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Pattern of Gross Domestic Saving and Capital Formation in India

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Abstract

This study aims to examine the pattern of Gross Domestic Saving, Gross Capital Formation with reference to household sector, private corporate sector and public sector. Gross Domestic Savings are increased by 321 per cent. Whereas, the contribution of household sector increased by 255 per cent but the private corporate sector contribution increased by 550 per cent. The contribution of public sector is very meager and its share in Gross Domestic Savings has not been stable and has exhibited wide fluctuations. The private sector Gross Capital Formation is increased by 382 per cent whereas, the public sector Gross Capital Formation is increased by 294 per cent during the period under review. The rates of standard deviation which measure the absolute variability in the rate and indicate that inventory formation with 13.9 per cent as highest variable or least inconsistence when compared to 11.9 per cent of Gross Capital Formation and 12.5 per cent of Inventory Formation.

I. Introduction

THE RELATIONSHIP BETWEEN saving and capital formation plays an important role in national income accounting. Saving represents that part of disposable income that is not spent on final consumption of goods and services. Capital formation measures an amount of money spent to buy capital goods for future expansion of production capacity. Thus, the savings withdraws some amount of money from the financial system, while capital formation injects some amount of money into the financial system. The most important source of saving in India has been the Household Sector. However the share of the Household Sector in Gross Domestic Savings has not been stable and has exhibited wide fluctuations. The Central Statistical Organisation (CSO) estimates that there is a dramatic increase in India's saving rate since 2003-04. According to CSO estimations the domestic saving

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finance and investment. Thus, there is a need to create the awareness among the people about the relationship between the savings, finance and investment. The highest rate of Gross Fixed Assets Formation has shown a positive impact of increase in Gross Capital Formation and lower rate of Gross Fixed Assets Formation has shown major impact to pull down the rate of Gross Capital Formation. Therefore, the Government should encourage the Large Public Limited Companies for the highest rate of Gross Fixed Assets Formation.

Notes

1 Fixed Asset Formation may be defined as expenditure on land, buildings and other structures, machinery and other equipment. It is related to increase in productive capacity of enterprises.

2 Increase in stocks of raw materials, finished goods and work-in-progress, and stores like tools, implements, spares, oil & coal assets of that year and that of its immediately preceding year.

3. Net Fixed Asset Formation in a year is the amount of differnece between the total of the net fixed assets of that year and that of its immediately preceding year.

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