India Commentary 04-16-21

Commentary:

India has underdeveloped financial markets compared to the others in the Big Seven, and therefore lower debt to GDP numbers. This is typical of less developed countries and is a positive in the sense that this debt capacity represents a source for growth.

However, also typical of low debt, less developed countries, they have high inflation, which is a significant factor when comparing to the other countries of the Big Seven since those each have moderate to low inflation.

Overall, debt to GDP has been basically flat—helping contribute to its decelerating GDP. Within that, non-financial corporation debt is contracting in relation to GDP, and household debt is starting to expand quickly, especially in the area of housing loans, which represents the highest area of credit risk concern.

Highest contraction in non-financial corporation debt is in the categories of Industry, Construction, Basic metals, Textiles, and Engineering.

There is a concerning level of growth within the so-called private sector banks and certain institutions including Yes Bank, Dewan Housing Finance Corporation, and Indiabulls Housing Finance –though Dewan and Indiabulls have more recently pulled back considerably.

India shows no concerning level of cross-border lending risk.

We have no aggregate derivative information for India.

Total Central Government debt has now been stable for several years, but has increased to 57% this year.

Country Net Worth

India has an intermediate but climbing financial net worth relative to its GDP, with household financial net worth the lowest of the big seven, non-financial corporation financial net worth to its GDP the highest of the big seven, and government financial net worth in the intermediate range.

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Background:

Accelerating private debt for a country is normally a signal for some level of economic boom, which is then often followed by some type of economic reversal or calamity. The same is also true for rapid debt growth within an economic sector. At the point credit growth becomes excessive, the result is credit problems for that country or sector. The reason is this: rapid growth in credit, while usually favorable in the short run, if sustained can lead to oversupply or overcapacity—e.g. too many houses or too much oil extraction capacity—at the country level, or within a given industry or sector. In fact, overcapacity is only possible through rapid debt expansion. Significant overcapacity is generally followed by two events—a drop in sector activity and the necessity of sector layoffs during the period while demand catches up, along with high credit losses for lenders in that sector.

There is no hard and fast measure for the level of growth that leads to overcapacity, since the nature of policy responses and other qualitative variables have a significant influence on how events play out. Nevertheless, what has been a useful threshold measure is that if overall private debt to GDP increases by 20% in a five-year window, and reaches 150% in that time frame, credit problems are a likely result. Within a given sector, if sector debt to GDP increases over 40% within five years, credit problems of increased likelihood within that sector. If the sector is large enough, e.g. the real estate sector, that sectors problems can spill over into other sectors bringing systemic national risk.

Disclaimer:

All data in this report is as current as is readily available. Certain data is less timely than desirable, especially sector level data. However, most adverse volume trends must hold for more than a year or two to create significant credit concerns, so this lag in data, while unfortunate, does not preclude of significant trends.

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