



FINANCIAL RATIOS

Savings ratio and EMI

How much of a month's income is kept, how much goes to lenders, and how a loan instalment is worked out

Household data as published by RBI on 25 September 2026; loan rules as on 16 October 2026

For training and education only. Not investment advice.

Two numbers say a lot about a household's month: the share of income it keeps, and the share owed to lenders.

The savings ratio measures the first. EMIs are one regular part of the second. Both are simple divisions, and both depend on what you count.

Four terms to know first



Savings ratio

Money saved in a month $\div$ income for that month, as a percentage. Say whether income means take-home pay or gross pay.



EMI

Equated monthly instalment: the same amount paid every month, covering that month's interest and part of the loan.



Principal

The amount borrowed and not yet repaid. Interest each month is worked out on this outstanding amount.



Tenure

Months over which the loan is repaid. At the same rate, a longer tenure means a smaller EMI but more interest.

Source for the EMI definition: RBI circular on Key Facts Statement for Loans & Advances, 15 Apr 2024.

Working out a savings ratio

ONE HOUSEHOLD'S MONTH

Take-home pay: ₹80,000.

Living costs: ₹52,000. Home loan
EMI: ₹16,000.

Put into savings and investments:
₹12,000.

- 1 Savings ratio: $₹12,000 \div ₹80,000 = 15\%$.
- 2 Share going to the EMI: $₹16,000 \div ₹80,000 = 20\%$.
- 3 Living costs: $₹52,000 \div ₹80,000 = 65\%$. The three shares add up to 100%.
- 4 If gross pay is ₹1,00,000, the same ₹12,000 is a savings ratio of 12%. Always say which income you used.

Savings ratio = savings $\div$ income. The answer changes with the definition of income, so state it.

Illustration with an invented household and assumed figures.

How an EMI is calculated

THE LOAN

Loan: ₹10,00,000.

Interest: 9% a year, charged monthly, so 0.75% a month.

Tenure: 10 years, or 120 monthly instalments.

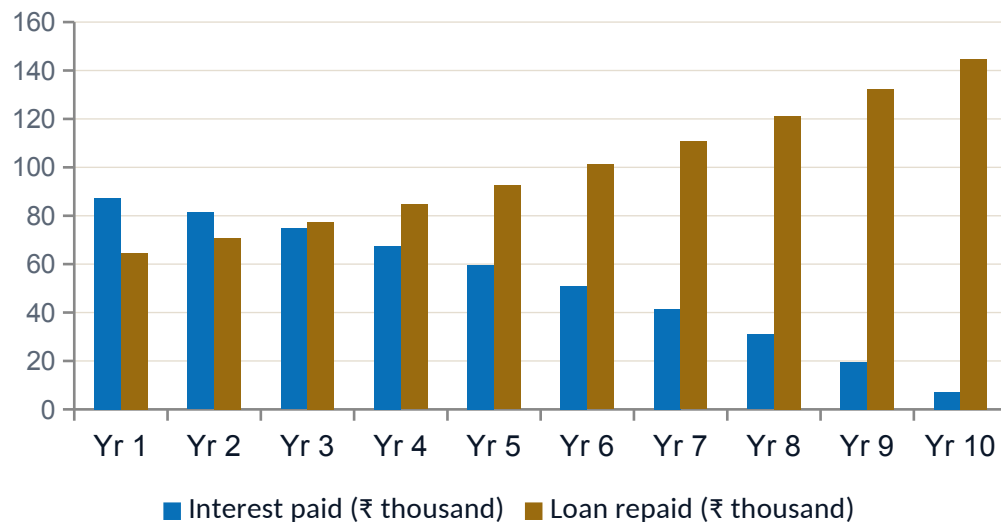
- 1 $EMI = P \times r \times (1+r)^n \div ((1+r)^n - 1)$, with $P = ₹10,00,000$, $r = 0.0075$ and $n = 120$. This gives ₹12,668 (₹12,667.58).
- 2 Month 1: interest is $₹10,00,000 \times 0.75\% = ₹7,500$. The other ₹5,168 reduces the loan.
- 3 Month 2: interest is charged on the smaller balance, so a little more of the EMI goes to the loan.
- 4 Over 120 months the borrower pays ₹15,20,109 in all: ₹10,00,000 of loan and ₹5,20,109 of interest.

The EMI stays the same. What changes each month is how it is split between interest and loan.

Illustration with assumed figures. Actual loans add fees, which show up in the APR.

Early EMIs are mostly interest

₹10 lakh at 9% for 10 years: each year's EMIs



Read the chart

- Each year the 12 EMIs add up to about ₹1.52 lakh. Only the split changes.
- In year 1, ₹87,377 goes to interest and ₹64,634 to the loan.
- From year 3 the loan part is larger than the interest part.
- So a part-prepayment made early saves more interest than the same amount paid late.

Illustration: computed from the EMI formula on the previous slide. Assumed figures, not a quote for any loan.

How a floating-rate loan follows repo

1

A benchmark is chosen

New floating-rate retail and MSME loans from commercial banks are linked to an external benchmark, such as RBI's repo rate or a T-bill yield.

2

A spread is added

The loan rate = benchmark + spread. The bank is free to set the spread, and the benchmark forms part of the loan contract.

3

The spread is mostly fixed

The credit risk part changes only if the borrower's credit assessment changes substantially. Other parts may change once in three years.

4

The rate resets

The rate must be reset at least once in three months, so a repo change reaches the loan at the next reset.

5

EMI or tenure adjusts

At a reset the EMI, the tenure, or both change. The borrower must be offered the choice and told of the change.

Sources: RBI Interest Rates on Advances Directions, 28 Nov 2025, paras 25, 33, 38; RBI RBC Directions, 28 Nov 2025, para 349 (from circular of 18 Aug 2023).

When the rate rises: EMI or tenure

The ₹10 lakh loan after 24 EMIs: ₹8,64,669 is still owed. At a reset the rate rises from 9% to 9.5%.

Choice at reset	What changes	Total interest over the loan
No rate change	EMI ₹12,668 for the remaining 96 months.	₹5,20,109
Keep the end date	EMI rises by ₹225 to ₹12,893 for the remaining 96 months.	₹5,41,748
Keep the EMI	EMI stays ₹12,668. It takes 99 more instalments, the last one ₹7,362, instead of 96.	₹5,52,806

Illustration with assumed figures, computed exactly. A third option is a mix: a smaller EMI rise and a smaller tenure extension.

Where things stand

Household figures are national totals as a share of GDP (new base 2022-23). Rules and rates as on 16 Oct 2026.

NET FINANCIAL SAVINGS

6.3%

Of GDP in 2025-26 (preliminary). It was 7.1% in 2024-25.

HOUSEHOLD BORROWING

6.2%

New household borrowing in 2025-26 as a share of GDP. 4.9% in 2024-25.

REPO RATE

5.50%

Raised 0.25 percentage point on 7 Oct 2026. Linked loans follow at reset.

CPI INFLATION

5.54%

September 2026, year on year, provisional (base 2024=100).

Sources: RBI Bulletin, Table 52(a), 25 Sep 2026; RBI Monetary Policy Statement, 7 Oct 2026; MoSPI CPI press release, 12 Oct 2026.

If you learnt this from older material

What older decks say

- Floating rates follow the bank's own lending rate.
- At a rate rise, the lender decides how EMI or tenure moves.
- Compare loans by their interest rate.

What holds now

- New floating retail loans from banks track an external benchmark like repo, since 1 Oct 2019.
- The borrower chooses higher EMI, longer tenure or both, by 31 Dec 2023.
- A Key Facts Statement gives the all-in annual cost (APR), since 1 Oct 2024.

No pre-payment charge on floating-rate personal loans to individuals; from 1 Jan 2026, MSE loans too.

Sources: RBI circulars 4 Sep 2019, 18 Aug 2023, 15 Apr 2024; Pre-payment Charges Directions, 2 Jul 2025; banks: RBC Directions, 28 Nov 2025, paras 348-353.

Four things people get wrong



'My EMI mostly pays off the loan.'

Not at first. In the example, ₹7,500 of the first ₹12,668 is interest. The loan part grows month by month.



'Repo went up, so my EMI rises tomorrow.'

A repo-linked loan changes at its next reset, at least once in three months. A fixed-rate loan does not change.



'A lower EMI means a lower total cost.'

Stretching ₹10 lakh at 9% from 10 to 20 years cuts the EMI to ₹8,997 but raises total interest from ₹5.20 lakh to ₹11.59 lakh.



'Lower net savings means people saved less.'

Net financial savings is assets added minus borrowing. In 2025-26 households added more assets, but they also borrowed more.

Check yourself

Q1

A person takes home ₹60,000 a month and puts ₹9,000 into savings and investments. What is the savings ratio, and what should you say alongside it?

Q2

A ₹10 lakh loan at 9% a year has an EMI of ₹12,668. How much of the first EMI is interest?

Q3

RBI raises the repo rate. A client's home loan is linked to repo. When does the rate change, and what choice must the lender offer?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Household net financial savings, assets and borrowing (% of GDP, base 2022-23): RBI Bulletin, Table 52(a), dated 25 Sep 2026.
- External benchmark, spread and three-monthly reset: RBI (Commercial Banks – Interest Rates on Advances) Directions, 2025, 28 Nov 2025; RBI circular of 4 Sep 2019.
- EMI reset choices, Key Facts Statement, APR: RBI Responsible Business Conduct Directions, 28 Nov 2025, paras 348-349 (from circulars of 18 Aug 2023 and 15 Apr 2024).
- Pre-payment charges: RBI (Pre-payment Charges on Loans) Directions, 2 Jul 2025; banks: RBC Directions paras 352-353. Repo 5.50%: RBI Monetary Policy Statement, 7 Oct 2026.
- CPI inflation 5.54% for September 2026 (provisional, base 2024=100): MoSPI press release dated 12 Oct 2026.
- All households, loans and amounts in the worked examples are invented for illustration and computed exactly.

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