THE FREE ENTERPRISE BRIEF

India's Savings Question

Director's Note

Financing India's Ambitions

India's economic aspirations hinge critically on its investment rate. In turn, the investment rate is inseparable from the savings base.

The pertinent question is not only how much India needs to invest, but how that investment will be financed.

In a closed economy, domestic savings finance domestic investment. In an open economy, the gap between the two is reflected in the current account.

India's domestic savings rate has fallen from around 34.6 per cent of GDP in 2011-12 to 30.7 per cent in 2023-24.[i] Domestic investment has also declined over this period.

The narrowing of the savings-investment gap is therefore not necessarily a sign of strength: a smaller gap caused by weaker investment is very different from one caused by stronger domestic savings.

The decline is principally a household-sector story. Households remain India's main surplus sector, financing public borrowing, corporate investment and financial intermediation. Yet household savings have fallen in both physical assets and net financial savings.

This issue examines the savings question from three angles. The Explainer sets out the link between savings, investment and the current account.

The Big Question asks whether India can create a public savings engine through a professionally managed sovereign wealth fund—one that converts public assets, dividends and one-off receipts into a permanent pool of national capital.

The Perspective examines the fall in household savings, the determinants behind it, and whether the rise in household credit is financing consumption, liquidity or asset creation.

India has spent considerable time debating how capital should be deployed. It must now give equal attention to how capital is saved, accumulated and compounded.

The Big Question

Can India Build a Public Savings Engine?

India's economic ambitions rest on its investment rate. In turn, the investment rate is inseparable from the savings base. Domestic savings do not have a homogeneous structure. They are spread across households (that includes the informal sector), the private corporate sector, and the public sector.

Households remain the principal surplus sector. Firms save and invest through retained earnings and capital markets. Government is different. General government often runs deficits and is therefore a dissaver, while public enterprises and public financial institutions may generate surpluses.

Persistent fiscal deficits are not necessarily a problem in themselves. If they finance infrastructure, human capital, technology and other productivity-enhancing expenditure, they can raise future growth and improve debt sustainability.

The concern arises when public borrowing increasingly finances current expenditure, absorbs a large share of domestic savings, and crowds out private investment. In such a situation, the economy's investment ambitions become harder to finance without higher taxation, greater dependence on foreign capital, or pressure on domestic interest rates.

This is why government savings matter. India does not only need to borrow better; it needs to save better.

A sovereign wealth fund would not, by itself, create new public savings.

Its value would lie in converting public assets, dividends and one-off receipts into a permanent capital base, rather than allowing them to be absorbed into annual expenditure.

Today, the value of India's public financial assets is in the trillions of US Dollars (USD). For instance, India's forex reserves are around USD 680 billion, with 80 per cent in currency.[ii] LIC's assets under management (AUM) are about USD 600 billion[iii], and EPFO manages USD 300 billion[iv]. Government stakes in public sector enterprises and banks are valued at USD 430 billion.[v]

India therefore possesses substantial pools of public and publicly managed financial assets. However, these are not freely interchangeable either – these funds remain fragmented across ministries, regulatory frameworks and investment philosophies.

Globally, many countries have consolidated national assets through SWFs. They have been used as tools for intergenerational wealth transfer, allowing domestic savings to compound over decades. SWFs have also served as economic stabilisers. Countries have also employed SWFs to supplement development expenditure.

Usually, SWFs are funded by revenues from natural resources, such as oil. Norway's Government Pension Fund Global (GPFG), for instance, was established in 1991 following the discovery of oil in the North Sea, to transfer intergenerational wealth. Today, it is the world's largest SWF, with USD 2 trillion in assets, and holds 1.5 per cent of the shares of all global listed companies.[vi]

Others have been created from accumulated foreign-exchange reserves, such as the China Investment Corporation. SWFs can serve developmental purposes too. Singapore's Temasek and Singapore Investment Corporation (GIC) are examples.

The GIC has delivered real returns of nearly 4% in the past twenty years.[vii]

Crucially, SWFs can also supplement public finances. The GPFG alone funds about 20 per cent of Norway's budget. In government budget terms, these are called non-tax revenues. They are an essential source of funding, accounting for a fifth of revenues as per the Budget estimates for 2025-26. Dividends, disinvestment, user charges, railway and toll revenue, all count as non-tax sources.[viii]

Welfare spending in India is increasingly leaning towards direct cash transfers, whilst retaining the expenditure on subsidies. Combined, the Centre and states spend over 9-10 lakh crore on subsidies each year, equivalent to about USD 90-95 billion. These outlays have legitimate social objectives and, in a developing country, remain necessary.

India's committed expenditure and development needs are rising. A durable stream of non-tax income would reduce the extent to which future spending must be financed through taxation and borrowing.

First, we need clarity of purpose. Globally, SWFs serve the functions of preserving national savings, stabilising against shocks, supplementing national budgets, and supporting long-term development ambitions. For India, the SWF should serve the following objectives, in phases. Its overarching goal must be to build, preserve, and grow national savings.

We can start conservatively. To begin with, one option could be to create a holding company for all Government of India (GoI) stakes in public sector enterprises and banks. With an asset base of 400-450 bn USD, this company can create a wealth fund, the Bharat Wealth Fund. All disinvestment proceeds can be added to the corpus of this wealth fund.

A later phase could consider a limited allocation from foreign-exchange assets, but only when reserve adequacy is demonstrably strong and under a rule agreed with the RBI. LIC, EPFO and other domestic institutions may invest in the fund on arm's-length commercial terms, subject to their fiduciary and prudential obligations; their assets should not be treated as government contributions to its corpus.

Our target should be to grow the fund to USD 200-300 bn over the next 5 to 10 years through reinvesting returns and annual top-ups from disinvestment proceeds, dividends, investable surpluses, and reserves.

The fund's primary mandate must be to preserve and compound public wealth over the long term. Once it has achieved sufficient scale, a rule-bound share of its average long-run returns—not its principal—could supplement national budgets.

A limited allocation could also be invested through professionally governed institutions such as NIIF and NaBFID, provided such investments meet transparent financial and risk benchmarks.

Its investment decisions must be insulated from day-to-day political direction, and a transparent fiscal rule must govern withdrawals. Without these safeguards, the fund risks becoming an off-budget financing vehicle rather than an institution for national savings.

The Government of India, both directly and through entities such as EPFO and LIC, can be the majority shareholder in the Bharat

Wealth Fund. However, management must be professionalised entirely. The Government can appoint the board, with independent directors from the private sector.

The fund should be able to invest in global equities, bonds, real estate, and infrastructure. A portion of long-run returns could be earmarked for national priorities, such as urban infrastructure, climate resilience, and health and education systems. The target must be to earn a post-inflation, or real, rate of return of 3- 4%.

A Bharat Wealth Fund would not substitute for fiscal discipline, household savings, private investment or foreign capital. Its purpose would be narrower but important: to convert public assets and one-off receipts into a permanent, professionally managed pool of national capital.

India's development debate has focused extensively on how the state should spend. It must now also ask how the state can save, invest and compound. A well-designed Bharat Wealth Fund can become a central instrument in achieving that objective.

Explainer

The Link Between Savings & Current Account Deficit

The link between savings and investment is easiest to understand through a simple macroeconomic identity. In a closed economy, domestic investment must be financed by domestic saving.

In an open economy, however, a country can borrow from or lend to the rest of the world. That is where the current account enters the picture.

In a closed economy:

$$Y = C + I + G$$

$where\ Y = national\ income; C = national\ consumption, I = investment\ spending\ and\ G = government\ spending$

$Rearranging\ for\ I, we\ ge$:

$$I = Y - C - G$$

$Rearranging\ for\ S$ $we\ get$:

$$S = Y - C - G$$

$$I = S$$

Now, we introduce a small-open-economy assumption. A small open economy can borrow from or lend to global capital markets but is too small to influence the world interest rate. That means it takes the global interest rate as given.

$$Y = C + I + G + (X - M)$$

$$S = Y - C - G$$

$$Y - C - G = I + (X - M)$$

$$S = I + (X - M)$$

$$S - I = (X - M)$$

In other words, the current account and capital flows are mirror images. A country with a current account surplus is lending to the rest of the world.

Case 1: Domestic Savings Equal Domestic Investment

$S = I$

$S - I = 0$

$If\ S - I = 0, \quad then, \quad X - M = 0$

Intuition: This means the country is neither borrowing from nor lending to the rest of the world. Its domestic investment is fully financed by domestic saving.

Case 2: Domestic Savings are Greater than Investment

$S > I$

$S - I > 0$

$If\ S - I > 0, \quad then, \quad X - M > 0$

This means the country runs a **current account surplus.**

Intuition: The country saves more than it invests at home. The excess saving must go somewhere. It is lent to the rest of the world. This is what people mean when they say a country is exporting savings.

Case 3: Domestic Savings are Less than Investment

$S < I$

$S - I < 0$

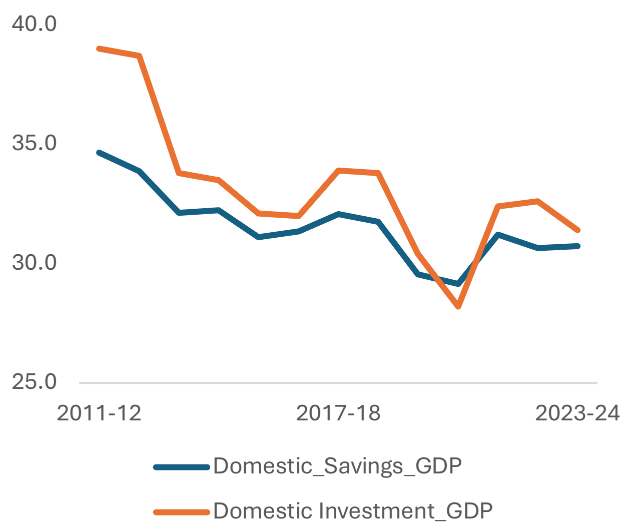
$If\ S - I < 0, \quad then, \quad X - M < 0$

This means the country runs a **current account deficit.**

Intuition: The country invests more than it saves domestically. It therefore needs foreign saving to finance the gap. This is what people mean when they say a country is importing savings.

India has consistently seen its investment rate exceed its savings rate, meaning it has been a net importer of capital. This is not necessarily a bad thing. However, it does create vulnerabilities if the savings–investment gap widens.

Figure 1: Domestic Investment & Savings Rates (%) of GDP



Source: National Accounts Statistics

For instance, in times of crisis, global capital becomes more risk-averse and, hence, more expensive. This makes it harder to finance the investment-savings gap. This, in turn, can raise borrowing costs and put pressure on the exchange rate.

If India wants a structurally higher investment rate without excessive external vulnerability, it must raise domestic savings.

Foreign capital must supplement, not substitute, domestic capital.

Perspective

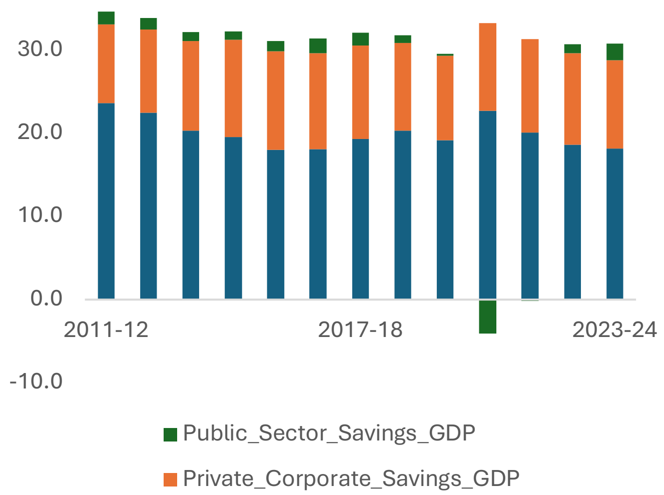
Why Has India's Household Savings Rate Fallen?

The decline in India's domestic savings rate is primarily a household-sector story. Domestic savings can be decomposed by institution: households, the private corporate sector, and the public sector.

In the official data, the public sector itself is not a single entity; public enterprises may generate surpluses, while general government often runs deficits. But the broad institutional picture is clear. Corporate savings have improved.

Public-sector savings, depending on the classification used, have not been the principal source of decline.

Figure 2: Savings by Institution (% of GDP)



Source: National Accounts Statistics

Households remain the principal surplus sector in the Indian economy. Their savings finance public borrowing, corporate investment, housing, financial intermediationand long-term capital formation (Figure 2).

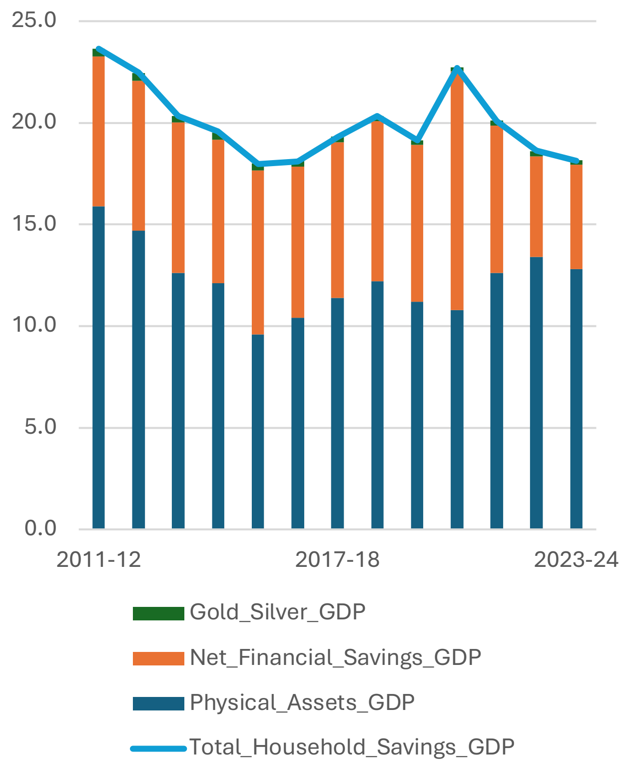
The household savings rate fell from around 23.7 per cent of GDP in 2011-12 to about 18.2 per cent in 2023-24. Over the same period, private corporate savings rose from 9.5 per cent to 10.7 per cent of GDP, while the aggregated public-sector figure rose from 1.5 per cent to 2.0 per cent.

The decline in domestic savings rate is therefore not a generalised fall across institutions. It is principally a household-sector story. Since households remain India's main surplus sector, this is a macroeconomic development, not merely a matter of private financial behaviour.

How Do Households Save?

Households include much more than salaried individuals. In India's national accounts, the household sector includes unincorporated enterprises and much of the informal economy. The composition of household savings is equally important. The decline in household savings therefore has two main components: lower savings in physical assets and weaker net financial savings.

Figure 3: Breakdown of Household Savings



Source: National Accounts Statistics

Household savings in physical assets: homes, buildings and similar assets, fell from 15.9 per cent of GDP in 2011-12 to 12.8 per cent in 2023-24. Net financial savings fell from 7.4 per cent to 5.2 per cent. Savings in gold and silver remained small in the measured data, declining from 0.4 per cent to 0.2 per cent.

The second of these requires further explanation. Net financial savings are calculated by deducting financial liabilities from gross financial savings. Gross financial savings have not collapsed. In fact, they rose from 10.7% of GDP in 2011-12 to 11.4% in 2023-24. But household financial liabilities rose much faster, from 3.3% to 6.2% of GDP. As a result, net financial savings declined.

This is the central nuance. India's household savings challenge is not simply a collapse in gross financial saving. It is a balance-sheet issue: households continue to acquire financial assets, but they are taking on liabilities faster.

What Determines Household Savings?

The national accounts identify where household savings have fallen but cannot explain why. The literature points to four interacting determinants: income and productivity, inflation, demographics and changes in financial behaviour.

Current income determines the capacity to save, while expected future income influences how much households consume today. Rising productivity and income can expand savings capacity, but they may also raise expectations of future wealth and therefore present consumption. Ghate, Gopalakrishnan and Saha show that the interaction among productivity, inflation, demographics and household behaviour can generate a hump-shaped savings path.[ix]

Inflation works through multiple, and sometimes offsetting, channels. High inflation compresses disposable income, especially in households that spend more on necessities. It also makes fixed-rate savings unattractive in real terms (e.g., fixed deposits) and shifts households' preferences toward other assets, such as physical assets, equity, or gold.

It has been noted that, owing to high inflation between 2008-14, financial savings became less attractive; hence, household savings shifted toward physical assets.[x]

But the relationship is not linear. A durable decline in inflation can raise the perceived value of future real income and wealth, allowing households to consume more in the present and reduce precautionary saving. Inflation can therefore affect both how much households save and where they choose to save.

Demographics present another explanation. Younger households tend to be net borrowers early in their lifecycles and net savers later. They typically borrow for education, homes, and vehicles. It has been postulated that a young population can create credit booms before creating savings booms.

CRISIL finds that younger borrowers have become important clients of NBFCs and fintech lenders, often borrowing for personal-use products rather than large-ticket assets.[xi]

India's youth share has declined since the mid-2000s as large cohorts have moved into working and prime-earning ages.[xii] Demographics should therefore become more supportive of saving, but only if employment, productivity and real incomes rise sufficiently.

These are long-run determinants. The pandemic introduced a significant, temporary disruption. Household financial savings rose sharply in 2020-21 because lockdowns constrained consumption and uncertainty increased precautionary saving. This was short-lived.

As the economy reopened, accumulated savings were spent, and borrowing increased. CRISIL estimates that between 2020-21 and 2022-23, gross financial savings grew by an average of 10.3 per cent a year, while financial liabilities grew by 30.1 per cent.[xiii]

Financialisation on Both Sides of Household Balance Sheets

On the asset side, households are moving away from some traditional forms of saving. Currency savings have fallen from 1.2 per cent of GDP to 0.4 per cent, suggesting a shift away from cash holdings and towards greater digitisation and formal financial intermediation.

Bank deposits have also fallen as a share of GDP, from 6.2 per cent to 4.6 per cent. At the same time, households are saving more through equity and debt markets, and more through provident and pension-linked instruments. This is what commentators often describe as the financialisation of savings.

It is a real and important shift. Millions of new demat accounts, rising mutual fund participation, greater use of digital payments and the spread of formal retirement instruments all point to a household sector that is more connected to the formal financial system than before.[xiv]

Yet financialisation is not confined to household assets. The same formal financial system that has widened access to mutual funds, pensions and securities has also widened access to credit. Financialisation is therefore taking place on both sides of the household balance sheet.

This is not automatically negative. Credit can have a multiplier effect on the economy when it finances housing, education, enterprise, working capital or other income-generating assets.

India's credit-to-GDP ratio still lags behind that of many peer economies, suggesting room for deeper formal credit. Higher household liabilities can also indicate greater financial inclusion, especially if households are moving away from informal and high-cost credit.

The distinction lies in the purpose and quality of borrowing. Productive household credit can support asset formation and future income. Consumption-led leverage is different. If credit increasingly finances current consumption without improving future repayment capacity, it can weaken household resilience.

What Does the Household Credit Mix Tell Us?

Several commentators have asserted that India's growing credit is not financing asset creation, but current consumption.[xv]

The data presents a more mixed picture. Personal loans have increased from roughly one-quarter to one-third of total credit, but the composition of that lending matters.

Housing loans remain the largest component, although their share declined from 51 per cent of personal loans in December 2019 to 48 per cent in April 2026.[xvi]

The share of unsecured personal loans rose by around one percentage point, while vehicle and education loans lost share. The largest compositional change was in loans against gold, whose share increased by approximately six percentage points.

So, the picture is most certainly mixed. The data does not support an alarmist account in which the increase in household liabilities is driven predominantly by unsecured consumer credit. But the rise in leverage remains macroeconomically relevant, particularly if debt-service burdens increase or borrowing fails to create durable assets and future income.

Part of the rise in gold-backed loans may reflect the rise in the rupee value of the underlying collateral. Gold loans monetise an existing household asset; they do not represent new physical asset formation. With gold prices rising substantially in the past few years, a household holding gold can leverage it to obtain a larger loan, with the underlying physical amount remaining unchanged.

The evidence therefore supports neither extreme. Household borrowing is not predominantly unsecured consumer credit: housing remains the largest category, and asset-linked credit continues to account for the majority.

But the increase in liabilities is not simply a benign shift from financial savings into homes. Physical savings remain below their 2011-12 level, asset-building loans have lost some share, and liquidity-linked borrowing has increased.

India's household savings decline is not a collapse of thrift. Gross financial savings have held up, but net savings have weakened as liabilities have risen faster. India's households are becoming more financialised—and more leveraged.

Strategic Questions

What Is Holding Back Household Wealth Creation?

Are Young Indians Being Priced Out of Home Ownership?

Physical assets remain the largest component of household savings, yet savings in physical assets are lower than they were in 2011-12. Has the cost of formal urban housing risen faster than household incomes, pricing younger households *out of home ownership or forcing them to take on larger mortgages?*

Is Financialisation Building Wealth—or Debt?

Households are moving beyond cash and deposits into mutual funds, equities, pensions and other formal instruments. But liabilities are rising at the same time. Is greater financial participation building stronger net household balance sheets, or are easier credit and rising debt-service burdens offsetting the gains from financialisation?

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Fairfax Centre for Free Enterprise is a registered Section 8 (not-for-profit) company and an independent think tank headquartered in New Delhi. We operate at the intersection of regulatory reform and grassroots economic empowerment, engaging government, industry, and civil society to drive measurable outcomes for India's 63 million MSMEs.

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