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**Household Credit Behaviour in India:
The role of Social Comparison and Financial Literacy**

T.M Sivadasan ¹

Ashok Thomas ²

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Please contact the corresponding authors for queries.

¹PhD Scholar , Economics Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - sivadasant11fpm@iimk.ac.in

²Assistant Professor, Economics Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - ashok.thomas@iimk.ac.in, Phone Number - 0495 2809128

Household Credit Behaviour in India: The role of Social Comparison and Financial Literacy

Abstract:

This paper empirically investigates the influence of income comparison among identity groups and financial literacy on household credit behaviour among Indian households. We also examined how socially induced borrowing impacts household financial vulnerability in formal and informal credit choices. Using large-scale household survey data (NAFIS 2016-17) on the Indian household financial landscape, we observed the positive influence of income comparison on credit-seeking behaviour. More importantly, the positive effect is strong for the probability of household borrowings from formal sources. Similarly, household financial literacy has a strong positive influence on borrowing from formal sources and a negative effect on informal borrowing. Furthermore, the empirical findings show that using formal credit sources reduces the probability of financial vulnerability among Indian households. Besides that, it is important to note that households that experienced economic shocks in the past years depend more on informal credit to mitigate the shocks. This result indicates that Indian households face credit constraints from formal sources during the economic downturn. Therefore, government policy intervention should promote financial education among poor households and train them to use formal credit for productive activities.



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Research Office
Indian Institute of Management Kozhikode
IIMK Campus P. O.,
Kozhikode, Kerala, India,
PIN - 673 570
Phone: +91-495-2809237/ 238
Email: research@iimk.ac.in
Web: <https://iimk.ac.in/publications>

