

A study on trends of household savings in Indian economy

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Abstract

This paper presents a comprehensive analysis of the trends and components of household savings in the Indian economy. The research has highlighted the importance of household savings for the development of an economy. Gross Domestic Savings consists of savings of Household sector, Private corporate sector and Public sector. Household savings is the major contributor in Gross Domestic Savings in India with a contribution of nearly 78 per cent. Economic Growth of any Nation depends upon the Growth rate of its GDP which in turn depends on the level of savings. A high level of savings helps the economy to progress on a continuous growth path since Investment is mainly financed out of savings. India's savings performance has been quite impressive since independence. But with the increase in inflation and changing consumption habits of consumers, there has been a consistent decline in the savings of Indian households. Proportion of household goods backed by finance is increasing. This in turn is reducing the savings of households. During the period of 2008-2022 household savings in India has declined from its peak of 25.2 per cent to 19 per cent. Thus the Indian economy is chasing the western culture of high consumption and low savings. Although this pattern promotes a high GDP growth but on the other hand impose a vulnerability on household in situation like Covid-19.

Keywords: Household savings, gross domestic savings, GDP

Introduction

Meaning of Savings

Savings, in the context of personal finance and economics, has been defined in various ways by different research scholars and experts. Keynes, a prominent economist, defined savings as "the excess of income over expenditure." In his view, savings are what remains after individuals or households have spent on their consumption needs. Friedman, another influential economist, defined savings as "the amount left over when the individual's consumption is subtracted from his disposable income." He emphasized the importance of disposable income in determining savings. According to Warneryd (1999) [10], the word "saving" has a multidimensional meaning and multiple meanings. In economic context savings refers to that part of income which is set aside or not consumed. It is the money left over after deducting expenses from income over a time period. It can be calculated as difference between income and expenditure. In contrast to economic view, saving in a psychological context refers to the process of avoiding spending money in the present to use it later. Savings plays an important role in the economic development of a country and the major objective of government policy has been the promotion of savings and capital formation in the economy as primary instruments of economic growth (Mehta 2013) [7]. A high level of savings helps the economy to progress on a continuous growth path since Investment is mainly financed out of savings (Devi & Sudhakar, 2018) [2].

Gross Domestic Savings

Calculated as a percentage of GDP, Gross Domestic Savings (GDS) or national savings represents the total savings generated within a country over a specific period of time. It is a key macro-economic indicator which includes total amount of money saved by households, businesses, and the government during a year.

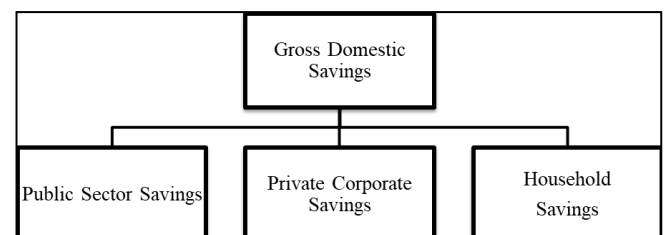
Gross Domestic Savings (GDS) is a key factor in a country's economic development as it provides the financial resources

required for investment in infrastructure, research and development, education, and other prolific activities. GDSR reflects the balance between savings for investment and consumption. However, excessive savings without sufficient investment opportunities can lead to economic imbalances and stagnant growth, so a balanced approach is important for economic stability and development.

Economic history suggests that countries that were able to accumulate high levels of domestic investment largely financed by domestic savings achieved faster rates of economic growth and development (Mehta, R. 2013) [7]. Traditional economic growth models like Harrod-Domar (1930-1940) growth model highlighted that economic growth depends on the amount of capital that is available for investment, and that the rate of capital accumulation is proportional to the rate of savings. The neoclassical models like Solow (1956) also anticipated that the increase in saving rate (after considering the increasing returns to scale of technology) boosts steady-state output by more than its direct impact on investment.

Components of Gross Domestic Savings

Gross Domestic Saving consists of components of savings of household sector, private corporate sector and public sector.



Source: Self-Made

Fig 1: Components of Gross Domestic Savings

Public Sector Savings: It represents the savings generated by government sector. Government sector consists of the central and state government, the local authorities and various government and department undertakings. Savings of this sector includes budget surpluses, which occur when government revenues (taxes and other income) exceed government expenditures. Government savings can be used to pay down debt or invest in public infrastructure. Public sector savings are typically held in various financial instruments, including reserves, sovereign wealth funds, or other dedicated accounts. However, the level of savings a government maintains should strike a balance between prudent fiscal management and meeting the current needs of its citizens. Accumulating excessive savings may lead to criticism, as it could be seen as a failure to allocate resources for essential public services and programs. Therefore, governments often make strategic decisions about how much to save and how to use those savings to benefit their constituents.

Private Corporate Savings: It is a macroeconomic indicator that reflects the amount of savings retained by private corporations or businesses in an economy as a proportion of the total economic output of the country. This metric provides insights into the saving behavior of businesses and their contribution to overall national savings. Private corporate savings provides insights into the role of the corporate sector in contributing to national savings and, by extension, the potential for domestic investment and economic growth. A high private corporate savings rate as a percentage of GDP can be seen as a sign of economic health, indicating that businesses are retaining a significant portion of their earnings for future investments. This can contribute to increased capital formation, job creation, and overall economic growth. It also suggests that corporations have more resources available for investment in capital projects, research and development, and other growth-oriented activities. This can help drive economic expansion and innovation.

Household Savings: A group of persons who normally lived together and took food from a common kitchen constituted a household. The adverb “normally” means that temporary visitors were excluded but temporary stay-always were included. Thus a child residing in a hostel for studies was excluded from the household of his/her parents, but a resident employee or a resident domestic servant or paying guest (but not just a tenant in the house) was included in the employer’s/host’s household. ‘Living together’ was given more importance than ‘sharing food from a common kitchen’ in drawing the boundaries of a household (NSS Report 2005).

The main sector of a national economy that saves is the household sector whose savings behavior has been studied most extensively (Kapounek *et al.* 2015) [5]. Household savings refer to the portion of a household's income that is not spent on consumption but rather set aside for future use or investment. Households are liable for a considerable share of saving in both developed and developing countries. More savings draw out more investment. Among various income groups, household behavior regarding saving and investment are different. It usually depends on choices or preferences, disposable income and wealth of the households.

Households use their savings as insurance or a protection means against unforeseen changes in economic circumstances as well as a means for redistribution of economic resources over the lifecycle. There are various factors which affect the household saving behavior. These can be categorized as socio-economic, demographic and psychological factors. Demographic factors may be further classified as age, gender, income, education level, marital status etc. Saving is affected by the age structure of the population which in turn affects the development of a country through investment. Education being an important component as it enhances the saving efficiency of people and they can better invest their money. Highly educated people can better understand inflation and are able to protect themselves from it. Well educated families save for benefitting their children while less educated families save to maintain their current income. While most of economists focus attention on the role of socio-economic and demographic determinants rather than on psychological factors, psychological concepts almost disappeared from economic discussions on households’ saving behavior. Economic theory has traditionally acknowledged some psychological individuals’ saving behavior factors such as self-control, pessimism about the economy, and fear of economic uncertainty.

Trend in Household Savings in India

Household sector plays a major role in the Indian economy as the supplier of financial resources in the form of savings. The sector has always remained as the major contributor in gross domestic savings in the country. The share of HHs in gross savings was 6.7 per cent in 1950-51. It remained below 10 per cent mark till 1968-69. It was in the year 1969-70 when household sector savings crossed the mark of 10 per cent of GDP for the first time. It picked up the pace in 1987-88 and with the series of economic reforms started in 1991 it crossed the mark of 20 per cent for the first time in 1999-2000. In the year 2008-09 HHs savings reached its peak of 25.8 per cent of GDP. Thereafter it has shown a significant decline and has dropped from 25.2 per cent in 2008-09 to 19 per cent in 2021-22. As per the National Accounts Statistics (NAS) 2022, the share of Households (HHs) in Gross Savings was 78.5 per cent and the sector contributed 43.5 per cent of Gross Value Added (GVA) at basic prices during 2020-21.

Table 1: Household Sector Savings Rate in India

Financial Year	Household Sector Saving Rate (% of GDP)
2008-09	25.2
2009-10	24.8
2010-11	24.0
2011-12	23.6
2012-13	22.5
2013-14	20.3
2014-15	19.6
2015-16	18.0
2016-17	18.1
2017-18	19.3
2018-19	20.3
2019-20	19.6
2020-21	22.2
2021-22	19.0

Source: National Statistical Office

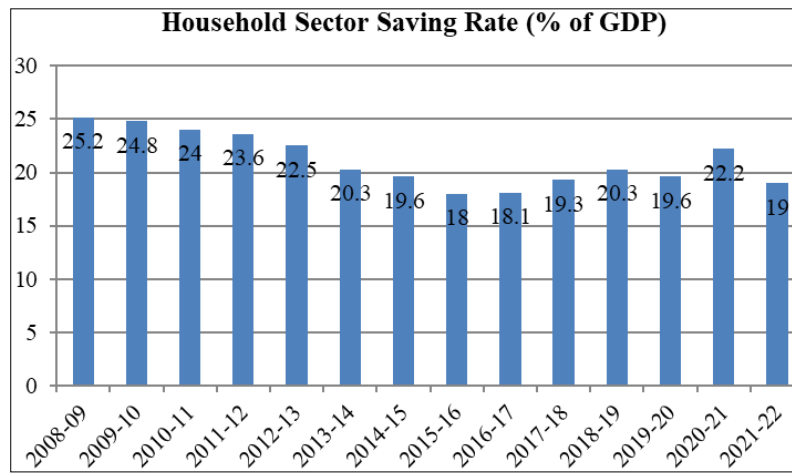
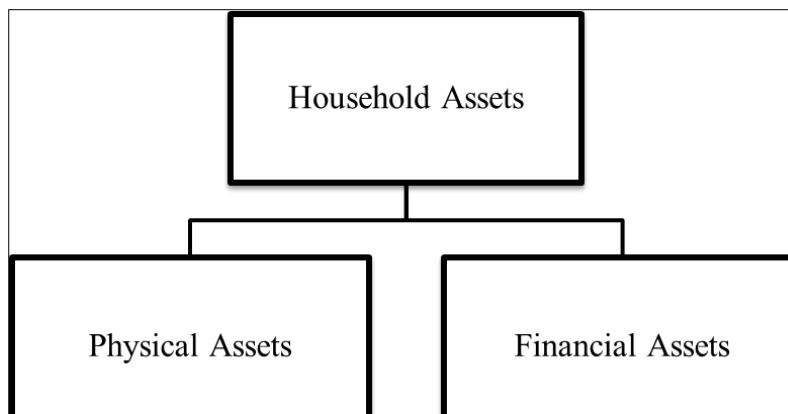


Fig 2: Household Sector Savings as % of GDP in India

Components of Household Sector Savings

Households primarily park their savings in two types of assets Physical Assets and Financial Assets.



Source: Self-Made

Fig 3: Classification of Household Assets

Household assets represented all that were owned by the household and had money value. This included physical assets like land, buildings, livestock, agricultural machinery and implements, non-farm business equipment, all transport equipment, durable household goods and financial assets like dues receivable on loans advanced in cash or in kind, shares in companies and cooperative societies, banks, etc., national saving certificates and the like, deposits in companies, banks, post offices and with individuals. As per the report of Housing Finance Committee of RBI on Indian Household Finance, 2017 the average Indian household holds 84% of its wealth in real estate and other physical goods, 11% in gold and the residual 5% in financial assets.

The participation rate of Indian households in financial assets is well below the one observed in developed countries. Only 65% of Indian households in which the household head is younger than 35 years of age hold any financial assets. This participation rate increases to 77% for more mature households, but remains well below the rate of financial asset market participation observed in developed countries, where close to all households own at least one bank account and use formal financial products as the preferred means of savings.

Financial Assets Held by Households

Table 2: Financial Assets Held by Indian Households (All figures are in Rs Crores)

Sr. No.	Financial Asset	March 2021	March 2022	March 2023
1	Bank Deposits	10897246.1	11675198.2	12701761.3
2	Non-Bank Deposits	188953.5	209855.7	228542.9
3	Life Insurance Funds	4752932.3	5357350.2	6038630.4
4	Currency	2614237.0	2883904.4	3121514.2
5	Mutual Funds	1730461.0	2152140.5	2367792.5
6	Public Provident Fund (PPF)	742189.5	834147.6	939814.6
7	Pension Funds	578025.0	736592.0	898342.0
8	Small Savings (Excluding PPF)	1370257.1	1586495.5	1787549.1
	Total	22874301.5	25435684.2	28083947.0

Source: RBI Bulletin September 2023

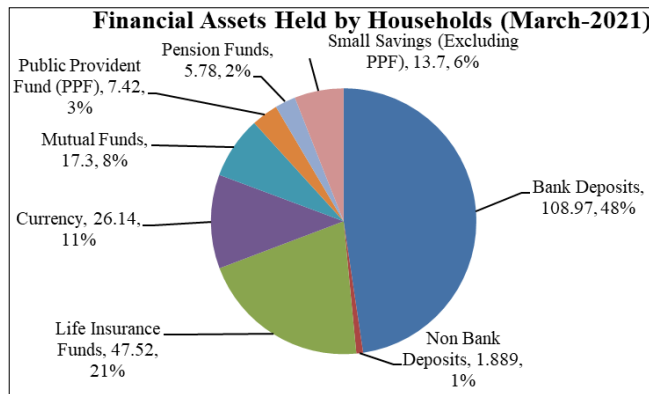


Fig 4: Financial Assets Held by Households as on March-2021

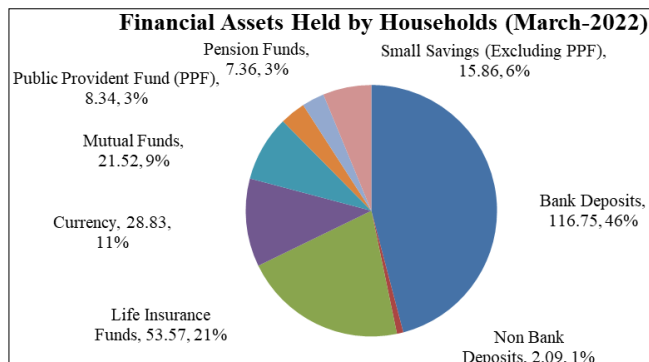


Fig 5: Financial Assets Held by Households as on March-2022

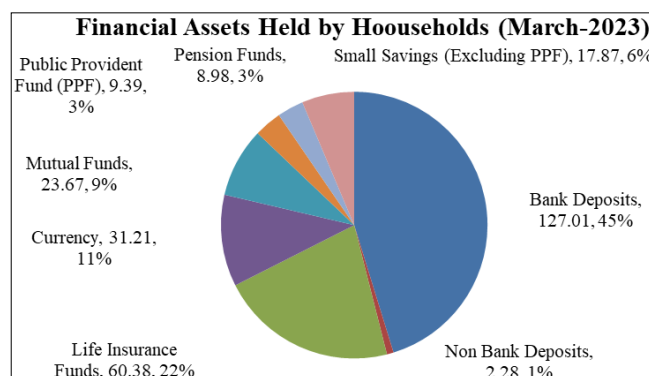


Fig 6: Financial Assets Held by Households as on March-2023

Table 2 shows various financial assets held by Indian households as well as their contribution during March-2021 to March-2023. During the period bank deposits has remained the most preferred instrument of financial savings for Indian households with a share of 47.63, 45.90 and 45.22 per cent respectively during the quoted period. Life Insurance Funds grabs second position with a share of 20.77, 21.06 and 21.50 per cent respectively during the quoted period followed by currency and mutual funds at 3rd and 4th position respectively.

The household sector is the most sustainable and self-reliant source of financing for the Indian economy. Its role is likely to become critical in the context of the policy effort gathering critical mass to lift the Indian economy from the vice-like grip of a slowdown and, more recently the life-threatening COVID-19 pandemic. Households continue to rely heavily on the banking sector for borrowing and investing their surpluses, although the share of bank deposits in their financial assets has undergone a secular

decline. A recent shift is visible in favour of financial assets in mutual funds and insurance.

Literature Review

Gopal and Malliasamy (2022) [3] in their study intended to analyse the transformation of savings and spending of rural households during COVID-19. The results showed that all types of savings had a positive and significant relationship with the savings motive of rural households during COVID-19. Customary and spontaneous spending had a positive and significant relationship spending pattern of rural households. Rural inhabitants were interested in compromising their spending and other forms of savings to have more emergency savings.

Mallick and Debasish (2017) [6] examined the determinants of households’ savings behavior in the rural households in India. The results showed that Household Income is the major determinants in explaining the cross sectional variation of household savings. Age, gender, marital status, primary occupation, number of dependents and land holdings were found to be inducing factors increasing the household saving significantly, while family size, dependency, liabilities to be paid, location were reducing factors decreasing the household saving. No relationship was found between savings and type of family i.e. nuclear or joint family. Most of the households save for meeting long-term goals rather than meeting any short term requirements.

Household savings is the major component of gross domestic savings in India (Devi and Sudhakar, 2018, Suri and Hada, 2018) [2, 9]. Devi and Sudhakar (2018) [2] in their research traced the trends in household savings and factors affecting Indian household savings. The study concluded 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 characterized by a puzzling feature of “high savings and low growth”. The research recommended that 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.

Suri and Hada (2018) [9] analyzed the trend and composition of gross domestic savings as well as household savings in India for the period 2000-2015. The study found that the magnitude of increase in the domestic savings rate in India and China during the period 2000 to 2015 was among the highest in the world. With the increase in per capita income and disposable income savings rate in India has shown a healthy growth rate. Household savings was found to have a predominant share in gross domestic savings in India over the period under study. The saving habit of Indian people has given a good support to the economy during the tough time of global recession of 2008. High savings rate has always remained an internal strength of Indian economy and the same trend is expected to be continued in future.

Blanc *et al.* (2016) [1] studied the motives and household saving behavior in fifteen euro-area countries using the first

wave of the Household Finance and Consumption Survey that covers the years 2008–11. The study found that precautionary saving is the most commonly reported motive in all countries, followed by saving for old-age provision. Preferences for other motives were heterogeneous across countries. The analysis by country revealed some degree of heterogeneity for this measure of self-assessed household saving; the countries that were hit most severely by the financial crisis display higher financial stress.

Domestic savings play a critical role in augmenting capital accumulation and contributing to achieve and sustain high economic growth.

Samantaraya and Patra (2014) ^[8] empirically analyzed the role of various determinants of household savings in India with the latest available data. Autoregressive Distributed Lag Model (ARDL) was used for the purpose of research. The estimated results revealed that GDP, dependency ratio, interest rate, and inflation have statistically significant influence on household savings in India, both in the long run and short run. The research suggested that ensuring price stability and avoiding any disruption to the growth process will be useful for augmenting savings and sustaining the savings-growth spiral in India.

Mehta (2013) ^[7] analyzed the trend and pattern of household saving in India during pre and post economic reforms. The study aimed to determine different saving functions which would possibly explain the long term saving behavior and saving potentials of the household sector. Results showed that the household sector has been the main contributor to the total saving in India. Marginal Propensity to Save (MPS) has shown improvement in the post economic reforms period over pre-economic reforms period. Average Propensity to Save (APS) in the post economic reforms period was higher than pre-economic reforms period. The income elasticity of saving has dipped a little in the post economic reforms period. The results of the study showed that efforts are required to channel savings away from physical savings into financial savings.

Ghosh and Pain (2005) ^[4] traced the trends, composition and distribution of Indian household savings and tried to find out the key determinants of household savings in India. The research found that the determinants of savings in India are identical with the rest of the world. Income is the prime determining factor and not the interest rates. The ultimate motives behind savings are providing for retirement and taking precaution against any emergency.

Objectives of the Study

1. To study the trend in Household Sector Savings Rate in India.
2. To study the trend in components of household sector savings in India.

Type of Data

The present study is quantitative in nature and secondary data will be used for the purpose of analysis.

Source of Data

The study is based on secondary data. The Secondary data sources include various reports and publications of Reserve Bank of India (RBI) and Security & Exchange Board of India (SEBI), Manuals, AMFI Reports and Websites like mutualfundsindia.com, nseindia.com etc.

Research Findings

1. Household sector continues to be a major contributor in Gross Domestic Savings with a share of above 78 per cent.
2. Despite a major contributor in Gross Domestic Savings, there has been a consistent decline in Household Sector Savings Rate in India after it reached its peak in 2008-09.
3. Real Estate continues to be the favourite destination of investment by Indian households. Around 77 per cent of household savings are in form of real estate assets.
4. Gold is the second major contributor in household savings with a share of 11 per cent.
5. Investment in financial assets by Indian households has seen a consistent increase during last three years. Total valuation of financial assets has increased from Rs.227 trillion in March 2021 to Rs.280 trillion as of March 2024.
6. Despite a healthy increase in financial assets held by Indian households, participation these assets are still below the trend in developed countries. Only 5 per cent of Household Savings is parked in financial assets.
7. Among the financial assets held by Indian households, bank deposits continue to be the major contributor. The total bank deposits reached its peak in March 2024 at Rs.127 trillion. Although their share in financial assets has declined from 47.63 per cent in March 2021 to 45.22 per cent in March 2023.
8. Life Insurance Fund is the 2nd major contributor in financial assets held by Indian Households. Its share has increased from 20.77 per cent in March 2021 to 21.5 per cent in March 2023.
9. Investment in riskier assets like mutual funds has seen a healthy increase during the period March 2021 to March 2023. Its share in financial assets has increased from 7.56 per cent in March 2021 to 8.45 per cent in March 2023.

Conclusion

The present study has shed light on the trends of household savings in the Indian economy, providing valuable insights into the saving behavior of households during the selected period. The results showed downward trend in Household Sector Savings during after it reached its peak in 2008-09. Although it remained major contributor in Gross Domestic Savings in India. Per capita income in India has seen a consistent increase during last 2 decades. Still a decline in savings indicates high consumption habits of people and high rate of inflation. As savings provides a cushion to households at micro level and boost the economic growth at macro level, government must make efforts to increase the level of savings. Increase in income should be more than what the country has achieved in the past. Looking at the components of household savings, bank deposits continue to be the major contributor but their share in total household savings has declined. This could be due to a regular decline in interest rate offered by the banks on deposits and a high inflation rate. These factors have reduced the real rate of return of investors. Young investors of the modern era have shown more interest in riskier investment avenues like share, mutual funds etc. This shows a paradigm shift in the investment behavior and risk appetite of the investors.

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