2014 OECD ECONOMIC SURVEY OF INDIA

Stronger and better growth

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Washington DC, 13 April 2015

The Indian economy is looking up but recovery fragile

1. At market value and constant prices.
Source: OECD Economic Outlook 96 Database.
Growth needs to be more inclusive
A “jobless” growth so far...

Employment creation has not kept up with the growing working-age population

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.
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.

“Jobless” growth affects especially women

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

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Female -Working age population</td>
<td></td>
<td>304</td>
<td>340</td>
<td>403</td>
<td>36</td>
<td>63</td>
</tr>
<tr>
<td>Labour force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td>123</td>
<td>148</td>
<td>129</td>
<td>25</td>
<td>-19</td>
</tr>
<tr>
<td>Unemployment</td>
<td></td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>Remaining outside labour force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In education</td>
<td></td>
<td>18</td>
<td>23</td>
<td>42</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Not in education</td>
<td></td>
<td>161</td>
<td>165</td>
<td>229</td>
<td>4</td>
<td>-64</td>
</tr>
<tr>
<td>Male-Working age population</td>
<td></td>
<td>326</td>
<td>365</td>
<td>427</td>
<td>39</td>
<td>62</td>
</tr>
<tr>
<td>Labour force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td>274</td>
<td>318</td>
<td>343</td>
<td>35</td>
<td>34</td>
</tr>
<tr>
<td>Unemployment</td>
<td></td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Remaining outside labour force</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In education</td>
<td></td>
<td>32</td>
<td>36</td>
<td>61</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>Not in education</td>
<td></td>
<td>13</td>
<td>13</td>
<td>15</td>
<td>-</td>
<td>2</td>
</tr>
</tbody>
</table>

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

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

Source: NSSO.
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

Energy and food drive the recent fall in inflation

Inflation expectations have started to adjust

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

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.

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)

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

A. Soundness and profitability are low
2014 Q3 or latest available data

- Regulatory capital to risk-weighted assets
- Return on assets (RHS)

B. Distressed assets are concentrated in public sector banks¹, March 2014

- Gross non-performing assets
- Restructured loans

C. Public sector banks, accounting for 70% of assets, are underperforming, March 2013

- Capital assets ratio (LHS)²
- Return on assets (RHS)

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

Gross foreign liabilities are low…but

Debt accounts for a large share of gross foreign liabilities

2. Or latest available figures.
Manufacturing is key for future growth and jobs: The contribution of manufacturing to GDP growth has been low.

Services have contributed the most to economic growth.

Average annual GDP growth:

- Services
- Industry non-manufacturing
- Manufacturing
- Agriculture

<table>
<thead>
<tr>
<th>Period</th>
<th>Services</th>
<th>Industry non-manufacturing</th>
<th>Manufacturing</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-1985</td>
<td>5.0%</td>
<td>0.5%</td>
<td>0.2%</td>
<td>1.0%</td>
</tr>
<tr>
<td>1986-1990</td>
<td>5.5%</td>
<td>0.8%</td>
<td>0.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>1991-1995</td>
<td>5.8%</td>
<td>0.9%</td>
<td>0.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>1996-2000</td>
<td>6.0%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2001-2005</td>
<td>6.2%</td>
<td>1.1%</td>
<td>0.6%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2006-2010</td>
<td>7.0%</td>
<td>1.3%</td>
<td>0.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2011-2013</td>
<td>5.8%</td>
<td>0.9%</td>
<td>0.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2012-2013</td>
<td>5.6%</td>
<td>0.8%</td>
<td>0.3%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Note: The new series for 2012-2013 includes an additional 1% for Manufacturing and 0.5% for Agriculture.
...same applies for job creation
India has a comparative advantage in few manufacturing sectors
The few manufacturing jobs created are in the organised sector but mostly informal.

<table>
<thead>
<tr>
<th></th>
<th>Formal</th>
<th>Informal</th>
<th>Total</th>
<th>Formal</th>
<th>Informal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in millions</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td><strong>Job creation in the manufacturing sector over the period 2005-2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

MFG: The symptoms
Indian manufacturing firms tend to stay small.
Productivity in smaller firms is low

MFG: The symptoms

- Unorganised sector
- Organised sector

Value added per worker by number of employees:
- 0-14
- 15-19
- 20-29
- 30-49
- 50-99
- 100-199
- 200-499
- 500-999
- 1000-1999
- 2000-4999
- 5000+

The symptoms indicate higher productivity in larger firms compared to smaller ones.
Manufacturing is capital intensive, ...
… and comparatively skill intensive

Contribution of high skilled workers² to value added by sector

CHN | IDN | IND

Food, beverages and tobacco
Textiles and textile
Leather, leather and footwear
Wood and of wood and cork
Pulp, paper, printing and publishing
Coke, refined petroleum and nuclear fuel
Chemicals and chemical
Rubber and plastics
Other non-metallic mineral
Basic metals and fabricated metal
Machinery, nec¹
Electrical and optical equipment
Transport equipment
Manufacturing nec¹, recycling
Total Manufacturing

MFG: The symptoms
Relatively stringent labour regulations

OECD indicator of employment protection legislation for regular employment

MFG: The bottlenecks
The tax wedge on labour is low for small firms but relatively high for large ones.
Education: Learning outcomes are low
Poor infrastructure
Complex business environment – e.g. the bankruptcy law, …
...a complex tax system

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Hours per year</th>
<th>Consumption tax</th>
<th>Labour tax</th>
<th>Corporate income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>736</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>490</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1374</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>736</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>490</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>150</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>736</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>490</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1374</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>736</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Argentina</td>
<td>490</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Brazil²</td>
<td>1374</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

¹ MFG: The bottlenecks

² Including states and regions
Key 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

Female labour force participation indicators

A. Female labour force participation rate in BRIICS

- BRA
- CHN
- IDN
- IND
- ZAF

B. Gap in male-female labour force participation rate

1. Data refer to working age population (15 to 64 years). The gap is male minus female participation rate.
Regional differences are large, rural participation higher than urban

Female labour force participation\(^1\) by state in 2012

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**Data refer to working age population (15 to 64 years).**

Source: NSSO, Employment and Unemployment Survey, 68th round.
Women are paid less than men—reservation wage?

Source: NSSO, Employment and Unemployment Survey, Round no. 68.
Female participation declines with education...

Source: NSSO, Employment and Unemployment Survey, Rounds no. 55, 61, 66 and 68.
...and family income
-necessity, socioeconomic factors, status?

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

FLFP: who works and where?
Socioeconomic factors dominate as determinants in regressions:

- 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

- 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

- 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
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
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.
OECD Economic Surveys: India 2014

• More info piritta.sorsa@oecd.org

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