

*Quarterly Estimates of Households' Financial Assets and Liabilities**

Households are the main suppliers of the financial resources to other sectors of the economy. Consequently, movement in financial assets and liabilities of households can provide an understanding of the dynamics of growth in the Indian economy. This article updates the March 2018 pilot exercise and consolidates information on households' financial assets and liabilities for twelve quarters extending to March 2020. Both financial assets and liabilities of households remain bank-centric, with some shift in favour of mutual funds and insurance in recent quarters.

Introduction

In India, the household sector contributes around 60 per cent of gross savings in the Indian economy, and thus remains the major supplier of financial resources for gross investment.

Annual data on household saving are published by the National Statistical Office (NSO), with the latest annual estimates released on January 31, 2020¹ showing that financial saving of the household sector declined to 6.5 per cent of GDP in 2018-19 from 7.7 per cent in 2017-18 and 7.4 per cent in 2016-17. Data for 2019-20 would be available on January 29, 2021.

Annual information on financial assets and liabilities of the household sector was published in the July 2019 issue of the RBI Bulletin² on an instrument wise 'from whom to whom' basis. For the first time,

* Anupam Prakash, Anand Prakash Ekka, Kunal Priyadarshi, Chaitali Bhowmick and Ishu Thakur of National Accounts Analysis Division, Department of Economic and Policy Research, Reserve Bank of India. The data support provided by Shalini Jain is also acknowledged. The views expressed in the article are those of the authors and do not represent the views of the Reserve Bank.

¹ First Revised Estimates (FRE) of National Income, Consumption Expenditure, Saving and Capital Formation.

² Financial Stocks and Flows Accounts of the Indian Economy: 2011-12 to 2017-18.

this article provides quarterly data up to March 2020, bridging the 10 months lag in the availability of official annual estimates of household financial saving. Data relating to the overlap period - Q1 and Q2:2017-18 - have been revised to incorporate the latest available information. With this release, India joins a select band of countries that publish household savings on a quarterly basis³.

The rest of the article is divided into three sections. Section II discusses estimates of quarterly financial assets and liabilities of the household sector at the aggregate level. Section III examines the instrument-wise composition of financial assets and liabilities. Section IV sets out concluding remarks. Methodology, data sources/limitations and a tabular presentation of instrument-wise estimates of household financial assets and liabilities are given in the Annex.

II. Financial Assets and Liabilities of Households

Net financial assets of Indian households moderated in 2018-19⁴, reflecting higher consumption expenditure by households. In 2019-20, however, they have gathered pace touching the levels reached in 2017-18, *i.e.*, 7.7 per cent of GDP (Table 1). This improvement has occurred due to moderation in household bank borrowings being sharper than that in bank deposits, except in the fourth quarter of 2019-20 due to COVID-19 related economic disruptions.

The quarterly data also reveal large fluctuations in the flow of resources from this sector which are not captured in the annual data (Chart 1).

Households' gross financial liabilities turned negative in Q1:2019-20 owing mainly to contraction in borrowings from commercial banks, but picked up

³ The OECD Stat reports quarterly household financial savings data for only 19 countries.

⁴ Household financial savings figure of 6.5 per cent of GDP for 2018-19 published by NSO in January 2020 now works out at 7.2 per cent of GDP based on the updated data on life insurance policies, published by Insurance Regulatory and Development Authority of India (IRDAI) and small savings data published in Union Budget 2020-21.

Table 1: Financial Assets and Liabilities of Households

(Amount in ₹ lakh crore)

	2017-18					2018-19					2019-20				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Net Financial Assets (A-B)	2.78 (6.9)	3.59 (8.6)	2.48 (5.7)	4.45 (9.7)	13.29 (7.7)	2.76 (6.1)	2.29 (4.9)	2.13 (4.4)	6.56 (13.2)	13.73 (7.2)	3.48 (7.1)	3.68 (7.5)	3.36 (6.5)	5.09 (9.6)	15.62 (7.7)
A. Gross Financial Assets	3.85 (9.6)	5.77 (13.8)	3.42 (7.9)	7.56 (16.5)	20.60 (12.0)	3.58 (7.9)	4.82 (10.4)	3.52 (7.3)	9.31 (18.8)	21.23 (11.1)	3.31 (6.7)	5.06 (10.3)	5.52 (10.7)	7.73 (14.5)	21.63 (10.6)
B. Financial Liabilities	1.08 (2.7)	2.18 (5.2)	0.94 (2.2)	3.11 (6.8)	7.31 (4.2)	0.83 (1.8)	2.53 (5.5)	1.38 (2.9)	2.75 (5.6)	7.50 (3.9)	-0.18 (-0.4)	1.38 (2.8)	2.16 (4.2)	2.64 (5.0)	6.01 (2.9)

Note: (i) Figures in parenthesis are as per cent to GDP.

(ii) Data for Q1 and Q2:2017-18 stand revised from those published in RBI Bulletin, March 2018.

Source: Staff calculations.

thereafter and peaked in Q4:2019-20, reflecting apart from the seasonal uptick, higher borrowings induced by COVID-19 related hardships. Several studies show that households tend to save more during a slowdown and income uncertainty [Mody *et al.*, 2012; Chakrabarti *et al.*, 2011; Nahmias, 2010; Levanon and Franco, 2011].

III. Instrument-wise Portfolio of Household Financial Assets and Liabilities

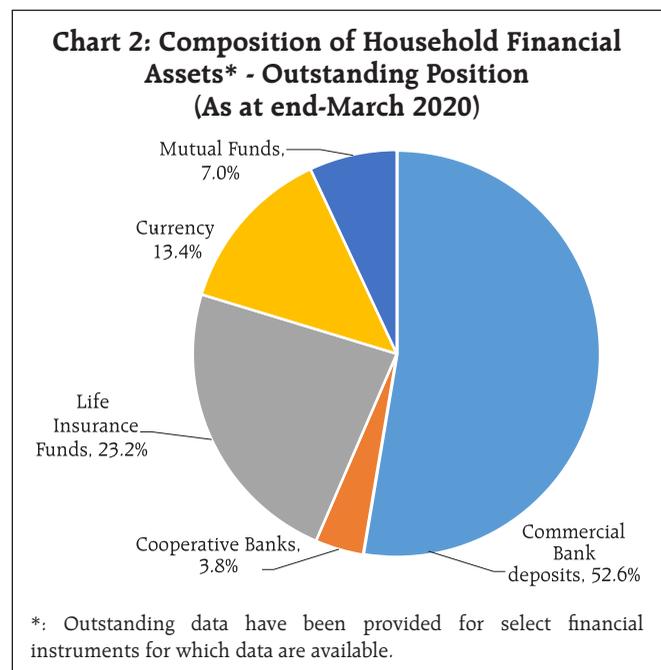
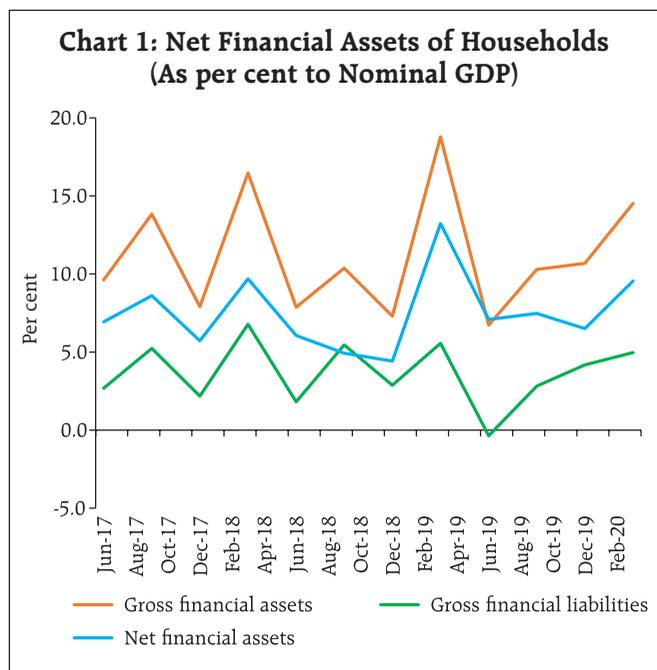
Households allocate their financial assets and liabilities among various instruments involving varying degrees of liquidity and risk. Financial assets

are held in currency, bank deposits, debt securities, mutual funds, insurance, pension funds and small savings. Financial liabilities are primarily held in the form of loans and borrowings from banks, non-banking financial companies (NBFCs) and housing finance companies (HFCs).

III.1 Household Assets

Currency and deposits with banks accounted for bulk of total financial assets (66 per cent), followed by insurance funds and mutual funds (Chart 2).

The trends in the composition of outstanding financial assets of households in terms of select



instruments, viz., currency, commercial bank deposits, cooperative bank deposits, life insurance funds and mutual funds provide some interesting insights (Annex II; Table 3). Deposits with banks, which had declined persistently starting from Q3:2016-17, recorded an uptick starting from Q4:2018-19 as banks competed aggressively to raise resources, especially private banks (RBI, 2019a). The steady increase in insurance and mutual fund products pointed to a growing appetite for alternative financial instruments. The share of currency in total outstanding assets has broadly remained constant.

A clear seasonal pattern is discernible in at least two financial assets, namely, bank deposits and currency (Chart 3). Deposits with the banking system typically contract in the first quarter and expand in the last quarter of the financial year, while currency holdings of households peak in the first quarter and contract in the second quarter. Banks tend to boost credit delivery and deposit mobilisation in the last

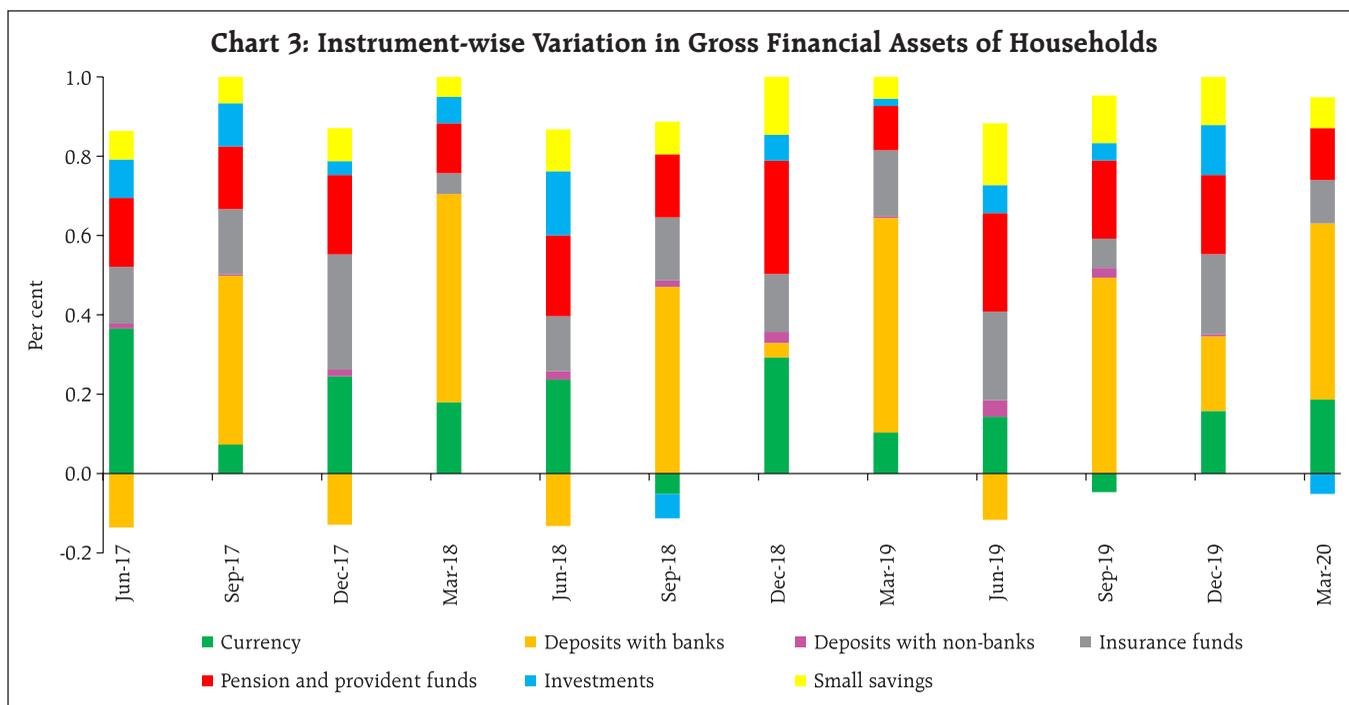
quarter of the financial year, i.e. they window dress⁵ to meet the year-end targets⁶ and to improve their asset quality indicators (RBI, 2013b; Rajpathak, 2019).

Currency patterns are associated with festivals, *rabi* procurement and *kharif* sowing, and tourism related demand (RBI, 2019c). Moderate seasonality is also seen in insurance products - peaks in the fourth quarter to get income deductions.

III.2 Household Liabilities

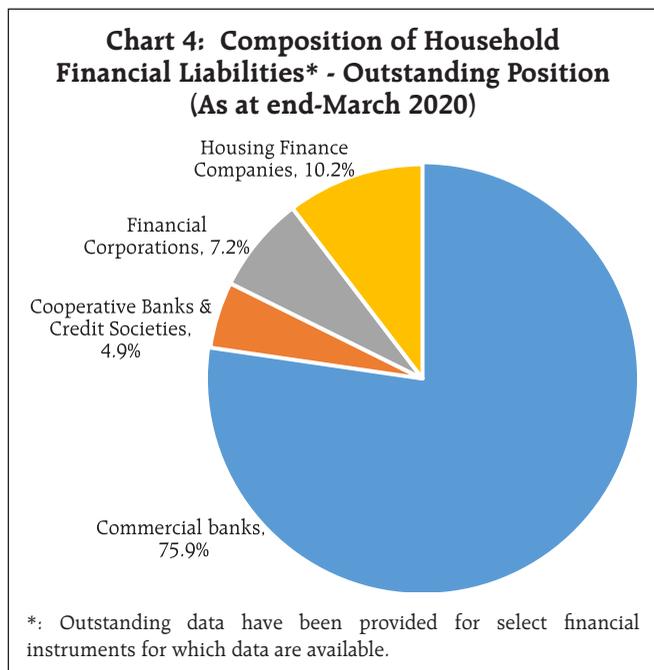
Borrowings from commercial banks have the highest share in households' financial liabilities. At the end of Q4:2019-20, outstanding loans availed by households from commercial banks accounted for the bulk of their total financial liabilities (75.9 per cent), followed by the HFCs, NBFCs, cooperative banks and credit societies (Chart 4).

Acquisition of financial liabilities also reveals a seasonal pattern; they generally peak during the fourth quarter and then moderate in the first quarter - by and



⁵ The Reserve Bank of India (RBI) has imposed, by order dated November 18, 2019, monetary penalty of ₹ One crore on Indian Bank for non-compliance with directions issued by RBI on Window-dressing of Balance Sheet and classification and reporting of frauds (RBI, 2019d).

⁶ Although SCBs do not have any prescribed credit targets, several banks mention their internal credit growth targets in their respective annual reports.



large, an outcome of seasonality in the disbursement of credit by the banking sector, as discussed in the previous section.

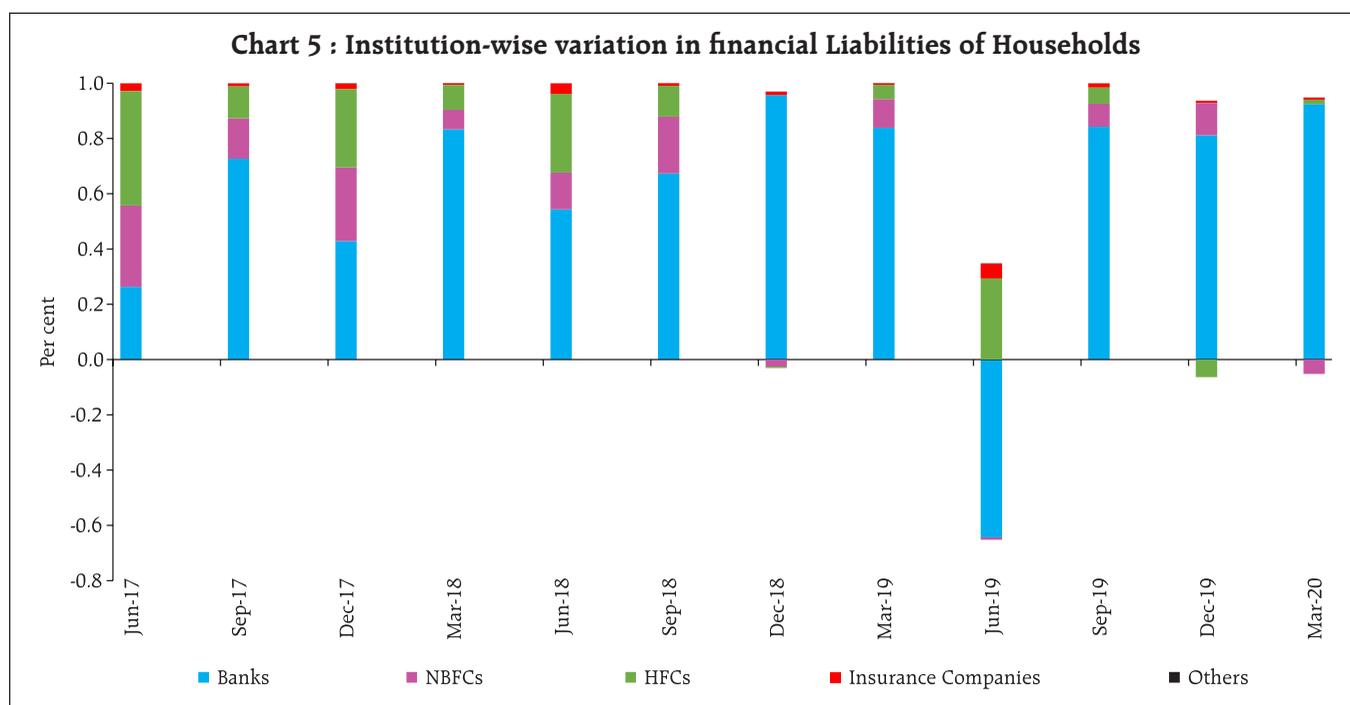
Borrowings by households from NBFCs, which contracted during Q3:2018-19 due to the liquidity strains triggered by the Infrastructure Leasing and

Financial Services Limited (IL&FS) crisis, rebounded in subsequent quarters (Chart 5). The contraction of loans from HFCs during Q3:2019-20 points to depressed demand for real estate, which is also evident in moderation of real estate housing sales.

Acquisition of liabilities in the form of bank credit contracted to 1.5 per cent of GDP in Q1:2019-20 followed by an uptick in the subsequent quarters of the year. The significant contraction in the households borrowing from the banking sector in Q1:2019-20 caused by the seasonal factors, seems to have got accentuated by uncertainty about future income growth in a slowing economy, and also due to growing risk aversion among banks in view of asset quality concerns.

IV. Conclusion

The household sector is the most sustainable and self-reliant source of financing for the Indian economy. Its role is likely to become critical in the context of the policy effort gathering critical mass to lift the Indian economy from the vice-like grip of a slowdown and, more recently the life-threatening COVID-19 pandemic.



Households continue to rely heavily on the banking sector for borrowing and investing their surpluses, although the share of bank deposits in their financial assets has undergone a secular decline. A recent shift is visible in favour of financial assets in mutual funds and insurance. On the liabilities side, a significant decline in the share of borrowings from the banking sector in total liabilities during 2019-20 reflected the economic slowdown and risk aversion of banks. COVID-19 related uncertainties, have resulted in an outflow from mutual funds and a flight to currency holdings.

Going forward, a spike in net financial assets of households is likely in the first quarter of 2020-21 on account of a sharp drop in lockdown induced consumption. Lags in the pickup of economic activity may cause the financial surplus of households to taper off in subsequent quarters. With construction activity at a standstill, there is a possibility of a shift by households from physical to financial assets.

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Annex I Data Sources and Methodology

From a statistical point of view, it is important to note that data on households are derived from a horizontal balancing procedure (OECD 2017). In this process, data of households are based on information available in counterparty sectors. For example, data of households loan liability are derived from information available from balance sheet of other institutions such as commercial banks, NBFCs, insurance companies, general government

sector and non-financial corporates (Table A). This procedure is generally used across countries in the absence of adequate coverage and non-availability of requisite data at regular frequencies from household surveys. As pointed out by the OECD "fully capturing financial and non-financial behavior of households *via* surveys is not straight forward, whereas counterparty information is usually well defined and well observed" (OECD, 2017).

Table A: Summary of Data Sources for Financial Assets and Liabilities

Financial Assets		
Instrument	Definition	Assets
Currency	Currency issued by the RBI	Residual item estimated following Rangrajan (2009)
Deposits	Current, saving and time deposits regardless of maturity	Counterpart data from commercial banks, co-operative banks, NBFCs, HFCs, <i>etc.</i>
Debt securities, listed shares, mutual fund units	Debt securities comprise commercial papers, treasury securities, government bonds, publicly issued debentures by financial and non-financial corporates, shares issued by financial and non-financial corporation through public issues	Reports of the Reserve Bank of India and Securities Exchange Board of India. Prospectus and issue related documents
Life insurance	Actuarial reserves and other technical reserves for entitlements relating to individual life insurance policies	Data from insurance companies and public disclosure statements
Pension / provident funds	Entitlements relating to funded retirement benefits for government sector and non-government sector employees	Government budget documents, reports of employee provident funds organization, pension fund regulatory and development authority, and other pension provident fund trust
Liabilities		
Loans	Housing loans, consumer loans, crop loans and business loans from financial institutions, viz., commercial banks, credit societies, NBFCs, HFCs <i>etc.</i>	Counterparty information reported in various annual and quarterly reports of the Reserve Bank and National Housing Bank
Trade credits	Net trade payables	Reports of non-financial corporate sector

Note: In addition to above instruments, Indian households may also own financial assets, *viz.*, financial derivatives, loans and trade credit to trading counterparts, and financial liabilities, *viz.*, trade credit from non-corporate sector. We have not discussed these instruments due to paucity of data.

Annex II

Table 1: Gross Financial Assets of Households

(As per cent of GDP)

Item	2017-18					2018-19					2019-20				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Gross Financial Assets	9.6	13.8	7.9	16.5	12.0	7.9	10.4	7.3	18.8	11.1	6.7	10.3	10.7	14.5	10.6
<i>of which:</i>															
1. Total Deposits (a) + (b)	-1.6	5.9	-1.2	8.6	2.9	-1.2	6.5	0.5	10.2	4.0	-0.7	5.9	2.1	7.1	3.6
(a) Bank Deposits	-1.8	5.9	-1.4	8.6	2.8	-1.4	6.3	0.3	10.2	3.8	-1.0	5.6	2.0	7.2	3.4
i. Commercial Bank Deposits	-1.5	5.7	-1.5	8.6	2.8	-1.4	6.2	0.2	9.9	3.7	-1.1	5.5	1.2	7.1	3.2
ii. Cooperative Banks	-0.3	0.2	0.1	0.1	0.0	-0.1	0.1	0.0	0.3	0.1	0.0	0.1	0.8	0.1	0.3
(b) Non-Bank Deposits	0.2	0.1	0.2	0.0	0.1	0.2	0.2	0.2	0.1	0.2	0.4	0.3	0.1	0.0	0.2
2. Life Insurance Funds	1.9	2.3	3.1	0.9	2.0	1.5	2.1	1.1	3.1	1.9	2.0	0.8	2.1	1.8	1.7
3. Provident and Pension Funds (including PPF)	2.3	2.2	2.1	2.1	2.2	2.2	2.1	2.1	2.1	2.1	2.2	2.2	2.1	2.1	2.2
4. Currency	4.8	1.0	2.6	3.0	2.8	2.5	-0.7	2.1	1.9	1.5	1.3	-0.5	1.7	3.0	1.4
5. Investments	1.3	1.5	0.4	1.1	1.1	1.7	-0.8	0.5	0.3	0.4	0.6	0.5	1.3	-0.8	0.4
<i>of which:</i>															
Mutual Funds	1.2	1.3	0.0	0.8	0.8	1.5	-1.0	0.4	0.2	0.3	0.2	0.4	1.3	-0.9	0.2
6. Small Savings (excluding PPF)	1.0	0.9	0.9	0.8	0.9	1.1	1.1	1.1	1.0	1.1	1.4	1.4	1.3	1.3	1.3

Source: Staff calculations.

Table 2: Gross Financial Liabilities of Households

(As per cent of GDP)

Item	2017-18					2018-19					2019-20				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Gross Financial Liabilities	2.7	5.2	2.2	6.8	4.2	1.8	5.5	2.9	5.6	3.9	-0.4	2.8	4.2	5.0	2.9
Loans (Borrowings) from															
A. Financial Corporations (i+ii)	2.7	5.2	2.2	6.8	4.2	1.8	5.5	2.9	5.6	3.9	-0.4	2.8	4.2	5.0	2.9
(i) Banking Sector	0.7	3.8	0.9	5.7	2.8	1.0	3.7	2.9	4.7	3.1	-0.8	2.4	3.9	0.0	1.4
<i>of which:</i>															
Commercial Banks	0.7	3.8	0.9	5.5	2.7	0.9	3.7	2.9	4.5	3.0	-1.5	2.3	3.4	4.9	2.3
(ii) Other Financial Institutions	2.0	1.4	1.2	1.1	1.4	0.8	1.8	-0.1	0.9	0.9	0.4	0.4	0.3	-0.2	0.2
(a) Non-Banking Financial Companies	0.8	0.8	0.6	0.5	0.7	0.2	1.1	-0.1	0.6	0.5	0.0	0.2	0.6	-0.3	0.1
(b) Housing Finance Companies	1.1	0.6	0.6	0.6	0.7	0.5	0.6	0.0	0.3	0.3	0.3	0.2	-0.3	0.1	0.1
(c) Insurance Companies	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
B. Non-Financial Corporations (Private Corporate Business)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. General Government*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*: Negligible.

Source: Staff calculations.

Table 3: Outstanding Position of Assets and Liabilities of Households : Select Instruments

(₹ crore)

Item	2017-18				2018-19				2019-20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Financial Assets												
<i>of which:</i>												
a. Bank Deposits (i+ii)	74,06,499	76,51,681	75,92,300	79,88,459	79,23,991	82,16,181	82,28,953	87,32,543	86,82,099	89,57,299	90,61,181	94,43,347
i. Commercial Bank Deposits	68,48,812	70,86,130	70,23,386	74,16,181	73,54,407	76,43,889	76,54,524	81,45,229	80,92,560	83,60,743	84,24,434	88,02,081
ii. Cooperative Banks	5,57,687	5,65,552	5,68,914	5,72,278	5,69,584	5,72,291	5,74,428	5,87,315	5,89,540	5,96,556	6,36,747	6,41,266
b. Life Insurance Funds	29,44,884	30,38,077	31,70,213	32,07,898	32,70,270	33,64,359	34,10,441	35,59,920	36,50,999	36,86,887	37,92,633	38,81,446
c. Currency Funds	13,77,115	14,19,187	15,31,963	16,67,814	17,82,923	17,50,789	18,53,445	19,49,222	20,10,843	19,84,738	20,71,582	22,32,230
d. Mutual Funds	9,46,249	10,18,110	10,61,206	10,65,882	11,93,501	11,50,709	11,93,246	12,42,184	12,65,871	12,79,311	13,85,427	11,62,078
Total (a+b+c+d)	1,26,74,748	1,31,27,055	1,33,55,682	1,39,30,053	1,41,70,686	1,44,82,037	1,46,86,085	1,54,83,870	1,56,09,812	1,59,08,234	1,63,10,822	1,67,19,100
As per cent to GDP												
a. Bank Deposits (i+ii)	46.2	45.9	43.9	43.5	43.5	44.2	42.7	44.1	44.1	45.5	43.8	44.3
i. Commercial Bank Deposits	42.7	42.5	40.6	40.4	40.4	41.1	39.7	41.1	41.1	42.5	40.7	41.3
ii. Cooperative Banks	3.5	3.4	3.3	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.1	3.0
b. Life Insurance Funds	18.4	18.2	18.3	17.5	18.0	18.1	17.7	18.0	18.6	18.7	18.3	18.2
c. Currency Funds	8.6	8.5	8.9	9.1	9.8	9.4	9.6	9.8	10.2	10.1	10.0	10.5
d. Mutual Funds	5.9	6.1	6.1	5.8	6.6	6.2	6.2	6.3	6.4	6.5	6.7	5.5
Total	79.1	78.7	77.2	75.8	77.8	77.9	76.2	78.1	79.3	80.8	78.8	78.5
Gross Financial Liabilities												
Loans (Borrowings) from												
A. Financial Corporations (i+ii)	4615356	4833287	4927278	5238596	5321128	5574435	5712769	5988080	5970123	6108168	6323974	6587943
(i) Banking Sector	3725782	3884176	3924504	4183990	4228869	4399440	4540490	4771461	4733895	4850254	5050922	5323469
<i>of which:</i>												
Commercial Banks	3487301	3646121	3684863	3939323	3982324	4152097	4293543	4517329	4445666	4557895	4735661	4998267
Cooperative Banks & Credit Societies	238115	237677	239251	244265	246138	246931	246529	253708	287801	291925	314821	324762
(ii) Other Financial Institutions	889574	949111	1002774	1054606	1092259	1174995	1172278	1216619	1236228	1257914	1273053	1264474
<i>of which:</i>												
Non-Banking Financial Companies	280643	312603	337693	359583	370545	422575	418860	447496	446982	458506	487403	472061
Housing Finance Companies	511319	536379	563004	591058	614618	642947	642160	656279	673312	681405	665695	670179
As per cent to GDP												
A. Financial Corporations (i+ii)	28.8	29.0	28.5	28.5	29.2	30.0	29.6	30.2	30.3	31.0	30.6	30.9
(i) Banking Sector	23.2	23.3	22.7	22.8	23.2	23.7	23.6	24.1	24.1	24.6	24.4	25.0
<i>of which:</i>												
Commercial Banks	21.8	21.8	21.3	21.4	21.9	22.3	22.3	22.8	22.6	23.2	22.9	23.5
Cooperative Banks & Credit Societies	1.5	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.5	1.5	1.5	1.5
Other Financial Institutions	5.5	5.7	5.8	5.7	6.0	6.3	6.1	6.1	6.3	6.4	6.2	5.9
<i>of which:</i>												
Non-Banking Financial Companies	1.8	1.9	2.0	2.0	2.0	2.3	2.2	2.3	2.3	2.3	2.4	2.2
Housing Finance Companies	3.2	3.2	3.3	3.2	3.4	3.5	3.3	3.3	3.4	3.5	3.2	3.1

Note: The outstanding position for household investment in pension and provident funds is not being published as the latest available data from Employee Provident Fund Organization (EPFO), which constitute around 70 per cent of this segment, pertains to 2016-17.

Source: Staff calculations.