The Current State of Indian Retail Finance, a Growth Engine

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Summary

1. As the global economy slows due to the intensifying U.S.-China rivalry, India's robust economic growth continues, driven by personal consumption and housing investment. One reason for the strong domestic demand is the sharp increase in household borrowing from financial institutions. In light of this, a correct understanding of the environment surrounding retail finance (small-sum financial services for individuals and small and micro-enterprises) is critical for assessing the current state of and outlook for the Indian economy.

2. Since the Modi government took office in 2014, the environment surrounding Indian households' access to financial services has greatly improved. This is because of the introduction of a national ID system using biometric technology, the spread of smartphones, and the digitalization of financial services. Initially, the use of digital financial services was limited to receiving government subsidies, transferring funds between deposit accounts, and making payments for day-to-day purchases. But use has recently expanded to include loans due to the introduction of services where screening can be completed via a smartphone alone and the reduction of screening costs thanks to AI (artificial intelligence). Commercial banks, mainly public sector banks, play a leading role in lending to individuals, but NBFCs (Non-Banking Financial Companies), which are subject to lighter regulation than commercial banks and are active in providing small-sum loans to low-income earners, have become increasingly prominent in recent years.

3. The increase in lending to individuals by financial institutions has the dual effect of boosting the economy through both durable goods consumption and housing investment, while also increasing the risk of households defaulting on their debts during an economic downturn. There are three key risks surrounding India's retail finance. First, risks stemming from the structure of the Indian economy, such as susceptibility to external factors like weather conditions, crude oil prices, and the monetary policies of developed countries. Second, risks stemming from policy changes, such as India's tendency to implement major institutional changes that temporarily cause economic and social disruption. Third, risks stemming from the structure of the financial system, such as the dependence of NBFCs on investments and loans from other financial institutions for their funding. Therefore, it is necessary to be alert to the risk that changes in the external environment or economic policy could trigger financial distress at certain institutions, with adverse effects potentially spreading across the broader economy and financial system.

4. To curb the risk of a vicious cycle between the real economy and the financial economy, the Reserve Bank of India is trying to tighten financial regulation, with its main focus on the NBFCs that are rapidly expanding small-sum lending to low-income earners. However, there are also moves to ease some regulations as lending by financial institutions is losing momentum. The Reserve Bank of India is expected to continue facing the difficult task of balancing short-term economic expansion with shoring up medium- to long-term economic and financial stability.

Introduction

The world economy is under increasing pressure from the intensifying U.S.-China rivalry and policy shifts by the Trump administration. In April 2025, the U.S. announced a policy of significantly raising tariffs on various countries, increasing the risk of a global economic downturn. In response, international organizations such as the IMF and ADB have lowered their growth forecasts for many countries, particularly those highly dependent on exports to the U.S. and China (IMF [2025]). However, they indicated that India's growth would continue at a pace of 6-7%, a smaller downward revision than for many other countries.

There are three key reasons why many economic research institutions predict that India will continue to enjoy robust economic growth. First, India's low dependence on goods exports to the U.S. and China compared to other Asian countries. Second, the prediction that global companies will become more active in investing in India to reorganize their supply chains. Third, medium- to long-term growth engines such as population increase and urbanization holding firm.

But there is a major trend lurking behind this sunny picture, one that is easily overlooked yet should not be ignored. A sharp increase in household borrowing from financial institutions, enabled by improved access to financial services, has been pushing up durable goods consumption and housing investment.

While the real economy and the financial economy are in a mutually influential relationship, changes on the financial side in recent years, such as financial service digitalization and regulatory changes for financial institutions, have tended to precede changes in India's real economy. This makes it important for financial institutions considering business expansion in India, as well as Japanese companies outside of finance, to be aware of the trends in Indian retail finance (small-sum financial services for individuals and small and micro-enterprises).

In light of the above, this paper provides an outlook on the current and future state of retail finance and explores its implications for the real economy.

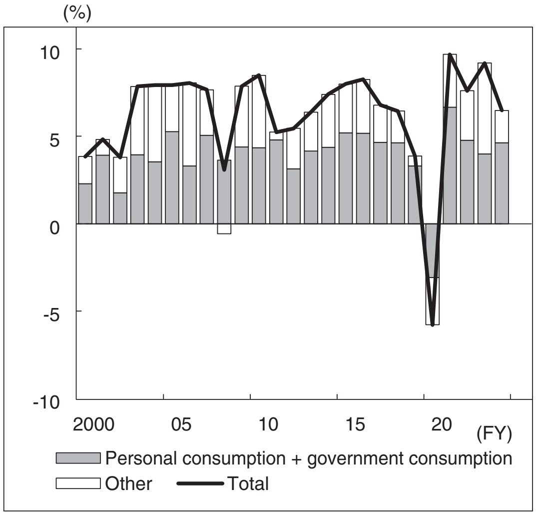
1. Reasons to focus on retail finance

To begin, I will use quantitative data to point out the importance of personal consumption and housing investment in India's economic growth, and how the sharp increase in household borrowing from financial institutions is boosting them.

(1) Personal consumption and housing investment driving the Indian economy

Despite temporary downturns caused by the global financial crisis in the late 2000s and the COVID-19 pandemic in the early 2020s, the Indian economy has expanded at an average annual rate of around 6% over the past quarter-century (Fig. 1). The main driver has been personal con-

Fig. 1 Degree of Contribution to Real GDP Growth (Annual) by Item

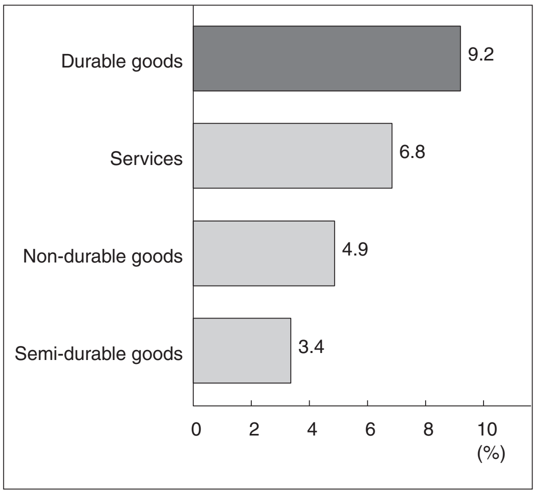


Source: JRI based on the Ministry of Statistics and Programme Implementation sumption, which accounts for about 70% of GDP. Broad consumption, which includes services such as public healthcare and education classified as government consumption, has boosted the annual real GDP growth rate by around four percentage points every year.

A key feature of India's personal consumption is the high proportion of spending on necessities. As nominal GDP per capita is low at around \$2,000, the share of food and beverages in the CPI (Consumer Price Index) item weights (total 100) is 45.8, which is higher than in other Asian emerging countries such as Thailand (39.3), Indonesia (38.0), the Philippines (37.8), and Malaysia (29.8)[(1)].

Therefore, the market for goods and services related to food, clothing, and housing is large, though a different unique featurec emerges when looking at rates of increase. Amid lifestyle and value changes, an expanding middle-income class, and improved access to financial services - the focus of this paper - real consumption of durable goods such as televisions, air conditioners, smartphones, and automobiles has expanded at an annual rate of 9.2% over the past 10 years. This pace exceeds that of other goods and services (Fig. 2).

Fig. 2 Real Personal Consumption by Type (average rate of increase over FY2017-2023)



Source: JRI based on the Ministry of Statistics and Programme Implementation

Domestic sales of automobiles, a representative durable consumer good, were 5.25 million units in FY2024 (April 2024 to March 2025). This is an approximately 60% increase from the 3.21 million units in FY2014 and exceeds sales in Japan, making India the world's third-largest auto market after China and the U.S. Furthermore, air conditioner sales increased at a rapid annual pace of 12%, from 3.86 million units in 2014 to 11.65 million units in 2024[(2)].

Considering population growth and the room for car and appliance ownership to rise in tandem with income levels, it is highly likely that consumption of these goods will continue to expand at a rapid pace over the medium to long term[(3)]. In China, which has a similar population to India and a GDP per capita of about \$13,000, automotive and air conditioner sales in 2024 were around 30 million units and 67 million units respectively[(4)], or about six times India's current levels. This suggests that the Indian consumer market has significant room for growth.

Like durable goods consumption, housing investment, which includes new construction and renovation of homes and accounts for about 10% of GDP, is also boosting the Indian economy. Three reasons underlie this. First, an increase in the number of households due to population growth and a rise in nuclear families in urban areas. Second, growing demand for replacing homes with better quality ones due to the expansion of the middle class. Third, government support for low-income earners to help them purchase homes. As a result, real housing investment has increased at an annual pace of 7% over the past 10 years.

Under the slogan "Housing for all," the government is aiming to provide good quality housing to all citizens, so the housing market is expected to continue expanding due to both demand and supply factors.

(2) Retail finance boosting domestic demand

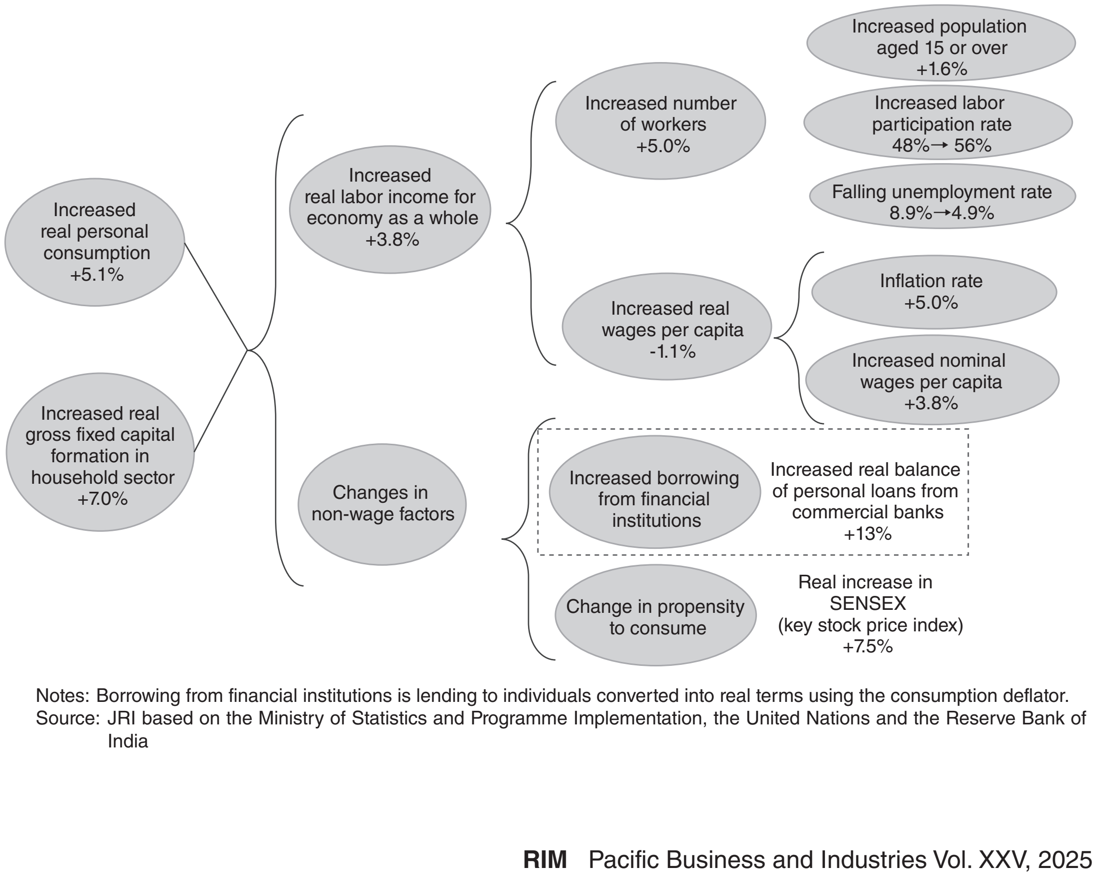
The biggest factor influencing personal consumption and housing investment is household income. But the movements of various economic indicators suggest that the high growth rates of personal consumption and housing investment in recent years cannot be fully explained by income factors alone. Rising household borrowing from financial institutions is considered to be playing an important role in boosting domestic demand.

First, real personal consumption and real gross capital formation in the household sector[(5)] increased at an annual pace of 5.1% and 7.0% respectively from FY2017 to FY2023 (Fig. 3). However, real income growth during the same period was slower, standing at 3.8%[(6)]. In addition to population growth, the number of employed people grew 5.0% annually over the same period as an improved employment environment pushed up the labor force participation rate and pushed down the unemployment rate. But despite this and nominal wages per capita growing 3.8% annually, even faster price growth seems to have dragged down real income growth significantly.

Next, looking at factors other than income, one can point to improved consumer sentiment from rising stock prices and the end of the COVID-19 pandemic as having boosted the propensity to consume. Amid high expectations for India's medium- to long-term economic growth, the SENSEX, a key stock price index, climbed from around 30,000 points in 2017 to over 70,000 points by the end of 2023. Even in real terms, with a consumption deflator applied, the index rose at an annual pace of 8%[(7)]. It is likely that middle- to high-income earners who invest actively also expanded their consumption and housing investment at a pace that exceeded the rate of wage increases.

As for lending to individuals by financial institutions, the focus of this paper, the real loan balance of commercial banks climbed at an annual pace of 13% from FY2017 to FY2023, signifi-

Fig. 3 Trends in Economic Indicators Related to Real Personal Consumption and Real Gross Fixed Capital Formation in the Household Sector (average rate of increase over FY2017-2023)

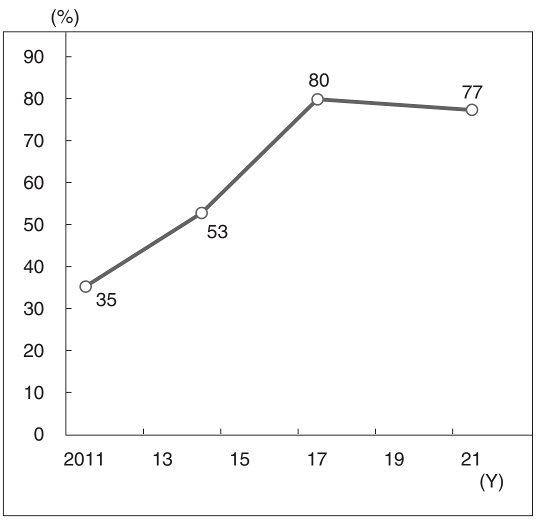


Notes: Borrowing from financial institutions is lending to individuals converted into real terms using the consumption deflator.
Source: JRI based on the Ministry of Statistics and Programme Implementation, the United Nations and the Reserve Bank of India

cantly faster than other economic indicators. This sharp increase was due to a significantly improved environment for households accessing financial services since the mid-2010s. This was triggered by the spread of smartphones and the diffusion of "Aadhaar", a national ID system that enables authentication based on fingerprints, irises, or other biometric information(8). The government also launched a campaign to open "Jan Dhan Accounts", special accounts with no maintenance fees that offer benefits such as life insurance; over 400 million new accounts were opened. As a result, household's account ownership at a financial institution, which was about 50% in the mid-2010s, rose to about 80% (Fig. 4).

Initially, the use of digital financial services by households was limited to receiving government subsidies, transferring funds between accounts, and making payments for day-to-day purchases. But small-sum borrowing by low-income earners has increased sharply in recent years due to the proliferation of loan services where procedures can be completed using a smartphone and the reduction of screening costs thanks to AI.

Fig. 4 Rate of Account Ownership at a Financial Institution by Households in India



Source: JRI based on the World Bank

2. The current state of retail finance in India

Next, I will re-examine trends in lending to individuals from the perspective of the fund providers - financial institutions. First, I will trace the history of the development of India's financial system and give an outline of the banking and non-banking sectors, after which I will point out the increased importance of retail finance for financial institutions since the mid-2010s.

(1) Outline of India's financial system

The development of India's financial system can be broadly divided into three stages(9).

The first stage was the nascent period before India's independence in 1947. During this period, commercial banks were established in various regions under the leadership of both Britain, which had colonized India, and the "princely states" which were permitted a certain degree of independent rule.

The second stage was the formation of an Indian-style financial system from independence to the early 1990s. The Nehru government (1947-1964) and the subsequent Congress Party government promoted a socialist-style planned economy. To achieve this, they nationalized major banks and established development financial institutions to financially support the implementation of specific policies including infrastructure development. Strict regulations were also introduced during this period, including the PSL (Priority Sector Lending) rule obliging commercial banks to allocate a certain percentage of their loans to "socially disadvantaged people" such as farmers and microenterprises. The foundations of the current Indian-style financial system were hence established.

The third stage was the period of economic liberalization that followed the 1991 balance of payments crisis. As the economy rapidly deteriorated in 1991 due to rising public external debt, expanding current account and fiscal deficits, and a shortage of foreign currency reserves, the Rao government, formed after the lower-house general election in that year, decided to shift to economic liberalization. As a result, the Public Sector Banks were privatized and new private banks were established one after another.

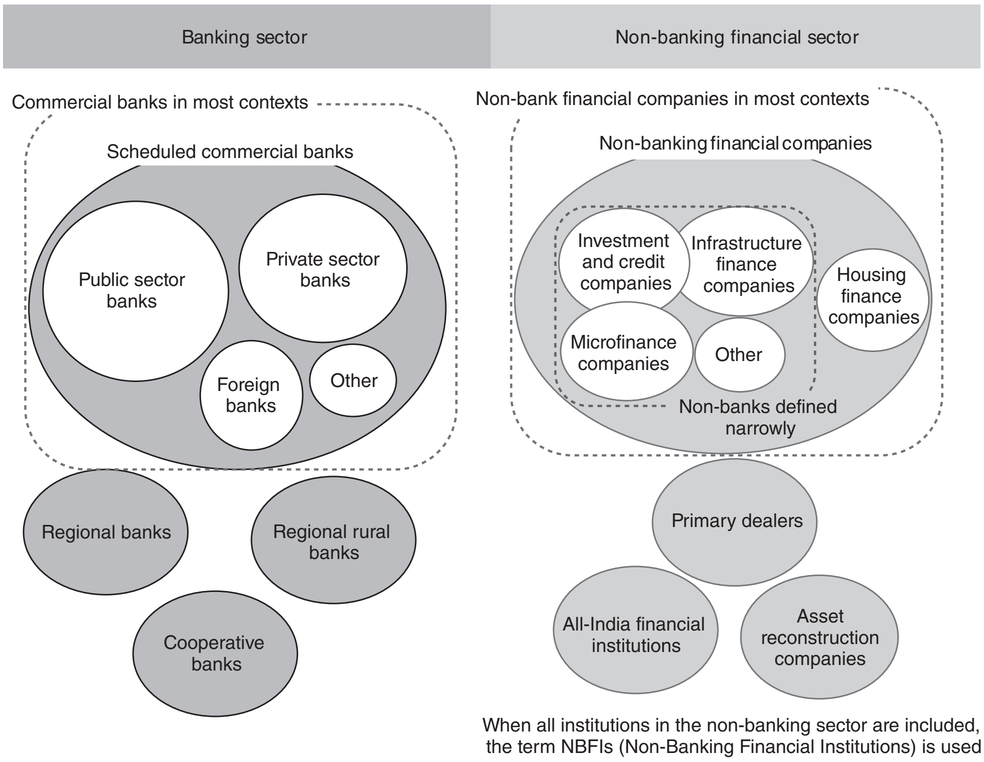
Next, I will provide an outline of the banking and non-banking sectors. The banking sector plays a leading role in the financial sector and the role of SCBs (Scheduled Commercial Banks, referred to as "commercial banks" below)[(10)] is particularly important (Fig. 5).

The strong presence of PSBs (Public Sector Banks) among commercial banks is notable. The reason for it is that many banks were nationalized after the war under governments pursuing socialist-style economic policies. Although PSB dominance has been on the decline since the 1990s due to the successive privatizations of PSBs and the new entry of private companies, they still account for about 60% of total commercial bank assets (Fig. 6).

The largest Public Sector Bank is SBI (State Bank of India) (Table 1).

The Bank's predecessor was the Imperial Bank of India, which was established in 1921 during British rule, through the merger of the Bank of Bengal, the Bank of Bombay, and the Bank of Madras. It was nationalized in 1955 and its name was changed to its present name. Other major PSBs, such as Bank of Baroda, Punjab National Bank, Canara Bank, and Union Bank, were all nationalized under the Indira Gandhi government in 1969. As for private sector banks, there are many financial institutions with government ties, such as ICICI Bank, which was established as a sub-

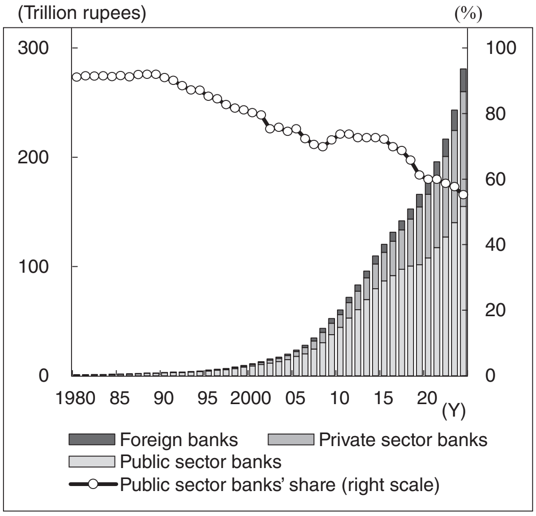
Fig. 5 Visualization of the Banking and Non-Banking Sectors in India



Notes: All-India financial institutions include the Export-Import Bank of India, the National Housing Bank, and the National Bank for Agriculture and Rural Development. Housing finance companies were reclassified as NBFIs in 2019 following a change in the regulatory authority overseeing them from the National Housing Bank to the Reserve Bank of India. However, some statistics on NBFCs are compiled such that housing finance companies are not included.

Source: JRI

Fig. 6 Total Assets of Indian Commercial Banks by Type



Notes: Figures are for March each year.
Source: The Reserve Bank of India

sidiary of a government-affiliated development financial institution, and AXIS Bank, which was formerly a government-affiliated investment trust company.

As for foreign banks, major global financial institutions such as HSBC, Citibank, and Standard Chartered Bank are the main players, but their share of total commercial bank assets remains less than 10%.

Next, looking at the non-bank sector, we find that it includes various types of financial institutions. Among them, the four types that attract most attention are "investment and credit companies", which provide financial services in a wide range of fields, "infrastructure finance companies", which specialize in financial services related to the development of logistics and energy infrastructure, "housing finance companies", which specialize in financial services related to housing, and "microfinance companies", which specialize in small-sum loans for households. Among these, the largest in terms of assets are the investment and credit companies, which account for about 50% of total NBFC assets (Fig. 7).

In addition, "asset reconstruction companies" (sometimes called "bad banks"), which handle the disposal of non-performing loans, "primary dealers," which directly purchase government bonds from the government and sell them to investors, and "all-India financial institutions"[11], which include the National Housing Bank and Export-Import Bank of India, are also included in the non-banking sector. However, in India, the term NBFC (Non-Banking Financial Company) does not normally include them[12].

There are about 9,000 NBFCs, and the Reserve Bank of India regulates them according to their size and type (Fig. 8). Among them, the "Upper Layer" - financial institutions with large amounts of assets - garner the most attention. Whereas many of the commercial banks with large amounts of assets are PSBs, the major NBFCs were mainly established by conglomerate groups to manage and operate their group companies and promote product sales (Table 2).

For example, Bajaj Finance, which has the most assets, is a financial company established by the Bajaj Group, which has Bajaj Auto, a leading Indian two-wheeler manufacturer, as its core company. Bajaj Finance makes loans to purchasers of two-wheelers and three-wheelers manufactured by Bajaj Auto, and also provides various financial services to related companies that supply parts to Bajaj Auto. The Tata Group, Birla Group, and Mahindra Group have also established NBFCs that provide similar financial services.

Finally, I will present the commonalities and differences between commercial banks and NBFCs. There is no difference to the extent that they provide financial services to economic entities such as companies, households, and the government. However, there are some differences in terms of business scope, capital adequacy regulations, and foreign ownership regulations (Table 3).

Notable differences include whether they can accept demand deposits and whether the PSL regulation applies to them.

Commercial banks are allowed to accept "demand deposits," which have no fixed deposit period, such as ordinary and current accounts, and can procure funds for lending from a wide range of sources. However, to promote comprehensive development of the Indian economy and society, they are obligated to allocate 30-40% of their

Table 1 Overview of Major Commercial Banks in India

Category	Name	Total assets in 2024 (trillion rupees)	Overview
Public sector banks	State Bank of India	61.8	Predecessor was the Imperial Bank of India, which was established in 1921 through the merger of the Bank of Bengal, Bank of Bombay, and Bank of Madras. It was nationalized in 1955 and given its current name.
	Bank of Baroda	15.9	Established in 1908 by a feudal lord in the state of Baroda (a former princely state in present-day Gujarat). It was nationalized in 1969 by the Indira Gandhi government.
	Punjab National Bank	15.6	Established in 1894 by businesspeople and politicians in the Punjab region of present-day Pakistan to promote national development. It was nationalized in 1969 by the Indira Gandhi government.
	Canara Bank	14.9	Established in 1906 by a philanthropist in Bangalore (now Karnataka). The bank is active in microfinance and agricultural finance. It was nationalized in 1969 by the Indira Gandhi government.
	Union Bank of India	13.9	Established in 1919 in Bombay (now Mumbai). It was nationalized in 1969 by the Indira Gandhi government.
Private sector banks	HDFC Bank	36.2	Established in 1994 as a subsidiary of the non-bank HDFC (HDFC was an NBFC established in 1977 to increase the domestic home ownership rate). It absorbed HDFC in 2023.
	ICICI Bank	18.7	Established in 1994 as a wholly owned subsidiary of ICICI (Industrial Credit and Investment Corporation of India), an NBFC that provided project finance and was established by the World Bank, the Indian government, and others in 1995. ICICI Bank merged with ICICI in 2001.
	AXIS Bank	14.8	Established in 1993 by UTI Asset Management. Its name was changed to the current one in 2007 (UTI Asset Management was India's oldest investment trust company, established by the government in 1963 and privatized in 2003).
	Kotak Mahindra Bank	6.0	Predecessor was Kotak Capital Management Finance, established by Uday Kotak in 1985 (after a series of departmental reorganizations, Kotak Mahindra Capital was established in 1996). It acquired a banking license in 2003 and was renamed Kotak Mahindra Bank.
	INDUSIND Bank	5.1	Established in 1994 with investments from the Hinduja Group conglomerate and many NRIs (Non-Resident Indians)
Foreign banks	HSBC	3.0	A major bank headquartered in the UK. It entered the Indian market in 1959 by acquiring Mercantile Bank of Bombay (later renamed Mercantile Bank of India), which had been established in the mid-19th century.
	Citibank	2.6	A major bank headquartered in the US. It opened a branch in Calcutta (now Kolkata) in 1902. It announced its withdrawal from retail operations in 2021 (with these being acquired by AXIS Bank in 2023).
	Standard Chartered	2.4	A major bank headquartered in the UK. Its predecessor, the Chartered Bank of India, Australia and China, established its Indian branch in Calcutta (now Kolkata) in 1853. It sold its retail loan business to Kotak Mahindra Bank in 2024.
	Deutsche Bank	1.5	A major bank headquartered in Germany. It opened a branch in India in 1980 and currently has 17 branches in 16 cities.
	DBS Bank	1.3	A major bank headquartered in Singapore. It established a representative office in 1994 (which was converted to a branch in 1995).

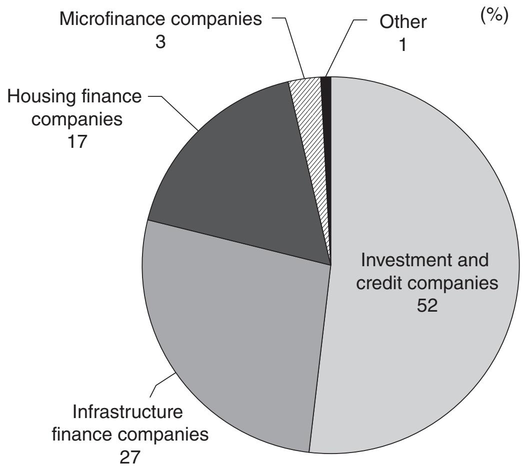
Source: JRI based on the Reserve Bank of India and the banks' websites

loans to priority segments such as small and micro-enterprises and farmers. These are segments with relatively high default risk, and if the operating environment for financial institutions deteriorates, there is a risk that the adverse effects could spread widely to the economy and society, including depositors or other borrowers. Therefore, strict regulations are applied to credit management and capital adequacy ratios. There are also strict rules on foreign ownership ratios.

In contrast, NBFCs are not allowed to handle demand deposits and must fund their lending with their own capital or by borrowing. But they are not subject to the PSL regulation, and capital adequacy regulations are also more relaxed than for commercial banks. Unlike commercial banks, 100% foreign ownership is allowed too.

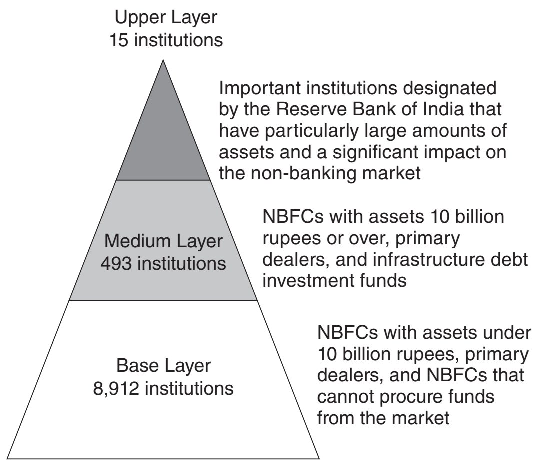
These differences in the regulatory environment

Fig. 7 Share of Total Assets by NBFC type (2024)



Source: JRI based on the Reserve Bank of India

Fig. 8 Number of NBFCs by Tier (2024)



Source: JRI based on the Reserve Bank of India

are the reason that local conglomerate groups and foreign companies are actively entering the non-banking sector rather than the commercial banking sector. In 2024, three major Japanese banks successively announced investments in Indian NBFCs, which served to suddenly heighten interest in the Indian non-banking market from various quarters[13] (Table 4). However, as will be discussed later, NBFCs and commercial banks are closely related. To correctly understand the trends in the non-banking sector, it is necessary to understand the trends of the entire financial industry, including commercial banks.

(2) Lending trends of commercial banks and Non-Banking Financial Companies

Since the mid-2010s, when the environment for accessing financial services greatly improved due to the spread of smartphones and the establishment of the national ID system, retail finance has become increasingly important in the finance business[14]. The share of loans to households in commercial bank lending, which stood at around 15% in the mid-2010s, has now risen to the 30% range, making households the largest borrowers and replacing secondary industry borrowers (Fig. 9). The share of NBFCs' loans to households has been rising too and households are expected to become the largest segment of borrowers in the near future[15].

However, there are major differences between commercial banks and NBFCs if we break down lending to individuals. For commercial banks, housing loans account for about 50% of the balance of personal loans, whereas for NBFCs, the proportion of housing loans remains at about 20% (Fig. 10). Compared to commercial banks, NBFCs have a higher proportion of car loans, card loans, education loans, and "loans for which the purpose is not specified" such as those collateralized by gold or other precious metals.

There are also differences between commercial banks and NBFCs in the average loan amount and customer age structure. Since the proportion of housing loans is lower than for commercial banks, NBFCs' average loan amount has tended to be smaller than that for commercial banks. This trend is becoming more pronounced as NBFCs actively expand their small-sum lending business amid progressing financial service digitalization.

Table 2 Overview of Non-Banking Financial Companies Designated as "Upper Layer"

Name	Reserve Bank of India classification	Total assets in 2024 (billion rupees)	Overview
Bajaj Finance	Deposit taking investment and credit company	3,757	Predecessor was Bajaj Auto Finance, which was established in 1987 by a group company of the Bajaj conglomerate (the name was changed in 2010)
LIC Housing Finance	Deposit taking housing finance institution	2,912	The largest housing finance company in India, established in 1989 by LIC (Life Insurance Corporation of India)
Shriram Finance	Non-deposit taking investment and credit company	2,249	A finance company established in 1979 by a group company of the Shriram conglomerate, which mainly provides loans to small and medium-sized enterprises and personal loans
Tata Capital	Non-deposit taking investment and credit company	1,767	A finance company established in 2007 by Tata Sons, the holding company of the Tata conglomerate
Tata Sons Private	Core investment company	1,495	The holding company of the Tata conglomerate
Cholamandalam Investment and Finance Company	Non-deposit taking investment and credit company	1,482	Established in 1978 by a group company of the Murugappa conglomerate. In 2005, Singapore's DBS Bank acquired a 37.5% stake and the company name was changed to Cholamandalam DBS Finance, but after the DBS Bank's withdrawal in 2010, the name was changed back.
Mahindra & Mahindra Financial Services	Deposit taking investment and credit company	1,229	A finance company established in 1991 by a group company of the Mahindra conglomerate
Aditya Birla Finance	Non-deposit taking investment and credit company	1,056	A finance company established in 1991 by a group company of the Birla conglomerate
Muthoot Finance	Non-deposit taking investment and credit company	964	A finance company established in 1997 by the Muthoot Group conglomerate, which primarily operates in the gold loan business (loans collateralized by gold)
HDB Financial Services	Non-deposit taking investment and credit company	963	A finance company established in 2007 by HDFC Bank
Pirnamal Capital & Housing Finance	Non-deposit taking housing finance institution	867	Predecessor was DHFL, a major housing loan company established in 1984. It was acquired in 2021 by a group company of the Piramal conglomerate, which deals in real estate and pharmaceuticals, and its name was changed.
L&T Finance	Non-deposit taking investment and credit company	856	Predecessor was L&T Capital Holdings, which was established in 1994 by the conglomerate L&T (Larsen & Toubro), which focuses on construction and heavy chemical industry (the name was changed in 2008)
Bajaj Housing Finance	Non-deposit taking housing finance institution	824	A housing finance company established in 2008 by a group company of the Bajaj conglomerate.
Sammaan Capital	Non-deposit taking investment and credit company	728	Predecessor was Indiabulls Housing Finance, which was established in 2004 by businessman Sameer Gehlaut (the name was changed in 2024)
PNB Housing Finance	Non-deposit taking housing finance institution	724	A housing finance company established in 1988 as a subsidiary of Punjab National Bank

Notes: The shaded NBFCs are related to conglomerates.
Source: JRI based on the Reserve Bank of India, Equitymaster Research Private, and the NBFCs' websites

According to the latest survey by the Fintech Association for Consumer Empowerment (FACE), a self-regulatory organization for the Indian fintech industry, the average loan amount of "NBFCs that focus on digital lending[16]" is 10,000 rupees, which is smaller than that of other NBFCs (90,000 rupees) and banks (440,000 rupees) (Fig.11). As their main customers are young people who have a high level of digital literacy but low-income levels, the proportion of customers aged 35 or younger is 66% for NBFCs that focus on digital lending, which is higher than for other NBFCs (45%) and banks (41%).

As a result of aggressive lending to people with low incomes and young people, NBFCs focused on digital lending saw their share of the total

Table 3 Differences between Regulations Applicable to Indian Commercial Banks and NBFCs

Item	Commercial banks	Non-banking financial companies
Demand deposit acceptance	Possible	Not possible
Deposit insurance facility availability	Available	Not available
Check issuance	Possible	Not possible
PSL (Priority Sector Lending) regulation applicability	Applicable (32-40% of loans must be to priority sectors, with the percentage depending on the type and number of branches)	Not applicable
Cash reserve ratio and statutory liquidity ratio applicability	Applicable (as of April 2025, Cash Reserve Ratio: 4%, Statutory Liquidity Ratio: 18%)	Not applicable
Liquidity coverage ratio	Minimum 100%	Introduced in 2020 (minimum 30-50% depending on type and size, with a target of raising to a minimum of 100% by the end of 2024, but this has been delayed)
Capital adequacy regulation (minimum capital adequacy ratio)	9% or more	10-15% or more, depending on type and size
Foreign ownership limit	74% (government approval is required for investments of more than 20% in public banks and more than 49% in private banks)	100%

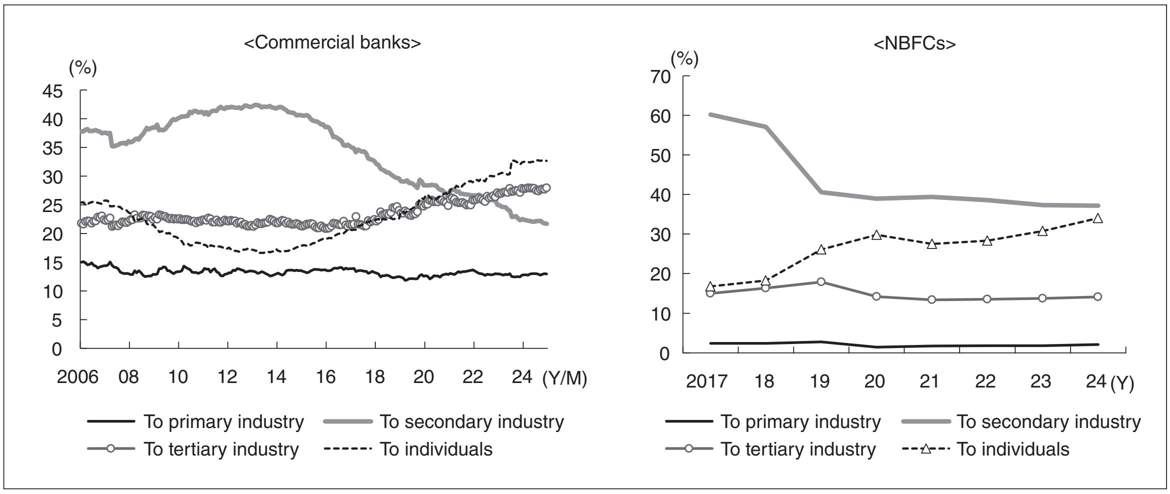
Notes: The statutory liquidity ratio is the ratio of a bank's liquid assets, such as government bonds and government-designated securities, to its accepted deposits. The liquidity coverage ratio is the ratio of a bank's liquid assets to its expected cash outflows under a certain stress scenario.
Source: JRI based on the Reserve Bank of India and the Department for Promotion of Industry and Internal Trade

Table 4 Trends in Japanese Financial Institutions Entering the Indian Non-Banking Market

	Date of announcement/ coverage	Event
Sumitomo Mitsui Banking Corporation	March 2017	Signed a memorandum of understanding for a business alliance with IFMR Capital, a Chennai-based NBFC established in 2008 (IFMR Capital changed its name to Northern Arc Capital in 2018)
	December 2019	Invested in Northern Arc Capital (acquired 5.4% of outstanding shares)
	July 2021	Announced the acquisition of Fullerton India Credit Company as a subsidiary (acquired 74.9% of shares from Singapore investment company Temasek at the end of November 2021; according to media reports, the investment amount was approximately 220 billion yen)
	May 2023	Changed the company name from Fullerton India Credit Company to SMICC (SMFG India Credit Company)
	March 2024	Made an additional investment in SMICC to make it a 100% subsidiary
MUFG Bank	April 2023	Made an additional investment of 19.1 billion rupees (approx. 31.7 billion yen) in DMI Finance, which was established in 2008
	2024	Was considering an investment of 200-300 billion yen in HDB Financial Services, an NBFC under major private bank HDFC, but halted negotiations due to disagreement on the terms of investment (based on media reports)
	August 2024	Decided to make an additional investment of 28 billion rupees (approx. 49 billion yen) in DMI Finance
Mizuho Bank	February 2024	Announced an investment of up to 12 billion rupees (21 billion yen) and acquisition of a 15% stake in Kisetsu Saison Finance India, a subsidiary of Credit Saison in India
Credit Saison	June 2018	Established Kisetsu Saison Finance India, a subsidiary of Credit Saison in India
Daiwa Securities	December 2016	Concluded a memorandum of understanding on a business alliance in the M&A advisory business field with the financial services group Ambit Private
	April 2023	Implemented a capital and business alliance with Ambit Private and acquired a portion of its shares (investment amount, etc., not disclosed)
	March 2024	Invested 4.15 billion rupees (approx. 7.5 billion yen) in Ambit Private's subsidiary Ambit Finvest Private, acquiring a 15% stake

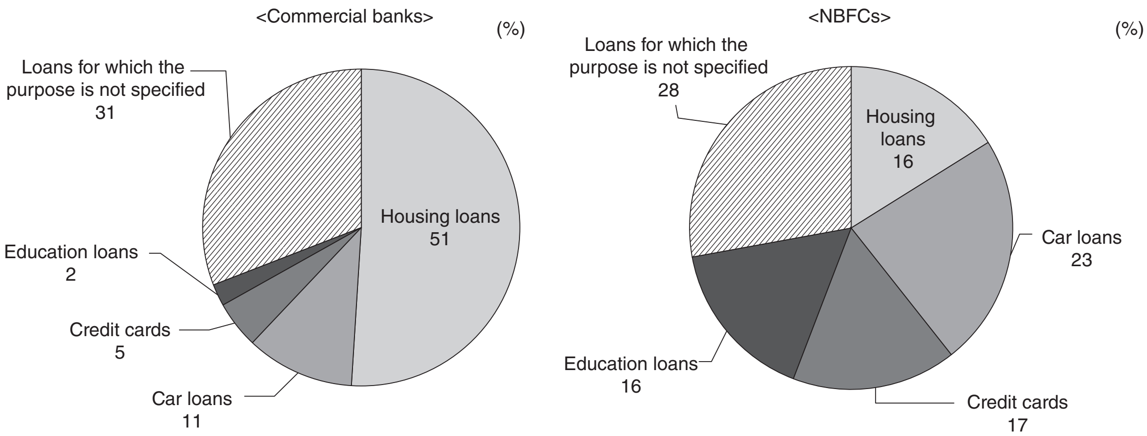
Notes: Japanese yen investment amounts are based on the exchange rate at the time of the announcement/report.
Source: JRI based on the financial institutions' websites and various media reports

Fig. 9 Loan Balances of Indian Commercial Banks and Non-Banking Financial Companies



Source: JRI based the Reserve Bank of India

Fig. 10 Breakdown of the Balance of Personal Loans by Indian Commercial banks and Non-Banking Financial Companies (March 2024)

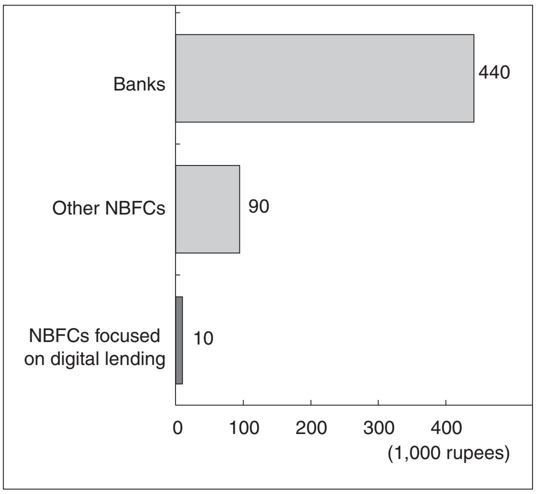


Notes: While the percentage of housing loans in the balance of personal loans for NBFCs in the Reserve Bank of India's statistics is 2%, this is because the statistics are compiled in such a way that housing finance companies are not included. For this figure, I calculated the loan breakdown by type so that loans from housing finance companies are included, assuming that the "loan balance for housing finance companies = personal housing loans."

Source: JRI based on the Reserve Bank of India

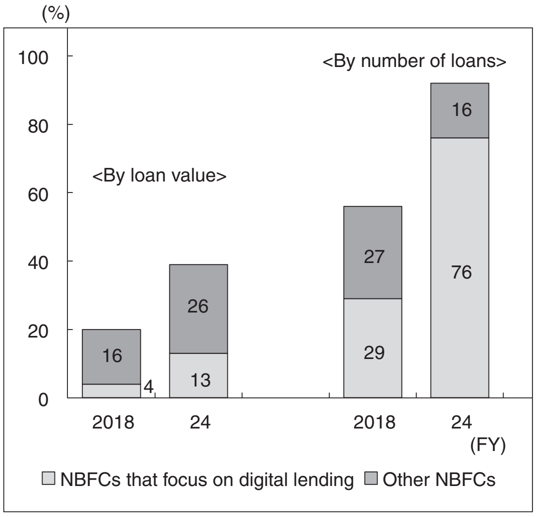
number of new loans from financial institutions go up from about 30% in FY2018 to about 80% in FY2024 (Fig. 12). Their presence has also increased on the loan value front. Their share rose from 4% to 13% over the same period.

Fig. 11 Average Amount of Each Personal Loan by Type of Financial Institution (FY2024)



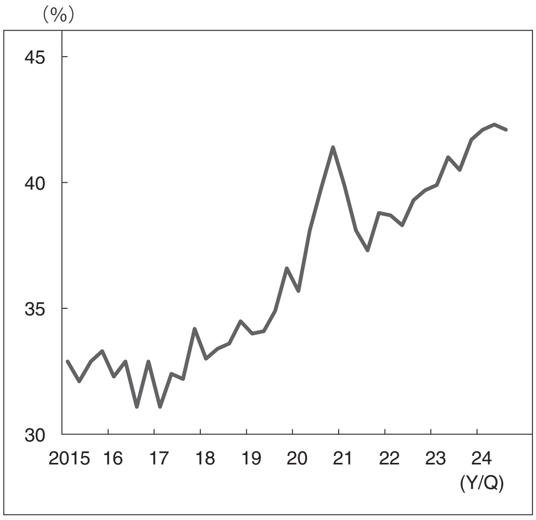
Notes: "Banks" includes banks that are not Scheduled Commercial Banks.
Source: JRI based on the Fintech Association for Consumer Empowerment (2025)

Fig. 12 Non-Banking Financial Companies' Share of New Personal Loans by Loan Value and Number of Loans



Source: JRI based on the Fintech Association for Consumer Empowerment (2025)

Fig. 13 India's Household Debt-to-Nominal-GDP Ratio



Source: JRI based on the BIS

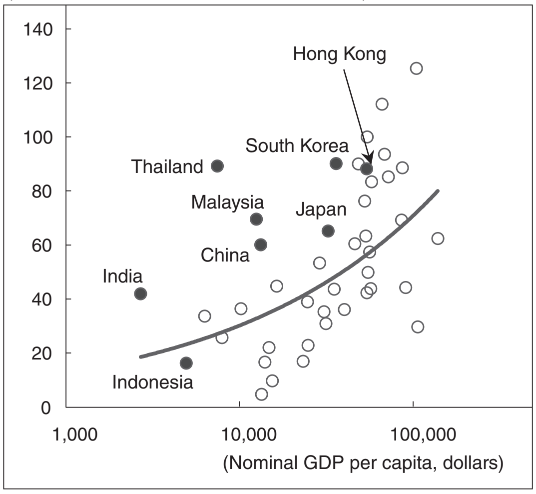
3. Risks surrounding retail finance and the financial authorities' response

Growing personal lending by financial institutions boosts the economy through durable goods consumption and housing investment. However, it is important to be cautious about the risk of increasing household debt defaults during an economic downturn.

Although India's household debt-to-nominal-GDP ratio is lower than in other countries, it has risen by about 10 percentage points over the past decade (Fig. 13). In addition, while there is a loose correlation between the household debt-to-nominal-GDP ratio and income levels (Fig. 14), India's household debt ratio is somewhat high for its stage of economic development. While there is only limited mention of this in Japanese media and economic reports, voices pointing out the problem of household debt among low-income earners are starting to multiply within India(17).

Below, after highlighting the risks facing the Indian economy, I will look at what measures the Reserve Bank of India is taking to curb the risk of a vicious cycle between the real economy and the financial economy.

Fig. 14 Household Debt-to-Nominal-GDP Ratio (October-December 2024) and Nominal GDP per Capita of Various Countries (2024)



Source: JRI based on the BIS and the IMF World Economic Outlook 2025 April

(1) Three risks

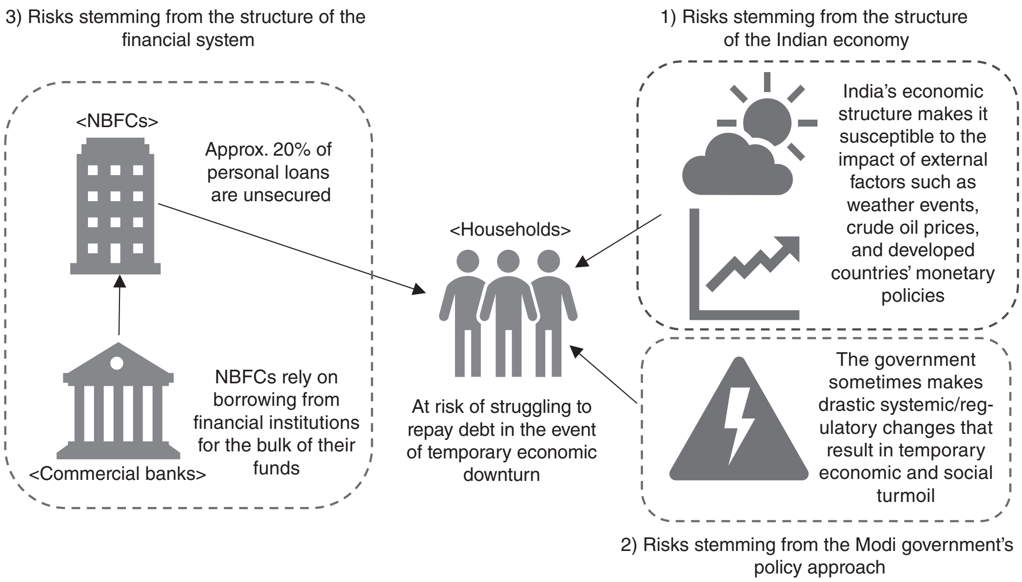
The risks surrounding India's retail finance market can be broken down into three categories: risks stemming from the structure of the Indian economy, risks stemming from the Modi government's policy approach, and risks stemming from the structure of the financial system. (Fig. 15)

1) Risks stemming from the structure of the Indian economy

Many of the risks facing the Indian economy are common to other Asian emerging countries, but in some areas, India is more susceptible to exogenous negative impacts than other countries.

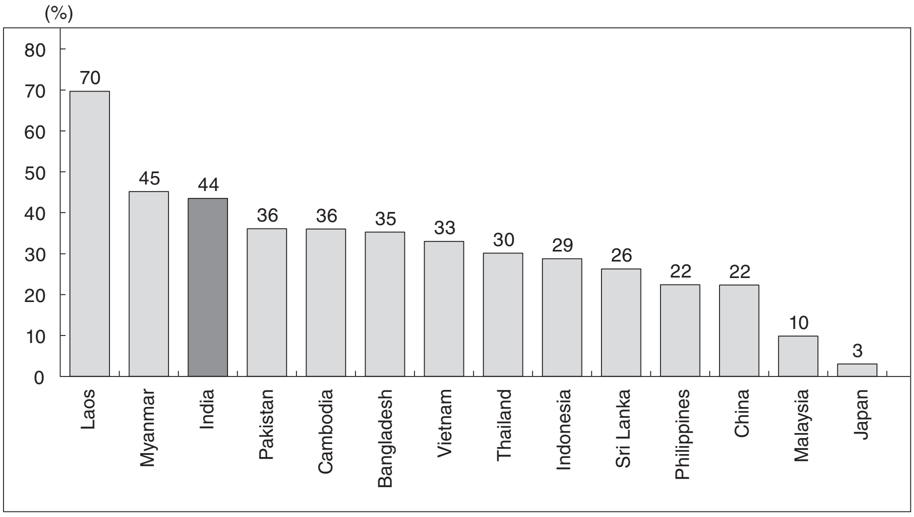
For example, about 40% of the workforce in India is engaged in agriculture, forestry, and fisheries, which is the third-highest percentage after Laos and Myanmar (Fig. 16). The incomes of many people, including those in related industries like logistics, retail, and wholesale of agricultural

Fig. 15 Risks Surrounding Retail Finance in India



Source: JRI

Fig. 16 Proportion of Workforce in Agriculture, Forestry, and Fisheries (2022)



Source: JRI based on the World Bank

products, are easily influenced by weather conditions. With global climate change, the frequency of extreme weather events such as floods and droughts is increasing, and the environment surrounding households engaged in primary industries is becoming unstable.

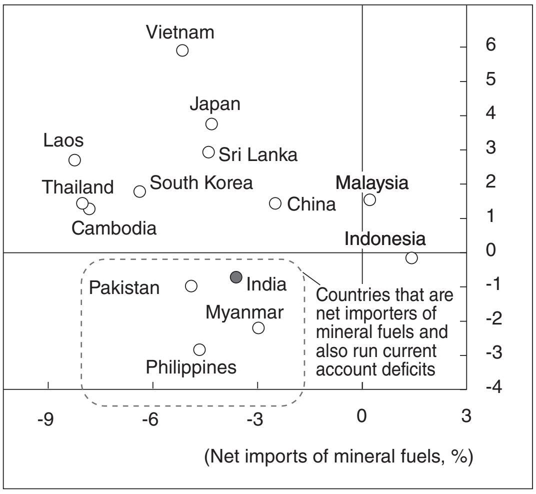
Furthermore, among countries with similar income levels and similar agriculture, forestry, and fisheries employment shares, India's capital markets are relatively more developed, and its exchange rate and monetary policy are more susceptible to changes in the monetary policies of developed countries. There is a high correlation between the rupee-dollar exchange rate and the U.S.-India interest rate differential. When the U.S. implements monetary tightening, India tends to change its policy rate in tandem with the U.S. to avoid inflation caused by a significant rupee depreciation.

The future of U.S. trade policy remains highly uncertain. If the U.S. raises tariffs on imports from various countries and U.S. inflation rises, the Fed may respond by shifting its policy stance to interest rate hikes. If this happens, the Reserve Bank of India may also be forced to review its monetary policy to stabilize the exchange rate and prices.

The Indian economy is also characterized by its vulnerability to the negative effects of rising resource prices, particularly crude oil. Although India's dependency on imported mineral fuels is relatively low among Asian emerging countries given its economic size(18) (Fig. 17), it continues to run a current account deficit. This makes its currency prone to depreciation when resource prices rise. While the net import value of crude oil and petroleum products did not increase after 2022 despite rising crude oil prices due to a shift to cheaper Russian crude oil (Fig. 18), the price advantage of Russian crude oil has recently been diminishing. As a result, an expanding trade deficit is inevitable if resource prices rise(19). Furthermore, gasoline and diesel fuel prices going up because of rising crude oil prices puts downward pressure on automobile sales. This in turn worsens the profitability of NBFCs, for which car loans account for a hefty proportion of lending.

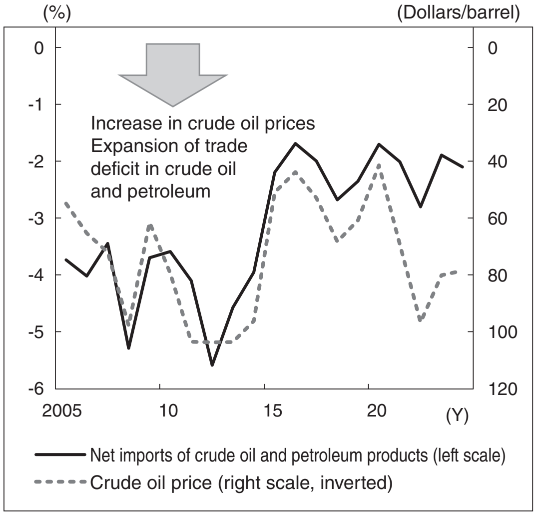
Another risk for India is its limited room to use fiscal expansion to avert a recession given fiscal consolidation is an urgent issue. In 2024, the general government fiscal deficit and debt-to-nominal-GDP ratio were both high relative to other Asian emerging countries (Fig. 19). If the government were to expand fiscal spending during an economic downturn, the worsening supply-

Fig. 17 Net Imports of Mineral Fuels (HS Code: 27) and Current Account Balance (Ratio to Nominal GDP, 2023)



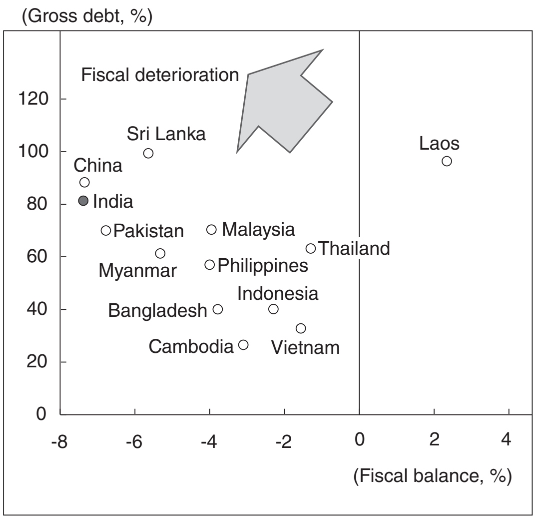
Notes: Mineral fuels include all items under HS27.
Source: JRI based on the IMF and the United Nations

Fig. 18 Net Imports of Crude Oil and Petroleum Products (HS codes: 2709-2710) (Ratio to Nominal GDP) and Resource Prices



Notes: Total of HS2709 and 2710. Crude oil price is the simple average of prices of WTI, Dubai, and Brent.
Source: JRI based on the United Nations, the Ministry of Statistics and Programme Implementation, and the IMF

Fig. 19 General Government Fiscal Deficit and Gross Debt (Ratio to Nominal GDP, 2024)



Notes: The IMF expects Laos to achieve a fiscal surplus in 2024 due to its raising of the VAT (Value Added Tax) rate from 7% to 10%.
Source: JRI based on the IMF World Economic Outlook 2025 April

demand balance for government bonds could also lead to rising interest rates and currency depreciation, potentially preventing the economy from recovering as the government would hope.

2) Risks stemming from the Modi government's policy approach

Since the Modi government came to power in 2014, India has repeatedly experienced temporary economic and social disruptions due to bold institutional changes. Given this history, it is important to be cautious about the risk of the government making sudden policy changes in the future.

A prime example of a bold institutional change that disrupted the economy and society was the demonetization of high-denomination banknotes in 2016. To eliminate illicit earnings from corruption, tax evasion, and crime, the government suddenly scrapped the 500 and 1,000 rupee notes, which accounted for about 90% of the currency in circulation. The subsequent delay in the supply of new banknotes caused significant chaos in the daily lives of low-income people in rural areas, who rely heavily on cash transactions, as well as in the operations of micro-enterprises(20).

Later, the introduction of the GST (Goods and Services Tax) in 2017 also temporarily worsened the economy. The introduction of the GST simplified a complex tax system with varying rates across states and was a major achievement for the Modi government, but the implementation of the tax only a few months after the standard rates were decided caused confusion. To be eligible for the input tax credit, both a company and its business partners needed to introduce GST-compliant IT systems. However, as small, medium-sized, and micro-enterprises were slow to adopt the new systems, the negative impact also spread to large companies.

It is also worth remembering that immediately after the start of the COVID-19 pandemic, the government implemented one of the world's strictest lockdowns to prevent the spread of the disease, which temporarily drove the youth unemployment rate to over 30%[(21)]. In the same year, the introduction of strict exhaust gas regulations, "BS6 (Bharat Stage 6)," caused a temporary and rapid economic downturn. Memories of these events are still fresh.

The introduction of BS6 put downward pressure on automobile sales as the new cars compliant with the regulations were more expensive. In addition, there was insufficient explanation about how long vehicles purchased before the implementation of BS6 could continue to be used, leading many consumers to hold off on purchases in the run-up to the regulations coming into effect.

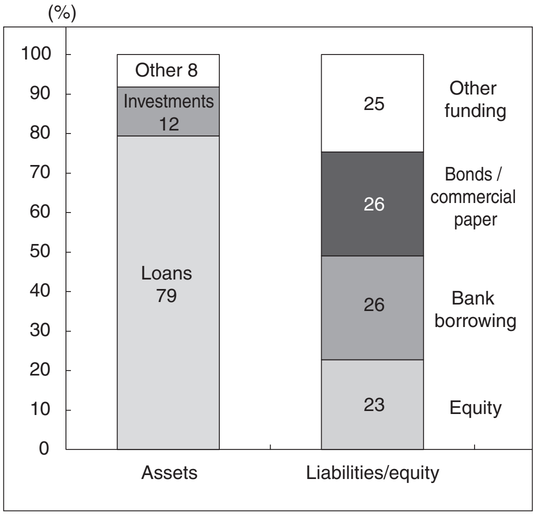
Looking ahead, we must be mindful of the risk that a bold institutional change could temporarily disrupt the economy and society, worsening the household debt repayment environment. Examples of such changes include the implementation of new labor codes[(22)], which is currently delayed, and the Digital Personal Data Protection Act, the tightening of safety and environmental standards that would increase the production costs and sales prices of automobiles, the liberalization of agricultural product distribution and increased private sector participation in agriculture[(23)], which could hit farmers' incomes, and the introduction of a "uniform civil code"[(24)], which could lead to conflicts between Muslims and Hindus.

3) Risks stemming from the structure of the financial system

The key risks stemming from the structure of the financial system are that about 20% of lending by NBFCs, whose presence is only growing, is unsecured, and that these NBFCs depend on financial institutions and insurance companies for the majority of their funding (Fig. 20). Connections between commercial banks and NBFCs have deepened. Loans to the latter have risen from 4-5% of commercial banks' loans in the early 2010s to about 10% today (Fig. 21). This means that the impact on commercial banks will now be greater than before if the operating environment for NBFCs worsens.

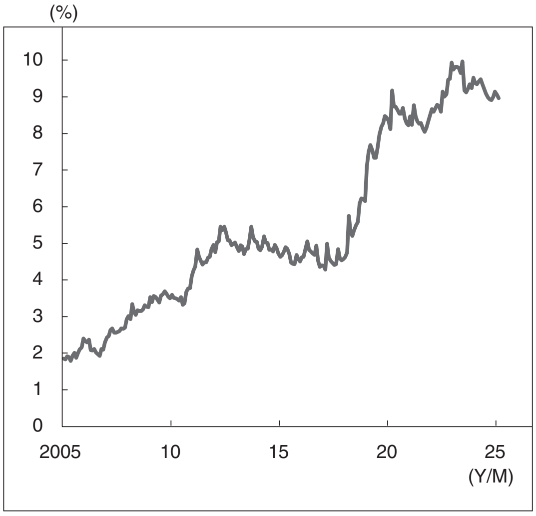
The default of major NBFC, IL&FS, in 2018 and the credit uncertainty that followed is a key example of these risks materializing simultaneously and leading to a chain reaction that damages the real and financial economies[(25)]. The company was established in 1987 with investments from a state-owned insurance company and a public bank to provide funding for infrastructure projects. The root of the problem was liquidity risk caused by a mismatch between the short-term maturity of its funding through the issuance of commercial paper from financial institutions and the long-term nature of its loans for infrastructure-related projects. The stagnation of infrastructure projects funded by IL&FS worsened its cash flow, and its default

Fig. 20 Composition of Non-Banking Financial Companies' Balance Sheets (March 2024)



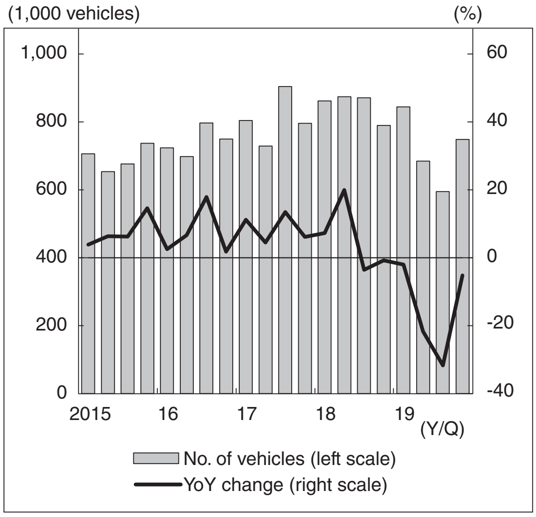
Source: JRI based on the Reserve Bank of India

Fig. 21 Lending to Non-Banking Financial Companies as a Share of Lending by Indian Commercial Banks



Source: JRI based on the Reserve Bank of India

Fig. 22 Passenger Car Sales Volume in India



Source: JRI based on the Society of Indian Automobile Manufacturers

on a loan from SIDBI (Small Industries Development Bank of India) caused credit jitters to spread through the financial markets[26].

Financial institutions tightened their lending stances in response. Additionally, automobile sales saw downward pressure from the previously mentioned BS6 exhaust gas regulations led to consumers holding off on purchases prior to their introduction, and rising costs of owning and operating a car due to stricter safety standards, higher compulsory insurance premiums, and higher gasoline prices from rising crude oil prices. As a result, passenger car sales plummeted toward mid-2019 (Fig. 22).

The government implemented economic stimulus measures, including a public capital injection into financial institutions to stabilize the economy and financial system, and the Reserve Bank of India also significantly lowered its policy rate. However, amidst the ongoing credit worries in the financial sector, the interest rates on loans from financial institutions remained stubbornly high[27].

Subsequently, after the COVID-19 pandemic, lending by financial institutions and the performance of the economy returned to a virtuous cycle. Key financial indicators, including return on assets, non-performing loan ratio, capital adequacy ratio, and Liquidity Coverage Ratio (which represents the ratio of liquid assets to expected cash outflows under a stress scenario over the next month), have continued to improve for both commercial banks and non-banks. There have also been no noticeable changes in housing price appreciation, and financial risks are judged to be limited at this time. However, given the various risks facing the Indian economy and past events, continued caution is needed against the risk of the current virtuous cycle breaking down due to external shocks or institutional changes.

(2) The financial authorities' regulatory response

The Reserve Bank of India, wary of the potential for rising financial risks, is intensifying its efforts to tighten financial regulations to improve medium- to long-term economic and financial stability (Table 5).

One of the most notable initiatives was the increase in "risk weights" in November 2023. Risk weights are used to calculate the capital adequacy ratios of financial institutions. While they vary depending on the type of financial institution and the assets held, the risk weight for personal loans was raised from 100% to 125% for both commercial banks and NBFCs, with exceptions for certain loans.

Since higher risk weights reduces capital adequacy ratios (Table 6), financial institutions must increase their internal reserves (retained earnings) or raise capital to meet the minimum capital adequacy ratio set by the Reserve Bank of India.

Table 5 Recent Moves by the Reserve Bank of India to Curb Potential Financial Risks

Date	Action	Details
November 2023	Risk weight increase	Increased the risk weight for personal loans of commercial banks and NBFCs by 25 percentage points
January 2024	Issuance of business suspension order	Issued a business suspension order to Paytm Payments Bank, a subsidiary of major electronic payment company Paytm, due to compliance violations and supervisory concerns
March 2024	Issuance of business suspension order	Issued a business suspension order to major NBFC IIFL Finance for gold-backed loans due to supervisory concerns
		Prohibited major NBFC JM Financial Products from conducting loan business collateralized by stocks and bonds (the Securities and Exchange Board of India also notified JM Financial Products' parent company to prohibit it from acting as a manager for bond issuance)
April 2024	Stricter regulations on information provision	Mandated all financial institutions to provide KFS (Key Facts Statements) when executing loans to households and small, medium-sized, and micro-enterprises to curb financial risk stemming from information asymmetry
	Plan to review the method for calculating the liquidity coverage ratio	Announced a policy to review the regulatory framework of the Liquidity Coverage Ratio (eligible liquid assets and liquidity ratios may be reviewed in the future)
July 2024	Plan to introduce a new accounting standard for loan loss provisions	Announced a policy to apply the "ECL (Expected Credit Loss) Model" to the method of calculating loan loss provisions for financial institutions during FY2024
October 2024	Issuance of business suspension order	Issued a business suspension order for new lending to four companies (Asirvad Micro Finance, Arohan Financial Services, DMI Finance, and Navi Finserv) due to violations of regulations on the setting of high interest rates and the assessment of borrowers' repayment ability
March 2025	Imposition of fines	Imposed fines totaling 7.66 million rupees on Fairassets Technologies India, Bridge Fintech Solutions, Rang De P2P Financial Service, and Visionary Financepeer for reasons including compliance violations

Source: JRI based on the Reserve Bank of India and various media reports

Table 6 Impact of Risk Weight Change on Capital Adequacy Ratios of Financial Institutions

<Before>		
①	Equity	1 billion rupees
②	Balance of loans to households	10 billion rupees
③	Risk weight for loans to households	100%

Capital adequacy ratio = equity (1 billion rupees) ÷ {balance of loans to households (10 billion rupees) × risk weight (100%)} = 10%

<After risk weight increase>		
①	Equity	1 billion rupees
②	Balance of loans to households	10 billion rupees
③	Risk weight for loans to households	125%

Capital adequacy ratio = equity (1 billion rupees) ÷ {balance of loans to households (10 billion rupees) × risk weight (125%)} = 8%

(In this example, to meet the minimum capital adequacy ratio (9%), the financial institution would need to either increase its equity by 125 million rupees or reduce its loans to households by 1.11 billion rupees)

Notes: The above are simplified balance sheets of a financial institution aimed at facilitating intuitive understanding of the change. The minimum capital adequacy ratio varies according to the size and type of institution, but this example assumes it is 9%.
Source: JRI

If doing these is difficult, they will need to curb lending.

In addition, the Reserve Bank of India has issued a series of business improvement orders and partial business suspension orders to financial institutions with management problems, which has also attracted attention.

One particularly notable case was the business suspension order issued in January 2024 to Paytm Payments Bank, a subsidiary of the major electronic payment company Paytm. Although the Reserve Bank of India did not disclose the specific violations committed by the company, it was reported that the reasons were issues with customer management and cybersecurity. Paytm is a company that provided technology to the Japanese payment service PayPay and is a SoftBank Group investee, so the business suspension order garnered attention in Japan as well.

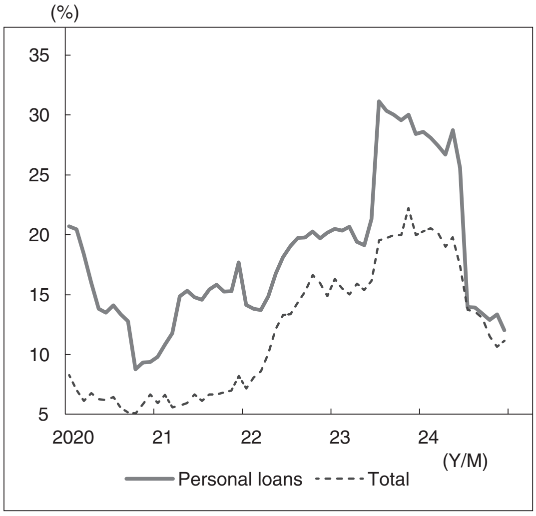
Other notable events include major NBFC IIFL being ordered to suspend gold-backed loan operations due to supervisory concerns, and four companies, including DMI Finance (in which Mitsubishi UFJ Bank is an investor), being instructed to suspend new lending due to violations of regulations on the setting of high interest rates and assessments of borrowers' repayment ability.

Furthermore, to improve the stability of the financial system, the Reserve Bank of India is planning to raise the Liquidity Coverage Ratio and introduce new standards for calculating loan loss provisions.

While these measures are necessary for long-term economic and financial stability, lending by financial institutions has been slowing rapidly since mid-2024 due to stricter regulations, increasing the risk of an economic downturn (Fig. 23). Amid this situation, in February 2025, the Reserve Bank of India indicated a greater focus on the economy in the short term by lowering the risk weight for personal loans by microfinance companies by 25 percentage points and also lowering the risk weight for commercial banks' loans to NBFCs by 25 percentage points.

Going forward, the Reserve Bank of India will continue to face the difficult challenge of balancing short-term economic expansion with medium- to long-term economic and financial stability. Along with the three risks mentioned above, the Reserve Bank of India's monetary policy will be a key factor influencing the pace of expansion of both retail finance and the macro-economy.

Fig. 23 Lending by Commercial Banks (YoY change)



Source: JRI based on the Reserve Bank of India

Conclusion

India's economy and retail finance market achieving solid growth over the medium to long term remains a convincing scenario. However, various factors are expected to affect the short-term pace of expansion, and caution is needed regarding the risk of a significant economic downturn should several downside risks materialize simultaneously.

The extent to which India can mitigate the risks surrounding retail finance in the future depends on the progress of initiatives such as: building an agricultural system less susceptible to weather factors, reducing trade and current account deficits through the expanded adoption of renewable energy and increased energy efficiency, eliminating uncertainty related to policy changes through careful explanations to stakeholders, and expanding the information available to financial institutions for making credit decisions.

Amid the growing importance of India for the

Japanese economy due to the deepening U.S.-China rivalry, Japan is expected to actively engage in both business and aid initiatives that contribute to the development and stability of India’s retail finance sector, thereby deepening the countries’ economic relationship.

End Notes

1. For China, the CPI item weights are not published, but the weight of food and beverages, calculated by performing a regression analysis of the composite index's rate of increase using the price increase rates of each item, is about 30%.

2. For the number of units sold in 2014, see "Estimates of World Air Conditioner Demand" from the Japan Refrigeration and Air Conditioning Industry Association. For the number of units sold in 2024, see the JETRO regional and analytical report "Electric and Electronic Industry, Competition in India with Strengths in Local Supply and Quality (5)" dated March 25, 2025.

3. Regarding automobiles, there is also the view that the proliferation of car-sharing services may dampen growing automobile sales, while air pollution and climate change will further spur air conditioner and air purifier sales.

4. A number obtained by annualizing the domestic sales volume for the period from January to July 2024 (39.11 million units) as stated in "Performance of China's air conditioner industry in FY2024" from the China Household Electrical Appliances Association, dated September 29, 2024.

5. Along with spending on purchasing and renovating homes, purchases of precious metals and expensive art pieces are included in gross capital formation.

6. Statistics on the incomes of the self-employed are limited and I assumed that their incomes increased at the same pace as for the employed.

7. I used the consumption deflator from GDP statistics to convert the stock price index and the balance of loans to households into real terms, and then calculated the rate of increase over the period.

8. The introduction of the national ID system employing biometric authentication technology greatly increased the proportion of people who could not read or write obtaining identity documents, which led to them opening accounts at financial institutions.

9. For the history of the development of India's financial sector, see Inoue [2020], Esho [1997], and Kumagai [2021a]. Some previous studies have divided financial development in India into a greater number of stages, but this paper divides it into three stages to focus on grasping the major trends.

10. The official name is “Scheduled Commercial Bank.” There are also “Non-Scheduled Commercial Banks” to which strict regulations do not apply, but because the number of such financial institutions and their total assets are limited, it is common to refer to SCBs simply as commercial banks.

11. Several financial institutions with “Bank” in their names, such as the National Housing Bank and the Export-Import Bank of India, are sometimes classified as part of the “non-banking sector” under the Reserve Bank of India’s system.

12. When asset restructuring companies, primary dealers, and all-India financial institutions are included, they are generally referred to as NBFIs (Non-Banking Financial Institutions), and when these are not included, they are referred to as NBFCs (Non-Banking Financial Companies). Furthermore, housing finance companies came to be classified as NBFCs with the change of their regulatory authority to the Reserve Bank of India in 2019, so in certain statistics and contexts, they are still not counted as NBFCs.

13. While there have been some moves by foreign firms to expand business in the banking sector, such as Sumitomo Mitsui Banking Corporation announcing that it would acquire a 20% stake in YES Bank in March 2024, they have not yet taken off in earnest for reasons including foreign ownership regulations.

14. While retail finance is becoming increasingly important for NBFCs overall, the lending structures of financial institutions that do not engage in retail finance, such as infrastructure finance companies, have not changed.

15. The Reserve Bank of India’s statistics on non-bank lending by segment are prepared for NBFCs narrowly defined, which does not include housing finance companies, and the proportion of housing loans based on these statistics is 2%. For housing finance companies, data on lending by segment is not published. However, given the majority of their lending is to individuals, individuals are likely already the largest segment for lending by NBFCs broadly defined, including housing finance companies.

16. FACE classifies NBFCs whose business is centered on lending through smartphone apps as “FinTech NBFCs” and other NBFCs as “Other NBFCs.” Also, the “Banks” category includes lending from banks other than commercial banks.

17. For example, “Indian households have a debt problem” on April 7, 2025 in *The Indian Express*., and “The Great Indian Household Debt Bubble: Fact or Fiction?” on April 15, 2025

18. Until the early 2010s, India's dependency on imported mineral fuels was relatively high among Asian countries, but it has since declined. Background factors include improved energy use efficiency in each sector, continued economic growth led by the service sector, which uses energy relatively efficiently, and expanded imports of low-priced Russian crude oil.

19. In 2024, Russia's share of India's crude oil imports increased to about 40%. If India wishes to avoid excessive import dependence on any one country, it will be difficult for it to further increase the import ratio of Russian crude oil.

20. For the effects of the demonetization of high-denomination banknotes, see Minato [2024].

21. Since healthcare infrastructure in India is not as well-developed as in other countries, the government implemented a strict lockdown to prevent the spread of the disease causing a serious medical collapse. However, in response to a severe worsening of the economy and other social problems such as a rapid increase in suicides, the lockdown was gradually eased.

22. New labor codes that consolidated and simplified about 30 labor codes into four were enacted in 2020 but have not yet been put into force (for information on the labor codes, see Kumagai [2021b]). While the government has not explicitly stated why it has delayed implementation, the two following factors may have a role. First, the government may have intentionally held off on implementing the new labor codes, which could cause temporary confusion, until the general election in 2024 was over. Second, state governments' passage of legislation conforming to the new codes may be behind schedule.

23. The Modi government passed a new agricultural law in 2020 to liberalize the agricultural sector, but in response to large-scale protests from farmers who were wary of harm to their vested interests, the law was withdrawn in 2021.

24. Unlike Japan, India does not have a uniform civil code, with each religion having its own civil code. The Modi government aims to introduce a uniform civil code, arguing that the application of different civil codes for different religions violates equality under the law, but Muslims are opposing the introduction of a uniform civil code that would make polygamy and instant divorce illegal, citing concerns that their religious values would be lost.

25. An NBFC established in 1987 with investments from state-owned insurance companies and public banks for the purpose of providing funds for infrastructure projects. ORIX of Japan also has an investment.

26. For the economic and financial situation at that time, see Kumagai [2019].

27. In response to this, the Reserve Bank of India mandated that the interest rates on commercial bank loans to individuals and small and medium-sized enterprises be linked to the policy rate.

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