CHAPTER 3

NATIONAL INCOME AND RELATED AGGREGATES

3.1. Performance of an economy depends on the amount of goods and services produced in that economy. In monetary terms its measure is the Gross Domestic Product (GDP), Gross National Income (GNI), and Net National Income (NNI). Apart from these macro-economic aggregates, the other important indicators to measure health of economy are capital formation and savings. Thus, measurement of these macro-economic indicators is an extremely important exercise, which requires collection and analysis of large volume of data. In India the Central Statistics Office of the Ministry of Statistics and Programme Implementation have been measuring National Income and other related macroeconomic aggregates.

3.2. The major concepts used in National Accounts Statistics and the inter relationship, particularly of those relating to macro-economic aggregates of domestic product, consumption, saving and capital formation are given in the following paragraphs.

DOMESTIC PRODUCT

3.2. Domestic product by definition is a measure in monetary terms of the volume of all goods and services produced by an economy during a given period of time, accounted without duplication. The measure obviously has to be in value terms as the physical units of production and different measures of services are not capable of simple addition. In the case of a closed economy, this measure amounts to domestic product.

DOMESTIC PRODUCT AND NATIONAL INCOME

3.3. The domestic product measures all goods and services arising out of economic activity, while national income is the sum of all incomes as a result of the economic activity. Since the production of goods and services is the result of the use of primary factors of inputs, namely, capital and labour, along with the raw materials, the process automatically generates income. This income is in the form of return to capital and labour used in the production process. National income includes only those incomes which are derived directly from the current production of goods and services, which are called factor incomes.

NATIONAL INCOME AND EXPENDITURE

3.4. The production within the economy over a given period of time is spent either for consumption of its members or for addition of fixed assets or for addition to the stock of existing productive assets within the country. Hence, production can also be measured by considering the expenditure of those who purchase the finished or final goods and services. The national expenditure is the sum of expenditure of all spending of institutional sectors viz., government, households and enterprises. The expenditure on final goods and services may be purely for consumption purposes like consumption of food, clothing, shelter; services etc., or for capital formation such as addition to buildings, plant, machinery, transport equipment, and the like. Some goods may not be immediately sold and may be kept aside as stocks. These goods which are added to stocks are also accounted for as final expenditure.

PRODUCTION/INCOME/EXPENDITURE

3.5. The national income of a country can be measured in three different ways, from the angle of production, from income generation and from final utilization. These three forms are circular in nature. .

GROSS NATIONAL INCOME (GNI)

3.6. The economy of India is not closed as there are transactions with rest of the world in the form of exports, imports, loans and the like. This gives rise to the concept of national or domestic income. Gross Domestic Product refers to the production of all resident units within the borders of a country, which is not exactly same as the production of all productive activities of residents. Some of the productive activities of residents may take place abroad. Conversely, some production taking place within a country may be attributed to temporary and seasonal foreign labour. The Gross National Income is calculated by the following formula :

GNI **=** *GDP* **+** *compensation of employees and property income receivable from the rest of the world* **–** *compensation of employees and property income payable to the rest of the world.*

CATEGORIES OF EXPENDITURE

3.7. The income available to the individuals in the form of labour income or capital income or to the productive units in the form of retained income is then spent. The utilization or expenditure of the income can take various forms, namely, (a) household consumption expenditure; (b) government consumption expenditure; and (c) capital formation comprising fixed capital formation and stock accumulation.

HOUSEHOLD CONSUMPTION EXPENDITURE

3.8. The household consumption expenditure referred to as private final consumption expenditure (PFCE) in the National Accounts Statistics (NAS), consists of expenditure by households (including non-profit institutions) on non-durable consumer goods and services and all durable goods except land and buildings.

GOVERNMENT FINAL CONSUMPTION EXPENDITURE

3.9. Government final consumption expenditure comprises of the compensation to the Government Employees and purchases of goods and services by the Government including purchases abroad. Compensation of Employees of general Government consists of wages and salaries and social security contribution.

GROSS CAPITAL FORMATION

3.10. Gross Capital Formation includes only produced capital goods (machinery, buildings, roads, artistic originals etc.) and improvements to non-produced assets. Gross Capital Formation measures the additions to the capital stock of buildings, equipment and inventories, i.e. additions to the capacity to produce more goods and income in the future. The components of gross capital formation are

- gross fixed capital formation
- changes in inventories
- acquisition less disposal of valuables(such as jewelry and works of art)

3.11. Gross Fixed Capital Formation includes purchases of new assets within the domestic market like buildings, transport equipment, machinery, breeding stock etc.; import of new assets; own account production of new assets such as production of rail engines, wagons, trucks, aero-planes, farm machinery, breeding stock of fish, sheep, cows etc. by the enterprise; purchase of new houses by consumer households and net purchase of second hand physical assets from abroad.

3.12. Change in stocks (inventories) consists of the difference between the opening stock and the closing stock.

SAVING

3.13. Saving represents the excess of current income over current expenditure of various sectors of the economy. It is the balancing item on the income and outlay accounts of the producing enterprises, households, government administration and other final consumers. For a closed economy, savings equals capital formation during the year, whereas for the open economy savings equals capital formation plus net capital inflow from abroad during the year.

GROSS VERSUS NET VALUE ADDED

3.14. GDP does not take into account the depreciation factor because of which it does not reveal the complete flow of goods and services through various sectors. Thus, the term net product is considered more suitable which is obtained by subtracting depreciation cost from the gross domestic product. Capital goods like machines, equipment, tools, factory building, tractors etc. get depreciated during the process of production. After some time these capital goods need replacement. The decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage is called Consumption of Fixed capital (CFC). Deduction of CFC from GDP provides with the net domestic product.

CURRENT VERSUS CONSTANT PRICES

3.15. National income regardless of the concept is obviously measured at prices prevailing during the period or in other words at current prices. When calculated over a number of years, the changes in national income would, therefore, include implicitly not only the effect of the changes in production but also the changes in prices. This estimate compared over the period would not, therefore, give a proper measure of the overall real increase in production of the country or the economic welfare of the people or growth of the economy. Therefore, it would be necessary to eliminate the effect of prices, or in other words to recompute the whole series at given prices of one particular base year. National income thus computed, is termed as National Income at constant prices or in real terms.

SOURCES OF DATA

3.16. Data needed for computation of National income is collected from various diverse sources and is used not only for the actual computation of National Income, but also for cross-checking the final National Accounts Estimate.

ADMINISTRATIVE RECORDS, CENSUS AND SURVEYS

3.17. Some of the important sources of data, which have been used in the new series, are as follows:

(a) NSS 61st round (2004-05) on employment and unemployment and consumer expenditure;
(b) NSS 62nd round (2005-06) on unorganized manufacturing;
(c) NSS 63rd round (2006-07) on services sectors;
(d) All India Livestock Census, 2007;
(e) NSS 59th round (2002-03) on All India Debt and Investment Survey;
(f) Population Census, 2001; and
(g) Fourth All India Census of Micro, Small and Medium Enterprises, 2006-07.

3.18. Further, the results of various studies undertaken by the Central Statistics Office through the Ministry of Agriculture, Ministry of Environment and Forestry and State Governments and also the Input-Output Transactions Tables prepared by the Central Statistics Office and the Cost of Cultivation

Studies conducted by the Ministry of Agriculture have been used in the new series for updating the rates and ratios used to estimate the consumption of fodder, market charges paid by the farmers, yield rates of meat, meat products and meat by products for different categories of animals, input rates for agriculture and forestry and the trade and transport margins.

INDUSTRIAL CLASSIFICATION

3.19. National Industrial Classification 2004 is used for computation of National Income Estimates in India.

COVERAGE

3.20. In the system of National Accounts, the accounts relating to the resident institutional sectors portray various facets of economic activity, i.e., production, the generation and distribution pertaining to the following institutional units:
Public sector

- Government Administrative Departments
- Departmental Commercial undertakings
- Non Departmental Commercial Undertakings
- Private Corporate Sector
- Households including NPISHs

HIGHLIGHTS

3.21. Some of the important highlights of the sector are as follows:

- Gross domestic product (GDP) at factor cost at constant (2004-05) prices in 2010-11 is estimated at `48,85954 Crores, as against `4507637 Crores in 2009-10, registering a growth of 8.39 per cent during the year as against the growth rate of 8.39 per cent during the previous year.

- Growth rates at constant (2004-05) prices during the year 2010-11 in various sectors are as follows :

    - agriculture, forestry and fishing — 7.0 per cent;
    - mining and quarrying — 5.0 per cent;
    - manufacturing — 7.6 per cent;
    - electricity, gas and water supply — 3.0 per cent;
    - construction — 8.0 per cent;
    - trade, hotels, transport and communication — 8.9 per cent;
    - financing, insurance, real estate and business services — 10.4 per cent; and
    - 'community, social and personal services' — 4.5 per cent.

- The Gross National Income (GNI) at factor cost at 2004-05 prices is estimated at `5171538 Crores during 2011-12, as against the previous year's Quick Estimate of `4833178 Crores. The growth rate (% of increase over the previous year) in Gross National Income is estimated to have risen by 7 % during 2011-12, in comparison to the growth rate of 8.2 per cent in 2010-11.

- The per capita net national income in real terms (at 2004-05 prices) during 2011-12 is estimated to have attained a level of `36003 as compared to the Quick Estimates for the year 2010-11 of `33,731. The growth rate in per capita income is estimated at 6.7% during 2011-12 as against 6.1% during 2009-10.

- GDP at factor cost at current prices in the year 2011-12 is estimated at `7157412 Crores, showing a growth rate of 17.5% over the Quick Estimates of GDP for the year 2010-11 of `6091485 Crores.

- The GNI at factor cost at current prices is now estimated at `8198276 crore during 2011-12, as compared to `7078512 crore during 2010-11, showing a rise of 15.8 per cent.

- The per capita income at current prices during 2011-12 is estimated to have attained a level of `60603 as compared to the Quick Estimates for the year 2010-11 of `53331, showing a rise of 13.6 per cent.

- Private Final Consumption Expenditure (PFCE) in the domestic market at current prices is estimated at `4359792 Crores in 2010-11 as against `3722036 Crores in 2009-10. At constant (2004-05) prices, the PFCE is estimated at `3087047 Crores in 2010-11 as against `28,52,301 Crores in 2009-10.

- Gross domestic saving (GDS) at current prices in 2010-11 is estimated at `3498622 crore as against `3278076 crore in 2010-11, constituting 48.9 per cent of GDP at factor cost as against 53.8 per cent in the previous year.

- Gross Domestic Capital Formation at current prices has increased from `23,32380 Crores in 2009-10 to `2749189 Crores in 2010-11 and at constant (2004-05) prices, it increased from `1814641 Crores in 2009-10 to `2015837 Crores in 2010-11.

TABLE NO. 3.5

NET DOMESTIC PRODUCT BY ECONOMIC ACTIVITY

(At current Prices)

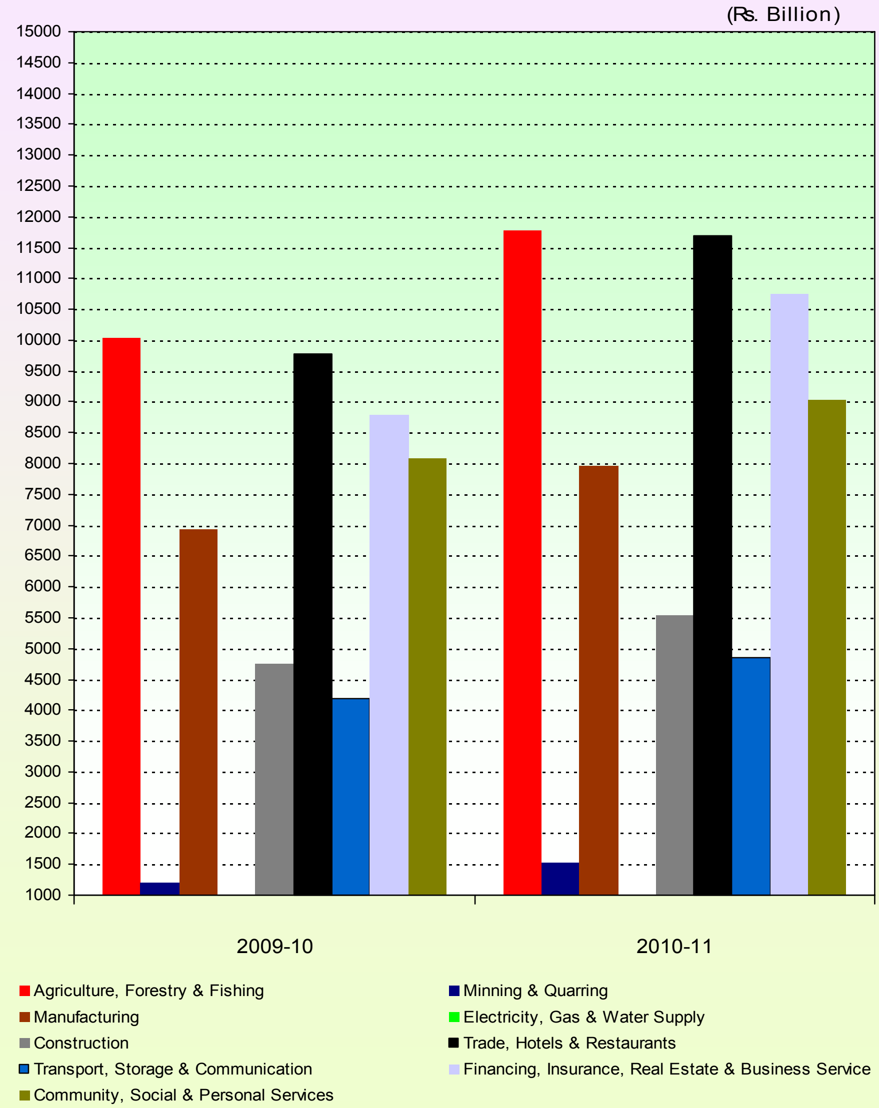

TABLE NO. 3.9

DOMESTIC SAVING BY THE TYPE OF INSTITUTION

(At Current Prices)