



Impact of Covid -19 on Indian Household Savings

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IMPACT OF COVID-19 ON INDIAN HOUSEHOLD SAVINGS Rajesh A. Dr Arun Lawrence
IMPACT OF COVID-19 ON INDIAN HOUSEHOLD SAVINGS Abstract In recent years there was a viable concern regarding the impact of financial sector reforms on the structure of household savings. In an economy that experiences financial reforms, it is expected that the domestic savings will go through considerable changes.

ABSTRACT

In recent years there was a viable concern regarding the impact of financial sector reforms on the structure of household savings. In an economy that experiences financial reforms, it is expected that the domestic savings will go through considerable changes. To adopt various policy measures it is important to understand such changes. In the post-COVID-19 situation, it is observed that in major economies there has been tremendous growth in household's financial savings which has resulted in a hike in the financial savings of the households. In India, the sudden increase in household finance is a result of concern relating to the uncertain income flows shortly which is caused because of the pandemic, which has created a trend of forced savings or precautionary savings among the population. And once the situation gets normalised then there will be increased private consumption and a regular expenditure with that everything is expected to be back to normal.

KEY WORDS

Household savings, Forced savings, Precautionary savings.

INTRODUCTION

The household sector is considered the largest sector of the Indian economy. In the financial year 2015-2016, the household sector accounted for 43.6 per cent of the Gross Value Added (GVA) in the economy because of which they are considered to be a key to the health of the economy. As far as the proportion of savings and investment by the households is considered the average the household possesses eighty-four

percent of its wealth in physical goods and assets such as real estate, eleven per cent in gold, and the remaining five per cent in financial assets. Amidst all this, the contributions of the household sector were gradually depleting in terms of contributions towards GDP. And, as a result of Covid-19, which caused people to stay indoors for the majority of the year owing to lockdown, household savings are expected to rise to 22.5 per cent of GDP in 2020, up from 19.8 per cent in 2019. But this affected the physical savings of the household sectors which was pushed down to 5.8 per cent of GDP in the April-June period of 2020. But the same was recovered, which reached the multi-year high of 13.7 per cent of GDP by the December quarter. As per the latest RBI reports, the household non-financial savings stood at 21.4 per cent of the GDP in the June quarter of 2020 and 10.4 per cent in the September quarter as against 7.8 per cent of GDP in the pre-pandemic period. The same fell to 8.4 per cent in the December quarter. The RBI also reported that the gross financial savings fell to 14.2 per cent of GDP, while the financial liabilities accounted for 4.8 per cent of GDP in the December quarter of 2020. Due to the pandemic restrictions, there was a considerable rise in household savings around the world last year. As far as India is concerned the household savings was just 1.1 per cent level in 2020 than in 2019, which is the slowest growth when compared to other nations where the growth was 5.4 times. And this is because the lower-income growth in the economy through private consumption was below six per cent in many of the nations.

Objective of the Study

To analyse the impact of COVID-19 on the Indian household savings

Preliminary Estimates of Household Savings- Q1:2020-2021

The quarterly data on household financial assets and liabilities which includes the household financial savings for the three years 2017-18 to 2019-20 was published in the Reserve Bank of India (RBI) Bulletin, June 2020. Due to the impact of COVID-19, there was a large break in the key macro-economic data of Q1:2020-2021, which is already evident from the early official estimates of GDP and its key components. During quarter one (Q1:2020-2021) India's GDP declined by 23.9 per cent year-on-year (y-o-y) suggesting a possible corresponding large shift in the household savings. There was a high shift in the consumption pattern of non-essential items, precautionary savings, etc., along with the change in the key determinants of the household sector such as income (GDP) and interest rate which changed significantly during Q1:2020-21.

Preliminary Estimates: The Intensity Numbers

There was a hike in the preliminary estimates of India's household financial savings which were estimated to be twenty-one per cent of GDP in Q1:2020-21, from four per cent in Q1 and 9.8 per cent in Q4 of 2019-20. The household's propensity to save has likely risen during the pandemic due to two reasons; they have been forced to save more that have restricted them from consuming at their normal levels. Second, due to the potential job losses and uncertainty about future income, the household would have raised their precautionary savings.

Table 1: Household Financial Savings

(Rs. lakh Crore)

	2018-2019					2019-2020					2020-2021	
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual	Quarter 1	Quarter 2
1.Flow of Financial Assets	3.5	4.8	3.4	9.6	21.3	3.8	5.7	5.5	7.9	22.9	7.4	7.5
	7.6%	10.3%	7.1%	20.0%	11.3%	7.7%	11.4%	10.6%	15.1%	11.2%	19.0%	15.8%
2. Flow of Financial Liabilities	0.9	2.6	1.4	2.9	7.8	1.8	0.8	1.3	2.7	6.6	-0.9	2.6
	2.0%	5.5%	2.8%	6.1%	4.1%	3.6%	1.6%	2.5%	5.2%	3.3%	-2.0%	5.4%
Financial Savings	2.6	2.2	2.0	6.7	13.5	2.0	4.9	4.2	5.2	16.3	8.3	4.9
(1-2)	5.6%	4.8%	4.3%	13.9%	7.2%	4.0%	9.8%	8.1%	9.8%	8.0%	21.0%	10.4%

Note: Data is as a per cent of GDP
(Hansda et al., 2021) & (Prakash et al., 2020)

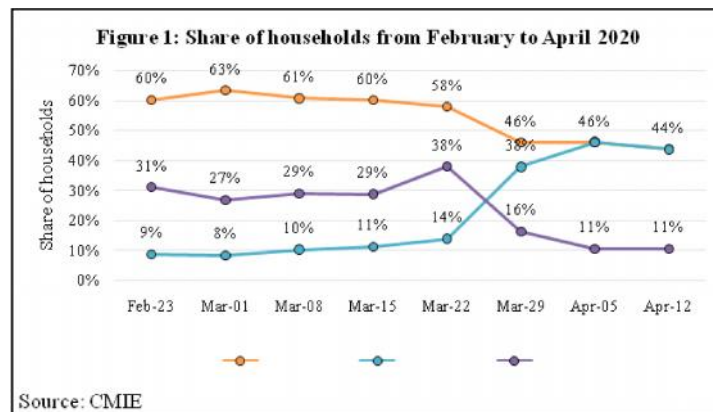
The preliminary estimates of Q2:2020-2021 of household financial savings stood at 10.4 per cent of GDP as per the published quarterly report of Reserve Bank of India 2020-2021 which has regressed after touching the unprecedented high of twenty-one per cent in Q1:2020-21. The main reasons behind such a contraction are the increased borrowings from banks and NBFCs and also moderation in mutual funds and currencies. In the Q2:2020-21 the Indian economy was slowly opened out provoking the households from changing their spending from essential only to discretionary spending.

Degree of Distress

The people belonging to the lower and middle segments of the economy were highly affected due to the fall in incomes. When the lowest of the five income groups of households is taken their average monthly per-capita income was less than ¹ 3,800 and those of the high end made between ¹ 12,374 and upwards of ¹¹ lakh. During the pandemic, the distress among the rural households has been seen more disproportionately than urban Indian households. As per the studies, the income of the rural households has fallen to eighty-eight per cent when compared to seventy-five per cent in terms of urban households. The urban population of the country was seen as more resilient than their rural counterparts as working at home as possible for many urban jobs. The disparity in the fall in income existed geographically also as Tripura, Chhattisgarh, Bihar, and Jharkhand were the five worst-affected states, and Telangana, Puducherry, Karnataka, Punjab and Delhi were the least affected states (Schofield, 2020).

Impact of COVID-19 on Indian Household Income

The Indian household income was drastically impacted due to the coronavirus (COVID-19) and its related lockdowns. Though when the overall financial savings of the household sector is taken into consideration there was a hike in the same but there was a drastic decrease in the level of household income which stood at about nine percent in late February was pushed to 45.7 per cent in mid-April. There was a contrasting trend in the rise in income from thirty-one per cent in late February to 10.6 per cent in April 2020 (Fig:1) (CMIE, 2021).

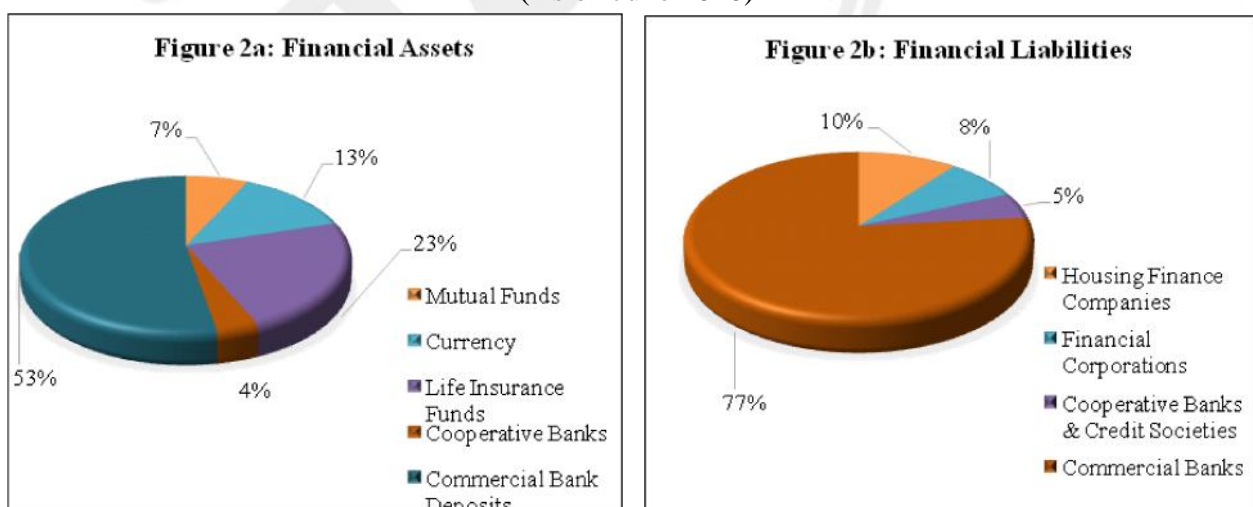


Not only in the Indian perspective but when the impact of COVID-19 on the household sector is taken globally also the pandemic and its resultant lockdowns has brought a tendency of increasing precautionary savings or forced savings among households. The households were prohibited to consume a large share of their normal expenditure basket due to the regular lockdowns which gave rise to the practice of forced savings. The rise in precautionary savings is not only because of the lockdowns it was also because of the uncertainty that prevailed in the mind of individuals regarding their job, employment, the future risk associated with it, and so on. Though the household income was cut short the savings were growing the world over. The personal saving rate in the USA was 12.9 per cent in March 2020, which rose to 33.6 per cent of disposable income. And in the UK the household's savings ratio was 9.6 per cent in Q1:2020, which increased to 29.1 per cent of disposable income in Q2:2020 (Ercolan, 2020). In the Indian context, in the formal sector where there is no irregularity in the income there the forced savings will be increasing but in the informal sector where the irregularity in income exists, the precautionary savings may increase if they focus on lowering consumption.

Banking Instruments Dominate Household Financial Assets/ Liabilities

In India, the household sector's financial savings are largely affected by their deposits with the banking sector and borrowings from the banking sector. As far as household financial assets and liabilities are concerned bank deposits constitute around fifty-six per cent and bank loans constitute eighty per cent of shares.

Figure 2: Composition of Household Financial Assets and Liabilities Outstanding Position (As on June 2020)



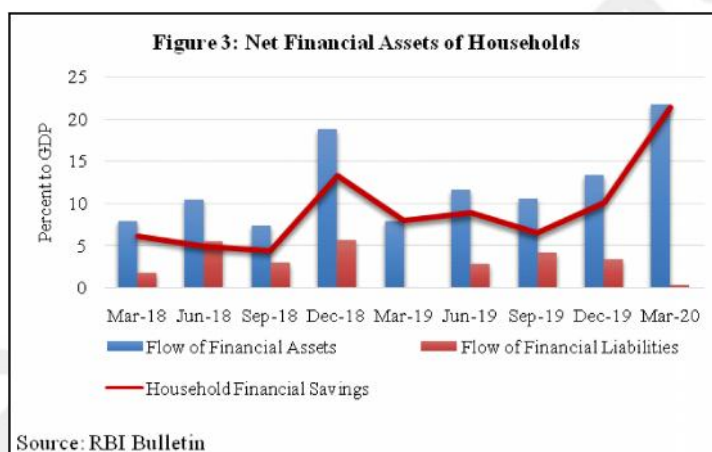
Currently, in India, the bank deposits have reached nearly ¹ 138.7 lakh crore in June 2020. This means there was an increase of ¹ 3.0 lakh crore since the end of March 2020. In the case of advances,

it was mellowed over ¹ 102.5 lakh crore down by ¹ 1.2 lakh crore from the end of March 2020. There was an increase in the bank deposits by eleven per cent on the y-o-y basis as of June 2020, when compared to that of the growth registered in 2019-20 which was 7.9 per cent and ten per cent at the end of June 2019. This is against the fall in the weighted average domestic term deposit rates by scheduled banks by around 40 bps over the last three months beyond March 2020. Inversely, the credit growth which was at twelve per cent in June 2019 was moderated to 6.2 per cent in June 2020 on a y-o-y basis. These discrepancies between deposits and credit growth in Q1:2020-2021 have increased the net financial savings of households.

Inductive Estimates: An in-depth Analysis

As per figure 2 which reflects the trend in credit and deposit growth, there was a sharp increase in the household financial savings in the Q1:2020-2021. The households' financial savings is estimated to be 21.4 per cent of GDP in Q1:2020-2021 assuming that the share of households in the total deposits is unchanged. This sharp increase in household savings is counter-seasonal and it needs to be checked regularly as there was a reduction in discretionary spending or forced savings by the households due to COVID-19. The increase in the household financial savings GDP ratio is a result of the reduction in nominal GDP, so in absolute terms, the household financial savings have increased (Hansda et al., 2020).

It is being observed that household financial savings normally rise in Q4 of the financial year due to the resultant seasonal factors, which are then followed by moderation in Q1. This can be easily identified in (Table 1) wherein Q4:2018-2019 the household financial savings was 13.2 per cent of GDP.



The key observations behind the significant increase in household financial savings:

- The sudden increase in household financial savings is a result of a significant increase in household financial assets and a balance in financial liabilities.
- The households' savings in the mutual fund was (-) 0.9 per cent in Q4:2019-2020 which has increased to 1.7 per cent of GDP in Q1:2020-2021. Savings in insurance products was increased from 0.7 per cent to 3.3 per cent and that of currency holdings was increased from 3.0 per cent in Q4:2019-20 to 5.4 per cent. These three factors have led to increase in household financial savings.
- After the initial volatility in the stock market due to COVID-19 the market has touched new peaks that resulted in an increased flow to mutual funds. The increased investment in insurance products is because of the necessity of the current situation which reflects the pandemic led to increased awareness of life insurance among households. In the same way, the increase in the currency holdings is a result of behaviour under extreme uncertainty.

- There was a negative trend in the bank savings in the first quarter of the financial year but it is estimated to remain positive at 5.2 per cent in Q1:2020-21. This is because of a reduction in private consumption by 26.7 per cent and also because of increased money transfers under Pradhan Mantri Garib Kalyan Scheme. Under this the poor people whose income was affected due to pandemic their balance in the Jan-Dhan deposit account rose by ₹ 400 per account cumulatively in the April-June quarter.
- Contraction in loans from banks has balanced the financial liabilities of households. Reserve Bank of India has infused liquidity increasing the deposits in banks, also they have fear about the increase in the impaired loans because of which the banks are cautious about extending loans in such an uncertain environment. After commercial banks it's the NBFCs where the households depend more for borrowings, here also they are found muted due to the reduced demand for passenger vehicles and real estate. (RBI, 2020)

CONCLUSION

It is not unique for India to experience an increase in household financial savings because the present increase in the savings has to be seen in the context of COVID-19 whereby the economy is affected by demand and supply shocks. As the pandemic situation erupts out the economy will regain its consumption pattern particularly the discretionary component will begin to pick up. The increase in financial savings is the result of the reluctance of banks to lend in an uncertain situation, high deposits with banks, and falling demand for credit. The Indian economy witnessed a surplus in the current account of the balance of payments, which was traditionally vice-versa. This is all because of the surplus in the domestic savings that exceeds investment as the current account balance depicts the mirror image of the savings-investment gap. The present trend in the increase in household savings is just because of the pandemic situation and once it's gone the consumption and savings etc., will get normalized. The true assessment of the financial savings of the households will be known only after some years down the line. It is expected that in the coming quarters the households will regain their economic activity as the COVID curve flattens.

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