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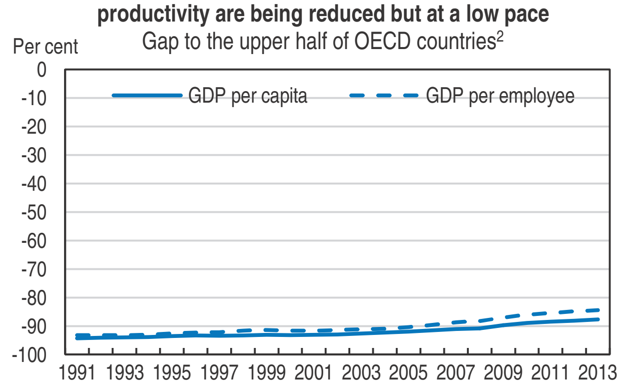
- The income gap *vis-à-vis* OECD countries has continued to narrow but remains large. It mainly stems from a productivity shortfall. Structural bottlenecks have increasingly weighed on the growth of economic activity.
- Foreign direct investment (FDI) barriers have been reduced in particular in telecom, civil aviation, railways, defence, construction and multi-brand retail. Financial reforms are gradually implemented and the Reserve Bank of India has taken steps to increase competition in the banking sector as well as its efficiency but more is needed to achieve a more efficient allocation of capital.
- Easing administrative and regulatory burden on companies and encouraging infrastructure development would promote economic activity. To spur the creation of formal jobs, reduce labour market duality and facilitate the participation of women, labour laws should be simplified and the rather stringent employment protection legislation should be reconsidered. Better education and training systems would raise the pool of qualified workers and enhance labour productivity.
- Modernising labour laws is crucial to encourage employment formalisation and to reduce labour market segmentation, gender bias and income inequality. Raising the quality of education and training systems would also promote the economy's ability to respond to new market opportunities and thus job creation, thereby reducing severe poverty and income inequality.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	6.5	5.6
Labour utilisation[1]	-0.3	-0.4
Labour productivity	6.8	6.1

B. Very large gaps in GDP per capita and productivity are being reduced but at a low pace
Gap to the upper half of OECD countries[2]



1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database*; and National Sample Survey (various years), annual population estimates of the Registrar General and OECD estimates.

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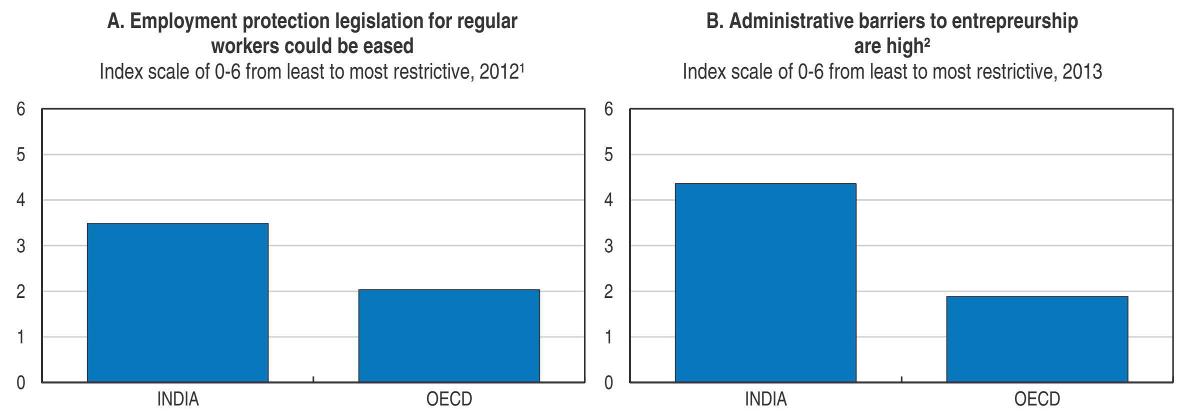
Policy indicators



1. 2013 data for the OECD average.
2. Average of the product market regulation subcomponents: administrative burdens on start-ups and complexity of regulatory procedures under "barriers to entrepreneurship". For further details see Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 update of the OECD product market regulation indicators: Policy insights for OECD and non-OECD countries", *OECD Economics Department Working Papers*, forthcoming.

Source: Panel A: OECD, *Employment Protection Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

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Going for Growth 2015 priorities

Priorities supported by indicators

Reduce administrative and regulatory burdens on companies. *[1] Administrative and regulatory procedures and rules (e.g. to acquire land, to create and close a business) are often complex and long while outcomes are uncertain. This hinders entrepreneurship, investment and growth.

Recommendations: Simplify rules and procedures. In particular, impose maximum timelines to regulatory approval processes and implement single-window clearance experiments more widely.

Simplify and modernise labour laws. Labour regulations are complex and some of them – such as employment protection legislation – are stringent, especially for large industrial firms. This reduces labour market dynamism, contributes to labour market duality and drives many workers (including women) into informality or out of jobs.

Actions taken: Some states have amended key labour laws and the central government has introduced a single window website to help businesses meet compliance requirement for various laws. Labour inspections have been made more transparent by using a random computerised method.

Recommendations: Reduce barriers to formal employment further by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise. Ease provisions requiring government approval to terminate employment contracts.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

Enhance access to, and quality of, the education system. Though rising, participation in education remains low while the quality of provision is often poor.

Actions taken: No significant action taken.

Recommendations: Continue improving access to education, especially at the secondary level, and improve the quality of education. Provide vocational training earlier in the cursus.

Other key priorities

Promote more effective infrastructure-related regulations. Severe infrastructure bottlenecks endure, partly reflecting ineffective procedures for land acquisition and for approval of investment projects.

Actions taken: A Cabinet Committee on Investment has been set up to fast track the approval process of large investment projects. The Right to Fair Compensation and transparency in Land Acquisition, Rehabilitation and Resettlement Law passed in 2013 should reduce disputes and litigation, and thus uncertainties attached to land acquisition. However, land acquisition remains complex.

Recommendations: Monitor the implementation of the land acquisition law and review it if it fails to shorten the land acquisition process. For large infrastructure projects, simplify the regulatory approval process by e.g. imposing clear timelines.

Undertake wide-ranging financial sector reforms. Reforms to promote the development of a dynamic and efficient financial sector are needed to support investment and inclusive growth.

Actions taken: The Reserve Bank of India approved the issuance of new banking licenses in 2014 and now allows banks to open branches without prior permission. Foreign banks can open subsidiaries and branches across the country, subject to domestic regulation.

Recommendations: Ease bank portfolio restrictions including by gradually reducing the share of government bonds held by banks and by establishing a plan to phase out priority lending. Allow greater participation by foreign investors in the financial service sector and further promote the entry of new private banks.

Reform areas no longer considered a priority in *Going for Growth*

Reduce trade and FDI barriers. In order to encourage FDI inflows and productivity improvements, it was recommended to reduce FDI barriers in some key sectors.

Actions taken: The government has been reducing FDI barriers in several sectors, including multi-brand retail, civil aviation, defence, telecom, petroleum, construction, railways and courier services.

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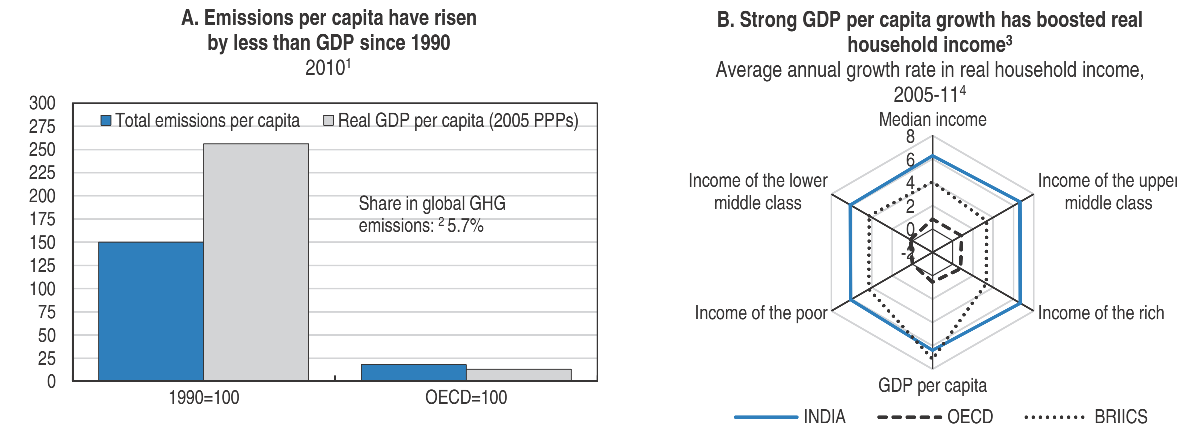
Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys on consumption expenditures and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data and generally an underestimation of inequality compared to measures based on income. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-09 for India.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178930