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# India less vulnerable to banking distress risks than China

By PTI | Updated: Aug 21, 2016, 01:53 PM IST

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BASEL/NEW DELHI: [India](#) is better placed than neighbouring [China](#) and Brazil in terms of [banking distress](#) risks, says a report prepared by the Bank for International Settlements (BIS), which also flagged that high corporate debt levels have caused overheating in some emerging [economies](#).

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The observations are part of the report submitted to the G20 International Financial Architecture Working Group and it comes at a time when there are concerns about the rise of bad loans in the [banking](#) system in India, which is also a key member of the G20 grouping.

Based on certain indicators, BIS noted that they suggest "heightened risk of banking distress in a number of [emerging market](#) economies".

"This is in particular the case for Brazil, China and Turkey where the credit-to-GDP gaps are close to or above 10 per cent. In the past, two-thirds of banking crises were preceded by credit-to-GDP gaps breaching this thresholds during the three years before the event," it said.

Further, the report observed that debt-to-service ratio based indicators paint a similar picture.

India's credit-to-GDP gap has been estimated at (-3.2) whereas that of China was 29.7 and Brazil 8.5. Among other economies, the figure for Turkey was 11.8, Korea (3.9) and Mexico (7.7).

Debt service ratio of India was 1.8 compared to 5.5 for China and 7.4 for Brazil, as per the report.

In a scenario where interest rates rise by 250 basis points, the report showed that India's debt service ratio would be 2.9.

According to the BIS note, in the same scenario, the figure is 8.8 for China, 9.2 for Brazil and 7.4 for Turkey.

The credit-GDP gap and debt service ratio for India and other countries have been calculated on the basis of data till the fourth quarter of 2015.

BIS is the world's oldest international financial organisation, and it has 60 member central banks, including RBI, representing countries that together make up for about 95 per cent of the world GDP, as per its website.

On the basis of its debt statistics, BIS said NFC (Non Financial Corporates) debt in the major emerging market economies increased on aggregate from less than 60 per cent of GDP in 2006 to 110 per cent at the end of 2015.

In the note titled 'International capital flows and financial vulnerabilities in emerging market economies: analysis and data gaps', BIS also said that as private sector borrowing has led to overheating in several large EMEs (emerging market economies), the unwinding of imbalances may generate destabilising dynamics.

According to BIS, capital flows can generate self-reinforcing asset price dynamics.

Inflows can improve the perceived stability and success of the recipient economy, thereby generating more inflows.

"Symmetrically, outflows, by increasing the perceived riskiness of borrowing economies, can generate further outflows. And this may trigger contagion," it added.

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