

## Aggregate demand and its composition

1.17 The most important contribution to demand growth during the Tenth Five Year Plan period (2002-07) had come from investment, while the external trade made negligible or negative contribution. During the Tenth Five Year Plan the contribution of gross capital formation was higher than consumption.

1.18 This pattern changed in 2007-08 when the growth on the demand side was driven mainly by consumption (Table 1.3). The contribution of consumption stood at 61.8 per cent while that of gross capital formation at 55.7 per cent. In 2008-09 the contribution of consumption stood at 59.5.

## Consumption

1.19 The contribution of private consumption to aggregate growth declined dramatically from 53.8 per cent in 2007-08 to 27 per cent in 2008-09. This decrease was cushioned by an increase in the contribution to growth by government consumption expenditure from a level of 8 per cent in 2007-08 to a level of 32.5 per cent in 2008-09. Consequently the overall contribution of consumption demand to growth was only marginally lower than that in 2007-08. This helped cushion the fall in economic growth on

account of the worsening of the external trade account.

1.20 The share of private consumption in GDP at market prices has been on a declining trend during 2002-03 to 2008-09. It stood at 63.7 per cent in 2002-03 and declined to around 57 per cent in 2007-08. Private consumption expenditure had a share of 55.5 per cent of GDP in 2008-09 while government consumption expenditure accounted for about 11 per cent. The share of gross capital formation in the GDP has been on a rising trend, increasing from 27 per cent in 2003-04 to 36.2 per cent in 2007-08, supported mainly by an increase in gross fixed capital formation.

## Consumption basket

1.21 Private final consumption expenditure at constant prices grew at 8.1 per cent per annum in 2007-08 as compared to 6.4 per cent in 2006-07. This higher growth was attributable to higher increase in growth in consumption expenditure on food, beverages & tobacco, clothing and footwear, and on miscellaneous goods and services that neutralized the decrease in growth of consumption expenditure on furniture, furnishings, medical care

**Table 1.3 : Demand side growth in GDP, growth contribution and relative share (figures in per cent at 1999-00 market prices)**

	Growth of GDP					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GDP at market prices	8.4	8.3	9.3	9.7	9.1	6.1
Consumption (pvt.)	5.9	5.2	7.1	6.3	8.5	2.9
Consumption (Govt)	2.6	3.6	6.2	5.5	7.4	20.2
Gross capital formation	17.6	21.8	19.5	13.2	14.7	na
Gross fixed capital formation	13.6	18.9	17.6	14.5	12.9	8.2
Change in stocks	-8.0	140.1	61.9	5.4	51.7	2.9
Exports	9.6	27.2	17.6	21.1	2.1	12.8
Imports	13.8	22.2	41.1	24.5	6.9	17.9
	Contribution to growth (per cent)					
Consumption (pvt.)	45.1	38.8	46.3	38.7	53.8	27.0
Consumption (Govt)	3.6	4.8	7.1	5.8	8.0	32.5
Gross capital formation	52.4	71.3	63.8	45.6	55.7	na
Gross fixed capital formation	38.4	56.4	51.3	43.9	43.6	42.5
Net exports	-6.3	10.1	-41.1	-13.2	-14.0	-29.5
	Relative share (per cent)					
Consumption (pvt.)	62.3	60.5	59.3	57.5	57.2	55.5
Consumption (Govt)	11.1	10.6	10.3	9.9	9.8	11.1
Gross capital formation	27.1	30.5	33.3	34.4	36.2	na

Source : Central Statistical Organisation.

Note : Does not add to 100 because only major items are included in the table.

**Table 1.4 : Private final consumption expenditure by items in domestic demand – annual growth and share at 1999-00 prices (in per cent)**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Annual growth</b>					
Food, beverages & tobacco	4.7	0.9	7.4	4.6	6.4
Clothing & footwear	-2.4	4.7	11.7	3.8	8.6
Gross rent, fuel & power	3.3	3.6	3.1	3.0	3.4
Furniture, furnishings etc.	8.1	12.2	11.6	11.6	9.9
Medical care & health services	3.3	12.5	11.0	9.5	7.3
Transport & communication	11.4	10.2	-0.4	8.8	7.4
Recreation, education & cultural services	12.0	13.9	11.4	12.9	12.2
Miscellaneous goods & services	9.5	12.4	11.8	8.8	17.6
<b>Total private consumption</b>	<b>6.0</b>	<b>5.5</b>	<b>6.8</b>	<b>6.4</b>	<b>8.1</b>
<b>Share of total (per cent)</b>					
Food, beverages & tobacco	45.5	43.5	43.8	43.0	42.3
Clothing & footwear	5.1	5.1	5.3	5.2	5.2
Gross rent, fuel & power	10.7	10.5	10.2	9.8	9.4
Furniture, furnishings etc.	3.4	3.6	3.8	4.0	4.0
Medical care & health services	5.1	5.4	5.6	5.8	5.7
Transport & communication	16.4	17.2	16.0	16.4	16.3
Recreation, education & cultural services	4.0	4.3	4.5	4.8	5.0
Miscellaneous goods & services	9.8	10.4	10.9	11.1	12.1
<b>Total Private Consumption</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

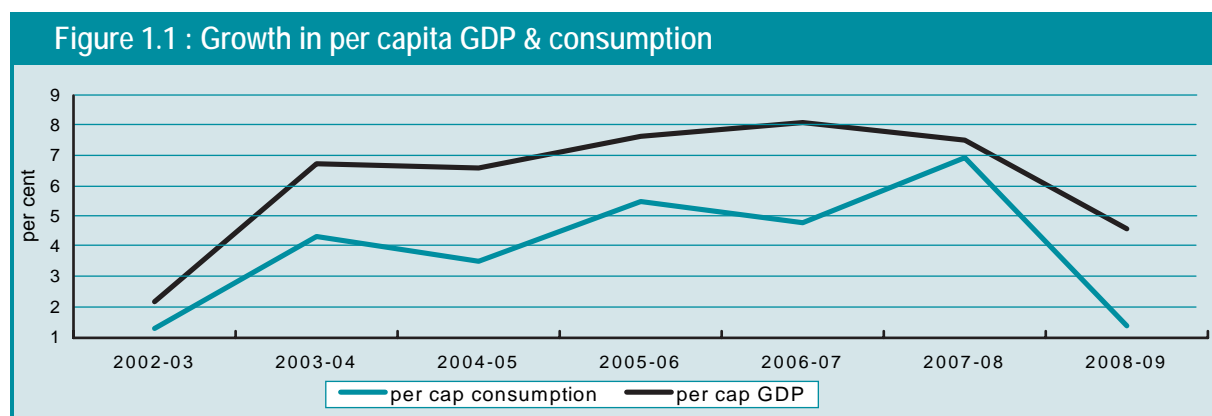
Source : Central Statistical Organisation.

and health services, transport and communication (Table 1.4). The expenditure on food and beverages constituted 42.3 per cent of total private consumption expenditure followed by transport and communication with a share of 16.3 per cent. The 1.1 per cent point decline in share of food in 2007-08 from the 43.4 per cent average of the previous three years is consistent with the view that (via Engel elasticity) the poorer half of the population may also be sharing in the growth.

### Per capita income and consumption

1.22 The per capita income in 2008-09, measured in terms of gross domestic product at constant

1999-2000 market prices, was Rs. 31,278. In 2007-08 this stood at Rs. 29,901. Per capita consumption in 2008-09 was Rs. 17,344 as against a level of Rs. 17,097 in 2007-08. While there has been an increase in levels of per capita income and consumption, there has been a perceptible slowdown in their growth rate (Figure 1.1). The growth in per capita GDP decelerated from 8.1 per cent in 2006-07 to 4.6 per cent in 2008-09, while the per capita consumption growth declined from 6.9 per cent in 2007-08 to 1.4 per cent in 2008-09.



**Table 1.5 : Ratio of savings and investment to GDP (% at current market prices)**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Gross domestic saving</b>	<b>29.8</b>	<b>31.7</b>	<b>34.2</b>	<b>35.7</b>	<b>37.7</b>
Public sector	1.1	2.2	2.4	3.3	4.5
Private sector	28.7	29.5	31.8	32.4	33.2
Household sector	24.1	22.8	24.1	24.1	24.3
Financial saving	11.4	10.1	11.7	11.7	11.7
Saving in physical assets	12.7	12.7	12.4	12.4	12.6
Private corporate sector	4.6	6.7	7.7	8.3	8.8
<b>Gross capital formation (investment)</b>	<b>27.6</b>	<b>32.1</b>	<b>35.5</b>	<b>36.9</b>	<b>39.1</b>
Public sector	6.3	6.9	7.6	8.0	9.1
Private sector	19.6	23.4	26.1	27.2	28.5
Corporate sector	6.8	10.8	13.7	14.8	15.9
Household sector	12.7	12.7	12.4	12.4	12.6
<b>Gross fixed capital formation</b>	<b>25.0</b>	<b>28.4</b>	<b>31.0</b>	<b>32.5</b>	<b>34.0</b>
Stocks	0.9	1.9	2.6	2.6	3.6
Valuables	0.9	1.3	1.2	1.2	1.1
<b>Saving investment gap</b>					
Public sector	-5.3	-4.7	-5.2	-4.6	-4.6
Private sector	9.2	6.1	5.7	5.2	4.7
Household sector	11.4	10.1	11.7	11.7	11.7
Private corporate sector	-2.2	-4.0	-6.0	-6.5	-7.0

Source : Central Statistical Organisation.

Note : Totals may not tally due to adjustment for errors and omissions

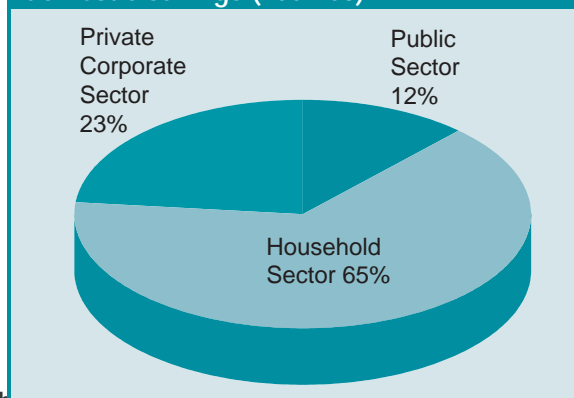
### Savings and investment

1.23 A notable feature of the growth of the Indian economy from 2002-03 has been the rising trend in the gross domestic capital formation (GDCF). Gross capital formation (GCF), which was 25.2 per cent of the GDP in 2002-03, increased to 39.1 per cent in 2007-08. Much of this increase is attributable to a rise in the rate of investment by the corporate sector. The rise in the rate of investment has been on account of various factors, the most important being the transformation in the investment climate, coupled with an optimistic outlook for the growth prospects for the Indian economy.

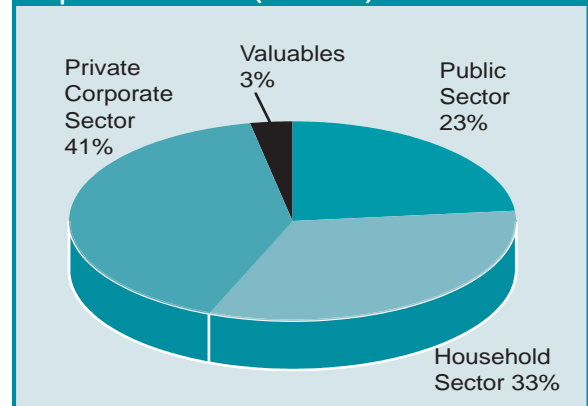
### Gross domestic savings

1.24 The growth in capital formation in recent years has been amply supported by a rise in the savings rate. The gross domestic savings as a percentage of GDP at current market prices stood at 37.7 per cent in 2007-08 as compared to 29.8 per cent in 2003-04 (Table 1.5). Private sector savings dominated the total savings in 2007-08 and were at 33.2 per cent of GDP. Of this, the household sector savings was 24.3 per cent of GDP while the private corporate sector accounted for 8.8 per cent. Savings by the public sector was 4.5 per cent of GDP. The composition of savings by sectors as percentage of the gross domestic saving is shown in Figure 1.2(i) Figure 1.2(ii).

**Figure 1.2(i) : Sectoral share in domestic savings (2007-08)**



**Figure 1.2(ii) : Sectoral share in gross capital formation (2007-08)**



**Table 1.6 : Sector investment growth rates (at constant 1999-00 prices)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture, forestry & fishing	-3.8	8.0	14.2	10.9	8.2
Agriculture	-4.2	9.7	14.8	11.0	8.3
Forestry & logging	80.3	-47.4	25.6	19.3	-3.5
Fishing	-10.4	9.5	9.5	9.5	9.4
Mining & quarrying	69.2	53.9	0.6	-5.8	25.5
Manufacturing	22.5	54.6	22.7	17.8	13.3
Registered	13.9	64.1	32.7	16.3	17.3
Unregistered	41.6	37.8	1.3	21.9	2.9
Electricity, gas & water supply	22.8	-8.4	36.1	15.2	3.6
Construction	27.6	19.9	29.9	25.4	16.1
Trade, hotels & restaurants	167.4	4.9	-5.0	31.0	4.9
Trade	228.6	-3.9	-6.3	41.7	1.2
Hotels & restaurants	56.4	38.4	-1.7	3.8	17.3
Transport, storage & communication	-2.9	14.5	41.7	11.6	29.6
Railways	5.2	3.4	12.8	14.7	24.8
Transport by other means	10.2	16.0	-10.6	9.6	43.0
Storage	-12.2	-124.6	-158.6	8.5	-39.4
Communication	-47.1	36.1	348.1	13.0	16.4
Financing, insurance, real estate & business services	0.8	-11.4	19.4	1.1	15.6
Banking & insurance	71.7	-35.6	69.2	35.2	21.0
Real estate, ownership of dwellings & business services	-1.4	-10.1	17.5	-0.8	15.2
Community, social & personal services	2.9	22.6	-0.9	13.1	21.8
Public administration & defence	-0.7	18.4	25.0	13.0	23.9
Other services	8.5	28.3	-33.6	13.4	16.8
<b>Total</b>	<b>12.9</b>	<b>22.3</b>	<b>20.0</b>	<b>13.9</b>	<b>15.6</b>

### Capital formation

1.25 The gross capital formation (adjusted) as a percentage of GDP steadily moved up from 27.6 per cent in 2003-04 to 39.1 per cent of GDP in 2007-08. There has been an increase in the rate of investment in both the public and private sectors. For the public sector, the gross investment rate rose from 6.3 per cent in 2003-04 to 9.1 per cent in 2007-08 and for the private sector from 19.6 per cent in 2003-04 to 28.5 per cent in 2007-08. Within the private sector, the share of the household sector has remained at the same level. However, the share of the corporate sector steadily increased to touch 15.9 per cent of GDP in 2007-08. The sectoral composition of gross domestic capital formation is shown in Figure 1.2ii.

1.26 It is also pertinent to note that the overall increase in investment has come about mainly from a rise in the rate of gross fixed investment. Gross fixed investment which was 25.0 per cent of GDP in

2003-04 increased to 34.0 per cent in 2007-08.

1.27 The saving investment gap in the public sector stood at (-) 5.3 per cent in 2003-04 that moderated to (-) 4.6 per cent in 2007-08. This reflected the narrowing gap between public sector capital formation and public sector gross domestic savings. For the household sector the gap has remained more or less constant reflecting no major change in the saving investment balance. In the case of the private corporate sector however, the saving investment gap widened to (-) 7.0 per cent in 2007-08 reflecting the high rate of capital formation over and above their internal savings.

### Sectoral investment

1.28 The overall rate of growth of capital formation at constant prices was 15.6 per cent in 2007-08 as compared to 13.9 per cent in 2006-07. The growth rate of gross capital formation in different sectors is

indicative of the direction of fresh investment. The rate of growth of capital formation during 2007-08 (as compared to 2006-07) increased in mining and quarrying, transport storage and communication, financing, insurance, real estate and business services and community personal and social services. However, the growth rate of gross capital formation slowed down during 2007-08 (in agriculture, manufacturing, electricity, gas and water supply, construction, and trade, hotels and restaurants) (Table 1.6).

1.29 At the disaggregated level, within the manufacturing sector there was an increase in the

rate of growth of gross capital formation in the registered manufacturing sector, whereas in the unregistered manufacturing sector the rate of growth of gross capital formation declined to 2.9 per cent in 2007-08 as against a growth of 21.9 per cent in 2006-07. Within the trade, hotels and restaurants, trade recorded a decline in the rate of growth of gross capital formation to 1.2 per cent in 2007-08 as against a level of 41.7 per cent in 2006-07. Within the group transport, storage and communication, railways recorded an increase to 24.8 per cent in 2007-08 from a level of 14.7 per cent in 2006-07. However, storage saw negative growth in its capital formation in 2007-08.