

Overview

India's economy grew by 8.0 per cent in fiscal year (FY) 2016 (April 2015-March 2016), the fastest pace since 2011-12. However, in 2016-17 the GDP growth rate slowed down to 7.1 per cent, mostly on account of deceleration in gross fixed capital formation. IMF's latest growth forecast shows that disruptions caused by demonetization is unlikely to affect economic growth over the longer term, and GDP growth is expected to rebound to 7.2 per cent in 2017-18 and 7.7 per cent in FY 2019.

Table I: Key economic and labour market indicators

Macro	2014-15	2015-16	2016-17
Real GDP (% change y-o-y) ^{i, a}	7.5	8.0	7.1
Investment (% of GDP)	35.7	34.9	33.2
Labour market	2004-05	2009-10	2011-12
Employment (million) ^{ii, b, c}	457.9	459.0	472.9
Unemployment (million) ^c	11.3	9.8	10.8
Labour force participation rate (%) ^d	63.7	57.1	55.9
Male	84.0	80.6	79.8
Female	42.7	32.6	31.2
Unemployment rate (%) ^d	2.3	2.0	2.1
Male	2.1	1.9	2.1
Female	2.6	2.3	2.3
Share of employment in manufacturing (%) ^d	11.6	11.0	12.5
Male	12.0	11.1	12.2
Female	11.0	10.8	13.2
Share of regular wage and salaried workers (%) ^d	14.4	15.7	17.9
Male	17.3	17.8	19.9
Female	8.4	10.2	12.8
Working poverty rate (%) ⁱⁱⁱ			
<US\$1.90 per day	35.3	28.4	17.9
>=US\$1.90 & <US\$3.10 per day	36.5	37.5	35.0
Average real daily wage index (2004-05=100) ^e			
Rural	100.0	111.7	122.8
Urban	100.0	129.4	n.a.

Note: a) at 2011-12 prices; b) all ages; c) usual status; d) estimates for persons aged 15 years and above; e) average real daily wage index for regular wage employees aged 15-59 years.

Source: i) Ministry of Finance Monthly Economic Report, May 2017; ii) National Sample Survey, Employment and Unemployment Schedule, 61st, 66th and 68th rounds; iii) ILO: *Key Indicators of the Labour Market*, 9th Edition (Geneva, 2015).

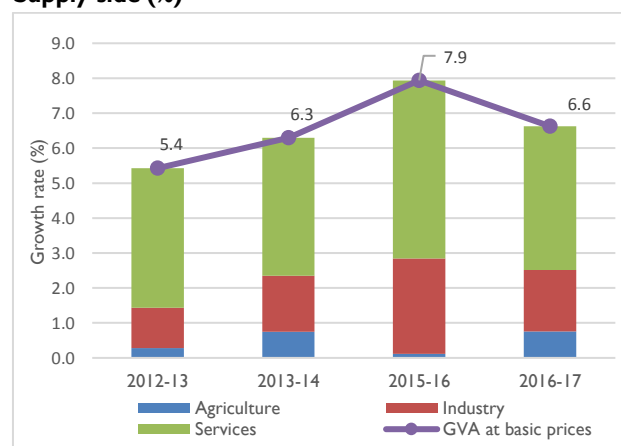
On the employment front, the challenge continues to be to ensure that economic growth translates into better labour market conditions. The vast majority of workers in India are in informal jobs. Although there has been a shift out of agriculture, construction has absorbed more workers than

other sectors in recent years. Most of the new jobs being created in the formal sector are actually informal because workers do not have access to employment benefits or social security. In addition, notable disparities in the labour force participation rates of men and women persist.

Recent economic trends: Growth falls

Having seen a strong recovery in recent years, gross domestic product (GDP) growth rate declined in 2016-17. As per the latest estimates released by the Central Statistical Office (CSO) on May 31, 2017, the GDP growth rate at constant market prices declined to 7.1 per cent in 2016-17, compared to 8.0 per cent in 2015-16. The real growth rate in per capita income has also decreased substantially, from 6.8 per cent in 2015-16 to 5.7 per cent in 2016-17. Figures on real gross value added (GVA) revealed a 1.3 percentage point decline from the previous year (Figure 1).

Figure 1: GDP in terms of the contribution of different sectors to gross value added (GVA at basic prices): Supply-side (%)



Source: Central Statistics Office, MOSPI, Government of India; author's calculations.

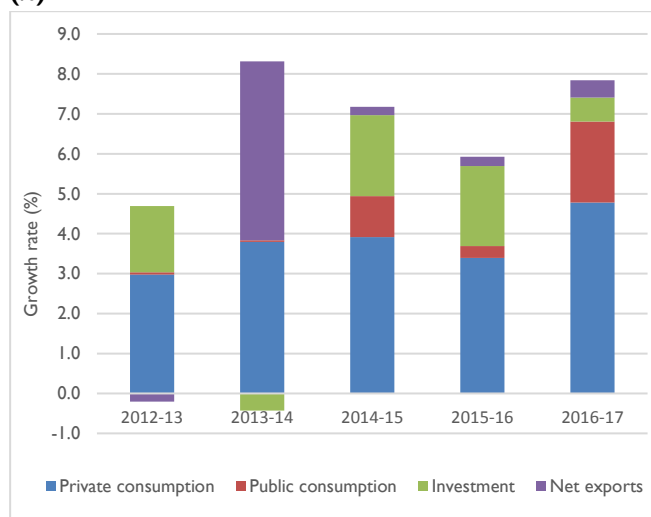
This decline in economic growth has been accompanied by a deceleration in industry and service sector growth, though this was partially compensated by a better performance of agriculture due to the good monsoon last year. In 2016-17, growth in industry has been estimated at 5.6 per cent (compared to 8.8 per cent in 2015-16), while in the services

sector, growth slowed down to 7.7 per cent, a decline of 2.0 percentage points from the previous year. Manufacturing slowed down to 7.9 per cent in 2016-17, compared to 10.8 per cent in 2015-16. The sharpest decline has been witnessed in the construction sector, which has been linked to the impact of demonetization: an absolute decline of 3.7 per cent in fourth quarter of 2016-17, versus a positive growth rate of 6 per cent in 2015-16.

Looking at the expenditure side, economic expansion in India continues to be driven by private consumption, though public consumption increased significantly in 2016-17. The rates of fixed investment (gross fixed capital formation (GFCF) as percentage of GDP at constant prices) declined from 30.9 per cent in 2015-16 to 29.5 per cent in 2016-17. Lower rates of GFCF are likely to affect growth of output and employment in the medium term (Figure 2).

Economy's fiscal, inflation and external sector conditions are anticipated to remain favourable. India's current account deficit (CAD) narrowed down substantially at USD\$15.2 billion (0.7 per cent of GDP) in 2016-17. Inflation, based on the consumer price index (CPI), has also been showing continuous declining trend, it has fallen from 5.9 per cent (2014-15) to an average of 4.5 per cent in (2016-17).

Figure 2: Contribution to GDP growth: demand-side (%)



Source: Central Statistics Office, MOSPI, Government of India; author's calculations.

Looking beyond “jobless growth”

The National Sample Survey (NSS) (68th round) showed that employment grew strongly from 2009-10 to 2011-12 in comparison to the previous period.¹ The total workforce, based on the usual status definition, increased from 459 million in 2009-10 to 472.9 million in 2011-12. In comparison, the increase in employment from 2004-05 to 2009-10 was just 1.1 million (Table 1).

Taking a longer-term perspective, employment has grown faster for men and in urban areas. In this regard, male employment grew by 1.9 per cent per annum from 1999-2000 to 2011-12, while female employment increased by just 0.3 per cent on an annual basis.² Over this period, urban areas accounted for 57.2 per cent of the growth in employment, though only 31 per cent of the population live in urban areas (as per the 2011 Population Census).

India has amongst the lowest women's labour force participation rates (LFPR) in the world. Not only women's participation rates are low, but has been showing a declining trend since 2004-05. Women's LFPR dropped from 42.7 per cent in 2004-05 to 31.2 in 2011-12. The latest data from the Labour Bureau indicates a further decline in the participation rate of women in 2015-16 (27.4 per cent). Participation rates are even lower in urban areas and among educated women, and when women work they tend to end up in marginal jobs, often in home-based work (as contributing family worker/unpaid worker) and the domestic work sector.

Uncertain structural transformation of the labour market

Changes in employment status are linked to the process of structural transformation, as resources (capital and workers) are moved from low to high-productivity sectors. Although this has been a characteristic feature of the development processes of other parts of East and Southeast Asia, in India (and South Asia in general) the shift from agriculture to manufacturing has not yet taken place to the same extent.

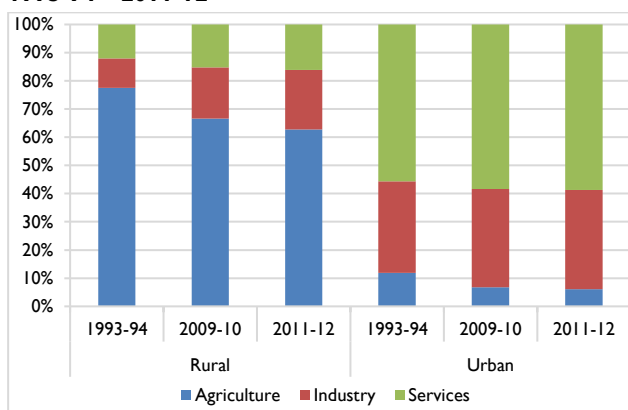
In India, a large proportion of the workforce is still dependent on the agricultural sector (48.9 per cent employment share in 2011-12³, which reduced further to 47.3 per cent in 2015-16⁴). The agricultural sector still accounts for 62.7 per cent of India's rural employment, although this share has fallen significantly, from 77.6 per cent in 1993-94 (Figure 3). At the same time, agriculture's share in gross value added has fallen rapidly, from 18.5 per cent in 2011-12 to 15.2 per cent in 2016-17.

The Indian economy is dominated by the services sector, which accounted for 53.7 per cent of GVA in 2016-17. In terms of employment, the share of the services sector in urban areas was 58.7 per cent (2011-12), compared to just 16.1 per cent in rural regions.

The share of industry (which consists of both manufacturing and construction), stood at 31.2 per cent of GDP in 2016-17, as compared to 31.5 per cent in the previous year. At the sectoral level, the construction and manufacturing sectors saw sharpest decline among others⁵, and stood at 7.9 per cent and 1.7 per cent of GVA in 2016-17.⁶ In terms

of employment, the manufacturing sector provides employment to 12.6 per cent in 2011-12 (Table 1).⁷

Figure 3: Different aspects of structural transformation and sectoral employment shares (%), 1993-94 – 2011-12



Source: National Sample Survey, various rounds.

Between 1999-00 and 2011-12, there was a considerable increase in rural non-farm employment (12 per cent, as per the usual principal status definition). The greatest increase was in the states of Jammu and Kashmir (33 per cent), Goa (21 per cent) and Punjab (20 per cent). Overall, the proportion of households, whose principal source of income depends on agriculture, declined from 63 per cent in 2002-03 to 58 per cent in 2012-13.⁸

The largest increase in non-agricultural employment has been in the construction sector, where the share of employment in rural areas increased from 14.4 per cent (1999-00) to 30.1 per cent (2011-12). This has been accompanied by a change in employment status, with a rise in casual wage employment and a decline in self-employment.

Informality persists: the quality of employment remains the main challenge

The majority of workers in India are in informal employment. Behind this there are two underlying, but diverging, trends. Firstly, the share of workers in the unorganized sector fell from 86.3 per cent in 2004-05 to 82.2 per cent in 2011-12.⁹

At the same time, the share of informal workers in the organized sector (i.e. workers without access to social security) increased significantly because of a greater use of contract and other forms of casual labour. The share of contract labour in organized manufacturing increased from 15.6 per cent at the end of the 1990s to 34.7 per cent in 2011-12. 79 per cent of non-agricultural wage workers had no written contract and only 23.8 per cent were eligible for social security benefits.

Because of these countervailing trends, the overall proportion of informal workers in total employment (e.g. unorganized sector workers plus informal workers in the organized sector) has remained relatively stable, at around 92 per cent.

Within the overall category of informal workers, the largest group is own-account workers (32.2 per cent), followed by informal employees in the informal sector (30.0 per cent) and contributing family workers (17.9 per cent) (Table 2).

Table 2: Where are India's informal workers? Distribution of workers by production unit and employment status, 2011-12 (%)

Employment status	Informality	Production units			Total
		Formal sector enterprises	Informal sector enterprises	Households	
Own-account workers	Informal		32.3	n.a.	32.3
	Formal	0.5			0.5
Employers	Informal		1.3		1.3
	Formal	0.1			0.1
Contributing family workers	Informal	0.1	17.9		18.0
Employees	Informal	9.6	30.0	0.8	40.4
	Formal	7.0	0.4	0.01	7.4
Members of producers' cooperatives	Informal		n.a.		n.a.
	Formal				n.a.

Note: Covers employed persons of all ages. Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit. Cells shaded in light grey refer to formal jobs. Unshaded cells represent various types of informal workers.

Source: Calculated from NSSO's Employment-Unemployment Survey, 2011-12, based on the International Conference of Labour Statisticians (ICLS) 2003 framework.

A more positive trend is the increasing share of regular wage and salaried workers in the Indian labour market, who now account for 17.9 per cent of total employment in 2011-12. Interestingly, in urban areas, the gender gap for this indicator has narrowed considerably.

By 2011-12, the share of urban men in regular employment increased marginally, from 42 per cent in 1993-94 to 43.4 per cent in 2011-12. For urban women, the share of workers in regular employment increased to 42.9 per cent (albeit, representing only 11.7 million working women), compared to 28.5 per cent in 1993-94.

Working children in India

Significant progress has been made towards the elimination of child labour in India. Nonetheless, though the incidence of child labour has decreased by 2.6 million between 2001

and 2011, India is still home to 10.1 million¹⁰ working children in the age group of (5-14) years (Census, 2011). In addition, more than 42.7 million children in India are out of school.

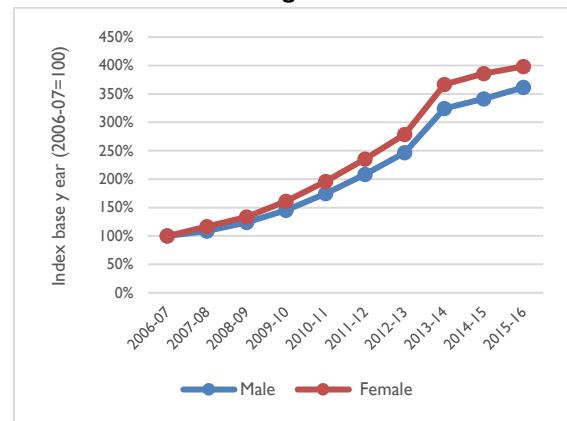
The five states with the highest incidence of working children are: Uttar Pradesh, Bihar, Rajasthan, Maharashtra, and Madhya Pradesh; these states constitute nearly 55 per cent of working children in India. Child labour has different ramifications in both rural and urban areas. In rural regions, the majority children are working as agricultural labourers and cultivators, whereas in urban areas, they are mostly engaged with household and informal industries.

Trends in rural agricultural wages

Though measuring wages is inherently difficult in a country where the majority of workers are self-employed and in agriculture, most trends show that rural agricultural wage growth has been robust.¹¹ Figures from five agricultural operations – ploughing, sowing, weeding, transplanting and harvesting – show the rapid growth in rural agricultural wages in the 2000s (Figure 4). This was especially so during the period from 2004-05 to 2013-14.

The fundamentals to sustain high rates of growth are in place in India: favourable demographics, high savings and investment rates (assuming the current rates will rise back to the longer term trend), and increased resources for infrastructure and skills development.

Figure 4: Trends in average daily wage rates of male and female workers in agriculture



Source: Labour Bureau, Wage Rates in Rural India, various years.

The challenge is to ensure that these drivers of growth are associated with the creation of more decent jobs that are accessible to youth, women and all segments of society, particularly in rural areas.

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¹ This reflects the most recent data available from the NSS.

² Employment growth figures are based on compounded annual growth rates.

³ During 2004-05 to 2011-12, the number of workers in the primary sector fell by around 33 million.

⁴ This is Labour Bureau's data from the fifth annual employment-unemployment survey, 2015-16 and is for aged 15 years and above (usual status).

⁵ Except, agriculture, electricity, gas and water supply utility, and public administration and defense services, all other sectors reported sharp declines in 2016-17 as against 2015-16.

⁶ An absolute decline of 2.9 percentage point in manufacturing and 3.3 percentage point in construction sector has been observed in 2016-17 as against 2015-16. These sectors employ large number of informal sector workers.

⁷ After manufacturing employment declined from 2004-05 to 2009-10, it rose substantially by almost 9 million from 2009-10 to 2011-12.

⁸ NSSO: All India Debt and Investment Survey, 2002-03 and 2012-13.

⁹ In the Indian context, the National Commission for Enterprises in Unorganized Sector (NCEUS) defines unorganized/informal sector as consisting of "all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis with less than ten workers". Whereas informal workers cover a broader category: "consist of those working in the unorganized sector or households, excluding regular workers with social security benefit provided by the employers, and the workers in the formal sector without any employment and social security benefits provided by the employers". See: NCEUS: *Definitional and statistical issues relating to informal economy* (New Delhi, 2008), chapter 2.

¹⁰ The total child population in India is 259.6 million. Of these, 3.9 per cent are working, either as 'main worker' or as 'marginal worker'.

¹¹ Based on NSSO's Employment-Unemployment Survey.