

# **A Study on the Impact of Gross Domestic Savings and Gross Capital Formation on the Gross Domestic Product in India**

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## **ABSTRACT:**

*Savings and Capital accumulation are vital for the growth of any economy. The gross domestic product of an economy is basically influenced by these two important elements. I have undertaken a research study to investigate whether these two variables affect the performance of the GDP or not, if they are affecting, how much the degree of their influence on the gross domestic product. I have taken the data from 1991-92 to 2013-14. Most of the data has been collected from the RBI's Annual Reports. I applied multiple correlations and multiple regression analysis to find the relationship among the selected variables. After analysing the data, it is very clear that both gross domestic savings and gross capital formation are highly influence the performance of the gross domestic product. It is observed that if a nation wants to augment the gross domestic product, it has to increase the level of savings and capital formation which are vital.*

**Keywords:** - *Gross Domestic Savings, Gross Domestic Capital formation, gross domestic product, household savings*

## **INTRODUCTION:**

Economic growth is a mantra of all most all the countries in the world more prominently the emerging economies that wanted to achieve higher and higher economic growth rates. To achieve the higher economic growth rates, the developing economies have adopted different policies which suit their geographical, economical, political and demographical conditions. Since the concept of economic growth is a multidimensional and long term in nature, a thorough policy is required. But economic development is not possible without adequate financial resources.

In the light of declining Gross Domestic Savings and Gross Capital Formation as percentage of Gross Domestic Product from 36.82% and 38.11% respectively of the Gross Domestic Product during the financial year 2007-08 to 33.04% and 34.09% respectively of the Gross Domestic Product during the financial year 2013-14, the Gross Domestic Product growth rate also declined from 16.12% to 13.27%(at current prices) during the same period. In this context, I wanted to investigate into the relationship between Gross Domestic Savings, Gross Capital Formation and Gross Domestic Product. Ever since 1991-92 onwards, our policy makers started implementing with a lot of trepidation the drastic economic reforms in the name of liberalization, privatization and globalization with a basic objective of improving the performance of the Indian Economy. The performance of the economy of any nation basically depends on the availability of financial resources, attitude of the people to work, political conditions and economic environment. Among all the factors that stimulate the growth of an economy is the amount of financial resources. Indian economy has been facing acute financial crisis since the independence in the year 1947. During the pre economic reforms era i.e., 1947 to 1992, the policy makers implemented number of reforms to augment the growth rate of the Indian economy and the living standards of the people. But on account of various reasons those measures could not yield results and led to the implementation of LPG Policies in the year 1991-92. One of the noble objectives of the economic reforms is to generate savings of the economy that leads to increasing the capital formation and ultimately enhances the gross domestic product of the nation.

Gross Domestic Product is one of the parameters to measure the economic performance of a nation. Higher the growth rate of GDP more will be the performance of a nation. The policy makers wanted to change the growth rate from below 5% during the pre reforms ear to around 6% to 7% during the post reforms era and that is one of the objectives of the reforms. But the question is availability of financial resources which are very less for the increasing the performance of a nation.

Capital or finance is a crucial element for any economy. When savings will be invested into the fixed assets, that will become capital or investment. Higher will be amount of capital or investment more will the production and that increases the efficiency of the economy.

Savings of the nation is the base for capital formation or accumulation and these savings comes from three broad sectors of the nation i.e., household sector, private corporate sector and public sector. Major chunk of savings are coming from the household sector as well as private corporate sector and a meagre amount of savings are contributed by public sector.

Savings is defined as personal disposable income minus consumption expenditure. It can be defined in another way as the income that is not consumed by immediately buying goods and services is saved. The retained earnings of corporate comes under private corporate savings. Another important determinant of the growth of GDP is Gross Capital Formation. It is also known as investment when people save they tend to invest. The percentage of investment made by all the three sectors viz., household, private corporate sector and public sector in each of the total GDP is known as Gross Capital Formation. The importance of GCF lies in the fact that this is that part of GDO which helps in the growth of GDP itself. GCF is must for achieving high rate of production, capital formation, changes in production methods and changes in the living standards of the people themselves. To achieve the appropriate rate of economic growth rate, the rate of capital formation should be above 40%.

In the words of Nrukse “the meaning of Capital Formation is that the society does not apply whole of its current productive activity to the needs and desires of immediate consumption, but directs a part of it to the making of capital goods, tools and equipments, machines and transport facilities, plants and all the various forms of real capital that can increase the efficiency of productive efforts”. Capital formation simple means increase in real productive assets of the economy, which is retained for use in further production. Investment refers to expenditure incurred on acquisition of capital goods that result in capital formation.

The objective of this research paper is to investigate the influence of gross domestic savings and gross capital formation on the gross domestic product. Within the gross domestic savings and gross capital formation, which sector is highly influencing the gross domestic product?

#### OBJECTIVES OF THE PRESENT RESEACH STUDY:

The major objectives of the present research are enumerated below;

1. To understand the degree of relationship between gross domestic savings, gross capital formation and gross domestic product.
2. To understand the sector wise contribution of savings on their impact on the gross domestic product
3. To understand the sector wise capital formation and their influence on the gross domestic product
4. And to understand the impact of gross fixed capital formation and net fixed capital formation on the gross domestic product.

#### NATURE OF THE STUDY:

The present study is of analytical nature and uses secondary data. The relevant data has been compiled from the Economic Survey of India, Annual Reports of the RBI and MOPSI. The period of the study is 1991-92 to 2013-14.

#### REVIEW OF LITERATURE:

Inuwa Nasiru and Haruna H. Usman (2013) in their paper “The relationship between Domestic Savings and Investment”; the Feldstein Horioka Test using Nigerian Data found that there is a long run relationship between savings and investment. The study used the reduced form bivariate model of Feldstein and Horioka (1990) to examine the long run relationship between domestic savings and investment and measure the degree of international capital mobility. Mishra et al (2010) studied the dynamic relationship between savings and investment in India for the period 1950-51 to 2008-09 by employing Johansen Co integration technique and Granger Causality test via vector autoregressive framework. The authors found that the presence of long run equilibrium relationship between savings and investment in India. The Granger Causality test revealed directional causal relationship between the variables under study.

Econometric evidence (Beddies 1999, Ghura and Hadji Micheal 1996, Ghura 1997) indicates that private capital formation has a strong, more favourable effect on growth rather than government capital formation probably because private capital formation is more efficient and less closely associated with corruption. Kanu, Success Ikechi and Ozurumba, Benedict Anayochukwu (2014) have employed multiple regression technique to study the impact of capital formation on the economic growth of Nigeria. It was as contained that the short run gross capital formation had no significant impact on economic growth, while in the long run, the VAR model estimates indicates that gross fixed capital formation, total exports and the lagged values of GDP had positive long run relationship with economic growth in Nigeria.

Reddy and Rao (1962), Krishna and Mehta (1968), Hashim and Dadi (1973), Mehta (1974,1975), Narasimhan and Fabcry (1974), Das (2004), these studies covered the period prior to economic reforms (before 1991-92) and 1990s, there highlighting the role of capital input to India’s productive growth. Benerjee (1975) is notable amongst all these studies as it made some careful price adjustments in the construction of capital series.

#### RESEARCH METHODOLOGY:

To understand the impact of Gross Domestic Savings and Gross Capital Formation on Gross Domestic Product and to under the degree of impact of household sector, private corporate sector and public sector on gross domestic savings and gross domestic product I have applied multiple correlation and multiple regression analysis in addition to tables, percentages and graphs.

#### DATA ANALYSIS:

The data analysis has been subdivided into four parts;

1. In the first part, I have studied the impact of Gross Domestic Savings and Gross Capital Formation on the Gross Domestic Product of India
2. In the second part, I have studied the sector wise gross domestic saving viz., Household Sector, Private Corporate Sector and Public Sector and their impact on the Gross Domestic Product.
3. In the third part, I have studied the impact of Physical and Financial Savings of Household Sector savings on the Gross Domestic Product
4. In the fourth part, I have studied the impact of sector wise Gross Capital Formation and Gross Fixed Capital Formation on the Gross Domestic Product.

YEAR WISE GROSS DOMESTIC PRODUCT, GROSS DOMESTIC SAVINGS, HOUSEHOLD SECTOR, PRIVATE CORPORATE SECTOR AND PUBLIC SECTOR SAVINGS AND FINANCIAL AND PHYSICAL SAVINGS OF HOUSEHOLD SECTOR (RS IN CR)(AT CURRENT PRICES)								
Year	Gross Domestic Product	Gross Domestic Savings	Gross Capital Formation	Household Sector	Private Corporate sector	Public Sector	Financial Savings	Savings in Physical Assets
1991-92	673875	143530	146907	105632	20304	17594	62101	43531
1992-93	774545	164621	178437	1,27,943	19968	16709	65367	62576
1993-94	891355	192994	197785	1,51,454	29866	11674	94738	56716
1994-95	1045590	246668	258561	1,87,142	35260	24266	120733	66408
1995-96	1226725	289265	310045	1,98,585	59153	31527	105719	92866
1996-97	1419277	318387	336125	2,24,653	62540	31194	141661	82993
1997-98	1572394	379790	402092	284127	66080	29583	146777	137350
1998-99	1803378	418159	436521	352114	69191	-3146	180346	171768
1999-00	2023130	516847	538834	438851	87234	-9238	206603	232248
2000-01	2177413	515545	528299	463750	81062	-29266	215219	248530
2001-02	2355845	585347	571146	545288	76906	-36820	247475	297813
2002-03	2536327	656230	627743	564161	99217	-7148	253255	310906
2003-04	2841503	823775	762416	657587	129816	36372	313260	344327
2004-05	3242209	1050703	1064041	763685	212519	74499	327956	435729
2005-06	3693369	1235151	1279754	868988	277208	88955	438331	430657
2006-07	4294706	1485909	1531433	994396	338584	152929	484256	510140
2007-08	4987090	1836332	1900762	1118347	469023	248962	580210	538137
2008-09	5630063	1802620	1931380	1330893	417467	54280	571026	759846
2009-10	6477827	2182338	2363132	1630799	540955	10585	774753	856046
2010-11	7784115	2621742	2841457	1800174	620300	201268	808334	1024567
2011-12	9009722	2824459	3200633	2054737	658428	111295	632196	1422541
2012-13	9951344	3364823	3842773	2065453	826805	134466	717131	1495283

2013-14	11272764	3725046	3911601	2233950	992094	138778	862873	1198063
Source: Compilation from RBI Annual Reports								

YEAR WISE GROSS FIXED CAPITAL FORMATION AND SECTOR WISE GROSS CAPITAL FORMATION(RS IN CR)(AT CURRENT PRICES)				
Year	Gross Fixed Capital Formation	Gross Capital formation in Household Sector	Gross Capital Formation in Private Sector)	Gross Capital Formation in Public Sector
1991-92	152466	43531	39537	68494
1992-93	177929	62576	61338	73854
1993-94	191456	56716	51737	81283
1994-95	228442	66408	74575	101530
1995-96	295046	92866	121646	105091
1996-97	328046	82993	119430	110633
1997-98	372401	137350	131728	116367
1998-99	427069	171768	121379	130898
1999-00	484666	232248	140750	154164
2000-01	495196	248530	106524	155299
2001-02	590240	297873	121187	169269
2002-03	601120	310906	145011	163403
2003-04	697478	344327	186088	187730
2004-05	931028	435729	334869	240580
2005-06	1120292	430657	500675	293350
2006-07	1343774	510140	624179	356556
2007-08	1641673	538137	863147	441923
2008-09	1921099	7598.46	636314	531730
2009-10	2055772	8560.46	786109	592788
2010-11	2407069	10245.7	1041050	653959
2011-12	2861062	12841.9	949058	705208

PART – 1

ANALYSIS OF IMPACT OF GROSS DOMESTIC SAVINGS AND GROSS DOMESTIC CAPITAL FORMATION ON THE GROSS DOMESTIC PRODUCT IN INDIA:

Table 1 shows the correlation relations ship among Gross Domestic Product, Gross Domestic Savings and Gross Capital Formation. The value R determines the strength of relationship. The value of R between Gross Domestic Savings and Gross Domestic Product is 0.996762 which signifies that there is stronger relationship between the two variables and the value of R in between Gross Capital Formation and Gross Domestic Product is 0.996117 which is also having strong relationship between these two variables. The P value is 0.00001 in both the relationships which is less than 0.05. the analysis of different values of R strongly disclose that there is a high degree of impact of gross domestic savings and gross capital formation on the gross domestic product of India.

The  $R^2$  in between the gross domestic product and gross domestic savings is 0.9938505, which is very good fit since 99.38% of the variation in the gross domestic product is explained by both gross domestic savings and gross capital formation. It is very close to 1, the better the regression line fits the data.

Since the calculated F value  $7.73416E-23 < 0.05$ , the results are more reliable (statistically more reliable).

**Correlation Analysis**

Variables	Gross Domestic Product		
	R	$R^2$	P – Value
Gross Domestic Savings	0.996762	0.993534	0.00001
Gross Capital Formation	0.996117	0.992249	0.00001

  

<i>variables</i>	<i>Gross Domestic Product</i>	<i>Gross Domestic Savings</i>	<i>Gross Capital Formation</i>
<i>Gross Domestic Product</i>	1		
<i>Gross Domestic Savings</i>	0.996762	1	
<i>Gross Capital Formation</i>	0.996117	0.99832	1

<i>Regression Statistics</i>	
Multiple R	0.996920498
R Square	0.993850479
Adjusted R Square	0.993235527
Standard Error	257586.0116
Observations	23

ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			

Regression	2	2.14464E+14	1.07232E+14	1616.142883	7.73416E-23			
Residual	20	1.32701E+12	66350553371					
Total	22	2.15791E+14						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	448921.8151	87377.4144	5.137732882	5.01186E-05	266655.7231	631187.907	266655.723	631187.907
X Variable 1	1.977419067	0.866587804	2.281845024	0.033585937	0.16974859	3.78508954	0.16974859	3.78508954
X Variable 2	0.796144725	0.7852288	1.013901584	0.322739355	0.841813846	2.4341033	0.84181385	2.4341033

## PART – 2

In the second part, I have studied the sector wise gross domestic savings and their impact on the gross domestic product. The analysis and results are explained below;

### CORRELATION ANALYSIS AMONG THE VARIABLES

<i>variables</i>	<i>Gross Domestic Product</i>	<i>Gross Domestic Savings</i>	<i>Household Sector Savings</i>	<i>Private Corporate Sector Savings</i>	<i>Public Sector Savings</i>			
<i>Gross Domestic Product</i>	1							
<i>Gross Domestic Savings</i>	0.996762	1						
<i>Household Sector Savings</i>	0.991677	0.990513	1					
<i>Private Corporate Sector Savings</i>	0.990285	0.996017	0.977745	1				
<i>Public Sector Savings</i>	0.649339	0.693805	0.646442	0.703447	1			
<i>Regression Statistics</i>								
Multiple R	0.997249							
R Square	0.994507							
Adjusted R Square	0.993639							
Standard Error	249783.1							
Observations	23							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3	2.1461E+14	7.1535E+13	1146.55185	1.21714E-21			
Residual	19	1.1854E+12	6.2392E+10					
Total	22	2.1579E+14						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	494736.591	106025.909	4.66618581	0.00016829	272821.8139	716651.367	272821.814	716651.367
X Variable 1	2.17247751	0.38064904	5.70729806	1.6802E-05	1.375769923	2.9691851	1.37576992	2.9691851
X Variable 2	6.08883168	0.98872377	6.15827381	6.4271E-06	4.019409054	8.1582543	4.01940905	8.1582543



X Variable 3	2.26783677	1.04239711	2.17559772	0.04241312	4.449598996	0.08607455	-4.449599	0.08607455
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From the above correlation and regression analysis it is found that both household sector savings and private corporate sector savings have strong impact on the both gross domestic savings as well as gross domestic product, but public sector savings has moderate impact on the gross domestic product i.e., 0649339. The reason behind the strong nexus between household sector savings, private corporate sector savings and gross domestic product is in the post liberalization period, there is an increase in the employment opportunities due to arrival of multinational companies and new business organizations in the country thereby per capital income has been increased correspondingly private corporate sectors increased their profitability. But at the same time the share of public sector savings out of the total savings has come down rapidly due to disinvestment of most of the central public sector units and some of the public sector units have been closed during this period.

The  $R^2$  in between the gross domestic product and household sector, private corporate sector and public sector is 0.994507 it means 99.45% of the variation in the gross domestic product which is dependent variable is explained by the independent variables of household sector savings, private corporate sector savings and public sector savings which is very good fit. To check the reliability of the results (statistically significant) F value is 1.21714E-21 which is less than 0.05.

### PART – 3

In the part 3, I have inquired whether financial savings and physical savings of the household sector have any impact on the gross domestic product. Since household sector savings are of two types viz., financial savings and physical savings. Here I have studied the impact of both financial and physical savings of household savings on gross domestic product.

<i>Variables</i>	Gross Domestic Product	Gross Domestic Savings	Household Sector Savings	Financial Savings	Savings in Physical Assets
Gross Domestic Product	1				
Gross Domestic Savings	0.996762	1			
Household Sector Savings	0.986864	0.9867	1		
Financial Savings	0.94817	0.95988	0.964315	1	
Savings in Physical Assets	0.977154	0.970173	0.988477	0.913295	1

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.98669091
R Square	0.97355895
Adjusted R Square	0.97091484
Standard Error	534122.668
Observations	23

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	2.1009E+14	1.0504E+14	368.199745	1.6703E-16
Residual	20	5.7057E+12	2.8529E+11		
Total	22	2.1579E+14			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	141431.219	202299.63	0.69911753	0.4925297	280558.415	563420.852	280558.415	563420.852
X Variable 1	4.02075754	1.06827507	3.76378486	0.00122147	1.79237479	6.24914028	1.79237479	6.24914028
X Variable 2	4.70069721	0.62605305	7.50846473	3.0608E-07	3.39477345	6.00662098	3.39477345	6.00662098

With the help of above correlation and multiple regression analysis, it is observed that both financial savings and savings in physical assets of household sector have highly correlated with gross domestic product, but physical savings have high correlation with gross domestic product rather than financial savings of the household sector.

The  $R^2$  is 0.97355895 which is good fit and 97.35% of the variation in the gross domestic product (dependent variable) is explained by both financial savings and savings in physical assets of the household sector.

To test the reliability of the results (statistically significant) F value is 1.6703E-16 which is far less than 0.05. it means that both financial savings and savings in physical assets of the household sector is highly influencing the gross domestic product of the economy.

Part – 4

In the last part, I wanted to find out the relationship between the capital formation of each sector and the gross domestic product.

Correlation Analysis

<i>variables</i>	<i>Gross Domestic Product</i>	<i>Gross Capital Formation</i>	<i>Gross Fixed Capital Formation</i>	<i>GCF in Household Sector</i>	<i>GCF in Private Corporate Sector</i>	<i>GCF in Public Sector</i>
<i>Gross Domestic Product</i>	1					
<i>Gross Capital Formation</i>	0.99556929	1				
<i>Gross Fixed Capital Formation</i>	0.99613102	0.9974838	1			
<i>GCF in Household Sector</i>	-0.0446722	-0.043066	-0.05696777	1		
<i>GCF in Private Corporate Sector</i>	0.95489369	0.9753947	0.966380845	0.04999394	1	
<i>GCF in Public Sector</i>	0.98966619	0.9939842	0.996029276	0.09571116	0.968074461	1

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.9988991
R Square	0.99779942
Adjusted R Square	0.99706589
Standard Error	129118.456
Observations	21

<i>ANOVA</i>					<i>Significance F</i>
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>F</i>
Regression	5	1.1339E+14	2.2678E+13	1360.27549	2.27352E-19
Residual	15	2.5007E+11	1.6672E+10		
Total	20	1.1364E+14			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	338922.77	108321.464	3.12886068	0.00689817	108041.0354	569804.504	108041.035	569804.504
X Variable 1	2.96841998	0.57921624	5.12489077	0.00012445	1.733849787	4.20299018	1.73384979	4.20299018
X Variable 2	0.40663887	0.77830095	0.52246996	0.60897381	1.252270322	2.06554805	1.25227032	2.06554805
X Variable 3	0.54803773	0.23051436	2.37745592	0.03116684	0.056708005	1.03936745	0.056708	1.03936745
X Variable 4	2.76481671	0.5440243	5.08215667	0.00013512	3.924377049	1.60525638	3.92437705	1.60525638
X Variable 5	1.00787407	2.09520911	0.48103746	0.63743129	3.457958415	5.47370656	3.45795841	5.47370656

From the above multiple correlation analysis table, it is obvious that both gross capital formation and gross fixed capital formation are having strong relationship with gross domestic product (GDP and GCF= 0.99556929) (GDP and GFCF= 99613102). It means that gross fixed capital formation is having stronger relationship with gross domestic product than

gross capital formation. When we observe the relationship of sector wise gross capital formation on gross domestic product, gross capital formation in household sector is negatively affecting the gross domestic product, gross capital formation and gross fixed capital formation (GCF in HHS and GDP = -0.0446722, GCF in HHS and GCF = -0.043066, GCF in HHS and GFCF = -0.05696777)

The results are highly reliable as the  $R^2$  is 0.997799 i.e., 99.7799% of the variation in the gross domestic product will be explained by the gross domestic capital formation, gross fixed capital formation, gross capital formation in household sector, gross capital formation in private corporate sector and gross capital formation in public sector. To check the reliability of the results (statistically significant) F value is 2.27352E-19 which is less than 0.05.

VARIABLES	Gross Domestic Product		
	R	$R^2$	P. Value
Gross Capital Formation	0.995569	0.9911576	0.00001
Gross Fixed Capital Formation	0.9961131	0.9922413	0.00001
GCF in Household Sector	-0.0446721	0.0019955	0.849797
GCF in Private Sector	0.954893688	0.911821955	0.00001
GCF in Public Sector	0.98966619	0.97943916	0.00001

## FINDINGS:

On the basis of the above statistical analysis, we found the following observations among the selected variables;

1. It is found that there is a strong relationship between gross domestic savings, gross capital formation and gross domestic product. Both GDS and GCF are strongly influencing the performance of GDP. The more the GDS and GCF the higher will be the GDP. Hence in order to increase the gross domestic product, one should increase the level of both GDS and GCF.
2. It is clearly evident that the household sector and private corporate sectors' contribution towards gross domestic savings and gross domestic product is very high. Without the contribution of these two sectors, it is not possible to augment the level of gross domestic product.
3. It is understood that both financial savings and savings in physical assets of the household sector are highly affecting the gross domestic product of the nation. But the degree of relationship between savings in physical assets of the household sector and gross domestic product is more than the relationship between financial savings of the household sector and gross domestic product.

4. It is very clear from the above analysis that, the gross capital formation is having a powerful relationship with gross domestic product. When we consider the sector wise gross capital formation and their impact on gross domestic product, it is surprising that gross capital formation in the public sector is having more relationship with gross domestic product than other two sectors i.e., private corporate sector and household sector.

## CONCLUSION:

The central objective of this paper is to investigate the relationship between gross domestic savings, gross capital formation and gross domestic product in the Indian economy. The above analysis clearly explains the nexus between those variables. Capital is one of the key elements for the long term growth of any economy particularly those countries which are in the process of economic development like India. In the light of declining both gross domestic savings and gross capital formation during the recent past, it is essential to increase the savings rate and capital formation rate. It is discovered that lion's share of savings are coming from the household sector since 1991-92, but in the recent past, those savings are gradually declining as a percentage of gross domestic product. Another important observation is gross capital formation has been declining as a percentage of GDP. Hence, in order to increase the gross domestic product, the government has to motivate the people and private corporate sector to save more and investment more that lead to capital accumulation which increases the gross domestic product.

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