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Study Household Savings Behaviour among Urban Population

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Abstract :

The economy of developing countries entirely depends on the level of growth in the primary and allied sectors which is predominant in rural areas. Hence development of developing countries purely depends on the development of rural economy. But most of the rural areas in developing countries like India lack basic necessities like housing, proper health services, basic education and other infrastructural facilities. However, implementation of governmental schemes in rural areas has been appeared to be poor and inadequate in developing countries. Thus without improving the developmental status of rural areas, the attainment of expected goal of overall development of a nation, especially in case of poor nations is not feasible. Thus the development of the rural areas in these countries is one of the major obstacles on the path of overall development of the country. But this is possible only through increasing rural income and savings and its mobilization from domestic savings to productive investment in the production process. Capital formation which is largely determined by the rate of savings and investment plays an important role in economic development of a country. This paper focuses on the trends in household savings behavior among people.

Keywords : saving behavior, household savings, investment

Introduction:

Economic Development of any nation partly depends on savings, especially for industrial development. Savings directly as well as indirectly form part of the investment. The

Government's steps to channel the financial savings turn out to be the major contributor for the rapid economic growth. Savings and investment are important drivers in taking the economic growth process forward. In the Indian economy, the household sector contributes the lion's share of the total savings.

Household financial savings is an important indicator for setting up policy for household welfare in India. In India, household sector comprises individuals, non-corporate business and private collectives like Temples, Educational Institutions and Charitable Foundations. The household savings are compiled for physical and financial assets separately. In the olden days, people saved, but the savings were mostly in the form of hard cash, gold/silver ornaments, precious stones etc., and all savings, of any current period or cumulated were either kept at home especially in underground castles or with some acquaintances on whom people could trust. The basic reasons for such acts could be nonavailability of proper banking system or investment alternatives.

India's household-sector savings, the biggest source of investment for the economy, have "worryingly" dipped to a decadal low, while retail loans to the sector are growing annually in double digits, pointing to profligate consumption by households, economists have warned.

A boom in consumption, or spending on various goods and services, from electronic gadgets to holidays, is evident from the flow of retail loans to households, which are growing at a robust 17% annually.

Credit or loans are fast shifting from the corporate world to the household sector because of India's pile of corporate bad debt, known as the non-performing assets, or NPAs. For five years in a row, retail credit has been the fastest growing loan segment.

Household savings are the largest source of funds for the economy, as they are a net supplier of funds to both the corporate and the government sector. In any economy, investments are taken to be the equivalent of savings because income not consumed must be saved, which is then used for investment.

India's investment needs are generally far larger than can be met by domestic savings alone. The shortfall is met by costly foreign savings, which is what the country's current account deficit shows.

Financial liabilities of households are mounting, which is not a good sign, experts say. The country's savings rate, or the share of gross domestic savings in the gross domestic product (GDP), has come down to 30.5% in 2018, latest available official data show, compared to nearly 37% in 2008.

Savings :

Savings, according to Keynesian economics, are what a person has left over when the cost of his or her consumer expenditure is subtracted from the amount of disposable income earned in a given period of time. For those who are financially prudent, the amount of money left over after personal expenses have been met can be positive; for those who tend to rely on credit and loans to make ends meet, there is no money left for savings. Savings can be used to increase income through investing in different investment vehicles.

The portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities.

Saving and Investment in India

The individual and the household's financial stability and prosperity are represented by a steady inflow of recurring income. Part of the income so earned could be saved and retained as permanent wealth. Traditional sources of investment are acquisition of immovable property, gold, cattle etc. But the modern world has introduced several new types of investment-products to boost savings, like stock exchange securities, bank deposits and insurance policies, mutual fund investments etc. The features of a good investment are security, liquidity, value appreciation and generating a regular and assured income. During pre-independence period in India, people spent most of their income on consumption and only a small amount of income was left in the form of saving. As a result the saving rate was very low, especially in the rural sector. Since the attainment of Independence in 1947, the major objective of the government policy has been the promotion of saving and capital formation as they are the primary instruments of economic growth. Hence, the strategy of economic growth depends on increase in the savings as the increased saving leads to financing the increasing required investment. Several empirical studies have found that the rapid development of the western economies was the result of an increasing rate of investment. And the increase in the rate of investment was made possible by way of an almost proportionate rise in the rate of saving. Saving is therefore, the key factor in achieving a high rate of investment.

Saving and Investment Practices in India

Savings form the backbone for investments viz., higher savings lead to higher investments and vice versa in accordance with the general perception about the macro economic balance in national accounts. An economy can have different forms of savings of which household financial savings generally constitute the largest share in aggregate domestic savings. The domestic savings have always played a major role in Indian economy. The rate of domestic savings in the country on an average is around 34 percent, out of which domestic household savings contribute about 23 percent, which is a major contribution by domestic households.

Importance of Saving and Investment Management

Inflation eats away the value of money; a Rupee today is worth more than a Rupee tomorrow and therefore one need to plan suitably for the future. There many expected and unexpected additional expenses which can come up like children's education, medical emergencies, holiday travel expenses etc. Even more importantly you also need to build a kitty for the post retirement life so that one can maintain your lifestyle. For all this to be achieved, individuals or households need to understand how to examine you're their personal finances and also save and invest your savings so that their money multiplies. India is among the world's most efficient financial markets in terms of technology, regulation and systems. It also has one of the highest savings rate in the world - our gross household savings rate, which averaged 19per cent of gross domestic product (GDP) between 1996-97 and 1999-2000, increased to about 23per cent in 2003-04 and has been growing ever since. While people in India prefer to save, where the savings are invested is a cause for concern. Investments by households have been more into either bank fixed deposits, risk-free government backed securities and low-yielding instruments, or in non-financial assets.

Conclusion :

The behavior represents the actions which are readily seen by others but it is very important to know the basic motive which is behind the action. Investing in any financial instrument is just an action taken to fulfill some motives. The action may be in the form change in the present status in the investment. Therefore, various issuers of financial products in money and capital market should initiate effective awareness programs for the younger generation to inculcate the saving habits in them. Looking at the different category of investors like female investors, investors with different occupation etc, financial instruments with the features of low risk, regular income, etc.,be floated to enhance their savings and investments. Hence, it is suggested that financial planner can position their product effectively in the mind of investors by focusing on these issues.

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