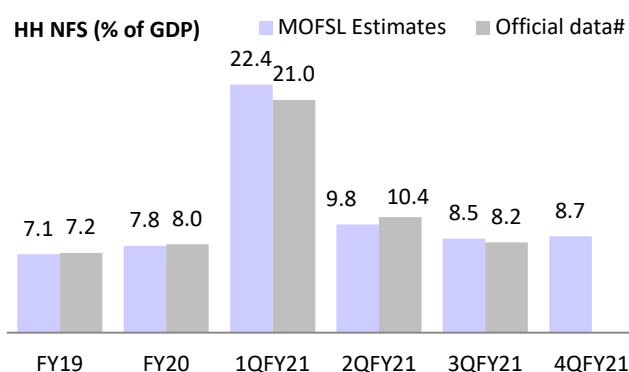


Household financial savings up marginally in 4QFY21...

...but physical savings surge

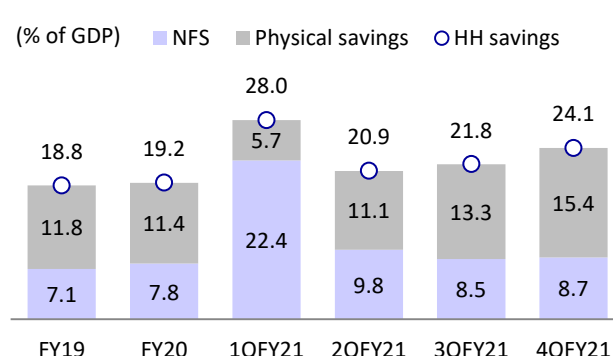
- To improve our understanding of Indian households' financial position, we have started estimating and publishing quarterly data on household (HH) savings. Household savings in India have two components: net financial savings (NFS) and physical savings. The latter is almost double the former and two-thirds of total HH savings. While the RBI produces quarterly data on HH NFS, this is done with a lag of 5–6 months. Replicating the RBI's methodology, we produce our own quarterly estimates of HH NFS with a 3–4 months' lag¹. Our calculations suggest HH NFS stood at 8.7% of GDP in 4QFY21, only marginally higher than 8.5% of GDP in 3QFY21. This implies HH NFS surged to 11.6% of GDP in FY21 from 8% of GDP in FY20.
- Using monthly data on stamp and registration charges (S&RCs) collected by the state governments, we have also prepared quarterly estimates of HH physical savings². Notwithstanding COVID-19, S&RCs surged in 2HFY21, to the extent that they came in just 2% YoY lower in FY21 (vis-à-vis 36% YoY decline in 1HFY21). This implies HH physical savings increased sharply in 4QFY21, driving total household savings higher.
- Accordingly, as per our estimates, HH (gross) savings in India increased to 24% of GDP in 4QFY21 from 21–22% of GDP in the previous two quarters and the peak of 28% of GDP in 1QFY21. In other words, HH savings rose to 23.3% of GDP in FY21 from 19.3% of GDP in FY20.
- 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 FY21 (1.2x FY20 levels) was the slowest vis-à-vis other nations (as high as 4.0x in Japan). A slower rise in HH savings means the contribution of pent-up demand in growth recovery would be limited in India compared with other nations.
- Overall, the combination of higher [debt](#), in consumption and lower rise in savings (owing to the lack of direct fiscal support) confirm further worsening in household financial position³ in FY21. Accordingly, growth recovery in the post-COVID era is likely to be slower in India compared with that in other nations.

Exhibit 1: Household NFS up only slightly in 4QFY21...



As published by CSO/RBI

Exhibit 2: ...but physical savings surge very strongly



Source: Various national sources, 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 In order to arrive at physical savings, we estimate household investments using 'stamp duties & registration charges' (S&RCs) collected by states (available on monthly basis). Construction (real estate) sector accounted for 65–70% of household investments in the past four years and S&RCs 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 Ideally, Personal disposable income (PDI) = Private final consumption expenditure + household savings. However, in India, PDI is estimated indirectly. Our estimates of PDI, thus, are not directly comparable with the official estimates (available with 10-month lag on annual basis).

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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 Mar'19 (FY19) was available in Jan'20. In Jun'20⁴, however, the RBI consolidated information on household financial assets and liabilities and published quarterly data up to Mar'20. The RBI updated household financial balance sheets with 2QFY21 data in Mar'21, which were then updated with 3QFY21 information in Jun'21. According to the RBI, household NFS stood at 21% of GDP in 1QFY21, 10.4% of GDP in 2QFY21, and 8.2% of GDP in 3QFY21, against 7–8% of GDP in the pre-COVID period.

Household financial savings up marginally in 4QFY21

In this note, we replicate the RBI's methodology and update household financial balance sheets with 4QFY21 data

In Apr'21, we replicated the RBI's methodology (as far as possible with the information publicly available) and updated household financial balance sheets with 3QFY21 data almost two months before the RBI. Continuing the exercise, in this note, we publish our estimates for 4QFY21, and, thus, FY21. As Exhibit 1 on the previous page confirms, our estimates marginally differ from 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-SCB lending is defined differently – the RBI appears to have taken personal loans by 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) rose to 14% of GDP and financial liabilities amounted to 5.3% of GDP in 4QFY21

Details regarding household financial assets and liabilities for 4QFY21 are provided below (*Exhibit 3*). Our estimates suggest gross financial savings (GFS) rose to 14% of GDP, while financial liabilities amounted to 5.3% of GDP in 4QFY21. There are six key components of GFS – deposits (including that of SCBs, NBFCs, HFCs, and rural/urban co-operative banks), currency, insurance, pensions and provident funds, investments (equity + debt), and small savings. In comparison with 3QFY21, households increased their savings in deposits, while these fell in all other categories. The sharpest fall was in insurance and investments (including mutual funds), which declined for the first time in four quarters in 4QFY21.

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

	INR trillion					% of GDP				
	FY19	FY20	FY21	3QFY21	4QFY21	FY19	FY20	FY21	3QFY21	4QFY21
Gross Financial Savings (GFS)	21.1	22.4	31.3	7.1	7.9	11.2	11.0	15.9	12.9	14.0
Deposits*	7.5	7.9	12.4	1.8	4.3	4.0	3.9	6.3	3.3	7.6
Currency	2.8	2.8	3.9	0.9	0.7	1.5	1.4	2.0	1.7	1.3
Insurance	3.5	3.3	5.3	1.6	1.1	1.9	1.6	3.2	2.9	2.9
Pensions@	4.0	4.4	4.9	1.2	1.3	2.1	2.2	2.5	2.2	2.2
Investments#	0.8	0.8	1.6	0.7	(0.2)	0.4	0.4	0.8	1.4	(0.4)
ow: Mutual Funds	0.6	0.5	1.1	0.7	(0.3)	0.3	0.2	0.6	1.2	(0.6)
Small savings	2.1	2.8	3.0	0.7	0.7	1.1	1.4	1.5	1.4	1.3
Financial Liabilities (FL)	7.7	6.5	8.4	2.4	3.0	4.1	3.2	4.3	4.5	5.3
SCBs	5.9	5.3	6.4	2.2	2.6	3.1	2.6	3.3	4.0	4.6
NBFCs + HFCs^	1.8	1.1	2.0	0.2	0.4	1.0	0.5	1.0	0.5	0.7
Net Financial Savings (NFS)	13.4	15.9	22.9	4.6	4.9	7.1	7.8	11.6	8.5	8.7

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

@ Taken from RBI up to 3QFY21 (4QFY21 are our assumptions)

Including net flows into MFs and capital raised

^ Assumed at the same ratio in 4QFY21 as in 3QFY21 (suggested by RBI)

Source: RBI, CSO, SEBI, CEIC, MOFSL

⁴ The pilot exercise was done by RBI in Mar'18, after which it was updated in Jun'20 with quarterly data up to Mar'20.

Importantly, although GFS and financial liabilities in 4QFY21 were lower than in 1HFY21, both were comfortably higher v/s the pre-COVID period (*Exhibit 4*). Against 10–12% of GDP in the past decade, GFS was still higher at 14% of GDP in 4QFY21. In contrast, financial liabilities totaling 5.3% of GDP in 4QFY21 were higher than the range of 2.8–4.4% of GDP between FY08 and FY20.

Our estimates suggest that HH NFS was largely unchanged at 8.7% of GDP in 4QFY21

As the rise in GFS was broadly matched with the increase in financial liabilities, our estimates suggest HH NFS was largely unchanged at 8.7% of GDP in 4QFY21 (*Exhibit 5*). This means NFS constituted 11.6% of GDP in FY21, higher than 7–8% of GDP in the past decade, but lower than the all-time high of 12.1% of GDP in FY10.

Exhibit 4: The rise in GFS was broadly matched by the increase in financial liabilities...

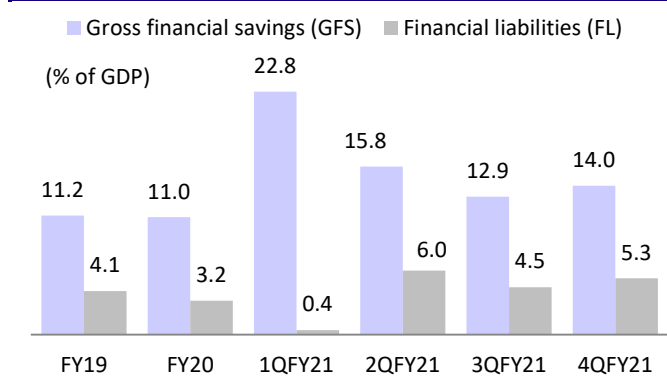
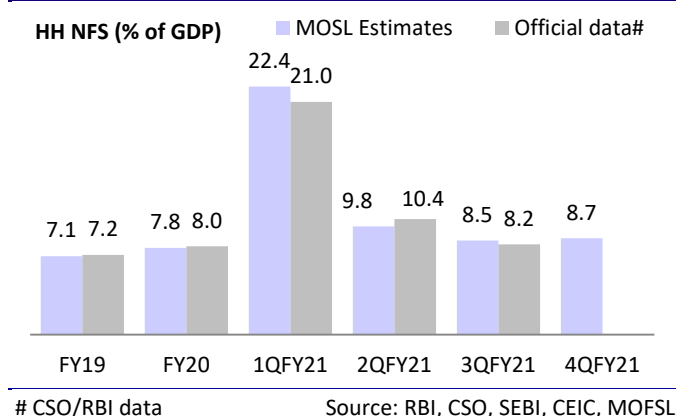


Exhibit 5: ...due to which HH NFS was also largely unchanged in 4QFY21



Physical savings at multi-year high in 4QFY21

Household savings have two components in India: financial savings and physical savings. NFS accounts for 35–40% of HH savings in India. Therefore, we cannot comment on the total HH savings without the knowledge of physical savings. Accordingly, using the S&RCs collected by the state governments, we attempt to estimate physical savings (= HH investments) as well.

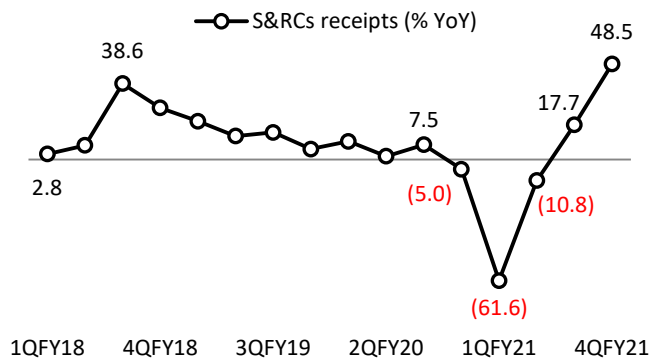
The Construction (Real Estate) sector accounts for the majority – as much as two-thirds – of HH investments

As explained in our earlier [note](#), 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. When citizens purchase or lease a property, they are liable to register their house purchases and pay S&RCs in the respective jurisdictions. Therefore, we have linked HH construction investments with the S&RCs collected by the state governments. 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.

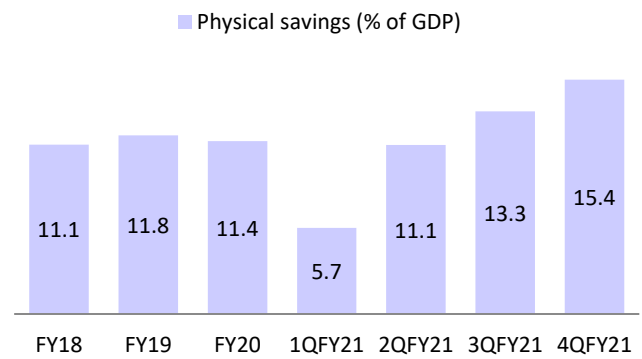
Our calculations suggest HH investments recovered to 13.3% of GDP in 3QFY21 and a multi-year high of 15.4% of GDP in 4QFY21

Based on data of the S&RCs collected by 27 states – together accounting for >97% of all S&RC collections – it is clear that after declining over 36% YoY in 1HFY21, S&RC receipts by states grew 18% YoY in 3QFY21 and 49% YoY in 4QFY21 (*Exhibit 6*). Using this information and by applying the ratios mentioned above, our calculations suggest HH investments (or physical savings⁵), which fell to 5.7% of GDP in 1QFY21, recovered to 13.3% of GDP in 3QFY21 and a multi-year high of 15.4% of GDP in 4QFY21 (*Exhibit 7*).

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

Exhibit 6: S&RCs collected by states surged in 4QFY21...

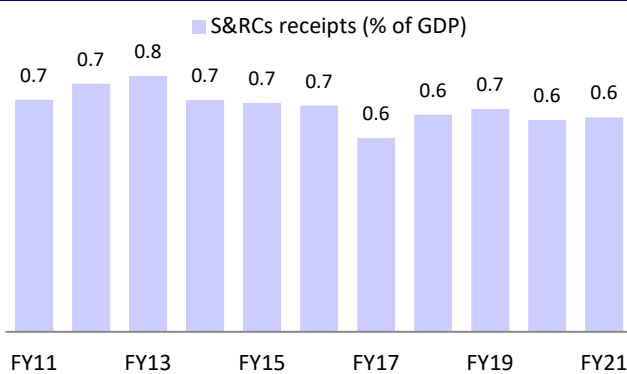
Based on 27 states, accounting for >97% of all S&RCs receipts

Exhibit 7: ...driving HH physical savings to multi-year highs

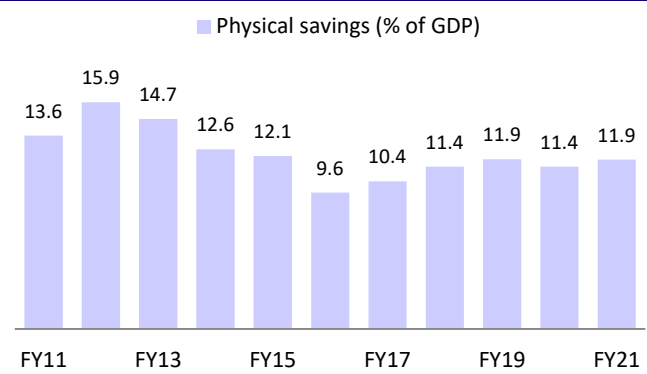
Source: CSO, RBI, Comptroller and Auditor General, CEIC, MOFSL

As various state governments reduced their stamp duty rates (and registration fees) last year, physical savings stood at 11.9% of GDP in FY21, up from 11.4% of GDP in FY20

Notably, notwithstanding the collapse in investments in 1QFY21, the S&RCs collected by the states declined just 1.9% YoY in FY21, slower than the 3% fall each witnessed in FY09 (on account of the Global Financial Crisis) and FY17 (on account of the demonetization). Since nominal GDP contracted 3% last year, this suggests that S&RC receipts, and, consequently, physical savings, actually picked up as a percentage of GDP (*Exhibit 8-9*). At 0.64% of GDP in FY21, S&RCs were only moderately lower than the average of 0.7% of GDP in the decade ended FY16. However, since various state governments reduced their stamp duty rates (and registration fees) last year, physical savings stood at 11.9% of GDP in FY21, up from 11.4% of GDP in FY20.

Exhibit 8: Notwithstanding COVID-19 and cuts in duties, the S&RCs collected in FY21 were broadly unchanged...

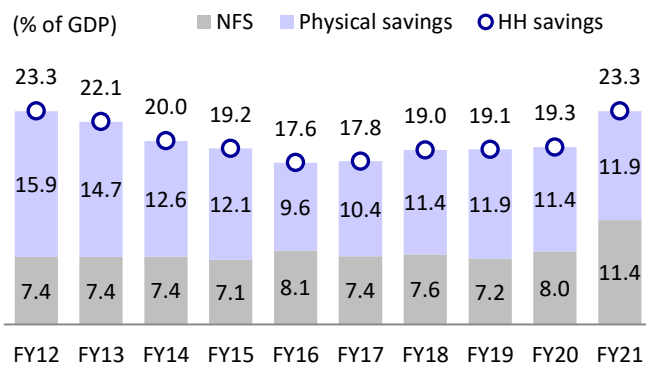
Based on 27 states, accounting for >97% of all S&RCs receipts

Exhibit 9: ...and physical savings in FY21 were also similar to FY19 levels

Source: CAG, CGA, CSO, CEIC, MOFSL

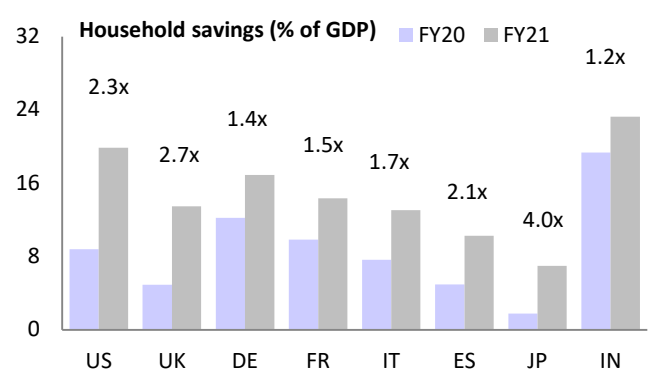
Our estimates suggest HH gross savings stood at 23.3% of GDP in FY21, higher than ~19% of GDP in the pre-COVID period

Using our HH financial and physical savings estimates, we found that HH gross savings increased to 24.1% of GDP in 4QFY21. This was better than 21–22% of GDP in 2Q and 3QFY21, but lower than the peak of 28% of GDP in 1QFY21. Therefore, HH gross savings stood at 23.3% of GDP in FY21, higher than ~19% of GDP in the pre-COVID period (*Exhibit 10*). This implies HH savings in India in FY21 were 1.2x that in FY20. Notably, due to physical restrictions, household (or personal) savings increased almost worldwide last year (i.e., FY21). Therefore, comparing the HH savings of various nations is more useful.

Exhibit 10: India's HH savings increased to a decade-high of 23.3% of GDP in FY21...

The rise in HH savings in India in FY21 (1.2x of FY20 levels) was the slowest vis-à-vis other nations (as high as 4x in Japan)

Our estimates of PDI (based on the direct methodology) confirm decline of 0.5% YoY in FY21, marking the first fall since the mid-1950s

Exhibit 11: ...however, the rise in HH savings in FY21 in India was slower v/s other major nations

Source: Various national sources, CEIC, MOFSL

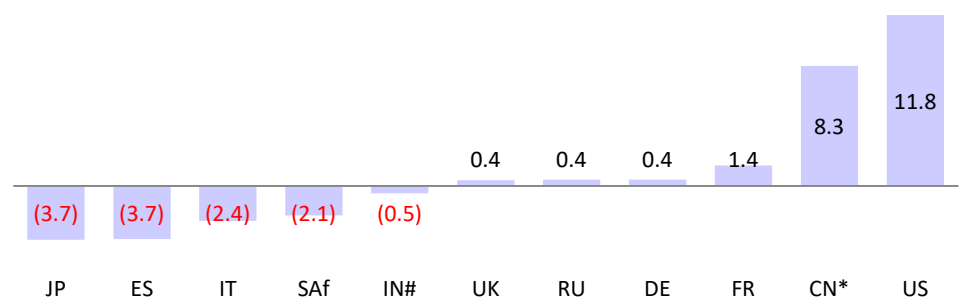
Notably, household gross savings data is available on a quarterly basis only for some countries in the world and is almost negligible among emerging and developing economies. A comparison between India and other large nations revealed HH savings (as % of GDP) rose across countries in FY21 (*Exhibit 11*). However, the rise in HH savings in India in FY21 (1.2x of FY20 levels) was the slowest vis-à-vis other nations (as high as 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 that in other nations such as Germany (DE), France (FR), and Japan (JP).

Ideally, household income (or personal disposable income, PDI) in a country is the sum of private final consumption expenditure (PFCE) and household savings. However, PDI is estimated indirectly in India. Although the official estimates (based on the indirect methodology) for FY21 will be available in Jan'22, our estimates of PDI (based on the direct methodology) confirm decline of 0.5% YoY in FY21, marking the first fall since the mid-1950s (*Exhibit 12*).

Exhibit 12: A comparison of household incomes in major nations in FY21 (%)

■ Household income in FY21 (% YoY)



Our estimates

* Disposable income per capita

Source: CEIC, Various national sources, MOFSL

Overall, the combination of higher **debt**, decline in consumption, and a slower rise in savings (due to the lack of direct fiscal support) confirm the further worsening of household financial positions in FY21. Accordingly, growth recovery in the post-COVID era is likely to be slower in India compared with that in other nations.

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