



2014 OECD ECONOMIC SURVEY OF INDIA

Stronger and better growth

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Washington DC, 13 April 2015

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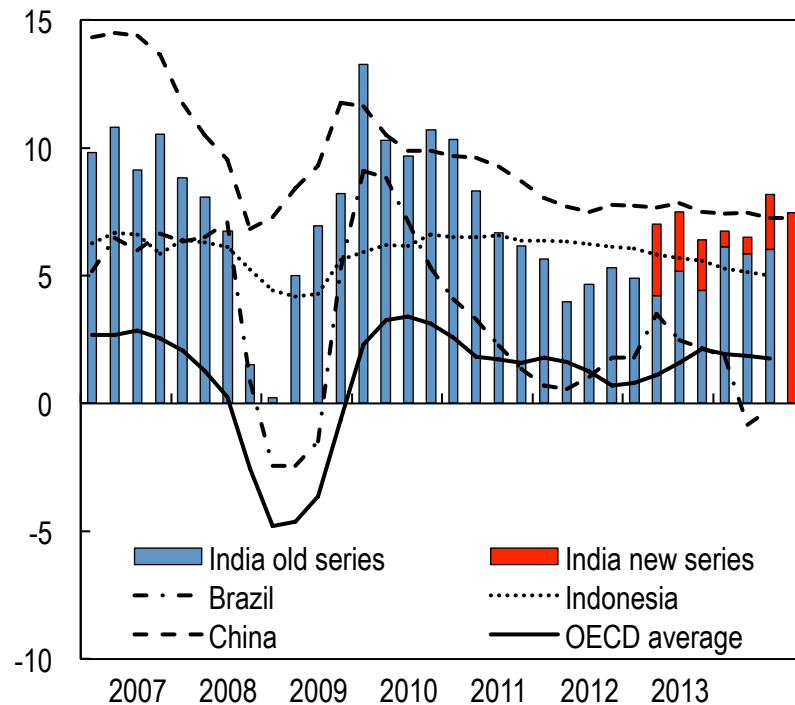




The Indian economy is looking up but recovery fragile

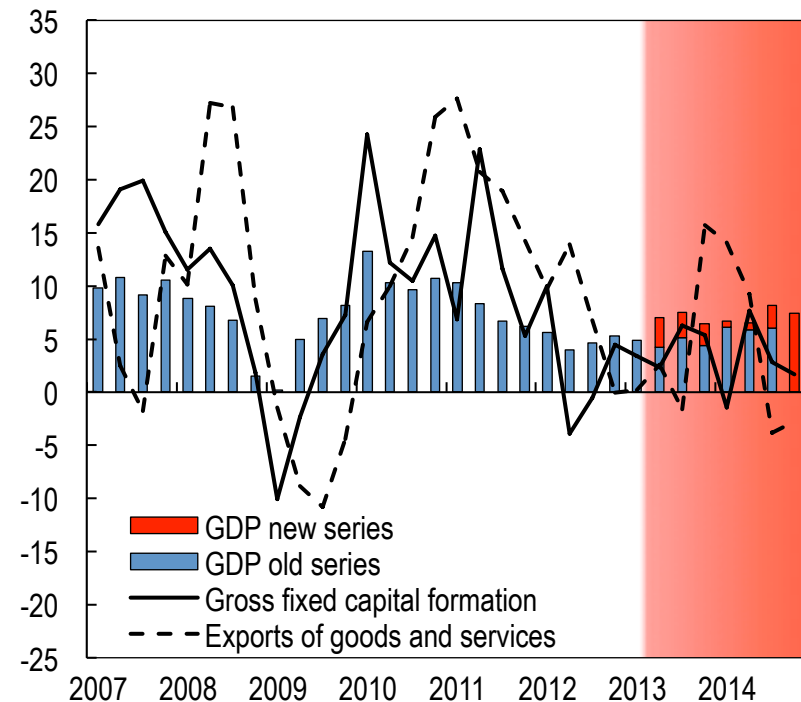
Y-o-y %
change

A. GDP growth¹



Y-o-y %
change

B. GDP, exports and investment¹



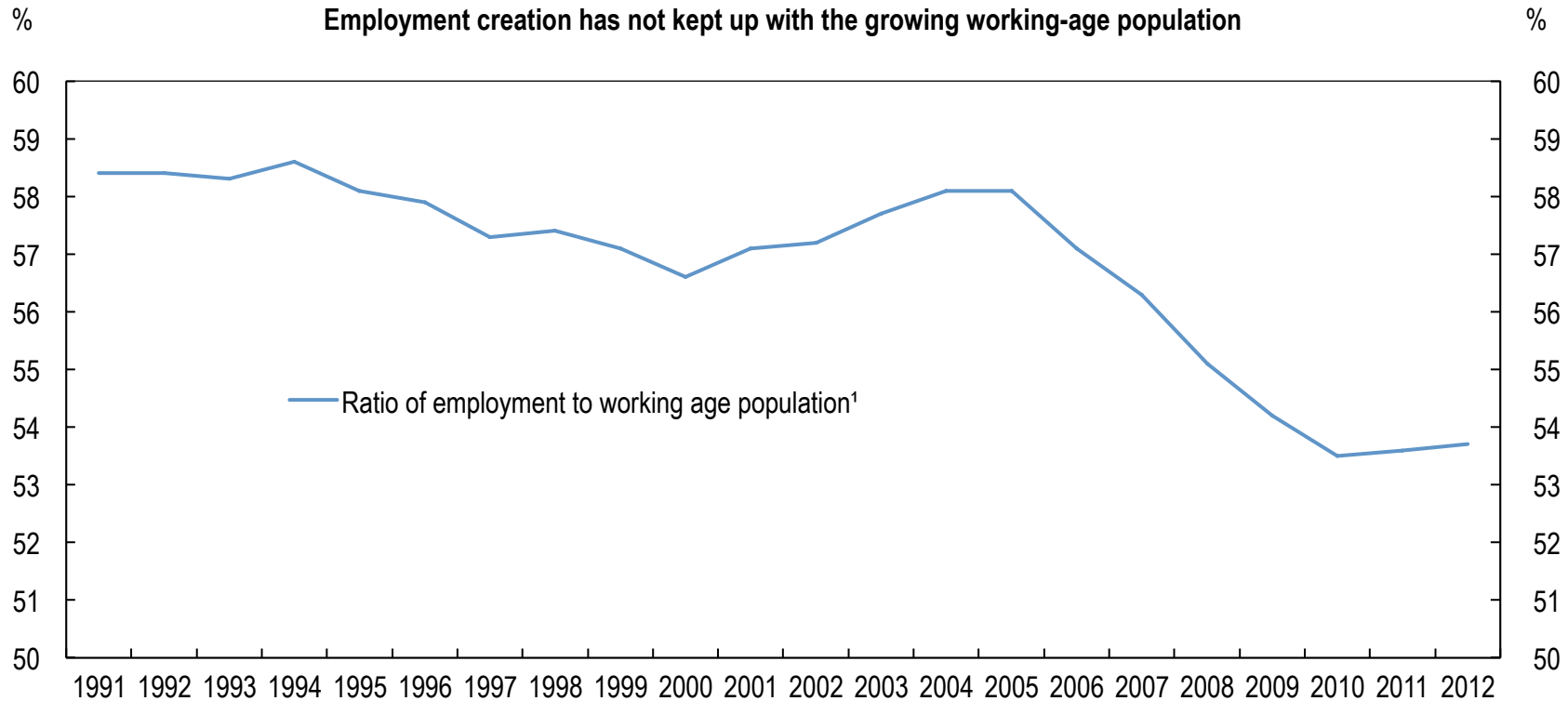
1. At market value and constant prices.
Source: OECD Economic Outlook 96 Database.





Growth needs to be more inclusive

A “jobless” growth so far...



1. According to the ILO definition, working age population is made of individuals aged 15 or more.

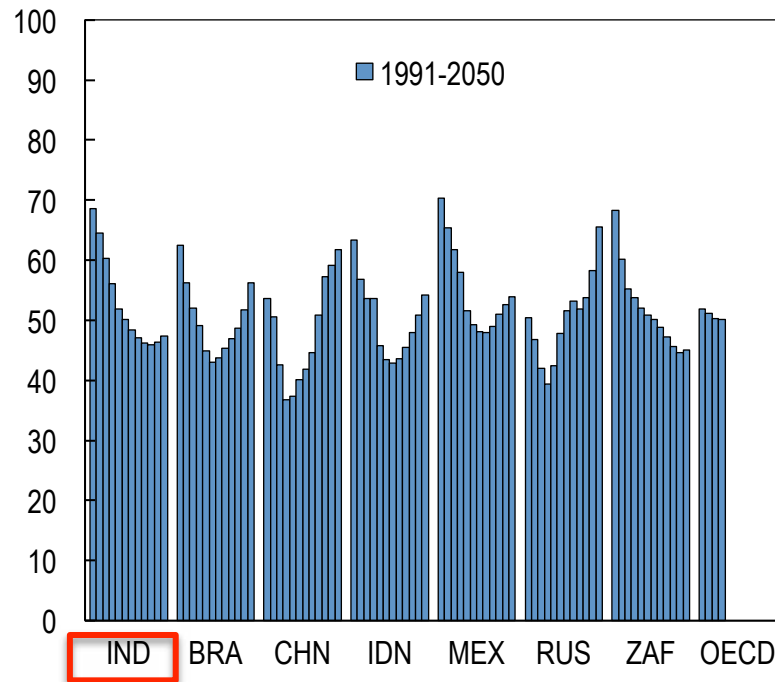
Source: ILO (2013), Key Indicators of the Labour Market (KILM) database.



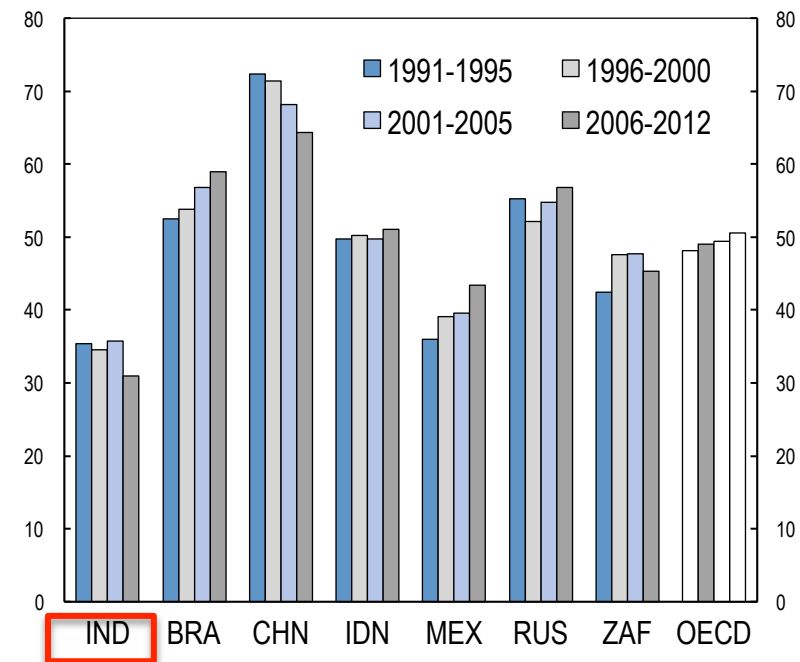


and the labour force will continue to expand
comparatively younger, potentially more women,
50% of workers still in agriculture

A. The dependency ratio is projected to decline up to the 2040s¹



B. The labour force participation of women is low and declining²



1. The age dependency ratio is the ratio of the population younger than 15 or older than 64 to the working-age population, which is those aged 15-64. From 2015 World Bank projections are shown.

2. The labour force participation of women is equal to the percentage of working women aged 15-64 over the overall female population aged 15-64. Data refer to the simple average of the dependency ratio for each period.

Source: OECD (2014) Perspectives on Global Development and World Bank WDI databank.





“Jobless” growth affects especially women

Table 1. Changes in employment and labour force 2000-2012 (15-64 years of age)

Millions....	2000	2005	2012	Change 2000-05	Change 2005-12
Female -Working age population	304	340	403	36	63
Labour force					
<i>Employment</i>	123	148	129	25	-19
<i>Unemployment</i>	2	4	3	2	-1
Remaining outside labour force					
<i>In education</i>	18	23	42	5	19
<i>Not in education</i>	161	165	229	4	-64
Male-Working age population	326	365	427	39	62
Labour force					
<i>Employment</i>	274	318	343	35	34
<i>Unemployment</i>	7	7	8	-	1
Remaining outside labour force					
<i>In education</i>	32	36	61	4	25
<i>Not in education</i>	13	13	15	-	2

Source: working age population 15-64 years, estimates based on NSSO rounds no. 61 and 68





Quality of jobs remains poor;

high informality with no social benefits or labour protection

Distribution of employment by type

(In per cent)

	2000		2012	
	Female	Male	Female	Male
Salaried	8	19	14	22
<i>of which with social benefits</i>	<i>n/a</i>	<i>n/a</i>	6	9
Casual	37	31	30	29
Paid self-employed	17	37	20	33
Unpaid self-employed	38	13	35	18
Total	100	100	100	100

Source: NSSO.





India – Stronger and Better Growth, but with Challenges

To achieve higher, sustainable and inclusive growth:

- 1. Improve the macroeconomic framework**
- 2. Focus on job creation, esp. in manufacturing**
- 3. Increase female economic participation**
- 4. Improve health care and health outcomes for all**



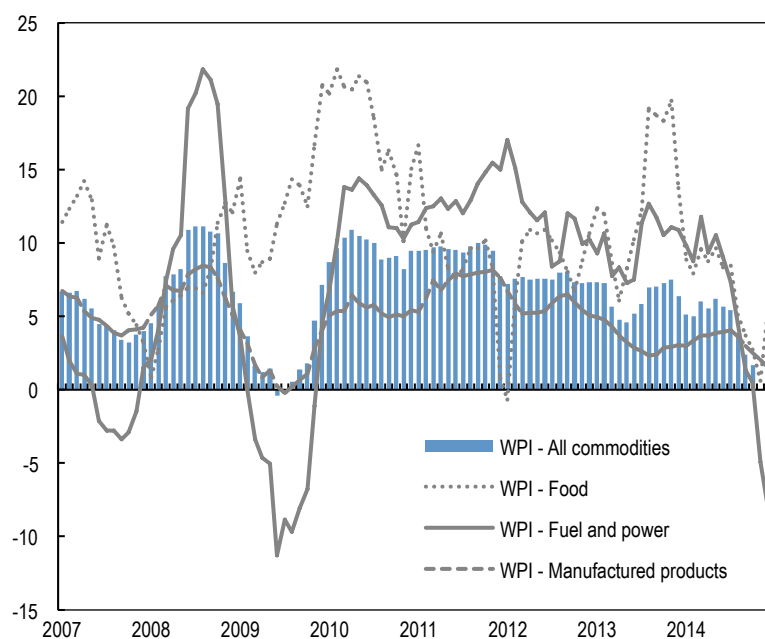


Inflation targeting by central bank: Use oil price decline to anchor expectations lower

Improve the macroframework

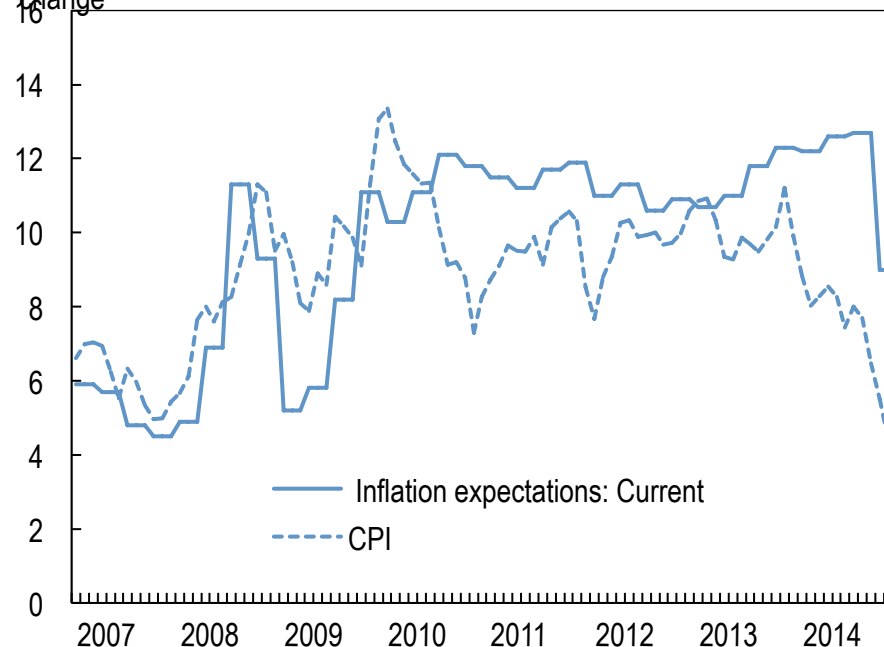
Energy and food drive the recent fall in inflation

Y-o-y % change



Inflation expectations have started to adjust

Y-o-y %
change



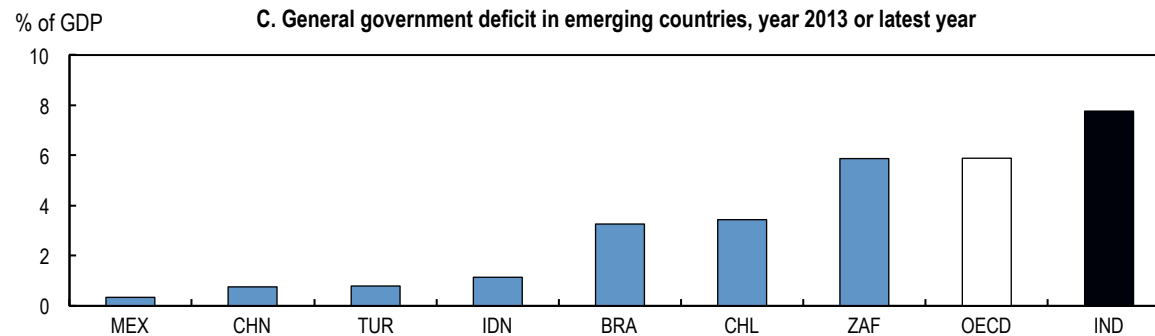
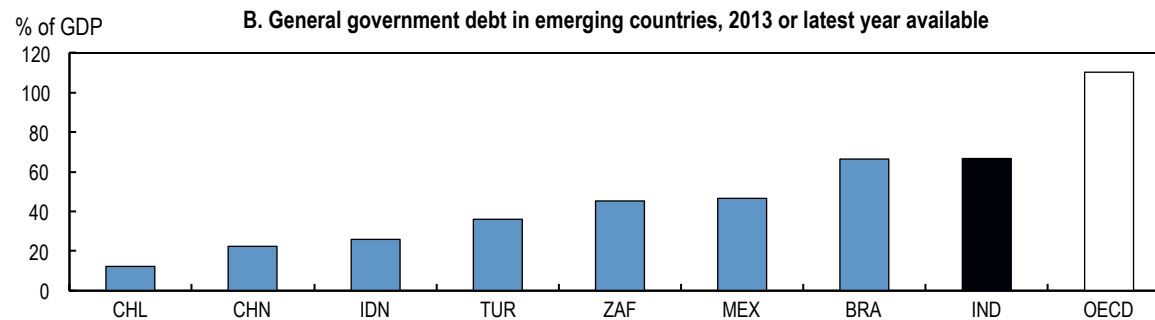
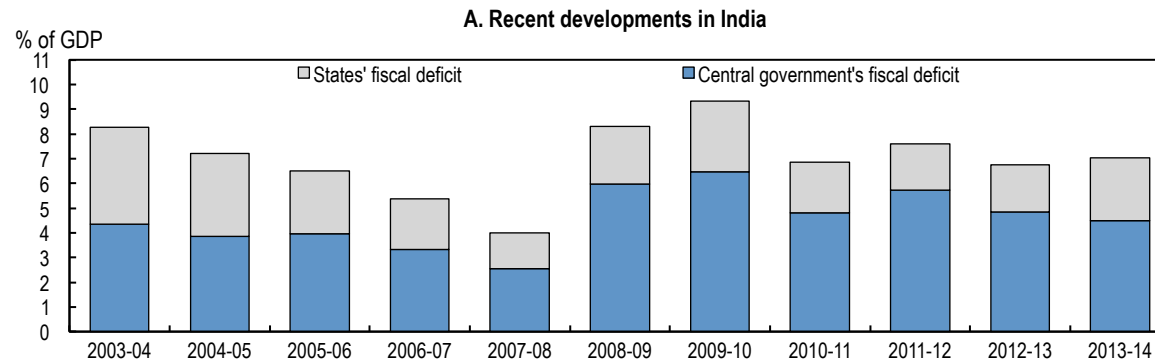
Source: OECD Outlook 96 database and Reserve Bank of India.





Public deficit and debt are still high....

Progress at central government; vulnerability at sub-federal



Source: Brazilian Ministry of Economics, CEIC, Chinese Ministry of Finance, IMF, OECD Analytical database, OECD Economic Outlook 96 database and World Bank.

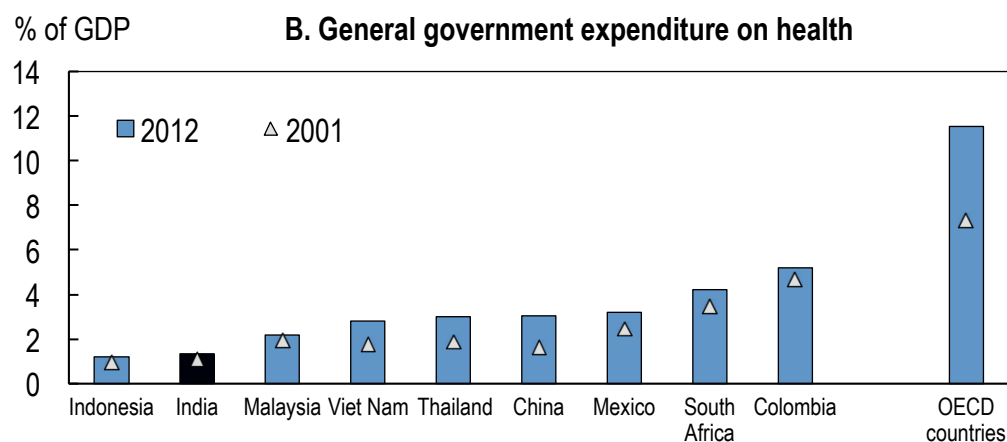
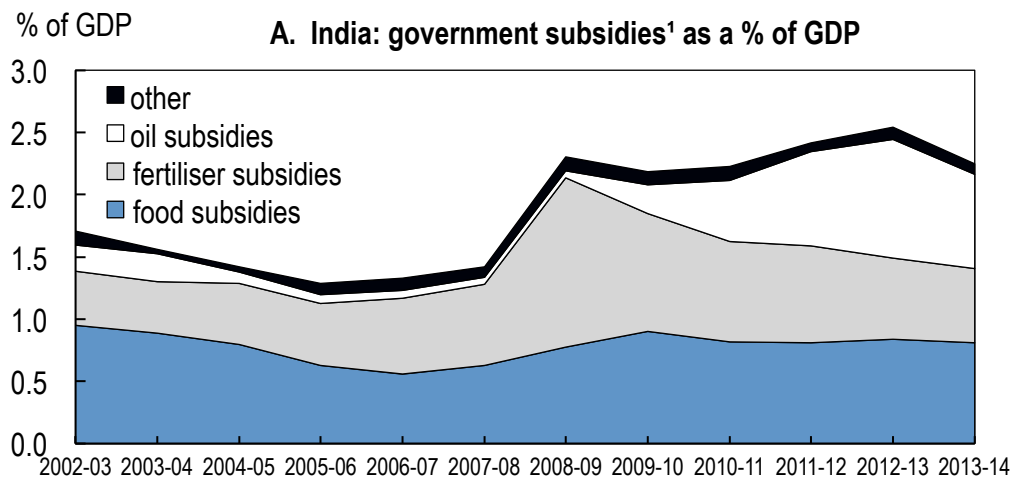




Structure of spending inefficient

Energy subsidies are large & poorly targeted...

reduce subsidies; reorient to health to improve outcomes



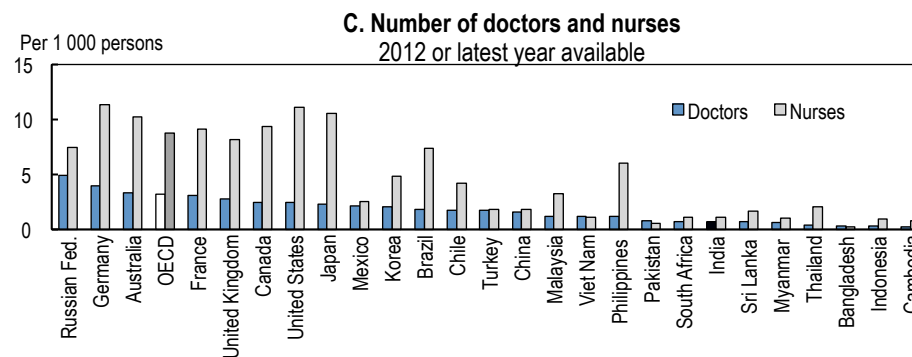
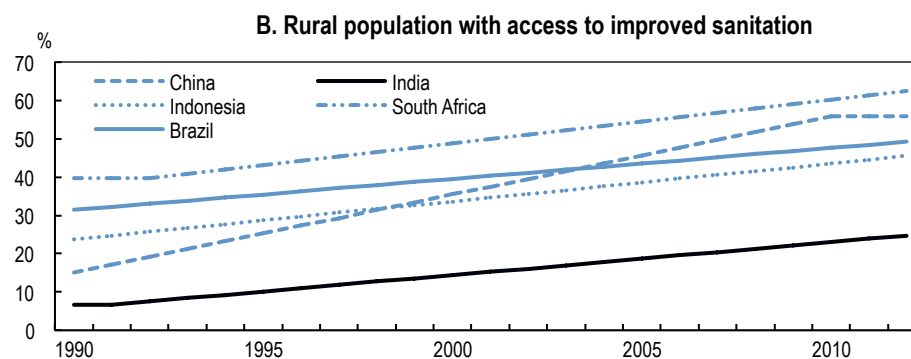
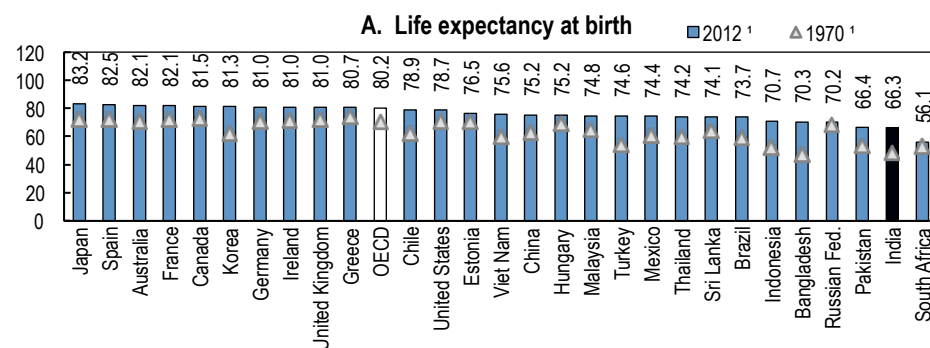
1. Only subsidies recognised in the central government budget are shown. Oil subsidies, estimated at 0.8% of GDP in the central government budget in FY 2012/13, do not fully reflect the fiscal costs.

Source: CEIC, International Energy Agency 2011, World Health Organisation 2013.





Health and well-being ... opportunity for vast improvement



1. Nearest available year.

Source: OECD (2014), Health Database; World Bank (2014), World Development Indicators Database; and WHO (2014), Public Health and Environment Database.

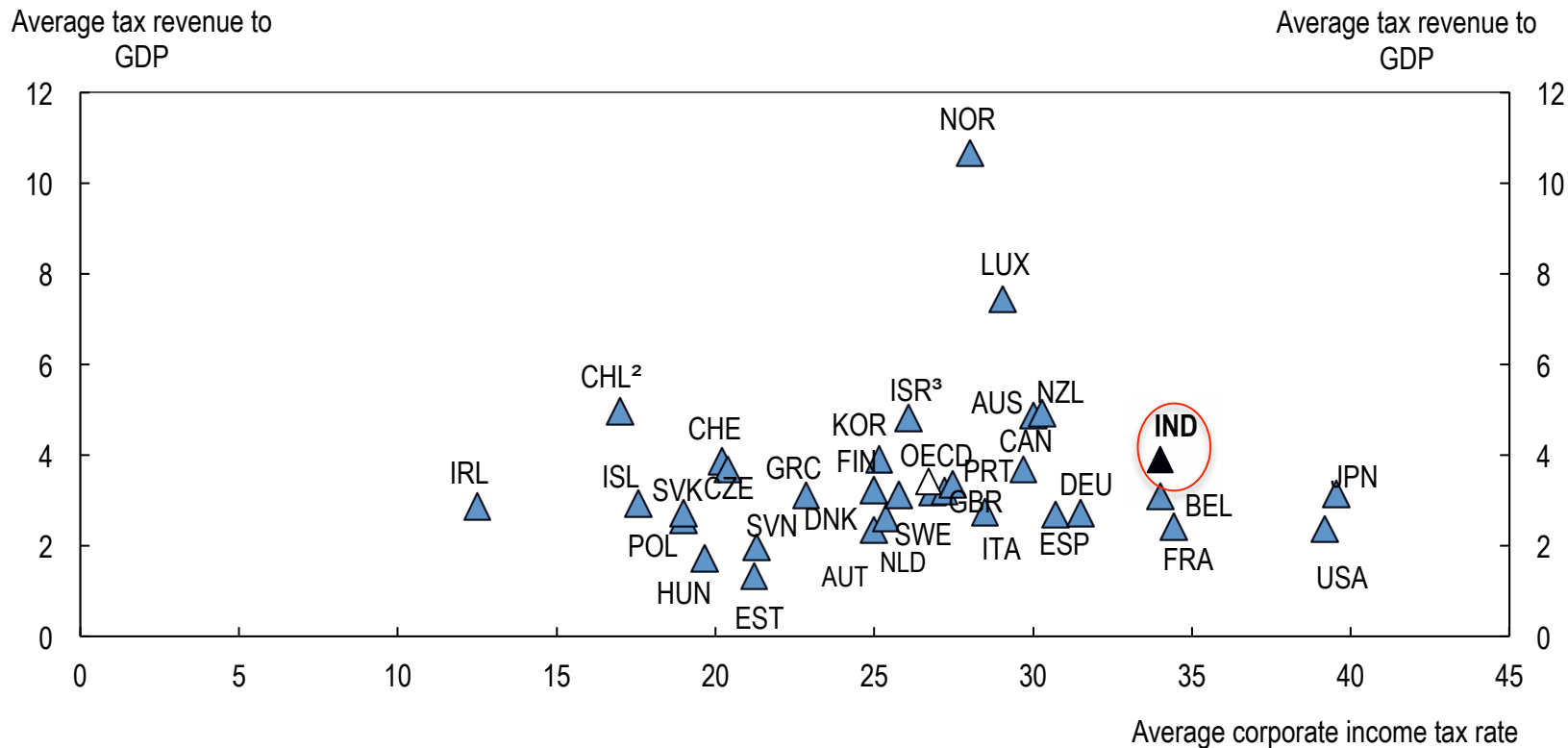




High corporate income tax but low revenue...

Implement a broad national value-added tax (GST)

Improve the macroframework



1. 2007-12 average.

2. For Chile, data refer to years 2007-09.

3. For Israel, Luxembourg, New Zealand and Switzerland, data refer to years 2007-11.

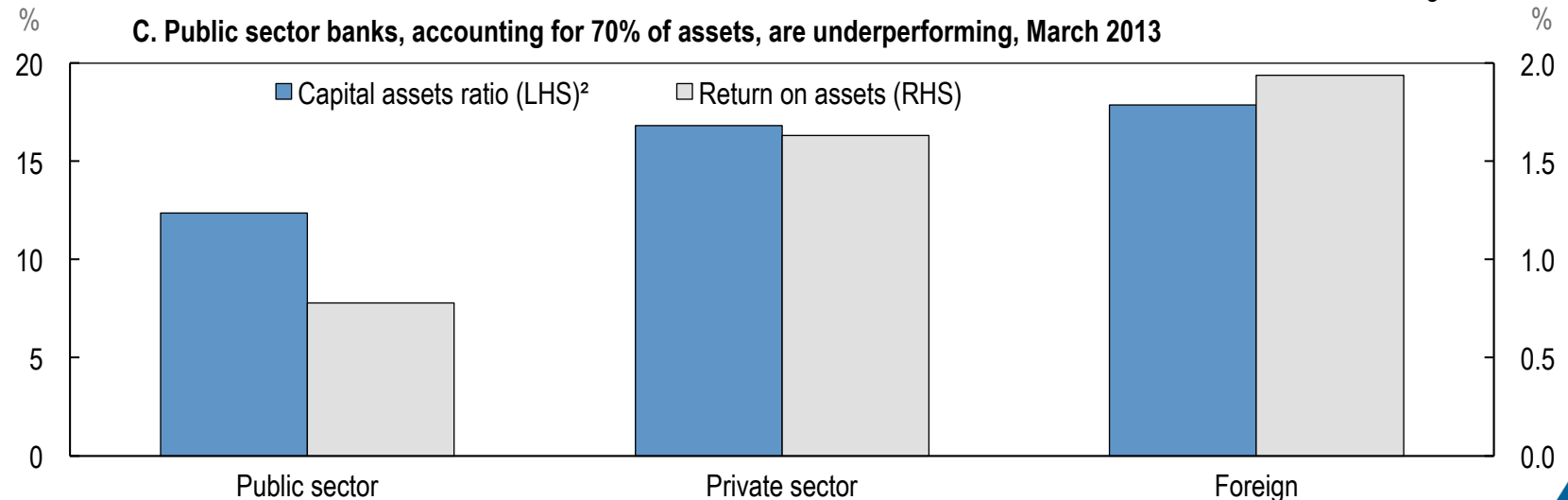
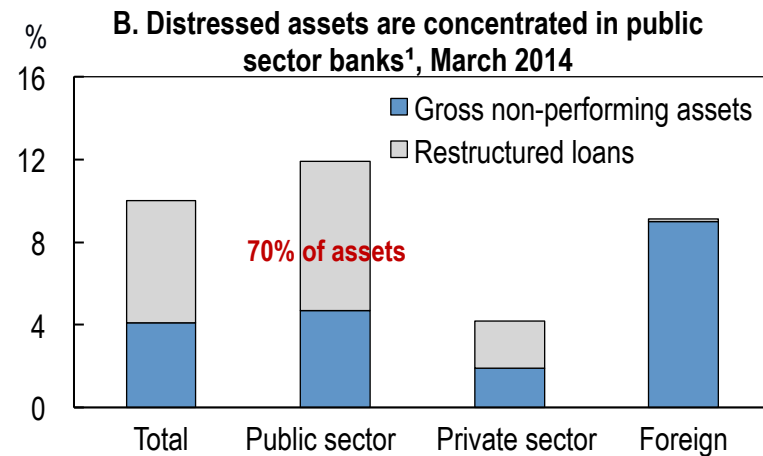
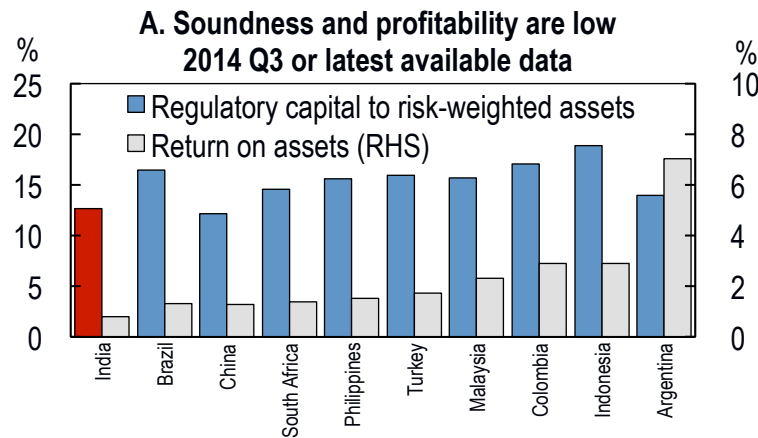
Source: Indian Ministry of finance and OECD tax database.





Banks are in poor shape

Strengthen bank supervision; reduce bad loans



1. In percentage of gross advances. The NPL ratio is the ratio between the value of non-performing loans (NPL) and the total value of the loan portfolio.

2. The Capital to risk-weighted assets ratio (CRAR) is equal to the capital of the bank divided by aggregated assets weighted for credit risk, market risk and operational risk.

Source: IMF Financial Soundness Indicators database and Reserve Bank of India.



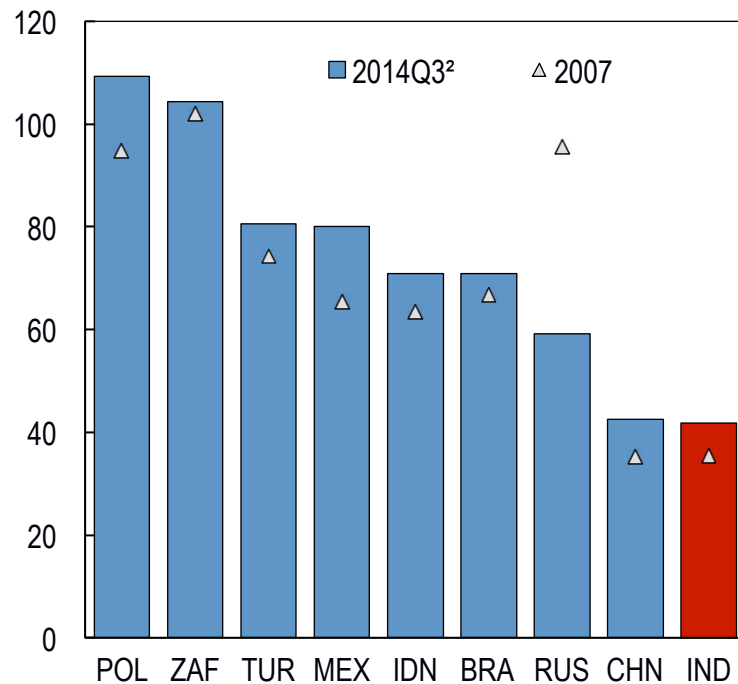


External Financial Vulnerability...

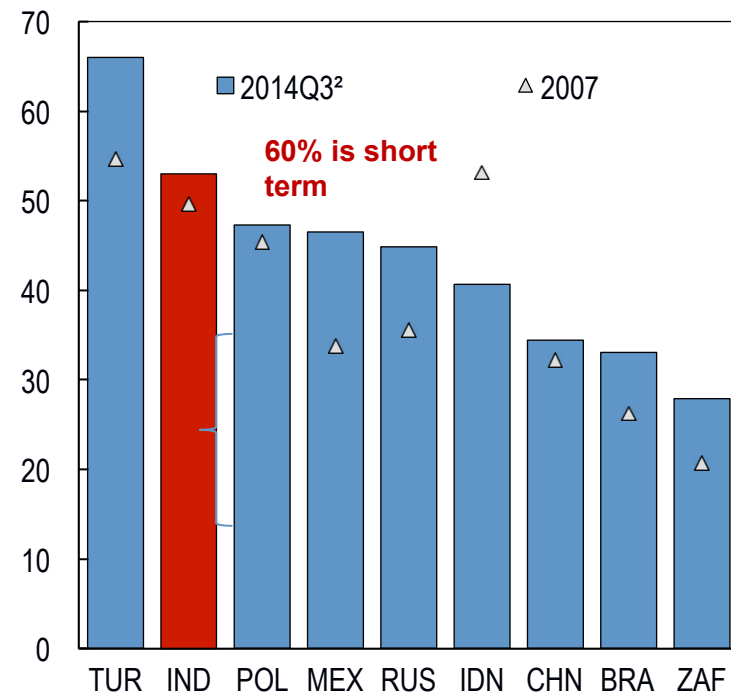
in abeyance for now, but potential concern

Improve the macroframework

% of GDP **Gross foreign liabilities are low...but**



% **Debt accounts for a large share of gross foreign liabilities**



2.. Or latest available figures.

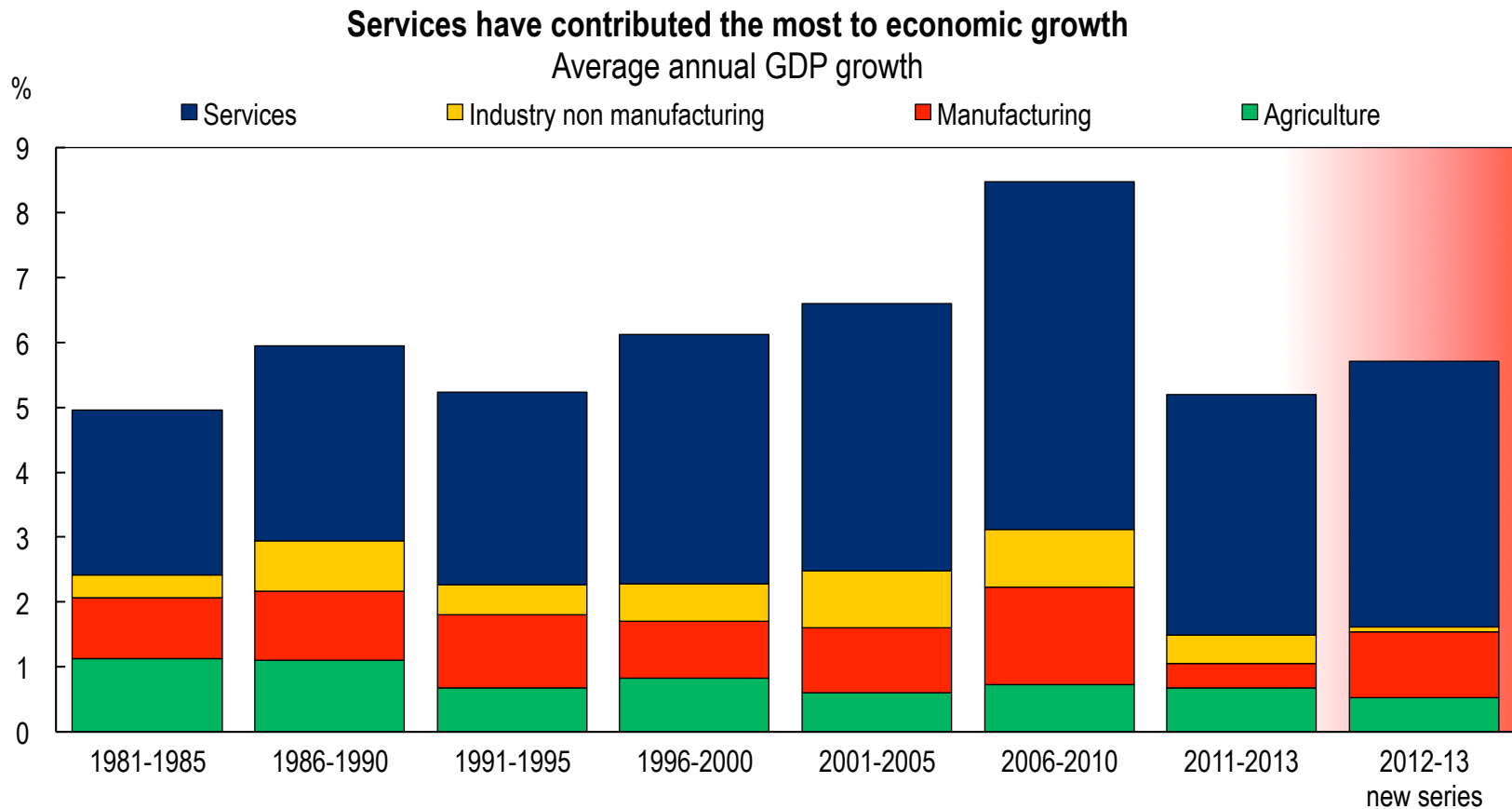
Source: India Ministry of Commerce and Trade, Reserve Bank of India, OECD - International trade and balance of payments database, OECD - National accounts database, Bank for International Settlements and IMF Balance of Payments Statistics.





Manufacturing is key for future growth and jobs: The contribution of manufacturing to GDP growth has been low

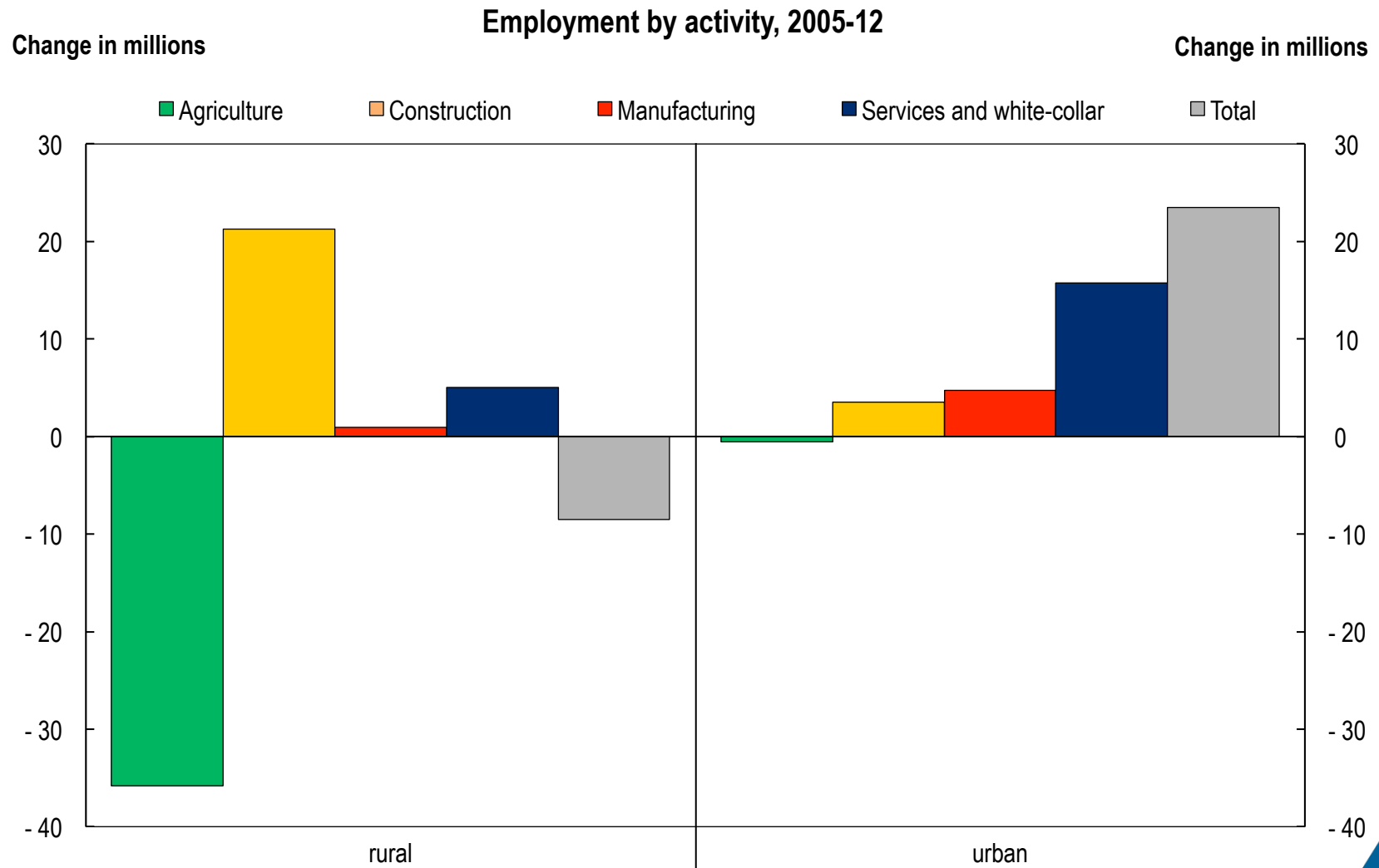
MFG: The symptoms





...same applies for job creation

MFG: The symptoms

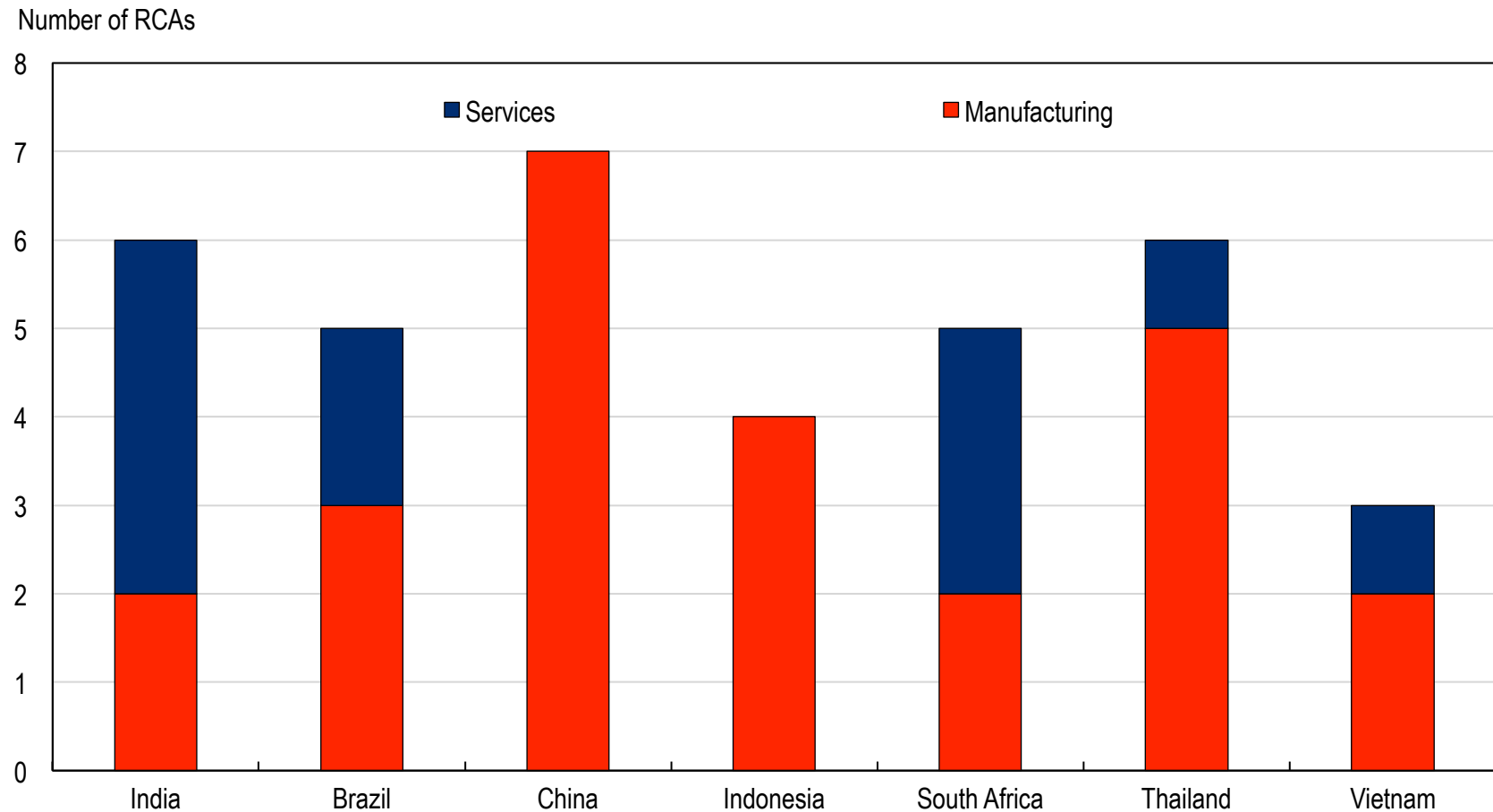




India has a comparative advantage in few manufacturing sectors

MFG: The symptoms

India has a comparative advantage only in a small number of manufacturing sectors

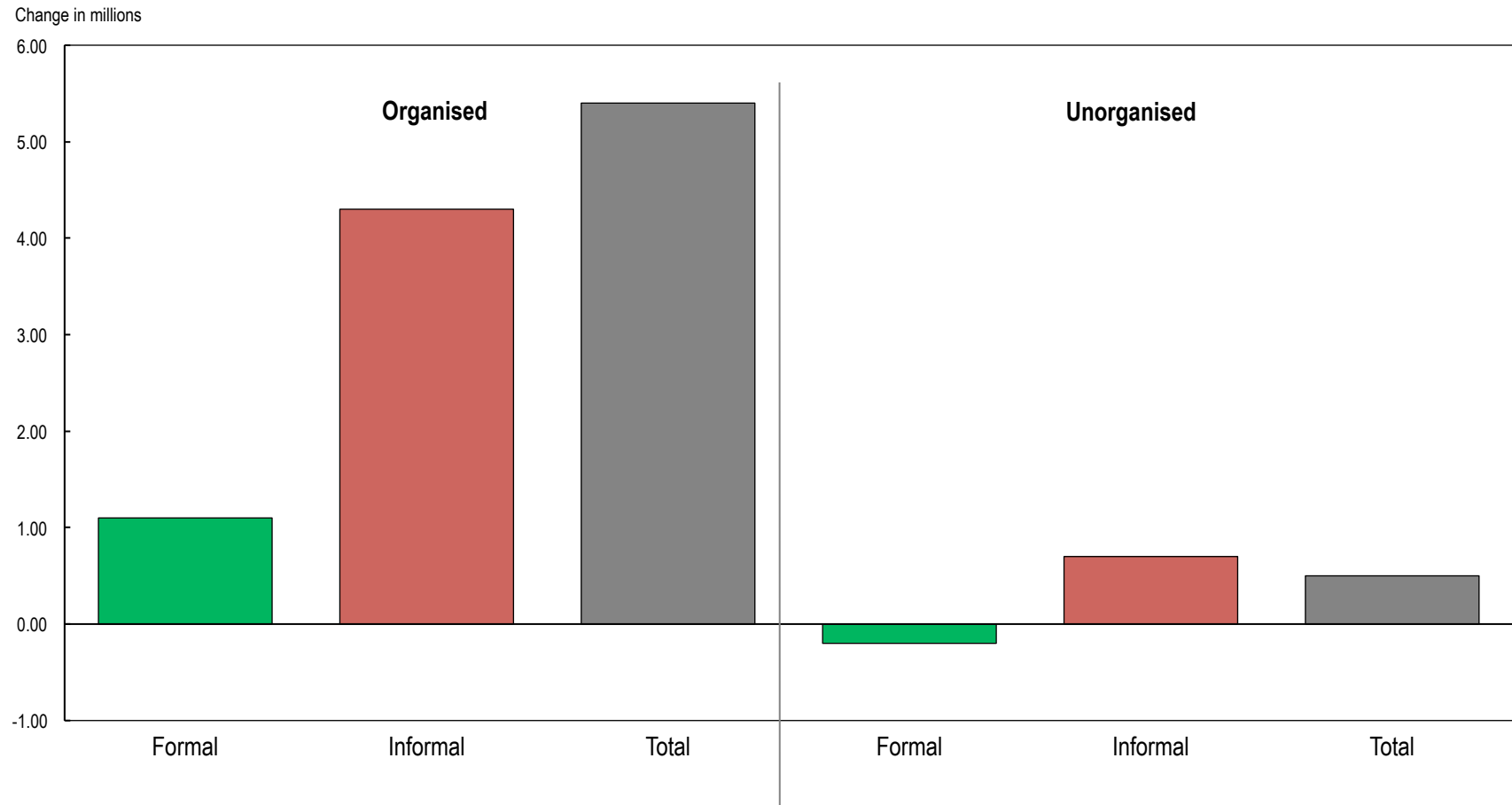




The few manufacturing jobs created are in the organised sector but mostly informal

MFG: The symptoms

Job creation in the manufacturing sector over the period 2005-2012





Indian manufacturing firms tend to stay small

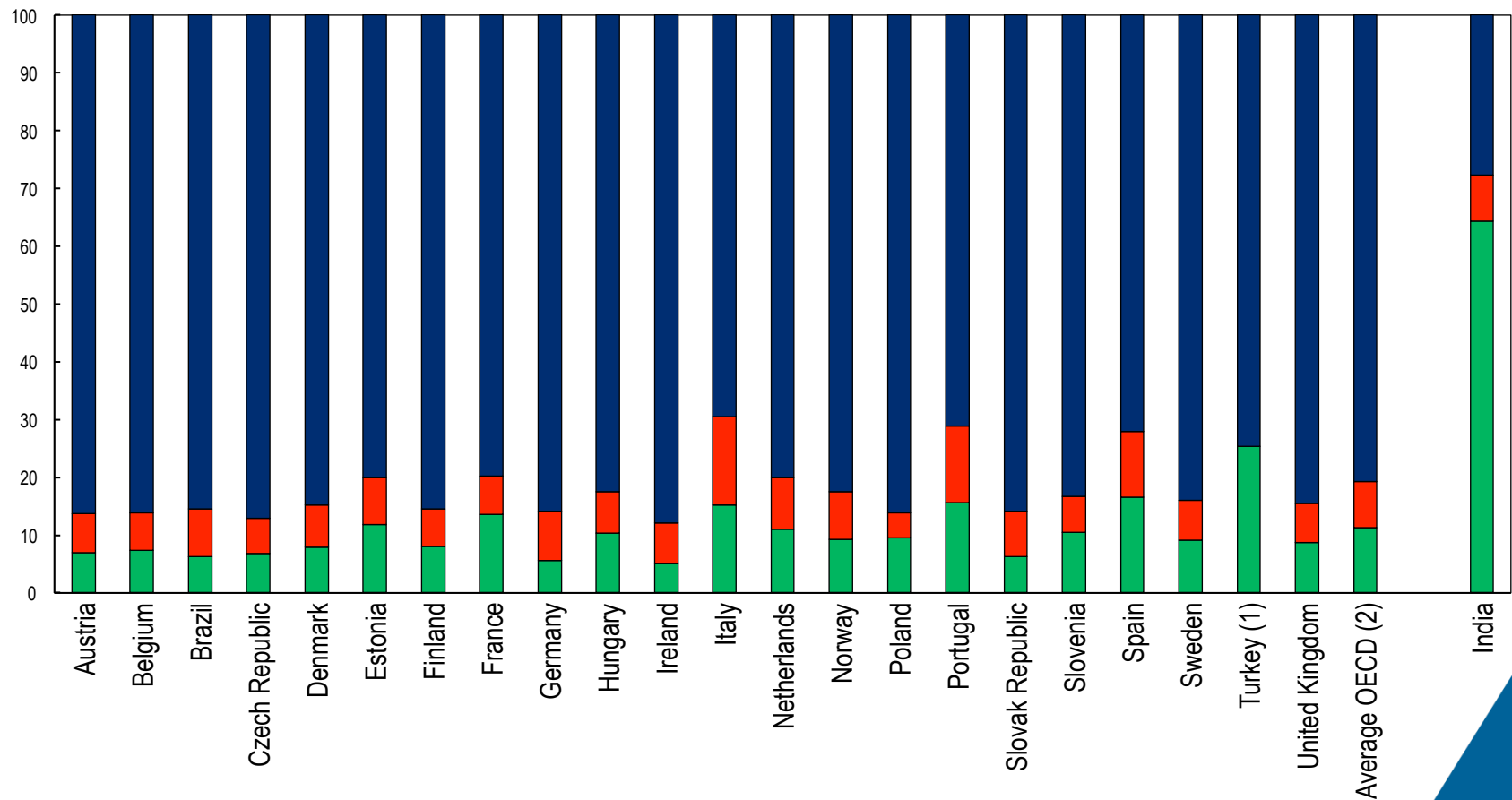
MFG: The symptoms

% of employees by firm size
(2010)

■ 20+

■ 10-19

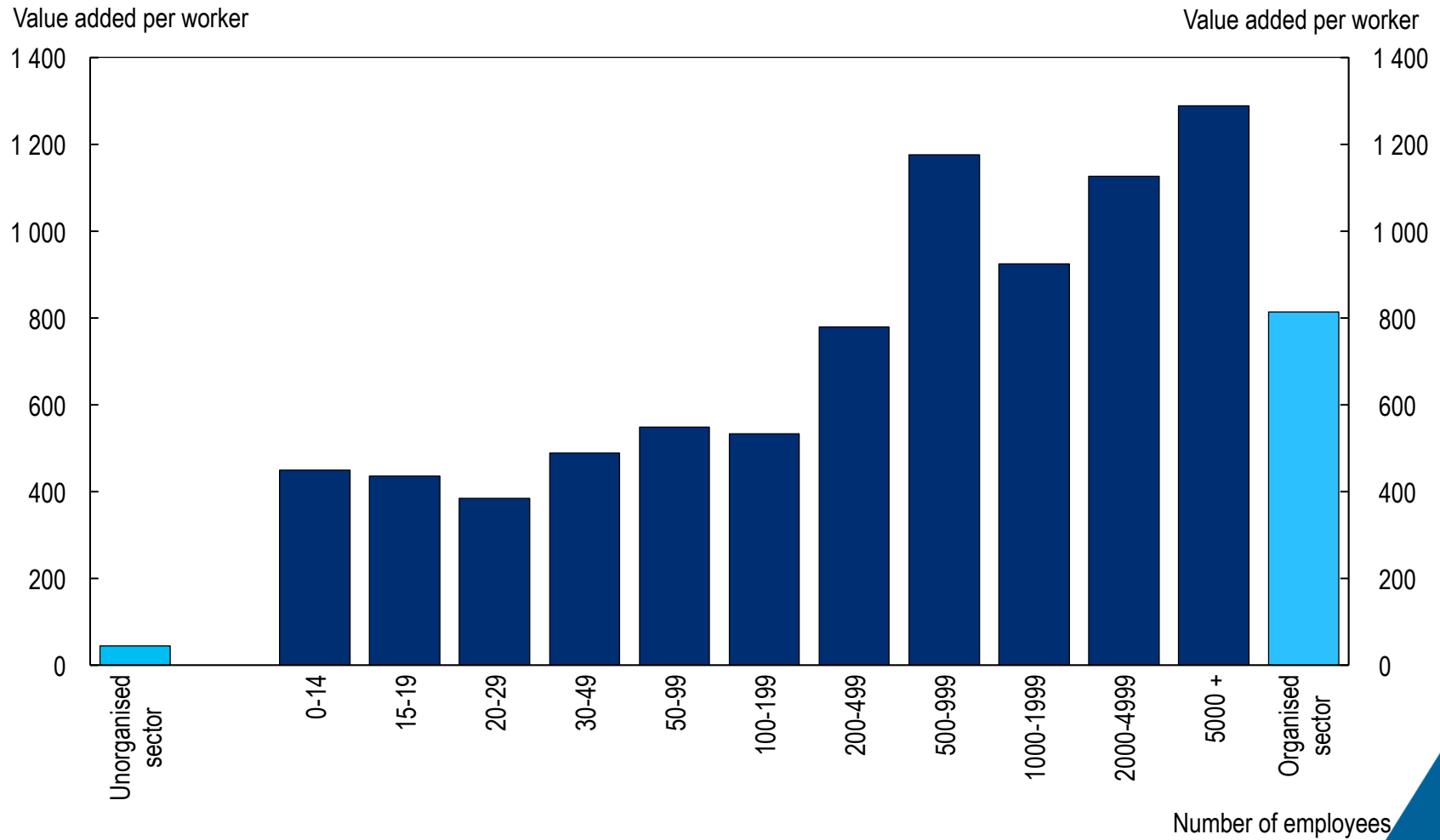
■ 1-9





Productivity in smaller firms is low

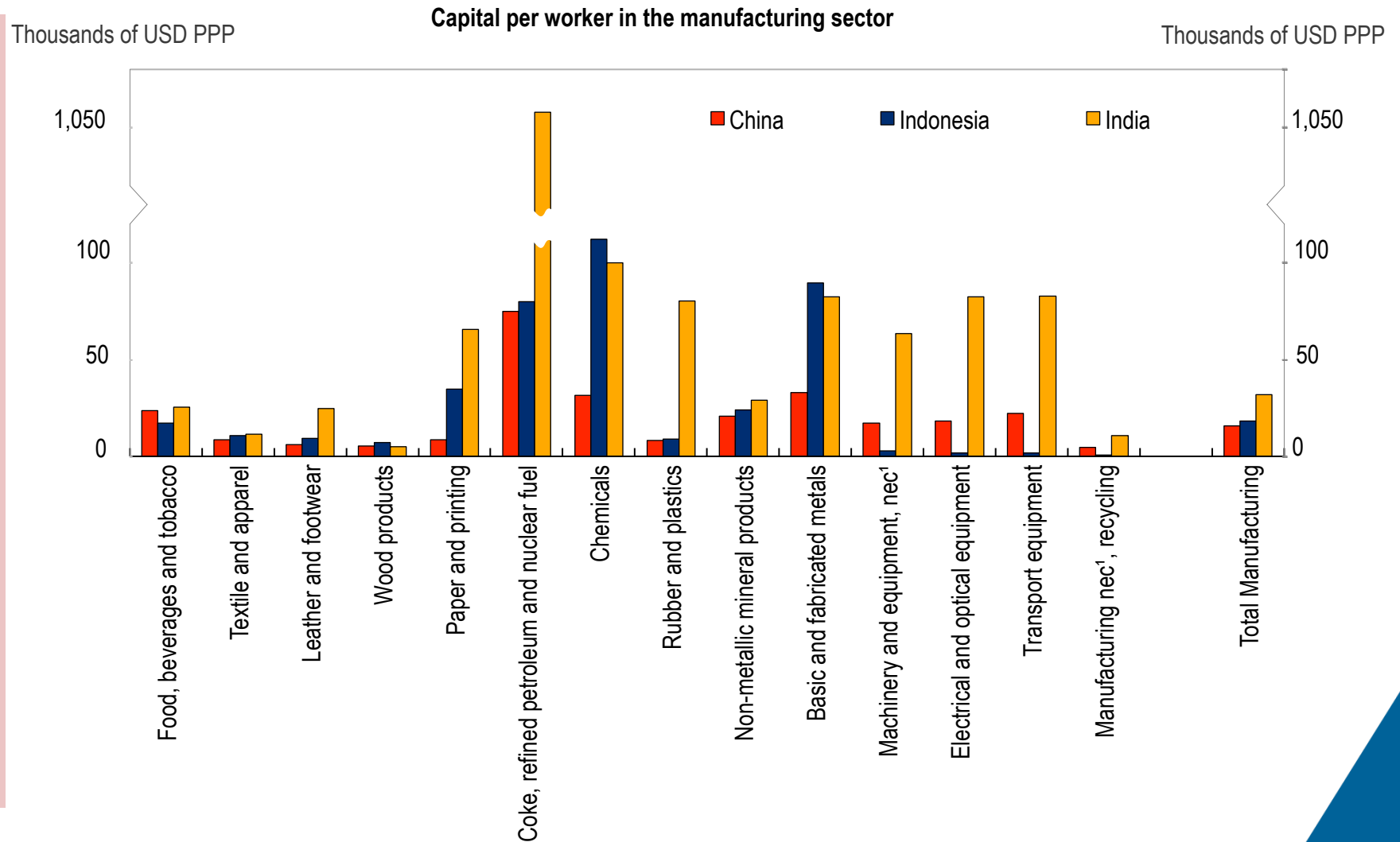
MFG: The symptoms





Manufacturing is capital intensive, ...

MFG: The symptoms

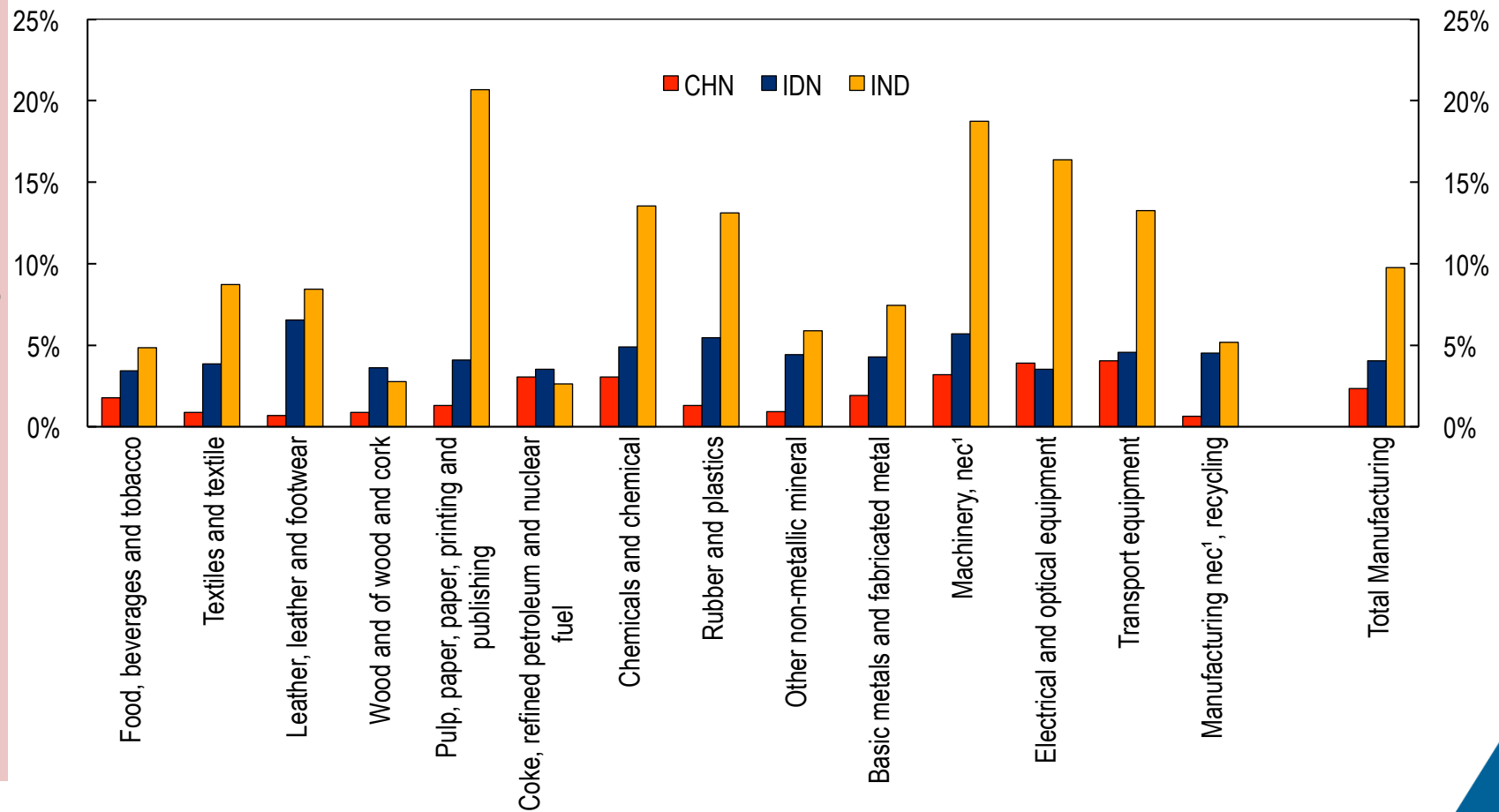




... and comparatively skill intensive

Contribution of high skilled workers² to value added by sector

MFG: The symptoms

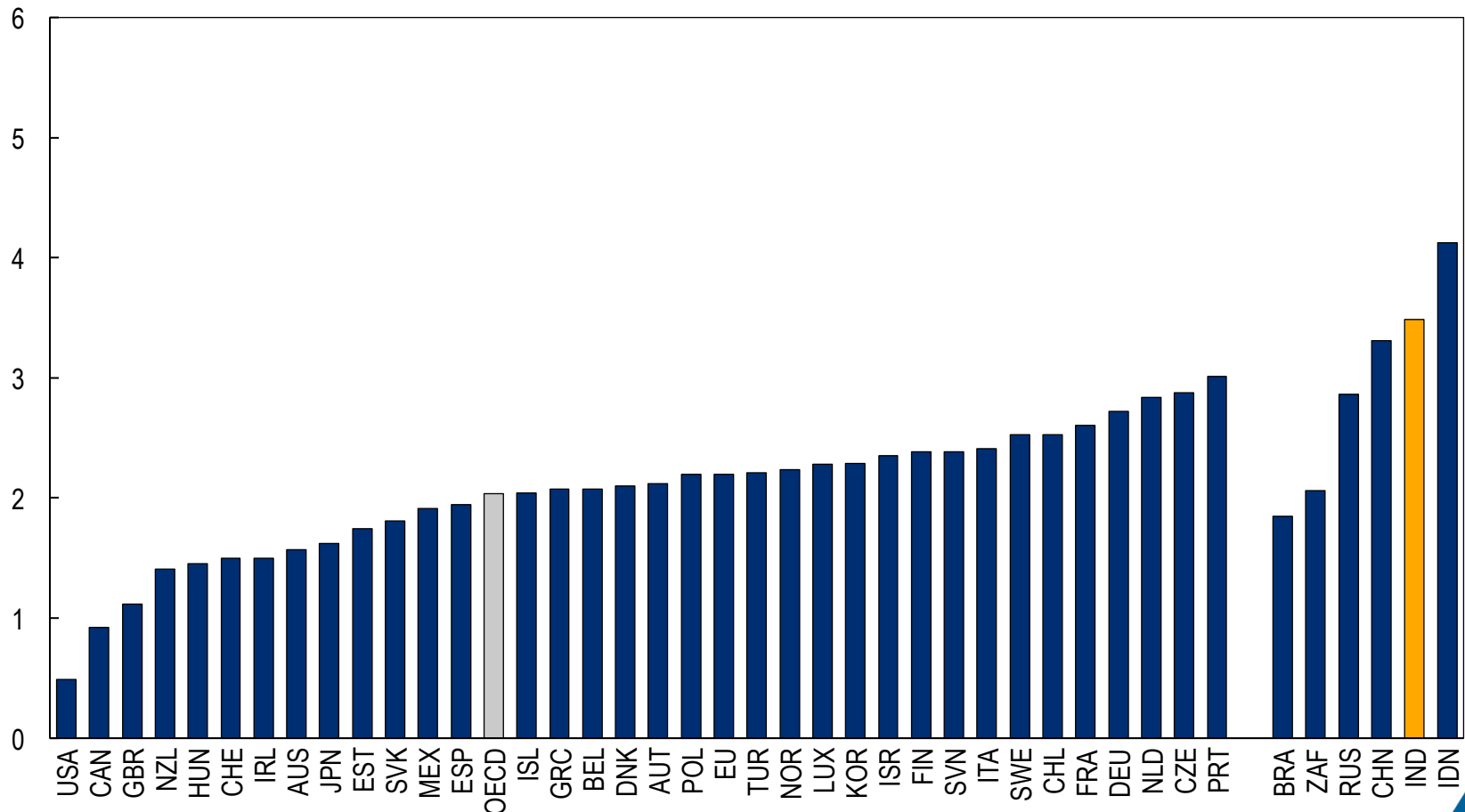




Relatively stringent labour regulations

MFG: The bottlenecks

OECD indicator of employment protection legislation for regular employment

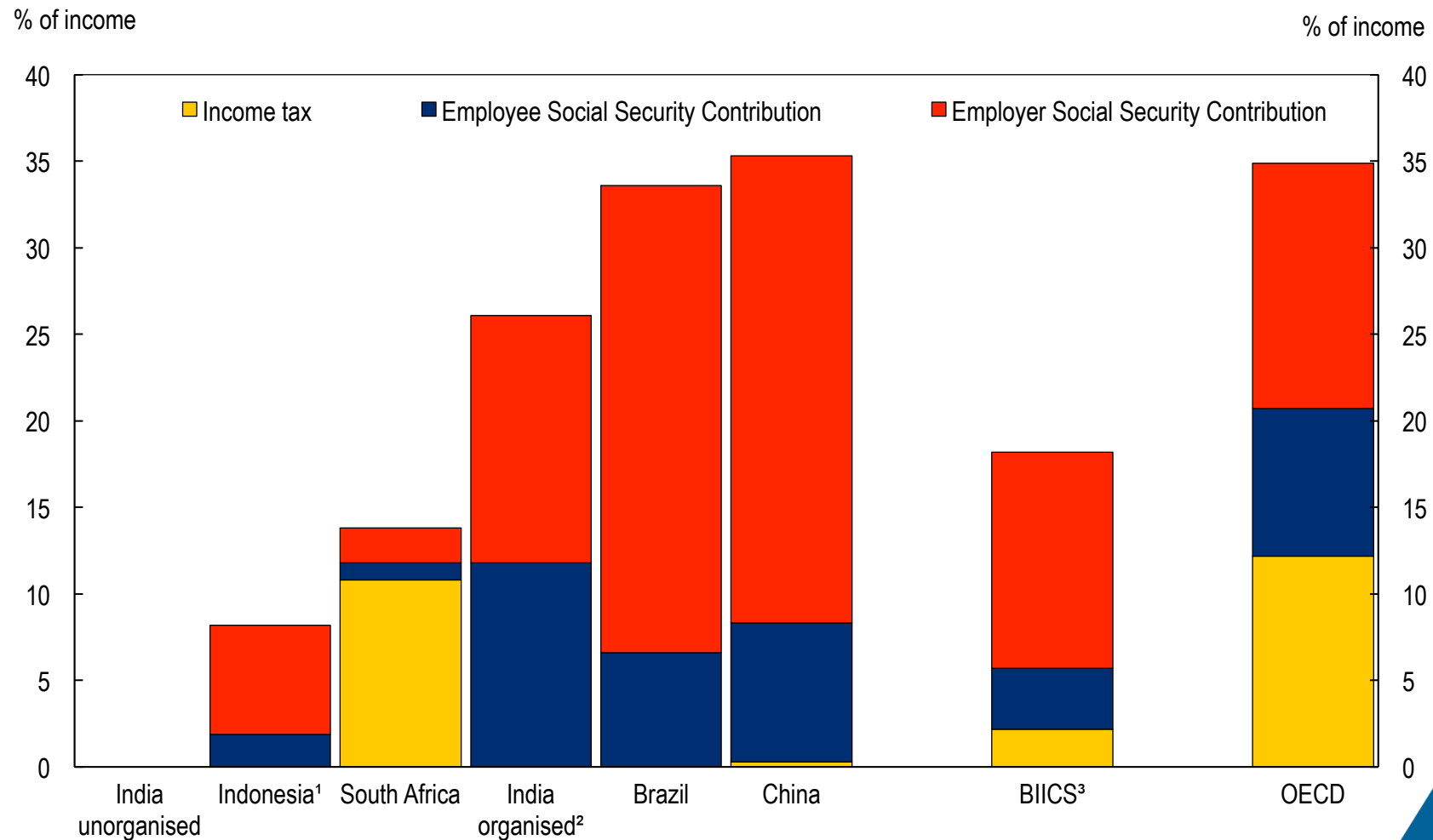




The tax wedge on labour is low for small firms but relatively high for large ones

MFG: The bottlenecks

Components of the tax wedge in 2010 for a single individual with no children

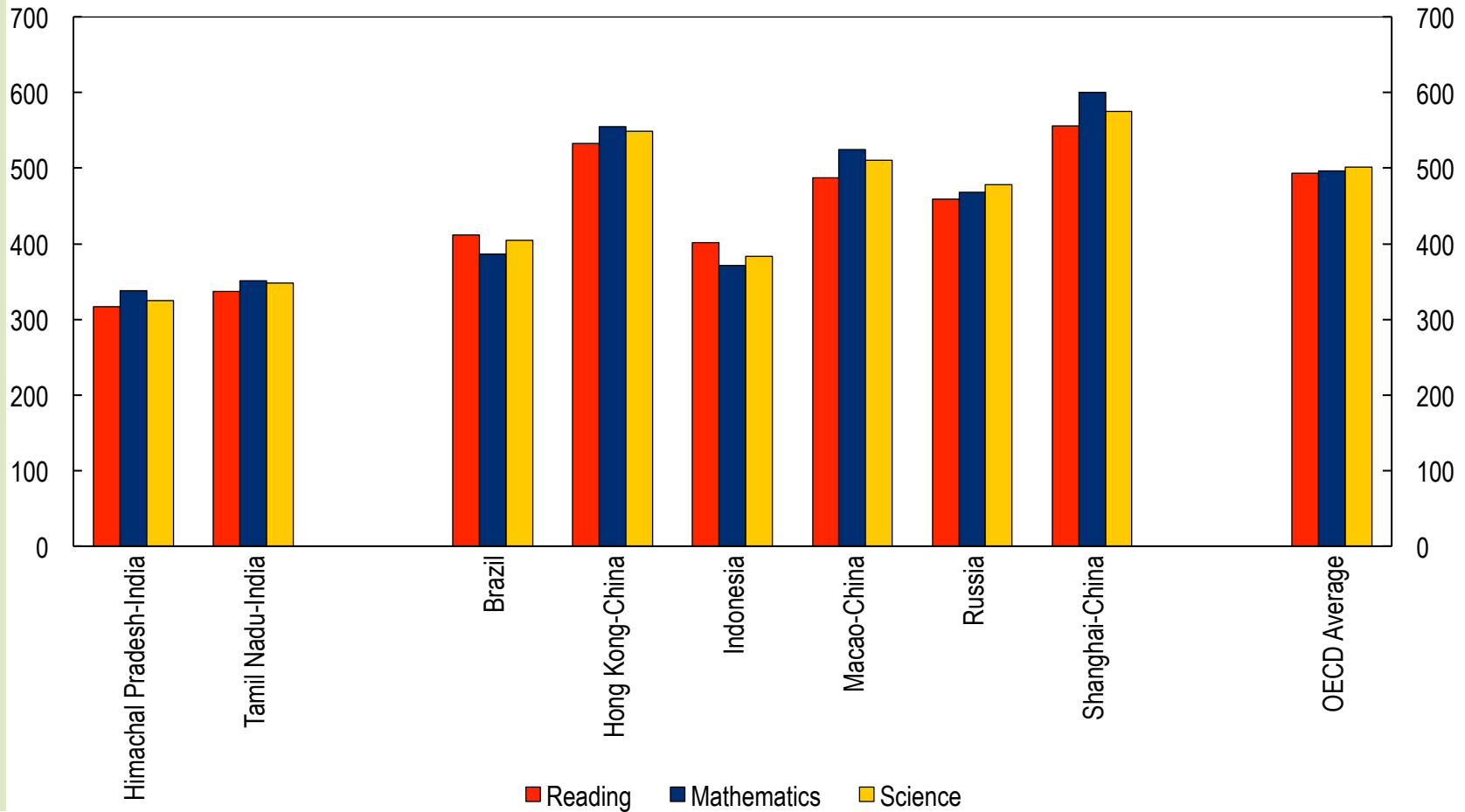




Education: Learning outcomes are low

MFG: The bottlenecks

PISA results

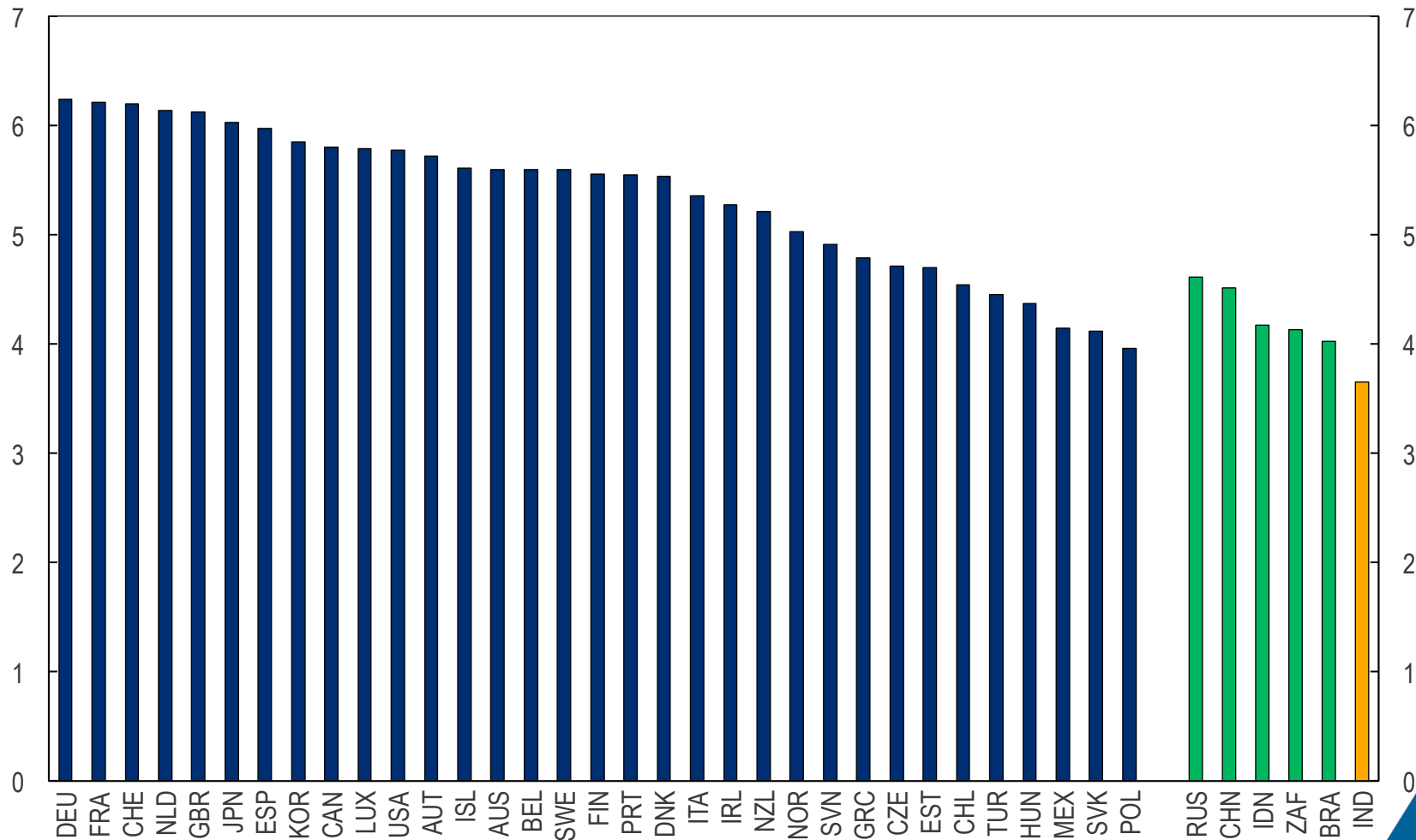




Poor infrastructure

MFG: The bottlenecks

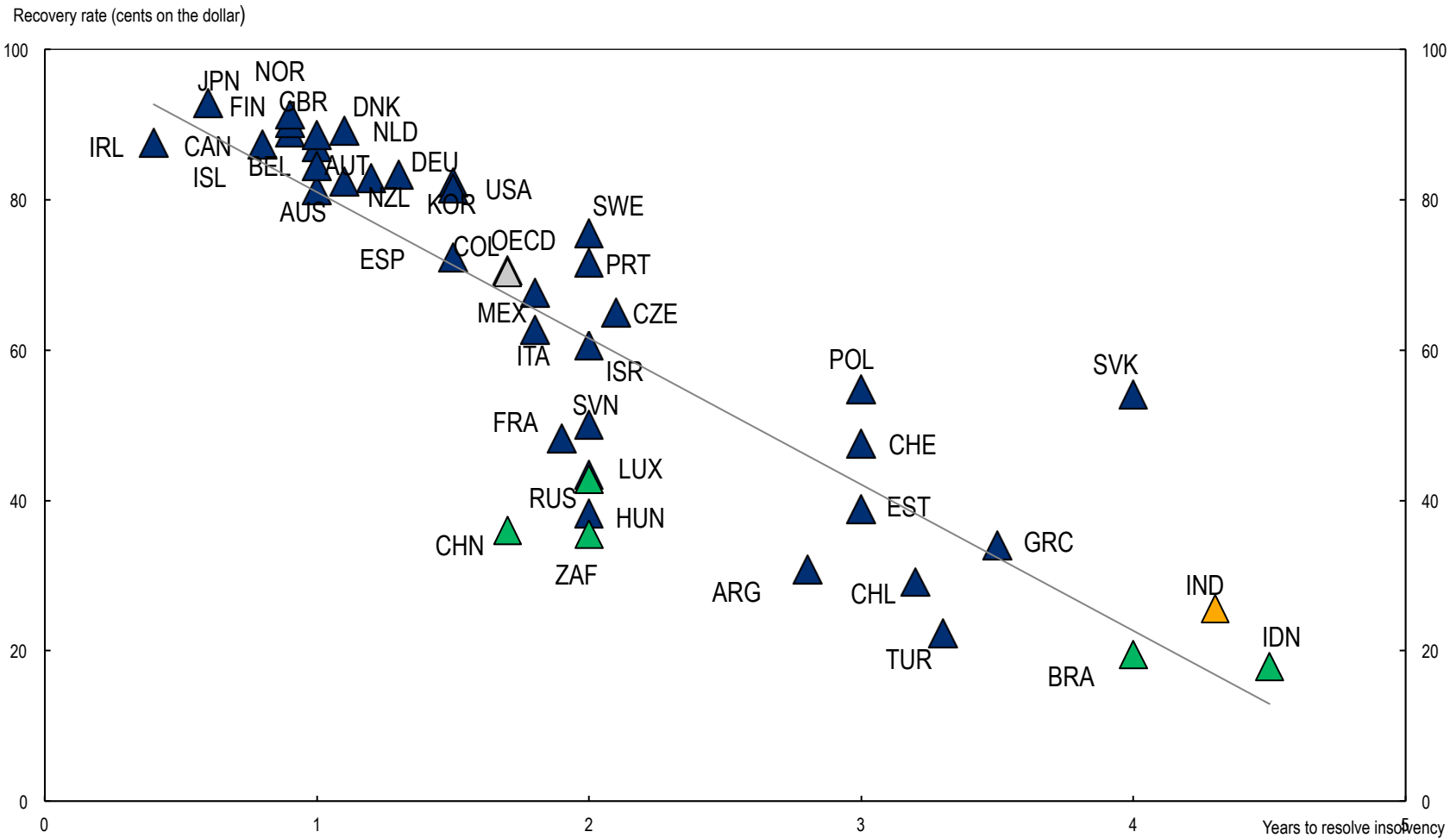
World competitiveness indicator - Infrastructure score





Complex business environment – e.g. the bankruptcy law, ...

MFG: The bottlenecks



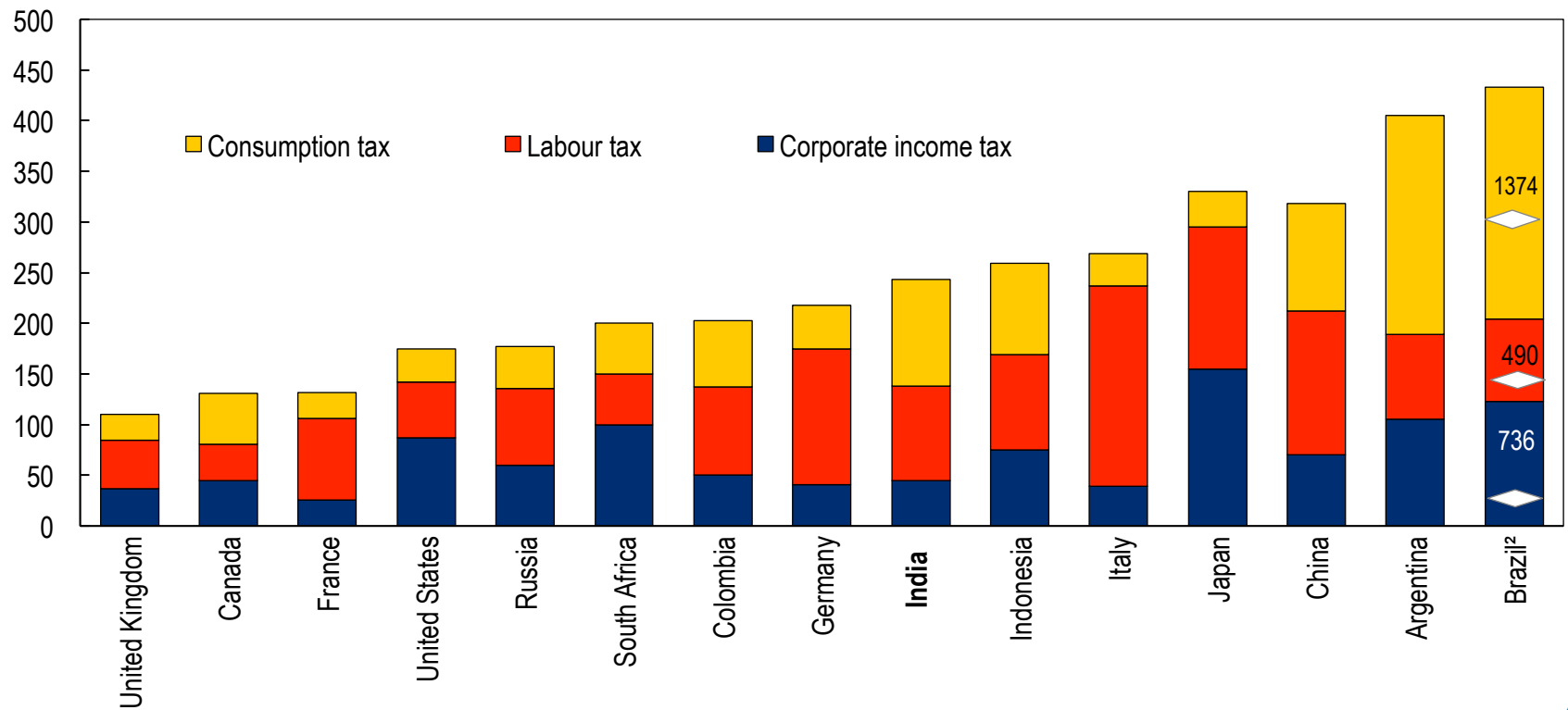


...a complex tax system

MFG: The bottlenecks

Hours per year

A. Time to comply with taxes for small and medium-sized enterprises¹





Key recommendations

MFG: The policy recommendations

- Reduce barriers to **formal employment** by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise.
- Continue improving access to **education**, especially at the secondary level, and better focus on the quality of education. Provide better and earlier vocational training.
- In the **infrastructure** sector, impose clear timelines, rationalise documentation, and implement single-window clearance.
- Continue improving the **business environment** and opening up the economy.
- Implement swiftly the **GST**, streamline special tax regimes

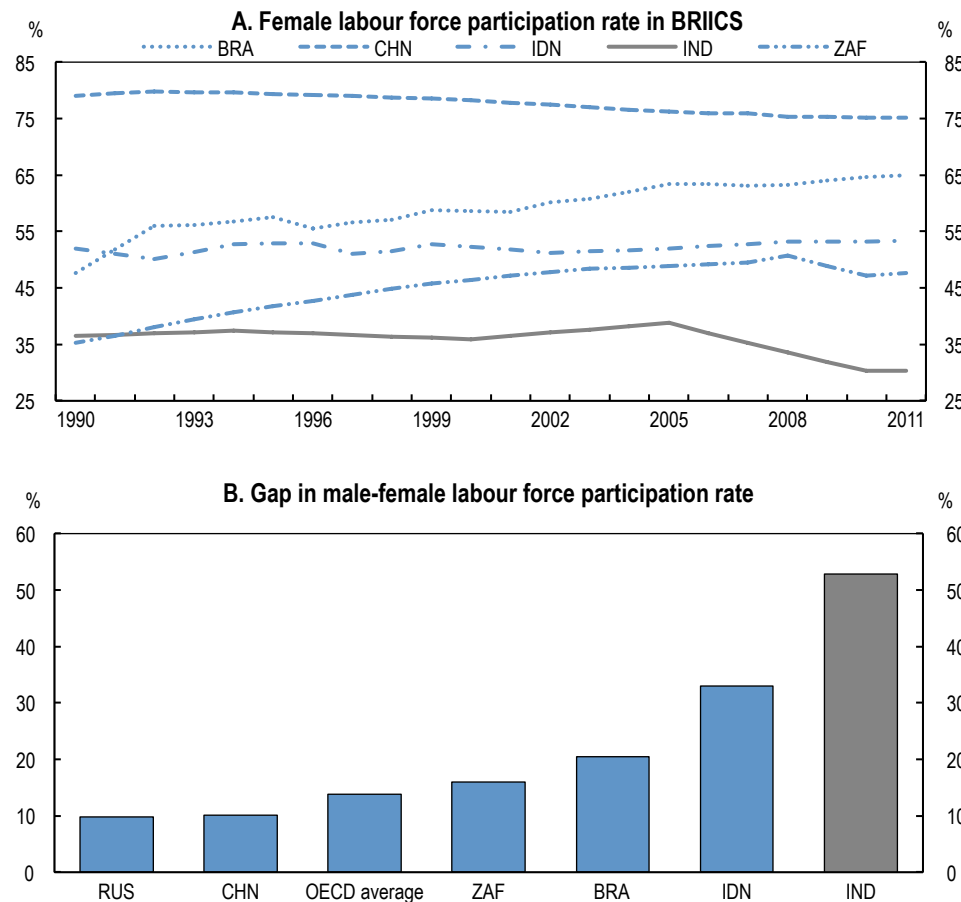




Raising the low female participation can boost inclusive growth: FLFP lowest among BRIICs

FLFP: the puzzle

Female labour force participation indicators

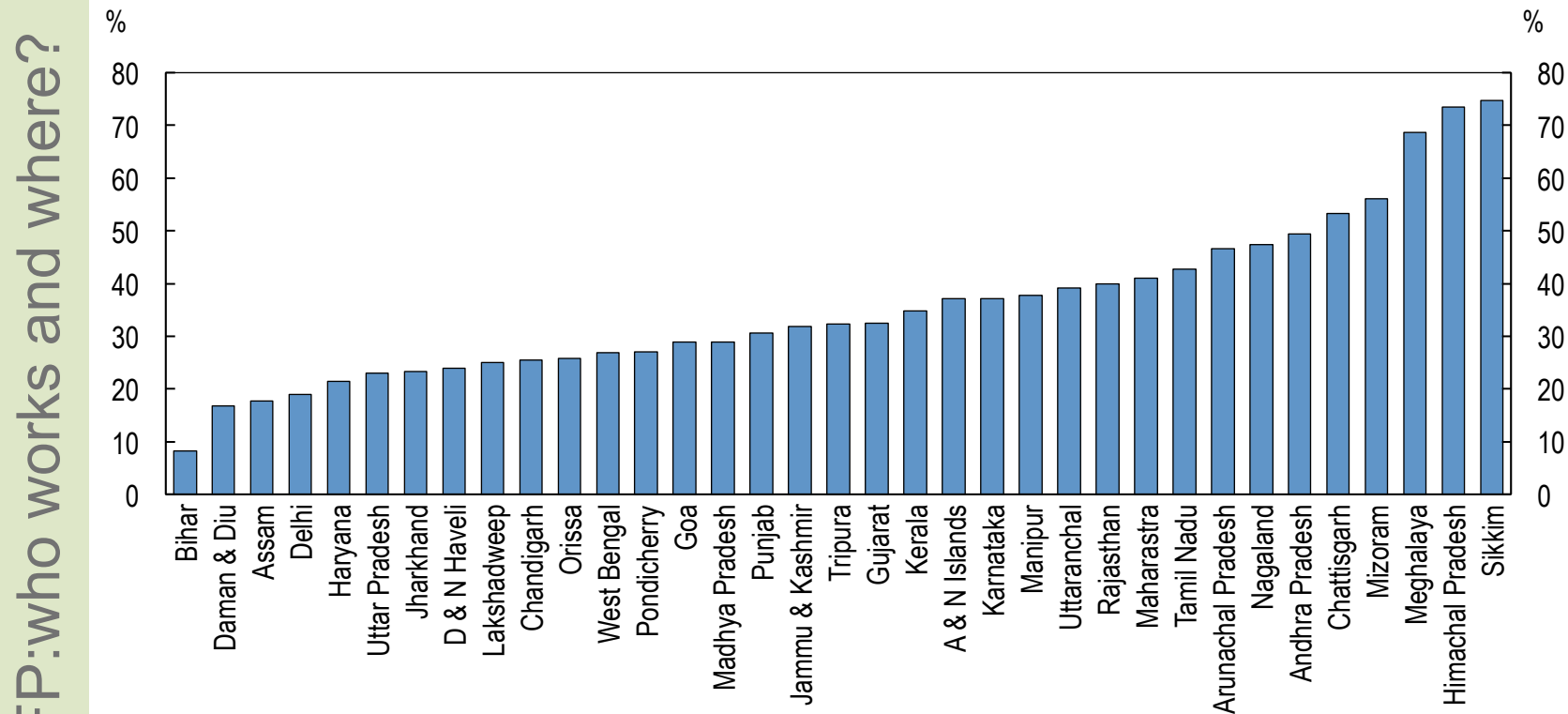


1. Data refer to working age population (15 to 64 years). The gap is male minus female participation rate.
Source: ILO, Economically Active Population, Estimates and Projections (6th edition, October 2011).



Regional differences are large, rural participation higher than urban

Female labour force participation¹ by state in 2012



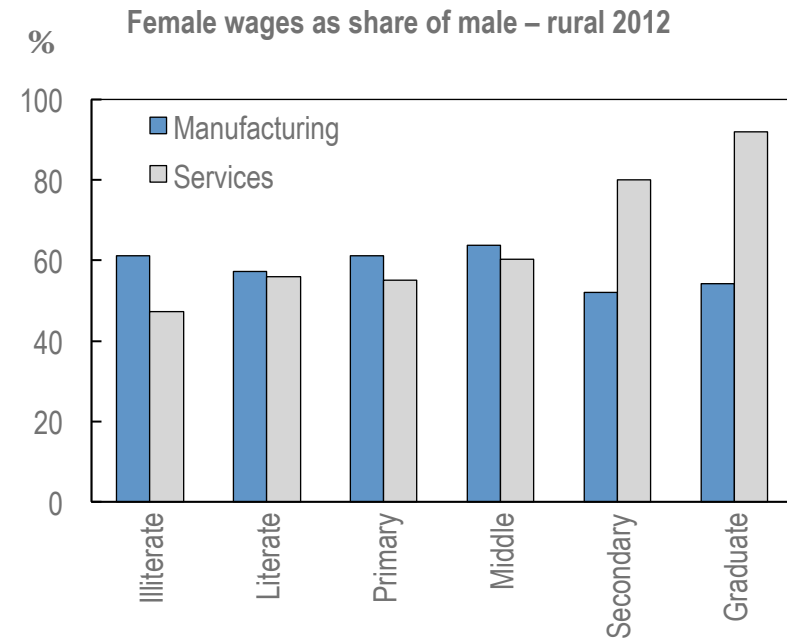
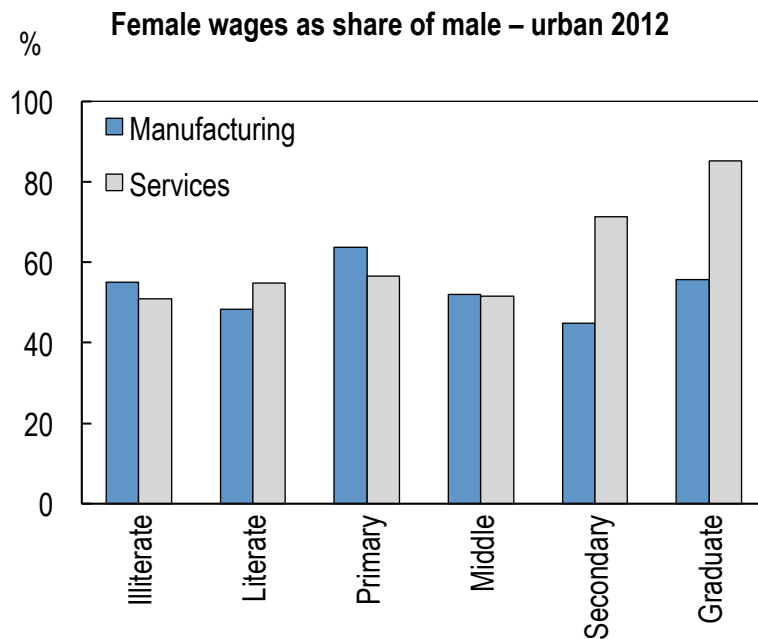
¹ refers to working age population (15 to 64 years).

Source: NSSO, Employment and Unemployment Survey, 68th round.



Women are paid less than men- reservation wage?

FLFP: who works and where?



Source: NSSO, Employment and Unemployment Survey, Round no. 68.

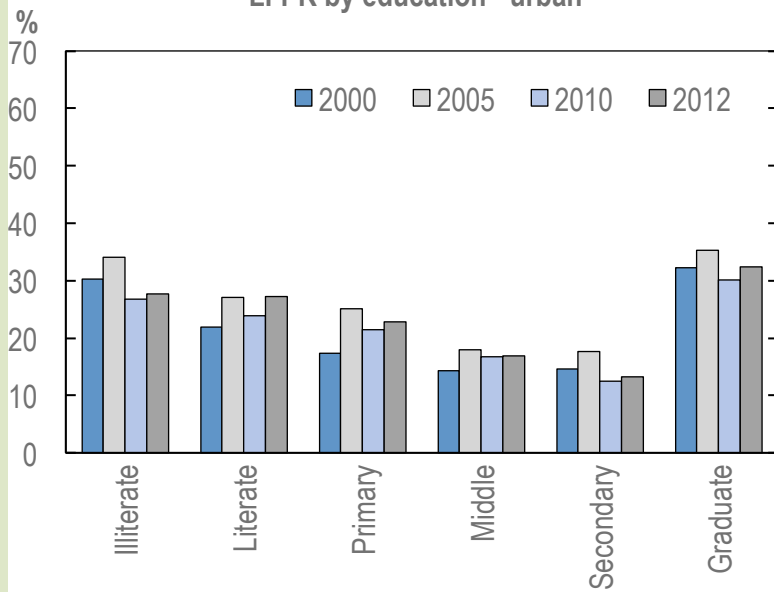




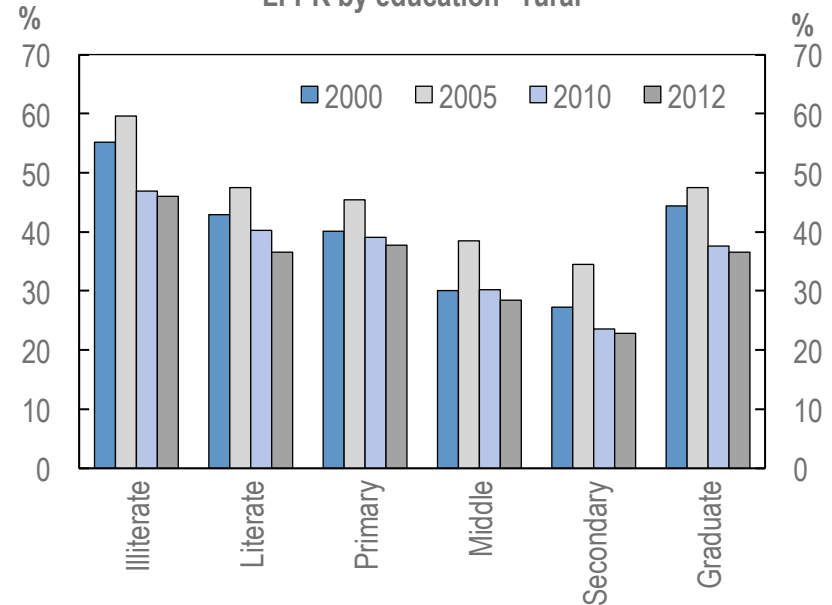
Female participation declines with education...

FLFP: who works and where?

LFPR by education - urban



LFPR by education - rural



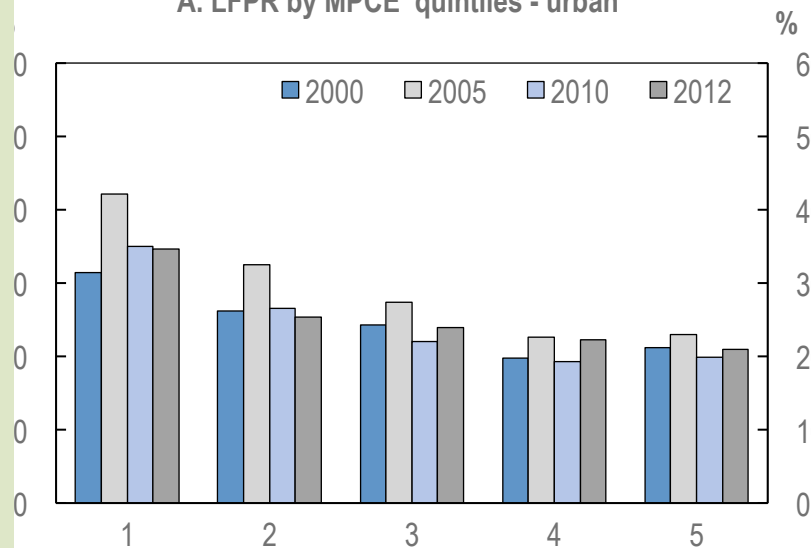
Source: NSSO, Employment and Unemployment Survey, Rounds no. 55, 61, 66 and 68.



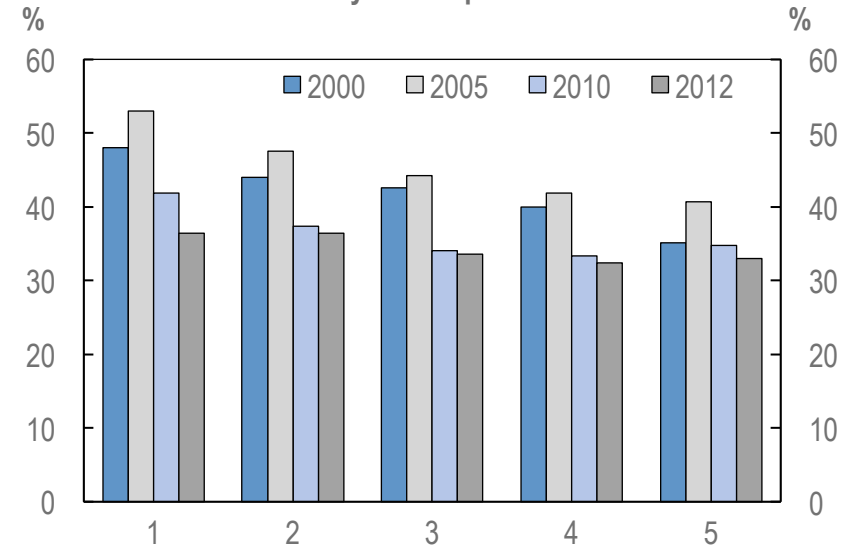
...and family income -necessity, socioeconomic factors, status?

FLFP: who works and where?

A. LFPR by MPCE quintiles - urban



B. LFPR by MPCE quintiles - rural



Source: NSSO, Employment and Unemployment Survey, Rounds no. 55, 61, 66 and 68.
MPCE quintiles



Socioeconomic factors dominate as determinants in regressions:

FLFP: Why?

- Personal characteristics: education (-), HH income (-), marriage (-), small children (-)
- Cultural – religion, social class (-)
- Access to finance, bank account (+) esp. in rural areas
- Infrastructure and security, time available for work outside (+) in rural areas (water, electricity)
- Activation policies - NREG large positive
- Similar to others findings: Klasen-Peters, Eswaran et al.







Raising participation can boost growth substantially

FLFP: Growth potential

- *One study (Agenor 2015 forthcoming) estimated that growth can be about 2 percentage points higher in the long run if more women work in India*





Key recommendations to raise female labour force participation

FLFP: Key policy recommendations

- Extend female political quotas to state and national parliaments to overcome social and cultural barriers
- Reinforce existing equality frameworks: Enhance implementation of gender-related laws
- Modernise labour laws to ensure equal work opportunities for women.
- Expand secondary and higher education for women and skills training for female entrepreneurs.
- Expand public awareness campaigns on gender equality especially in states with low participation





BANGALORE CITY POLICE



In sum, OECD India Survey 2014 Key Recommendations:

1. Switch subsidy spending to physical infrastructure and to more effective and targeted social programme
2. **Implement a broad national value-added tax (GST)**
3. Strengthen bank supervision and reduce bad loans
4. **Introduce simpler, more flexible labour law to cover more workers**
5. Extend female quotas to state and national parliament and strengthen the implementation of gender-related laws
6. **Increase public spending on preventive and primary health care, especially in rural areas and urban slums**





Challenges and Opportunities along the reform path

- Many policies are interlinked
- Structural reform and Federalism
 - Federal level reform of labour, land, women, health takes time.
 - Allow state-by-state experimentation to develop data and experience, and guide policy
 - Beware of federal consolidation without local commitments
 - Promote transparency of local budget and limit local bond authority.





More information...

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