Anila C. “An Analysis of Saving and Investment Behaviour of Urban Households in Kerala. “ Thesis. Research and Post Graduate Department of Economics, St. Thomas’ College (Autonomous),Thrissur, University of Calicut, 2021.

Chapter – III

An overview of the trends and composition of savings and investment in Indian Economy

3.1 Introduction:

Savings and investments are vital for the financial well-being and security of a healthy economy. The process of economic growth is closely linked with generation of greater savings and its channelization into productive investment. Savings enable an economy to weather economic shocks and to enhance its overall welfare. For long term sustained development the nation must enhance its saving and investment potentials. Raising the saving ratio is of utmost importance as it improves the liquidity, provides fund for the nations development activities and capital formation. A two-way relation exists between economic growth and domestic savings, as the increase in savings could stimulate economic growth and in turn economic growth spurts domestic savings. The developing countries like India face various constraints in its path of development. With high capital output ratio, India needs very high rates of saving and investments to increase its pace of progress.

3.2 India's Savings Performance in a Global Perspective:

The global saving and investment ratio has varied over time and shows considerable diversity across various countries and regions Inter-country experiences with regard to the links amongst savings, investment and growth appear complex, divergent and country specific and the relationship between the rate of saving and economic growth has been found to be bi-directional and positive for south-east and south Asia . For many decades the saving and investment ratio as a per cent of Gross Domestic Product has exhibited an increasing trend among various developing counties in Asia. Among the Asian countries Singapore and China recorded higher levels of saving and investment ratios but at the same time India's savings performance has been quite impressive in a cross-country context. India has shown a progressive trend in Gross Domestic Savings in the post reform period with minor ups and downs. The counties saving rate has increased from 21.6 per cent to 30.4 per cent during the period of 1990-2015. The magnitude of increase in the domestic savings rate in India and China during the period 2000 to 2007 was among the highest in the world. India's gross domestic savings rate in the recent period is comparable to Thailand, Korea and other developed countries like Russia and Germany. The saving rate of India and China has been in a faster pace when compared to many developed counties. The global recession has led to a decline in the saving rate of many countries but India was able to recover from it in a better way when compared to many other advanced economies.

Table-3.1
Gross Domestic Savings Rate (per cent of GDP)

Country	1990	1995	2000	2005	2010	2015
India	21.6	25.8	24.1	34.1	32.7	30.4
China	36.4	41.0	38.2	47.7	50.6	46.0
Thailand	34.0	37.4	30.5	32.1	30.9	33.2
Singapore	45.9	50.9	47.6	50.3	54.0	52.7
Mexico	21.6	25.2	21.2	22.4	23.4	22.4
Brazil	21.4	15.4	16.6	20.6	20.7	16.3
Russian Federation	30.3	28.8	34.2	33.8	32.5	28.6
France	23.6	21.4	23.7	23.0	21.3	22.0
Germany	24.6	24.0	24.6	26.0	26.5	27.6
Japan	35.3	31.3	27.2	26.2	25.6	24.4
Korea.Rep.	39.2	36.7	33.1	33.4	34.5	36.2
United Kingdom	14.6	18.9	16.2	16.1	14.8	15.8
United States	20.2	20.1	18.7	18.0	15.4	17.6
World	**25.3**	**25.3**	**24.7**	**26.7**	**25.4**	**24.9**

Source-World Development Indicators, World Bank (Various years)

3.3 India's Savings Performance over the Five-Year Plans:

Since the attainment of independence, the major objective of the government policy has been the promotion of savings and capital formation as they are the primary instruments of economic growth. Increase in the savings and its channelization into various productive investments avenues are the strategies for economic growth. The concept of planning was carried out in this direction and the Five-Year Plans were, developed, executed, and monitored by the Planning Commission during the period of 1951-2014 and by the NITI Aayog from 2015 onwards. The county's Gross Domestic Savings (GDS) has shown an increasing trend. The eighth plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6 per cent through introduction of fiscal and economic reforms including liberalisation as a result high growth rate was achieved even though the share of public sector in total investment declined considerably to about 34 per cent. Over the eighth to the eleventh plan that coincided with the structural reforms process - the average rate of Gross Domestic Savings increased by around 14 percentage points and this was higher than the increase of around 11 percentage points that occurred over the first to the seventh plans, a period of around forty years. The tenth plan period has marked the highest increase in domestic saving rate as the public sector saving rate increased during this period.

Table-3.2
India's Average Savings Rates over the Five-Year Plans

Five-Year Plans	Gross Domestic Savings Rate (percent)	Average annual rate of change in the savings rate (percentage points)
First Plan (1951-56)	9.2	
Second Plan (1956-61)	10.6	0.3
Third Plan (1961-66)	12.1	0.3
Fourth Plan (1969-74)	14.7	0.5
Fifth Plan (1974-79)	18.5	0.8
Sixth Plan (1980-85)	17.9	-0.1
Seventh Plan (1985-90)	20.0	0.4
Eighth Plan (1992-1997)	22.9	0.6
Ninth Plan (1997-2002)	23.6	0.1
Tenth Plan (2002-2007)	31.3	1.5
Eleventh Plan (2007-2011)	33.7	0.6

Source**:** RBI Monthly Bulletin June 2012

The twelfth five-Year Plan approved a growth rate of eight per cent and aimed to attract private investments in the infrastructural growth sector, however, investment rates have declined in the first three years of the twelfth Plan with saving rate falling in the first two years from 33.8 per cent in 2012-13 to 33.0 per cent in 2013-14 and remained the same in 2014-15. Similarly, the investment rate estimated at 38.6 per cent in 2012- 13 declined to 34.7 per cent in 2013-14 and further to 34.2 per cent in 2014-15. Notably, the investment rate in the years 2011-12 to 2014-15 has been higher than the savings rate because of net capital inflows from the rest of the world. The decline in gross savings is attributable to the decline in household sector savings and public corporations' savings in 2012-13 to 2014-15, the share of the household sector in gross savings declined from 66.4 per cent in 2012-13 to 57.8 per cent in 2014-15.

3.4 Gross Domestic Product, Saving, Investment in India

Over the decades, the secular uptrend witnessed in domestic growth is clearly associated with the consistent trends of increasing domestic savings and investment. A review of the performance of the Indian economy suggests that there is an impressive growth in the real GDP in the post-reform period. One of the significant features in Indian economic growth process is that it has been predominantly financed by domestic savings and this has contributed in strengthening the process of capital formation. India continues to remain one of the high savings economies among the emerging market economies. The compound growth rate of Gross Domestic product during the period 1951 -17 is 12.6 and the growth rate of saving and capital formation is 15 and 14.7 during the period. The growth rate of investment was 15.6 during 1991-2000 and it has increased to 20 during 2001-2010. The growth rate domestic saving and investment has got a greater momentum in the post reform period.

The growth path of Indian economy and the trend in Gross Domestic Product, Gross Domestic Saving and Gross capital Formation has been analysed with the help of compound growth rate and is presented in Table 3.3. The decadal growth rate of GDP, GDS and GCF during 1951-60 was 5.9, 8.5 and 11.4 respectively. This has more than doubled in the later years and reached 14.3, 18.2 and 20.0 during 2001-2010. India's growth rate moved in a very slow pace during the initial years after independence, especially during the first two decades and even exhibited negative growth during 1951 and 1953. Later from the mid of 1970's onwards the economy started progressing at a faster rate, the gross domestic savings also accelerated.

The major share of saving came from the household sector and the improvements were due to the developments in agricultural sector as a result of green revolution, development of financial institutions, nationalization of banks and increase in foreign inward remittances. During this period the average annual capital formation also increased and this was due to increase in private corporate investment and household investment rate. However due to the economic crisis in 1991, the growth rate of GDP declined and the economy adopted a New Economic Policy on 1991 whereby the economy was opened up through a set of policies of liberalization, privatization and globalization.

From the period of 1991 to1994 a consistent increase was seen in GDP, GDS and GCF. From 2002 onwards the economy witnessed faster growth rate accompanied by robust domestic saving and investment. The global recession of 2007-08 has its impact on Indian economy as a result there was a mild deceleration in the growth rate and a fall in gross domestic savings. However the economy showed signs of revival from 2009-10 onwards, gross domestic saving did not show much progress and it did not reached the position before recession but share of gross capital formation increased and it peaked during 2012.

Table 3.3
Compound growth rate of GDP, GDS and GCF

Period	GDP	GDS	GCF
1951-60	5.9	8.5	11.4
1961-70	11.2	12.2	10.8
1971-80	12.1	15.8	14.5
1981-90	14.1	17.5	16.1
1991-2000	14.3	16.2	15.6
2001-2010	14.3	18.2	20.0
1951-90	11.1	13.5	13.5
1991-2017	13.2	15.4	15.6
1951-17	12.6	15.0	14.7

Source: Compiled from Handbook of Statistics on Indian Economy

The rate of gross domestic savings as a proportion of gross domestic product has more than doubled from an average of around 10 per cent in the 1950s to around 23.0 per cent in the 1990s and to 32 per cent in the 2000s. It scaled a peak of 36.8 per cent in 2006-07, the highest saving rate achieved since 1950’s.The rate of gross domestic capital formation has more than doubled from an average of around 12 per cent in the 1950s to around 24 per cent in the 1990s and to 33 per cent in the 2000s, and it has peaked to 38 per cent during 2007 and 2012. During the post reform period the economy’s growth phase is associated with higher order of increase in gross domestic savings and gross capital formation.

Table 3.4 exhibits the decadal growth rate of Gross Domestic Product along with Gross Domestic Savings and Gross Capital Formation as a percentage of GDP. The data show that GDP has shown minor variations after the period of 1991but gross domestic savings and gross capital formation has exhibited continuous increase and the decadal growth was faster after 2001 showing the effects of the new economic policy.

Table 3.4
Gross Domestic Product, Gross Domestic Saving and Gross Capital Formation of India

Period	GDP (Decadal growth rate as %)	Gross Domestic Savings (% of GDP)	Gross Capital Formation (% of GDP)
1951-60	6	10	12
1961-70	10	12	15
1971-80	14	18	18
1981-90	14	19	23
1991-2000	13	23	24
2001-2010	14	32	33
2011-2017	11	32	34

Source: Compiled from Handbook of Statistics on Indian Economy

3.5 Trend of savings in India

The three main features of saving in Indian economy are - there has been continuous increase in savings, the household sector remains the predominant sector and the share of household sector and private sector has increased while public sector has declined. Over the decades, the secular uptrend witnessed in domestic growth is clearly associated with the consistent trends of increasing domestic savings and investment. Within domestic resources, a nation's savings and investment propensities play a key role in reaching targeted economic growth. Gross domestic savings have increased continuously from an average of around 10.0 per cent of GDP during the 1950s to almost 32 per cent during 2017. It showed highest value during 2001-05 and after that it showed a decline and reached to 14 per cent during 2016-17.

Table 3.5 shows the five year average of Gross Domestic Saving, growth rate of GDS, GDS as percentage of GDP and average propensity to save over the period 1951-2017.The growth rate of GDS has shown a fluctuating trend, it was lowest during the period of 1956-60 but later increased its pace and showed the highest value during 2001-2005, from 2007 onwards it showed a declining trend.

Table-3.5
Gross Domestic Saving, APS and MPS

Period	GDS	Growth rate of GDS	APS
1951-1955	11251	10	0.10
1956-1960	15475	6	0.11
1961-1965	23837	11	0.13
1966-1970	40737	17	0.13
1971-1975	68622	19	0.16
1976-1980	117858	12	0.19
1981-1985	229521	14	0.18
1986-1990	443439	19	0.20
1991-1995	922418	17	0.22
1996-2000	1799116	14	0.29
2001-2005	2933851	20	0.29
2006-2010	5834760	14	0.34
2011-2015	11285418	11	0.32
2016-2017	16244987	14	0.32

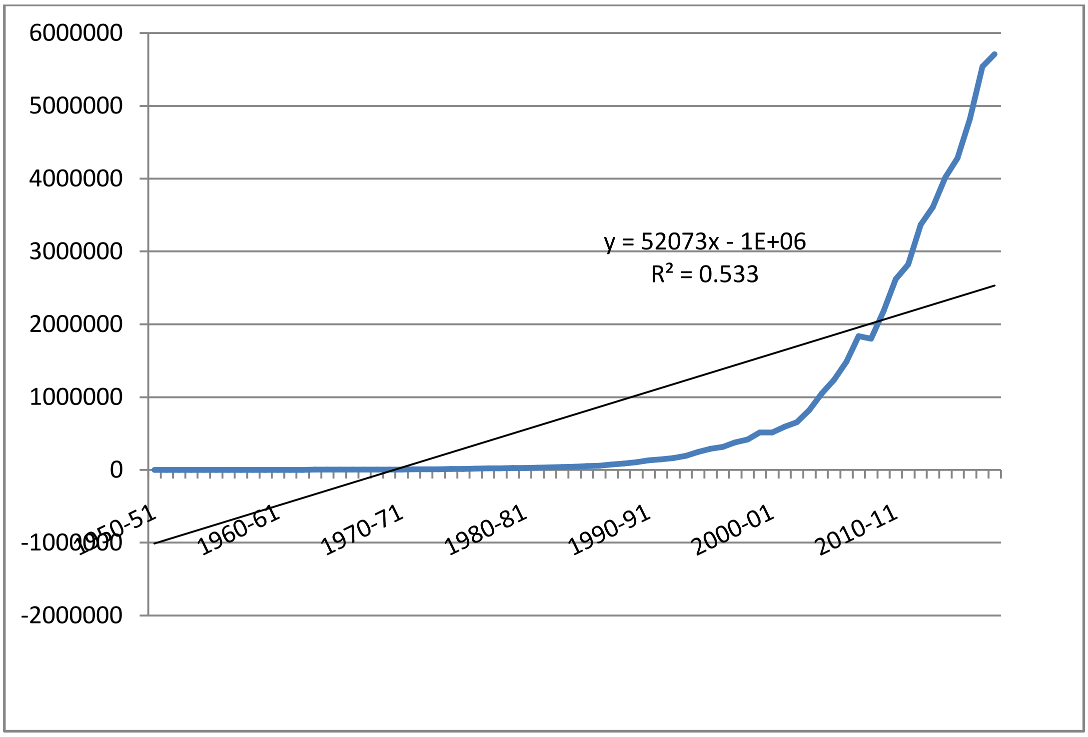
Source: Compiled from Handbook of Statistics on Indian Economy

The Average propensity to save showed an increase from 0.10 to 0.32 during the period 1951-55 and has registered the highest value 0.34 during the 2006-2010. The decline in saving from the period of 2007 was mainly due to the ill effects of global recession. However the intensity of the effects was cushioned to a great extend by the domestic demand generated and the propensity to save in the economy.

There has been a consistent increase in the saving rate and it is clearly depicted in Figure 3.1. The gross domestic savings has shown an increasing trend over the period from 1950-51 to 2016-17. It stood at around 23 per cent in 1990 has reached around 35 per cent in 2015. India’s savings rate declined sharply in 2008, as it did in many other countries, due to the impact of the global financial crisis, but recovered, to some extent, in 2009. Even then

India’s savings rate remained lower than that in 2007, but the extent of decline in India’s savings rate was much lower than those in many emerging market economies.

Figure 3.1
Trend of Gross Domestic Saving



3.5.1 Components of Domestic Savings

Gross Domestic Savings of the Indian economy comprise of household savings, private corporate saving and public sector savings.

Household sector- “The household sector comprises, apart from individuals, all non government and non-corporate enterprises like sole proprietorships and non-profit institutions which provide educational, cultural, health, recreational and other social and community service to households” (CSO 1980) . Household savings is defined as the difference between a household’s disposable income and its consumption of goods and services. It comprises of both physical and financial savings.

Private sector- The saving of the private corporate sector constitutes the net saving of non-government, nonfinancial companies, private financial institutions and cooperative institutions as revealed from the profit and loss accounts placed in the balance sheet of these companies.

Public sector-The saving of public sector includes the net savings of both departmental and non-departmental enterprises and savings of administrative departments shown as the excess of current receipts over current expenditures of the government.

The growth rate of household sector increased with minor variations, and showed highest value during 1996-2000 The composition of GDS shows the continued predominance of household sector savings, the percentage share of household sector to GDS increased continuously and was around80 per cent during the period 1996-2005.After the 1990-91, the share of the private corporate sector in GDS has exceeded that of the public sector. With a rise in corporate profitability the percentage share of private corporate sector has doubled to 32.1 per cent in 2011-15 from 15.3 per cent in 1991-95.

The buoyant trend in the gross domestic savings is powered by savings in household sector until recent past, more recently the share of corporate sector has increased. The private corporate sector has become more vibrant with improved productivity, sales growth and increase in profit margin. The improvements in the private corporate sector have helped to narrow down the saving investment gap in the economy at a faster pace.

The public sector share to GDP was only 2 per cent during 1951-55 and its progress was very slow, it even turned negative during 1998-2000 and turned positive during 2003-04.The share of public sector to gross domestic saving was 21 per cent during 1951-55, it percentage share increased but in the post reform period its percentage share declined and it reached 3.6 per cent during 2011-15. The decline in this sector has been compensated to a greater extend by the increase in the private sector savings.

Figure 3.6 depicts the growth path of gross domestic saving along with the major components that comprises of household sector, private sector and public sector savings. The growth path from the period of 1951 – 2015 has been analysed and clearly shows the variations in savings corresponding to these sectors.

Table 3.6
Sectoral savings and contribution to GDP, GDS

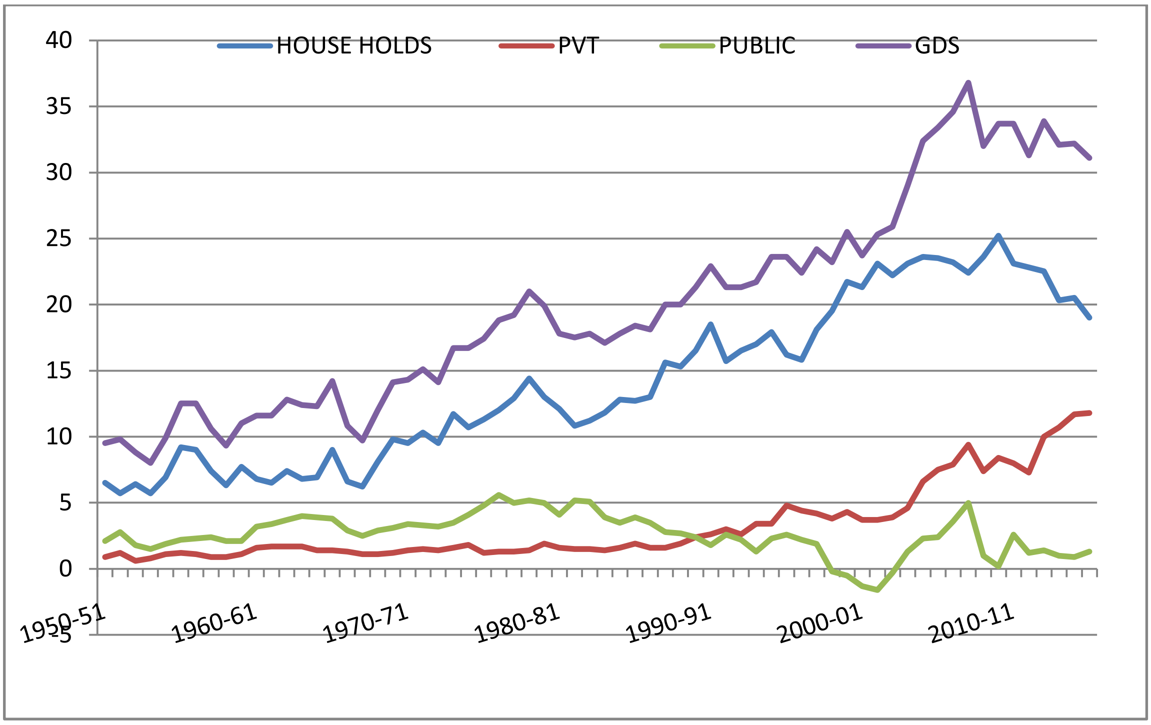
Period	Household sector			Private Corporate sector			Public sector		
	GR	% To GDP	% to GDS	GR	% to GDP	% to GDS	GR	% to GDP	% to GDS
1951- 1955	14.7	6.8	69.2	9.6	1.0	9.8	3.7	2.0	21.0
1956-1960	12.0	7.5	67.7	8.3	1.1	10.1	7.5	2.4	22.2
1961-1965	13.4	7.3	57.7	5.9	1.6	12.5	8.4	3.7	29.7
1966-1970	20.1	8.0	65.6	13.1	1.2	10.1	12.8	2.9	24.2
1971-1975	17.6	10.7	66.9	11.5	1.5	9.5	25.7	3.8	23.6
1976-1980	11.5	12.9	66.5	17.7	1.5	7.8	13.3	5.0	25.7
1981-1985	17.3	11.8	66.8	16.5	1.6	8.8	5.0	4.3	24.4
1986-1990	21.0	15.8	76.9	31.1	2.0	9.8	12.3	2.6	13.2
1991-1995	16.5	16.7	74.9	27.9	3.4	15.3	20.3	2.2	9.8
1996-2000	19.7	19.3	80.9	7.2	4.1	17.2	64.1	0.4	1.9
2001-2005	12.9	23.1	80.1	32.3	5.2	17.6	68.7	0.8	2.3
2006-2010	15.7	23.5	69.0	15.6	8.2	24.0	7.38	0.9	2.6
2011-2015	6.4	21.0	65.4	26.1	10.3	32.1	16.0	1.2	3.6

Note: GR-Growth Rate; GDS-Gross Domestic Saving; GDP-Gross Domestic Product

Source: Compiled from Handbook of Statistics on Indian Economy

Figure 3.2 clearly shows the increasing trend in Gross Domestic Saving and the prominence of the household sector. From 1995 onwards private corporate sector out geared public sector and the prominence continues. Except public sector the other two sectors depicted a continuous increase.

Figure 3.2
Gross Domestic Saving and its Composition

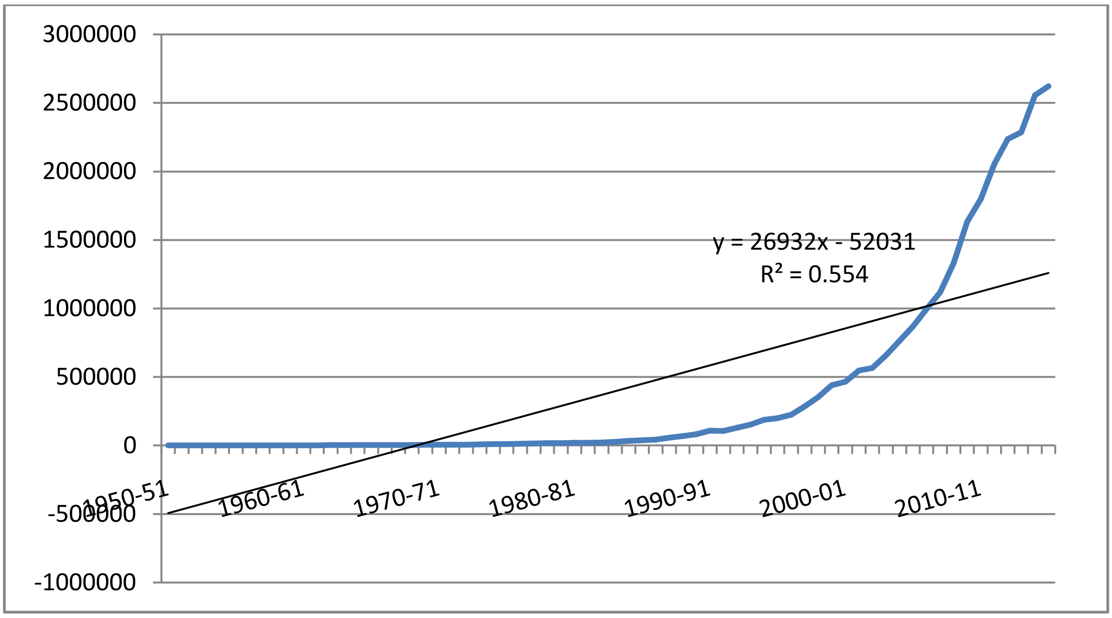


3.5.2 Trend and Composition of household sector savings

Household saving has always remained a major component of gross domestic savings followed by private corporate savings and public sector savings. The upward trend in the gross domestic savings is powered by savings in household sector. The household sector dominated the other two sectors by generating savings and pooling it into various financial sources. Thus it plays a crucial role in maintaining liquidity in the economy. It was the result of high savings rate that the Indian economy was able to surpass the negative impacts of the global recession of 2008.This clearly shows the vibrancy of this sector and the need to take measures to strengthen the savings from the household sector. There was a continuous increasing trend in household savings till 2002, after that period it leveled off at around 23 per cent with minor variation over the years till 2015.

Figure below clearly depicts the positive trend in household savings. It gained faster momentum after the period of the new economic policy. The liberalized policies, opening up of the markets, increase in saving and investment avenues and other related factors contributed to the faster pace of growth.

Figure 3.3
Trend of Household Savings



The household sector saving comprises of financial savings and physical savings. The physical savings include physical assets like property, gold etc and financial savings comprises of currency, deposits, non- banking deposits, insurance funds, pension and provident funds, claims on government, shares and debentures. Financial savings are treated on a net basis i.e. households' financial assets less their financial liabilities. It is evident from Table 3 that physical savings of the households increased continuously from 4.6 per cent during 1951-55 to 7.7 per cent in the period 1976-80. This clearly shows household sector's preference for savings in the form of physical assets and the trend continued till 1990's.

From 1990s onwards household's preference navigated towards financial savings and it was around an average of 10-11 per cent during the period 1991-2010.This has led to financialisation of savings and was mainly due to the factors like the impact of the post reform measures, steps taken as part of financial inclusion and weakness in the realty sector during this period. Gross savings in financial assets reached its peak in 2007 and then due to global economic recession it slowed down but again regained its momentum. Again in 2011 savings in financial assets came down at the same time physical assets regained and reached an average of 10.8 per cent during 2011-2015. Table 3.7 shows the composition of physical assets and financial assets of households as a per cent of Gross Domestic Savings.

According to RBI committee report in 2017, an average Indian household holds 84 per cent of its wealth in real estate and other physical goods, 11 per cent in gold and the residual 5 per cent in financial assets.

Table 3.7
Asset wise composition of household sector savings

Period	Physical Assets (per cent of GDS)	Financial Assets (per cent of GDS)
1951-1955	4.6	1.7
1956-1960	4.6	2.4
1961-1965	3.9	3.0
1966-1970	6.5	2.4
1971-1975	6.3	4.0
1976-1980	7.7	5.6
1981-1985	5.7	6.4
1986-1990	8.4	7.6
1991-1995	7.0	10.0
1996-2000	7.4	10.2
2001-2005	5.3	10.9
2006-2010	8.2	11.4
2011-2015	10.8	7.6

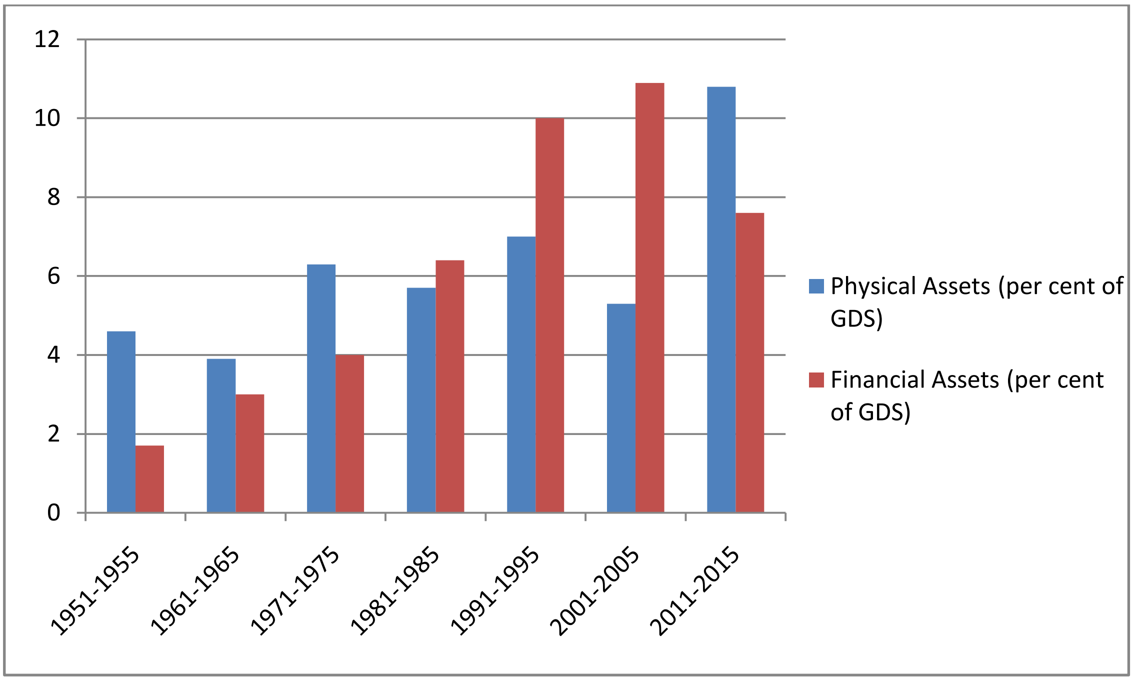
Source: RBI Bulletin

Indian household balance sheets exhibits a high share of wealth allocated to physical assets and a major component in it is gold. Also there is under-investment in long-term insurance and pension products. The household sector’s saving rate was 23.6 per cent of GDP in 2011- 12 ,it declined to 17.2 per cent in 2017-18, mainly due to fall in saving in physical assets from a level of 15.9 per cent of GDP in 2011-12 to 10.3 per cent in 2017-18. Household financial saving accelerated to 6.6 per cent of GDP in 2017-18 from 6.3 per cent in 2016-17.

Figure 3.4 compositions of assets as a per cent of GDS and it clearly shows in most of the time period physical assets dominated over the financial assets and the prominence of financial assets was seen mainly after the opening of the economy as a result of the new economic policy but after the recessionary phase again physical assets were preferred.

Figure 3.4

Physical assets and financial assets (per cent of GDS)



3.5.3 Structure of households gross financial savings

The household gross financial savings broadly include currency, deposits, net claims on Government, shares and debentures, insurance, pension funds and provident fund. Bank deposits and currency has remained a major component of financial assets in India. Table 3.8 shows the growth rate of savings in gross financial assets. Bank deposits continue to account for the predominant share of gross financial assets, and its growth rate was 27 per cent during the period 2003-05 and this was mainly due the financial inclusion measures taken leading to increase deposit mobilization by banks. The major share of the money with bank is deposited in term deposit schemes. The life insurance funds showed a consistent growth rate and maintain the growth with the sector was opening up to the private sector and higher insurance penetration.

The share of provident and pension funds has progressively declined over the years; this has been attributable to a number of factors and policy changes and its share is getting substituted for life insurance funds. Claims on Government which includes small savings instrument and its growth rate was 25 per cent of the total financial savings. The share of shares and debentures in the gross financial assets of households has remained quite small in the early periods and has shown negative growth rate but later it improved in 2006-08 but during 2015-17 the growth rate has again declined.

Table 3.8
Growth rate of savings in Gross Financial Assets

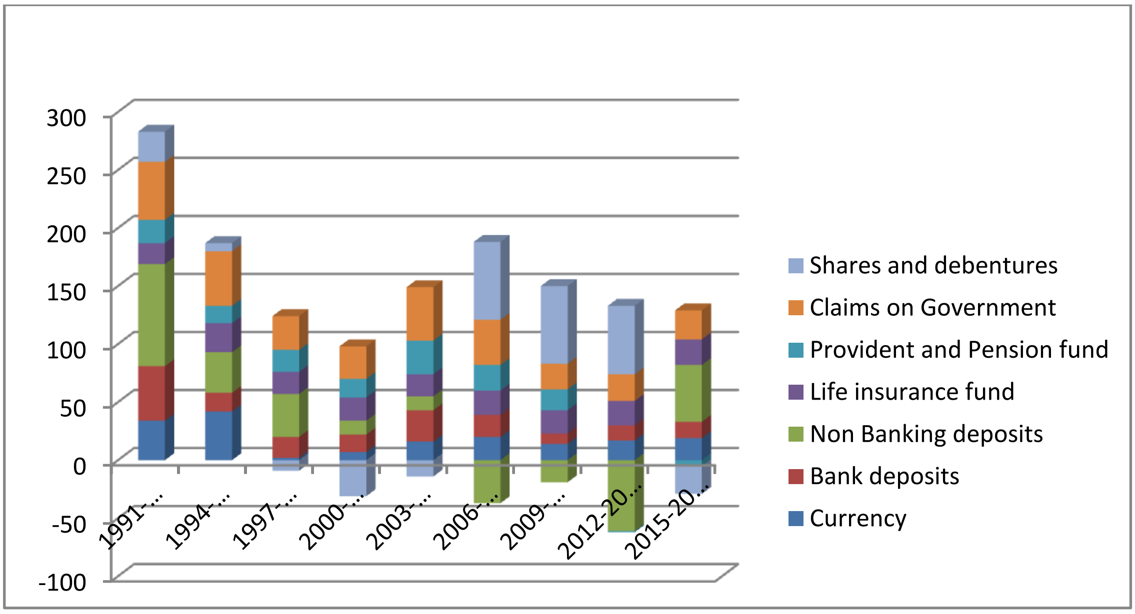
Period	Currency	Bank deposits	Non Banking deposits	Life insurance fund	Provident and Pension fund	Claims on Government	Shares and debentures
1991-1993	34	47	88	18	20	50	26
1994-1996	42	16	35	25	15	47	7
1997-1999	2	18	37	19	19	29	-9
2000-2002	7	15	12	20	16	28	-31
2003-2005	16	27	12	19	29	46	-14
2006-2008	20	19	-37	21	22	39	67
2009-2011	14	9	-19	20	18	22	67
2012-2014	17	13	-61	21	-1	23	59
2015-2017	19	14	49	22	-5	25	-24

Source: Compiled from Handbook of Statistics on Indian Economy

Figure 3.5 depicts composition of financial savings of the households, after the period of 2005 the volume of shares and debentures has increased while bank deposits has come down, non banking financial deposits has declined and even exhibited a negative growth rate. After the period of 2015 share of non banking financial deposits has again revived at the same time share and debentures has recorded negative growth rate. During 2009-11 there has been a fall in the share of claims on government but in later years it again showed improvements. Thus fluctuations are seen in the financial savings of households.

The life insurance funds showed a consistent growth rate and maintain the growth with the sector was opening up to the private sector and higher insurance penetration. There has been a decline during the period of 2008 and 2011 but it regained momentum from 2014 onwards. The share of provident and pension funds has progressively declined over the years; this has been attributable to a number of factors and policy changes and its share is getting substituted for life insurance funds. Claims on Government which includes small savings instrument and its growth rate was 25 per cent of the total financial savings.

Figure 3.5
Gross Domestic Financial Saving and its Composition



The share of shares and debentures in the gross financial assets of households has remained quite small in the early periods and has shown negative growth rate but later it improved in 2006-08 but during 2015-17 the growth rate has again declined. There is a need of more flow of funds into financial assets so that it enhances the liquidity as well as fund availability to finance the capital formation of the nation.

3.6 Saving-Investment gap

The saving-investment gap for the economy has come down over the years, and the household sector is still the dominant sector that supplies fund to the economy and to the related sectors. In recent years, the private corporate sector's has also become more vibrant and this has paved the way for the reduction in saving investment gap. The productivity of investment has also shown an improvement, the Incremental capital output ratio (ICOR) has averaged from 4.6 during 2009-10 to 5.9 in 2013-14. Incremental capital output ratio has displayed an increasing trend from 2016-17 onwards. The correlation between saving and investment in India is about 0.99, exhibiting a very strong relationship.

3.7 Conclusion

There has been a consistent increase in the gross domestic saving rate in India. Private saving is the major source of domestic saving and within this household saving has remained the most important component. High saving rate has always strengthened the economy especially during recessionary periods. Recent year's private corporate sector has also registered a faster pace of growth and has raised above the public sector savings. Growth of financial sector and new financial instruments has accelerated the saving and capital formation in the economy. Indian household balance sheets exhibits a high share of wealth allocated to physical assets and a major component in it is gold. The financial savings of the household sector can be improved by introducing innovate financial products in accordance with the demand side need of this sector.