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WORKING PAPER

# Financial Liberalization and Saving in India: An Empirical Analysis

Santosh Kumar Das



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# Financial Liberalization and Saving in India: An Empirical Analysis

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# Financial Liberalization and Saving in India: An Empirical Analysis

*Santosh Kumar Das*\*

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*[Abstract: The paper empirically examines the key element of the financial liberalization thesis advocated by McKinnion (1973) and Shaw (1973). McKinnion and Shaw argued that financial repression in the form of interest rate ceiling or keeping interest rate artificially low results in inadequate saving mobilisation, which is critical for investment and, economic growth. By deregulating interest rate, higher rates of saving can be mobilised, thereby suggesting that the rate of interest is positively related to savings. Different saving functions – aggregate, household and household financial saving have been estimated to examine whether there can be a role of interest rate as an instrument of saving mobilisation in India. Using the Autoregressive Distribution Lag (ARDL) model for the period, from 1970 to 2022, the study found that higher rates of interest do not lead to higher rates of saving in India. Per capita income growth and financial intermediation are found to be the main drivers of savings in India.]*

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**Keywords:** Financial liberalization, Interest rate, savings, Macroeconomic Policies in India.

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*For the complete working paper, please contact the author at [santosh@isid.org.in](mailto:santosh@isid.org.in)*

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