

## AUGUST CREDIT DATA PORTENDS TROUBLE: LARGE DECLINE IN SAVINGS BANK DEPOSITS & LOWER PACE OF ACCRETION OF TIME DEPOSITS IN UNLOCK 4 REVEALS HOUSEHOLD STRESS

Issue No. 48, FY21  
Date: 01 October 2020

Incremental bank credit growth lost much of the momentum in August. The bad thing is that incremental bank credit that increased in June & July by Rs 392 bn declined in August by Rs 360 billion, which is mainly due to decline in credit to personal loans and infrastructure segments. Credit to NBFCs, however, jumped in August after 3 successive months of decline. Simultaneously, our bottom up approach suggests that deposit and credit growth (extrapolated on the basis of sum of daily variations) during the current unlock 4 regime witnessed large declines, with the maximum decline in savings bank deposits and even bank advances happening in unlock 4 across all lockdown and unlock phases. The consumer deleverage also declined in August indicating the stress on household balance sheets now emerging with gusto.

Against this background, the Government sticking to borrowing programme though will please the debt markets, looks challenging given the current exceptionally weak Government finances. Net revenue slippage of the Centre, after taking into account increase in excise duty gains along with the shortfall in tax and non-tax revenue and disinvestment receipts, is likely to come around Rs 7 lakh crore in current fiscal. We are thus expecting that consolidated fiscal deficit of the Centre and States will touch 13% of GDP as per current trends. Given these numbers, sticking to the budgeted borrowing numbers for now at least on paper thus indicates large expenditure cuts that will be clearly inimical to growth. In fact, nominal GDP growth number is likely to decline below FY19 levels. The significant Government cash balances also indicate that the Government is currently not spending and thus September is unlikely to be much better compared to August.

Some good numbers are, however, in the offing. Based on the SBI index, we believe IIP & IIP manufacturing could still contract by below 5% in August and modest positive growth of in September 2020 is possible. Business activity as shown by SBI Business Activity Index reveals economic activity which declined and stagnated since 2nd week of July, again picked up during 2nd week of August. Mid-September again showed pick-up in economic momentum with the latest value higher than the peak achieved at end-June. However, this gain is not getting translated into meaningful economic activity as consumption demand remains exceptionally weak.

We now await the RBI policy and the markets have priced in no rate cuts in FY21.

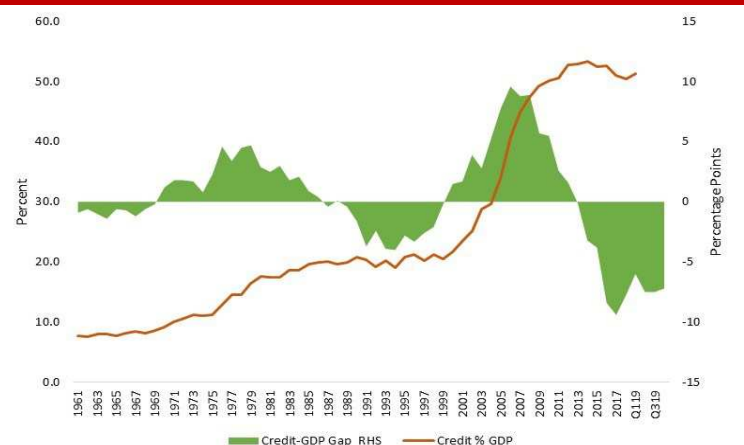
### CREDIT GROWTH DECLINES SIGNIFICANTLY IN AUGUST

- ◆ Credit offtake from ASCBs remains muted. For the fortnight ended 11 Sep 2020, credit grew by 5.3% (10.4% last year) on YoY basis, however contracted by 1.4% (-0.6% last year) on YTD basis. On a positive note, except one fortnight, credit has been increasing continuously since May'20.
- ◆ Credit demand has been ebbing away across all sectors, despite the post-IL&FS shift among large borrowers, including NBFCs and housing finance companies (HFCs), away from non-bank sources and towards the banking system for meeting funding requirements. The unabated weakening of economic activity, coupled with deleveraging of corporate balance sheets and risk aversion by banks due to asset quality concerns, was accentuated towards the close of the year by the pandemic woes, producing a reduction in the incremental credit-deposit ratio. The credit-to-GDP gap remained wide during 2019, reflecting the slack in credit demand.
- ◆ RBI has released the sector-wise credit-data for the month of August, which indicates that except services and personal loans, credit to all other major sectors has declined. The bad thing is that the overall bank credit has increased in June & July by Rs 392 bn but in August it declined by Rs 360 billion, which is mainly due to decline in credit to personal loans and infrastructure segments. One good thing that the credit offtake to NBFC has turned positive after 3-months of contraction.
- ◆ Within industry, credit to 'Leather & Leather products', Petro Chemicals', 'Glass & Glassware', 'Basic Metal & Metal Product' 'Vehicle & Parts' 'Construction & Roads' and 'Paper & Paper products' registered accelerated growth in August 2020. However, credit growth to all others declined incrementally.

### ASCBs' Divergent Trend in Deposits & Credit Growth in FY21 (YoY %)



### Credit to GDP Gap



Source: SBI Research, BIS, RBI

## Sector-Wise Credit Flow (Rs bn): Aug 2020

Sectors	YTD (Apr-Aug, FY20)		Monthly Growth (Rs bn)						YTD % (Apr-Aug, FY21)		% YoY	
	Rs bn	%	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Rs bn	%	Aug'19	Aug'20
Agri. & Allied	17	0.2	18	-65	-51	67	163	-12	103	0.9	6.8	4.9
Industry	-1206	-4.2	1123	-208	-228	136	-539	-426	-1265	-4.4	3.9	0.5
MSE (Priority)	-188	-1.8	542	-486	-231	546	-318	39	-449	-3.9	6.1	5.4
Infrastructure	-511	-4.8	352	13	0	139	-146	-314	-308	-2.9	8.8	1.8
Services	-654	-2.7	1611	-208	-311	-146	187	42	-435	-1.7	13.3	8.6
NBFCs	392	6.1	1037	50	-81	-58	-51	33	-106	-1.3	38.8	17.1
Personal Loans	832	3.7	216	-629	-119	115	409	169	-55	-0.2	15.6	10.6
Housing (Including Priority)	547	4.7	100	-83	-16	68	117	19	105	0.8	16.6	11.1
Other Personal Loans	404	6.7	88	-269	10	9	205	96	51	0.7	21.9	13.0
Gross Bank Credit	-803	-0.9	2830	-1100	-442	271	121	-360	-1511	-1.6	9.9	6.0

Source: SBI Research

## ASCB Deposits and Advances - Sum of Daily Variation (Rs Cr)

Products	Lockdown 1	Lockdown 2	Lockdown 3	Lockdown 4	Unlock 1	Unlock.2	Unlock 3	Unlock 4
Savings Bank	499606	244679	-89720	119898	-90915	45211	28907	-124781
Current Account	-62757	24616	-53002	56909	64684	-3659	-23283	54530
Term Deposits	175812	146583	22845	61061	27921	79864	20996	25912
<b>TOTAL DEPOSITS</b>	<b>612661</b>	<b>415878</b>	<b>-119877</b>	<b>237868</b>	<b>1690</b>	<b>121416</b>	<b>26621</b>	<b>-44339</b>
CC, DL, Overdrafts etc.	-9190		-38735	67690	-74020	12510	-108015	-156755
Term Loans	62304	4565	-16440	53789	64584	77962	81782	-10944
<b>TOTAL ADVANCES</b>	<b>55503</b>	<b>-125491</b>	<b>-60588</b>	<b>126822</b>	<b>-6467</b>	<b>97818</b>	<b>-20966</b>	<b>-176582</b>

Source: SBI Research, RBI

## DAILY VARIATION IN DEPOSITS &amp; CREDIT

- Banking industry has been hit by the lockdown. Though operative in all the four lockdowns as a part of essential services, banking has congregated to few activities. We analysed the trend of variations in deposits and advances during successive lockdowns and ten unlocks. The data was prepared based on certain assumptions. It is revealed that the deposits (savings, current and term) which increased to Rs 1.21 lakh crore in unlock 2 has declined significantly during unlock 4. The same story follows in the case of advances.

## CONSUMER LEVERAGE ALSO DECLINED IN AUGUST

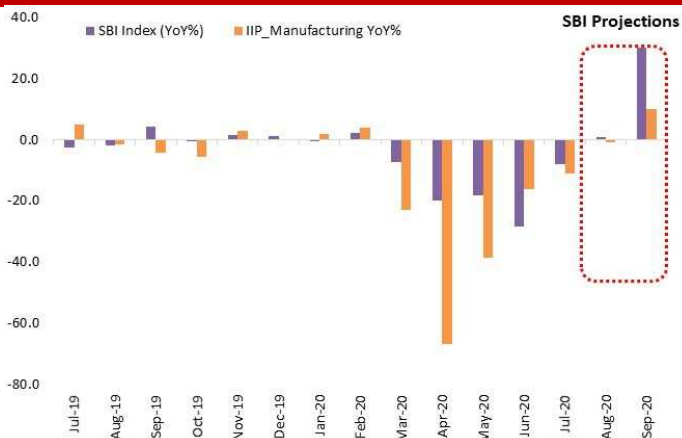
- Our estimates of the short-term consumer leverage (presented as sum of credit card, personal loans, advances against FD, shares, bonds outstanding, etc.) which had reached a peak in FY18 at Rs 1.56 lakh crore declined significantly to Rs 1.29 lakh crore in FY19. However during FY20, it has increased marginally to Rs 1.35 lakh crore, reflecting possibly consumer stress. However the trend of consumer leverage is quite expected in FY21 (till now). The consumer deleveraging which had declined by whopping Rs 53,023 crore in Jun'20 has improved to Rs 14,111 crore in Aug'20.
- Now the question is how much of this consumer deleveraging is because of lockdown / lack of business and how much is because of consumer actually maintaining a discipline in consumer behavior. We believe this will be crucial in deciphering in which direction the asset quality of the banks is moving in FY21. Additionally, consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans.

## Short-term Consumer Leverage

Item	Incremental Credit (Rs Crore)						
	FY17	FY18	FY19	FY20	Jun'20 over Mar'20	Jul'20 over Mar'20	Aug'20 over Mar'20
Credit Card Outstanding	14453	16496	19634	19832	-10508	-6703	-3261
Other Personal Loans	79776	132479	98754	119332	-24945	-4467	5099
Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	-568	6378	10380	-3377	-18039	-17179	-16928
Advances to Individuals against share, bonds, etc.	-1669	806	709	-931	469	1058	979
<b>Consumer Leverage</b>	<b>91992</b>	<b>156159</b>	<b>129477</b>	<b>134856</b>	<b>-53023</b>	<b>-27291</b>	<b>-14111</b>

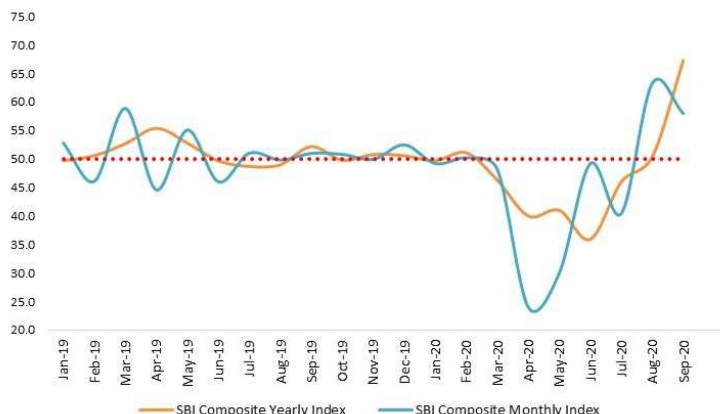
Source: RBI; SBI Research

SBI Index (YoY) vs IIP Manufacturing (YoY%)



Source: SBI Research

SBI Yearly and Monthly Composite Index Trend



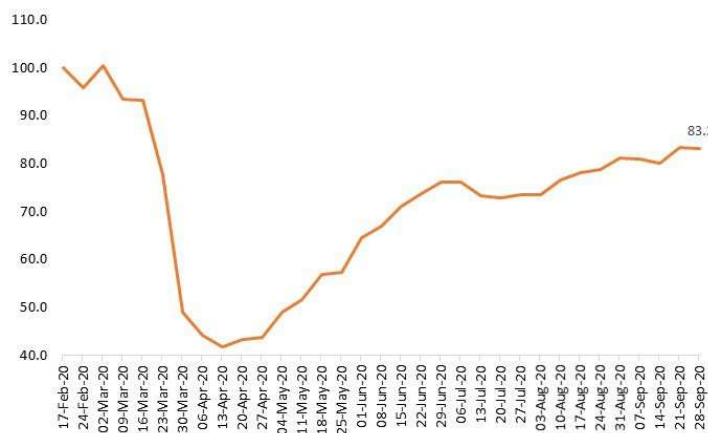
SBI COMPOSITE INDEX: SEPTEMBER

- ◆ The yearly SBI Composite Index for September 2020 has crossed 60 and is at 67.3 (High Growth) in September compared to 50.4 (Low Growth) in August 2020. While, the monthly index declined to 58 (High Growth) in September, compared to 63 (High Growth) in August 2020.
- ◆ Based on the SBI index, we believe IIP & IIP manufacturing could still contract by below 5% in August and modest positive growth of in September 2020 is possible

SBI BUSINESS ACTIVITY INDEX INCREASED IN SEPTEMBER

- ◆ Business activity as shown by our index reveals economic activity which declined and stagnated since 2nd week of July again picked up during 2nd week of August. Then mid-September again showed pick-up in economic momentum with the latest value higher than the peak achieved at end-June.

SBI Business Activity Index



Source: SBI Research

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