JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

An Analysis of Changing Saving Portfolio of Indian Households.

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Abstract

The household sector plays a dynamic role in propelling economic growth by contributing a lion's share towards gross domestic savings. The financial wellbeing of the household sector is important in maintaining the overall stability of the nation. The saving of the households is channelized in the form of physical and financial assets. The analysis of the saving pattern of Indian households clearly shows a change in the composition of the household portfolio. There has been a shift in the household saving both in the composition and structure. There is a structural shift from financial assets toward physical assets.

Keywords – Household saving, Physical assets, Financial assets

Introduction

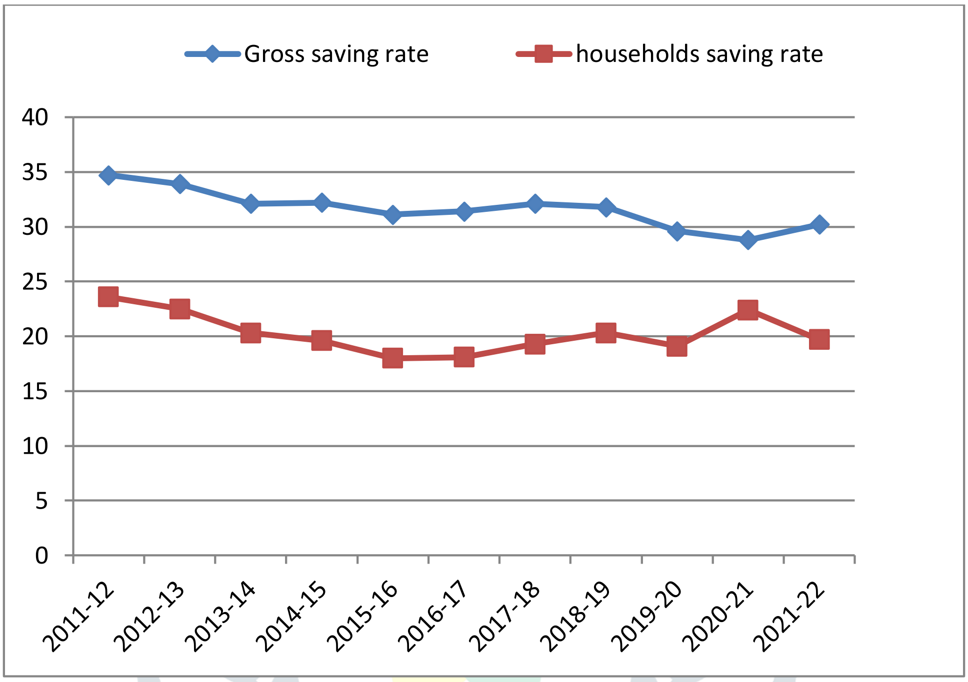
One of the potential factors that determine an economy's growth process is the dynamics seen in the saving. Saving represents the excess of current income over current expenditure of various sectors of the economy. The GDP growth rate of India has shown a huge increase in the post reform period. Among the various institutional sectors that contribute towards saving, the household sector dominates. More than two third of the total savings are generated from the household sector and that itself shows the vibrancy and significance of this institutional sector in the growth path of India. As the household sector is the predominant sector the volume and composition of savings related to it is highly significant. In India domestic savings play a vital role in capital formation and stimulating the economy through its growth path. The financial wellbeing of the households has a crucial role in the nation's financial stability. This paper mainly focuses on the role of household sector in the gross saving of Indian economy and the pattern exhibited in their saving portfolio.

Trend in India's gross saving rate and household saving rate

There has been a secular uptrend in county's gross domestic product and this is closely related with the increase in domestic saving and its channelization into investment paths. Gross savings is a part of gross disposable income and there exhibits a positive correlation between increase in gross disposable income and saving rate. The capital formation is directly dependent on the saving rate. Among the potent institutional sectors, the household sector contributes the lion's share towards the saving pool of the nation.

Figure - 1

Gross saving and household saving rate



Source: Ministry of Statistics and Programme Implementation

The percentage share of gross saving in GDP has shown a marginal decline over the past decade. It has dropped from 34.7 percent in 2011-12 to 30.2 percent in 2021-22. Along with this the household savings has also shown a dip but it started reviving from 2016-17 onwards. The increase shown in the household saving has revived the gross saving rate but its rate of growth was less as such the propelled growth in GDP was also low. This is due the economic environment and also points towards the change in composition of household saving pattern. The points of inflexion during 2016 and 2019 are also reflecting the impact of demonetization and covid crisis.

Compositional shift in household portfolio

Over the last few years there has been a profound change in the saving pattern of the households and there has been a compositional shift in financial savings, especially a shift from traditional instruments. The household sector saving comprises of financial assets and physical assets. Traditionally from the perspective of flow of fund the household sector has been considered as a surplus sector. Financial asset is a liquid asset and claims value from a contractual right. A positive difference between financial assets and liabilities generates financial savings and this has a significant role in the growth of GDP. Traditionally the financial assets comprises of currency, deposits, shares and debentures, insurance funds, claims on government and provident and pension funds.

Table - 1

Composition of financial savings of household sector

Year	Currency	Deposits	Shares and Debentures	Claims on Govt	Insurance Funds	Providend and Pension Funds
2011-12	1.2	6	0.2	-0.2	2.2	1.1
2012-13	1.1	6	0.2	0.2	1.8	1.5
2013-14	0.9	5.8	0.2	0.1	1.8	1.5
2014-15	1	4.8	0.2	0.1	2.4	1.5
2015-16	1.4	4.6	0.2	0.5	1.9	2.1
2016-17	-2.1	6.3	1.1	0.7	2.3	2.1
2017-18	2.8	3	1	0.9	2	2.1
2018-19	1.4	4.2	0.9	1.1	2	2.1
2019-20	1.4	4.3	0.5	1.3	1.7	2.2
2020-21	1.9	6.2	0.5	1.3	2.8	2.4
2021-22	1.1	3.5	0.9	1.2	1.9	2.4

Source – RBI annual report 2022-23

The above data from RBI annual reports clearly shows that the percentage share of currency out of the gross financial saving showed mild variations but it has registered a dip in the recent years especially after 2017-18. The gross financial savings in the form of deposits fell from 6.0 percent to 3.5 percent. This shows a prevalent change in the household portfolio. At the same time the share of pension funds and provident funds has shown a mild increase. This need not to be sighted high as it is more of a compulsory nature. Insurance fund have shown a fluctuating nature, the share on government claim has exhibited a slow progression which again points to the changing preference of the households. At the same time the risk averse nature of the Indian household is prevalent as a very slow progression is seen in the case of savings channelized into shares and debentures. Among the financial market instruments growth has taken place more in mutual funds and equity's. Thus in totality majority of households prefer assets with low risk like bank deposits, post office saving and insurance funds. The recent data shows that there has been a fall in the savings even to these financial instruments projecting a structural shift in the household sector saving choices. Thus the net financial savings has dropped to 5.1 percent in 2022-23 from an average of 7.5 percent over the past decades.

Households physical assets comprises of an item that has an economic value and material existence. It comprises of fixed assets like machinery, equipment and buildings. Saving in the form of physical assets for own use as accounted for under capital formation estimates are taken as saving in physical assets of the households. The household asset portfolio has shown a marked structural change with a preferential shift towards physical assets. The gross fixed capital formation has shown an increase of 13.7 lakh crore over a period of ten years from 2011-21.

Table – 2

Composition of gross fixed capital formation in the household sector

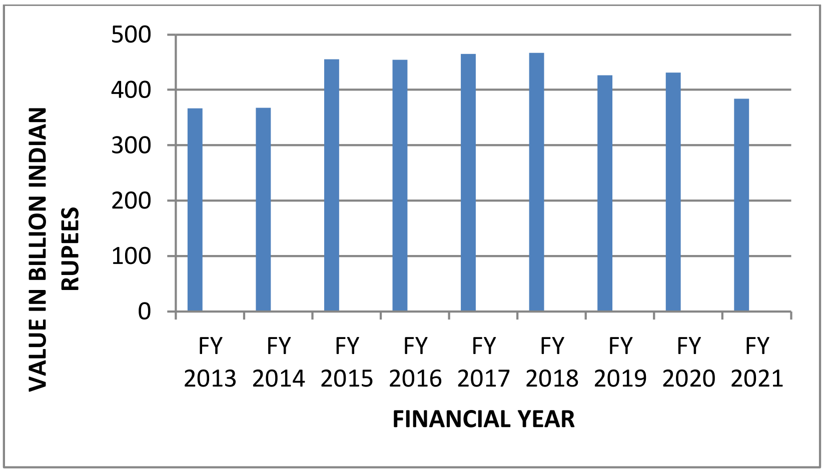
Year	Buidings and Structures	Machinery and Equipment
2011-12	11.2	2.5
2012-13	11.5	2.9
2013-14	12.5	1.5
2014-15	12.8	2.2
2015-16	10.1	2.8
2016-17	11.2	4.5
2017-18	12.7	6.5
2018-19	15.1	7.7
2019-20	14.5	7.8
2020-21	14	6.9
2021-22	18.5	8.9

Source – Second Advanced Estimates of National Income 2022-23

Investments by households in fixed capital assets like buildings has increased from 11.2 per cent to 18.5 per cent which shows a clear increase in savings towards physical assets and an increasing trend is seen in the case of machinery and equipment’s also. The recent period thus has a positive impulse in the real estate sector after a slow slump in the previous periods. At the same time savings in physical assets like gold and silver exhibited a decline in the recent period especially after the covid pandemic.

Figure – 1

Gross Domestic Savings in the form of gold and silver in household sector



Source: National Statistical Office

The above figure depicts the changes in the value of gross domestic savings in the form of gold and silver valuables in household sector across India from the financial year 2013 to 2021. There was an increasing inclination towards gold during the period from 2015 onwards but a declining trend was seen after 2019 onwards. During the financial year 2020 the value was 431.3 and it dropped to 384.44 in the financial year 2021. This indicates the changing behavior of the savers especially in the post covid period.

Conclusion

Households occupy the primary position in contribution of saving towards India's gross domestic savings. Country's Gross domestic saving rate and household saving rate has shown a consistent increase over the past years but in the recent years there has been a small dip in both these variables. The saving investment gap of the economy has reduced over the past years and this contributes to fasten the growth process, The Indian household portfolio exhibits an inclination towards physical assets, especially in the form of gross fixed capital formation. The prevailing preference of physical savings over financial savings can be attributed to the favorable development environment. At the same time there is a need for more funds to be routed towards financial assets as it enhances the liquidity and availability of funds to finance capital formation and thereby to accelerate the growth process.

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