Quickonomics

May 21, 2024

Trends in household savings and debt after the pandemic

Quick takeaways

- Households have been borrowing at a faster pace than they have been saving since the Covid-19 pandemic. As a result, 'net' household financial savings (gross financial savings adjusted for liabilities) have fallen, government data up to fiscal 2023 shows
- The rising proclivity for debt among households is fanned by a clutch of tailwinds — a retail credit push by lenders, greater appetite for borrowings, especially among the young, and improved access to lenders owing to advances in technology
- For households, among financial instruments, there is a gravitation from savings in deposits to equities, mutual funds and small savings
- Household savings in physical assets have also risen post pandemic
- Interestingly, proxy data suggests a rebound in overall savings rate in fiscal 2024, with contribution from households

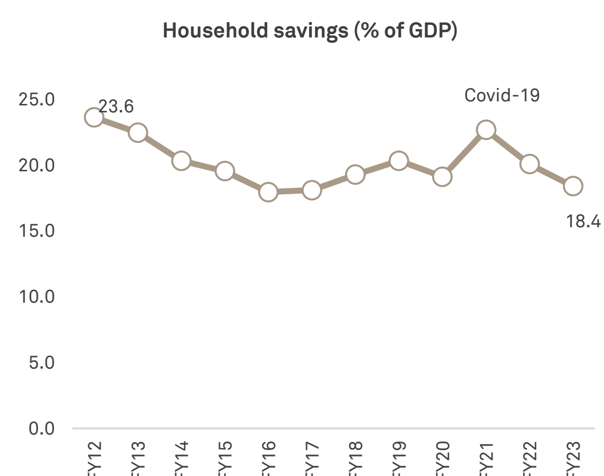
Household savings constitute ~60% of the total savings in the economy and bankrolls a large proportion of the country's investments.

The data, which comes with more than a year's lag, shows overall household savings rate (net households savings/GDP) fell to a six-year low in fiscal 2023 (see chart 1)[1].

In this Quickonomics, we evaluate the shift in household savings after the pandemic, the spike in household borrowings and the savings trends across instruments.

We used the National Statistical Office (NSO) data up to fiscal 2023 and for fiscal 2024 proxied high-frequency data to gauge how savings may have evolved. We also explain the macro factors behind these trends.

Chart 1: Household savings moderated in the two years following the pandemic



Note: Data is at current prices
Source: NSO, CEIC, CRISIL

[1] *All savings data is in nominal terms, i.e., at current prices*

The savings profile of households

Household savings constituted ~18% of India's GDP as of fiscal 2023, accounting for 60% of gross domestic savings.

Within household savings, the NSO bifurcates data into three broad categories: savings in financial assets, physical assets (primarily real estate), and gold and silver ornaments.

The number for financial savings is derived from gross financial savings by netting off financial liabilities.

While gross financial savings comprise household cash balance, deposits and other financial market instruments, financial liabilities include their borrowings from banks and non-banks.

The latest data from NSO, which is for fiscal 2023, shows savings in physical assets were the highest at 12.9% of GDP, followed by net financial assets at 5.3% and gold and silver at 0.2%.

Comparing this with the long-term trends shows:

- Share of overall household savings in GDP (at 18.4%) was below the pre-pandemic decadal average (20.1%)
- Share of gross financial savings in GDP was on a par with the average (11%)
- (But) financial liabilities (5.8% of GDP) were much above the average (3.4%)
- (As a result) net financial savings (5.3% of GDP) have been below the average (7.6%)

Meanwhile, savings in physical assets (12.9% of GDP) were slightly above the average 12.2%.

The drop in net financial savings has been sharper than the rise in physical savings, which drove down the overall household savings.

Why has the household savings rate fallen after the pandemic?

The overall household savings started falling as the economy opened after the pandemic abated.

Household savings had averaged 20.1% of GDP in the decade before the pandemic. In the first year of the pandemic, the number rose briefly to 22.7% as lockdown and mobility restrictions curbed consumption.

But the excess got spent quickly as the economy reopened. So much so, in fiscal 2022, household savings reverted to the decadal average (see chart 1) and then slipped to 18.4% of GDP in fiscal 2023.

A sharp rise in borrowings brought down net savings: While gross financial savings grew at 10.3% on-year on average between fiscals 2021 and 2023, household financial liabilities rose at the rate of 30.1%.

Gross financial savings as a percentage of GDP stagnated, while liabilities grew (see chart 2).

Since fiscal 2018, there has been a marked rise in financial liabilities. This has coincided with surging retail growth. In the following section, we discuss the factors that have led to this surge.

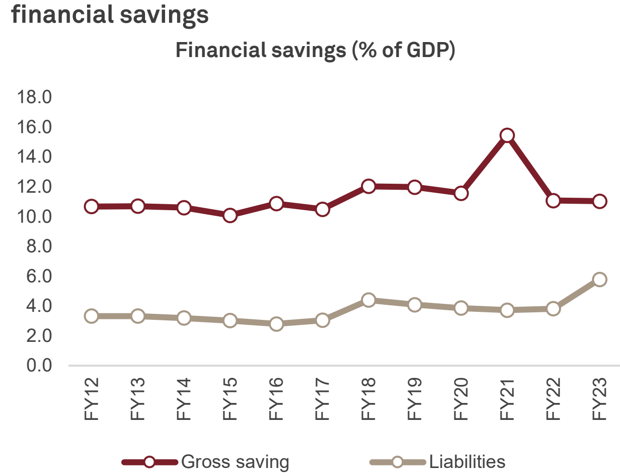
Switch to physical assets

Households increasingly added physical assets to their savings after the pandemic, which rose above the pre-pandemic average of 12.2% of GDP after dipping to 10.8% in fiscal 2021 (see chart 3).

Savings in physical assets galloped at 17.1% on-year growth during fiscals 2021-2023, compared with just 2.2% growth in net financial savings.

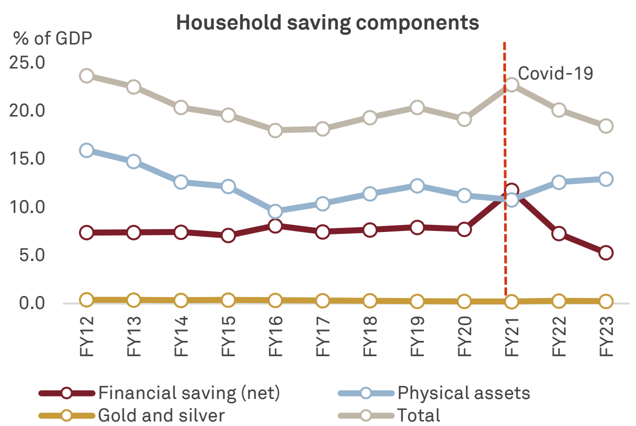
Savings also rose in gold and silver, though they accounted for a much smaller proportion of overall household savings.

Chart 2: Financial liabilities higher than gross financial savings



Source: NSO, CEIC, CRISIL

Chart 3: Net financial savings fall but physical assets gaining traction



Source: NSO, CEIC, CRISIL

Rising borrowings suggest a fundamental shift

Household financial liabilities, at 5.8% in fiscal 2023, touched a peak after the Global Financial Crisis. They have been rising well since fiscal 2018. This jells with trends in retail credit growth, which rose at an average 18.9% between fiscals 2018 and 2023, well ahead of the 10% nominal GDP growth.

What has led to the rise?

- **Retail credit push by lenders:** Retail credit started surging since fiscal 2018, softened somewhat in 2020 and 2021 and rebounded thereafter, driven by banks and non-banking finance companies (NBFCs). The entry of new players (NBFCs and fintechs) eased credit availability and access. Improving bank balance sheets also contributed to rising supply of credit.

  Total retail credit rose to 19.4% of GDP in fiscal 2023 from 12.1% of GDP in fiscal 2017. Within this, bank retail credit rose to 15.5% of GDP from 10.5%, and that of NBFCs went up to 3.9% from 1.6%. Overall retail credit share in GDP is estimated to have risen further to ~23% in fiscal 2024[2] (see chart 4).

  The initial rise in retail credit was driven by NBFCs, which outpaced banks and housing finance companies between 2015 and 2018 (CAFRAL, 2023[3]). Among banks, private sector banks led the initial thrust on retail credit, followed by public sector peers.

  Regulatory changes in the early 2010s, wherein customers were required to share their data with credit bureaus, coupled with technological advances made it easier for lenders to sanction personal loans (Sengupta and Vardhan, 2021[4]). After the pandemic subsided, improved health of banks and NBFCs enabled them to ramp up lending. With corporate credit sluggish, personal loans got a big push.

  There has been a sharp rise in unsecured loans since, thanks to the 'buy now, pay later' format driven by fintechs. However, the Reserve Bank of India's (RBI's) recent move to increase risk weights on unsecured lending is tempering this trend.

- **Growing appetite for short- and long-term loans:** Retail credit growth has been healthy for short-term loans (such as credit cards) as well as long-term loans (auto and home loans). While short-term loans have recorded strong growth following the pandemic, the share of long-term loans remains dominant.

  For instance, home loans accounted for the largest share of bank retail loans at 47.4% as of fiscal 2024. However, their share has reduced relative to 53.1% in fiscal 2017. On the other hand, there has been an increase in the share of credit cards (5.2% vs 3.2%), vehicle loans (12% vs 10.5%), and 'other' loans (27.7% vs 23.2%).

  Credit cards have seen the highest growth (21.3% on-year average between fiscals 2021 and 2024), followed by 'other loans' (18.5%), auto (15%), housing (14.5%) and education (11.6%).

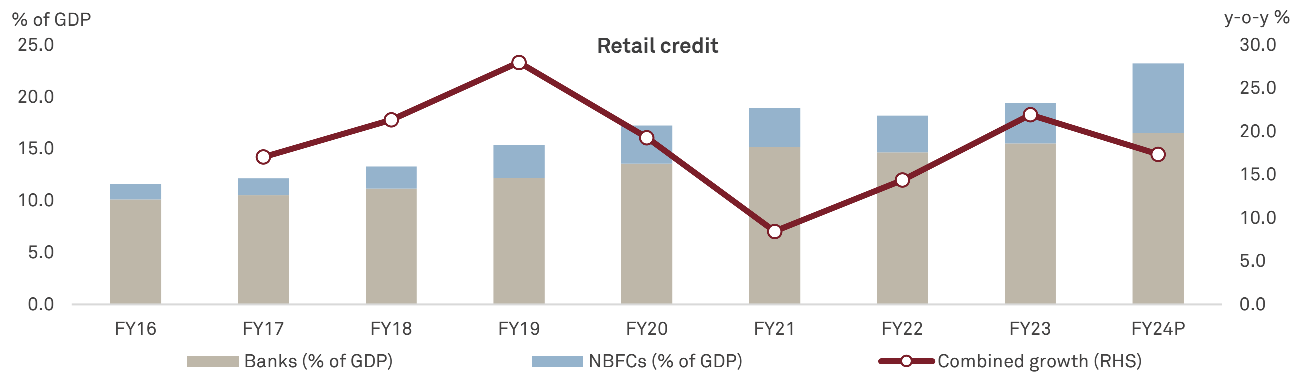
- **The young are borrowing more:** There is strong credit demand from young people. According to CAFRAL's India Finance Report 2023, NBFCs and fintechs are primarily serving this catchment. They accounted for ~70% of the lending to those below the age of 35. Consequently, lending by fintechs and NBFC to young borrowers almost doubled between fiscals 2015 and 2021. The CAFRAL report says this segment of the population mostly borrows to purchase personal-use products than big-ticket items.

- **Technology providing easier credit access:** Technology has made it easier to lend. From the lender's perspective, the rise of artificial intelligence and other advances have made it easier to check

[2]*CRISIL MI&A estimate*
[3]*CAFRAL (2023). India Finance Report 2023*
[4]*Sengupta, R. and Vardhan H. (2021). 'Consumerisation' of banking in India: Cyclical or structural? Ideas for India*

creditworthiness without always needing physical collateral. From the borrower's perspective, the advent of the Unified Payments Interface platform has led to easier and faster access to credit.

Chart 4: Retail credit has risen markedly since fiscal 2018



Note: FY24 is CRISIL's estimate
Source: NSO, RBI, CEIC, CRISIL

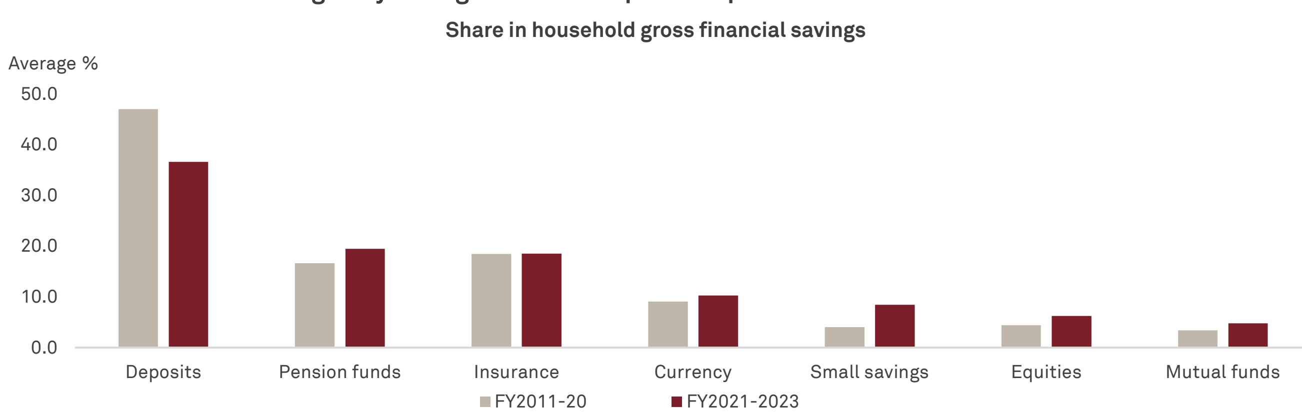
Where are households parking their savings?

- **Physical assets:** As stated earlier, savings in physical assets accounted for 60.1% of total household savings in fiscals 2021-2023, compared with net financial savings at 38.8%. In fiscal 2023, the share of physical assets was higher at 70.2%, while net financial savings dropped to 28.5%. This was facilitated by lower home loan rates, positive real returns on real estate investments after a near decade-long stagnation, and stamp duty reductions offered by some states. Chart 6 shows how returns on real estate have been rising post the pandemic

- **Higher-yielding financial instruments**

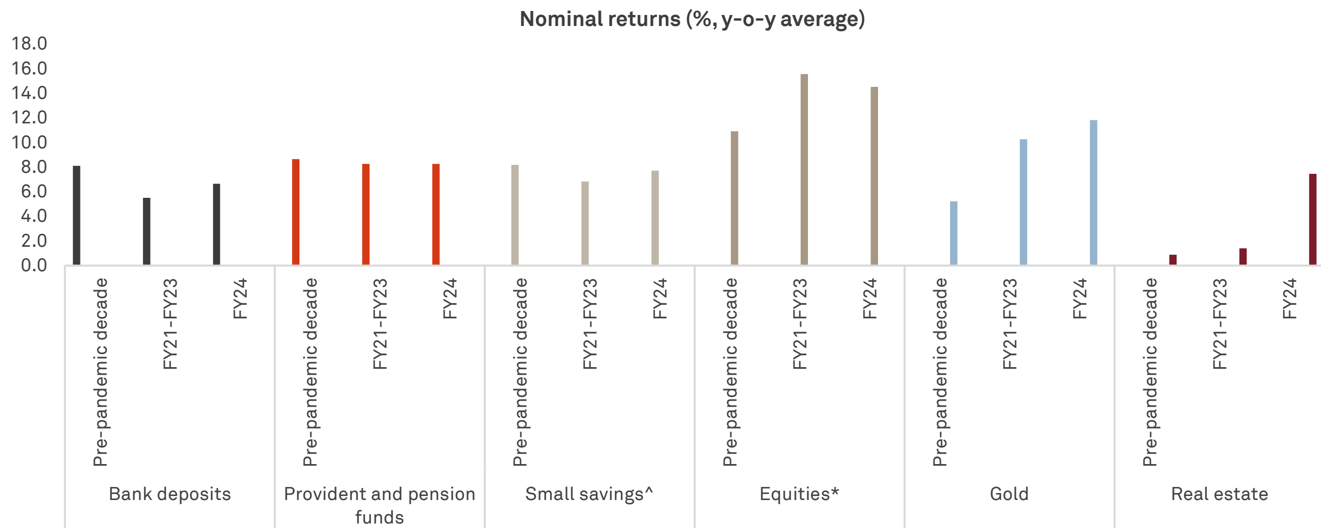
  While bank deposits have traditionally been the preferred investment instrument for households, the share of deposits in gross financial savings reduced after the pandemic as other instruments yielded higher returns (see chart 6). Elevated inflation after the pandemic could have further goaded investors to move to higher-yielding instruments in real terms. Interestingly, households are also preferring to keep more cash with themselves after enduring the pandemic shock (see chart 5).

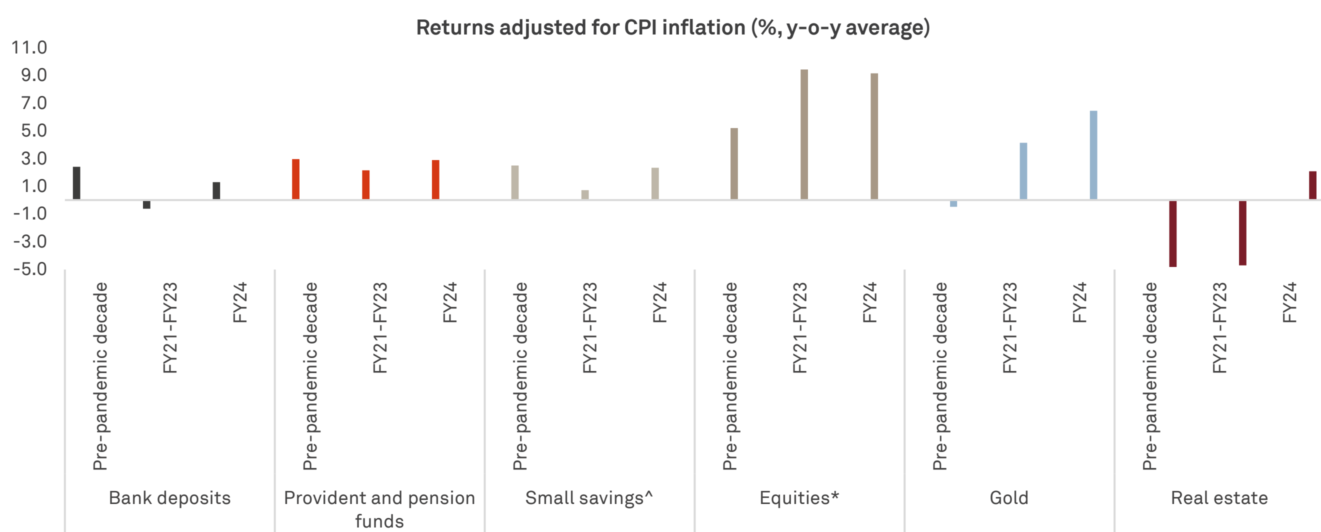
Chart 5: Households shift to higher-yielding instruments post the pandemic



Source: RBI, NSO, CEIC, CRISIL

Chart 6: Higher nominal and real returns lure households





*Note: ^Based on interest rates on 5-year National Savings Certificate; *Based on returns on Sensex; Real estate returns are based on the top six cities*
Source: CRISIL Funds Research

A revival in savings may be in the offing

While official data beyond fiscal 2023 is awaited from the NSO, early indicators show that household savings may have revived in fiscal 2024 while growth in household liabilities could have likely moderated

- First, at the overall economy level, savings could likely have ticked up in fiscal 2024. This can be inferred from the following macroeconomic identity:

S - I = CAD

where S = Domestic savings

I = Investment

CAD = Current account deficit

India's CAD is estimated to have narrowed to ~1% of GDP in fiscal 2024 from 2% in the previous year.

But investments rose to ~33.7%[5] of GDP from 32.2% of GDP in the previous year.

Amid low CAD, increasing domestic savings are likely to have financed rising investments in the economy. We estimate that total domestic savings likely grew stronger in fiscal 2024, compared with 10.7% on-year in the previous fiscal.

Of this, some disaggregated information on household savings can be estimated for fiscal 2024. Households account for a lion's share in domestic savings, and early indicators suggest a pick-up in this savings category in fiscal 2024

- More recent data for some financial instruments suggests a rise in gross financial savings in fiscal 2024. For instance, bank deposits, which constitute the largest chunk of gross financial savings, grew 13.5% in fiscal 2024, compared with 9.6% in the previous year. Bank deposits also grew faster than the 9.1% nominal GDP growth in fiscal 2024. The pick-up in bank deposit rates over the past year following the RBI's repo rate hikes may have contributed to this

  Mutual fund investments by households have grown at a faster rate in fiscal 2024 compared with the recent past. Investments through systematic investment plans (SIPs), mostly opted by individuals in the country, continued to rise in fiscal 2024. The latest fiscal saw net inflows through the route touch nearly Rs 2 lakh crore compared with Rs 1.55 lakh crore in fiscal 2023 and just over Rs 1 lakh crore in fiscal 2020. The continued rise in equity market returns in fiscal 2024 also attracted retail investors (chart 6)

- While bank retail credit growth remained high at 17.7% in fiscal 2024, it moderated relative to 21% in fiscal 2023

  These major subsets of broader savings and borrowing indicators suggests a rise in net financial savings

- Households continued to channelise their investments to real estate in fiscal 2024. CRISIL MI&A Research finds that for a sample of the top 10 cities, retail residential real estate sales grew 9% between fiscals 2021 and 2022 and picked up to ~20% on-average during fiscals 2023 and 2024

- The slowdown in private consumption in fiscal 2024, despite growth GDP growth also hints at households raising savings. According to NSO's second advance estimates, nominal private consumption slowed to 8% on-year in fiscal 2024 from 14.2% in fiscal 2023

Net-net, early indicators are overall household savings likely rose and contributed to higher total savings in fiscal 2024.

The trend will be clear once the RBI releases data in September.

Elevated interest rates typically incentivise savings. The expectations of rate cuts have been pushed ahead amid inflation risks and buoyant growth. Further, the transmission of the RBI's past rates hikes could encourage households to increase their savings. With inflation moderating, real interest rates have moved up.

Meanwhile, the RBI's measures to check risky lending should somewhat leash credit growth.

Over the long term, though, a sustained rise in incomes will be essential to bolstering and sustaining an uptick in India's savings.

[5] *Estimate for gross capital formation*

Analytical contacts

Dharmakirti Joshi
Chief Economist
dharmakirti.joshi@crisil.com

Dipti Deshpande
Principal Economist
dipti.deshpande@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

Media contacts

Aveek Datta
Media Relations
CRISIL Limited
M: +91 99204 93912
D: +91 22 3342 5916
B: +91 22 3342 3000
aveek.datta@crisil.com

Roma Gurnani
Media Relations
CRISIL Limited
M: +91 70662 92142
D: +91 22 3342 5916
B: +91 22 3342 3000
roma.gurnani@ext-crisil.com

Sanjay Lawrence
Media Relations
CRISIL Limited
M: +91 89833 21061
D: +91 22 3342 5916
B: +91 22 3342 3000
sanjay.lawrence@crisil.com