

(b) Consumption, savings and investment

1.32 Private final consumption expenditure, at constant 1993-94 prices, increased by Rs.30,507 crore or 3.5 per cent in 2002-03 compared to an increase of Rs 47,099 crore (5.7 per cent) in 2001-02 (Table 1.3). This growth at a rate lower than that of GDP meant that private final consumption as a proportion of GDP at current market prices declined from 65.5 per cent in 2001-02 to 64.4 per cent in 2002-03. The decline in private final consumption in 2002-03 was mainly on account of lower expenditure on cereals, which declined from Rs.1,58,621 crore in 2001-02 to Rs.1,24,560 crore in drought-affected 2002-03, and reduced the share of food, beverages and tobacco in total consumption by 2.6 percentage points to 44.8 per cent. Among other major categories of consumption, share of clothing and footwear, gross rent, fuel and power, medical care and health services, transport and communication and miscellaneous goods and services increased marginally, while the share of furniture, furnishings, appliances and services, and recreation, education and cultural services remained unchanged between 2001-02 and 2002-03.

1.33 In 2002-03, gross and net domestic savings at current prices grew by 11.7 per cent and 14.2 per cent respectively. Gross domestic savings as a proportion of GDP at

current market prices increased from 23.5 per cent in 2001-02 to 24.2 per cent in 2002-03 (Table 1.4). Net domestic savings as a proportion of NDP also increased, from 15.4 per cent in 2001-02 to 16.2 per cent in 2002-03. In 2002-03, as a proportion of GDP, there was a marginal reduction in the gross savings of the household and the private corporate sectors, which are the mainstay of overall savings in the economy. The share of financial savings in total household savings declined from 49.0 per cent in the previous year to 45.5 per cent in 2002-03, while the share of savings in physical assets increased from 51.0 per cent to 54.5 per cent.

1.34 The increase in the overall saving rate in 2002-03 was on account of a decline in the dissavings of the public sector to 1.9 per cent of GDP in 2002-03 from 2.7 per cent in the previous year. Dissavings of the public sector declined from Rs.62,704 crore in 2001-02 to Rs.45,730 crore in 2002-03. Between 2001-02 and 2002-03, savings of departmental enterprises increased from Rs.1,023 crore to Rs.2,339 crore, and those of non-departmental undertakings from Rs.75,035 crore to Rs.91,909 crore.

1.35 Gross domestic capital formation (GDCF) at constant prices grew by 7.6 per cent in 2002-03. GDCF as a proportion of GDP at 1993-94 market prices was marginally higher at 25.8 per cent in 2002-03 compared with 25.1 per cent in 2001-02 (Table 1.5), with

Table 1.3 : Disposition of gross domestic product (GDP)

Component	Percentage change over the previous year									
	(at current prices)					(at 1993-94 prices)				
	1998-99	1999-2000	2000-01	2001-02P	2002-03Q	1998-99	1999-2000	2000-01	2001-02P	2002-03Q
Total final consumption expenditure	17.3	12.5	6.7	9.5	6.8	7.4	7.1	2.4	5.3	3.4
Govt. final consumption expenditure	24.3	17.3	5.2	7.6	8.6	12.9	13.2	0.5	3.0	3.1
Pvt. final consumption expenditure	16.1	11.6	7.0	9.9	6.5	6.4	6.0	2.8	5.7	3.5
Gross domestic capital formation	5.0	24.8	3.7	3.8	8.9	0.7	20.8	0.7	-2.0	7.6
of which:										
Gross fixed capital formation	13.3	12.7	8.8	9.0	11.0	8.7	9.3	4.1	4.3	9.4
Exports of goods and services	18.2	16.6	27.4	6.0	22.2	—	—	—	—	—
Less imports of goods and services	21.9	18.2	15.2	5.1	19.7	—	—	—	—	—
P - Provisional Q-Quick estimates										
Source : CSO.										

Table 1.4 : Savings and investment

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (P)	2002-03 (Q)
(as per cent of GDP at current market prices)								
Gross Domestic Savings	25.1	23.2	23.1	21.5	24.2	23.7	23.5	24.2
a) Public	2.0	1.7	1.3	-1.0	-1.0	-2.3	-2.7	-1.9
b) Private	23.1	21.5	21.8	22.5	25.2	26.1	26.2	26.1
i) Household	18.2	17.0	17.6	18.8	20.9	21.9	22.7	22.6
Financial	8.9	10.4	9.6	10.4	10.6	10.7	11.1	10.3
Physical	9.3	6.7	8.0	8.4	10.3	11.3	11.6	12.3
ii) Private Corporate	4.9	4.5	4.2	3.7	4.4	4.1	3.5	3.4
Gross Domestic Investment*	26.9	24.5	24.6	22.6	25.3	24.4	23.1	23.3
Public	7.7	7.0	6.6	6.6	6.9	6.3	5.8	5.7
Private	18.9	14.7	16.0	14.8	16.7	16.3	16.5	17.1
GFCF	24.4	22.8	21.7	21.5	21.8	22.0	21.9	22.5
Change in stocks	2.2	-1.0	0.9	-0.1	1.9	0.6	0.4	0.3
Saving-Investment Gap@	-1.7	-1.3	-1.5	-1.1	-1.1	-0.6	0.3	0.9
Public	-5.6	-5.4	-5.3	-7.6	-8.0	-8.6	-8.6	-7.5
Private	4.2	6.8	5.8	7.7	8.5	9.7	9.7	8.9
Note : (i) Gross domestic investment denotes gross domestic capital formation (GDCF). (ii) Figures may not add up due to rounding off. * : adjusted for errors and omissions; @ : refers to the difference between the rates of savings and investment. GFCF : Gross fixed capital formation. P : Provisional estimates; Q : Quick estimates; Source : Central Statistical Organisation.								

Table 1.5 : Real gross domestic capital formation

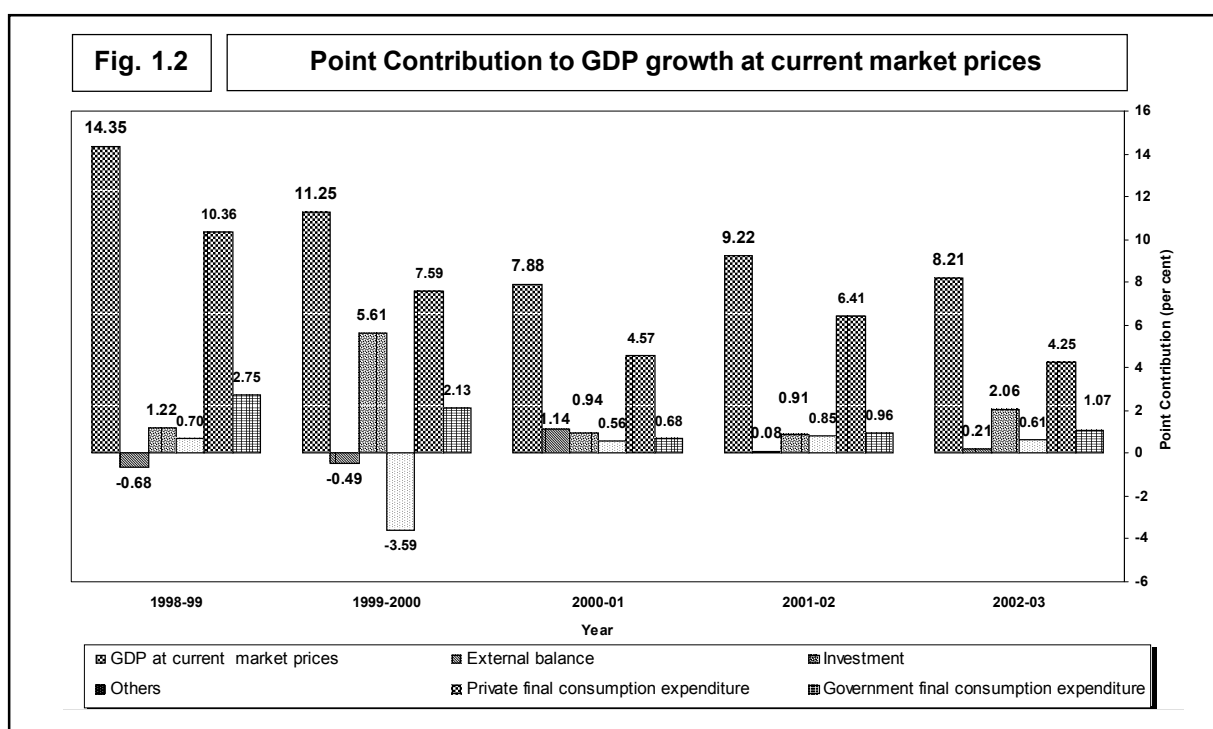
	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02 (P)	2002-03 (Q)
(As percent of GDP at market prices, 1993-94 prices)							
GDCF*	25.1	25.9	24.6	27.8	26.9	25.1	25.8
Public	6.8	6.5	6.6	7.0	6.2	5.7	5.6
Private	15.5	17.3	16.7	19.0	18.8	18.5	19.7
Private corporate	8.7	9.0	7.6	7.7	6.4	5.8	6.0
Household Sector	6.9	8.3	9.1	11.3	12.4	12.6	13.7
GFCF	23.4	22.8	23.4	23.9	24.0	23.7	24.8
Public	6.7	6.2	6.4	6.2	6.0	5.4	5.7
Private	16.7	16.6	17.0	17.7	18.0	18.4	19.2
Change in stocks	-1.0	0.9	-0.1	2.0	1.1	0.4	0.5
Public	0.2	0.3	0.1	0.8	0.3	0.3	-0.1
Private	-1.2	0.7	-0.3	1.2	0.8	0.1	0.5
Growth rate in per cent							
GDCF*	-1.0	7.7	0.7	20.8	0.7	-2.0	7.6
Public	-3.1	-0.8	7.3	13.3	-7.2	-3.5	2.5
Private	-13.7	16.4	2.6	21.5	3.0	3.3	11.6
GFCF	1.5	2.1	8.7	9.3	4.1	4.3	9.4
Public	-5.9	-2.8	9.4	2.7	0.4	-4.9	9.8
Private	4.8	4.1	8.4	11.8	5.4	7.3	9.2
Note : GDCF : Gross domestic capital formation; GFCF : Gross fixed capital formation; Figures may not add up due to rounding off. * : adjusted for errors and omissions; P : Provisional estimates; Q : Quick estimates; Source : Central Statistical Organisation							

the improvement coming from capital formation in the private sector. Among the components of GDCF, gross fixed capital formation improved from 23.7 per cent of GDP in 2001-02 to 24.8 per cent of GDP in 2002-03, while the corresponding improvement in change in stocks was from 0.4 per cent of GDP to 0.5 per cent of GDP. Within gross fixed capital formation, there were variations across sectors, though in the aggregate, investment in machinery grew faster than investment in construction. In the public sector, fixed capital formation in construction grew by 16.7 per cent compared with a negative growth of 0.9 per cent in machinery. In contrast, capital formation in machinery grew faster than that in construction in the household sector. In the private corporate sector, there was actually a decline in fixed capital formation in construction.

1.36 Domestic demand has been the main driver of growth in recent years (Figure 1.2). In 2002-03, among demand categories, private final consumption, by contributing 52.4 per cent of the GDP growth at current market prices, was the prime mover, followed by investment (25.6 per cent), government consumption (13.4 per cent) and external balance (2.4 per cent). The contribution of

private final consumption to growth, however, was lower in 2002-03 compared to 69.6 per cent in the previous year. The contribution of investment to growth has not been following a consistent pattern; in recent years, it varied from 8.4 per cent (1998-99) to 50.0 per cent (1999-2000). During the period 1998-99 to 2002-03, on average, the contributions of private final consumption expenditure and investment to growth of GDP at current market prices were 64.2 per cent and 21.0 per cent respectively.

1.37 GDCF in the public sector as a proportion of GDP at current market prices witnessed a decline from 8.2 per cent in 1993-94 to 5.6 per cent in 2002-03, as the share of consumption expenditure in the total expenditure of the Central Government increased from 21.3 per cent in 1990-91 to 23.6 per cent in 1997-98. Public consumption expenditure of the Centre declined marginally to 21.2 per cent in 2002-03 (RE), and it was budgeted to increase to 22.3 per cent in 2003-04. Consumption expenditure of States increased from 38.1 per cent of total expenditure in 1996-97 to 38.8 per cent in 2000-01. The share of wages and salaries in the consumption expenditure of States



witnessed an increase from 77.3 per cent in 1996-97 to 82.3 per cent in 2000-01.

1.38 The Government's current expenditure comprises consumption expenditure and current transfers. Apart from an increase in the consumption expenditure, there was also an increase in current transfers, squeezing public investment. The share of current transfers in the total expenditure of the Central Government increased from 43.0 per cent in 1990-91 to 58.0 per cent in 2002-03 and was budgeted to decline marginally to 56.7 per cent in 2003-04. Among components of current transfers, the share of interest payments increased from 44.2 per cent in 1990-91 to 48.3 per cent in 2002-03 (RE), and was budgeted at 48.2 per cent in 2003-04. Grants to States, UTs and local bodies which constituted 24.6 per cent of current transfers in 1990-91 increased marginally to 25.0 per cent in 2002-03(RE), and was budgeted at 24.8 per cent in 2003-04. The share of subsidies in current transfers declined from 23.8 per cent in 1990-91 to 19.6 per cent in 2002-03, and was budgeted to go up to 21.1 per cent in 2003-04.

1.39 Because of the growth in consumption expenditure and transfer payments of the Central Government, the share of current expenditure in total expenditure increased from 64.3 per cent in 1990-91 to 79.2 per cent in 2002-03(RE), and was budgeted to

marginally come down to 79.0 per cent in 2003-04. For the State Governments, the share of current expenditure in total expenditure was even higher, at 83.1 per cent in 1996-97 and 81.3 per cent in 2000-01. The share of current transfers in total State Governments expenditure declined from 45.0 per cent to 42.6 per cent between 1996-97 and 2000-01.

1.40 The softening of interest rates in recent years has provided a climate conducive to investment growth. Off-take of non-food credit has shown signs of revival. There are indications that the scope for producing more with the same capital stock through efficiency enhancement is getting increasingly limited which may lead to investment in fresh capacities. The improvement in stock-valuation and flurry of activity in primary markets in the latter half of 2003-04 reinforce the optimism about the investment outlook. A pick up in the momentum of industrial growth can boost private investment, which in turn will stimulate industrial growth, and thereby set off a virtuous cycle.

1.41 The surplus in the current account of India's BOP for three consecutive years ending in 2003-04 indicates that the rest of the world has contributed to sustaining aggregate demand. This surplus is likely to decline as investment picks up and the country transits to a sustained growth phase at a higher rate.