Financial Saving is a Booster Dose to Economic Growth

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Abstract:

Savings plays the crucial role in both the household as well as the nation’s growth. Some well-known economists have studied the relationship between economic growth and savings. Saving is a crucial component of money management that every nation should practise. The purpose of this study is to shed light on this correlation by comparing the situations in America and India. While discussing the relationship between economic growth and savings, there’s no denying that a rise in aggregate savings would promote spending and fuel economic expansion. Savings deposited in commercial banks, that provide the majority of financial capital in developing countries, make this more obvious. In the past, low savings rates have led to deficits in the country's budget and account balance. In this study you get to know about different types of saving schemes.

This study demonstrates that nations with high national savings rates are not reliant on foreign direct investment, which lowers the risk associated with volatile foreign direct investment.

This helps us to understand the benefits of saving, different types of saving and understand how savings help in development of nation in the form of economic growth.

INTRODUCTION

Savings are funds that are not used for immediate or future consumption. In other words, it refers to money that is set aside for later use rather than being immediately spent.

Saving is a crucial component of sound money management that everyone should practise. It entails putting some money or resources aside for future use. People should save for a variety of reasons, including emergencies, retirement, education, and investments.

The ability to save for emergencies can help mitigate unforeseen financial shocks like job loss, medical expenses, or bicycle or car repairs. The ability to maintain a respectable standard of living after retirement is guaranteed by retirement savings. While investment savings enable one to grow financially and achieve goals, education savings give people the chance to continue their education without having to take out student loans. Savings require dedication and control. It entails giving up current comforts in order to ensure a better future. **(Prepp (2023))**

Regardless of the income, spending habits, or in the stage of life, saving is very important for everyone. Here are a few major reasons for you to start saving.

• It provides comfort: Having some money set up for emergencies gives you piece of mind. By having faith that you won't struggle if things take an unexpected turn, you can live a life free of tension.
• It improves your future: Your ability to save money may determine whether you reach your objectives. You can save money for retirement, purchase a car, or purchase a home. You may live a very fulfilling life while also securing your future and taking advantage of all that life has to offer.
• It supports your children's dreams and pays for their education at famous universities throughout the world if you have enough money saved up.
• Set short-term objectives by: Savings are not merely for the future. Short-term financial planning might also be advantageous for you. After putting money aside for a while, many individuals go on vacation.
• It provides safety for your family in the case of an unfortunate circumstance: You may ensure your family's financial security by engaging in disciplined saving. Your money might serve as a safety net for your loved ones in bad times and help them get through any financial challenges.

History of savings and investing in India

Your decision to invest and save was governed by the government until the 1990s. It's understandable why Indian households picked gold and real estate as savings vehicles. The financial industry served as a window onto the economy's general trajectory. The state-owned and run financial sector had high costs and subpar service. Yet in 1991, the world of finance abruptly changed. (NSI (2022))

Finance was affected when India's economy opened to the rest of the world in 1991. A small number of new entities now have banking licences. Banks from the 1990s included ICICI Bank Ltd., HDFC Bank Ltd., and Axis Bank Ltd. (formerly known as UTI Bank). Private sector banks that were vying for customers flooded the market with new goods, services, options, and technology. By the 2000s, we had forgotten about the oppression of the bank teller knitting sweaters and refusing to move, the stifling queues at the cash register, and the length of time it took to clear out-of-state checks. The following crop appeared in the 2000s as a few more businesses obtained banking licenses Kotak Mahindra Bank and Yes Bank Ltd. Nevertheless, more recently, the banking industry really began to expand with the licencing of Bandhan and IDFC Bank as well as minor banks and payment banks. By 2010, particularly in the private sector, banks had changed from locations where you could keep your money secure to product marketers. The majority of urban middle class bank customers have tales to tell about how their local branch mishold there life insurance policies. The regulatory body is still catching up.

Savings in India

For both individuals and families, saving is a crucial component of financial planning. Saving is not only a strategy to safeguard one's future in a nation where the majority of people are middle class; it also plays a critical part in the expansion of the economy. Through a number of programmes, including the (NSC), (PPF), (POMIS), (ELSS), (SCSS), (SSY). (Paisa bazaar (2023))

In addition to these government-backed programmes, Indians favour making investments in gold and real estate to save money for the future. Nonetheless, it has become crucial to diversify investment portfolios and look into other possibilities like mutual funds and equities due to rising inflation rates and uncertainties in the labour market.

National Savings Certificate (NSC)

NSCs, or National Savings Certificates, are a type of savings bond issued by the Indian government that are largely utilised in India for small savings and investments that reduce income taxes. It is a component of India Post postal savings programme. (Paisa bazaar (2023))

Atal Bihari Vajpayee, a former Indian prime minister, founded it on November 19, 1998.

Public Provident Fund (PPF)

In India, the National Savings Institute of the Ministry of Finance launched the Public Provident Fund in 1968 as a savings and tax-saving tool. The scheme's primary goal is to mobilise small savings by providing an investment with reasonable returns along with income tax benefits. (Akshatha, B. G., & Akash)

Public Provident Fund (PPF) have the interest rate of 7.1%. Its 15-year tenure may be extended in increments of five years indefinitely. PPF payments are tax deductible up to Rs. 1.5 lakh annually in accordance with Income Tax Act Section 80C, 1961, and interest earned on PPF investments is tax free. A PPF account can easily be opened at a post office or at a bank. Online PPF account opening is also available from some banks, including ICICI and Axis. When five years have passed since the account was opened, partial withdrawals are permitted. Moreover, a loan facility is offered, but only after third year. The minimum amount you can invest per year is Rs 500 and the maximum amount you can invest per year is Rs 1.5 lakh.

Sukanya Samriddhi Yojana (SSY).

It is a government-backed deposit programme for a girl child known as Sukanya Samriddhi Yojana (SSY). It was launched under 'Beti Bachao Beti Padhao' campaign. Under Section 80C of the tax code provides a benefit for the programme. Also, the returns are tax-free. (Bhattacharya, S., & Gandhi, A. (2021))

On January 22, 2015, Prime Minister Narendra Modi introduced the programme as a component of the Beti Bachao, Beti Padhao campaign.

You can start a Sukanya Samriddhi Account whenever a girl is born and up until the age of ten by making a minimum deposit of Rs 250. In succeeding years, deposits can be made during the current fiscal year the minimum amount of Rs 250 and the maximum amount of Rs 1.5 lakh.

The account will stay active for 21 years from the opening date or until the girl marries after becoming 18 years old. After the child turns 18, a partial withdrawal of 50% of the balance is permitted in order to cover the costs of her higher education.

Post Office Monthly Income Scheme (POMIS)

In exchange for the deposit you make with the post office, this account offers monthly interest. The minimum and maximum deposits are 1,500 and 4.5 lakhs respectively (Rs 9 lakhs for a joint account). The offered interest rate is 7.1%. Subject to the maximum balance limit, any post office may accept the opening of an unlimited number of such accounts (after adding balances in all accounts). The POMIS has a five-year tenure. The monthly interest from POMIS can be automatically credited to your savings account by setting up an ECS facility. When a year has passed since the account's establishment, you can cash it out early. This type of cancellation has a premature encashment penalty of 2% of your deposit within 1 to 3 years. The penalty is 1% if you cash it out before it matures at 5 years but before 3 years have passed. (Paisa bazaar (2023))

Post Office Recurring Deposit Account

You make a fixed monthly contribution into this account, and each instalment grows in value. The account offers an annual compound interest rate of 5.8%. This account has a fixed 5-year term, but it can be renewed for another 5- or 10-year period. The smallest payment is Rs. 10. In this account, there is no set maximum investment amount. This plan does not provide a tax break, and the interest it accrues is entirely taxable. (Rajeswari, M. (2017))

Equity-Linked Savings Scheme (ELSS)

ELSS also referred to as tax saving funds. Equity-Linked Savings Scheme is eligible for the tax reduction under the Section 80C for the maximum of Rs. 1.5 lakh. The investment consist of a three-year period in which your money is locked for three year that is required. The returns on investment redemption are subject to capital gains tax. Gains are exempt from tax up to Rs. 1 lakh. They are subject to 10% tax on amounts above this. (Panigirahi, R., & Gupta, A. (2020))

With underlying investments that are a mix of debt and equity, ELSS savings have exposure to the equity market. Higher returns are offered by the equity component, while debt acts as a buffer against volatility. Over a longer period of time, more than five years, the scheme offers higher returns. A SIP (systematic investment plan) offers investment stability and generates higher returns. The initial investment is 500 rupees.

Senior Citizens Savings Scheme (SCSS)

Designed for senior citizens who want to store their retirement funds, the Senior Citizens Savings Scheme (SCSS) is a savings programme for seniors. Within one month of receiving their retirement benefits, people who are 55 to 60 years old with early retirement can also choose to participate in the programme. One deposit is permitted by SCSS. Amounts up to Rs. 15 lakh may be invested, with a minimum investment of Rs. 1000 (Anute, N., & Ingale D).

The scheme's initial five-year term may be extended voluntarily for an additional three years. 7.4% annual interest is charged on it. The interest is deposited into a savings account held at the same post office once every three months. A maximum reduction of tax of Rs. 1.5 lakh may be made for the investment in SCSS under Section 80C. Taxes must be paid on interest income each year. Nevertheless, under Section 80TTB, senior citizens may deduct up to Rs. 50,000.

Importance of investing in saving schemes

Savings programmes are crucial for citizens of a nation and, consequently, for the economy for the following reasons:

- Safety: Savings plans will help you keep your hard-earned surplus cash on hand for your future needs. Liquid money may not be safe to hold onto.

- Retirement Funds: Regularly contributing to long-term savings plans can assist you in amassing a retirement corpus. Starting to save early will pay off with a sizable corpus that you can use after retirement to support a comfortable lifestyle.

- Benefits over the Long Term: Because most schemes calculate interest using the compound interest formula, investing over the long term can produce astounding returns. The maximum lock-in period for these plans is 60 years, with a minimum lock-in period of five years. When returns compound and are combined with long-term savings, the total amount at maturity will be enormous.

- Tax Savings: Several saving plans provide some form of tax benefit, such as a tax deduction, an exemption, or both. In accordance with Income Tax Act Section 80C, some schemes are qualified for an investment tax deduction of a maximum of Rs. 1.5 lakh. Another group of plans provide a deduction for the investment, interest earned, and maturity sum.

- Avoid Unwanted Expenses: When you have all the money you need, it's easy to blow it on unnecessary things. On the other hand, investing the extra money after paying for the necessary expenses will help limit spending on pointless products and services. (ICICI (2022))

STATEMENT OF PUPOSE

Saving money helps you as a way out of the uncertainties of life which also allows you the chance to live a decent life. You can avoid many difficulties and barriers in life by setting aside money in a disciplined manner. But not only that people don't know much about how saving money can be a booster dose to an economy growth by this research we are going to understand the same.

RESEARCH METHODOLOGY

The research problem can be approached methodically using research methodology. There are many strategies and procedures for performing a research are included in the research methodology.
There are total 3 methods or approaches in research: qualitative, quantitative and mixed method. Here we have used the mixed method because the data we have taken for the research are in the form of both qualitative and quantitative data

1. Research Design

a) Conclusion Oriented Research: This research aimed to discover the qualities, benefit and objective of savings it was conclusion-oriented. In different words when we offer our own ideas about anything, which is research.

b) Descriptive Research: This study is descriptive in nature because it focused on making precise description and narrated facts and traits about savings. Descriptive research, in other words, is a type of study in which the variable is not under the researcher's control. He just showed the image that had already been examined.

2. Sample Design:

An approach used to choose a group from a certain population is known as a sample design. It allude to the method that the researcher uses when choosing the goods for the sample. Within the context of sample design, decisions must be made about the following variables.

a) **Nature of the Investigation:-** The nature of this study include respondents aged above 18 years.

b) **Sample Size:-** The number of components that are required for a study is the sample size. 70 respondents were chosen while taking into account all the restrictions.

c) **Sample Technique:-** Simple random sampling and convenience sampling are the sampling methods used.

Sampling Sample Size And Technique

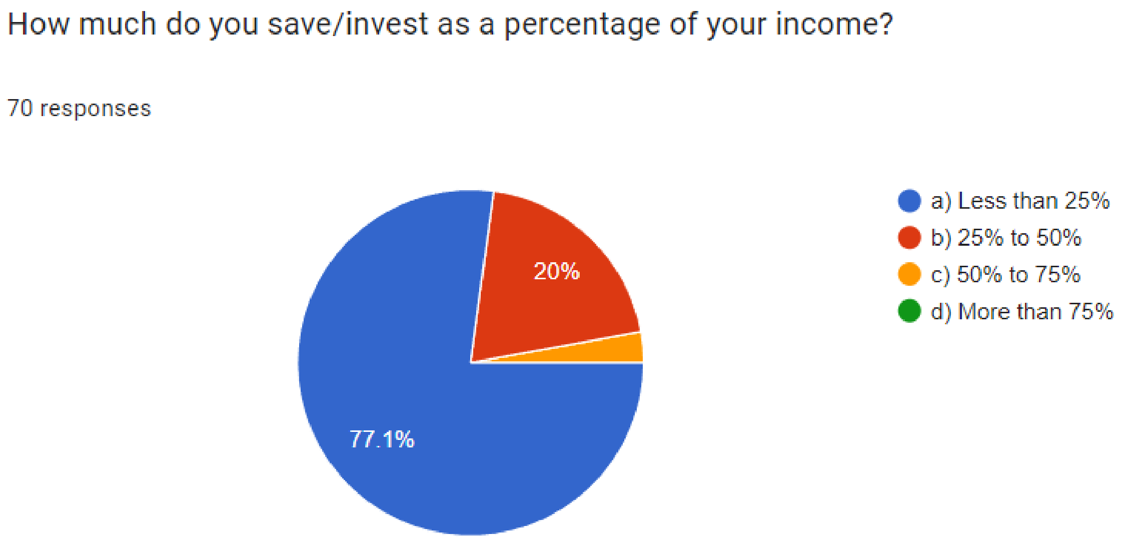
The size of the sample is the quantity of objects chosen from the population to represent the nature of study. The study's objectives were satisfied with a sample size of 70. Convenience sampling with non-probability is the sampling method adopted.

Data Collection Method

Data collection activity starts after a research challenge is established and the study design plan is examined. While deciding on the method of data collecting for the purpose of the study, two categories of data primary and secondary should be taken into account. For the investigation, both primary as well as secondary data were acquired.

Survey Questions

Q1.How much do you save/invest as a percentage of your income?
a) Less than 25%
b) 25% to 50%
c) 50% to 75%
d) More than 75%

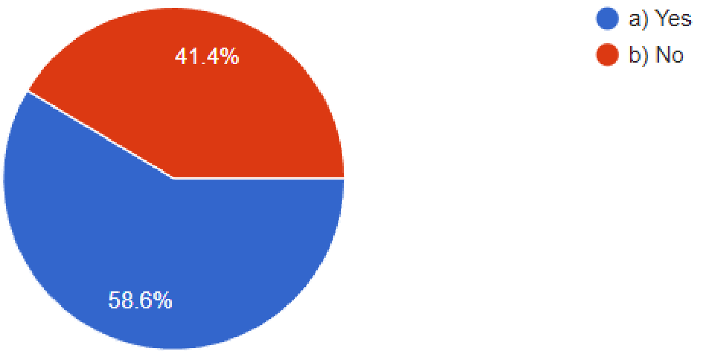


Answers	Less than 25%	25% to 50%	50% to 75%	More than 75%
No. of people	54	14	2	0

Q2.Is your saving a goal oriented for e.g. buying smartphone, bike, car, house, vacation etc?
a) Yes
b) No

Is your saving a goal oriented for e.g. buying smartphone, bike, car, house, vacation etc?

70 responses



Answers	Yes	No
No. of people	41	29

How savings can save the American economy?

Saving is not one of the things that Americans are renowned for. The aggregate rate of American savings decreased over the two decades between 2000 and 2020. In fact, during this time the national savings rate reached record lows and even went negative in 2005.

Although most Americans are aware of the value of saving, having savings in the bank can come in very handy when economic hardship strikes (which it will eventually do given the cyclical structure of the financial system). Saving money is a good idea in a difficult economy, but this is not a ground breaking discovery. But you might be surprised to find out how much a strong savings rate might speed up a country's overall economic recovery. Yet, regardless of the situation of the economy, conserving money is always a wise move.

While Americans were saving less and less, they were simultaneously showing a greater propensity for buying purchases with credit of some kind. While the early 2000s saw a widespread acceptance of credit use, which fuelled tremendous expansion in the United States, it might have also came up at a major cost. Given the easy access to credit, many consumers may have started utilising their credit cards (and home equity) as savings accounts.

The series of defaults that had place throughout the Great Recession (2007 – 2009), the global financial downturn is an example of this. This exposed a characteristic of our credit system that is pervasive: credit defaults. Overextended customers were forced underwater on their mortgage payments by a collapsing real estate market, forcing them to cut expenditures at the last minute and enter default.

People began to discover that their credit limits weren't equivalent to cash in the bank when the credit market collapsed and consumer credit lines shrank. Defaults in succession reduced economic activity and accelerated the loss of jobs. A decline in overall economic output and higher unemployment rates had a greater impact on people whose savings had already run out. Because of the interdependence of the financial system, a small group of buyers and lenders have immediate access to considerable economic influence.

There is little doubt that having larger savings accounts gives consumers safety nets to help them weather unexpected costs without getting further into debt. Having a higher percentage of income set aside for savings also implies that living costs are lower, which allows consumers to adapt their budgets to devote more money to higher mortgage payments or to better prepare for job loss.

Subsequently, the economy recovers considerably more quickly as a result of its capacity to cope with financial adversity. After all, the banks, utilities, and grocery stores may all continue to operate, keeping their doors open and their staff members employed.

Savings are not risk-free, as anyone who had equities in their retirement accounts in October 2008, the month the Great Recession began, can attest. Even government intervention can operate against savers; higher inflation and stimulus expenditure both have the potential to undermine the effectiveness of cash savings.

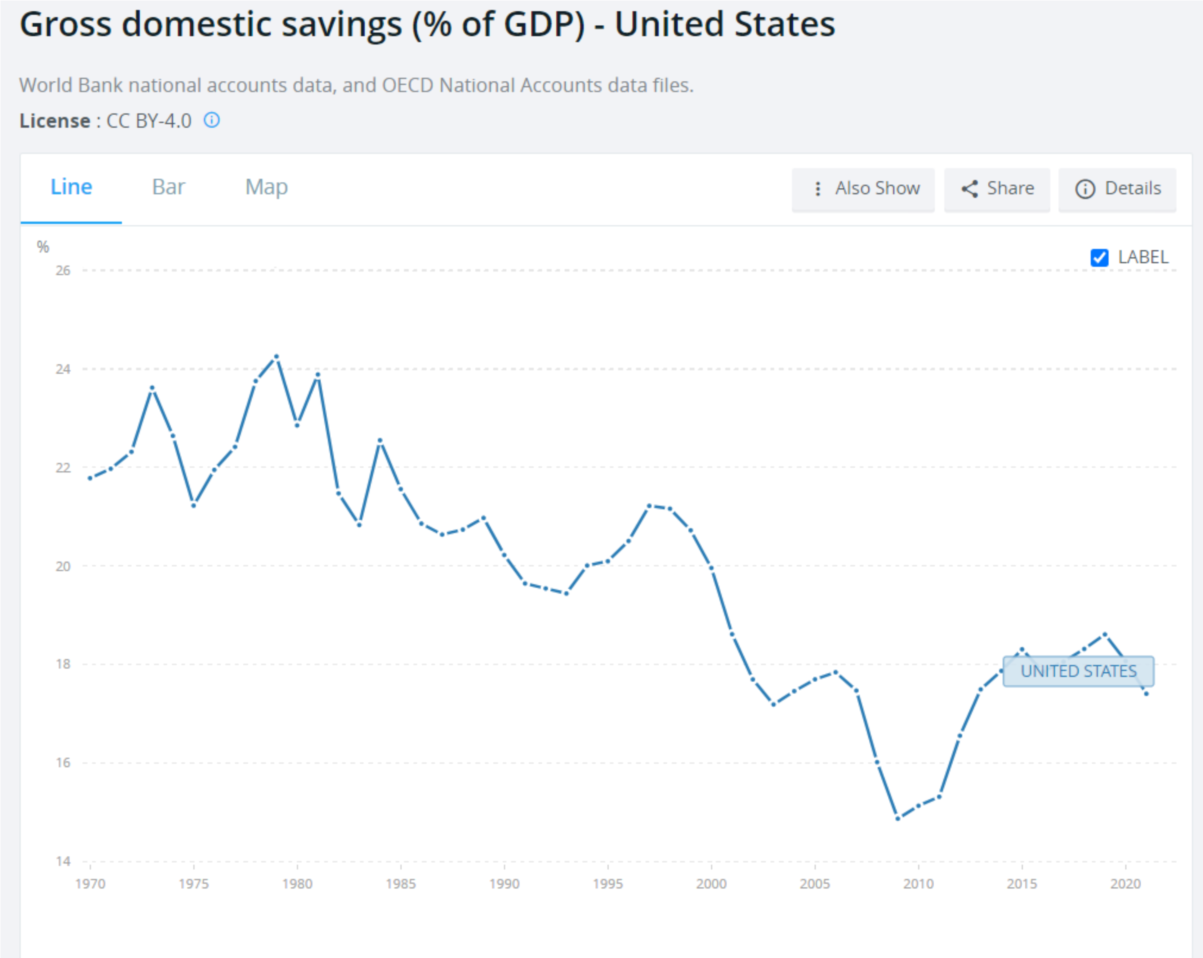
Typically, governments use more sovereign debt to pay for economic stimulus packages they offer to their citizens (which eventually must be repaid by succeeding generations).This could mean, according to one interpretation, that savers will eventually have to bail out non-savers. Another approach is that government can fund legislation that contains a federal stimulus by merely printing more money. Inflation is more likely to occur in this situation. One could argue that inflation is the biggest destroyer of savings.

Your savings account's currency would have less actual worth per dollar as a result of inflation. The number of goods or services that a certain amount of money may be used to buy is a measure of its value. One unit of currency, like a US dollar, cannot buy the same number of products as it could have in the past when there are significant rates of inflation. Although there is a real risk of inflation, when personal savings are strong, government stimulus is not as necessary. This is due to the fact that consumer spending serves to stabilise the country's finances. (Investopedia (2022))

Just after Great Recession, as it happens after the most of economic catastrophes, the nation's savings rate skyrocketed. This pattern was probably partly caused by those who could manage to save or choosing to save their money in preparation of future hard times.

Conclusion for American case

One of the ways to alleviate economic problems, on both the personal and the societal level, is to keep a healthy savings rate. Americans have to live inside their means as a result, but subsequent economic downturns won't have as great of an impact on us. It will be interesting to watch if future consumers learn from the errors made during earlier economic downturns and save more money during times of easy credit availability.



Graph - 1 Gross domestic savings of United States of America. (Worldbank (2021))

How savings boost India's growth?

Any family's ability to save money strongly relates to its ability to grow financially. You can invest more money the more you save. Your family's finances improve as you invest more. It is a source of tremendous pride, especially when your funds have made a major contribution to this growth.

When you realise that your savings are also helping to strengthen your nation's economy, it becomes an even bigger source of pride.

By investing in instruments like fixed deposits, mutual funds, bonds, stocks, real estate, and gold, we can grow our wealth. Our funds increase when we diversify correctly. The amount of capital accessible for investment increases as our savings increase.What we frequently fail to realise is that these investments support not just our personal progress but also the economic development of our nation as a whole. Let's examine its operation in more detail.

First, let's think about the savings we have in banks and other financial institutions. The bulk of our savings are invested in banks as well as other non-banking financial organisations, considering that they are the primary sources of investment credit in India.

We borrow money from banks whenever we invest our savings there, allowing us to grow our business, a process known as investing in capital goods. Businesses that invest in capital goods see increased economic growth.

Imagine that a company has borrowed money from the bank in which you have a bank account. Let's further imagine that this company is now building a new facility that will increase output and promote economic growth. It will boost the income of other enterprises, which can now grow in accordance with consumer demand. Workers who don't currently have one will open new savings accounts to deposit their pay checks when new employment are created. These deposits are put to use by banks to begin a new round of lending, which further boosts economic growth. Hence, your investments and savings have a real impact on how well your nation's economy is doing.

Even the funds we invest in stocks (in the form of shares or debentures) are utilised by businesses to trade and raise money, which encourages consumers to put more money into their investments. Again, this contributes to the expansion of the economy.

In addition to these, over three-fourths of Indian household savings are allocated to real estate and other holdings. So, our home investments create a network of investments that support economic expansion. Savings offer us a notion of how much a nation's citizens can invest; when savings rise, investments climb as well.

Household savings provided a median of 60.93% of the nation's economic savings throughout the 5 years (FY12-FY17), or more than half of the total savings available in the country, according to a report by India Ratings and Research. The largest contributor to the economy, India's household savings overall, have sadly decreased over the past few years. It decreased from 23.6% to 16.3%, in accordance with study conducted at India Ratings and Research, Arth Samvaad. Demonetization and GST had an impact on the household sector since MSMEs' investments suffered.

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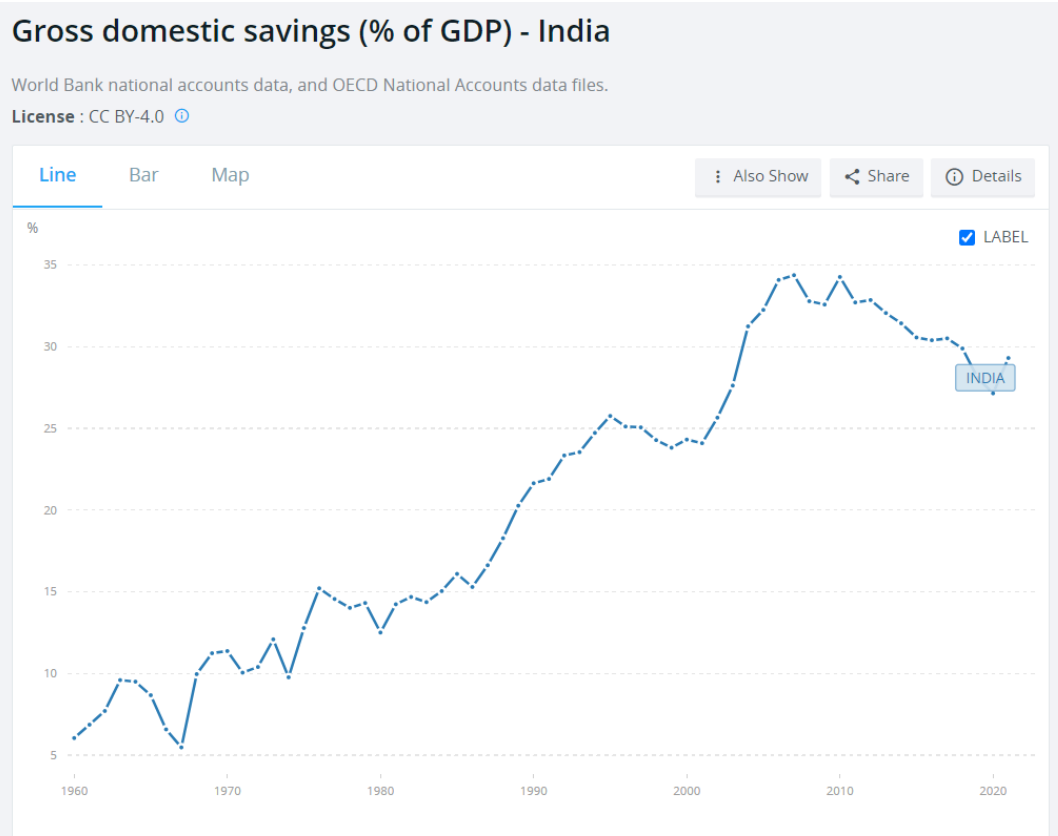
Due to the decline in household savings between FY12 and FY17, household investments suffered. The tighter financial conditions were a major factor in this drop. According to the most recent data, GDP growth decreased to 7.1% from 8.2%. The GDP growth and macroeconomic stability of our nation will be seriously threatened if this decrease persists. In order to increase savings, households across the country must have better access to credit. Our savings must be transferred from tangible to financial assets in order to yield higher returns. (Tomorrowmakers (2022))

The ability to save money is the driving force behind economic expansion and makes it possible to produce capital goods. The quantity of savings available for investing in capital directly affects the size of a nation's economic investment. Between FY12-FY17, the growth of household savings reached a historical low of 3.7%.

Conclusion for India's case

In addition to our duty to make sure that our family is financially secure, we also owe a greater duty to our nation. Also, our investments and savings directly affect the nation's economic progress. The practise of saving and investing will improve our financial situation and that of our nation, which will only make our lives better. Every drop adds up to an ocean, just as our money can increase investment and GDP growth in India.



Graph – 2 Gross domestic savings of India (Worldbank (2021))

CONCLUSION

This study found that, in addition to a rise in saving from Indian commercial banks, remittances and loans act as a economic development strategies element in boosting the Indian economy by directly affecting the return on investment.

Consequently, further technical advancement will be made possible by cutting unemployment and increasing the amount of domestic funds accumulated inside the Indian banking system, raising India's GDP, and improving the lives of its citizens. Although the load of external debt and reliance on foreign banks are often substantial issues for several developing countries, this technique will reduce the dangers to the country's economy. In order to hasten the nation's sustainable economic growth, the Indian government should therefore start developing more ways to encourage the building of domestic savings.

Saving is crucial to a nation's economic development. To increase productive wealth, some people must be ready to refrain from spending entirety of their money. People need to be willing to invest as well as save money if they want to increase economic output.

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