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THE SIGNIFICANCE OF HOUSEHOLD FINANCIAL SAVINGS

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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Household financial savings, which form a bulk of overall savings in the Indian economy, increased in 2019-20 after falling the previous year. How did this happen and what does this mean for the Indian economy in the post-covid world? Mint explains.

What are household financial savings?

Household financial savings refer to currency, bank deposits, debt securities, mutual funds, pension funds, insurance, and investments in small savings schemes. The total of these savings is referred to as gross household financial savings. Once financial liabilities, including loans from banks, non-banking financial companies (NBFCs), and housing finance companies, are subtracted from gross savings, what remains is referred to as net household financial savings. Net household financial savings rose from 7.2% of GDP in 2018-19 to 7.7% in 2019-20. This happened because liabilities fell from 3.9% of GDP in 2018-19 to 2.9% in 2019-20.

What is the reason behind this increase?

Gross financial savings of households in 2019-20 stood at 21.63 trillion, marginally better than the gross savings in 2018-19, which were at 21.23 trillion. Net financial savings jumped from 13.73 trillion in 2018-19 to 15.62 trillion in 2019-20 because financial liabilities fell from 7.5 trillion to 6.01 trillion. This happened primarily because the Indian economy has been slowing down from the start of 2019. Per capita income in the country in 2019-20 grew by a mere 6.1% in nominal terms (not adjusted for inflation). This was the slowest rate of growth since 2002-03, when it had grown by 6.03%.

How did slow growth in per capita income hit savings?

A double-digit growth in per capita income has happened only once since the financial year 2013-2014, when in 2016-17 it grew by 10.39%. In 2019-20, per-capita income growth slowed down dramatically to 6.1%. This led to a slowdown in lending growth. Non-food credit growth of banks in 2019-20 was 6.7%, the slowest in more than a decade.

What does it say about the economy?

A slowdown in income growth has led to a slowdown in consumption and loan growth. What hasn’t helped is the weak financial state of NBFCs, which has added to the lending slowdown. This also means that people were looking at their economic future bleakly, even before covid-19 had struck. At an individual level, the good part for them is that they tried to go slow on their borrowing in comparison to the past. However, at the societal level, this hurt the economy because it led to a consumption slowdown.

Where will household savings settle in FY21?

The period between April and June will see higher savings. As a recent RBI research paper states, a rise in household financial savings “is likely in [April to June 2020] on account of a sharp drop in lockdown induced consumption." This explains why bank deposit rates have fallen. Money deposited with banks has gone up, while banks are unable to lend. However, this spike in savings is likely to taper in months to come due to “lags in economic activity pickup".

Vivek Kaul is the author of Bad Money.

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