

## Aggregate Demand

1.13 The most important contribution to demand growth has come from investment, while the external trade made negligible or negative contribution. The growth of GDP at market prices accelerated from 3.8 per cent in 2002-03 to 9.7 per cent in 2006-07, giving an average annual growth of 7.9 per cent for the Tenth Five Year Plan. The average rate of growth of gross capital formation during the Tenth Five Year Plan has more than tripled to 17.3 per cent per year from an average growth of 5.3 per cent per annum in the Ninth Five Year Plan. Consequently, its contribution to overall demand, as measured by the increase in GDP at market prices, tripled from 19 per cent in the Ninth Five Year Plan to 65 per cent in the Tenth Five Year Plan. The most important component of investment, namely, gross fixed investment, grew by an average of 14.3 per cent per annum during the Tenth Five Year Plan period.

1.14 The relative share of private consumption in GDP was 60.9 per cent while gross fixed capital formation had a share of 27 per cent. Though the average growth of private consumption (PFCE)

accelerated somewhat to 5.9 per cent per annum from 5 per cent, its contribution to growth of demand declined from 59 per cent to 46 per cent between the two plans. The contribution of net exports of goods and services to overall demand also declined between the two plans to a negative 5 per cent. Thus the external trade has had a dampening effect on aggregate demand during the just completed plan. Export growth, because of its spillover effects on productivity and efficiency, can, however, still act as a driver of growth.

1.15 NAS projections for 2007-08 show a deceleration in the GDP growth at market prices in line with its growth at factor cost. They also show a deceleration in the growth of consumption, both public and private, and an acceleration in the rate of growth of gross fixed capital formation. The higher growth in the gross capital formation is projected to improve its share in GDP at market prices to 32.6 per cent in 2007-08 compared to a share of 23.6 per cent in 2002-03. GDCF is projected to grow by 20 per cent and PFCE at 6.8 per cent in 2007-08, both of them above the average of the just completed plan.

**Table 1.4 Growth of GDP at 1999-2000 market prices (per cent) – annual and plan average**

	IX plan	2002-03	2003-04	2004-05	2005-6	2006-07	X Plan	2007-08
GDP at market prices	5.4	3.8	8.4	8.3	9.2	9.7	7.9	8.7
Consumption (Private)	5.0	2.7	5.8	5.2	8.7	7.1	5.9	6.8
Consumption (Govt)	7.9	-0.4	2.6	2.6	5.4	6.2	3.3	5.5
Gross Capital Formation	5.3	17.0	19.9	19.5	19.4	10.9	17.3	na
Gross Fixed Capital Formation	6.4	6.6	13.7	18.9	17.4	15.1	14.3	15.7
Change in stocks <sup>a</sup>		—	-13.4	144.0	47.7	3.9		5.1
Exports	10.7	21.8	5.8	28.1	14.8	18.9	17.9	6.4
Imports	9.6	10.4	16.8	16.0	45.6	24.5	22.7	6.4
<b>Contribution to growth (per cent)</b>								
Consumption (Private)	59.2	45.5	44.2	39.0	56.6	43.9	45.8	45.8
Consumption (Govt)	16.7	-1.1	3.6	3.5	6.2	6.5	3.7	6.2
Gross Capital Formation	19.4	—	59.5	65.4	64.3	37.5	65.4	na
Gross Fixed Capital Formation	25.0	40.5	38.5	56.3	51.2	45.5	46.4	55.2
Net Exports	-0.1	40.5	-17.5	22.3	-51.7	-18.2	-4.9	-3.2
<b>Relative share (per cent)</b>								
Consumption (Private)	64.4	63.6	62.1	60.3	60.0	58.6	60.9	57.6
Consumption (Govt)	12.3	11.7	11.1	10.5	10.2	9.8	10.7	9.5
Gross Capital Formation	24.0	25.0	27.7	30.6	33.4	33.8	30.1	na
Gross Fixed Capital Formation	22.7	23.6	24.7	27.1	29.2	30.6	27.0	32.6

<sup>a</sup> Change in stocks was negative during 2001-02 hence growth rate has not been calculated.