Shifting Household Savings Patterns: Implications for the Banking Sector

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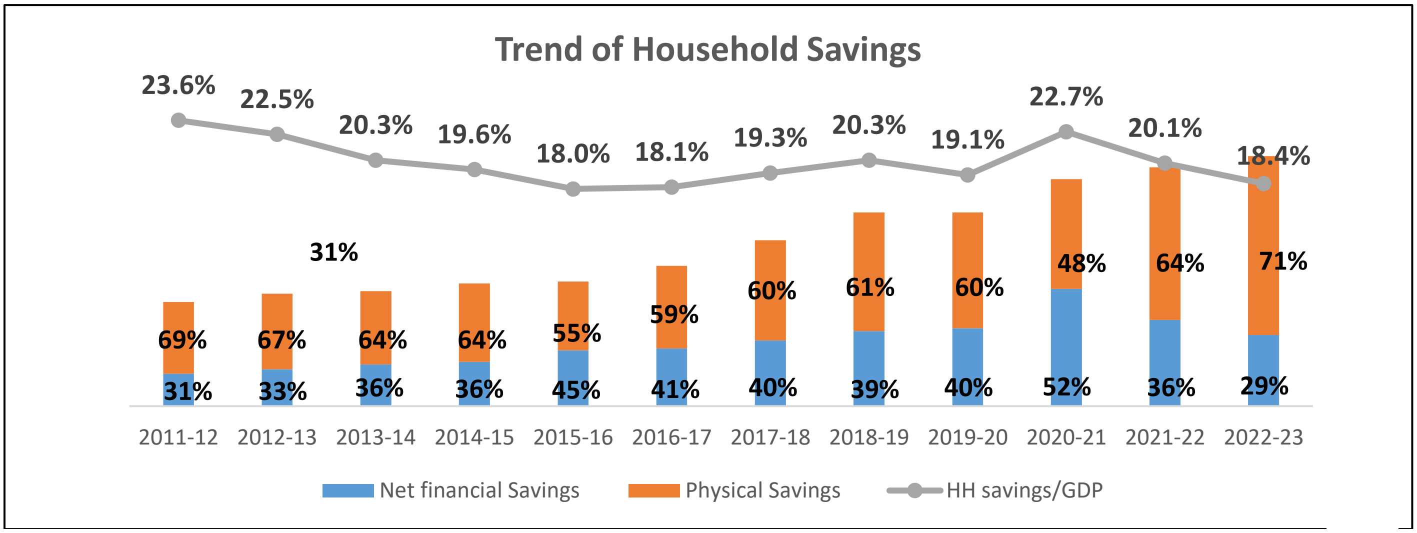
Introduction

Household savings are the portion of household income that is not spent on consumption but is instead set aside for future use. Historically, they have accounted for almost 60-65% of the gross savings in the economy (barring the Covid era). They provide a significant source of funds for investment in the economy and support financial security for individuals.

Household savings rate, expressed as the ratio of household savings to GDP, stood at 18.4 per cent in 2022-23, compared to 19.1 per cent in 2019-20. Overall, the savings of the household sector can be categorized into financial savings and physical savings. Net financial savings of the households is the difference between gross financial savings and financial liabilities. Gross financial savings include financial assets held by the households in the form of currency, deposits, shares and debentures, investments in government securities and insurance funds etc. Financial liabilities of the households comprise of borrowings undertaken from banks, NBFCs, cooperative societies, insurance corporations etc. Physical savings of the household sector include savings held in the form of physical assets along with savings made in ornaments such as gold and silver.

Post pandemic there has been a shift in the composition of overall savings of the household sector. While the share of financial savings in total savings has declined from 40.3 per cent in 2019-20 to 28.5 per cent in 2022-23, the share of physical savings has risen from 59.7 per cent to 71.5 per cent during the same period.



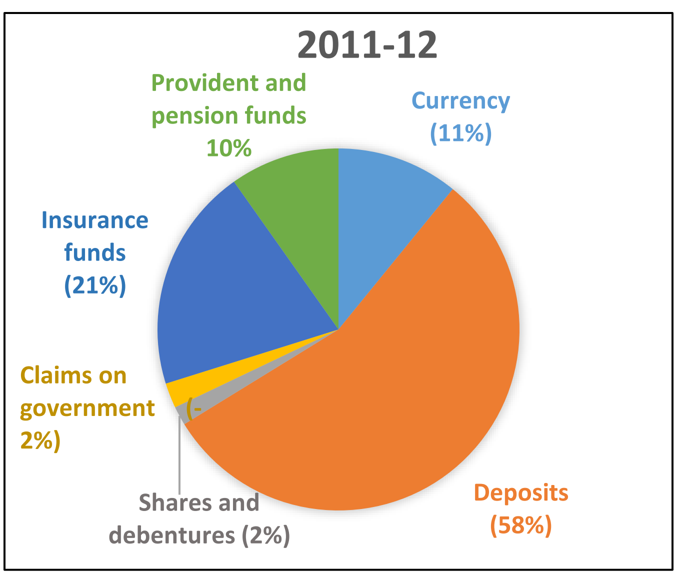
Source: MOSPI, EIC PNB

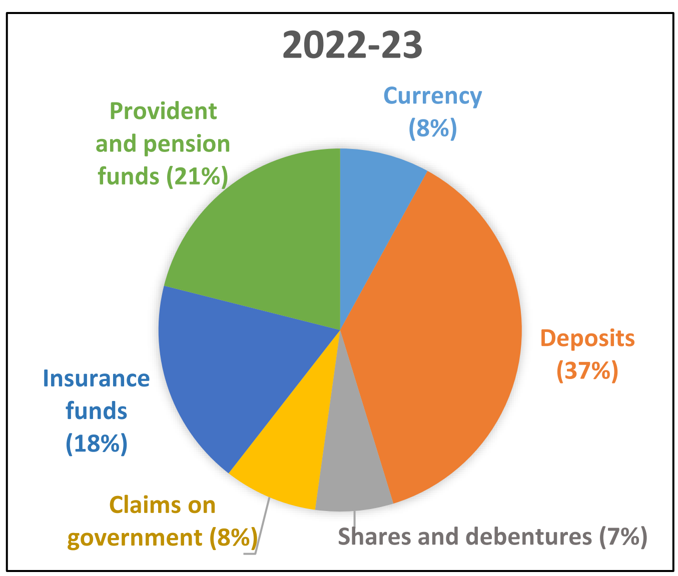
Net financial savings of the household sector fell to 5 year low of Rs.14.16 lakh crore in 2022-23, lower than Rs.15.5 lakh crore recorded in the pre-pandemic period (2019-20). On a y-o-y basis, household net financial savings recorded a decline of 17 per cent.

The net financial savings of the household sector rose sharply during the pandemic, i.e FY2020-21, to Rs.23.30 lakh crore, registering a YoY growth of 50 per cent, driven by income uncertainty and reduced consumption opportunities. During this period, the households' rushed to safe havens such as investments in bank deposits (49 per cent YoY), government securities (447 per cent YoY) and life insurance funds (69 per cent YoY). The increase in saving behavior was driven by fewer spending opportunities and a heightened financial caution due to the economic disruptions caused by the pandemic.

Since the pandemic, there has been a marked shift in households' savings behavior as is visible in successive yearly declines in growth rate of net financial savings. Net financial savings recorded a 26 per cent decline in 2021-22, followed by a 17 per cent decline in 2022-23. This has mainly been on account of rising financial liabilities of the households, which recorded a YoY growth rate of 22 per cent and 74 per cent in the corresponding periods. Among household liabilities, the lion's share is commanded by loans from the banking sector (~76 per cent of total liabilities). As per sectoral credit data of RBI, growth in retail credit stood at 20.6 per cent as on Mar'23 compared to 12.6 per cent in Mar'22. Households are increasingly turning to leveraged consumption driven by a) push for retail credit by lenders, b) increase in borrowing appetite especially among the youth, and, c) digitization which has improved access and affordability of loan products.

In the last decade, households have also diversified their holdings of gross financial savings. Deposits, which accounted for 58 per cent of their savings in 2011-12, now stood at 37 per cent in 2022-23. While household savings channeled in shares and debentures have increased, their share is still in single digits. The share of household savings held in provident and pension funds has increased significantly from 10 per cent in 2011-12 to 21 per cent in 2022-23.





Source: MOSPI, EIC PNB

Conclusion

- In light of the current economic environment of declining financial savings and rising financial liabilities, RBI's recent measures aimed at increasing risk weights on unsecured personal loans and credit cards, is aimed at maintaining financial stability and protecting both the banking sector and consumers from the risks associated with high levels of unsecured debt.
- The increase in household borrowing and retail credit demand presents opportunities for growth in lending activities, especially housing credit, vehicle loans etc.
- Rising share of physical savings in the form of gold and silver ornaments presents an opportunity for banks to drive growth in gold loans through enhanced product offerings.
- The decline in financial savings and increased financial liabilities pose challenges for the Banking sector in terms of maintaining liquidity and managing credit risk. With deposit growth lagging credit growth in the last two years, Banks will need to actively monitor their liquidity position to avoid any shortfalls.

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