

Household savings and its impact

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Context:

The recent Household consumption expenditure survey has highlighted an alarming scenario for the Indian economy in terms of declining savings and investment in the economy.

Savings in Indian Economy:

1. Gross Domestic Savings is contributed by the (I) Household sector, (II) Private (III) Corporate and Public Sector.
2. Decline in Gross Domestic Savings in the last decade from 37% to 31.5%.
3. The Household Sector contributes the largest share of Savings in India.
4. The Household Savings is categorised into a) Net Financial Savings & b) Physical Savings.
5. Net financial savings = Gross financial savings - borrowing.
6. Financial assets include bank deposits, currency, financial investments in mutual funds, pension funds, etc.
7. Household borrowing includes credit from non-bank financial corporations and housing corporations, credit from commercial banks.
8. Now, there has been a reduction in household net financial savings, as the household net financial savings/GDP ratio has attained a four-decade low.

Three factors for reduction in net financial savings:

1. Financing of additional consumption expenditure: But this is not a major factor as consumption/GDP ratio has remained largely unchanged. (60.95% in 2021-22 to 60.93% in 2022-23).
2. Investment in physical assets: This is also not a major factor as the household physical investment/GDP ratio has increased by only 0.3% between 2021-22 to 2022-23.
3. Increase in the interest payment of households: This has been the major factor as interest payment of the household has increased considerably. This indicates the higher debt burden on the household.

Implication of higher debt burden:

1. Issue of debt repayment and financial fragility- If the households fail to meet their debt repayment commitments, then it reduces the income of the financial sector as the interest paid by the households is the interest income of the financial sector. So, failure to repay the debt by the household can have a cascading effect on the macroeconomy as it will deteriorate the balance sheets of the lending institutions and in turn make them reduce their credit disbursement to the non-financial sector or the household.
2. Impact on consumption demand- Majority of the consumption in the Indian economy is driven by the household sector. Now, in the present scenario of declining wealth of the households, the consumption expenditure of the households may decline further as they may attempt to

preserve their wealth through savings.

3. Declining investment in the economy- The declining savings on the part of the household can lead to the decline in the overall savings in the economy with the banks and government and in turn the bring down overall savings and investment in the economy.

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