VEI | International Journal of Social Sciences March, 2021 Volume: 7 (Special Issue: 12)

ROLE OF SAVINGS IN INDIAN ECONOMY

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ABSTRACT

Saving and investment are important drivers in fastening the growth process. In a developing country like India Gross Domestic Saving plays a vital role in accelerating the growth process and achieving higher levels of development. Savings are generated from the public sector and private sector and domestic savings play a critical role in augmenting capital accumulation. The capital formulation for all types of business organization purely depends on the savings of the entire public in the country. An attempt has been made in this article to examine the savings behavior in the Indian Economy which is considered as the backbone of capital formation.

ROLE OF SAVINGS IN INDIAN ECONOMY:

i) The savings ratio is a big determinant of economic activity. Consumer spending accounts for 63% of GDP – dwarfing other areas, such as government spending, investment and exports. A rise in the savings ratio can have a very significant impact on economic activity.

ii) Higher savings can help finance higher levels of investment and boost productivity over the longer term.

iii) In economics, we say the level of savings equals the level of investment. Investment needs to be financed from saving. If people save more, it enables the banks to lend more to firms for investment.

iv) An economy where savings are very low means that the economy is choosing short-term consumption over long-term investment. To starve the economy of investment can lead to future bottlenecks and shortages.

v) Countries with higher rates of savings have had a faster economic growth than those with lower saving rates. Capital accumulation creates greater opportunities for production and the productivity of a country by providing an additional income stream.

vi) Saving is also beneficial for the entire society, as it is one of the key factors which the economy's investment level depends on, which is a prerequisite for boosting the long-term economic potential. Usually, a significant portion of the savings is channeled into the banking system thus providing stable sources of financing to domestic banks, which is particularly important for the bank-centric financial systems, where the banks act as major financial intermediaries.

vii) The role of domestic saving and domestic investment in promoting economic growth has received considerable attention in India and also in many countries around the world.

viii) To increase the production, capital formation is considered as the crucial determinant; and capital formation has to be backed by the appropriate volume of saving. Increase in saving, use of the increased saving for increased capital formation, use of the increased capital formation for increasing saving, and use of the increased saving for a further increase in capital formation constituted the strategy behind economic growth.

ix) The savings culture of any country is best captured through the household savings. The household savings are impacted by many macro and microeconomic factors such as GDP, disposable income, GDP growth rate, income inequality, tax laws and most importantly, the culture.

X) No country in the world has achieved economic prosperity without having a high savings rate. Right from the United States to China, any country that has reached the peak of global finance has been largely powered by their high savings rate.

CONLUSION:

Savings is a strong economic indicator for a country because more savings translate into more investments. The country's overall savings rate is the amount of money belonging to individuals or organisations lying in savings accounts as a percentage of total disposable income. Regular savings is not only good for our financial health but also positive for the country's economy.

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