

How we save

Most economists agree that India needs a robust rebound in private sector investment for economic growth recovery to endure. The 2015-16 national income accounts released by the Central Statistics Office provide some insights into the related issue of how capital formation is to be financed.

First, households are now saving more in financial assets than physical assets. Bank deposits are still the most important, but investment in equities and mutual funds is growing rapidly. Second, savings of the private non-financial sector have been growing rapidly. This is perhaps an indication that balance sheets are improving even as there is excess debt at some large companies.

Third, there has been a spike in household financial liabilities. It is worth asking whether strong consumer demand is being powered by debt rather than higher incomes.

Fourth, government dissavings are declining as a proportion of gross domestic product (GDP), but the experience of the previous boom shows that lower fiscal deficits help boost gross domestic savings.

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