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HOW DO HOUSEHOLDS IN BIHAR MANAGE SPENDING, DEBT, AND ASPIRATIONS?

A Report

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EXECUTIVE SUMMARY

This report provides a nuanced, evidence-based analysis of household financial dynamics in Bihar, examining the intricate relationship between income, expenditure, and debt patterns. Based on a critical review of a user-provided document and its validation against official government and peer-reviewed academic sources, the report presents a central thesis: the households in Bihar are currently engaged in a strategic yet precarious financial transition, using debt as a bridge to finance a consumption basket that reflects aspirations for a better quality of life. The report argues that this "aspirational paradox" where spending on high-elasticity goods like education, healthcare, and transport outpaces current income is sustained by a fragile financial ecosystem. This ecosystem is overwhelmingly dominated by high-cost informal credit, which, while acting as a crucial lifeline, exposes households to a profound and pervasive risk of a perpetual debt trap. Key findings, include a slight discrepancy with the People's Research on Indian Consumer Economy data (PRICE) and the Household Consumption Expenditure Data published by the Government of India as well as the pervasive nature of financial exclusion, lead to policy recommendations focused on expanding formal financial access, strengthening social safety nets, and ensuring productive, rather than purely consumptive, borrowing. The primary financial data from PRICE ICE 360 Survey¹ along with Household Consumption Expenditure Survey (HCES) Data necessitate a pivot from mere validation to a critical, comparative analysis. The HCES report has also been used to support the findings from the analysis of PRICE data. The debt landscape is a paradox: while debt serves as a vital coping and investment tool, its overwhelming reliance on informal, high-cost sources creates a significant and well-documented risk of a debt trap (Das, T, 2015). We also see how Bihar spends across various expenditure categories and view the Engel Curve elasticities to see the to see how it increases or decreases with income.

¹ ICE 360 is the Household Survey on India's Citizen Environment and Consumer Economy. This is a survey conducted by the [People Research on India's Consumer Economy \(PRICE\)](#) to gather data on how Indian households earn, spend, save, and invest, as well as their access to public services and infrastructure.

1. INTRODUCTION: CONTEXTUALIZING BIHAR'S SOCIO-ECONOMIC LANDSCAPE

Macroeconomic Context and Report Objectives

Bihar's socio-economic landscape provides a critical backdrop for understanding its household financial dynamics. As the only state where expenditure outpaces earnings according to the PRICE data, Bihar faces significant and systemic challenges, including a nominal per capita income that was only 30% of the national average in 2021-22 (NITI Aayog, 2025). The state's own finances reflect this fragility, with a high debt-to-GSDP (Gross State Domestic Product) ratio of 39.6% and a fiscal deficit of 3.9% in 2021-22, both exceeding the national median (NITI Aayog, 2025). This macro-level financial instability, a state budget with high deficit and debt is mirrored at the household level, where families are also grappling with a fundamental imbalance between their earnings and expenses. This report aims to conduct a rigorous academic analysis of the financial patterns observed in Bihar. The PRICE ICE 360 2021 survey data will be critically analysed by validating them against the Household Consumption Expenditure Survey (HCES) (Ministry of Statistics & Programme Implementation, 2024), and academic studies. The goal is to articulate a nuanced argument about the complex relationship between household expenditure, debt, and the aspirational imperatives driving the families in Bihar.

Methodological Note on Data Validation

The PRICE data states that in 2021, the average annual household income in Bihar was ₹1,17,317, while household expenditure was ₹1,23,018, indicating a deficit. A comparative analysis with the Household Consumption Expenditure Survey (HCES), indicates a vastly different scale of household spending primarily because it reports the data on a per capita basis. For instance, the HCES data for 2022-23 shows that the average Monthly Per Capita Consumption Expenditure (MPCE) for rural Bihar was ₹3,384 (Ministry of Statistics & Programme Implementation, 2024). Assuming a conservative average household size of five which is a figure typical for the state, which translates to an average monthly household expenditure of ₹16,920, and a corresponding annual figure of ₹2,03,040. Here we witness a slight discrepancy between the ICE 360 survey and the HCES which can be attributed to the fact that the PRICE survey asked respondents for yearly expenditure and spending while HCES asked respondents for monthly expenditure and spending.

2. HOUSEHOLD EXPENDITURE AND INCOME PATTERNS: A DISAGGREGATED ANALYSIS

The Structure of Income and the Aspirational Imperative

The composition of household income in Bihar is notably fragmented, as detailed by PRICE data of 2021. No single source of earnings makes up the majority of the average household income of ₹1,17,317. The largest contributions come from regular salaried or wage work at ₹26,221 and self-employment in agriculture at ₹25,709. Other significant, though smaller, sources include non-agriculture wage labour (₹20,508) and non-agriculture self-employment (₹17,353). This fragmented income structure is characteristic of low-income regions and contributes to a high degree of financial instability. Households do not have a stable, dominant source of revenue to rely on, making them highly susceptible to economic shocks and market volatility (De Vreyer, Lambert, & Ravallion, 2020).

When analysing household spending, a useful theoretical framework is Engel's Law, a well-established economic principle (Chandrasekhar, Geetha Rani, & Sahoo, 2016). Engel's Law posits that as a household's income increases, the proportion of its total expenditure allocated to food decreases. This is a hallmark of economic development and a shift towards a more diversified consumption basket. To place Bihar's consumption patterns as in a broader context, table 1 compares its reported expenditure shares with broader national trends.

Table 1: A Comparative Analysis of Household Expenditure Share (%)		
Expenditure Category	Bihar	All-India
Food	50.8%	53.43%
Non-Food	49.2%	46.57%
- Healthcare	8.14%	5.63%
- Education	6.6%	6.12%
- Transport & Communication	6.97%	8.58%
<i>Source: PRICE ICE 360 Survey, 2021-22</i>		

Quite surprisingly the rest of India spends more on food as a share of their total expenditure than Bihar but on an overall level. Bihar is also found to spend more on healthcare and education as a proportion of their total income when compared to national averages. Also, in spite of Bihar's migrant economy the expenditure on transportation and communication as a proportion of total income seems to be less than national averages. Households are demonstrably spending beyond basic sustenance, moving towards a consumption basket that includes more than just food and housing. This shift is a powerful indicator of changing aspirations.

Consumption Elasticities and the Aspirational Paradox

The elasticity results from PRICE ICE360 data offer a crucial lens into the motivations behind - the spending in Bihar Households. The data categorizes expenses into three distinct groups:

1. **Necessities (Elasticity < 1):** Spending on categories like food at home (0.68) and housing and utilities (0.71) grows more slowly than income, which is a classic economic indicator that these are basic needs.
2. **Luxuries (Elasticity > 1):** Spending on transportation (1.20) and entertainment (1.09) rises faster than income, signifying that these are expenses households prioritize as their financial capacity increases.
3. **Essentials (Elasticity \approx 1):** Spending on health care (0.99), education (0.98), and communications (0.98) grow almost in direct proportion to income. The document notes that this indicates families treat these as "very important" expenditures that cannot be avoided, even when money is tight.

This pattern reveals a profound aspirational paradox (see Figure 1). On the one hand, a negative savings rate and the reliance on debt suggest a precarious financial situation. On the other hand, the spending patterns represent a disproportionate allocation of resources towards health, education, and lifestyle goods signal a forward-looking consumer base actively investing in upward mobility and an improved quality of life. The households are not just surviving; they are strategically seeking to transcend their current economic status. The belief that expenses on health and education "cannot be cut back" as they are tagged as essentials with elasticities nearing 1 (0.99 and 0.98). This indicates that these neither scale up not down with income and these expenditures stay regardless of the earning levels of the

household and may necessitate borrowing is a clear manifestation of this aspiration. Figure 1 also shows the actual and predicted expenditure in Bihar Households as seen from the data. We observe that the actual and predicted values are close enough in cases where the elasticity is greater or equal to 1. Its only food which has an elasticity value of 0.68 which shows a discrepancy in actual vs predicted values which is indicative of the limits of the Engel curve elasticity method as it doesn't scale up with income.

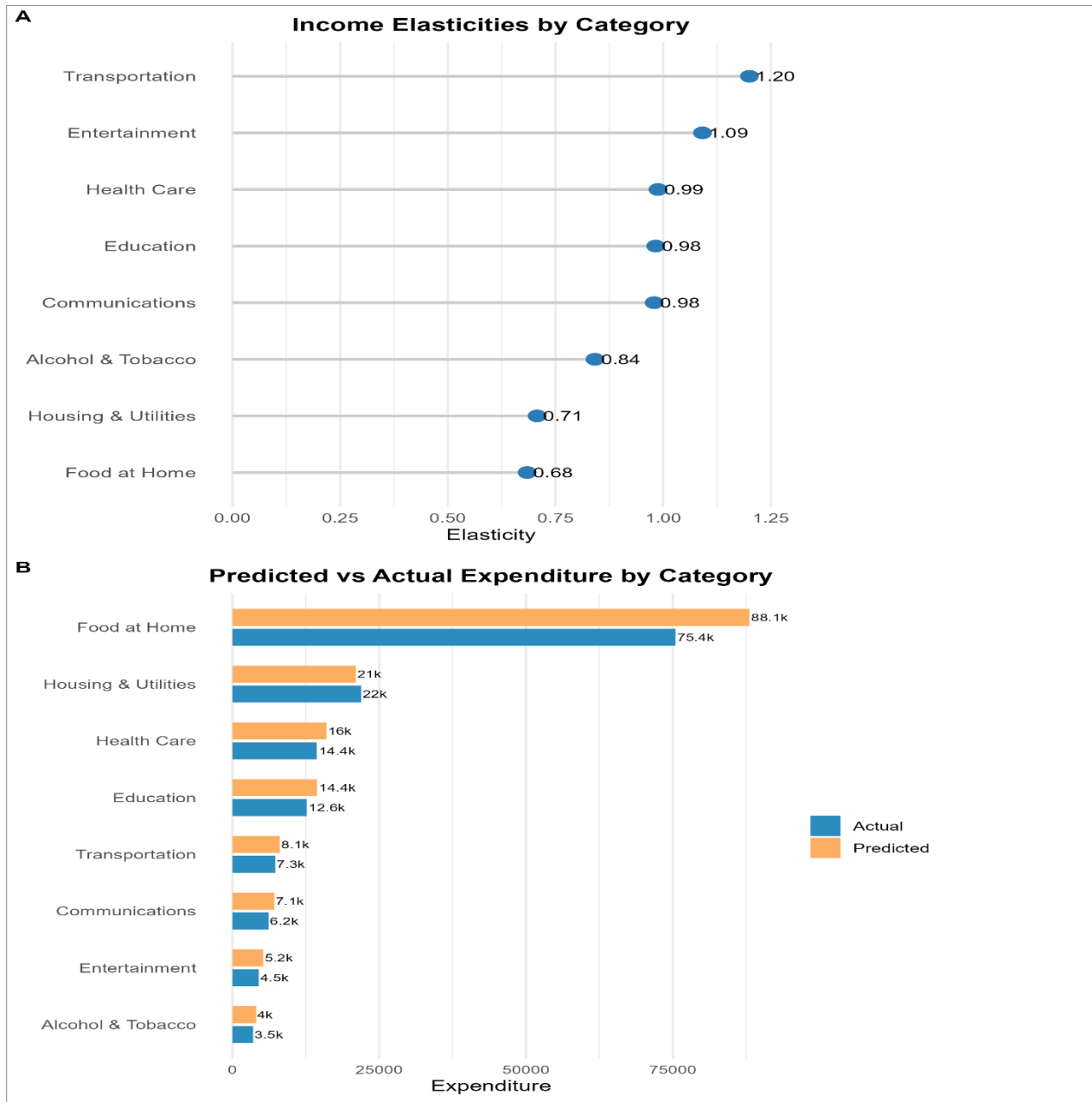


Figure 1: Income Elasticities and actual vs predicted expenditure

However, a closer look at academic literature introduces a significant nuance to this narrative. The aspiration to invest in human capital is strong, but the ability to do so is often constrained by financial barriers. A study on education loans in India notes that credit constraints may, in fact, prevent poorer households from borrowing for higher education (Desai, 2025). Similarly, a commentary on household debt in India suggests that debt is often used for "undesirable coping strategies" such as pulling children out of school to make repayments, and that the rising share of personal loans is increasingly for consumption rather than asset creation (Mukherjee, 2013). This highlights the gap between aspiration and financial reality. The household is caught in a difficult bind: their desire for a better life compels them to take on high-cost debt, but this very debt can spiral out of control, undermining the investments they intended to make and trapping them in a cycle of vulnerability.

3. THE DEBT LANDSCAPE: COPING, INVESTMENT, AND VULNERABILITY

The Prevalence and Sources of Household Debt

Debt plays a central, and often paradoxical, role in the economy of Bihar households the PRICE data indicates that over half of the households surveyed, 52.3%, report having outstanding loans. The composition of this borrowing is particularly revealing, with personal loans making up the largest share (60.3%), followed by home loans (3.6%) and agriculture loans (2.43%). The average size of these personal loans², at ₹3,35,412, is also notably higher than home loans (₹1,52,609) or agriculture loans (₹82,483). The dominance of unsecured personal loans suggests a heavy reliance on informal credit to manage day-to-day finances and meet aspirational spending needs, rather than for long-term asset creation like housing or agriculture. The most striking finding, however, is the source of this borrowing. The overwhelming majority of personal loans in Bihar are from informal channels, with friends and relatives accounting for nearly 60% of all personal loans and moneylenders and landlords making up another 24.4%. In stark contrast, institutional sources like banks and cooperatives account for a negligible 3.07%. Table 2 clearly illustrates this dramatic imbalance.

Loan Source	Percentage Share
Friends and Relatives	59.97%
Moneylenders and Landlords	24.4%
Self-Help Groups (SHGs)	6.6%
Non-Banking Financial Companies (NBFCs) & Microfinance Institutions (MFIs)	4.67%
Banks and Cooperatives	3.07%
Other (Government, etc.)	Very small shares

Source: PRICE ICE 360 Survey, 2021-22

² Note that PRICE ICE 360 surveys collect data for outstanding loans which means the total loan amount remaining while consumption expenditure and income is collected on a per year basis

This reliance on informal sources is not unique to Bihar. A study on rural households in eastern India, including Bihar, corroborates this trend, noting that 52% of households lacked access to any type of loan and that formal credit is particularly inaccessible for households with little land and education (Joshi, Kumar, & BIRTHAL, 2016).

Why Informal Credit Persists: The Barriers to Financial Inclusion ?

The persistent reliance on informal credit is a multifaceted issue rooted in systemic barriers. For the impoverished, a primary reason is exclusion from formal financial institutions due to a lack of traditional collateral, such as physical assets or land (Joshi, Kumar, & BIRTHAL, 2016). Formal banks are hesitant to lend to those without tangible security, leaving the poor with no choice but to turn to alternative sources. Furthermore, a study on informal credit in rural India points to the efficiency of these non-institutional mechanisms (UNDP, 2024) Informal lenders possess better, more localized information about potential borrowers, allowing them to provide credit where formal institutions cannot or will not. The speed and lack of procedural hurdles associated with informal loans are also highly valued, especially in times of emergency or urgent need for working capital (Basu & Srivastava, 2005). This is a crucial distinction: informal credit is often not a choice of preference but of necessity, born out of the practical constraints of the formal system.

However, this reliance on informal channels comes at a severe cost. Academic literature is unequivocal in its warnings about the dangers of this financial ecosystem. A study on informal finance in North-East India explicitly warns of a "vicious circle" of borrowing and loss, where households borrow, suffer a setback, and are forced to borrow again just to survive (Das, 2015) Another study on agricultural credit warns of a "perpetual debt trap" caused by the "exorbitantly high rates of interest" charged by private moneylenders (Joshi et al, 2016) This risk is tragically real, as documented in reports linking high debt burdens and reliance on informal credit to farmer suicides in India (Kannuri & Jadhav, 2021). In essence, informal credit acts as a critical lifeline, but one that can easily tighten into a noose, leaving households in a state of profound and inescapable vulnerability.

4. THE CENTRAL THESIS: A FRAGILE FINANCIAL TRANSITION

The analysis of Bihar's household financial dynamics reveals a complex and precarious situation. The negative savings rate and high incidence of debt are not merely indicators of poverty or fiscal mismanagement. Instead, they are symptoms of a complex, high-stakes financial strategy at the household level. The core argument of this report can be synthesized in a step-by-step progression:

1. **Low, Unstable Income:** Bihar households grapple with a fragmented and insufficient income structure, making it difficult to meet daily expenses and financial goals.
2. **Rising Aspirations:** Despite their limited income, families are prioritizing spending on aspirational goods and services, particularly on healthcare and education.¹ This is part of a broader national trend in which consumption patterns are shifting from a focus on food to an increasing allocation to non-food items (Deshmukh, 2018).
3. **The Debt Bridge:** This fundamental gap between low income and high-cost, aspirational expenditure is being bridged by debt. Households are using borrowing, particularly through unsecured personal loans, to finance a lifestyle and a future that their current earnings cannot support.
4. **Informal Dependency:** Due to systemic barriers like a lack of collateral and high transaction costs, this debt is predominantly sourced from informal channels (Das, 2015)
5. **The Peril:** This reliance on informal, high-cost debt transforms the aspirational consumption strategy into a vulnerable state. It leaves households highly susceptible to financial shocks such as medical emergencies or crop failures and exposes them to the significant risk of a debt trap (Kannuri et al, 2021)
6. **The Macro-Micro Loop:** This household-level vulnerability is exacerbated by the state's own financial fragility. With a high debt-to-GSDP ratio and fiscal deficit (NITI Aayog, 2025), the government's capacity to invest in and provide affordable public services is limited. This forces households to find private, debt-financed solutions for crucial expenses like healthcare and education, thereby reinforcing the cycle of vulnerability.

This intricate interplay of low income, high aspirations, and a fragile, high-cost financial ecosystem defines the current state of Bihar households. Debt is a dual-edged sword, serving both as a tool for progress and a source of profound vulnerability.

5. POLICY IMPLICATIONS AND FORWARD-LOOKING RECOMMENDATIONS

The findings of this report suggest that policy interventions must move beyond a simple view of debt as a negative and instead address the systemic issues that force households into high-risk borrowing. The goal is to create an environment where households can pursue their aspirations without falling into a perpetual debt trap.

Fostering Financial Inclusion Beyond Lip Service

True financial inclusion requires more than just opening bank accounts. It necessitates addressing the specific barriers identified in the research: the lack of collateral, high transaction costs, and bureaucratic hurdles (Das, 2015). Policies should focus on:

- **Strengthening the Self-Help Group (SHG) Model:** The SHG model is a key institutional source of credit in the informal ecosystem, but its share remains small. Policymakers should focus on promoting and scaling up high-quality, sustainable SHGs to provide an accessible and trusted alternative to moneylenders (NABARD, 2023)
- **Leveraging Technology:** Technology can significantly reduce the transaction costs associated with formal lending. The development of an open API platform and the rise of fintech can help provide financial services to underserved segments. Expanding digital infrastructure and financial literacy can make formal credit more accessible and convenient.

Strengthening Social Safety Nets

A core reason for distress borrowing, particularly for healthcare and education can be the lack of robust social protection. When faced with a medical emergency or an urgent need for school fees, families are forced to turn to informal lenders for immediate cash. Therefore, recommendations should focus on:

- **Improving Access to Insurance:** Policymakers should work to expand access to affordable health and crop insurance to protect households from catastrophic financial shocks. This would reduce the need for borrowing in times of crisis.
- **Enhancing Government-Provided Services:** By strengthening public health and education systems, out-of-pocket expenses can be reduced that families are currently financing through debt.

Investing in Human Capital and Local Production

The aspirational spending on education and healthcare should be supported, not stifled. The state should invest in making these services more affordable to reduce the debt burden on families. The Bihar Student Credit Card Scheme, for example, is a step in the right direction, offering concessional loans for higher education (MyScheme, 2025). However, its limited reach indicates room for improvement. Furthermore, a study on consumer demand in Bihar notes that increased expenditure on "non-tradable goods" and services can stimulate local production and create new employment opportunities, while spending on "tradable goods" results in a leakage of income from the local economy. Policy should encourage spending on local goods and services through initiatives that support local enterprise and infrastructure development.

Encouraging Productive vs. Consumptive Borrowing

The analysis indicates a high share of personal loans is for consumption (IFMR LEAD & SIDBI Foundation for Micro Credit, 2018). Policy must be designed to steer borrowing towards productive investments, such as agricultural inputs or business expansion, rather than just consumption smoothing. This requires a combination of targeted loan products, simplified application processes, and financial literacy programs to help households understand the difference between productive and consumptive debt (Joshi et al, 2016).

6. CONCLUSION

The financial situation in Bihar is a complex interplay of low and fragmented income, aspirational consumer behaviour, and a high-risk financial ecosystem. The report's central thesis is that the negative savings rate and high incidence of debt are not just indicators of poverty, but are symptoms of a strategic, high-stakes financial transition. Households, driven by a desire for a better quality of life, are using debt as a bridge to fund expenditures on human capital and lifestyle improvements. However, the analysis demonstrates that this strategy is profoundly vulnerable. The overwhelming reliance on high-cost, high-risk informal credit, a necessity born out of systemic financial exclusion, leaves households exposed to financial shocks and the very real risk of a perpetual debt trap. The dual-edged nature of debt in Bihar is a critical finding, highlighting that a tool for progress can also be a source of profound vulnerability. The future of the state's economic development hinges on the ability of policymakers to address these underlying systemic issues, making formal credit both accessible and safe, and thereby allowing the households in Bihar to pursue their aspirations without falling prey to financial precarity.

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