

Commendable improvement in the methodology for calculating household savings/assets in the securities market

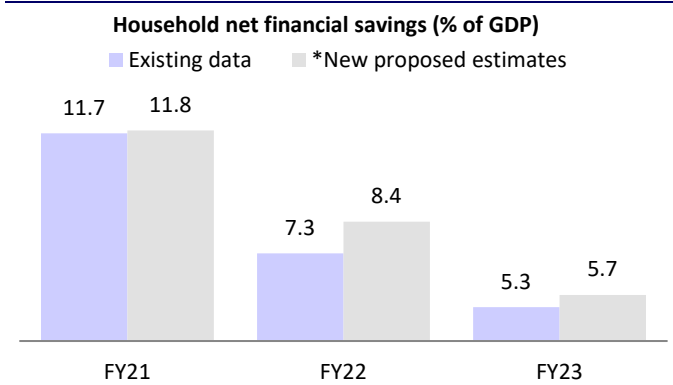
Although it does not change the macroeconomic narrative

- The Securities and Exchange Board of India (SEBI) [published](#) a “Working Paper on Household Savings through Indian Securities Market” on 4th Sep’24, which reviewed and updated the computation methodology of the savings of households in the securities market. SEBI uses actual granular data, which improves the quality, scope, and accuracy of capturing total household investments in the securities market.
- Not only does the 11-page working paper explain the existing methodology for estimating financial flows (savings) and stocks (assets) of households in the securities markets, but the proposed changes to the methodology also consider the structural changes that the Indian securities market has undergone over the past decade.
- The paper states that there are three sets of proposed changes regarding: 1) the category of investors (to be considered under the household sector), 2) the instruments, and 3) the missing components. The details of these proposed changes are explained in *Exhibit 1* on the next page. In our view, the four biggest changes are:
 - 1) the inclusion of Non-Profit Institutions Serving Households (NPISHs) in the definition of investors (such as NGOs, trusts, AOPs, charities, etc)
 - 2) the inclusion of the secondary market data
 - 3) the use of actual data from the primary market instead of fixed ratios used in the existing methodology
 - 4) the inclusion of hybrid securities (REITs & InvITs) and the expansion of equity and debt segments
- Due to these proposed changes, household financial savings under ‘shares & debentures’ increased over FY21-FY23 (*Exhibit 2*). The average increase in these three years was 0.6 percentage point (pp) of GDP, including an increase of 1.2pp of GDP in FY22 and 0.5pp of GDP in FY23.
- The differences in the financial assets of the household sector are more pronounced, which has increased by 3-4x, as per the revised methodology (*Exhibit 3*). Please note that while RBI has published the stock of financial assets of households from FY21 to FY23 in Sep’23, it has recently published quarterly estimates of the financial wealth of Indian households, which offer much broader coverage.
- Since household financial savings are estimated by RBI using the bottom-up approach, i.e. by components, higher investments in the securities market can increase the household Gross Financial Savings (GFS) and, thus, the Net Financial Savings (NFS). Assuming that the estimates of other components (i.e. deposits, currency, insurance, and claims on government securities and pension & provident funds) remain unchanged, HHNFS would increase to 8.4% GDP in FY22 (from 7.3% GDP earlier) and 5.7% GDP in FY23 (from 5.3% GDP).
- However, these would lead to an equivalent reduction in physical savings as gross domestic savings (and thus, household total savings) are unlikely to change due to revisions in HHNFS. Physical savings, thus, would be reduced to 11.7% GDP in FY22 (from 12.8% GDP earlier) and 12.7% GDP in FY23 (from 13.2% GDP). This is because gross domestic savings are estimated indirectly using total investments and current account balance, none of which are affected by revisions in HHNFS. It also suggests that ‘errors & omissions’ under total investments were higher than estimated over FY21-FY23.
- Overall, the improved and comprehensive methodology to calculate household savings and assets in the Indian securities market is commendable; however, it does not change much in the macro narrative. It suggests that HHNFS was not as low as estimated in FY23; however, even at the revised GDP of 5.7%, it was the lowest in four decades. Physical savings, on the other hand, were not as strong. Further, the skewness in the composition of household savings (between financial and physical assets) was not as extreme in FY23 as earlier believed to be. Lastly, the financial assets of Indian households are much higher, which means that their financial net worth is stronger.
- What about FY24? Well, SEBI’s working paper calculates that household savings in the securities market was 1.2% GDP in FY24, same as in FY23. It also confirms that household assets in the securities markets grew 52% YoY in FY24, rising to 43.3% GDP from 31.1% in FY23 (and 36.1% in FY22).

Exhibit 1: Key changes proposed under the new methodology

	Existing Methodology	Proposed Methodology
For the changes in financial flows		
1. Category of Investors	❖ Individuals: Retail, HNIs, and HUFs	❖ Individuals (all domestic individual investors irrespective of income/extent of investment and HUFs) and non-individuals (NPISHs: NGOs, charities, trusts, etc)
2. Instruments		
Equity	❖ Only primary market; 35% of total equity investments	❖ Actual amounts from primary and secondary markets
Debt	❖ Only primary market; 40% of total debt investments	❖ Actual amounts from primary and secondary markets
Mutual Funds	❖ Net flows into MFs	Net flows into MFs and ❖ ETF transactions in the secondary market
REITs & InvITs	❖ Not captured	❖ Actual amounts from primary and secondary markets
AIFs	❖ Not captured	❖ Data to be included from FY25
3. Inclusion of Components		
Equity Segment		❖ Preferential issuances in the primary market and offer for sale executed through stock exchange platform
Debt Segment		❖ Private placement of debt, municipal debt securities, Securitized Debt Instruments (SDIs), and listed SRs
Hybrid Securities		❖ REITs and InvITs
Resource Mobilization – Secondary Market		❖ Equity, debt (capital market, RFQ, and OTC), hybrid securities (REITs & InvITs), mutual funds, and ETFs
For the changes in financial stocks		
1. Instruments		
Mutual Funds	❖ AUM data for HNIs & retail	❖ AUM data for individuals & NPISHs from AMFI
Equity, Debt, REITs, InvITs, AIF	❖ Not covered	❖ Holding data from depositories
2. Inclusion of Components		
Holding Data		❖ Equity, debt (including municipal debt securities), Securitized Debt Instruments (SDIs) and listed SRs, hybrid securities (REITs and InvITs), and AUM in MF pertaining to NPISHs

Source: SEBI

Exhibit 2: Revised methodology suggests an increase in HHNFS...**Exhibit 3: ...and that the household financial net worth was stronger than previously estimated**

Household financial net worth	Existing data		*New proposed estimates	
	(INR b)	(% of GDP)	(INR b)	(% of GDP)
FY21	229	115.2	275	138.4
FY22	254	107.8	318	134.7
FY23	281	104.2	341	126.5

*Assuming no changes in other components Source: SEBI, MOFSL

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