

4. Rising Household Debt in India – Economy

Indian households piling on debt faster than creating assets, RBI data show. RBI data shows Indian household financial debt (102% growth) is growing twice as fast as financial assets (48% growth) between 2019-25. This trend, driven by easy credit and rising costs, increases economic vulnerability despite a rising preference for mutual funds alongside traditional bank deposits.

Introduction – The Growing Imbalance

Recent data from the Reserve Bank of India (RBI) highlights a significant economic trend – Indian households are accumulating financial debt at a much faster pace than they are building financial assets. This shift indicates changing savings, consumption, and investment patterns across the country.

Current Status – RBI Data Snapshot

A comparison of household financial flows between 2019-20 and 2024-25 reveals the following – **Diverging Growth Rates** – The growth in financial liabilities (debt) is more than double the growth in financial assets.

Metric	2019-20	2024-25	Total Growth
Annual Financial Assets Added	₹24.1 lakh crore	₹35.6 lakh crore	48% Increase
Annual Financial Liabilities Added	₹7.5 lakh crore	₹15.7 lakh crore	102% Increase

Asset Share (as % of GDP) – The addition of financial assets has slightly declined from 12% of GDP in 2019-20 to 10.8% of GDP in 2024-25.

Bank Deposits (The Mainstay) – Bank deposits remain the primary choice for household savings, making up 33.3% of total financial assets in 2024-25 (a slight increase from 32% in 2019-20). The total quantum of deposits added grew by 54%, rising from ₹7.7 lakh crore to ₹11.8 lakh crore.

Rise of Mutual Funds – Mutual funds have emerged as a strongly preferred investment avenue. Their share in newly added household assets more than doubled, rising from 6% in 2019-20 to 13.1% in 2024-25.

Why is Household Debt Growing Faster Than Assets?

Rising Consumption and Lifestyle Changes – Increased disposable income and aspirations are driving households to spend more on housing, vehicles, education, and consumer goods, often funded by credit.

Easy Access to Credit – The proliferation of banks, NBFCs, and fintech lenders has made credit (home loans, car loans, personal loans, digital credit) more accessible.

Slow Asset Growth Relative to Debt – The rate of financial asset accumulation (48% from 2019-25) is significantly slower than the rate of debt accumulation (102% in the same period).

Shift to Debt-Funded Investments – Some households are taking on loans to invest in non-financial or long-term assets like real estate, or to participate in the stock market, which adds to liabilities without an immediate increase in recorded financial assets.

Inflation and Cost of Living – Rising costs for essential goods, healthcare, and education are forcing households to borrow more to maintain their living standards, which erodes savings capacity.

Multidimensional Implications of Rising Debt

Economic Implications

Slower GDP Growth – High household debt reduces disposable income, which can limit private consumption and, in turn, slow down overall economic growth.

Increased Vulnerability – Debt-ridden households are more sensitive to economic shocks, such as inflation or interest rate hikes, which can force them to cut spending and reduce demand.

Financial Sector Implications

Rising Non-Performing Assets (NPAs) – Higher household leverage increases the risk of loan defaults, which can put financial stress on banks and NBFCs.

Credit Market Volatility – If households become over-indebted, they may sharply reduce new borrowing, which can affect lending growth and overall financial sector stability.

Social Implications

Increased Financial Stress – Households facing high debt burdens often experience significant stress, impacting mental health, family stability, and overall quality of life.

Inequality Concerns – Lower-income households are disproportionately affected, as they tend to borrow more relative to their assets, which can widen the wealth inequality gap.

Policy Implications

Need for Financial Literacy – The trend highlights a critical need to promote awareness about prudent borrowing, budgeting, and the importance of long-term investment.

Regulation of Credit Growth – Policymakers may need to consider stricter lending guidelines or macro-prudential measures to prevent systemic risks from over-leveraging.

Long-Term Implications

Asset-Liability Mismatch – A persistent gap where debt growth exceeds asset growth can erode the financial resilience of households.

Impact on Retirement Security – Over-indebted households may be unable to save sufficiently for retirement, leading to long-term financial insecurity.

Key Challenges

High Dependence on Credit – Many households rely heavily on loans for major life purchases (housing, education, vehicles) and lifestyle needs.

Slow Asset Growth – Conservative investment choices, like bank deposits, often yield low returns, limiting the pace of financial asset accumulation.

Rising Living Costs and Inflation – Persistent inflation in essentials, healthcare, and education forces households to dip into savings or borrow more, reducing their capacity to save.

Limited Financial Literacy – A lack of awareness regarding debt management, investment planning, and risk management can lead to over-leveraging and poor financial decisions.

Lifestyle and Aspirational Spending – Social expectations and the desire for a better lifestyle often encourage consumption and spending beyond one's means, financed by debt.

Income and Employment Uncertainty – Irregular incomes or slow wage growth make it challenging for many to service debt and build assets simultaneously.

Policy and Structural Constraints – While borrowing is often encouraged, incentives for long-term asset building are limited, and social safety nets remain insufficient for many.

Government Measures to Address Household Debt

Financial Literacy and Awareness Programs – Initiatives like the National Centre for Financial Education (NCFE) and RBI's financial literacy campaigns aim to educate households on debt management, budgeting, and investment. The focus is on promoting prudent borrowing habits and understanding financial products.

Restructuring and Debt Relief Schemes – Banks and NBFCs offer loan restructuring options for stressed borrowers to help them manage repayment without defaulting. Special relief measures, such as the pandemic-related moratoriums, provided temporary respite.

Promotion of Household Savings and Investments – Incentives for long-term instruments like the Public Provident Fund (PPF), National Pension System (NPS), and mutual funds. Tax benefits under sections like 80C and 80CCD encourage systematic savings and asset building.

Regulation of Credit Growth – RBI and SEBI actively monitor lending practices to prevent over-leveraging by households. Guidelines on responsible lending, credit risk assessment, and interest rate transparency are enforced.

Digital Financial Inclusion – Programs like Pradhan Mantri Jan Dhan Yojana (PMJDY) ensure broader access to formal banking. Mobile banking and digital payment platforms make it easier to save and invest.

Social Security and Safety Nets – Schemes like Atal Pension Yojana, PM Shram Yogi Maan-dhan, and various insurance programs provide a fallback, reducing reliance on high-interest emergency loans.

Way Forward

Enhance Financial Literacy – Massively scale up education on budgeting, the cost of debt, and long-term investment strategies through schools, workshops, and digital campaigns.

Encourage Savings and Asset-Building – Promote investment diversification away from just bank

deposits into mutual funds, pension schemes, and other higher-yield instruments, supported by tax incentives.

Responsible Borrowing and Credit Regulation – Implement stricter lending norms to ensure creditworthiness, demand transparency in interest rates, and encourage households to borrow only within their repayment capacity.

Strengthen Social Safety Nets – Expand insurance, pension, and welfare programs to provide a buffer against financial shocks (like medical emergencies), reducing the need for high-interest borrowing.

Support Income Growth and Employment Security – Focus on policies that create stable job opportunities, enhance wages, and support skill development so households can repay debt and build assets simultaneously.

Promote Behavioural Change – Foster a cultural shift towards disciplined financial planning, reduce consumption-driven borrowing, and champion the benefits of long-term wealth creation.

Conclusion

The widening gap between household debt and asset growth in India poses significant economic, financial, and social challenges. This trend highlights a reliance on credit that is not being matched by traditional asset creation. To ensure long-term stability, a coordinated approach is essential. Strengthening financial literacy, promoting diversified long-term investments, ensuring responsible lending, expanding social safety nets, and supporting income growth are all critical steps. Achieving sustainable financial security requires a partnership between households, policymakers, and financial institutions.

Source – <https://www.thehindu.com/business/indian-households-piling-on-debt-faster-than-creating-assets-rbi-data-show/article70224709.ece>

