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Indian Inequality and The World Bank's Claims

Context

- **Debates on inequality in India often suffer from selective data interpretation** and exaggerated claims, which can distort public perception rather than improve understanding.
- A recent controversy surrounding the **World Bank's India Poverty and Equity Brief: April 2025** illustrates this problem.
- The **report's claims of near-eradication of extreme poverty and reduced consumption inequality in India** have sparked sharp reactions, largely because they challenge the entrenched narrative of high inequality.
- A **careful analysis of the data and methodology reveals a more nuanced picture** of inequality and progress in the country.

The World Bank's Findings and Methodology

- The World Bank report bases its conclusions on the official **Household Consumption Expenditure Survey (HCES) for 2022-23**, which employs the modern **Modified Mixed Reference Period (MMRP)** methodology, aligned with international best practices.
- According to the report, **India has witnessed a significant decline in consumption inequality** over the last decade.
- The consumption-based **Gini coefficient**, a widely used measure of inequality, fell from 28.8 in 2011-12 to 25.5 in 2022-23.
- **These findings place India among the world's four least unequal countries** in terms of consumption inequality, a striking contrast to the narrative of extreme inequality prevalent in the media.
- **Critics, however, argue that the HCES data underestimates inequality** as it fails to adequately capture the consumption patterns of the wealthy.

A Closer Examination of the HCES Data and The Debate on Income Inequality

- **A Closer Examination of the HCES Data: Improved Consumption Patterns and Living Standards**
 - **Per capita availability of milk and eggs increased by 45% and 63%**, respectively, between 2012 and 2023.
 - The **share of cereals in food expenditure and calorie intake has declined**, while the consumption of healthier foods such as fruits, vegetables, and protein products has risen across all

income groups.

- This **dietary transition indicates a broad-based improvement in nutrition and quality of life**, particularly for the bottom 20% of households.
- For example, **the proportion of rural households consuming fresh fruits rose from 63.8% in 2011-12 to 90% in 2023.**
- The data also shows that **extreme poverty has been nearly eradicated**. Between 2011 and 2023, approximately **27 crore Indians were lifted out of extreme poverty** as per the International Poverty Line of \$3.

• The Debate on Income Inequality

- While consumption inequality has clearly declined, the question of **income inequality** is more complex due to the absence of reliable income survey data.
- Most discussions rely on estimates from the **World Inequality Lab (WIL)**, which uses income tax records combined with outdated consumption data.
- Critics argue that **these estimates rest on questionable assumptions, such as the notion that 70%-80% of households consistently spend more than they earn**, a claim that defies economic logic.
- As a result, **the income of the bottom 80% is often underestimated**, while that of the top income groups is exaggerated.
- Even accepting the WIL data at face value, **there is no evidence of a rising trend in income inequality.**
- In fact, between 2017 and 2022, the **national income share of the bottom 50% increased from 13.9% to 15%**, while the top 10% saw a slight decline from 58.8% to 57.7%.
- Although the high-income share of the top 1% remains a concern, **part of this is attributed to better income reporting following anti-tax evasion measures introduced since 2016-17.**

Challenges and Future Directions

- While India has made substantial progress in reducing poverty and consumption inequality, **significant challenges remain.**
- **Inequality in access to quality education and healthcare** persists, particularly in rural areas. Moreover, as India transitions to a knowledge-driven economy, disparities in skills and opportunities **could widen unless addressed through targeted policies.**
- Nevertheless, the overarching narrative of India is no longer defined solely by poverty and inequality.
- It is equally about **aspiration, progress, and structural transformation.**
- **Improvements in infrastructure, welfare programs, and living standards have elevated millions out of poverty and provided them with the means to pursue better lives.**

Conclusion

- The World Bank's findings, while controversial, highlight a reality that deserves recognition: **India has made remarkable strides in reducing extreme poverty and narrowing consumption inequality over the last decade.**

- While **debates on income inequality** remain valid and necessary, they **must be grounded in robust data and realistic assumptions**.
- A **balanced perspective demands acknowledging both the challenges and the achievements** and India's story today is not just about disparities but also about resilience, growth, and the aspirations of a billion people.

Indian Inequality and The World Bank's Claims FAQs

Q1. What does the World Bank report claim about India's extreme poverty?

Ans. The World Bank report claims that India has almost eradicated extreme poverty.

Q2. Which survey data forms the basis of the World Bank's findings?

Ans. The findings are based on the Household Consumption Expenditure Survey (HCES) 2022-23.

Q3. How has India's consumption-based Gini coefficient changed since 2011-12?

Ans. India's consumption-based Gini coefficient has decreased from 28.8 in 2011-12 to 25.5 in 2022-23.

Q4. What evidence shows improved living standards among the poor?

Ans. Improved living standards are reflected in increased consumption of milk, eggs, fruits, better housing, and higher vehicle ownership among the poorest households.

Q5. Why are WIL's income inequality estimates criticized?

Ans. WIL's income inequality estimates are criticized because they rely on unrealistic assumptions that most households spend more than they earn, leading to distorted income shares.

Source: **The Hindu**

Decoding the Slowdown in Bank Credit Growth and the MSME-Led Structural Shift

Context:

- The article discusses the **recent slowdown in credit growth** of Scheduled Commercial Banks (SCBs) in India.
- It highlights the **contributing factors** such as RBI policy interventions, sectoral shifts, and evolving credit market dynamics, while **emphasizing the resilience** of MSME credit and the structural improvements in the banking system.

Decline in Credit Growth - Recent Trends:

- Credit growth fell to **9.5%** for the fortnight ending June 27, 2025, compared to 17.4% a year earlier.
- Decline started from May 2024, influenced by **regulatory and market shifts**.

Reasons Behind the Credit Slowdown:

- **RBI's regulatory measures:**

- The RBI's decision to increase risk weights on certain segments of consumer credit and bank lending to the NBFCs towards the end of 2023 saw loan growth in these two sectors fall sharply.
- **For example**, unsecured loan growth dropped from 28.3% (Mar 2023) to 7.8% (May 2025). NBFC credit growth declined from 5.7% (Mar 2025) to -0.3% (May 2025).
- **Non-performing assets (NPAs)** in unsecured retail loans rose to 1.8% in March 2025 (from 1.5% a year earlier), indicating **credit risk build-up**.
- **NPAs** refer to loans or advances from banks and financial institutions where the borrower has stopped making payments (principal or interest) for a specified period, usually 90 days or more.

- **Incomplete transmission of interest rate benefits:**

- Private banks' floating rate loans (EBLR-linked) are lower at 54.7%, compared to 59.8% for public sector banks (PSBs), slowing down monetary policy transmission.
- **External Benchmark Lending Rate (EBLR)** is an interest rate framework used by banks in India to determine the interest rates for loans, particularly for retail and MSME loans.
- EBLR is linked to an **external benchmark rate set by the Reserve Bank of India (RBI)** or other financial authorities.
- This ensures **faster and more transparent transmission of policy** rate changes to borrowers.

- **Shift in market share:**

- There is a seemingly visible shift in balance from the private to public banks.
- PSBs showed stable growth of 12.2% in 2024-25 compared to 13.6% in 2023-24.
- However, the credit growth of private banks declined to 9.5% — the lowest since 2020-21.
- PSBs' share in incremental credit surged from 20% (FY18) to 56.9% (FY25), validating the government's **4R strategy** – Recognition, Resolution, Recapitalisation, Reforms.

Improvement in Banking Health Indicators:

- **Gross Non-Performing Assets (GNPA):** GNPA ratio dropped to a multi-decadal low of 2.3% in March 2025, with the provision coverage ratio of 76.3% in March 2025, as services and industry GNPA's declined significantly.
- **Decline in industry NPAs:** From ~4% (Sep 2023) to 2.3% (Mar 2025). MSME NPAs decreased sharply from 10.8% (Mar 2021) to 3.6% (Mar 2025).

MSME Sector - A Structural Growth Story:

- **Credit growth to MSMEs:**

- Now growing at 18% (May 2025), compared to 5-7% (2011-2013).
- MSMEs' share in incremental industry credit rose to 17% (FY25) from 11% in FY24.

- **Supporting factors:**

- Improved balance sheets leading to more lending.
- Substandard loans (90-120 days past due (DPD)) fell to a five-year low of 1.8%.

- Revised MSME definition (higher turnover/investment limits) expands coverage.
- **Government initiatives**
 - Enhanced credit guarantee cover and TReDS onboarding threshold reduced from Rs 500 crore to Rs 250 crore.
 - MSME Samadhaan being upgraded for better payment tracking and dispute resolution.
 - URN seeding and formalisation enabling better credit access.
- **MSMEs as economic multipliers:**
 - **MSMEs depend greatly on large corporates** through backward integration (and at times, forward integration) and hence their activity level could be a latent gauge of corporate activities.
 - **Future focus:** Tech upgradation, supply chain resilience, and data-driven policy support.

Evolving Credit Market Landscape:

- **Rise of private credit markets:** Increasing participation from global players with structured deals. Calls for regulatory stress testing and transparency, as seen in the US.
- **Shift to off-bank funding:** Companies diversifying via Commercial Papers (CPs), External Commercial Borrowings (ECBs), and capital markets.

India Inc - Stronger Financial Position:

- **India Inc has significantly deleveraged** (or reduced the amount of debt that a company carries) its balance sheet, while increasing cash holdings.
- In the last two fiscals (FY24 and FY25), the cash and bank balance of corporates has jumped by around 18-19%.
- Major sectors reporting increased cash holdings include **IT, automobiles, refineries, power, and pharma.**
- The cash and bank balances of India Inc (excluding BFSI) is estimated at around Rs 13.5 lakh crore in FY25, indicating cash accruals are a potential vector in funding capex plans.

Household Savings and Credit Implications:

- **Financialisation of savings:** Rise in equity share in household savings from 2.5% (FY20) to 5.1% (FY24). Implications for bank deposit growth, the traditional source for credit.
- **Comparison:** China's equity share in savings is at 9%.

Conclusion:

- **India's credit ecosystem is undergoing a structural transformation.**
- Despite the recent slowdown in aggregate credit growth, the resilience in MSME lending, improving asset quality, and **a diversifying credit market underscore underlying economic strength.**
- **Policymakers must now focus on deepening financial inclusion**, regulating private credit flows, and leveraging fintech for MSME empowerment while monitoring shifts in household savings behavior.

Decoding the Slowdown in Bank Credit Growth and the MSME-Led Structural Shift FAQs

Q1. What are the key factors responsible for the recent decline in credit growth among Scheduled Commercial Banks in India?

Ans. The decline is driven by RBI's increased risk weights on unsecured loans and NBFC lending, weak monetary transmission in private banks, and a shift in credit share from private to public sector banks.

Q2. How has the RBI's regulatory intervention impacted the growth of unsecured loans and credit to NBFCs?

Ans. RBI's decision to raise risk weights curtailed the growth of unsecured loans to 7.8% in May 2025 (from 28.3% in March 2023) and led to a contraction in NBFC credit, reflecting tighter risk management.

Q3. What is the structural turnaround in MSME credit growth and the contributing government initiatives?

Ans. MSME credit has revived to 18% growth (May 2025), aided by improved asset quality, revised MSME definitions, URN seeding, enhanced guarantee cover, and TReDS expansion, indicating focused policy support.

Q4. What is the significance of the declining Gross NPA ratio for Indian banks and its impact on sectoral credit flow?

Ans. The GNPA ratio declined to a multi-decade low of 2.3%, improving bank balance sheets and enabling increased credit flow especially to the MSME and industrial sectors.

Q5. How is the financialisation of household savings influencing the future trajectory of bank credit growth in India?

Ans. The rising share of equities in household savings (from 2.5% in FY20 to 5.1% in FY24) may constrain deposit growth, thereby impacting banks' traditional credit creation capacity.

Source: **IE**

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