A study on trends and patterns of household's saving and investment on economy

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DOI: 10.29322/IJSRP.11.01.2021.p10947
http://dx.doi.org/10.29322/IJSRP.11.01.2021.p10947

Abstract- It is very important to know about the importance and significance of how much household sector of a country contribute to the growth of respective economy, this paper briefly explore the concepts of household savings, household investments which are so closely related and dependent variables, it has been stated that a household saving holds the more than 50% capital formation of a country, and it goes up and down due to many factors impacting economy of a country, such as fluctuation, employment, technology growth etc. households as has major of their saving and investments in physical assets which is much better to gradually shift to financial assets, and different platform for saving and investment. therefor the trend of investment and savings will be transparently be traced and measured. It has been explored that domestic saving rate of India's economy has a slowdown 2.3% in 2019 compare to 2018, and 1.2% than 2017. In general, domestic savings has a slowdown from 2011, till current years. It has been stated that the GDP in 2020 has contracted 23.9% in the second quarter of year, compare to previous years it is the lowest rate GDP has been affected by Covid-19 pandemic. The data in this paper is secondary data which is been evaluated.

Index Terms-
Economy growth, Financial & non-financial assets, GDP, Investment, Savings,

I. Introduction

In India, there is no generalized social security system. Given this context, individuals have to depend on their own savings or on joint-family support in their old age. Hence, therefore it's a necessary need for pure households to have a suitable plan for investment, especially in the context of increasing life expectancy and decline of the joint-family system. Not only that, the family has to save for the education of their children, children's marriage, for their health-care needs, especially after retirement, and even, for their own funeral expenses. Thus, households need long-term perspectives about their savings and need adequate returns on their investment. given the reasons, role of capital market is also important in mobilizing and channeling investments of the people.

investment is defined as the action or process of investing money for future profit or it is money or other resources that is committed to something that will hopefully bring profit in future. It can be in stocks, shares, bonds or it can be amount of money dedicated to capital spending which facilitate the productivity capacity of goods and services to a market.

In basic term, it is investment that leads to productivity and in turn productivity leads to growth in economy. On an individual scale, investment can be through investing money in stock, bond, or any other financial resources, and on economic scale, investments back into capital directly impact economic growth, that is also called investment on real asset, or physical investment.

"If a country wants sustainable growth it must improve investment rate, but investment needs funding" said Pranjul Bhandari, chief India economist at HSBC. When savings are on the rise in an economy and the mobilization is efficient, it is reflected in the investments as Funds are made available through the banking system to those who invest. A nation's savings and investment propensities also play a key role in achieving dynamic stability in the capital market

Three major sources for savings of the economy consists of Government sector, Public corporate sector, which only includes registered companies under company's act 2013. And households, which household itself consists of individuals, trusts, partnership and sole proprietorship. The saving contributions of households towards GDP is more than government and PCS.

Household sector saving constitutes the largest portion of gross domestic saving. it comprises saving in financial assets and saving in physical assets. Gross financial saving of the household sector includes the saving in the form of currency, bank deposits, non-bank deposits, saving in life insurance fund, saving in provident and pension fund, claims on government, shares and debentures inclusive of investment in mutual funds and net trade debt.

II. IDENTIFY, RESEARCH AND COLLECT IDEA

To know where in the world of research we are standing, knowing the map is crucial which in terms of research we can address the review of literature. Literature review is for the purpose of discovering where our topic has roots, history and sources. it shows to what extend the research topic is already been researched, investigated and discovered. Or what other relevant researches have done and what are the findings and what are the gaps.

Investment is one of crucial aspects that can majorly affect the growth of economy in developing countries, so that is the reason for attraction of more FDI to invest in India. the same time while evaluating the domestic investments, it appeared that only 22% of people's income become converted to savings, and only 5% of the income is used utilized in investment, but the investments which are done by people are majorly in the very riskless resources such as Fixed deposits, Post Office Savings, Investment on Gold, etc. (Sangeetha, D,2015)

India as 4th biggest economy in the world, is becoming a better place for investors day by day due to the confidence of investors. Indian economic reforms, annual growth rate, curbing inflation rate etc. are conducive for the domestic and foreign investment in the recent years. (S.Poongavanam & Siva Sankar &Vijayalskshmi, 2013)

In a research done on sample size of 50, amongst salaried people working in private sectors, opens up that Salaried Youngsters are very much aware of investment and saving phenomenon, and willing on investing their money rather than saving in fixed deposit accounts or other saving accounts, which nowadays are more used by old people. As per the research result, young salaried people are investing more to the Government, stock market, mutual fund, gold and real state. Awareness about concepts of investment, how to invest and where to invest is good among young people in India . (PATEL, YOGESH P & Patel, CHARUL Y, 2012)

A causal relationship between saving and investment exist in both long run and short run growth of economy in Ethiopia, the research has shown 1% change in gross domestic investment results in 0.33% change in economic growth in the long-run, and similarly, 0.1% changes in gross domestic investment leads to 0.128% change in in the short-run economic growth. it is suggested that saving in a country must increase in order to finance investment which is an important factor in influencing the economic growth and also to avoid depending on outsider's fund. (Hundie, Shemelis Kebede, 2016)

another research study in Pakistan by Najid Ahmad, Muhammad luqman, Muhammad Farhat Hayat, studying the relationship between growth of GDP as dependent variable and investment as independent variable, shows that 1% of investment results to 0.89 % growth in GDP of Pakistan economy. This research has is revealing that investment has positive influence on their Pakistan's GDP growth. (Ahmad ,Najid. Luqman, Muhammad. Hayat, Muhammad Farhat, 2012)

in 2015 a research team in Mumbai says: young generations are more encouraged in investment rather than using traditional saving accounts, saving deposit …etc. due to its less return. The research claims, lack of practical knowledge negatively influence the investment decisions making. mutual fund has gained the favor of youngsters more for less risk on investment return. (Saikia, Khilnani, Jain, Bhoir, Amol, 2015).

III. WRITE DOWN YOUR STUDIES AND FINDINGS

household saving:

household saving is difference between income and expenditure and as mentioned above that domestic saving is a combination of government, PCS and household which amongst them Indian households contribute to about 60 per cent of the country's savings and it indicates directly the impact of household sector in channeling and facilitating investment process in a country. The household saving represents savings of the household sector out of the disposable income. In an economy where the financial markets have developed, savings of household sector are reflected in their investments in various financial instruments issued by intermediaries like banks and financial institutions and government, net of their liabilities. In India, apart from such savings in financial instruments, a component of physical saving is also estimated incorporating the household expenditure on house construction.

Indian household which has more investment and saving on physical assets such as real estate and gold in recent years has a shown a shift toward financial assets which are more useful in economy growth aspect.

household financial savings

Household financial savings refer to currency, bank deposits, debt securities, mutual funds, pension funds, insurance, and investments in small savings schemes. The total of these savings is referred to as gross household financial savings. Once financial liabilities, including loans from banks, non-banking financial companies (NBFCs), and housing finance companies, are subtracted from gross savings, what remains is referred to as net household financial savings. Net household financial savings rose from 7.2% of GDP in 2018-19 to 7.7% in 2019-20. This happened because liabilities fell from 3.9% of GDP in 2018-19 to 2.9% in 2019-20.

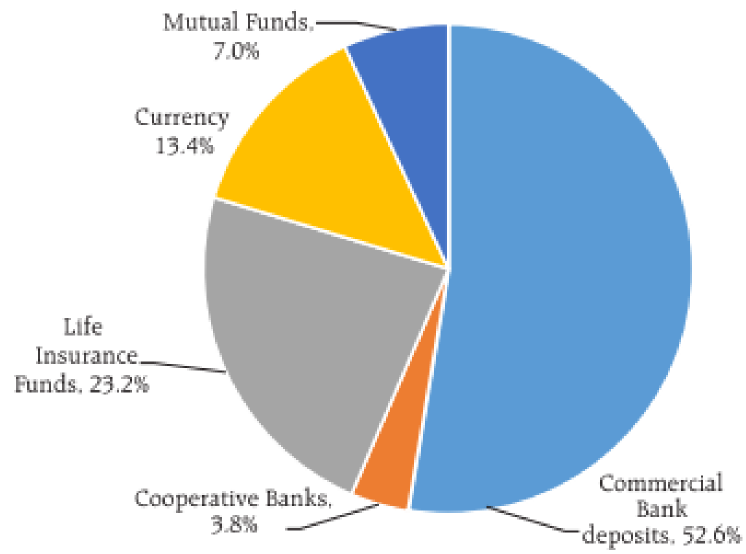
household savings in financial assets

financial assets which is the excess of aggregate of capital formation estimated by the product flow method (or the availability of items like machinery, equipment and construction material that enter into capital formation) It should be clear from the above that household saving is derived as a residual category in the case of both household financial saving and household savings in physical assets (or household capital formation),

ISSN 2250-3153

Commercial bank deposits accounted for 52.6%.
Currency accounted for 13.4%.
Life insurance holdings accounted for 23.2%.
Mutual fund holdings accounted for 7%.
The data shows the proportion of hosuhold financial asset in 2020. The major proportion is through banking deposits of 52.6% and after that 23.2% of fnacial saving is done in life insurance funds 23.2%. currency in the third level with proportion of 13.4% then we have mutual fund investment n fourth level with rate of 7.0% and the last source for houshold saving is copperative bank rate of 3.8%. since the year 2020 I still inn progress we can not make a comparison wth other last years, whch it can be done after this year while the complete data is in hand for analyzing.

Chart 2: Composition of Household Financial Assets* - Outstanding Position (As at end-March 2020)



*: Outstanding data have been provided for select financial instruments for which data are available.

household investment:
in 21th century, investment is no more than a simple money giving process to someone (bank, a person, corporate, …) and receive a guaranteed amount of return. So many factors must be considered before investing depending upon the platform for investment, analyze of economy, industry and company and trend of that particular platform during a time should be studied and analyzed then one can make a decision for investment, moreover while investing itself one should in should understand liquidity, risk appetite of investor, amount of investment, period of time. Expected return. An investment with large risk may have a large profit and low risk indicate low profit, time period for investment is very important and it varies how much the return must e to meet the need of investor, investment can be either short term or long term. major types of investment is as below that households go for it.
Bank deposit,
company deposit,
mutual fund scheme
stock(shares)
small saving schemes
government bonds
pension plane
Indians are not risk-oriented, and they don’t invest much in the equity-linked schemes. They prefer investing in traditional investment options such as provident funds and bank deposits.
Therefore, it can be said from above data that savings is done in both in bank deposits and non-bank deposit which from total deposit of 3.6, 3.4% deposit is through bank deposit and 0.2% through non-bank deposits in 2019-2020. Yet bank deposit has a decrease of 0.4 from 2018-19 and a constant rate in non-bank deposit.
Saving in life insurance fund has a gradual decrease from 2017 up to 2019-20 that shows less willingness toward life insurance funds. Provident fund and pension fund have kind of constant rate. A decrease in currency is shown in last 4 years, investment has a constant rate in 2018 and 19, and as in

Annex II

Table 1: Gross Financial Assets of Households

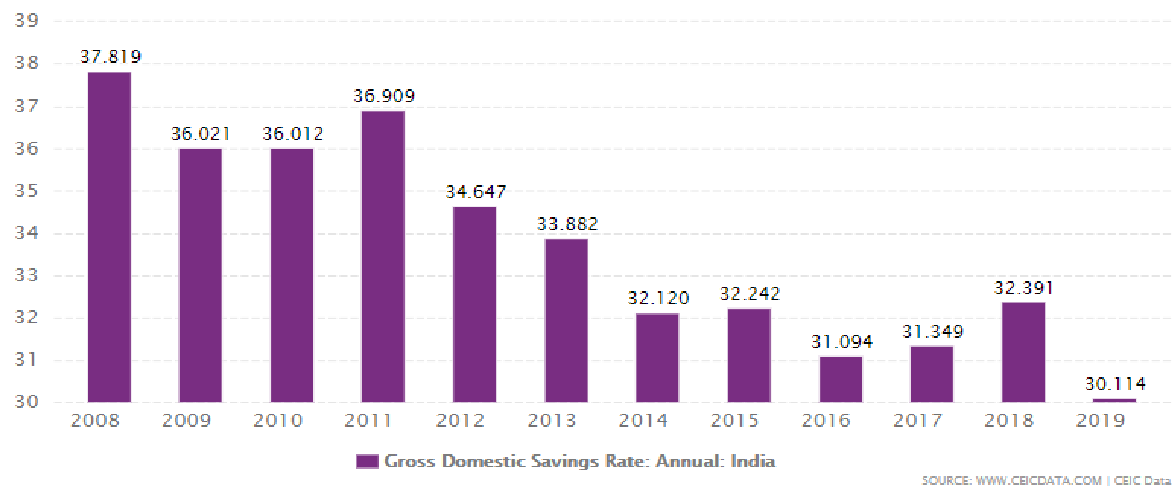
(As per cent of GDP)

Item	2017-18					2018-19					2019-20				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Gross Financial Assets	9.6	13.8	7.9	16.5	12.0	7.9	10.4	7.3	18.8	11.1	6.7	10.3	10.7	14.5	10.6
of which:															
1. Total Deposits (a) + (b)	-1.6	5.9	-1.2	8.6	2.9	-1.2	6.5	0.5	10.2	4.0	-0.7	5.9	2.1	7.1	3.6
(a) Bank Deposits	-1.8	5.9	-1.4	8.6	2.8	-1.4	6.3	0.3	10.2	3.8	-1.0	5.6	2.0	7.2	3.4
i. Commercial Bank Deposits	-1.5	5.7	-1.5	8.6	2.8	-1.4	6.2	0.2	9.9	3.7	-1.1	5.5	1.2	7.1	3.2
ii. Cooperative Banks	-0.3	0.2	0.1	0.1	0.0	-0.1	0.1	0.0	0.3	0.1	0.0	0.1	0.8	0.1	0.3
(b) Non-Bank Deposits	0.2	0.1	0.2	0.0	0.1	0.2	0.2	0.2	0.1	0.2	0.4	0.3	0.1	0.0	0.2
2. Life Insurance Funds	1.9	2.3	3.1	0.9	2.0	1.5	2.1	1.1	3.1	1.9	2.0	0.8	2.1	1.8	1.7
3. Provident and Pension Funds (including PPF)	2.3	2.2	2.1	2.1	2.2	2.2	2.1	2.1	2.1	2.1	2.2	2.2	2.1	2.1	2.2
4. Currency	4.8	1.0	2.6	3.0	2.8	2.5	-0.7	2.1	1.9	1.5	1.3	-0.5	1.7	3.0	1.4
5. Investments	1.3	1.5	0.4	1.1	1.1	1.7	-0.8	0.5	0.3	0.4	0.6	0.5	1.3	-0.8	0.4
of which:															
Mutual Funds	1.2	1.3	0.0	0.8	0.8	1.5	-1.0	0.4	0.2	0.3	0.2	0.4	1.3	-0.9	0.2
6. Small Savings (excluding PPF)	1.0	0.9	0.9	0.8	0.9	1.1	1.1	1.1	1.0	1.1	1.4	1.4	1.3	1.3	1.3

Source: Staff calculations.

particular mutual fund has a decrease gradually. Generally, we can see a total decrease in financial asset saving and investment of household sector from 12% in 2017-18 to 11.1% in 2018-19 to rate of 10.6% in 2019-20.

Saving and investment trends in economy:
Savings are indicative of how much the people of a country are likely to invest because more the savings, more the investment. Households contribute more than half the total savings in the country
The Harrod-Domar model of economic growth suggests the level of savings is a key factor in determining economic growth rates.
Gross Domestic Saving consists of savings of household sector, private corporate sector and public sector Savings rate, or the proportion of gross domestic savings in gross domestic product (GDP), in India has trended down in the past decade.
In a fast-growing economy like India, managing savings of a country is vital for given the challenging global environment now. Savings sources as (household, corporate, and government) are needed to finance investments and sustain growth. As per observation made by Household Finance Committee: largest part of household saving is from physical asset, 77% of its asset in real estate, 7% in durable goods like agriculture machinery, 11% in gold and 5% in financial assets. A large fraction of the wealth of young households is in the form of durable goods and gold, and as they approach retirement, most of their wealth is in the form of land and housing. According Central Statistics Office provides Gross Domestic Savings, India's Gross Saving rate in 2019 is measured 30.1%, a decline of 2.3 % from previous year
(graph, 1). The low saving rate impacts on investment directly. As Gross Domestic Savings Rate is annual frequency, ending in March of each year. In the latest reports, India's GDP contracted 23.9 % YoY in Jun 2020. India's Nominal GDP reached 502.1 USD bn in Jun 2020 hence the gross domestic savings for the year 2020 will be calculated on march. As depicted in chart below.



As the saving rate goes down in a country it can cause more borrowing from overseas markets. and because of increase in national debt, external position of India will be weakened in international level. According to Bhandari said, in order to raise investments at a time when savings are falling, the current account balance will have to fall or the current a ccount deficit will have to widen, needing more foreign inflows for funding.
According to economists a slowdown in saving rates can lead to partly slowdown in economy. "To boost savings, there needs to be an improvement in access to finance for households across the country. We need to make households trust financial markets so that savings can move from physical to financial assets which would generate better returns," said Renuka Sane, associate professor, National Institute of Public Finance and Policy.

IV. CONCLUSION

For growth Indian economy, savings plays an important role to finance the investment of a country. Through assessing various estimate offered by RBI, Central Statistical Organization, we understand now that household saving rates is not only important but is important to now what type of saving and investment is more helpful for growth, and we see that Indian savings on physical assets is now more focused on financial assets and this financial asset investment can better channelize the flow of money and to measure yearly difference made on investment and saving amount of households. though their financial assets has undergone a secular decline. A recent shift is visible in favor of financial assets in mutual funds and insurance. But generally, this is an area that needs better policy attention than it has received.

We came to know that the overall rate of saving has expanded substantially in recent years. Furthermore, we conclude that the supply of household saving in India is adequate to support a significantly higher rate of growth in future years if households are more encouraged in different platform of investment, and general support is also made to the households to influence their saving and investment motives. From the perspective of physical capital formation, but the issue is that government sectors should have more concentrate on increase in savings

ACKNOWLEDGMENT

The preferred spelling of the word "acknowledgment" in American English is without an "e" after the "g." Use the singular heading even if you have many acknowledgments.

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