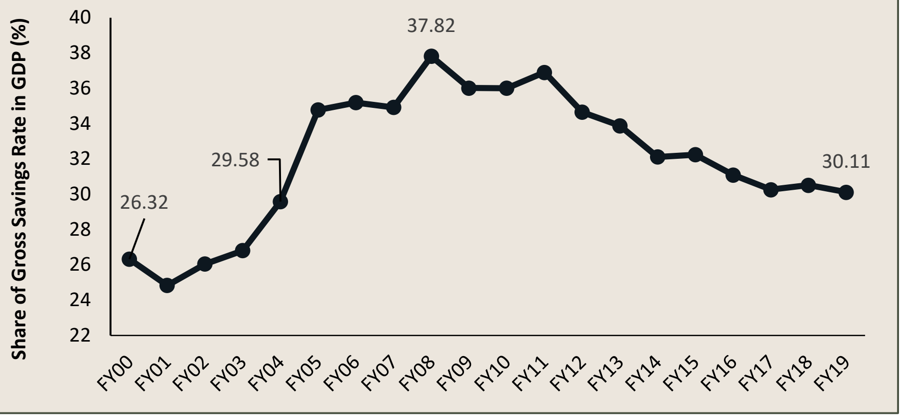
India's Declining Savings Rate — What is the Way Forward?

- The gross savings of any nation or any individual is basically the earned income excluding the amount used for consumption.
- The concept of gross savings is a very important economic indicator as it helps to understand how much financial resources is available in the economy to invest in the capital assets and required spheres.

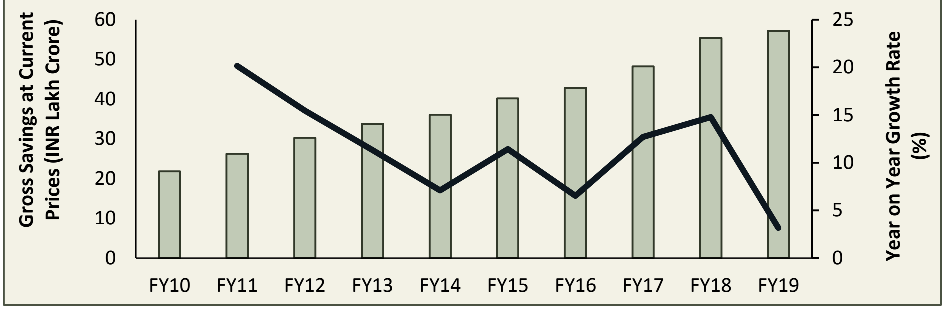
Gross Savings Rate as % of GDP, India , FY00 to FY19



- During the 20 year span from FY00 to FY19, the gross savings rate has fluctuated multiple times. The rate was **29.58%** in FY04. After that it moved upward till FY08 when the share of it was **37.82%** of GDP. However, with the occurrence of global economic crisis in 2008, the savings rate started to get declined and in FY19, the rate became **30.11%** which is the lowest value in last 15 years.

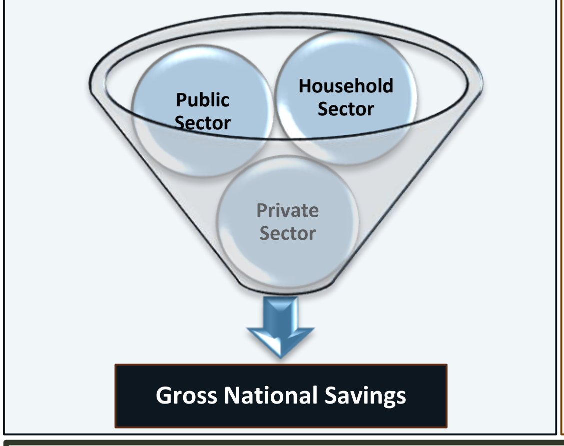
What has been the performance of Gross Savings in India in the last 10 years?

Gross Savings at Current Prices, India, FY10 to FY19

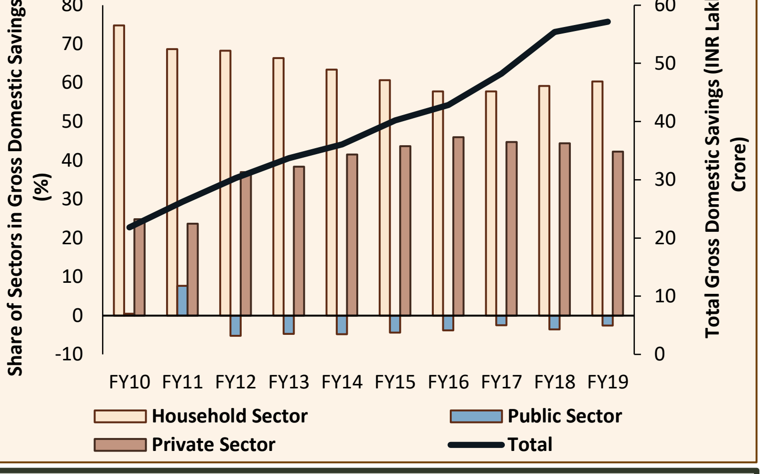


- Between FY10 to FY19, the gross savings rate at the current prices has increased at the CAGR of **11.29%** in India.
- However, when it comes to the yearly growth then that rate of the gross savings which was **20.13%** in FY11 declined to **3.15%** in FY19.

Share of Sectors for Accumulating the Gross National Savings

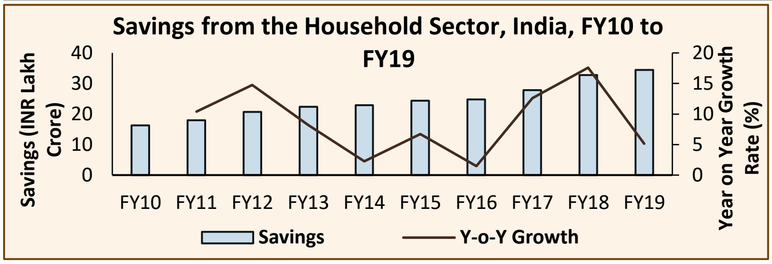


Share of Sectors in the Gross Domestic Savings, India, FY10 to FY19



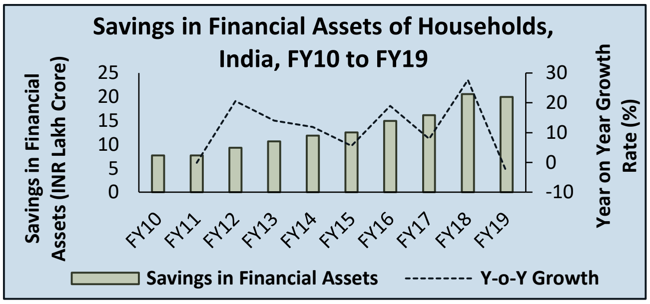
- The gross savings of any country is made up from the three sources which are **Household, Public** and **Private** sectors. Among all the sources, the households sector has always been the greater contributor in the overall gross savings of the Indian Economy.
- Over the years, the share of households has declined and the private sector savings has increased in the overall gross savings.
- The share of household savings which was **74.73%** in FY10 decreased to **60.33%** in FY19. Whereas, the share of private sector savings which was **24.79%** in FY10 grew to **42.26%** in FY19.

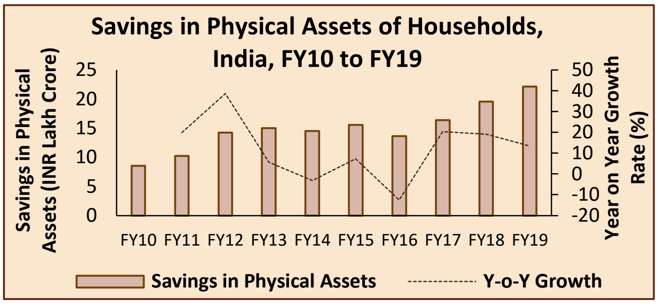
Fall in the Household savings is cited as the major cause in the decelerated gross national savings as Indian households are considered as one of the biggest savers in the world. However, the recent scenario portrays a different situation.



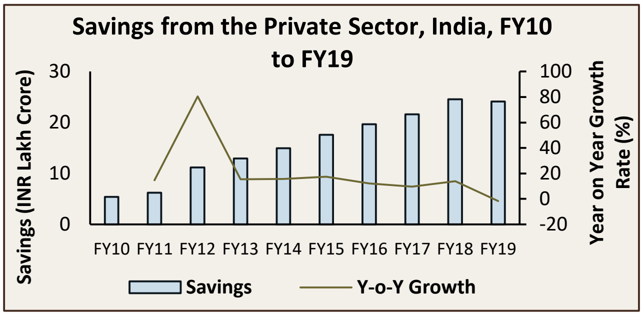
- Between FY10 to FY19, the household savings has increased at the CAGR of **8.67%**.
- However, by analysing the yearly growth, it can be understood, that the Year on Year growth rate which was **10.39%** in FY11 has reduced to **5.17%** in FY19.

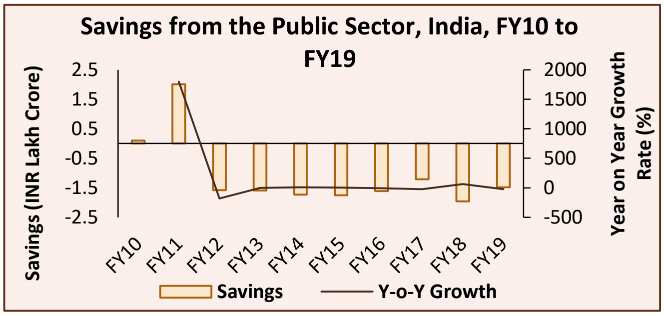
The Household Sector's savings is constituted of two types of savings which are :
I) Savings in Financial Assets and **II) Savings in Physical Assets**





- India seems to be growing at its slowest pace in the last five years. In the Q2,FY20 the economy expanded only by **4.5%**. This movement of the economy slowed down the industrial activities across the country. Moreover, shutting down of various types of manufacturing activities has also triggered the unemployment.
- All these things have caused the lesser involvement of people and lower distribution of income. Scarcity of desirable income forced them to save less and consume the essential things. Hence, the amount of disposable income has also got lowered leading to lower savings rate from the household sector.
- The Household savings which are deposited in the banks are a major source of investment for funding various public and private sector projects.
- Shortage of income among the households has also become a prime reason for lower rate of investment in the physical assets. By physical assets, the investment of the households towards construction or real estate, land, machinery, intellectual property products, gold and other metals, ornaments, etc. are depicted.
- Moreover, savings towards financial assets like bank deposits, mutual funds, bonds and other monetary instruments has also declined. Hence, falling investments in both the financial and physical assets from the households are bringing down the overall savings rate of the economy.





- Under such crisis, the savings rate from the public and private sector also seems to be in a declining mode.
- The most astonishing fact is that the savings from the public sector has been in a completely negative zone in the last few years.
- Recapitalisation of banks, clearing the dues of the Public Sector Undertakings (PSUs) and various stressed entities, collection of tax lesser than the desirable level, maintaining the fiscal condition of the country, providing subsidy across various sectors, initiating infrastructure projects and many more essential efforts for the economy require government's involvement and monetary support and these are some of the urgent reasons for which government might not be in a state to increase its savings level in the last few years.

Effects and Possible Ways of Recovery

The savings rate has seemed to be crashed since the global economic crisis of 2008 but in recent years, the economic slowdown of the country has also become a crucial reason behind declining savings rate.

The lower rate of savings is causing the economy to have lesser resources to fund in the essential sectors like infrastructure, manufacturing, banking & finance and many more.

Savings and Economic Growth both are inter-related. A lesser savings rate lowers the investment in the economy and make the country depend more on the external borrowings.

The greater borrowing from the foreign markets by the Indian companies increases the country's external debt leading to widened current account deficit.

Households' savings activities need to be improved and that might only be possible through continuous structural reforms, accelerated manufacturing and other industrial activities, suitable job role creation etc. Fast execution of these can be effective to distribute desirable level of income among the mass.

Moreover, improvement of ease of doing business, simplification of existing tax laws and regulations, strengthening the trade related infrastructure can directly or indirectly be helpful to boost the saving segment of the country across the sectors.

Source: Ministry of Statistics and Programme Implementation, CEIC, LSI Research