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REVIVE THE SAVINGS TO ACHIEVE HIGHER ECONOMIC GROWTH

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ABSTRACT: In the process of economic growth, the rate of capital formation is of utmost priority for any economy. While the sources /supply of capital are limited, the demands are unlimited. The role of population, savings and capital formation has been always debated. The developing countries like India, have undertaken a lot of efforts to catch up with the developed countries. India undertook the 'Planning mechanism' in the 1950s and went for nationalization of banks in 1969 to enable a faster rate of economic growth. In the 1990s, the economy adopted the structural reforms on a large scale, with liberalization, privatization and globalization which changed the landscape of the economy for good. The growth of private sector gave a fillip to the rapid growth of the service sector and the role of financial institutions. Hence, the economy also witnessed a rise in private sector jobs. Ideally, when jobs opportunities grow, the economy sees more growth in savings. This research paper explores, the trend of savings, particularly household savings and its contribution to the growth rate. There have been many challenges to the economy in recent times, one of which is the fall in savings rate. The research paper attempts, to study the challenges to savings and traces the reasons for slowdown. In the end, the paper makes certain policy suggestions to help revive the savings back to the high levels.

Keywords: Savings, pandemic, unemployment, Growth, inflation

I. **INTRODUCTION** The story of Indian Economy has been an interesting saga. The challenge it has overcome over the years, speaks volume about its relentless urge to move forward. The journey from a colony, to being amongst the fastest growing economy, has been remarkable. In the process of economic growth, the rate of capital formation is of utmost priority for any economy. While the sources /supply of capital are limited, the demands are unlimited. The role of population, savings and capital formation has been always debated. Nobel laureate Robert Solow (1956) emphasized the role of population, capital and technology in accentuating the process of steady economic growth. Since an economy has limited supply of capital and labour, a sustained rise in investment in technology/research and development will lead to rise in growth rate. Arthur Lewis (1954) found that shifting of surplus labour from farm to the non-farm sector could enhance productivity in both sectors by raising savings and consequently growth rate. Another Nobel laureate Michael Kremer (1993) also highlights population growth as a key driver for advancing economic prosperity. He adds that over the broad span of history, the world growth rates have actually increased along with the world population. He explains that if there are more people, then there are more scientists, engineers, who contribute to innovation and technological progress. Hence, policies that prioritize education and employment lead to higher economic growth. To quote Jim Kim, President World Bank, 2012 " Since 2000, nearly 30 developing countries have grown by 6% or more a year. Developing countries are now the engine driving the global economy, accounting for around two-thirds of global growth. There are many differences across countries but there are some common elements to countries that have grown continuously. They have stable governments that pursue prudent economic policies, provide essential infrastructure and services, and take a long-term perspective. They use the opportunities provided by global markets and they have a dynamic and competitive private sector"

II. OBJECTIVES OF THE STUDY

For an emerging economy like India, consistently augmenting household financial savings, is a must for its growth story. The household sector contributes to the filling of the funds requirements by the government and the corporates, largely through financial intermediation. This research paper attempts to explore the trend of savings, particularly household savings and its contribution to the growth rate. There have been many challenges to the economy in recent times, one of which is the fall in savings rate. The research paper attempts to study the challenges to savings and further suggests, what needs to be done to revive the savings back to the high levels. In the end, the paper makes certain policy suggestions to help revive the savings.

III. RECENT TRENDS IN SAVINGS

Over the years, India's saving performance has been impressive in comparison to other countries. After touching a peak of 36.9 % of GDP in 2007-08, gross domestic savings has been on a downward path (Table 1), it is presently at 28%. Out of the Gross domestic savings, household savings has been a major component and plays an important role in supporting growth and development.

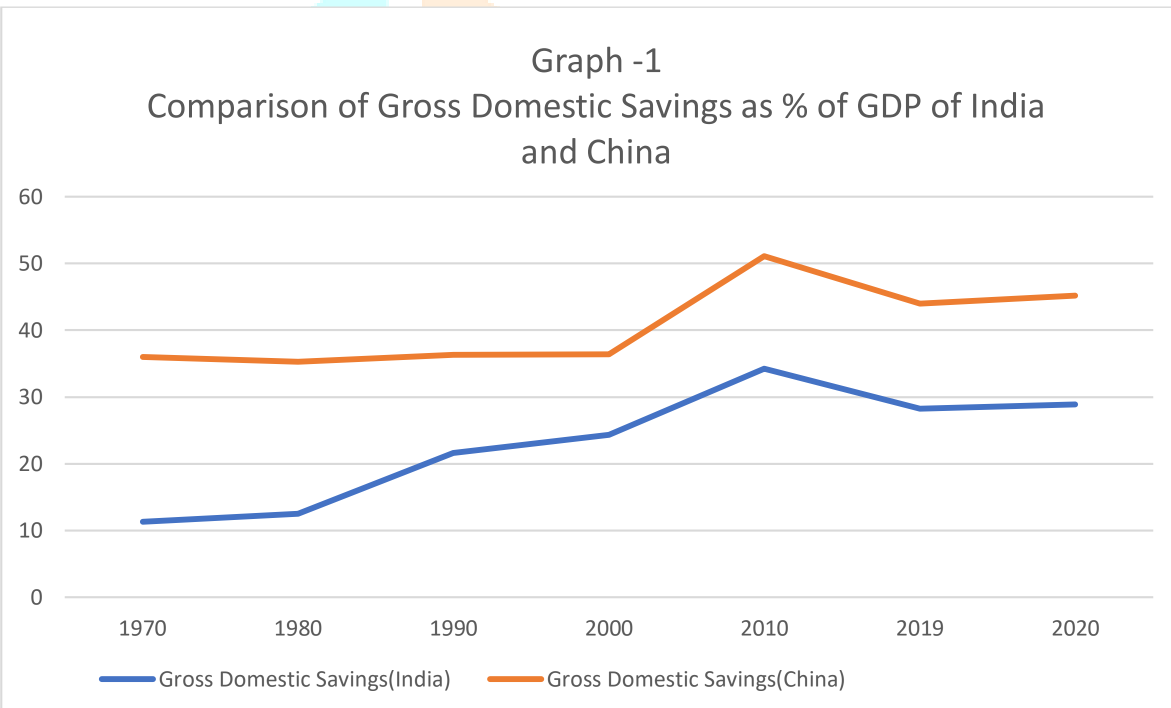
Table – 1

Components of Gross Domestic Savings (GDS)

Years	Household Savings	Private Corporate Savings	Public sector savings	Gross Domestic Savings (GDS) as % of GDP
2007-08	22.5	9.4	5	36.9
2008-09	23.6	7.4	1	32
2009-10	25.4	8.2	0.2	33.8
2010-11	23.5	7.9	2.6	34.6
2011-12	22.30	9.5	1.5	33.3
2013-14	20.30	10.70	1	33.9
2014-15	20	11.17	1	32.1
2015-16	19.60	11.19	1	31.2
2016-17	17.1	11.5	1.7	30.3
2017-18	17.2	11.6	1.7	30.5
2018-19	18.4	9.7	2	30.1
2019-20	18.2	10	-	28.2

Source: RBI website. Author has made approximate calculations.

Under macroeconomics, the System of National Accounts (SNA) estimates aggregate savings under three broad categories-Government, Corporates and Households. The term Household is, however much broader and includes unregistered micro and small enterprises besides the households. Household savings comprises of physical and financial savings. Household financial savings refer to currency, bank deposits, investment in insurance, pension funds, mutual funds etc. Household physical savings includes investment in real estate, gold, silver etc. In the early 2000s, there was a shift to physical savings including dwellings and buildings. However, there was a reversal in this pattern particularly, from 2012 to 2016. Experts believe the possible reasons are, due to the slowdown in the economy, regulatory changes in the real estate sector, measures against unaccounted money in construction activities, demonetization etc. The fall in Household physical savings was, followed by moderate increase in financial savings. The decline in overall household savings is, understandable given the reforms and policy measures in the economy. Broadly, it is a mix of the socio-economic changes happening over the years- continued high consumption, inadequate job creation, increase in financial liabilities ,rising cost of services etc. The trend of gross domestic savings almost *'plateauing off'* after 2019, looks similar for both India and China (Graph -1).The question is - is the decline in savings a matter of serious concern?



Source: World Bank website

IV. INCREASING FINANCIALISATION AIDED BY INNOVATION AND TECHNOLOGY

Even as concerns mount on the adverse implications of a falling headline savings rate, the rising financial savings is a silver lining and clearly indicates 'increasing formalization and financialisation' of the economy aided by the financial innovations.

V. DILEMMA OF FALLING CONSUMPTION AND FALLING SAVINGS

As per RBI Reports (2020), Gross domestic saving rate has been decreasing from 30.1% of GDP in 2018-19 to 28.28 % in 2020-21. The saving rate of the household sector, which is a net supplier of funds to the economy, declined to 18.2% in 2020-21. The large scale income losses, of many businesses and households during this crisis/lockdown, further imply that the savings rate is likely to fall even further. Private sector's consumption, which has been the main driver of growth in the economy has been falling and the savings rate which is very important for determining the level of investment in the economy, is also falling. To the extent, that government relies heavily on households, for financing its deficit, this decline in savings does not bode well.

In July 2021, RBI released its preliminary estimate of household financial savings, which states that Covid 19 has led to a decline in financial assets such as Bank deposits, pension money, LIC funds, and currency holdings for lakhs of households. When the pandemic started, initially there was a rise in household financial savings but it later witnessed a fall (Table- 2). *The erratic pattern of financial savings, is in consonance with trend pattern across the globe.*

Table - 2

Household Financial savings as % of GDP

Year	Quarter	Household Financial savings as % of GDP
2020-21	1st	21
2020-21	2nd	10.4
2020-21	3rd	8.2

Source: RBI website

What explains the Trajectory of the financial savings?

1. The relatively well-off –accounting for a lion share of the savings experienced a minor dent to their income, enabling them to save disproportionately-aided by restrictions on spending avenues on account of lockdown, while a large section of the informal sector workers lost their jobs and did dissaving.
2. As per RBI, Household financial liabilities have been on the rise even before the pandemics-household financial liabilities increased from 33.8% in March 2020, 37.9% in December 2021.On account of moratorium on loan repayments (announced under AtmaNirbhar scheme), there was a temporary relief and hence contraction in household financial liabilities.
3. As per RBI, the net household financial savings was 7.25 % of GDP in 2018-19 and 7.7% in 2019-20 (on account of a fall in liabilities from 3.9% of GDP in 2018-19 to 2.9% of GDP in 2019-20). It is expected to be 8% as on December 2021, absolutely in sync with historical averages in India. The RBI estimated an increase in debt of around 20 crore households, which contribute about 60% of gross savings in the economy in the economy .While overall bank deposits have been going up, the share of household sector as a proportion of GDP is declining from 7.7% in the 2nd quarter of 2020-21 to 3% in the 3rd quarter of 2020-21.

4. There is a retail euphoria in the stock market leading to demand for Mutual funds, retirement funds, insurance funds which shows 'the spirit of savings' by Indians.

5. With gradual reopening of the economy, the households shifted from an 'Essentials only mode' to discretionary spending, which may have led to a reversal of household savings from the peak attained in the 1st quarter of 2020.

6. Fintech revolution and innovation in financial products are happening at a rapid pace and this augurs well for the financial sector.

7. Crypto currency –the new kid in the finance market, is the new area where investors are foraying into.

8. Health concerns grew with pandemic and this greatly impacted the saving choices towards financial savings- insurance products etc.

VI. What explains the downward trends in overall Household Savings rate?

1. High Unemployment Rate: Unemployment rate in India is at a 45 year high level. The slowdown in the economy is manifested across most sectors. The overall savings rate has declined from 34.6% in 2010-11 to 28.91 in 2020-21 due to the fall in household savings from 23.6% to 18.2 % in FY 2019-20.

2. Fall in Consumption Demand: Private sector's consumption which has been the main driver of growth in the economy has been falling and the savings rate which is very important for determining the level of investment in the economy, is also falling. In India, the bottom half of our population form the huge consumption base, so when their earnings fall, it impacts their spending and hence the economic growth. When people are saving less why are they not purchasing goods?

3. Rise in spending on Services: Perhaps people are spending on things that are not translating into demand for goods. They are *spending more on services* which are costing more than before. As a result, there has been an increase in non-food expenditure in both rural and urban areas.

4. Low Agricultural Income: Agricultural growth has been volatile over the past decade. After a severe drought in 2002, the average growth was ranging from 5.8% in 2005-06, 0.4% in 2009-10,-0.4 % in 2014-15. Recent data shows that consumption levels have been declining in both rural and urban areas. Rural incomes have been falling due to low agricultural prices and hence the fall in savings rate.

5. Rising costs of education: The World Bank research shows that in poor economies education has been the route for upward mobility and prosperity over time and across generations. In India, unlike many other countries, the government-run schools have been known to be poor in terms of quality of teaching, class room space and facilities like separate toilets for girls and playgrounds. Because of socio-economic changes and awareness, there is a growing preference for English medium schools over the government schools. Even the lower earning workers like drivers, house- helps prefer to send their children to private schools. Most parents are, going all the way to give their children a good education in schools and private colleges. The cut off points for admission, in a reputed government supported university or college are ludicrously high and hence parents are forced to opt for private universities, which have mushroomed in great numbers. Their fees are very high in comparison and parents have no choice but to pay them. The recent Russia-Ukraine war and the uncertainty faced by the Indian Students pursuing medicine in Ukraine , shows the need to create more of such medical colleges in India.

6. Health costs: Rising life expectancy and health costs is eating into savings of common man. India has one of the highest 'out of pocket' expenditures in the world. The pandemic saw many 'liquefying' their fixed deposits, jewelries, physical assets to meet hospital bills. Also, majority of the population, are without health insurance and hence borrow, sell their gold etc. Consequently, people are saving less.

7. Supply Constraints: In many areas, on account of inadequate/poor supply of many public utilities like water supply, clean air, people have to spend on purifiers/ gadgets from the market. Consequently, purchase of these daily necessities are eating into the savings of the people.

8. Demonstration Effects: Presently, India has a huge young population- about 65% of the population is below 35 years. In recent times, the social media, peer pressure are having an impact on the youth. They are spending more on clothes and other show-off goods and thus less savings.

9. Lack of efficient public services: If the public services are more efficient and each state has good governance, people can save more. Much remains to be done in improving the system of primary education, healthcare, infrastructure and training of youth in skills which will increase their chances of getting jobs.

VII. CONCLUSION AND POLICY RECOMMENDATIONS

1. High employment can create higher savings- India has the advantage of young population, below 35 years forming the largest component of the total population. To capture the dividend, there is a need for policies that promote entrepreneurship and job creation by aligning the education system with skilling/reskilling programs.

2. Need for better returns on savings

In India, the government fixes the rate of interest for the EPF. The problem is neither with the rate of contribution nor with the rate of returns but with too much of government restrictions on the type of investments.

3. Raising the purchasing power – by reducing prices and increasing subsidies on basic items-food, medicines. Provision of cards for such entitlements to senior citizens can save a lot of money for them and aid savings.

4. Need to raise the Household savings. The availability of variety of reliable financial savings tools like 'Inflation Indexed Bonds' and the extent of control over inflation can be important factors for boosting the level of savings.

5. Increase public expenditure on health- Concerted efforts towards a healthy India- by allowing the private sector to partner the government in provision of affordable and comprehensive health care are highly required. Ensuring healthy lives and promoting well-being for all at all ages' will not be achievable unless there is proper efforts, like according healthcare "national priority" status both as an industry as well as in budgetary allocations. The 'Universal health care system' announced by the Government of India is a step in the right direction.

6. Economic reforms and social reforms need to be undertaken simultaneously. The need to spread the fruits of economic growth calls for expediting faster reforms measures. Implement the next generation of economic reforms to deliver well equipped and efficient public services – education, transportation, urban development, water supply, sanitation and so on. Strengthening the social security net, expanding labour-intensive segments of the manufacturing sector, strengthening the labour –intensive component of the service sector- education, health, hospitality sector can lead to more employment and progress.

7. Spread of Financial literacy along with financial inclusion is the need of the hour.

8. Treat Crisis as an opportunity- India needs to accelerate the shift to more productive, sustainable, and equitable growth through investment in new green and digital technologies and wider social safety nets. Investment in technology and focus on inclusive growth is significant to achieve harmonious and equitable growth.

9. Strengthen the Agricultural Sector – Agriculture sector is the base of the economy, hence without a strong agricultural-sector, India cannot have a sustainable GDP growth rate. During the pandemics, the share of agricultural sector reached around 20% for the first time in the last 17 years.

10. Strengthen the MSME sector –The largest employment provider is the MSME Sector and thus needs to be supported and strengthened. India cannot become 'Atma nirbhar' without a dynamic MSMEs. Substantial fiscal and monetary support must continue as long as possible in the interest of employment and growth,

11. Policy support to Labour market- to facilitate people to return to work and to facilitate a reallocation of workers to sectors with growing demand .– to train the low and semi- skilled –who do not have the option of online/tele working for becoming employable.

12. Caution on Inflationary impact on consumption and savings - Geo-political developments, energy crisis and Inflation a worry. High taxation rate on fuels in India, are adding to the problem. The RBI and the Government of India need to carefully design economic growth policies that encourages savings and help revive the economy.

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