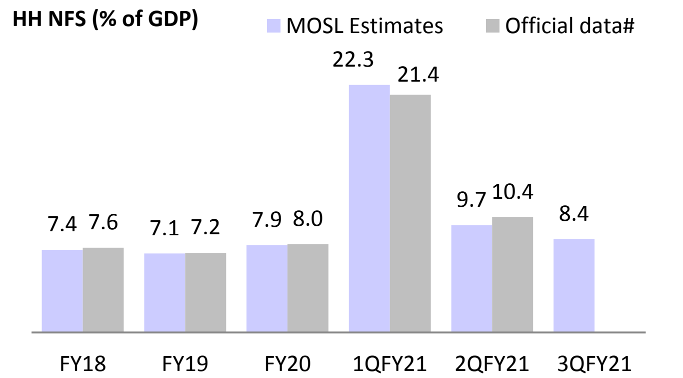
ECOSCOPE
The Economy Observer

India's household savings increase in CY20…

…but rise the slowest vis-à-vis other nations

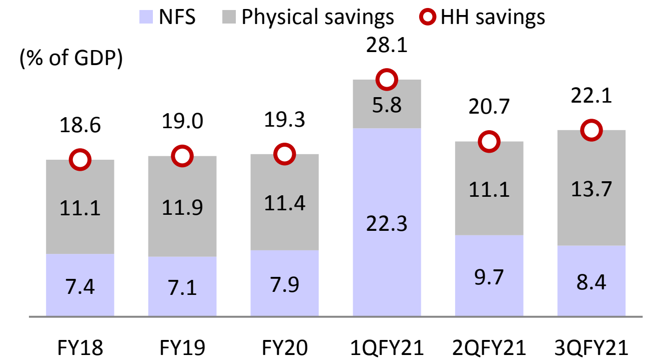
- **A serious economic repercussion of COVID has been forced consumer savings due to physical lockdowns. According to the Reserve Bank of India (RBI), household net financial savings (NFS) stood at 21.4% of GDP in 1QFY21 and 10.4% of GDP in 2QFY21, compared with 7–8% of GDP in the pre-COVID period. When we replicated the RBI's methodology (as far as possible with information publicly available), we found household NFS had fallen to 8.4% of GDP in 3QFY21.**
- **Nevertheless, financial savings account for just 35–40% of household (HH) savings in India. Therefore, we estimate physical savings (= household investments) using stamp and registration charges (S&RCs) collected by the state governments. Our calculations suggest physical savings fell to 5.8% of GDP in 1QFY21, almost half that of pre-COVID levels. However, physical savings recovered strongly to reach a multi-year high of 13.7% of GDP in 3QFY21.**
- **Accordingly, as per our estimates, HH (gross) savings in India eased to 22.1% of GDP in 3QFY21 from the peak of 28.1% of GDP in 1QFY21. In other words, HH savings rose to 22.5% of GDP in CY20 from 19.8% of GDP in CY19.**
- **A comparison with other large nations reveals HH savings (as % of GDP) have increased across countries. However, the rise in HH savings in India in CY20 (=1.1x of CY19 levels) was the slowest vis-à-vis other nations (savings were as high as 5.4x in Japan). Interestingly, the slower growth in HH savings in India appears to be linked with weaker income growth – as decline of 6% YoY in India's private consumption was similar to or lower than that of other nations (except the US).**
- **Also, while HH savings have increased across countries, gross domestic savings (GDS) have declined, including in India. This is primarily attributable to government savings having decreased so sharply that they have almost entirely offset higher private (household + corporate) savings across nations.**
- **What does this mean for economic growth? A slower rise in HH savings, coupled with similar or slower decline in consumption, confirms with weak income growth in India. If so, then the contribution of pent-up demand in growth recovery would also be limited in India (compared with other nations).**

Exhibit 1: Household NFS is estimated to have fallen to 8.4% of GDP in 4QCY20…



Reported by CSO/RBI

Exhibit 2: …but multi-year high physical savings have kept household total savings high



Source: RBI, SEBI, CSO, CAG, CEIC, MOFSL

[1] Our estimates of Household financial savings differ slightly from the official estimates on quarterly/annual basis. There are two key reasons for differences: 1) information on household deposits is not readily available; and 2) Non-SCBs lending is defined differently (RBI seems to have taken personal loans of NBFCs as "Household liabilities", while we have included agricultural and trade loans also).
[2] To our mind, this is the first-ever attempt on this. In order to arrive at physical savings, we estimate household investments using 'stamp duties & registration charges' collected by states (available on monthly basis). Construction (real estate) sector accounted for 65-70% of household investments in the past four years and 'stamp duty & registration charges' were ~8% of construction investments during the period. Using these ratios, we have arrived at household investments, which are equal to physical savings (by definition).
[3] Government savings (= government income – final consumption expenditure) are different from fiscal deficit (= total spending - receipts). In other words, the former doesn't include fiscal transfers and investments.

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A serious economic repercussion of COVID has been forced consumer savings due to physical lockdowns. Until about a year ago, official data on Indian household savings was released on an annual basis with a lag of 10 months – i.e., data for the year ended March 2019 (FY19) was available in January 2020. In June 2020[4], the RBI consolidated information on household financial assets and liabilities on a quarterly basis and published data up to March 2020. In November 2020, the bank updated the household financial balance sheets with 1QFY21 data, which were then updated with 2QFY21 information in March 2021. According to the RBI, household NFS stood at 21.4% of GDP in 1QFY21 and 10.4% of GDP in 2QFY21, against 7–8% of GDP in the pre-COVID period.

Updating Indian households' financial savings in 3QFY21

In this note, we replicate the RBI's methodology and update household financial balance sheets with 3QFY21 data

In this note, we replicate the RBI's methodology (as far as possible with information publicly available) and update household financial balance sheets with 3QFY21 data. As the exhibit confirms, our estimates marginally differ from the official estimates (CSO/RBI) on a quarterly/annual basis. There are two key reasons for this difference: 1) information on household deposits with SCBs and non-SCBs (NBFCs / HFCs / co-operative banks) is not readily available and 2) non-SCBs' lending is defined differently – the RBI appears to have taken personal loans of NBFCs as "Household liabilities", while we have included agricultural and trade loans as well, in line with the SCB classification.

Our estimates suggest gross financial savings (GFS) fell to 13.2% of GDP, while financial liabilities amounted to 4.8% of GDP in 3QFY21

Details regarding household financial assets and liabilities for 3QFY21 are provided below *(Exhibit 3)*. Our estimates suggest that gross financial savings (GFS) fell to 13.2% of GDP, while financial liabilities amounted to 4.8% of GDP in 3QFY21. There are six key components of GFS – deposits (including that of SCBs, NBFCs, HFCs, and rural/urban co-operative banks), currency, insurance, pensions & provident funds, investments (equity + debt), and small savings. In comparison with 2QFY21, households increased their savings in currency and investments, while savings fell sharply in the form of deposits, pensions, and small savings. While households borrowed more from SCBs, their liabilities from NBFCs/HFCs fell in 3QFY21.

Exhibit 3: Key components of HH financial savings (our estimates)

	INR trillion					% of GDP				
	FY19	FY20	1QFY21	2QFY21	3QFY21	FY19	FY20	1QFY21	2QFY21	3QFY21
Gross Financial Savings (GFS)	**21.2**	**22.5**	**9.0**	**7.5**	**7.2**	**11.2**	**11.1**	**23.2**	**15.7**	**13.2**
Deposits*	8.0	8.3	2.9	3.7	2.0	4.2	4.1	7.6	7.8	3.6
Currency	2.8	2.8	2.1	0.2	0.9	1.5	1.4	5.3	0.4	1.7
Insurance	3.5	3.3	1.2	1.4	1.6	1.9	1.6	3.2	3.0	2.9
Pensions@	4.0	4.4	1.2	1.2	1.2	2.1	2.2	3.1	2.6	2.3
Investments#	0.8	0.8	0.8	0.2	0.7	0.4	0.4	2.2	0.4	1.4
ow: Mutual Funds	0.6	0.5	0.6	0.1	0.7	0.3	0.2	1.7	0.3	1.2
Small savings	2.1	2.8	0.7	0.7	0.7	1.1	1.4	1.9	1.6	1.4
Financial Liabilities (FL)	**7.7**	**6.5**	**0.4**	**2.9**	**2.6**	**4.1**	**3.2**	**0.9**	**6.1**	**4.8**
SCBs	5.9	5.4	-0.2	1.8	2.2	3.1	2.6	-0.4	3.9	4.0
NBFCs/HFCs^	1.8	1.1	0.5	1.0	0.4	1.3	0.5	1.3	2.2	0.8
Net Financial Savings (NFS)	**13.4**	**16.0**	**8.7**	**4.6**	**4.6**	**7.1**	**7.9**	**22.3**	**9.7**	**8.4**
Nominal GDP	188.9	203.5	38.9	47.4	54.6	…	…	…	…	…

*Scheduled commercial banks (SCBs), NBFCs, HFCS and co-operative banks

@ Taken from RBI up to 2QFY21 (3QFY21 are our assumptions)

Including net flows into MFs and capital raised

^ Assumed at the same ratio in 3QFY21 as in 2QFY21 (suggested by RBI)

Source: RBI, CSO, SEBI, CEIC, MOFSL

[4] The pilot exercise was done by RBI in March 2018, after which it was updated in June 2020 with quarterly data up to March 2020.

Importantly, although GFS and financial liabilities in 3QFY21 were lower than in 2QFY21, both were comfortably higher than in the pre-COVID period *(Exhibit 4)*. As against 10–12% of GDP in the past decade, GFS was still higher at 13.2% of GDP in 3QFY21. In contrast, financial liabilities totaling 4.8% of GDP in 3QFY21 were higher than the range of 2.8% and 4.4% of GDP between FY08 and FY20.

Our estimates suggest that HH NFS fell further to 8.4% of GDP in 3QFY21

Consequently, our estimates suggest HH NFS fell further to 8.4% of GDP in 3QFY21 *(Exhibit 5)*. This means that NFS constituted 12.7% of GDP in the first three quarters of FY21, against 7–8% of GDP in the past decade and an all-time high of 12.1% of GDP in FY10.

Exhibit 4: Financial liabilities surged in the last two quarters of CY20…

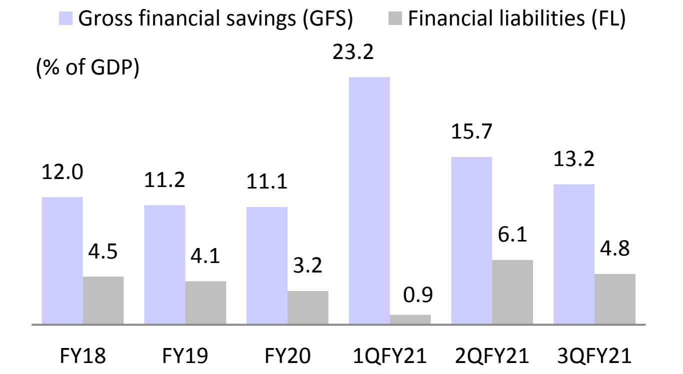
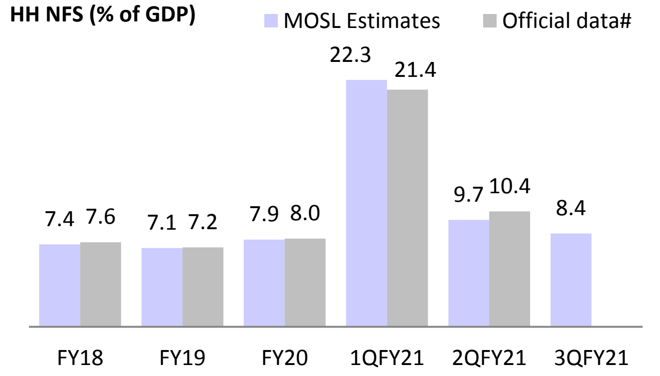


Exhibit 5: …due to which HH NFS fell to pre-COVID levels in 3QFY21



CSO/RBI data

Source: RBI, CSO, SEBI, CEIC, MOFSL

First ever attempt to estimate household physical savings on quarterly basis

Compared with most developed nations, HH savings in India are estimated indirectly

Compared with most developed nations, HH savings in India are estimated indirectly. While HH savings are defined and calculated as the difference between their income and consumption in advanced economies, they are calculated using the 'flow of funds' approach (for financial savings) and 'commodity' or 'residual' approach (for physical savings) in India.

"…Savings of an economic unit can be estimated either from the income account as earned surplus, being the difference between current income and current consumption and taxes (as followed in the US for households) or from the balance sheet as earned net worth, being the difference between changes in financial assets and liabilities (as followed in India for households' financial savings). In the US and the UK, both the estimates are available, which help in cross-validating the income-expenditure survey based direct estimates of savings. But in India, only flow of funds based estimation is available for household financial savings and commodity flow based estimation is available for household physical savings. In the absence of income-expenditure survey, there is no direct estimation of household savings…", as **explained** in the *Report of the High Level Committee on Estimation of Savings and Investment*, 2009 (Para VI. 7, Pg 94) under the Chairmanship of Dr C Rangarajan.

Financial savings account for just 35–40% of HH savings in India

Financial savings account for just 35–40% of HH savings in India; therefore, we cannot comment on HH gross savings without knowing the trends in physical savings. Accordingly, we have made the first ever attempt to estimate physical savings (= HH investments) using the stamp and registration charges (S&RCs) collected by the state governments.

Construction (real estate) sector accounts for the majority – as much as two-thirds – of HH investments

HH investments have two major components: construction (real estate) and machinery and equipment (M&E). The former has accounted for the majority – as much as two-thirds – of HH investments in the past four years *(Exhibit 6)*. When citizens purchase or lease a property, they are liable to pay S&RCs in the respective jurisdiction. Therefore, we link HH construction investments with the S&RCs collected by the state governments in the past few years. We found that the ratio of S&RCs to HH construction investments has been highly stable between 8% and 9% in the past five years *(Exhibit 7)*.

Exhibit 6: Construction sector accounts for 65–70% of HH investments…

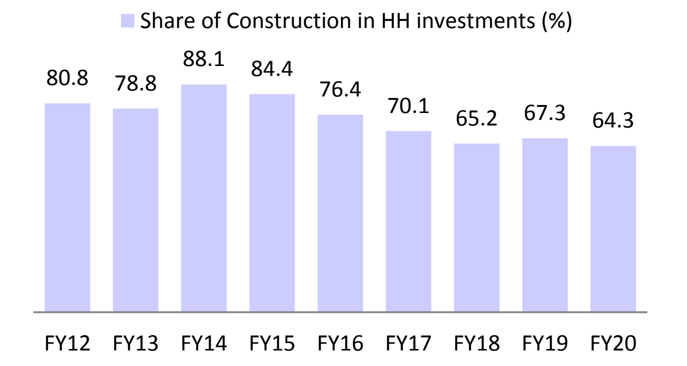
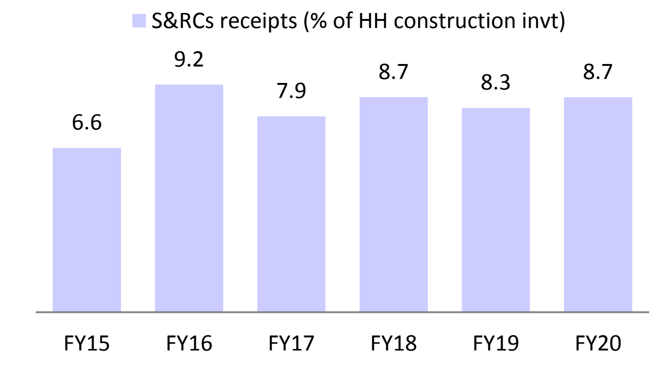


Exhibit 7: …which can be linked with S&RCs collected by states

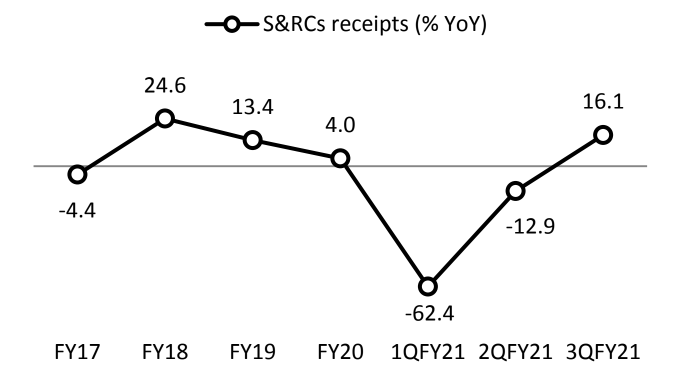


Source: CSO, RBI, Comptroller and Auditor General, CEIC, MOFSL

Our calculations suggest HH investments (or physical savings) fell to 5.8% of GDP in 1QFY21, but surged to a multi-year high of 13.7% of GDP in 3QFY21

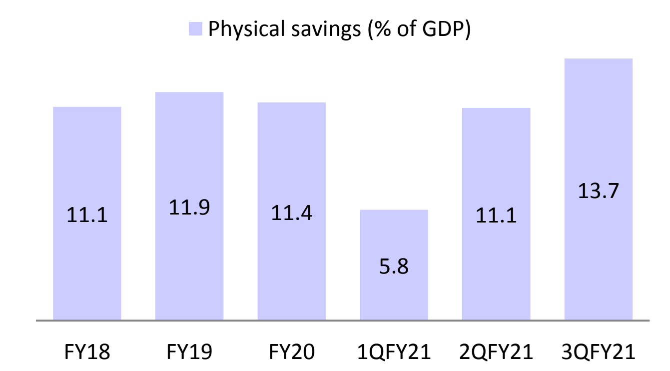
With massive improvement in terms of data availability for state finances, S&RCs collected by 26 states – together accounting for >92% of all S&RC collections – are available up to December 2020. Data confirms that after declining over 60% YoY in 1QFY21, S&RC receipts by states declined 13% YoY in 2QFY21, but grew 16.1% YoY in 3QFY21 *(Exhibit 8)*. Using this information and by applying the ratios mentioned above *(Exhibits 6, 7)*, our calculations suggest HH investments (or physical savings[5]) fell to 5.8% of GDP in 1QFY21, almost half that of pre-COVID levels. However, investments recovered to pre-COVID levels in 2QFY21 to reach a multi-year high of 13.7% of GDP in 3QFY21 *(Exhibit 9)*. In the first three quarters of FY21, physical savings stood at 10.6% of GDP, lower than >11% of GDP in the pre-COVID period.

Exhibit 8: S&RCs surge 16% YoY in 3QFY21, after declining in 1HFY21…



Based on 26 states, together account for 92% of all S&RCs collected

Exhibit 9: …indicating strong recovery in HH investments (= physical savings) in 3QFY21



Source: CAG, CGA, CSO, CEIC, MOFSL

[5] By definition, household investments are equal to household physical savings.

Our estimates suggest HH savings stood at 22.1% of GDP in 3QFY21, below the peak of 28.1% of GDP in 1QFY21

Using our HH financial and physical savings estimates, we found that total HH savings stood at 22.1% of GDP in 3QFY21 (or 4QCY20), below the peak of 28.1% of GDP in 1QFY21. However, they were much higher than ~19% of GDP in the pre-COVID period *(Exhibit 10)*. In other words, HH savings rose to 22.5% of GDP in CY20 from 19.8% of GDP in CY19. As mentioned earlier, due to physical restrictions, household (or personal) savings increased almost around the world last year (i.e., CY20). Therefore, comparing the HH savings of different nations is more useful.

Exhibit 10: India's HH savings, like other nations, rose in CY20…

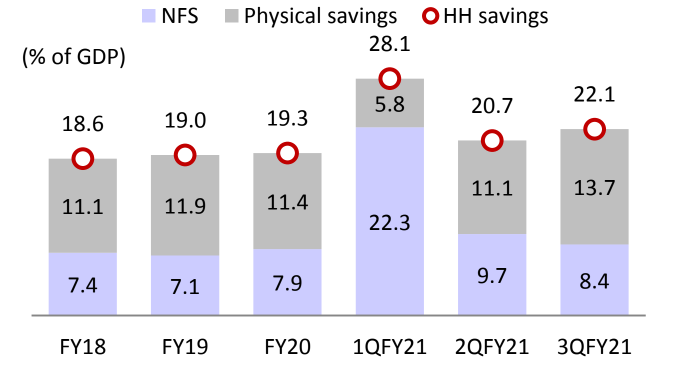
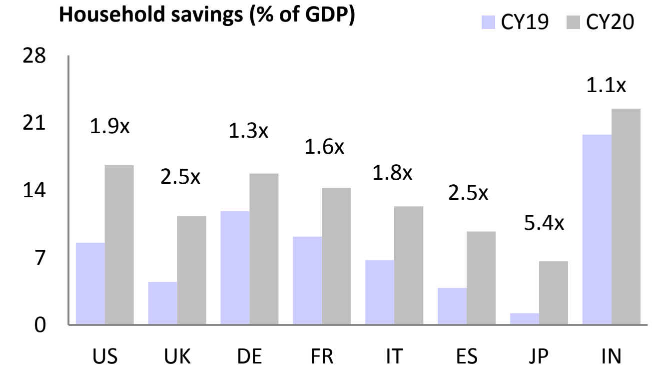


Exhibit 11: …however, the rise in CY20 (vis-à-vis CY19) was slower v/s other major nations



Source: Various national sources, CEIC, MOFSL

The rise in HH savings in India in CY20 (=1.1x of CY19 level) was the slowest v/s other nations (as high as 5.4x in Japan)

Notably, household gross savings data is available on a quarterly basis only for some countries in the world and is almost negligible among the emerging and developing economies[6]. A comparison between India and other large nations revealed that HH savings (as % of GDP) rose across countries in CY20 *(Exhibit 11)*. However, the rise in HH savings in India in CY20 (=1.1x of CY19 levels) was the slowest vis-à-vis other nations (savings were as high as 5.4x in Japan).

Interestingly, the slower rise in HH savings in India appears to be linked with weaker income growth – as decline of 6% YoY in India's private final consumption was similar to or lower than that of most other nations – except the US, where consumption fell only 2.7% YoY in CY20 *(Exhibit 12)*.

Exhibit 12: Slower rise in HH savings indicates weak income – as decline in PCE is comparable with that of other nations

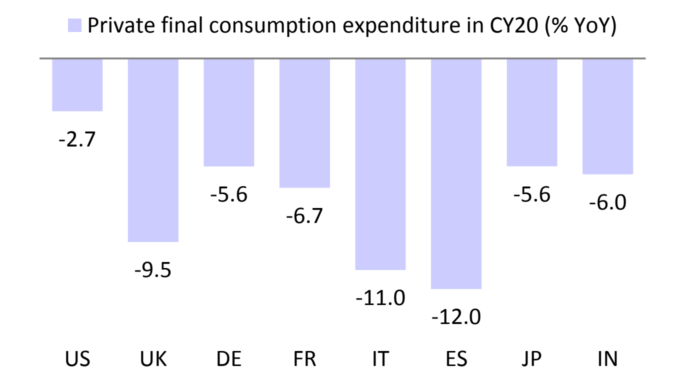
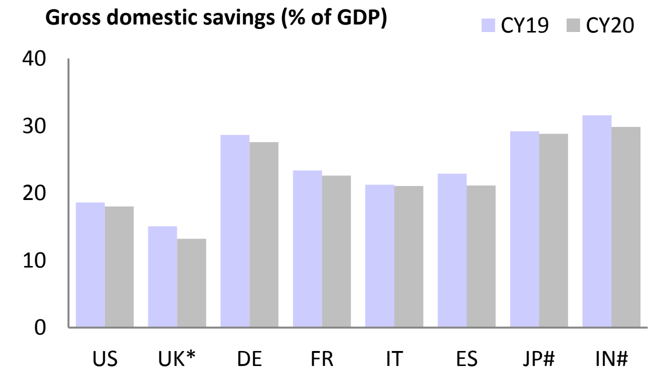


Exhibit 13: Despite higher HH savings, GDS has fallen in all nations due to decline in government savings



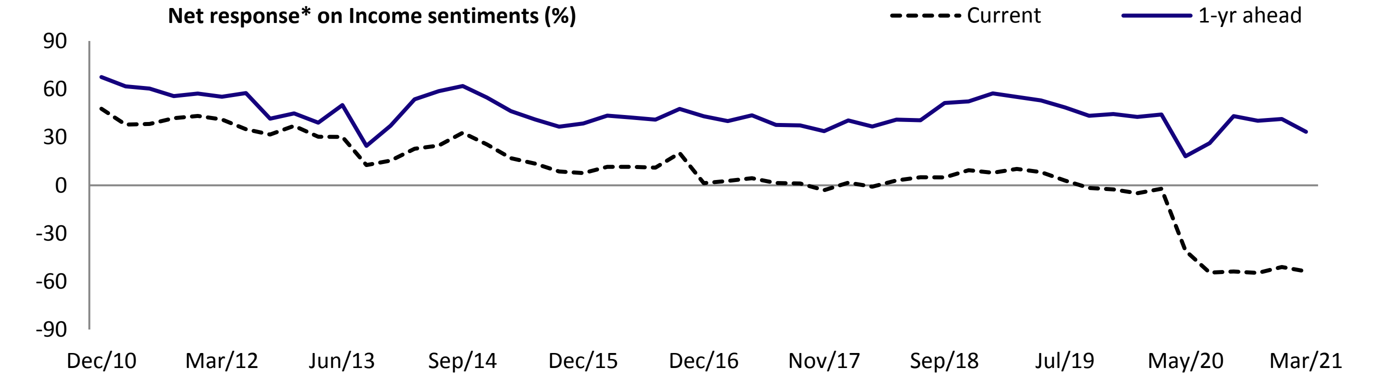
* Sectoral savings do not add up to total savings in 2HCY20
# Estimated as the sum of Investments and current account balance
Source: Various national sources, CEIC, MOFSL

[6] The OCED Stat provides quarterly data on household gross savings for 22 advanced economies.

As far as income sentiment is concerned, as many as 54% of net respondents reported income decline in March 2021 (only marginally better than 55% in July and November 2020)

This also appears to be in line with the consumer confidence survey (CCS) results published by the RBI. Consumer confidence for the current environment came in as weak in March 2021 as it was in July 2020 (marginally better than the trough in September 2020). As far as income sentiment is concerned, as many as 54% of net respondents reported income decline in March 2021 (only moderately better than 55% in July and November 2020). From a one-year-ahead perspective, only ~one-third of (net) respondents are expected to report higher incomes vis-à-vis 43% in September 2020 *(Exhibit 14)*.

Exhibit 14: Respondents remain extremely concerned over income prospects (%)



* Percentage of respondents who believe higher income less those who expect lower income
Source: RBI Consumer Confidence Survey (CCS), CEIC, MOFSL

Lastly, while HH savings increased across countries, GDS declined across, including in India, in CY20 *(Exhibit 13)*. This is primarily attributable to government savings having decreased so sharply that they almost entirely offset higher private (household + corporate) savings across nations.

Weak income growth implies the contribution of pent-up demand in growth recovery would also be lower in India v/s other nations

What does this mean for economic growth? We have **highlighted** for some time now that household income in India has been disproportionately affected due to COVID-19. Our household savings estimates on a quarterly basis[7] provide further credence to our assessment. A slower rise in household savings, with similar or slower decline in consumption, implies weak income growth. Accordingly, the contribution of pent-up demand in growth recovery would also be lower in India v/s other nations.

[7] Since this exercise, to our mind, is the first-ever attempt to estimate India's household gross savings on quarterly basis, we are open to the scrutiny and criticism that help us improve and strengthen our database and methodology.

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