Household Debt in India

Mains: *GSIII – Economy*

Why in News?

India's household debt rose to 45.5% of GDP in September 2025, raising concerns over rising indebtedness, financial stability and sustainable consumption.

What is the status of Household Debt Scenario in India?

- **Debt on the Rise** – Household debt expanded from 42% of GDP (June 2023) to 45.5% (September 2025), reflecting higher reliance on borrowing.
- **Savings Recovering** – Net household financial savings bounced back to ~6% of GDP in 2024–25 after dropping to 5.2% in 2023–24.
- **Broader Credit Access** – Unsecured credit (personal loans, credit cards, digital lending) expanded rapidly to fund consumption.

What is the Changing Nature of Household Borrowing?

- **Shift in Consumption** – Households are increasingly shifting from savings-based spending to credit-based consumption.
    - Easy access to formal and digital credit enables households to finance present needs through future income.
- **Increasing Unsecured Borrowing** – Personal loans, credit cards and digital lending have made unsecured borrowing faster and more accessible.
    - Such loans often finance consumption without creating corresponding assets.
- **Unequal Capacity to Repay** – Salaried households with stable incomes have greater capacity to manage regular loan repayments.
    - Informal workers and self-employed individuals face higher repayment risks due to irregular incomes.
- **Borrowing to Meet Essential Needs** – Households increasingly borrow to meet essential expenses such as food, health care, education and housing.
    - Such borrowing often reflects inadequate incomes and gaps in social protection.

What are the Factors Driving Rising Household Debt?

- **Expansion of Digital Lending** – Easy borrowing can encourage excessive debt beyond actual repayment capacity.
- **Uneven Income Growth** – Unequal employment opportunities and irregular wage growth increase dependence on household borrowing.
- **Rising Cost of Essential Services –** Rising costs of health care, education and

housing increase household dependence on credit.
- **Changing Consumption Patterns** – Easy consumer credit encourages households to purchase durable goods and meet lifestyle aspirations.

What are the Macroeconomic Implications of Rising Household Debt?

- **Support to Economic Growth** – Credit-financed consumption increases aggregate demand and stimulates short-term economic growth.
    - Productive borrowing supports asset creation, education and entrepreneurship.
- **Pressure on Household Financial Stability** – Rising debt repayments reduce disposable income, savings and future spending capacity.
    - Income instability increases the risk of loan defaults during economic downturns.
- **Risk to Consumption-Led Growth** – Excessive borrowing increases repayment burdens and reduces future discretionary consumption.
    - Dependence on credit rather than income growth weakens sustainable domestic demand.
- **Financial System Vulnerabilities** – Rising household defaults can increase financial risks for banks and other lending institutions.
    - High household debt increases vulnerability to interest-rate changes and employment shocks.
- **Widening Economic Inequality** – Households with stable incomes and assets are better positioned to access and manage credit.
    - Low-income households face greater financial vulnerability when borrowing to meet basic needs.

What is the Way Forward?

- **Strengthening Income Security** – Promote stable employment, decent wages and livelihood opportunities to reduce dependence on credit.
    - Expand social security for informal workers and households with irregular incomes.
- **Responsible Lending Practices** – Strengthen credit assessment and ensure transparent disclosure of loan costs, particularly for unsecured lending.
    - Monitor household repayment capacity to prevent excessive indebtedness.
- **Promoting Financial Literacy** – Expand awareness of interest rates, repayment obligations, credit scores and responsible borrowing.
    - Educate households about the risks of multiple loans and excessive dependence on digital credit.
- **Strengthening Social Protection** – Improve access to affordable health care, quality education, housing and social security.
    - Reduce distress borrowing by providing adequate protection against essential expenses and financial shocks.
- **Encouraging Productive Credit** – Expand affordable formal credit for entrepreneurship, education, housing and productive investments.
    - Promote credit that supports asset creation and income generation rather than excessive consumption.
- **Improving Household Debt Monitoring** – Strengthen data collection on household

debt by income group, borrowing purpose and repayment capacity.
    - Monitor unsecured and digital lending to identify emerging risks and ensure financial stability.

Conclusion

- India’s rising household debt reflects both expanding access to formal credit and underlying challenges related to income insecurity, inequality and social protection.
- While credit is essential for consumption smoothing, excessive dependence on borrowing can weaken household financial stability and sustainable demand.
- The long-term priority should be to shift from credit-led consumption towards income-led growth, supported by stable employment, and stronger social protection.

Reference

[The Hindu| Household debt, financing today against tomorrow]

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