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HOUSEHOLD FINANCIAL SAVINGS MODERATED, BUT HOUSEHOLD PHYSICAL ASSETS HAVE JUMPED: LOW INTEREST RATE IN PANDEMIC REGIME COUPLED WITH RECOVERY IN HOUSING PRICES HAS ALSO TURBO CHARGED JUMP IN HOUSEHOLD GROSS CAPITAL FORMATION

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The net financial saving of the household sector – the most important source of funds for the two deficit sectors, namely, the general government sector and the non-financial corporations – moderated to 5.1% of GDP in FY23 from 11.5% in FY21 and 7.6% from FY20 (pre-pandemic). It has been said that it fell to 50 year low, however this is completely misleading as household savings must be looked into as a sum total of physical and financial savings.

To start with, the sharp rise in financial liabilities on hindsight may reflect drawdown in precautionary saving during pandemic. However, a deeper look at the data reveals otherwise. Consider the following. **Financial liabilities jumped Rs 8.2 trillion since pandemic, outpacing the increase in gross financial savings at Rs 6.7 trillion, thus explaining the fall in household net financial saving by Rs 1.5 trillion / 2.5% of GDP**. **On the asset side of households, there was an increase of Rs 4.1 trillion in insurance and provident and pension funds.**

On the liability side of households, out of Rs 8.2 billion increase, Rs 7.1 billion was accounted for by increase in household borrowing from commercial banks. Juxtaposing this increase in borrowing from commercial banks with the increase in bank credit, we find that 55% of the retail credit to households in the last 2 years have gone to housing, education and vehicle purchase. **Thus, it is entirely possible that a low interest rate regime resulted in a paradigm shift of household financial savings to household physical savings in the last 2 years.**

It may be noted that that there is a significant long run relationship between Housing Loans and household's savings in physical assets. **Every Re 1 increase in Housing loans has resulted into Rs 2.12 increase in household's savings in physical assets for the 14 year period ended FY22.**

The decline in net financial savings of households has resulted in a concomitant increase in household savings in gross physical assets. In fact, savings in physical assets which accounted for more than two-thirds of household savings in FY12, had declined to 48% in FY21. However, the trend is again shifting and the share of physical assets is expected to reach ~70% level in FY23, due to decline in share of financial assets. We believe that the total household savings (both financial +physical) for FY23 would still surpass the FY22 levels despite the decline in financial savings as household savings in physical assets has jumped Rs 6.5 trillion in FY22 over FY21 and as per current trends it is expected to jump further by upto Rs 5 trillion in FY23 and hence will outstrip the increase in household indebtedness. **This clearly indicates that the shift from financial savings to physical savings was also triggered by a low interest rate regime in pandemic.**

We also believe that the shift to physical assets is also triggered by a recovery in real estate sector and the increase in property prices. The RBI House Price Index shows a modest acceleration since FY21, which may be acting as a motivator for buying homes. This increased "pull" factor thereby pushing up capital spends in a multitude of sectors. If this is indeed the proximate story of the revival in household investment, this has strong policy implications for growth and investment revival.

The shift to physical assets has interesting policy connotation. Household sector investment gradually recovered to reach 11.8% in FY22. It is pertinent to note that there has been an increase in capital formation as % of household gross savings to 60% in FY22 from a low of 53.2% in FY16 (exception: 47.8% in FY21). **Thus, households have now started utilizing more of their savings for capital formation. This number is expected to increase further to a decade high of ~68% in FY23.**

We end with an anecdote. The household sector in the national accounts includes, apart from individuals, all non-government, non-corporate enterprises like farm and non-farm businesses, unincorporated establishments such as sole proprietorships and partnerships and non-profit institutions. **It thus reflects conditions in the informal sector. The recovery in investment in household sector thus bodes well for the informal sector also.**

Meanwhile, household debt to GDP ratio (household leverage) has increased during Covid but has declined thereafter. India's HH debt % GDP was at 40.7% in Mar-20, fallen to 36.5% in June-2023 and much lower than China at 62%.

FINANCIAL SAVINGS OF HOUSEHOLDS

- The net financial saving of the household sector – the most important source of funds for the two deficit sectors, namely, the general government sector and the non-financial corporations – moderated to 5.1% of GDP in FY23 from 11.5% in FY21 and 7.6% from FY20 (pre-pandemic).
- The sharp rise in financial liabilities on hindsight may reflect drawdown in precautionary saving during pandemic. However a deeper look at the data reveals otherwise.
- Consider the following. Financial liabilities jumped Rs 8.2 trillion since pandemic, outpacing the increase in gross financial savings at Rs 6.7 trillion, thus explaining the fall in net financial saving by Rs 1.5 trillion / 2.5% of GDP. On the asset side of households, there was an increase of Rs 4.1 trillion in insurance and provident and pension funds. On the liability side of households, out of Rs 8.2 billion increase, Rs 7.1 billion was accounted for by increase in household borrowing from commercial banks.
- Juxtaposing this increase in borrowing from commercial banks with the increase in bank credit, we find that 55% of the retail credit to households in the last 2 years have gone to housing, education and vehicle purchase. Thus, it is entirely possible that a low interest rate regime resulted in a paradigm shift of household financial savings to household physical savings in the last 2 years.

SAVINGS IN HOUSEHOLD PHYSICAL ASSETS ON THE RISE

- Over the years, 80-90% of Household physical savings were in "dwellings, other buildings and structures" and most of the rest in "machinery and equipment". Given that Households include small proprietorships and firms, some of this is likely to be accounted for by commercial establishments.
- In fact, savings in physical assets which accounted for more than two-thirds of household savings in FY12, had declined to 48% in FY21. However, the trend is again shifting and the share of physical assets is expected to reach ~70% level in FY23, due to decline in share of financial assets. We believe that the total household savings (both financial +physical) for FY23 would still surpass the FY22 levels despite the decline in financial savings as household savings in physical assets has jumped Rs 6.5 trillion in FY22 over FY21 and as per current trends has jumped further by upto Rs 5 trillion in FY23. **This clearly indicates that the shift from financial savings to physical savings was also triggered by a low interest rate regime in pandemic.**

Financial Savings of the Household Sector

	FY20	FY21	FY22	FY23	Change (FY23/FY20)
In Rs Lakh Crore					
A. Gross financial saving	22.9	30.6	26.0	29.6	6.7
of which:					
Currency	2.8	3.8	2.7	2.4	-0.4
Deposits	8.6	12.4	8.2	11.0	2.4
Insurance Funds	3.4	5.7	4.7	5.3	1.9
Provident and Pension funds	4.4	5.0	5.6	6.6	2.2
Investments/Shares & Debentures	1.0	1.2	2.3	2.1	1.1
Small Savings (excluding PPF)*	2.6	2.4	2.4	2.0	-0.6
B. Financial Liabilities	7.6	7.8	9.0	15.8	8.2
of which : Commercial Banks	4.8	6.1	7.7	11.9	7.1
Net Financial Saving (A-B)	**15.3**	**22.8**	**17.0**	**13.8**	**-1.5**
% of GDP					
A. Gross financial saving	11.4	15.4	11.1	10.9	
of which:					
Currency	1.4	1.9	1.1	0.9	
Deposits	4.3	6.3	3.5	4.0	
Shares and Debentures	1.7	2.9	2.0	2.0	
Claims on Government	2.2	2.5	2.4	2.4	-
Insurance Funds	0.5	0.6	1.0	0.8	
Provident and Pension funds	1.3	1.2	1.0	0.7	
B. Financial Liabilities	3.8	3.9	3.8	5.8	
Net Financial Saving (A-B)	7.6	11.5	7.2	5.1	

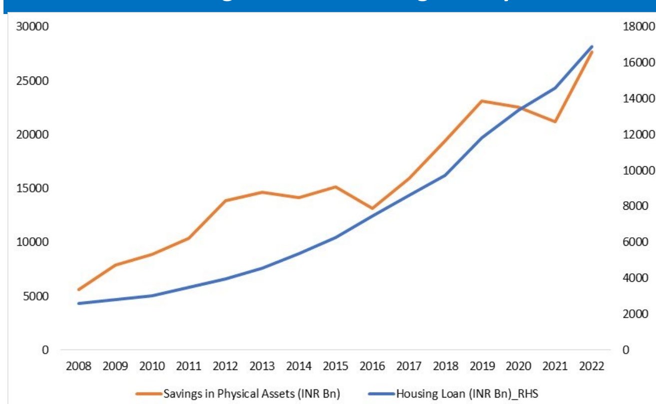
Source: RBI, SBI Research; *For FY20: Claims on Government

Total Household Savings (Financial + Physical)

Rs lakh crore	FY20	FY21	FY22	FY23 P
Household sector (A)	38.5	44.3	46.2	45.4-47.4
Gross financial saving	23.2	30.5	26.0	29.6
Less financial liabilities	7.7	7.8	8.1	15.8
Saving in physical assets	22.5	21.2	27.7	31-33
Saving in the form of gold and silver ornaments	0.4	0.4	0.6	0.6
Memo:				
Share of Physical in Total	59%	48%	60%	68-70%

Source: SBI; P: SBI Projection

Trends of Housing Loans and Savings in Physical Assets



Source: CEIC, RBI, SBI Research

Impact of Housing Loans on Savings in Physical Assets

ARDL Model; Time: 2008 to 2022			
Variable	Coefficient	SE	P
Adjustment factor			
Savings in Physical Assets (-1)	-0.956	0.423	0.073*
Long Run Relationship			
Housing Loans	2.12	0.821	0.049**

Source: SBI Research, ** Significant in 5%, * Significant in 10%

- We also believe that the shift to physical assets is also triggered by a recovery in real estate sector and the increase in property prices. The RBI House Price Index shows a modest acceleration since FY21, which may be acting as a motivator a motivator for buying homes . This increased "pull" factor thereby pushing up capital spends in a multitude of sectors. If this is indeed the proximate story of the revival in household investment, this has strong policy implications for growth and investment revival.

IMPACT OF HOUSING LOANS ON SAVINGS IN PHYSICAL ASSETS OVER 14 YEARS

- Housing Loans in incremental terms increased by Rs 14 trillion. Incremental Household Savings in Physical Assets increased by Rs 22 trillion.
- It has been estimated with the help of ARDL model, for the period of FY08 to FY22, that there is a significant long run relationship between Housing Loans and economy's savings in physical assets. **Every Re 1 increase in Housing loans has resulted into 2.12 Rs increase in economy's savings in physical assets.**

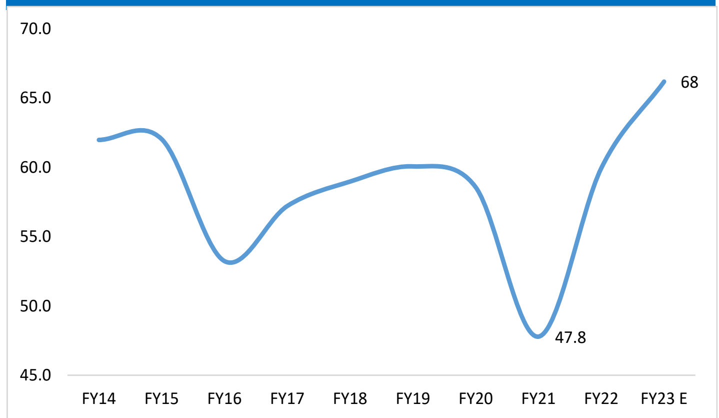
HOUSEHOLD GROSS CAPITAL FORMATION

- Interestingly, household sector investment which declined to 9.6% of GDP in FY16 (from 15.9% of GDP in FY12) gradually recovered thereafter to reach 11.8% in FY22.
- It is pertinent to note that there has been an increase in capital formation as % of household gross savings to 60% in FY22 from a low of 53.2% in FY16 (exception: 47.8% in FY21). Thus, households have now started utilizing more of their savings for capital formation. This number is expected to increase further to a decade high of ~68% in FY23.

HOUSEHOLD LEVERAGE

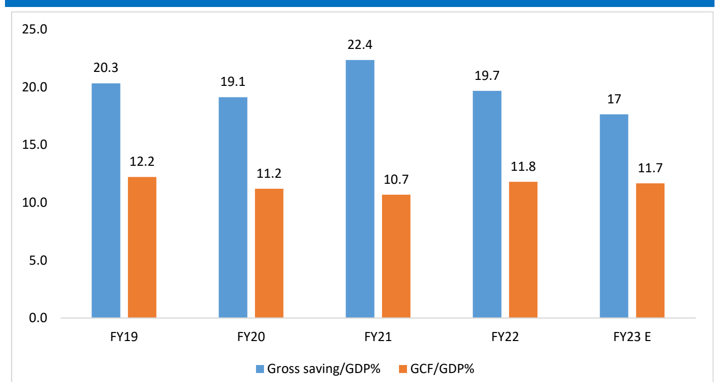
- The household debt to GDP ratio (a measure for household leverage) has increased during Covid but has declined thereafter. India's HH debt % GDP was at 40.7% in Mar-20) from 37.0% in Mar-19 due to the COVID-19 pandemic. However, household debt has fallen to 36.0% in Mar-21 but increased marginally to 36.5% in June-2023.

Household investment as % of household savings



Source: SBI Research

Household savings and investment as % of GDP



Source: SBI Research

Total credit to households (% of GDP)

	Mar-19	Mar-20	Mar-21	Mar-22	Jun-23
Australia	119.1	122.5	118.3	112.0	110.6
Brazil	30.0	32.2	32.9	34.6	34.7
Canada	103.5	112.7	106.9	102.7	101.9
China	55.5	61.9	61.3	61.3	62.0
France	62.1	68.2	66.6	66.2	65.5
Germany	53.4	57.2	56.6	55.0	54.3
India	37.0	40.2	36.0	36.4	36.5
Indonesia	17.0	17.8	17.2	16.2	16.0
Japan	62.6	67.6	68.0	68.4	68.1
Malaysia	68.1	76.3	72.9	66.8	66.5
Russia	19.1	21.9	21.2	20.3	21.2
Singapore	57.6	60.9	54.7	48.6	48.0
South Africa	35.1	36.5	34.0	34.3	34.6
Switzerland	126.3	134.5	131.7	128.5	128.0
Thailand	84.7	95.3	95.8	92.4	91.6
United Kingdom	84.0	91.0	86.9	83.5	82.3
United States	75.6	79.3	77.1	74.8	73.6
Euro area	57.5	62.1	60.0	57.5	56.5
Aggregates based on conversion to US dollars at PPP exchange rates					
AEs	72.3	77	74.7	72.1	71.3
EMEs	42.3	47	46.0	45.2	45.6
All Reporting Economie	62.9	70.6	64.9	62.9	63.2

Source: BIS, SBI Research

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Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in, gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya