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A Study on Household Savings and Investments in India

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ABSTRACT *The Indian household savings in financial assets — bank deposits, stocks, insurance, mutual funds and pension funds are raising. In contrast, savings in physical assets (like real estate and gold) are down. Even though savings shift from physical assets to financial assets may look marginal in numbers, it is a significant structural shift. Instead of putting money in relatively idle physical assets, Indian households are now opening up to putting their money in more productive financial assets. The study assesses the trend in household's savings - investment in physical assets and financial assets - in India and the gap among them.*

KEYWORDS : Indian households, savings, financial assets, physical assets

INTRODUCTION

Savings is the leftover of the disposable income whereas when these savings are used to generate further returns it is known as investment. Investment is the commitment of funds at present in anticipation of some positive rate of return in future. An individual retail investor is confronted with array of investment avenues such as bank deposits, post office savings, provident fund and pension plans, gold, real estate, chit funds, insurance schemes, corporate securities like shares, debentures/bonds, mutual funds, exchange traded funds and derivatives. The determinants of investor profile consists of parental saving habits, social norms, peer group influence, financial literacy, risk appetite, investor opportunity, market condition, access to financial market, clarity in documentation, the way the financial service provider presents choices, convenience, trust in financial institutions, the way the product are sold, investors capability to understand risk and reward, individual risk preferences, self-awareness of risk appetite, capability to make sound financial decisions etc. The present study tries to measure the difference in pattern of investment by households in India taking into account both physical and financial assets.

Need and Significance of the Study

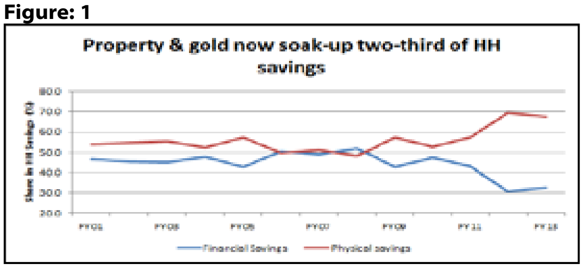
Generally, investment is the application of money for earning more money. It is usually the result of forgoing consumption. In a purely agrarian society, early humans had to choose how much grain to eat after the harvest and how much to save for future planting. The latter was investment. . In economic sense Investment is the value of machinery, plants, and buildings that are bought by firms for production purposes. Investment also means savings or savings made through delayed consumption. An amount deposited into a bank or machinery that is purchased in anticipation of earning income in the long run is both investments.

The ways in which individuals save can range from holding surplus income as cash, informal investment in local chit funds, deposits in commercial banks, investment to cover risk associated with uncertainties in future, or more complex investments like stock market instruments or it may be physical investments like jewellery, real estate, cattle etc. The significance to manage personal money effectively has grown. This is because of the impact of their decisions regarding investment on their families and ultimately on the social welfare. Knowledge about savings and investment pattern; and how behavioural aspects influence on them, will help to design the financial instrument according to the requirement of the investors. It will help to improve the savings and channelling them to productive investment options. Hence, analysing the savings and investment pattern of households attain significance for those who are interested to encourage the savings and productive utilisation of these savings.

Statement of the Problem

Households are India's biggest contributor of savings, accounting for nearly three-fourths of all savings (72.7 per cent) in 2012-13, while the private corporate sector accounted for just under a quarter (23.4 per cent) and the rest came in from the public sector. A higher allocation to physical savings by households deprives companies and the public sector of capital they access through banks, the equity market, insurance and pension funds(Business Standard,January 10,2015)

Figure: 1



Source: Business Standard.January 10.2015

In many economies households are reluctant to invest in productive investment options which resulted into capital formation and finally the growth of the economy. Investors in India are also not exempted from this behaviour. Household savings in financial assets continue to make way for higher allocation to physical assets like property and gold. In 2012-13 financial assets including banks deposits, mutual funds, equity, bonds, and pension and insurance funds accounted for only a third of all household savings, down from nearly half in 2006-07. The rest was absorbed by physical assets, choking the funds' flow into the financial market. Such a low ratio for financial to physical savings was last seen in the late 1960s, in the run-up to bank nationalisation, when it had hovered in the 27-30 per cent range from 1966-67 to 1971-72(Business Standard, January 10,2015).

"A combination of negative interest rates (adjusted for inflation) and a boom in real estate and gold induced savers to increase investments in property and gold and cut down on their exposure to bank deposits and equity markets. This choked the flow of funds to banks and the capital market, making it tough for firms to raise capital," -Devendra Pant, head economist at India Ratings.

Financial markets are booming with a sense of optimism and confidence injected in the financial system with the recently announced reforms. The year 2014 saw significant changes in the investment landscape. Eight major trends and developments that impacted investors in India are stock market rally, flood of closed-ended funds, high interest rates, new tax rules for non- equity funds, lower tax, continuing gold slump, new rules for insurance and entry of low cost ULIPs

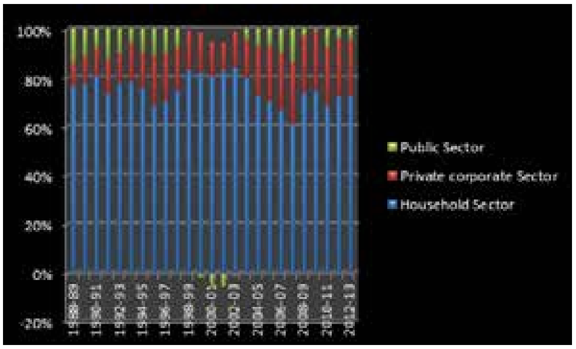
Objective of the Study

The objective of the study is to assess the trend in household's savings - investment in physical assets and financial assets - in India and the gap among them.

DATA

Sector Wise Gross Domestic Savings

Figure: 2
Trends in Gross Domestic Savings



Source: Handbook of Statistics on the Indian Economy (Http://Dbie.Rbi.Org.In)

The three sectors of gross domestic savings in the country are households, private corporate sector and government sector. It is found that more than 60% of the total savings come from household sector while the share of private corporate sector moving upward at an increasing pace.

Table: 1
Household Domestic Savings
(Amount Rupees in Billion)

Year	Total household savings	% Change
2005-06	8689.88	
2006-07	9943.96	14.4315
2007-08	11183.5	12.46495
2008-09	13308.7	19.00358
2009-10	16308	22.53603
2010-11	18001.7	10.38601
2011-12	20146.1	11.91213
2012-13	22339.5	10.8873
2013-14	23609.4	5.684371
2014-15	23804.9	0.828146

Source: Handbook of Statistics on the Indian Economy (Http://Dbie.Rbi.Org.In)

The data indicates that annual growth rate in total household savings (22.536%) including financial and physical assets is on its peak during 2009-10. Then onwards the household savings annual growth rate is witnessing a steep decline and stands at less than 1% in 2014-15.

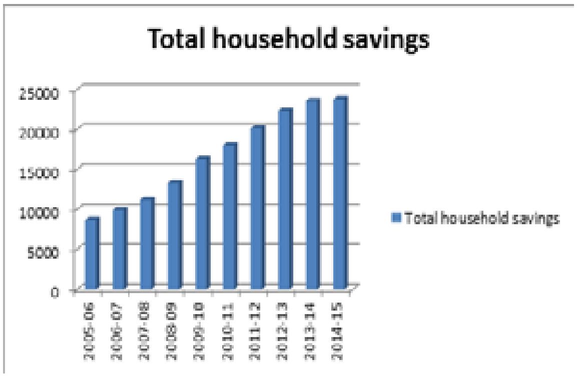
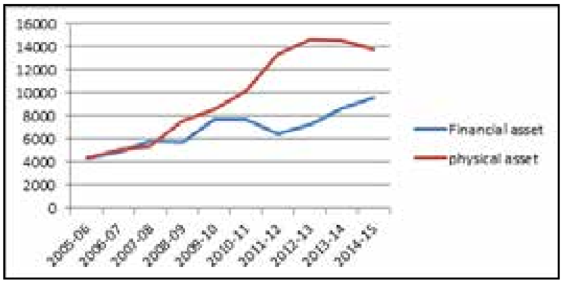


Table: 2
Gross Domestic Savings (Household Sector)
(Amount Rupees in Billion)

Year	Financial Asset	% Change	Physical Asset	% Change
2005-06	4383.31		4306.57	
2006-07	4842.56	10.47724	5101.40	18.45622
2007-08	5802.10	19.81473	5381.37	5.488101
2008-09	5710.26	-1.58288	7598.46	41.19936
2009-10	7747.53	35.67736	8560.46	12.66046
2010-11	7738.59	-0.11539	10263.20	19.89017
2011-12	6434.27	-16.8548	13375.5	30.32568
2012-13	7336.6	14.02381	14636.8	9.430063
2013-14	8628.73	17.61211	14608.4	-0.19403
2014-15	9613.07	11.4077	13794.1	-5.57438

Source: Handbook of Statistics on the Indian Economy (Http://Dbie.Rbi.Org.In)

The annual growth rate of household investments shows ups and downs till 2011-12 in financial assets. From 2012-13 onwards, it shows positive consistent upward trends. On the other side the households investments in physical assets shows negative growth from 2011-12 which leads or drives to increased investments in financial assets by the households. Being a developing country, this investment shift from physical assets to financial assets by the households accelerates the growth of Indian economy.



CONCLUSION

Based on data from the Handbook of Reserve Bank of India, trends related to personal finances like total savings of Indian households, financial savings, physical savings, etc. were analysed. Household savings and investments are showing better signs of structural shifting from physical assets to financial assets. For India's over USD 2-trillion economy, such a shift is significant. The declining greed for gold and rethinking on real estate investments, the Indian households are now opening up to putting their money in more productive financial assets. Hence, a reversal in household financial saving trends is a welcome progression for the Indian economy.

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