

## IMPLEMENTATION OF NEW LABOUR CODES WILL BOOST THE SHARE OF FORMALISATION IN LABOUR FORCE BY AT LEAST 15%, SOCIAL SECTOR COVERAGE TO 85%, BOOST EMPLOYMENT BY 77 LAKHS & BOOST CONSUMPTION BY RS 75,000 CRORES OVER THE MEDIUM TERM

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The implementation of new labour codes will empower both workers and enterprises, building a workforce that is protected, productive and aligned with the evolving world of work — paving the way for a more resilient, competitive and self-reliant nation. There are primarily 4 tangible benefits that will accrue as the labour codes are implemented.

- ◆ In India, approx. ~44 crore people are working in unorganized sector. Out of which around ~31 crore unorganized workers registered under e-shram portal. By assuming 20% will shift from informal pay-roll to formal payroll, it will benefit around 10 crore beneficiaries. **With this we expect, India's social security coverage may reach 80-85% in the next 2/3 years.**
- ◆ According to the PLFS dataset, the share of formal workers in India is estimated to be 60.4% . We estimate a 15.1% increase in the formalization rate post the implementation of 4 labour codes pushing labour market **formalization to 75.5%.**
- ◆ India's new Labour Codes after a short transition phase could reduce unemployment by upto **1.3% over the medium term, depending on reform implementation, firm-level adjustment costs, and complementary state-level rules. This would imply additional employment generation of 77 lakh people based on current labour force participation rate (15 yrs +) at 60.1% and average working age population at 70.7% across rural and urban workforce.**
- ◆ **With a saving rate of approx. 30%, the implementation will result in a consumption boost ~ Rs 66 per person per day post implementation. This could lead to an approx. consumption boost of Rs 75,000 crore. Thus, the labour codes implementation is poised to give a major boost to consumption as well.**

### INDIA IMPLEMENTS NEW LABOUR CODES FOR A RESILIENT BHARAT

- ◆ On November 21, 2025, Government has implemented the 4-comprehensive Labour Codes , which were enacted by Parliament in 2019 and 2020. These codes: (i) the Code on Wages, 2019; (ii) the Industrial Relations Code, 2020; (iii) the Code on Social Security, 2020 and (iv) the Occupational Safety, Health and Working Conditions Code, 2020.
- ◆ These codes are being prepared by rationalising 29 existing labour laws, which were framed pre-independence at a time when the economy and world of work were fundamentally different. Over the years, the working conditions has changed but the labour laws remained obsolete. With the changing needs of the economy, Government has implementation the four Labour Codes to move beyond colonial-era structures and align with modern global trends.
- ◆ Together, these Codes empower both workers and enterprises, building a workforce that is protected, productive and aligned with the evolving world of work — paving the way for a more resilient, competitive and self-reliant nation.

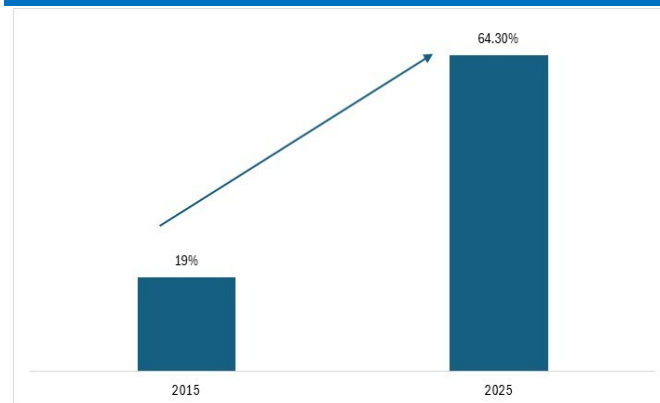
India's Labour Ecosystem: A Comparison		
	Pre Labour Reforms	Post Labour Reforms
Formalisation of Empt.	No mandatory appointment letters	Mandatory appointment letters to all workers.
Social Security	Limited Social Security	All workers including gig & platform workers to get social security coverage (PF, ESIC, insurance, and other benefits)
Minimum Wages	Min wages applied only to scheduled industries; large sections of workers remained uncovered	All workers to receive a statutory right minimum wage payment.
Preventive Healthcare	No legal requirement for employers to provide free annual health check-ups to workers	Employers must provide all workers above the age of 40 years with a free annual health check-up.
Timely Wages	No mandatory compliance for employers' payment of wages	Mandatory for employers to provide timely wages, ensuring financial stability
Women workforce participation	Women's employment in night shifts and certain occupations was restricted	Women are permitted to work at night and in all types of work across all establishments, subject to their consent and required safety measures
Compliance Burden	Multiple registrations, licenses and returns across various labour laws.	Single registration, PAN-India single license and single return.
Source: PIB, Ministry of Labour & Employment , SBI Research		

- ◆ As per ILO, India's social-security coverage has increased to 64.3% in 2025 from 19% of the workforce in 2015, which reflects India ensures protection and dignity of the workers in the country. With the implementation of the 4-Labour Codes marks the next major step in this trajectory, further widening the social-security net and embedding portability of benefits across states and sectors.
- ◆ However, the take home salary may reduce as the retirement benefits will increase, along with wage code mandated that basic salary will be at least 50% of CTC.
- ◆ In India, approx. ~44 crore people are working in unorganized sector. Out of which around ~31 crore unorganized workers registered under e-shram portal. By assuming 20% will shift from informal pay-roll to formal payroll, it will benefit around 10 crore beneficiaries. **With this we expect, India's social security coverage may reach 80-85% in the next 2/3 years.**
- ◆ Though, the new codes will escalates the cost of operation for the employers but will reduce compliance burden substantially. The industrial relations code, 2020 has reduced number of rules to 51 from 105, forms to 18 from 37 and registers to zero from 3, thereby will reduce the overall compliance burden to spur employment, which will help India to reach Viksit Bharat by 2047.

#### INDIA'S FORMALISATION RATE

- ◆ To quantify the expected impact of the Labour Codes on formalization, we apply a standard elasticity framework. According to the PLFS dataset, the share of formal workers in India is estimated to be 60.4% (Informal workers are taken as % of regular wage/ salaried employees without written job contract, not eligible for paid leave, not eligible for SSB).
- ◆ Let  $F_0$  denote the baseline formalization rate (0.64), and let  $\epsilon$  represent the reform elasticity of formal employment. Empirical labour-market studies for developing economies estimate reform elasticity between 0.20 and 0.30. (Dougherty, 2015). Taking  $\epsilon=0.25$  and interpreting the four Labour Codes as a single unit reform shock ) the predicted change can be estimated as  $\Delta F=\epsilon \times F_0$ .
- ◆ This implies a 15.1% increase in the formalization rate post the implementation of 4 labour market reform poised to reduce the compliance burden. **Hence, we believe that post labour laws implementation, based on PLFA data, formalization is likely to increase to 75.5%.**

#### Social Security Coverage (%)



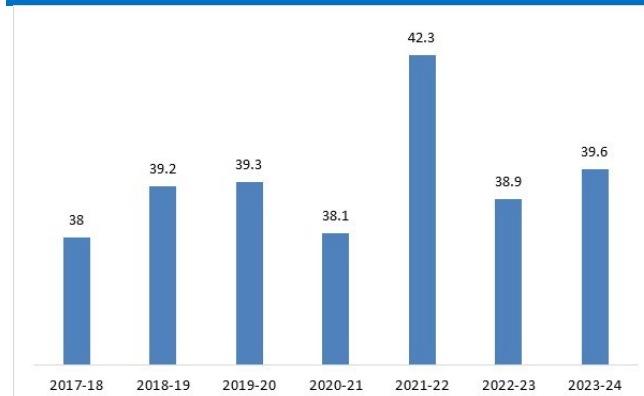
Source: PIB, SBI Research;

#### Insurance & Pension Schemes: Status So Far (in crores)

Scheme		Enrollments
Insurance	PMSBY	51.73
	PMJJBY	23.98
	PMMY	52.07
	PMJDY	55.69
Pension	APY	7.89
	PM-SYM	0.47
	PM-KMY	0.21
	NPS-Traders ('000)	60

Source: DFS, Ministry of Labour & Empt, SBI Research

#### % of regular wage/ salaried employees without written job contract, not eligible for paid leave, not eligible for SSB



Source: PLFS; SBI Research;

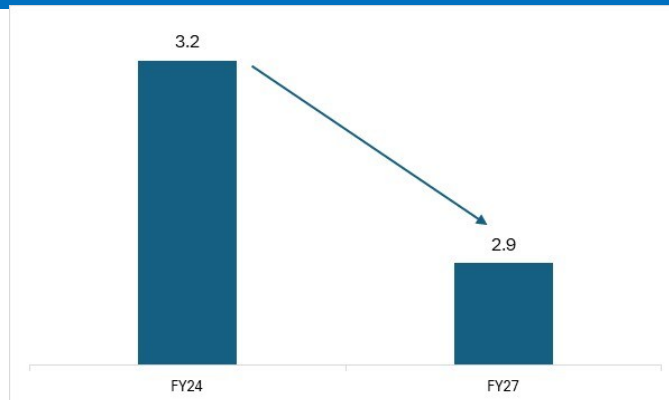
### IMPACT ON EMPLOYMENT

- ◆ India's Labour Codes is expected to generate a dynamic employment response with possibility of short-run frictions followed by medium-run gains as compliance costs fall and formal hiring expands.
- ◆ Easing rigidities is expected to lead to a rise in organized-sector employment by 1.0–2.2% over the medium term (Almeida & Poole, 2017).
- ◆ Application to India's current unemployment rate of 3.2% yields plausible scenarios:
- ◆ **Scenario-1:** Conservative scenario: Using the lower-bound 0.5% employment gain from labour reforms, unemployment could fall by 0.28%, reaching around 2.9%;
- ◆ **Scenario-2:** Using the mid-range 1% employment gain unemployment may decline by 0.57% to 2.6%
- ◆ **Scenario-3:** Optimistic scenario: Applying the 2% gain, unemployment could reach to 1.9%.
- ◆ **This would imply additional employment generation of around 77 lakh people based on current labour force participation rate at 60.1% and average working age population at 70.7% across rural and urban workforce.**
- ◆ Thus, it is estimated that India's new Labour Codes after a short transition phase could reduce unemployment by 0.3% to 1.3% over the medium term, depending on reform implementation, firm-level adjustment costs, and complementary state-level rules.

### IMPACT ON WAGES AND CONSUMPTION

- ◆ The current Minimum wage rate in India is Rs 546 per capita per day. This includes average wage across all categories of workers and all areas (A, B ,C) of the workers. The average wage as reported by ILO is Rs 451 per capita per day. With the "Code on Wages" implemented, all workers will be entitled to the minimum wage rate.
- ◆ **This would imply that disposable income of workers on an average may rise by Rs 95 per day post implementation of the labour codes.**
- ◆ **With a saving rate of approx. 30%, this would lead to a consumption boost ~ Rs 66 per person per day post implementation. This could lead to an approx. consumption boost of Rs 75,000 crore.** Thus, the labour codes implementation is poised to give a major boost to consumption as well.

### Reduction in Unemployment rate due to Labour code implementation



Source: PLFS; SBI Research

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