

DETERMINANTS OF CORPORATE SAVING IN INDIA



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ABSTRACT

Firm-level saving has displayed an unprecedented rise at the aggregate-level, across developed and developing economies, since early 2000s. The same phenomenon of rising corporate saving has also been observed in India for the period of 2004-8, followed by sub-periods of rise and fall. Firms are generally modelled as primary borrowers in the standard macroeconomic theories. But they have started saving at a much higher rate, such as those in USA; non-financial corporate sector has become a net lender to rest of the economy. Households are generally modelled as primary savers in economy. The theories used to explain rising household-saving phenomenon may not be able to explain the rising corporate-saving phenomenon. The annual growth rate of corporate saving rates in India, reached 43.6% in year 2004-5 and declined to (-) 21.15% in year 2008-9, it also contributed 25% of total domestic saving in year 2007-8.

Research questions of the study are (a) What are the firm-level variables that determine corporate saving in India? (b) What are the macroeconomic-level variables that determine corporate saving in India? (c) Is there sector (Manufacturing and Services) level differences in determinants of corporate saving in India and if so, why? (d) What is impact of 2007-8 global financial crisis on determinants of corporate saving in India?

This study simultaneously captures both firm level & macroeconomic level determinants of corporate saving in India, brings out the differences between manufacturing & services sector, and explicitly takes into account the effect of 2007-8 financial crisis. Corporate saving definition used in the study is retained profit plus depreciation adjusted by non-operating surplus/ deficit. We worked with firm-level data of 2571 and 1405 publicly-listed firms from manufacturing and services sector respectively for the period 2000 to 2013

and employed various panel data models. To verify how much current year's saving is being affected by previous year's saving, dynamic panel data model has been used. Firm-level variables found to be significant are previous year's saving, profitability, effective tax-burden, interest burden, and Tobin's Q after controlling for sales volatility, capital formation, leverage ratio etc. GDP growth rate, inflation rate, real effective exchange rate, public debt to GDP, and financial depth are the major macroeconomic-level determinants of corporate saving.

This study has borrowed from the literature on aggregate saving and contributes to the nascent literature on corporate saving in emerging economies. This study found that in India during pre-crisis period corporate saving increased due to high profitability and dynamic persistence of saving behaviour in manufacturing and services sector. Precautionary saving motive along with rising macroeconomic and business environment uncertainty explained the behaviour of corporate saving in India during the post crisis period.

Keywords: *corporate saving, financial crisis, dynamic panel data analysis, India*

JEL Classification: E21, G01, G32, C33

Dedicated to:

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