



2019 OECD ECONOMIC SURVEY OF INDIA

Towards a more prosperous and inclusive India
New Delhi, December, 5th 2019

<http://www.oecd.org/economy/india-economic-snapshot/>



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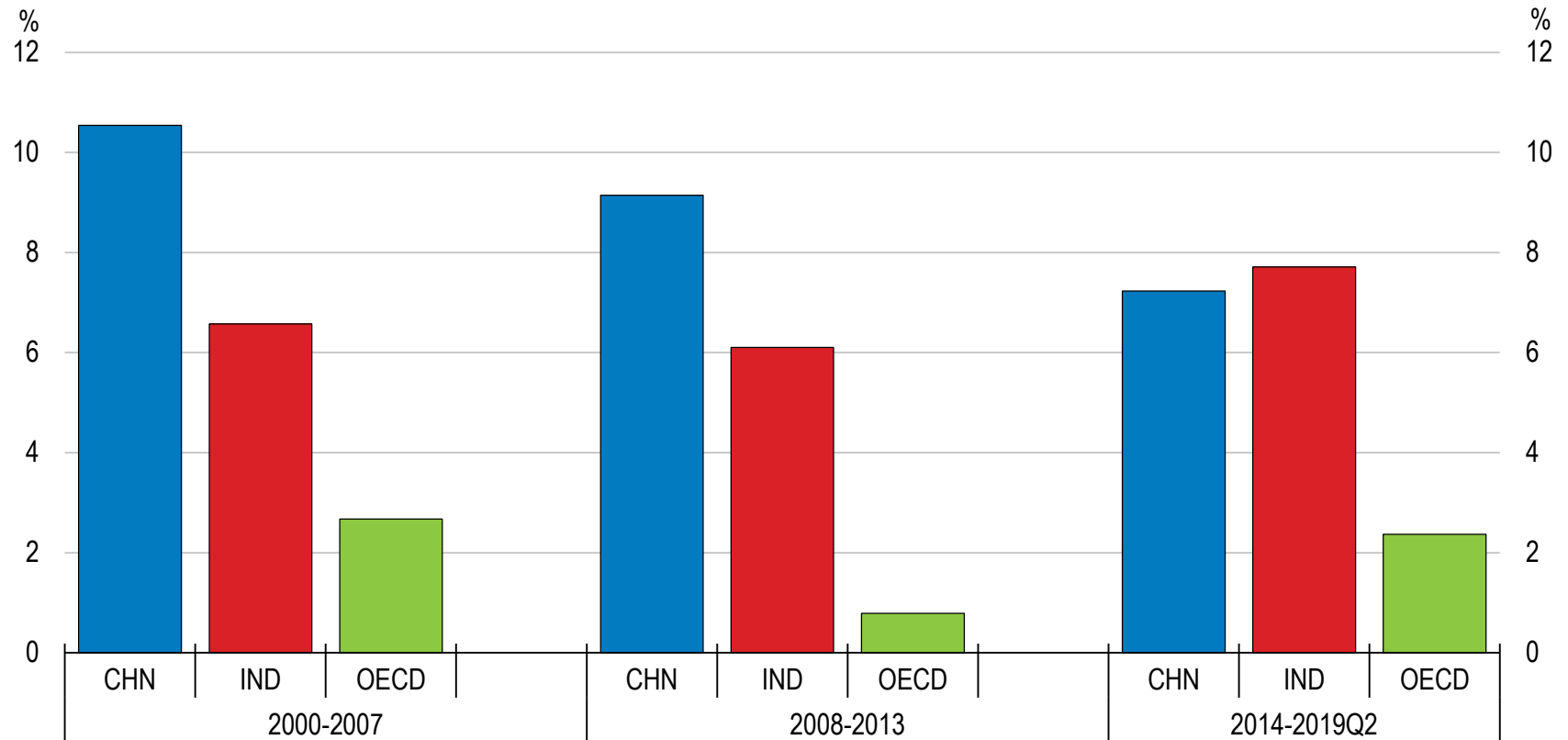
Key messages

- Reviving investment is key to sustaining strong growth
- Exports can become a new growth engine
- Reducing inequality will require promoting quality job creation and implementing the social welfare agenda



Income has grown steadily

GDP developments, annualised growth rates



Source: OECD, Analytical database.



Inflation hovers close to target



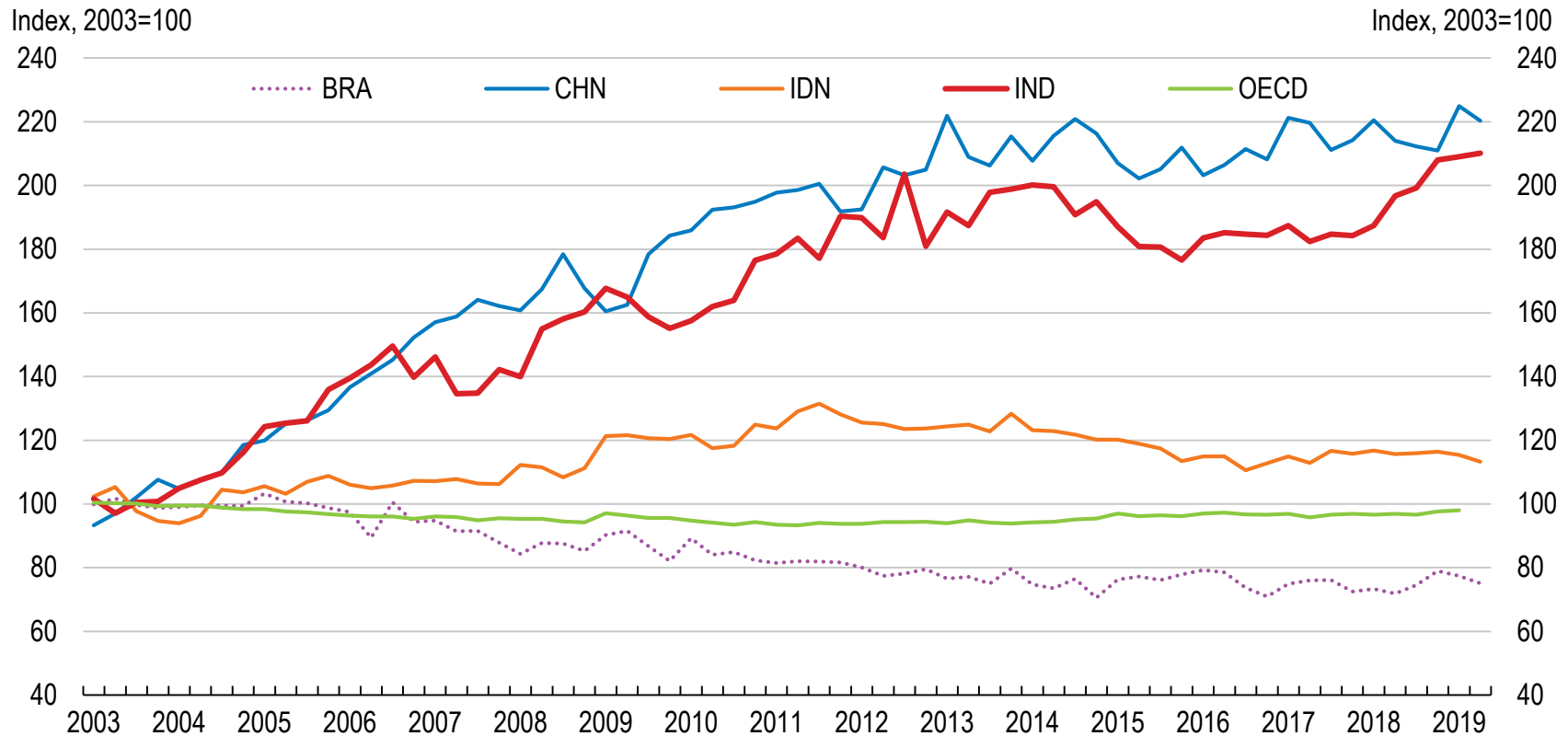
Note: Headline inflation is measured by the change in the consumer price index.

Source: National Statistical Office.



The economy is becoming more competitive

Export performance



Note: Export performance is measured as actual growth in merchandise and services exports relative to the growth of the country's export market.

Source: OECD, Analytical database.



Structural reforms have played a decisive role

Key reforms approved

Goods and Services Tax (GST)

Bankruptcy laws

Corporate income tax

Real estate regulation & development (RERA)

Inflation targeting

Budget process and fiscal rules

Key ongoing reforms

Ease of doing business and FDI liberalisation

Modernising labour and land regulations

Banks' non-performing loans: recognition, resolution, recapitalisation

More and better highways, rural roads and ports

Electricity for all, Clean India, Housing for all

Wider social insurance coverage (hospital care and pensions)

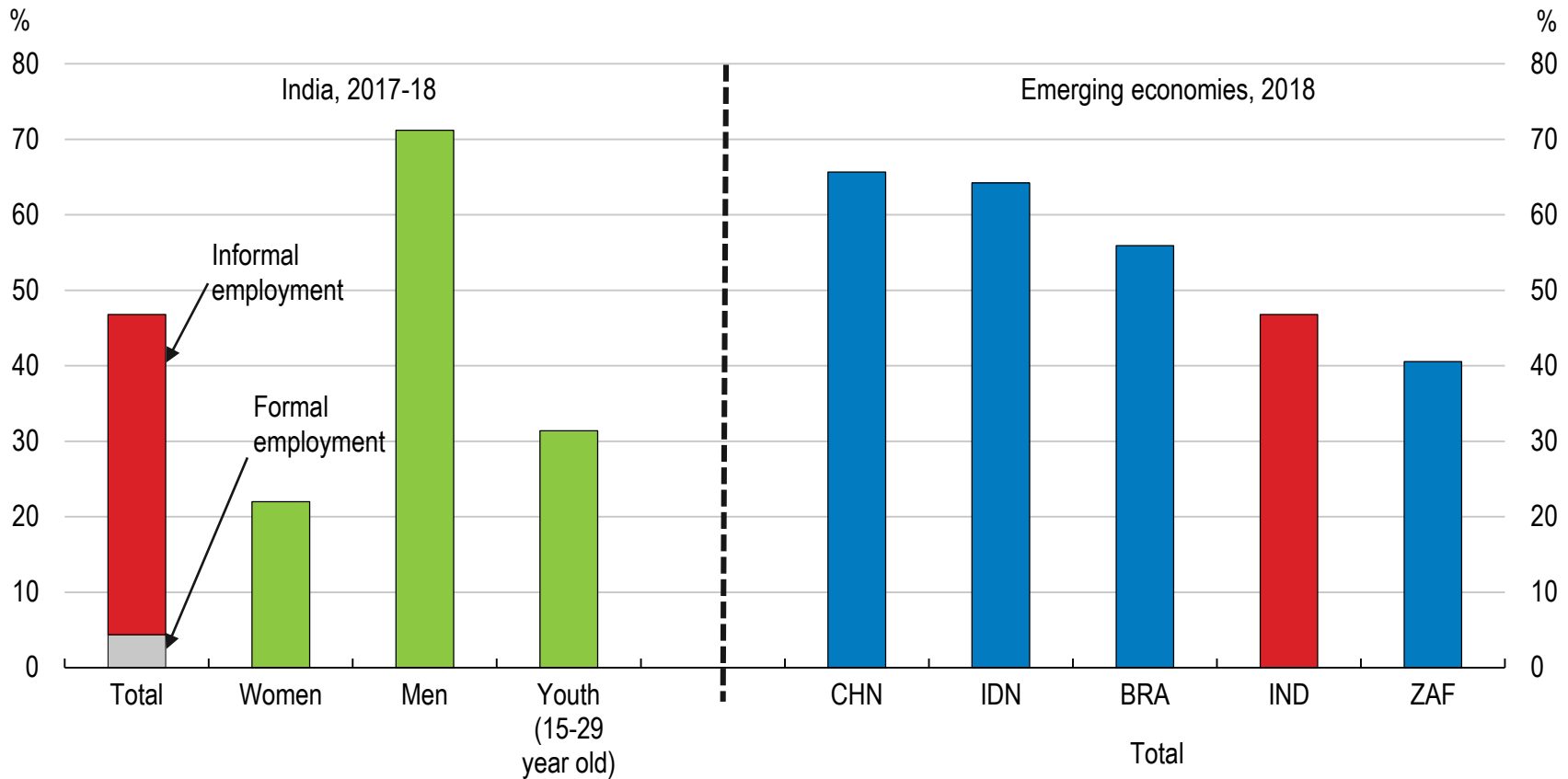
Subsidy reform (oil, food and fertilisers)

Competitive and co-operative federalism



The employment rate is low

Employment as a % of population, aged 15+



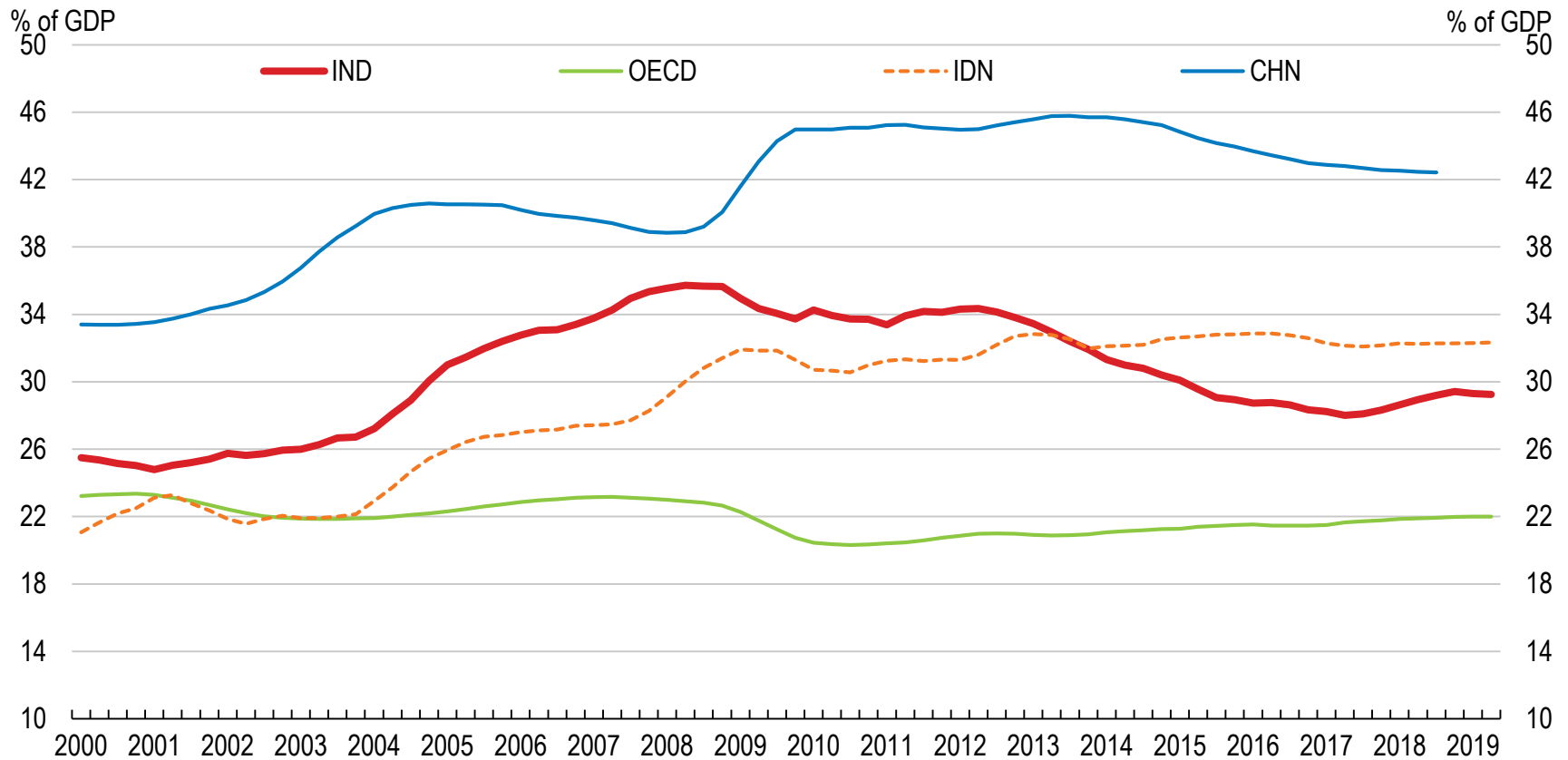
Note: Formal employees are those with social security benefits. Data for India in the right-side panel refer to the fiscal year 2017-18.

Source: Periodic Labour Force Survey (PLFS) 2017-18, National Statistical Office; World Bank, WDI database.



Investment has yet to rebound

Gross fixed capital formation



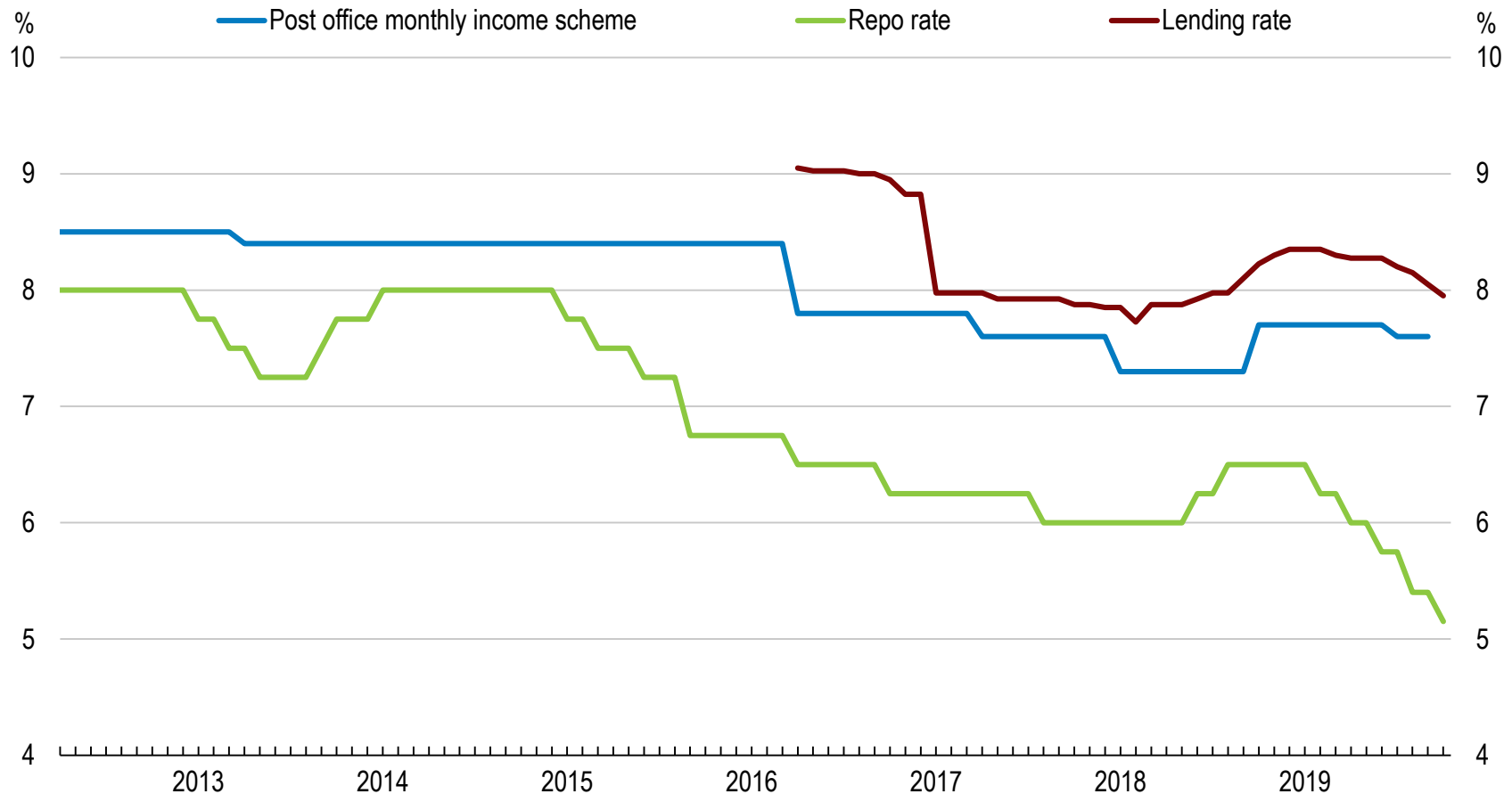
Source: National Statistical Office; OECD, Analytical database.



Promoting solid and sustainable growth



Interest rates are still high



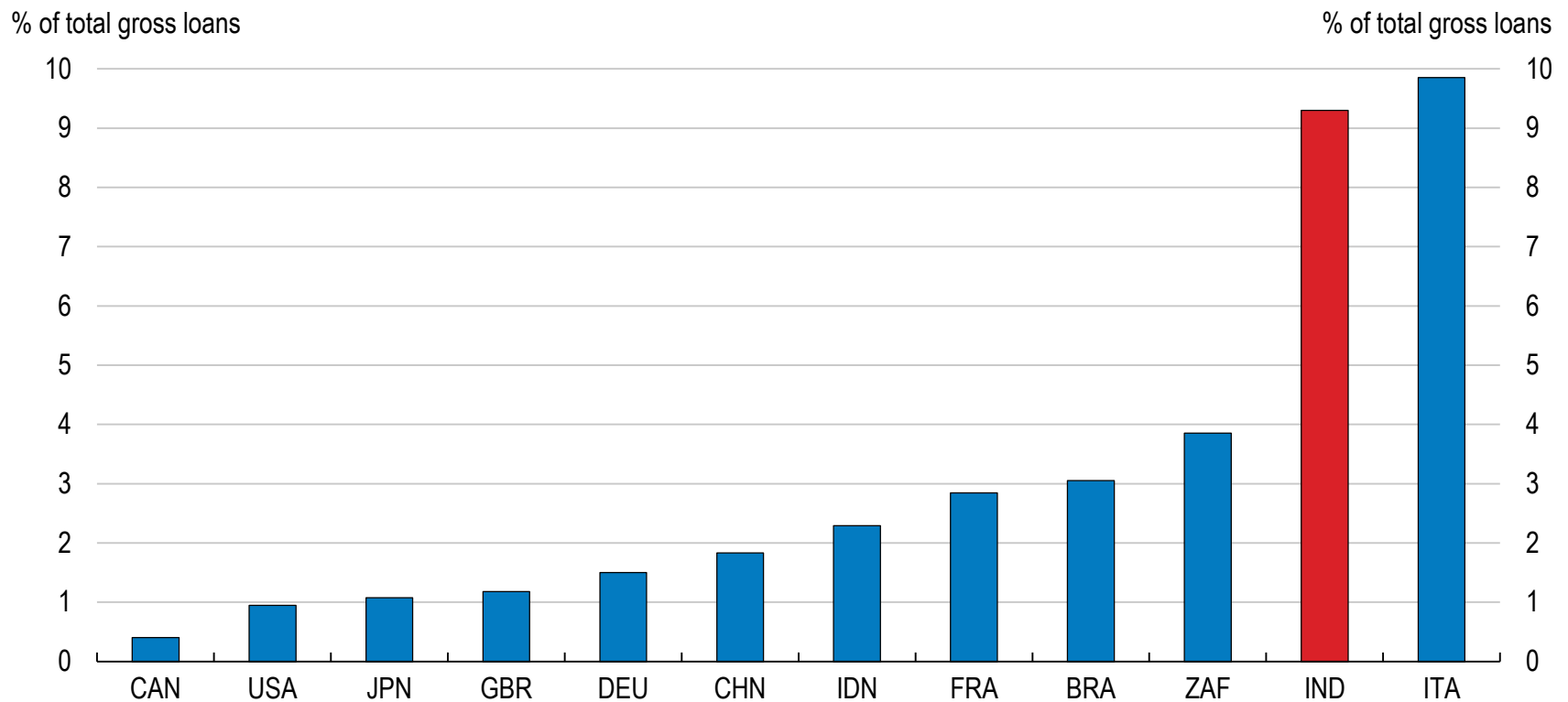
Note: The post office monthly income scheme is one of the small savings schemes, government-operated, used to finance central and state government debt. Interest rates on deposits from small savings schemes are set by the government.

Source: Reserve Bank of India.



A healthier financial sector would support investment

Non-performing loans in the banking sector

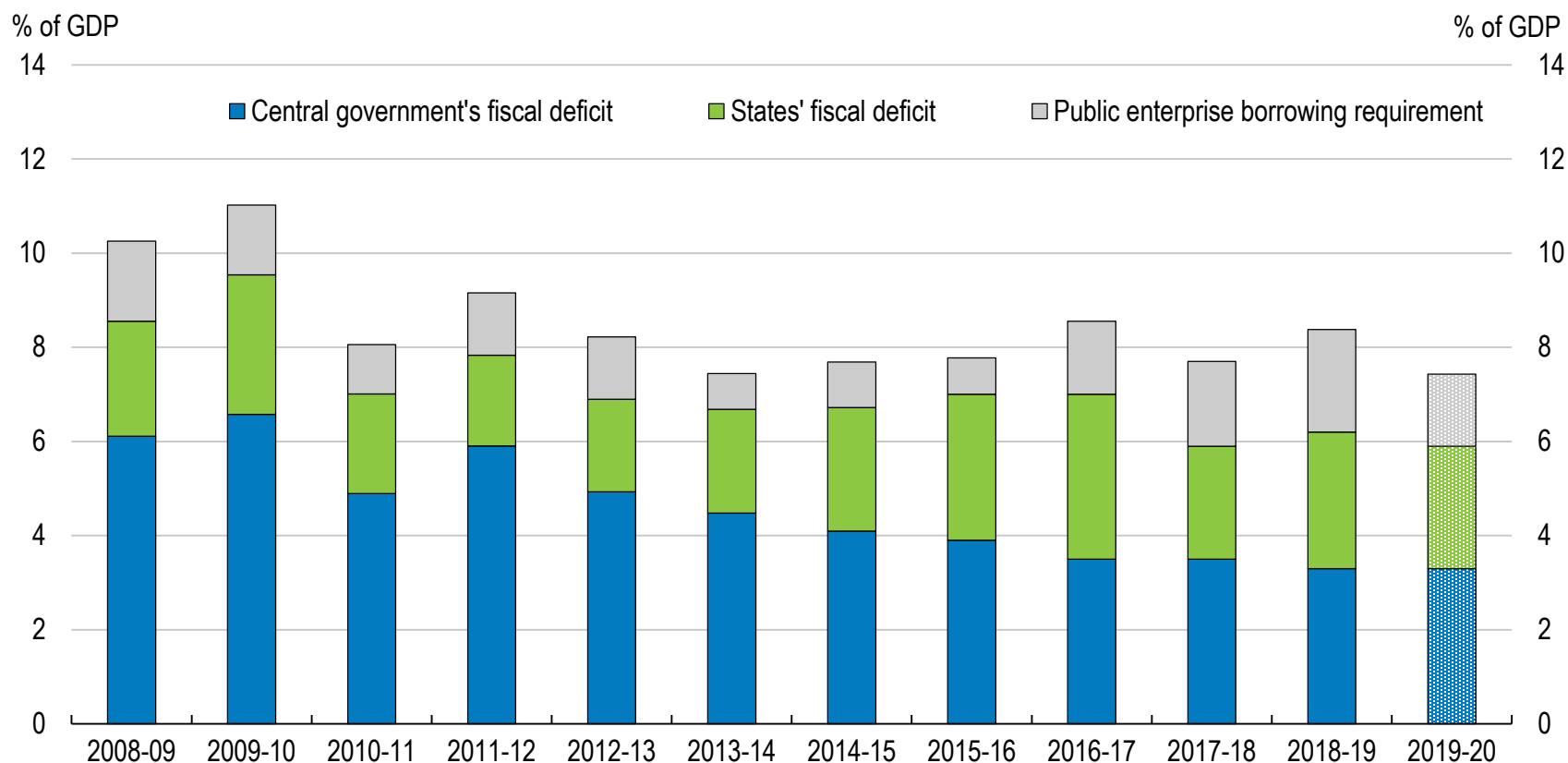


Note: Data refer to March 2019 for India; February 2019 for South Africa; 2018Q4 for Brazil, Canada and China; 2018Q3 for France, Japan and United States; 2018Q2 for Italy and United Kingdom; 2018 for Germany and Indonesia

Source: IMF, Financial Soundness Indicators database; RBI.



Fiscal space is limited

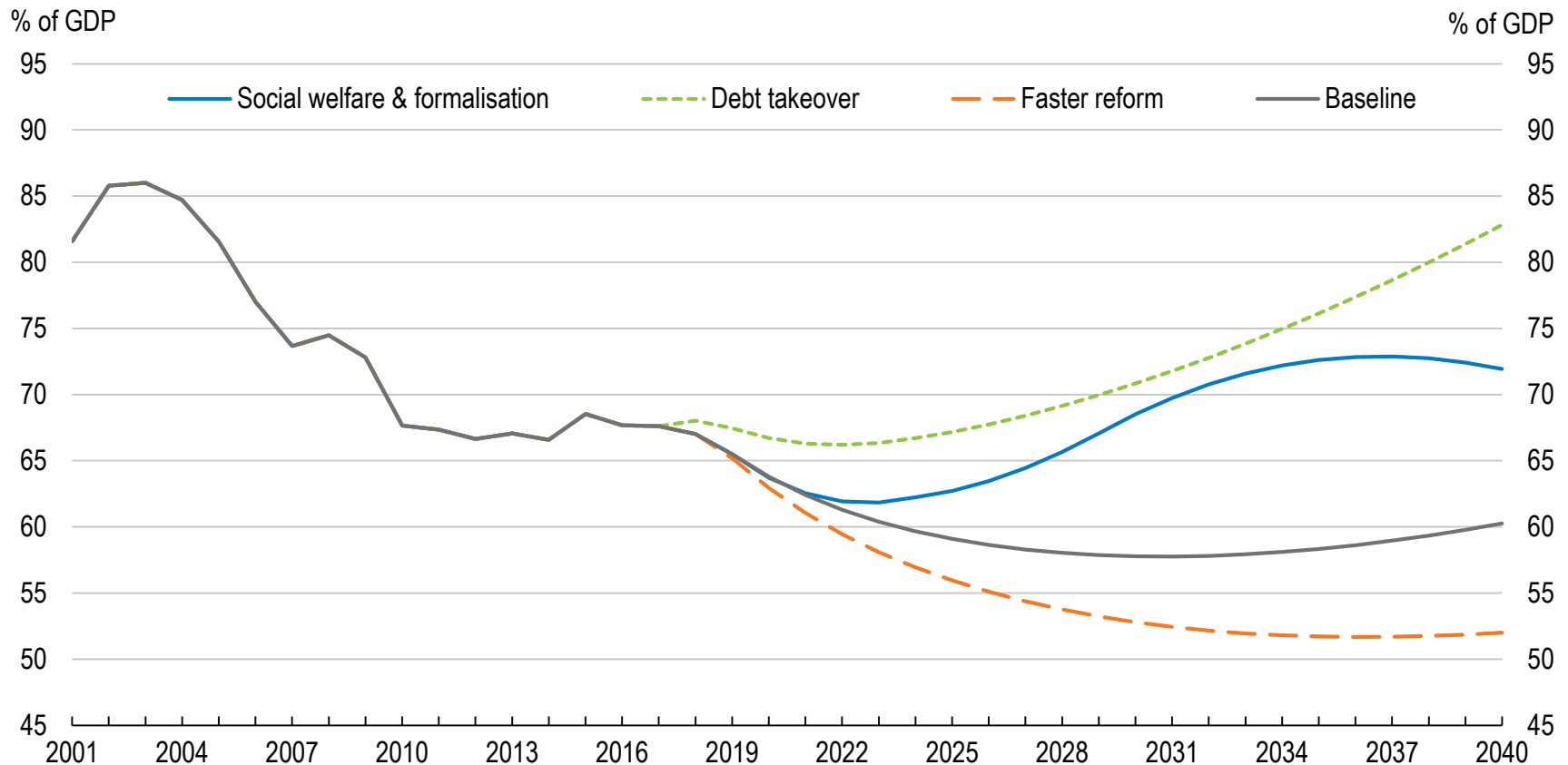


Note: The fiscal deficit incorporates privatisation receipts. Public enterprises' borrowing requirement refers to gross market borrowings (total resources less internal resources) of central government's public enterprises. It includes borrowing needs related to investment projects. Data for fiscal year 2019-20 are budget estimates.

Source: RBI; Union Budget Expenditure Profile (Resources of Public Enterprises).



Reform is key to reduce public debt

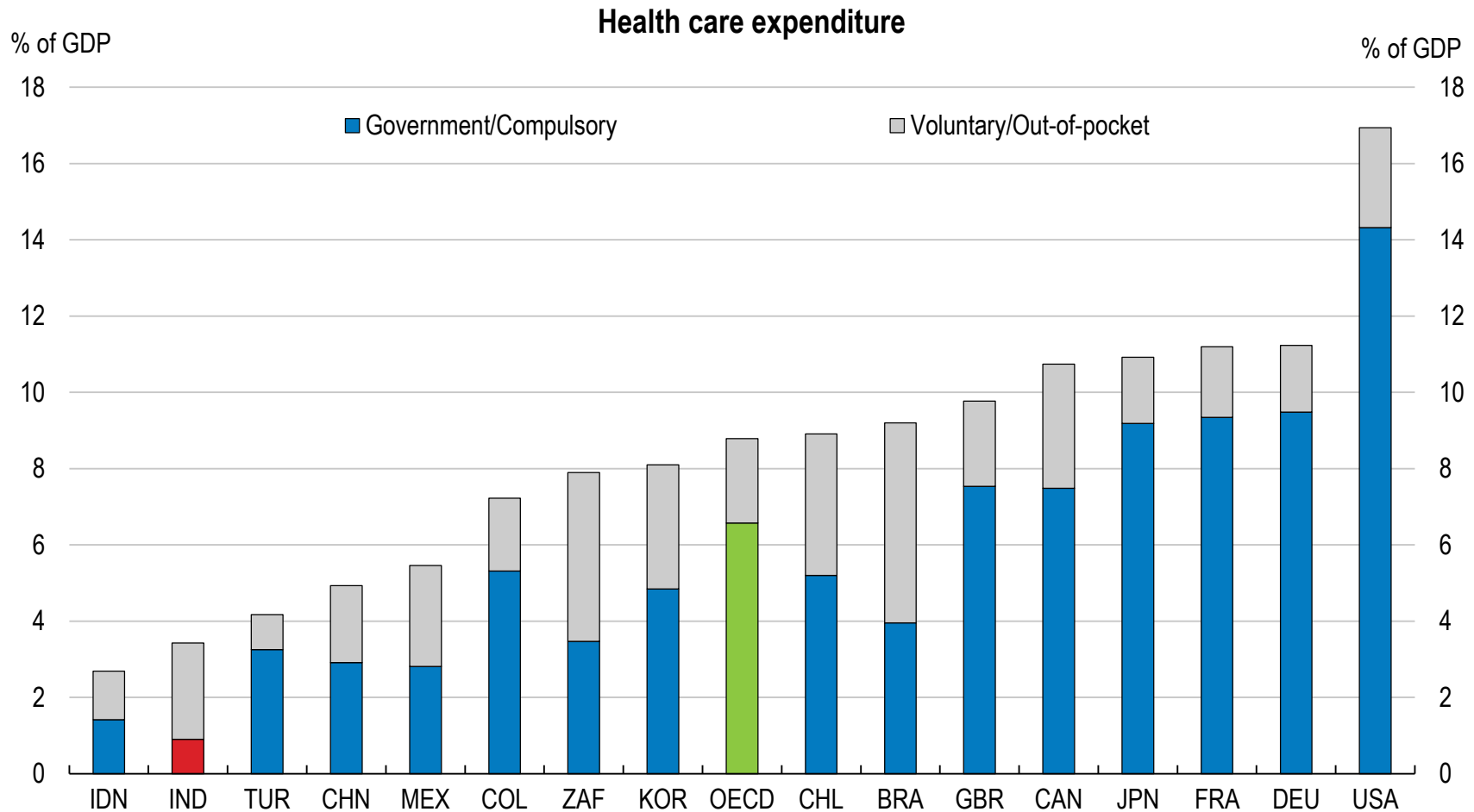


Note: The social welfare and formalisation scenario assumes that public spending on education and health doubles by 2030. The debt takeover scenario assumes that the cost of taking over the debt of public enterprises and bank recapitalisation amounts to 1% of GDP every year. The faster reform scenario assumes that the government engage in bold labour and product market regulation reforms.

Source: OECD Secretariat simulations.



India spends little on public health care

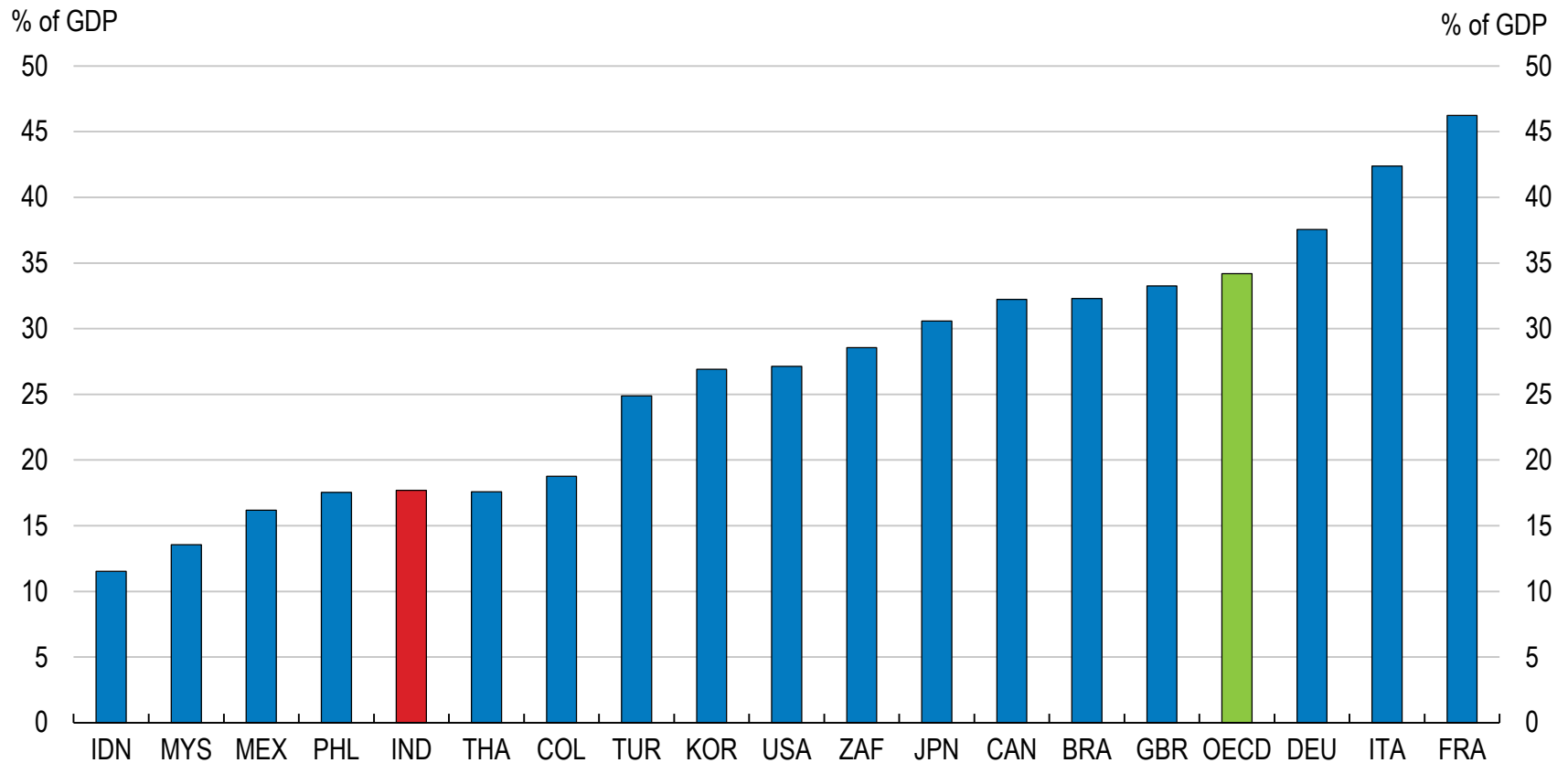


Note: OECD refers to an unweighted average of 2018 or latest available observations.

Source: OECD/WHO, Health at a Glance: Asia/Pacific 2018; OECD, Health database.



Tax revenue is low



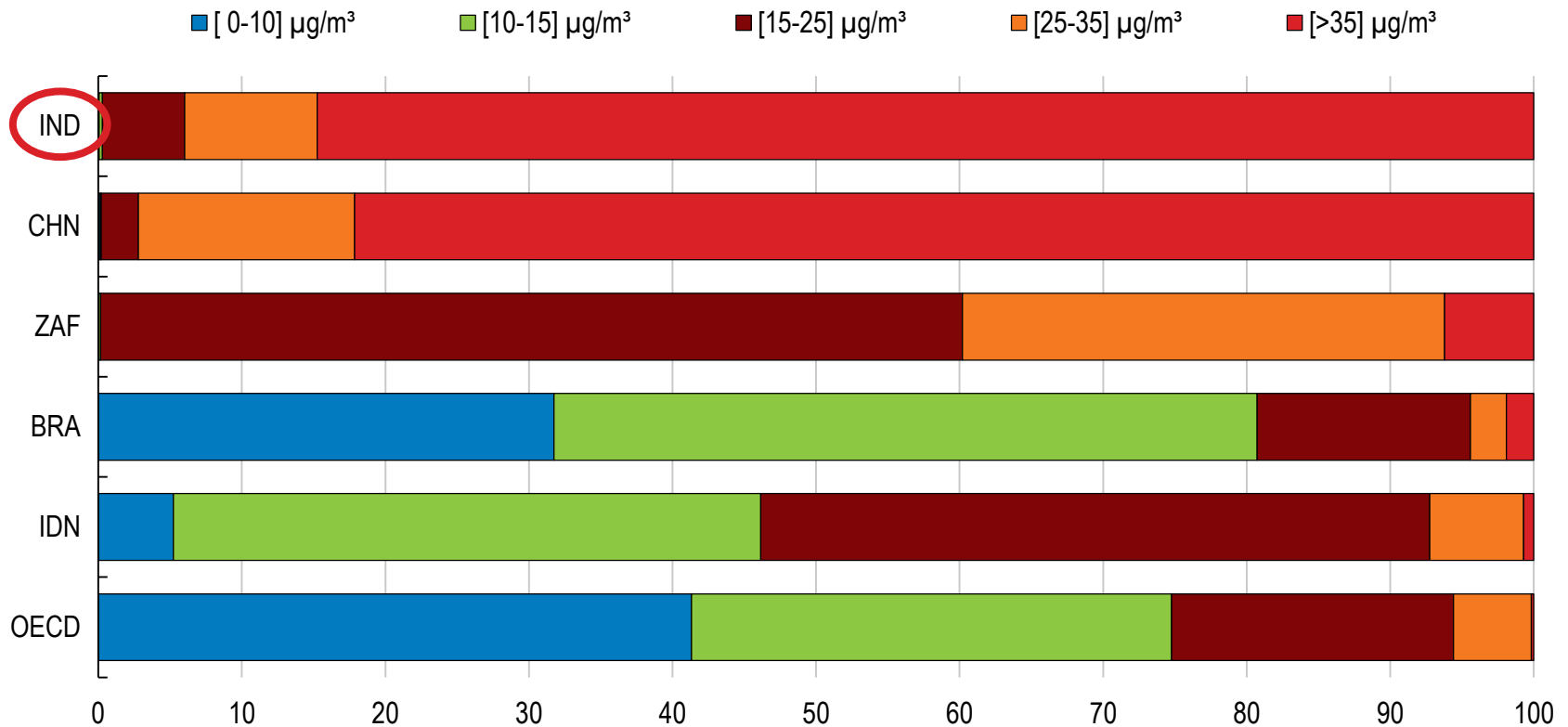
Note: Data for India refer to fiscal year 2018-19.

Source: Annual Report of the Reserve Bank of India, 2019; and OECD Global Revenue Statistics database.



The population is exposed to air pollution

Population exposure to fine particulates (PM_{2.5})



Source: OECD Green Growth Indicators.



Recommendations to promote solid and sustainable growth

- ✓ Monetary policy should remain accommodative as long as inflation is set to remain close to the target
- ✓ Reduce the spread between administered rates and market rates to improve monetary policy transmission
- ✓ Closely monitor asset quality of non-banking financial companies
- ✓ Improve transparency for off-budget transactions and contingent liabilities
- ✓ Raise more tax revenue by removing the tax expenditures that most benefit the rich, freezing nominal personal income tax brackets and improving compliance
- ✓ Continue to open more benches and employ more and better trained professionals in commercial courts
- ✓ Further increase the share of renewable energy in meeting energy needs

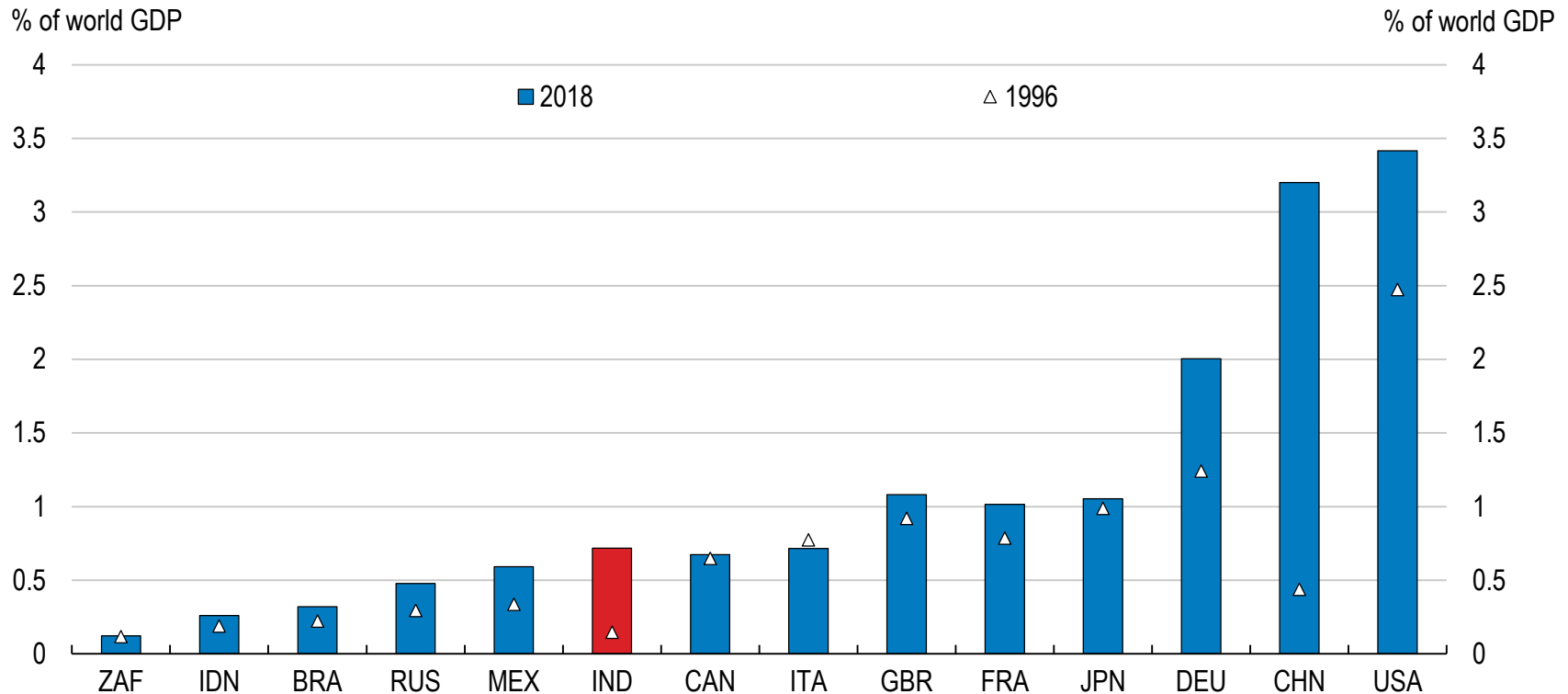


Seizing opportunities from the global economy



India has become a major actor in the global economy

Trade in goods and services



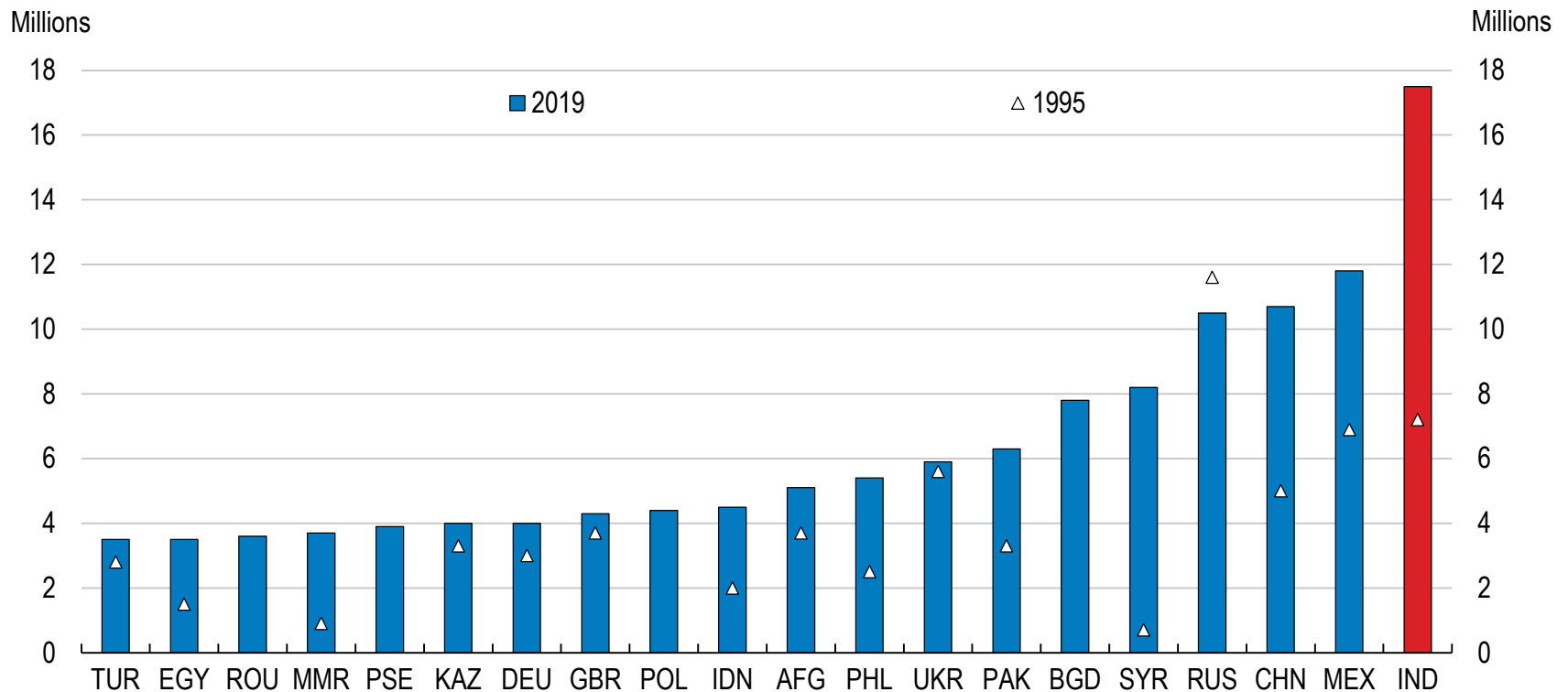
Note: Trade shares in world GDP are based on volumes at market exchange rates. Trade refers to the sum of imports and exports, 1996 refers to 1997 for India.

Source: OECD, Analytical database and OECD calculations.



India has a large diaspora

Top 20 countries or areas of origin with the largest diasporas

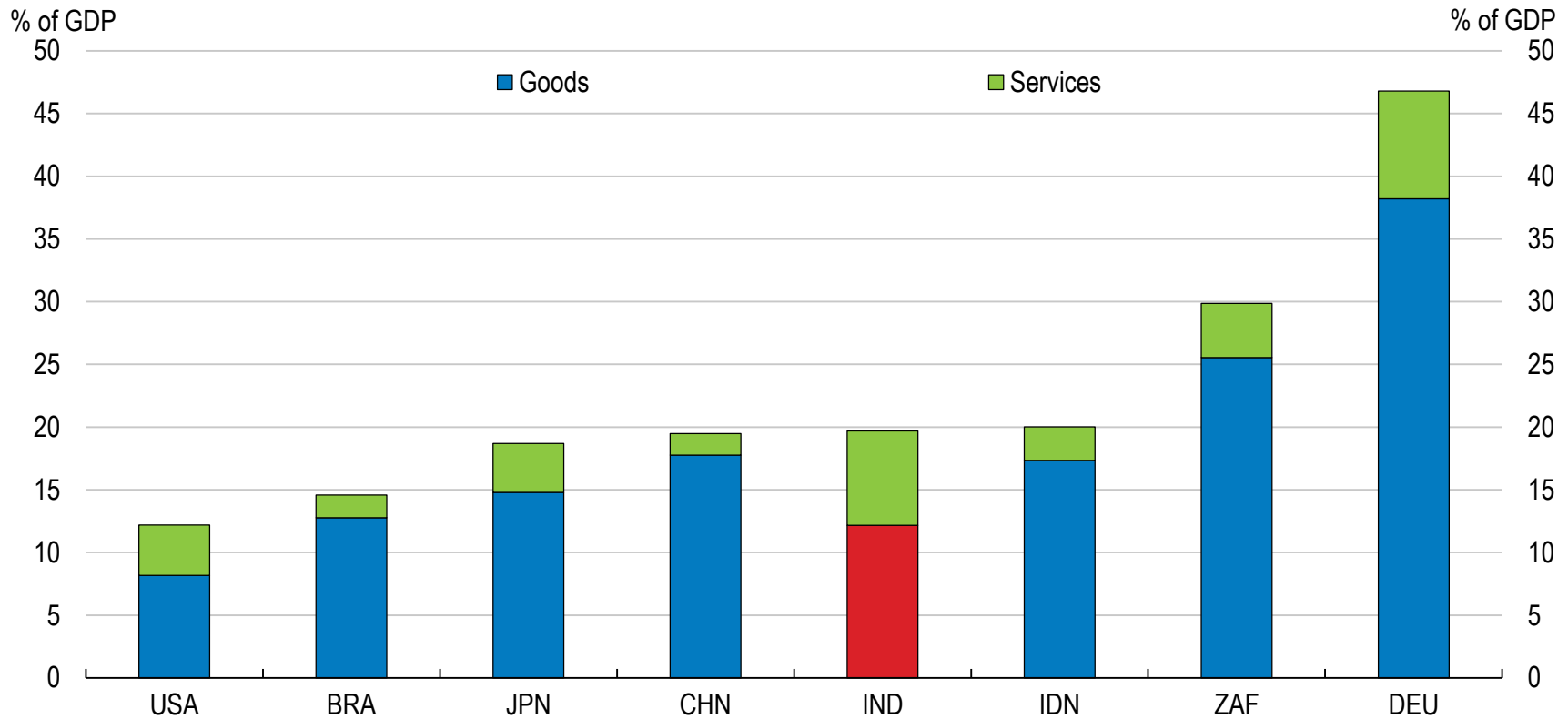


Source: United Nations, Department of Economic and Social Affairs, Population Division (2019).



The export sector is relatively large, in particular for services

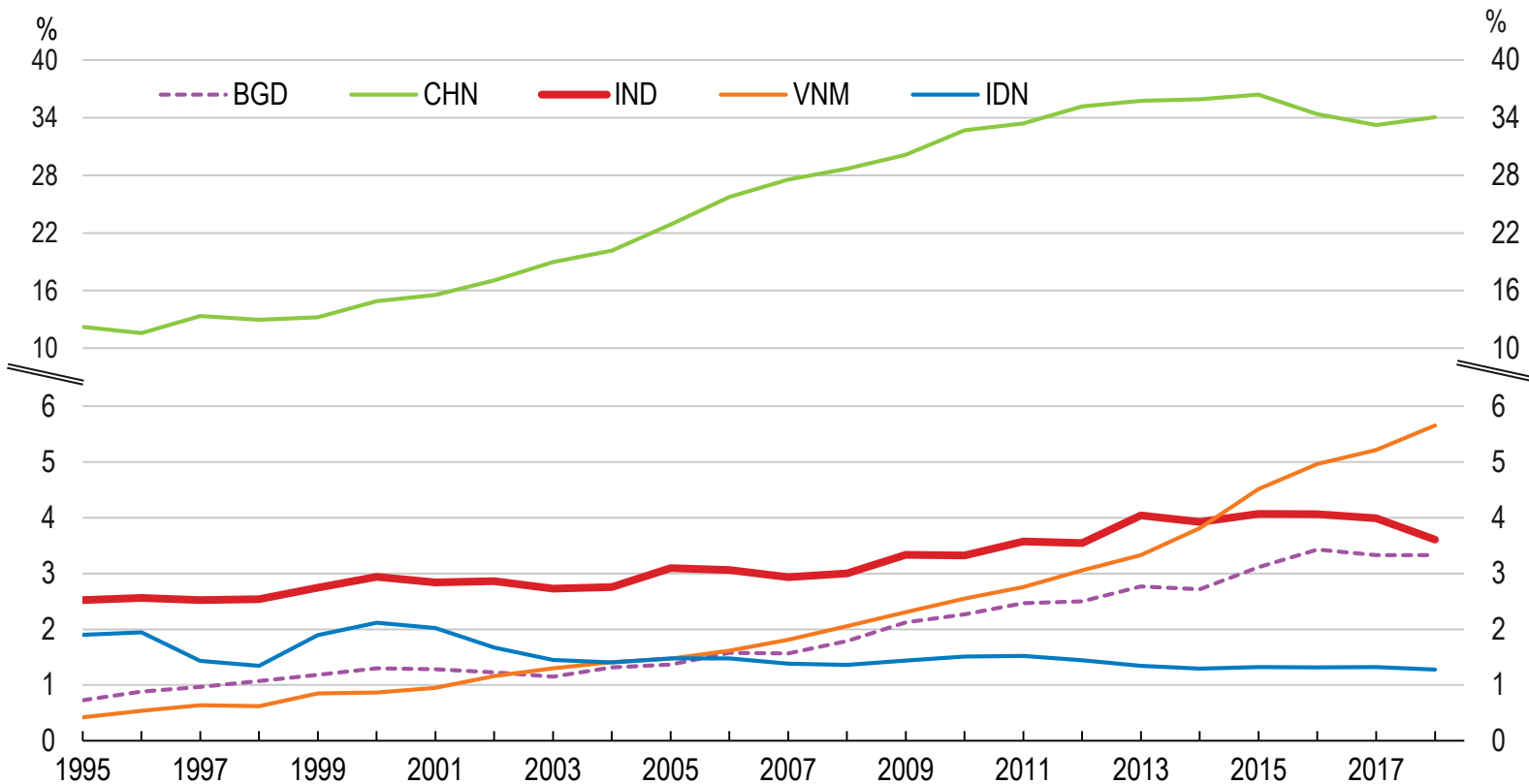
Exports in 2018





Exports of textiles have lost steam

Textile exports as a share of world textile exports

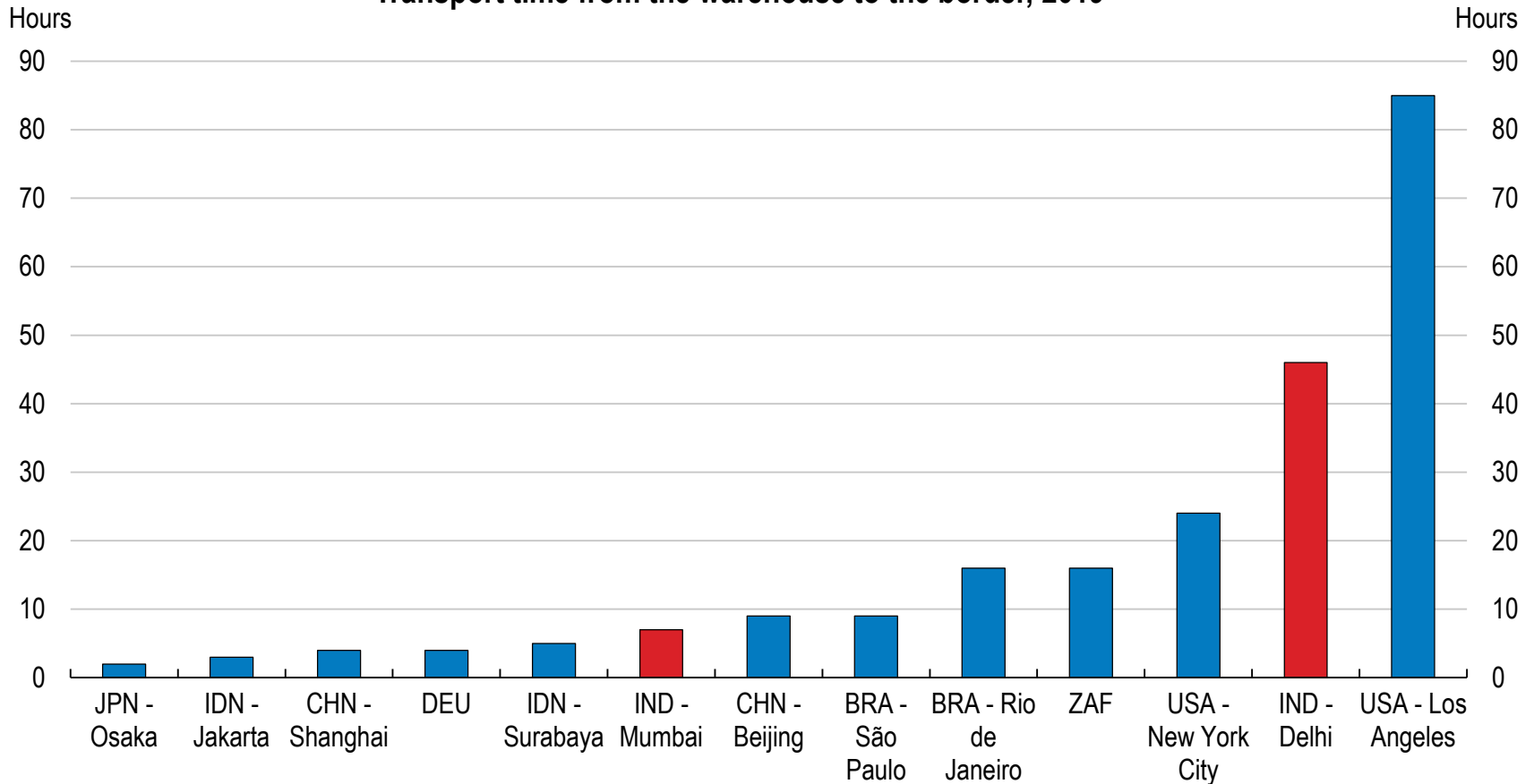


Note: Low-technology textile including garment and footwear.
Source: OECD calculations based on UNCTAD data.



Transport bottlenecks weigh on competitiveness

Transport time from the warehouse to the border, 2019

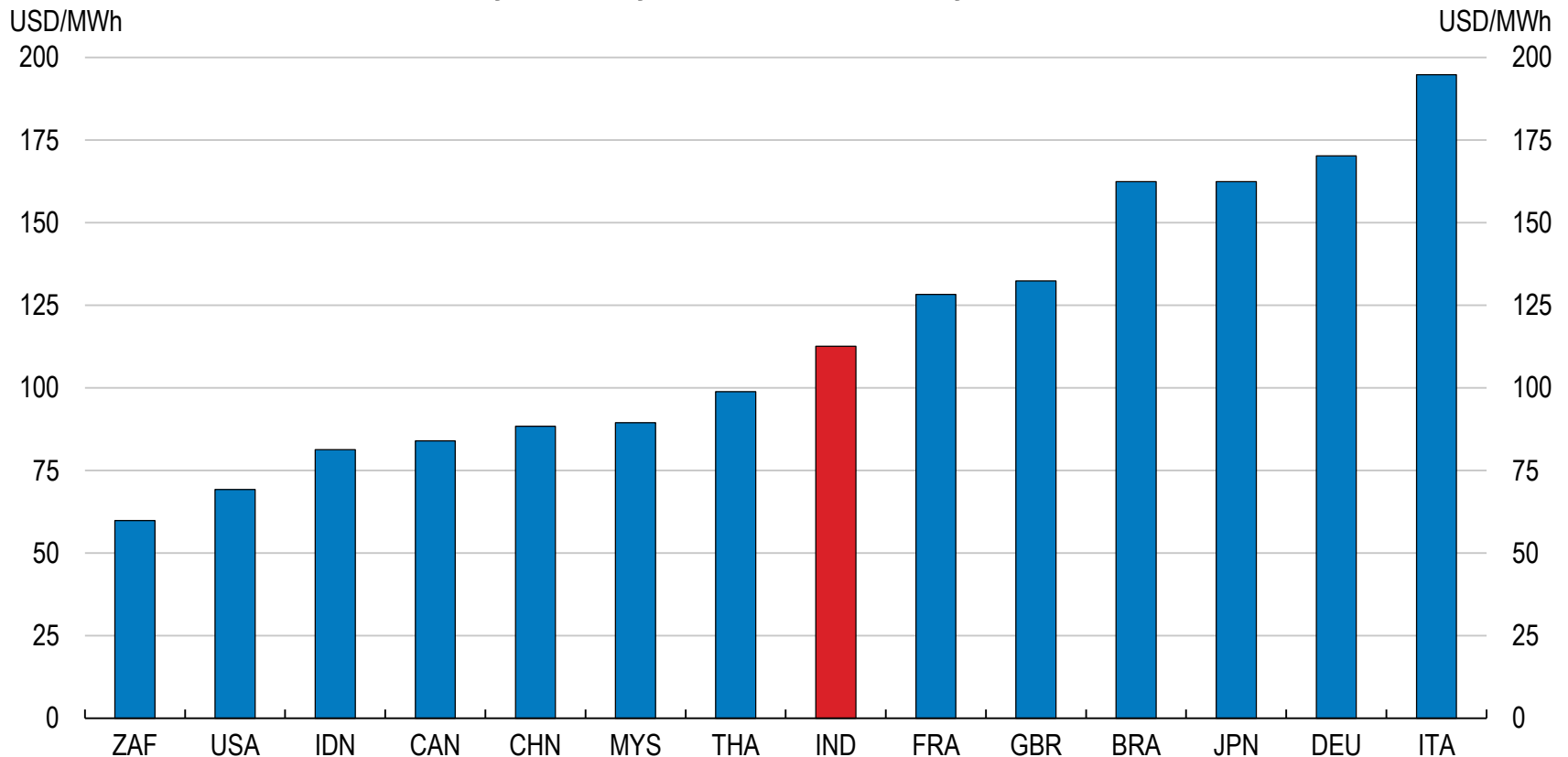


Note: Time to ship from a warehouse in a given country's largest business city to the country's most widely used seaport or land border of the economy.
Source: World Bank, Doing Business.



Businesses face high electricity prices

Industry electricity prices, 2018 or latest year available

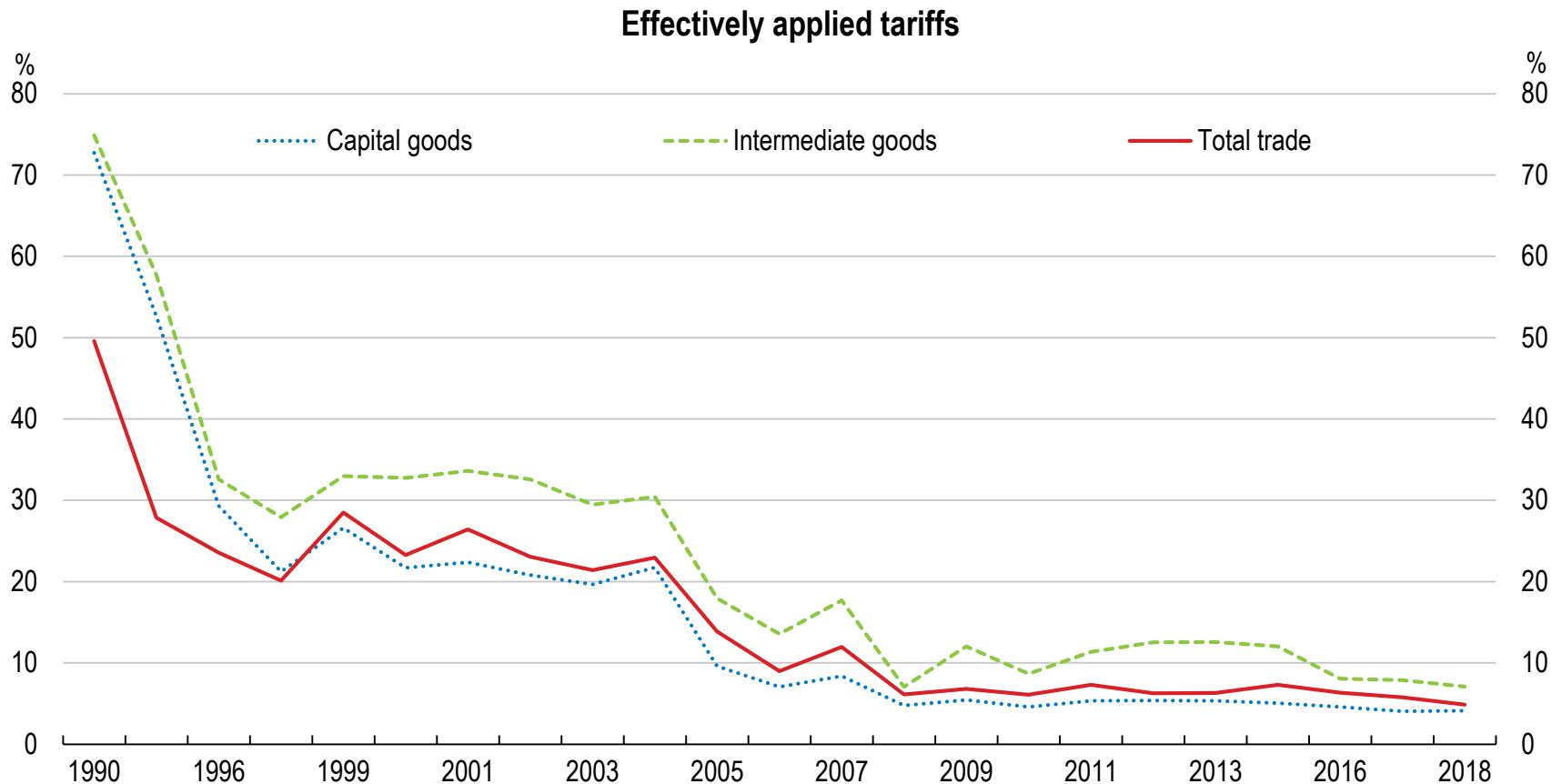


Note: Data for India refer to 2017.

Source: IEA, World Energy Prices, 2019 edition. IEA All rights reserved. For detailed information: <https://www.iea.org/statistics/prices/>



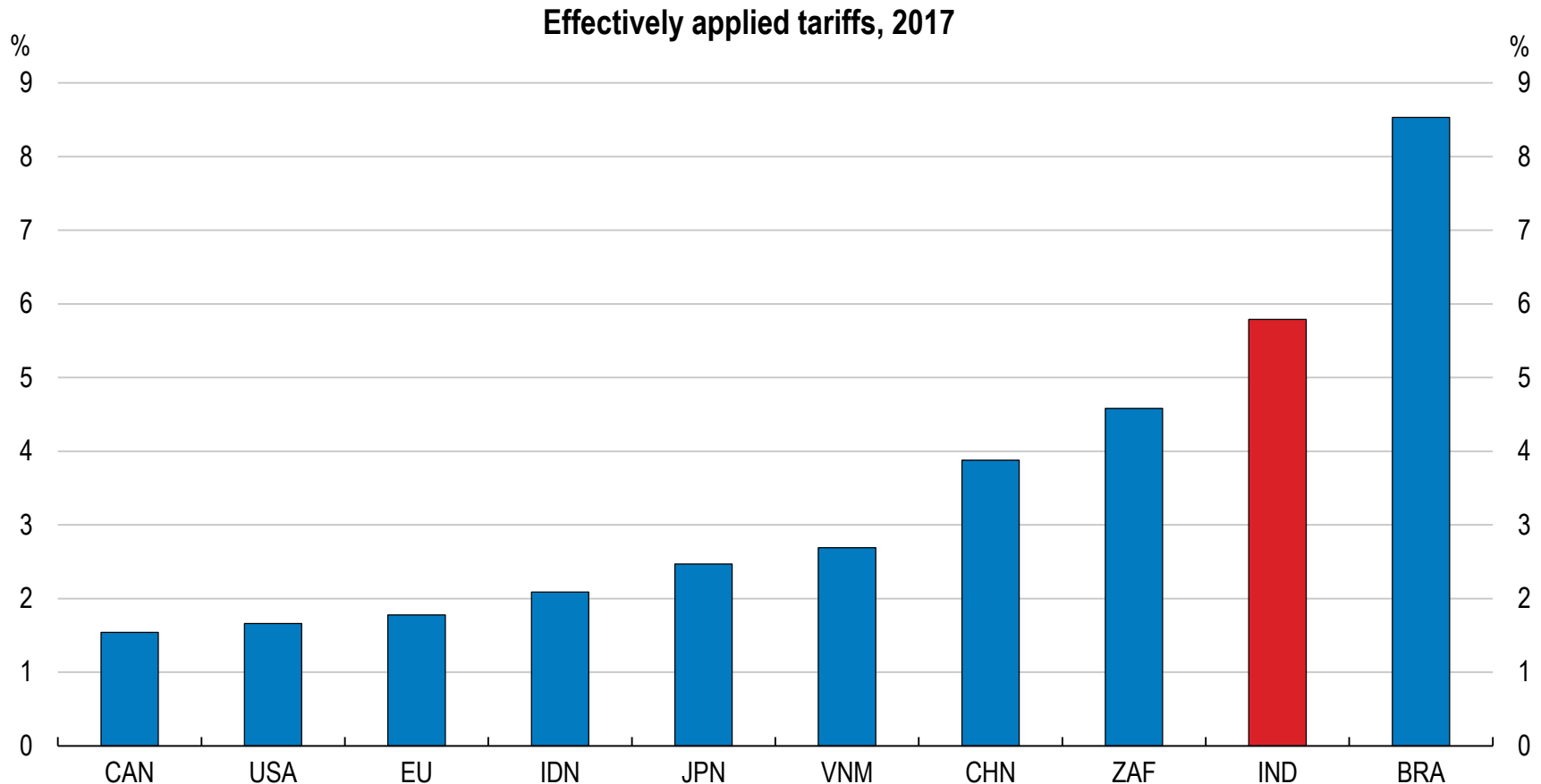
Import tariffs have been cut



Note: Data show weighted averages of effectively applied tariffs, whereby the tariffs are weighted by the import value of each product.
Source: UNCTAD Trade Analysis Information System (TRAINS) data extracted from the World Bank, World Integrated Trade Solutions.



Applied tariffs can be cut further



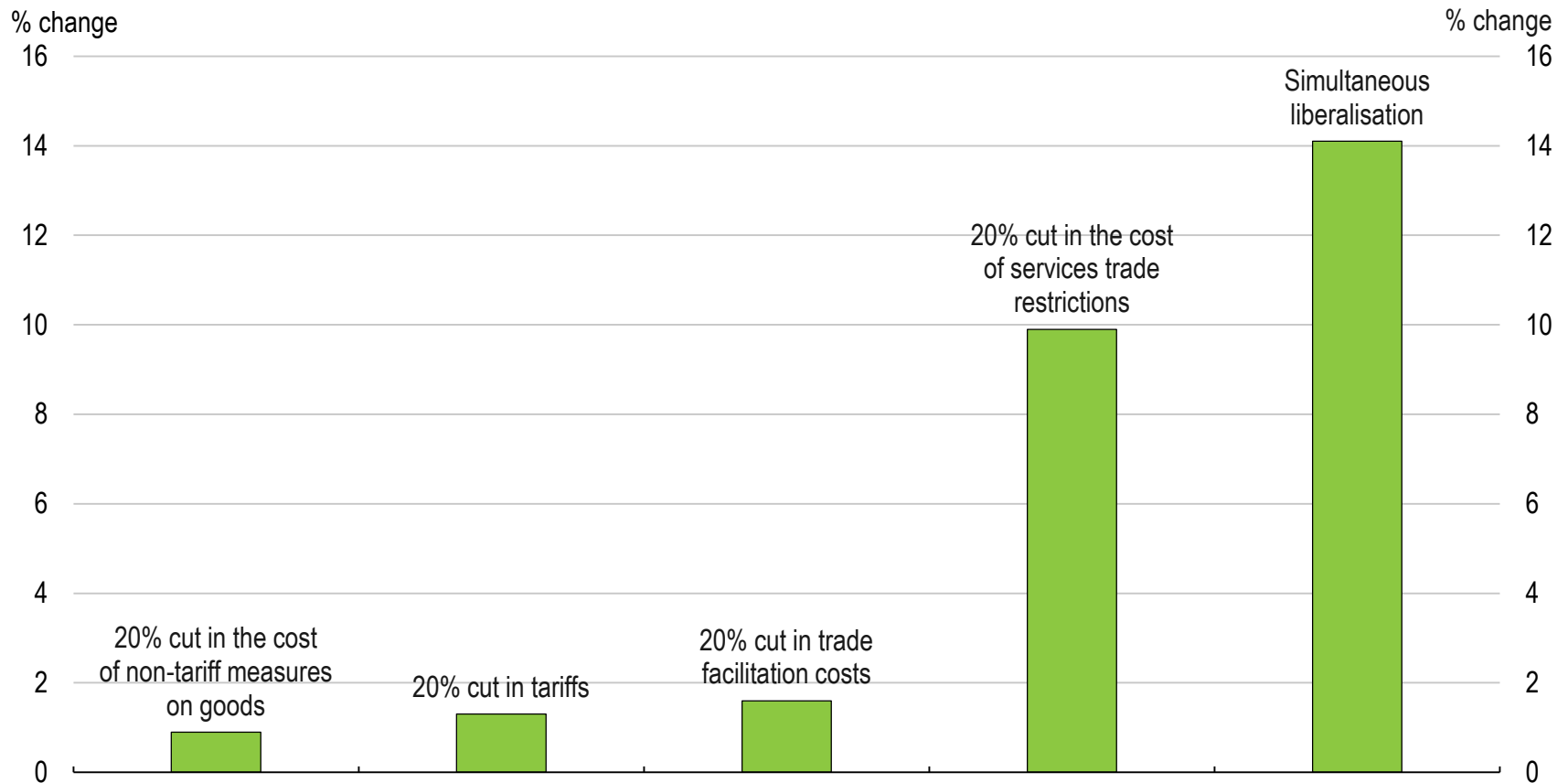
Note: Data show weighted averages of effectively applied tariffs, whereby the tariffs are weighted by the import value of each product.

Source: UNCTAD Trade Analysis Information System (TRAINS) data extracted from the World Bank, World Integrated Trade Solutions.



Reducing barriers to trade would boost exports

Impact on exports of a reduction in India's barriers to trade
% change from base



Source: OECD estimates based on the METRO Model.



Recommendations to enhance India's participation in the global economy

- ✓ Invest further to improve electricity provision, roads and ports
- ✓ Extend the regulatory and administrative reforms which promote productivity and job creation in special economic zones to the rest of the country
- ✓ Strive for a multilateral trade agreement or, as a second best, further reduce tariffs
- ✓ Simplify the tariff structure
- ✓ Further reduce restrictions to services trade
- ✓ Further streamline restrictions to FDI

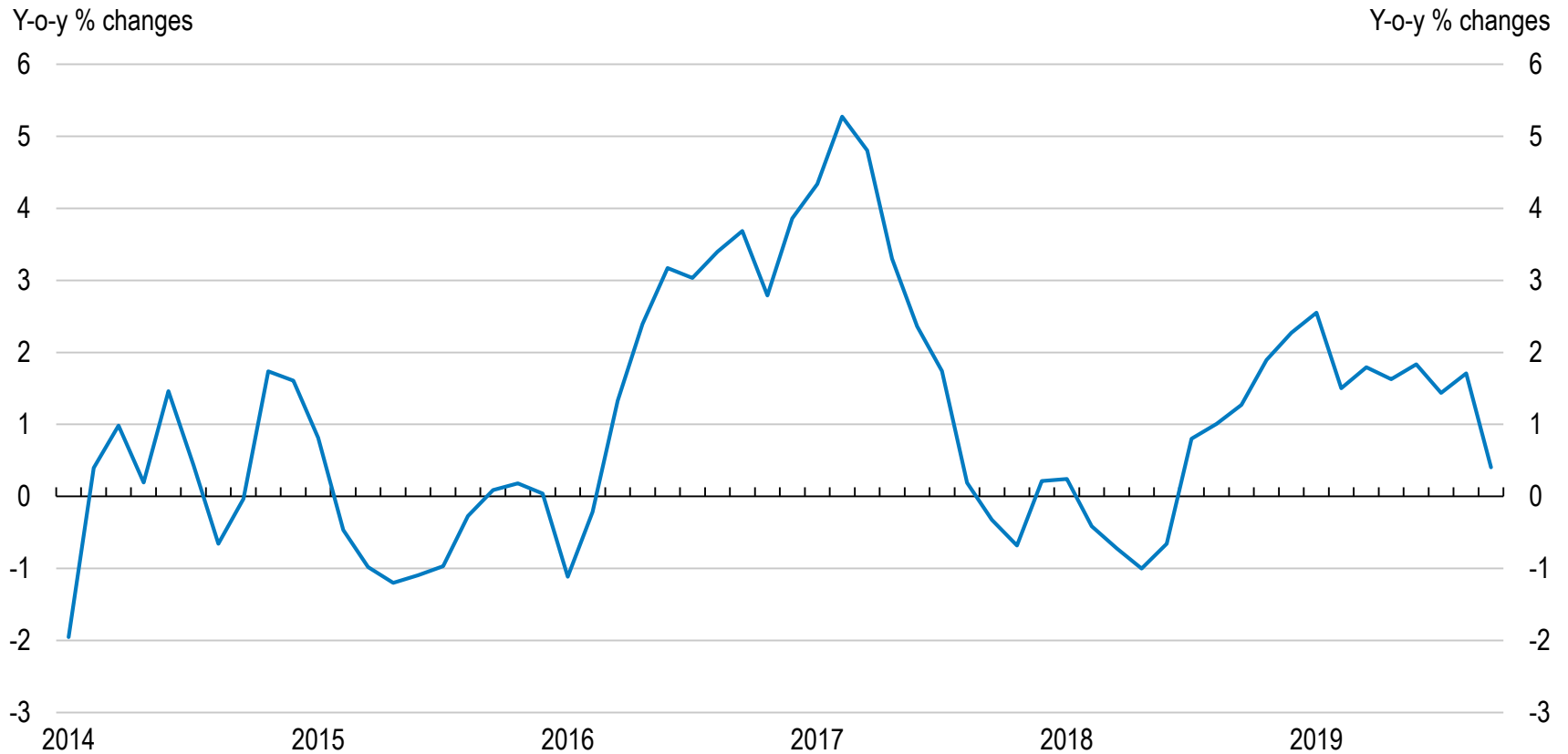


Adressing social and housing challenges



Growth in rural incomes has been slow

Rural wages in real terms

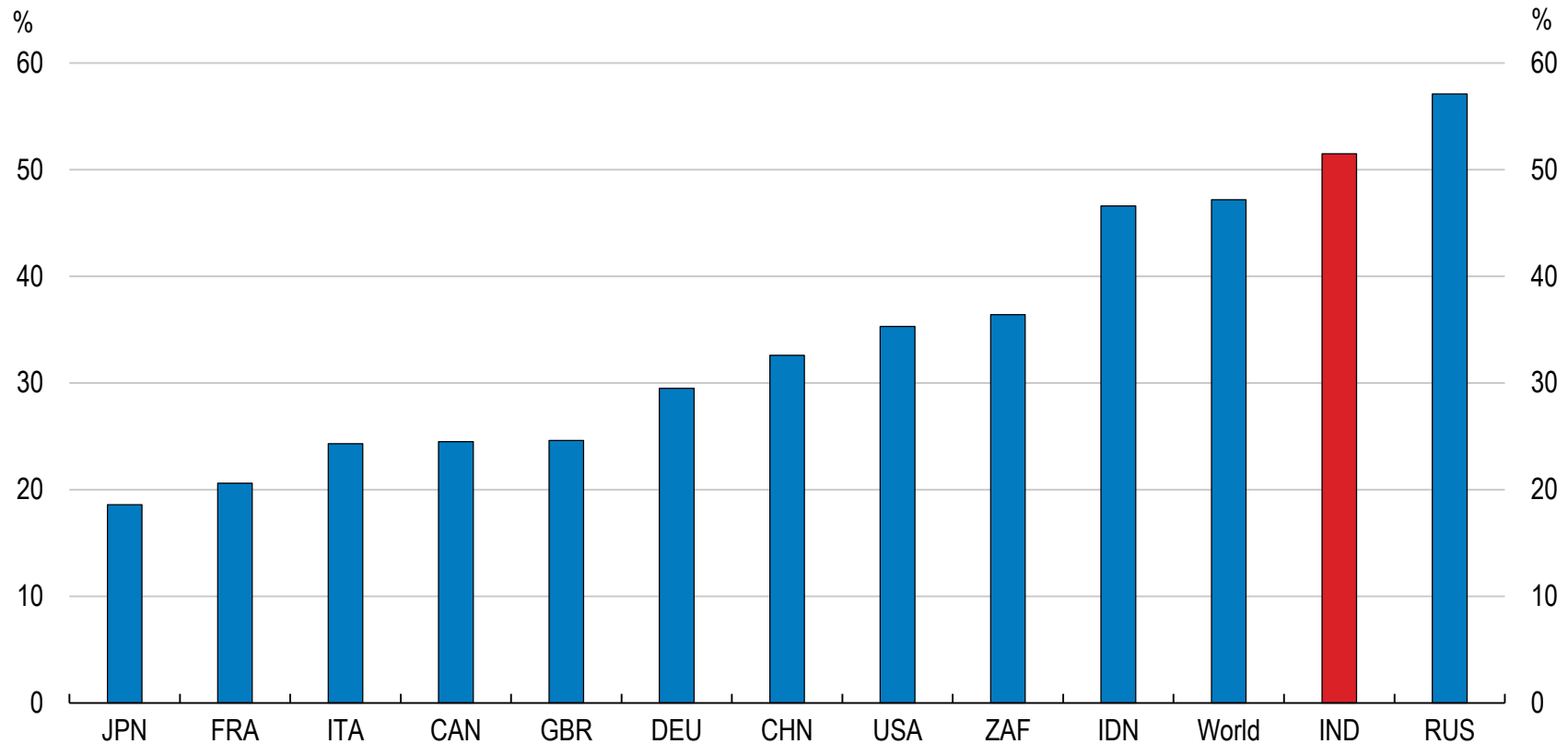


Source: Labour Bureau Government of India; National Statistical Office.



Wealth disparities are large

Share of wealth held by richest 1%, 2018

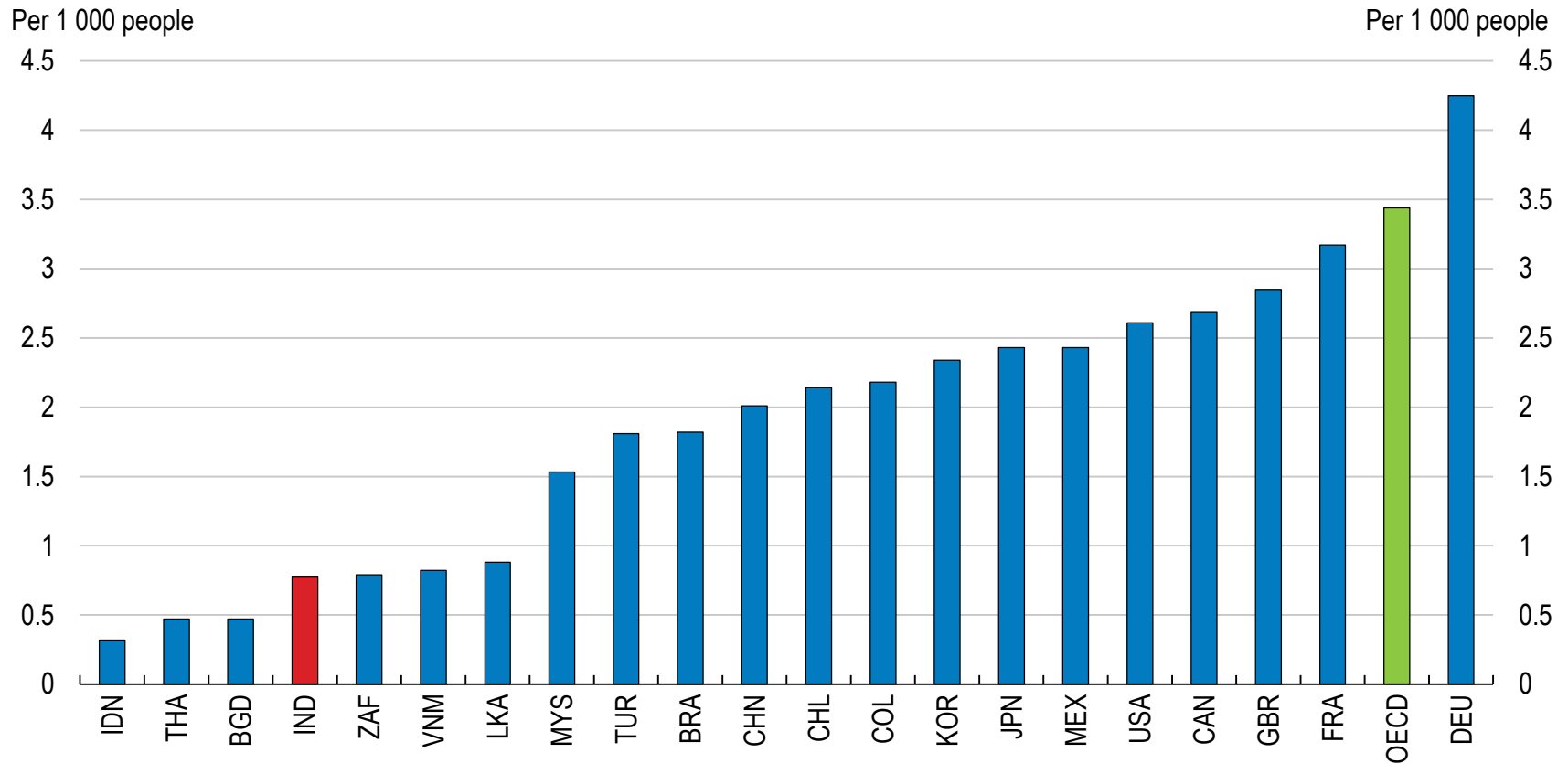


Source: Credit Suisse Global Wealth Databook 2018.



India needs more doctors

Practising doctors, 2018 or latest year available

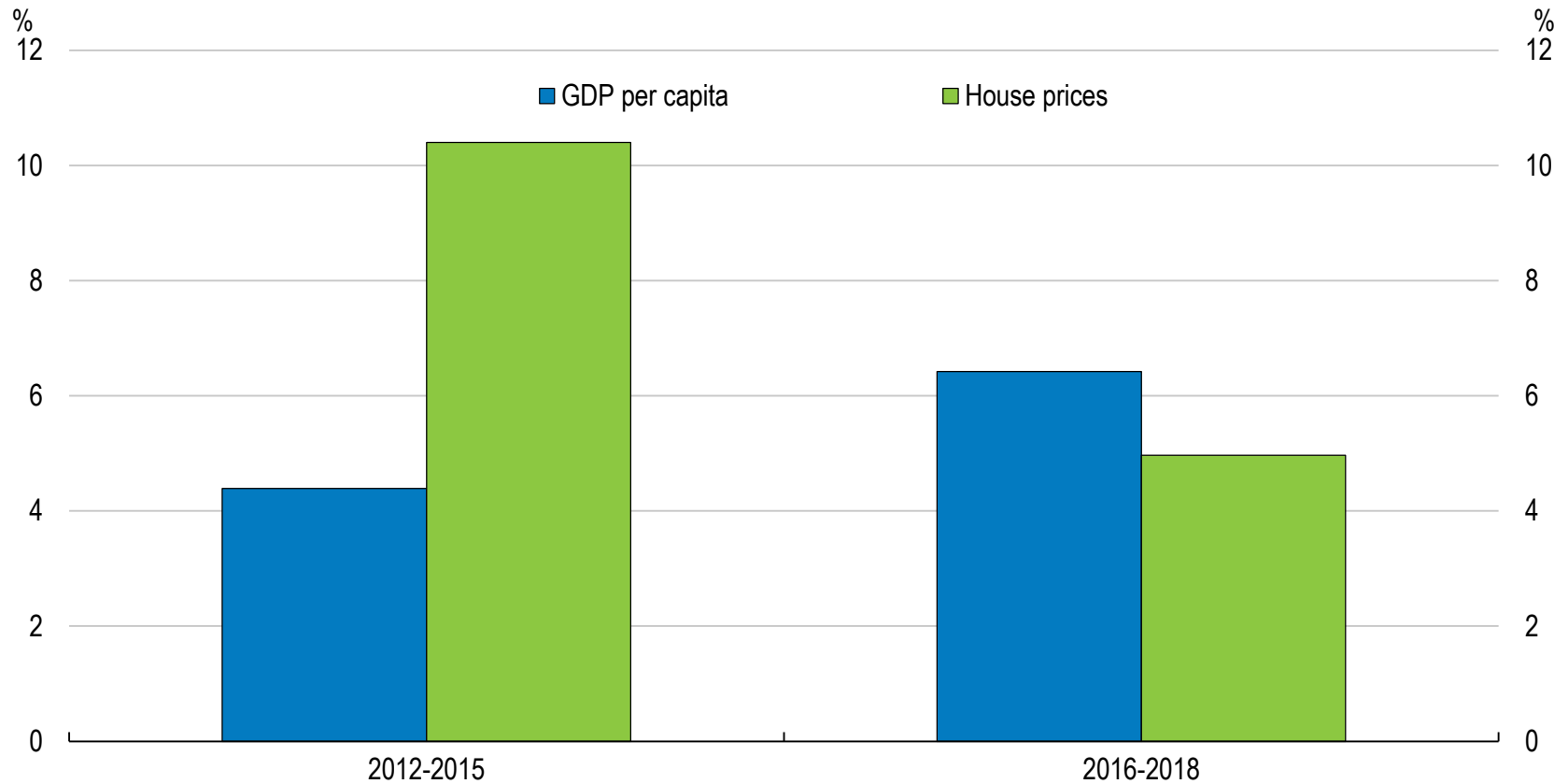


Source: OECD/WHO, Health at a Glance: Asia/Pacific 2018; OECD, Health database.



Housing affordability has improved

Average annual growth rates, in real terms

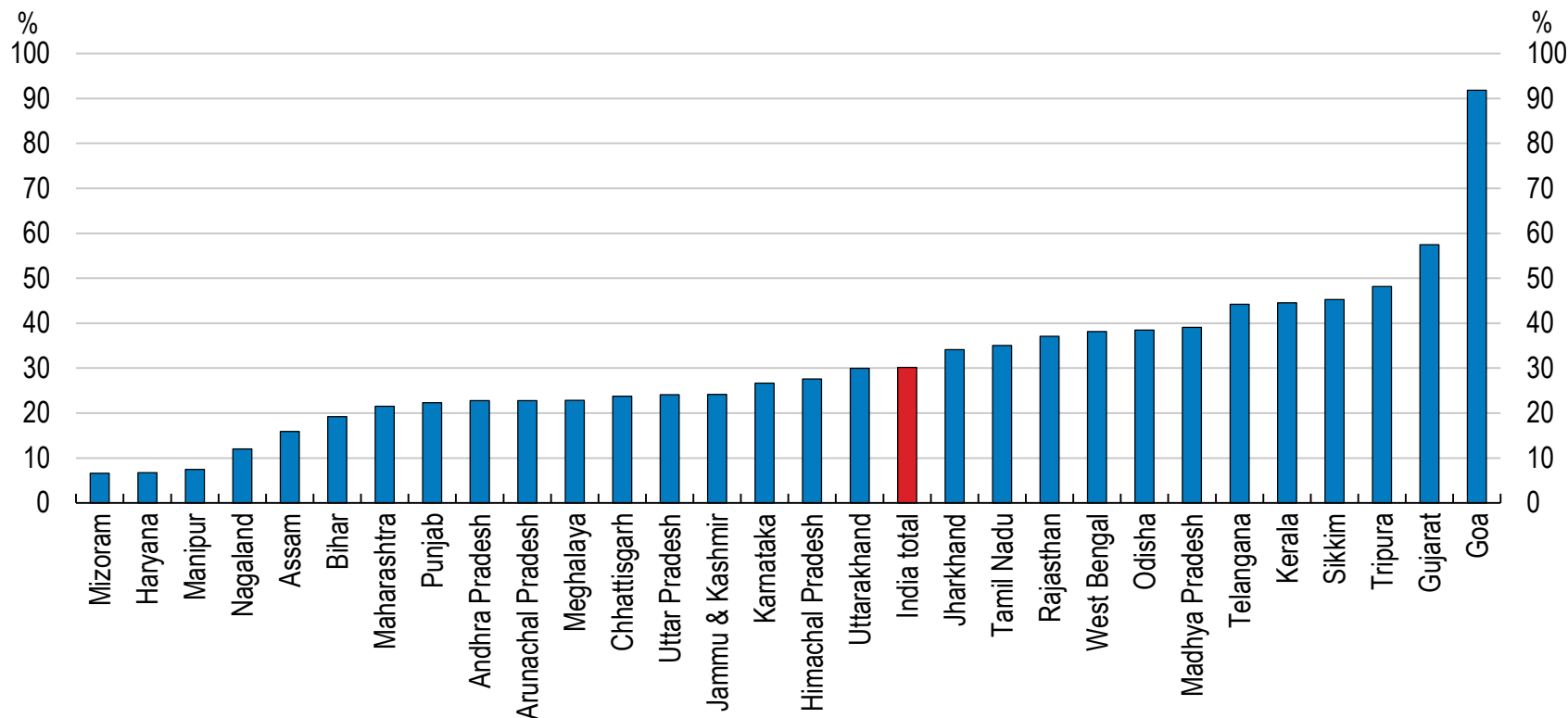


Source: OECD.



The government aims to provide a house for all Indians by 2022

Ratio of completed houses to total houses pledged, by state, urban areas

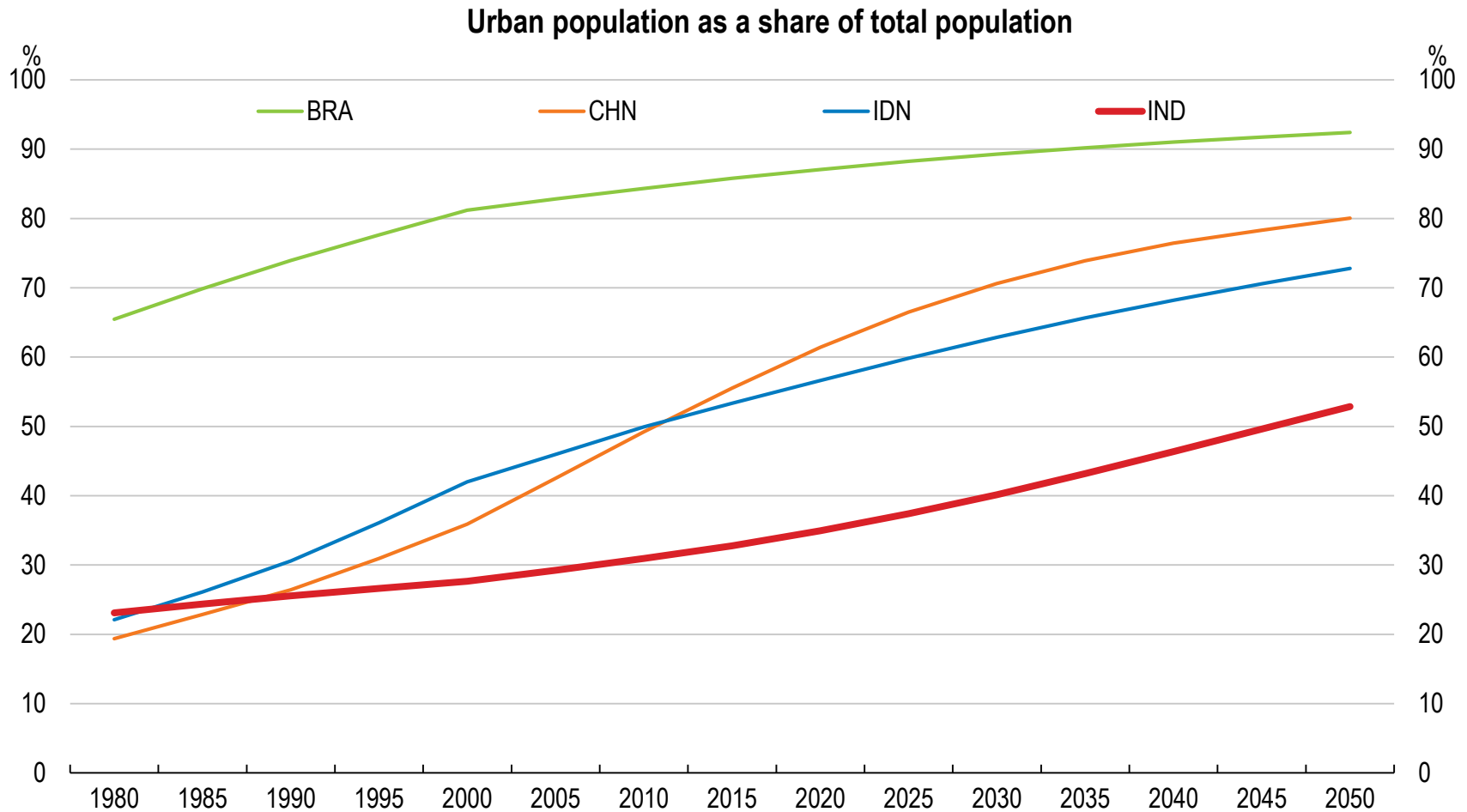


Note: Number of completed houses as a share of total pledged houses (intended for people who meet the programme's eligibility criteria), under the urban Pradhan Mantri Awas Yojana project.

Source: Ministry of Rural Development and Ministry of Housing and Urban Affairs.



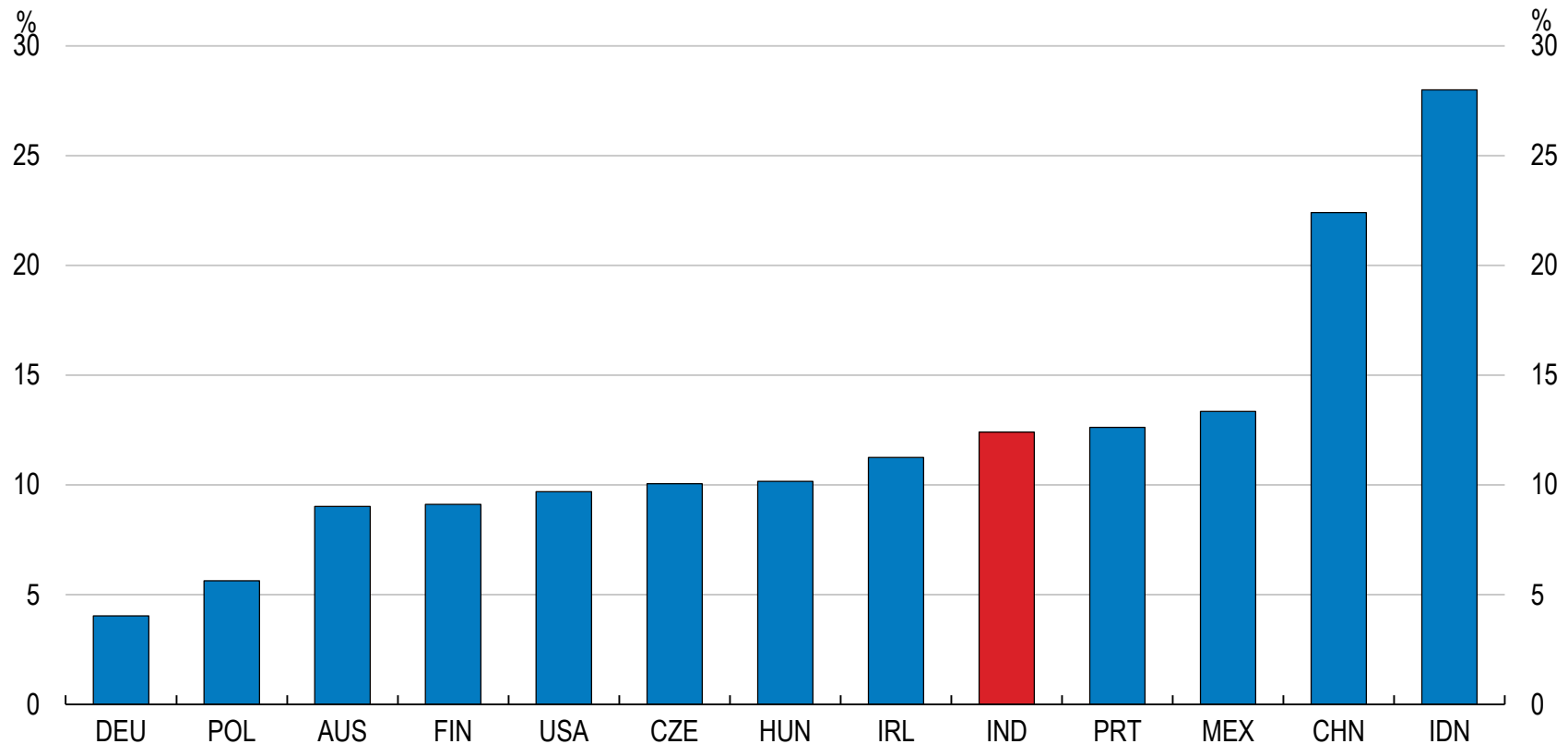
Urbanisation will affect housing needs





Many dwellings sit vacant

Vacant dwellings as a percentage of total dwellings, latest year available



Source: OECD Questionnaire on Affordable and Social Housing; India Ministry of Finance Economic Survey 2017-18; China Households Finance Survey; Colliers International (2017), Jakarta Property Market Report.



Key recommendations to address social challenges

- ✓ Introduce a simpler and more flexible labour law which removes disincentives for firms to create jobs
- ✓ Train more general practitioners and nurses
- ✓ Extend the new income-support for farmers to tenant farmers and labourers and reduce input subsidies to the agricultural sector, in particular fertilisers
- ✓ Ease rent controls by aligning states' rent regulation to the 2019 central government's Model Tenancy Act
- ✓ Relax the Floor Space Index to allow the construction of higher buildings
- ✓ Accelerate the completion of the Housing for All scheme in urban areas



For more information

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