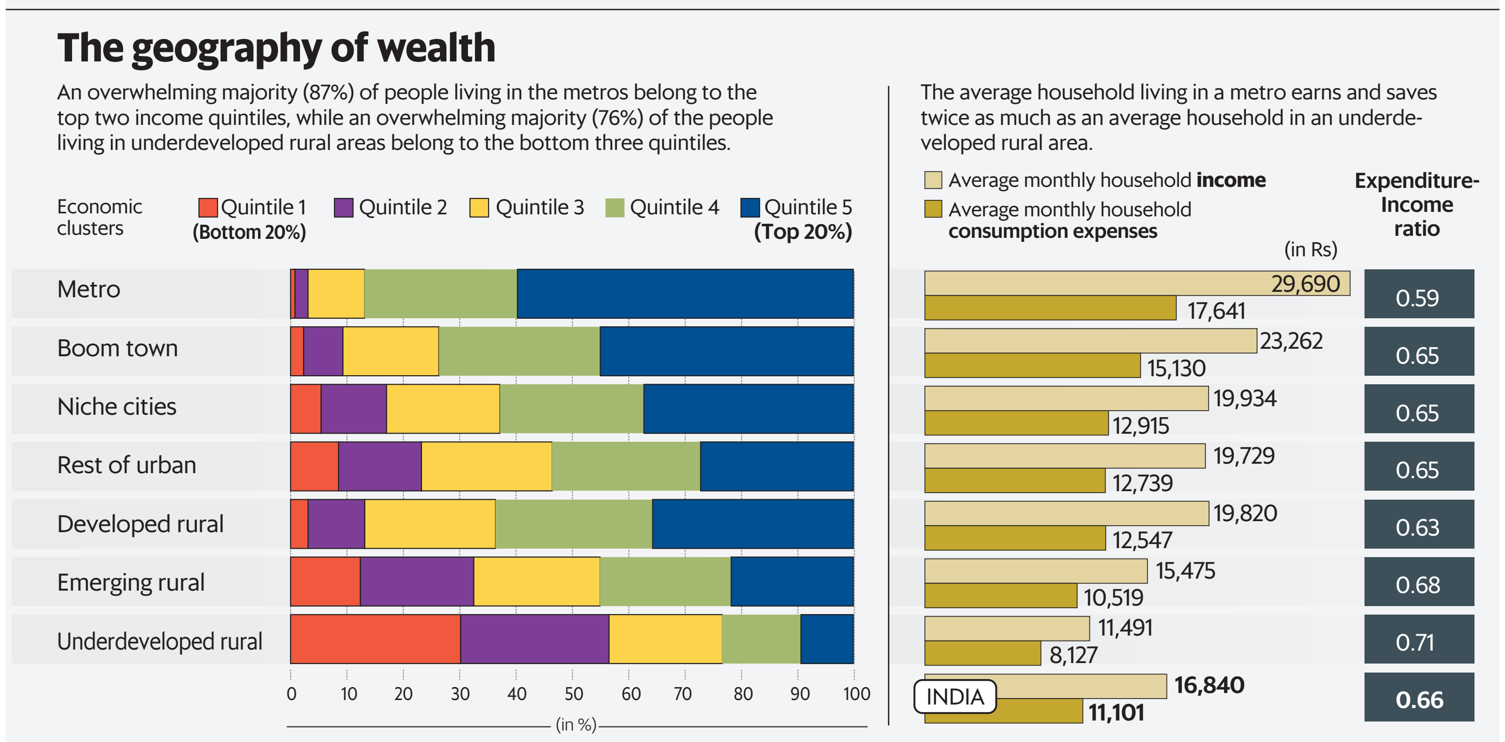
Tadit Kundu in Mumbai contributed to this story.

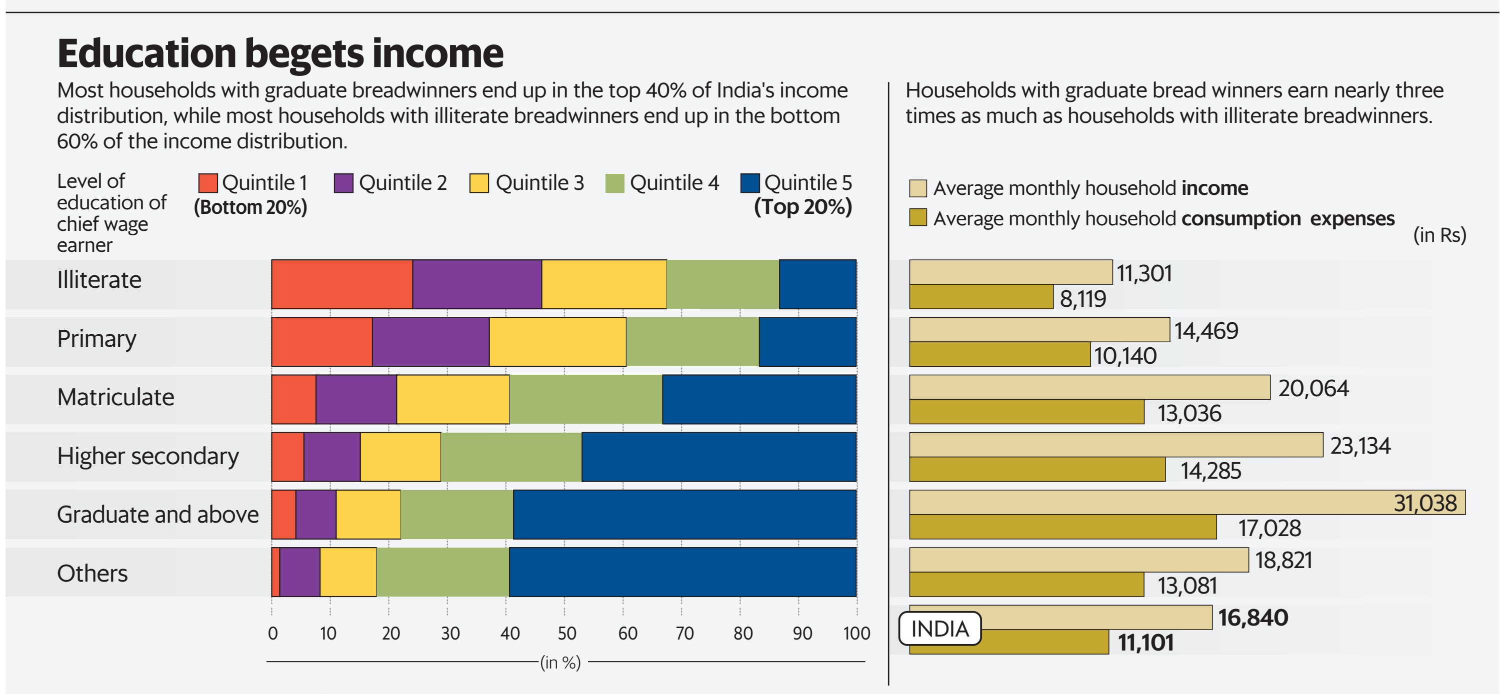
The next part will look at the socio-economic profile of India's top 1%.

mint ICE 360°
Part 1









Graphic by Ahmed Raza Khan/Mint

Source: ICE 360° Survey, 2016

IN THE MONEY
MOBIS PHILIPOSE

Read Mobis Philipose's previous columns at **livemint.com/inthemoney**

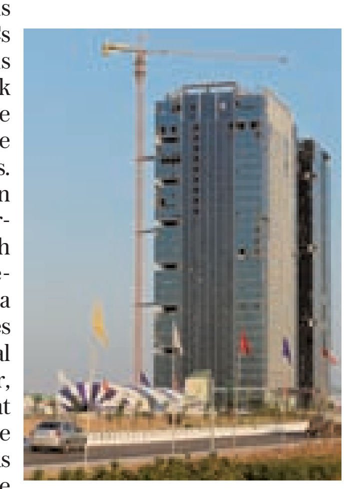
GIFT CITY: ARE WE THERE YET?

The Securities and Exchange Board of India (Sebi) has issued guidelines for stock exchanges in international financial service centres (IFSCs). At first look, this sets the stage for BSE Ltd's reported 9 January launch at the Gujarat International Finance Tec-City, or Gift City. Sebi's rules permit a vast range of products—practically any product that trades on any other global exchange, barring agricultural futures; they give exchanges the freedom to decide on trading hours; and purportedly allow cross-margining between various asset classes.

Earlier, the government announced various tax concessions—transaction taxes and stamp duty won't be levied in IFSCs, besides which firms operating in them will enjoy a tax holiday.

The moot question is if trading firms will take the bait. More importantly, even if they do, will they just set up servers in Gift City to establish a presence, or will they set up shop with a full-fledged team? The success of Gift City, in a true sense, depends on whether top financial market professionals are willing to relocate. As things stand, that still looks like a pipe dream.

Garnering trading volumes, on the other hand, may not be that much of a hurdle. Indian trading firms can potentially fund an IFSC subsidiary to the extent of 400% of their net worth through the overseas direct investment (ODI) route. Of course, unlike IFSCs such as Dubai and Singapore, the paperwork and the number of approvals required is far greater with Indian IFSCs such as Gift City. But firms may be willing to overlook this, given the chance to be associated with one of the prime minister's pet projects.



Given the low transaction costs and tax breaks, garnering initial volumes through market-making arrangements should also not be a problem for IFSC exchanges such as the BSE International Exchange. It's still not clear, however, if trading firms that establish an IFSC presence can use it to trade in overseas markets. Such links would be important for market makers to be able to hedge positions taken in IFSC exchanges. Besides, this will also open up opportunities for arbitrageurs and help build initial liquidity. Likewise, overseas firms that already trade in Indian assets can be natural participants in IFSC exchanges.

But as pointed earlier, all of this can be done without putting in place a full-fledged team in Gift City. All firms need is servers based in the designated IFSC, and operations can easily be handled remotely. "Expecting top traders and other financial market professionals to set up base in Gift City is far-fetched, to say the least," says one hedge fund manager with trades in overseas markets. A senior exchange official says that the government may insist on physical presence, beyond just servers; although, this may work at cross purposes. It may well turn away many firms.

What about the government's intent of stopping the export of India's financial markets to centres such as Dubai and Singapore? Does it matter whether market participants move lock, stock and barrel to Gift City, or is it more important that trading volumes pick up in these Indian centres?

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While there is no arguing that exchanges set up in Indian IFSCs can help arrest the export of India's financial markets, it remains to be seen to what extent they cannibalize India's own existing markets. If Dubai and Singapore continue to attract volumes on products such as the dollar-rupee and the Nifty because of a stable taxation regime and a better experience with respect to ease of doing business, the IFSC experiment in India would not only end up being a futile one, but rather a dangerous one.

As pointed out earlier in this column, the policy stance must be to correct anomalies in India's main market, which cause the export of our markets in the first place. The hedge fund manager says one niggling thought among traders is the sanctity of the taxation policy for Indian IFSCs, given the government's misadventures with retrospective changes to tax policy. Besides, he adds, while the IFSC policy permits various things on paper, it remains to be seen how things work out on the ground.

As such, firms can't be expected to rush out of other IFSCs in a hurry. In any case, they enjoy similar tax breaks and low transaction costs in other jurisdictions and it looks unlikely that they will shift volumes only because the Indian IFSC is closer to the onshore market for these products.

The move can, in fact, backfire if Indian trading firms gradually shift volumes to IFSCs to take advantage of tax breaks and lower transaction costs. It's fairly evident that trading volumes veer towards products that have the lowest transaction costs. Among equity derivatives, for instance, options trading accounts for the bulk of trading largely because of lower transaction costs. If this happens, it will also result in revenue leakage for the government.

Besides, decent volumes in IFSCs can well result in policy inaction as far as India's main markets go. For instance, according to news reports, BSE International Exchange intends to trade dollar-settled single stock futures. Overseas investors may find this to be a far easier means to take an India position, especially when compared with the rigmarole of going through the foreign portfolio investor (FPI) registration process in the main onshore market. In one sense, the business from this overseas investor is retained onshore, and may reduce the urgency for policy action so far as FPI registration norms go.

All told, with the IFSC opportunity drawing nearer, policymakers should remember not to get carried away merely with traded volumes. To say that Gift City has been truly successful, it should either see a large influx of professionals or, at least, result in a meaningful drop in the share of Dubai and Singapore in dollar-rupee and Nifty contracts.