

# A Systematic Literature Review of Household Debt, Financial Sustainability and Economic Resilience

Siti Nur Aqilah Ab Wahab, Minah Japang<sup>\*</sup>, Hock-Ann Lee, Nur Shahirah Azman

Labuan Faculty of International Finance Universiti Malaysia Sabah, 87000 FT Labuan, Malaysia

<sup>\*</sup>Corresponding Author Email: mina1511@ums.edu.my

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## Abstract

Household finance and behavioural economics have relatively bridged the intricate relationship between household debt and financial sustainability. Most existing studies link household debt and financial management by combining the ability of households to meet current spending needs without compromising future disposable income. The study's domain, mostly included under the theme of financial literacy, focuses on household debt management at the micro level through external assistance such as credit facilities from private or government institutions. The data were derived from scholarly works indexed in Scopus, Web of Science (WoS) and ScienceDirect databases. Using the keywords "household debt" and "financial sustainability," an advanced search strategy was employed, guided by the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework. The review process identified 40 relevant studies that met the inclusion criteria. Thematic analysis of the literature led to the development of three key discussion themes to (a) *Household Debt, Financial vulnerability, and Well-being*, (b) *Macroprudential, Monetary, and Regulatory policy*, and (c) *Household debt, Growth, Inequality, and Structural impacts*. Collectively, the findings discover that while household debt can stimulate short-term economic activity, its sustainability depends heavily on institutional quality, regulatory oversight, and socioeconomic structures. This review offers valuable insights for researchers, financial institutions, and policymakers alike to design informed strategies that balance household credit expansion with long-term financial sustainability.

**Keywords:** Household Debt, Financial Sustainability, Economic Resilience, Systematic Review

## Introduction

Household debt and financial sustainability purely fundamentally linked to household finance and microeconomics literatures. Therefore, the intertwined of these two financial microeconomic concepts has emerged focal points of scholarly and policies discourse within developed countries (Charoenchokethavee et al., 2022; Barykin et al., 2023; Maebayashi &

Tanaka, 2022; Spillbergs, 2020). In common understanding, household debts include mortgages, credit card obligations, students' loans and other consumer-based credit, such as the well-known PayLater term, posted as simple credit commitments of the household debts. Generally, those types of household debts play vital role for economic empowerment by smoothing household consumption, but without proper regulatory in place and highly dense accumulation, its poses systematic risks beyond personal sustainable financial threshold. In some studies, within the developed nations for example, owing advanced credit systems whereby household access to easy financial services products, often exhibit elevated household debt levels. Such debts fueled short-term economic growth parallelly, raised concerns regards to long-term financial resilience, income equality, and macroeconomic stability (Barykin et al., 2023; Meng, 2016; Redo & Siemiatkowski, 2022; Song et al., 2023). In the 2008 global financial crisis have evidenced largely unsustainable household borrowing patterns in the United States initiated an underscored the fragility of over-leveraged households and re-ignited debates on prudent debt management in developed economies.

The existing literature has extensively examined the relationship between household debt and various macroeconomic indicators. Numerous studies affirmed that moderate levels of household debt acted as a catalyst in stimulating economic activities through increased consumption and investment. For instance, Mian and Sufi (2010) highlighted how credit expansion initially bolstered U.S. economic growth but eventually culminated in widespread financial instability and distresses. Simultaneously, the significant high levels of household debt knowingly undermine economic resilience by amplifying vulnerabilities to economic shocks. Whenever households allocate huge portion of its income to debt repayment, lead to the less disposable income for consumption and investment, which caused the downfall of economic growth. Similarly, Cecchetti et al. (2011) established a non-linear relationship between private debt and growth, arguing that while debt accumulation promotes economic growth up to a certain point, yet the excessive levels exert negative long-term effects (Doğan & Bilgili, 2014; Mbate, 2013; Shittu et al., 2020).

Despite the expanding body of literature, several critical gaps and unresolved issues persist within the scope of household financial sustainability and its economic resilience. Firstly, there is limited consensus on comprehensive household financial sustainability measurement tools, with existing metrics often failing to capture the multidimensional nature of financial well-being (Lusardi & Mitchell., 2014; Liu et al., 2021; Birkenmaier et al., 2022). Secondly, the heterogeneity of the household debt characteristics, its institutional contexts, and cultural attitudes toward credit across developed nations complicates cross-country comparisons and generalizations. In a specific instance, Scandinavian countries known to exhibit high household debt-to-income ratios, however, the countries backed with strong welfare systems and inclusive financial policies mitigate associated risks, which sharply key contrary with the U.S. or European models (Mian et al., 2017; Gunten & Navot, 2017). A critical ongoing debate on balancing the role of central banks and fiscal policy in managing household debts as to household income ratio without impeding economic equilibrium. An additional arises from the increasing financialization of economies, with exposing households to complex credit products characterized by lopsided information and volatile credit terms (Mian et al., 2017; Birkenmaier et al., 2022). These identified gaps underscore the need for more nuanced, interdisciplinary approaches that incorporate behavioral economics, institutional theory, and data-driven modelling in analyzing household debt and its financial sustainability.

Current studies in household debts and financial sustainability frequently mixes household's capacity to adeptly manage its immediate financial need without jeopardizing future obligations. This scope of studies often framed within financial literacy themes focused on managing household's debts indispensably independent from external support like government assistance or financial institutions intervention. Scholars such as Swiecka et al (2020) has explicitly established financial literacy as major contribution in creating households' awareness of hearty debt control thereby promoting sustainable consumptions. Whilst reports from the OECD (2020) underscore a direct correlation between elevated household debt level and its diminishing well-being, leading to reduced retirement preparedness. Thus, financial literacy draws the balancing line between quantifying household debt and managing the debts components to truly safeguard household economic resilient.

The complicated relationship between household indebtedness and its broader implications for economic stability address an understanding on how such debt influences financial resilience at both at micro and macro levels. Insight derived from the connection between household debt and financial sustainability in developed economies offered unique results in promoting a more integrative household debts-sustainable finance framework for future inquiry. Commendation for further studies prioritize longitudinal analyses to understand the long-term consequences of different debt profiles and repayment behaviors. Concurrently, policymakers urged to consider implementing targeted financial education programs, stronger consumer protection laws, and innovative credit scoring mechanisms that assess not just creditworthiness but also financial resilience. As the global economy grapples with rising interest rates, aging populations, and technological disruption in the financial sector, the question of how households manage debt will remain central to the pursuit of inclusive and sustainable economic growth. Ultimately, this body of work advocates for reevaluation of debt policies through the lens of financial sustainability, harmonizing both advantages of credit access for individual household decision-making with the imperatives of ensuring long-term economic security and household welfare.

This structured literature review connects a critical knowledge gap by exploring both the interwoven relationship and the dynamic connotation between household debt and financial literacy, particularly in learning household financial leverage. The thorough review of the synthesis evidences from existing studies has provided clear foundation of the relationship between household debt and financial sustainability. The balance of both of these terms translates into economic resilience for households' consumption and sustain disposable income, which in turn contributes to the existing knowledge gap, especially in the context of household financial sustainability.

## **Literature Review**

### *Household Debt and Consumption Patterns*

A household is an economic unit teetering on a mountain of debt. Early 2020 works by both Bahadir et al., (2020) and Bartscher et al. (2020) reminded households of accumulating more debt as a deliberate strategy to maintain their spending habits in the face of rising living costs. This tendency to borrow, often bridges the gap between its earnings and desired consumption, aligns with the Life Cycle Model's prediction that individuals strive to smooth their consumption over time, which is particularly noticeable when income growth stalls, prompting households to use debt to preserve their accustomed lifestyles. However, some

research showed that relying on debt to fund consumption is risky, as an increase in household debt can signal future drops in consumption (Berisha & Meszaros, 2018). Another observation is the growth of household debt closely tied to the financialization of economies, where consumption becomes a primary driver of economic growth, even when wage growth is weak (Costantini & Seccareccia, 2020). Across many economies, rising household debt has become a noteworthy trend, fueled by the need to sustain consumption levels and manage increasing living expenses. Enabler facilities such as easier access to credit, combined with sophisticated marketing campaigns, further encourage households to utilise debt instruments in daily consumption (James, 2021). Furthermore, there is an increasing borrowing trend amongst middle- and upper-middle-income households, specifically when linked to housing-related debt, and yet facing higher repayment rates as the top-income households in the economy (Thompson, 2017).

Many elements contribute to the rise of household debt, but the consumer credit market plays a particularly significant role (Getter, 2006). This isn't just one simple cause of household debt mounting, as it's a complex blend of economic factors, like the widening gap between rich and poor, new financial products, and shifts in what consumers prefer. Interestingly, even higher-income households often carry a lot of debt despite their assets, showing that debt isn't just a struggle for lower-income individuals (Bartscher et al., 2020). Instead, owning a credit card, which began as a simple convenience financial facility to facilitate easier transactions, has evolved into a widespread financial instrument, boosting consumer spending and the growth of e-commerce (Akinwande et al., 2024), especially within this post-COVID-19 era, where most businesses go for digital transformation. The availability of various credit products, such as mortgages, auto loans, and student loans, has enabled households to finance a wide range of purchases, leading to distinct patterns of household debt accumulation. Berisha & Meszaros (2018) indicates that increases in household debt are associated with rises in top income shares, contributing to increased income inequality, and Coibion et al. (2020) shows this portion of the credit market segment exhibits notable differences in regions with high income inequality, where low-income households accumulate less debt relative to their income compared to those in areas with lower inequality.

#### *Unpacking Household Financial Vulnerability and its Roots*

Early literature on financial vulnerability found in the work of Chambers (1989) refers to a household's susceptibility to negative financial shocks or stressors that can compromise its economic well-being. Financial vulnerability characterised by a lack of sufficient financial resources, limited access to credit, inadequate savings, or high levels of debt, making it difficult to absorb unexpected expenses such as sudden unemployment, health crisis, or economic downturns. Financial fragility itself arises from a complex interplay of factors beyond mere income levels, encompassing asset ownership, debt management, and financial literacy (Chambers, 1989). Households characterized by financial vulnerability frequently operates with minimal liquidity, leaving them with negligible capacity to absorb financial shocks or unforeseen circumstances. Implication of financial vulnerability on household sustainability is profound. Financial sustainable household can consistently meet its current financial needs and its future obligations. Financial vulnerability directly lessened household's capacity to save, invest, or plan for long-term goals like retirement or education. It can lead to a downward spiral of increasing debt, reduced purchasing power of consumption, affecting

poor mental and physical health outcomes. The cycle indeed undermines long-term economic stability, resilience, and the overall household's well-being that more prone to poverty and social exclusion.

Understanding financial vulnerability is crucial, as many urban households lack financial resilience to effectively manage adverse events like sudden unemployment, disability, or fluctuations in interest rates (Anderloni et al., 2012). Financial difficulties, which can stem from diverse sources like job loss, medical spending, or unexpected repairs, are capable of rapidly depleting savings and potentially leading to unexpected debt accumulation. Individuals with lower financial knowledge prone to struggle with debt management, retirement planning, and investment activities (Agarwalla et al., 2014). This situation underscores the imperative to address the root cause of passive financial fragility and hindering strategies to enhance household financial security. Building on this, Lee and Sabri (2017) research indicates that considerable proportion of households exhibit significant financial vulnerability create households highly susceptible to unexpected financial shocks.

An analysis of household portfolio composition indicates that financial vulnerability not uniformly spread across the population. Particularly in middle-income families were appeared susceptible given this group of households' reliance on housing assets and considerable leverage within the housing market (Bricker et al., 2019). The slit missing in financial literacy often contributes to suboptimal financial choices present risks to both individuals and their communities (Contreras et al., 2021) The effective management of personal finances and the capacity to navigate financial exigencies are vital for the well-being of individuals, households, and the broader economy (Sehrawat et al., 2021). Prudent dept of financial literacy profoundly influences households' decisions and, by extension, shapes the overall societal landscape (Beranová et al., 2020). Therefore, the ability to effectively managed financial resources is crucial for mitigating the adverse effects of financial shock and fostering long-term financial stability, a capacity closely linked to an individual's household financial resilience, such as possessing the ability to cope with or recover from financial setbacks.

Another study by Sabri et al. (2020<sup>a</sup>) delving deeper into the determinant's individual characteristics such as thrift and attitude towards credit are important factors influencing unplanned financial decisions and serving as critical determinants of financial vulnerability. Šubová et al. (2021) further study lightens an understanding financial vulnerability critically involves recognizing diverse contributing factors, which include income level, marital status, age, level of education, and financial behavior. More recent findings highlight that younger individuals, particularly those with lower educational attainment and suboptimal financial management practices, face elevated risks (Mah et al., 2023; Yarveysi et al., 2023). The COVID-19 pandemic has further exacerbated these vulnerabilities, directed to increased non-performing financing and prompting stricter lending practices from financial institutions, effectively classifying individuals unable to manage financial challenges as financially vulnerable (Hamid et al., 2023).

#### *Policy Implications and Financial Management*

Addressing the high levels of household debt and financial vulnerability necessitates a structured policy intervention. Yusof et al (2015) research work indicates any initiatives to

improve financial well-being, particularly for vulnerable-income groups, are essential to mitigate the risks associated with high debt levels 5, which is why monitoring household debt and ensuring its sustainability is crucial to prevent adverse impacts on the broader economy, by emphasizing the system risks associated with unchecked debt accumulation. Whilst Ahmad Khan et al (2017) study posted the foundational approach begins with recognizing the broader economic implications where the relationship between household debt and national GDP clearly underscore the importance of prudently managing debts level to support overall economic growth.

Giving these implications, policymakers need to focus on proactive measures. A primary intervention involves enhancing financial literacy and promoting prudent financial management practices among households (Sabri et al., 2020<sup>a</sup>). This not only empowers individuals' households to make informed financial decisions but also builds resilience against economic shocks. Building upon this, specific initiatives aimed at improving financial well-being are essential, particularly for the lower to middle-income groups. Such targeted efforts are vital to mitigate the inherent risks associated with high debt levels and prevent them from escalating into broader societal or economic inequality issues. Finally, continuous oversight is paramount, thus, monitoring household debt trends and ensuring its ongoing sustainability is a one-time task but an enduring responsibility of the policymakers. Ultimately, effective policies should aim to balance the need for household financing with the imperative of maintaining financial stability and sustainability, a delicate balance that satisfies the legitimate need for household financing, which is a driver of economic activities, while simultaneously upholding the imperative financial stability and long-term sustainability within the economy.

Table 1 summarized the fundamental aspect of this literature's review together with its key-findings to be aligned with the methodological assessments of the article.

Tble 1

*Summary table from existing study*

Aspect	Key Findings
<b>Household Debt and Consumption</b>	Households borrow to finance consumption; high debt levels pose economic risks 1 2.
<b>Financial Vulnerability</b>	Significant portion of households are financially vulnerable; key determinants include income, education, and financial behavior 2 3.
<b>Impact of Covid-19</b>	Increased non-performing financing; stricter lending practices by banks 4.
<b>Policy Implications</b>	Need for enhanced financial literacy and prudent financial management; targeted interventions for lower-income groups 5.
<b>Economic Growth</b>	Managing household debt is crucial for supporting economic growth 6.

These literature review highlights the intricate link between household debt and financial sustainability in Malaysia, emphasizing the need for comprehensive policy measures to address financial vulnerabilities and promote economic stability.

## Material and Methods

### Identification

Based on the protocol of Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework, the identification phase serves as a foundational step in conducting a systematic literature review (SLR), whereby researchers aim to capture the full breadth of relevant studies within a given research domain. For this study, the identification process was systematically carried out through comprehensive database searches using two of the most prominent and reputable bibliographic databases from Scopus, Web of Science (WoS) and Sciencedirect. The search strategy was developed based on carefully selected Boolean keywords that encapsulate the core dimensions of the research topic, namely: ("household debt" OR "consumer debt" OR "personal debt" OR "family debt") AND ("financial sustainability" OR "financial stability" OR "economic sustainability" OR "fiscal health"). The use of multiple synonyms and conceptually overlapping terms ensured the inclusivity and sensitivity of the search, thereby minimizing the risk of omitting potentially relevant literature. From this process, a total of 523 articles were identified, comprising 56 records from Scopus, 1 record from WoS and 466 from Sciencedirect. This disparity in the number of records retrieved between the two databases may be attributed to differences in indexing coverage, database scope, and disciplinary focus, with WoS typically indexing a broader range of journals in economics and public policy that are likely to address issues of debt and financial stability. **Table 2** summarises the databases and keyword attempts for the search string.

Table 2

### Summary of search string

Databases	Attempts Keywords
Scopus	TITLE-ABS-KEY ( ( "household debt" OR "consumer debt" OR "personal debt" OR "family debt" ) AND ( "financial sustainability" OR "financial stability" OR "economic sustainability" OR "fiscal health" ) ) AND ( LIMIT-TO ( SUBJAREA , "ECON" ) OR LIMIT-TO ( SUBJAREA , "SOCI" ) OR LIMIT-TO ( SUBJAREA , "BUSI" ) OR LIMIT-TO ( SUBJAREA , "ENVI" ) ) AND ( LIMIT-TO ( DOCTYPE , "ar" ) ) AND ( LIMIT-TO ( LANGUAGE , "English" ) ) AND ( LIMIT-TO ( SRCTYPE , "j" ) )
	Date of Access: July 2025
ScienceDirect	( ( "household debt" OR "consumer debt" OR "personal debt" OR "family debt" ) AND ( "financial sustainability" OR "financial stability" OR "economic sustainability" OR "fiscal health" ) )
	Date of Access: July 2025
Wos	( ( "household debt" OR "consumer debt" OR "personal debt" OR "family debt" ) AND ( "financial sustainability" OR "financial stability" OR "economic sustainability" OR "fiscal health" ) ) (Title)
	Date of Access: July 2025

### Screening

The screening phase of the Systematic Literature Review (SLR), main focus shifts from quantity to quality that aims to filtering only relevant, rigorous, and contextually appropriate studies are retained for further analysis. Following the identification of 523 records through trusted databases Scopus, Web of Science (WoS) and Sciencedirect, a carefully constructed

set of inclusion and exclusion criteria was applied to refine the dataset. Any records were excluded for those datasets that did not meet key eligibility parameters like in the form of non-English publications, publication date before 2008, conference proceedings, book chapters, review papers, and articles listed as “in press” were all removed. These criteria were established to certify the reliability and consistency of the findings, as non-peer-reviewed cum incomplete works may lack the empirical depth or methodological transparency required for inclusion in a high-impact systematic review. Result shows 113 records were excluded, reducing significant total to 411 screened and rerun to retained remaining purely screening articles of comprising 40 from Scopus, 1 from WoS and 370 from Sciedirect.

Publications before 2008 exclusion from the analysis mainly grounded in the need to focus on current seven years of contemporary dynamics of household debt and financial sustainability. The timeline insight a significant shift in global financial systems following the 2008 financial crisis. Post crisis period has seen a re-evaluation of debt structures, regulatory frameworks, marked with changing of household’s financial behavior via changing lifestyles, making it a relevant temporal boundary for this review. Whilst restricting the review to English-language sources ensures accessibility and interpretability, as English remains the dominant language for global academic discourse in economics and finance. The exclusion of conference proceedings, book chapters, and review articles further refines the dataset to include only original research with empirical or theoretical contributions, thereby reducing duplication and maintaining analytical clarity. The decision to omit “in press” articles also ensures that only fully vetted and finalized studies are considered. Overall, the screening process demonstrates methodological discipline and thematic focus, ensuring that the remaining 411 records represent a credible and analytically valuable body of literature. This curated dataset is now well-positioned for the next stage of the SLR for eligibility assessment and full-text review, paving the way for in-depth thematic synthesis and gap identification that are essential in contributing meaningfully to the academic discourse on household debt and financial sustainability. **Table 3** below shows the selection criteria of the targeted literature type and subject matters from reputable databases.

Table 3

*The selection criterion is searching*

Criterion	Inclusion	Exclusion
Language	English	Non-English
Time line	2008 – 2025	2008 – 2025
Literature type	Journal (Article)	Conference, Book, Review
Publication Stage	Final	In Press
Subject	Economics, Econometrics and Finance, Social Sciences, Business, Management and Accounting, Environmental Science	Besides Economics, Econometrics and Finance, Social Sciences, Business, Management and Accounting, Environmental Science

### *Eligibility*

The eligibility phase, the third step, involved preparing 390 articles for review. All article titles and essential information were thoroughly reviewed at this stage to make sure they satisfied the inclusion requirements and complemented the ongoing research goals. As a result, 350 data, papers, and articles were disqualified because they were out of field, the titles were not noteworthy, the abstracts had nothing to do with the study's goal, and there was no full text access to empirical evidence. 40 articles in all are therefore left for the next evaluation.

### *Data Abstraction and Analysis*

This study applies the method of an integrative analysis as an assessments strategy in investigating and synthesizing various research designs mainly focused on quantitative approach. The main objective is to took a deep dive into existing research, think of it like carefully piercing together the complex yet dynamic puzzle, with each research design offering unique part of the household debt and financial sustainability issues. The main goal was to pinpoint the key themes and underlying subtopics on the issues of household debt and financial sustainability. The data collection phase constituted the initial step in the theme's development by gathering all the relevant data, which was crucial first step in clear understanding of the household debt, financial sustainability issues and economic resilience of the household. **Figure 1** illustrates the authors' thorough analysis of a compilation of 40 publications for claims or content pertinent to the subjects of the present study. The authors subsequently assessed the prevailing significant research concerning household debt and financial sustainability. The methodology employed in all investigations and the research findings are under examination. The author subsequently collaborated with co-authors to formulate themes grounded on the evidence within the framework of this study. A log was maintained during the data analysis process to document analyses, perspectives, inquiries, or any reflections pertinent to data interpretation. The writers ultimately examined the results to identify any irregularities in the theme design process. It is noteworthy that, should any discrepancies arise between the notions, the authors engage in discussion among themselves.

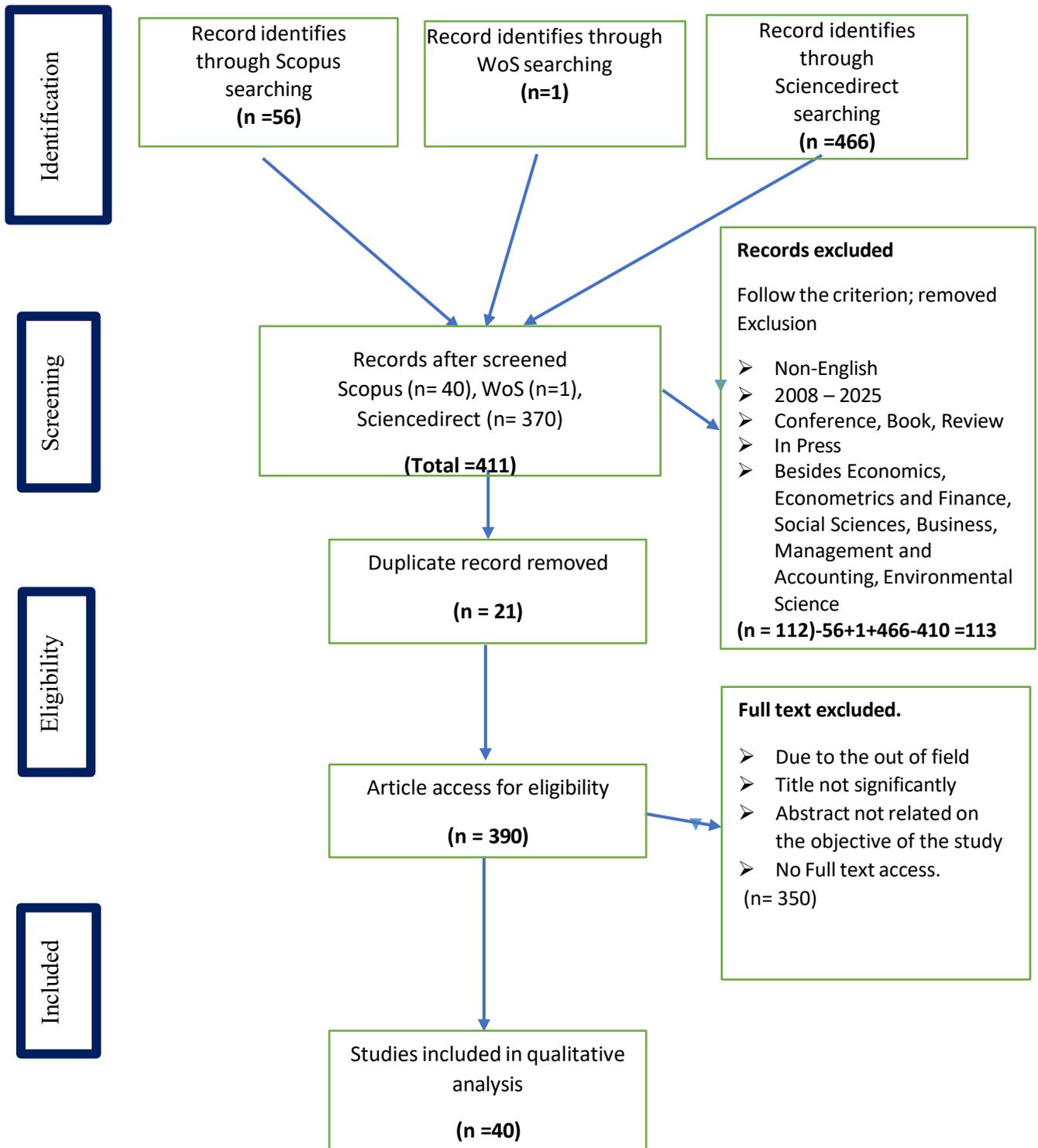


Figure 1. Flow diagram of the proposed searching study [1]

## Results and Discussion

### *Household Debt, Financial Vulnerability, and Well-Being*

Household debt is a significant factor influencing financial vulnerability in both developed and developing regions. Numerous studies indicate that socio-economic disparities lead to differing levels of risk across various population segments. Sabri et al. (2020b) illustrate that

financial practices, emotional coping, and self-efficacy have a significant impact on the financial well-being of Malaysian public employees. Aldashev & Batkeyev (2023) studied low-income households in Kazakhstan, within rural populations, and found that these populations were disproportionately impacted by income shocks, leading to increased susceptibility to debt-related instability. Furthermore, Funke et al. (2022) provide evidence that, within the Chinese household population, wealthier households exhibit sustainable debt management, whereas low-income groups experience significant repayment vulnerabilities. These studies highlight the ongoing disparity in financial resilience, primarily attributed to income inequality and insufficient financial literacy within marginalised populations. The long-term effects of indebtedness surpass individual financial difficulties, affecting wider socio-emotional and relational outcomes. From the study, Dew (2011) conducts a longitudinal study that identifies a significant correlation between consumer debt and marital dissolution, with a particular focus on the mediating influence of financial conflict. Whilst Haper et al. (2020) examine the structural vulnerability faced by incarcerated individuals, particularly those with mental health issues, highlighting how they become ensnared in cycles of poverty due to various forms of debt accrued during and following incarceration. A study conducted by Bejaković et al. (2024) investigate the phenomenon at a regional level, concluding that over-indebtedness results in social exclusion and a series of psychological and societal challenges, including homelessness and relationship breakdowns. This body of evidence suggests that household debt is interconnected with and intensifies pre-existing socio-economic disadvantages.

Macroeconomic viewed debts especially, systematic repercussions bad debt has negative consequence on national financial stability. Cifuentes et al. (2020) contend that assessing household vulnerability necessitates consideration of heterogeneities, including household assets, incomes expectations, and debt motivations, which affect households' responses to financial shocks. Along with the argument, Šubová et al. (2021) also point out that demographic characteristics like having older family members and how much education someone has make debt vulnerability much worse, urgently resulted even harder for policymakers to respond. Whilst Bhutta et al. (2020) study comprehend that stress testing approaches, determining that enhancements in credit quality and debt-to-income ratios after 2008 mitigate possible systemic risks, notwithstanding the persistence of vulnerabilities. These studies jointly illustrate significance context-specific evaluations and proactive risk modeling in detailing household debt and economic stability.

The timing and nature of indebtedness are essential for comprehending household financial trajectories within the financial lifecycle. Chantararat et al. (2020) identify an inverted-U pattern in debt accumulation among age groups in Thailand, revealing distinct vulnerabilities for both younger and older borrowers. Young individuals are increasingly acquiring debt at an early age, whereas older cohorts continue to carry debt into retirement. Leclaire (2023), from a post-Keynesian viewpoint, emphasizes the significant effects of household debt on economic stability and consumption behaviors. The study advocates for structural reforms concerning both income and expenditure, emphasizing improved employment conditions and enhanced public welfare provisions. Sabri et al. (2020<sup>b</sup>) assert that targeted interventions are essential for enhancing financial literacy and behavioral traits in working populations to mitigate long-term financial distress.

The examined abstracts indicate a coherent narrative: household debt, while often crucial for economic participation, becomes a destabilizing factor when intertwined with structural inequalities, poor financial practices, and macroeconomic disturbances. Addressing financial vulnerability requires improved regulatory oversight and stress-testing mechanisms, as well as focused assistance for at-risk groups. Financial education, social protection, and inclusive fiscal policies are crucial for moving households from a state of financial fragility to one of resilience.

#### *Macroprudential, Monetary, and Regulatory Policy*

Screening from macroprudential regulations, particularly debt-to-income (DTI) and debt-service-to-income (DSTI) caps, suggest empirical evidences tangibly impacts on household debt and financial delinquency rates. On this note, Ybrayev et al. (2025) highlight that Kazakhstan's implementation of 50% DSTI cap led to a 9% reduction in outstanding debt and a 20% drop in delinquency rates within a year. Similarly, Shin & Kim (2017) demonstrate that debt-to-income regulations, and monetary policy coordination in Korea effectively reduced delinquency ratios, exclusively whensoever interest rate targets were adjusted to support financial fragility controls. Recent study by Kronick and Ambler (2023) contribute further emphasizing the superiority of debt service ratios over debt ratios in predicting financial crises in Canada, proposing early-warning indicators for emergence of systemic risk. These studies underline the effectiveness of targeted macroprudential measures in strengthening financial resilience and reducing credit default probability.

Research utilizing dynamic macroeconomic models reinforces the complementary relationship between monetary and macroprudential policy instruments. Filiani (2022) employs a DSGE framework to illustrate that a countercyclical DTI policy, when aligned with central bank objectives, provides enhanced macroeconomic stabilization relative to a "leaning against the wind" approach. Alpanda & Zubairy (2019) demonstrate through a model of the Canadian economy that loan-to-value regulations and capital requirements are more effective than monetary policy in mitigating household debt while producing minimal negative macroeconomic impacts. Brzoza-Brzezina et al. (2017) demonstrate that foreign currency loans hinder the effectiveness of monetary policy transmission and elevate volatility, indicating the need for macroprudential policy to address these distortions, while acknowledging the existence of policy trade-offs. The findings from these studies indicate a dual-institution framework in which central banks prioritize inflation and output, while macroprudential authorities oversee financial imbalances.

In addition to theoretical modeling, historical and policy analyses highlight the structural significance of household debt within financial cycles. Jordà et al. (2016) examine the historical increase in mortgage lending and its association with more severe recessions that follow real estate booms, highlighting the significance of housing finance in macro-financial instability. Hallett et al. (2011) conclude that monetary and fiscal policy must jointly address the prevention of bubbles and excessive debt, although moral hazard may result in insufficient responses from each authority. Shirobokov (2025) demonstrates through simulations of sanction-induced trade shocks that increase non-performing loans, indicating that a countercyclical "lean against the wind" strategy enhances recovery following shocks and stabilizes household debt. This analysis provides cautionary insights into the unintended consequences of policy inaction and advocates for proactive, multi-instrument responses.

At the micro level, borrower characteristics and housing market dynamics significantly affect the effectiveness of policy. Korea's monetary tightening and household debt exhibit nonlinear interactions (Kim, 2025). The study reveals that in contexts of elevated housing prices and reduced interest rates, policy tightening may unexpectedly lead to an increase in household debt. Pietrzak (2024) enhances macroeconomic modeling by incorporating borrower heterogeneity and mortgage structure. The findings suggest that optimal monetary rules are significantly influenced by the flexibility of debt refinancing and the prevailing mortgage type, underscoring the risks associated with formulating monetary policies that overlook these borrower-level factors. These works highlight the necessity for monetary frameworks to account for behavioral and structural nuances to prevent adverse feedback loops in credit markets.

#### *Household Debt, Growth, Inequality and Structural Impacts*

Empirical evidence and modeling approaches indicate that income inequality and consumption behavior are closely linked to household debt accumulation. Agnesi & Russo (2025) identify several channels, including inflation inequality, macroeconomic activity, and indebtedness, through which increasing inflation intensifies household debt burdens and inequality. Setterfield & Kim (2020) contend that inequality, influenced by reduced public provisioning and emulation effects, propels household borrowing while concurrently undermining long-term financial sustainability. D’Orazio (2019) employs an agent-based macroeconomic framework to conclude that income disparities enhance consumer leverage and increase the risk of macro-financial crises, with deleveraging and behavioral feedback loops playing a crucial role in systemic fragility. The primary conclusion drawn from these studies is that inequality not only propels borrowing but also constrains households' ability to endure economic shocks, consequently jeopardizing macroeconomic stability.

Escalating mortgage debt, entangled with inherent credit cycles associated with real estate, consistently contribute to the manifestation of economic imbalances in household debt. Chan (2020) discusses the increasing vulnerability of China's mortgage-driven household debt growth to external pressures such as trade frictions and domestic consumption constraints. Fabozzi et al. (2020) assert that property price volatility initiates significant economic downturns, as demonstrated by the 2007–2009 financial crisis. Emphasizing the destabilizing feedback loop between household debt and real estate speculation of the property market segment. Lepers (2024) connects government homeownership subsidies to excessive credit growth demonstrating fiscal incentives in snowballing housing access, which unintentionally heighten household leverage and financial risk. These findings indicate households, participation in real markets, derived from debt expansion and policy distortions, able to pose structural risk factor to households' solvency and macro-financial stability. The institutional context surrounding debt accumulation is crucial in assessing its impact on sustainable growth versus potential fragility. Samad et al. (2022) highlights that robust institutional quality can mitigate the negative effects of household debt on economic growth, whereas weak institutions exacerbate its harmful consequences. Lu (2025) emphasizes the necessity of integrating household sector balance sheets into macroeconomic models of the UK economy to comprehend unsustainable debt trajectories, utilizing a stock-flow consistent approach. Fierro et al. (2023) illustrate that inequality restricts the policy space of central banks by limiting monetary flexibility during periods of household debt expansion, frequently necessitating a trade-off between financial stability and employment. The studies indicate

that economic structures, governance systems and regulatory institutions should develop concurrently with increasing indebtedness to effectively mitigate systemic risks.

Compelling evidence indicates that policy design and credit-market interventions can produce varying outcomes depending on the characteristics of services and debt exposure. Murwirapachena & Kabange (2024) demonstrate that in South African municipalities, the commercialization of services such as sanitation has led to an increase in household debt, while solid waste collection has resulted in a decrease. This underscores the necessity for context-specific policy frameworks. Bricongne et al. (2020) propose benchmarking tools to evaluate the excessiveness of household debt, suggesting thresholds for debt-to-GDP ratios to identify early indicators of financial distress. Lupoli (2022) concentrating on the UK, demonstrates that monetary tightening leads to increased insolvency rates, especially during periods of declining housing prices, thereby confirming the intricate relationship between debt serviceability and macroeconomic conditions. The findings collectively emphasize the necessity for policy instruments to be adaptive and nuanced, considering sectoral characteristics and vulnerabilities related to debt servicing.

Debt-led growth models, viewed through a structural macroeconomic perspective, are inherently associated with financial instability risks due to their reliance on prolonged consumption-driven expansions. Avritzer (2022) posits that worker households that incur debt to maintain consumption cannot attain sustainable equilibrium without eventual repayment limitations, resulting in intrinsic instability. Setterfield & Kim (2016) demonstrate using a neo-Kaleckian model that emulation-induced borrowing and debt servicing displace savings, resulting in growth patterns that are susceptible to abrupt collapses. Magwedere & Marozva, (2023) analyze South African data and find that inequality-induced indebtedness supports short-run consumption but undermines financial stability in the long term, particularly when households borrow to align with reference consumption levels. These contributions demonstrate that debt-led growth strategies can yield short-term benefits; however, they may also create cyclical vulnerabilities in the absence of redistributive and regulatory mechanisms.

Regional insights, especially from Asia and Europe, indicate that macroeconomic fundamentals and household profiles play a significant role in shaping debt accumulation patterns. Catherine et al. (2016) compare developed and developing Asian economies, indicating that in developed economies, debt is more affected by demographic and consumption patterns, whereas in developing economies, macroeconomic indicators such as interest rates and inflation play a more critical role. Martinez (2008) discoursed how the credit expansion motivated by Spain's real estate sector ultimately led to a wider financial crisis attributed to excessive household leverage and an oversupply of housing. These studies demonstrate that structural dynamics, encompassing demographic trends and macroeconomic variables should be integrated into debt sustainability assessments across various regions.

### **Discussion and Conclusion**

Overall, this SLR explores the multifaceted relationship between household debt and financial sustainability. Drawing upon a structured search strategy implemented across the Scopus and Web of Science databases, combined with PRISMA protocol, have identified and synthesised

findings from 40 peer-reviewed publications meeting predefined inclusion criteria. The primary objectives were to address critical research questions concerning the multifaceted effects of household debt on financial vulnerability and well-being, the moderating role of macroprudential monetary policies, and the broader structural impacts of debt accumulation on economic growth and societal inequality.

Employing a synthesis of relevant articles surrounding household financial literacy revealed three major thematic areas. First, household debt is closely linked to financial vulnerability, with significant implications for individual well-being, specifically under conditions of economic uncertainty and inadequate social protection mechanisms. Second, macroprudential and monetary policy measures, such as debt-to-income ratios and regulatory interventions, show varying levels of effectiveness in managing financial risks, with some policies proving more suitable under specific institutional or economic settings. Third, the review highlighted the structural dimension of household debt, demonstrating how debt accumulation can both fuel and destabilise economic growth, contribute to rising inequality, and interact with institutional quality to determine long-term financial sustainability. Diverse methodological approaches were observed, including econometric modelling, agent-based simulation and policy evaluation frameworks.

Nevertheless, the review is limited by its reliance on English-language publications and a finite number of databases, which may exclude relevant regional or grey literature. Future research may benefit from a broader linguistic and geographical scope, as well as longitudinal analyses that capture evolving debt dynamics in post-crisis and post-pandemic contexts. Systematic literature reviews such as this play a vital role in consolidating academic discourse, bridging theoretical and empirical gaps, and supporting informed decision-making in both policy and practice. The evidence-based synthesis presented underscores the importance of household debt management as a cornerstone of financial sustainability across varying economic landscapes.

This analysis has elucidated the profound and intrinsic interdependence of household debt, financial sustainability, and economic resilience, positioning their intricate relationship as a critical link for understanding both micro-level household stability and macro-level economic performance. Household debt, encompassing the aggregated financial obligations of individuals and families, functions as a dual-edged economic instrument. Manageable levels of debt lead to a significant factor for economic advancement, enabling households to participate in critical investments such as homeownership, educational attainment, and entrepreneurial ventures; excessive accumulation poses substantial systemic risks. Over-indebtedness not only restricts household disposable income but also significantly elevates financial vulnerability, thereby amplifying the propagation of economic shocks. From a macroeconomic standpoint, established theories, such as the consumption theory, highlight how escalating household debt can exacerbate economic downturns, causing deleveraging cycles, depressed consumption, and asset fire sales. Conversely, at the micro-level, these dynamics are profoundly shaped by theories of consumer behaviour, risk assessment, and intertemporal financial planning.

Linking household debt to financial sustainability provides insight into a household's capacity to meet current financial commitments without compromising future well-being or fostering

undue reliance on external aid. Households burdened by high debt levels frequently lack the necessary financial buffers for savings, investment, or absorbing unforeseen expenses, which consequently propagates widespread financial fragility. This micro-level vulnerability, when widespread, poses significant systemic risks to the broader financial ecosystem, challenging its capacity to maintain long-term stability and effective function. The theoretical underpinnings for this concept are rooted in intertemporal choice theory, risk management, and behavioral economics, underscoring the household's financial decision-making resources over time to achieve enduring financial security.

Finally, economic resilience, representing the adaptive capacity of an economy and its constituent units (including households) to absorb, adapt to, and recover from disruptive shocks without suffering enduring damage or systemic collapse, is directly modulated by the prevailing nature and magnitude of household debt. A financial environment characterised by lower household debt, complemented by robust savings and stable income streams, significantly enhances a household's shock-absorbing capabilities. Conversely, this concept draws heavily from complex systems theory, ecological economics, and crisis management literature, emphasising adaptability, redundancy, and transformative capacity in confronting disturbances.

In conclusion, understanding the relationship of these three elements helps to explain how household financial decisions, particularly regarding debt, can either amplify economic shocks, leading to deeper recessions, or mitigate the shocks by promoting quicker recovery. This connection informs policy-making in areas such as financial regulation, setting up relevant lending standards, consumer protection, monetary policy, and social safety nets. Policies aimed at fostering household financial sustainability, such as financial literacy programs, debt counselling, and housing market regulations, directly contribute to overall economic resilience. Furthermore, by monitoring household debt levels and indicators of financial stress, economists and policymakers can develop better early warning systems for potential financial crises, thereby enhancing proactive measures. Lastly, it highlights the critical link between individual household financial health and the stability of the broader economy, whereby a robust household sector is a prerequisite for a resilient national economy.

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### **Conflicts of Interest**

The authors declare that they have no conflicts of interest to report regarding the present study

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