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Savings

Household financial savings unlikely to rise appreciably in FY2024 from 5.3% of GDP in FY2023, amid rapid increase in borrowings

MARCH 2024

Highlights

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The gross savings rate eased to 30.2% in FY2023 from 31.2% in FY2022, led by a sharp fall in the HH savings rate

HH net financial savings dipped to a 43-year low 5.3% in FY2023 amid a surge in borrowings for consumption

Given that HHs are net suppliers of savings, the sharp fall in HH net financial savings that was seen during FY2022-23 needs to reverse to support a sustained corporate capex cycle

- India's gross savings rate declined to 30.2% of GDP in FY2023 from 31.2% in FY2022, led by a fall in the household savings rate to a six-year low of 18.4% from 20.1%, respectively. It has remained in the 29-32% range over the last five years, well below the peak levels of 36-38% during FY2008-11.
- The deterioration in the households' (HH) savings rate in FY2023 was driven by a sharp decline in the net financial savings (to a 43-year low 5.3% in FY2023 from 7.3% in FY2022), owing to a 73.2% surge in financial liabilities, as HHs borrowed to finance their consumption and housing purchases. In contrast, the share of physical savings rose to a 10-year high of 12.9% from 12.6% in the previous fiscal, amid the continued boom in the residential real estate market.
- The growth in Private Final Consumption Expenditure (PFCE; CAGR: +16.4%) has outpaced that in HH Gross Disposable Income (HGDI; +13.5%) during FY2022-23, leading to a rise in the share of the former in the latter. With growth in HH disposable income lagging consumption, the latter has been aided by borrowings, which in turn has led to the sharp dip in financial savings of HHs in FY2023.
- Given that HHs are net suppliers of savings, the fall in HH net financial savings that was seen during FY2022-23 needs to reverse to support a sustained corporate capex cycle. This can stem from (1) a slowdown in physical savings (i.e. housing) implying lower financial liabilities, and/or (2) dip in borrowings for consumption, which could lead to a slower growth in the latter.
- PFCE growth has slowed down quite sharply in FY2024 so far (to 8.0%/3.7% in nominal/real terms during 9M FY2024), which may augur well for HH savings in the fiscal. The buoyant housing market suggests that HH physical savings will post a healthy growth in the fiscal. However, HH borrowings from banks have expanded rapidly during the year, which could weigh on net financial savings.
- Looking ahead, ICRA expects rural demand to remain weak in H1 FY2025, while urban demand is likely to remain upbeat, albeit uneven in FY2025. The recent tightening of norms for personal loans and credit cards by the RBI could adversely impact credit growth, which may weigh on discretionary consumption of urban HHs, auguring well for net financial savings. Overall, while PFCE growth may improve in FY2025, it is likely to remain sluggish, which could augment HH savings during the fiscal.

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