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Are we saving less?

There is considerable euphoria relating to consumption, and the relentlessly high GST collection numbers is a reflection of this phenomenon. But there is also the case of inflation being very high this year driven by various factors. This has tended to push up nominal numbers. For instance, for the first quarter of the year, nominal consumption grew by around 40%, in real terms it was 26%. The difference is the consumption price deflator which accounted for this high increase in nominal terms. This also means that if people are spending more due to inflation, besides the normal pent up demand factor, then savings must be getting affected. This is reflected in the rising current account deficit too which is expected to be in the range of 3-3.5% of GDP this year. In this context, an examination of how household savings have behaved in the last three years will be useful.

Table 1

Structure of household financial savings: FY20-22

	Savings flows (Rs cr)			Shares in total %		
	FY20	**FY21**	**FY22**	**FY20**	**FY21**	**FY22**
Financial Assets	**24,07,250**	**31,61,953**	**25,60,478**	**100.0**	**100.0**	**100.0**
Per cent of GDP	12.0	16.0	10.8			
of which:						
1. Total Deposits (a+b)	***8,84,579***	***12,59,767***	***6,95,471***	***36.7***	***39.8***	***27.2***
(a) Bank Deposits	8,27,830	12,19,909	6,53,911	34.4	38.6	25.5
i. Commercial Banks	7,68,855	11,56,334	6,51,733	31.9	36.6	25.5
ii. Co-operative Banks	58,975	63,576	2,178	2.4	2.0	0.1
(b) Non-Bank Deposits	56,749	39,858	41,561	2.4	1.3	1.6
2. Life Insurance Funds	***3,74,170***	***5,63,216***	***4,40,810***	***15.5***	***17.8***	***17.2***
3. Provident and Pension Funds (including PPF)	***5,00,203***	***5,46,700***	***5,81,668***	***20.8***	***17.3***	***22.7***
4. Currency	***2,82,662***	***3,81,976***	***2,69,667***	***11.7***	***12.1***	***10.5***
5. Investments	***97,657***	***1,24,577***	***2,27,977***	***4.1***	***3.9***	***8.9***
of which:				0.0	0.0	0.0
(a) Mutual Funds	61,686	64,084	1,60,600	2.6	2.0	6.3
(b) Equity	26,738	38,531	48,613	1.1	1.2	1.9
6. Small Savings (excluding PPF)	***2,63,723***	***2,81,495***	***3,40,655***	***11.0***	***8.9***	***13.3***

Source: RBI

The storyline here is interesting. First, overall savings of households increased by 31.3% in FY21 which was mainly due to the lockdown which inhibited consumption for several months. Therefore, households perforce diverted income to savings. Subsequently, with normalcy on course in FY22 even though there were lockdowns of diluted variety due to the delta wave, savings fell by 19%. However, if FY22 is compared with pre-covid FY20, the increase in savings is just 6.3% over 2 years. Therefore financial savings have underperformed in the last 2 years. This can be seen from the fact that financial assets as % of GDP was lower at 10.8% in FY22 compared with 12% in FY20.

Second, the composition of savings is noteworthy as several shifts are visible.

a. The share of deposits has come down sharply to 27.2% in FY22 which is around 9% lower than in FY20. The main reason for this change is the low regime of interest rates which was followed by the banking system as the RBI kept repo rate at 4% in an attempt to boost growth.
b. The share of investments has doubled from 4.1% to 8.9% with mutual funds witnessing a bonanza. Even direct equity investments increased from 1.1% to 1.9%. The high returns on the stock market with the indices hitting all-time highs was a temptation not to be missed. Mutual funds gained here substantially.
c. Life insurance and provident funds products improved significantly from 35.3% to 39.9% as households' preference for secure savings avenue was also maintained. Pension and provident funds give higher return than banks though funds get locked in for longer durations. Therefore there was a shift in these products too.
d. Small savings share went up which is a bit surprising as the returns on these products had been reduced. Yet given that some of the products offered higher returns relative to banks, there was a preference exercised in their favour.
e. The share of currency, after going up in FY21 due to the precautionary motive, came down with absolute increase also declining to Rs 2.70 lakh crore against Rs 2.83 lakh crore.

The overall decline in financial assets of households is definitely a concern because it does appear that this will continue even in FY23.

- Bank deposits for instance have increased by 3.6% this year compared with 3.1% last year (up to September 9th). There has been some reverse migration to bank deposits with incremental deposits being Rs 5.90 lakh cr as against Rs 4.60 lakh crore last year. In FY21 it was as high as Rs 6.80 lakh crore in comparable period.
- However, the incremental AUM for five months of the year of mutual funds was lower at Rs 1.77 lakh crore as against Rs 5.17 lakh crore last year.

With the stock market also going through several phases of correction, the incentive to invest here may get diluted. Small savings rates have been increased which will also provide a nudge to banks to follow suit. As households become more risk averse there can be some gains for banks in terms of deposits growing at a stable pace. This would need to be monitored for the next few months.

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