

Household Savings and Portfolio Choice in India: Findings from Survey Data

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Saving is a key macroeconomic variable, as it acts as a potential source of finance for the productive sectors in an economy. In India, household sector contributes more than two-third to overall gross savings. Households are faced with extensive and expanding choices of instruments when it comes to allocating their savings across alternative instruments with varying degree of liquidity and risk. Although Indian households save predominantly in physical assets, overtime there has been a slow and gradual shift from physical to financial assets. Financial assets are held in form of currency, bank deposits, debt securities, mutual funds, insurance, pension funds and small savings. Within financial assets, the compositional shifts in asset holding are underway. While bank deposits have declined persistently, there has been a steady increase in insurance and mutual fund products, pointing to a growing appetite for alternative financial instruments (Prakash et al., 2020). The ongoing household portfolio rebalancing in the Indian economy has crucial implications at both micro and macro level. At micro level, this has direct consequences on household's wealth creation, precautionary needs and post-retirement safety and security. At macro level, portfolio rebalancing serves as one of the key transmission mechanisms of monetary policy.

There exists a vast literature on household portfolio choice, most of which is specific to developed economies (Merton [1969] and Samuelson [1969]; Mankiw and Zeldes, [1991]; Bertaut and McCluer, [2000]; Ameriks and Zeldes, [2004]; Gomes, [2020]; Campbell, [2006, 2019]). Literature on emerging and developing economies (EMDEs) has been relatively scarce but growing in recent years, particularly in the context of countries like China, India and few other developing countries from the middle and Eastern Europe (Badarinsa et al., [2019]; Yang, [2022]; Rampal and Biswas, [2022]; Beckmann, [2013], Nalin, [2013]). A few studies analyse household savings amidst the COVID pandemic extremity (Zhang et al., [2022]; Ren and Zhang [2023]; Zeng et al., [2022]; Yue et al., [2020]). In India, aggregate data on household savings are published annually in National Accounts Statistics (NAS) while outstanding data on household's financial assets and liabilities are published in the financial stocks and flows statistics (FSF) by the Reserve Bank of India. However, All India Debt and Investment Survey (AIDIS) – a decadal survey on household's outstanding assets and debt is the only available official source of micro-level data on composition of household's assets and liabilities. The AIDIS data being rich in terms of information and coverage allows us to study the dynamics of household wealth and debt over a longer horizon. However, short-time dynamics of portfolio decisions which respond to macroeconomic variables such as inflation expectations, rate of return on assets, job security and social security benefits etc., are not available in Indian context mainly due to data constraints. Furthermore, there is no study in the Indian context, to the best of our knowledge, which has studied the relationship between macroeconomic variables and household saving decisions. Therefore, the underlying mechanism

behind the portfolio rebalancing by the households over time as observed from the aggregate data remain largely unexplored.

The proposed study will contribute to the literature on household portfolio choice in the context of EMDEs. We use the Consumer Pyramid Household Survey data from the Centre for monitoring Indian economy (CMIE-CPHS) which surveys a fixed set of households repeatedly in multiple waves over the years, creating a longitudinal panel data of households suitable for panel data analysis. The 'Aspirational India' from the CPHS is used for analysing the determinants of household financial portfolio choice for the period – 2015 to 2022.

Given the categorical nature of the data (dependent variable and majority of the independent variables), binary choice models would be the natural choice in terms of estimation methodology. In the first step, characteristics of the households such as age group, gender group, income and occupation group, pertinent in explaining the households' saving behaviour are identified using a logit model. Thereafter, a deep dive into household portfolio decision has been made by focusing solely on households who have saved. Specifically, a multinomial regression is estimated to understand the household-level determinants, where the investment options for the households are alternative instruments categorised according to the risk metric – 'Safe Assets', 'Fairly Safe Assets' and 'Risky Assets'. In both the cases mentioned above, separate regressions will be performed for pre-COVID and post COVID period to explore whether the pandemic resulted in any differential impact on household saving behavior. Furthermore, the period under study coincides with a number of structural and policy reforms that have been introduced and implemented. Switch to flexible inflation targeting, implementation of defined-contribution pension plan, introduction of goods and services tax (GST), push to financial inclusion aided by digitalisation and information technology, Insolvency and Bankruptcy Code (IBC) for faster resolution of stressed assets– all have a direct and/or indirect bearing on investment decisions by the households. In view of this, a multinomial panel logit model will be estimated to evaluate the impact of inflation, rate of return on assets such as deposits, stocks etc., economic conditions along with time fixed effects to control for other time varying factors. In this model, the Pandemic impact would be captured by introducing a dummy variable for the pandemic period. The detailed investigation on household savings and portfolio decision using granular data as proposed here, will offer crucial insights to target policies towards more efficient portfolio allocation and broad-base participation in financial savings to harness the long run objective of sustainable and inclusive growth.

Key References:

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