Asia Economic Weekly

India: Where do Indian households save?

16 February 2024

GEM Fixed Income Strategy & Economics
Asia

Household savings – the biggest source of investment

Household sector plays a major role in the Indian economy as the supplier of financial resources in the form of savings, contributing 70% to total gross domestic savings. Household savings are broadly classified into financial and physical assets- accounting for 56% and 44% of total household savings respectively. Of the financial savings, bank and non-bank deposits make for 37% and only about 8% goes to shares & debentures. Real estate is the largest component of physical savings at a 77% share and 11% of total physical savings is in the form of gold.

\- *A. Gudwani*

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India in Focus

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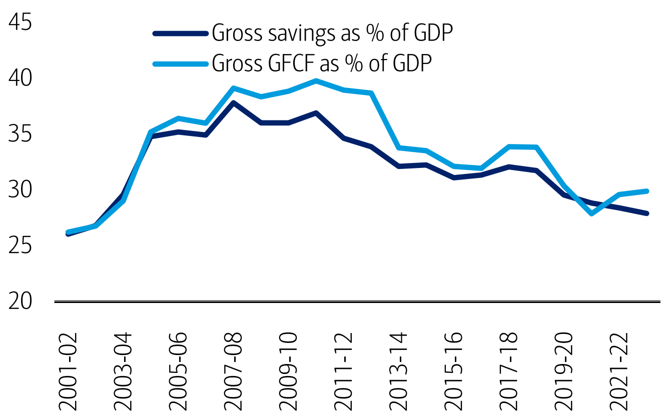
Household savings: the biggest source of investment

After peaking at 37.8% and 39.8% of GDP in FY07 and FY11, savings and investment rate as % of GDP have moderated steadily in India (Exhibit 1). As of FY22, savings rate stood at 30.2% of GDP and Investment rate at 31.4% of GDP, showing some improvement vs the last few years. The role of higher investment rate in driving high and durable growth can hardly be over-emphasized. A precursor to that is improving savings rate in the economy, lest one wants to end up in a current account deficit trouble. In this backdrop, understanding household savings is pivotal.

Households contribute 70% of gross domestic savings in India. Public sector is mostly a dis-saver and private sector accounts for 34% of overall domestic savings (Exhibit 2). For clarity, households include- individuals, non-corporate business and private collectives like temples, educational institutions and charitable foundations. The corporate sector includes joint stock companies in the private business sector, industrial credit, investment corporations and cooperative institutions. Government sector consists of the central and state government, the local authorities and various government and department undertakings.

Households are the mainstay of gross domestic savings, their contribution stood at ~90% of total in FY2001. Household savings can be broadly classified into physical and financial assets. Physical savings account for 45% of total, the share has been trending down steadily from 55% in FY2001 (Exhibit 3), in favor of financial assets.

Exhibit 1: Savings & Investment rate (as % of GDP)
Savings rate peaked in FY2008 and investment rate in FY2011



Source: RBI

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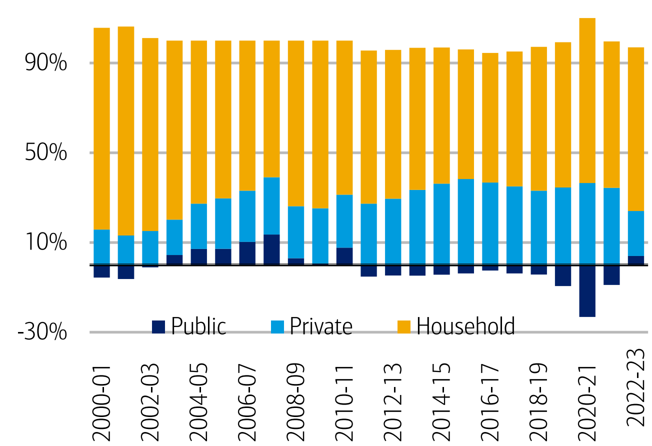
Exhibit 2: Gross domestic savings: Contributor share wise
Households are the biggest contributor to gross domestic savings



Source: RBI

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Household financial savings, still weak

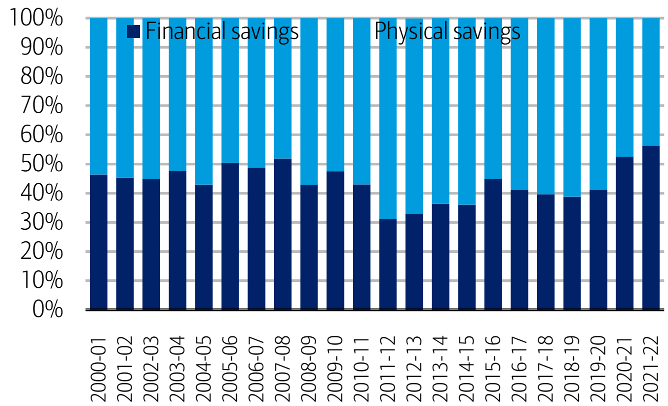
Financial assets include currency, bank & non-bank deposits, life insurance funds, pension & provident fund, claims on government and shares & debentures. Physical savings on the other hand include construction of houses, other assets such as vehicles, machinery and gold, silver & other ornaments.

Financial savings are treated on a net basis, i.e.- gross financial assets net of financial liabilities. Financial liabilities mostly refer to loan taken by households from banks and non-bank & other financial institutions.

Over the last ten years, growth in financial liabilities at 16.1% yoy has outpaced that in gross financial assets, averaging at 10.8% yoy (Exhibit 4). In fact, in FY23, there was a sharp jump in financial liabilities (up 76% yoy), resulting in a steep decline in net financial assets.

Exhibit 3: Composition of household savings

Household savings are steadily moving away from physical assets to financial assets. FY23 may see a temporary reversal in this trend



Source: RBI

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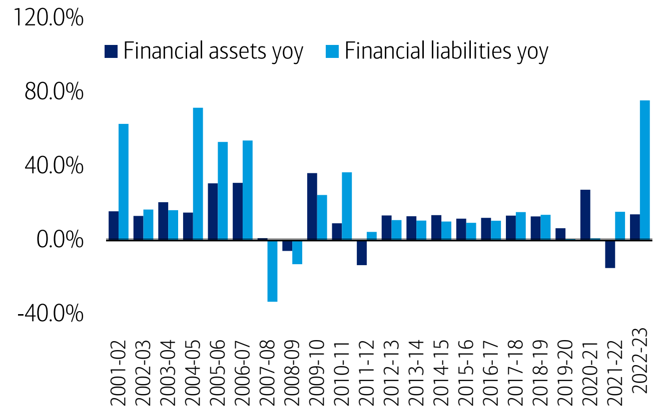
Exhibit 4: Gross financial assets & liabilities (yoy, %)

In the last decade, growth in financial liabilities have outpaced growth in financial assets



Source: RBI

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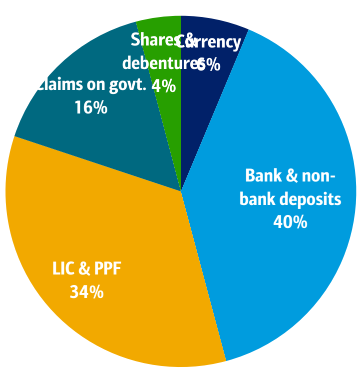
In Exhibits 5 & 6, we look at the change in composition of financial savings by Indian households, which have shifted away from the conventional bank (including non-bank) deposits to capital markets. The former accounted for 39% of total financial savings in FY2001 and capital markets could garner only 4% of the total pie. In FY2023, corresponding figures stand at 37% and 7% respectively. With improved financial literacy, savings parked into life insurance and provident & pension funds have risen steadily from 34% of total in FY2001 to 40% of overall financial savings in FY2023.

Exhibit 5: FY01: Composition of household financial savings

Currency & bank deposits together formed the bulk of financial savings



Source: RBI

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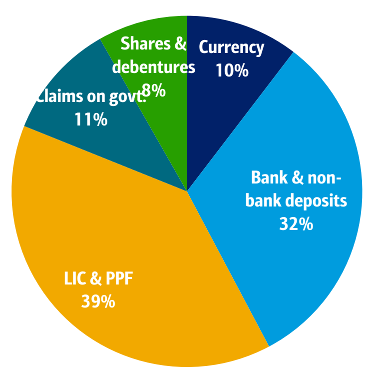
Exhibit 6: FY23: Composition of household financial savings

Savings in capital markets- shares, debentures, insurance, PPF gaining share



Source: RBI

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Per capita income and real interest rate are typically the two main drivers of financial savings. Empirical research [1]suggests that, rising per capita income was found to have weak positive effect on savings rate, even though it correlates with private consumption growth remarkably well (Exhibit 7). This is understandable for a middle-income economy where propensity to consume is relatively high. As for real rate, studies indicate that a

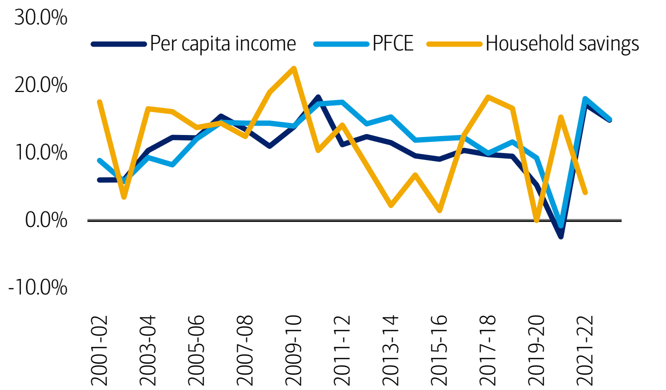
[1] What determines private and household savings in India? - ScienceDirect

rise in the real interest rate increases household saving rate in the short run (Exhibit 8). Even though real repo rate was negative in FY23, it was less negative vs FY22 and that resulted higher growth rate of financial savings.

A quick word on financial liabilities- this mostly refers to loan taken by households from banks and non-bank & other financial institutions. Financial liabilities as % of GDP have been rising steadily 4.1% of GDP in FY19 to 5.8% of GDP in FY23. 75% of total household borrowings are vias banks and 25% from non-banks. This has changed vs 79% and 21% respectively in FY19 suggesting rising imprint of non-bank institutions.

Exhibit 7: Income, consumption & savings growth (in % yoy)

While per capital income and private consumption growth correlate very well, the relationship with household savings is relatively weak



Source: RBI

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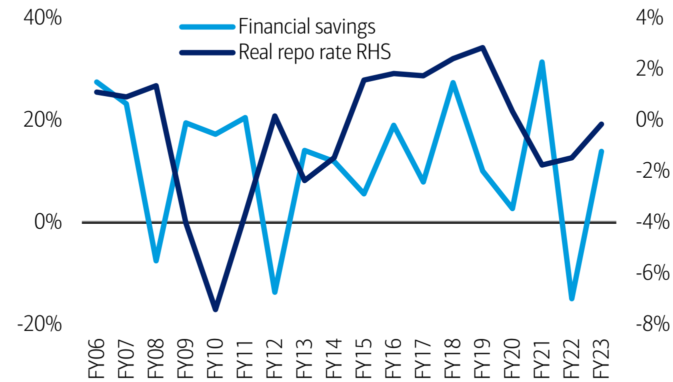
Exhibit 8: Real repo rate & household financial savings (%, yoy)

Positive real rates are seen to have a short-term positive impact on household financial savings



Source: RBI

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RBI's latest data on quarterly movement of flow of financial assets and liabilities of households shows that in FY23, savings parked as currency has fallen from 12% of total in FY22 to 7% of gross financial assets in FY23. This is getting redistributed towards bank deposits which have risen from 22% to 35% of the total during the same period (Exhibit 9). As % of GDP, net financial assets fell from 7.2% in FY22 to 5.1% in FY23. This happened as financial liabilities as % of GDP rose from 3.8% on FY22 to 5.8% in FY23, alongside a fall in financial assets as % of GDP from 11.1% in FY22 to 10.9% in FY23 (Exhibit 10).

Exhibit 9: Household financial savings (flow-wise, quarterly)

Latest data on flow of financial assets & liabilities shows higher financial liabilities & lower financial assets as % of GDP in FY23 resulting in lower net financial saving

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY21
Financial Assets (In INR cr)	358,515.3	576,730.6	391,939.2	936,505.3	398,076.7	567,753.2	517,351.0	924,069.3	3,062,325.6
1.Total Deposits (a+b)	-15%	52%	6%	58%	3%	52%	24%	49%	41%
(a) Bank Deposits	-18%	51%	3%	57%	-3%	49%	22%	48%	39%
(b) Non-Bank Deposits	3%	2%	2%	0%	6%	3%	2%	1%	1%
2. Life Insurance Funds	26%	17%	23%	12%	30%	19%	21%	4%	19%
3. Provident and Pension Funds (including PPF)	28%	17%	25%	11%	26%	17%	20%	21%	16%
4. Currency	31%	-6%	26%	10%	15%	-5%	17%	17%	12%
5. Investments	16%	10%	6%	3%	11%	8%	4%	-1%	4%
6. Small Savings (excluding PPF)	14%	9%	13%	5%	14%	8%	13%	10%	8%
	Q1FY22	**Q2FY22**	**Q3FY22**	**Q4FY22**	**Q1FY23**	**Q2FY23**	**Q3FY23**	**Q4FY23**	
Financial Assets (In INR cr)	364,661.7	527,896.1	818,355.4	887,657.3	586,920.5	646,714.8	750,856.7	974,558.5	
1.Total Deposits (a+b)	-23%	39%	52%	31%	31%	49%	37%	33%	
(a) Bank Deposits	-29%	37%	52%	30%	28%	46%	34%	32%	
(b) Non-Bank Deposits	6%	1%	1%	1%	3%	2%	3%	2%	
2. Life Insurance Funds	31%	24%	13%	14%	13%	24%	22%	14%	
3. Provident and Pension Funds (including PPF)	35%	22%	12%	25%	27%	20%	19%	24%	
4. Currency	35%	-13%	8%	17%	11%	-8%	10%	15%	
5. Investments	7%	16%	9%	6%	9%	8%	7%	7%	
6. Small Savings (excluding PPF)	14%	13%	7%	8%	9%	8%	5%	6%	

Source: RBI

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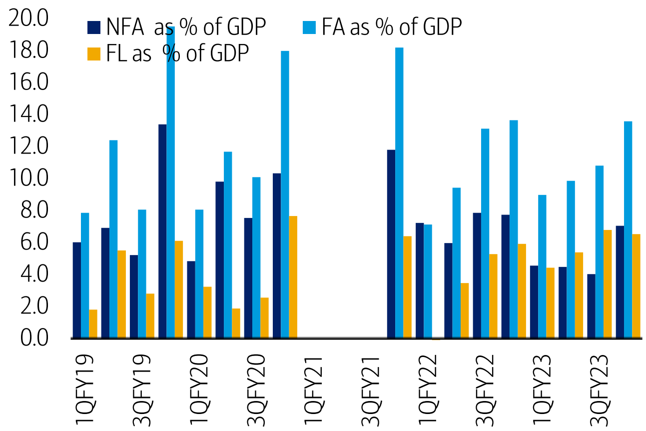
Household physical savings: shining bright

As of FY22, household savings in financial assets stand at INR28 trn, twice the INR14 trn seen in FY12 (Exhibit 11). On an average, an Indian household holds 77% of its total assets in real estate, 7% in other durable goods (such as transportation vehicles, livestock and poultry, and machinery), 11% in gold. Share of physical savings in total household savings has steadily tapered from 69% in FY2012 to 49% in FY21. It however rose again to 61% of total in FY22 and we expect to rise further in FY23 as well. Accordingly, we expect total household savings in FY23 to surpass the level seen in FY22, owing to a further increase in physical savings.

Exhibit 10: Financial assets, liabilities & net (as % of GDP, quarterly)
FY23 has seen higher financial liabilities & slower financial assets



Source: RBI

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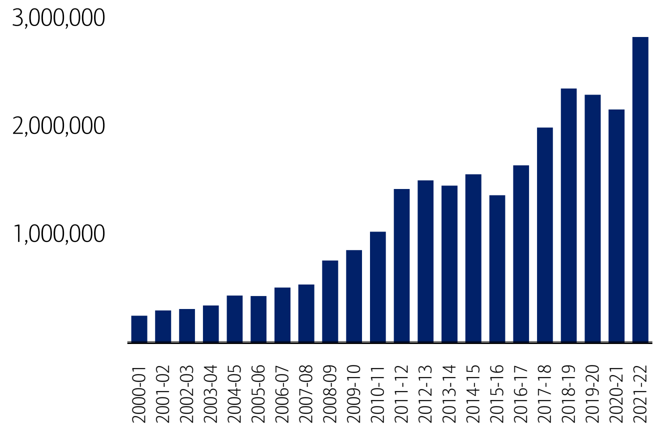
Exhibit 11: Household savings in physical assets (in INR cr)
Physical savings have started growing again recently



Source: RBI

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Data Preview

Exhibit 6: Week of 18 to 24 February

Data calendar for next week with BofA estimates and Bloomberg consensus

	Local time	Country	Data/Event	BofAe	Cons.†	Previous	Comments
Monday, February 19, 2024							
***	09:30	Thailand	GDP (4Q, yoy)		2.5%	1.5%	--
***	09:30	Thailand	GDP Annual (2023, yoy)		2.1%	1.5%	--
Tuesday, February 20, 2024							
**	12:00	Malaysia	Exports (Jan, yoy)		--	-10.0%	--
Tuesday, February 20 to Thursday, February 29, 2024							
**		South Korea	Retail Sales (Jan, yoy)		--	7.5%	--
Wednesday, February 21, 2024							
**	08:50	Japan	Exports (Jan, yoy)	7.5%	9.2%	9.7%	We expect YoY growth in nominal merchandise exports to remain solid at +7.5% YoY in January, following the 9.7% YoY gain in December. The positive base effects, partly due to later Lunar New Year than last year, contributed to the YoY growth of Japan's exports. However, we need few more months of export data to assess the underlying export recovery especially given the YoY growth numbers tend to be significantly distorted by the timing of LNY in January and February.
***	11:30	Australia	Wage Price Index (4Q, yoy)	4.1%	4.1%	4.0%	As the labour market remains tight we expect solid growth in wages in 4Q driven by rises in the private sector as well the impact of minimum wage rises from 3Q.
***	11:30	Australia	Wage Price Index (4Q, qoq)	0.9%	0.9%	1.3%	--
***	14:20	Indonesia	BI-Rate		6.00%	6.00%	--
Thursday, February 22, 2024							
**	10:45	New Zealand	Trade Balance NZD (Jan)		--	-323m	--
***		South Korea	BOK Base Rate	3.50%	--	3.50%	We expect no change of base rate in the Feb meeting given the still lingering inflationary pressure and the Fed's recent relatively hawkish tone.
**	16:30	Hong Kong	CPI Composite (Jan, yoy)		--	2.4%	--
Thursday, February 22 to Thursday, February 29, 2024							
**		Thailand	Customs Exports (Jan, yoy)		--	4.7%	--
Friday, February 23, 2024							
**	12:00	Malaysia	CPI (Jan, yoy)	1.7%	1.5%	1.5%	--
***	13:00	Singapore	CPI Core (Jan, yoy)	3.6%	--	3.3%	In sequential terms, we forecast core CPI up by 1.1% m/m in Jan '24 vs. 0.7% in Dec. This assumes (a) fuels & utilities up by 3.6%, (b) public road transport fares up by almost 4%, (c) larger-than-usual increase in education fees (hikes for govt-funded schools affecting Permanent Residents and pre-schools) (d) travel-related components retreating smaller-than-usual (effects of Coldplay concerts in Jan), and (e) pass-through from 1% GST hike similar to Jan '23.
**	13:00	Singapore	CPI (Jan, yoy)	3.3%	--	3.7%	On the other hand, we forecast headline CPI declining by 0.2% m/m in Jan '24 vs. +0.4% in Dec, given (a) sharp decline in car prices, and (b) additional ½ month of rebates for Services & Conservancy Charges.

Notes: †Bloomberg consensus; * = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; saar = seasonally adjusted annualized rate; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year, Central banks * denotes previous month

Source: BofA Global Research, Bloomberg

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Exhibit 7: Government bond auction calendar
Auction calendar for the week of 18 to 24 February

Country	Event	Comments
Monday, 19 February		
Korea	Korea to sell two 5y KTBs worth KRW 1.4tn and 0.9tn	
Tuesday, 20 February		
Korea	Korea to sell 20y KTBs worth KRW 0.8tn	
Philippines	Philippines to sell PHP 30bn of 10y govt bond	
Wednesday, 21 February		
Thailand	Thailand to sell 14.75y (25 bn) govt bond	

Source: BofA Global Research, Korea MoEF, Bureau of Treasury Philippines, DMO Indonesia, Thai BMA

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Macro Forecasts

Exhibit 8: Key Macroeconomic Indicators

BofA estimates for important indictors

15 February, 2024		BofA Global Research Forecasts	
	2023	2024	2025
GDP Growth (yoy)	**Actual**	**F'cst**	**F'cst**
Asia	**4.6**	**4.3**	**4.3**
China	5.2	4.8	4.6
Hong Kong	3.2	2.1	2.4
India	6.3	5.8	6.0
Indonesia	5.0	5.1	5.2
Korea	1.4	2.3	2.5
Malaysia	4.0	4.6	4.8
Philippines	5.6	5.4	5.5
Singapore	0.7	2.3	2.6
Taiwan	1.4	3.2	2.3
Thailand	2.8	3.7	2.7
Vietnam	5.0	6.2	6.8
Australia	1.8	1.4	2.0
Japan	1.7	0.8	1.0

Note: FY23-24, FY24-25, FY25-26 for India

		BofA Global Research Forecasts	
		Dec-24	Dec-25
Exchange rate (vs USD, eop)	**Current**	**F'cst**	**F'cst**
Asia	-	-	
China	7.19	6.90	6.70
Hong Kong	7.82	7.78	7.75
India	83.02	82.00	81.00
Indonesia	15625	15200	15000
Korea	1334	1230	1150
Malaysia	4.78	4.50	4.10
Philippines	55.99	55.00	53.00
Singapore	1.35	1.26	1.22
Taiwan	31.41	30.45	29.50
Thailand	36.14	34.00	32.00
Vietnam	24443	24800	24500
Australia	0.65	0.71	0.71
Japan	150.16	142.00	136.00

	2023	2024	2025
CPI inflation (yoy, avg)	**Actual**	**F'cst**	**F'cst**
Asia	**3.6**	**2.6**	**2.5**
China	0.4	0.8	1.7
Hong Kong	2.1	2.0	1.9
India	5.4	4.6	4.5
Indonesia	3.7	2,8	2.8
Korea	3.6	2.3	2.0
Malaysia	2.6	2.3	2.5
Philippines	6.0	3.3	3.1
Singapore	4.8	2.6	2.3
Taiwan	2.5	2.0	1.5
Thailand	1.6	1.7	1.0
Vietnam	3.4	3.8	4.1
Australia	5.7	3.4	2.9
Japan	3.3	2.5	1.9

Note: FY23-24, FY24-25, FY25-26 for India

	2023	2024	2025
Fiscal balance (% of GDP)	**F'cst**	**F'cst**	**F'cst**
Asia	-	-	-
China	-3.8	-3.5	-3.3
Hong Kong	-3.5	-1.5	1.2
India	-5.9	-5.9	-5.3
Indonesia	-1.7	-2.3	-2.6
Korea	-0.6	-1.9	-0.9
Malaysia	-5.0	-4.3	-3.5
Philippines	-6.1	-5.3	-4.8
Singapore	0.4	-0.5	-0.5
Taiwan	-2.1	-2.0	-2.1
Thailand	-3.7	-5.7	-4.3
Vietnam	-4.0	-3.6	-3.5
Australia	-	-	-
Japan	-	-	-

Note: FY23-24, FY24-25, FY25-26 for India

	2023	2024	2025
Policy rate (%, eop)	**Actual**	**F'cst**	**F'cst**
Asia	-	-	-
China	3.45	3.00	2.90
Hong Kong	5.75	4.75	3.75
India	6.50	6.25	5.50
Indonesia	6.00	5.25	4.25
Korea	3.50	2.75	2.50
Malaysia	3.00	3.00	3.00
Philippines	6.50	5.50	4.50
Singapore	4.06	-	-
Taiwan	1.88	1.88	1.88
Thailand	2.50	2.00	1.75
Vietnam	4.50	4.50	5.00
Australia	4.35	4.35	3.50
Japan	-0.10	0.25	0.50

Note: FY23-24, FY24-25, FY25-26 for India. 3M interbank rate forecast for Singapore

	2023	2024	2025
CA balance (% of GDP)	**F'cst**	**F'cst**	**F'cst**
Asia	-	-	-
China	1.6	1.3	1.5
Hong Kong	5.2	4.0	4.4
India	-	-	-
Indonesia	0.0	-0.4	-0.5
Korea	1.7	2.1	1.9
Malaysia	1.6	1.9	2.1
Philippines	-3.4	-3.4	-3.6
Singapore	17.6	16.5	16.0
Taiwan	12.6	13.5	13.4
Thailand	1.5	2.1	3.8
Vietnam	3.6	3.8	3.9
Australia	2.1	1.5	1.1
Japan	0.2	0.2	-

Note: FY23-24, FY24-25, FY25-26 for India

Source: BofA Global Research, Bloomberg

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