Indian Economy · GS - III

The rapid expansion of EMI-based consumption and digital consumer credit reflects changing patterns of household spending in India. Examine its implications for financial inclusion, consumption-led growth and household financial stability.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 19/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Digital lending, EMI culture, financial inclusion, consumption demand, unsecured credit, household indebtedness, RBI regulation, financial literacy.

Model Answer

Introduction

The growing use of Equated Monthly Instalments (EMIs), particularly for smartphones and other consumer durables, reflects the increasing availability of retail credit and changing consumption patterns in India.

Role in Financial Inclusion and Economic Growth

- **Access to credit:** EMIs enable middle-class and rural households to purchase expensive goods without making large upfront payments.
- **Digital financial inclusion:** Fintech platforms, UPI-linked services and digital lending have expanded access to formal credit.
- **Consumption demand:** Credit-supported purchases stimulate demand, supporting manufacturing, retail trade and employment.

- **Market expansion:** Easy financing encourages consumers to upgrade products and access better technology.

Emerging Concerns

- **Household indebtedness:** Frequent borrowing can increase repayment obligations and reduce disposable income.
- **Unsecured credit risks:** Consumer loans without collateral may expose lenders to higher default risks.
- **Digital lending malpractices:** Opaque charges, aggressive recovery practices and inadequate disclosure can harm borrowers.
- **Consumption overdependence:** Credit-driven demand may not always reflect sustainable improvements in household purchasing power.

Way Forward

The RBI should strengthen responsible digital lending, transparency in loan pricing and borrower protection. Lenders must assess repayment capacity rather than relying solely on automated credit scoring. Financial literacy programmes should promote informed borrowing and prudent household budgeting.

Conclusion

EMI-based consumption can support India's transition towards a digitally inclusive and consumption-driven economy. However, its long-term benefits depend on responsible lending, effective regulation and sustainable household debt management.

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