

Private Debt in India

Current trends in the context of COVID-19 Pandemic

Labour Scenario in India

The Informal sector employs
72% of the work force and produces about half of
the GDP

54% are not covered with social protection
entitlements

Average wage of informal workers was an
estimated INR 143-272 per day (\$1.7-3.4)

While average expenditure is between INR
700-850 per day (\$8-10)

The top 10% holds 57% of the national
income

Whereas, bottom 50% holds only 13% of
the national income

Source: Oxfam Inequality Report 2021

70% of the moratorium offer was availed by corporates rated 'A' and above with comfortable debt-equity ratio

Meaning they could pay but chose not to

Source: The RBI's half-yearly Financial Stability Report (FSR) of July 2020

COVID-19 Impact on Labour Force

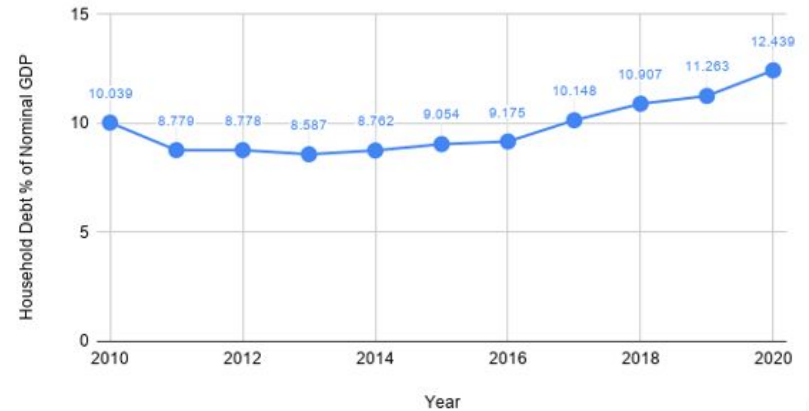
- During April-June 2020, the unemployment rate increased sharply to 20.9% from 9.1% in January-March 2020
- Incidence of Indebtedness was about 35% in Rural India and 22.4% in Urban India
- Average amount of debt was Rs. 1,70,533 (\$2128) in Rural India
- Average amount of debt was Rs. 5,36,861 (\$6722) in Urban India
- Overall debt held by Indian households roughly valued at Rs 43.5 trillion, as of March 2021

Source: All India Debt & Investment Survey – 2019” (Report No. 588), The National Sample Survey Organisation (NSSO)

Household debt to GDP ratio

Increased sharply in Q1:2018-19 to
37.1% in Q2:2020-21
from 35.4% in Q1:2020-21.

Household Debt % of Nominal GDP vs. Year



Reasons for borrowing

Source: Home Credit India, 2021
<https://scroll.in/article/995587/how-the-accumulation-of-debt-during-the-covid-19-pandemic-is-hurting-indias-low-income-households>
Niti Aayog Report in Gig and Platform Sector, 2022

46% respondents borrowed money primarily to run their households

Next reason was to buy two wheeler - this can be linked to increase in gig and platform workers

Borrowings for medical expenses increased from Rs 1,900 per month before the Covid-19 pandemic to Rs 4,700 per month during the pandemic - due to an increase in dependency on private care

The financial policy for priority sector bank lending mandates domestic commercial banks to lend 10% of Adjusted Bank Net Credit to Financially Weaker Sections. But 52.4% of all private sector banks failed to meet this 10% target

The drastic change in defining motivation to borrow from affording a “lifestyle upgrade” in 2019 to managing survival in 2020 speaks volumes about the crisis being experienced by India’s low-income working classes

Government's response

NSSO reported about growing household debt crisis but the government and the regulatory authorities like the Reserve Bank of India are turning a blind eye

RBI removed the highest ceiling of Interest Rate (26%) for Micro Finance Institutes

As a result lenders fixed arbitrary rates and forced the borrowers to pay their money back, often unscrupulously

Other issues: violations of lending rules from the Reserve Bank of India (RBI), such as, No penalty charges for late payment, no security deposit/ margin from the borrower etc.

Daily wage earners were the largest group of suicide victims in 2021, accounting for 42,004 suicides (25.6%) followed by self employed

Source: NCRB, 2021

Thank You

