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Strengthen household saving data for effective policy-making

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Despite the constraints, it is not impossible to collect reliable data on income, expenditure and savings.

In recent times, there has been an increase in public expenditure, with an eye on driving jobs, employment and overall economic growth. From that perspective alone, a consistently high rate of household savings not only enables a country to fund creation of public assets, but also facilitates overall debt financing. An effective strategy would aim at not only optimising savings, but also at channelising available savings into productive and socially-desirable investments.

Unfortunately, in India, direct estimates of total savings are simply not available on a regular basis. Currently, savings estimates are derived indirectly from GDP using the residual method—i.e. deduction of share of public and corporate sector from the gross numbers. However, this method doesn't reveal anything about the changes in savings patterns that occur with rise in incomes of various socio-economic groups. For that matter, very little is known of changes in household expenditure in relation to changes in income. In this context, the ICE 360° Survey 2014 as a source of valuable data to estimate the savings of household groups cannot be exaggerated. It is common knowledge that despite intensive scrutiny at the investigation level, information on income (and thereby savings) is under-reported. The survey captures 58.9% of national income reported by CSO. The savings of households in this study has been derived as the difference between total income earned by the households from all sources minus routine consumption expenditure during 2013-14.

Gross savings of Indian households constituted 29.27% of gross household income in financial year 2013-14. Of the gross savings, 51.8% emanated from rural areas comprising 179.5 million households with a share of 55.4% of total income of Indian households. In fact, there was no major difference in the utilisation pattern of savings in rural and urban areas. And over 80% households save primarily for contingencies, old age, medical emergencies and children's education.

Distribution of household income & saving

Per-capita saving population percentile	ALL-INDIA			RURAL			URBAN		
	Income	Saving	Saving rate	Income	Saving	Saving rate	Income	Saving	Saving rate
Up to 5	2.8	-6	-50.4	3.1	-6.6	-53.4	2.3	-5.3	-47
5-10	3.5	-1.6	-17.4	3.4	-2.2	-19.2	3.6	-1.1	-14.4
10-20	5.1	-0.8	-4.3	5.9	-1	-4.9	4.1	-0.4	-3.4
20-30	5.4	1	5.2	6.4	1.3	5.6	4.1	0.6	4.4
30-40	5.6	2.3	12.1	7.4	3.6	13.1	3.4	1	9.5
40-50	6.7	3.8	16.6	8.4	5.5	17.8	4.5	2	13.8
50-60	7.7	5.7	21.7	9.4	8.1	23.5	5.5	3.2	18.1
60-70	9.1	8.5	27.5	10.2	11.2	29.8	7.6	5.7	23.6
70-80	10.9	12.6	33.7	12.1	16	36.1	9.4	8.9	29.9
80-90	14.6	20.7	41.5	14.1	22.9	44.6	15.3	18.4	38
90-95	10.5	17.3	48.4	8.4	15.9	52	13.1	18.8	45.5
96	2.7	4.7	50.1	1.7	3.4	54.5	4	6	47.8
97	2.8	5.4	55.2	2.6	5.5	58.3	3.2	5.2	52.2
98	3.3	6.3	55.7	1.8	4	61.2	5.2	8.8	53.4
99	3.9	7.8	58.8	2.4	5.6	64.4	5.7	10.1	56
100	5.5	12.3	65.5	2.7	7	69.4	8.9	18	64
TOTAL	**100**	**100**	**29.3**	**100**	**100**	**27.4**	**100**	**100**	**31.6**

Source: ICE 360° Survey (October 2014) from People Research on India's Consumer Economy (PRICE)

The all-India average household savings were estimated at R57,853 in 2013-14, with 69% households (186 million) falling below this average. This was true for both urban and rural India. The average urban saving, at R83,189, was 1.85 times that of rural average (R45,066). Urban households saved relatively higher proportion of income, both average and incremental. The national average saving-to-income ratio was 0.29. The urban average saving-to-income ratio was 0.32, against the rural 0.27.

A closer look at the top saving households reveals that the uppermost decile comprised those with 28.7% of household income and contributed over half (53.7%) of household savings. Of this, the top 1%—with 5.5% of income—contributed 12.3% of gross savings; more than one-third of household savings originated from top 5% of households with 18.2% of the sector's income.

A look at the percentile groups shows that the proportion of income saved rose with every subsequent percentile, with the slope of the saving curve being steeper than that of income. Almost similar patterns of distribution were found in rural and urban areas, though rural saving was more concentrated. Roughly one-fourth of rural savings was contributed by the top 5% of rural households with 11% of rural income; the top 1% with 2.7% of rural income accounted for only 7% of rural saving.

In urban areas, the top 5% households enjoyed a larger proportion of income at 27% and contributed 48.2% of savings, while the top 1% households with 8.9% of urban income contributed 18% of urban saving.

Self-employed households, engaged in farm and non-farm activities, were the major saving groups in rural India, contributing about half of rural saving; in urban India, they ranked next to regular salary/wages households (50%). The contribution of labour (agriculture and non-agriculture) households was minimal, around 14% for the country and even lower, at 7.1%, in urban. They reported the lowest average saving in both rural and urban India. In both rural as well as urban, salary and wages households add a higher saving-to-income ratio at about 0.36 compared to labour households (0.18).

The impact of education has also been felt on savings behaviour. Rising levels of mean savings and mean income were witnessed in households with improved education status. Mean savings rose faster than mean income. As a result, the saving-to-income ratio increased with education. There was a six-fold rise in average household savings relative to four-fold in household income when the most educated person in the household rose from ‘illiterate’ to ‘graduate’. Both rural and urban households displayed more or less similar patterns; the level of average household saving was higher in urban areas than rural at every education level.

About 21.3% of households in the country—with at least one graduate family member as the most educated person—contributed 45% of household savings. These households dominated the urban scene, forming 33% of urban households and accounting for 58% of urban savings. Similarly, the impact of education level on savings can also be seen in rural India. For instance, around 56% of rural savings was contributed by households where the highest education of any member of the family was at least higher secondary. Significantly, such households constitute only 34% of rural households.

The linkages between household savings and economic growth are obvious and the steady increase in dis-savings is, therefore, a cause for concern. Savings in the household sector are attributable to 221.7 million households in the country which enjoy 89.6% of the sector’s income. Nearly 18% of Indian households reported dis-savings. In other words, their annual routine expenditure is higher than their annual earnings. About two-thirds of such households live in rural India. Despite having 1.6 times the rural average household income, every third dis-saving household is from urban India.

While it may seem obvious that lower income rural households are prone to dis-save, the fact remains that a considerable proportion of affluent and salaried urban households are dis-saving. Nearly 16% of all dis-saving households (7.7 million) are to be found among salary earners. Similarly, 19% of the two top-most income quintile households are dis-saving. What makes this even more significant is that such households are much heavier borrowers than those in the bottom quintile.

The ICE 360° Survey 2014 clearly demonstrates that despite the constraints, it is not impossible to collect reliable data on income, expenditure and savings which are needed for a better understanding of the nation’s economic growth and for policy formulation.

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