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- The Indian economy continues to grow faster than OECD countries but GDP per capita remains far below owing to low labour productivity.
- Education provision is improving, especially at the elementary level, though access and quality need further strengthening. Financial reforms are being implemented incrementally. By contrast, little progress has been made in reforming labour market regulation.
- Foreign direct investment (FDI) barriers in some sectors have been reduced but further trade and investment liberalisation is needed to strengthen competition and encourage the diffusion of more advanced technology and management practices. Reforms to employment protection legislation would improve labour market dynamism. Further reform of the financial sector is essential for promoting a more efficient allocation of capital. Streamlining infrastructure-related regulation would provide a much-needed boost to investment in this sector.
- In addition to supporting growth, a more inclusive education system would help reducing severe poverty and inequality more generally, while labour market reforms would help reducing informality.

Growth performance indicators

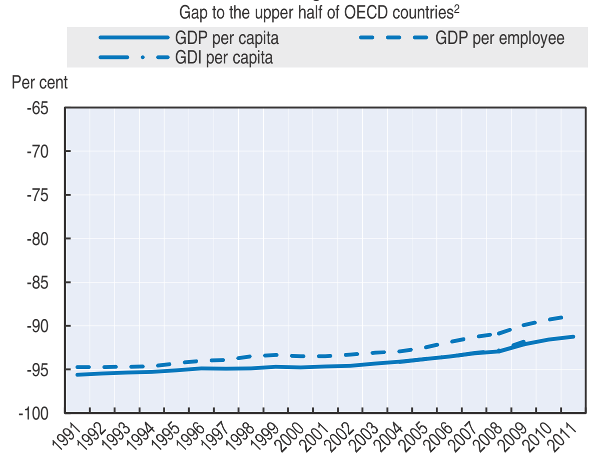
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	6.0	6.1
Labour utilisation[1]	0.0	-0.6
Labour productivity	6.0	6.8

B. Very large gaps in GDP per capita and productivity are being reduced

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, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators (WDI) Database*, National Sample Survey (various years), annual population estimates of the Registrar General and OECD estimates.

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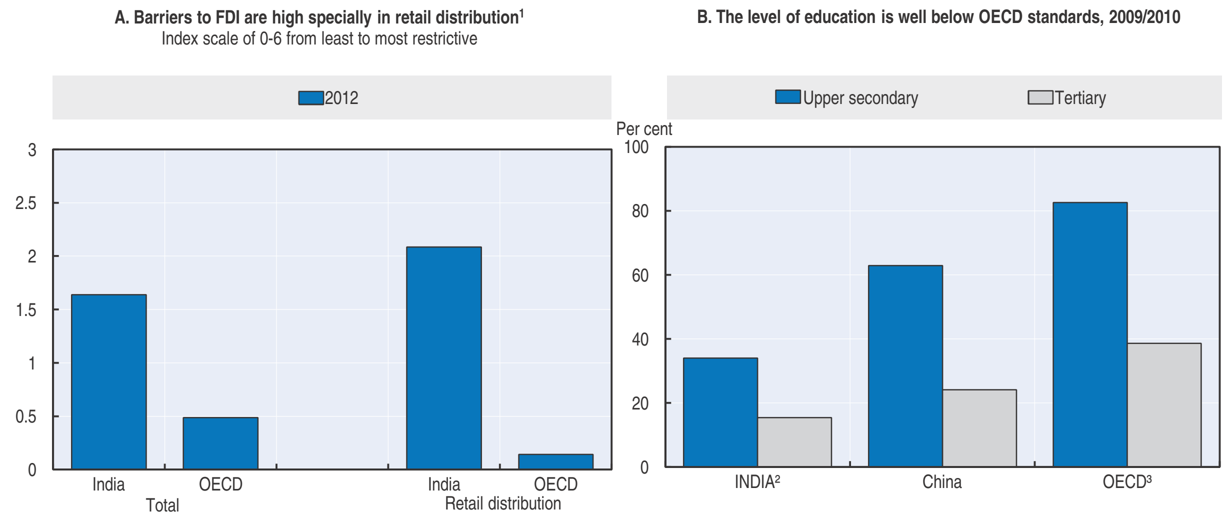
Policy indicators



1. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.
2. For India, data refer to the share of those aged 19-years-old who have completed upper secondary schooling and the share of those aged 24-years-old who have completed tertiary studies.
3. Graduation rate at upper secondary level (first-time graduate) and graduation rate for typical age at tertiary-type A level (first-time graduate).

Source: *www.oecd.org/social/inequality.htm*; OECD, *Education at a Glance 2012*; *India National Sample Survey (2009/10)* and *China Statistical Yearbook*.

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Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

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

Actions taken: By 2012 most of the state governments had issued crucial rules clarifying the implementation of the 2009 Right to Free Education Act, which calls for free, compulsory education of all children between 6 and 14. The Parliament is considering legislation to establish a new higher education regulator as well as legislation to broaden the quality assessment framework, reduce false advertising and provide a clearer regulatory framework for foreign education providers.

Recommendations: Improve teacher effectiveness by strengthening accountability and improving quality of and access to training. Further expand teaching resources in the most cost-effective manner. Provide tertiary institutions with greater managerial autonomy.

Reform employment protection legislation. Large firms face onerous dismissal requirements, reducing labour market dynamism and entrenching duality.

Actions taken: No action taken.

Recommendations: Reduce discrimination against large firms by easing provisions requiring government approval to terminate employment contracts.

Reduce trade and FDI barriers. Trade and FDI barriers remain high in some key sectors, impairing productivity improvements.

Actions taken: In September 2012 the government eased some FDI barriers, allowing minority foreign ownership in the aviation sector and up to 51% foreign ownership in multi-brand retail subject to restrictions such as approval by state governments and local procurement provisions.

Recommendations: Further ease FDI restrictions in aviation, multi-brand retail and other sectors. Complete the move to a 5% tariff for all manufactured products including motor vehicles.

Other key priorities

Promote more effective infrastructure-related regulation. Severe infrastructure bottlenecks endure, particularly in the energy and transport sectors.

Actions taken: The central government has prepared legislation to reform land titling and arrangements for public land acquisition. It has taken steps to speed-up the approval of large infrastructure projects. The government also raised limits for foreign institutional investment in debt issued by Indian infrastructure companies.

Recommendations: Streamline land acquisition processes, including through improved land registration, to reduce costs and delays. Reduce regulatory uncertainty to promote more private sector investment.

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

Actions taken: In 2012, restrictions on access to Indian capital markets were eased with foreign individuals allowed to invest directly in local stock markets.

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

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

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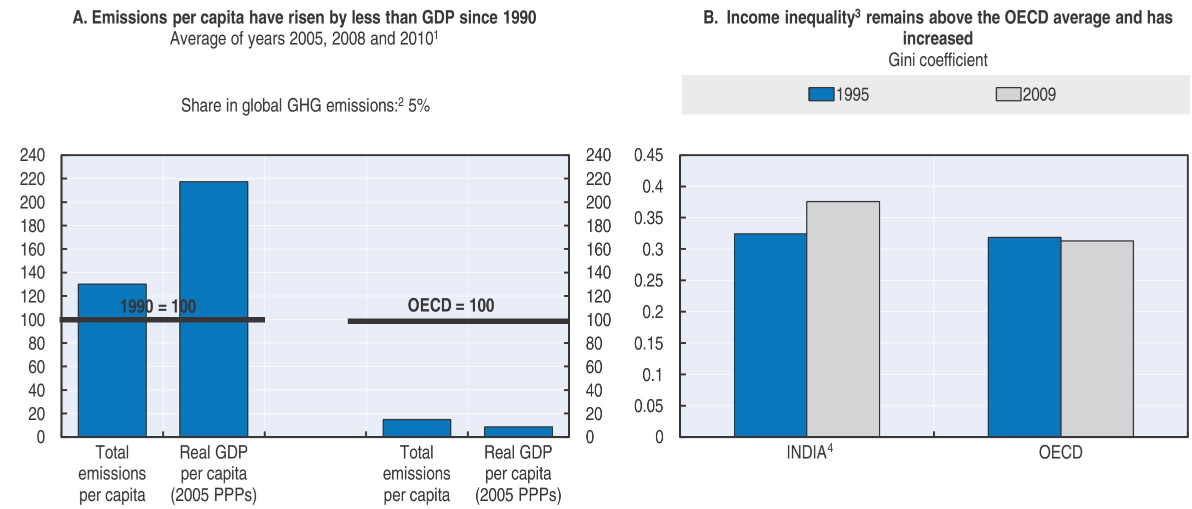
Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These 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 IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on per capita consumption for India.
4. Data refer to 1993 and 2008. For 1995, the OECD average excludes Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776846