

## 4. Savings Shift Reshapes India's Markets- Economy

Domestic household savings are replacing Foreign Portfolio Investors (FPIs) as the dominant market force in India Financialisation of Household Savings and Changing Ownership of Indian Equity Markets

### Recent Market Trends

The latest Market Pulse data from National Stock Exchange highlights a structural shift in market ownership. Foreign Portfolio Investor (FPI) ownership has declined to

1. 16.9% of total Indian equities (15-month low).
2. 24.1% in the NIFTY 50, indicating reduced foreign dominance in frontline stocks.

In contrast, domestic investors are emerging as the primary market stabilisers-

1. Domestic Mutual Funds are recording all-time high Assets Under Management (AUM).
2. Systematic Investment Plans (SIPs) are witnessing record monthly inflows.
3. Retail investors (direct equity + MFs) now own nearly 19% of the market, the highest level in over two decades. This reflects a decoupling of Indian capital markets from volatile global capital cycles.

### Domestic Household Savings- Concept and Significance

**Meaning of Household Savings-** Household savings represent the difference between net disposable income and total consumption expenditure, including

1. Taxes.
2. Debt repayments.

In India, household savings contribute around 55-60% of total domestic savings, making them the largest source of investible capital.

**Composition of Household Savings-** Financial Savings

1. Bank deposits.
2. Insurance and pension funds.
3. Mutual funds and equities.
4. Small savings schemes (PPF, NSC, Sukanya Samriddhi, Post Office schemes).

#### Physical Savings

1. Real estate (houses, land).
2. Gold and jewellery.
3. Consumer durables.

Financial savings are more productive for the economy as they are directly channelled into investment.

Economic Role

#### Household savings

1. Finance capital formation.
2. Support infrastructure and industrial investment.
3. Reduce dependence on foreign capital inflows.

They provide a stable, counter-cyclical source of funds, unlike FPIs which are sensitive to global interest rates and risk sentiment.

### Recent Structural Trends in Household Savings

Shift from physical to financial assets, particularly among younger and urban households. Surge in

1. Demat accounts.
2. Mutual fund folios.
3. SIP participation.

Equity market participation is increasingly long-term and rule-based, rather than speculative.

### Key Drivers of Financialisation of Household Savings

#### Structural Drivers

##### Formalisation of the Economy

1. GST implementation expanded the formal sector.

2. Demonetisation accelerated banking penetration.

### **Digital Public Infrastructure (DPI)**

1. UPI, Aadhaar, e-KYC drastically reduced transaction costs.
2. Seamless onboarding into financial products.

Result- Financial services became accessible, low-cost, and scalable.

**Changing Consumption and Investment Behaviour**- Post-COVID recovery led to Higher borrowing for housing, education, and consumption. To counter inflation and low real returns on deposits, households Shifted towards market-linked instruments. SIP inflows rose 8.5 times, from ₹3,122 crore (2016) to ₹26,632 crore (2025), indicating institutionalisation of retail investing.

**Market and Policy Drivers**- Declining relative attractiveness of

1. Gold.
2. Real estate (illiquidity, regulatory costs).

**SIPs emerged as**- Disciplined, automated, and rupee-cost-averaging tools.

### **Regulatory credibility built by**

1. Securities and Exchange Board of India
2. Reserve Bank of India
3. Insurance and pension regulators.

### **Tax incentives**

1. Section 80C.
2. National Pension System (NPS).
3. Small savings schemes.

**Behavioural Drivers**- Younger demographic profile Higher risk appetite. Longer investment horizon. Fintech apps, social media, and digital content Increased awareness but also behavioural biases.

### **Economic and Macroeconomic Impacts**

**Positive Impacts on Capital Markets**- Reduced vulnerability to sudden FPI outflows. Greater market depth and liquidity. Improved price discovery due to diversified investor base.

**Growth and Development Benefits**- Enhanced capital availability for

1. Infrastructure.
2. MSMEs.
3. Manufacturing and startups.

Strengthens India's investment-led growth model.

**Macroeconomic Advantages**- Supports India's aspiration of becoming a \$5 trillion economy. Aligns with Viksit Bharat 2047 by Broadening domestic ownership of assets. Democratising wealth creation. With lower reliance on FPIs RBI can focus on credit growth and inflation management, rather than excessive exchange-rate defence.

### **Concerns Associated with Financialisation of Household Savings**

**Exposure to Market Volatility**- Higher equity exposure increases vulnerability to

1. Market corrections.
2. Global financial shocks.

Wealth effects can spill over into consumption cycles.

**Low Financial Literacy**- Many first-time investors lack understanding of

1. Risk-return trade-offs.
2. Asset allocation.
3. Long-term compounding.

### **Leads to**

1. Herd behaviour.
2. Panic selling.
3. Mis-selling by intermediaries.

### **Rise of Speculative Behaviour-** Growth of

1. Online trading platforms.
2. Social-media-driven stock tips.

Encourages short-term speculation rather than productive savings.

### **Decline in Physical Asset Cushion-** Gold and real estate historically

1. Hedged inflation.
2. Provided shock absorption.

Rapid shift to financial assets may weaken household resilience during prolonged market downturns.

**Social Security and Retirement Risks-** Large informal workforce with Limited pension coverage. Over-dependence on market returns without guaranteed safety nets can lead to retirement insecurity.

### **Regulatory and Systemic Challenges-** Proliferation of

1. Complex financial products.
2. Derivatives.
3. Crypto-linked instruments.

Regulatory capacity of SEBI and RBI is stretched. High fees and opaque structures reduce net household returns.

### **Way Forward- Policy and Institutional Measures**

**Fiscal and Tax Reforms-** Rationalise capital gains taxation to encourage long-term holding. Strengthen small savings schemes (PPF, KVP) with

1. Attractive, predictable returns.
2. Inflation protection.

**Expanding Financial Inclusion-** Universalise NPS with

1. Auto-enrolment for informal workers.
2. Government co-contributions for the poor.

Promote micro-savings products tailored for rural households.

**Strengthening Regulatory Oversight-** Enhance disclosure norms for mutual funds and digital platforms.

Tighten norms on

1. Unsecured lending.
2. High-risk retail derivatives.

Strengthen investor grievance redressal mechanisms.

**Leveraging Technology-** Use fintech for

1. Micro-savings.
2. Goal-based investing.
3. AI-driven financial advice with fiduciary safeguards.

Explore blockchain-based secure savings instruments.

**Institutional Coordination-** Formulate a National Household Savings Strategy with

1. Clear targets for financial and retirement savings.
2. Coordination between RBI, SEBI, Finance Ministry, and state governments.

### **Conclusion**

The rising dominance of domestic household savings in Indian capital markets marks a structural transformation in India's growth model. While this shift enhances financial resilience, capital formation, and economic sovereignty, it also demands robust regulation, financial literacy, and social security expansion. If managed prudently, the financialisation of household savings can become a cornerstone of India's long-term, inclusive, and stable economic growth.

**Source-** <https://www.thehindu.com/business/Economy/savings-shift-reshapes-indias-markets/article70384285.ece#~~~>

[text=Domestic%20household%20savings%20are%20now,which%20is%20positive%20for%20stability.](https://www.thehindu.com/business/Economy/savings-shift-reshapes-indias-markets/article70384285.ece#text=Domestic%20household%20savings%20are%20now,which%20is%20positive%20for%20stability.)