A STUDY ON TRENDS OF HOUSEHOLD SAVINGS IN INDIAN ECONOMY

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ABSTRACT: The concept of saving plays an important role in economic analysis. Increase in the savings, use of increased savings for financing the increasing required investment, use of the increased investment for a further financing constitute the strategy of economic growth. Economic Growth of any Nation depends upon the Growth rate of its GDP, which is further influenced by Investments in higher rate of capital formation sectors of Production, Technology, Infrastucture, Education etc. India's savings performance has been quite impressive. Savings is the difference between Income and Expenditure. A high level of savings helps the economy to progress on a continuous growth path since Investment is mainly financed out of savings. Gross Domestic Saving consists of savings of Household sector, Private corporate sector and Public sector. Household sector is the major sector which contributes nearly 73% to total gross savings than the private sector (20%) and public sector (4%). The increase in the rate of investment was made possible by way of an almost proportionate rise in the rate of saving. Saving is therefore, the key factor in achieving a high rate of investment
This paper traces the trends in household savings and Factors affecting Indian household savings.The secondary data has been used in the study.

Key words: Trends, Household Saving, Gross Domestic Saving, Economy

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Introduction :

The concept of saving plays an important role in economic analysis. Savings is the difference between Income and Expenditure. A high level of savings helps the economy to progress on a continuous growth path since Investment is mainly financed out of savings Economic Growth of any Nation depends upon the Growth rate of its GDP, which is further influenced by Investments in higher rate of capital formation sectors of Production, Technology, Infrastucture, Education etc. India's savings performance has been quite impressive. Gross Domestic Saving consists of compnents of savings of household sector, private corporate sector and public sector.

In Indian domestic savings originate from three principal sectors namely: (i) household sector, (ii) the private corporate sector and (iii) Government/Public sector.

(i) The household sector comprises of individual, non-corporate business and private collectives like temples, educational institutions and charitable foundations. The saving can be held in the form of increases in (a) Liquid assets like currency bank deposits and gold (b) Financial assets like shares, securities and insurance policies and physical assets.

(ii) The corporate sector includes joint stock companies in the private business sector, industrial credit and investment corporation etc., and cooperative institutions. Saving of the corporate sector is represented by the retained earning of this sector.

(iii) Government sector consists of the central and state government, the local authorities and various government and department undertakings, hence the saving of this sector relates to the budgetary surplus on current account of the central government, state government, local authorities, the current surplus of various government departments and retained projects of government undertakings.

Review of Literature :

The NCAER survey (1964) 1 has revealed that nearly 31 percent of the urban households preferred to investment their savings in business followed by housing, agricultural lands, bank deposits and small savings, and more than 50 percent of the households expressed a preference for investing their savings in physical assets. The proportion of households expressing a preference for financial assets was found to be on the increase, with the level of education and the important motivation for savings among the urban households were found to be protection against emergencies, provision for old age and children s education. The investment in securities was higher in case of managerial, administrative and executive people.

Nair (1978) 2 has highlighted the findings from the RBI Report that, the rural and urban breakup of household savings for the year 1950-51 to 1962-63. The urban savings was estimated after deducting the rural savings obtained from the total household savings. The ratios of rural savings in agricultural income were 3.3 percent, 3.7 percent and 3.3 percent respectively for the year 1951-53, 1956-57 and 1961-62.

Pandit s (1991) 3 study on The Growth and Structure of Savings in India establishes a relationship between the savings and the factor affecting the savings of the household private, corporate and government sectors. The findings reveal the main factors affecting the savings rate in India are growth in income, sectoral and functional distribution of income and the increasing number of financial institutions.

Raju (1993)4 , in his study on Households Sectors Savings in India has pointed out that the amount of domestic sector, private corporate sector and government sector, during the year 1988-89, the gross household sector savings accounted about 81 percent of the gross domestic savings, while the share of private and public sector was only 9.7 percent and 9.3 percent respectively. Further, the household sector savings in the form of financial assets has increased from 8.6 percent in the year 1950-51 to about 42.5 percent in the year 1988-89, while the share of household sector savings in the form of physical assets has decreased from 91.4 percent in the year 1950-51 to about 57.5 percent in the year 1988-89. C

Need and Importance of the study:

There has been a consistent increase in the saving rate (gross domestic saving as a ratio of gross domestic product) in India through the post-independence period, from about 10 percent in the early 1950s to 17 percent in the early 1970s, and then to over 25 percent by the dawn of the new millennium . Private saving has accounted for the lion's share of total domestic saving throughout, with public saving declining from the early 1980s. Household saving has remained by far the most important component within private saving, despite the growth of corporate saving. The share of household saving in total private saving declined marginally from over 88 percent in the early 1950s to 84 percent in the late 1990s, reflecting increased corporate saving, from 1 percent to 3.6 percent of India's gross domestic product (GDP) over this period.

The Economy of India is a developing mixed Economy .It is the world's sixth-largest economy by nominal GDP and the third-largest by Purchasing power Parity(PPP). The country ranks 141st in per capita GDP (nominal) with $1723 and 123rd in per capita GDP with $6,616 as of 2016. After 1991 economic Liberalization India achieved 6-7% average GDP growth annually. In Financial Year 2015 and 2017 India's economy became the world's fastest growing major economy surpassing China. The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. Gross Domestic Saving consists of savings of Household sector, Private corporate sector and Public sector. Household sector is the major sector which contributes nearly 73% to total gross savings. This paper traces the trends in household savings and Factors affecting Indian household savings.

Objective of the study :

To know the Factors affecting Indian household savings and to analyze the trends in household savings in an Indian Economy.

Sources of data :

Secondary data: Secondary data is based on relevant studies from University Library, National and International Journals, committee Reports, Published Research Thesis,Websites,

The Former Patterns of Indian Household Savings

Gross Domestic Savings in India has shown a steady and substantial rise from the 1950s along with the rise in income. As per Indian National Accounts, Gross Domestic Savings includes current transfers from Indian emigrants and net factor income from abroad. The overall savings period in India is roughly divided into five phases based on the careful identification of the distinctive phases starting from the year 1950.The household sector which is comprised of the pure households, non corporate enterprises in agriculture, trade and industry and private non profit making trusts, has retained a high savings rate in comparison to public sector savings and private corporate sector savings in all the phases. The savings rate overall and the household savings rate took a sharp upturn in the 1970s, marginally increased thereafter, and then again took an upturn from the 1980s. The first upturn is attributed to the decline in the share of agriculture in GDP and the apparent high propensity to consume of the agricultural sector, a theory yet to be corroborated by evidence. Another school of thought suggests that the rapid expansion of banks, after their nationalization in 1969, contributed to increased savings of people by lowering the transaction costs of saving. Another contributing factor was the remittances from the Indian expatriates from the Gulf countries. Moreover, the Green Revolution in the late 1960s substantially contributed to increase in rural incomes. Though it is difficult to quantify, a certain spillover of the increased income into domestic savings cannot be denied.

The second expansion from the mid 1980s to present can be attributed to the Economic Reforms initiated in 1985 and thereafter accentuated from 1991. 1984-85 to 1995-96 was a remarkable phase of growth of the Indian economy. The jump in savings rate only substantiated the hypotheses that, economic liberalization did promote savings through economic growth.

Factors Affecting The Indian Household Savings

The Keynesian theory explains that the prime determinant of saving is income that has withstood the test of time, while empirical evidence does not corroborate the ability of other variables like interest rates, inflation and tax rates to influence savings.

A. Income

Gross Domestic Savings in India has shown a steady and substantial rise from the 1950s along with the rise in income (GDP). There is a correlation between the rise in income and the rise in national savings. This proves that the Keynesian theory of income being the primary determinant of saving holds true in India also. Moreover, it was permanent income, which was the critical determining factor rather than transitory income. In the initial stages of development, the level of income is an important determinant of the capacity to save.

B. Economic Liberalization GDP Growth and Savings Rate

Economic liberalization measures initiated in mid 1980s (accentuated from 1991) had contributed to GDP growth rate (average growth rate 5.6%) and the savings rate (17%). This was the period 1984-85 to 1995-96. From 1996-97 to 2003-04, we observe that the GDP has continued to rise, albeit at a fluctuating rate, but the savings rate has continued to rise regularly, without any fluctuations. This only enforces the fact that income is the prime determinant of savings and Economic liberalization helps to raise savings by raising income. In fact from independence to mid 1980s the Indian economy was characterized by a slow growth rate of 3.5% p.a. which changed from the mid 1980s.

C. Interest rates

Financial liberalization initiated in the 1980s gathered momentum after 1991. Presently, all interest rates, except those on all small savings schemes of Post Office, Provident funds, Government of India Bonds and schemes for Senior Citizens (the instruments with sovereign guarantee), are market determined. In post 1991 period there has been a steady decline in the interest rates in the economy. But overall household savings increased from 17% of GDP in the 1980s to 25.5% of GDP in 2002-03 and 26.6% of GDP in 2003-04. The transformation from an inefficient and sheltered economy to an efficient and a market determined economy have made people more insecure and prompted them to accumulate savings to guard against future job losses, giving limited importance to interest rates. The insecurity prompted to increase the savings rate. Another fact considered by retired people who were pensioners was that since interest rates had gone down to maintain the same income flow they had increased the volume of savings, to the extent possible So it can be concluded that interest rates do not influence savings much.

D. Tax incentives

The Government of India, till March 2005, offered a slew of tax incentives. All these tax rebates were available from instruments backed up by State Guarantee, barring ICICI Bank. People invested heavily in these instruments because of the double benefits of tax avoidance (not evasion) and State Cover. The funds raised from these instruments continued to feed the ever-yawning Fiscal Deficit of the Government of India.The underlying logic behind all these changes is to make it compulsory for people to arrange for their own retirement needs (which the bankrupt exchequer cannot provide) in line with the global trends and gently nudge people towards the Stock Market.

Trends in Household Sector Savings – Rate and Composition

A striking feature of the 2000s is the general leveling off of the household savings rate at about 23 per cent from around the middle of the decade in contrast to the upward movement in the previous years (Table 1). Moreover, this leveling off occurred even as the economy generally cruised along a high growth trajectory (barring a brief hiccup in 2008-09).

Total saving of the households comprises financial savings and physical savings. Financial savings are treated on a net basis i.e. households' (change in gross) financial assets less their (change in gross) financial liabilities. It is evident from Table 1 that while physical savings of the households increased sharply during the first half of 2000s, the pace of increase in gross financial assets as well as gross financial liabilities slowed down. With the net financial savings rate resultantly showing a modest increase, most of the overall increase in the households' savings during the first half of the 2000s was on account of physical savings. The household sector's preference for savings in the form of physical assets since 2000-01 could be attributed partly to the robust economic growth as well as rising availability of credit to meet financing needs of the household sector.

Table:1 - Household Savings (Averages)as Percent of GDP at current market prices

Period	Changes in Gross Financial Assets (GFA)	Changes in Gross Financial Liabilities (GFL)	Changes in Net Financial Assets (NFA) (2-3)	Changes in Physical Assets (HPA)	Total Household Savings (4+5)
1	2	3	4	5	6
1970s	6.0	1.5	4.5	7.3	11.8
1980s	8.9	2.4	6.5	7.2	13.7
1990s	11.2	1.6	9.6	8.2	17.9
2000s	14.2	3.4	10.8	12.3	23.2
2000-05	12.8	2.4	10.3	12.9	23.1
2005-11	15.5	4.2	11.3	12.2	23.5

Source: RBI Reports

During the second half of the decade, even though the gross financial savings (assets) and gross financial liabilities of the households increased sharply, the increase in net financial savings rate remained modest.At the same time, the rate of physical savings declined partly in response to the tightening in credit norms, offsetting the increase in the financial savings rate. Consequently, the households' overall savings rate remained largely unchanged (at around 23 per cent) since mid-2000s.Since the 1970s, the allocation of household savings between financial assets and physical assets had been progressively moving in favour of the former, with the notable exception of the first half of the 2000s. The allocation became almost evenly balanced during the second half of the 2000s.

The extent to which household physical assets were funded through loans and advances increased sharply during 2004-05 to 2006-07, coinciding with the high growth phase and real estate boom. Subsequently, this ratio has declined.

Evolving Structure of Households' Gross Financial Savings:

The composition of (changes in) the gross financial assets of households has also changed substantially over the years as shown in (Table 2).

Table 2: Composition of (Changes in)Gross Financial Assets(percent)

	Period	Currency	Bank Deposit	Non-banking deposits	Life insurance fund	Provident and pension fund	Claims on Government	Shares & debentures	Units of UTI	Trade Debt (Net)	Gross Financial Assets
S.No	1	2	3	4	5	6	7	8	9	10	11
1	1970	13.9	45.6	3.0	9.0	19.6	4.2	1.5	0.5	2.7	100.0
2	1980	11.9	40.3	4.6	7.5	17.5	11.1	3.9	2.2	0.9	100.0
3	1990	10.3	34.7	6.8	10.1	18.8	9.5	7.0	3.8	-1.0	100.0
4	2000	9.6	44.7	1.3	17.4	12.4	11.1	4.1	-0.5	0.0	100.0
5	2000-05	8.9	37.8	2.0	14.7	15.1	19.5	2.8	-0.9	0.0	100.0
6	2005-11	10.7	49.9	1.7	19.9	10.3	3.5	4.3	-0.2	0.4	100.0

Source: RBI Reports

- The share of currency has declined to around 10.7(column 2 Row 6) per cent during 2005-10 as compared with 13.9 per cent in the 1970s, (column 2 Row 1) eflective of the spread of banking facilities, the declining share of agriculture in GDP and moderation in inflation.

• Bank deposits continue to account for the predominant share of gross financial assets, with their share increasing sharply in the second half of 2000s in contrast to the declining trend in the previous years; part of the recent increase in the share of bank deposits could be attributable to the increase in deposit rates and aggressive deposit mobilization by banks.
• The share of life insurance funds continued to increase during 2000s, in line with higher insurance penetration and robust economic growth. As indicated in the Economic Survey 2010- 11, Life insurance penetration in the year 2000 when the sector was opened up to the private sector was 1.77 and it has increased to 4.73 in 2009. The increase in levels of insurance penetration has to be assessed against the average growth of over 8 per cent in the GDP in the last five years.
• The share of provident and pension funds has progressively declined over the years; this has been attributable to a number of factors viz.;

- The EPF Act, 1952 covers mandatorily those employees of organised sector whose salary is below ` 6500/- per month. This statutory limit is stagnant since 2002 while there has been a phenomenal growth in wage structure in industry over the years.
- While the new enrolment of members has become difficult as mentioned above, the exit of members by way of retirement, retrenchment and death are keeping normal pace.
- The increasing job avenues in global age economy have stirred the job dynamics and owing to this there is a brisk movement of labour amongst the companies offering better rewards. This has also resulted in settlement of accounts rapidly and giving way to outflow of contributions, as many of exiting members do not come back under coverage profile due to low statutory ceiling of wages.
- The Employees' Provident Fund Organization (EPFO), of late, has taken a decision not to allow interest on those accounts in which no contributions have been received for last 36 months. This has been done with a view to dissuade the ex-members to consider this social security scheme as Investment Avenue. With obvious exit of such members, this may further erode the deposit base.

Reflecting the impact of the above factors, the contributions received in the Employees' Provident Funds Scheme, 1952, Employees' Pension Scheme, 1995 and Employees' Deposit-Linked Insurance Scheme, 1976 framed under the EPF & MP Act, 1952, have been decelerating over the years

Projections of Household Savings Rate:

Table 3: Projections of Household Savings Rate during the Twelfth Plan(in per cent of GDP)

YEAR	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	12th Plan Average
Household Savings Rate	23.3	23.7	24.0	24.3	24.9	25.3	24.4

Source: Central Statistics Organisation

It is evident that the projected household savings rate increased from 23.3 per cent in 2011-12 to 25.3 per cent in 2016-17, giving an average of 24.4 per cent during the Twelfth Plan.
Taking the projections of household savings as set out in Table 3, the components of household savings are worked out by applying their respective average shares during the period 2005-06 to 2007-08 i.e. period of over 9 per cent real GDP growth just prior to the onset of the global financial crisis. These are depicted in detail in the Table 4.

Table 4: Baseline Projection of the Components of Household Savings over the Twelfth Plan (As per cent of GDP at current market prices)

		2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Average XII Plan**
S.No	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Currency	1.6	1.6	1.6	1.7	1.7	1.7	1.65
2	Bank deposits	8.6	8.8	8.9	9.1	9.2	9.4	9.0
3	Non- banking deposits	0.1	0.1	0.1	0.1	0.1	0.1	0.1
4	Life insurance fund	2.9	2.9	3.0	3.0	3.1	3.1	3.0
5	Provident and pension fund	1.7	1.7	1.7	1.8	1.8	1.8	1.75
6	Claims on Government	0.8	0.8	0.8	0.9	0.9	0.9	0.85
7	Shares & debentures	1.2	1.3	1.3	1.3	1.3	1.3	1.28
8	**Gross Financial Assets (1 to 7)**	**16.9**	**17.2**	**17.4**	**17.6**	**18.1**	**18.3**	**17.6**
9	Gross Financial Liabilities	5.1	5.2	5.3	5.4	5.5	5.5	5.3
10	**Net Financial Savings (8 – 9)**	**11.8**	**12**	**12.1**	**12.2**	**12.6**	**12.8**	**12.3**
11	Physical Savings	11.5	11.7	11.9	12.1	12.3	12.5	12.1
12	**Household total Savings (10+11)**	**23.3**	**23.7**	**24.0**	**24.3**	**24.9**	**25.3**	**24.4**

Source: RBI Reports

It is observed from the above table that Net Financial Household savings is showing as 11.8percent (column 2,Row 10) thereby increasing to 12.8 percent (column 7,Row 10) by 2016-17.Whereas Physical savings are 11.5 percent (column 2,Row 11) during 2011-12 showing an increase to 12.5 percent (column 7,Row 11)and the total Household Savings were 23.3 percent (column 2,Row 12) during 2011-12 which increased to 25.3 percent by 2016-17(column 7,Row 12) .

Recent Trends In Indian Household Savings

An economic climate that favours the concept "spending beyond means", creating an environment that pampers the consumer, should have resulted in a drastic reduction in household savings. But the last decade's savings figures show that Indian households have proved otherwise. Indian household seems to secure its interest through adequate and prudent savings in a most conservative manner, notwithstanding the systematic discouraging policy initiatives, aping the West, to compel the household to blow the money. In the last decade, the interest rates on savings have been drastically cut, the tax incentives for savings have suffered from serious instability, and both the capital market and the non-banking finance companies administered rude shocks to investors. Consumerism is being consciously promoted by making available loans/credit cards with increased options to prospective buyers.

The surprising reality is that while the `spending beyond means' as a main driver of economy no longer seems to be working even in the West, which in relative terms has in place an adequate social security system in our country, with no credible social security, the policy-makers seem to favour aggressive consumerism. Such an environment, punishing savings and pampering spending, should have resulted in drastic reduction in savings by households. But the figures of the last decade's savings prove that our households think otherwise. Household savings have been channeled over the past 11 years — from 1993-94 to 2003-04. The majority of the savings flowed into bank deposits, claims on government (comprising government securities and savings), insurance and provident and pension fund, in that order.

Bank deposits seem to be the preferred choice, consistently, despite the drastic reduction in interest rates, from 12 per cent for a three-year term in April 1997 to 5.75 per cent in January 2005, that is halving in this period. Safety, liquidity (including availability of loan against deposits), tax concessions (that increases the effective rate of interest) and, more important, absence of other investment avenues are the reasons for the rise. Investment in government securities and small savings has increased from 12.3 per cent in 1999-00 to 17.7 percent in 2003-04. Though most of these savings lack liquidity, as they are long-term investment, and offer the highest safety to the depositor (government guaranteed) with tax incentives. The current rate of return offered by these schemes also negate the basic rule in financial investment — `higher the reward' the more `riskier' the investment. This government guaranteed savings offers returns, which together with their tax effectiveness are 2-3 per cent higher than the unsecured private company deposits, placing return and risk in inverse proportion.

Life insurance and provident/pension fund investments have also seen a rise. Life insurance funds growth could be for two reasons: Increased realization about the need to insure, and the increased competition from private players in the last decade. Investment in capital market suffered the same fate as risky company deposits. Barring the first two years (1993-94 and 1994-95) and the dotcom boom year 1999-2000 (where investment peaked to Rs 18,118 crore), the savings has come down to a third in the decade to Rs 5,699 crore in 2003-04. These include investment through mutual funds (with the exception of UTI). The risk-averse household has kept away from this avenue, although, the Comptroller of Capital Issues has been replaced by SEBI (Securities and Exchange Board of India), and from 1993-94 on, the capital market regulator has been framing regulations on various issues connected with capital market. As the regulation became tougher and more stringent, investment came down, aggravated by the investing community taking a beating with such mega scandals as, Harshad Metha and Ketan Parekh. Similarly, after the crisis in UTI, the country's single largest mutual fund, the investors remained net sellers only.

The Working Group considered the impact of demographic factors on household savings. One approach was to assess the possible effect of the differential savings propensity across the age-profile of the chief earner of the household. In this context, an NCAER-Max New York Life Study (2007) [henceforth, the NCAER Survey (2007)] provided some insights. The Study showed, on the basis of a survey conducted in 2005 that the average savings per household in India increased with the age of its chief earner, till the latter attained the age of 65 years (TABLE A). This increase in savings was attributed to the growing need for old-age financial security, apart from the general increase in savings with (working) age.

Table A: Average Annual Savings per Household

Age of Chief Earner of Household (in years)	**Average Annual Savings per Household (in Rupees)**
Less than 25	8,515
26-35	13,465
36-45	15,522
46-55	20,444
56-65	21,196
More than 65	17,011
Average	16,139

Source: Max Life New York - NCAER Survey (2007)

Conclusions:

The study concludes that the Growth in Gross Domestic Savings have led to growth in Gross Domestic Product which concludes that the economic cycle continues as a relation between GDP and GDS. India has experienced very high saving rates over the decades but it does not reflect in the low growth rates. The growth rates have shown an overall increasing trend but failed to match the extraordinary saving performance in the country. The economy is thus characterised by a puzzling feature of 'high savings and low growth'

Therefore, to boost-up the economy of the nation, it is mandatory that sufficient attention needs to be paid on the growth of these two parameters. Keeping in view, it is recommended that the emphasis needs to be made for growth in the Gross Domestic Savings for which, there is a need to focus upon encouraging private corporate investments which would lead to expand the investment avenues thereby increasing savings and ultimately, the Gross Domestic Product of the Country.

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