INDIAN ECONOMY

5.1 CONSUMPTION EXPENDITURE OF THE INDIA ECONOMY

PRE-1990

INTRODUCTION:

The structural transformation that has occurred in the Indian economy since 1991 is the consequences of the failure of the economic policies implemented since independence. India's economy has made great efforts in the years since independence. In 1947 the country was poor and shattered by the violence and economic and physical disruption involved in the freedom struggle and the partition from Pakistan. The economy had stagnated since the late nineteenth century, and industrial development had been limited. Indian economy at the time of independent India was an agrarian economy with approximately 85 per cent of the population engaged in the agriculture and related traditional sectors. The condition of the economy shows backwardness reflected from the imbalanced occupational structure wherein 70 per cent of working population was engaged in agriculture. Although, large section of population engaged in agriculture the economy was not self insufficient in the food production. Moreover the illiteracy rates was nearly 84 per cent, majority of the children in India at the age of 6 to 11 years did not attend school. In fiscal year 1950, Agriculture, Forestry, and Fishing accounted for 58.9 percent of the Gross Domestic Product and for a much larger proportion of employment. Manufacturing, which was dominated by the jute and cotton textile industries, accounted for only 10.3 percent of GDP at that time.\(^{38}\)

The economic success or failure of a country depends on the SUCCESS OF MACRO ECONOMIC POLICIES adapted by the country. They include the openness of the economy towards trade, the amount of the fiscal deficit, the nature of the exchange rate policy and the other Non economic features of the country like the political, cultural and natural factors.\(^{39}\)

Quite immediately after independence, the economic policy makers had to concentrate on many crucial matters of the shattered economy, viz, Alleviation of Poverty, Creating Employment

\(^{38}\) Kapila Uma,(2006),Indian Economy Since Independence, Academic Foundation,p.29-32

Opportunities, Self sufficiency in the food production, etc. All these had to be achieved by protecting the people of the country who were completely conked out after the dreadful experiences of attaining Independence for the country and the most devastating partition of India and Pakistan. Therefore the Government was ardent on adapting the Policy that would bring the people of the country out of these horrible experiences and build in the confidence in them to have a new dawn in the Indian economy. Therefore the Nehruvian Model concentrated on the Protectionist Policy with high degree of socialism in the Mixture of the Mixed economy. With this India wanted to protect **Democracy** on the one hand and **Secularism** on the other hand.\(^{40}\)

With the formulation of the Five Year Plans the Vehicle of economic development of the Indian economy started off. So far India is on the brink of completion of Twelfth Five Year Plans. The period of Plannings of the economy since 1950-51 can be viewed as below:\(^{41}\)

**Table-5.1**

<table>
<thead>
<tr>
<th>Five Year Plans</th>
<th>Period</th>
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<tr>
<td>The First Five Year Plan</td>
<td>1951-56</td>
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<td>The Second Five Year Plan</td>
<td>1956-61</td>
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<td>The Third Five Year Plan</td>
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<td>Annual Plan</td>
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<td>Annual Plan</td>
<td>1968-69</td>
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<td>The Fourth Five Year Plan</td>
<td>1969-74</td>
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<td>Rolling Fifth Five Year Plan</td>
<td>1974-79</td>
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<td>The Sixth Five Year Plan</td>
<td>1980-85</td>
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<td>The Seventh Five Year Plan</td>
<td>1985-90</td>
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<td>The Eighth Five Year Plan</td>
<td>1992-97 (New Economic Reforms)</td>
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<td>The Ninth Five Year Plan</td>
<td>1997-01</td>
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<td>The Tenth Five Year Plan</td>
<td>2002-07</td>
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<td>The Eleventh Five Year Plan</td>
<td>2007-09</td>
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<td>The Twelfth Five Year Plan</td>
<td>2009-14</td>
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</table>

**SOURCE :** Ray S.K. Indian Economy, Prentice Hall

\(^{40}\) 91\textsuperscript{st} Annual Conference Volume, 27\textsuperscript{th}-29\textsuperscript{th} December, Part-1, The Indian Economic Association,p. 77

After the successful completion of the First Five Year Plan, an ambitious Second plan was formulated with the ideologies of Shri Prasanna Chandra Mahalanobis who gave the formula off TWO SECTOR MODEL for the economy. The fundamental insight of the model was that a greater proportion of the investment should be diverted towards increasing the capacity of the investment goods sector, the faster the long run growth in consumption and investment. In the strategy based on this model, rapid long run growth was to be achieved without much sacrificing short run consumption by concentrating on the scarce investment in expanding the capital goods producing heavy industry. Current consumption demand was to be met by employing labor resources to manufacture consumer goods using labor – intensive methods that required very little capital. Thereafter Second Plan, underlined the importance of industrialization as important for achieving and maintaining full employment at a rising level of productivity. Thus in the policies framed out prior to 1991, the main concentration was held in increasing the rate of investment. Industrialization in India was not in the original form as we have it in the advanced economies. According to Kaushik Basu, “the actual policy regime that India followed in its early days of independence was a mixture of the two competing visions – A Soviet style Planning system to be developed without allowing the Monopoly of control of resources…….” Capitalism with criticism was allowed but a large bureaucracy was nurtured that resulted from the monster of Permit Raj. Socialism was not practiced in practical terms but policies were diverted towards it.  

In terms of the above policies adopted the growth of Industrial output recorded a compound growth rate of 8 to 10 per cent, 3 to 3.5 per cent compound growth rate in the food grains output and around 1.75 per cent growth rate in per capita income. All these statistics achieved was considered to be the success of the policy adapted and was decided to carry further. Thus the first Three Five Year Plans gave a sustained growth in per capita income, distinct acceleration in public sector investment and in the growth of the industrial sector. Thus, this phase was dominated by the above oriented development strategy.

The plannings have considered capital formation as the key to higher productivity and expanding levels of income and employment. The level of production and the material well-being of a community can attain depends in the stock of capital at its disposal. The larger the stock of the capital the larger will be the productivity of the labour. The stock of capital reflects the condition of technology utilized for production that increases the productivity of the other

42  91st Annual Conference Volume, op. cit. ,p. 37-57
factors of production involved in the production. The 1950’s and the 1960 have marked relatively better results of plannings adopted. The Fourth Five-Year Plan (FY 1969-73) called for a 24 percent increase over the third plan in real terms of public development expenditures. The public sector accounted for 60 percent of plan expenditures, and foreign aid contributed 13 percent of plan financing. Agriculture, including irrigation, received 23 percent of public outlays; the rest was mostly spent on electric power, industry, and transportation. Although the plan projected national income growth at 5.7 percent a year, the realized rate was only 3.3 percent. The Fourth Plan had to shift the objective of industrialization to the concentration of Minimum needs and Food Security in order to cop up with the droughts occurred during the two-year period of 1965 and 1966. The fifth plan also concentrated on the objectives of the Fourth Plan. The Fifth Five-Year Plan (FY 1974-78) was drafted in late 1973 when crude oil prices were rising rapidly; the rising prices quickly forced a series of revisions. The plan was subsequently approved in late 1976 but was terminated at the end of FY 1977 because a new government wanted different priorities and programs. The fifth plan was in effect only one year, although it provided some guidance to investments throughout the five-year period. The economy operated under annual plans in FY 1978 and FY 1979.\textsuperscript{44} The Sixth Five-Year Plan (FY 1980-84) was intended to be flexible and was based on the principle of annual "rolling" plans. It called for development expenditures of nearly Rs1.9 trillion (in FY 1979 prices), of which 90 percent would be financed from domestic sources, 57 percent of which would come from the public sector. Public-sector development spending would be concentrated in energy (29 percent); agriculture and irrigation (24 percent); industry including mining (16 percent); transportation (16 percent); and social services (14 percent). In practice, slightly more was spent on social services at the expense of transportation and energy. The plan called for GDP growth to increase by 5.1 percent a year, a target that was surpassed by 0.3 percent. A major objective of the plan was to increase employment, especially in rural areas, in order to reduce the level of poverty. Poor people were given cows, bullock carts, and handlooms; however, subsequent studies indicated that the income of only about 10 percent of the poor rose above the poverty level. The Sixth Plan fulfilled the objectives of bringing heavy industrialization in the economy.\textsuperscript{45}

\textsuperscript{44} Ray S.K.(1987), op. cit.

\textsuperscript{45} Ibid.
SITUATION IN THE BEGINNING OF 1980-81:

The economic situation in 1980-81 was such that it was constrained by the delayed effect of severe drought, continuing infrastructural problems and the adverse external factors. During 1979-80 the agricultural production registered a decline of 15.5 per cent, the industrial production decline of 1.4 per cent, and the rate of inflation rose to 19.1 per cent. The country’s balance of payment situation remained under the strain during 1980-81. The trade deficit during 1980-81 was likely to exceed Rs. 4000 crores. This was mainly due to rising prices of oil and other imports which have inflated the import bill. On the other hand the export growth continued to be sluggish. The growth of GNP showed a decline of 4.5 percent during 1979-80 that lead to the delay in the pickup of the economy in the year 1980-81. There were infrastructure constraints in the year 1979-80. In the year 1980-81 the set back of the industrial production continued due to drought and unsatisfactory performance of the infrastructure during the first half of the year 1980-81. The mounting inflationary pressures continues in the year 1980-81 also ad continued till the month of July in the same year. Due to the persisting inflationary pressures in the same year, the government had to go for the tight monetary ad credit policies. The impact of the restrictive policy was more clearly visible on bank credit to the commercial sector resulting into the deceleration in the industrial production. The balance of payment situation further deteriorated during the same year. The sharp increase in the oil prices since 1979 added substantially to the import bill during the 1980-81 year. The year 1980-81 shows a marked improvement in the agriculture and industrial production with 15.6 per cent and 18.1 per cent respectively. But thereafter there has been a decline in the both the performance.

POLICY MEASURES ADOPTED IN 1980-81:

On account of the above situation of the economy the government at that time went for market reform measures as mentioned below. Starting in 1980-81 there was a gradual liberalization of controls on prices, production, distribution and investment. Among the reforms undertaken were: Government’s new industrial policy was announced in July 1980, with a view to allow automatic expansion of production in industries, disperse industries with a view to achieving balanced regional development, de-urbanization, encouraging the growth of the villages and the

46 Economic Survey, Govt. Of India, hpp://indiabudget.nic.in.es.1980-81
small scale industries in coordination with bigger units, promoting industrial production for exports and facilitating financing of industries: 47

(a) Price and distribution control on two important industries, cement and aluminium, still subject to control, was removed.

(b) ‘Broad-banding’ expanded the variants and range of products that a given firm (licensed previously for a specific product) could produce. Thus firms could (legally) exploit economies of scope for the first time.

(c) The upper limits on how much an ID&R act licensee could produce, by adding some equipment or replacing old equipment with higher capacity new equipment, was gradually raised (to 5 crore in 1985, 15 crore in 1988). Thus firms could for the first time legally exploit new economies of scale as they emerged (from the technology/supply and demand side).

(d) Greenfield investment was gradually de-licensed by progressively freeing specified sub-sets of industry from its ambit (i.e. expanding the positive list of de-licensed industries) and raising the value limit on investment below which no license was required. This represented not just a change in the approach to economic growth but a freeing of the fundamental instrument of growth.

(e) For the list of industries reserved for investment by the Small Scale Sector, the investment value limit was raised so as to allow SSI to exploit economies of scale.25

(f) The positive list of MRTP exempt industries was expanded and the investment value limit (above which a licence was required even for industries in the positive list) was raised progressively. As only such MRTP groups had the resources and risk taking ability to invest in large capital-intensive industry, where economies of scale are most critical for competitiveness. These industries were therefore implicitly decontrolled.

The overall effect of these reforms was to greatly increase the degree of domestic competition in the economy, contrary to what Rodrik and Subramanian (2004) have asserted. These reforms represented a fundamental change in India’s development. The result was that the jungle of controls put in place was not contributing to any of the objectives that they were supposed to achieve. 48

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48 Ibid.
RESULTS OF THE ABOVE MEASURES:

The GNP growth rate which rose to 7.2 per cent in the year 1980-81 showed a decline in the preceding years to 5.9 per cent(1981-82), 2.6 per cent(1982-83), to 8 per cent(1983-84) to 3.8 per cent(1984-85) to 5.0 per cent(1985-86) , to 3.9 per cent(1986-87) to 3.8 per cent(1987-88) to 10.6 per cent(1988-89) to 4.5 percent in the year 1989-90. The reasons for this deceleration are:

The mounting inflationary rate (7.7 per cent in February1990 as compared to 5.3 per cent in 1989), due to :

- Inadequate production in the agricultural sector,
- Inadequate industrial production
- Increase in the import prices of textiles and leather products.
- The decline in the rate of savings , due to:
- Sharp decline in the public savings
- The imbalance between the aggregate demand and aggregate supply leading to the balance of payment crises, due to :
- Decline in the growth of domestic oil production,
- Bunching of repayment obligations to the IMF and other sources,
- Limited availability of concessional assistance and a rise in debt service payments on external debt,
- The decline in the grant element making the availability of the resources more costly.
- The slowdown in the industrial production, due to :
- The poor performance of the manufacturing sector,
- unutilized capacity
- The increase in the external debt due to the Budget deficit, Monetised deficit and over all deficit. The net interest burden increased FROM 3.6 per cent of the total expenditure 1980-81 to 10.1 per cent in 1989-90.
- Increase in the Government’s Consumption expenditure. (Mainly financed by the external borrowings and budget deficit) due to:
- Increase in the transfer payments on account of interest payments from the Central to the States, Union Territories and other sectors of the economy(from 31 per cent in 1980-81 to 40 per cent in 1989-90)
• Increase in the defense expenditure which accounted for 70 per cent of the Government Consumption Expenditure.\footnote{Economic Survey, Govt. Of India, hptt://indiabudget.nic.in.es.1989-90}

_The growing fiscal and balance of payment difficulties, in turn, helped create the “crisis” of 1991._

**CONSUMPTION EXPENDITURE OF THE INDIAN ECONOMY - PRE-1990:**

Over the years, the Indian market has emerged as one of the most significant market in terms of increase in purchasing power and a very slow and gradual shift towards the more aggressive consumerism. Looking to the above mentioned scenario during the Phase of Pre-Liberalization Table –H-1(A) of the Macroeconomic Indicators of the Indian economy show that there has been a fall in the GDP from Rs. 695361 I 1980-81 to Rs.1093729 in 1990-91, in terms of percentage the increase in the GDP growth from 1980-81 to 1990-91 has been only of 5.5 per cent. This altogether has lead to the reduction in the Per capita Income from 4.9 per cent to 2.9 per cent. Out of the total increase in the consumption expenditure the increase in the GFCE has increased from 4.6 per cent to 10.5 per cent in 1984-85 and then has reduced to 5.3 per cent in 1989-90, but interestingly the increase in the PFCE is smaller than the increase in the GFCE, which has reduced from 9 per cent 1980-81 to 4.9 per cent in the year 1989-90. On the other hand the rated of GDS has reduced from 18.5 per cent in 1980-81 to 21.8 per cent in 1989-90. This shows that individuals were inclined to save more than towards the consumption before 1991.

There are number of factors responsible for this slow increase in the consumption expenditure of the Indian consumers, like:

**Lack of infrastructure:**

The infrastructural facilities at that time despite being fast have not been adequate. One of the limitation of the country’s infrastructure remained in the fields of transport and power. The limitation in the transport has acted as a bottleneck which had adversely affected the performance of the economy. Other deficiency in the infrastructural facilities was felt in the field of communications also. For e.g. at every 250 people , there was one telephone in India,
while it was 1.3 in Sweden and U.S.A., for 2 in Australia, France, Germany, Japan and for 3 in Italy. There have been greater inadequacies in the other areas of the infrastructure also.

**Inadequate banking facilities:**

The banking system of the economy was ailing from various weaknesses. There were unhealthy treds of profits, deterioration in efficiency and poor service to the clients. The profits of the commercial banks which were quite high in the 1950s and 1960s had started declining. This decline in the profits was due to the pushing up of costs. On the cost side the factors raising them were, too fast expansion of the banking system, large extension of activities, resulting in the increase in the establishment expenses and also I the emoluments of the bsnk employees, absence of cost-control measures. While o the earning side, the important factors were, increase in advances to the priority sectors at concessional rates, increase in the volume of credit for food procurement and for various other public purposes at low interest, increase in the statutory liquidity ratio and cssh reserve ratio resulting in the deployment of a large portion of resources in assets earning a low return, large overdues resulting in non-return of loans ad therefore limiting the capacity of the banks to lend and earn, etc. There have been other unsatisfactory performances of the banking system also. Due to the Tight Money Policy adapted by RBI the availability of the funds got limited, which affected the liquidity position of the people.

**Low level of literacy:**

The growth of the economy also depends upon the quality of population. The quality of the population depends upon the literacy rates. The quality of the human factor in India had suffered due to the deficiency in the education sector. Ill education has created shortages of skilled manpower to carry out the movement of development. A large amount of population was illiterate. In 1991, the literacy rate was only 52.1 per cent and and among women it was still lower to 39.4 per cent.

**Low level of GDP:**

The net national output at 1948-49 prices which stood at Rs. 88.5 billion in 1950-51, rose to only 165 billion in 1967-68. Thus in the first three decades the growth rate hovered around 3.5 per cent and during the 80s grew to 5 per cent. The reasons for the low growth of GDP were
deficiency in investment, high capital-output ratio, low agricultural and industrial growth, initial adverse impact of new policies.

**Low Per Capita Income:**
According to the world Development Report, India’s per capita income in terms of GNP was $260 as compared with $ 9,200 of U.K., $11,430 of West Germany, $10,500 of France & $14,110 of U.S.A. This shows that India has to much achieved development during the Pre-Reform period.

**Low level of Capital Formation:**
In India, the rate of Investment began rising when economic planning started. It rose from 5 per cent before Independence to 13.4 per cent in 1969-70. But it picked up and rose to 22.2 per cent in 1981-82, but fell to 19.7 per cent immediately in 1983-84. At the root of the capital deficiency lies the rate of savings. India attained the rate of saving of 12 per cent in 1965-66. It declined to and then picked up to 16 per cent in 1975-76 and further to 21.2 per cent in 1979-80, which was too low. It again declined to 18.1 per cent in 1981-82 to 17.1 per cent in 1983-84. The reason for this is the low level of per capita income of the economy. The policy of 1980s provided a large amount of opportunities to the economy, but India was lacking Capital. To fill in this gap of capital deficiency, the economy had to depend on the external borrowings which altogether deteriorated the balance of payment position of India.

**Low level of Technology and Skill:**
During this period, India was suffering from severe technological backwardness. Therefore the productivity in India remained by and large much low. In most of the parts of the economy, the methods of production and technology were backward. The large industries made use of highly advanced technology while the industries largely in the villages carried with the simple and even primitive tools. This technological lag was seen not only in the production of existing and known products, but also in acquiring and using the known resources.

**Demand constraints:**
Among the demand factors the demand associated with the import substitution, as it was expected that with the adaption of Import Substitution Policy the demand would increase of the
industrial products. Due to the decline in the public sector investment and allied to it the private investment also declined. The weak performance of the agriculture sector also has contributed to the reduction in demand for the industrial products. The rise in the prices of the agricultural products the poor people both in the rural and urban sector also reduced the demand for the industrial consumption goods. The small rise in the per capita income and the worsening income inequalities have also contributed to the fall in the demand for goods and services. As a result the market had shrunk during the period of Pre-Reforms. For a log time the per capita consumption remained 1.1 per cent. The figure was really small.⁵⁰

INTRODUCTION:
The year 1991 is a landmark year in the economic history of the Indian economy. The crisis situation of the economy has been converted into an opportunity and some fundamental changes were made to the economic policy. The aim was to simply improve the efficiency of the economy. The fundamental changes that were to be made included; removing the barriers to entry and the restrictions on growth of firms – this will bring in greater competitiveness in the industrial sector, the private sector is being given larger role to play, this did not mean that the government’s role was diminished, it only redefined it expanding it in some sectors and reducing it in the some others. As it has been said, somewhat paradoxically ‘more market’ does not mean less Government’, but only different Government’.51

As India moved into the mid-1990s, the economic outlook was mixed. Most analysts believed that economic liberalization would continue, although there was disagreement about the speed and scale of the measures that would be implemented. It seemed likely that India would come close to or equal the relatively impressive rate of economic growth attained in the 1980s, but that the poorest sections of the population might not benefit.

The plan for the Eighth Five-Year Plan (FY 1992-96) was affected by changes of government and by growing uncertainty over what role planning could usefully perform in a more liberal economy. Two annual plans were in effect in FY 1990 and FY 1991. The eighth plan was finally launched in April 1992 and emphasized **Market-Based Policy Reform** rather than quantitative targets. Total spending was planned at Rs8.7 trillion, of which 94 percent would be financed from domestic resources, 45 percent of which would come from the public sector. The eighth plan included three general goals:

First, it sought to cut back the public sector by selling off failing and inessential industries while encouraging private investment in such sectors as power, steel, and transport.

Second, it proposed that agriculture and rural development should have priority.

Third, it sought to renew the assault on illiteracy and improve other aspects of social infrastructure, such as the provision of fresh drinking water.

Government documents issued in 1992 indicated that GDP growth was expected to increase from around 5 percent a year during the seventh plan to 5.6 percent a year during the eighth plan. However, in 1994 economists expected annual growth to be around 4 percent during the period of the eighth plan.
The process of economic reforms undertaken by the Government of that time consisted of two distinct strands – **Macroeconomic stabilization** and **Structural reforms**. While stabilization
deals with the Demand Management, Structural Reforms deal with the sectoral adjustments designed to tackle the problems on the supply side of the economy.\footnote{Ramaswamy V.S. & Namakumari S. (2006): \textit{Marketing Management – Planning, Implementation and Control} (Global Perspective, Indian Context., p.39-49.)}

The reform can be classified into two broad categories:-

\(\text{(A) Liberalization measures}\)

\(\text{(B) Macroeconomic Reforms and Structural Adjustments}\)

\(\text{(A) LIBERALIZATION POLICY:}\)

\[\rightarrow \text{Industrial Policy of Liberalization/the NEP}\]

The New Industrial Policy (NIP) is the first part of the liberalization measures. Under the NIP, industrial licensing has been greatly liberalized. In addition, substantive changes have been introduced in matters like foreign investment and technology import. Third, MRTP and FERA have been relaxed significantly. And lastly, the role of the public sector has been significantly curtailed.

\textbf{Chart-5.2(B)}

\textbf{The New Industrial Policy}

\begin{itemize}
  \item Liberalization of Industrial Licensing
    \begin{itemize}
      \item De-licensing
      \item De-control
      \item De-regulation
      \item Broadbanding
      \item Abolition of registration
    \end{itemize}
  \item Industrial Policy of Liberalization
    \begin{itemize}
      \item Liberalization of foreign investment
      \item Liberalization of technology import
    \end{itemize}
  \item MRTP Liberalization
    \begin{itemize}
      \item Abolition of Threshold
      \item No MRTP clearance needed for expansion & mergers
    \end{itemize}
  \item Curtailment of Public Sector
    \begin{itemize}
      \item Several industries hitherto reserved for public sector opened up to private sector
      \item Only eight core industries remain reserved for the public sector; i.e., BIFR extended to the public sector
      \item Pursuit of BIFR extended to the public sector
    \end{itemize}
\end{itemize}
1. Liberalization of Industrial Licensing:

All industries, except a few specified ones, have been de-licensed under the NIP and liberated from the clutches of control in a bid to eliminate the obstacles to industrial growth.

⇒ De-licensing of passenger car industry, white goods industry, bulk drugs industry, consumer electronics industry, etc. became landmarks and several new players entered these industries. At present, only sectors like alcohol, cigarettes, industrial explosives, hazardous chemicals, defense and atomic energy need industrial license. SSI de-reservation of 14 SSI items has been announced.

⇒ The older industrial registration schemes, A view including de-licensed registration, exempted industries registration and DGTD registration, have all been abolished. Industry location, except in major cities, no longer needs government clearance. A new broad-banding facility was also introduced, giving more flexibility of operations to industries. Powerful bureaucratic structures like DGTD and CCI&E have been abolished, giving more freedom to industry.

2.FERA Liberalization/ Encouragement to FDI:

With view to attracting foreign direct investment (FDI), the NIP introduced many changes in the Foreign Exchange Regulation Act(FERA), which had incorporated over the years a plethora of controls on companies whose foreign equity exceeded 40 per cent. It included the following amendment:

✓ Automatic clearance for foreign equity up to 51 per cent;
✓ Expansion of automatic clearance route;
✓ Automatic clearance for capital goods and technology import and royalty payments;
✓ Removal of restrictions on functioning of Indian companies abroad;
✓ Overseas investment liberalized further;
✓ ECB liberalized; and
3. MRTP Liberalization:
The Monopolies and Restrictive Trade Practices Act (MRTP) HAS BEEN A GROWTH RESTRICTING REGULATION. Under the NIP, sweeping changes have been made in MRTP regulations. The MRTP Act has been amended to altogether do away with the threshold assets limit which rendered a firm an MRTP company or a dominant undertaking, no MRTP clearance is now required for investment applications; nor any approval is needed for establishing new undertakings, or for implementing expansions, mergers, amalgamations and takeovers.

4. Curtailment of Public sector and enlargement of Role of Private Sector:
The new industrial policy curtailed public sector’s pre-eminent role in industry and there opened the industrial arena to the private sector in almost full measure. Public sector’s exclusive domain now stands limited to eight core industries like arms and ammunitions, atomic energy, railways, mining and coal. Due to this more than three-fourths of the total industrial activity of the country is now available to the private sector.
The government amended the sick Industrial Companies Act (SICA) and armed itself with powers to tackle sick PSUs. Through this route, even the closure of PSUs became possible. Thus, through the NIP, the country cast away the extreme caution that had surrounded the industrial and foreign investment policy all these years. Moreover 40 years ‘a commanding role for the public sector’ had formed the cornerstone of India’s industrial policy. In contrast, the New Industrial Policy has voted for a substantive reduction in the role of the public sector in the industrial scene of the country.

→ New Trade Policy:

1. Import Tariff Liberalized & Abolition of Import Licenses:-
Licensing hassles for imports have been reduced, except for list of permitted items. There have also been steep reductions in the Import Tariffs on a number of items, including capital goods. Tariffs on all goods, except non-essential consumer goods, have been reduced to 30 per cent, or lower. The government appreciated the fact that the tariffs in India were among the higher in the world and should be brought down in a gradual manner.
2. **Open Regime Policies** :-

The New Economic Policy drastically changed the country’s foreign trade scene, liberating the export-import trade from the shackles of controls. In one The government realized that with a regime of regulation and controls, it was not possible for India to achieve a competitive edge in international markets.

3. **Rupee made convertible**:-

The government brought in partial convertibility of the rupee in 1991-93 and full convertibility on the trade account in 1993-94. This was done to allow the exchange rate mechanism to properly regulate the trade flow. It also encouraged the exports.

4. **Exports encouraged**:-

The main aim of the New Economic Policy is to achieve expansion in the export sector of the economy. In this regard there are many incentives given in the policy, like abolition of export duties, cheaper export credit and cuts in import duty. Availability of more and easy finance for exports as well as higher drawbacks of duties was made to encourage exports.

5. **Encouragement to FDI**:-

Just like Industrial Policy Liberalisation, the Trade Policy Liberalisation also aimed at facilitating FDI flow to India in ample measure. Convertibility of the rupee also served as an encouragement for foreign investment. The relaxation in FERA and de-licensing helped in increasing the confidence of the foreign investors.

6. **Integrating India’s economy with global economy**:-

The larger aim of the New Trade Policy is of integrating Indian economy with the Global economy. The environment has completely changed to Market Driven allocation of foreign exchange and Market Driven exchange Rate. All the above measures taken the economy to the Global altitude.

(B) **Macroeconomic Reforms and Structural Adjustment**: (Chart-5.3)
1. Fiscal Reforms:-

The Fiscal Reforms mainly consisted of the Reduction in the Fiscal Deficits and the Reform of the Taxation System.

- The reduction in the fiscal deficit had to be brought in by tacking subsidies, government’s non plan expenditure and public debt and interest burden.
- For the Tax reforms the Chelliah Committee had suggested moderate rates, wider tax base and improved compliance. The Government had also relaxed some norms of carry forward and set off of accumulated losses and depreciation. De-mergers were also made tax neutral. In the case of Indirect taxes, the main aim was to reduce the multiplicity of duty rates and the rationalize the rate structure in both excise and custom duties. There were also substantial reductions in the actual tariffs in respect of both excise and custom duties.

2. Banking Sector Reforms:-

The recommendations of the Narshimhan Committee formed the basis of the banking sector reforms. The government carried out a phased reduction of Statutory Liquidity Ratio(SLR) and permitted a measure of freedom and flexibility to the banks in their operations. The government also went in for the Partial disinvestment of its liquidity in the Nationalised banks. It also cleared the way for the setting up of new private sector banks in the country. This was a major move because no new private sector banks had been permitted for almost a quarter century since the days of Bank’s nationalization. Subsequently, the government moved the Banking Bill in Parliament, limiting government equity to 30 per cent in nationalized banks.

3. Capital Market Reforms:-

- The government carried out a series of reforms in respect of the capital markets. The ceiling on the acquisition of shares/debentures of Indian companies by non-resident Indians and overseas corporate bodies was raised from 5 per cent to 24 per cent; the Securities Exchange Board of India(SEBI) was made a statutory body; restrictions on interest rates on debentures and public sector bonds, other than tax free bonds, were removed; the office of the Controller of Capital issues (CCI) was abolished and free pricing of shares allowed; bonus issues were made more liberal; a scheme for the registration of sub-brokers was introduced to ensure investor protection; and the private sector was allowed to set up mutual funds.
• The government opened up the capital market to Foreign Institutional Investors (FIIs). A number of concessions were also extended to such investments.
• The Insurance Regulatory and Development Authority (IRDA) Act was passed by parliament in 1999. The Act paved the way for the entry of private sector into the insurance business, which had been a government monopoly for decades. The move broke the monopoly of the LIC in Life Insurance and General Insurance.

→ Structural Adjustment:

1. Phasing out of subsidies, dismantling of price controls and introduction of market-driven price environment:-
Phasing out of subsidies and dismantling of price controls constituted a major element of the structural adjustments. The Cash Compensatory support (CCS), which formed the bulk of the export subsidy, was abolished in too. The subsidies on fertilizers and petro-products were reduced to the extent possible, as they could not be totally eliminated in the prevailing circumstances. The government also started dismantling price controls in respect of a number of products. It removed the price and distribution controls on iron and steel and some categories of chemical fertilizers. Lubricants’ pricing was totally decontrolled. In kerosene and LPG, dual pricing and parallel marketing by the private sector was allowed. The government also de-canalised the import of these products. In the petroleum sector, the Administered Price Mechanism (APM) was to be dismantled effective from 1st April 2002.

2. Public Sector restructuring:-
Public Sector restructuring was an important component of the structural adjustment. The government truncated the role of the public sector. It stopped setting up fresh PSUs and expansion of existing PSUs through additional government equity. It also reduced other forms of budgetary support to PSUs. Since the existing legal frame work did not permit referring PSUs to BIFR, the government amended the laws and referred 58 PSUs to the BIFR for preparing detailed programmes of restructuring or even closure.
Disinvestment of government equity in the PSUs was the other major element of public sector restructuring. Gradually the disinvestment idea led to the privatization of the identified PSUs.

→ **Reasons for growth after 1991:**

a) The entrepreneurial freedom provided by liberalization released the blocked-up growth impulse of Indian Industry and business. De-licensing of industries led to the full display of entrepreneurial talent and facilitated the entry of a number of new players into several industries. Till now entrepreneurs were spending more of their energies in securing industrial licenses. The licensing hurdle pushed out of their way, they could readily enter the industries of their choice and concentrate on managing the same. In fact, three developments took place as a result of the new entrepreneurial freedom. The open regime offered entrepreneurs complete freedom in the matter of:

- industries to be entered,
- investments to be made, and
- rising of capital markets.

The freedom given to the private sector to enter several industries that was until now reserved for the public sector added to the momentum of the process. It is the new environment that did the trick. The reforms altered the paradigm completely and made the efficient management feasible. Actually, four distinct streams of policy changes, viz., de-licensing, MRTP modification, FERA relaxations and the new takeover code, acting in concert, had brought about the transformation. The permission of overseas acquisitions by Indian Companies, in specified sectors, financed through issues of America Depository Receipts (ADRs), Global Depository Receipts (GDRs), a through stock swaps also helped the process. The necessary factor came mainly from the play of market forces. Firms had to be now big to face the new competition. To zoom of their, scale/size was the main consideration becoming big; to some others, synergy. At the same time, the firms realized that capacities could not be enhanced quickly through the start-up route and only by mergers/takeovers/ acquisitions, quick

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53 *Ramaswamy V.S. & Namakumari S. (2006), op. cit*
expansion in capacity could be achieved. Consequently, intra group mergers/restructuring based mergers also became necessary. It was thus natural that with liberalization, many firms took to the merger/acquisition/takeover/amalgamation route. Competitive pressures also made corporate hive off, restructures and focus within their ongoing operations. The MNCs, in particular enthusiastically took to the route; they merged some of their enterprises into larger entities; they also went in for takeovers.

In the past too, Indian Corporate were resorting to diversification. Now, the pace has become faster and the reasons different. In market economies, diversifications usually follow the market opportunities spotted by firms. In India, in the pre-liberalization days, diversification tookplaces mostly as a response to the restrictions that were operating on industry. Today, the opportunities and threats emerging in the environment formed the rationale for the diversification.

b) The Government’s automatic approval system with a view to increasing FDI inflow has been made more comprehensive:

Many experts feel that India has the potential to attract over $10 billion worth of foreign investments annually for the next few years, if liberalization is continued with vigor. India Inc. is now at a fairly high rank in global rating for FDI, thanks largely to the sentiments prevailing in the convergence sectors-infotech, media and entertainment. Foreign investors generally believe the India’s markets are good for investment. India is the most attractive destination for foreign direct investment.

The ascendancy of multinationals in the Indian markets is the next major aspect of the environmental change. With the reforms the MNCs found it both feasible and attractive to take up dominant position in India. And, the new dominance of the MNCs in the Indian markets manifested in many different ways. The removal of FERA restrictions and the the ate sectIndia ane, many of them in alliance with an Indian partner and some through fully-owned subsidiaries.

c) Reversal and the acceptance of capitalism:

Ascendancy of the private sector in the economy of the country was the major aspect of the environmental change resulting from the reforms. The country was w discarding the socialistic moorings of the past and was embracing the concept of Market economy. No wonder, the private sector has started having commanding heights in the national economy.
There is now a virtual exchange of seats from the public to the private sectors. In the earlier years the guiding mantra covering industrial policy was that the public sector would hold the commanding heights in the industrial scene. In the new dispensation, the exact opposite has happened. The reforms had created the setting for the supremacy of the private sector in the national economy. The industrial and trade liberalization had enlarged the opportunities of the private sector. The entry barriers of the private enterprises had been almost totally thrown off. More than four-fifths of the country’s industry has been opened up. The conscious downsizing of the role of the public sector further boosted the private sector’s ascendancy. The enlarging role of MNCs and foreign direct investment, served as an additional contributor to this phenomenon.

d) As a result of the reforms, even core/infrastructure sectors like power, oil, mining, telecom, road building, civil aviation and export processing zones have been opened up for the private sector. In the case of infrastructure, the post reform years have actually witnessed a paradigm shift; monopoly of government/public sector has yielded place to private investment in the provision of such services in a commercially viable manner.

d) Government’s role as a consumer has also reduced. The government was running a major part of the industry. It was also implementing major parts of the projects/construction activities. With the reforms, this resolve of the government has shrunk drastically. With the downsizing role of the Government in the economy and the increase in the performance of the private sector India has started moving from the State Socialism to the Capitalistic turn. With the policy of liberalization it was necessary to have the Internal liberalization (Privatization) in the economy as Government remained unsuccessful in creating the conducive environment for the growth of the economy therefore private enterprises are required to participate in the growth programmes and help the Government to take the economy towards growth.
INDIAN ECONOMY
POST LIBERALIZATION ERA

CHANGING TREND OF CONSUMPTION EXPENDITURE

SITUATION OF POST LIBERALIZATION ERA:
India’s economic growth has accelerated significantly over the past two decades and has also increased the spending power of its citizens. Real average household disposable income has highly doubled since 1985. With rising income household consumption has soared ad a new middle class has emerged. The study done by MGI predicts that India will climb from its position as the Twelfth largest consumer market today to become Fifth largest consumer market. Over 291 million people will move from desperate poverty to a more sustainable life and India’s middle class will expand over ten times from its present size of 50 million to 538 million people. The reforms at this point of time have created much more wealth and consumption especially in the urban sector, but will benefit the rural sector in the long run also.

Due to the reforms there has been a considerable expansion in the domestic consumption in the world. The rapid economic growth has lead to radical change in the behavior of the consumers and their spending patterns. The Indian economy has entered in a new era, and the country’s growth of per capita income in recent years has outperformed that of the other major Asian economies. There has been a complete shift in the so called psychological entity of the consumers as mentioned by Keynes which determines the tendency of the consumers towards the consumption. Over a period every economy, whether developed or developing, has observed change in the consumption pattern, which had been an outcome of changing life style. Better quality of life is an indicator of economic development and consumption pattern has changed with appreciation in quality of life, proving its significance. This higher quality consumption is an outcome of increased disposable income supported by advanced retail outlets. The consumption behaviour abide by the Keynesian Psychological Law of Consumption Function. It has been observed that the consumption expenditure has shown varied types of changes which did not happen so far before the policy of liberalization and this is mainly due to expansion of the liberalization phase in the economy.

Consumption is normally the largest GDP component. Before Economic Reforms, consumption comprised of approximately 52% of the GDP, however after reforms, it has grown
its share to more than 62%, (Sachdeva, 2008). Many persons judge the economic performance of their country mainly in terms of consumption level, which is distributed in the consumption of three categories of products, namely durable, nondurables and services,” (Samuelson Nordhaus, 2005). Consumption occurs through both Institutions and Industry as well as by individuals. The individual consumption rise, also leads to increased aggregate demand. The accelerated demand leads to increase in production and thus brings back its return to the consumer in the form of wages & profit. Thus in a simple closed economy, the household spends their income. This spending on consumer goods (termed Consumption(C)) is the only component of aggregate demand (AD). But in present day open economy, international trade and government spending also constitute to the aggregate demand, (ICMR, 2006). India’s market reform has widely been the inevitable consequence of “globalization”. This market has drawn strength from a “new breed of entrepreneur” that, unlike the older generation of the family-owned business, are confident in their ability to face global competition without the state’s protection. (Mitu, 2008) Ever since 1991 economic reforms were continued by various governments year on year, the economy grew above 6%, which resulted in improvements of income dynamics. These factors along with favourable demographics like increase in spending patterns are driving the consumption demand. India is witnessing an unprecedented consumption boom. The attitudinal shift of the Indian consumer in terms of “Choice / Preference”, “Value for Money” Indian consumer has undergone a remarkable transformation in their consumption pattern.

Just a decade or two ago, the Indian consumer saved most of his income, purchased the bare necessities and rarely indulged himself. Today, armed with a higher income, credit cards, exposure to the shopping culture of the west and a desire to improve his standard of living, the Indian consumer is spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fuelling his addiction. The expenditure pattern as observed through Consumption Expenditure Survey (CEX) found that consumption of food exhibited a different response than on durables. Though In earlier studies, 80% of consumers obeyed Life Cycle PIH (Hall & Mishkin (1982) in Rulon, 2009) i.e, expenditure being done from acquired wealth. But in the recent trend it followed that 50% of individual’s accrue consumption out of current income rather than permanent income. This proves that as disposable income increases, individual consumption also goes up. The changes in the economy to create a diversified inclination of the consumers towards consumption has been due to the host of factors like (i) there has been an increase in the GDP growth rate , (ii) there
has been an overall relative increase in the consumption expenditure, (iii) consumers have changed their consumption from essential items to the non-essential items. (iv) with the open door policy, the foreign companies entered the Indian market with the variety of commodities which were never experienced by the Indian people. (v) the penetration of goods took place in every nook and corner of the economy. (vi) availability of products in economic sized packets created affordability of the products to the major section of the society, this can be termed as the economy moving towards a more market friendly system in 1993. The combination of rapidly growing household income and growing population has lead to a striking increase in the overall consumer spending. Let us observe the factors responsible for such a change in the Consumption level of the economy which are mentioned as below:

→ **Rise in the Income Level:**

Consumption has remained an important parameter in evaluation of economic development. It is one of the primary components of GDP. GDP of any nation is nothing but the aggregate demand of goods and services. The relation between aggregate income and aggregate consumption is a significant component in explaining the analysis of national Income. There is no doubt that the economic reforms have been able to promote a relatively higher growth. During the Post reform period there has been a remarkable increase in the growth rate of GDP in India. Income growth in India has accelerated as the economy has grown. In 1985-1995 income increased at 5.7 per cent per year, and then by 6 per cent in 1995-2005. In many fast-growing economies such as India and China, house-hold income growth tends to lag behind the overall expansion of GDP. This is because during the periods of high growth, businessmen tend to capture a greater share of total factor income as they generate profits that are often ploughed back to investment and through interrelationship between sectors, growth in one sector creates its impact in the economic developments. Every year the GDP reflects contribution coming from different sector. There is interdependency between economic development and the contribution coming from different sectors in enabling it to happen. Traditional development theory states that economic development leads to accumulation of capital. This accumulation happens through generation, realization and reinvestment of surplus created, by using fixed capital, with labor, which is transferred from the labor-surplus “traditional” sector. Capital formation generates employment which gives a boost to production. However, this path of development can be sustained only if adequate supply of food to the modern sector is guaranteed. This results in increase of food consumption. Such a process is supposed to
transform the traditional sector into a modern one and thereby ensuring self-sustained growth of the less developed economy, (Saumya Chakraborti and Anirban Kundu, 2009). The growth in incomes has made Indian households prosperous. The total income of Indian household has increased by 23.5 trillion. With the total number of households in the country growing at 1.5 per cent annually, the growth average annual household incomes has increased to 113.744. The economic reforms has been able to increase the GDP growth rate in India which is evident from the Table-5.2. (a).

Over the past decade aggregate urban consumption has grown by 6.2 per cent, outpacing GDP growth of 9.4 per cent over the next 20 years. If incomes follow this path, then average annual spending per Indian household will be more than triple fro115,620 Indian rupees annually today to 378,170 Indian rupees in an market will expand 2025. As household spending rises, the urban market will expand from 7,208 billion Indian rupees ($158 billion) to 43,120 billion Indian rupees ($944 billion / by 2025. Apart from the rising income growth, one of the important drivers of the rising urban market is the rapid growth of urban population. Table -5.2 (b) shows the demand side contribution towards GDP. Recently even during the Depressionary effect the PFCE is at is high level.

**Table: 5.2(a)**

| Demand Side Growth Of GDP, Growth Contribution And Relative Share at 2004-05 Market Prices (Per Cent) |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Consumption (Private)                             | 9.3                                             | 9.3                                             | 9.8                                             | 4.9                                             |                                                |                                                |
| Consumption (Govt.)                               | 8.5                                             | 8.3                                             | 9.3                                             | 7.7                                             |                                                |                                                |
| Consumption (Govt.)                               | 8.9                                             | 3.7                                             | 9.5                                             | 10.7                                            | 9.1                                             |                                                |
| Gross Fixed Capital Formation                     | 16.2                                            | 13.8                                            | 16.2                                            | 1.5                                             | 7.3                                             |                                                |
| Change in Stocks                                  | 26.9                                            | 31.5                                            | 31.1                                            | -48.6                                           | 90.8                                            |                                                |
| Exports                                           | 25.8                                            | 20.0                                            | 5.9                                             | 14.4                                            | -5.5                                            |                                                |
| Imports                                           | 32.5                                            | 21.3                                            | 10.2                                            | 22.7                                            | -1.8                                            |                                                |
| **CONTRIBUTION TO GROWTH**                        |                                                 |                                                 |                                                 |                                                 |                                                 |                                                 |
| Consumption(Private)                              | 54.2                                            | 52.5                                            | 54.9                                            | 90.5                                            | 47.8                                            |                                                |
| Consumption (Govt.)                               | 10.4                                            | 4.4                                             | 10.0                                            | 22.3                                            | 19.6                                            |                                                |
| Gross Capital Formation                           | 57.3                                            | 50.4                                            | 67.2                                            | -44.3                                           | 72.3                                            |                                                |
| Gross Fixed Capital Formation                     | 49.9                                            | 45.5                                            | 52.4                                            | 10.4                                            | 26.2                                            |                                                |
| Net Exports                                       | -18.6                                           | -10.2                                           | -13.6                                           | -57.6                                           | -8.0                                            |                                                |
| **RELATIVE SHARE**                                |                                                 |                                                 |                                                 |                                                 |                                                 |                                                 |
| Consumption (Private)                             | 59.1                                            | 58.7                                            | 58.2                                            | 57.9                                            | 59.4                                            | 58.5                                            |
| Consumption (Govt.)                               | 10.9                                            | 10.9                                            | 10.3                                            | 10.3                                            | 10.9                                            | 11.6                                            |
| Gross Capital Formation                           | 32.8                                            | 34.9                                            | 36.2                                            | 39.0                                            | 35.1                                            | 38.2                                            |
| Gross Fixed Capital Formation                     | 28.7                                            | 30.5                                            | 31.8                                            | 33.6                                            | 32.5                                            | 32.0                                            |
| **Sources**: Economic Survey-2010-11               |                                                 |                                                 |                                                 |                                                 |                                                 |                                                 |
Demand side GDP as measured at constant market prices is estimated to grow by 9.7 per cent 2010-11. At constant market prices, while total consumption expenditure and capital formation are estimated to decelerate year-on-year in 2010-11, PFCE is picking up, GFCE is decelerating sharply owing to base effect and pickup in Gross Fixed Capital formation and Net Exports compositionally show positive shifts. Inflation measured by the GDP deflator implicit in the demand side estimates for 2010-11 is at 9.6 per cent. Similar estimates based on the levels of growth in GDP at factor cost at constant prices and current prices was at 9.0 per cent. The levels of shares ad contribution to growth of key demand side aggregates do indicate that in 2008-09, the demand slow down was largely explained by gross capital formation and net exports. The two factors contributed to the pickup of demand in 2009-10- the PFCE indicates tat the food, beverages abd tobacco with a share of over 30 per cent I PFCE fell sharply in terms of growth in both 2008-09 and 2009-10.

→ Changes in Income brackets:

According to the study done by (Mc Kinsley Report-Also give a brief description about the Kinsley Report) Income growth in India has accelerated as the economy has grown. In 1985 to 1995 incomes increased at 5.7 per cent per year, and then by 6 per cent in 1995 to 2005. The survey that this trend will continue with 6.4 per cent growth in income from 2005 to 2015. In the study the Indian households are divided into five economic classes based on real annual disposable income. This categorization has been developed by NCAER in its publication, The General Indian Middle Class as shown in the results from the NCAER Market Information Survey of Households.

→ Households In The Different Income Brackets:

1) Deprieved (less than 90,000Indian Rs. And less tha $1,969) :
Households living under the official defnaiation of poverty (2,400calories per capita per day in rural areas 21,00 calories in urban area). People in this bracket typically earn their livelihood by engaging in the unskilled or low skilled activities. Also many workers in this segment struggle to find employment throughout the year and therefore egage in seasonal or part time employment.
2) **Aspirers (90,000 to 200,000 Rs. / $1,969 to $ 4,376)**:
People in this group are usually small-time shop keepers, small household farmer, or low skilled industrial and service workers. They spend half of their income on basic necessities.

3) **Seekers (200,000 to 500,000 Rs. / $4,376 to $ 10,941)**:
Of all the segments households in this income segment are probably the most varied in terms of employment attitude age and other factors. They range from college employees to traditional white collar employees mid-level Govt.Officers and Medium –Scale Traders and business people.

4) **Strivers (500,000 to 1,000,000Rs. ; $10,941 to $21,882)**
People in this income band and upwards are generally regarded as very successful in Indian Society working as business people (traders), in cities as established Professionals Senior Government Officials, Medium Scale Industrialists in towns, Rich Farmers in villages. They Have stable source of income and a wealthy band.

5) **Global Indians (1,000,000 + Indian Rs. ; $ 21,882 +)**
This group is the cream of the country and comprises Senior Corporate Executives, Large Business Owners, Politicians, Big Agriculture Land Owners and Top-Tier Professionals. More recently there is quick coming up of a new breed of the upwardly Mobile-Mid Level Executives or Graduates from India’s top colleges who are able to command premium slaries from internartional companies. This bracket of Indians are truly global in the tastes and preference and enjoy a very high standard of living.

India’s rising income have already had a significant impact on poverty reduction. In 1985 93 per cent of the population had an annual income of less than 90,000 Indian Rs or less than $1,970 per year or $540 per day, as categorized by the MGI study as the depreived. By 2005, this had dropped by about 2/5th to 54 per cent of the population with the biggest fall occurring since 1995. Therefore there are about 43 million fewer poorpeople in Indiathzn they were in the year 1985. Thus, the shape of the country’s income pyramid has changed. Through the creation of wealth through reform, **Indian has created a Sizeable and Large Urban Middle Class.** According to this study, they have proved to be the large consumer mass of today’s India. Moreover, the development of India has not only benefitted the wealthiest, but also the poorest. Table -3 shows the Share of Poulation in cach Income Brackets.
TABLE-5.2(b)
Share of population each income bracket:
(Percentage million of people)

<table>
<thead>
<tr>
<th>Year</th>
<th>Deprieved</th>
<th>Aspired</th>
<th>Seekers</th>
<th>Strivers</th>
<th>Globals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>93</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1995</td>
<td>80</td>
<td>18</td>
<td>2</td>
<td>0</td>
<td>0</td>
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<tr>
<td>2005</td>
<td>54</td>
<td>41</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2015</td>
<td>35</td>
<td>43</td>
<td>19</td>
<td>1</td>
<td>1</td>
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<tr>
<td>2025</td>
<td>22</td>
<td>36</td>
<td>32</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

Figures are rounded to the nearest integer and may not add up to 100 per cent


Source; MGI, India Consumer Demand Model, V 1.0

Chart – 5.2(b)

→ Increase in Disposable Income:

While consumption grew slowly in the decade before the 1991 reforms, it has been an important factor responsible of Indian growth over the past decade, especially after 1995. The survey by NCAER shows the following conclusions of the rise in the disposable income of the consumers of India:
Household Annual Disposable Income

In 1995, 41.7% households had disposable income of US$1,000-US$1,750. In 2007, 31.3% of households (31.3%) had disposable income of US$2,500-US$5,000. This shows that majority of the households have moved to the higher disposable income bracket which has become possible due to the increase in the economic advancement of the country as a result of liberalization of the economy. The largest increase in disposable income (400.4%) during 1995-2007 was recorded in the income bracket above US$5,000. The growth in disposable income is a result of an increase in the average earnings of the population again due to the increase in the earning opportunities for the individuals during this period. Increased economic growth has helped reduce poverty, which has begun to fall in absolute terms. Creation of jobs has led to a general decline in unemployment and an increase in the prosperity of the population.

The Tax reforms made in the economy during the Post-1990 period has also given that extra money to spend in the hands of the individuals. For e.g. Savings and capital investments are often subjected to favourable tax exemptions. Women and senior citizens are allowed a higher tax exemption limit. A small tax break is extended to farmers as well on their agricultural income.

This increase in disposable income has made a strong impact across all consumer markets. From cars and clothing to food, drink and travel, there has been a marked increase in consumption in both rural and urban areas. The 2007 McKinsey Report on Indian consumer markets predicted a dramatic expansion of domestic consumption with spending patterns changing from necessary to discretionary. In rural areas, low-income families are spending on medical services instead of relying on home remedies. They can now afford to buy a second-hand motorbike instead of commuting on bicycle. Middle-income families are spending more on mobile phones, television and private schooling for children. High-income families are spending more on high-end consumer electronics, alcoholic beverages and designer clothing.

The share of food and clothing in total consumption has declined as spending on other discretionary items increased. Spending on transportation and communication has seen trialedigit growth due to a high desire for increased connectedness. Spending on recreation and education increased too but commands a comparatively lower share of discretionary spending compared to the United States or Brazil. Spending on apparel and personal items matches CLIFE countries but spending on housing and household products continues to remain lower than the CLIFE average.
Table – 5.2 (c)
Number of Households by Disposable Income Bracket: Annual Disposable Income

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
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<tr>
<td>More than US $500</td>
<td></td>
<td>160,431</td>
<td>177,433</td>
<td>184,348</td>
<td>195,064</td>
<td>201,895</td>
<td>206,310</td>
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<tr>
<td>More than US $750</td>
<td></td>
<td>144,921</td>
<td>162,279</td>
<td>167,801</td>
<td>183,731</td>
<td>121,304</td>
<td>196,847</td>
</tr>
<tr>
<td>More than US $1,000</td>
<td></td>
<td>119,790</td>
<td>141,558</td>
<td>145,861</td>
<td>167,955</td>
<td>177,173</td>
<td>184,132</td>
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<td>More than US $1,750</td>
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<td>50,426</td>
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<td>66,584</td>
<td>82,089</td>
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<td>5,224</td>
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<td>15,655</td>
<td>21,554</td>
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<tr>
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<td>1,824</td>
<td>1,900</td>
<td>2,593</td>
<td>3,046</td>
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</tr>
<tr>
<td>More than US $25,000</td>
<td></td>
<td>680</td>
<td>957</td>
<td>999</td>
<td>1,365</td>
<td>1,606</td>
<td>1,834</td>
</tr>
<tr>
<td>More than US $35,000</td>
<td></td>
<td>443</td>
<td>626</td>
<td>654</td>
<td>894</td>
<td>1,054</td>
<td>1,204</td>
</tr>
<tr>
<td>More than US $45,000</td>
<td></td>
<td>322</td>
<td>456</td>
<td>477</td>
<td>652</td>
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<tr>
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<td>195,263</td>
<td>202,640</td>
<td>209,903</td>
<td>213,506</td>
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Economic reforms in India have led to increased job creation, reduction of poverty and an increase in the purchasing power parity of the country. The two main sectors in which most jobs...
have been created as result of this economic growth and are services – including communications, insurance, asset management and information technology – and infrastructure, such as telecommunications and civil aviation. The privatization in these sectors along with the foreign direct investment has proven to be extremely effective and, as a result, growth has been achieved. According to the Central Statistical Office (CSO), due to growth in the economy, the per capita income of Indians increased by as much as 14.2% in 2006-2007. Per Capita Income at current prices was estimated at Rs29,642 in 2006-2007, compared to Rs25,956 for the previous year. Adjusted for inflation, per capita income at current prices rose by 8.1% from 2005-2006 to 2006-2007, with estimated gains from Rs20,858 to Rs22,553. As a result of the increase in total income, the mean annual disposable income also increased by almost 150% from 1995-2007.

Economic growth resulted in India creating more jobs than any of the other BRIC nations (Brazil, Russia, India and China) during 1995-2007. According to the CSO, both the national income and average per capita income steadily increased during this period. The study reveals that the Ministry of Labor and Employment proposed a National Wage Policy with a minimum wage of Rs66 per day, the enforcement of the 1948 Minimum Wages Act falls under the jurisdiction of the individual state governments who revise the rate at their own discretion. As a result there exists a disparity in the minimum wage rates in various regions of the country due to differences in socioeconomic and agro-climatic conditions, prices of essential commodities, paying capacity, productivity and local conditions. The total income has deductions in the form of various taxes as per the Taxation policy of the Government and has additions of all the allowances in the income that comprises of allowances for medical claims, travel, house rent, children's education, furnishings and sometimes even entertainment. These allowances can usually be claimed only if bills are produced. Since income tax is calculated after deducting these claims, the structure of remuneration encourages employees to spend their income on discretionary activities.

Therefore, during 1995-2007, the mean disposable income of men and women grew by 210% and 108.5%, respectively. In 2007, the Indian male earned 200% more than the Indian female, a gap in difference mean annual disposable income that continuously widened during the review period. In 1995, the mean annual disposable income of women was 45.7% of men's, but by 2007 it had decreased to 30.7%. Even though the employment opportunities available to women have expanded and female participation in the labor force has increased, the data seems to indicate that most of the higher-paying jobs go to men. In the organized sector, men and women
are entitled to equal pay for the same job, although often men earn bigger incentives and bonuses and may be promoted faster. In the unorganized sector, there exists a gender-based disparity in income, as rural women are often not educated enough to be aware of their right to equal pay. Most of the higher-paying jobs created in India from 1995-2007 were in the IT sector. According to NASSCOM, the ratio of men to women software professionals in 2007 was 65:35. In the IT-enabled business services (ITES/BPO) sector, the ratio of men to women was 31:69. The salaries for software professionals are far higher than for IT-enabled services. Even in other industries such as aviation and telecommunications, which created a massive number of jobs during 1995-2007, men are likely to earn more than women since men are more likely than women to occupy senior management positions in these industries. The data on class profiles in Indian Institutes of Management (IIMs) show that on an average, women constitute only 20% of the class. In rural areas, the disposable income of females is lower than that of males due to a sizable number of women working in low-skilled, lower-paid agricultural jobs. In rural India, women are moving into the informal sector and agriculture, as men move to cities in search of better wages. In the daily wage sector, women command lower salaries. For example, a woman agricultural labourer would be paid Rs25-40 for a day's work, while a man would earn Rs50-60. According to the 2000-2001 annual survey of industries by the Labor Bureau, daily wages for industrial workers was reported as Rs222 for a man's daily wages and Rs85 for a woman's. The UN's 2005 Human Development Report places women's earned income in India as just 38% of their male counterparts' in rural areas. To reduce the inequality in the incomes of men and women, the government is increasingly introducing new schemes to increase the representation of women in the workforce.

→ The Rise Of The Middle Class:

The development in India has not only benefitted the wealthiest but also the poorest. India’s rising real income has already had a significant impact on poverty reduction. In 1985, 93 per cent of the population had an annual household income of less than 90,000 Rs. or less than $1970 per year or $5.40 per day categorized by MGI study as the deprived. By 2005 this had dropped by about 2/5th to 54 per cent of the population with the biggest fall occurring since 195. Therefore there are about 431 million fewer poor people in India than they were in the year 1985.

Now the middle class is emerging as the ‘Consumption Community’ of the country. The fast growth rate in India has lifted thousands and millions of the Indians out of poverty and has given them an entry into the middle class of the society into the cities of India. The study done
by the McKinsey Global Institute (MGI) suggests that if India continues its recent growth, average household incomes will triple over the next two decades. In 2005, private spending reached about 17 trillion Indian rupees accounting for more than 60 per cent of India’s GDP. The growth that has millions of people out of poverty has also created a huge middle class which is concentrated into the urban areas.

<table>
<thead>
<tr>
<th>Aggregate Urban Consumption</th>
<th>Average Consumption/urban household</th>
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<tbody>
<tr>
<td>In billion Rs.</td>
<td>In billion Rs.</td>
</tr>
<tr>
<td>Year</td>
<td>Consumption</td>
</tr>
<tr>
<td>1985</td>
<td>2,1811</td>
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<tr>
<td>1995</td>
<td>4,005</td>
</tr>
<tr>
<td>2005</td>
<td>7,208</td>
</tr>
<tr>
<td>2015</td>
<td>17,385</td>
</tr>
<tr>
<td>2025</td>
<td>43,120</td>
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</tbody>
</table>

Source: MGI India, Consumer Demand Model v 1.0

Table-5.2 (d)
Chart – 5.2 (d)

Urban India is providing a major market opportunity to the big business sector of India and the world. The consumption level of the urban sector is growing very recently. Over the past decade aggregate urban consumption has grown by 6.2 per cent, outpacing GDP growth. The income as mentioned above has increased tremendously and therefore the urban spending has
increased to 115,620. Due to the rise in the household spending the urban market is expected to expand from 7,208 trillion Indian rupees to 43,120 billion Indian rupees by 2025. Apart from the rising income the growth in the urban spending is due to the increasing population in the urban area. It is estimated by the study done by MGI that 2/3rd of the increase in the population in India over the next decade will be in the urban sector. This is due to the internal migration from rural sector to the urban sector. Today 29 per cent of India’s population is in the urban sector which would increase to 37 per cent over the next decade.

The Total Increase in the Consumption of the Urban sector has increased from Rs. 2,1811 Crores to Rs. 43,120 crores. On the other hand the increase in the Average Consumption/Urban Household reveals that in the year 1985 it was Rs.65, 416 crores to Rs. 3, 78,170 crores. Therefore the increase in the consumption on an average per urban household has increased almost 6 times.

According to the study conducted by the (MGI) from 318 million today, the population in urban areas will expand to 523 million in 2025. As the members of the class are better educated and better exposed to global lifestyles, their aspirations have been constantly growing. Their spending is steadily increasing. They often spend more than what they earn at any given point of time in order to cope with their new social image. The top 112 cities account for about 200 million Indians which is more than 60% of urban India. These cities constitute a market of consumers whose combined annual incomes are Rs 13,261 billion. Thus due to the fast growing status of the population of urban India, there would be a substantial shift in the structure of its income class also. In the past decades, deprived and aspirer households dominated urban India which is accounted for 95 per cent of urban households. But in the last decade almost 7 million households has emerged as urban middle class. during this decade the proportion of aspirers households has been rising rapidly while that of the deprived households has been declining. aspirers are currently the largest group. Thus most importantly, this increasing middle class of the urban SOCIETY is striving to change its lifestyle also. As income increases the “share –of-Wallet” of consumer spending will change significantly. According to the study done by MGI the spending pattern were divided into nine major consuming categories and 30 sub categories. The results show that all categories has experienced and will experience growth in absolute terms, but some will grow much faster than others. The percentage of spending on discretionary items has grown dramatically, while spending on necessities has grown more slowly.
Development of the Retail Sector:

The Indian retail industry has ranged impeccable growth over the last decade with an amiable acceptance to organized retailing formats. The industry is maturing towards modern concept of retailing, cornering the conventional unorganized family-owned businesses. India has been ranked as the fourth most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, according A.T.Kearney, in its Global Retail Development Index (GRDI) 2011.

The Rs 18,673 billion (US$ 401 billion) Indian retail market entails only 6 per cent of itself as organised retail segment as of 2010, according to Booz and Co (India) Pvt Ltd. Hence, there is a great potential to be explored by domestic and international players. The Business Monitor International (BMI) India Retail Report for the fourth-quarter of 2011 forecasts that the total retail sales will grow from US$ 411.28 billion in 2011 to US$ 804.06 billion by 2015. The report has underlined factors like economic growth, population expansion, increasing wealth of individuals and rapid construction of organized retail infrastructure as major drivers for the optimistic forecast figures. According to a research report named ‘Retail Sector in India’ by Research and Markets, Indian retail sector accounts for 22 per cent of the country's gross domestic product (GDP) and contributes to 8 per cent of the total employment. The report further highlighted that hypermarkets (currently accounting for 14 per cent of mall space) will witness immense progress in the Indian landscape.

Major Investments in the Retail Sector:

With an increase in the adoption of credit cards and personal vehicles, middle-class Indians are increasingly turning to the organised retail format for their food shopping. These shoppers are keen to take up special bulk purchase offers and deals from supermarkets and hypermarkets which have sprung up in every major city of India. The Ministry of Commerce and Industry, in the 2007 India Retail Report, expects the value of the organised retail sector in India to be about US$45 billion by 2010. The organised retail sector is also expected to generate 10 million-15 million jobs over the next five years. According to the report, food and grocery retail constitutes the largest proportion estimated to be worth a whopping Rs7,439 billion. The share of the organized sector within this figure is still extremely small, but it is expected to grow at a rate of 42% in 2008. Supermarkets offer a wider choice of processed foods – such as jams, pickles, sauces, juices and ready mixes – than local stores do. This is giving organised food retail high sales value growth, as these stores are selling higher volumes of value-added foods.
According to a report by research firm CB Richard Ellis India, over 6 million square feet of retail mall space was added across India in the first six months of 2011; primarily due to aggressive expansion by organised retailers.

For instance, Kishore Biyani-controlled Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.

Cumulative foreign direct investment (FDI) inflows in single-brand retail trading during April 2000 to June 2011 stood at US$ 69.26 million, according to the Department of Industrial Policy and Promotion (DIPP).

*Driven by changing consumption patterns, favourable demographics, expanding middle class and greater government support, retailers are eagerly foraying into untapped avenues of Indian markets by making huge investment plans.*

For instance-

- Jubilant FoodWorks Ltd, which operates fast food chain of Dominos Pizza in India, will invest over Rs 70 crore (US$ 15.03 million) in the FY12 on new stores and commissaries.
- Reliance Industries’ Reliance Retail (that runs supermarket and hypermarket chains) is planning massive expansion across the country by doubling the number of stores in several specialty formats in 2011.
- The brand ‘More’, operated by Aditya Birla Retail, will open 12 hypermarkets and 150 supermarkets in fiscal 2012. After the expansion, its supermarket stores tally will reach 715.
- Shoppers Stop Ltd, which has 43 departmental stores and 10 hypermarkets under the brand Hypercity, plans to open four more hypermarkets and 10 departmental stores in 2011.

Along with the metros, the retailers are entering into big on tier-II and tier-III cities as well.

- The Aditya Birla group firm, Madura Fashion & Lifestyle, is aiming at a turnover of Rs 1,100 crore (US$ 236 million) for FY13, on the back of its pan-India expansion spree, including small cities and towns.
• In a bid to triple its turnover from retail segment, Shree Ganesh Jewellery has formed an alliance with Bharti Retail’s 'Easy Day' market format to promote its Gaja Lites range of jewelleries. The company plans to launch 250 outlets in tier II and tier III cities under its flagship brand ‘Gaja’.

• Japanese imaging technology major Nikon Corporation’s subsidiary Nikon India is focusing on tier-II and tier-III cities to fuel its growth. The company is planning to extend its presence to 2,400 channel partners by March 2012 from the current 2,000 of them.

→ Financial Development And Economic Growth In India

REPORT ON CURRENCY AND FINANCE:
Increased financial market liberalization, have enhanced competition. A number of the existing financial institutions have diversified into several new activities, such as, investment banking and infrastructure financing, providing guarantees for domestic and offshore lending for infrastructure projects. Apart from the financial institutions, rapid expansion of Non-Banking Financial Companies (NBFCs) took place in the ’eighties and provided avenues for depositors to hold assets and for borrowers to enhance the scale of funding of their activities. Various types of NBFCs have provided varied services that include equipment leasing, hire purchase, loans, investments, mutual benefit and chit fund activities. More recently, NBFC activity has picked up in the area of housing finance. Financial development is also reflected in the growing importance of mutual funds. In the nineties, they have enabled sizable mobilization of financial surpluses of the households for investment in capital markets. Capital markets themselves have become an important source of financing corporate investments, especially after firms were permitted to charge share premium in a flexible manner. Sanctions as well as disbursements of all-financial institutions, including the SFCs and the SIDCs has expanded at a rate of 24.1 percent per annum and 23.8 per cent per annum, respectively, during 1970-71 to 1999-2000. In addition, there has been a spurt in the activities of NBFCs and mutual funds over the last two decades. Deposits of NBFCs recorded an impressive growth of about 35 per cent per annum from the mid-’eighties to the middle of the ’nineties. The financial development in the banking and non-bank financial sector has supported saving and investment in the economy and contributed to growth in real activity. By pooling risks, reaping economies of scale and scope, and by providing maturity transformation, financial intermediation supports economic activity of then non-financial sectors. Its influence on growth, however, needs to be examined from different viewpoints that are of potential relevance in the Indian context. Before analyzing the
linkage between financial development and growth, it would be necessary to know as to how financial development is measured.

One of the basic indicators of financial development of an economy is the contribution of finance-related activities in real GDP, \textit{i.e.}, the contribution of banking and insurance in GDP. The share of real GDP originating from finance-related activities experienced a steady increase from 2.2 per cent during the first half of the ’seventies to 4.7 per cent during 1993-94 to 1998-99 Table 5.2 (b). Within the services sector, the share of finance worked out to little over 11 percent during the ’nineties.

**FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN INDIA**

It may be noted that the growth of GDP originating in finance was generally higher than that of GDP ever since the mid ’seventies. The higher growth rate of GDP from finance in comparison to total GDP, to some extent, arose from the low base of GDP from finance. In appreciating the nature of relationship between finance and growth in India, it should be noted that financial development in India has been by and large a state-induced activity. Thus, starting with bank nationalisation to various stipulations on bank lending with emphasis on ‘social banking’, the very thrust of financial development was consciously to encourage growth via availability of adequate credit at reasonable (at times concessional) rates of interest to areas where commercial considerations may not allow for imminent disbursal of credit. Sharp bank branch expansion strategy turned out to be successful in increasing the scale of lending, since banks could raise necessary deposit resources. Availability of finance encouraged growth, and over time, growth, in turn, facilitated financial development. This virtuous circle between growth and finance seemed to have borne fruit in India.

- **Development of the Banking Sector**

As a result of the reforms, the number of banks increased rapidly. In 1991, there were 27 public-sector banks and 26 domestic private banks with 60,000 branches, 24 foreign banks with 140 branches, and 20 foreign banks with a representative office. Between January 1993 and March 1998, 24 new private banks (nine domestic and 15 foreign) entered the market; the total number of scheduled commercial banks, excluding specialized banks such as the Regional Rural Banks rose from 75 in 1991/92 to 99 in 1997/98. Entry deregulation was accompanied by progressive deregulation of interest rates on deposits and advances. From October 1994, interest rates were deregulated in a phased manner and by October 1997, banks were allowed to set interest rates
on all term deposits of maturity of more than 30 days and on all advances exceeding Rs 200,000. While the CRR and SLR, interest rate policy, and prudential norms have always been applied uniformly to all commercial banks, the Reserve Bank of India treated foreign banks differently with respect to the regulation that requires a portion of credit to be allocated to priority sectors. In 1993, foreign banks – which In 1998, the Narashimham Committee II has recommended a convergence of developing financing institutions to with commercial banks or non-bank financial institutions and an adoption of the integrated system of regulation and supervision etc. Representative offices may not be allowed to hold deposits or extend credit. Their main business is to develop business contacts between local firms and their head offices, and collect local information to for their head offices used to be exempt from this requirement while all other commercial banks were required to earmark 40 per cent of credit – were required to allocate 32 per cent of credit to priority sectors. The above development of the Financial Sector has increased the disposable income in the hands of the consumers. Consumers have started spending their present income but have also started spending the future income that is available to them in the form of various loans, credit cards, etc.

- **Development of Stock Market:**

According to a study by the India Brand Equity Foundation on the Indian financial services industry, the buoyancy in the Indian economy is estimated to lead to a four-fold increase in India's investable wealth from US$250 billion in 2007 to US$1 trillion by 2012. In 2007, the Bombay Stock Exchange (BSE) posted its highest ever absolute gain of 6,500 points in more than two decades, which led to an increase in total investor wealth to a record high of more than US$1.7 trillion. According to Ernst & Young, India was also the fifth-largest market in terms of the number of IPOs. Indian companies raised a whopping US$11.5 billion through public issues in 2007, an increase of 83% over 2006. In 2007 the private equity market emerged as the most preferred mode of fund mobilisation for corporate India and the country topped the Asian private equity chart for the first time in terms of aggregate deal value. According to Grant Thornton, a total of US$17.1 billion was mobilised through 386 deals in 2007. Real estate, infrastructure, banking and financial services were the dominant sectors attracting about 55% of the total private equity investments. The burgeoning economy, surging foreign investment, financial sector reforms and a favourable demographic profile led the Indian banking industry to emerge as one of the fastest-growing in the world. The banking industry's business grew to US$1,175.6 billion in March 2007. With increasing per capita income, insurance penetration and entry of new players, the Indian insurance industry is estimated to grow to US$50.9 billion
by 2010 from around US$12.7 billion in 2007. According to a report by Goldman Sachs, with the insurance, mutual fund and pension sectors experiencing rapid growth, India's debt market is estimated to grow to about US$1.5 trillion (about 55% of GDP) by 2016. In a striking contrast to the wealth being created in urban India, there is another India which has yet to feel the impact of this progress. Despite India's massive bank network, the rural areas are still dependent for credit upon local moneylenders and pawnbrokers, who often charge such high interest rates that these people are led into a cycle of indebtedness. In 2006, a World Bank study of more than 6,000 families in the states of Andhra Pradesh and Uttar Pradesh, found that 87% of them had no access to credit, 85% had no access to insurance and 56% borrowed from moneylenders. The study also found that corruption was rampant in rural banks with bribes amounting to 20% of the loan. Thus, traditionally, credit and debt have been associated with poverty and poor money management, especially in rural India. Indians have preferred to borrow from family and friends instead of banks. However, with the growth of the banking industry, the consumer finance sector has become highly customer-focussed in terms of its attitude and services offered. India has witnessed phenomenal growth in the credit card sector in urban areas. The country's credit card base, pegged at 27 million in 2007, is growing at an annual rate of 30%-35%. Initially, merchants accepting card payments were a limiting factor for growth. With the growth of organised retail, card acceptance has led to greater sales volumes and thus reluctance is diminishing quickly. According to the State Bank of India, the usage of credit cards at retail outlets has nearly doubled since 2006, from 30%-35% to 50%-60% today. The transaction value of credit cards has also fallen and card usage has become more casual. According to ICICI Bank, credit cards are typically used for purchases of more than Rs1,000. But nowadays people have started using them for even Rs500. Due to an increase in the penetration of IT and computer literacy in India, increasingly banks have started offering services such as online and mobile banking to encourage people to bank from home free of charge. According to the Central Statistical Organisation (CSO), Indians are among the largest savers in the world with a savings rate of 33% of GDP and households accounting for a large chunk of the savings. The average savings of Indian households have increased from 6.6% in the 1950s to 23.2% in the current decade. According to RBI, 31% of India's population has a bank account. The average size of a deposit account in rural areas is about one third the size in urban areas and ranges from about Rs7,000 (in Andhra Pradesh) to about Rs17,000 (in Punjab). Savings accounts (27% of total system
deposits) form a major chunk of all bank accounts. In 2007, the interest rate on savings accounts was 3.5%. With the current inflation rate rising above 11%, the real interest rate earned on savings accounts is negative. While the Indian consumer considers savings important, especially for the education of their children and retirement support, thanks to the booming economy, Indians are increasingly spending more than they save. According to a 2008 survey entitled 'Consumer Attitudes towards Savings' conducted by Aviva Life Insurance, close to 57% of Indians are happy to have short-term debt to allow them to have higher spending power as compared to 40% of their global counterparts. However, compared to other economies such as some Southern European countries and Russia, India still continues to be favourably inclined toward savings. The survey also revealed that 24% of Indians stated that they were more prepared to take financial risks than they were five years ago, compared to 18% globally. This demonstrates a strong trend toward high-risk/high-return products as opposed to traditional preferences toward safer financial-style products. Gold is valued in India as a savings and investment vehicle and is the second preferred investment after bank deposits. India is one of the world's largest gold buyers. According to Multi Commodity Exchange of India, the total gold stock of India is 13,000 tonnes which accounts for 9% of total world stock. More than 90% is used for jewellery. For Indian households, gold is a form of security, as 90% of India's workforce is not covered by any retirement scheme that enables savings for economic security during old age. Gold jewellery is also used as collateral when borrowing from moneylenders. Even deities in temples are adorned with heavy gold ornaments during festivals. It is a common and almost mandatory practice for parents to gift gold jewellery to the bride during Hindu weddings. According to Hindu beliefs, certain days are considered to be auspicious for buying gold, such as the date known as Akshaya Tritiya which usually falls in the month of May. On these days, the buying and selling of gold is higher than the rest of the year.

The tremendous growth of the financial sector and its emphasis on customer service has made availing personal loans, housing loans, car loans and other consumer financing extremely efficient in urban India. As a result the middle class has become more comfortable with a certain amount of debt than it was in 1997. With great access to credit, the middle class is increasingly spending on discretionary items such as transport, communications, clothing and leisure. The growth of micro finance in rural areas has made it easier to obtain credit. However, unlike as in urban areas, this credit is spent on income-generating activities rather than discretionary items. As rural incomes rise, one can expect the rural consumption pattern to
behave in a manner similar to urban areas in the future. **The banking industry has been using the impact of the Internet to make financial transactions easier for consumers.** The Internet & Mobile Association of India's (IAMAI's) online banking survey of 2006, estimates that close to 4.6 million Internet users bank online. The number of Internet and mobile banking users is expected to grow to more than 16 million by 2007-2008. Although cash transactions still account for more than 90% of personal consumption expenditures, the share of card payments has been steadily increasing. According to the RBI Annual Report, card-based transactions have emerged as the preferred option among all retail electronic modes of payment due to the proliferation and increasing usage of debit cards. As a result, online shopping and ticketing has become an emerging trend with consumers spending on books, music, flight tickets and holiday packages from online retailers. It is likely that this will be a precursor to further electronic payments of utility bills. With online banking picking up, credit card issuers are offering bill payment facilities free of charge to credit card customers. Currently, not all utilities are covered, but the list is likely to increase.

- **An Increase in the Use of Credit Cards**

Traditionally, Indians have been debt-averse. Until a decade ago, people were reluctant to borrow money except from family and friends or perhaps the local moneylender. Salaried employees were able to borrow up to 35% of their annual salaries from their employers for personal needs. With the liberalisation of the financial sector, India has witnessed a huge growth in the use of plastic money. Together debit and credit card transactions increased by more than 42% to Rs704 billion during 2007-2008. The country's credit card base, pegged at 27 million in 2007, is growing at an annual rate of 30%-35%. Credit cards constitute one of the fastest-growing financial businesses in India. There are currently 25 million credit cards in the country and ICICI Bank is the largest player with 8.5 million cards issued. Citibank, SBI-GE and HDFC Bank are the other prominent players. The annual spending on credit cards, which currently stands at Rs500 billion, is expected to grow by 50% annually over the next four or five years. The proportion of credit card spending to total per capita expenditures by Indians is the lowest in the world, which suggests a huge potential for further growth. Middle-class Indians increasingly use plastic money when shopping for food and clothing at organised retail outlets. The organised retail sector has been instrumental in the growth of credit cards, as retailers more and more often readily accept this mode of payment. Most big stores and chains accept these cards, accounting for only 3% of the market. The remaining 97% of unorganised retailers do not accept credit card-based transactions. **Thus, plastic money is a pure urban phenomenon.**
As these card firms increasingly target Indians in their 20s and 30s with high disposable income, consumption of goods in every category has increased. With income levels poised to improve further and favourable demographic profiles ensuring that an even larger proportion of the population moves into the economically active demographic by 2015, use of credit cards will continue to grow in upcoming years.

Credit cards are easily available to consumers, even to 18-year-old working singles. Various surveys have found that these young Indians are increasingly living off plastic money and often face a tough time repaying the loan. The default rate on credit cards is the highest across different loan categories in the country. According to a 2007 report in The Economic Times, the default rate for credit cards increased from 7%-9% in 2006 to 10%-12% in 2007. In contrast, the default rate is 3%-4% for personal loans, 2% for auto and two-wheeler loans and less than 1% for mortgage loans. This is largely due to the growth in spending and due to the increase in penetration in smaller towns. While credit card usage has largely been an urban phenomenon, many banks are attempting to reach out to the rural population. The State Bank of India is launching biometric smart cards in West Bengal. The amount of money lent out to the customers will be twice the amount of savings and will be doubled each year. This microfinance initiative has already been introduced in select areas of Andhra Pradesh, Mizoram and Karnataka. The Kisan credit card, which was launched in 1998-1999 by the government of India in conjunction with the Reserve Bank of India (RBI) and National Bank for Agricultural and Rural Development (NABARD), is a huge hit with Indian farmers. According to RBI, presently there are about 66.6 million Kisan credit cards, issued by various banks, in use across India. In 2005-2006, 8 million Kisan credit cards were issued, while 2006-2007 saw a slight decline to 7.8 million cards. The average number of Kisan credit cards issued during the past five years has been 9 million per year. Growth in credit cards has boosted the sales of organised retail. According to State Bank of India, usage of credit cards at retail outlets has nearly doubled, from 30%-35% two years ago to 50%-60% today. In addition, the transaction value of credit cards has dropped and usage has become more casual. According to ICICI Bank, credit cards are typically used for purchases of more than Rs1, 000. However, nowadays people have started to use them for purchases as low as Rs500. The most frequent uses are for department store, fuel and restaurant spending categories. The increase in credit cards has given a huge fillip to e-commerce in India. High Internet penetration has further aided the growth of e-commerce. Consumers find it extremely convenient to pay utility bills, book tickets and shop online since making such transactions offline often means standing in
long queues for hours. Growth in rural credit cards would give a boost to the purchasing power of rural Indians. To expand the rural market, many large corporations are foraying into this sector with innovative, low-cost products. The importance of the rural market for some fast-moving consumer goods (FMCG) and durable marketers is underlined by the fact that the rural market accounts for close to 70% of toilet soap users and 38% of all two wheelers purchased, according to NCAER data. The rural market accounts for half of the total market for TV sets, fans, pressure cookers, bicycles, washing soap, blades, tea, salt and tooth powder. Product innovation for these markets includes Rs1 sachets for soap, shampoo and detergent. Coke launched a 200 ml bottle for Rs5 resulting in the manifold penetration of soft drinks in rural India.

- **Pensions**

In India, the normal retirement age is typically 58 or 60 according to the employer's discretion, but the trend has been toward age 60. The population of India is increasing, and as in other countries, ageing. By 2015, the number of Indians over the age of 60 is expected to be 116 million, more than 9% of the population. According to a 2008 report by Mercer, about 10% of India's workforce is composed of organised workers covered under state provident funds or private pension funds. The remaining 90% of workers fall into the unorganised sector, with only minimal benefits. Like many developing countries, India has no universal social security system, and the current system provides benefits mainly for the poor. However, because the benefits are meagre, the majority of India's elderly still depend on their children for financial support. Pensions have so far been the mainstay of government jobs and very few private sector jobs. The government has a statutory Employee Provident Fund (EPF) and a Public Provident Fund (PPF), which are pension funds. The EPF must be offered by all registered companies and this becomes a mandatory savings scheme for employees. The PPF is optional, and is used by the self-employed as an investment and for tax planning. Normal maturity is usually 15 years and the rate of interest offered in 2007-2008 was 8.5%. The monopoly of the Life Insurance Corporation of India over insurance and pensions ended with the setting up of the first private sector pension fund in October 2003. Under recent pension fund reforms, six private sector funds have been allowed to launch new schemes for government employees since October 2003. A significant
aspect of these pension funds is that they are allowed to invest outside the country to enable the pensioners to obtain the best possible returns.

As the number of pensioners' increases, the health and medical sector will see increased consumer spending. According to a report by All India Institute of Medical Sciences (AIIMS), the largest and most reputed medical institute in India, 45% of the population over the age of 60 suffer from chronic diseases, and 5.4% are immobile. According to a 2008 CII-McKinsey study on 'Health in India', the changing demographics, disease profiles and rising treatment costs will cause spending on healthcare to reach more than Rs2,000 billion by 2012. To meet the medical expenses, health insurance is becoming popular among the elderly. Health insurance premiums exceeded Rs32 billion (US$800 million) in the financial year ending 31 March 2007, an increase of 44% over the previous year. For most of the private general insurance companies, health is one of the fastest-growing lines of business. According to a report by leading daily Times of India, due to increased urbanisation and the rise of nuclear families, the elderly in India are leading isolated lives. Acute loneliness among many wealthy elderly in cities is driving some of them toward 'emotional entrapment'. To avoid this, these individuals are increasingly spending on travel, group events, telephone clubs and other social initiatives.

→THE DYNAMICS OF THE CONSUMPTION EXPENDITURES IN INDIA:

According to McKinsey's 2007 report on Indian consumption, India's rise in income has turned it into one of the largest consumer markets in the world. The total increase in consumer spending in 1995-2007 was 73.9% and is expected reach 58.2% in 2007-2015. In 2007, the largest proportion of consumer expenditures was on food and non-alcoholic beverages, followed by transport and housing. In 2015, these categories will continue to dominate. The spending on miscellaneous goods and services will be high as on housing by 2015. The rate of growth in all consumer goods expenditures would be comparatively less in 2007-2015 due to the saturation of penetration of the depressionary effect. The future of growth for these products lies in the untapped rural markets of India. According to the National Council for Applied Economic Research, for every US$100 earned by an Indian villager, an urbanite makes US$56 more. Naturally, rural consumption is highly sensitive to the prices of food, clothing, footwear and toiletries. In contrast, the urban population cares more for value-for-money. Assuming the 1995 prices of consumer items as a base, the cost of all consumer items increased by almost 100% from 1995-2007. However, the increase was remarkably less than the increase in the average of
CLIFE countries, which was 660.9%. The reason for this is the cheap labor available in India which reduces the cost of production of most consumer items. It's no wonder that India has emerged as a favourite destination for the outsourcing of consumer item manufacturing. While consumer expenditures on food and non-alcoholic beverages increased by just 9.5% from 1995-2007, they are expected to grow by 39% over the forecast period. This could be attributed to the global trend in rising commodity prices. Hotels and catering saw an increase in expenditures of 214.9% during 1995-2007, which are expected to grow by 76.9% over 2007-2015. As women have started to pursue ambitious careers in urban areas, they have less time to cook meals at home. Hence their families are buying lunch at the workplace and eating dinners out in restaurants. Previously, working people carried their lunch from home in the morning. Mumbai's dabbawallas are famous for delivering home-cooked lunches to offices. Increasingly, companies are providing canteens or other foodservice options for their employees through contract foodservice providers. Eating out has increased in urban areas and the cuisines of almost every country can be sampled in big metropolitan cities such as Mumbai, Delhi, Kolkata and Bangalore. As disposable income increases, there has been an upturn in the consumption of imported vegetables and poultry. Increased consumption of junk food is also evident in the rising number of McDonalds, Pizza Hut and KFC outlets in urban areas. The rise in health consciousness among urban Indians has led to increased spending on the services of dieticians, nutritionists, weight loss centres and gyms. An increasing number of Indians are joining weight loss clinics such as VLCC which promises a transformation from fat to fit quickly and affordably. This trend is especially marked in North India, since the diet is inherently unhealthy due to a high intake of saturated foods. The rise in health consciousness explains the huge increase of 203.5% on health goods and medical services expenditures from 1995-2007. The growth is expected to continue at a rate of 63.3% over 2007-2015.

The increased emphasis on a healthy lifestyle is part of a trend to look fitter and well groomed. The male grooming sector is now estimated to be a Rs4.5 billion business in India, growing at 15% per annum. Hindi movies are a major force behind many fashion trends. Indian actors are donning more 'metrosexual' looks and the popularity of Bollywood movies leads youngsters to emulate their styles. As a result, miscellaneous goods and services which consist of personal hygiene and grooming products grew by 164.9% in 1995-2007. The growth in this sector is expected to continue at 66.7% during 2007-2015. With more urban women gaining financial independence and working away from the home, the awareness of how to use cosmetics has increased. There has been an upsurge in the usage of colour cosmetics, hair and skincare
products among Indian women. Traditionally, Indian women used henna (a plant product) for
colouring their greying hair. However, cosmetic hair colours from Garnier and L’Oréal are
becoming very popular with the increasing use of hair colour for fashion purposes. Working in
IT and BPO environments has meant that Indians are spending more time in airconditioned
spaces, where body odour becomes more apparent and stifling. In a humid and hot country, it is
not surprising that spending on deodorant has increased. Many first- and second-tier cities
witnessed massive growth in IT and infrastructure projects during 1995-2007. Due to the high
availability of jobs, these cities attract a large number of migrants from the rest of India. In
response to heavy demand, homeowners often try to maximise profits by leasing their houses at
very high rents. Rented houses in India are mostly unfurnished, which results in new tenants
having to spend a large part of their income on household furnishings. Household goods and
services spending increased by 81.7% during 1995-2007 and will continue to increase at 66.6%
in 2007-2015. As a result of increased urbanisation, large cities such as Mumbai, the financial
capital of India, face a severe housing crunch. It is common for a family of four to cramp
themselves in a single-room house. Future growth in housing is expected to be at a greatly
reduced pace as urban areas are fast becoming saturated. Housing expenditures increased by a
whopping 99.7% from 1995-2007. Expenditures are expected to continue increasing at 61.6%
over 2007-2015. Future growth in housing will take place in satellite towns and smaller cities
such as Mangalore, Nasik and Mysore, as multinational firms establish new bases. Although
non-discretionary items such as food and housing constituted the biggest proportion of
consumer expenditures in 2007, this share would be surpassed by the proportion of spending on
discretionary items such as communications, personal transport and leisure by 2015. People
who migrate to cities in search of jobs frequently travel back home to their native places during
festivals. Travel websites have made booking easier and faster through online ticketing and
hotel reservations. The privatisation of the aviation sector has led to many players to enter the
low-cost airline domain. The severe competition between airlines and railways has led to a fall
in ticket prices and has boosted the volume of air travel. As a result, transport spending
increased by 209.4% during 1995-2007. The growth will continue at 73.2% in the forecast
period. The public transport system in India that comprises buses and auto-rickshaws is slow,
uncomfortable and inefficient. This has led to increased consumer spending on personal
vehicles. While many cities such as Mumbai, Kolkata and Delhi face extreme congestion and
lack of parking spaces, these cities also offer comparatively better service on local trains and
underground suburban rail. As a result, people in these cities are spending less on personal
vehicles. The lower-middle class uses scooters or bikes as modes of family transport, carrying their wives and children to and from the school, office or market. The middle-income young adult sees a two-wheeler as a stepping stone to owning a car in the future. Working women from middle-class families are increasingly spending on two-wheelers to gain greater mobility. As a result, lightweight scooters have become a popular mode of transport among female students and young mothers. Communications was the fastest growing consumer sector in 1995-2007, with increased spending of 362.3% in 1995-2007. According to a report by eMarketers, Indian mobile users have grown to 270 million, with a rapid growth rate of 8 million subscribers every month. India has the lowest tariffs and handset prices in the world. Many popular entertainment shows such as the Indian versions of 'Who Wants to Be a Millionaire' and 'Indian Idol' are based on a format that involves participation through text messages. Initially having a mobile phone was considered fashionable by Indian youth but now it has become a necessity, and it is common for each family member to possess his or her own handset. Apart from using mobile phones for calling and text messaging, Indian youths increasingly use their mobile phones to download music, play games, explore astrology and share tips. The below table shows the changing pattern of consumption of consumers of India. It is observed in detail under different headings.

Table-5.2 (f)

<table>
<thead>
<tr>
<th>Consumer Expenditure by Product Type</th>
<th>(%analysis and %growth)</th>
<th>% of total consumer expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoholic Beverages &amp; Tobacco</td>
<td>2.29 2.31 2.01 76.01 37.28</td>
<td></td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>5.05 4.92 49.43 54.00</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>10.53 12.09 12.35 99.72 61.60</td>
<td></td>
</tr>
<tr>
<td>Household goods and services</td>
<td>3.30 3.45 3.63 81.74 66.57</td>
<td></td>
</tr>
<tr>
<td>Health goods and Medical services</td>
<td>3.99 6.96 7.18 203.53 63.33</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>10.78 19.19 21.00 209.43 73.19</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>0.77 2.05 2.28 362.29 75.93</td>
<td></td>
</tr>
<tr>
<td>Leisure and Recreation</td>
<td>1.48 1.92 2.19 125.34 79.77</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>1.78 2.38 2.97 133.27 97.24</td>
<td></td>
</tr>
<tr>
<td>Hotels &amp; Catering</td>
<td>1.34 2.42 2.70 214.94 76.92</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous goods &amp; services</td>
<td>6.44 9.81 10.34 164.93 66.68</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.00 100.00 100.00 73.93 58.23</td>
<td></td>
</tr>
</tbody>
</table>

Constant value at 2007 prices
• **SPENDING ON FOOD AND NON-ALCOHOLIC BEVERAGES:**

Table-5.2 (g)

<table>
<thead>
<tr>
<th>Consumer Expenditure on Food and Non-Alcoholic Beverages</th>
<th>Rs. Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOOD</td>
<td></td>
</tr>
<tr>
<td>Bread</td>
<td>26.6</td>
</tr>
<tr>
<td>Meat</td>
<td>5.2</td>
</tr>
<tr>
<td>Fish &amp; Seafood</td>
<td>2.0</td>
</tr>
<tr>
<td>Milk, Cheese &amp; Eggs</td>
<td>17.0</td>
</tr>
<tr>
<td>Oil &amp; Fats</td>
<td>7.5</td>
</tr>
<tr>
<td>Fruit</td>
<td>5.8</td>
</tr>
<tr>
<td>Vegetables</td>
<td>23.5</td>
</tr>
<tr>
<td>Sugar &amp; Confectionaries</td>
<td>6.0</td>
</tr>
<tr>
<td>Other Food</td>
<td>4.3</td>
</tr>
<tr>
<td>NON-ALCOHOLIC BEVERAGES</td>
<td></td>
</tr>
<tr>
<td>Coffee, Tea &amp; Cocoa</td>
<td>1.7</td>
</tr>
<tr>
<td>Other Soft Drinks</td>
<td>0.4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: National statistical offices, OECD, Eurostat, Euromonitor International

According to the above Table, total expenditures on food and non-alcoholic beverages increased by 9.5% from 1995-2007. While spending on food increased by 6.8%, spending on non-alcoholic beverages such as water, fruit juices, tender coconut water, lemonade and buttermilk has increased by 129.8%. Traditionally, working people in India ate all three main meals at home. **With the increase of working women in urban India, there has been an increase in eating out, take-away, home delivery of food and readymade meals.** Home
deliveries are more popular than takeaway meals, due to the intense traffic congestion in cities such as Mumbai and Kolkata. According to a 2005 AC Nielsen biannual online survey in 28 countries, urban online Indians are among the top 10 most frequent consumers of fast food in the world with more than 70% of Indians reportedly consuming food from takeaway restaurants at least once a month. Dinner is the preferred occasion for eating fast food, followed closely by in-between meals. This inclination for fast food in India is not driven by low prices, as is the case in the rest of the world, but by hygiene and cleanliness, as reflected in the Nielsen survey. Given the widespread use of Internet in the country, the leading fast-food chains are increasingly offering discounts on online orders. Other features such as store locator, exclusive consumer club memberships, games and offers are in place to help perk up online sales. About 70% of organic food produced in India is exported. The awareness about organic is gradually increasing in urban areas, and in the future supermarkets are expected to stock more of it.

In 2003, the readymade meals market in India was estimated at Rs500 million, with taste and price the deterrents for a larger market share. Pizza chains such as Pizza Hut and Dominos have hugely successful home-delivery businesses. Several stand-alone food outlets have started home deliveries within specified delivery areas for orders above a certain amount. A study conducted by the US-based Earth Policy Institute reported that the global consumption of bottled water has grown by 57% over the past five years and India has recorded the fastest growth in the world in this sector. Organised retail is a relatively new trend in urban areas. Middle- and high-income families are increasingly switching to supermarket chains since they offer a greater range of products that consumers can touch and see before they buy. Many supermarkets have begun to offer home delivery to stay competitive. However, shoppers must still visit the store to place the order. Middle- and high-income households are increasingly buying vegetables and fruits in supermarkets since they perceive the products as cleaner and fresher than the local grocery's. While local bakeries provide bread, cakes and biscuits, Indian sweet shops meet the demand for sweets and savouries. Therefore, while the market for branded, packed savoury snacks is growing, it is still a minuscule part of the overall market for savoury snacks. Indians still prefer the freshness and variety of the local delicatessen for these products. With an increase in discretionary income, there has been an upturn in the consumption of expensive vegetables such as peas, carrots and cauliflower, mushrooms, lettuce, peppers, celery, leeks and Western herbs, which were a rarity five years ago. Potato and tomato consumption has increased due to the growth of the crisp and sauce markets. Growth in poultry consumption has been among the fastest in the world, increasing from 0.2 million tonnes in
1995 to 2.3 million tonnes in 2007. Branded savoury snacks have shown good growth in the last three years. A survey by AC Nielsen estimates the annual growth rates in sales at 34%, driven by the relentless advertising of chip manufacturer Frito Lays and Indian savories manufacturer Haldirams. With the growth of cold storage at the retail level, the whole market for frozen foods has developed over the last five years. Although per capita consumption is still very low, year-on-year sales growth is very high for frozen foods in India. According to a survey by the National Sample Survey Organisation, rural diets are more cereal-dependent than urban diets. Cereals and cereal substitutes account for 38% of rural monthly household food spending. Urban homes, able to afford more, also spend on processed food and fruits. Cereals account for 71% of caloric intake in a rural meal, while in an urban meal the percentage is only 58.5%. Per capita meat consumption in India is estimated to be 5.5 kg per year, which is much lower than the 10.8 kg per year recommended by the Indian Council of Medical Research. Per capita consumption of meat in India is below the international average because there is a large segment of the population, close to 20%, that is strictly vegetarian.

- **SPENDING ON SOFT AND HOT DRINKS**

Spending on coffee, tea and cocoa increased by 14% from 1995-2007. With consumption pegged at 70,000 tonnes, branded coffee accounts for 53%, unbranded for 40% and coffee shops for 7% of sales. The average price of a coffee at these chains is close to Rs50, which is considered to be expensive by middle- and low-income families who would rather go to the corner shop for coffee that sells for as low as Rs2 a cup. This is why most coffee chains are restricted to urban areas. The number of branded coffee shops is expected to increase in the future with Starbucks, the world's biggest coffee shop chain, planning to open as many as 1,000 coffee shops in India. Malt-based beverages such as Horlicks (GlaxoSmithKline) and Bournvita (Cadbury Schweppes) are the preferred hot drink in the South, and are also the fastest-growing. Malt-based drinks are consumed as a substitute for milk in milk-deficient regions and are favoured for their functional benefits. Dairy products such as flavoured milk, ice cream and milk-based sweets have been traditionally popular with Indians, especially children. Dairy-based beverages such as reduced-fat flavoured milk drinks and sour milk drinks are expected to witness double-digit year-on-year constant value growth over the forecast period of 2007-2015.
SPENDING ON COMMUNICATIONS:

Table -5.2 (h)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Postal Services</strong></td>
<td>32.4</td>
<td>28.8</td>
<td>25.6</td>
<td>264.4</td>
<td>108.8</td>
</tr>
<tr>
<td><strong>Telecommunications</strong></td>
<td>39.8</td>
<td>42.2</td>
<td>43.7</td>
<td>408.0</td>
<td>144.3</td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Telecommunication</strong></td>
<td>27.8</td>
<td>29.0</td>
<td>30.7</td>
<td>411.1</td>
<td>149.8</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>362.3</td>
<td>135.6</td>
</tr>
</tbody>
</table>

Source: National statistical offices, OECD, Eurostat, Euromonitor International

Note: Constant value at 2007 prices

Before mobile phones and the Internet appeared on the scene, Indians communicated using the postal service and landline telephones. Although these are still prevalent in many parts of rural India, urban India has witnessed a telecom boom. The above Table shows that with the advent of modern methods of communication such as e-mail and mobile phones, the proportion of consumer spending on postal services fell from 32.4% in 1995 to 25.6% in 2007. The proportion of both telecom equipment (39.8%) and services (27.8%) in 1995 increased to 43.7% and 30.7%, respectively, in 2007. After the government of India opened up the telecom market to private and foreign investors, increased competition resulted in the lowest mobile phone tariffs in the world and a wide choice of operators and technology (GSM and CDMA). According to Financial Express, mobile telephony is currently expanding at 6 million customers per month, and there are five mobiles for every landline phone. Instead of buying digital cameras, many consumers opt to upgrade their phones to camera phones. New 3G handsets are now being sold in India, although 3G networks are not as prevalent as the GSM networks. The Indian government is expected to hold an auction for the 3G spectrum by the end of 2008. Once this is released, the growth of 3G handsets will be higher. CDMA networks such as Reliance and Tata Indicom have moved to CDMA 2000, which is a 3G system. This led to growth in the market for these phones during 2006-2007. The growth of per capita expenditures on communications in India was 482.7% from 1995-2007, compared to the 174.1% average of CLIFE countries. According to the statistics of International Telecom Union (ITU), Indian
mobile telephony tariffs are the lowest in the world. The cheap rates explain the low per capita expenditures and high growth when compared to other CLIFE countries. A 300-minute basket for cellular services costs US$16 in India while it would cost US$21 in China, US$77 in Brazil and US$115 in Argentina.

**Personal ownership of mobile phones in India is increasing significantly.** Household penetration grew from 8% in 2005 to an estimated 19.5% in 2007, although this remains low by international standards, indicating significant potential for future growth from first-time users. At the same time, the replacement cycle has become shorter. About 65% of mobile phone users change their handset every two years, so the size of the replacement market for phones was about 35 million units in 2007. Industry estimates point to an estimated 15% of users who now report changing their handsets every six months. With mobile phones becoming accessible and affordable to remote corners of the country and low-income families, fixed-line phones are facing stiff competition. BSNL/MTNL and Reliance Infocomm, the biggest players in fixed line are investing in improving the network quality. Before the mobile boom, one had to wait at least six months to get a phone connection. But these days a landline connection is usually available immediately on demand, even in high-density urban areas. BSNL reduced the tariffs on fixed lines by 50% in June 2008 to Rs0.60 per minute for local calls and Rs0.80 per minute for national calls. The year 2007 was declared the 'Broadband Year' by the Indian government. Various initiatives are being taken to increase Internet penetration and popularise its usage for not only e-mail, chat and search but also for networking, learning, shopping and gaming. Consumers are increasingly switching from postal services to email for communications.

- **SPENDING ON TELEVISION, CABLE AND SATELLITE**

The growth in colour TV led to the decline of black and white TV sets to 18% in 2007, a decrease of 44% since 1995. The increase in the number of colour TVs is mainly due to the reduction in its price. In 2007, a 14-inch branded colour TV was available for as low as Rs3,500. According to a report by Times of India, consumer preferences for large (32-inch and up) flat panel display TV sets have been growing, and they now constitute a 55% share of the TV set market. The major formats among flat panels, liquid crystal display (LCDs) and plasma TVs grew by more than 300% and nearly 40% in sales, respectively, in 2007. The price range of a 32-inch TVs is Rs50,000-55,000, while 42-inch sets come with a price tag of Rs85,000-90,000. The 26-inch TVs are priced at Rs35,000. The huge growth witnessed in the market is
mainly due to a combination of factors including a price drop of 35% and aggressive promotion by manufacturers that resulted in strong consumer interest. With an increase in the number of TV sets, consumer demand for more channels and interesting content has increased. As per an article by Reuters on Livemint.com, more than 100 TV channels are scheduled to be launched in 2008 and the total number of channels on the air will hit 700 by 2009, forcing broadcasters to reduce advertising rates and spend heavily on improving technology to ensure their channels are carried into homes. The number of national television channels of Doordarshan, the government-owned terrestrial television network, remained constant since 1995 at three channels. However, the number of regional channels broadcast by Doordarshan is close to 27. Due to the limited choice of programmes on these channels, cable and satellite television have grown in popularity. Cable TV penetration was 32.5% in 2007, an increase of 238% over 1995. Satellite TV system penetration was much less at 4%, but witnessed growth of 256% since 1995. India has become the world's third-biggest cable TV market in less than two decades since the market was opened up to foreign players, and it is forecast to become Asia's most lucrative pay-TV market by 2015.

Cable TV systems often lead to a high level of dissatisfaction due to the high frequency of down time, poor service and random fee structure. The average cost of cable TV was Rs125 per month while the average cost of satellite TV was Rs300 per month in 2007. ESPN-Star Sports is watched in 10% of upper-income urban homes with viewership being predominantly male. Other strong niche markets are wildlife channels like National Geographic, Discovery and Animal Planet, MTV and Channel V. The audience is definitely urban, upper-income, with young adults. International BBC and CNN compete with a host of Indian news channels. The average revenue per user per month is only US$3.50, among the lowest in the region.

- **SPENDING ON PRINTED MEDIA**

According to the World Association of Newspapers, newspaper sales in India increased by 11.2% in 2007. By 2007, India consumed 99 million newspaper copies in more than 90 languages, making it the second-largest market in the world for newspapers. India has more than 40 domestic news agencies. The Express News Service, The Press Trust of India and the United News of India are among the major news agencies and employ many foreign news correspondents. The freedom of the press is a legal norm, constitutionally guaranteed. Liberalisation of economic policy, increase of private sector advertising and competition have encouraged the freedom of the Indian press.
With a strong replacement market, the handset-only segment is very significant in India. As handset prices fall, and competition between service providers grows, bundled product and service offers are becoming the norm. Private labels are likely to lead to a reduction in retail prices, as phone manufacturers offer cheap handsets to service providers. More manufacturers are expected to set up manufacturing units in the country, to cater to large demand quickly and cheaply. In 2007, Nokia completed one year of manufacturing operations in India, which is currently the third-largest market for Nokia in terms of volume. It is expected to emerge as the second-largest market by 2010.

**SPENDING ON COMPUTERS AND INTERNET**

The household penetration and number of Internet users in India saw growth of 2,243% from 2000-2007, whereas PC penetration increased by 267%. According to the statistics of the Internet and Mobile Association of India (IAMAI), in 2007 33% of active Internet users in India are working men and 11% are working women. College students account for 21% and schoolchildren make up 14% of active Internet users. Older men and non-working women account for the remaining 21%. According to the association, 16.8 million active Internet users in 30 cities access the Internet from cybercafés. However, the share of cybercafé as main access point is falling as more people have the ability to access the Internet from their offices. This could be due to an increase in the number of people working in the IT/ITES sector. Usage of the Internet in schools and colleges increased due to the introduction of computers and the Internet in the educational system. According to IAMAI, the low cost of broadband has further helped increase Internet usage. Similarly, Internet access charges are as low as Rs10 for one hour access at a cybercafé. A 256 kbps broadband connection would cost Rs500 per month. Affordability of mobiles and Internet has enabled people from both rural and urban India to use these services extensively. Statistics by Nasscom indicate that more than 200 cities and towns in India have Internet connectivity. According to research by the Internet and Mobile Association of India, there were 46 million Internet users in India in 2008; 28 million of these users were aged 15-24 and spending more than 12 hours online every day. E-commerce and high demand for the '.in' domain registrations are also factors contributing to the increase in online users. The domain registrations have surpassed 150,000. Favourable broadband policy and other initiatives by the IT and Telecom Ministry have encouraged Internet use by the masses. A monthly broadband subscription costs as little as Rs200, and nowadays
computers are available for purchase at less than Rs10,000. Internet usage is mainly prevalent in urban areas since, as most of the content on the Internet is in English, its usage is restricted to the population familiar with English. Another barrier to increased Internet penetration is the exposure to using a PC. In the future, increased Internet penetration would depend on increased literacy, PC education and vernacular content on the Internet.

- **SPENDING THROUGH E-commerce**

For Indians, shopping is an experience in itself. Blooming malls and hypermarkets full of window shoppers only upholds this fact. Thus e-commerce differentiates itself by the convenience and discounts it offers. The increasing use of e-commerce is brought about by higher Internet penetration in small towns and the limited reach of physical distribution channels of established sellers. These factors, coupled with higher disposable income, compel Internet users in these towns to buy online. According to a study by IAMAI, the three major factors supporting e-commerce in India were time savings, convenience associated with shopping at home and the availability of a range of products. The growth of consumer credit also had an important role in the popularity of online transactions. However, the report also highlighted hurdles to growth such as product quality, the ability to bargain and the security issue of e-transactions. E-commerce and e-ticketing will continue to grow if consumers feel more secure about online transactions.

- **SPENDING THROUGH M-commerce:**

The Telecom Regulatory Authority of India (TRAI) reported 185 million mobile phone users in 2007, which translates into a large potential market for m-commerce services. M-commerce is currently restricted to ringtone downloads, games and video clip downloads and pre-paid card recharges. Reliance Infocom and Bharti Tele-Ventures are likely to be the key players in the m-commerce market, offering pure m-commerce services such as bill payment and ticket purchases. Airtel, ICICI Bank and Visa have linked up to introduce mChq, allowing Airtel customers and ICICI Bank Visa cardholders to pay for their mobile bills using the phone. Indian Railways, buoyed by the success of its Internet booking venture, are testing an m-commerce pilot project in Delhi. If the railway project takes off, it will give momentum to m-commerce in India. On 10 October, 2008, RBI decided to relax its mobile-banking norms, and raised the caps
on fund transfers as well as mobile-based payments. Taking into account requests from banks and mobile payment-service providers, RBI raised its transaction limit from Rs 2,500 to Rs 5,000 per day for fund transfers. With this regulation, consumers can make purchases of up to Rs 10,000 and utility bill payments of up to Rs 5,000 through their mobile phones. The enhanced per-day limit will give customers the flexibility to make multiple payments. According to a report by The Economic Times, mobile payment firms are hopeful that the successful roll-out of m-banking products will enable RBI to increase this limit further.

Airtel, the biggest private telecom provider in India, announced the launch of a whole range of m-commerce solutions, such as mobile money transfer (MMT), post-paid bill payment and prepaid recharge on the mobile phone. It is partnering with ICICI bank, HDFC bank, SBI, Corporation Bank and Visa to enable these payments. The solution has been developed by mChq, a leading provider of mobile security and payment solutions. This is the first time in India that mobile money transfer will be available. The benefit will be felt by millions of Airtel customers and will likely lead to increased mobile phone spending due to ease of recharging.

Another wireless service provider, PayMate, launched its payment service in 2007, after spending two years developing an 'ecosystem' that connects banks, retailers and customers using SMS. People who sign up to Pay Mate currently use the service to buy items such as flowers and movie tickets. The firm is exploring the possibility for people to pay their utility bills with their phone. Another service expected to be heavily used in the future is Pay mate's mobile airline ticket, or m-ticket, the 'Fly Buy SMS' service, launched in partnership with Kingfisher Airlines. Pay Mate is also gearing up to offer its service at restaurants, which means Indians can use their mobile phones to pay for meals.

- **SPENDING ON LEISURE AND RECREATION: Table- 5.2 (i)**

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<td>11.0</td>
<td>4.7</td>
<td>-21.3</td>
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<td>100.0</td>
<td>125.3</td>
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Source: National statistical offices, OECD, Eurostat, Euromonitor International
Note: Constant value at 2007 prices
Consumer expenditures on leisure and recreation rose from Rs215.9 billion in 1995 to Rs486.4 billion in 2007, an increase of 125%. Per capita expenditures increased from US$3.63 in 1995 to US$10.31 in 2007. However, it is still extremely low when compared side-by-side to the 2007 CLIFE average of US$921.47. At 1.92% of total consumer expenditures, leisure and recreation constitutes the smallest share of all consumer sectors and is expected to remain so even until 2015. Per capita expenditures on leisure are also the lowest among all other consumer goods. The only other consumer expenditure that is comparable to leisure is communications, with per capita expenditures of US$10.98 in 2007. However, the low spending on communications is due to high competition among players and the lowest tariffs in the world. The low spending on leisure and recreation is due to the poor work-life balance that exists in India. According to Nielsen's biannual Global Online Consumer Opinion Survey conducted across 51 countries worldwide, maintaining work-life balance is the biggest concern for 20% of Indians, the number one concern based on the relative proportion of people citing it. Indians traditionally have believed in a mantra of 'work is worship' and often workaholism is considered a virtue by employers. With the increase in competitiveness in the workplace and with the higher number of women entering the labor force, the work-life balance of Indians is becoming an issue of concern. In the IT and financial sectors, it is common for average work hours to exceed the minimum hours mandated per week. According to a report on the Indian government's portal on compensation in India, in many private sector units (both organised and unorganised), staff work an average of more than 60-70 hours per week, a figure much higher than in Western countries. However, the awareness about improving the work-life balance is increasing through the corporate initiatives of many global employers and other Indians firms are also following suit. Initiatives include the flexibility of working from home, mandatory leave days per month, counselling and health services among others. With an increasing awareness about work-life balance and higher disposable income, consumer expenditures on leisure and recreation are slowly but steadily increasing.

The largest proportion of spending on leisure and recreation was on audiovisual and photographic equipment, which constituted 35% of total spending in 2007, an increase of 236% over 1995. The rise in spending on digital audio and video cameras is due to an increase in the choice of international brands available, such as Sony, Nikon and Canon, and falling consumer electronic prices. The demand for these items is also driven by the increased frequency of Indian domestic and international holidays. Spending on package holidays constituted 7.3% of total spending, which saw the highest growth at 633.6% from 1995-2007. The only consumer
expenditure to witness a decline in spending was recreational and cultural services, which decreased by 21.3% during the review period. However, it still constituted the second-largest proportion of total spending at 32.4% in 2007. The decrease in spending on cultural services can be attributed to an increase in the penetration and popularity of television, due to which the number of people going for live dance or music performances has decreased. Increasingly artists are cutting albums to reach out to the people instead of performing live shows. As a result CD and DVD players and home theatre systems have witnessed strong growth, as manufacturers such as Samsung, LG and Philips have all launched less expensive versions of their international products for the middle-income consumer in India.

• SHOPPING FOR LEISURE GOODS

The NOP World Culture Score Index surveyed 30,000 people in 30 countries in 2005 and reported that Indians are the world's biggest bookworms, reading on average 10.7 hours a week, twice as much as Americans. Reading as a leisure activity has always been encouraged by families. With increased literacy and popularity of Indian writers in both English and vernacular languages, reading has become one of the most popular leisure activities today among the literate. According to book publishing firm Penguin, India is the world's third-largest market for books in English after the United States and Britain, and book publishers have an annual turnover of US$1 billion. Unlike most other product retail stores in the country, booksellers have a comparatively higher level of concentration, with the presence of a number of chained players. These include market leaders Landmark and Crossword, which had value shares of 6% and 5%, respectively, in 2007. While traditional bookstores in India mainly retail academic books, retailers have increasingly added to their portfolios, offering products such as non-academic books, music, movies, CDs and toys to attract a wider consumer base. Online retailing of books is a growing trend, with many firms such as Penguin planning to expand in this direction. However, big international sellers such as Amazon have yet to start operations in India. Although high- and middle-income individuals prefer to buy books from retail stores, many lower-income individuals buy books from street side Indians are music lovers with a rich heritage of classical and popular film music. Traditional toys in India include unbranded dolls, small cars and plastic animals sold in small retail stores. Toy and game stores remain a fragmented retail format in India, with 550 outlets and value sales of Rs1.4 billion in 2007. Toys remain a largely metropolitan phenomenon and dedicated toy and game stores are not common in the country. Most bookstores, gift stores and clothing outlets and even supermarkets sell toys
and games. An increase in urban retail stores is likely to increase the sale of toys in the future, as urban parents increasingly realise that toys can be educational items, too.

**Spending during Leisure Time**

Traditionally, Indians – especially married couples with children – tend to spend their leisure time at home with their families. As the number of single-person households is on the rise, more people are spending leisure time in malls, theatres, pubs and restaurants. Shopping with family is one of the favourite pastimes in India, and the malls in urban areas are witnessing high footfalls. The popularity of films cuts across income brackets and socio-economic classes. It is by far the country's most popular leisure activity. The passion for watching movies is only rivalled by watching cricket matches on television. Across the country, television viewing is the chief form of home entertainment. An average working-class Indian watches at least two hours of television per day with housewives and children watching much more. Soap Operas and film-based programmes are extremely popular. Even family schedules are adjusted to suit television programmes in some homes. Increasingly, go-carting, bowling and video game parlours are attracting younger urban Indians as outdoor entertainment options. Reading books, especially fiction, is on the rise, mainly in the top five cities. A combination of increasing disposable income, more reading fluency and the active promotion of new releases by the publishing houses are said to be reasons behind this trend. As PC penetration rises, so has PC gaming as a home entertainment activity. Cybercafés are also being used by gamers. According to a report in Business Standard, many people spend as much as 33% of their Internet time on gaming. Urban 20-year-olds with high disposable income are the main consumers of the online gaming industry. However, just as in books and music, piracy is a rampant problem within computer gaming, too. Some parents also discourage their children from playing computer games, believing that it is 'dumbing them down' and adversely having an impact on their eyesight and health.

According to NASSCOM, India currently contributes a mere 0.25% to global gaming revenues with US$48 million a year in sales. The growing popularity of games is set to take this market to US$424 million by the end of this decade, representing a CAGR of 72%. The casual Indian gamer is typically in the 12-25 age group and is a discerning user who has been exposed to global gaming content on the Internet. According to Zapak Digital Entertainment Ltd., which runs the popular Indian gaming site Zapak.com, multi-player games such as cricket are extremely popular and generate almost 30% of the site's traffic. Adventure sports in India have been recognised as representing a sunrise industry by the Ministry of Tourism. The diverse
topography of India, with snow-capped mountains, desert and sea, make it an ideal adventure sports destination. According to a 2008 report by India Today, India has the potential to attract another half-million foreign adventure tourists. The domestic market is also set to see 10-fold growth in the next five years. Hotspots such as Ladakh, Arunachal Pradesh, Sikkim, Himachal Pradesh and others are being aggressively promoted as popular adventure sport destinations among tourists. Almost 70% of the demand comes from the corporate sector, which uses adventure sports as a means to encourage teamwork, time and stress management and working under pressure. Water sports have also witnessed stupendous growth in states such as Goa, which now holds annual events such as the Windsurfing Regatta.

- **SPENDING DUE TO CULTURE:**

Regular visits to the local temples, mosques and other religious institutions form part of the cultural tradition of most Indian families, especially during festivals. An appreciation of temple architecture has grown among the educated classes, and temple appreciation trips are now organised by history or adult learning groups in urban India. The Indian landscape is filled with so many monuments, temples, forts and palaces, but there is little reverence for these places among the current generation. Similarly, visiting museums is not a popular adult activity. It is mainly schoolchildren and foreign tourists who are introduced to Indian art and history through museum visits. One of the most popular museums is the National Museum in Delhi, the largest museum in India, which received close to 200,000 visitors in 2004-2005. The lack of reverence for these cultural institutions is mainly due to a relatively undereducated population that cannot fully appreciate these institutions and who are easily attracted to the more audiovisual media of movies and music for leisure. Among all the cultural institutions, the Taj Mahal remains the most popular with both domestic and foreign tourists. In 2007 it was chosen as one of the seven wonders of the modern world and attracts from 2-4 million visitors annually, with more than 200,000 from overseas.

To preserve and promote the tangible and intangible cultural heritage of India, the government instituted a National Culture Fund, which uses its funds for the replenishment and rejuvenation of archaeological monuments, sculptures, performing arts, manuscripts, paintings, crafts, etc. Ongoing projects include rejuvenation of 100 protected monuments of an archaeological survey of India. As a result of these efforts, the number of tourists in these monuments has increased and they are provided with better services such as food, souvenirs and tour guides, which generate additional revenues. To encourage tourism in India, the government started the 'Incredible India' campaign in 2004, emphasising the cultural heritage of India, as a result of
which the rate of growth of the tourism sector in India has been far above the world average in the last few years.

- **SPENDING THROUGH ATTITUDES TOWARDS SPORTS:**

Cricket is the most popular sport in the country, attracting the largest crowds, both in the stadium and on television. Hockey is the national sport of India and has been traditionally popular, although incomparable to cricket. Other sports such as tennis and badminton are increasingly becoming popular due to the success of Indian sportsmen on the international level. By comparison to Western or European countries, India has a low sports culture. Traditionally sports were a male domain in India and women have not been encouraged to play professional sports. However, the recent international success of Indian sportswomen in tennis, badminton and shooting has led to a growing participation of women in sports. Nowadays, many urban children attend coaching camps for cricket, swimming or tennis from a young age. However, as children grow older and come close to their 12th grade public school examinations, all sports and other activities tend to take a backseat, as children are expected to focus on their studies. While schools and colleges encourage sports, once Indians leave college and start working they become sedentary, and adulthood for the most part involves no active participation in sports. Adults in lower-income groups are busy earning a livelihood, and their walks or cycle rides to and from work are their only exercise. Through the media, increasingly adults in urban areas are becoming aware of the dangers of a sedentary lifestyle. Many corporate offices these days provide access to a gym and other sporting facilities. The recent increase in disposable income allows adults to spend on club memberships to play sports such as tennis and badminton. There are private courts or clubs in many neighborhoods of large cities. Young urban adults are increasingly attracted to adventure sports, and this has led to growth in the popularity of river rafting, rock climbing and mountaineering clubs in the country.

The success of Indian sportsmen in international events has renewed the interest in playing both professional and amateur sports in the country. As a result, sporting goods stores gained momentum, with value sales increasing by 30% and outlets by 19% in 2007. Growth was led by the outlet expansion of players such as Reebok and Adidas, with consumers frequenting such outlets as a result of rising disposable income. Sporting goods stores saw success, especially in metro cities such as Delhi, Mumbai and Bangalore, as a result of better purchasing power and brand awareness in these cities compared with smaller ones. Sports drinks comprise a niche category in India, with consumption largely centered in urban areas. The high price of sports
drinks compared to other forms of energy-boosting, glucose-based drinks such as Glucon-D, traditionally used in India for rehydration, discouraged consumers from purchasing these products. Generally, consumer awareness about fortified / functional products is low. Very few consumers are aware of the benefits of sports drinks. Gatorade from PepsiCo and Stamina from Gujarat Milk Cooperative are the two major players within sports drinks. While Gatorade has been present on the Indian market since 2004, Stamina was launched in March 2006. Due to their high prices, sports nutrition products are not expected to develop in the short to medium term. While the health trend is expected to continue developing in India, consumers engaging in sporting activities or exercise are more likely to consume cheaper bottled water or fruit juice products. Any manufacturer wishing to introduce sports nutrition products to India in upcoming years would likely find celebrity endorsement of such products an effective means of stimulating consumer interest and developing sales. Cricket stars are likely to be particularly successful.

- **SPENDING ON TRAVEL AND TOURISM:**

According to a study by the National Council for Applied Economic Research (NCAER) covering 80,000 households, close to 60% of all domestic trips in India are made for social occasions pertaining to marriage, death, or festival visits with friends and relations. This is especially true for rural Indians. Domestic tourism in India is also fuelled by religious tourism, which even the poorer population desires to undertake at least once in their lifetime. Urban Indians are increasingly travelling purely for leisure and recreation reasons. In 2007, more than 60% of the total leisure arrivals in India comprised couples and families. Single travellers and backpackers formed 29% of the total leisure arrivals, whereas organised group tours comprised 9%. The advent of low-cost airlines also improved domestic travel in India. Increased capacities and competitive ticket prices encouraged a large number of Indians to travel within India. This also helped business travel, which is booming thanks to the growing economy. The trend of taking shorter breaks is on the rise in urban India. Many people, especially in the corporate sector, are taking weekend trips to relax and rejuvenate themselves. To reduce travel time on shorter breaks, people are increasingly travelling by air over rail. Foreign holidays have become increasingly common for urban Indians. Increased travel in certain sectors has led to a fall in ticket prices to such an extent that even middle-income individuals can now afford to fly abroad. With rising disposable income, more Indians are spending money on foreign vacations. Business departures accounted for slightly less than 30%
of total foreign trips. Indians have emerged as big spenders and are now ranked among the highest spenders when on foreign holiday. According to the Switzerland Tourism Board, Indians are the third-highest spenders, after the Americans and Japanese. According to Malaysia Tourism, the average daily spend of Indian tourists is higher than that of Americans and Japanese. For Indians, the largest part of their expenditures while travelling abroad is on shopping, accounting for almost 30% of the total, followed by accommodation (21.5%). Indians are very fond of shopping and this is evident in these figures. Food (16.5%) and travel expenditures (16%) constituted the other main spending shares.

The Ministry of Tourism's 'Incredible India' campaign was launched in 2004 in an effort to attract foreign tourists and non-resident Indians to India. The United States and United Kingdom continue to be the largest sources for both inbound and outbound tourism. Visitors from these two countries are the highest spenders in India. Much of the incoming traffic from these countries comprises returning Indians who enjoy spending on ethnic Indian products. With the globalisation of the economy, inbound business travellers increased at a rate of more than 21% in 2006. A large part of these business travellers also indulge in some leisure tourism. Bangladesh continues to account for a large amount of inbound traffic into India though its contribution toward the economy is negligible, as the majority are people who come to India in search of a job and better life.

Medical tourism is the latest dynamic area of Indian tourism. It is estimated that by 2012, medical tourism in India could be worth US$2 billion. The government has recognised the potential of this sector and is now promoting India as a destination for combined quality medical services and a relaxing holiday, all at an affordable cost. In order to promote medical tourism, the government has also approved a one-year visa system for foreign patients. The strong growth in travel can be attributed to low-cost airlines, which have made air travel more competitive and affordable for the Indian public. The bulk of travel is still by land, accounting for 78.5% of domestic trips. The emergence of low-cost carriers is going to drive this growth with a contribution from the government's 'Open Skies' policy. Travel by sea into India is not very popular, although it is picking up now due to an increase in cruise tourism. By rail, India is connected only with Pakistan and as relations between both countries improve, a few people are also coming into India by this mode of travel.
SPENDING ON EDUCATION:

Educational expenditures consist of school fees, books, school uniforms (in the case of primary or secondary students) and transport. While government-run schools charge a few hundred rupees per month in fees, private sector school fees could run into thousands per month. The higher private school fee is justified on the basis of more services provided, better school infrastructure, international language courses, hobby classes, facilities which are often missing in government-run schools. Thus while lower- and middle-income families can only afford to send their children to government schools, higher-income families prefer private schools. With rising inflation, school fees have increased, especially private school fees. Public sector spending also increased, with the government allocating greater funds to education in each budget. Consumer expenditures on education increased by 133% from Rs258 billion in 1995 to Rs603 billion in 2007. Per capita expenditures increased from US$4.35 in 1995 to US$12.78 in 2007, yet remained far below the CLIFE average of US$206.10 in 2007. The level of educational attainment among the Indian population also increased significantly during the review period and the increase is expected to continue until 2015. The number of people with higher education qualifications jumped from 4.9 million to nearly 14 million, a remarkable increase of 183.46%, pushing the literacy rate of the country from 53.3% to 62.6% in 2007. However, this is considerably lower than the 2007 CLIFE average of 92.5%. In 2006 the Human Resource Development Ministry allowed 100% FDI in higher education to enable private participation in elementary to higher education. The government also levies an education tax on all taxpayers to generate funds for centrally sponsored programmes such as Sarva Shiksha Abhiyan (Education for All) and Integrated Education for Disabled Children. The government has also been spending more on female education, especially in rural areas where female literacy is the lowest in the country, by providing free education up to the age of 14 for girls of single-child families. Through media campaigns, the government has been trying to overcome this mindset by emphasizing the importance of female education. As result of these efforts, female literacy has increased. According to the last census held in 2001, the percentage of female literacy in the country was 54.2%, an increase from 8.9% in 1951. India's changing demographics have led to the fact that people with tertiary education constitute the largest proportion of the educated population. Tertiary education in India, as in the rest of the world, is the most expensive of all levels of education and the costs of obtaining a degree at the most reputed institutes – such as the Indian Institute of Technology (IIT), India Institute of Management (IIM) and India Institute of Science (IISc) – have increased since 1995.
Due to the increase in costs of higher education, the education loan portfolio of banks saw growth of 30%-40% in 2007-2008, and they are expected to witness growth of about 40% in 2008-2009, according to a report by India Brand Equity Foundation. Bankers attribute the healthy growth in the portfolio to the ever-increasing demand among the younger generation and the lower number of non-performing assets. Banks have adopted various schemes to facilitate the growth of the education loan portfolio. Apart from tying up with several institutes and offering interest rate discounts, they also accord online sanctions and ensure speedy disbursal of the loan. The State Bank of India, a major player in this field, recorded growth of 35% in educational loans to Rs10 billion in 2007-2008. After FDI in higher education was allowed by the government, many foreign players appeared on the scene to invest in the education sector. D.E. Shaw, a global private equity firm, is expected to invest close to US$200 million in companies offering e-learning, distance learning and vocational training. Pearson Group, one of the world's largest education firms, is also set to increase its investment in India.

The spending on education can be noted as below:

1. **Pre-primary Education**

   In the 1990s, parents sent their children to simple play-schools, run by non-professional women in the neighbourhood. Strong consumer demand in the pre-primary education space is fuelled by parents' urge to give the best preschool education to their child. Indian parents in urban areas now send their toddlers to organized play-schools to keep children occupied while also enabling them to learn. An increase in the number of working mothers and higher disposable income has led to parents spending more on preschool education. According to a report by The Economic Times, the preschool market is projected to touch Rs140 billion by 2012. Urban parents are spending up to Rs40,000 a year to send their preschoolers, children aged 1-2, to the new age centres, which incorporate modern technology and sometimes overseas training methodologies. Research firm CLSA Asia-Pacific Markets estimates that the preschool industry in India is likely to grow at more than 28% per year. The demand for quality preschools is expected to intensify and more organised chains of play-schools with sizable scale will dot the country's landscape.

2. **Primary and Secondary Education**

   Primary education is a fundamental right in India and the government's flagship elementary education programme, the Sarva Shiksha Abhiyan (SSA, 'Education for All'), aims to enrol all children aged 6-14 in school by 2010. It also aims to have all of these children complete eight
years of schooling by that year. According to World Bank statistics, India has more than 194 million children in 1.1 million habitations across the country, making the SSA one of the largest programmes of its kind in the world. The elementary education sector in India is progressing in terms of ensuring access and getting children to attend schools, but still there are many gaps to address. The progress has been more convincing during the last eight years than during the 1980s or 1990s. To improve enrolment and nutrition at the primary level in state schools, the national midday scheme was formally initiated in 1995 and provides one free meal to all schools covered by the programme. As a result, the number and share of children attending school in the 6-13 age group has been on the rise. The increase is more prominent in the 6-10 age group than among those aged 11-13. But the increases in the number and share of especially girls and socially and economically marginalised groups have been quite impressive. Unlike elementary education where the centre and states both play an important role in financing and setting standards, at the secondary level states decide on their own educational systems and policies within a national framework. While there is substantial variation across states, India's public spending in the secondary subsector is about 1.2% of GDP (US$4.1 billion). According to World Bank statistics, the Gross Enrolment Ratio (GER) of students in secondary education in India increased from 52.1% in 1995 to 65.6% in 2006. However, there are significant gaps between genders, social groups, and urban and rural areas. Most secondary students are urban boys from wealthier population groups. Privately aided and unaided schools account for 60% of all secondary enrolment, and have witnessed demand-driven growth in the past couple of years. Due to rising competition between students to get admitted to the best institutions later in life, most parents desire to send their children to private schools since they are viewed as a means of obtaining better education. The growing competition has also given rise to the trend of after-school tuition. These days children as young as fourth grade onward are sent for extra coaching.

Most of the growth in secondary schools has been in the private sector. Nearly half of urban children and one-fourth of rural children in India go to private schools. According to UNESCO's Global Education Digest 2007, Indian households pay for more than one-quarter, 28%, of the costs to send their children to primary and secondary school and the rest is subsidised by the government. These fees pose a very real barrier for the children of poor families who may struggle to spend on basic items such as food, clothing and housing. For many middle-income families, sending children to private schools may mean reduced spending on clothing, travel and leisure
3. Higher Education

India's youth, comprising over 50% of its population, is often referred to as its demographic dividend. With 367 universities and 18,000 colleges with 11.2 million students on their rolls, and half a million teachers, India could reap huge returns off its demographic dividend by investing in the education of its youth. These days a college education is a minimum requirement for any kind of job in the organised sector. The Indian higher education system enjoys a credible reputation globally due to the success of alumni of many reputed schools on an international platform. The faculty in elite Indian institutions is highly acclaimed and publishes high-quality work. Although there are considerable regional language schools for primary and secondary education, the tertiary education in India is almost completely in English. Due to an increase in the number of people demanding tertiary education and the limited number of vacancies in high-quality institutions, the admissions processes have become highly competitive. To cater to increasing demand, the government proposed to set up 14 world-class universities nationwide in the future. To increase penetration of tertiary education in rural areas, the government is planning to set up 65 polytechnic colleges in the 65 socially and educationally-backward districts of the country with an investment of Rs8 billion. After the government allowed 100% FDI in higher education in all institutions in India, many international institutes became associated with their Indian counterparts. These associations have helped many Indian institutes raise their standards to international levels. For example, the Fuqua School of Business at Duke University has an association with IIM Ahmedabad and IIM Bangalore offers a Master's programme in collaboration with the City University of Hong Kong, SDA Bocconi School of Management in Italy and Anderson School of Business, Los Angeles. Many international business schools are increasingly offering their programmes in India. Harvard Business School plans to start an executive education programme in India. France-based ESCP-EAP European School of Management plans to hold executive education programmes for corporates in India. Booming sectors across the economy are launching specialised training institutes to create a pool of candidates with sector-specific skills. Reuters India plans to offer certification courses in niche areas. Oil firms have joined hands with the government to set up petroleum universities. Bharti Enterprises has tied up with the Global Retail School (GRS) to impart training to jobseekers in this sector.

A person with tertiary education in India earns 30% (Rs14,000) more than a person with only secondary education. The income of tertiary-educated Indians is continuously increasing, as
multinational firms compete with each other to source the best talent. More recently people with MBAs, CAs and other business degrees in India are paid salaries on par with global standards. With the increase in the number of women with tertiary education, women in 2007 were earning much more than they did in 1995. From 1995-2007, mean disposable income grew by 210% for men and by 108.45% for women. This increase in disposable income has led to growth in consumption of goods across all categories. Sectors such as computers, alcoholic beverages and passenger vehicles have seen tremendous growth due to increased spending by the urban educated youth.

3. **Adult Education**

Adult and continuing education in India has yet to become a popular idea since traditionally Indians have preferred to finish the highest education possible before entering employment. The National Adult Education Programme is run by the government, targeting mainly rural adults. The programme not only imparts basic reading, writing and arithmetic skills but also social awareness on issues which affect the individual, community and society. Many other programmes such as the Rural Functional Literacy Project and Farmers' Functional Literacy Projects have been run to target specific sections such as farmers. Indira Gandhi Open University (IGNOU) is mainly responsible for the promotion of open universities and distance education systems in the country. To encourage the continuation of tertiary education, the school offers methods and pace of learning, combination of courses, eligibility for enrolment, age of entry and methods of evaluation. Many other reputed institutes such as IIT Mumbai also offer a continuing education programme though classroom or distant learning courses. With the increase in penetration of IT and computers throughout the country, many institutes such as the IIM network are offering online courses for executives who do not have the time to attend classroom courses.
SPENDING ON CLOTHING AND FOOTWEAR:

Table-5.2 (j)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Clothing</td>
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<td>49.3</td>
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<td>2.3</td>
<td>49.1</td>
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<tr>
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<td>72.2</td>
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<tr>
<td>Other clothing</td>
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<td>6.7</td>
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<tr>
<td>-clothing cleaning</td>
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<td>35.4</td>
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<td>Repair &amp; rental</td>
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<td>10.5</td>
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</tr>
<tr>
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<td>100.0</td>
<td>100.0</td>
<td>49.4</td>
<td>18.9</td>
</tr>
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</table>

Source: National statistical offices, OECD, Eurostat, Euromonitor International
Note: Constant value at 2007 prices

The above Table-5.2 (j) depicts the demand of Footwears in India. **Rising disposable incomes have led to the growth of an entire clothing and footwear market.** Rising incomes will also mean that labor costs rose, which made ready-to-wear apparel cheaper than tailored clothes. Spending on clothing increased by 49.3% from 1995-2007. Growth in spending on clothing material and garments was close to 50% while cleaning, repair and rental increased by 35.4%. In 2006, industry estimates suggested that as much as 85% of consumer demand was still being met by tailored clothing. This indicates the latent potential for ready-to-wear clothing in years to come. Per capita expenditures in India in 2007 on clothing and footwear US$27.08 compared to the average of CLIFE countries, US$580.07. This spending is also much less than the per capita spending on food and non-alcoholic beverages, which was US$173.46. Tailored clothes are popular in small cities and rural areas as it is widely perceived that tailors can add an individual touch to make each outfit unique. It is common for every neighborhood to have a street tailor. Housewives often set up little tailoring units in their homes run on a cash transaction / no bill / no tax basis. This is highly prevalent in rural areas, which drives down the per capita cost of clothing. India ranks second among footwear-producing countries after China. Spending on clothing and footwear has been fuelled by the opening of large shopping malls in big cities such as Delhi, Mumbai and Bangalore. Although branded clothes by Nike and United Colours of Benetton are highly popular with the affluent class, they are considered expensive by middle-income families. To tap into the desire of these families to wear trendy but affordable clothing, chains like Westside and Shoppers Stop offer Indo-Western clothes at very affordable prices which are especially popular among girls aged 15-25. **The footwear industry is a**
significant segment of the leather industry in India. Footwear is relatively cheap in India due to its low cost of production, given abundant raw material, cheap labor and a large domestic market. Rural and urban spending is comparable in the footwear segment, which grew by 50.3% during the review period.

With an increase in the number of professional women, retail sales of clothing for women have boomed. The branded women's apparel market is projected to rise at a rate close to 25% to surpass Rs180 billion by 2010. From 2005 onward, growth in women's clothing has outpaced men's clothing. This trend is expected to continue with women's clothing expected to witness a CAGR of 9% in 2007-2015. An increase in the discretionary income of mothers is also likely to lead to an increase in expenditures of children's wear.

The Indian footwear market is dominated by men's footwear, which accounts for nearly 58% of the total Indian footwear retail market. Casual footwear makes up nearly two-thirds of the total footwear retail market. As footwear retailing in India remains focused on men's shoes, there exists a plethora of opportunities in the exclusive ladies' and kids' footwear segments, as no organized retail chain has a national presence in either of these categories. With an increase in the proportion of the employed population, the formal footwear market is expected to increase for both men and women.

In 2007, the central government made a provision to allow 51% FDI in single-brand retail outlets. Clothing retail, at 36% of organised retail, is the largest sector in retail business in India. In addition to branded retail clothing, thousands of tailors present all across the country cater to India's population.

Despite the growth in clothing retail, the organized sector still accounted for less than 5% of total retail sales in 2006, indicating the potential for future growth. The growth of organized retail led to a rise in private-label clothing and footwear in India. The growth of private labels in turn led to price wars, promotions and a fall in average unit prices. This led to an increase in buying clothes at retail stores, and then having them custom tailored as needed. Traditionally, Indians prefer to have their ethnic wear stitched by tailors. However, giant retail chains such as Westside, Globus, Pantaloons and Shopper's Stop offer a wide variety of Indo-Western and Indian wear at affordable prices. The stores also offer the latest Western wear for men, women and kids and are popular with people from all ages. However these stores are restricted only to big metropolitan cities. In smaller cities and rural India, people still buy clothes from unbranded retail stores and flea markets. Clothing and footwear retail space has become quite competitive with both national and international brands in the last five years. Erstwhile monopolistic brands
such as footwear specialist Bata now has to compete with many rivals on the market. The street market in India is very vibrant, with low-priced goods catering to the lower economic classes. These products include copied brand knock-offs using forged logos, which are very popular with lower-income people who cannot afford the genuine brands. As working men and women increasingly adopt Western styles of clothing, sales of formal clothes, such as suits, coats and trousers are expected to witness high growth in upcoming years.

The success of branded clothing stores such as Pantaloons, Westside and Shopper’s Stop has made erstwhile textile manufacturers turn to apparel marketing. In the future, large textile chains – Vimal from Reliance Industries, Siyarams and S. Kumar’s, for example – are expected become strong apparel brands. There is a greater awareness of foreign brands as a result of exposure to the Western media. As disposable income rises, Indians increasingly spend on international lifestyle symbols. Gap, Benetton, Adidas and Reebok are some of international brands that can be very commonly seen on India’s high streets. Reebok leads the sports footwear market in India, outdoing Nike and Adidas. According to a report by Financial Express, outdoor sports footwear is growing at a steady 9% due to an increase in popularity of outdoor sports among the young.

Table -5.2 (k)

- **SPENDING ON HOUSING:**

<table>
<thead>
<tr>
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<tr>
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<tr>
<td>-gas</td>
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<td>4.1</td>
<td>51.9</td>
<td>-30.0</td>
</tr>
<tr>
<td>Solid fuels</td>
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<td>23.2</td>
<td>18.4</td>
<td>38.5</td>
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</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>99.7</td>
<td>32.8</td>
</tr>
</tbody>
</table>

Source: National statistical offices, OECD, Eurostat, Euromonitor International

Note: Constant value at 2007 prices
The proportion of housing within total consumer expenditures increased from 10.5% in 1995 to 12.1% in 2007, and is expected to increase to 12.4% in 2015 as table. depicted in the above. After food, beverages and transport, housing forms the third largest proportion of total consumer expenditures. The per capita expenditure of US$64.82 remains much lower than the average of US$1,728.80 in the CLIFE countries. A report by the nongovernmental organisation Action Aid estimated that the total homeless population in India was 78 million in 2003. The study shows that homelessness was caused by extreme poverty, the unavailability of low-cost housing, unstable employment, unemployment and destitution or family abuse. Pavement dwellers are a common sight even in urban areas. Of an estimated population of about 14 million Indians who live in the megacity of Mumbai, only about 35% live in 'regular' permanent housing. The other 65% live in informal settlements, which for more than one-third of those people mean squatting on sidewalks and under bridges. The rest, nearly 6 million people, occupy settlements on private and public open lands, some of which are more than 50 years old. Located in the heart of Mumbai, Dharavi is the world's biggest slum with a population of more than 600,000 people residing in 100,000 makeshift homes. India has very low mortgage penetration as seen from the mortgage to GDP ratio of about 2% as compared to a mortgage to GDP ratio of more than 51% in the United States and 15%-20% in other Asian countries. The Indian government's decision to allow foreign direct investment in housing led to a high demand for real estate and an increase in property prices. With rising national income and the lowering of interest rates on housing loans, consumers are spending more on housing. As a result per capita expenditures on housing saw impressive growth of 151.8% from 1995-2007. Due to increased urbanization, large cities have witnessed an increased demand for housing, which has pumped up prices for consumers. Authorities are planning to build about 500,000 inexpensive rental homes, targeted at low-income groups, to be built within the next three years in an effort to stop the proliferation of slums in Mumbai.
Since most of the housing boom has been driven by the middle-class and high-income consumer, realty firms such as Omaxe are trying to tap into the low-income consumer market with a US$20 billion investment to develop 1 million 'affordable' homes for this market. Although currently metros dominate the share of housing loans, increasingly people from smaller cities are joining the housing loan bandwagon. NHB (National Housing Bank) has estimated the overall housing shortage to be at 31.1 million units, specifically in rural India. NHB has started a program named Productive Housing in Rural Areas (PHRA) to increase the
flow of loan capital to rural areas. Currently, slum dwellers in areas such as Mumbai do not have access to basic amenities such as electricity, water and gas. An increase in spending on housing in the future will lead to increased spending on essential utilities.

- **Renting Vs Selling:**

_Increasingly consumers are moving out of rented houses to buy their own house._ In 1995, the proportion of rental housing was 19.4% of total housing expenditures, which fell to 19% in 2007. The growth in absolute expenditures was 95.6% from 1995-2007. The increase in expenditures can be attributed to rising house rents in urban areas due to high demand and low availability of housing stock. With an increase in disposable income and a shift in demographic profile, the Indian home loan market has witnessed a distinct shift in the age of borrowers. Whereas in 1995 buyers were in their late 30s and early 40s, today a greater number of buyers are in their early 30s. In 2007, a majority (83.3%) of households in India were homeowners without mortgages, while 5.4% had mortgages. Only 10.4% of the households lived in rented houses. It is expected that from 2007-2015, the number of homeowners with mortgages will show major growth at 38.3%, while those with rented houses would decline at 6.5%. This trend has been fuelled by a number of factors such as the tax rebates on housing loans announced in recent budgets, a lowering of real estate prices to affordable levels, the slashing of home loan interest rates from 1995 levels and greater professionalism being exhibited by developers in the timely completion of projects.

- **SPENDING ON HOME FURNISHINGS:**

_The housing boom in India has fuelled demand for home furnishings._ The unorganized home furnishings market is fast becoming branded. While brand leader Bombay Dyeing has been trying to retain its dominance in the category, brands belonging to Welspun, Portico and even mattress-maker Kurlon have entered the domain of home furnishings with an added thrust on retailing. According to 2007 estimates of the Indo-Italian Chamber of Commerce, the Indian furniture market is worth US$8 billion, with the organized sector (15% of the total market) growing at 30% CAGR. Wooden home furniture forms the biggest sector in home furnishings.
Household furniture designs are region-specific and there is an increasing trend toward imported furniture in affluent households. Plastic furniture is popular in middle- and low-income households and firms are increasingly marketing plastic furniture as designer items.

- **SPENDING ON UTILITY COSTS**

Due to rising global energy prices, total consumer expenditures on electricity, gas and other fuels saw growth of 92.9% from 1995-2007. **With an increase in disposable income, more consumers are buying domestic electrical appliances. Volume sales of domestic electrical appliances have been growing annually by 9%-10%**. Due to an increase in electricity usage, utility costs continue to form the largest share of consumer housing expenditures. However, the proportion of electricity, gas and other fuels in total housing expenditures declined from 44.7% in 1995 to 43.2% in 2007. This could be attributed to the fact that several state governments in India provide electricity at subsidized rates or even free to some sectors of society, such as farmers and backward classes. The subsidies are compensated by other users such as industries and private consumers, who pay for the deficit caused by the subsidies. India's electricity-supply industry is mainly owned and operated by the public sector. According to the International Energy Association's assessment of the power situation in India, the gap between supply and demand of electricity is high, the quality of power is poor and access to electricity is low in rural areas. According to key world energy statistics, current per capita power consumption in India is about 612 kwh per year while the world average is 2,596 kwh. Power cuts are a common phenomenon in urban areas throughout the year, during which households often can go without power for two to eight hours. Due to uncertainty in the supply of energy, many households have to make large investments in standby generators. Water and sewage forms the smallest share of housing expenditures, although it increased from 2% in 1995 to 3.5% in 2007. The water supply is free of charge but the water is often of dubious quality and only on an intermittent basis. Before consumption, it is common for households to boil, filter or use some chemicals to purify the water for drinking purposes. A 2007 study by the Asian Development Bank showed that in 20 Indian cities the average duration of supply was only 4.3 hours per day and no city had continuous supply.

Due to frequent power cuts, Indian consumers are increasingly opting for household electricity generators called 'inverters'. There is high demand for inverters and sales have gone up manifold. According to trade figures, the organized market for home inverters is about 30 million units annually. The price of big brands such as Su Kam, Microtek, Whirpool, Xenon and Numeric – more than Rs10,000 – is a major deterrent for middle-income buyers. Due to the
quality of the water supply in cities and rural areas, water-borne diseases are on the rise. As a result, consumers are increasingly spending on water-purification products. Traditionally boiling, filtering and chemicals like alum and chlorine were used for purifying water. However, these methods are time-consuming for the women who are engaged in this activity. As more women enter the workforce, electrical water purifiers are becoming popular. Aquaguard's popularity with the consumer has made it synonymous with a water purifier in India. In 2007, Philips India also forayed into the Rs4.5 billion domestic water purifier appliance market, with the launch of its Intelligent Water Purifier.

- Maintenance and Repair

Maintenance and repair costs form one of the smaller shares of total housing costs and saw growth of 71.2% from 1995-2007. The proportion of maintenance expenditures decreased from 4.1% in 1995 to 3.6% in 2007. The low spending on maintenance is due to the easy availability of cheap labour. Electrical jobs, gardening, carpentry, plumbing and painting are done by unorganised labour specialising in each of these jobs for as little as Rs200, depending on the time required. The electrical and plumbing handyman is readily available on call in every locality of India. As a result do-it-yourself (DIY) equipment has not traditionally been popular in the country. Marketers and manufacturers mainly target their products at professionals, so product instructions are incomplete or brief. Products are also not packaged with the necessary fixtures. A involved in installation combination of factors such as urban migration, declining household sizes and a young population, is leading to growing demand for urban housing. These factors, coupled with good GDP growth and easier home financing over the last few years, led to a boom in India and, as a result, DIY sales soared. Paint/home decoration has traditionally been a high-growth area in India. The leading DIY player in India is Asian Paints Ltd. with sales of more than Rs10 billion in 2006. It still only commanded a 7% share of total DIY sales in 2006, which gives an indication of the level of fragmentation in the sector. Hardware stores accounted for 98% of DIY sales. Electrical switches are a booming market and market leader Anchor is facing competition from foreign players such as Legrand. With urban housing demand going strong, DIY sales are expected to almost double.
SPENDING ON HOUSEHOLD GOODS AND SERVICES

Expenditures on household goods and services increased by 81.7% from 1995-2007. Growing urbanisation and greater awareness about hygiene among Indian consumers are the primary growth drivers behind sales of household care products. Expenditures on laundry care and insecticides command the bulk of household care purchases. Surface care, toilet care and air care products have relatively small market share but are expected to grow in the future. Consumers are increasingly upgrading from insecticide coils to electric insecticides and sprays.

The proportion of household goods in total consumer expenditures was 3.5% in 2007. By contrast the proportion of food was 32.4%, transport 19.2% and housing 12.1%. With the steady fall in duty rates and easing of import restrictions, many Indian consumers can afford to regularly purchase imported household care products. However, usage remains confined to urban areas, which explains the low per capita expenditures as compared to the CLIFE countries' average. Traditionally, women spend more on buying soft furnishings and kitchenware than men do. An increase in the discretionary income of women has led to increased spending on household goods and services across all income segments.

Due to an increase in the number of households, there has been steady volume growth in the cookware and furniture segments. Cookware is the largest subsector in the housewares and home furnishings market in India, accounting for 33% of retail sales value in 2006. The subsector will continue to grow at a CAGR of 4% in constant value terms until 2011. The drop in household size could also see a shift in sales to smaller capacity cookware and kitchenware. Smaller pressure cookers, woks and frying pans are likely to see higher growth. Similarly the four-seater dining tables are expected to see greater growth than six-seater tables. Appliance manufacturers have understood the need to localise their products for Indian households and are striving to introduce new features and technologies that would appeal to the Indian consumer.

For instance, refrigerators with a separate compartment for onions and fresh herbs, washing machines that utilise less water and range cookers designed for Indian-style cooking are becoming more common. The household appliance demand has increased as prices for most appliance categories fell steadily from 1995-2007. The sale of electrical appliances is still largely driven by urban areas and firms are trying to increase penetration in rural areas. Lack of steady electricity supply and price of goods are the major challenges of selling in rural areas.
• Shopping for household goods

Consumer expenditures on furniture, furnishings and floor coverings declined by 65.8%, while expenditures on household textiles increased by 89.9% during 1995-2007. Increased spending has been fuelled by a reduction in the prices of household items due to growing competition among supermarkets, which have expanded with blazing speed in the country. Modern retail formats are expected to spread to smaller towns which would pave the way for higher sales of private-label products among price-conscious consumers. As consumers look for bargains in grocery shopping, private-label products are expected to appeal to them. Consumer shopping habits are changing, with urban shoppers increasingly being drawn by the convenience of shopping in a comfortable environment. The share of household care products sold through supermarkets in 2007 increased significantly over the previous year. The attractive discounts offered by supermarkets on their private labels helped draw more shoppers toward the organised retail of household goods. While household care manufacturers benefited from the opening of supermarkets, they also faced competition from supermarkets' private-label products. Nonetheless, in small towns and rural areas, independent grocers continue to account for the bulk of household care product sales. According to trade estimates, 85% of furniture demand in India is met by made-to-order furniture through local carpenters. The Rs53 billion in retail sales of readymade furniture is only about 15% of the total market. Sales of these products are currently restricted to urban India. Carpets and floor coverings also don't form a well developed subsector in India. India is famous for handmade carpets, but almost all production is exported. With better margins available from exports, and the government actively encouraging carpet exports, the domestic market has not been developed. Lack of a carpet culture could be attributed to the hot and humid tropical climate. Production and consumption of carpets in India is mainly in northern India. Sales of household textiles and soft furnishings accounted for 28% of home furnishing sales in 2006, up 20% over the previous year. Growth was driven by sustained GDP growth and more discretionary income. Bed mattresses are one of the most important household products and consumers are spending on the best-quality mattresses available on the market. Items such as cushion covers and table linens benefit from impulse purchasing trends, while curtains/blinds and bath and bed linen is purchased in a more planned manner. While furniture is generally from specialized furniture retailers, carpets and soft furnishings are mostly sold through general retailers, such as department stores.
• **COOKING HABITS:**

Traditionally, Indians prefer to cook their food fresh for every meal. However, many working women have little or no time to cook before each meal. With the increase in the number of working women in urban India, there has been a shift in attitude toward eating out, take-away, home delivery of food and readymade meals, which has contributed to the rise in spending on food. In rural areas, working women still cook food in the morning and pack it for lunch and dinner for their families. Despite the growth in eating out, home-cooked food is still favoured by many. Many home-cooked tiffin pan delivery services have mushroomed in urban areas, catering to the regional tastes of singles. **According to a 2006 report by the Anthropological Survey of India there are 220 million strict vegetarians in India.** Vegetarians in India often do not use the same set of cookware to cook non-vegetarian food. Many households that have both vegetarian and non-vegetarian members maintain separate sets of cookware for both. Many restaurants are marketed and signed as being either 'Veg' or 'Non-Veg'. People who are vegetarian in India are usually lacto-vegetarians, and therefore, to cater to this market, the majority of vegetarian restaurants in India serve dairy products but avoid egg products. According to a study by KFC in India, nearly 97% of urban Indians eat out in groups of three or more, and vegetarian members usually have the veto power to decide where they should eat.

With less time available for cooking, restaurant business is booming due to high spending by high- and middle income consumers. Taking a cue from McDonald's runaway success of Rs20 burgers and Rs7 ice cream cones, Pizza Hut also introduced a heavily Indianised menu with prices starting as low as Rs50 to expand their customer base to even low-income households. Although KFC still garners only about 15% of its revenues selling vegetarian items, it has significantly increased the number of vegetarian offerings on its menu. In 2003, the readymade meals market in India was estimated at Rs500 million, with taste and price being the deterrents for a larger market size. The early adopters seem to be the singles segment, as cooking for one is not considered worth the time. Indian food is typically cooked using metal utensils. However, the popularity of Western food has contributed to the growth of non-metal cookware to prepare foods such as spaghetti, pizza and noodles at home. Spending on non-stick cookware is increasing as households are becoming increasingly conscious of the ill effect of too much cooking oil.
• **DO-IT-YOURSELF AND GARDENING:**

According to the 2001 government Census, 57% of Indian households have mud floors and another 27% cement floors. Only 7% have floor tiles/mosaic, although in urban India, the proportion is higher at 20%. Nearly two thirds of households have no toilet in the house, and 44% have no electricity, although this falls to 12% in urban India. **Growing disposable incomes and a desire for a better standard of living present good opportunities for bath products, electrical supplies and flooring sales.** DIY in its true sense is not very popular in India due to the easy availability of cheap manpower. Electrical jobs, gardening, carpentry, plumbing and painting are done by unorganized labor that specializes in each of these jobs. Elderly Indians who own their own homes with gardens are likely to do their own gardening. As urban areas become cramped for space, the availability of houses with gardening space is decreasing. Houses with gardens are usually affordable to high-income families. The elderly of such families are likely to leave the DIY to a gardener who could be hired for as little as Rs200 per month depending upon the size of the garden. DIY sales in India are defined as sales to buyers even though the end user may be someone else. **DIY sales in India are very low compared to Western countries.** As household income grows, flooring quality will improve and demand for personal toilets and baths will skyrocket, as will the desire for hot and cold running water. The potential for toilets, plumbing and flooring is therefore immense, and DIY sales will be positively impacted. Per capita paint consumption in India is only 1.2-1.4 litres. The industry is less than half the size of the Chinese market by volume and about one-fifth the U.S. market by volume. Even Sri Lanka and Pakistan have higher per capita paint consumption. The low per capita paint consumption can be linked to the large number of temporary and semi-temporary homes in rural areas, low purchasing power, the small size of homes, the long repainting cycle, and use of lime powder and French polish as paint substitutes. India has more than 50,000 paint shops or outlets that cater to the local population. There are no company-owned outlets or large retail formats for DIY equipment. Indians depend on the skilled painter largely on account of lower labour costs, greater necessary surface preparation and an inherent laziness among the Indian consumer when it comes to painting. Hence the range of products sold and the manner in which they are sold and used are very different in India.

With urban housing demand continuing to be strong, DIY sales are expected to experience strong growth. The Indian paint industry has been growing at an average rate of 13% over the last five years. India's market is dominated by the decorative paint and coatings segment.
Architectural coatings largely used in households constitute almost three-fourths of the market's value. The other large segments are automotive OEM paints, automotive refinish paints, protective coatings and powder coatings. With an increase in passenger car sales, the demand for automotive paints is expected to increase as well.

**SPENDING ON HEALTH GOODS AND MEDICAL SERVICES:**

According to a report on healthcare in India by PWC, the increased participation of the private sector, which accounts for more than 80% of total healthcare spending in India, had increased the competition between players, reduced the cost of services and thus made healthcare affordable to a larger number of Indians. Consumer expenditures on health goods and medical services increased by 203.5% to US$1,760 billion from 1995-2007. In contrast, total consumer expenditures in this period increased by 73.9%. The expenditures of outpatient services and hospital services saw above average growth rates of 231% and 265.5%, respectively, from 1995-2007. Although spending on health goods and medical services accounted for a smaller proportion of total consumer spending than food, housing and clothing, the rate of growth of health spending has been more than these essential products. Per capita expenditures on health goods and medical services also saw impressive growth of 282.6% in 1995-2007, which was much higher than the average growth of CLIFE countries at 98.6%. Despite the growth, per capita spending of US$37.31 in India was far below the average of per capita spending in CLIFE countries at US$551.58. The share of total health expenditures in GDP is currently 5% while the average of CLIFE countries is 6.9%. This indicates a great potential for future increases in health expenditures as healthcare facilities expand to the rural and remote areas of the country. Currently, there is a great rural-urban divide in terms of access to quality healthcare facilities. Much of the population resides in rural areas but the better healthcare facilities are located largely in urban areas. With rapid economic development, increasing urbanization and the rise in living standards, there is a shift in the disease profile from communicable diseases to chronic or lifestyle-related diseases. However, the inadequate public infrastructure cannot cater to the changing disease profiles in the Indian population and this has led to the rapid establishment of private healthcare services, which have improved access and increased expenditures. As a result of the increased health expenditures, the healthy life expectancy at
birth increased since 1995 and stood at 55.1 years in 2007. The average life expectancy of CLIFE countries was 64.3 years. Between 1995 and 2007, the health expenditures as a share of GDP and life expectancy at birth have moved closer to the CLIFE averages due to a decline in infant mortality as a result of increased access to healthcare facilities and the government's emphasis on eradicating diseases such as hepatitis and polio among infants. According to the PWC report, another factor driving the growth of India's healthcare expenditures is a rise in infectious and chronic degenerative diseases. Communicable diseases such as dengue fever, viral hepatitis, tuberculosis, malaria and pneumonia commonly inflict Indians due to substandard housing, inadequate water, sewage and waste management systems, a crumbling public health infrastructure and increased air travel. HIV/AIDS and food- and water-borne illnesses are major threats to the growing population in both urban and rural areas. However, in the high-income families of urban areas, with increasingly affluent lives and adoption of unhealthy Western diets high in fat and sugar, lifestyle diseases such as hypertension, cancer and diabetes are reaching epidemic proportions. The federal government has begun taking steps to improve rural healthcare. In the 2003-2004 budget, the government announced tax benefits to financial institutions that provide loans to hospitals with more than 100 beds. The private sector already accounts for 80% of India's healthcare services market, but most of this is concentrated in urban India, and in the form of corporate hospitals. To combat this, the government has announced income tax exemptions for the first five years for hospitals with more than 100 beds set up in rural areas. Several other incentives have been announced as part of the National Health Policy. Healthcare has been granted 'infrastructure status', which means that private hospitals can raise cheaper long-term capital. Duties on the import of medical equipment have been slashed. Among other things, the government launched the National Rural Health Mission 2005-2012 in April 2005. The aim of the mission is to provide effective healthcare to India's rural population. According to the PWC report, due to increases in employment and income, today at least 50 million Indians can afford to buy Western medicines, a market only 20% smaller than that of the United Kingdom. According to IMS Health, a provider of intelligence on the pharmaceutical industry, paralleling the rise of disease is the emergence of a robust pharmaceutical industry in India. The Indian pharmaceutical market is one of the fastest growing markets in the world and sales increased by 17.5% to US$7.3 billion in 2006. Many factors, including a strong economy and the country's growing healthcare needs, have contributed to the accelerated growth, which
is especially strong in the over-the-counter (OTC) market. Unlike products such as food and beverages which are available in supermarkets, medical drugs are mainly purchased OTC at smaller pharmacies and medical stores with a prescription from a doctor in some cases. The practice of retailing drugs through supermarkets and online pharmacies is nonexistent. Due to increased health awareness, the demand for healthcare products increased over 1995-2007. Due to increased literacy, awareness and incomes, people in rural areas are opting for the local doctor instead of home remedies. Given this trend, according to IMS Health, the geographic balance of the pharmaceutical market will shift from the United States toward emerging countries like India, where locally manufactured generic medicines will continue to dominate the market. Moreover, hotels and restaurant chains are actively starting to open food outlets in hospitals. Many major hospitals have entered into tie-ups with leading hotels and airlines for their international patients.

- **Healthcare System:**

India's healthcare infrastructure has not kept pace with the economy's growth. The physical infrastructure is woefully inadequate to meet today's healthcare demands, much less tomorrows. While India has several excellent healthcare centres, these facilities are limited in their ability to drive healthcare standards because of the poor condition of the infrastructure in the vast majority of the country. According to the PWC report, of the 15,393 hospitals in India in 2002, roughly two-thirds were public. After years of underfunding, most public health facilities provide only basic care. Notwithstanding a few exceptions, such as the All India Institute of Medical Studies (AIIMS), public health facilities are inefficient, inadequately managed and staffed, and have poorly maintained medical equipment. The number of public health facilities is also inadequate. For instance, India needs 74,150 community health centres per 1 million population, but has fewer than half that number. In addition, at least 11 Indian states do not have laboratories for testing drugs, and more than half of existing laboratories are not properly equipped or staffed. The principal responsibility for public health funding lies with the state governments, which provide about 80% of public funding. The federal government contributes another 15%, mostly through national health programmes. Apart from the physical infrastructure, the number of healthcare workers is also drastically short. In India, the term doctor generally refers to allopathic doctors. However, there are other systems of medicine such as Unani, homeopathic, Ayurvedic, etc. Aside from allopathic doctors, professionals of other medicinal systems are not eligible to prescribe all of
the medicines. There were 659,654 doctors and 964,755 nurses for a population of 1.14 billion, which translates into one doctor (including practitioners of non-Western medicines) per 1,600 patients. A majority of the doctors settle in urban areas and abroad and few prefer to practice in rural places. To achieve uniformity in the distribution of doctors, the Health Ministry has made it compulsory for medical students to perform a one-year in-house training residency in rural areas. According to a healthcare report of the Indian Brand Equity Foundation (IBEF), only 2.5 million Indians were covered under voluntary medical insurance in 2000. The rest pay as they go for their medical care. In 2000, health insurance, so far only open to public sector companies, was opened to private participation. The number covered by health insurance in 2005 was estimated at 30 million. However, the government has the ambitious goal to deliver a universal health insurance scheme. Aimed at the poor, the scheme proposes that an individual would have to pay Rs365 as an annual premium to cover hospitalization costs of up to Rs30,000. The government would further subsidize the plan by offering to pay Rs100 for each family defined as poor. This scheme is offered by public-sector insurance companies. However, private insurers argue that since most rural Indians need coverage yet have informal occupations, premium collection becomes difficult. Consequently, it has not been taken up by private companies yet.

The Insurance Regulatory and Development Authority (IRDA) eliminated tariffs on general insurance as of 1 January, 2007, a move expected to drive additional growth of private insurance products. In the wake of liberalisation, health insurance is projected to grow to US$5.8 billion by 2010, according to a study by the PHD Chamber of Commerce and Industry. Health insurance will make healthcare more affordable to larger segments of the population, boosting healthcare expenditures per household and driving demand for quality care. According to the PWC report, only 25% of India's specialist physicians practice in semi-urban areas, and a mere 3% practice in rural areas. As a result, rural areas, with a population approaching 700 million, continue to be deprived of proper healthcare facilities. 'Tele-medicine' or remote diagnosis, as well as monitoring and treatment of patients via videoconferencing or the Internet is a fast-emerging trend in India, supported by exponential growth in the country's information and communications technology (ICT) sector and reducing telecom costs. Several major private hospitals have adopted tele-medicine services. There are approximately 120 telemedicine centres throughout India which will enable physicians based in urban areas to treat more rural patients. An enormous amount of private capital will be required in upcoming years to enhance and expand India's healthcare infrastructure to cater to demand of a growing population and an
influx of medical tourists. Currently, India has approximately 860 beds per 1 million population. This is only one-fifth of the world average, which is 3,960 per million, according to the World Health Organisation (WHO). It is estimated that 450,000 additional hospital beds will be required by 2010 at an estimated investment of US$25.7 billion. The government is expected to contribute only 15%-20% of the total, providing an enormous opportunity for private players to fill the gap. ICICI Venture, the country's largest private equity fund, has invested US$8.6 million in a chain of diagnostics facilities, along with Metropolis Health Services Ltd. In 2006, General Electric announced a US$250 million investment in infrastructure and healthcare projects in India. An increase in private investment will make healthcare accessible to more people and increase per capita expenditures in the future.

- **SPENDING ON MISCELLANEOUS GOODS AND SERVICES:**

This report defines miscellaneous goods as personal hygiene and grooming products such as

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<td><strong>Consumer Expenditure on Miscellaneous Goods &amp; Services (% analysis and % growth)</strong></td>
</tr>
<tr>
<td>Personal Care</td>
</tr>
<tr>
<td>Jewellery/Silverware/ Watches/ clocks/travelgoods</td>
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<tr>
<td>Social Protection</td>
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<tr>
<td>Insurance</td>
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<tr>
<td>Financial services</td>
</tr>
<tr>
<td>Other Goods &amp; services</td>
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<td>Total</td>
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Source: National Statistical Office, OECD, Eurostat, Euromonitor International
Note: Constant Value at 2007 prices

cosmetics and toiletries, financial and banking services and pensions. The total consumer expenditures on miscellaneous goods increased by 164.9% from 1995-2007. This is a direct consequence of the rise in disposable income of the population and the increasing sophistication of the financial industry, which enables people to better manage their money. Before liberalization of the economy, Indians saved their money in fixed accounts and post office saving schemes. Following the financial reforms of the securities market, Indians today can
invest in many combinations of equity and debt to create wealth for themselves. As a result, consumer expenditures on financial services have seen the highest growth among all miscellaneous goods of 386.3% from 1995-2007. The proportion of spending on financial services increased from 6.6% in 1995 to 12.1% in 2007. A study conducted by Assocham in 2008 revealed that the country lags far behind its peers in social sector achievements. Social protection, though a minuscule proportion of 0.9% in total spending, witnessed high growth of 229.5% during the review period.

India's public spending on health as a percentage of GDP is second lowest among the BRIC countries, and its education spending is lowest. However, in each subsequent budget, government has been allocating more funds to both health and education and public spending has been increasing. As a result the Asian Development Bank ranked India 10th among 31 Asia-Pacific countries on its 2008 Social Protection Index (SPI), ahead of countries such as China and Malaysia. This indicates that despite relatively lower spending on social protection, the Indian welfare policies have been more effective in reaching people below the poverty line. Increasing urbanization and a growth in the number of office workers in India resulted in a strong focus on grooming. This boosted demand for cosmetics and toiletries. Color cosmetics saw the strongest growth in cosmetics and toiletries as a result of women increasingly focusing on their appearance. Due to the increase in people working in air-conditioned offices, body odour has become a major issue among young adults. As a result, sales of deodorants and fragrances have increased. Long hair has traditionally been preferred by Indian women. These days, even men are adopting longer hairstyles. Hair products have proved to be very popular with both men and women due to the torrential advertising by Hindustan Unilever, Garnier and L’Oréal. Shampoos, conditioners and styling gels have witnessed mass penetration. As a result, personal care commanded a high proportion of spending at 26.4% and witnessed a growth rate of 146.7% in 2007. Jewellery, watches, clocks and silverware constituted the largest proportion of spending – 23.9% in 2007. Although the influx of luxury foreign brands of watches and jewellery boosted the spending of Indian consumers, the market remains confined to urban high-income consumers. Luxury brands such as de Grisogono remain unaffordable to both middle- and low-income families who prefer to go to the local goldsmith for jewellery. The growth of spending on these items was below average sector growth at 90.1%, as a result of which the proportion in total spending decreased from its 1995 proportion of 33.4%. Per capita expenditures on these goods, while showing a growth rate much higher than the average of CLIFE countries, remain low in US dollar value. In 2007, per capita expenditures on
miscellaneous goods and services were US$52.62 while the average of CLIFE countries was US$1,083.06. The growth and increase in efficiency of financial services has been the key driver of Indians' increased ability to dedicate their discretionary spending to housing, travel and leisure. The most prominent trend in the Indian financial services sector has been the growth in consumer credit. According to the Reserve Bank of India (RBI), both debit and credit card transactions went up by more than 42% to Rs704 billion during 2007-2008. This was due to a larger number of banks issuing cards and retailers accepting card-based transactions. As these financial services increasingly target the people in their 20s with high disposable income, the consumption of goods in every category increased. With income levels poised to improve further and the favourable demographic profile ensuring that an even larger proportion of the population is in the economically active age group by 2015, consumer finance will continue to grow in upcoming years. For the financial services sector, this means providing retail customers access to the full array of financial services products, ranging from credit to insurance. The growth in consumer finance in turn drove the growth of housing, transport, communications and leisure. Over the last three years, the credit card industry in India grew at a CAGR of more than 30%. The department store category, along with fuel and restaurant spending, accounted for the most frequent swipes. In value terms, jewellery, electronic goods and telecommunications accounted for the major share. However, when compared with developing countries, credit card spend as a proportion of total expenditures by Indians is one of the lowest in the world. Indians spend just 1% of their total purchases using credit cards while the Koreans make one-fifth of their total purchases through credit cards. The world average is close to 9%. While Indians swiped plastic money worth US$6 billion in 2006, credit card users in Korea cumulatively spent US$136 billion. The very low levels of penetration in India offer immense potential for credit card companies. This can be explained by the fact that credit card usage is restricted to urban areas as rural merchants do not have the facility or sophistication to accept card-based transactions. Also, there are fewer credit card companies in India than those in other parts of the world. With increased card-based spending, many new entrants are expected in this segment.

- **Personal Hygiene and Personal Grooming**

Cosmetics and toiletries grew by 146.7% during 1995-2007, a rate of growth which was much higher than essential items such as food and beverages. **Rising income levels resulted in lower-income groups being able to afford more cosmetics and toiletries as well as**
upgrading from unbranded to branded packaged products. Meanwhile, mid- and high-income consumers in urban areas began to seek out value-added mass brands and premium products. Growth was driven both by inflation and volume sales. There was a slow but steady expansion in rural sales during the review period, with the overall value share of rural sales rising from 28% in 2002 to 30% in 2007. The influence of Western media through television and movies and rising income levels that enable the middleclass to travel abroad and spend on luxury personal care items have boosted the demand for international grooming products. Brands such as L'Oréal and Clinique are increasing becoming popular with the growing number of working women in urban areas. The media has been instrumental in increasing the awareness of the importance of skincare, and middle-aged women are spending more on age-defying products. India has a tropical climate with high exposure to sun throughout the year in all parts of the country. Cosmetic firms have popularised the use of sun screen creams and sales have increased as more women move out of the home for work. Indian films have been the biggest driving impact on the trend of cosmetic use among men, as popular movie stars are increasing adopting the metro sexual look.

Urban consumers meanwhile became increasingly sophisticated and demanding in their purchasing habits. Products connected with grooming saw good growth in urban areas, with the result that urban areas accounted for a higher share of colour cosmetics and depilatories, in excess of 90%. The strongest share for urban sales was within sun care, which accounted for 95% of sales in 2007. Due to growing awareness of the harmful effects of chemical cosmetics, herbal cosmetic products are becoming popular with firms such as Himalayas, Lush and Boutique registering high volume sales.

The above complete study of Dynamics of Consumption Expenditure in India is taken from the report prepared by NCAER. This report forms part of the report series that complements the Euromonitor International Countries and Consumer Database. Each country profile is structured under the following sub-headings:

- Population
- Consumer segmentation
- Households
- Household segmentation
- Labour
- Income
- Consumer expenditures
• Food and non-alcoholic beverages
• Alcoholic beverages and tobacco
• Clothing and footwear
• Housing
• Household goods and services
• Transport
• Communications
• Leisure and recreation
• Education
• Hotels and catering
• Miscellaneous goods and services

The information in this report was gathered from a wide range of sources, starting with national statistics offices. This information was cross-checked for consistency, probability and mathematical accuracy.

Secondly, they have tried to fill in the gaps in the official national statistics by using private-sector surveys and official pan-regional and global sources. Furthermore, Euromonitor International has carried out an extensive amount of modelling in order to come up with interesting data sets to complement the national standards available.

The wide range of sources used in the compilation of this report means that there are occasional discrepancies in the data, which they were not able to reconcile in every instance. According to them, even when the data is produced by the same national statistical office on a specific parameter, like the total Population in a particular year, discrepancies can occur depending on whether it was derived from a survey, a national census or a projection and whether the data is based on mid-year or January figures. For slow trends where it is interesting to look at a long period as well as projections, data is presented for 1995, 2000, 2005, 2007, 2010 and 2015. Fast-moving trends are illustrated with data sets relating to 1995, 2000, 2002, 2004 and 2006-2007.

The study has the limitation in showing the data of 2008-09 and 2009-2010 as due the impact of Great depression the data is not available.