State of Household Finances: A Post Pandemic Study

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Sharp rise in Financial Liabilities Impacted Net Household Savings

Recent economic discourse has centred on the decline in the net household savings and the corresponding increase in household leverages. Additionally, the RBI has also sounded cautious regarding the unsecured lending in the retail segment. Therefore, it is essential to examine the factors contributing to the rise in household leverage and assess whether this trend is cause for concern. Household savings are categorized into two main types: financial savings (bank deposits, retirement savings and investments in mutual fund and equity) and savings in physical assets (land, real estate and precious metals).

The gross savings of household have remained relatively stable at approximately 24% of GDP in FY23, consistent with pre-pandemic levels. The gross savings was supported by a rise in physical asset savings. The gross financial savings remained largely stable, falling marginally to 11% of GDP in FY23 down from pre-pandemic (FY10-FY19) average of 11.6% of GDP. However, a substantial increase in financial liabilities have impacted the net household savings in FY23. Household financial liabilities have touched 5.8% of GDP in FY23, the highest level in the past 16 years, and significantly higher than the pre-pandemic average of 3.4% of GDP (Figure 1). With a steep rise in leverage, the net household savings have significantly declined post-pandemic, dropping from an average of 21.1% of GDP in the pre-pandemic decade to 18.4% of GDP in FY23.

Gross financial savings peaked at 15.4% of GDP in FY21, a period during which mobility restrictions and financial market returns bolstered gross financial savings. However, net household financial savings have been on a downward trend mainly due to a rise in financial liabilities. Since FY20, gross financial savings have increased at a compound annual growth rate (CAGR) of 9% (lower than 11% witnessed in the pre-pandemic decade), while gross financial liabilities have surged at a CAGR of 26% (significantly higher than 17% CAGR in the pre-pandemic decade). This significant rise in financial liabilities is primarily driven by the growth in personal loans, particularly housing and unsecured loans (Figure 2). Personal loans from scheduled commercial banks have grown at a CAGR of 18.2% since FY20, which is notably higher than the 15.1% CAGR observed in the pre-pandemic decade.

Figure 1: Post Pandemic Evolution of Household Finances

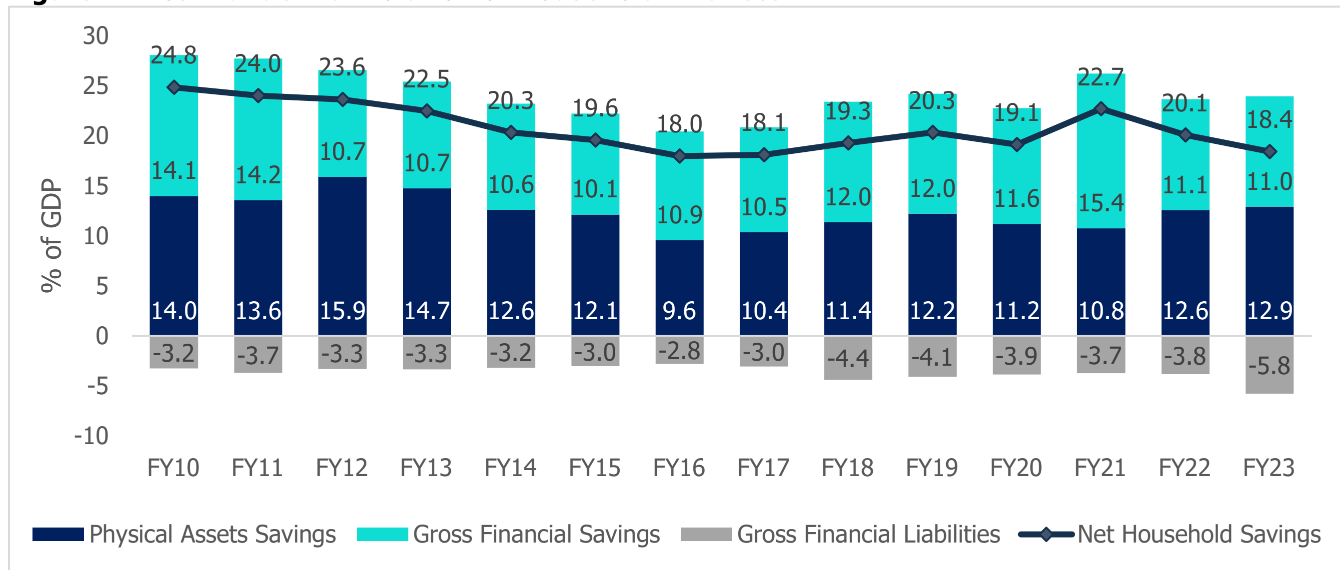
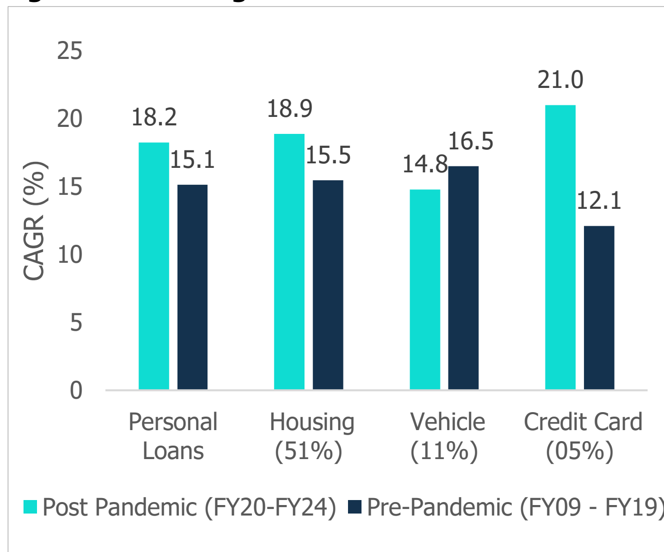
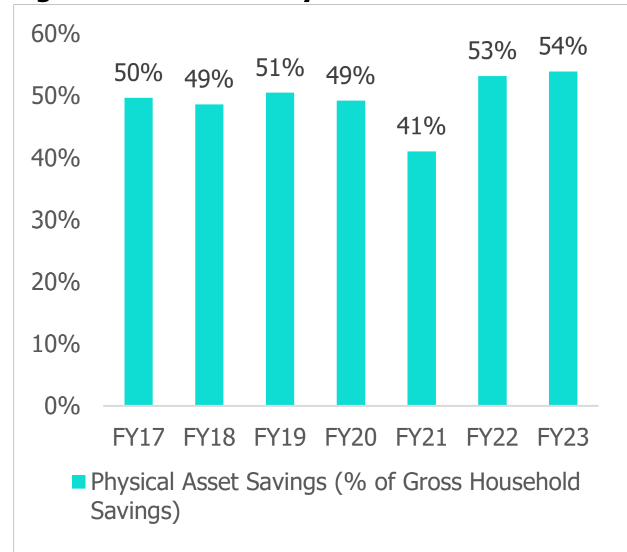


Figure 2: Housing & Credit Card drove Retail Loans



Source: RBI, CareEdge. Figures in the bracket represent share in personal loan.

Figure 3: Share of Physical Asset has Risen

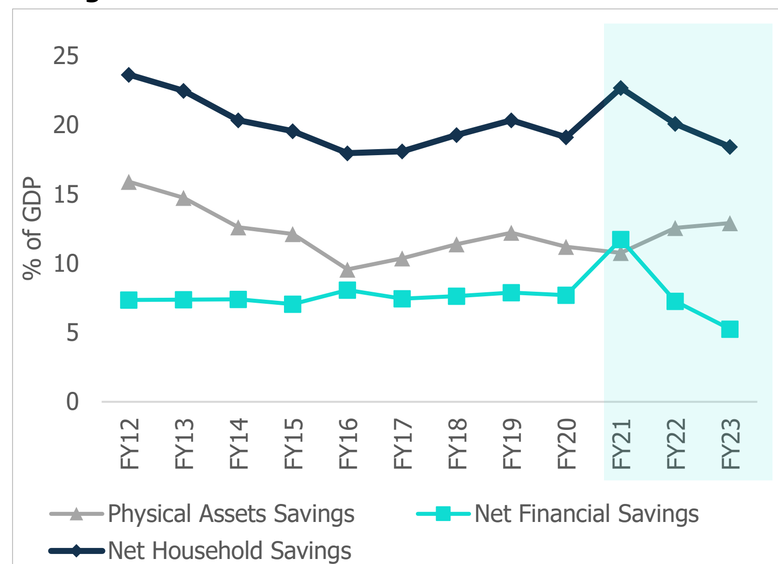


Source: NSO, CEIC, CareEdge

What is making the Households Leveraged?

Real Estate is Gaining Popularity: Since FY21, growing household leverage has resulted in a drop in the net financial savings. At the same time, there has been a significant rise in savings allocated to physical assets (Figure 4). The share of physical asset savings in the gross household savings have increased from pre-pandemic levels of ~50% to 54% in FY23 (Figure 3). While the share of savings in the form of precious metals has remained relatively stable and minimal at 0.2% of GDP, the increase in savings allocated to physical assets indicates a growing preference for real estate.

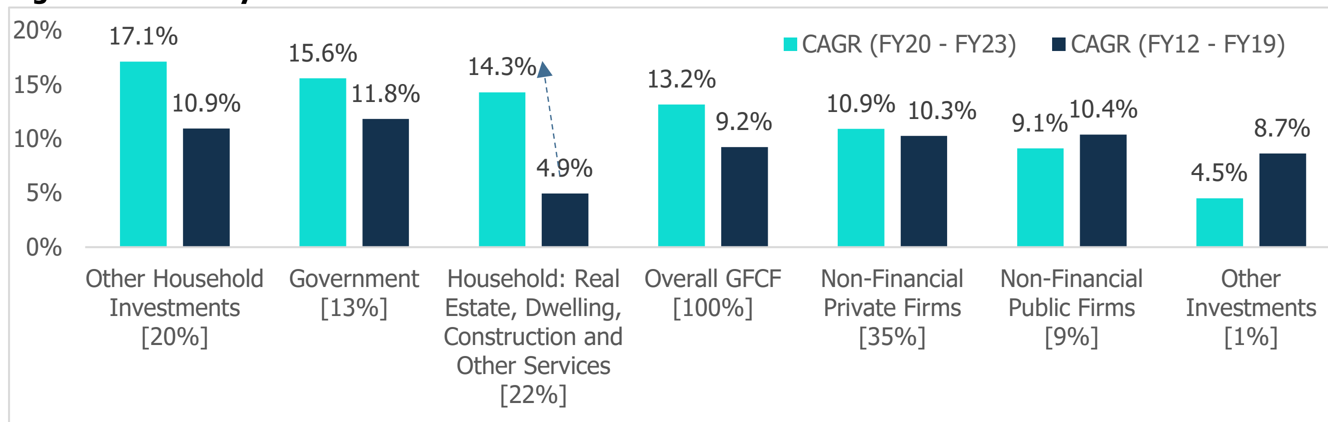
Figure 4: Physical Asset Savings rose while Financial Savings Declined



Source: MOSPI, CareEdge

This trend is further evidenced by the significant rise in the growth rate of outstanding housing loans following the pandemic (Figure 2). The trend is also corroborated by the annual GFCF data of MOSPI which shows a sharp uptick in household investments in real estate and construction. The nominal household investments in real estate and construction experienced a compound annual growth rate of 14.3% in the post-pandemic years, significantly surpassing the growth of 4.9% observed in the pre-pandemic period. (Figure 5). Among all major sectors undertaking investments, the difference in growth rates between the pre- and post-pandemic eras is the most pronounced for household investment in real estate.

Figure 5: GFCF By Sectors



Source: NSO, CMIE, CareEdge. Figures in Bracket Shows the share in overall GFCF. GFCF: Gross Fixed Capital Formation. Value shows nominal growth.

Unsecured Loans also saw an uptick: The increase in household leverage was primarily driven by a surge in housing loans. Housing loans grew at a CAGR of ~19%, higher than pre-pandemic growth of 15.5%. However, the post-pandemic period also saw a significant growth in unsecured loans, including outstanding credit card debt. Credit card debt grew at a CAGR of 21% in the post pandemic period, higher than CAGR growth of ~12% in the pre-pandemic decade (FY09-19) (Figure 2).

The emergence of new fintech players, supported by Non-Banking Financial Companies (NBFCs), has led to greater penetration of consumer credit, thereby accelerating the growth of unsecured loans. The India Finance Report by the RBI's Centre for Advanced Financial Research and Learning (CAFRAL) highlights that fintech and NBFCs have increased their market share in retail credit especially among young borrowers.

Together, NBFCs and fintech lenders now account for approximately 70% of the below-35 age group segment, up from around 50% in 2017. To address growing concerns about strong growth in personal loan segment, the RBI has increased risk weighting of certain unsecured retail loans from 100% to 125% while the risk weights of credit card loans were increased from 125% to 150%. The risk weightings for bank loans to NBFCs were also raised.

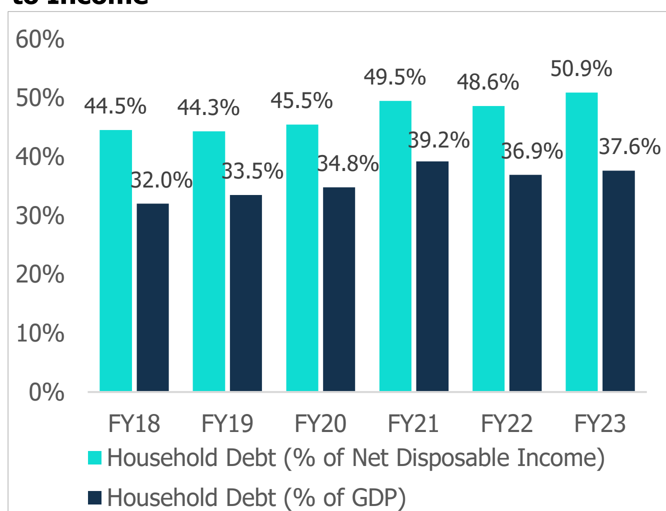
Are Leveraged Households A Cause of Concern?

As of FY23, household debt stands at 38% of GDP and 51% of net household disposable income. Although household debt has slightly decreased from its peak of 39.2% of GDP in FY21, it continues to grow relative to net disposable income (Figure 6). India's household debt (as % of GDP) remains comparable to its emerging economy peers like Brazil (35%) and South Africa (34%). Some other emerging economies such as Thailand (87%), Malaysia (67%) and China (62%) have very high household debt compared to India 's 38% of GDP, while households of Mexico (17%) and Indonesia (16%) remains relatively less leveraged (Figure 7).

While unsecured loans have seen a significant recent increase and require close monitoring, housing loans, which constitute more than 50% of retail loans, has remained the primary driver of household leverage. Household leverage allocated to real estate, in the form of residences and dwellings, is investment-driven rather than consumption-driven, making it more productive compared to leverage used for fuelling consumption. In fact, household's investment in the form of higher demand for real estate can compliment public capex push generating higher multiplier effect on the whole economy.

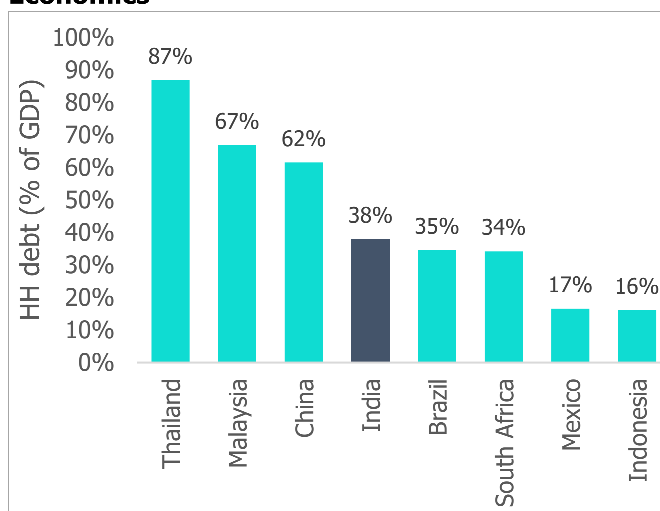
The RBI has already attempted to address the issues pertaining to unsecured loan growth. Investment driven household demand for real estate may not be an immediate source of apprehension. In fact, this trend underscores consumers' aspirations for homeownership, where households defer current consumption to build assets for the future. It is worth noting that the rise in demand for housing has been so far non-inflationary and non-speculative in nature, eliminating the possibility of a bubble as was witnessed in other major economies. RBI's data on house price index of major cities shows that the price growth of real estate has averaged 3.2% in the post pandemic years, lower than the five-year pre-pandemic average of 9.4%.

Figure 6: HH Debt Rose Faster Relative to Income



Source: RBI, MOSPI, CareEdge

Figure 7: Household debt in Emerging Economics

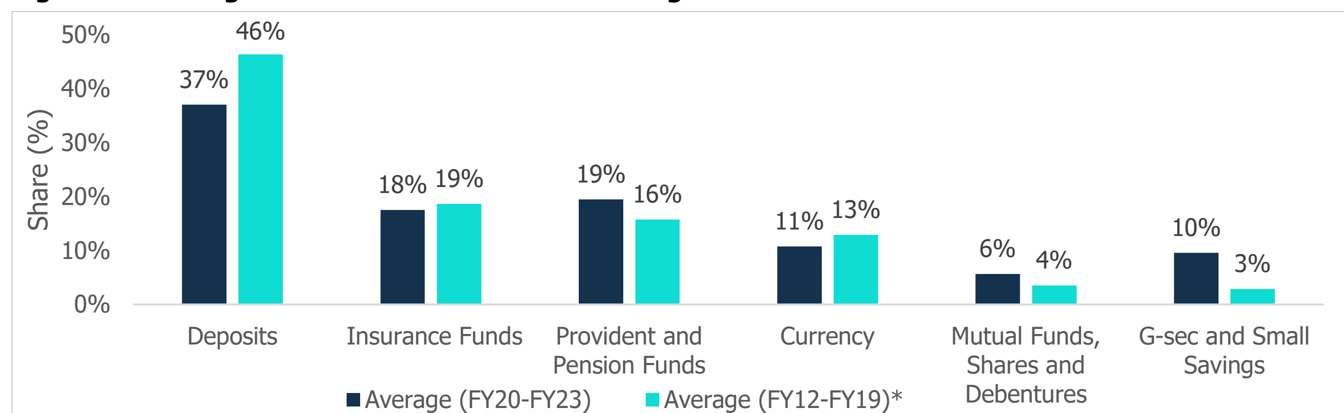


Source: IMF

How has Financial Savings Changed since the Pandemic?

While households have shown higher preference for savings in physical assets, a material shift is also evident in asset allocations within the financial savings. A comparison with pre-pandemic allocation trends indicates that households have reduced their allocations in bank and NBFC deposits by approximately 9.3 percentage point (Figure 8). At the same time, allocations for government securities/small savings (up by around 7 pp), provident/pension funds up by (3 pp), and shares/mutual funds (2 p p) have increased compared to pre-pandemic levels.

Figure 8: Average Share in Gross Financial Savings of Households

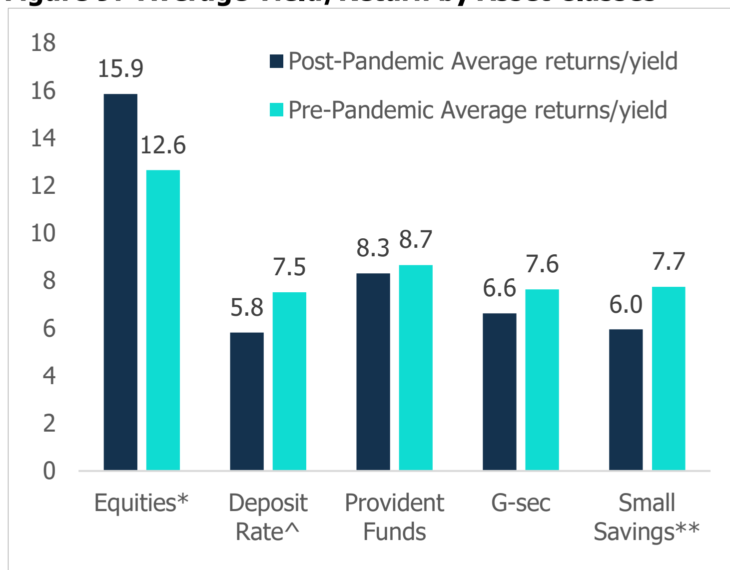


Source: NSO, CEIC, CareEdge. *FY17 is excluded to remove the impact of demonetisation on allocation of asset classes

The strong performance of the financial market has le

d to a higher allocation of household savings towards mutual funds and equity. Monthly SIP contributions have increased from approximately Rs 85 billion in the pre-pandemic months to around Rs 233 billion in July 2024. Within the fixed income investments, households are increasingly moving away from bank and NBFC deposits in favour of instruments like provident funds and small savings schemes.

Figure 9: Average Yield/Return by Asset Classes



Source: CMIE, CEIC, CareEdge. Post Pandemic: FY20-FY23, Pre-Pandemic is from FY12-FY19. *Equity return is based on S&P BSE 100 Index, **Based on interest rate on 2y National Savings Schemes Deposit, ^deposit rate is simple average of high and low of term deposits of maturity greater than 1 year of 5 major banks.

This shift is driven by the higher yields offered by provident funds compared to deposit rates, as well as the tax benefits associated with small savings schemes and provident funds, leading to greater allocations in these instruments. Lower real interest rate in the recent period has impacted bank deposit growth.

Interestingly, currency holdings have also declined in the post-pandemic period. This can largely be attributed to the rise in digital transactions, driven by the growing prevalence of the Unified Payments Interface (UPI), which has reduced the demand for physical currency.

Conclusion

While net household savings have moderated primarily due to an increase in household leverage, gross savings have remained relatively stable at approximately 24% of GDP, mainly due to a rise in savings in physical assets. The increase in leverage is attributed to a rise in both housing loans and unsecured loans.

Although the rise in household leverage due to investment in housing may not be an immediate cause for concern, it is essential to monitor the growth of unsecured lending driven by NBFCs and fintech companies. The RBI has already addressed the risks associated with growing unsecured lending by increasing risk weights on certain retail loans. On an aggregate basis, India's household debt as a share of GDP remains at comfortable levels to that of peer emerging economies. The growing demand for real estate underscores consumers' aspirations for homeownership and household's optimism about future economic prospects. In terms of financial savings, there has been an increase in allocations towards asset classes such as equities, mutual funds, and small savings instruments, while allocations in bank deposits have declined compared to pre-pandemic levels. A sustained rise in household income is crucial for supporting household savings and for keeping household leverage under control. A structural change is evident, characterized by the increasing digitalization and the easy availability of credit, which have driven up its demand among the younger population.

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 – 22 - 6754 3483
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

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