

# HOUSEHOLD SAVING IN INDIA

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# Gross Domestic Saving(GDS)

GDS in Indian Economy includes

- public, private corporate and household sectors

Generating Saving

- Private sector dominates over private corporate and public sectors

Private Sector

- Individuals, non-government non-corporate enterprises of farm business and non-farm business

# Household Sector

- Household sector is residual in nature
- That is, the rest of the economy after excluding organized segment of the economy- public & private corporate sectors
- However includes unincorporated enterprises apart from pure households
- Treated differently from those of corporate and government sectors
- Unlike in corporate & govt sectors there is no balance sheet and income-expenditure accounts

# Household Saving

- Households deploy their savings across a cross-section of instruments that provide them higher risk adjusted returns
- Two components
  - Financial and Physical Assets
- Savings in financial assets
  - Currency, net deposits, shares & debentures
  - ,net claims on government, life insurance funds, provident and pension funds (contractual savings)

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- The economy-wide flow of funds(FOF) is used as the analytical tool

## PHYSICAL ASSETS

- Savings in terms of physical assets is based on household investment and transfers
- Estimated through Commodity Flow Approach (CFA)

**Table 1 : Decadal Sector- wise Saving Rates as per cent of theGDP**

	1950s	1960s	1970s	1980s	1990s	2000-01 to 2004-05
<b>Gross Domestic Saving</b>	<b>10.0</b>	<b>12.6</b>	<b>17.5</b>	<b>19.4</b>	<b>23.2</b>	<b>26.3</b>
<b>1. Private Corporate Sector</b>	<b>1.0</b>	<b>1.5</b>	<b>1.6</b>	<b>1.8</b>	<b>3.7</b>	<b>4.2</b>
<b>2. Public Sector</b>	<b>1.8</b>	<b>2.8</b>	<b>3.7</b>	<b>3.0</b>	<b>1.0</b>	<b>-0.2</b>
<b>3. Household Sector</b>	<b>7.2</b>	<b>8.4</b>	<b>12.2</b>	<b>14.6</b>	<b>18.5</b>	<b>22.4</b>
a) Financial Saving	1.9	2.7	4.6	6.8	10.0	10.6
b) Saving in Physical Assets	5.3	5.7	7.6	7.8	8.5	11.8

**Table 2 : Rate of Gross Domestic Saving of Select Asian Countries**

Country	( Per cent )			
	1970s	1980s	1990s	2000-01 to 2004-05
1. Bangladesh	1.4	8.5	14.2	17.9
2. Bhutan	6.1	11.9	27.4	43.8
3. China	31	35.1	39.2	38.8
4. Hong Kong, China	31.4	33.8	31.5	31.1
5. India	17.5	19.4	23.2	26.3
6. Indonesia	27.3	31	30.1	28.1
7. Malaysia	27.7	30.7	41.9	42.7
8. Maldives			46.2	46.3
9. Pakistan	7.9	8.7	15.6	16.2
10. Singapore	30.6	42.2	48.9	44.4
11. Sri Lanka	13.2	13	16.4	15.3
12. Thailand	22.4	27.6	35	30.7

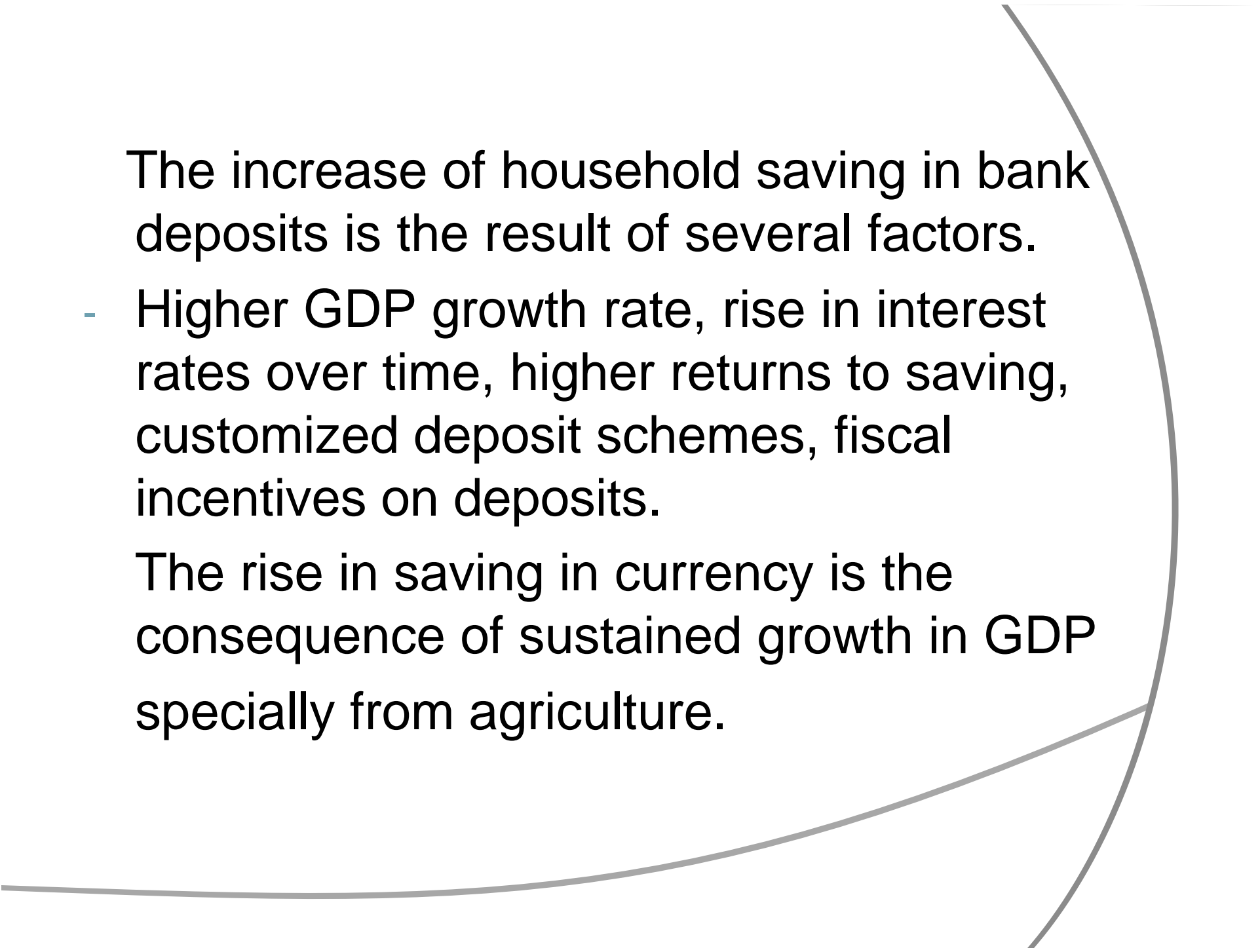
Source : NAS for India & WB

# Data available upto 2003-04

**Table 3 : Household Sector Saving Rates**

	1950s	1960s	1970s	1980s	1990s	2000-01 to 04-05
<b>1. Household Sector</b>	<b>7.2</b>	<b>8.4</b>	<b>12.2</b>	<b>14.6</b>	<b>18.5</b>	<b>22.4</b>
<b>1.1 Financial Saving</b>	<b>1.9</b>	<b>2.7</b>	<b>4.6</b>	<b>6.8</b>	<b>10.0</b>	<b>10.6</b>
a)Currency	0.5	0.7	0.9	1.1	1.2	1.2
b)Net deposits	0.2	0.6	1.6	1.9	3.2	2.9
c)Shares- Debentures	0.3	0.4	0.2	0.6	1.3	0.3
d)Net Claims on Govt	0.3	-0.1	0.1	0.9	1.0	2.5
e)Life Insurance funds	0.2	0.3	0.5	0.7	1.1	1.8
f)Prov & Pension funds	0.4	0.8	1.3	1.6	2.2	2.0
<b>1.2 Physical Assets Savings</b>	<b>5.2</b>	<b>5.7</b>	<b>7.6</b>	<b>7.8</b>	<b>8.5</b>	<b>11.7</b>

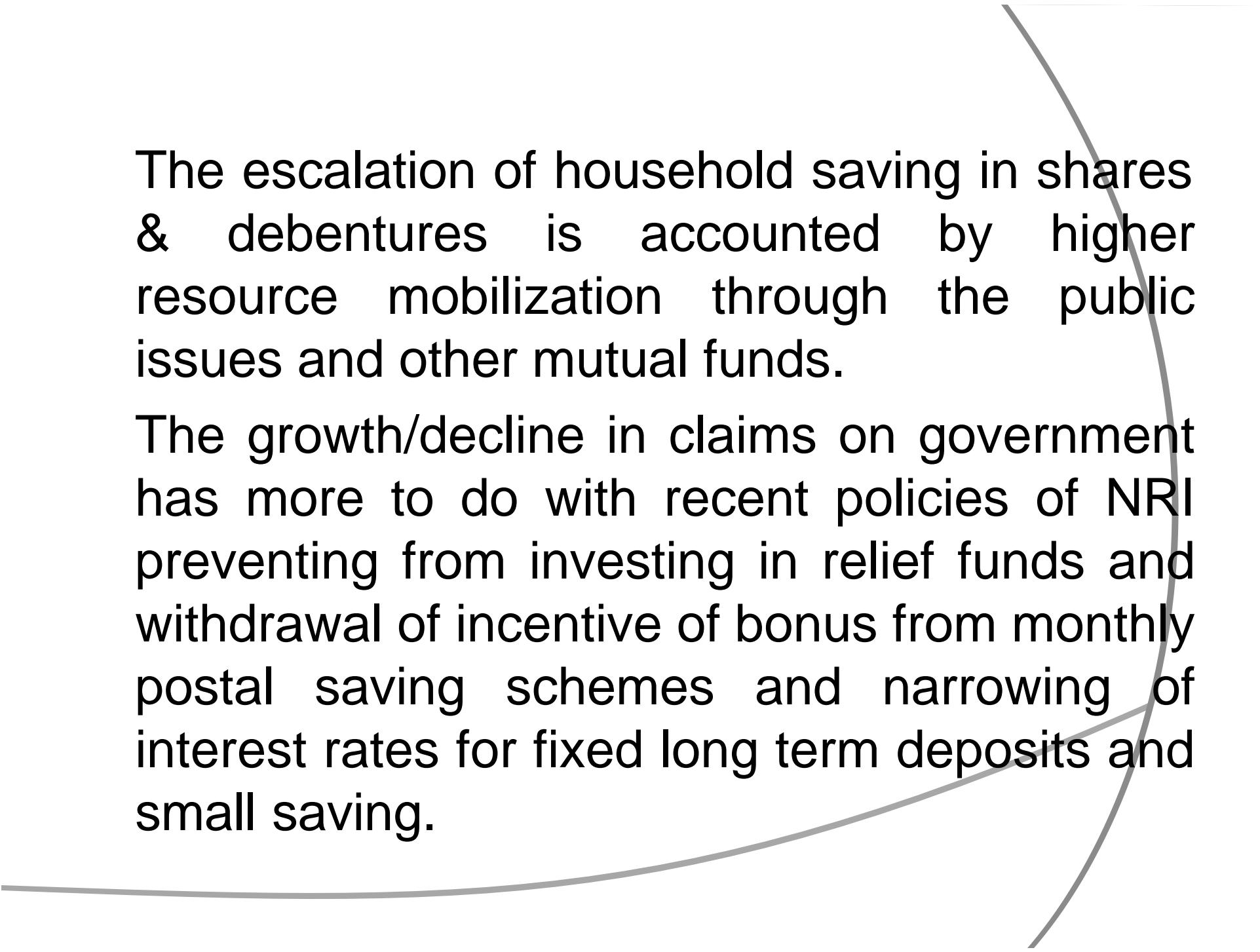


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The increase of household saving in bank deposits is the result of several factors.

- Higher GDP growth rate, rise in interest rates over time, higher returns to saving, customized deposit schemes, fiscal incentives on deposits.

The rise in saving in currency is the consequence of sustained growth in GDP specially from agriculture.

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The escalation of household saving in shares & debentures is accounted by higher resource mobilization through the public issues and other mutual funds.

The growth/decline in claims on government has more to do with recent policies of NRI preventing from investing in relief funds and withdrawal of incentive of bonus from monthly postal saving schemes and narrowing of interest rates for fixed long term deposits and small saving.

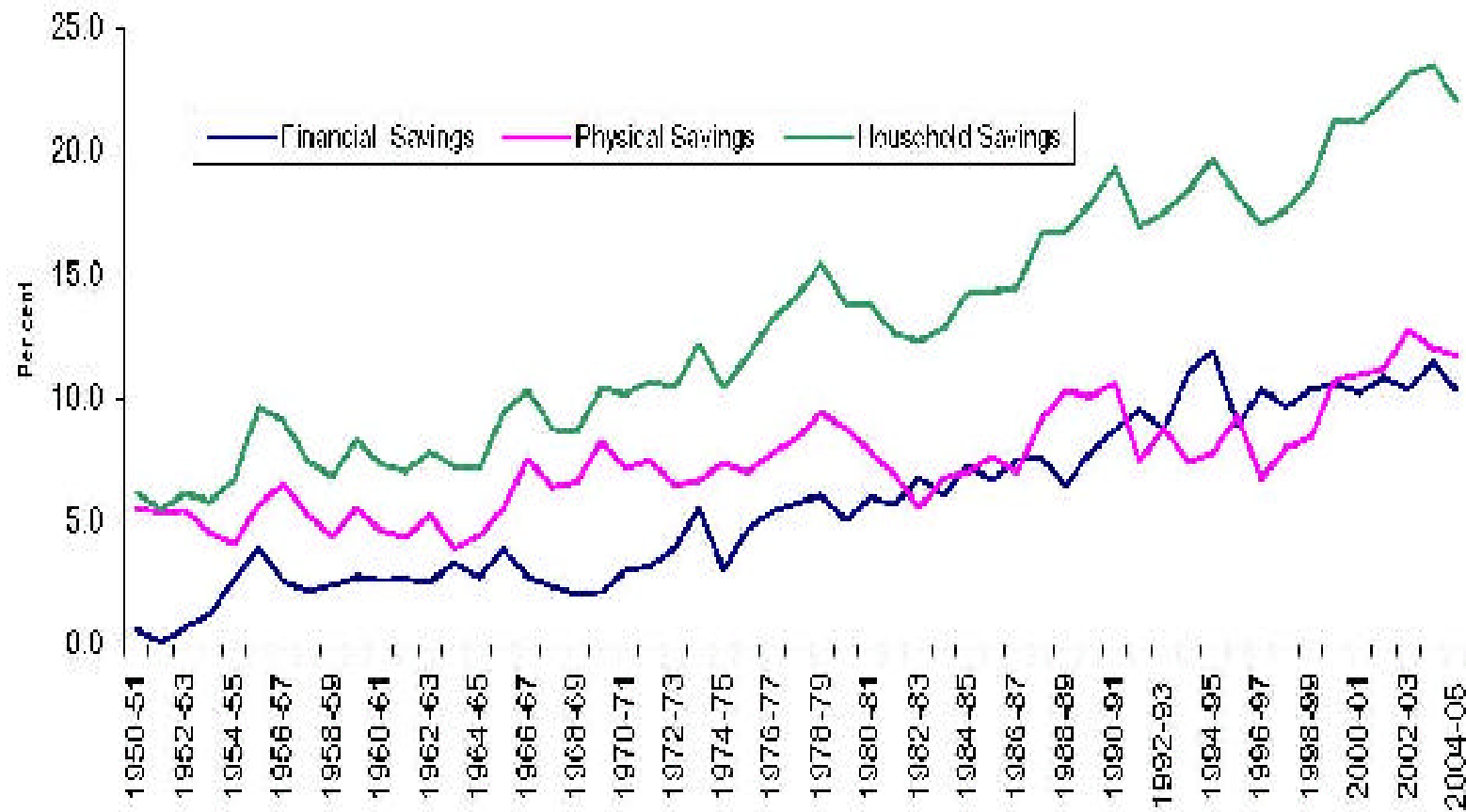
**Table 4: Average Share of Various Instruments in Household Financial Saving**

<b>Instruments</b>	<b>1981-82 to 1985-86</b>	<b>1986-87 to 1990-91</b>	<b>1991-92 to 1995-96</b>	<b>1996-97 to 2000-01</b>	<b>2001-02 to 2004-05</b>
<b>I. Contractual Saving</b>	<b>32.1</b>	<b>34.6</b>	<b>30.7</b>	<b>35.2</b>	<b>35.5</b>
<b>1. Life insurance funds</b>	<b>9.2</b>	<b>10.3</b>	<b>10.5</b>	<b>12.1</b>	<b>17.6</b>
<b>2. Provid &amp; Pension funds</b>	<b>22.9</b>	<b>24.2</b>	<b>20.2</b>	<b>23.1</b>	<b>1.9</b>
<b>II. Others</b>	<b>67.9</b>	<b>65.4</b>	<b>69.3</b>	<b>64.8</b>	<b>64.5</b>
<b>3. Currency</b>	<b>14.9</b>	<b>15.9</b>	<b>13.2</b>	<b>10.1</b>	<b>11.9</b>
<b>4. Net Deposits</b>	<b>31.1</b>	<b>23.3</b>	<b>31.3</b>	<b>37.1</b>	<b>25.7</b>
<b>5. Shares &amp; Debentures</b>	<b>7.1</b>	<b>11.6</b>	<b>17.1</b>	<b>4.9</b>	<b>2.0</b>
<b>6. Net Claims on Govt</b>	<b>14.8</b>	<b>14.6</b>	<b>7.7</b>	<b>12.7</b>	<b>24.8</b>
<b>III. Household saving in financial assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Table 5: Composition of Household Savings

Period	Financial	Physical
1950s	25.2	74.8
1960s	33.0	67.0
1970s	36.9	63.1
1980s	46.8	53.2
1990s	54.1	45.9
2000-01 to 2004-05	47.5	52.5

Figure 1: Rates of Household Savings



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Physical Vs Financial :

Blooming real estate market

Increasing financing options

Tax incentives for loan on housing

Favorable demographic features

Hike in wage and salaries in IT ,Finance and  
Management

In view of aforesaid factors saving in physical  
assets dominates over financial saving

# Table 6 : Composition of Household Physical Saving ( Per cent)

Item	1950s	1960s	1970s	1980s	1990s	2000-01 to 2004-05
a)Construction	69.3	62.0	57.8	56.0	63.3	60.4
b)Machinery & equipment	31.3	36.8	37.6	36.9	34.3	37.7
c)Change in stock	-0.6	1.2	4.7	7.1	2.4	1.9
Household Sector Physical Saving	100.0	100.0	100.0	100.0	100.0	100.0

## Summary

Given the demographic scenario and much higher incomes ,coming generations would have more potential for saving .

Financial reforms is also conducive to saving.



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