# India’s Declining Savings Rate: A Call for Immediate Economic Reforms

-By Pranav Bagla (24035) & Yash Goyal (24054)

India, traditionally lauded for its high household savings, is witnessing a concerning decline in its savings rate, reaching a nearly half-century low of 5.1-5.3% of GDP in fiscal year 2023, down from 7.3% in 2022, according to the Reserve Bank of India (RBI). Simultaneously, household debt has surged to 5.8% of GDP, marking the second-highest level since the 1970s. This dual trend underscores a significant shift from saving-oriented behavior to consumption-driven patterns, posing serious implications for the nation’s economic stability and growth.

The decline in savings is primarily driven by persistent inflation, which has eroded household purchasing power, leaving less room for savings. Rising living costs have forced families to prioritize essential expenses over saving, while stagnant real income growth, particularly in rural areas, has further squeezed the capacity to save. Additionally, post-pandemic consumerism and easy access to credit have led to increased discretionary spending, reflecting changing lifestyle aspirations and financial behaviors. These structural changes have created a precarious financial landscape where households increasingly rely on debt to sustain consumption levels.

The economic implications are multifaceted. Lower household savings reduce funds available for domestic investments, compelling the economy to rely more heavily on external borrowings and foreign capital. This increased dependence can widen the Current Account Deficit (CAD), making India more vulnerable to global financial market fluctuations and exchange rate volatility. A persistent CAD can undermine economic stability, affecting currency valuation and increasing import costs, which further fuels inflation.

Moreover, the combination of reduced savings and heightened consumption can overheat the economy, driving inflation and creating a mismatch between demand and supply. This scenario can lead to sustained inflationary pressures, eroding real incomes and perpetuating a cycle of reduced savings and increased borrowing. Rising household debt compounds this issue. With borrowing reaching 5.8% of GDP, many families are financing consumption through loans, temporarily boosting demand but heightening financial fragility. Higher debt servicing obligations can reduce disposable income in the long term, dampening future consumption and economic resilience.

Several structural factors contribute to the declining savings rate. Persistent inflation limits the ability to save as essential expenses consume a larger share of income. Additionally, wage growth has not kept pace with inflation, especially in rural areas, further constraining households' saving capacity. The pandemic also altered consumption patterns, with households prioritizing current consumption over savings. Easy access to credit has facilitated higher discretionary spending, reflecting changing financial habits but posing long-term risks to economic stability.

Addressing the decline in savings and rise in debt presents significant policy challenges. A lower savings rate forces the government to borrow more to finance fiscal deficits, potentially crowding out private sector investments and stifling economic growth. This dynamic can lead to higher interest rates, making borrowing more expensive for businesses and households alike. Aggressive lending practices aimed at fueling consumption may also result in a rise in non-performing assets (NPAs) if borrowers’ default, straining the banking sector and undermining financial stability.

From a macroeconomic perspective, reduced savings diminish capital formation, essential for sustained economic growth. High reliance on foreign capital exposes the economy to external shocks and exchange rate volatility, increasing susceptibility to global economic fluctuations. This vulnerability can hinder long-term economic planning and investment, affecting overall growth prospects.

To counteract these trends, a comprehensive policy approach is essential. Boosting household savings can be achieved by offering tax benefits on long-term savings instruments like Public Provident Fund

(PPF), Employees' Provident Fund (EPF), and Equity-Linked Savings Schemes (ELSS). Additionally, widespread financial literacy campaigns are necessary to educate the public on the importance of saving and prudent financial planning, fostering a culture of savings over debt.

Increasing real incomes is another vital strategy. Enhancing wage growth, especially in rural areas, can be achieved by improving agricultural productivity and creating employment opportunities in non-farm sectors. Policies aimed at reducing income inequality and ensuring equitable growth can help boost households' saving capacity. Controlling inflation through sound monetary policies and efficient supply chain management will preserve household purchasing power, enabling greater savings.

Creating an investment-friendly environment is essential to offset the lower savings rate. Streamlining regulatory processes to ease the ease of doing business can attract private sector investments, while strengthening the bond market can provide alternative financing avenues, reducing reliance on bank loans. Encouraging long-term borrowing for asset-generating purposes, such as home and education loans, will also contribute to sustainable economic growth by promoting asset creation over short-term consumption.

The Household Consumption Expenditure Survey (2023/24) provides further insights into changing spending behaviors. Non-food expenditures have increased significantly, with rural areas now dedicating 53% of per capita spending to non-food items, up from 47% in 2011/12. Urban areas have seen non-food expenditure rise to 60%, reflecting diversified consumption driven by higher incomes and lifestyle changes. The consumption gap between urban and rural households has narrowed from 84% higher urban spending in 2011/12 to 70% in 2023/24, indicating more equitable economic growth fueled by increased rural incomes and improved infrastructure.

Nominal spending has also grown, with rural spending increasing by 9.55% year-on-year to ₹4,122 per capita per month, and urban spending rising by 8.31% to ₹6,996 per capita per month. Sectoral changes reveal declining expenditure on food staples like wheat and rice, signaling better food security and dietary diversification, while spending on transport, clothing, and entertainment has surged, particularly in rural areas, indicating a shift toward modern consumption patterns.

These findings suggest that while economic growth is becoming more inclusive, with rural areas catching up to urban spending patterns, the overall decline in savings remains a critical concern. The shift towards non-essential spending reflects rising aspirations but also highlights the need for sustainable financial practices to ensure long-term economic stability.

India’s declining savings rate and rising household debt present a critical challenge that requires immediate and multifaceted policy interventions. Enhancing household savings, stimulating real income growth, fostering an investment-friendly environment, and promoting responsible borrowing are essential to ensure sustainable economic progress. By balancing consumption with sustainable investments, India can achieve robust and inclusive growth, safeguarding its economic stability and ensuring long-term prosperity. Addressing these issues will not only stabilize the current economic landscape but also lay the foundation for resilient and enduring growth. Policymakers must prioritize strategies that encourage saving, manage debt responsibly, and promote equitable income distribution to navigate India towards a more stable and prosperous future.

References:


- Reserve Bank of India. (2023). *Household Savings and Debt Statistics*.
- The Hindu. (2024). *On the Fall in Household Savings*.
- Household Consumption Expenditure Survey. (2023/24).