

Organisation for Economic Co-operation and Development (OECD) has released Economic Survey of India (December 2019)

India is set for a **modest recovery** after a loss of momentum, as reforms to simplify taxation, lighten business regulations and upgrade infrastructure start to bear fruit. Further reforms to modernise the economy are now needed to drive the creation of high-quality jobs, as well as measures to improve public services and welfare, according to a new OECD report.

The latest OECD Economic Survey of India notes that while India has greatly expanded its participation in global trade in recent years, **private investment remains relatively weak**, the **employment rate has declined** amid a **shortage of quality jobs**, **rural incomes are stagnating**, and **per-capita income varies considerably across states**.

India is now well established as a growth champion and a major player in the global economy," said OECD Chief Economist Laurence Boone, launching the Survey in New Delhi. "However, this slower pace of growth underlines the need to **fully implement existing reforms** and **continue lowering barriers to trade to generate the investment** and jobs India needs to raise living standards across the country

The Survey sees **India's GDP growth recovering to 6.2% in 2020 and 6.4% in 2021 after dipping to 5.8% in 2019** following several years of robust growth. Restoring growth to the higher levels needed to provide ample jobs and ease inequality will require accelerating the pace of structural reforms to revive investment and exports.

Improving the health of the financial sector, where the share of **non-performing loans has declined but remains high**, will be key to supporting investment. The Survey recommends **speeding up bankruptcy procedures** and improving governance in the banking sector.

India has ramped up its participation in international trade since slashing tariffs in the 1990s. Its share of global goods and services exports reached 2.1% in 2018, up from 0.5% in the early 1990s, thanks to a strong performance in sectors like information technology and pharmaceuticals. Addressing remaining infrastructure bottlenecks by **modernising ports and adding roads** will be key to boosting India's competitiveness. Reducing restrictions to services trade imposed by trading partners and by India on imports would further boost trade in services, also giving a lift to manufacturing and the general economy. OECD estimates suggest India would be the biggest beneficiary of a multilateral cut in services trade restrictions. Even without a multilateral agreement, moving alone to overhaul regulations would have a positive impact.

While many **millions of Indians have been lifted out of poverty** in recent years, too many have no formal employment benefits and little access to finance. Doing more to **simplify complex labour laws** – many of which discourage hiring by becoming binding as firms grow above stated thresholds – would help raise the share of quality jobs demanded by a fast-growing and well-educated youth population in a country where the vast majority of employment is informal.

The government has made some **headway improving access to electricity, drinking water and rural roads**. Housing shortages, and poor access to basic amenities, remain acute, particularly in rural areas. Population growth and urbanisation will add to housing pressures already estimated to affect some 40 million households across the country. **Developing the currently small rental market** could help achieve a pledge to provide a house for all Indians by 2022. Finally, **mobilising more revenue from property and personal income taxes** could create the fiscal space to raise spending on health, education and social transfers.

MAIN FINDINGS	KEY RECOMMENDATIONS
Further improving macroeconomic policies and governance	
There is scope to raise more personal income tax revenue to finance much needed investment in infrastructure and higher public spending on health and education and to adhere to the set target on public debt to GDP.	Raise more tax revenue by removing the tax expenditures that most benefit the rich, freezing nominal personal income tax brackets and improving compliance.
Government deficit to GDP has declined but various public spending programmes are partly financed off-budget. Contingent liabilities are looming.	Improve transparency on off-budget transactions and contingent liabilities, e.g. by creating an independent fiscal council.
Inflation targeting, combined with lower oil prices and partial deregulation on the food market, have brought down inflation, which is now below target. Monetary policy transmission remains incomplete.	Monetary policy should remain accommodative as long as inflation is set to remain comfortably close to the target. Reduce the spread between administered rates on small savings and market rates to improve monetary policy transmission.
Corruption has declined but remains high. The lack of a comprehensive legislation for public procurement, consistent across levels of government, is an issue.	Harmonise legislation on public procurement across the government.
Boosting investment, productivity and growth	
Resolution delays under the Insolvency and Bankruptcy Code are frequent.	Continue to open more benches and employ more and better trained professionals in commercial courts.
Financial risks, in particular non-performing loans in public banks, have declined but remain high. Some non-banking financial companies, partly financed by banks, suffer from an asset-liability mismatch.	Closely monitor asset quality of non-banking financial companies.
Addressing social challenges	
Labour regulations are complex and discourage firms to grow and create quality jobs. Job creation has been slow and most jobs are in the unorganised/informal sector without formal contract and social security coverage. Labour-intensive exports are lagging behind.	Introduce a simpler and more flexible labour law which removes disincentives for firms to create jobs.
The population health status lags behind the average increase in income. Public spending on health care stands below 1½ per cent of GDP. The number of doctors and nurses is low by international standards, in particular in rural areas.	Train more general practitioners and nurses.
The new income-support scheme for land-owning farmers will help reduce poverty but leaves behind tenant farmers and labourers. It comes over and above fertiliser subsidies which affect soil and water quality and health.	Extend the new income-support for farmers to tenant farmers and labourers and reduce input subsidies to the agricultural sector, in particular fertilisers.
Improving participation in the global economy	
Tariffs harm more low-income households and weigh on export competitiveness. Even in the absence of a multilateral trade agreement, India would benefit from a reduction in trade tariffs.	Strive for a multilateral trade agreement or, as a second best, further reduce tariffs.
Manufacturing exports embody a high share of services. Reducing restrictions to services trade would promote manufacturing exports and job creation.	Further reduce restrictions to services trade.
The quality and reliability of transport and electricity networks have improved but transport times are still long and electricity outages are an issue in some regions, weighing on the competitiveness of the manufacturing sector.	Invest further to improve electricity provision, roads and ports.
Enhancing housing conditions	
Property rights are weak as land records do not guarantee ownership, constraining housing supply.	Continue to improve clarity on property ownership by extending the use of a unique property ID and geo-tagging, and by shifting to a system of registered property titles (as opposed to sale deeds) as the primary evidence of ownership.
Rent controls are still in place in many states. They prevent the development of the rental market as they lower return to investment and incentives for maintenance for owners.	Ease rent controls by aligning states' rent regulation to the 2019 central government's Model Tenancy Act.
Land use regulation is stringent, limiting affordable housing supply.	Relax the Floor Space Index to allow the construction of higher buildings.
Housing shortage is high and the urbanisation will put increasing pressure	Accelerate the completion of the Housing for All scheme in urban areas
Promoting green growth	
Most of the Indian population is exposed to high outdoor and indoor pollution. Household energy use is the biggest contributor.	Deploy efficient stoves to those households that will not have access to electricity or gas within the next 10 to 20 years.
Energy consumption per capita is low and will increase steadily.	Further increase the share of renewable energy in meeting energy needs.
Coal-fired power contributes to air and water pollution and water scarcity. Building new coal-fired power plants risks locking in emissions over the long term.	Gradually raise the tax on coal and use the additional revenue to compensate low-income households.