

## ECOWRAP

### HOUSEHOLD DEBT INCREASED ON AN AVERAGE BY 1.5X BETWEEN 2012 & 2018: BENEFITS OF FORMALISATION EVIDENT WITH NON-INSTITUTIONAL CREDIT SHARE DECLINING PRECIPITIOUSLY

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The recently released India Debt & Investment Survey (AIDIS) report for 2018 shows increase in average amount of debt among rural as well as urban households, with the average amount of debt increasing by 84% and by 42% respectively for rural and urban households for the 6 year period ended 2018. State-wise trend indicates that the rural households' average debt more than doubled in 18 states for the 6 year period ended 2018, while 7 states witnessed the same for urban households. **Importantly, 5 states, including Maharashtra, Rajasthan and Assam witnessed a simultaneous doubling in average debt across both urban and rural households during this period.**

The COVID-19 pandemic has resulted in spike in household debt to GDP rate. As per our estimates, it rose sharply to 37.3% in 2020-21 from 32.5% in 2019-20 (BIS estimates are at 37.7% as on Dec'20). **We estimate that household debt as a percentage of GDP has declined to 34% in Q1FY22 with the commensurate rise in GDP in Q1**, though it has increased in absolute terms. We project that household debt in rural and urban areas might have doubled in 2021 from the 2018 levels.

Debt-Asset ratio which is an indicator of household indebtedness has increased to 3.8 in 2018 from 3.2 in 2012 for rural households and from 3.7 to 4.4 for urban households. Kerala, Madhya Pradesh and Punjab were 3 states that witnessed deterioration of at least 100 bps in debt asset ratio over the 6 year period ended 2018. On balance, the pace of asset creation seems to have kept pace almost on an even keel across both rural and urban areas, with a marginal tilt towards the latter.

**The good thing is that in rural India, the share of outstanding cash debt from non-institutional credit agencies has declined significantly to 34% in 2018 from 44% in 2012. Notably, almost all states have registered steep decline in non-institutional credit in rural areas, indicating the increase in formalisation of the economy.** The share of non-institutional credit has declined significantly in case of Bihar, West Bengal, Rajasthan, Haryana and Gujarat. Even in Haryana and Rajasthan that witnessed loan waiver schemes, the share of non-institutional credit declined contrary to popular perception. This could be explained by significant increase in penetration of KCC cards in these 2 states. Our estimates show that the number of KCC cards has jumped by 5 times over the 7 year period ended 2020. For the record, Haryana and Rajasthan did witness an average increase of 9%!

**We believe that the recent reforms in Agriculture could further help in formalisation of the economy, despite the political cacophony.** However, there is still a fundamental reform pending that is in the realm of RBI. This is making Agriculture Cash-Credit at par with other segments. As per the norms of asset classification for agriculture advances, in case of an agriculture cash credit account a farmer has to repay the entire outstanding (principal along with interest) to seek fresh loans from the banks unlike other segments of cash credit business where if the borrower has cleared interest payments, he/she would be eligible for enhancement/ renewal. It would be in the interest of the farmer, if the farmer is given renewal/enhancement, especially when the bank is satisfied with the farmer in terms of his/her land holding/paying capacity etc.

#### AIDIS REPORT

◆ Government recently released All India Debt & Investment Survey (AIDIS) report for 2018. AIDIS aims at generating average value of assets, average value of outstanding debt per household and incidence of indebtedness, separately for the rural and urban sectors of the country, for States and UTs, and for different socio-economic groups. These indicators are amongst the most important measures of the indebtedness of the respective domains of the population and are crucial inputs for estimation of credit structure. The survey was spread over 5,940 villages covering 69,455 households in the rural sector and 3,995 blocks covering 47,006 households in the urban sector.

#### Key Data from AIDIS Report for 2018

Per Household	Rural	Urban
Average amount of Debt (Rs)	59,748 (32,522)	1,20,336 (84,625)
Debt-Asset Ratio (%)	3.8%	4.4%
Incidence of indebtedness (%)	35.0% (31.4%)	22.4% (22.4%)
Average value of asset (Rs lakh)	15.9	27.2
Source: AIDIS 2019. Figures in parentheses are for 2012		

**AVERAGE AMOUNT OF DEBT**

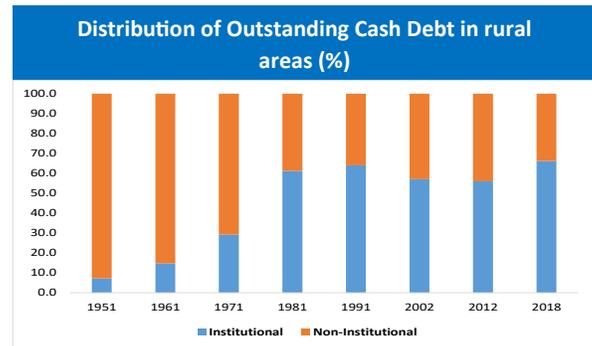
- ◆ The average amount of debt among rural households increased from Rs 32,522 in 2012 to Rs 59,748 in 2018, an increase of 84%. Similarly in the case of urban households, the average amount of debt increased by 42% to Rs 1.20 lakh.
- ◆ State-wise trend indicates that except two states (Goa & Sikkim), the rural households average debt has increased in all other states with more than 200% increase in some of the states.
- ◆ In urban areas the state-wise trend is not so bad. In seven states, the average debt has declined while it has increased by more than 200% in only four states.

**DECLINE IN NON-INSTITUTIONAL AGENCIES' SHARE IN TOTAL RURAL DEBT AND INCREASE IN KCC POINTS TO HIGHER FORMALIZATION OF THE ECONOMY**

- ◆ In rural India, the share of outstanding cash debt from institutional credit agencies was 66% against 34% from non-institutional credit agencies. Meanwhile, in Urban India, the share of outstanding cash debt from institutional credit agencies was 87% compared to 13% from non-institutional credit agencies.
- ◆ Interestingly, the share of non-institutional credit in rural areas has declined to 34% in 2018 from 44% in 2012.
- ◆ State-wise analysis reveals that the share of non-institutional agencies in total cash debt has declined in rural areas for all major states, except Andhra Pradesh.
- ◆ The share of non-institutional credit has declined significantly in case of Bihar, West Bengal, Rajasthan, Haryana and Gujarat.
- ◆ Despite the improvement shown by states, share of non-institutional agencies in outstanding cash credit in rural areas is more than 45% in Andhra Pradesh, Bihar, Telangana and Rajasthan. Interestingly, many of these states except for Bihar, West Bengal and Gujarat have also announced farm loan waivers post 2014.
- ◆ KCC credit amount has also increased between March 2013 and March 2018, with Haryana, Odisha, Gujarat, Uttar Pradesh and Rajasthan among the top performers. Notably, almost all these states have registered steep decline in non-institutional credit in rural areas, indicating the increase in formalisation of the economy.

State	Average Amount of Debt (Rs '000)					
	Rural			Urban		
	2012	2018	% Chg	2012	2018	% Chg
Andhra Pradesh	58	127	118	106	163	53
Arunachal Pradesh	4	14	244	22	30	37
Assam	5	16	204	37	77	109
Bihar	16	19	16	22	37	69
Chhattisgarh	10	13	28	29	108	277
Delhi	5	12	159	33	28	-15
Goa	80	56	-30	108	190	75
Gujarat	26	50	96	72	120	68
Haryana	46	94	104	116	162	39
Himachal Pradesh	47	73	56	113	141	25
J&K	13	35	175	87	83	-5
Jharkhand	6	10	56	18	56	203
Karnataka	51	90	75	89	115	29
Kerala	147	241	63	174	233	34
Madhya Pradesh	21	62	191	57	89	56
Maharashtra	34	89	163	99	219	120
Manipur	5	15	199	8	24	216
Meghalaya	2	4	143	15	13	-15
Mizoram	6	32	397	40	109	171
Nagaland	2	6	210	6	21	280
Odisha	14	31	127	116	53	-54
Punjab	65	98	52	49	94	93
Rajasthan	47	104	119	54	131	142
Sikkim	42	40	-5	61	81	33
Tamil Nadu	46	53	16	116	103	-12
Telangana	51	98	93	158	177	12
Tripura	4	17	362	19	33	77
Uttarakhand	38	111	190	75	74	-2
Uttar Pradesh	22	40	80	87	61	-30
West Bengal	11	18	60	34	65	90
<b>All-India</b>	<b>33</b>	<b>60</b>	<b>84</b>	<b>85</b>	<b>120</b>	<b>42</b>

Source: AIDIS Reports; SBI Research



Source: SBI Research

State	Share of non-institutional agencies in outstanding cash debt of major States in Rural Areas					
	1971	1981	1991	2002	2012	2018
Andhra Pradesh	86	59	66	73	58	64
Assam	65	69	34	42	28	12
Bihar	89	53	27	63	78	52
Chhattisgarh	-	-	-	15	34	18
Gujarat	53	30	25	33	36	18
Haryana	74	24	27	50	48	29
Jharkhand	-	-	-	29	49	41
Karnataka	70	22	22	33	50	33
Kerala	56	21	8	19	22	13
Madhya Pradesh	68	34	27	41	48	34
Maharashtra	33	14	18	15	27	14
Odisha	70	19	20	26	43	41
Punjab	64	26	21	44	36	28
Rajasthan	91	59	60	66	69	47
Tamil Nadu	78	56	42	53	38	27
Telangana	-	-	-	-	68	59
Uttar Pradesh	77	45	31	44	43	37
West Bengal	69	34	18	32	49	25
<b>All India</b>	<b>71</b>	<b>39</b>	<b>36</b>	<b>43</b>	<b>44</b>	<b>34</b>

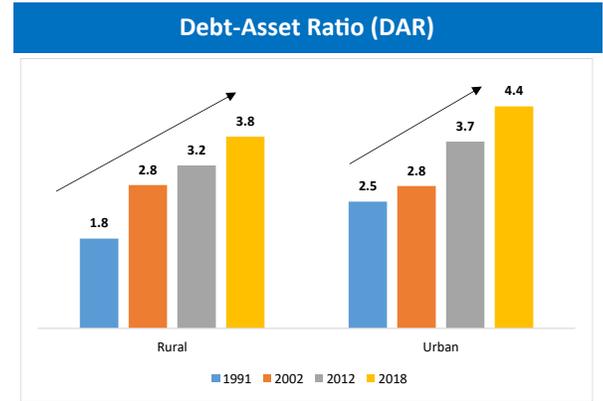
Source: AIDIS reports, SBI Research

**DEBT-ASSET RATIO (DAR)**

- ◆ Debt-Asset ratio which is an indicator of household Indebtedness (calculated as the average amount of debt outstanding on a given date for a group of households expressed as a percentage of the average amount of assets owned by them on that given date) has increased to 3.8 in 2018 from 3.2 in 2012 for rural households and from 3.7 to 4.4 for urban households.
- ◆ State-wise trend for rural households indicates that though it has declined in 11 states in 2018 as compared to 2012, still it was high in some of the states like Kerala (9.7), Andhra Pradesh (9.1), Telangana (6.7), etc. The state-wise trend for urban households is more encouraging as 14 states exhibited decline in debt-asset ratio in 2018, indicating low indebtedness.

**ROLE OF FARM-LOAN WAIVER**

- ◆ Of the major crop producing states, 9 states have more than national average debt out of which 6 states announced farm loan waiver since 2014 with Rajasthan and Karnataka announcing it twice.
- ◆ However, a serious concern is that even states with low household debt are going for loan waivers. Further, states are implementing loan waivers irrespective of the debt-asset ratio of households and hence the extent of rural woes may be more than we anticipated.



Source: SBI Research

State	Debt-Asset Ratio (%)					
	Rural			Urban		
	2012	2018	Chg (in bps)	2012	2018	Chg (in bps)
Andhra Pradesh	14.1	9.1	-504	10.7	9.5	-123
Arunachal Pradesh	0.5	1.1	60	2.8	1.7	-107
Assam	1.0	2.3	126	1.3	3.0	171
Bihar	3.0	1.8	-119	1.5	1.5	-3
Chhattisgarh	1.4	1.5	10	1.9	4.8	287
Delhi	0.0	0.1	6	1.3	0.7	-64
Goa	7.7	0.9	-677	4.6	5.8	123
Gujarat	1.4	2.9	151	4.1	4.2	10
Haryana	1.0	2.1	110	3.2	5.6	243
Himachal Pradesh	2.3	2.0	-26	3.8	3.0	-78
J&K	0.6	0.8	16	2.6	1.5	-109
Jharkhand	1.2	1.2	3	1.9	2.9	100
Karnataka	6.5	4.9	-160	6.3	5.1	-119
Kerala	5.4	9.7	430	4.3	7.3	297
Madhya Pradesh	2.2	4.3	214	2.6	4.2	160
Maharashtra	3.0	4.3	128	2.3	5.2	291
Manipur	0.8	1.3	48	0.5	0.9	39
Meghalaya	0.3	0.1	-15	0.7	0.6	-9
Mizoram	1.7	2.3	56	1.9	2.8	86
Nagaland	0.2	0.4	24	0.3	0.8	51
Odisha	4.9	5.8	95	14.7	4.0	-1070
Punjab	1.5	2.5	100	1.9	3.9	205
Rajasthan	4.4	5.5	107	2.8	3.2	42
Sikkim	6.1	2.6	-345	3.6	6.3	267
Tamil Nadu	6.8	5.6	-121	7.0	6.3	-65
Telangana	8.0	6.2	-175	8.6	7.6	-98
Tripura	1.3	2.5	118	2.8	2.2	-59
Uttarakhand	4.4	3.0	-141	2.7	2.3	-42
Uttar Pradesh	2.1	2.2	7	4.5	2.2	-229
West Bengal	2.8	2.3	-46	1.8	3.3	153
<b>All-India</b>	<b>3.2</b>	<b>3.8</b>	<b>57</b>	<b>3.7</b>	<b>4.4</b>	<b>70</b>

Source: AIDIS Reports; SBI Research

Rural Household Debt and Farm-Loan Waiver				
State	AODL (Rs '000)	DAR (%)	% Share of non-institutional agencies	Loan Waiver since 2014
<b>Above National Average</b>				
Kerala	442	9.7	13	-
Haryana	294	2.1	29	YES
Punjab	279	2.5	28	YES
Maharashtra	268	4.3	14	YES
Himachal Pradesh	267	2	5	-
Rajasthan	246	5.5	47	YES (Twice)
Andhra Pradesh	203	9.1	64	YES
Gujarat	187	2.9	18	-
Karnataka	186	4.9	33	YES (Twice)
<b>All-India</b>	<b>171</b>	<b>3.8</b>	<b>34</b>	
<b>Below National Average</b>				
Madhya Pradesh	161	4.3	34	YES
Telangana	146	6.2	59	YES
Tamil Nadu	143	5.6	27	YES
J&K	136	0.8	32	YES
Uttar Pradesh	128	2.2	37	YES
Assam	85	2.3	12	YES
West Bengal	80	2.3	25	-
Chhattisgarh	76	1.5	18	YES (Twice)
Odisha	76	5.8	41	-
Bihar	64	1.8	52	-
Jharkhand	49	1.2	41	-

Source: AIDIS Reports; SBI Research; AODL: Average Amount of Debt per indebted household; DAR: Debt-Asset ratio for 2018

### HOUSEHOLD DEBT POST-COVID 19

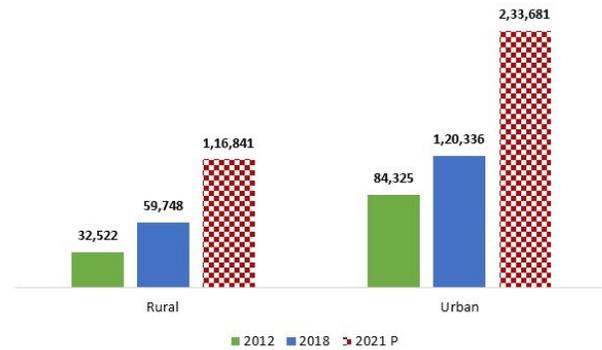
- ◆ The COVID-19 pandemic has resulted in spike in household (HH) debt to GDP. As per our estimate, it rose sharply to 37.3% in 2020-21 from 32.5% in 2019-20 (BIS estimates are at 37.7% as on Dec'20) but declined to 34% in Q1FY22 with the rise in GDP. However, in absolute numbers the HH debt has increased to Rs 75 lakh crore in Q1FY22 from Rs 73.59 lakh crore in FY21.
- ◆ As per the AIDIS report 2018, the average amount of debt among rural households is at Rs 59,748 and in urban households is Rs 1.20 lakh. We estimated the 2021 rural & urban HH debt to track the impact of COVID-19 on the households. In 2021 the rural HH debt is expected to increase to Rs 1.16 lakh and urban to Rs 2.33 lakh, indicating that COVID impacted the households significantly.

### SUGGESTED SOLUTIONS FOR AGRICULTURE

Around 44% of the Indians are dependent upon Agriculture which has just 16% share in growth and currently growing only in the range of 3-4%. So, if nothing is done for agriculture, this sector will continue to grow in the range of 3-4% and the high number of dependants will lead to low per capita income. So, there is a dire need to focus on agriculture.

- ◆ It has become important in the context of the spate of recent reforms that include permitting private wholesale markets, contract farming, direct purchase from farmers and land leasing across states both under the earlier state-level Acts, and now under the central Acts.
- ◆ **Making Agriculture Cash-Credit at par with other Segments:** The income from the agriculture depends upon the harvest of the crop. The marginal and small farmers do not have any other source of income other than the produce which is sold in the market to pay for their loan dues and to meet their subsistence expenses.
- ◆ As per the norms of asset classification for agriculture advances, in case of an agriculture cash credit account a farmer has to repay the entire outstanding (principal along with interest) to seek fresh loans from the banks unlike other segments of cash credit business where if the borrower has cleared interest payments, he/she would be eligible for enhancement/ renewal.

### Projected Average Household Debt post Covid-19 (Rs)



Source: SBI Research: P: SBI Projection

- ◆ This makes the farmers woes aggravated. Say for a loan of Rs 1 lakh, unless the farmer repays the Bank this amount along with the applicable interest, he/she would not be able to either roll-over or become eligible for fresh loan or enhancement. For a marginal farmer, it becomes difficult to lock his entire crop sales proceeds with the bank (till the loan is processed) to become eligible for fresh loan. It may also be noted that a typical cash credit account for any business apart from agriculture, requires only the interest to be serviced to remain as performing cash credit account.
- ◆ It would be in the interest of the farmer, if the farmer is given renewal/enhancement, especially when the bank is satisfied with the farmer in terms of his/her land holding/paying capacity etc.
- ◆ A combination of **livelihoods and agribusiness or value chain approach** can help leverage the sector for betterment of its stakeholders i.e. farmers, workers and others around it.
- ◆ There is a need for institutional innovations besides product, process and organisational innovations in the sector to deal with existing and emerging challenges and problems of sustainability in the sector which can be converted into opportunities.

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