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SECTOR WISE DOMESTIC HOUSEHOLD SAVINGS IN INDIA: AN ECONOMIC ANALYSIS

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Abstract: Capital formation plays an important role in increasing the production potential of the economy and bringing about balanced growth of the different sectors of the economy and additional capital bring about technical progress in the economy. Capital formation also plays a significant role both in deepening and widening the industrial base of a developing economy like India. In view of this, present study was conducted with the aims to analyze the sector wise contribution to savings in India after globalization. So it covers the period from 2004-05 to 2014-15. Data obtained from various volumes of Economic Survey of Government of India.

It has been concluded form the study that to lead the underdeveloped countries to the path of development, rate of savings must be enhanced, to achieve higher rate of growth with relative price stability, the marginal propensity to save should be appropriate incentives and policies. In the Indian economy, the household sector contributes a lion’s share of the total savings and hence, to step up savings in the economy, saving rate of the household sector should be stepped up both in the rural and urban sectors.

Key words: Capital formation, Sector Wise Domestic Household, Urban Sector, Economic Survey,

1.0 Introduction

Capital formation plays a predominant role in all types of economics whether they are developed or developing development is not possible without capital formation. Capital formation refers to all the produced means of further production. Saving and investment are essential for Capital formation. Saving is the result of waiting or abstinence. When a person postpones his consumption to the future, he saves his wealth which he utilizes for further production if all people save like this, the aggregate savings will increase which can be utilized for investment purpose in real capital assets like machines, tool, canals, etc. but savings are different from hoardings. For savings to be utilized for investment purpose, they must be mobilized in banks and financial institutions. The businessmen, the entrepreneurs and the formers invest this community savings on capital goods by taking loans from these banks and financial institutions, this is capital formation. Capital is the care of economic development and development is not possible domestic saving depressed by without adequate capital resources. Capital formation plays an important role in increasing the production potential of the economy and bringing about balanced growth of the different sectors of the economy and additional capital bring about technical progress in the economy. Capital formation also plays a significant role both in deepening and widening the industrial base of a developing economy like India.

To achieve the optimum rate of economic growth, the rate of capital formation should be above 40% of the GDP. In India the gross capital formation for the year 2014-15 was 34.09% of the GDP. It was composed of 7.40% in public sector and 25.15% in private sector.

Capital formation is a key drive of the growth of potential output. With India's continuing widespread capital controls and persistently small inward foreign direct investment, the volume of capital formation in the country is constrained by domestic saving depressed by the continuing large public sector deficits, the national saving rate in India (the sum of the saving rate of households, enterprises and the state) is much below China's saving rate of nearly 40% of gross domestic product (GDP). Even the extant Indian saving rate should be able to support a higher growth rate than has been achieved thus far. An important reason it does not is that the intermediation of savings, by the formal financial system, into domestic capital formation is inefficient.

2.0 Methodology

This study aims to analyze the sector wise contribution to savings in India after globalization. So it covers the period from 2004-05 to 2014-15. Data obtained from various volumes of Economic Survey of Government of India.

3.0 Estimation of Gross Domestic Saving

3.1 Public Sector Saving

The gross saving of government administration, quasi bodies and departmental enterprises is estimated as the difference between current receipts over current expenditure. The current receipts comprise of income from entrepreneurship and property, direct taxes and other receipts, while the current expenditure covers final consumption expenditure, interest payment, subsidies and current transfer. The gross saving of the non-departmental enterprises is estimated by aggregating transfer of certain reserves, profits and retained earnings from profit and loss and appropriation account to the balance sheet, after adjustments for expenditure/ income relating to previous years. The gross saving of the Banking Department of the RBI, which is included under non-government department, is estimated by adding the annual contribution to various long-term and stabilization funds. In case of the LIC and UTI Mutual Fund, saving is estimated based on its general insurance business only. The estimate of saving due to life insurance business and management of funds is considered as a part of the household sector saving.

3.2 Private Corporate Sector Saving

For non-government non-financial companies, the gross saving of public and private limited companies is estimated as the sum of retained earnings adjusted for non-operating surplus or deficit and gross of depreciation provision. Retained earnings are those, which are reinvested into business after making payments towards interest, tax provision, dividends and depreciation provision for various fixed assets. For private commercial banks under non-government financial institution, gross saving is estimated as addition to the reserve funds, which includes net amount carried to reserves, depreciation provisions, amount allocated for other special purposes etc. The procedure followed for estimation for private financial and investment companies, is same as that of non-financial companies.
Gross saving for co-operative societies is estimated as the increase in statutory funds, other reserves and other funds. Due to non-availability of data, the estimate of saving has been done based on trend observed in the value added of bank and trade sector. The gross saving for the quasi-corporate bodies, for which annual reports are available, is estimated by deducting the current expenditure from current receipts. For the rest of the quasi corporate bodies, saving is estimated based on the trends observed in the gross value added. Estimation of saving is done by blowing up the sample company's results on ratio of population Paid-up Capital (PUC) to that of the sample companies.

3.3 Household Sector Saving

Estimates of saving for the household sector consist of two parts-financial saving and saving in the physical assets. The estimates of financial saving are derived by the changes in financial assets held by the households in the form of currency, deposits with financial institutions, shares and debentures, claims on government, net equity in the life funds, provident and pension funds net of changes in the financial liabilities. Thus the estimates of financial saving of the households are derived as the increments in the financial assets net of increments in their financial liabilities. The estimates in case of various financial instruments, except for saving in the form of life insurance funds and provident & pension funds, are derived as a residual after estimation for such instruments held by the public and private corporate sectors.

Saving Rate (% of GDP)

	Financial Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1	Gross Domestic Saving	32.41	33.44	34.6	36.82	32.02	33.69	33.63	31.47	30.35
2	Household sector	23.55	23.53	23.15	22.42	23.64	25.18	23.09	22.89	22.06
3	Private corporate sector	6.55	7.51	7.88	9.4	7.41	8.35	7.96	7.34	7.11
4	Public sector	2	2	4	5	1	0	3	1	1
5	Net domestic saving	23	24	25	27	22	24	24	22	20
6	Net capital inflow ***	0	1	1	1	2	3	3	4	5
7	Finances for gross capital	32.82	34.65	35.66	38.11	34.3	36.48	36.45	35.66	35.12

TABLE1

4.0 Household sector: The share of the household sector savings in GDP. This composed of both financial and physical savings. As a percentage of GDP at current market prices, the rate of savings of the household sector increased from around 7% in the 1950' s to over 22.06% in the 2012-13, since the 1950' s, the household sector in holding a predominate share in the GDS. Increase in the rate of household saving in physical asset in recent years reflects booming constructions activities mainly of housing and accelerated industrial activities relating machinery and equipment.

Rates of Household Savings

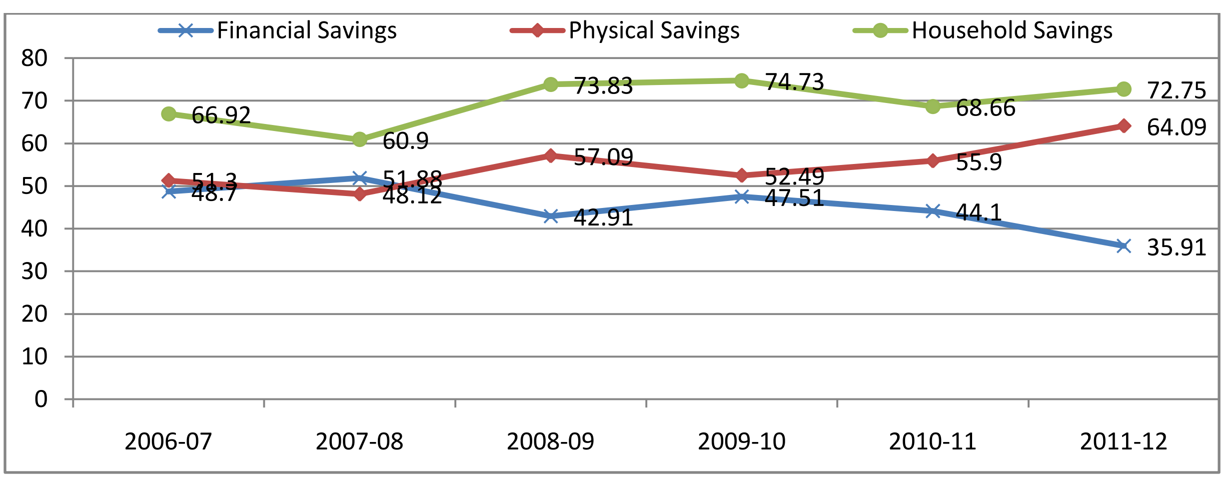

FIGURE 1

4.1 Financial saving of household sector- The share of the financial saving of household sector in GDP had increased from around 51.30% in 2006-07 to around 51.03% in the 2006-07, and stood at around 54.09% 2011-12, within financial assets, there has been a change in the preference of saving instrument in recent years.

4.2 Physical saving of household sector – The share of the Physical saving of household sector in GDP savings in physical assets consist of net addition to physical assets of the households, comprising investment in construction, machinery and equipment and change in stocks the share of savings in physical assets in the total savings of the household sector declined from more than 70% in the 1950' s to 35% in 2011-12.

5.0 Public sector- The share of the Public sector savings in GDP public sector which witnessed an increasing trend till the 2007s started declining thereafter and turned negative since 2008-09, owing to sharp deterioration in the saving of the government administration department. The rate of public sector saving increased from 1% in 2008-09 to 3% in 2010-11,owing to improvement in non-departmental enterprises saving and decrease in public authorities disinvestment. There was a continuous decline in the share of the public sector since 2011-12 onwards.

6.0 Private corporate sector – The rate of savings share from GDP from the private corporate sector also showed a steady increase from 2004-05 onwards. During the period 2004-05 to 2012-13. The share of the private corporate sector savings in GDP Non-financial companies on an average accounted for around 85% of the gross savings of the sector. Financial companies covering private banking and insurance companies accounted for 4% and the rest was accounted for by co-operative banks and societies including a few quasi - corporate bodies.

TABLE 2 HOUSEHOLD SECTOR SAVING IN FINANCIAL ASSETS

Items	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
a) Currency	10.2	11.4	12.5	9.8	13.8	11.3
b) Deposits	49.1	52.2	58.5	41.9	45.6	52.8
c) Share and Debentures	9.0	12.4	2.6	4.5	0.2	-0.7
d) Claims on Government	3.0	-4.0	-3.1	4.4	4.1	-2.1
e) Life Insurance Funds	17.7	18.0	20.1	26.2	22.3	23.1
f) Provident and Pension Funds	0.3	0.2	0.3	13.1	14.0	15.6
g) Change in Financial Liabilities	11.1	9.9	9.5	-	-	-
Financial Savings	*48.70*	*51.88*	*42.91*	*47.51*	*44.10*	*35.91*
Physical Savings	*51.30*	*48.12*	*57.09*	*52.49*	*55.90*	*64.09*

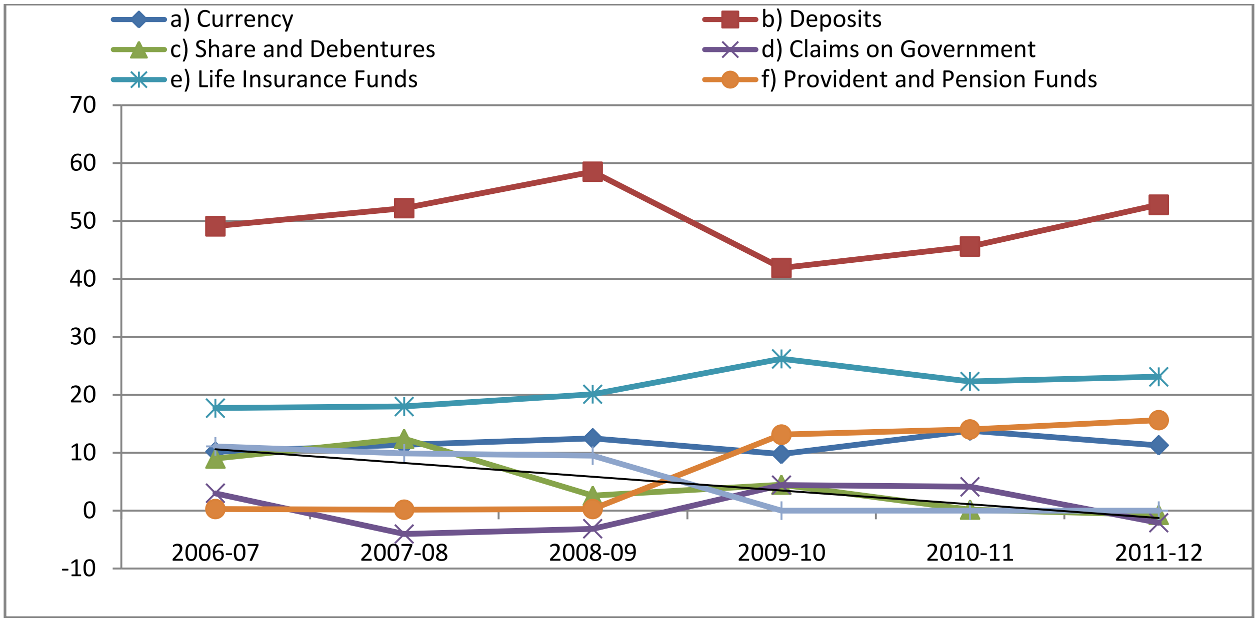

FIGURE 2

6.1 Currency: Based on past behavior of trends of currency holding of the households and non-households sector, 93 percent of „Currency with the public" issued during a financial year is treated as household saving in the form of currency. This procedure has been followed since 1985-86.

6.2 Net Deposits: The household sector saving in the form of net deposits is estimated based on the deposits with commercial banks, non-banking companies (comprising financial and non-financial companies, both in the public and private sectors, including State Electricity Board), co-operative banks and societies and net trade debt, after deducting the bank credit and loans and advances provided by these institutions to the household sector. Household saving in net trade debt is estimated as changes of trade dues in respect of sundry debtors from sundry creditors.

6.3 Net Claims on Government: This incorporates investment made by the household sector in government securities, small savings, capital investment bonds, national rural development bonds, national deposit scheme and other schemes brought by the Government. Household investment in Government securities is estimated based on the sale of total securities of central and state government using the proportion of securities purchased by the household to total securities. The net claims on government are estimated after deducting the household"s net borrowings from the government. The small savings covers national saving certificates, post-office savings, Indira VikasPatras, RahatPatras etc.

6.4 Investment in Shares, Debentures and Bonds: The household sector saves a part of their financial assets in the „shares and debentures" of non-government companies, government companies, co-operative banks and societies, bonds issued by public sector enterprises, units of UTI, and other mutual funds and by financial corporations. Investment in shares and debentures issued by non-financial government companies is derived as a residual after deducting the investment of the public and private corporate sector from the total investment in such instruments. The total estimate of saving in „shares and debentures" is arrived at by blowing up the sample estimate of „shares and debentures" of public and private limited companies based on the ratio of global PUC to sample PUC of public and private limited companies.

6.5 Life Insurance Funds: Life insurance funds cover Life Fund of Life Insurance Corporation of India (LIC), Postal Insurance and Life Annuity Fund, Central government Insurance Fund and State government Insurance Fund. The total saving of households" in the form of life insurance, Central Government life insurance, net of loans and advances to households by LIC and GIC etc. Households" saving in the case of LIC is estimated as an increase in life Fund of the LIC and to policyholders excluding government shares in profit, capital goods and old claims. In case of private life insurance Scheme and State Government life Insurance Fund, households" saving is estimated as the difference between receipts and payments. Receipts includes subscription realized, interest accrued, while payments comprise payment of loan to policyholders, insurance amounts and other miscellaneous charges.

6.6 Provident and Pension Funds: Provident and Pension Funds covers the Central and State Government Provident Fund, Public Provident Fund, Non-Government Provident Fund and Pension Funds. The estimates of household savings in Provident Fund is obtained by adding contribution to the Provident Fund (by both employees and employers, in case of contributory schemes and only employees, in case of non-contributory schemes), interest earned, recovery of advances after deducting final withdrawals. In case of local authorities, contribution of the employees towards PF is estimated as 6 percent of wages and salaries

7.0 Conclusion

From the classical days, saving has been considered as one of the determinants of growth. To lead the underdeveloped countries to the path of development, rate of savings must be enhanced. For the individuals and households, savings provide a cushion of security against future contingencies, whereas for the nation, savings provide the funds needed in the developmental efforts. To achieve higher rate of growth with relative price stability, the marginal propensity to save should be appropriate incentives and policies. Also, in an era of international financial integration, for macroeconomic stability, higher domestic savings is necessary. Aggregate savings in any economy depends on a number of interdependent variables. In the Indian economy, the household sector contributes a lion's share of the total savings and hence, to step up savings in the economy, saving rate of the household sector should be stepped up both in the rural and urban sectors.

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