

India's nominal debt growth accelerates in 1QFY23...

...but real growth remains subdued

- India's non-financial sector (NFS) debt grew at a 15-quarter high of 13.8% YoY in 1QFY23 (quarter-ending Jun'22), v/s 13% YoY in 4QFY22. Outstanding NFS debt touched USD5.2t (or INR412t) in 1QFY23. Further, NFS debt eased to a nine-quarter low of 164.7% of GDP in 1QFY23, down from its peak of 179.7% in 4QFY21 but up from 157.9% in 4QFY20.
- In real terms (using GDP deflator), however, India's debt grew a mere 2.7% YoY in 1QFY23, the highest in five quarters but substantially lower than the average growth of ~9% between FY16 and FY19.
- Within NFS debt, non-government non-financial (NGNF) debt grew at a 14-quarter high of 13.6% YoY in the quarter, while general government (GG) debt (Center + states) posted the slowest growth in two years at 14% YoY in 1QFY23. Within the NGNF sector, (non-financial) corporate debt is estimated to grow 12.5% YoY in the quarter, while household (HH) debt posted a 14-quarter high growth of 15.2% in 1QFY23.
- An analysis of NGNF debt by sources/lenders suggests that while the pick-up was broad-based. Barring commercial papers, all other sources witnessed double-digit growth in 1QFY23. SCBs loans to the NGNF sector grew at a 34-quarter high of 13.5% and non-bank lenders also saw a 13-quarter high growth of 13.8% YoY in 1QFY23.
- Based on monthly data of SCBs credit (loans + investments), CPs, and bonds (from Bloomberg), the combined nominal debt grew 12% YoY in Aug'22, marking its first double-digit growth in more than three years. In real terms (using the average of CPI and WPI), it is estimated to have increased 2% in Aug'22, after 15 months of contraction.
- A comparison of debt-to-GDP ratios in the world's major economies confirms that the leverage had peaked out in most nations in 4QCY20/1QCY21, though it was at an all-time high in China & Japan in 2QCY22. Further, the debt ratio in India is the least compared to other major nations.

Our estimates suggest that India's NFS debt stood at USD5.2t (or INR412t) in 1QFY23, up 13.8% YoY, marking the highest growth in 15 quarters

India's NFS debt grew 13.8% YoY, eased to 164.7% of GDP in 1QFY23: Our estimates suggest that India's NFS debt stood at USD5.2t (or INR412t) in 1QFY23, up 13.8% YoY, marking the highest growth in 15 quarters (*Exhibit 1*). About half of the rise in NFS debt in 1QFY23 (vis-à-vis 1QFY22) was attributable to the government sector, lower than two-thirds in the past few quarters. As against 15-quarter high nominal growth, India's debt grew just 2.7% YoY in 1QFY23 in real terms (using GDP deflator), the highest in five quarters, but substantially lower than the average growth of ~9% between FY16 and FY19 (*Exhibit 2*).

Further, NFS debt eased to a nine-quarter low of 164.7% of GDP in 1QFY23, down from its peak of 179.7% in 4QFY21 but higher than 157.9% in 4QFY20 (*Exhibit 3*).

Exhibit 1: India's domestic NFS debt estimates

	USD t				As a percentage of GDP ¹			YoY (%)	
	FY19	FY20	FY21	FY22	1QFY22	4QFY22	1QFY23	4QFY22	1QFY23
Households* (HH)	0.9	0.9	1.0	1.1	35.5	35.2	34.4	11.0	15.2
Non-financial corporate ² (NFC*)	1.4	1.3	1.4	1.5	49.2	48.9	46.6	12.4	12.5
Central government	1.2	1.3	1.6	1.8	57.4	57.0	56.3	11.5	12.2
State governments ³	0.7	0.7	0.8	0.9	30.0	28.8	27.4	10.9	8.8
Non-financial sector (NFS)	4.2	4.2	4.8	5.3	172.1	169.9	164.7	13.0	13.8
Non-government non-financial (NGNF)	2.3	2.2	2.4	2.6	84.7	84.1	81.0	11.8	13.6

Sources: Reserve Bank of India (RBI), Ministry of Finance (MoF), Comptroller and Auditor General (CAG), Bloomberg, company reports, MOFSL

¹ Annualized nominal GDP = Sum of the last four quarters to smoothen the sharp changes in nominal GDP on a quarterly basis

² Estimates included in this report are based on our calculations. Bank for International Settlements (BIS) also provides India's HH and NFC debt estimates, which are different from our estimates (available up to 4QFY22). *Please see Appendix at the end of the report for methodology.

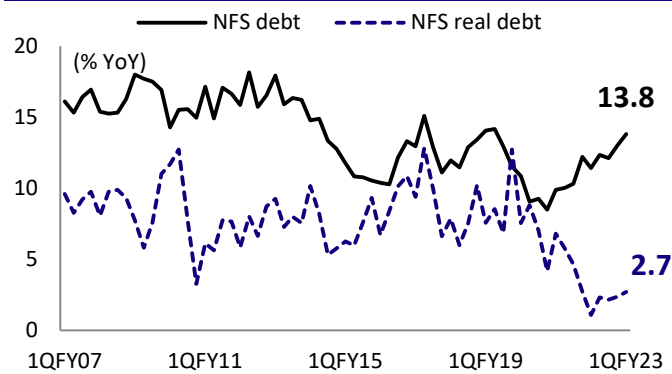
³ Debt of state governments (based on fiscal deficit of 19 states) is [our estimates](#)

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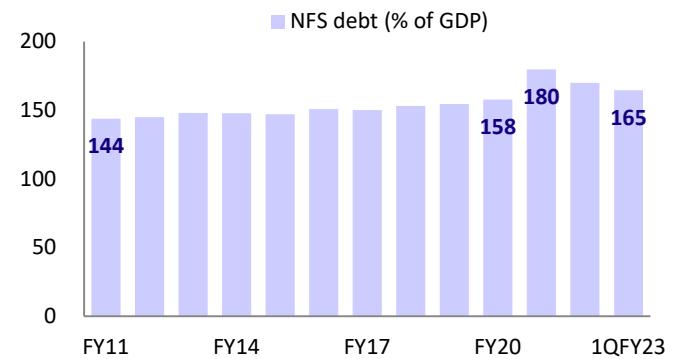
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Exhibit 2: Nominal/real NFS debt grew 13.8%/2.7% YoY...

Deflated by GDP deflator

Please see Appendix at the end of the report for methodology

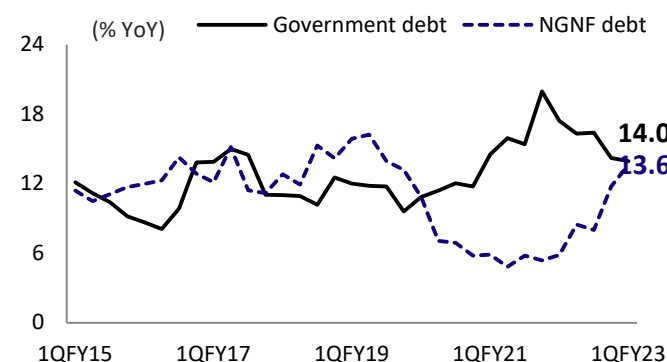
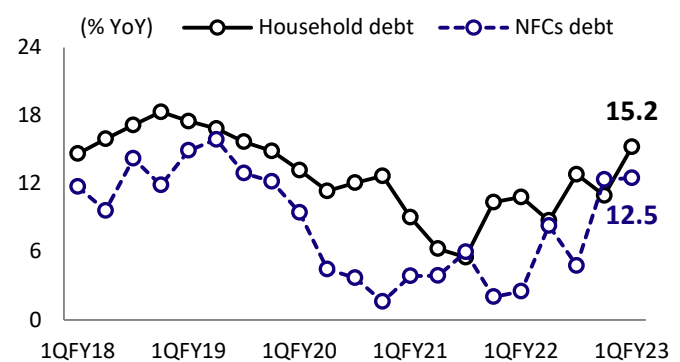
Exhibit 3: ...and total debt fell to 164.7% of GDP in 1QFY23

Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Government debt growth weakest in two years in 1QFY23...: NFS includes three major domestic economic sectors – HH, NFCs (private and state-owned), and GG (Center + States). NFS debt growth was primarily driven by GG borrowings over the past few quarters. NGNF debt has also risen strongly since 4QFY22.

NGNF debt grew at 14-quarter high of 13.6% YoY in the quarter, while GG debt posted the slowest growth in two years at 14% YoY in 1QFY23

NGNF debt grew at a 14-quarter high of 13.6% YoY in the quarter, while GG debt posted the slowest growth in two years at 14% YoY in 1QFY23 (*Exhibit 4*). GG debt stood at 83.8% of GDP in 1QFY23, the lowest in eight quarters but much higher than ~73% in 4QFY20. Notably, while the Center's debt continued to grow reasonably in double-digits, the state governments' debt just increased 8.8% in 1QFY23, the lowest in almost seven years. As a percentage of GDP, Center's and states' debt stood at 56.3% and 27.4% of GDP, respectively, in 1QFY23 vis-à-vis a 15-year peak of 58.7% and 31.1% in 4QFY21.

Exhibit 4: Government debt grew decently but at the slowest pace in two years in 1QFY23**Exhibit 5: Corporate and HH debt growth at multi-quarter high during the quarter**

Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Corporate debt is estimated to grow 12.5% YoY in the quarter, while HH debt posted a 14-quarter high growth of 15.2% in 1QFY23

...while NGNF debt growth accelerated: NGNF debt rose 13.6% YoY in 1QFY23, marking its highest growth in 14 quarters and second consecutive double-digit growth. Within the NGNF sector, (non-financial) corporate debt is estimated to grow 12.5% YoY in the quarter, while household (HH) debt posted a 14-quarter high growth of 15.2% in 1QFY23 (*Exhibit 5*). NGNF debt fell to 81% of GDP in 1QFY23, the lowest in 18 quarters and compared with its peak of 90.4% in 3QFY21.

As nominal GDP normalizes, debt-to-GDP ratio has contracted across the board. HH debt dropped to 34.4% of GDP in 1QFY23 vis-à-vis its peak of 38% in 4QFY21 (Exhibit 6). Please note that according to the RBI's recently released and latest available [data](#), HH debt was 39.3% of GDP at its peak in 4QFY21, and it eased to 35.3% as of 4QFY22 (latest data). NFC debt, as per our estimates, stood at almost a decade-low level of 46.6% of GDP in 1QFY23, lower than its peak of 54.3% in 3QFY21.

Exhibit 6: HH debt-to-GDP growth declined to 34.4% of GDP in 1QFY23...

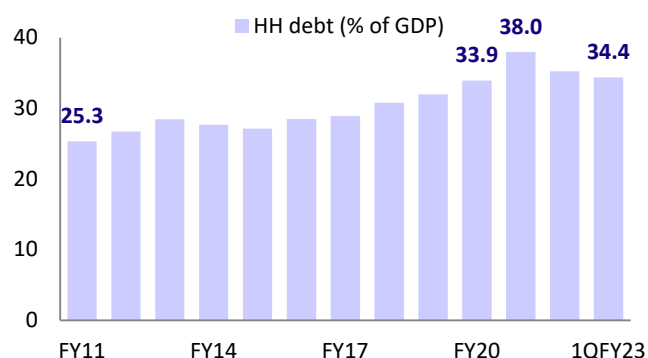
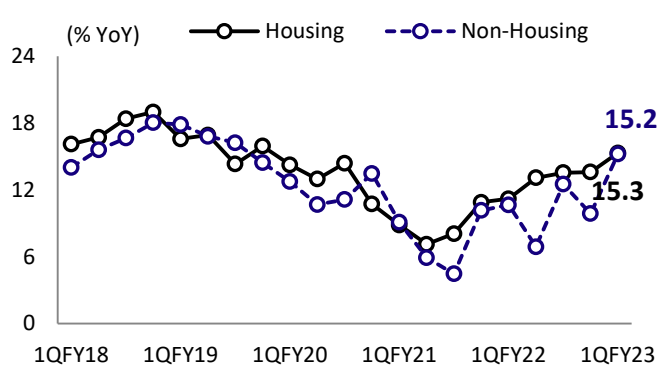


Exhibit 7: ...and housing debt continued to grow faster than non-housing debt for the eighth consecutive quarter



Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Importantly, within HH debt, both housing and non-housing debt registered the highest growth in 13 quarters; however, the former outpaced the latter for the 8th consecutive quarter (Exhibit 7). Non-housing debt surged 15.2% YoY, while housing debt grew 15.3% YoY (the highest in 13 quarters) in 1QFY23. Thus, non-housing debt accounted for 70.5% of HH total debt, same as in FY20/FY21.

Sources of borrowings for the NGNF sector

There are six major official sources from where a company or an individual can borrow in the country – Scheduled commercial banks (SCBs), Non-Banking finance companies (NBFCs), housing finance companies (HFCs), corporate bonds (CBs), commercial papers (CPs), and foreign borrowings (also known as ECBs). An individual can borrow from the first three sources, while NFCs can raise borrowings through any of the six sources. For the government, RBI can also subscribe to its securities. To estimate the true extent of India's debt, we have adjusted the intra-financial sector lending (SCBs to NBFC/HFCs, etc.). Please refer to *Appendix 1 and 2* at the end of the report for details.

Bank loans to NGNF sector grew at 34-quarter high of 13.5% and non-bank lenders also saw 13-quarter high growth of 13.8% YoY in 1QFY23

An analysis of NGNF debt by sources/lenders suggests that the pick-up was broad-based. Barring commercial papers (CPs), all other sources witnessed double-digit growth in 1QFY23. Bank loans to NGNF sector grew at a 34-quarter high of 13.5% and non-bank lenders also saw a 13-quarter high growth of 13.8% YoY in 1QFY23 (Exhibit 8). Further, the combined loan book of NBFCs and HFCs is estimated to have increased 10.8% YoY in 1QFY23, marking its first double-digit growth in three years.

Our estimates also suggest that the share of SCBs (after adjusting for inter-financial sector lending) has remained in the narrow range of 55-56% of NGNF debt over the past 15 quarters. It was 55.7% in 1QFY23. Similarly, the share of NBFCs, HFCs, and CBs has also been very stable in the past few quarters. In contrast, the share of

external borrowings was at a 26-quarter high of 9.2% in 1QFY23, as it grew at a 16-quarter high of 21.3% YoY during the quarter.

Exhibit 8: NFS debt growth by sources/lenders in India

	INR t				YoY (%)				
	FY19	FY20	FY21	FY22	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Banks*	88.8	94.3	99.6	110.3	6.7	8.1	8.0	10.7	13.5
NBFCs	23.0	24.6	27.0	28.5	6.5	8.1	4.8	5.6	10.6
HFCs	11.9	12.2	12.9	14.2	5.8	6.7	9.0	11.7	11.2
Corporate bonds#	20.1	20.6	21.7	26.2	2.0	9.7	5.8	20.1	16.1
Commercial paper@	2.6	2.3	2.4	2.3	-6.2	9.0	-3.5	-4.0	-3.3
ECBs^	13.2	14.9	14.4	16.7	6.8	11.8	18.2	20.8	21.3
NGNF debt	159.7	168.9	178.0	198.2	5.8	8.5	8.0	11.8	13.6
Memo: NBFCs + HFCs	34.9	36.8	39.9	42.7	6.3	7.6	6.2	7.6	10.8
Total excl. NBFCs + HFCs	124.8	132.1	138.1	155.5	5.7	8.7	8.5	13.0	14.5
Non-bank lenders	70.9	74.6	78.4	87.9	4.8	9.0	8.0	13.1	13.8

*Excludes loans to the financial sector

@Excludes commercial paper issued by NBFCs

Please see *Appendix* at the end for details

#Excludes corporate bonds issued by SCBs, NBFCs, and Banks

^Excluding FII investments in corporate bonds

Source: RBI, Company reports, Bloomberg, CEIC, MOFSL

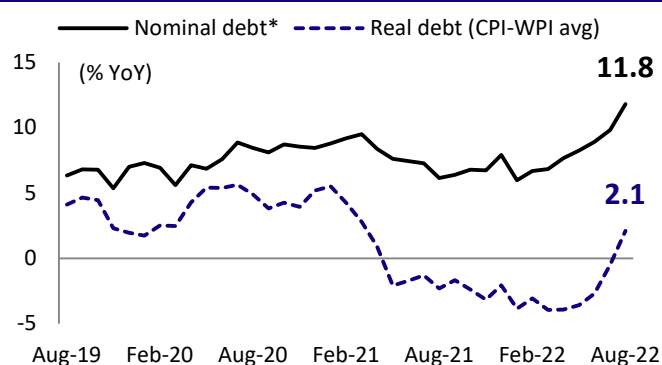
Monthly data suggests further acceleration in credit growth in Jul-Aug'22

Based on monthly data of SCBs credit (loans + investments), CPs, and CBs, the combined nominal debt grew 12% YoY in Aug'22, marking its first double-digit growth in more than three years. In real terms, it is estimated to have increased 2% in Aug'22, after 15 months of contraction (*Exhibit 9*).

Real growth remains highly subdued vis-à-vis pre-COVID averages

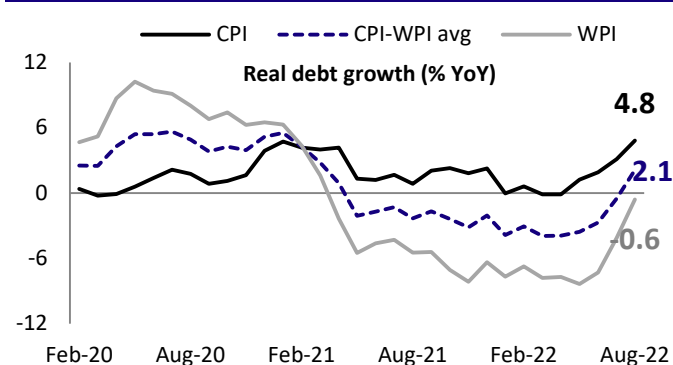
In order to arrive at real growth, one may use different measures of inflation – CPI, WPI or some combination. Irrespective of the inflation measure, it is clear that real growth remains highly subdued vis-à-vis pre-COVID averages (*Exhibit 10*).

Exhibit 9: Debt growth accelerates further in Jul-Aug'22...



* Including SCBs loans, SCBs investments, CPs and CBs

Exhibit 10: ...though it remains subdued in real terms



Source: RBI, Bloomberg, CEIC, MOFSL

At its peak, NFS debt was at 295-300% of GDP each in the US, the UK, and EZ in 4QCY20/1QCY21; it peaked at ~180% of GDP in India

Comparison of India's debt vis-à-vis a few other major nations

A comparison of India's NFS debt vis-à-vis a few other major economies (the US, the UK, Japan, Eurozone (EZ), and China) confirms that while debt-to-GDP had peaked out in all nations in 4QCY20/1QCY21 (except Japan/China), the debt ratio in 1QFY22/2QCY22 remained higher than the pre-COVID level (CY19-end), except in the UK (*Exhibit 11*). At its peak, NFS debt was at 295-300% of GDP each in the US, the UK, and EZ in 4QCY20/1QCY21; it peaked at ~180% of GDP in India. In contrast, the leverage ratio continues to rise in Japan (at 436% of GDP) and China (273% of GDP).

More importantly, a look at NGNF debt growth among these major economies also reveals that it has decelerated in the UK, EZ, and China over the past few quarters (*Exhibit 12*). On the other hand, NGNF debt growth in the other three nations – the US, India, and EZ, has improved, with almost a decade high growth (of 7.4% YoY) in the US and a 26-quarter high growth (of 4.5%) in EZ. India's NGNF debt growth, as discussed above, was at 14-quarter high in 1QFY23.

Exhibit 11: A comparison of debt-to-GDP ratio in major nations in 2QCY22 v/s 4QCY19

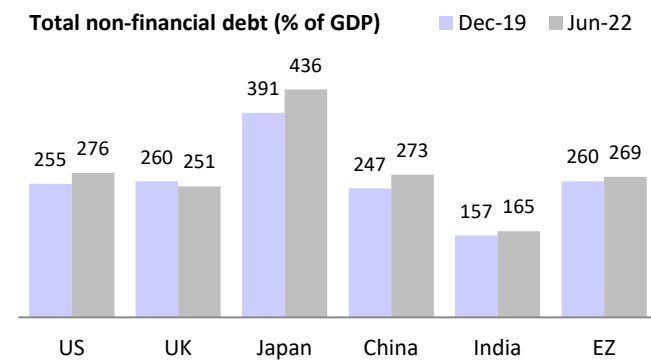
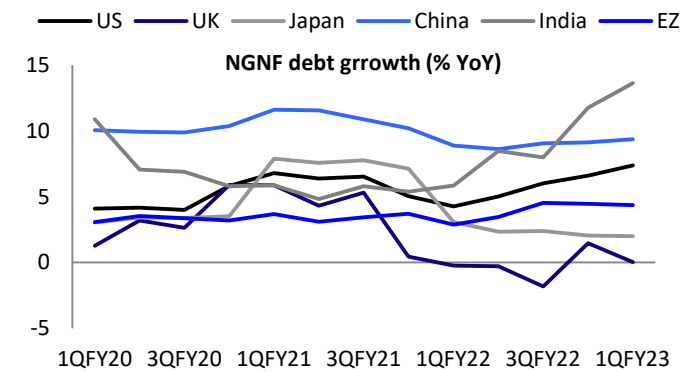


Exhibit 12: NGNF debt growth diverge in line with growth trends among these nations



Source: Various national sources, CEIC, MOFSL

NGNF debt growth in the UK, Japan and China has weakened in the past few quarters, while it continues to remain very strong in the US, India, and EZ

Overall, India's debt growth continues to accelerate in 1QFY23, and likely to have picked up in 2QFY23. Nevertheless, inflation appears to be playing an important role here, since real growth remains extremely subdued at ~2% or so. It is also heartening to see corporate debt pick up and debt growth becoming broad-based.

India's debt-to-GDP ratio is very low compared to other major nations in the world. Further, there is a clear divergence among these nations. NGNF debt growth in the UK, Japan, and China has weakened in the past few quarters, while it continues to remain very strong in the US, India, and EZ. This is in line with diverge growth trends among these economies.

Appendix: Estimating total debt in the domestic NGNF sector

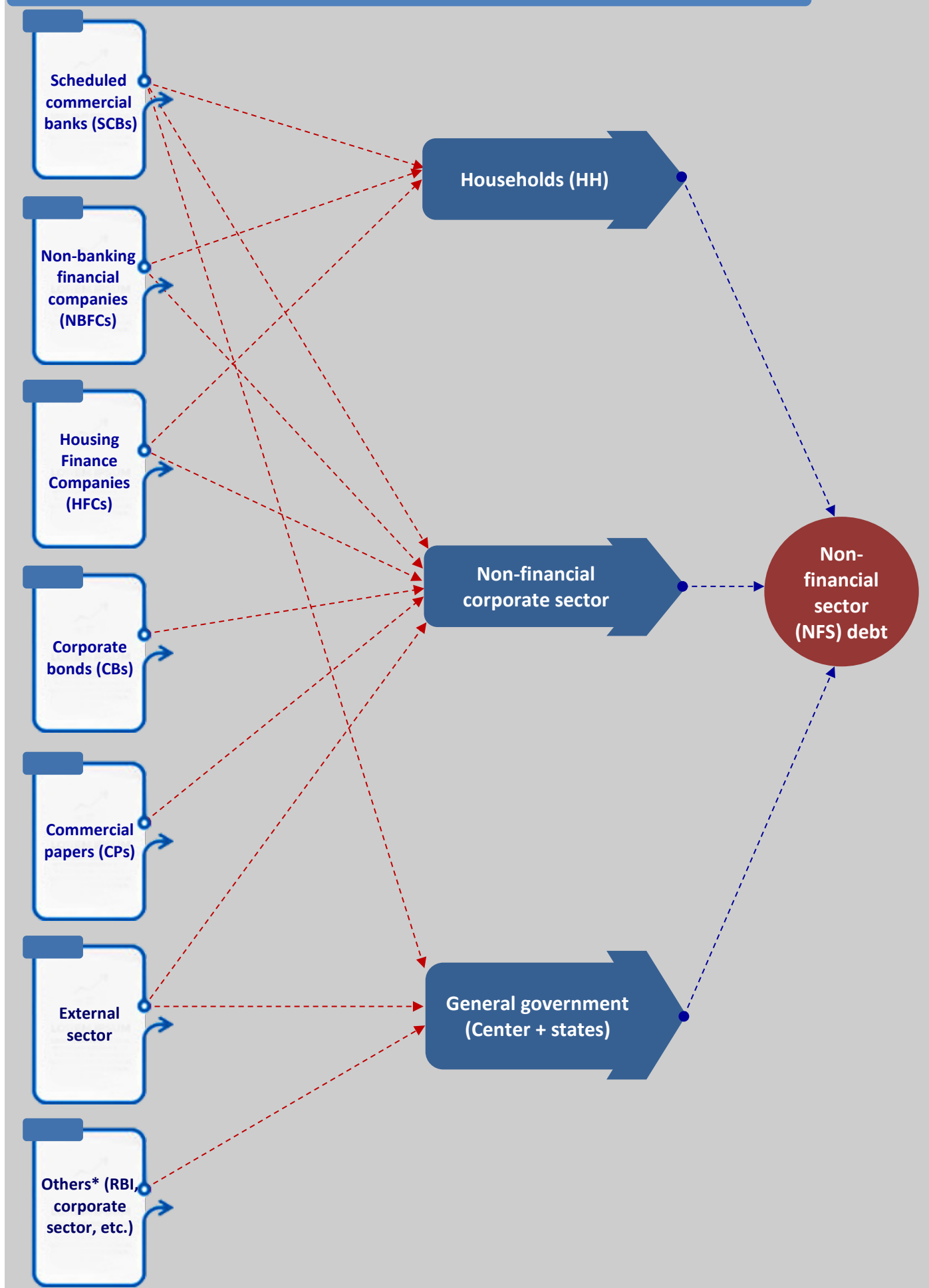
SCBs, NBFCs, and HFCs are the three major institutional sources of lending available to the HH and corporate sectors, which together constitute the NGNF sector. We use loans and advances data from these financial companies to estimate the total debt of the NGNF sector. Apart from these three sources, the NGNF sector borrows through CPs, CBs, and ECBs. We gather data on the following six relevant parameters, making suitable adjustments to avoid double counting:

- SCBs' loans and advances, excluding their lending to the Financial sector
- Loan book data for NBFCs from the RBI's annual/bi-annual publications (titled: '*Report on Trend and Progress of Banking in India*', '*Financial Stability Report*') – available up to 1HFY22. For quarterly data, we have compiled the data of 18 NBFCs, accounting for about three-fifths of the entire industry (*list of NBFCs is provided in Exhibit 13*).
- The loan book for HFCs that is also available from the RBI's *Report on Trend and Progress of Banking in India and National Housing Bank Report* provides data up to FY21/1HFY22. For quarterly data, we have compiled the data of 10 HFCs, accounting for ~76% of the entire industry (*list of HFCs is provided in Exhibit 13*).
- Outstanding corporate bonds, adjusted for debentures, issued by NBFCs, HFCs, and Tier II capital of SCBs (assumed at 2% of Banks' loan books).
- Outstanding CPs, adjusted for NBFC/HFC issuances.
- Long- and short-term external debt (ECBs + INR debt) raised by the NGNF sector, adjusted for Foreign Institutional Investor (FII) exposure to corporate bonds.

Exhibit 13: List of 18 NBFCs and 10 HFCs used for quarterly analysis

NBFCs (~60% of the industry)	HFCs (~83% of the industry)
1. Bajaj Finance	1. HDFC
2. Cholamandalam Investment and Finance Co	2. HUDCO
3. IIFL Finance	3. LIC Housing
4. JM Financial	4. Indiabulls Housing
5. L&T Financial	5. Dewan Housing (acquired by Piramal in 2QFY22)
6. Mahindra & Mahindra Finance	6. Sundaram BNP Finance
7. Magma Finance	7. PNB Housing Finance
8. Manappuram Finance	8. Canara Home Finance
9. Muthoot Finance	9. Reliance Home Finance
10. Reliance Capital	10. Repco Home Finance
11. Shriram City Union	
12. Shriram Transport Finance	
13. Sundaram Finance	
14. Power Finance	
15. REC	
16. PTC India financial services Ltd.	
17. Piramal Finance	
18. Aditya Birla Capital	

The methodology used for estimating the total debt in the country



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