

MAY 23, 2018
ISSUE NO: 13, FY19

NEW EPFO DATA SUGGESTS A 15% FORMALISATION RATE

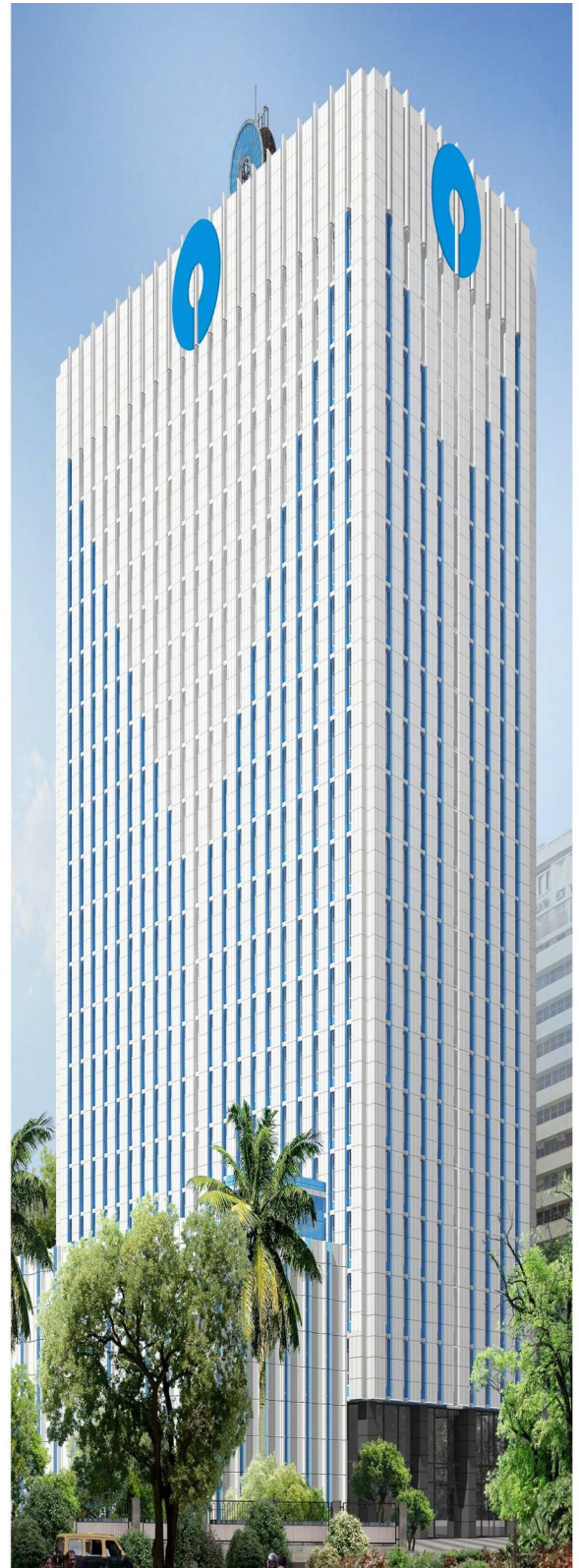
In April 2018, Government has released the first monthly payroll data as per the records of EPFO, NPS and ESIC. This was based on the recommendation given by Ghosh & Ghosh study. Continuing the trend, all the three agencies have now released the data for the 2nd month in succession for Mar'18.

As per EPFO data, total net new payroll created was 3.9 million for the period of Sep'17 to Mar'18. NPS contributed on an average 65,000 new payroll per month. The ESIC data is difficult to interpret as it is still evolving, still not fully Aadhaar linked and has overlaps with EPFO.

Most importantly, the ECR (Electronic Challan cum Return) data published by EPFO for the first time gives us a clear idea of the extent of formalization that is happening in the economy. As per the data, a total of 28,627 establishments remitted their first ECR during Sep'17 to Mar'18 period. This number is the proxy for existing organisations that migrated from less than 20 jobs. Thus, when we multiply the number of organisations with the EPFO cut-off / 20, this gives us the total payroll due to formalisation. This comes to 5.8 lakhs. Hence, the new employment (excluding formalisation) during Sep-Mar'18 is 33.6 lakh (39.3 lakh net of 5.7 lakh). This give us average formalisation of around 15%.

The EPFO data has also provided the data individually for states and industries also. This is in line with best practices worldwide. The state wise data shows that the top 10 states account for 85% of the new payroll created, after adjusting for formalisation. The top 10 industries also encompasses 84% of total new payroll.

I leave with some food for thought for the labour economists. US produces 2.5 million new jobs, has a population of 315 million with a working population of 200 million, translating into an 1.2% flow for stock with an annual growth of 2.5%. China produces 15 million new jobs out of 780 million stock- 2% of flow with an annual 6.5% growth. India with a conservative 480-500 million stock, of which adjusting for 45% of agriculture, the stock in manufacturing and services comes to 264-275 million. Even if we take 2% of such, we are perhaps producing at least 5.3-5.5 million new jobs annually. When the economy is growing in excess of 7%, is it too much or too less to expect?



PAYROLL REPORTING IN INDIA

In April 2018, Government has released the first monthly payroll data from Sep'17 to Feb'18 as per the records of EPFO, NPS and ESIC. This was based on the recommendation given by Ghosh & Ghosh study titled, "[Towards a Payroll Reporting in India \(Click Here for Full Report\)](#)". Continuing the trend, all the three agencies have now released the data for the 2nd month in succession for Mar'18. We believe hopefully this will now become a recurring monthly feature.

EPFO: Data from EPFO records indicate that new payroll generated during Sep'17-Mar'18 was around 3.93 million. The last month released data for the period of Sep'17 and Feb'18 has been revised significantly in upward direction, which may be due to the late return filed by the companies to EPFO.

- ◆ As per our recommendations in the last report to publish the industry-wise break-up of payroll data, EPFO has released the industry-wise data for the top 10 industries in each age-bucket. The top 10 industries are having around 85% share in total payroll of EPFO.
- ◆ There has also been debates in the public domain of the disproportionate share of EPFO in those seeking employment and EPFO to total employment stock. However, as the table below shows, using an employment ratio of 54% on 25 million babies that are born every year, the total number of people seeking employment is at 13.3 million. If we strictly, take the payroll in 18-25 age band net of formalisation, this is 3.3 million, 25% of those seeking employment. In contrast, if we take the share of active EPFO subscriber base at 60 million and compare it with the NSSO employment stock of 480 million (2012), it is at 12.5%, not widely different from 25%. We believe increased share of EPFO may be due to the better formalisation of jobs and the no of registered companies going up.

NPS: As per the NPS data around 4.65 lakh PRAN generated (or new payroll) during Sep'17 to Mar'18 period, with an average generation of 66,450 per month. The NPS data are the final data and there is no subsequent revisions.

- ◆ In the data, NPS released that the Central and State Autonomous Bodies are shown under Central & State Government respectively, while "Non-Govt." refers to "Corporate sector employees". The Non-Govt. payroll data may not necessarily represent new employment as there may be some persons who were in employment earlier but have opened PRAN recently. In all the 3 groups, only Tier I Active NPS accounts are considered for the analysis. NPS currently manages corpus of 57.9 lakh people in State and Central Government.

ESIC: The ESIC data is difficult to interpret as it is still evolving, still not fully Aadhaar linked and has overlaps with EPFO. In principle, EPFO is exactly synonymous with opening of a unique bank account, and hence is easy to measure. In contrast, ESIC being an insurance based scheme is a cost on the employer and is primarily driven by risk perception and hence may still be discretionary. Thus, there are more chances of exits as well as entries. Nevertheless, we believe that the stock of active contributors in ESIC could give us an idea of new payroll created over a point in time.

Revised EPFO Payroll Data			
	Provisional	Revised	Change
Sep-17	435283	579089	143806
Oct-17	393904	371692	-22212
Nov-17	647019	632280	-14739
Dec-17	557633	535859	-21774
Jan-18	604557	614369	9812
Feb-18	472075	589034	116959
Mar-18	-	613134	-
Total	3110471	3935457	211852

Source: EPFO; SBI Research

Formalisation may have increased EPFO's Share in Employment (in Million)	
Number of babies born in 2001, who will come into labour force by 2017/18	24.8
Labour force Participation Rate (2017, World Bank)	53.8%
Total People seeking Employment (24.8*53.8%)	13.3
EPFO new payroll in 18-25 age band	3.3
EPFO/Total Seeking Employment (3.3/13.3*100)	25%
Share of EPFO in Total (60 million/480 million*100)	12.5%

Source: SBI Research

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- ◆ Since the release of Ghosh & Ghosh study, it has been a matter of great debate of how much formalisation has happened in the economy? Hence how much actually new jobs added in the system?
- ◆ One of the constructive criticisms of the EPFO data is that not all payrolls are new and some are existing. In principle, organisation having more than 20 employees in any year and migrating from <20 jobs will count all these jobs as new, and to that extent EPFO payroll data is only a rehash of existing jobs.
- ◆ The ECR (Electronic Challan cum Return) data published by EPFO for the first time gives us a clear idea of the extent of such formalisation that has happening in the economy. As per the data, a total 28,627 establishments remitted their first ECR during Sep'17 to Mar'18 period. This number is the proxy for existing organisations that migrated from less than 20 jobs. Thus, when we multiply the number of organisations with the EPFO cut-off / 20, this gives us the total payroll due to formalisation. This comes to 5.8 lakh. Hence, the new employment (excluding formalisation) during Sep'17-Mar'18 is 33.6 lakh (39.3 lakh net of 5.7 lakh). This give us average formalisation of around 15%. However, if we exclude the ECR numbers of Feb'18 and Mar'18 (as these numbers are provisional) than the formalisation ratio is higher at 18%. Even for the sake of argument, we put this formalisation rate at 20%, the new payroll still counts at 31.5 lakh! This effectively puts to rest the fallacy of the continued debate of EPFO of not being an employment data, and merely a reflection of formalisation!
- ◆ The EPFO data has also provided the data individually for states and industries also. This is in line with best practices worldwide, or in fact a step ahead of US payroll data that gives out payroll data only per industries and not states. The state wise data shows that the top 10 states account for 85% of the new payroll created, after adjusting for formalisation. The good thing is while apart from Maharashtra, states like West Bengal, Karnataka, Uttar Pradesh and Rajasthan etc. are now in top 10. This is a welcome trend, as it indicates a broad based payroll creation across Pan-India.
- ◆ Industry-wise analysis give some interesting facts. Expert services comprises of 50% to total new payroll followed by Building and Construction industry at 8%. The top 10 industries again encompasses 84% of total new payroll. Textiles and Garments making constitute 5% of the share, indicating that the industry is coming on steam after the initial hiccups following GST. Given the employment elasticity of Construction and Textiles, this is indeed a welcome trend.

Formalisation of Employment (EPFO data)					
Month	New Payroll	Establishments remitting first ECR	Total Formalisation	New Payroll	Share of Formalisation
A	B	C	D = C*20	E = B-D	F=D/B
Sep-17	579089	4960	99200	479889	17%
Oct-17	371692	4805	96100	275592	26%
Nov-17	632280	5095	101900	530380	16%
Dec-17	535859	4195	83900	451959	16%
Jan-18	614369	4685	93700	520669	15%
Feb-18	589034	2903	58060	530974	10%
Mar-18	613134	1984	39680	573454	6%
Total	3935457	28627	572540	3362917	15%

Source: EPFO; SBI Research

EPFO-State-wise New Payroll (in lakh)				
States	Total Payroll	Formalisation	New Payroll	Share
Maharashtra	8.2	1.2	7.0	21%
Tamil Nadu	4.7	0.7	4.0	12%
Gujarat	3.9	0.6	3.4	10%
Haryana	3.3	0.5	2.8	8%
Karnataka	2.9	0.4	2.5	8%
Delhi	2.8	0.4	2.4	7%
Andhra Pradesh	2.7	0.4	2.3	7%
Uttar Pradesh	1.9	0.3	1.6	5%
West Bengal	1.6	0.2	1.3	4%
Rajasthan	1.5	0.2	1.3	4%
Top 10	33.4	4.9	28.6	85%
Grand Total	39.4	5.7	33.6	100%

Source: EPFO; SBI Research

EPFO Industry-wise New Payroll (in lakh)				
Industry	Total Payroll	Formalisation	New Payroll	Share
Expert Services	19.59	2.88	16.70	50%
Building And Construction Industry	3.22	0.48	2.74	8%
Engineers - Engg. Contractors	2.77	0.43	2.35	7%
Trading - Commercial Establishments	2.22	0.32	1.91	6%
Elec, Mech Or Gen Engg Products	1.78	0.24	1.55	5%
Textiles	1.40	0.20	1.20	4%
Cleaning,Sweeping Services	0.63	0.10	0.53	2%
Manufacture, Marketing Servicing, Usage Of Computers	0.51	0.08	0.43	1%
Garments Making	0.48	0.06	0.43	1%
Hospitals	0.48	0.07	0.41	1%
Top 10	33.1	4.8	28.2	84%
Grand Total	39.4	5.7	33.6	100%

Source: EPFO; SBI Research

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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