

## India's debt growth remains subdued in 2QFY21

### Growth in non-government debt close to a record low in the last two decades

- India's non-financial sector (NFS<sup>1</sup>) debt grew 10.5% YoY in 2QFY21, marking the highest growth in five quarters and higher than the record low of 8.2% in 4QFY20. Outstanding NFS debt stood at INR332t, or a fresh high of 174.4% of GDP in 2QFY21 (or 3QCY20), as annualized nominal GDP<sup>2</sup> declined 3% YoY.
- Within the NFS, general government (center + states) debt grew at a decade high of 16.5% YoY, while non-government non-financial (NGNF<sup>4</sup>) debt grew 5.2% YoY in 2QFY21, similar to record low growth of 5% in 1QFY21. Within the NGNF sector, household debt grew at a decent 9.6% YoY in 2QFY21 (v/s 7.8% in the previous quarter) and non-financial corporate (NFC) debt grew 2.4% YoY, similar to the record low growth of 2.3% YoY posted in 4QFY20 and lower than 3.3% growth in 1QFY21.
- An analysis of NGNF debt by lenders suggests that the loan book of NBFCs and HFCs grew faster (compared to that in 4QFY20 and 1QFY21), while it expanded slowly for other lenders, including scheduled commercial banks (SCBs). Lending by SCBs to the NGNF sector grew only 6% YoY last quarter, a record low. While lending by NBFCs and HFCs picked-up in 2QFY21, it was still way lower than the pre-2020 growth levels.
- Due to COVID-19 and related collapse in economic activity, a jump in the debt-to-GDP ratio across nations was inevitable. However, the increase in India's debt growth in 2020 – to 174.4% in 3QCY20 from 154% at the end of 2019 – was the lowest compared to other major nations such as the US, UK, Japan and China. NFS debt growth in 3QCY20 was close to the highest in 15 years in the US (at 11.5%), the highest in 24 years in Japan (at 5.4%) and the highest in three years in China (at 13.1%).
- We have [earlier](#) argued that COVID-19 may have an adverse impact on India's household income. Combine that with subdued debt growth, a strong revival looks highly ambitious.

India's NFS debt grew 10.5% YoY in 2QFY21 – the highest in the past five quarters and higher than the record low growth of 8.2% YoY in 4QFY20

**India's NFS debt grew 10.5% YoY to touch 174.4% of GDP in 2QFY21:** Our estimates suggest India's NFS debt stood at INR332t in 2QFY21, up from INR314t in 4QFY20 and INR322t in 1QFY21. Around 92% increase in NFS debt in 1HFY21 was attributable to the government sector, as the corporate sector witnessed a marginal decline and households saw a small growth in their outstanding debt (*Exhibit 1*). India's NFS debt grew 10.5% YoY in 2QFY21 – the highest in the past five quarters and higher than the record low growth of 8.2% YoY in 4QFY20 (*Exhibit 2 on the following page*). Due to a decline in annualized GDP, NFS debt rose from 154% of GDP at the end of 2019 to a record high of 174.4% in 2QFY21 (*Exhibit 3*).

#### Exhibit 1: Estimates of India's non-financial sector (NFS) debt

	INR b				% of (annualized <sup>2</sup> ) GDP				% YoY
	FY18	FY19	FY20	2QFY21	FY18	FY19	FY20	2QFY21	
Households*	51,869	59,430	65,428	67,070	30.3	31.3	32.2	35.2	9.6
Non-financial corporate (NFC*)	87,981	98,469	100,777	100,590	51.5	51.9	49.5	52.9	2.4
General government (GG)	120,913	132,549	147,925	164,324	70.7	69.9	72.7	86.3	16.5
Central government	77,988	84,681	94,623	107,043	45.6	44.6	46.5	56.2	17.6
State governments <sup>3</sup>	42,925	47,868	53,302	57,281	25.1	25.2	26.2	30.1	14.4
Non-financial sector (NFS <sup>1</sup> )	260,763	290,447	314,130	331,984	152.5	153.1	154.4	174.4	10.5
Non-government non-financial (NGNF)	139,850	157,899	166,205	167,661	81.8	83.2	81.7	88.1	5.2

\*Please see Appendix at end of the report for methodology

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

<sup>1</sup> Non-financial sector = Non-financial corporate sector + household sector + general government (Center + states)

<sup>2</sup> Annualized nominal GDP = sum/average of last four quarters to smoothen the sharp changes in nominal GDP on quarterly basis

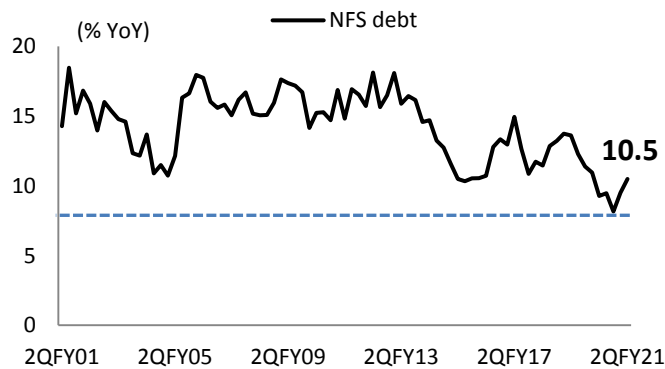
<sup>3</sup> Debt of state governments in 1QFY21 is our estimates based on fiscal deficit of 16 states (21 states in FY19 and 19 states in FY20)

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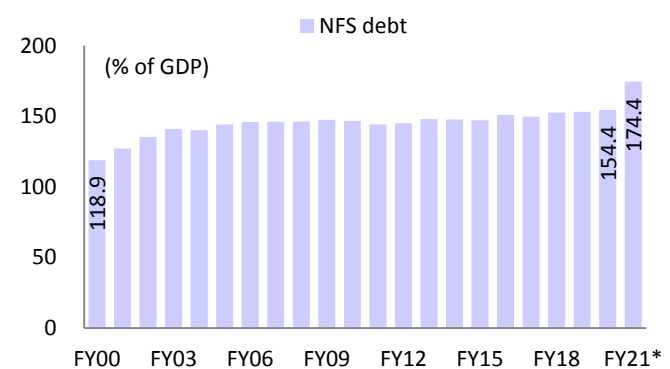
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**Exhibit 2: India's NFS debt grew 10.5% YoY in 2QFY21...**

Please see Appendix at the end of the report for methodology

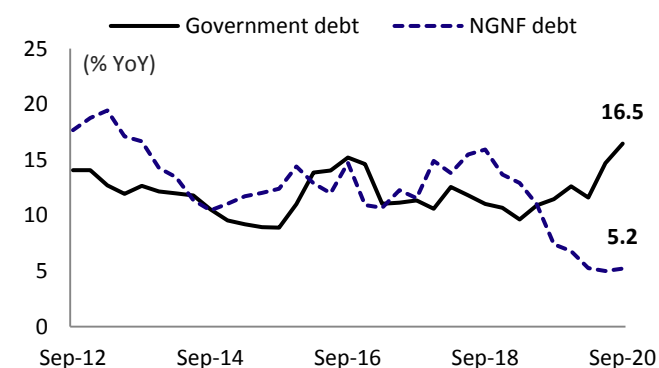
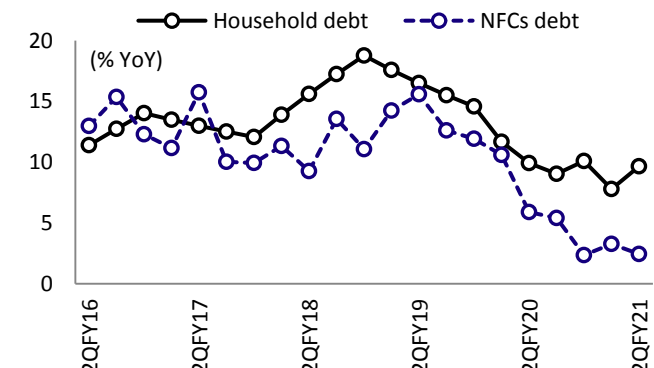
**Exhibit 3: ...and rose to record 174.4% of GDP**

\* 1H FY21 (data for quarter-ending Sep'20)

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

Government debt grew 16.5% YoY in 2QFY21, marking the fastest growth in the past decade and the second highest growth in the past two decades

**Government debt grew at decade high in 2QFY21:** As explained in the last quarter's [report](#), we have improved on our India debt database by including the quarterly debt of the general government (center + states) along with NGNF debt while estimating NFS debt. Within NFS debt, government debt grew 16.5% YoY in 2QFY21, marking the fastest growth in the past decade and the second highest growth in the past two decades (*Exhibit 4*). While central government debt grew 17.6% YoY in the quarter to a 15-year high of 56.6% of GDP, states' debt (based on actual deficit data for 17 states) is estimated to have increased 14.4% YoY to touch 30% of GDP for the first time in 13 years. Government debt is estimated to have risen to a 14-year high of 86.3% of GDP in 2QFY21 from 72.7% in FY20.

**Exhibit 4: Government debt grew at the second-highest level of 16.5% YoY in two decades****Exhibit 5: However, growth in NGNF debt remains subdued at 5.2% YoY in 2QFY21**

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

**However, NGNF debt growth was stagnant near record low growth:** In contrast, NGNF debt increased by just 5.2% YoY in 2QFY21, marginally better than the record low growth levels of 5% YoY posted in the previous quarter. Within the NGNF sector, while household debt<sup>4</sup> grew 9.6% YoY (better than 7.8% in the previous quarter), outstanding debt of the NFC sector grew only 2.4% YoY – similar to record low growth of 2.3% YoY posted in 4QFY20 and lower than 3.3% growth in 1QFY21 (*Exhibit 5*).

<sup>4</sup> As mentioned in our earlier [report](#), we have revised our estimates of India's household debt in line with the recently published data by the [Reserve Bank of India \(RBI\)](#), which released [quarterly outstanding debt](#) of Indian household for the period 1Q FY18 to 4Q FY20. According to the RBI, only about 56% of the HFCs loan book and ~23% of the NBFCs loan book accounted for household debt in FY20.

Household/NFCs debt has risen to a new high of 35.2%/52.9% of GDP in 2QFY21

Due to the sharp decline in nominal GDP (3% on an annualized basis in 2QFY21), NGNF debt rose to a record high of 88.1% of GDP (higher than 86.1% in the previous quarter and 81.7% in FY20). Within the NGNF sector, household and NFCs debt have risen to a new high of 35.2% of GDP (up from 33.6%/32.2% in 1QFY21/4QFY20) and 52.9% of GDP in 2QFY21 (up from 52.4%/49.5% in 1QFY21/4QFY20).

### Sources of borrowings for the NGNF sector

A detailed lender-wise analysis of the NGNF sector suggests credit growth by NBFCs (non-banking financial companies), HFCs (housing finance companies), and foreigners (external commercial borrowings, or ECBs) accelerated, but decelerated for banks, corporate bonds (CBs) and commercial papers (CPs) (*Exhibit 6*).

NGNF debt, excluding NBFCs and HFCs, which together accounts for 22% of total debt, grew 3.9% YoY in 2QFY21, better than the record low growth of 1.4% each in the previous two quarters

After growing at record low of 1.3% YoY in 1QFY21 – based on our estimate of 17 individual companies, accounting for ~60% of the NBFC industry (*see Appendix for details*) – NBFCs loan book grew 4.6% YoY in the last quarter, marking the highest growth in three quarters. Loan book for HFCs – based on our estimate of 10 individual companies, accounting for ~8% of the HFC industry (*see Appendix for details*) – grew at 2.3% YoY in 2QFY21, following the record low growth of 0.5% YoY in 4QFY20 (*Exhibit 6*). NGNF debt, excluding NBFCs and HFCs, which together account for 22% of total debt, grew 3.9% YoY in 2QFY21, better than the record low growth of 1.4% each in the previous two quarters.

Bank lending (after adjusting for inter-financial sector) grew by just 6% YoY last quarter, marking the slowest growth in the past two decades. Outstanding CB issued by NFCs grew 7.4% YoY in 2QFY21, better than record low growth of 5.8% YoY in 4QFY20, but weaker than 8.4% growth in the previous quarter.

**Exhibit 6: Lending by NBFCs, HFCs and foreigners pick up in 2QFY21**

	INR b				% YoY				
	FY18	FY19	FY20	2QFY21	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
<b>Banks*</b>	79,537	88,807	94,306	94,161	8.0	6.8	6.2	6.6	6.0
<b>NBFCs</b>	19,625	23,157	23,605	24,633	10.2	6.3	1.9	1.3	4.6
<b>HFCs</b>	10,386	11,917	11,971	12,281	6.7	6.8	0.5	1.6	2.3
<b>Corporate bonds#</b>	16,359	18,347	19,411	19,604	8.2	6.9	5.8	8.4	7.4
<b>Commercial paper@</b>	1,265	2,433	2,026	1,714	(15.0)	(4.5)	(16.7)	(21.6)	(35.6)
<b>ECBs^</b>	12,678	13,238	14,886	15,268	4.0	9.3	12.4	5.0	8.6
<b>Total</b>	<b>139,850</b>	<b>157,899</b>	<b>166,205</b>	<b>167,661</b>	<b>7.4</b>	<b>6.8</b>	<b>5.3</b>	<b>5.0</b>	<b>5.2</b>
<b>Memo: NBFCs + HFCs</b>	30,011	35,074	35,576	36,914	9.0	6.5	1.4	1.4	3.9
<b>Total excl. NBFCs + HFCs</b>	109,839	122,825	130,629	130,746	7.0	6.9	6.4	6.0	5.6
<b>Non-bank lenders</b>	60,313	69,092	71,899	73,499	6.6	6.7	4.1	3.0	4.2

\*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

### Sources of borrowings for the general government (GG)

The borrowers in the government debt market are different from that in the non-government sector. Commercial banks, insurance companies, pension funds and RBI are the primary holders of government securities in India. Together, these four lenders account for 80-85% of all market borrowings by central (including T-bills) and state governments.

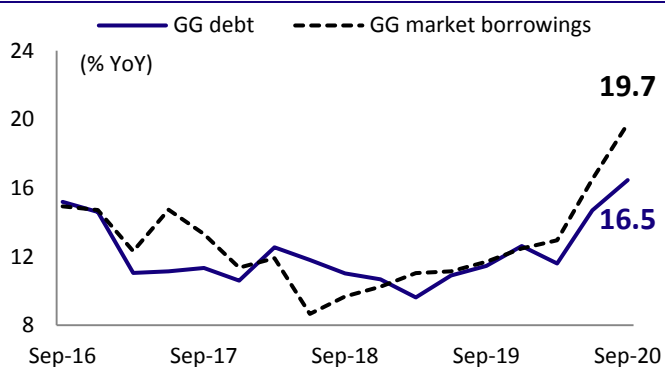
Government bond issuances have grown faster than the rise in its debt

A detailed lender-wise analysis to the sovereign bond market suggests that government bond issuances have grown faster than the rise in government debt. The latter grew 16.5% YoY in 2QFY21, while the former grew 19.7% (*Exhibit 7*). This suggests that the government has relied more on the market borrowings to finance its rising deficit and debt rather than non-market borrowings (such as national small saving funds, etc.)

Notwithstanding higher government debt, RBI's share was almost unchanged at 9.6% of the outstanding securities in 2QFY21 vis-à-vis FY20

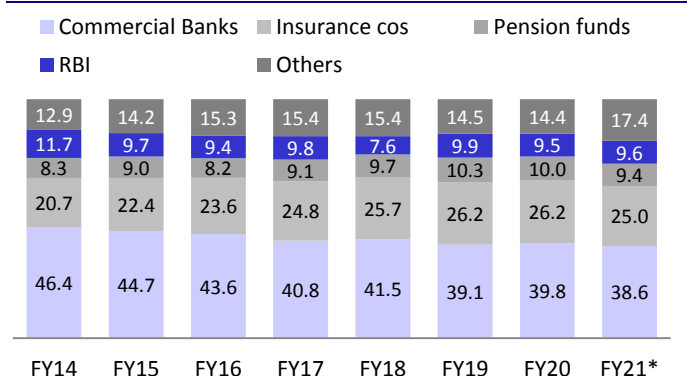
While total market debt of the general government increased to INR117t in 2QFY21 from INR103t in FY20, the share of RBI was almost unchanged at 9.6% of outstanding securities (*Exhibit 8*). This is in sharp contrast to the monetary policy adopted by most major economies in the world during COVID-19, where central banks have been the primary buyer and financier of higher government deficit. In fact, the share of the three largest buyers of government securities – commercial banks, insurance companies and pension funds – has actually declined in 1HFY21, which was offset by smaller buyers such as mutual funds (whose share rose to 3.7% in 2QFY21 from 2% in FY20) and all-India financial institutions (to 1.6% from 0.4%).

**Exhibit 7: Market borrowings of the general government (GG) have grown faster than debt...**



\*Including treasury securities (or T-bills)  
Source: RBI, MoF, CEIC, MOFSL

**Exhibit 8: ...which was absorbed by small buyers such as MFs and FIs**

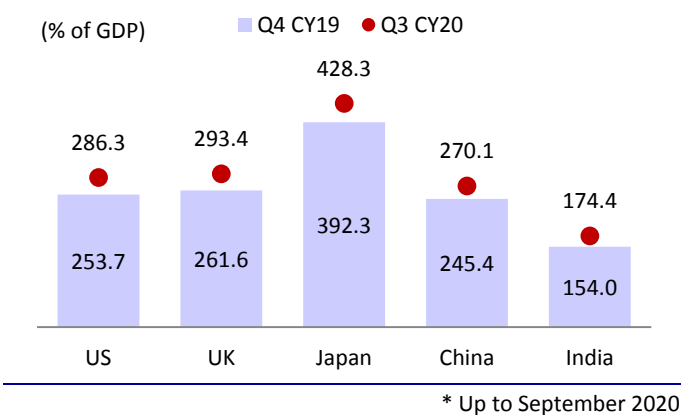
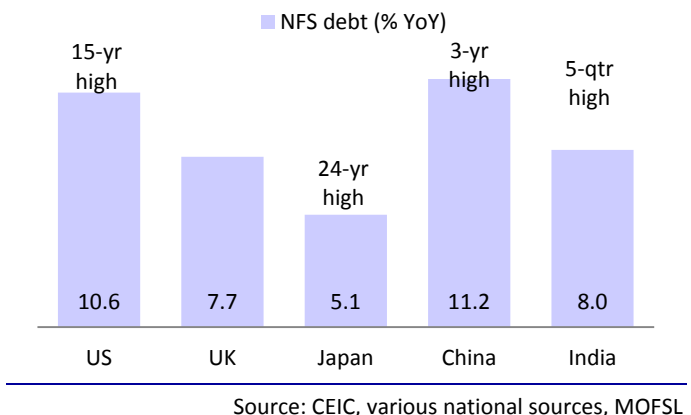


Includes mutual funds (MFs), co-operative banks, corporates, financial institutions (FIs), foreign portfolio investors and others

The growth in India's debt in 2020 was the lowest compared to other major nations such as the US, UK, Japan and China

### Growth in India's NFS debt was weaker compared to other major nations

Owing to the COVID-19 pandemic and related collapse in economic activity, a jump in the debt-to-GDP ratio across nations was inevitable. A comparison between India and other major nations suggests that not only was the NFS debt-to-GDP ratio in India lower relative to other economies, but debt growth was slightly better than in previous quarters. India's NFS debt increased to 174.4% of GDP in 2QFY21 from 154% at the end of 2019, a jump of 20 percentage points (pp). In contrast, it rose by as much as 33pp of GDP in the US, 32pp in the UK, 36pp in Japan, and 25pp in China (*Exhibit 9*). The contribution of NFS debt growth to the surge in NFS debt-to-GDP ratio in India was the lowest in 3QCY20 (*Exhibit 10*).

**Exhibit 9: NFS debt-to-GDP ratio rose by the lowest (21pp) in India in CY20\*...****Exhibit 10: ...and debt growth was also slower than most other major economies**

Comparing debt growth in India with that in other nations would be highly misleading, considering the differential GDP growth rates in various economies. It is therefore better to compare the uptick in NFS debt growth in 2QFY21 (or 3QCY20) vis-à-vis historical trends in the economy. Even then, India's performance is weaker than the performances of other nations.

Comparison of NFS debt in a country with its history suggest that while it is at multi-year high in most countries, it was only at five-quarter high in India in 3QCY20

India's NFS debt growth of 10.5% YoY in 3QCY20 was the highest in five quarters and marginally better than the record low growth of 8.2% in 4QFY20 (*Exhibit 11*). Growth of 11.5% YoY in US' NFS debt was close to the highest in 15 years and more than double the average growth of ~5% in the past few years. In Japan, while NFS debt grew only 5.4% YoY in 3QCY20, it marked the highest growth seen in 24 years (v/s average growth of 2-3% in the past few years). In China, it stood at 13.1% in 3QCY20, a three-year high.

When we had updated our database with 1QFY21 debt last quarter, we concluded that the marginal uptick in India's NFS debt, vis-à-vis other major nations, may be because of the delayed response by the government since the credit guarantee scheme was announced by the Government of India (GoI) in mid-May'20, while it was implemented much earlier (Mar-Apr'20) in other nations (included in our report). However, the tepid NGNF growth in 2QFY21 confirms that the scheme has failed to yield desired results in terms of boosting credit growth in the country.

We have [earlier](#) argued that COVID-19 may have an adverse impact on household income in India. Combine that with subdued debt growth, a strong revival looks highly ambitious.

## Appendix: Estimation of total debt of India's NGNF sector

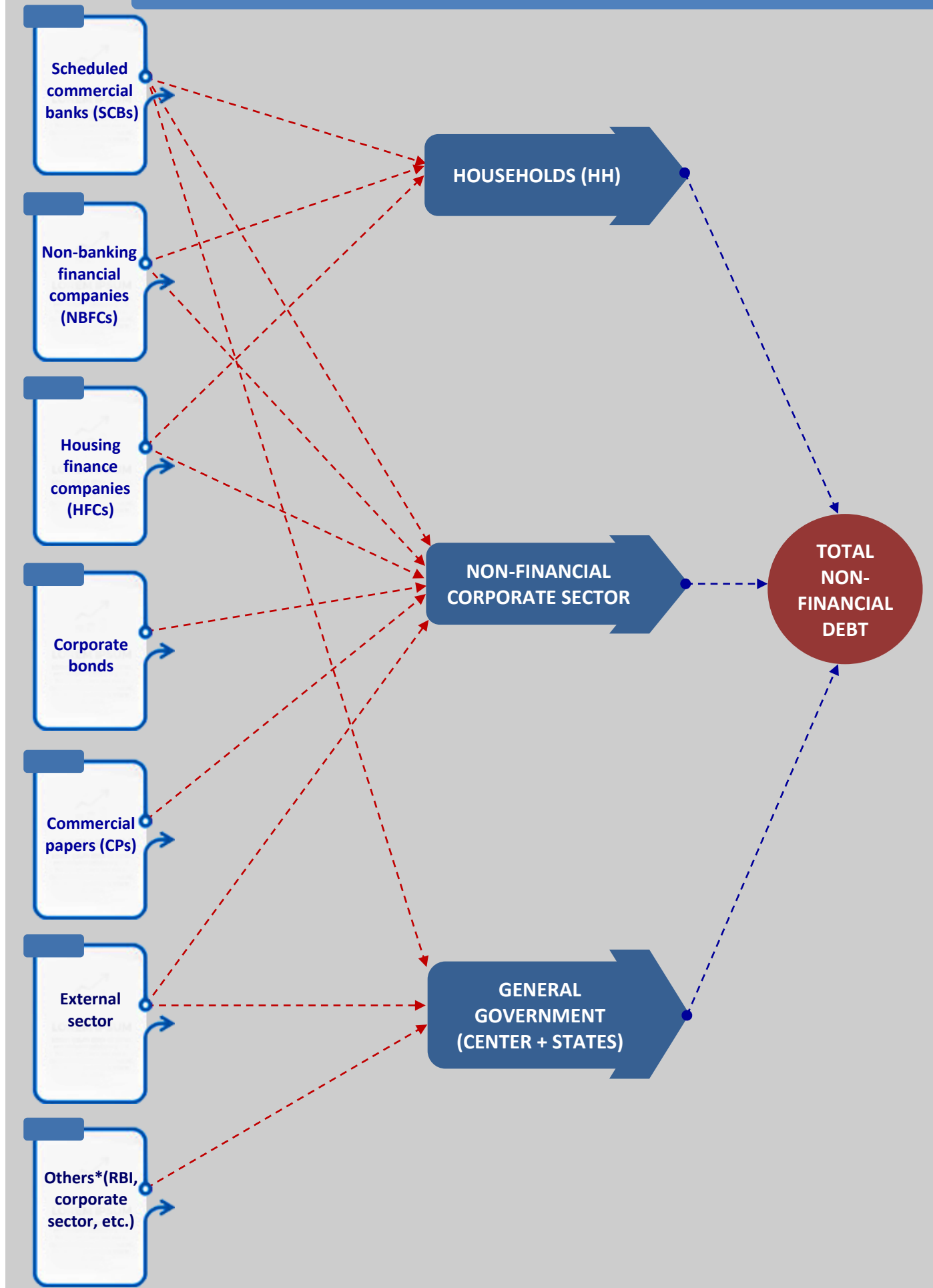
SCBs, NBFCs, and HFCs are the three major institutional sources of lending available to households and the corporate sector, which together constitute the NGNF sector. We use loans and advances data from these financial companies to estimate the total debt of the NGNF sector. Apart from these three sources, 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 RBI's annual publication, titled '*Report on Trend and Progress of Banking in India*' and the bi-annual '*Financial Stability Report*', is available up to 1HFY21. For quarterly data, we have compiled the data of 17 NBFCs, accounting for about three-fifths of the entire industry (*list of NBFCs is provided below*).
- Loan book for HFCs is also available from RBI's *Report on Trend and Progress of Banking in India*, which provides data up to FY20. For quarterly data, we have compiled the data of 10 HFCs, accounting for ~84% of the entire industry (*list of HFCs in the table below*).
- Outstanding corporate bonds adjusted for debentures issued by NBFCs, HFCs, and Tier II capital of SCBs (assumed at 2% of banks' loan book).
- Outstanding CPs, adjusted for NBFC/HFC issuances.
- Long-term and short-term external debt (ECBs + INR debt) raised by the NGNF sector, adjusted for foreign institutional investor (FII) exposure to corporate bonds.

### Exhibit 11: List of 17 NBFCs and 10 HFCs used for quarterly analysis

NBFCs (~60% of the industry)	HFCs (~84% 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
6. Mahindra & Mahindra Finance	6. Sundaram BNP Finance
7. Magma Finance	7. PNB Housing Finance
8. Mannapuram 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. Piramal Finance	
17. Aditya Birla Capital	

## METHODOLOGY USED FOR ESTIMATING TOTAL DEBT IN THE COUNTRY



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