

## Household savings move towards markets

Household savings are a critical part of the growth process as they provide the funding required for the same. In FY22 they were 10.8% of GDP and had come down from 16% in FY21 as per RBI data. In FY20, that is before the pandemic struck, it was 12%. FY22 was the period when the repo rate was kept pegged at 4% as the position taken was to do everything to preserve growth. As deposit rates were low, there was a movement away to the market.

Table 1 below provides the profile of household financial savings across different alternatives. As can be seen savings flows were of the order of around Rs 25.6 lakh crore in Fy22 having fallen from Rs 31.62 lakh crore in FY21. Bank deposits remain the largest component of household savings though have been volatile with covid and lockdown pushing it up in FY21 and the ultra-soft monetary policy subsequently bringing it down.

**Table 1: Structure of flow in financial assets of households**

	2019-20	2020-21	2021-22
<b>Financial Assets</b>	<b>24,07,250</b>	<b>31,61,953</b>	<b>25,60,478</b>
Per cent of GDP	12.0	16.0	10.8
of which:			
<b>1. Total Deposits (a+b)</b>	<b>8,84,579</b>	<b>12,59,767</b>	<b>6,95,471</b>
(a) Bank Deposits	8,27,830	12,19,909	6,53,911
i. Commercial Banks	7,68,855	11,56,334	6,51,733
ii. Co-operative Banks	58,975	63,576	2,178
(b) Non-Bank Deposits	56,749	39,858	41,561
<b>2. Life Insurance Funds</b>	<b>3,74,170</b>	<b>5,63,216</b>	<b>4,40,810</b>
<b>3. Provident and Pension Funds (including PPF)</b>	<b>5,00,203</b>	<b>5,46,700</b>	<b>5,81,668</b>
<b>4. Currency</b>	<b>2,82,662</b>	<b>3,81,976</b>	<b>2,69,667</b>
<b>5. Investments</b>	<b>97,657</b>	<b>1,24,577</b>	<b>2,27,977</b>
of which:			
(a) Mutual Funds	61,686	64,084	1,60,600
(b) Equity	26,738	38,531	48,613
<b>6. Small Savings (excluding PPF)</b>	<b>2,63,723</b>	<b>2,81,495</b>	<b>3,40,655</b>

Source: RBI

Table 2 gives the shares of the savings avenues in total.

- Share of bank deposits is the highest, but clearly the structure of interest rates does drive the flows. It may be expected that some ground would have been regained in FY23 when banks started increasing deposit rates. In FY23 increase in aggregate deposits (includes households and other savers) was Rs 15.78 lakh crore which is comparable to Rs 15.54 lakh crore in FY21. Therefore the share of bank deposits should be increasing.

**Table 2: Share in total savings (%)**

	2019-20	2020-21	2021-22
<b>1. Total Deposits (a+b)</b>	<b>36.7</b>	<b>39.8</b>	<b>27.2</b>
(a) Bank Deposits	34.4	38.6	25.5
i. Commercial Banks	31.9	36.6	25.5
ii. Co-operative Banks	2.4	2.0	0.1
(b) Non-Bank Deposits	2.4	1.3	1.6
<b>2. Life Insurance Funds</b>	<b>15.5</b>	<b>17.8</b>	<b>17.2</b>
<b>3. Provident and Pension Funds (including PPF)</b>	<b>20.8</b>	<b>17.3</b>	<b>22.7</b>
<b>4. Currency</b>	<b>11.7</b>	<b>12.1</b>	<b>10.5</b>
<b>5. Investments</b>	<b>4.1</b>	<b>3.9</b>	<b>8.9</b>
of which:			
(a) Mutual Funds	2.6	2.0	6.3
(b) Equity	1.1	1.2	1.9
<b>6. Small Savings (excluding PPF)</b>	<b>11.0</b>	<b>8.9</b>	<b>13.3</b>

Source: RBI

- Covid did lead to households pitching for life insurance and hence the share of this component has gone up and will remain in this range.
- Currency holding peaked in FY21 during the lockdown but has normalized subsequently.
- The significant change in the profile of savings was the sharp shift to investments which include both mutual funds and equity. While the increase in share of equity directly is not much from 1.2% to 1.9%, this is indicative of better risk taking ability of households over time. The market was also quite buoyant to justify this optimism. This will continue to be a destination favoured. Mutual funds also witnessed sharp rise in the savings with households preferring both debt and equity schemes.
- Share of small savings also increased smartly at the cost of bank deposits as returns were higher on these instruments.

From the savers' perspective the interest rate is probably the most important factor when deciding on the avenue for savings. When rates come down sharply there is a tendency to explore other options including the markets. The WADTDR on fresh deposits ranged between 3.71%-4.12% in FY22 which was much lower than the average inflation of 5.5%. At the same time the Sensex gave a return of 18.3% in FY22 on top of 68% in FY21. As often investors look at past returns to invest in equity, it was but natural that resources were deployed in this market.

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