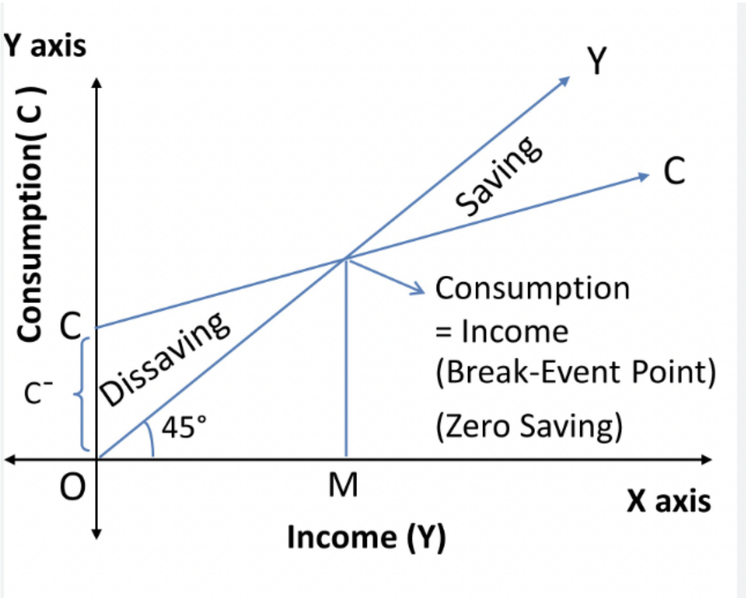
# SAVINGS TRENDS IN INDIA SINCE 1991: RESEARCH PAPER BY YUVRAJ NAHAR

**ABSTRACT:**

This research paper is written in order to assess the major trends in savings and hence investments in India since the liberalisation of the economy in the year 1991. This research introduces the concept and importance of savings as a method to empower the population and reduce poverty rates in the country. The research also delves into the intricacies of changes in savings as a percentage of GDP, changes investments, age-wise patterns of savings (including the range of saving/investment instruments used), and gender-wise patterns in savings following the liberalisation of the Indian economy.

**INTRODUCTION:**

Savings is the money that an individual or household has left after expenditure has been subtracted from disposable income (income after taxes and benefits). This essentially means that Savings = Disposable Income - Consumption. For example, as shown on the image below, it is clear that when consumption is greater than income, there are dissavings (households borrow money or draw out on past savings). Whereas, as the income starts to exceed income, savings begin.




Savings is certainly an instrumental factor that contributes to economic growth and prosperity of individuals and the economy, as a whole, in the long run. This is primarily because savings is a key method by which money can be invested. Investments, in turn, help generate returns over time (the rate of returns vary based on the type of investments). This results in higher income per head, and therefore, growth. Moreover, investment in capital via firms also helps boost the productive potential of the economy, enabling long run growth. The image below helps depict the different types of investments and their associated returns.

In 1991, India met with a drastic change in government policy: policies were implemented in order to open (liberalise) the, previously heavily controlled, economy and increase the use of market mechanisms of demand and supply. The then Prime Minister, P.V. Narsimha Rao, decided to open the economy due to an unprecedented economic crisis, wherein, India was facing a significant balance of payments deficit. The opening of the economy attracted an influx of Foreign Direct Investment (FDI) and enabled more people to access the private sector of the economy. This change was revolutionary for most industries in India, amongst them was also the savings sector. As individuals had access to the private sector, the opportunities to save for consumers increased (due to higher choice). At the same time, savings also became more lucrative because of higher returns on savings and greater investment possibilities. This had an important effect on the country's growth and alleviation of poverty.

**TRENDS IN SAVINGS SINCE 1991:**

- **Savings as a percentage of GDP** rose following the reforms of 1991 in India due to better saving possibilities (as the market was more competitive). Moreover, this also resulted due to the higher incomes created for citizens of India following the reform period. Due to higher income, Indians were able to save a higher proportion of their income. This follows the savings rule - as income increases, the percentage of income saved also increases, because there is a limit to the amount of consumption a rational consumer would have. Evidently, in the graph below, savings in India as a percentage of GDP (in green) successively increases following 1991. Furthermore, as the savings as a percentage of GDP increased, people's income increased due to the earned returns and this contributed to reducing poverty.

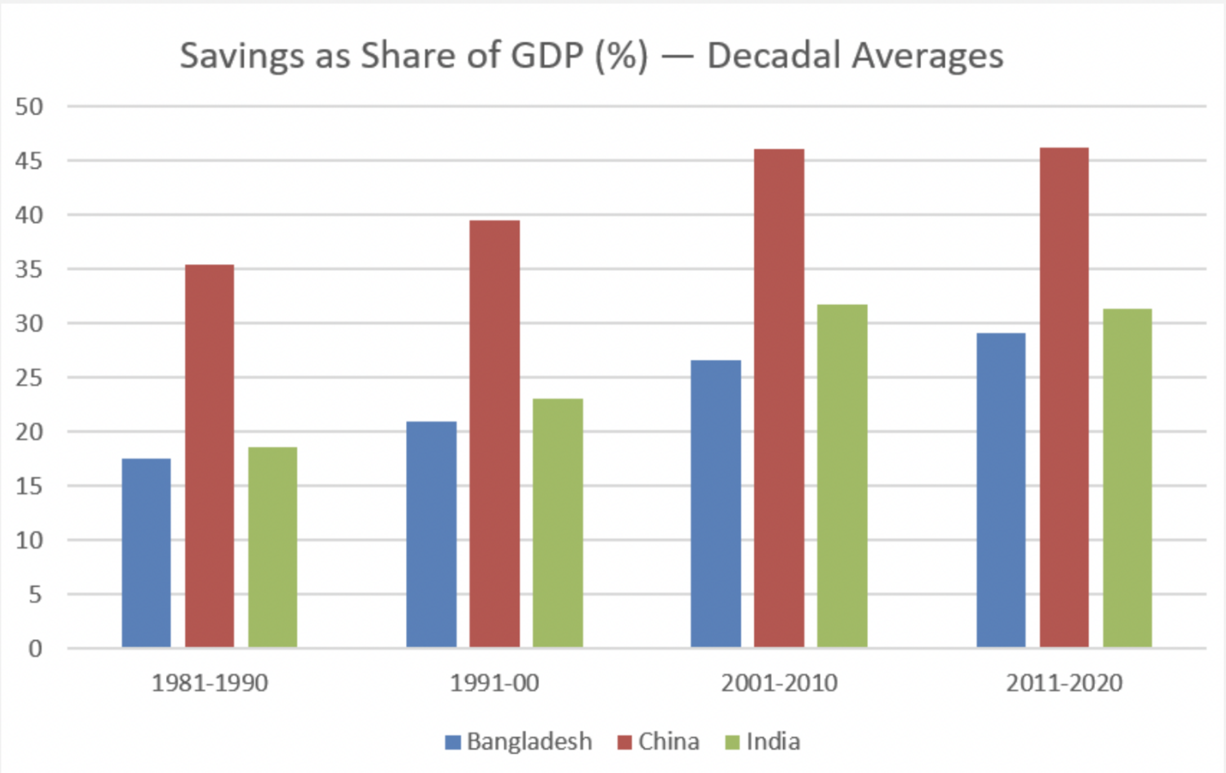



Chart 2b: Savings (% of GDP) — Decadal Averages. Source: International Monetary Fund

- **Investments** across instruments also increased drastically following the 1991 reforms. This is primarily due to the higher income created for Indians by the reforms, specifically due to the increase in savings as shown above. A higher savings rate (proportion of disposable income saved) is often proportional to investments, as savings helps create larger financial capital that can be invested. The graph below shows that a rise in savings was accompanied by a rise in investments too. The rise in investments caused by higher savings allowed individuals to earn even higher returns in the long run, hence increasing the income per head, thus reducing poverty.

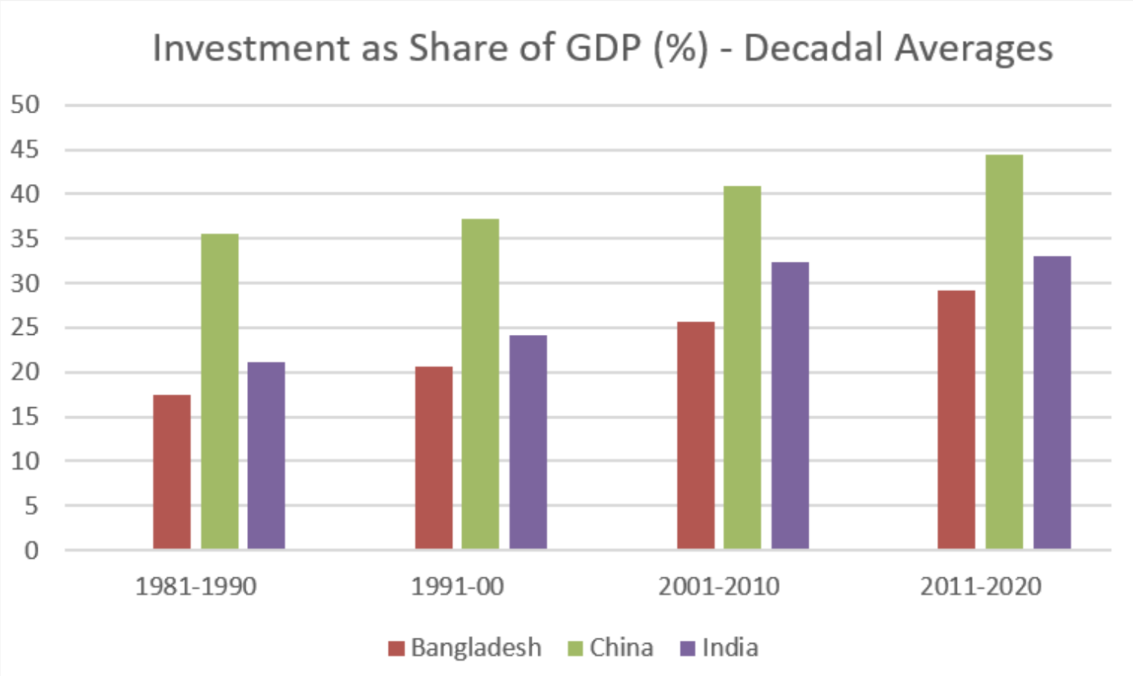
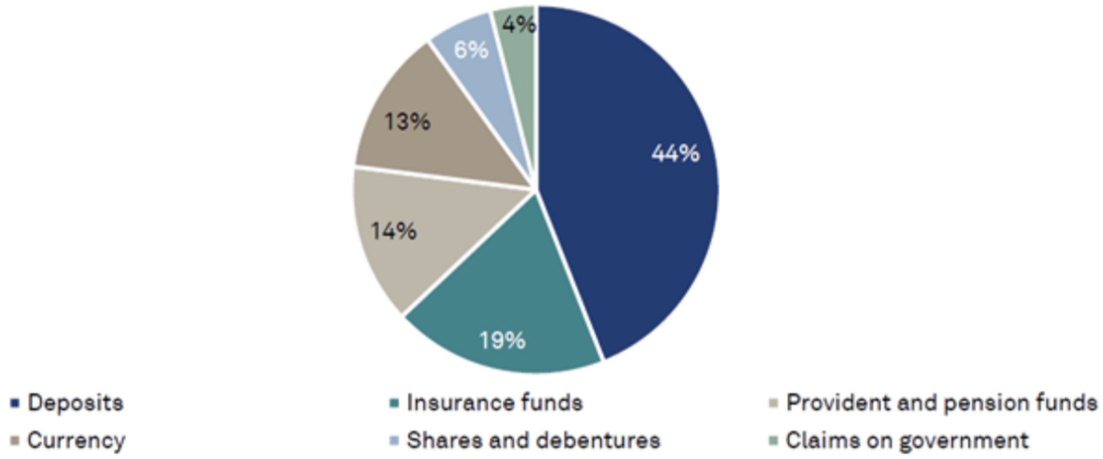



Chart 2a: Investment (% of GDP) — Decadal Averages. Source: International Monetary Fund

- **Age-Wise and Changes in Instruments of Savings and Investments** were also widely noticed following the liberalisation of the economy. Before the liberalisation of the economy, savers were usually middle-aged people, and their savings and investments were majorly directed towards traditional savings methods such as bank deposits, or physical assets such as gold/real estate. They mainly also saved for major events in life, for eg, retirement, weddings, etc. However, post the liberalisation, this changed as people had better access to a range of different instruments including the foreign financial products, and opportunities such as digital assets, stocks, mutual funds, and insurance products. These opportunities, being lucrative, attracted not only middle-aged people but also the youth, and hence increased savings and investments by the youth and middle-aged citizens. Since people of all age categories were investing more in instruments which tended to provide higher returns than traditional saving/investment methods, the society, as a whole, was empowered financially. The diagram below, shows how people have identified a range of instruments to invest/save money in (as of 2017). This is in clear contrast to just the limited traditional methods used pre-liberalisation (as mentioned above).

**Household financial savings**




*Source: PRFDA & CRISIL report*

- **Changes in Gender-wise savings patterns were also prominent** as financial inclusion of women improved exponentially. As the economy opened, not only men but also women had access to different financial facilities, and this encouraged more women savers/ investors. Moreover, this also coincided with the global trend in financial empowerment of women, and hence increased the number of women who saved money. Furthermore, liberalisation also encouraged private sector firms to explore untapped markets such as microfinance lending in rural areas through joint liability groups (JLG) and self help groups (SHG). This resulted in higher income for women, and consequently encouraged small-scale savings within the community (not traditional savings methods which take place in banks). The small-scale savings allowed women to earn returns which in turn helped further boost their disposable income. This, overall, contributed significantly in improving living standards for women, especially in rural areas as they had higher disposable incomes per head than before.

**CONCLUSION:**

Overall, post the liberalisation of the economy in 1991, India has witnessed major changes in terms of poverty alleviation, and improvements in living standards of the population as a result of higher savings and investments. Each trend described above, clearly shows that a rise in savings and consequently investments helped raise the disposable income of individuals, and hence financially empower them - a key step in slashing poverty and improving the living conditions in the society.