



# An analysis of the savings patterns in the household sector in India between 1991 and 2017

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## Abstract

*The Indian economy faces traditional and emerging issues. Internal and external influences cause problems, which affect all economic sectors to variable degrees. In addition to high inflation, low output and employment, deteriorating foreign direct investment and current account deficit, and falling savings and capital accumulation rates, there are some opportunities to improve economic development. The Indian economy has great potential due to its high saving rate. This study examines Indian domestic savings structure and trajectory.*

*Keywords: Savings, Household Sector, GDS, GDP*

## Introduction

With GDP growth of 9.7% and GDS growth of 36.8%, the Indian economy survived the 2008 recession. After the peak, several reasons and structural limits caused GDP and GDS to drop. Financial knowledge and education are the biggest factors in saving behavior, along with the other traits. Savings averaged 34% in the 11<sup>th</sup> FYP but dropped to 30.8% in the 12<sup>th</sup>. India, 'The Nation of Savers', is concerned about this trend. According to empirical study, GDP and GDS are positively correlated, hence a high GDS is needed for double-digit growth. Despite these challenges, India's savings rate is strong. A fast-growing economy needs consumption to boost production, employment, and income. E-governance, stable administration, and a changing economic environment with expanded financial inclusion, decreasing current account deficit (CAD) and fiscal deficit (FD), and controlled inflation are also expanding economic prospects. This article discusses household savings, including its GDP share and its trend.

1. The trend & composition of family savings in India for the period of 1991 to 2017.
2. To examine the proportion of household savings in Gross Domestic Savings (GDS) and Gross Domestic Product (GDP).
3. The objective is to analyze the yearly increase in both financial and physical savings of households.

### Methodology Used

The article uses a 1991-92–2016-17 database. National accounts statistics provided much of the data. CSO, RBI website, Statistical abstract of India, Economic survey of India, and other relevant websites were examined. This paper will involve math and stats. Data will be categorized and structured using MS-Excel for clarity. The article's analysis will be proper.

### Review of Literature

A multitude of studies have been conducted so far in this field of inquiry. Referencing these works will enhance the significance of the current investigation. All long-term theories suggest that a nation may experience quicker economic growth by increasing its savings, which can then be utilized for investment purposes. Notable cross-sectional studies include Ramanathan's research in 1970, Bhala's studies in 1978, 1979, and 1980, as well as the research conducted by the NCAER. The permanent income idea was unveiled in these investigations.

Krishnaswamy and Sharma (1987) and Krishnamurty and Saibaba (1984) "use the concept of rate of growth to elucidate the saving rate, particularly in the home sector. The long run and short run consumption function are influenced by several variables, including age, income, economic growth, and internal finance". Romer (1986) "discovered a positive correlation between increased saving and greater rates of economic growth". In their study, Krishna Swami, Krishnamurti, and Sharma (1987) "discovered a favorable correlation between the real rate of interest and the savings rate of both families and the whole economy. However, they did not detect any impact of external terms of trade on savings in India".

Athukorala and Sen (1995) "conducted an analysis on the relationship between economic reform and the rate of saving in India. They concluded that there is no valid economic justification or empirical evidence to support the claim that the reform process has notably harmed the investment performance of the household sector". In their 2000 study, Mahambare and Balasubraman "examined the relationship between liberalization and saving in developing countries, specifically focusing on India. They discovered that there is a long-term positive

correlation between the financial sector and the level of GDP per capita, as well as the ratio of indirect taxes to total taxes and the ratio of inward remittance to GDP".

In research conducted by Mohan (2006), "the objective was to determine the causal link between saving and economic development in nations with varying income levels. A causality test conducted on time series data revealed that the data for the logarithm of GDP and logarithm of GDS for 18 nations were determined to be not co-integrated. Empirical research indicates that the economic level of a country does not significantly influence the direction of causality results, particularly in low-income countries where the findings were inconclusive".

Joshi (2007) "conducted a study on saving and investment patterns in India from 1950-51 to 2005-06. The study utilized the multivariate co-integration analysis methodology proposed by Johansen (1988). The findings indicate that a one percent increase in household financial saving leads to a 0.25% increase in long-term capital formation. Similarly, a one percent increase in household physical saving results in a 0.952% increase in the rate of capital accumulation". Sanjib Bordoloi (2008) "provides evidence of a long-term equilibrium link between savings and capital development, which has a significant impact on the formulation of monetary and fiscal policy".

Dr. Surya Prakasa Rao (2012) "conducted an empirical study on the saving behavior of individuals residing in rural and tribal areas. The study revealed that these groups exhibit a significant propensity to save, making their contribution to economic growth crucial in terms of saving and capital mobilization. In her 2013 article, Mehta, Rekha proposed that although the proportion of financial households is growing, further measures are needed to promote the expansion of financial savings and direct them towards stimulating automatic economic development".

Samantaraya and Patra (2014) "conducted a study on the factors that determine household savings in India after the implementation of reforms. They used the ARDL technique and found that GDP, age dependence, interest rate, and inflation had a statistically significant impact on family savings in both the long run and short run. The household savings are positively influenced by GDP and age dependence, while they are negatively affected by inflation and the real interest rate".

Yadav, Goyari, and Mishra (2018) "aim to analyze the long-term equilibrium relationship between real domestic saving, investment, and growth in India over a span of 64 years (1951-2015). No casualties were seen in the relationship between economic development and domestic saving in India. Nevertheless, it has been verified that there is a one-way relationship between saving and investment, indicating that domestic saving plays a crucial role in bolstering national investments".

### **Trends in Household Savings**

Gross domestic savings in India are classified into household, private company, and state sectors. The wasted amount of income is called savings. These principles apply to all economic units, but households are especially important. Household savings include financial and physical savings by individuals, excluding public and commercial savings. About 60% of GDP savings come from households. This investigation will investigate family financial and physical savings structure and pattern. These savings will also be examined across financial products. The new series (2011-12) divides physical savings data into tangible assets and silver and gold ornaments. We cannot examine the second category separately owing to data shortages.

Family savings were Rs 105,632 crore in 1991-92, including Rs 62,101 crore financial and Rs 43,531 crore physical. Even if individual family savings may not grow, the collective sum always increases. Financial savings dropped fivefold in 1995-96. Physical saving decreased six times during 2008-09, 2010-11, 2011-12, and 2016-17. The incidents happened in 1991-92, 1993-94, 1996-97, 2005-06, 2013-14, and 2015-16. The share of financial savings in household savings maintained above 50% until 1998-99. Other than 2005-06, 2007-08, and 2015-16, its market share remained below 50%. Physical savings rise while financial savings fall in households. The proportion of [topic] rose from 41.2% in 1991-92 to 69.2% in 2011-12. Current proportion: 50.8%. The composition and percentage distribution are shown in figures 1 and 2. Physical saving has increased due to housebuilding and industrial machinery and equipment needs.

Table-1

Composition of Household Savings (Rupees Crore)			% Share of Household Components		
Year	Financial Savings	Physical Savings	Total Household Savings	% Financial Savings	% Physical Savings
1991-92	62101	43531	105632	58.8	41.2
1992-93	65367	62576	127943	51.1	48.9
1993-94	94738	56716	151454	62.6	37.4
1994-95	120733	66408	187142	64.5	35.5
1995-96	105719	92866	198585	53.2	46.8
1996-97	141661	82993	224653	63.1	36.9
1997-98	146777	137350	284127	51.7	48.3
1998-99	180346	171768	352114	51.2	48.8
1999-00	206603	232248	438851	47.1	52.9
2000-01	215219	248530	463750	46.4	53.6
2001-02	247475	297813	545288	45.4	54.6
2002-03	253255	310906	564161	44.9	55.1
2003-04	313260	344327	657587	47.6	52.4
2004-05	327956	435729	763685	42.9	57.1
2005-06	438331	430657	868988	50.4	49.6
2006-07	484256	510140	994396	48.7	51.3
2007-08	580210	538137	1118347	51.9	48.1
2008-09	571026	759846	1330873	42.9	57.1
2009-10	774753	856046	1630799	47.5	52.5
2010-11	773859	1026315	1800174	43.0	57.0
2011-12	632196	1422957	2055153	30.8	69.2
2012-13	717131	1501663	2218794	32.3	67.7
2013-14	1190770	1453210	2643980	45.0	55.0
2014-15	1257247	1558689	2815936	44.6	55.4
2015-16	1520727	1318351	2839078	53.6	46.4
2016-17	1404847	1449515	2854362	49.2	50.8

Figure-1

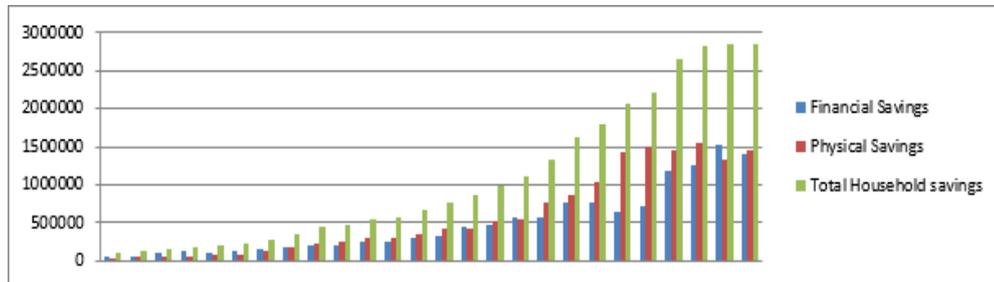
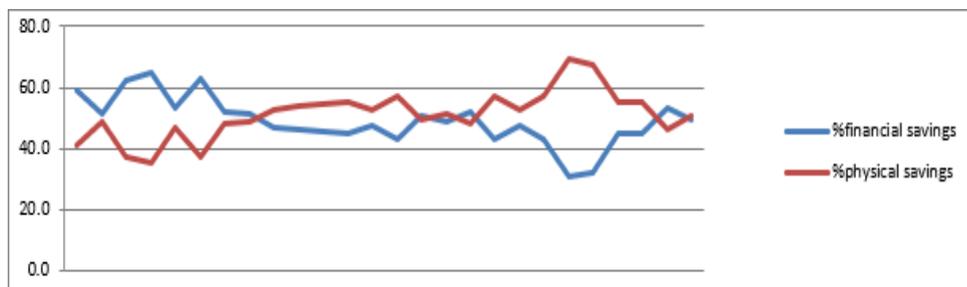


Figure 2

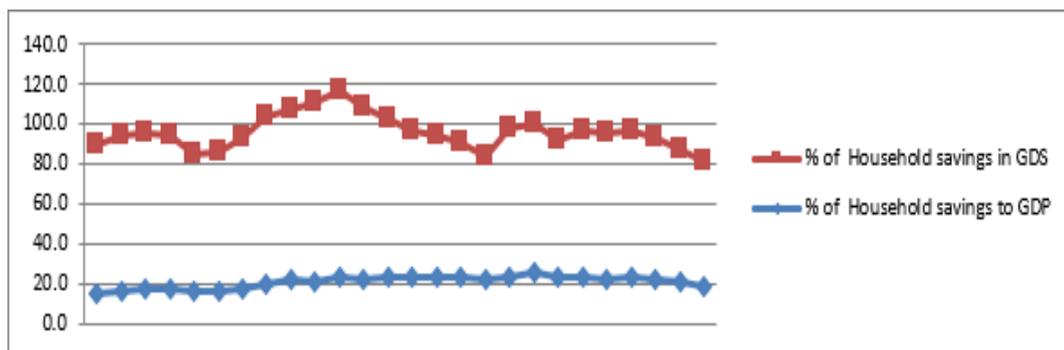


Sources: Primary Data from the Office of Central Statistics

Table 2

Year	Total Household Savings	Gross Domestic Savings (GDS)	Gross Domestic Product (GDP)	% of Household Savings in GDS	% of Household Savings to GDP
1991-92	105632	143530	673875	73.6	15.7
1992-93	127943	164621	774545	77.7	16.5
1993-94	151454	192994	891355	78.5	17.0
1994-95	187142	246668	1045590	75.9	17.9
1995-96	198585	289265	1226725	68.7	16.2
1996-97	224653	318387	1419277	70.6	15.8
1997-98	284127	379790	1572394	74.8	18.1
1998-99	352114	418159	1803378	84.2	19.5
1999-00	438851	516846	2023130	84.9	21.7
2000-01	463750	515545	2177413	90.0	21.3
2001-02	545288	585375	2355845	93.2	23.1
2002-03	564161	656229	2536327	86.0	22.2
2003-04	657587	823775	2841503	79.8	23.1
2004-05	763685	1050703	3242209	72.7	23.6
2005-06	868988	1235151	3693369	70.4	23.5
2006-07	994396	1485909	4294706	66.9	23.2
2007-08	1118347	1836332	4987090	60.9	22.4
2008-09	1330873	1802620	5630063	73.8	23.6
2009-10	1630799	2182338	6477827	74.7	25.2
2010-11	1800174	2621742	7784115	68.7	23.1
2011-12	2055153	2824459	8736329	72.8	23.5
2012-13	2218794	3043474	9944013	72.9	22.3
2013-14	2643980	3608193	11233522	73.3	23.5
2014-15	2815936	4019957	12467959	70.0	22.6
2015-16	2839078	4301948	13764037	66.0	20.6
2016-17	2854362	4572573	15253714	62.4	18.7

Figure 3



Sources: Primary Data from the Office of Central Statistics

The contribution of family savings to GDS is essential. It reached 93.2% in 2001-02 from 73.6% in 1991-92. Throughout, its share was above 60%. The share of household savings to GDP has increased from 15.7% in 1991 to 25.2% in 2009-10. However, it dropped to 18.7% in 2016-17. This decline may be due to inflation, and because of low interest rates. This study shows that family savings are vital to the Indian economy.

## Allocation of Various Financial Components in Overall Household Financial Savings

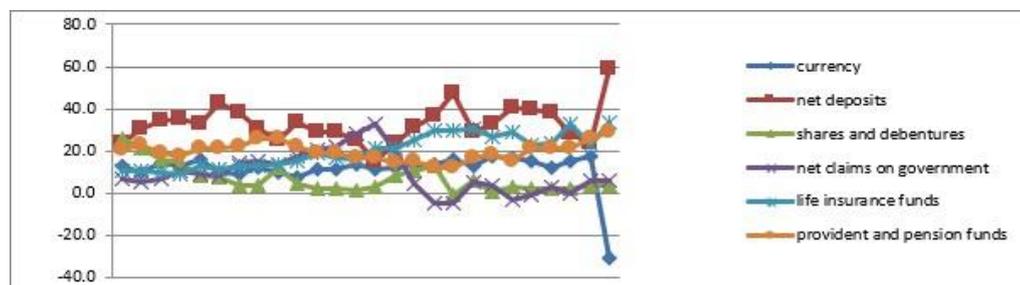
This section describes financial product distribution in depth.

**Table 3**

Year	Currency	Net Deposits	Shares and Debentures	Net Claims on Government	Life Insurance Funds	Provident and Pension Funds	Total Financial Savings
1991-92	13.1	23.4	25.6	7.1	10.7	20.2	100
1992-93	10.0	30.4	21.1	5.3	10.4	22.7	100
93-94	14.1	34.7	15.6	6.6	9.7	19.3	100
1994-95	13.2	35.0	14.4	10.6	9.1	17.7	100
1995-96	15.6	33.0	8.6	8.8	12.8	21.1	100
1996-97	9.6	42.4	7.3	8.2	11.0	21.5	100
1997-98	8.7	38.3	3.4	14.8	12.8	22.0	100
1998-99	12.1	30.6	3.9	15.2	12.5	25.7	100
1999-00	10.1	25.0	11.9	13.5	13.4	26.1	100
2000-01	7.3	33.6	4.1	17.6	15.2	22.3	100
2001-02	11.4	28.7	1.8	20.6	18.6	18.8	100
2002-03	11.3	29.0	2.3	22.1	16.3	19.0	100
2003-04	13.6	24.8	1.3	28.0	15.9	16.5	100
2004-05	11.3	14.9	2.7	32.6	21.4	17.0	100
2005-06	12.1	23.9	8.6	20.0	21.2	14.2	100
2006-07	13.7	30.9	10.9	4.1	25.3	15.1	100
2007-08	14.0	36.3	13.2	-4.8	29.4	11.9	100
2008-09	16.1	47.3	-0.8	-4.8	29.7	12.5	100
2009-10	12.5	28.8	6.2	5.6	30.3	16.6	100
2010-11	17.7	32.8	0.7	3.7	26.8	18.2	100
2011-12	16.5	40.2	2.6	-3.5	29.3	14.9	100
2012-13	15.2	39.6	2.3	-1.0	22.5	21.3	100
2013-14	12.0	38.1	2.3	2.7	23.6	21.4	100
2014-15	15.1	27.8	2.3	0.1	32.9	21.7	100
2015-16	17.8	23.4	4.0	6.0	23.1	25.8	100
2016-17	-30.7	58.6	3.5	6.0	33.3	29.3	100

Sources: Primary Data from the Office of Central Statistics

**Figure-4**



Sources: Primary Data from the Office of Central Statistics

Net deposits are the main components of financial saving, with a higher proportion almost every quarter. Currency share was 13.1% and has steadied at 10%. The fraction of variants has been rising since 2004-05, with a few exceptions (2009-10, 2011-14). Despite never being negative, the currency share dropped -30.7% in 2016-17 due to demonetization. In contrast, net deposits hit a record 58.6% this year. Since 1991-92, shares and debentures have been less popular as investments, with a few exceptions. Their 3.5% market share shows that households still doubt direct stock market involvement. Net claims on the government were 7.1% in 1991, 8% till 1997-98, and 32.6% in 2004-05. Its share has declined since 2006-07, with negative growth in the two years after. The rate is 6%. From 10.7% in 1991-92 to 33.3% in 2016-17, life insurance funds have increased. Increased awareness about insurance, availability of insurance services, competition among numerous providers, and a broad choice of insurance plans have driven insurance industry expansion. Despite minimal fluctuation, provident and pension fund allocation rose to 29.3% in 2016-17 from 20.2% in 1991-92. Despite slight fluctuations, the share remained around 15% until 2007-08 and 2009.

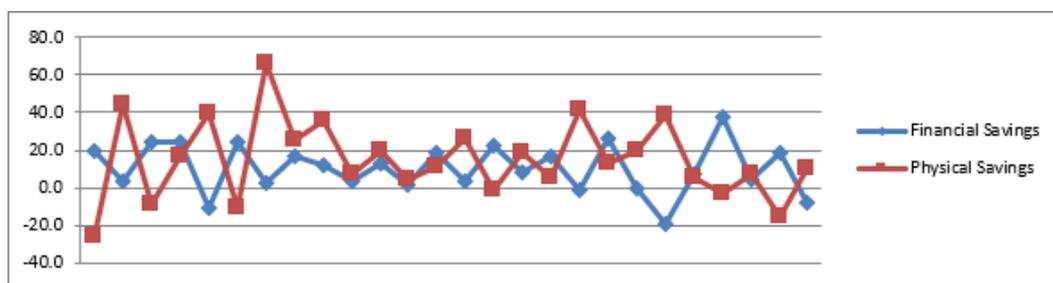
### ***Annual Growth of Financial Savings, and Physical Household Savings***

We examined the annual growth rates of financial and physical household savings to better understand family savings. Their yearly growth was inconsistent and often negative. The growth in financial savings does not correlate with physical savings. Financial savings rose 19.1% in 1991-92, but physical savings fell 26.2%. Financial savings rise 3.4% and physical savings 43.8% the next year. Within two years, financial savings will climb by almost 24%. The value dropped 10.6% in 1995-96. Before 2007-08, financial savings growth ranged from 24.5% in 1996-97 to 1.8% in 2002-03, averaging 21%. Four negative and five positive growths occurred during the next nine years. The largest financial savings increase was 37.7% in 2013-14. In 2016-17, financial savings fell 7.6% while physical savings rose 9.9%. Inconsistent growth rates range from 65.5% in 1997-98 to -26.2% in 1991-92 for tangible savings. Growth dropped 10 points from 1996-97 to the next 16 years excluding 2005-06. Growth varied greatly at this time. Physical savings have declined 3.5% and 15.4% in 2013-14 and 2015-16, respectively. When financial savings develop negatively, physical savings grow positively, and vice versa. Financial and physical savings do not rise negatively in the same year.

Table 4

Year	% Financial Savings	% Physical Savings	Year	% Financial Savings	% Physical Savings
1991-92	19.1	-26.2	2004-05	3.4	26.5
1992-93	3.4	43.8	2005-06	22.8	-1.2
1993-94	24.3	-9.4	2006-07	7.9	18.5
1994-95	24.6	17.1	2007-08	16.8	5.5
1995-96	-10.6	39.8	2008-09	-1.2	41.2
1996-97	24.5	-10.6	2009-10	26.3	12.7
1997-98	2.8	65.5	2010-11	-0.1	19.9
1998-99	16.2	25.1	2011-12	-19.8	38.6
1999-00	12.2	35.2	2012-13	7.1	5.5
2000-01	3.5	7.0	2013-14	37.7	-3.2
2001-02	12.7	19.8	2014-15	4.4	7.3
2002-03	1.8	4.4	2015-16	18.8	-15.4
2003-04	18.3	10.7	2016-17	-7.6	9.9

Figure-5



Sources: Primary Data from the Office of Central Statistics

## Conclusion

Since reforms, household savings have risen. Financial and physical household savings have never declined in the same year, even if their separate components develop differently. The share of financial savings in household savings was larger initially. The percentage of physical saves has been rising, reaching 69.2% in 2011-12. Financial instruments' falling returns have pushed people to invest their wealth in real assets. We must strengthen financial instruments to make them more useful to individuals and stimulate the investment of channeled financial resources. Family savings have always been above 60% of Gross Domestic Savings (GDS). The fraction of household savings to GDP has constantly been over 15%, emphasizing its importance. Life insurance offers public protection and boosts economic progress, thus its popularity as a financial instrument is good. Currency share fell 30 points after demonetization. However, net deposits rose this year. Indians prefer deposits and money for savings, suggesting they favor liquidity. Increasing financial and physical savings annually fluctuates. Financial savings vary by 48 points, while physical savings vary by 92. Negative financial savings growth leads to positive physical savings growth, and vice versa. Neither financial nor physical savings declined in the same year.

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