

Post DeMo, households are saving and borrowing differently

Faced with financial uncertainty and slowing income growth, they are moving away from low-yielding bank deposits. They have also stepped up their NBFC borrowings



CP CHANDRASEKHAR



JAYATI GHOSH

MACROSCAN

The experience of depositors in the Punjab and Maharashtra Cooperative (PMC) Bank case suggests that the government and the Central bank are unwilling to protect the financial savings of ordinary households. Besides allowing depositors in the bank to access only a maximum of ₹50,000 from their savings, more than a month and half after the cooperative bank was asked to cease business because of potential insolvency, the government is 'considering' raising the woefully inadequate level of deposit insurance from ₹1 lakh to just ₹2 lakh.

It is to be expected that this and other similar experiences are likely to change the savings behaviour of households.

Gross financial savings

In fact, available evidence suggests that such changes are already underway. Over the six years ending 2017-18 households have significantly changed their savings behaviour. If we examine the rate of gross financial savings, which is the saving minus changes in household liabilities, we find that it has remained more or less constant in the 10.7-10.9 per cent range.

The exception was the demonetisation year 2016-17, when the shock resulted in

the gross financial saving of households falling by 1.5 percentage points (Chart 1).

The gross financial savings rate bounced back to 10.9 per cent in 2017-18, the year after demonetisation. However, the net financial savings rate of households — which takes account of the liabilities of households as well — remained at 6.6 per cent in 2017-18 after having fallen from 8.1 per cent to 6.3 per cent between 2015-16 and 2016-17 (Chart 1). Clearly, the borrowing of households hit by demonetisation has increased in the wake of that shock.

But it is not just borrowing by households that rose after demonetisation, but also the way in which they allocate their financial savings. As is to be expected, since households were forced to deposit in banks the supposedly "high val-

ued" notes that had been notified for withdrawal from circulation, the share of cash in the gross financial savings of households — which stood at 13.1 per cent in 2015-16 — fell by 22 per cent in 2017-18. At the same time, the share of deposits rose from 43.1 per cent to 67.8 per cent (Chart 2).

Fall in deposits

But the rush to deposit in banks did not last even into the subsequent year. Deposits with banks had accounted for more than 50 per cent of gross financial savings of households over 2011-12 to 2013-14 and fell to 48.7 and 43.1 per cent in 2014-15 and 2015-16 respectively, before demonetisation drove it up. In 2017-18, it stood at the relatively low level of 27.1 per cent.

Households are showing a marked tendency to stay out of bank deposits. This may partly be because of falling interest rates on deposits and partly because of the fears created by evidence of large non-performing assets on the books of banks and the draft Financial Resolution and Deposit Insurance (FRDI). Though the FRDI was withdrawn because of opposition, the fact that it spoke of a "bail-in" of insolvent banks in



Waning trend The rush to deposit in banks faded in the years after demonetisation (ISTOCKPHOTO)

which all "stakeholders", including depositors, were to be asked to pay a price to solve the problems of ailing banks, rather than using taxpayers' money.

For all these reasons, households were clearly looking for safe havens for their saving, investing in government-sponsored small savings schemes and in provident and pension funds. The share of those two instruments in the gross financial savings of households, having risen from 7.9 per cent to

15.3 per cent between 2011-12 and 2014-15, settled at 23, 26.7 and 24 per cent respectively in the subsequent three years (Chart 2).

These trends are puzzling when seen in the context of the fall in the net financial savings rate of households because of an increase in their liabilities. Non-performing assets and provisioning for losses have made banks cautious, resulting in a deceleration of credit growth.

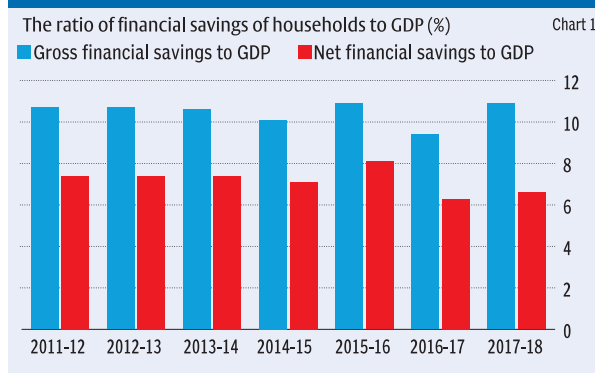
If households are also pulling their savings out of

bank deposits, which is the base on which banks create credit, this trend would only be aggravated. So how are households borrowing more in the wake of demonetisation?

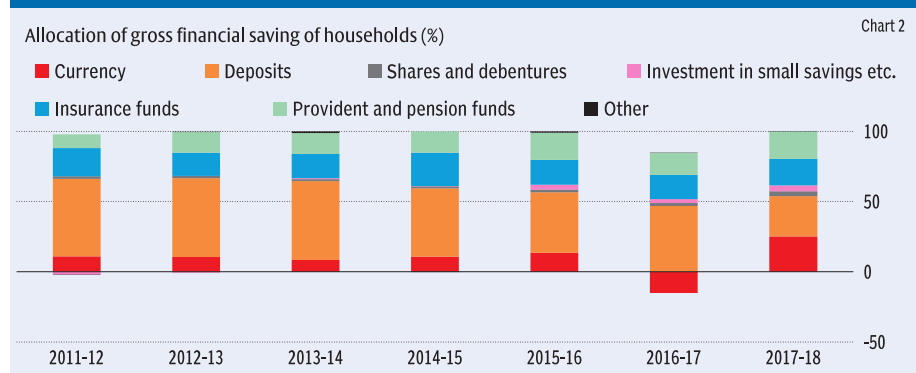
Move toward NBFCs

Advances from banks, that accounted for more than 90 per cent of household liabilities in 2011-12 and 2012-13, registered a fall in their share to 69 per cent in 2014-15. They remained more or less at that level until 2017-18 (Chart 3).

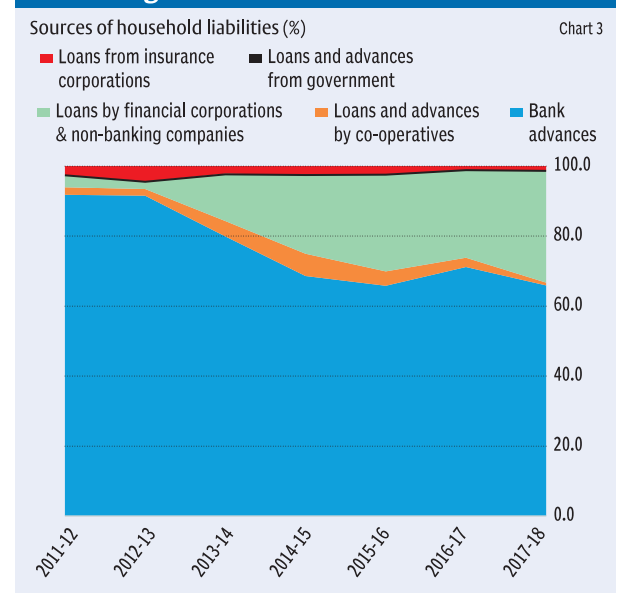
Demonetisation shock



Shift in share



Borrowing trend



5 THINGS to WATCH OUT for TODAY

- Australian Education** Minister Dan Tehan will begin his two-day visit to India to tap new business opportunities in the education industry and showcase Australia's education and research sector. During his visit, Tehan will meet Human Resource Development Minister Ramesh Pokhriyal and engage with education and research stakeholders.
- Rashtrapati Bhavan** will host a conference of IIT, NIT and IIST directors. The conference is part of regular interactions of President Ram Nath Kovind with educational institutions in his capacity as a visitor to 152 central universities and institutions of higher learning.
- Google will** launch its game streaming platform Stadia. Stadia will come with 12 games on Day 1, and an additional 14 games will be available by the end of the year. Along with Pixel smartphones, Google's game streaming service will also support Chrome OS tablets such as the Pixel Slate, Acer Chromebook Tab 10 and HP Chromebook X2.
- Samsung is** likely to launch the foldable Samsung W20 5G smartphone in Wuhan, China. The W20 5G is said to be a rebranded Samsung Galaxy fold with an improved processor and 5G support.
- The Indian** football team will face higher-ranked Oman in a do-or-die FIFA World Cup qualifying round match in Muscat. Oman will play after an emphatic (4-1) win over Bangladesh on November 14. After three draws and a defeat, India is fourth in the Group E table with three points, while Oman is second with nine points from four matches.

All you wanted to know about...



Leading telecom companies reported record losses for the quarter ended September 2019 after making provisions toward the Supreme Court's ruling on the definition of adjusted gross revenue (AGR). The judgment requires private telecom service providers to pay out higher sums towards license fee and spectrum usage fee, which are dependent on the value of AGR. The telecom operators' liabilities towards the said charges, including interest and penalties, is estimated to be a whopping ₹1.3 lakh crore.

What is it? The telecom sector was liberalised under the National Telecom Policy, 1994 after which licenses were issued to companies in return for a fixed license fee. To provide relief from the

steep fixed license fee, the government in 1999 gave an option to the licensees to migrate to the revenue sharing fee model.

Under this, mobile telephone operators were required to share a percentage of their AGR with the government as annual license fee (LF) and spectrum usage charges (SUC). License agreements between the Department of Telecommunications (DoT) and the telecom companies define the gross revenues of the latter. AGR is then computed after allowing for certain deductions. The LF and SUC were set at 8 per cent and between 3-5 per cent of AGR respectively, based on the agreement.

The dispute between DoT and the mobile operators was mainly on the definition of AGR. The DoT argued that AGR includes all revenues (before discounts) from both telecom and non-telecom services. The companies claimed that AGR should comprise just the revenue accrued from core services and not dividend, interest income or profit on sale of any investment or fixed assets.

In 2005, Cellular Operators Association of India (COAI) challenged the government's definition for AGR calculation.

In 2015, the TDSAT (Telecom Dis-

putes Settlement and Appellate Tribunal) stayed the case in favour of telecom companies and held that AGR includes all receipts except capital receipts and revenue from non-core sources such as rent, profit on the sale of fixed assets, dividend, interest and miscellaneous income.

However, setting aside TDSAT's order, Supreme Court on October 24, 2019 upheld the definition of AGR as stipulated by the DoT.

Why is it important? The definition of AGR has been such a contentious issue because it has huge financial implications for both telcos and the government. The revenue shared by telcos with the government goes into the consolidated fund of India. It was estimated, after the SC's judgment, that the telecom operators owe the government about ₹92,000 crore in back charges, interest and penalties on license fee alone.

While the government has been deprived of the extra revenue, the financial implications for telecom companies — who now have to cough up overdue amounts piled up for years — are serious too. Especially at the current juncture, when profits for telcos are under pressure from

severe competition and the falling ARPU (average revenue per user).

Why should I care?

If you are an investor in any telecom company, brace yourself, for this judgment is a huge blow to the industry. Given that most telcos haven't provided for these dues in their accounts, they are likely to report one-off losses. In addition to a lower EPS (earnings per share), you may have to prepare for more debt or financial instability.

A few companies have flagged risks to remaining going concerns if they don't get relief from the dues. This is a big worry for telecom users, as the failure of a few large players could lead to one or two near-monopolies, with high pricing power.

If you're a taxpayer, you can cheer a bit about the higher contribution to the exchequer, which could help bridge gaps in the fiscal deficit and bolster government revenues to rescue an ailing economy.

The bottomline

It may be time to bid goodbye to cheap data and free voice calls.

A weekly column that puts fun into learning

BusinessLine TWENTY YEARS AGO TODAY

NOVEMBER 19, 1999

China-model export strategy soon: Maran

The Union Minister for Commerce and Industry, Mr. Murasoli Maran, has said that "a new strategy on the model of China for export-led growth" would soon be put in place and that India's approach to the forthcoming Seattle Ministerial of the WTO would be "give and take". (The Chinese model for exported growth consists of carving out special economic zones where the normal rules and regulations do not apply and where not only foreign investment but also designs and technologies were freely made available.) Taking part in the second day of the Economic Editors' Conference here on Thursday, Mr. Maran said in the liberalised era the role of the Government had shifted from regulation to development.

Naik for cut in import duty on petro-products

The Ministry of Petroleum and Natural Gas is in dialogue with the Ministry of Finance for reducing import duties on petroleum products. Addressing a press conference here on Thursday, Mr. Ram Naik, Union Minister for Petroleum and Natural Gas, said discussions were being held with the Ministry of Finance to slash import duties on downstream products either in, the Budget or before it, if possible.

Harness space tech for development: PM

The Prime Minister, Mr. A. B. Vajpayee, today asked the world nations to develop space applications for global peace and security and not for launching an arms race and called for "widest possible global co-operation" to reap the vast benefits of space. "Space must become the newest frontier, not for an arms race, but for humankind's collaborative and common race for development," Mr. Vajpayee said inaugurating the second ministerial conference on space applications for sustainable development in the Asia Pacific region here.

EASY

ACROSS

- 01. Unusually skilled chess player (11)
- 07. Theatrical show with singing (7)
- 09. Nutritious fluid (4)
- 11. An old woman (5)
- 12. Strip one, deprive of (6)
- 14. Poverty (11)
- 18. Do well, prosper (6)
- 20. On the qui vive (5)
- 22. Put into port (4)
- 23. Out of one's mind (7)
- 24. Be most numerous (11)

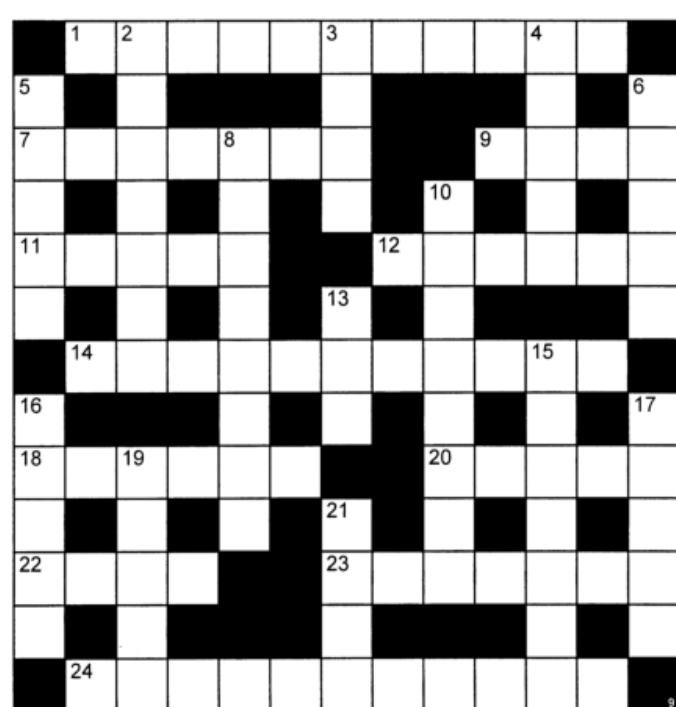
DOWN

- 02. Repair, make good (7)
- 03. Tunnelling animal (4)
- 04. Chosen, select part (5)
- 05. Loose garment, simple dress (5)
- 06. Kind of ray (fish) (5)
- 08. Showing imagination, originality (8)
- 10. Absent-minded (Fr) (8)
- 13. Pig pen (3)
- 15. Indulge in food to excess (7)
- 16. Scrutinise (5)
- 17. Secret store (5)
- 19. Happen again (5)
- 21. Move in water (4)

SOLUTION: BL Two-way Crossword 1488

ACROSS 01. Blister 05. Input 08. Inspect 09. Venom 10. Half-crown 12. Hoe 13. Mango 17. Rot 19. Essayists 21. Serge 22. Rampage 24. Theft 25. Between
DOWN 01. Blight 02. Insular 03. Toe 04. Ratio 05. Inventory 06. Punch 07. Timber 11. Competent 14. Mistake 15. Prosit 16. Astern 18. Terse 20. Scrub 23. Mat

BL TWO-WAY CROSSWORD 1489



NOT SO EASY

ACROSS

- 01. Top mason joined up as leading chess player (11)
- 07. Sort of show us in a claim that's adjusted (7)
- 09. Deck limits return of fluid held (4)
- 11. Credit one with being an old woman (5)
- 12. Rich man to tax first and strip him of it (6)
- 14. Utter poverty is due to tint being misapplied (11)
- 18. The river finishes off, but will prosper (6)
- 20. On the watch for later development (5)
- 22. A weed to cut off where the accused is standing (4)
- 23. Has no sense in the lists we compile (7)
- 24. Preval on one I'm parted from (11)

DOWN

- 02. Put back the trees, or replant them (7)
- 03. Massive breakwater one could be faced with (4)
- 04. The pick of it is in half the cricket team (5)
- 05. Garment for an artist school head will make fun of (5)
- 06. Fish may move on rollers (5)
- 08. Showing originality with ice, avert it (8)
- 10. Absent-minded artist I'd turned out to be (8)
- 13. The place is filthy, and starts smelling to youngsters (3)
- 15. Six balls before break for tea makes one stuff (7)
- 16. Pore over an exercise in art (5)
- 17. Hide it away on the street with a call for silence (5)
- 19. It will come back, right, if the cure is wrong (5)
- 21. Crawl southwest if first motorway is up (4)