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Measuring, regulating and preventing household debt to better combat poverty

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Credit: S. Kumar (2017), Tamil Nadu, India.

Household debt is skyrocketing worldwide. As basic needs become unaffordable, families turn to credit, often under abusive conditions. Poor women are the hardest hit, facing financial stress, exploitation and social stigmatization. This note calls for systemic reforms to break the poverty-debt cycle affecting millions of people.

Introduction

In its latest report, A World of Debt, UNCTAD reveals that global public debt hit a new record in 2023 [1]. Beyond the staggering total, the trajectory of this debt is even more alarming. Since 2010, debt levels in Southern countries have more than doubled, and in 2023, nearly 50 countries spent more on interest payments than on essential sectors like health and education. Yet far less discussed-and equally worrying-is the relentless rise in household debt.[1]

As the private sector fails to provide decent incomes and governments neglect social protections and basic economic rights, households increasingly rely on credit to survive. Soaring costs -inflation, dwindling subsistence farming, degraded natural resources (water, soil, forests), and privatized health and education- force families, especially the poor, into chronic debt just to meet basic needs like food, housing, health, and education.[2]

The financialization of economies - their growing reliance on financial profits- fuels this credit dependence. Even tools like financial inclusion and microcredit, touted as poverty solutions, often deepen the problem [8].

But credit access is frequently unfair, predatory, and abusive, making household debt a core driver of poverty -both a cause and a consequence. Repayment pressures, crushing interest, and penalties for default trigger devastating ripple effects: food insecurity; asset loss (including land, housing); additional labor, ex-

[1] All quantitative data mentioned in this note are derived from a recent document [2] unless otherwise stated.

[2] A global analysis exists [3], as well as specific cases [4, 5, 6], including in northern countries [4, 7].

ploitative labor and forced migration; deterioration of mental and physical health (social isolation, depression, suicide); sexual exploitation [9, 10]. Poor women - often tasked with managing household finances- and other marginalized groups bear the brunt of financial vulnerability. Due to their role in budgeting and limited economic power, women are particularly exposed to predatory lending practices, which are not only costly but also socially stigmatizing. While precise quantitative data may be scarce, ethnographic studies consistently highlight this reality [11, 12, 5, 13, 6, 14, 15].

To combat the poverty traps created by chronic and underregulated household debt, this briefing provides a situational analysis and actionable recommendations.

A rapid global rise in household debt

Since the early 1990s, household debt levels have risen steadily across both developed and developing economies. One common measure -the ratio of household debt to GDP- illustrates this trend clearly. In India, for example, household debt surged from just 2.5% of GDP in 2000 to 39% in 2023, while Brazil saw an increase from 13.9% to 34.9% over the same period. China experienced the most dramatic growth, with household debt skyrocketing from 10% of GDP in 2006 to over 60% in 2023. Although national differences exist -even among economies with similar structures- the overarching trend is unmistakable: household debt is climbing rapidly worldwide.

However, the debt-to-GDP ratio has limitations. Its interpretation depends on factors like GDP composition, social safety nets, and the types of debt held by households. A more revealing metric is the debt-to-disposable-income ratio, which directly compares debt to the actual resources available to households. This measure confirms the same upward trajectory. In Brazil, household debt relative to income jumped from 16.5% in 2005 to 49% in 2022. Even excluding mortgages (the largest debt category), household debt still accounted for 30% of GDP. Similarly, in India, the debt-to-income ratio rose from around 35% in the early 2010s to 48.1% in 2023.[3]

In many developing economies, household debt now averages roughly 50% of disposable income -a troubling trend, since incomes have not kept pace with borrowing. This widening gap between debt and earnings heightens the risk of over-indebtedness (where households struggle to repay loans) and, more broadly, of impoverishment.

The hidden inequalities of debt

While macroeconomic debt indicators provide useful comparisons across countries, they obscure stark disparities among social groups -shaped by income, gender, race, ethnicity, religion, geography, age, and sexual orientation. For instance, gender and racial inequalities profoundly influence both access to credit and exposure to debt-driven impoverishment, yet these dimensions remain understud-

[3] See analyses by Motilal Oswal, based on RBI data.

ied due to a lack of disaggregated data at global, regional, or national levels [2, 16]. Without such data, policymakers cannot fully grasp debts unequal burden on marginalized communities.

A heavy burden on income

In many countries of the Global South, credit is seldom used for productive investments. Instead, it serves as a lifeline to supplement insufficient incomes, cover basic consumption needs, and compensate for the absence of formal safety nets in the face of economic, health, familial, or climatic shocks. Since the 2000s, financial inclusion policies have democratized access to consumer credit, particularly among low-income populations and women. However, this expansion has come at a steep cost.

The debt service ratio -the share of income devoted to debt repayment- illustrates the severity of the problem. In Brazil, this ratio stood at 26.6% in 2023, meaning that over a quarter of households disposable income was allocated to servicing debt. Where data is available by income or wealth decile, it reveals even heavier burdens for the poorest. In Chile, for instance, low-income households had a median debt service ratio of nearly 50% in 2021. Similarly, in Mexico, surveys show that more than 40% of workers spend between 20% and 50% of their monthly income on debt repayments, while almost one in five workers dedicates over half of their earnings to this purpose.

These alarming figures do not even account for informal debt, which is either ignored or severely underreported in official statistics [17]. In rural Tamil Nadu, India, repeated surveys by the Observatory of Rural Dynamics and Social Inequalities (ODRIIS) found that informal borrowing constitutes 62% of total household debt [17]. The debt service ratio in this region has risen sharply, from 44% in 2010 to 68% in 2020. In other words, households in these communities are now forced to allocate more than two-thirds of their income to repaying debts.

Unfair, predatory, and abusive credit practices

The consequences of debt are further aggravated by the terms under which credit is granted. In countries like Brazil, Chile, and Mexico, households face some of the highest interest rates in the world, a reality that has persisted for 25 years. For example, the average interest rate on credit cards in Brazil reached an astonishing 438.4% per annum by September 2024. In the first half of 2021 alone, Brazilian households paid 233.5 billion Reais in interest, allowing banks to capture nearly 12% of total household income. A significant share of poor households' limited incomes is thereby absorbed by a financial sector enjoying massive and increasing profits.[4] Microcredit, often touted as a tool for financial inclusion, carries interest rates of 30% to 40% -far above what would be considered usurious in many high- income countries.

The issue extends beyond high interest rates. Credit conditions are frequently unfair (disproportionately harming the poor

[4] The combined profits of Brazil's top four banking institutions increased 460% from 2003 to 2015 [18].

and exacerbating inequality); predatory (deliberately designed to exploit vulnerable borrowers); and abusive (employing deceptive or coercive practices that violate principles of good faith and human rights). Problematic contractual clauses -such as high interest rates, exorbitant penalties, hidden fees, and opaque terms- are commonplace. Aggressive marketing, misleading advertising, and abusive debt collection tactics, including harassment (physical, moral, sexual, cyberharassment), illegal confiscation of assets (such as land, housing, credit cards, or identity documents), and even the criminalization of debtors, further compound the problem [10].[5]

Inequities also persist in debt resolution mechanisms. Debt cancellation and personal bankruptcy procedures are either nonexistent or effectively inaccessible to the poorest and most marginalized groups. Meanwhile, the rise of digital finance and mobile money -while expanding access- has introduced new risks. In Kenya, for example, 70% of adults use mobile money platforms, compared to just 40% with traditional bank accounts. These digital systems, though convenient, often facilitate predatory lending, invasive data collection, and unethical repayment enforcement practices.

Recommendations

Over-indebtedness stems from multiple causes: inadequate wages paid by private employers, absent or insufficient social protections, unfair and predatory practices in the financial sector, and inadequate or inappropriate banking and financial regulations. Our recommendations address all these actors.

Combating over-indebtedness requires an integrated approach rather than isolated interventions. Beyond targeting the directly responsible parties, we urge NGOs, activist organizations, international institutions, and researchers to collaborate in advancing and facilitating the implementation of the measures proposed in the table 1.

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[5] See specific cases studies, for instance in South Africa, Sri Lanka, India, Cambodia, Brazil, Ecuador.

Level of governance	Time horizon Short-term (2-3 years)	Medium-term (5 years)	Long-term (10 years)
Local	Monitoring system (over-indebtedness, predation, abuse) Access to free, impartial, high-quality advice and support services Debt cancellation (local committees, such as government, civil society and lenders, capable of assessing situations)		
National	Analysis of the risk of an over-indebtedness crisis (e.g., https://odriis.hypotheses.org/files/2024/06/Microcredit-Crises-Dashboard.docx)	Improved banking regulation: supervision of interest rates, advertising, prohibition of abusive penalty practices, unduly invoiced insurance and excessive wage (or bank account) seizures	Lowering and capping interest rates and profit rates throughout the financial value chain
	Application of existing legislation (banking, consumer protection, access to rights)	When they don't exist, introduction of personal bankruptcy and debt cancellation schemes	Quality public services (health, education, social housing), minimum wage, universal social protection (unemployment, sickness, maternity, retirement)
		Setting up systems to monitor compliance with the law Enhanced consumer protection	Rents, energy and food price regulation, inflation control
Global	Data collection on indebtedness, overindebtedness and financial exploitation Annual review of household debt trends worldwide by independent organizations (Universities, CADTM, UNCTAD, OXFAM, etc.)	Based on the FATF model, set up an action group for financial transparency and the fight against financial predation on poor populations	Establishment of an international convention against predatory finance (interest rate and profit ceilings), and a global financial tribunal (complaints against abusive creditors, cancellation of illegitimate and odious debts, moratorium on repayments in the event of crisis, global emergency relief fund)

Table 1: Policy recommendations on household debt

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Observatory of Rural Dynamics and Inequalities in South India (ODRIIS)

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