Declining Household Savings & Rising Liabilities

For Prelims: **Inflation**, **Sukanya Samriddhi Scheme**, **Mahila Samman Savings Certificate**, **National Pension System (NPS)**, **Paradox of Savings**, **FDI**, **Non-Performing Assets (NPAs)**, **UPI**, **Jan Dhan**, **e-RUPI**, **Inflation-indexed Bonds**, **Atal Pension Yojana**, **Sovereign Gold Bonds**.

For Mains: Current trend in household savings in India, Implications of low household savings rate and rising household debt, Strategies needed to maintain sustainable household savings & manage debt in India.

Source: BL

Why in News?

India's **household savings pattern** is undergoing a significant transformation, raising concerns about **long-term economic stability** and **domestic capital formation**.

What is the Current Trend in Household Savings in India?

- **Falling Gross Savings Rate:** India's gross domestic savings rate fell from **34.6% of GDP in 2011–12 to 29.7% in 2022–23**, marking a **four-decade low**, while **household net savings**, which traditionally made up **60% of total savings**, have also declined.
- **Rising Household Debt: Household liabilities** peaked at **6.4% of GDP (FY24)**, near the **2007 high (6.6%)**, driven by **borrowing** for **consumption**, **housing**, and **education**.
- **Saving Pattern: Physical savings** (gold, real estate) increased from **59.7% in 2019–20 to 71.5% in 2023–24**, while **financial savings** declined from **40.3% to 28.5%**.
    - Within financial savings, **bank deposits** dropped from **58% (FY12) to 37% (FY23)**, while investments in **equities, and mutual funds** nearly **doubled** (Rs 1.02 lakh crore in FY21 to Rs 2.02 lakh crore in FY23).
- **Urban vs. Rural Divide: Urban households** increasingly invest in **financial instruments** (mutual funds, equities) due to better **financial access**, while **rural households** continue to prefer **cash and physical assets**, highlighting gaps in **financial inclusion.**
- **Post-Pandemic & Inflationary Pressures:** While **Covid-19** **initially boosted savings** due to reduced spending, the trend **reversed as the economy reopened**, with **high inflation eroding disposable incomes** and **low real interest rates** making **traditional savings like fixed deposits less attractive.**

Household Savings and Household Debt

- **About: Household savings** refer to the portion of a household's **disposable income** that is **not spent on consumption** but is set aside for future use, typically in the form of **bank deposits, investments, insurance, or physical assets** like gold or property.
- **Types:** Household (HH) savings in India comprise **net financial savings (NFS)** and **physical**

savings.
    - **NFS** is calculated by subtracting **financial liabilities** (annual borrowing) from **gross financial savings (GFS)**, which includes **currencies**, **deposits**, **insurance**, provident and pension funds (P&PF), **shares & debentures**, **small savings**, and **others**.
    - **Physical savings** mainly include **residential real estate** (about two-thirds) and **machinery/equipment** owned by HH-sector producers.
- **Household Debt:** It refers to all **household debts** (including those of non-profits serving households) that must be **repaid with interest or principal** to creditors **by a set future date**.
- **Initiatives Related to Household Savings:** Sukanya Samriddhi Scheme, Kisan Vikas Patra Scheme, Mahila Samman Savings Certificate, National Pension System (NPS) etc.

What are the Implications of Low Household Savings Rate and Rising Household Debt?

- **Reduced Domestic Capital Formation:** Reduced **household savings**, a key source for **investment and capital formation**, may **slow GDP growth** and increase dependence on **foreign capital** (FDI, external borrowing), heightening **external vulnerabilities**.
- **Consumption-Driven Growth: Lower savings** reflect **higher consumption spending**, which can boost **short-term demand** but reduce **long-term investment capacity**. It risks **debt-fueled growth bubbles** like the 2008 US subprime crisis**.**
- **Pressure on Fiscal and Monetary Policy:** A fall in **private savings** may compel the **government to boost public savings** through **higher taxes or spending cuts**, while the **RBI faces a trade-off**—**low interest rates** discourage savings, whereas **high rates** raise borrowing costs.
- **Rising Household Debt Stress:** Rising **household debt**, especially through **unsecured loans, credit cards, and personal loans**, increases the risk of **loan defaults** and potential **debt traps** if incomes don't rise proportionally, leading to higher Non-Performing Assets (NPAs)**.**
- **Social and Inequality Concerns: Lower savings** weaken household **emergency resilience** and increase reliance on **borrowing for essentials**, leading to **long-term financial instability**, while declining **provident/pension savings** and a shift to **market-linked investments** raise the risk of **retirement insecurity**.

Paradox of Savings

- **About:** The Paradox of Savings (or **Paradox of Thrift**) is an **economic theory** that suggests while **saving money** is good for an **individual**, if **everyone saves more simultaneously**, it can **hurt the overall economy**.
- **Key Idea:** When households **raise savings and cut spending**, it reduces **aggregate demand**, leading to **lower production**, which prompts businesses to **cut jobs and incomes**.
    - As a result, **declining incomes** may cause the economy's **overall savings** to **decrease rather than increase.**
    - E.g., In a **recession**, if people **fear job losses** and **save more** instead of **spending**, **businesses earn less revenue → lay off workers → unemployment rises → incomes fall → savings shrink**.
- **Origins and Development of the Theory:** The concept was notably popularized by **John Maynard Keynes** in his influential **1936 work, *The General Theory of Employment, Interest, and Money***.
    - Keynesian economists argue that **consumer spending drives economic growth**, and **savings are transformed into investments** aimed at producing goods for these markets.
    - However, if **consumer demand is insufficient**, it can lead to a decline in such investments, thereby **hampering economic growth**.

What Strategies can be Adopted to Maintain Sustainable Household Savings in India?

- **Improve Financial Literacy & Awareness:** Expand **financial education programs** (schools, SHGs, digital platforms) to teach **saving habits**, **investment risks**, and **debt management**, while promoting **low-risk savings instruments** (**Sukanya Samriddhi**, post-office schemes) among **low-income households.**
  - Leverage **UPI**, **Jan Dhan**, and **e-RUPI** for **small-ticket savings** (e.g., Recurring Deposits via apps).
- **Tax & Interest Rate Incentives:** Increasing **tax deductions** for long-term savings, and introducing **inflation-indexed bonds** can incentivize **secure investments**, protecting purchasing power, and promoting **financial stability.**
- **Strengthen Social Security Systems:** Expand **pension coverage** (**Atal Pension Yojana**, NPS) for **informal sector workers** and offer **subsidized retirement plans** to reduce **old-age dependency risks** for **low-income groups**.
- **Responsible Lending Regulations:** Implement **strict RBI norms** on **unsecured loans** (credit cards, personal loans), including **Debt-to-Income (DTI) ratio caps** and **transparent loan pricing**, to prevent **reckless borrowing** and **debt traps**.
  - Impose **higher risk weights** on **luxury loans** and promote **good debt** education, home loans) over **bad debt** (impulsive spending).
- **Encourage Productive Investments:** Introduce **gold monetization schemes** like **Sovereign Gold Bonds** to unlock **idle assets**, and implement **affordable housing policies** to curb **real estate speculation**.
  - Offer **tax incentives** for **long-term equity holdings** (extend **LTCG** **benefits**), while regulating **speculative trading.**

Conclusion

India's **declining household savings** and **rising debt** threaten **economic stability**. To ensure **sustainability**, policies must boost **financial literacy**, incentivize **savings**, regulate **reckless lending**, and expand **social security**. Balancing **consumption-led growth** with **prudent savings** and **debt management** is crucial for **long-term resilience**, **inclusive development**, and reducing **vulnerabilities** in an evolving **financial landscape.**

Drishti Mains Questions:

India's declining household savings rate poses risks to long-term economic growth." Analyse the causes and suggest policy measures to revive sustainable savings.

UPSC Civil Services Examination, Previous Year Question

Prelims

Q. In a given year in India, official poverty lines are higher in some States than in others because (2019)

(a) poverty rates vary from State to State

(b) price levels vary from State to State

(c) Gross State Product varies from State to State

(d) quality of public distribution varies from State to State

Ans: (b)

Q. As per the NSSO 70th Round “Situation Assessment Survey of Agricultural Households”, consider the following statements: (2018)

1. Rajasthan has the highest percentage share of agricultural households among its rural households.
2. Out of the total agricultural households in the country, a little over 60 percent belong to OBCs.
3. In Kerala, a little over 60 percent of agricultural households reported to have received maximum income from sources other than agricultural activities.

Which of the statements given above is/are correct?

(a) 2 and 3 only

(b) 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

Ans: (c)

Mains

Q. Among several factors for India’s potential growth, the savings rate is the most effective one. Do you agree? What are the other factors available for growth potential? (2017)