A STUDY ON TRENDS AND ROLE OF SMALL SAVINGS IN INDIAN ECONOMY

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Abstract

Saving is defined as the difference between income and consumption. The importance of this study is to know the trends of small savings in Indian economy. The variables used in this study are the receipts and out-standings of 11 small saving schemes (such as Post Office Savings, NSC-1987, PPF, etc.) for the years 2001 to 2018. The data used in this study is Secondary data from Reserve Bank of India's Handbook. The study compares each scheme pairwise using t-Test to understand which schemes are still popular in India in terms of receipts. As per the Analysis it is found that there is a significant difference between various schemes. All the schemes are showing downward trend in receipts since 2012. There is a healthy payment (redemption) trend by all schemes in terms of decrease in outstanding amounts. Of all the 11 schemes of the study, PO and PPF are popular small saving options in India. Despite competition from other savings options such as Chit Funds, small savings schemes still occupy an important place in the Indian economy. With the growing middle-class household families having limited risk-bearing capacity, increasing number of small saving schemes can provide an opportunity to invest with safety Small Saving schemes at a very early stage will give better returns. The data was only available from the Reserve Bank of India for the period 2001 to 2018. So, the analysis is done to such extent only.

Keywords: *Income, Indian economy, Chit Funds, Saving schemes, Reserve Bank of India, PO and PPF.*

INTRODUCTION

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 is known as savings.

The concept of saving plays an important role in economic analysis. Saving is defined as the difference between income and consumption. 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, specially 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. Increase in the savings, use of increased saving for financing the increasing required investment, use of the increased investment for increasing savings, and use of the increased savings for a further financing the required investment constitute the strategy of economic growth. This process may continue till saving, investment ratio to income would get stabilized and there would be steady and selfsustained increases in national income and economic welfare. 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.

In India domestic savings originate from three principal sectors namely: (i) household sector, (ii) the private corporate sector and (iii) Public sector. (i) The household sector comprises of individual, non-corporate business and private collectives like temples, educational institutions and charitable foundations. The saving can be held in the form of increases in (a) Liquid assets like currency bank deposits and gold (b) Financial assets like shares, securities and insurance policies and physical assets. (ii) The corporate sector includes joint stock companies in the private business sector, industrial credit and investment corporation etc., and cooperative institutions. Saving of the corporate sector is represented by the retained earning of this sector. (iii) Government sector consists of the central and state government, the local authorities and various government and department undertakings, hence the saving of this sector relates to the budgetary surplus on current account of the central government, state government, local authorities, the current surplus of various government departments and retained projects of government undertakings.

Objectives of savings:

- Reduces economic insecurity especially in old age.
- Help in period of inability.
- Useful during an emergency.
- Becomes a source of income.
- Savings are useful habit to cultivate as it is a sure means of family security.
- Useful for children's marriage, education or other family expenditure.
- It gives feeling of security.

Savings schemes:

Saving Schemes are launched by the Government of India or public sector financial institutions or Banks. They vary in their interest rates, investment horizons and tax treatments. A saving schemes financially prepares us for unforeseen personal and medical emergencies. It helps you meet your personal aspirations and that of your family's like - additional educational course to supplement your existing qualifications, child's higher education and marriage, etc. For some, income from saving schemes also serves as an additional source of income. What's more? It instils a disciplined habit for regular savings.

The advantage of saving schemes is that they are government backed, thereby, offering complete safety and security of your invested capital. Further, they are low on risk, but at the same time, provide good returns. The interest rates on saving schemes are usually revised every 3-6 months.

Review of literature:

Oladipo, O. S. (2010), had suggested that the savings and economic growth are positively cointegrated indicating a stable long run equilibrium relationship. Further his findings revealed a unidirectional causality between savings and economic growth and the complementary role of FDI in growth.

Salam, M. A., &Kulsum, U. (2002), Pati, A. P., &Shome, D. (2011): reveal that In India domestic savings originate from three sectors namely:Household sector, Corporate sector, Government sector. Households still are the major contributors of savings in India. Small savings has been the favourite of the households, next to the deposits in banks.

Loayza, N., & Shankar, R. (2000), Bhalla, S. S. (1978), Schmidt-Hebbel, K., &Serven, L. (2000), Carroll, C. D., & Samwick, A. A. (1998): India's saving rate has been consistently higher than that of most other countries with comparable per capita income.The propensity to save out of non-agricultural income is higher than the propensity to save out the agricultural income.There is no consistent effect of income inequality on aggregate savings.The precautionary savings constitute a larger fraction of total savings for the households with the lowest permanent income.

Samudra, A., &Burghate, M. A. (2012). The savings & investment pattern of the middle-class income households in Nagpur have revealed that the bank deposits remain the most popular instrument of investment followed by insurance with maximum number of respondents investing in these fixed incomes bearing option.

Mehta, R. (2013), Asher, M., & Shankar, S. (2007):He had conclude that some efforts are required to channel savings away from physical savings into financial savings, which will expand financial intermediation and provide more funds for investment. In the coming years, improving demographics and the spread of banking along with sustained economic growth will promote savings. To mobilize the savings of household sector, we need more insurance, pension funds, banks, mutual funds, private equity and more financial products like bonds, equity, derivatives.They also said that to expand micro-pensions, social entrepreneurship, financial sector including MFI's, insurance companies and mutual funds and the micro pensions sector should have regulator.

Athukorala, P. C., &Sen, K. (2004), had found that saving rates rises with both the level and the rate of growth and the impact is smaller than the latter.They have reported that the interest rate, growth and the level of per capita income, spread of banking facilities and the rate of inflation as statistically significant on domestic saving.

Birdsall, N., Pinckney, T. C., & Sabot, R.H. (1996), had concluded that improvements in investment opportunities and returns to labor features of a labor demanding growth strategy can lead particularly high marginal savings rates by the poor.In (1999), They have suggested that improvements in investment opportunities and returns of labor and their labor demanding growth strategy can lead especially high savings by the poor.

Need of the study:

The Indian economy is growing significantly and has various investment options but the Government of India has provided the oldest investment option. The study will be undertaken to analyze whether the Small Saving schemes have gained importance among the

people or not. The small saving schemes in India are framed by the Central Government under the Government Savings Bank Act, 1873 and Government Savings Certificates Act 1959 and the Public Provident Fund Act 1968.
At present, the small saving schemes in operation include Post Office Savings, Post Office Recurring Deposits, Post Office Time Deposits, National Savings Certificate, Kisan Vikas Patra, Public Provident Fund, and Deposit schemes for Retiring Government Employees of Public sector undertakings. The maturity period of the small saving schemes, currently in operation, varies from a very short period to over seventeen years. Interest rates on the small saving scheme are fixed by the Central Government from time to time. An attractive feature of small saving schemes is favorable tax treatment.

Objectives of the study:

- ❖ To understand the role of small savings in India.
- ❖ To study the trends of small savings in India for the period 2001-2018 across 11 saving schemes.
- ❖ To undertake hypothesis testing to conduct pair wise comparison between the 11 schemes.

Scope of the study:

The present study is an empirical work based on secondary sources of information. The work is related to assess the Small Savings in India. The study takes into account the receipts and out-standings of Small Saving Schemes. However, it was not possible to undertake all schemes of the subject matter in the single study.

Methodology of the study:

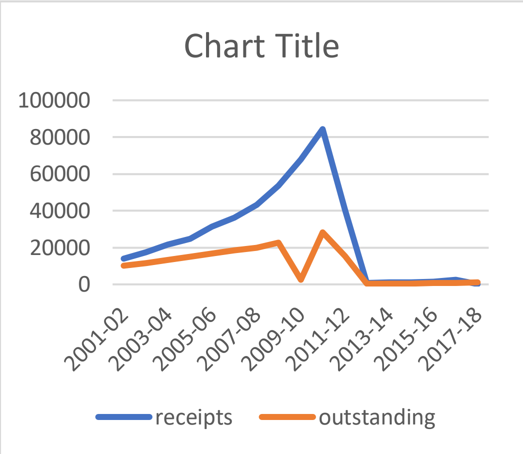
Variables: Post Office Saving, National Saving 1987, National Saving 1992, Monthly Income, Senior Citizen, Post office time deposits, Post office recurring deposits, National Saving Certificate, Indira Vikas, Kiran Vikas, Public Provident Fund.
Data Source-Secondary data has been drafted from Annual reports of Reserve Bank of India for the years 2001-2002 to 2017-2018.
Data Analysis-Data Analysis consists of several Descriptive and Statistical tools like:

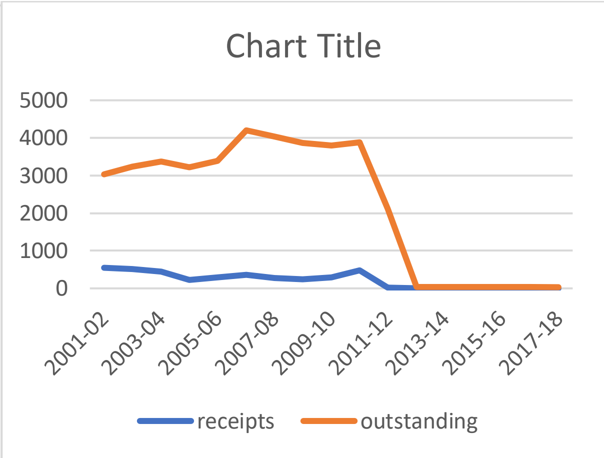
- t-Test
- CAGR
- Bar Charts

ANALYSIS:

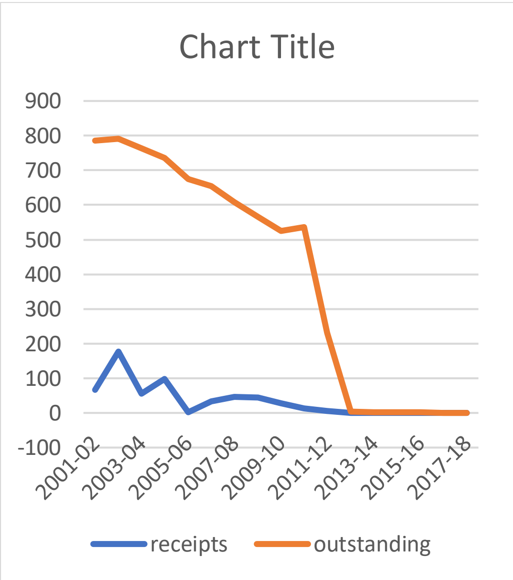
The study tries to understand the contribution and performance of Small Savings in Indian Economy. Below graphs represent the trend of receipts and outstanding values of the schemes for the period 2001-2018.

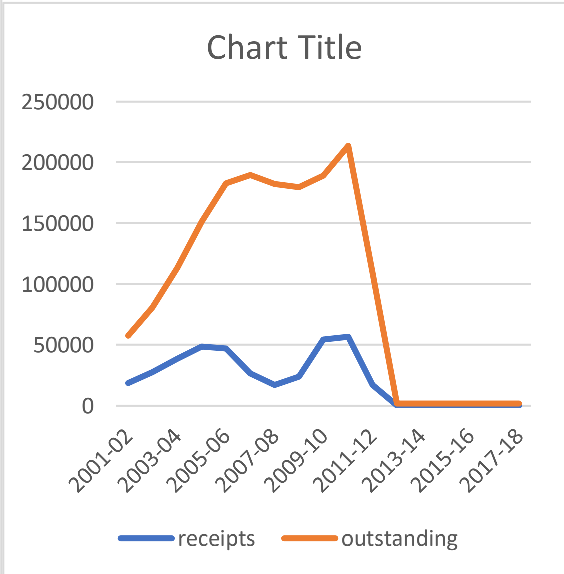
POST OFFICE SAVINGS:NATIONAL SAVINGS 1987:



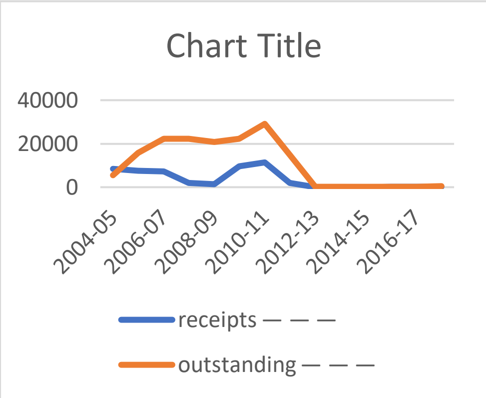


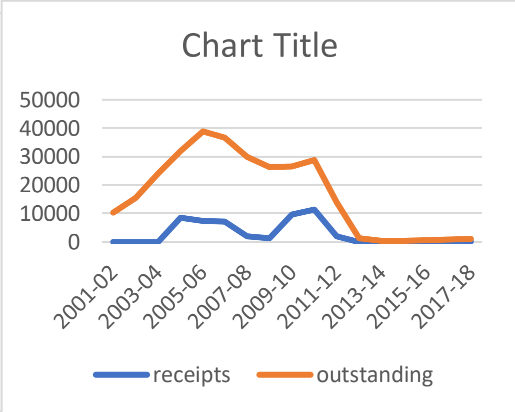
NATIONAL SAVINGS 1992:MONTHLY INCOME SCHEME:



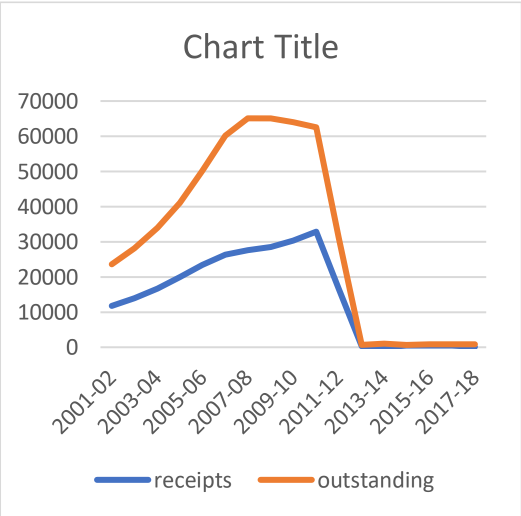


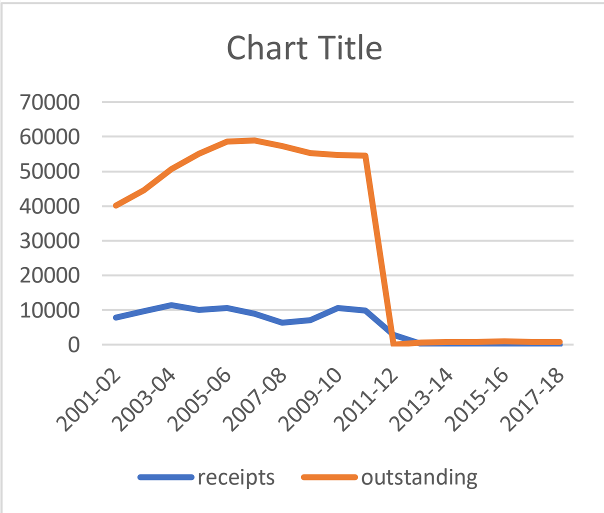
SENIOR CITIZEN:POST OFFICE TIME:



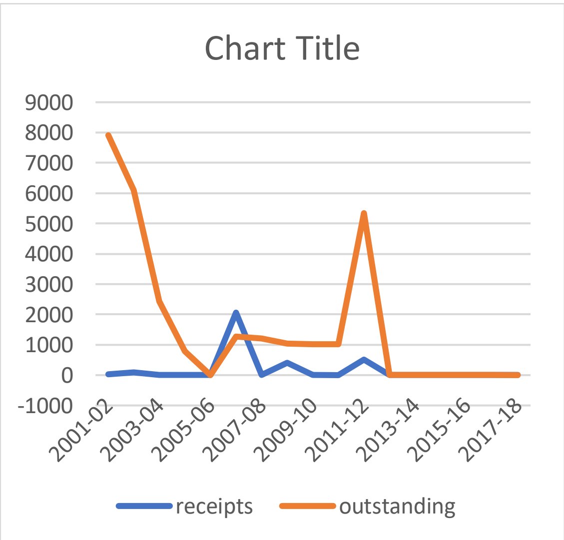


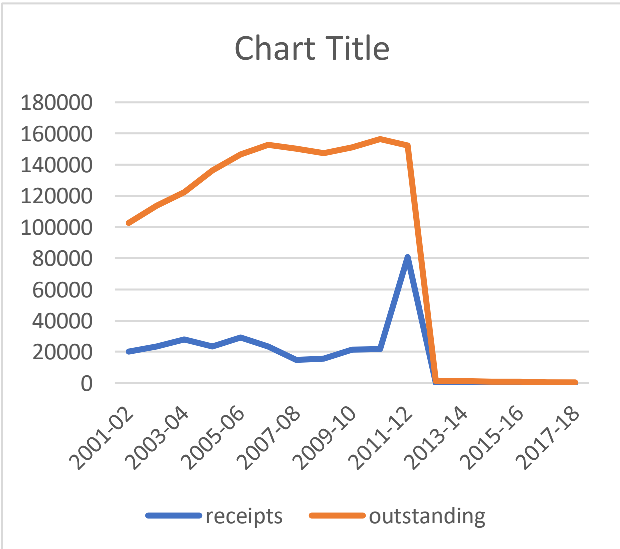
POST OFFICE RECURRING:NATIONAL SAVING CERTIFICATE:



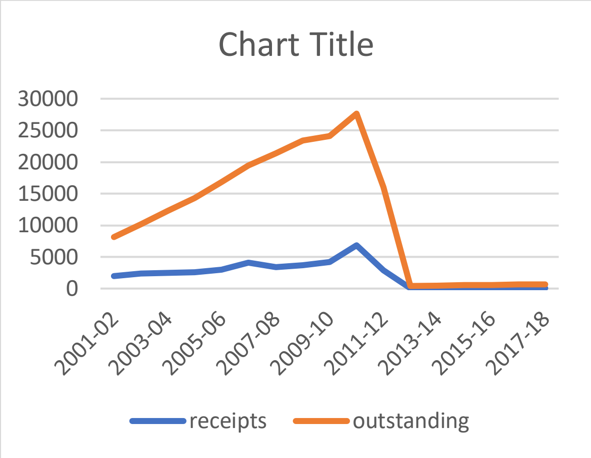


INDIRA VIKAS:KISAN VIKAS:

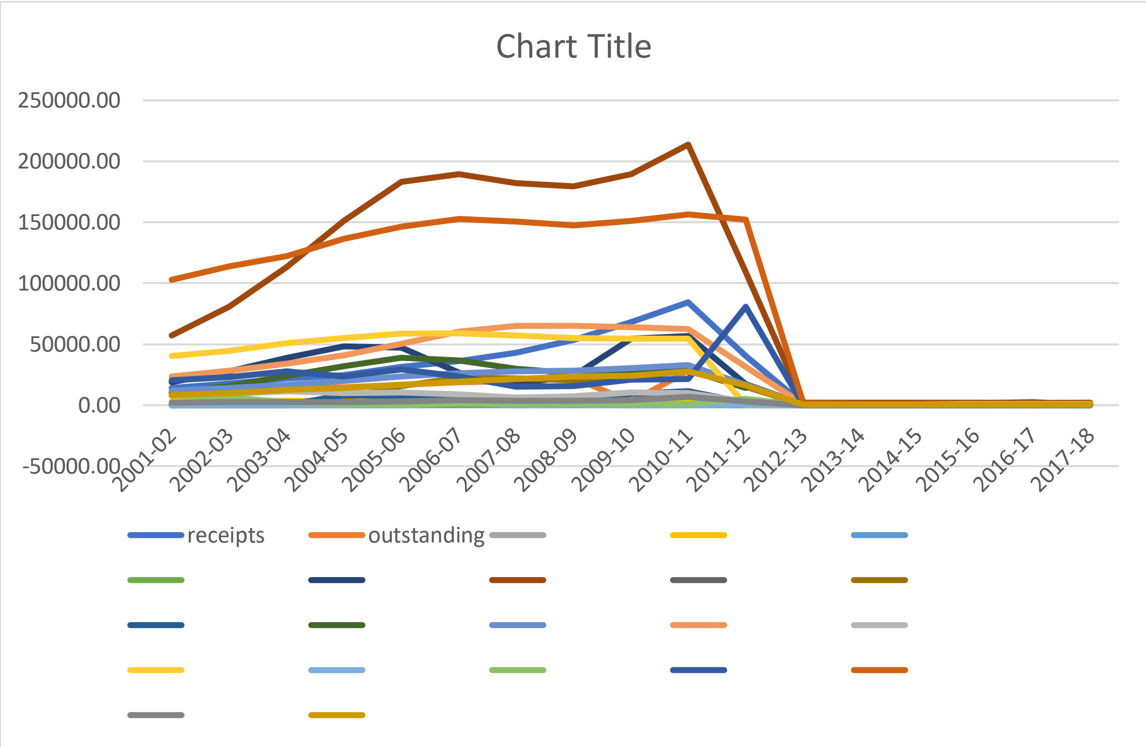




PPF:



TOTAL:



Above graphs represent the trend of receipts and outstanding of the schemes for the period 2001 to 2018.

Table1: showing CAGR of variables:

SCHEME	RECEIPTS	OUTSTANDING
Post Office Saving	-1.00	-0.99
National saving 1987	-1.00	-1.00
National saving 1993	-1.00	-1.00
Monthly saving	-1.00	-1.00
Senior Citizen	-1.00	-0.99
Post office time	-1.00	-0.99

Post office recurring	-1.00	-1.00
National saving certificate	-1.00	-1.00
Indira Vikas	-1.00	-1.00
KisanVikas	-1.00	-1.00
PPF	-1.00	-0.99
Total	-1.00	-1.00

Table 1, shows the Compound Annual growth rate of the schemes. CAGR is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

Table2: showing multiple comparisons among variables using t-Test:

(I) Scheme		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Post Office Saving	National Saving1987	25814.41059*	6212.94	0.02	2724.58	48904.24
	National Saving 1992	25998.79882*	6212.75	0.02	2909.27	49088.33
	Indira Vikas	25838.97147*	6214.11	0.02	2747.26	48930.68
	PPF	23803.87294*	6230.63	0.04	685.37	46922.38
National Saving1987	Post Office Saving	-25814.41059*	6212.94	0.02	-48904.24	-2724.58
	Monthly Income	-21997.47471*	5011.78	0.01	-40623.14	-3371.81
	Post Office Recurring	-14493.11059*	2993.06	0.01	-25615.87	-3370.35
	National Saving Certificate	-5406.25824*	1121.90	0.01	-9573.45	-1239.06
	PPF	-2010.53765*	474.47	0.02	-3768.46	-252.62
National Saving 1992	Post Office Saving	-25998.79882*	6212.75	0.02	-49088.33	-2909.27
	Monthly Income	-22181.86294*	5011.55	0.01	-40807.15	-3556.57

	Post Office Recurring	-14677.49882*	2992.66	0.01	-25799.63	-3555.37
	PPF	-2194.92588*	471.99	0.01	-3948.79	-441.06
Monthly income	National Saving1987	21997.47471*	5011.78	0.01	3371.81	40623.14
	National Saving 1992	22181.86294*	5011.55	0.01	3556.57	40807.15
	Senior Citizen	19275.95529*	5107.87	0.04	485.88	38066.03
	Post Office Time	19275.95529*	5107.87	0.04	485.88	38066.03
	Indira Vikas	22022.03559*	5013.23	0.01	3394.04	40650.03
	PPF	19986.93706*	5033.70	0.03	1325.56	38648.31
Senior citizen	Monthly Income	-19275.95529*	5107.87	0.04	-38066.03	-485.88
	Post Office Recurring	-11771.59118*	3151.32	0.04	-23191.86	-351.32
	Monthly Income	-19275.95529*	5107.87	0.04	-38066.03	-485.88
	Post Office Recurring	-11771.59118*	3151.32	0.04	-23191.86	-351.32
	National Saving1987	14493.11059*	2993.06	0.01	3370.35	25615.87
	National Saving 1992	14677.49882*	2992.66	0.01	3555.37	25799.63
	Senior Citizen	11771.59118*	3151.32	0.04	351.32	23191.86
	Post Office Time	11771.59118*	3151.32	0.04	351.32	23191.86
	Indira Vikas	14517.67147*	2995.49	0.01	3391.00	25644.34
	PPF	12482.57294*	3029.61	0.02	1298.61	23666.54
	National Saving1987	5406.25824*	1121.90	0.01	1239.06	9573.45
	Indira Vikas	5430.81912*	1128.37	0.01	1252.96	9608.68
Indira Vikas	Post Office Saving	-25838.97147*	6214.11	0.02	-48930.68	-2747.26
	Monthly	-22022.03559*	5013.23	0.01	-40650.03	-3394.04

	Income					
	Post Office Recurring	-14517.67147*	2995.49	**0.01**	-25644.34	-3391.00
	National Saving Certificate	-5430.81912*	1128.37	**0.01**	-9608.68	-1252.96
	PPF	-2035.09853*	489.57	**0.02**	-3820.80	-249.40
PPF	Post Office Saving	-23803.87294*	6230.63	**0.04**	-46922.38	-685.37
	National Saving1987	2010.53765*	474.47	**0.02**	252.62	3768.46
	National Saving 1992	2194.92588*	471.99	**0.01**	441.06	3948.79
	Monthly Income	-19986.93706*	5033.70	**0.03**	-38648.31	-1325.56
	Post Office Recurring	-12482.57294*	3029.61	**0.02**	-23666.54	-1298.61
	Indira Vikas	2035.09853*	489.57	**0.02**	249.40	3820.80

In table 2, using t-test, combinations of the variables with significant relationship (i.e.. where p value is less than 0.05) have been considered.

Table3:representing the combinations that are significantly different:

	POS	**NS 1987**	**NS 1992**	**MI**	**SC**	**POT**	**POR**	**NSC**	**IV**	**KV**	**PPF**	**COUNT**
POS		1	1		1				1		1	5
NS 1987	1			1	1						1	4
NS 1992	1			1							1	3
MI		1	1		1				1		1	5
SC				1								1
POT				1	1							2
POR		1	1		1				1		1	5

NSC		1							1			2
IV	1			1	1						1	4
KV												
PPF	1	1	1	1					1			5

Table 3 shows the matrix of the combinations of table2, i.e., combinations of variables with significant relationship have been shown.

Table4: categorizing as per the counts of significance of above table:

CATEGORY 1 (5)	**CATEGORY 2 (3,4)**	**CATEGORY 3 (1,2)**
Post office Saving Monthly Income Post office Recurring Public Provident Fund	National saving 1987 National saving 1992 Indira Vikas Patra	Senior Citizen Post Office Time National Savings Certificate

Table 4, shows the categories of the schemes according to the counts received in table 3.
From the above tables, we have seen that t-Test was run for all 11 schemes to test the significance of the funds for the period 2001 to 2018. And 115 number of tests have been done. And from all the tests only significant results are been taken. And it is clearly showing that Post office saving scheme and Public Provident fund is popular.

CONCLUSION

There has been a tremendous growth in the small savings from 2001 to 2011. The small savings occupied an important place in the economy. Increasing number of schemes providing an opportunity to middle-class people in the form of safety. With the growing middle-class household families with limited risk bearing capacity, it provides better returns.

The study observed that majority of the small savers prefer to invest their money for a very low period of 1-2 years. As stated above if the authorities are suggested to include these options like focusing on meeting emergency needs, family needs in future and well-being of children benefits, they can attract more time period investment like for medium term investment of 1-5 years or for more than five years.

But from 2012 there is a steep decline in every scheme. Because people had either reduced investing in small saving schemes or started moving to other investment modes, whichindicated the failure of the product. In the recent years, investing in Post office savings scheme have decreased because of online payments like Paytm, Google pay, Phone pay etc. And government has removed maximum balance of post office saving account.

In the year 2008-2009 and 2012-2013 people started investing in valuables like gold and other precious metals so they have shown less interest in National saving scheme 1987 and 1992. From 2012, qualifying age of seniors has been reduced from 65 to 60 years. And the interest rate has decreased. Thereby, people had shift to Pension funds.

From 2011, banks have decreased monthly saving scheme from 7.7% to 7.2% because of which,many had shift to other investment options which gives better interest for them.

Kisan Vikas Patra scheme was stopped in the year 2011 because the farmers are not benefited and again it was reintroduced in year 2014 with reduced interest rate of 7.9%.

In case of Public Provident fund, the interest rates would be changing annually. And the main drawback of PPF is people do not know that, maturity date is not calculated from the opening of account it would be calculated from the end of the financial year. Earlier the interest rates would be calculated yearly but it has changed to quarterly basis. And comparing with PPF, Sukanya Samriddhi yojana has more interest rate so people are shifting to SSY scheme.

Post office savings, National saving certificate, Public provident fund schemes would give risk and return but not more than equity funds. So, people are shifting towards equity funds. From 2012 the liability of saving schemes has become low. Past performance of schemes influences the future performance of the schemes.

Government should create awareness among the investors about various schemes available to them through awareness campaigns and advertisements. It should also increase the rate of interest to attract many investors. Flexible saving schemes should also be introduced where the small savers can enjoy the benefits of withdrawal of money in more time intervals.

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