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Economics In India: A Look at Saving and Investing Patterns

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Abstract - India's economy has strong saving & investment rates, a large population, and increasing integration with the global economy, all of which bode well for its long-term growth prospects. To invest is to transform cash or money into an asset or a claim on future money with the expectation of a return. It entails investing one's savings or accumulated capital into the production of new assets or the purchase of preexisting ones. In the current financial market, investment has become complicated and it is both an art and a science. The variables that measure the growth of any economy are income, savings, and investments. While investment is the most critical factor for developing an economy, savings provide the basis for investment. The researcher is interested in studying saving and investment trends of individual and investment schemes selected by investors.

Keywords - Investment, Investors, Saving, Individual, India Economy

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INTRODUCTION

Investment is essential from attaining financial independence, increasing wealth, fulfilling personal goals, and mitigating future risk. The investment follows acts of saving. Unless you already own a considerable amount of money, the only way to accumulate it is through saving. Once you create a corpus, its value starts eroding due to inflation. Therefore, to maintain or grow the value of your savings, you must invest it in assets that offer a higher return than the inflation rate. We can say that we cannot invest without savings, and without investment, we lose the value of savings. Thus, both savings and investment go hand in hand and are equally important.

Financial awareness is necessary for investors to invest. Financial awareness is how investors improve their understanding of financial products, concepts and risks involved. Here they develop the skill and confidence to understand financial risks and opportunities to make choices, know where to go for help, and take other effective remedial measures to improve financial wellbeing. Personal financial management is essential in an individual's life since it is related to financial stability, security, and liquidity. Many families get disturbed due to faulty financial planning, wrong savings pattern, and wrong selection of investment instruments. Creation of awareness, comparison of investment schemes, correlation of investment and age are some factors that need consideration. Personal finance is the application of principles of finance in the monetary decisions of individuals and families as a whole. Personal financial management is the anticipation, acquisition, allocation, and assessment of finances of an individual. Reserve Bank of India has introduced financial literacy and credit counselling centres in India to help investors.

CONCEPT OF SAVING

Saving is the most important factor for any kind of economy. A strong financial infrastructure will be laid down only with the help of the saving formation. Saving is the excess of income over expenditure for any economic unit. Thus, S=I- E where S is saving, I is income and E is expenditure. The term "saving" refers to money that is not immediately spent. Putting money down in a savings account or pension plan are examples of ways to save. It's the act of reserving some of one's present income for use at a later date, or the sum of money saved in this way over time. Cash & bank accounts are two common ways to save, but securities are another. People's propensity to save money is influenced by their preferences for deferred consumption over immediate satisfaction and their expectations of future income.

Putting off spending now in order to have money available later is the definition of saving. Households may save on their own accord out of habit. Most people save their money with a goal in mind, whether it be to earn interest or income, prepare for emergencies or improve their standard of living in the future.

Individual saving means spending less on consumption than available from one‟s disposable income. What an individual saves can be held in many ways. It can be deposited in a bank, put into a pension fund, used to buy a business, pay down debt, or kept under the mattress, for example. The common element is the claim on assets that can be used to pay for future consumption.

Aggregate saving is a particular form of saving. It could be explained as the summation of the savings made by all the individuals. The calculation of aggregate saving is done on the basis of the savings made by the citizens of a country. There are a lot of factors that can have an impact on the aggregate saving of a country. It may be said that with the increase in income every person would also save more. This means that the sum total of their savings would be more as well.

“"Saving" is not the same as "savings." Increasing one's assets, or one's net worth, is what the former refers to, whereas increasing one's savings accounts or all of one's assets is what the latter refers to. Saving is a flow variable that describes an action that takes place across time, whereas savings is a stock variable that describes a state at a certain point in time.

CONCEPT OF INVESTMENT

The worth of money can be increased through investment. It initiates the country's asset formation. It's a slice of what citizens and businesses around the country have stashed away. Investment can also refer to a surplus of funds that are put to use in the nation's economy. A person's investment approach will determine his or her future. Investment choices must be made by each person in light of his or her unique financial situation. The term "investment" can be interpreted in a variety of ways. One person's loan to another could be another's investment with the hope of a return. An investment is something a person buys with the expectation of a future financial return, such as a kilogram of gold or a washing machine. It is an investment if he invests in even one pension or insurance policy. As a result, you can choose from a wide range of investment vehicles to suit your needs.

Putting money down with the hope of earning interest at a later date. If done right, an investor can expect a return that is in line with the level of risk they are willing to face. It was (Fisher and Jordan)

Investing can be thought of as the acquisition of a financial or real asset with the expectation of a return on that investment that is inversely related to the level of risk involved and the length of time that the investment is held. (Federalist Amling)

The investment may be in physical assets or in financial assets. Financial investments are defined as purchase of claims on future money flows or financial assets which are capable of further production and income.

Physical investments are in consumer goods – non durables or durables, gold, silver, cars and antiques and curios. These are satisfying the immediate consumer needs, for comfort, luxuries, social status, ego satisfaction, etc. Some investments of physical nature are more in real estate, land, buildings, etc.

CHARACTERISTIC OF INVESTMENT

There are three main features of any investment: return, risk, & liquidity.

1. **Returns:** The total return on an investment (yield plus capital appreciation, if any) is a crucial element in determining the investor's behaviour. It is the average yearly gain from investing in that asset type. The projected rate of return is computed by looking back at the asset class's average annual total return.

2. **Risk:** Annual return variability is the second most crucial feature of any investment. Some investments, like equities, have very volatile annual returns, while others, like Treasury Bills, have far more stable returns.

3. **Liquidity:** Liquidity is the last quality of an investment. It quantifies the challenges one faces when trying to acquire (or sell) without adversely affecting the price. Liquidity refers to the ease with which an investment can be converted into cash. In general, an investor will look for an investment that allows him to withdraw his money quickly, protects his capital, and yields a satisfactory rate of return while exposing him to as little risk as possible.

SAVING AND INVESTMENT

There is a lot of overlap between the concepts of saving & investing. Time is the key factor distinguishing savings from investments. The phrase "saving" refers to the act of putting away money for a later date. Nonetheless, investments are crucial for long-term success. All investors are savers, but only certain savers can become successful investors since investment is both a science and an art. Savings can be spontaneous or prompted by outside factors like tax breaks, a rise in salary, or a rise in the value of a company's stock. People from various socioeconomic backgrounds participated in the savings drive, with the exception of those with incomes below the poverty line.

In light of these vast opportunities, the government of India has established Postal Savings Banks around the country and implemented a number of small savings plans to accommodate a wide range of incomes. Therefore, the Postal Service is the primary organization responsible for carrying out numerous microsavings programs. More than

1,500,000 post offices around the country are now participating in the small savings schemes, bringing convenient savings options to citizens even in the most rural parts of the country.

THE IMPORTANCE OF SAVINGS

The significance of savings can be evaluated in light of the motivations that motivate people to put money aside. The following are just a few of the many good reasons to put money aside:

1. **To meet unexpected expenditure in life**: Milton Friedman, a prominent modern monetarist, argues that people's present income consists of two parts: a stable base and an ephemeral stream of income. The term "transient component" is used to describe the amount of unexpected revenue.

2. **Savings act as an inducement for investment**: A substantial savings cushion gives one the confidence to take on modest risk and deal with unforeseen costs. This feeling induces him to make investments. Savings can provide an excellent source for future business ventures as capital.

3. **Makes a feeling of rationality:** Everyone with average intelligence behaves rationally. This means they prioritize how much joy they can have for how much money. They'll be motivated to put aside money as a result.

4. **Children's education**: Providing a good education for one's children is crucial. In today's world education is very essential and so expensive. Therefore savings is very important on the side of education also. **Achieve a feeling of self-reliance**: People can experience freedom and agency when they make saving a habit.

5. **Security of the family**: In calculating a person's net worth, we typically look at their lifetime earnings, but unfortunately, death is an unavoidable part of life. Everyone fears death.

6. **Financial Independence:** When you have money in the bank, you can do and buy a lot more things than you could before. Saving is a very good habit.

7. **More Income:** People who don't believe in saving money don't see the value in it. They keep cursing their fate for not being a better one. Such people live for today and have no future plans.

8. **Less Number of Years to Work:** Consider this: why do we work for money? Why do we work so hard? Is it just to make a living, or do we also want to make a reputation for ourselves in our chosen field? Certainly one of the main reasons for working is money. When a person has understood the importance of saving money, he starts saving. The more early a person starts the saving, the more wealth he can accrue over a period of time. This means more money in less number of years. In other words, a person can work for less number of years.

9. **To meet future contingencies:** The motivations behind people's propensity to save money are as varied as the people who practice the behaviour. People save for a variety of reasons, including the need to prepare for emergencies like illness or job loss, the attraction of potential future benefits, and the pursuit of more immediate goals, such as the purchase of a car or a trip.

SAVINGS AND INVESTMENT IN INDIA

Over the past few years, there has been a dramatic shift in how people save money. Since India's independence, there has been a dramatic shift in the country's saving habits. The average Indian citizen now saves a much larger portion of their income than they did a decade ago. However, there is also a great deal of variation in the Indian saving tendency from year to year. Money sent back to India from expatriates is included in the country's "gross domestic saving." In the early 1950s, the national saving rate was around 10%, but by the early 1970s, it had risen to 17%. In the middle of the 1990s, the national savings rate surpassed 25%. It's important to remember that private saving has been the primary contributor to overall domestic saving during this time period. Interestingly, the largest portion of the total domestic saving has come through public saving. Since the early 1980s, public saving has mirrored the overall trend of falling savings. The private saving rate in India climbed from 8.6% in 1950–55 to 13.8% in 1970–75.

The private saving rate skyrocketed throughout the 1950s & 1960s, far outpacing the rate of growth seen between the late 1960s & early 1980s. The rate of saving in India has increased dramatically since the 1980s, compared to earlier decades.

India's saving rate in the 1960s was higher than that of Singapore, Korea, & Taiwan, according to a comparison of saving rates between India and these neighboring countries. When compared to the economies of the High Performing East Asian (HPEA) countries, India's saving rate was significantly lower in the early 1970s. By the middle of the 1990s, India's saving rate had risen to just beyond the HPEAs' median level.

The savings rate in India is comparatively higher than various other Asian countries. If we observe the saving trend in India carefully, we come to know that in the earlier years it was household savings in the physical assets that used to dominate the domestic savings in the country. But the saving trend in India is different now. The recent increase in the saving rate in India is primarily driven by the saving made by the financial household. This trend particularly reflects the relentless expansion of the various branch networks of the financial institutions into the country's rural areas and partially holds the increasing trend of the easy accessibility of the alternative investment opportunities.

The private corporate savings in India is also experiencing a steady increase in the country for the last two decades. However, the private corporate saving in India still remains below the margin of 5 per cent of GDP. It has been found recently that the traditional instruments of savings like special tax incentives or higher interest rates are not able to increase the rate of private saving rate in the long run.

The volume and composition of domestic savings in India have undergone significant changes over the years. The savings rate (gross domestic savings as percentage of gross domestic product at market prices) exceed 30 per cent for the first time in 2004-05 and has remained above that level ever since. It peaked in 2007-08 at 36.8 per cent and reached an eight year low of 30.8 per cent in 2011-12 (Table).

Table 1: Ratio of Savings and Investment to GDP of India

Ratio of Savings and Investment to GDP of India

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (PE)	2009-10 (QE)	2010-11 (2R)	2011-12 (IR)
Gross Domestic Saving	23.5	23.6	26.5	29.8	31.8	34.5	34.8	36.9	32.2	33.7	34.0	30.8
a)Public saving	-1.8	-2.0	-0.7	1.1	2.2	2.6	3.2	5.0	0.5	2.1	2.6	1.3
b)Private saving	25.3	25.6	27.2	28.7	29.6	31.7	31.6	31.9	31.7	31.6	31.5	29.5
i)Household	21.2	22.0	23.1	24.4	23.0	24.2	23.8	22.5	23.8	23.5	23.5	22.3
Financial	10.2	10.8	10.3	11.4	10.1	11.8	11.3	11.7	10.8	11.8	10.4	8.0
Physical	10.0	11.2	12.7	13.0	12.4	12.5	12.5	10.8	13.1	11.7	13.1	14.3
ii)Private corporate	4.1	3.6	4.1	4.4	6.6	7.5	7.8	9.4	7.9	8.1	7.9	7.2
Gross domestic investment	24.2	23.0	25.3	28.2	32.2	35.5	35.9	38.1	34.5	36.5	36.8	35.0
i)Public Sector	6.9	6.9	6.2	6.3	6.9	7.6	7.8	8.9	9.5	9.2	8.4	7.9
ii)Private Sector	16.7	16.8	18.5	19.5	23.4	25.8	27.0	28.1	24.6	24.9	26.5	24.9
Corporate Sector	NA	NA	NA	6.6	10.5	13.3	14.5	17.3	11.5	13.2	13.4	10.6
Household Sector	NA	NA	NA	13.0	12.4	12.5	12.5	10.8	13.1	11.7	13.1	14.3
Saving – investment Gap	-0.7	0.6	1.2	1.6	-0.4	-0.1	-1.1	-1.2	-2.3	-2.3	-2.8	-4.2

Note: - Data not available IR= First revised estimate,2R=Second revised estimate

Source: Compiled from Economic Survey2005-06, 2007-08 and 2010-11

The growth rate of the economy since 2003-04 has been strongly correlated with investment rate. The investment rate average 34.5 per cent between 2003-04 and 2011-12, much higher rate than before. As can be seen from Tablw1.3, the private sector is the major source of investment in the country.

LITERATURE REVIEW

S.P. Ghodake et al. (2020) India has historically been a rural nation, with two thirds of its inhabitants still residing there. With a population of more than 1.3 billion, it is stated that the villages are where the true India is found. The 70% of Indians who live in rural areas reside in these villages. According to studies, the rural economy of India really grew during times of economic slowdown & aided the economy through difficult times. The backbone of the Indian economy is its rural sector. The inclination to consume & tendency to save have both increased over the past year with the constant growth in GDP & increase in per capita income. This study examines rural household saving and investment habits, with particular attention to the Nashik District. Based on the researcher's actual accounting of the cash flows of 400 rural households over the course of one fiscal year (2018–19), the study used a sample size of 400 rural households. A pilot study on a sample of 40 rural homes was conducted before the complete study was carried out to see whether the research approach intended for evaluating the hypotheses is effective or not. The results of the pilot study are presented in this report.

Dr. Balaji Sadavarte et al. (2019) Through a survey of 80 respondents, data was gathered using a structured questionnaire to determine the investment and saving habits of the population in the age range of 19 and above in Mumbai. This article attempts to examine the savings & investment pattern of Indian households. The annual income of the respondents and the ratio of their savings to income were both inquired about. They were questioned regarding the sources of the investing information. Moreover, what goals do they have for their investments. Additionally, they were questioned about their preferred investment type, their preferred rate of return, and whether they want to invest for the long or short term. Following analysis, the data was tabulated in Excel. The results of the ANOVA test indicate that there is independence between the percent of savings and marital status because the sig value is more than the alpha value at the 95% level of confidence, which is 0.746. It implies that married people save less money than single persons.

Dr. Vinay Kandpal et al. (2018) The study makes an effort to examine investor behaviour towards investment patterns as well as the variables that investors consider while making investment decisions. In Uttarakhand, faculty members were polled utilising a questionnaire. According to the study, behaviour has a significant impact on the ability to make wise investment decisions. As a result, when choosing a particular investment option, investors must take into account a variety of factors, including their financial situation, risk tolerance, liquidity, and expected returns. They must also take into account their goals in life, spending patterns, expenses, and income, as well as their perception of investments and changes in their lifestyle.

Murlidhar A. Lokhande et al. (2015) Financial markets now have a very different character. Due to the vast array of savings & investment firms, the products they offer, the terms and conditions of investments, and the numerous complex rules & regulations that are in place, investing money has become a very complex task. The majority of investors, especially those in rural areas, are found to be ignorant about available investment options and applicable laws. Despite the economy's amazing expansion and rising income levels, India's rate of savings mobilisation is lower. Savings in rural areas are not appropriately invested & mobilised. Investment is a type of economic activity that produces the capital needed by different economic sectors. Therefore, it is important to encourage every earner to set money aside & make investments. The study sought to determine how knowledgeable rural investors were about different investment options, as well as their preferences and investing philosophy. In the Maharashtran district of Aurangabad, four villages in the Sillod block were used to choose a sample of 300 respondents. The primary goal of the study was to determine whether there were any differences in the educational backgrounds and degrees of investment knowledge between male & female rural investors. According to the survey, there were no appreciable differences between rural male & female investors' levels of knowledge or their educational backgrounds. According to the respondents' ranking of investment preferences, they only wanted to store their money in "safe" possibilities. The majority of investors choose to invest in bank accounts, gold, jewellery, & real estate.

Adelakun (2015) The authors of this study looked into the connection between financial discipline, investment, and GDP expansion. Determining which manufacturing inputs are most important to Nigeria's economic growth is a corollary of this work. Time series data collected over the course of 29 years are used in the study alongside an error correcting model. This finding demonstrates a causal link between savings, investment, and GDP expansion in Nigeria. Inflation rate is one of the factors that reduces savings, whereas interest rate is one of the factors that boosts savings. In every way, these things support the tenets of economics. It is notable, however, that the study confirms the importance of labour to economic growth, which, according to the study, greatly exceeds the contribution of capital.

CONCLUSION

A considerable portion of Indian domestic earning goes into savings. Whereas more than fifty per cent of Income goes into physical assets like housing and Gold, the rest goes into financial avenues, which are then available for investments by government and the businesses. In the Indian economy, domestic financial reserves are the most vital source of resources for investment. However, India, where the standard of living is so variable that people are more likely to spend than save, this is a major problem. A recent initiative to provide all households with bank accounts has laid the foundation for increased financial savings. Savings for capital formation are made from both the public and private sectors, in addition to families.

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