Evolving Household Savings in India

For Prelims: Reserve Bank of India, Gross Domestic Product, Monetary policy, Public provident fund, Household Savings, Sukanya Samriddhi Account Scheme,

For Mains: Household savings in India, Economic growth of India, Banking Sector

Source: IE

Why in News?

Recently, the Reserve Bank of India (RBI) Deputy Governor at the **Financing 3.0 Summit of the** Confederation of Indian Industry (CII) highlighted that **Indian households are rebuilding financial savings post-pandemic**, with significant implications for the broader economy and financial system.

Note: The **CII is a non-government, not-for-profit, industry-led and industry-managed organisation** that works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society.

What is the Current Trend in Household Savings?

- **Recovery of Household Savings:** The net **financial savings of households nearly halved from 2020-21** levels due to the unwinding of pandemic-era careful savings and a **shift to physical assets like housing instead of savings.**
    - Households have now begun to restore their financial savings **driven by rising incomes** after a decline during the Covid pandemic.
    - Financial assets have increased from 10.6% of Gross Domestic Product (GDP) (2011-17) to 11.5% (2017-23, excluding the pandemic year).
    - Physical savings have increased to **over 12% of GDP in the post-pandemic years** and could continue to rise. However, this is **still lower than the 16% of GDP recorded in 2010-11.**
- **Future Prospects:** As incomes continue to rise, households are expected to rebuild **financial assets to levels similar to the early 2000s,** potentially reaching around 15% of GDP.
- **Impact of Household Savings on the Economy:**
    - **Interest Rates**: Changes in household savings behaviour can influence monetary policy, including interest rates. Lower financial savings **might prompt demands for higher interest rates to encourage savings**, and vice versa.
    - **Enhanced Lending Capacity:** As households regain financial strength, they are likely to **become the primary net lenders in the economy**, providing crucial funding for other sectors, especially as corporate borrowing needs rise.
    - **Corporate Sector Borrowing**: The corporate sector has decreased net borrowings. However, anticipated increases in **capital expenditure (capex)** may lead to higher

borrowing needs.
        - With a projected rise in corporate borrowing, **households are expected to fill the financing gap,** supporting economic growth and investment.
    - **Economic Stability**: Higher physical savings contribute to **economic stability by diversifying investment portfolios** and potentially increasing long-term wealth, though it might also limit liquidity.
    - **Implications for External Financing:** As domestic savings rise, the need for **external financing may decrease**, though external debt sustainability will remain a priority.
        - **Changes in external financing composition could** occur as the economy's capacity to absorb foreign resources evolves.
        - The public sector's net dissaving has moderated but remains a net borrower, reflecting the need for continued fiscal policy support.

What are Household Savings?

- **About**: Household (HH) savings in India consist of two parts, net financial savings (NFS) and physical savings.
    - HH NFS is arrived at after **deducting financial liabilities** (known as annual borrowing) from **gross financial savings (GFS).**
        - **GFS includes seven key areas**: Currencies; deposits (bank and non-bank); insurance; provident and pension funds (P&PF), including the public provident fund (PPF); shares and debentures (S&D); claims on government (small savings); and others.
    - HH physical savings primarily **constitute residential real estate** (accounting for about two-thirds) and machinery and equipment (owned by producers within the HH sector).
- **Household Savings to GDP Ratio**: It is the **sum of its net financial savings to GDP ratio,** physical savings to GDP ratio and gold and ornaments.
- **Trends in Household Savings**: There is a growing trend towards investing in riskier financial assets like stocks **and** debentures.
    - A growing proportion of savings is being allocated to physical assets (real estate) rather than financial instruments.
- **Pandemic and Impact on Household Savings**: During the Covid-19 pandemic, households saved more due to limited spending opportunities. This resulted in a high financial savings rate (Rs 23.3 lakh crore in 2020-21).
    - However, as **restrictions eased,** spending surged, reducing savings. Post-pandemic, many households **have shifted their savings from financial assets to physical assets** such as real estate and gold. This shift has **reduced net financial savings.**
    - Net financial savings of households **fell to Rs 14.2 lakh crore in 2022-23 from Rs 17.1 lakh crore in 2021-22**. This is a notable drop from Rs 23.3 lakh crore in 2020-21.
    - Savings in real estate and gold have surged, with physical asset savings reaching Rs 34.8 lakh crore and gold savings hitting Rs 63,397 crore in 2022-23.
    - Many households overextended financially to purchase homes, **often with high Equated Monthly Instalment (EMI) payments and reduced liquidity.**
    - Increasing expenses for healthcare and education have further squeezed household savings.
    - The younger generation prioritises lifestyle and experiences over savings, encouraged by easy **online shopping and borrowing options** led to further decline in Household Savings and contributed to increase in household debt.
- **Household Debt:** It is defined as **all liabilities of households** (including non-profit institutions serving households) that require payments of interest or principal by households to the creditors at a fixed date in the future.

What are the Initiatives Related to Household Savings?

- Sukanya Samriddhi Account Scheme
- Senior Citizens' Savings Scheme
- Kisan Vikas Patra Scheme
- Mahila Samman Savings Certificate
- Employees Provident Fund (EPF)

- National Pension System (NPS)
- Public Provident Fund (PPF) and National Savings Certificate (NSC)
- **Post Office Monthly Income Scheme (POMIS):** It is a Government of India-backed small savings scheme that allows residents of India above 10 years of age to invest a specific amount monthly.
    - There is a **5-year lock-in period, and premature withdrawal is allowed** after one year with a penalty. Income from the scheme is not subject to Tax Deduction at Source (TDS).

Drishti Mains Question:

Q. Discuss the changing trends in household savings in India and their implications for the Indian economy.

Read more: Rising Debt Strained Household Savings

UPSC Civil Services Examination, Previous Year Question

Mains

Q. As per the NSSO 70th Round "Situation Assessment Survey of Agricultural Households", consider the following statements: **(2018)**

1. Rajasthan has the highest percentage share of agricultural households among its rural households.
2. Out of the total agricultural households in the country, a little over 60 percent belong to OBCs.
3. In Kerala, a little over 60 percent of agricultural households reported to have received maximum income from sources other than agricultural activities.

Which of the statements given above is/are correct?

(a) 2 and 3 only
(b) 2 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: c