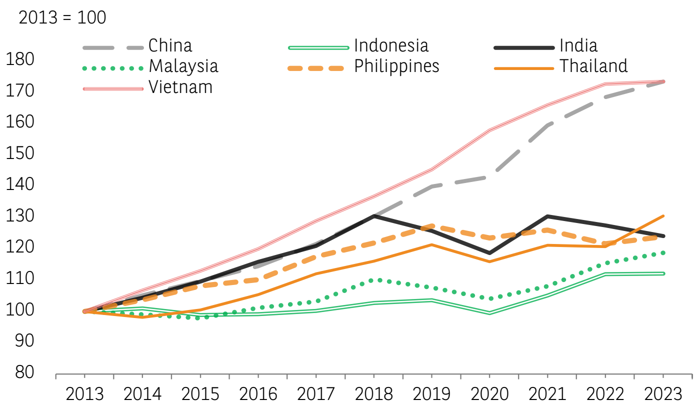
INDIA: JOB CREATION IS CONCENTRATED IN LOW-PRODUCTIVITY SECTORS, WHICH IS HINDERING GROWTH

Johanna Melka

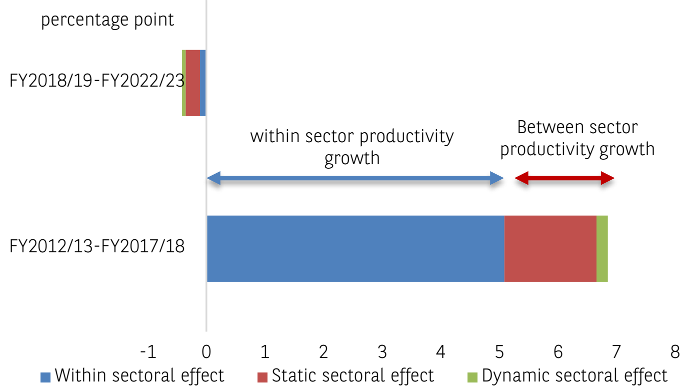
Between 2013 and 2018, India experienced robust productivity growth (increasing by a factor of 1.3, comparable to Vietnam, slightly lower than China, and higher than Indonesia, Malaysia, the Philippines and Thailand). However, from 2019 onwards, productivity in India has stagnated, while it has continued to rise in other countries (with the exception of the Philippines). This trend is particularly concerning given that GDP per capita remains low (in PPP, it was 2.4 times lower than that of China in 2024) and unemployment is high, especially among young people (15.6% in 2024 according to official data). Without a rapid increase in productivity, India could remain a 'middle-income' country.

PRODUCTIVITY GROWTH PER WORKER



SOURCE: WORLD PENN TABLE, BNP PARIBAS

INDIA: DECOMPOSITION OF LABOUR PRODUCTIVITY GROWTH



SOURCE: KLEMS, RBI, BNP PARIBAS

According to the Penn World Table, **productivity per worker in India** experienced a sharp growth during the period from 2013 to 2018 (averaging +5.5% annually). However, this growth slowed significantly to just 0.4% per year from 2019 to 2023 (after accounting for the impact of the pandemic). Robust job creation in recent years (+5.6% per year on average compared to 0.4% from 2013 to 2018) has not led to a significant increase in productivity.

During the fiscal years 2013 to 2018, 74% of labour productivity growth was due to an increase in intra-sectoral productivity, which was driven by improvements in labour quality, technology and/or better production organisation. Conversely, from FY2019-2023, this increase came to a halt and **shifts in labour between sectors led to a decline (in level) in intra-sectoral productivity. Not only did labour move to less productive sectors, but this move also led to a (slight) decrease in productivity in those sectors.**

In fact, between 2019 and 2023, employment experienced a more substantial increase in agriculture (+32.9%) and construction compared to manufacturing (+20.7%) and services (+14.6%), primarily due to the displacement of labour during the health crisis. However, almost 99% of these jobs are precarious, low-paid and have extremely low productivity levels. Furthermore, while productivity in the manufacturing and services sectors remains significantly higher than that in the agricultural and construction sectors, it stagnated during the period from 2018 to 2023.

According to KLEMS data from the RBI, the reduction in cross-sector productivity can be attributed to both a slower improvement in the quality of work and a deceleration in the growth of 'productive' capital stock (investment in machinery and equipment). The latest national labour force survey indicates that, on average, 56% of workers are not employed in jobs that match their skill levels, which adversely affects their productivity.

To significantly increase its development level, India must not only reform its agricultural sector to encourage the reallocation of labour to higher value-added sectors, but also improve the skill levels of its workforce. The implementation of new labour market laws since 21 November (enacted between 2019 and 2020) should foster job creation in productive sectors and reduce the share of informal employment.

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