

# OECD ECONOMIC SURVEYS

## INDIA

ISSN 0376-6438, e-ISSN 1609-7513

February 2017

[Consulta en línea desde MEYSS](#)

|  |    |
|--|----|
| <b>Basic statistics of India</b> .....   | 9  |
| <b>Acronyms</b> .....  | 11 |
| <b>Executive summary</b> .....   | 13 |
| <b>Assessment and recommendations</b> .....  | 17 |
| Strong growth has raised incomes and reduced poverty but inequalities remain. . . .      | 18 |
| India is growing fast, but private investment is weak .....                              | 21 |
| Monetary, financial and fiscal policies to set the foundation for stronger growth. . . . | 27 |
| A comprehensive tax reform to promote inclusive growth .....                             | 38 |
| Promoting stronger and more inclusive growth. ....                                       | 42 |
| Achieving strong and balanced regional development. ....                                 | 59 |
| Bibliography. ....   | 65 |
| <b>Annex. Follow-up to previous OECD policy recommendations</b> .....                    | 69 |

### Thematic chapters

|  |     |
|--|-----|
| <b>Chapter 1. Making income and property taxes more growth-friendly and redistributive</b>             | 75  |
| Main characteristics of the tax system .....   | 76  |
| The personal income tax could raise more revenue and redistribute more .....                           | 81  |
| Social security contributions penalise job creation in the formal sector. ....                         | 87  |
| Property taxes could help finance better municipal services .....                                      | 88  |
| Company taxation: cutting rates and broadening the base to boost firm growth<br>and job creation ..... | 89  |
| There is scope to improve the effectiveness of the tax administration<br>and increase compliance. .... | 100 |
| <i>Recommendations for reforming income and property taxes</i> .....                                   | 104 |
| Bibliography. ....   | 105 |
| <b>Chapter 2. Achieving strong and balanced regional development</b> .....                             | 107 |
| Introduction and main findings .....   | 108 |
| Spatial inequalities are large. ....   | 109 |
| Output inequality across states: drivers and policies to address them .....                            | 113 |
| Making the most out of the urbanisation process .....  | 130 |
| <i>Recommendations for achieving strong and balanced regional development</i> .....                    | 136 |
| Bibliography. ....   | 137 |
| <b>Annex A. Spatial inequalities: across states or between rural and urban areas?</b> .....            | 141 |

## Boxes

|   |     |
|---|-----|
| 1. Removing high-denomination currency notes – “Demonetisation”   | 22  |
| 2. The Goods and Service Tax (GST)  | 26  |
| 3. India’s public debt: is it sustainable?  | 35  |
| 4. The draft FY 2017/18 central government Budget and related reforms   | 36  |
| 5. Reforming the electricity sector: the UDAY plan and its likely impacts   | 45  |
| 6. Green growth challenges  | 63  |
| 1.1. The Goods and Service Tax (GST) bill   | 78  |
| 1.2. The allocation of taxing powers across levels of government in India   | 80  |
| 1.3. Options for raising more personal income tax revenue   | 85  |
| 1.4. The Hindu Undivided Family   | 86  |
| 1.5. Taxing immovable property - lessons from the literature<br>and from other countries                                | 89  |
| 1.6. Special Economic Zones in India  | 93  |
| 1.7. Tax rate calculations for resident and non-resident corporations   | 97  |
| 1.8. A comprehensive package of measures to address BEPS  | 99  |
| 1.9. Key recommendations of the Tax Administration Review Commission (TARC)   | 103 |
| 2.1. Understanding differences in GDP per capita across countries and states  | 114 |
| 2.2. Minimum support prices and tariff/border measures for agricultural products  | 118 |
| 2.3. Organised versus unorganised manufacturing sectors: definition<br>and contribution to job and value added creation | 121 |
| 2.4. The move to a more co-operative and competitive federalism framework   | 123 |
| 2.5. Rajasthan: recent policy reforms to promote economic development   | 124 |
| 2.6. India has pioneered urban planning: the city of Chandigarh   | 134 |
| 2.7. Recent initiatives to improve urban infrastructure in India  | 135 |

## Tables

|  |    |
|--|----|
| 1. Macroeconomic indicators and projections  | 25 |
| 2. Shocks that could alter economic performance  | 26 |
| 3. Key public finance data for combined central government and states                            | 35 |
| 4. Past OECD recommendations on the monetary, financial<br>and fiscal policy frameworks          | 38 |
| 5. Tax revenue: level and mix  | 39 |
| 6. Past OECD recommendations on corporate income tax   | 41 |
| 7. Past OECD recommendations on infrastructure and land  | 47 |
| 8. Past OECD recommendations on foreign direct investment  | 49 |
| 9. Past OECD recommendations on improving the business environment                               | 49 |
| 10. Past OECD recommendations on labour regulations  | 52 |
| 11. Past OECD recommendations on education and training systems                                  | 55 |
| 12. Past OECD recommendations on programmes to better support the poor<br>and vulnerable         | 59 |
| 1.1. Tax revenue: level and mix  | 79 |
| 1.2. Reform options for raising more personal income tax revenue: 4 scenarios                    | 85 |
| 1.3. The average tax wedge decreases along the income ladder in India                            | 87 |
| 1.4. Major incentives granted to companies under the central government<br>income tax            | 91 |
| 1.5. Tax depreciation rates and true economic depreciation rates for selected<br>assets in India | 92 |

|   |     |
|---|-----|
| 1.6. Calculation of the effective statutory tax rate for a resident versus a non-resident corporation . . . . . | 97  |
| 1.7. FDI inflows to India . . . . .   | 100 |
| 2.1. Agricultural households: size of land holdings, income, investment and indebtedness . . . . .              | 119 |
| A.1. Percentage of inequality explained by disparities across states and the urban/rural divide . . . . .       | 142 |

## Figures

|   |     |
|---|-----|
| 1. Growth has been strong and poverty has declined . . . . .  | 19  |
| 2. Regional disparities are large and urban population is increasing fast . . . . .                   | 20  |
| 3. Recent macroeconomic developments . . . . .  | 23  |
| 4. Financial vulnerabilities . . . . .  | 24  |
| 5. Monetary policy: recent actions and outcomes . . . . .   | 28  |
| 6. Challenges in the banking sector . . . . .   | 30  |
| 7. Stock and bond market capitalisation . . . . .   | 31  |
| 8. International comparisons for fiscal outcomes . . . . .  | 33  |
| 9. Fiscal outcomes for the central government and the states . . . . .                                | 34  |
| 10. Public debt to GDP ratio under four stylized scenarios . . . . .                                  | 35  |
| 11. The marginal income tax rates kick in at high income levels . . . . .                             | 39  |
| 12. The combined statutory tax rate on international dividends payments is high, 2012 . . . . .       | 41  |
| 13. The investment rate has fallen . . . . .  | 42  |
| 14. Infrastructure should improve: the case of electricity . . . . .                                  | 44  |
| 15. Registering property takes time and is costly . . . . .   | 46  |
| 16. FDI: regulatory restrictiveness and inflows . . . . .   | 48  |
| 17. Too few jobs are created . . . . .  | 50  |
| 18. Employment protection legislation is stringent . . . . .  | 51  |
| 19. Too low literacy rate and public spending on education to reap the demographic dividend . . . . . | 54  |
| 20. Financial and human resources in the health care sector . . . . .                                 | 56  |
| 21. Impact of individual characteristics on financial inclusion in India and other BRIICS . . . . .   | 58  |
| 22. Spatial disparities are large . . . . .   | 60  |
| 23. Low productivity in the agricultural sector . . . . .   | 61  |
| 24. Air pollution in cities . . . . .   | 62  |
| 25. Green growth indicators for India . . . . .   | 63  |
| 1.1. Tax revenue is low . . . . .   | 77  |
| 1.2. The tax mix: indirect taxes and states' own taxes account for a large share . . . . .            | 78  |
| 1.3. The personal income tax raises little revenue . . . . .  | 82  |
| 1.4. The personal income tax has little redistributive impact . . . . .                               | 83  |
| 1.5. Corporate income tax: high statutory rate and many distortions . . . . .                         | 90  |
| 1.6. International aspects for the corporate income tax . . . . .                                     | 96  |
| 1.7. Unfinalised tax disputes in India, BRIICS and OECD countries . . . . .                           | 101 |
| 1.8. Tax administration capacity in India is comparatively low . . . . .                              | 102 |
| 2.1. Income inequality across states is large . . . . .   | 109 |
| 2.2. There is little evidence of catching up of lagging states . . . . .                              | 110 |
| 2.3. The rural/urban income divide is large . . . . .   | 111 |

|  |     |
|--|-----|
| 2.4. Access to public services: the rural/urban divide .....   | 112 |
| 2.5. Gaps in GDP per capita across states are largely due to productivity differences. ....                  | 115 |
| 2.6. Explaining growth pattern across states over the period 2000-01 to 2011-12..                            | 116 |
| 2.7. Agriculture: a key factor behind income dispersion across states .....                                  | 117 |
| 2.2. Prices of key agricultural products .....   | 118 |
| 2.3. Firms, employment, value added and productivity in organised and unorganised manufacturing. ....        | 121 |
| 2.10. Tax and spending autonomy of the states: India compared with 13 other federations .....                | 122 |
| 2.11. The quality of physical and social infrastructure varies significantly across states .....             | 126 |
| 2.12. Product market indicators and states' performance .....  | 128 |
| 2.13. Indian firms tend to be small .....  | 129 |
| 2.14. Some states do better than others in allocating resources across firms from the organised sector. .... | 129 |
| 2.15. The urbanisation process will accelerate .....   | 130 |
| 2.16. Potential urbanisation gains are not fully exploited. ....   | 132 |
| 2.17. Urbanisation challenges: infrastructure shortages and local air pollution. ....                        | 133 |

# OECD ECONOMIC SURVEYS

## AUSTRALIA

ISSN 0376-6438, e-ISSN 1609-7513

March 2017

[Consulta en línea desde MEYSS](#)

|   |    |
|---|----|
| <b>Basic statistics of Australia</b> .....  | 8  |
| <b>Acronyms</b> .....   | 9  |
| <b>Executive summary</b> .....  | 11 |
| <b>Assessment and recommendations</b> .....   | 15 |
| Macroeconomic developments and near-term prospects: post-boom<br>adjustment continues ..... | 20 |
| Monetary and financial-market policy: coping with low interest rates .....                  | 29 |
| Fiscal consolidation, tax and spending reform .....   | 35 |
| Encouraging business productivity and innovation through framework<br>conditions .....      | 41 |
| Encouraging productivity and innovation through R&D policy .....                            | 44 |
| Addressing inequality, enhancing inclusiveness and deepening skills .....                   | 49 |
| Tackling environmental challenges: progress in greenhouse-gas emission<br>policy .....      | 52 |
| Bibliography .....  | 55 |
| <b>Annex. Follow-up to previous OECD policy recommendations</b> .....                       | 57 |

### Thematic chapters

|   |    |
|---|----|
| <b>Chapter 1. Creating good conditions for innovation-driven productivity gains</b> .....             | 63 |
| Gauging Australia's productivity performance and innovation capacity .....                            | 64 |
| Enhancing productivity should be a core objective of innovation policy .....                          | 67 |
| Productivity-enhancing innovation can strengthen inclusiveness .....                                  | 70 |
| Specific policy issues for Australia .....  | 71 |
| Promoting competition and flexible markets .....  | 72 |
| Improving resource reallocation through firm dynamics .....   | 77 |
| Ensuring SME support is efficient and effective .....   | 79 |
| Ensuring intellectual property legislation rewards innovation without<br>compromising diffusion ..... | 81 |
| Facilitating internet-platform "disruptors" .....   | 82 |
| Ensuring access to low cost, high speed ICT .....   | 87 |
| Education and skills for innovation: what special measures can be taken? .....                        | 92 |
| Public-services innovation has potential to boost aggregate productivity<br>and well-being .....      | 93 |
| <i>Recommendations on framework conditions for innovation</i> .....                                   | 98 |
| Bibliography .....  | 99 |

|  |     |
|--|-----|
| Chapter 2. <b>Boosting R&amp;D outcomes</b> .....  | 101 |
| Innovation input is stronger than output .....   | 102 |
| Weak collaboration between research and business sectors remains<br>a key issue .....            | 110 |
| Policy levers for strengthening collaboration between the research<br>and business sectors ..... | 114 |
| Achieving greater commercial impact from Australia's public-sector research ...                  | 121 |
| Tax incentives form the core of Australia's financial support for business R&D ..                | 124 |
| Enhancing coherence and co-ordination in the science, research<br>and innovation system .....    | 130 |
| Strengthening the monitoring and evaluation of innovation programmes .....                       | 131 |
| <i>Recommendations on boosting R&amp;D outcomes.</i> .....                                       | 132 |
| Bibliography .....   | 133 |

## Boxes

|   |     |
|---|-----|
| 1. Progress on closing the outcome gaps between the indigenous population<br>and the rest of the population ..... | 18  |
| 2. Predicting downturn in the Australian economy using the OECD's<br>resilience database .....                    | 28  |
| 3. The macroprudential measures taken in 2014 .....   | 32  |
| 4. The National Science and Innovation Agenda .....   | 43  |
| 1.1. Influences on productivity trends in Australia .....   | 65  |
| 1.2. Links between R&D and productivity in Australian data .....  | 67  |
| 1.3. Australia's fee on foreign investment applications .....   | 75  |
| 1.4. Key elements of insolvency .....   | 79  |
| 1.5. The "Internet of Things" in the Australian context .....   | 88  |
| 1.6. Education programmes proposed in the <i>National Innovation<br/>and Science Agenda</i> .....                 | 92  |
| 1.7. Efforts to improve public-service input and output measurement continue ..                                   | 94  |
| 2.1. Australia's research system .....  | 103 |
| 2.2. Explaining changes in Australia's R&D, intensity versus composition .....                                    | 106 |
| 2.3. Australia's Cooperative Research Centres programme: an example<br>of strong collaborative research .....     | 113 |
| 2.4. The main features of the reform of the higher education research<br>arrangements .....                       | 115 |
| 2.5. The pros and cons of a "use it or lose it" scheme for publicly funded IP<br>in universities .....            | 120 |
| 2.6. CSIRO: main features .....   | 122 |
| 2.7. R&D Tax Incentive: main features .....   | 124 |
| 2.8. Innovation and Science Australia .....   | 130 |

## Tables

|   |    |
|---|----|
| 1. Macroeconomic indicators and projections .....   | 25 |
| 2. Extreme vulnerabilities for the Australian economy .....   | 29 |
| 3. Past OECD recommendations on monetary and financial stability .....  | 33 |
| 4. Fiscal indicators .....  | 36 |
| 5. Past OECD recommendations on maintaining fiscal prudence<br>and ensuring efficient tax and public spending ..... | 38 |

|   |    |
|---|----|
| 6. Selected tax measures proposed in the 2016-17 Budget .....   | 39 |
| 7. Past OECD recommendations on framework conditions for business .....   | 49 |
| 8. Past OECD recommendations on employment, health and welfare .....  | 51 |
| 9. Past OECD recommendations on environment policy .....  | 54 |
| 1.1. Recent measures to support innovative SMEs .....   | 80 |
| 1.2. Examples of size-criteria in SME support .....   | 81 |
| 1.3. Notable elements of the Productivity Commission's draft report<br>on Intellectual Property (released April 2016) ..... | 81 |
| 1.4. Development of Australia's mobile network operators .....  | 91 |
| 1.5. Examples of public-service policy initiatives in Australia .....   | 93 |

## Figures

|  |    |
|--|----|
| 1. GDP per capita is high and well-being indicators compare favourably .....   | 17 |
| 2. Productivity growth has slowed .....  | 18 |
| 3. Inequality has been rising .....  | 19 |
| 4. Australia's gender wage gap is larger than many .....   | 20 |
| 5. Output growth has weakened, unemployment is up, investment is down. ...   | 21 |
| 6. Rebalancing is seen in services exports, employment and migration .....   | 22 |
| 7. Consumer-price inflation and wage growth are slowing .....  | 23 |
| 8. Australia's gross foreign liabilities continue to grow but remain largely<br>denominated in AUD or are hedged ..... | 23 |
| 9. Total debt has increased and household debt is above average .....  | 24 |
| 10. China is Australia's largest trading partner .....   | 26 |
| 11. Non-commodity investment has yet to pick up .....  | 26 |
| 12. Macro-financial vulnerabilities have eased since the global financial crisis ..                                    | 27 |
| 13. Recent data suggest there is some risk of a downturn .....   | 28 |
| 14. Monetary policy remains accommodative, while fiscal deficits<br>are declining .....                                | 30 |
| 15. Housing market indicators show hints of a slowdown .....   | 31 |
| 16. Indicators of costs and risks in housing credit .....  | 32 |
| 17. Banking-sector resilience is being bolstered .....   | 34 |
| 18. Government expenditure, taxation and public-debt are comparatively low ..  | 35 |
| 19. Consolidation in the federal-government budget .....   | 36 |
| 20. Under the government's operational goal the debt-to-GDP ratio will be put<br>on a downward track .....             | 37 |
| 21. Increases in public spending compared with pre-crisis levels .....   | 37 |
| 22. The standard rate of Goods and Services Tax is low in international<br>comparison .....                            | 40 |
| 23. Australia's government investment is below the OECD average .....  | 41 |
| 24. Australia's advantage in lighter regulations has been eroded .....   | 42 |
| 25. Collaborative research is limited .....  | 45 |
| 26. Commercial impact could be strengthened .....  | 46 |
| 27. Tax support plays an important role in R&D policy and the cost is rising<br>rapidly .....                          | 47 |
| 28. Australia is falling behind leading countries in PISA results .....  | 51 |
| 29. Green growth indicators for Australia .....  | 53 |
| 30. Australia's greenhouse-gas emission reduction is now focused<br>on the target for 2030 .....                       | 54 |

|  |     |
|--|-----|
| 1.1. Australia has joined the productivity slowdown . . . . .  | 64  |
| 1.2. Investment in knowledge-based capital (KBC) is comparatively low . . . . .                          | 66  |
| 1.3. Influences on business-sector innovation and productivity . . . . .                                 | 68  |
| 1.4. Spending on imported intellectual property has become increasingly<br>important . . . . .           | 69  |
| 1.5. Structural factors and learning from the global frontier . . . . .                                  | 70  |
| 1.6. Australia's lead in lighter product market regulation has narrowed . . . . .                        | 74  |
| 1.7. Australia's services trade is least open in transport-related sectors . . . . .                     | 75  |
| 1.8. Indicators suggest Australia's export and import compliance costs<br>may be heavy . . . . .         | 76  |
| 1.9. Skill mismatch is comparatively high in Australia . . . . .   | 77  |
| 1.10. Policy reforms can help reduce skill mismatches . . . . .  | 78  |
| 1.11. Ride-sharing has prompted falls in taxi-licences values . . . . .                                  | 84  |
| 1.12. Australia's Airbnb market is well developed . . . . .  | 85  |
| 1.13. Australia's mobile telephony prices compare more favourably<br>than its broadband prices . . . . . | 88  |
| 1.14. Broadband speed and penetration are in the bottom half<br>of the OECD distribution . . . . .       | 89  |
| 1.15. Public procurement spending accounts for a significant share<br>of public spending . . . . .       | 94  |
| 1.16. Australia has already made good progress in making government data<br>widely available . . . . .   | 96  |
| 1.17. <i>OECD Recommendation on Digital Government Strategies</i> . . . . .                              | 97  |
| 2.1. There is scope to better match innovation input and output . . . . .                                | 102 |
| 2.2. Australian Government support for science, research and innovation<br>by sector, 2016-17 . . . . .  | 103 |
| 2.3. Research quality compares well internationally . . . . .  | 104 |
| 2.4. R&D trends and international comparisons . . . . .  | 105 |
| 2.5. Decomposition analysis on business R&D intensity . . . . .  | 106 |
| 2.6. R&D expenditure by source of funding . . . . .  | 107 |
| 2.7. Some critical innovation outcomes are low in international comparison . . . . .                     | 107 |
| 2.8. Australia's patent performance is below average . . . . .   | 108 |
| 2.9. Commercialisation outcomes are lagging behind . . . . .   | 109 |
| 2.10. Collaborative research is limited . . . . .  | 111 |
| 2.11. International collaboration performance is mixed . . . . .   | 112 |
| 2.12. Trends in CRC and funding composition of CO2CRC . . . . .  | 113 |
| 2.13. Higher education R&D expenditure by source of funding, 2014 . . . . .                              | 116 |
| 2.14. University R&D expenditure on engineering and technology is low . . . . .                          | 117 |
| 2.15. The commercial impact of public-sector research could be strengthened . . . . .                    | 123 |
| 2.16. Government support for business R&D: trends and international<br>comparisons . . . . .             | 125 |
| 2.17. Cost developments of the of R&D Tax Incentive . . . . .  | 126 |