Consumption, savings and investment

1.22 With a faltering global recovery, private final consumption expenditure has been the major factor sustaining growth in the Indian economy. Private final consumption expenditure, at constant 1993-94 prices, increased by Rs. 48,275 crore or 5.9 percent in 2001-02, compared to a rise of only 5.6 percent in GDP at factor cost at constant prices (Table 1.2). Private final consumption expenditure as a proportion of GDP at market prices - both at constant prices - increased from 62.2 percent in 2000-01 to 62.5 percent in 2001-02.

1.23 The composition of private final consumption expenditure in 2001-02 displayed a change in trends observed for a number of years. The share of food, beverage and tobacco in overall consumption at constant prices, which had steadily declined from 54.8 percent in 1993-94 to just about 48.1 percent in 2000-01, improved to 48.8 percent in 2001-02. The increase was largely due to a more than one percentage point increase in the share of expenditure on cereals. Cereal expenditure rose, presumably on account of pressures on open market prices of foodgrains, whose supply reduced because of heavy procurement under the central pool. Among other major categories of consumption, expenditure on medical and health care services rose by 0.3 percentage points. The share of clothing and footwear, gross rent, fuel & power, and furniture, furnishings, appliances and services declined, while that of transport & communication, and recreation, education and cultural services remained unchanged.

1.24 In 2001-02, gross and net domestic savings at current prices, grew by 11.8 percent and 13.3 percent respectively, to increase their share in GDP at market prices. Gross (net) domestic savings, as a proportion of GDP (NNP) at market prices, improved to 24.0 (16.0) percent in 2001-02, from 23.4 (15.4) percent in 2000-01 (Table 1.3). The household sector was once again the best performer, with the increase in its gross savings exceeding the total increase in gross domestic savings. Households increased the share of financial savings in their total savings from 48.0 percent in 2000-01 to 49.8 percent in 2001-02. Private corporate savings increased roughly at half the rate of increase of household savings. The public sector not only continued to be a net dis-saver, but it increased its dissavings by nearly Rs 10,000 crore. The departmental enterprises became net dis-savers in 2001-02. The increased savings by non-departmental enterprises were more than neutralized by the increased net dissavings of government administration.

1.25 Gross domestic capital formation at constant prices grew at 3.0 percent in 2001-02, which was considerably lower than the growth of GDP (Table 1.4). At current prices, gross capital formation constituted 23.7 percent of GDP in 2001-02, which was slightly lower than the share of 24.0 percent observed in 2000-01, and 25.2 percent observed in 1999-2000. Among components of gross capital formation, in 2001-02, it appears that changes in stocks grew at a much faster rate than gross fixed capital formation. Within fixed capital formation, however, construction grew relatively faster than gross investment in machinery and equipment. In the public sector, there was a sharp increase of 7.2 percent in capital formation in construction.

1.26 Domestic demand, and particularly, private final consumption expenditure, has been fuelling growth in recent years (Figure 1.2). In 2000-01, private final consumption expenditure contributed as much as 73.6 percent of the growth in GDP at current market prices, which was considerably higher than not only the corresponding contribution of 48.4 percent in 1999-2000, but also the average contribution of private final consumption expenditure to growth of 58.9 percent in the previous three years (1997-98 to 1999-00). The contribution of investment to growth has been following an uneven pattern, with a year of reasonably high contribution followed by a year of low contribution. The same erratic behaviour was observed again in 2001-02, when investment accounted for around 21 percent of the increase in GDP. Investment made up for the decline in the share of contribution by consumption expenditure, which, nevertheless, remained the largest single contributor by accounting for more than fifty percent of the increase in GDP growth.

1.27 Public investment has been partly constrained by increasing government consumption expenditure, which includes expenditure on wages and salaries, commodities, and services for current use. As a proportion of total expenditure of the Central Government, it increased from 22.8 percent in 1990-91 to 23.6 percent in 1997-98, in the aftermath of the increase in wages and salaries following the recommendations of the Fifth Central Pay Commission. Although the share of wages and salaries in total expenditure declined from 11.1 percent in 1998-99 to 10.1 percent in 2001-02 (RE), the share of consumption expenditure in total expenditure again shows a rising trend from 2000-01. The share of consumption expenditure in total central expenditure rose from 21.9 percent in 2000-01 to 22.9 percent in 2001-02, and is budgeted to increase further to 23.2 percent in 2002-03. This is primarily due to a rise in the expenditure on commodities and services for current use.

1.28 Information on consumption expenditure of State Governments as compiled by the CSO is available only till 1999-2000. The share of consumption expenditure in total expenditure of State Governments increased from 38.0 percent in 1997-98 to 39.6 percent in 1998-99 and remained at almost that level in 1999-2000. The share of wages and salaries in total expenditure increased from 30.0 percent in 1997-98 to 32.1 percent in 1999-2000.

1.29 Apart from government consumption expenditure, public investment has also been squeezed by increases in the proportion of current transfers to total expenditure. Such transfers include interest payments, subsidies, pensions, and grants, among others. Current transfers as a proportion of total Central Government expenditure increased steadily through the 1990s. As a result, the share of current expenditure in Central Government expenditure, which is consumptive and current in nature, in total expenditure, increased from 68.9 percent in 1990-91 to 79.4 percent in 2001-02 (RE), and is budgeted to decline marginally to 79.3 percent in 2002-03. The share of interest in current transfers, which constituted 53.2 percent in 2000-01, gradually declined to 51.5 percent in 2001-02, and is budgeted at 49.5 percent in 2002-03. There is, however, an increase in the share of subsidies in current transfers from 15.9 percent in 2000-01 to 16.2 percent in 2001-02, and is budgeted to increase to 18.4 percent in 2002-03. The softening of interest rates in recent years has provided some relief to the exchequer by way of reduced share of interest payments in total expenditure. Current transfers, as a proportion of total State Government expenditure, declined from 42.5 percent in 1997-98 to 39.8 percent in 1999-2000.

1.30 As a result of the softening of nominal interest rates, the real PLR of five major commercial banks, based on a 52-week average of the WPI general index, has come down marginally from 9.6 percent in 1997 to 9.0 percent by January 2003. While softer rates of interest have opened up some fiscal space for fiscal consolidation and enhanced public investment, and given a boost to housing activity, the benefits of such rates may be expected to fully accrue in terms of higher private investment over time with an improvement in investor sentiment. Investor sentiment has been constrained by poor infrastructure facilities. The leap forward in infrastructure investment, particularly in roads and telecommunications, with the National Highway Authority of India (NHAI) providing the lead in the road sector with the Golden Quadrilateral, has been a significant development in the current year.

1.31 The external current account has been strengthening over the years to provide additional demand for domestic goods and services. A surplus in the current account, observed in 2001-02 after a gap of twenty-three years, indicates, in value terms, an excess of goods and services supplied by India to the rest of the world, relative to such goods and services supplied to India by the rest of the world. While the country's traditional export drivers - gems and jewellery, textiles, engineering goods, chemicals, and ores and minerals have recovered strongly, services exports have imparted the fastest thrust to overall export growth. The surge in exports relative to imports has provided a strong stimulus to domestic industrial growth.

1.32 The net terms of trade, which measure the relative change in export and import prices, have been fluctuating with an average annual increase of 1.5 percent during the 1990s. However, with depressed prices for exports and high prices of oil, it has been deteriorating since 1999-2000; it worsened by 4.5 percent in 2000-01, and further by 2.4 percent in 2001-02. Inspite of the deterioration in the price terms of trade, the income terms of trade measuring the import-purchasing power of exports have consistently improved every year during the 1990s, except in 1996-97. On an average, the annual growth in income terms of trade has been 11.7 percent, partly fueled by strong export growth in volume terms. With exports volume growing by 23.9 percent and 3.8 percent in 2000-01 and 2001-02, the import-purchasing power of exports increased by 18.3 percent and 1.5 percent respectively, in these two years.