

## CHAPTER 4

### RECENT TREND AND PATTERN OF SERVICE SECTOR AND ITS SUB-SECTORS

---

#### 4.1 Introduction

In this section a detailed analysis of the growth and share of service sector in Indian GVA and its different services in all over the service sector's GVA have carried out through growth rate method. Firstly growth and share of service sector have taken into consideration and after that trends and pattern of all three services of service sector have considered to fulfil the first objective of study. Analysis has started from 2000 and goes on till 2015. Year to year growth has taken for better analysis.

#### 4.2 Growth of Service Sector GDP

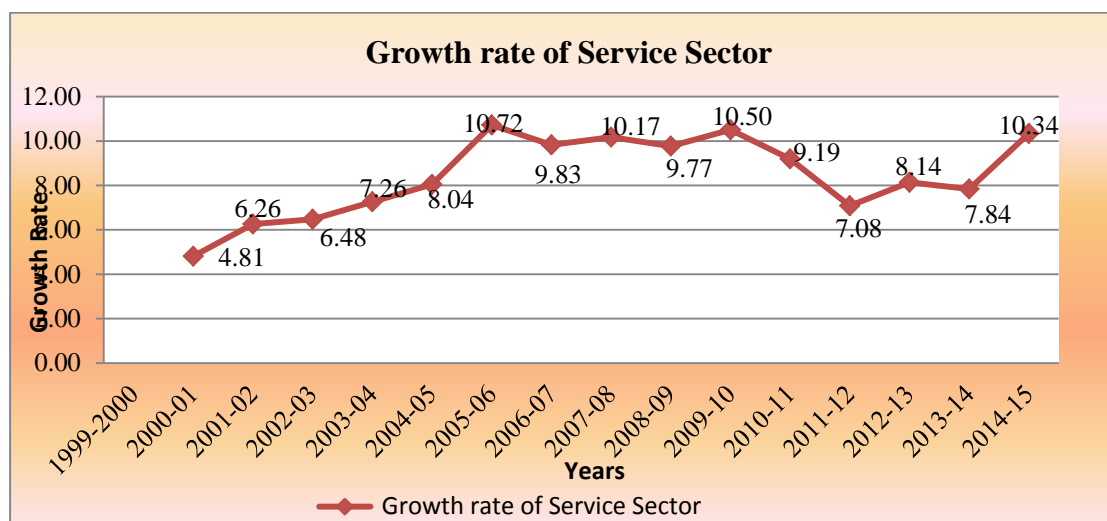
The service sector in India has experienced sustain and secular growth from early years since 1990s when economic reforms took place but in the study because analysis has started from 2000 and during the period of 2001 to 2015 when average growth of service sector was highest, 2005-06 was the period when service sector grew at faster rate of 10.72 per cent (Table 4.1).

<b>Year</b>	<b>Services (in Rs. Cr.)</b>	<b>Growth Rate</b>	<b>Year</b>	<b>Services (in Rs. Cr.)</b>	<b>Growth Rate</b>
1999-00	1510234	–	2007-08	2780508	10.17
2000-01	1582879	4.81	2008-09	3072360	10.50
2001-02	1681959	6.26	2009-10	3395036	10.50
2002-03	1790898	6.48	2010-11	3707200	9.19
2003-04	1920966	7.26	2011-12	3969789	7.08
2004-05	2075504	8.04	2012-13	4293071	8.14
2005-06	2298002	10.72	2013-14	4629679	7.84
2006-07	2523784	9.83	2014-15	5108194	10.34

Source: Researcher's Calculation based on Economic Survey of India 2015-16  
Note: Growth rate at base prices 2011-12.

It was due to increasing share of ‘Financing, Insurance, Real Estate and Business Services’. In 2006-07 it has decreased because of fall in other two sub sectors of services except financing, insurance, real estate and business services. 2007-08 was the period of recession when maximum countries of world have got affected. Indian economy was not exceptional. The outcome of recession has started to see till the end of 2008. In 2009 when GVA has fall from 10.17 per cent of 2007-08 to 9.77 per cent of 2008-09 was the result of recession. Since 2011 because of deceleration in trade, hotels transport and communication the growth rate of service sector has fallen in last three years except 2012-13.

**Fig. 5: Growth Rate of Service Sector**



### 4.3 Share of Service Sector in GDP

Share of service sector is continuously increasing at very fast pace. After the liberalization in the year 1991, the contribution of service sector is continuously increasing in Indian economy. Service sector are growing in volume with sophistication and complexity.

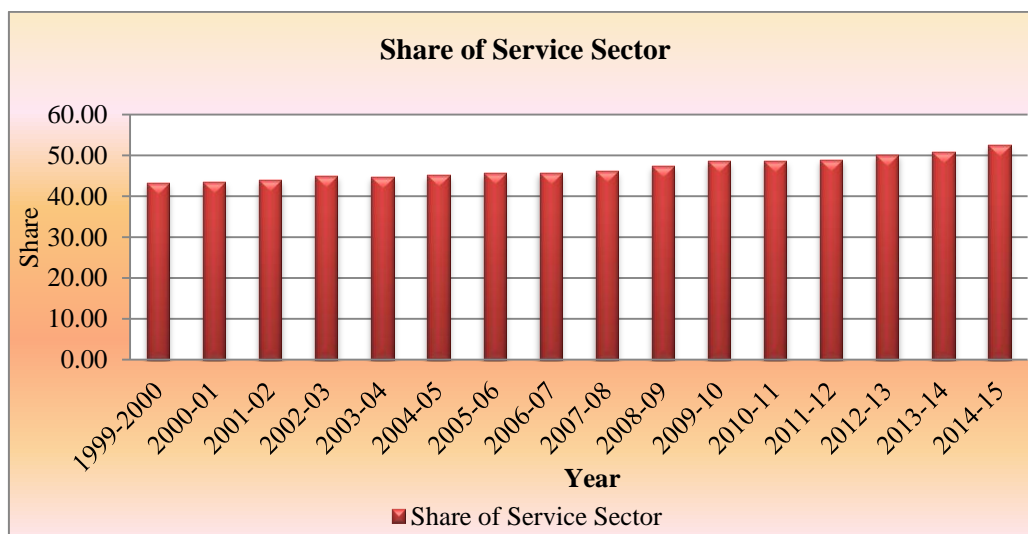
The reason behind this increase is economic affluence, cultural changes, IT revolution, markets development, market orientation, health care consciousness, economic liberalization, rampant migration and export potential. These all factors increase with the development process.

<b>Table 4.2 Share of Service Sector in GDP</b>			
<b>Year</b>	<b>Service Sector (in Rs. Cr.)</b>	<b>Gross Value Added</b>	<b>Share</b>
1999-00	1510234	3483551	43.35
2000-01	1582879	3628055	43.63
2001-02	1681959	3823449	43.99
2002-03	1790898	3971713	45.09
2003-04	1920966	4288121	44.80
2004-05	2075504	4590471	45.21
2005-06	2298002	5025516	45.73
2006-07	2523784	5506414	45.83
2007-08	2780508	6019725	46.19
2008-09	3072360	6424538	47.82
2009-10	3395036	6976660	48.66
2010-11	3707200	7598404	48.79
2011-12	3969789	8106656	48.97
2012-13	4293071	8546552	50.23
2013-14	4629679	9084369	50.96
2014-15	5108194	9727490	52.51
Source: Researcher's Calculation based on Economic Survey of India 2015-16.			
Note: Value of Service sector and GDP is taken in absolute form in Rs. cr. And all of three GDP of service sector and economy and share are taken in terms of Gross Value Added at base Prices 2011-12.			

Table 4.2 depicts that service sector is growing with a sustain manner. In last 15 years it has been observed that service's share is increasing smoothly. A slightly fall in 2003-04 has been observed which was due to fall in trade, hotels, restaurant and communication. It is contributing largest share in GDP of Indian economy.

Share of agriculture and industry sector has decreased. Services are contributing approximately 55 per cent on an average. Its share has reached to 52.51 per cent in 2015 while in 2000 it was 43.35 per cent. Approximately 10-11 per cent increase has noticed in this sector during the period of 2000 to 2015.

**Fig. 6: Share of Service Sector**



Consequently, large variations have been observed in the growth rate while share of service sector has increased continually except in the year of 2004 when share has decreased to 44.80 per cent from 45.09 per cent of 2003. In 2015 service sector is growing with the rate of 10.34 per cent along with the share of 52.51 per cent.

As it has already stated that service sector is the only one which is incorporated with various services, with heterogeneity. To define service sector in a proper way is a difficult task in its own. Many economists tried hard to give exact definition because the problem occurs due to be heterogeneity. T.P Hill is that economist who tried to define services sector as being distinct from goods (Hill1977, Hill 1979).<sup>1</sup>

It has been seen that a continuation in growth of service sector has found in developed countries in developing countries disproportionate growth of service sector has noticed. In the case of India disproportionate growth of service sector is not a recent phenomenon. The reason behind this is supply of labour and capital which are used as input in services. In developing countries like India distributive service (Trade and Transport) are low productive and low income type as compared to advanced countries. Services which needed less capital and more labour are contributing more in GDP.

<sup>1</sup>JesimPais, "Growth and Structure of the service sector ibn India."

India's services growth has been consistently above its overall growth in the last decade except for 2004 (when the former was marginally lower than the latter). Thus, for more than a decade, this sector has been accelerating the growth of the Indian economy with a great amount of firmness (it has been seen in chapter 3). In this contribution of service sector in economy, its various services play a vital role. The study is considering only major 3 services: firstly, trade, hotels, transport and communication. Secondly, financing, insurance, real estate and business services and the last one is community, social and personal services. These three are contributing 60 to 70 per cent in the development of service sector. Their trend can be analysing through share and growth rate of all these three services separately.

### 4.3 Trend of Trade, Hotels, Transport and Communication

It is very essential sub sector of Service sector. It involves services related to trade among other countries or between the states, services related to tourism which incorporates transport and hotels and IT enabled services. Table 4.3 represents the whole picture of growth rate of this sector.

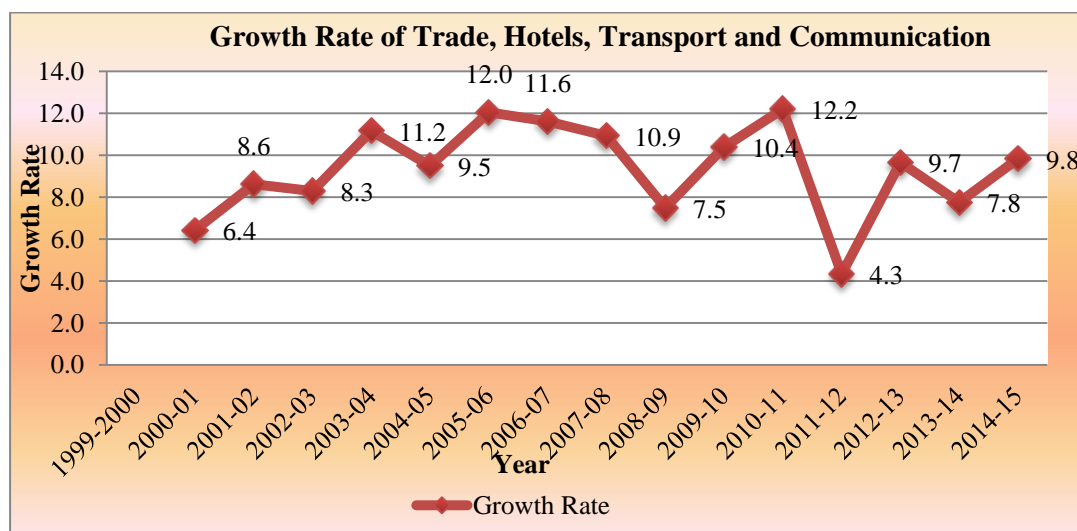
Year	Trade, Hotels, Transport and Communication	Growth Rate
1999-2000	481302	–
2000-01	512234	6.4
2001-02	556392	8.6
2002-03	602524	8.3
2003-04	669782	11.2
2004-05	733353	9.5
2005-06	821719	12.0
2006-07	917129	11.6
2007-08	1017335	10.9
2008-09	1093525	7.5
2009-10	1207164	10.4
2010-11	1354428	12.2
2011-12	1413116	4.3
2012-13	1549608	9.7
2013-14	1669844	7.8
2014-15	1833997	9.8

Source: Researcher's calculation based on Economic Survey of India 2015-16.  
Note: Output value of Trade, Hotels, Transport and Communication is in Rs. Cr. at constant basic prices in Gross Value Added terms.

Growth rate of ‘Trade, Hotels, Transport and Communication’ has been observed that it had placed at first among others services till 2005-06. The trend of its growth rate is full of fluctuations. It shows the upward and downward trend of growth rate in these 15 years of study. 3.4 per cent of increase in growth rate has been noticed in these years from 2000 to 2015. It was 6.4 per cent in 2001 and it has reached to 9.8 per cent in 2015.

Now according to 2014-15 data it places at third among other services. But overall picture represents that it places after ‘Financing, insurance, real estate and business services’. During the period of 2007-08 and 2008-09 growth rate of ‘Trade, hotels, transport and communication’ has decreased due to global financial crisis. Deceleration in this service was also found in 2011-12 which was also the reason of depreciation in GVA of Indian economy. On an average high growth rate of these services have been observed as compare to other two services but in current scenario it places at third among all services with growth rate of 9.8 per cent.

**Fig. 7: Growth Rate of Trade, Hotels, Transport and Communication**



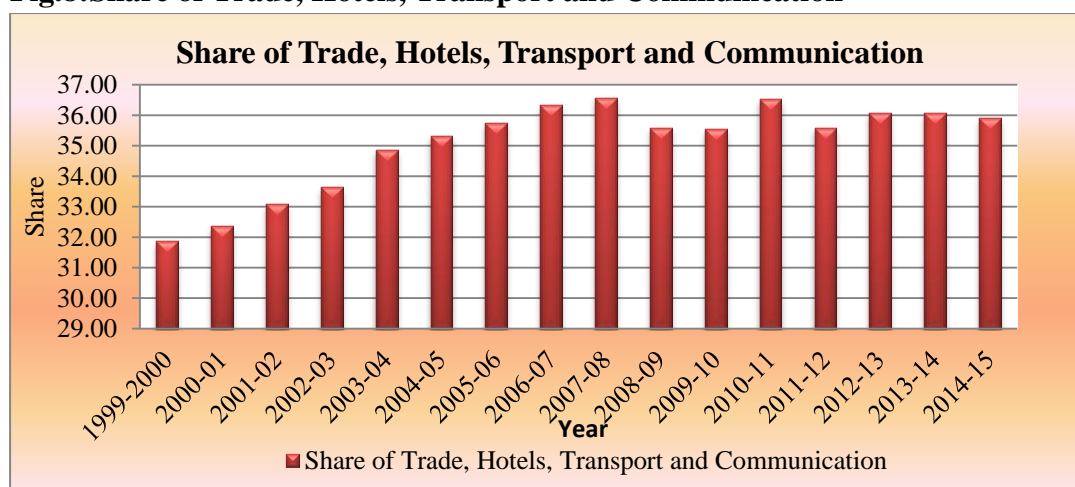
By moving towards the share of ‘Trade, Hotels, Transport and Communication’ it can be easily observed that this subsector has been continually increasing since 2000 except for few years. The whole picture of this service’s share can be observed from the table 4.4.

<b>Table 4.4 Share of Trade, Hotels, Transport and Communication in Service sector</b>	
<b>Year</b>	<b>Share</b>
1999-00	31.87
2000-01	32.36
2001-02	33.08
2002-03	33.64
2003-04	34.87
2004-05	35.33
2005-06	35.76
2006-07	36.34
2007-08	36.59
2008-09	35.59
2009-10	35.56
2010-11	36.54
2011-12	35.60
2012-13	36.10
2013-14	36.07
2014-15	35.90
Source: Researcher's Calculations based on Economic Survey of India 2015-16.	

The share of these services has increased by 4.03 per cent in the years of study from 2000 to 2015. Its share was 31.87 per cent in 1999-2000 and by increase of 4.03 per cent it has reached to 35.90 per cent in 2014-15. In the rank of share 'Trade, Hotels, Transport and Communication' is positioned at second after 'Financing, Insurance, Real Estate and Business Services' and following by 'Community, Social and Personal Services'.

During the period of 2003-04 to 2007-08 'Trade, Hotels, Transport and Communication' had placed at first in terms of its share in services sector but since 2008-09 its share is overtook by 'Financing, Insurance, Real Estate and Business Services'.

**Fig.8:Share of Trade, Hotels, Transport and Communication**



It is placed at second rank in terms of share with the lowest growth rate among other two services. This fact represents the importance of this subsector in service sector. But in last two years it has been noticed that the share is continually decreasing. It was 36.10 per cent in 2012-13 and it fell to 36.07 per cent and again 35.90 per cent in next two years respectively.

#### **4.5 Trend of Financing, Insurance, Real Estate and Business Services**

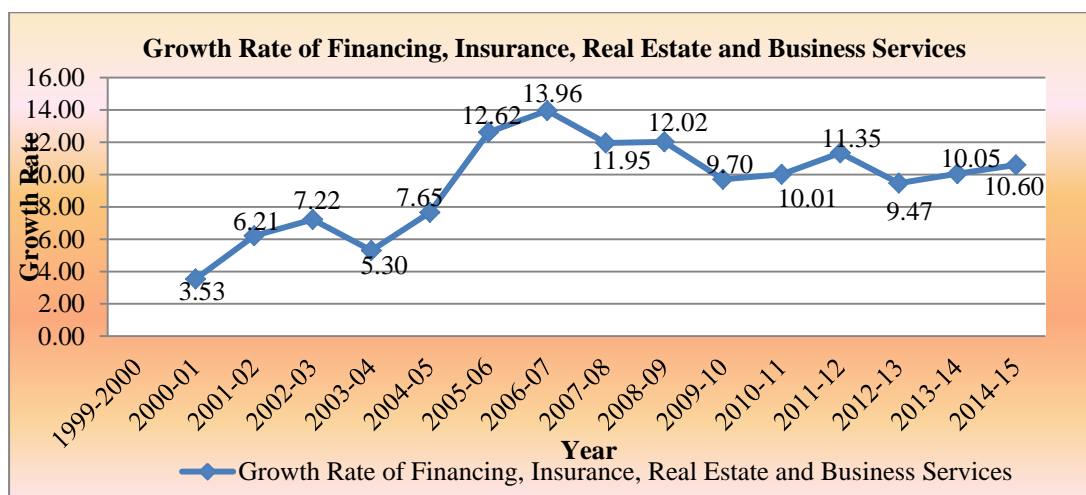
With the development of economy, it is important to provide security to the people and it is possible through providing finance and insurance to them. These services especially provide secure and tension free future to the people. Its contribution is continually increasing. For wide picture of this subsector it is essential to focus light on its growth rate and share in service sector. The growth rate of these services was lowest in 2000 with the growth rate of 3.53 per cent and it has reached to second position in terms of growth rate with 10.6 per cent growth in 2015 followed by 'Trade, Hotels, Transport and Communication. With 7.1 per cent of increase in growth rate it has become a fastest growing sub sector of service sector. It has attained the highest growth rate of 13.96 per cent in 2006-07 due to financial inclusion. The increase in growth rate has found in 2005-06 when growth rate increased by 4.97 per cent from 7.65 per cent of 2004-05 to 12.62 per cent in 2005-06 as seen in Table 4.5.



<b>Table 4.5 Growth Rate of Financing, Insurance, Real Estate and Business Services</b>		
<b>Year</b>	<b>Financing, Insurance, Real Estate and Business Services</b>	<b>Growth Rate</b>
1999-00	529548	–
2000-01	548246	3.53
2001-02	582279	6.21
2002-03	624333	7.33
2003-04	657417	5.30
2004-05	707725	7.65
2005-06	797032	12.62
2006-07	908285	13.96
2007-08	1016847	11.95
2008-09	1139080	12.02
2009-10	1249609	9.70
2010-11	1374722	10.01
2011-12	1530691	11.35
2012-13	1675592	9.47
2013-14	1844070	10.05
2014-15	2039460	10.60
Source: Researcher's Calculation based on Economic Survey of India 2015-16.		

This was the result of financial inclusion which was firstly used as words in Annual Policy Statement presented by Y. Venugopal Reddy. After that not many variations have been observed in the growth rate of the services from 2005-06 to 2008-09. Effect of financial crisis of 2008 has been observed in 2009-10 when growth of 'Financing, Insurance, Real Estate and Business Services' fell to 9.7 per cent after that it did not get the same path of growth as of during the period of before 2010 and after financial inclusion.

**Fig 9: Growth Rate of Financing, Insurance, Real Estate and Business Services**



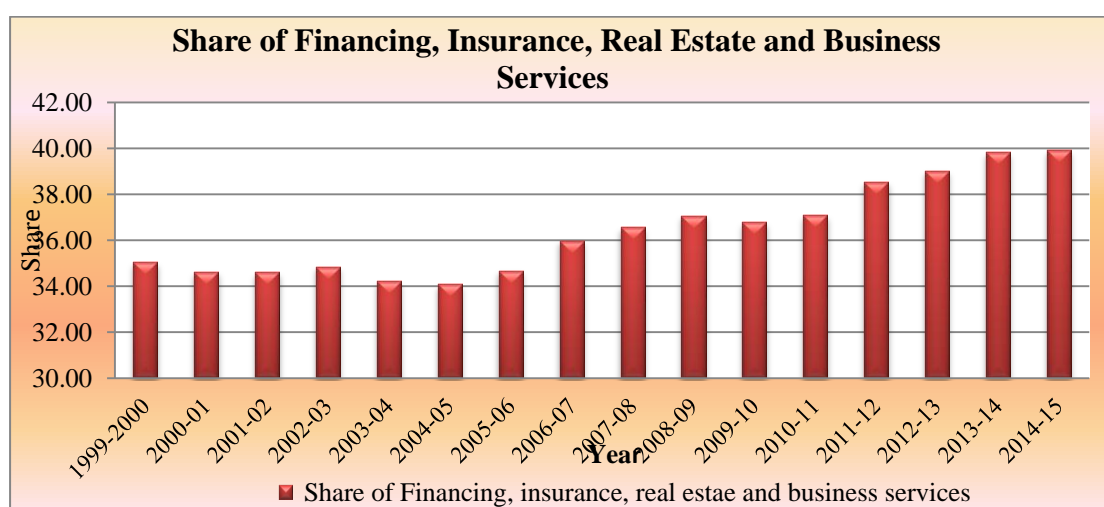
Now moving towards the share of ‘Financing, Insurance, Real Estate and Business Services’ in service sector it can be analysed through Table 4.6. This sub sector is contributing highest share with 39.93 per cent share in 2014-15. The share of ‘Financing, Insurance, Real Estate and Business Services’ is showing much variation but on an average its share is 35 per cent.

Year	Share of Financing, Insurance, Real Estate and Business Services
1999-2000	35.06
2000-01	34.64
2001-02	34.62
2002-03	34.86
2003-04	34.22
2004-05	34.10
2005-06	34.68
2006-07	35.99
2007-08	36.57
2008-09	37.08
2009-10	36.81
2010-11	37.08
2011-12	38.56
2012-13	39.03
2013-14	39.83
2014-15	39.93

Source: Computation based on Economic Survey of India 2015-16.  
 Note: Share is calculated on the basis of GVA at base prices (2011-12).

Since 2001 to 2004-05 shares was continually decreasing except for 2003 but after financial inclusion in 2005-06 it has increased robustly except for 2009-10 which was due to recession of 2008. Since 2000 to 2015 share has increased by 4.87 per cent. It was 35.06 in 2000 while in 2015 it has reached to 39.93 per cent. It is the only sub sector which is increasing its share continuously rapidly.

**Fig. 10: Share of Financing, Insurance, Real Estate and Business Services**



Initially the growth rate of this subsector is less than the overall growth of service sector but after 2005-06 it has increased robustly more than the overall growth rate of service sector due to financial inclusion.

#### 4.6 Trend of Community, Social and Personal Service

Community, Social and Personal services include number of various fields of activity- sewage and refuse disposal, sanitation, recreation, artistic, cultural and sporting activities, funeral and related services, hairdressing, undifferentiated goods and services producing activities of private household for own use etc. This sector's contribution is lowest if all over period since 2000 would be considered. For major analysis of trend, focus on growth rate and share is important.

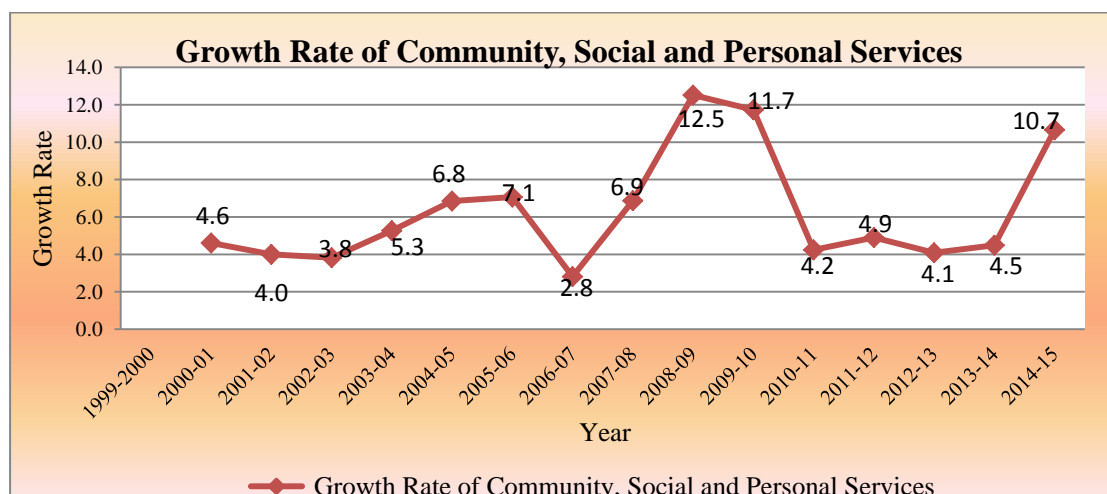
Table 4.7 represents the large variations in last fifteen years since 2000. Its growth rate was at second in 2000 after 'Trade, Hotels, Transport and Communication' but now it places at first in 2015. Many fluctuations have been noticed. Only in 2008-09, 2009-10 and 2014-15 it grew at two digit level growth rates and from 2011 to 2014 its

growth rate was very similar in every year on an average of 4.4 per cent. Its growth rate was highest during the period of 2008-09 it was due to the implementation of recommendations of sixth pay commission in quarter 3 and fiscal expansion in quarter 4 of 2008-09.

<b>Table 4.7 Growth Rate of Community, Social and Personal Services</b>		
<b>Year</b>	<b>Community, Social and Personal Services</b>	<b>Growth Rate</b>
1999-00	499384	–
2000-01	522399	4.6
2001-02	543287	4.0
2002-03	564041	3.8
2003-04	593767	5.3
2004-05	634425	6.8
2005-06	679251	7.1
2006-07	698371	2.8
2007-08	746326	6.9
2008-09	839756	12.5
2009-10	938263	11.7
2010-11	978050	4.2
2011-12	1025982	4.9
2012-13	1067871	4.1
2013-14	1115765	4.5
2014-15	1234737	10.7
Source: Researcher's Calculation based on Economic Survey of India 2015-16.		

These services have grown by 6.1 per cent from 1999-2000 to 2014-15 from growth of 4.6 per cent to 10.7 per cent respectively. This sub sector talks about standard of living of people in a nation. In maximum years its growth rate is less than the overall growth rate of service sector so it can be said that its contribution in service sector growth is less as compare to other two sub sectors only three times its growth rate was higher than the overall growth rate of service sector.

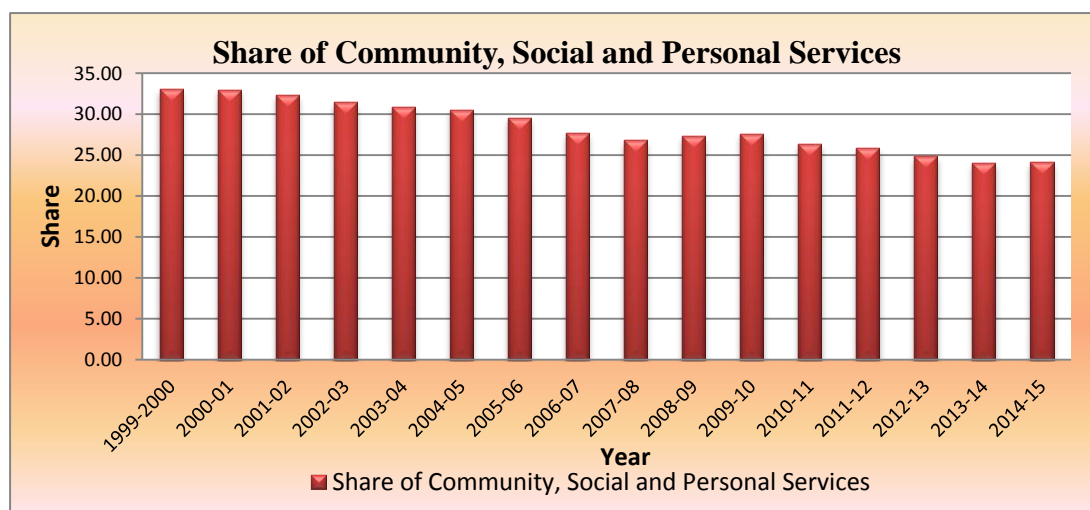
**Fig. 11: Growth Rate of Community, Social and Personal Services**



Moving towards the share of ‘Community, Social and Personal Services’ in service sector it has been found that share is continually decreasing. Table 4.8 depicts that in 2000 share of ‘Community, Social and Personal Services’ was 33.07 per cent while it has reached to 24.17 per cent in 2014-15. In developed countries the share of these services are much higher than developing countries like India the reason behind this is lack of capital in country and stage of development.

Developing countries are busy to increase national income, industrialisation, trade, tourism banking services etc. which are helpful in increase of GDP do not consider about sustainability. The share of ‘Community, Social and Personal Services’ are lowest among three subsectors that have discussed. After recession period in 2008-09 and 2009-10 its share increased by 0.49 and 0.32 per cent respectively.

**Fig.12: Share of Community, Social and Personal Services**



<b>Table 4.8 Share of Community, Social and Personal Services</b>	
<b>Year</b>	<b>Share of Community, Social and Personal Services</b>
1999-2000	33.07
2000-01	33.00
2001-02	32.30
2002-03	31.49
2003-04	30.91
2004-05	30.57
2005-06	29.56
2006-07	27.67
2007-08	26.84
2008-09	27.33
2009-10	27.64
2010-11	26.38
2011-12	25.84
2012-13	24.87
2013-14	24.10
2014-15	24.17
Source: Researcher's Calculation based on Economic Survey of India 2015-16. Note: Share is calculated on the basis of GVA at constant base prices (2011-12).	

#### **4.7 Conclusion**

Consequently, Service sector has grown with high growth rate even two digit level high growth has observed in few of period of study. Due to development of an economy share of service sector in GDP has increased and its share is highest among all other sectors. Service sector is a group of services, only three services have taken into study among which growth rate of 'Financing, insurance, real estate and business services' is highest followed by and 'Trade, hotels transport and communication' and 'Community, Social and Personal Services' and similar to growth rate share in service sector is dominated by 'Financing, insurance, real estate and business service' followed by 'Trade, hotels, transport and communication' and 'Community, social, personal services'. It has observed that overall trend of all services shows that

‘Financing, insurance, real estate and communication’ has been fastest growing services with the highest share in GDP of service sector.