Ecowrap

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FY21GDP DEGROWTH AT 7.4%, Q3FY21 AT 0.1%: BUT TIME TO REDEFINE RETAIL SCORING MODELS?

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Based on better than expected recovery, our FY21 GDP estimate is now at –7.4% (earlier –10.9%). Our revised GDP estimates are based on SBI '**Nowcasting Model**' with 41 high frequency indicators associated with industry activity, service activity, and global economy. We have used the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of 2012 to Q4 of 2020 (till Nov actual data is used while trend is used for Dec). Based on this model the forecasted **GDP growth for Q3 would be around 0.1% (with downward bias)**. Additionally, out of the 41 high frequency leading indicators, 58% are showing acceleration in Q3. Positive momentum of various economic indicators including RTO transactions, revenue collection at RTO, revenue earning of freight traffic, weekly food arrival, petrol and diesel consumption continued in November. Even our business activity index which is based on high frequency indicators show improving momentum after a modest decline in the week of Diwali.

Further, the FY22 GDP growth would be at 11% primarily due to base effect. However, all projections are conditional on the absence of another wave of infections. We believe that it will take almost 7-quarters from Q4 FY21 (and 5-quarters from now) to reach the pre-pandemic level in nominal terms and there will be a permanent output loss of around 9% of GDP.

Interestingly, even as growth outlook has improved, the decline in Government expenditure has been quite significant to Rs 3.62 lakh crore in Q2 FY21 from Rs 4.86 lakh crore in Q1 FY21. The revenue and capital expenditure both declined in Q2 compared to Q1, with larger decline witnessed in revenue expenditure (-19.5% QoQ compared to -12.1% QoQ in capital expenditure). Moreover, October data shows further decline in overall expenditure compared to September. We believe that a large part of fiscal expenditure by the Government has been indirect and are off balance sheet items. For example, the free food grains distribution to poor through PDS might be taken as off balance sheet adjustment with FCI.

This gives us hope that the Government might be able to spend in Q4 to resurrect growth further. **We are also revising our fiscal deficit estimates for FY21 at 8% of GDP.**

We also believe that the stress in lieu of the retail sector across banks is perhaps a tad overblown. As an example, when we look at the debit (recurring payments including EMI, insurance premium, etc) return % of National Automated Clearing House (NACH) it declined after peaking in Jun'20. However, it remains at elevated levels and also increased modestly in October to 32.3% compared to 31.7% in September. While it is true that the change in % return of total debits is modestly positively correlated with change in retail NPA ratio, but it works with a lag. Thus, we believe that we need to look at the trends for next couple of months before deciphering the quality of retail book.

However, there is one learning for retail credit scoring models of banks and credit bureaus. Between 2008 and 2020, various parts of Indian retail portfolio has faced crisis like conditions - more often associated with natural calamities than pure economic shocks. So clearly there is enough systemic data available with credit bureau and with large lenders where the behaviour of crisis susceptible borrowers can be studied. Each successive shock has higher economic fallout than the previous one. It creates a strong case for building capabilities of crisis susceptibilities of Individual borrowers. **As such, Indian credit bureaus who have done an excellent job with supporting the decade long retail credit growth with their scores and data are possibly best placed to take the first steps towards creating individual's crisis susceptibility scores at a system wide level.**

FY21 GDP CONTRACTION AT 7.4% Q3FY21 GDP GROWTH AT 0.1% BASED ON OUR "NOWCASTING" MODEL

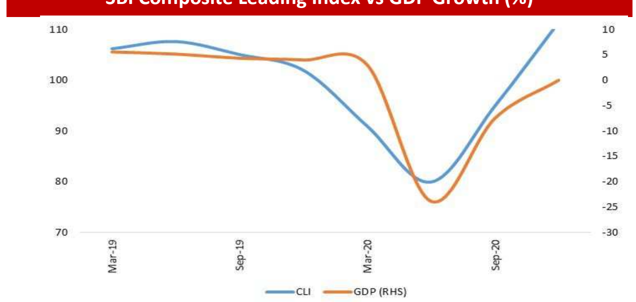
- SBI '**Nowcasting Model**' with 41 high frequency indicators associated with industry activity, service activity, and global economy. The model is developed in collaboration with State Bank Institute of Leadership (SBIL), Kolkata. We have used the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of 2012 to Q4 of 2020 (till Nov actual data is used while trend is used for Dec). The details of the full model has already been presented in ***SBI Ecowrap dated 20 Nov'20***.
- Based on our model the forecasted **GDP growth for Q3 would be around 0.1% (with downward bias)**. Additionally, out of the 41 high frequency leading indicators, 58% are showing acceleration. We now expect GDP decline for the full year to be in single digits at 7.4% (compared to our earlier prediction of –10.9%), aligned with RBI and markets' revised forecasts post Q2. Apart from Q3 FY21 the Q4 growth will also be in positive territory (at 1.7%). However, all projections are conditional on the absence of another wave of infections. We forecast FY22 GDP growth at 11%.

Real GDP Growth (%)

Quarter	FY20	FY21	FY22
Q1	5.2%	-23.9%	-
Q2	4.4%	-7.5%	
Q3 (P)	4.1%	0.1%	
Q4 (P)	3.1%	1.7%	
Annual (P)	4.2%	-7.4%	10-12%

Source: SBI Research; (P) SBI Estimates for FY21

SBI Composite Leading Index vs GDP Growth (%)



Source: SBI Research

PERMANENT OUTPUT LOSS

- In order to estimate the permanent output loss and time to reach the pre-pandemic level, we have converted the Q4 FY20 nominal GDP to 100. The level reached is 71 in Q1 FY21 and 89 in Q2 FY21. Our estimates indicate that it will take almost 7-quarters from Q4 FY21 (and 5-quarters from now) to reach the pre-pandemic level in nominal terms.
- The total output loss (in nominal terms) was Rs 13 lakh crore for Q1+Q2, we believe that permanent output loss could be around 9% of GDP.

ECONOMIC MOMENTUM IN Q3 HAS CONTINUED TO GAIN TRACTION

- Positive momentum of various economic indicators including RTO transactions, revenue collection at RTO, revenue earning of freight traffic, weekly food arrival, petrol and diesel consumption continued in November. The difference from the Pre-Covid level peak as well as the Pre-Covid level have improved.
- SBI business activity index which is based on high frequency indicators show improving momentum after a modest decline in the week of Diwali.

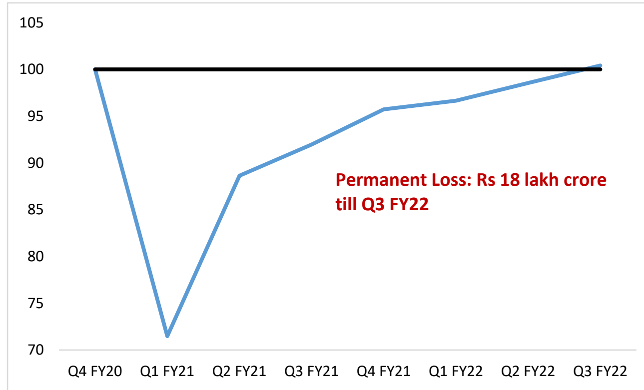
TRENDS IN GOVERNMENT EXPENDITURE IS SURPRISING

- The Government has announced a number of reforms worth around Rs 24 lakh crore this year, with Rs 20.97 lakh crore in April (including Rs 8.01 lakh crore by RBI), Rs 0.73 lakh crore in October and Rs 2.65 lakh crore in Nov'20, aimed at boosting demand as well as supply. A lot of this has been in the form of subsidy and transfers. For instance, for MSME the Government announced collateral free automatic loans for business, sub-ordinate debt, equity infusion through MSME Fund of Funds, totalling Rs 3.70 lakh crore. Separately, Government has also announced Partial Credit Guarantee Scheme 2.0 for NBFCs with estimated liquidity support of Rs 45,000 crore. Also, KCC loans, special scheme to facilitate easy access to credit (till Rs 10,000) to street vendors, extension of PMAY Credit-Linked Subsidy Scheme (CLSS), 2% interest subvention for the prompt payees of 'Shishu' Mudra loans for a period of 12-months, subsidy support scheme to incentivise creation of new employment opportunities were announced. Also free foodgrains distribution to poor through PDS was announced. It might be possible that this might be taken as off balance sheet adjustment with FCI.
- However, the decline in Government expenditure has been quite significant to Rs 3.62 lakh crore in Q2 FY21 from Rs 4.86 lakh crore in Q1 FY21. Looking at the CGA data the revenue and capital expenditure both declined in Q2 compared to Q1, with larger decline witnessed in revenue expenditure (-19.5% qoq compared to -12.1% qoq in capital expenditure). Moreover, October data shows further decline in overall expenditure compared to September.
- However, the good thing is that even though Government expenditure declined significantly in Q2, GDP growth surprised. This gives us hope that the Government might be able to spend in Q4 to resurrect growth further.

RETAIL SECTOR STRESS IS OVERBLOWN

- ASCB data shows that Retail sector NPA increased to 2% by Mar'20. RBI had announced loan moratorium amidst the Covid pandemic initially for 3 months which was further extended for another 3 months. The 6 months moratorium period ended in August. This in turn could lead to some stress in retail sector as well, visible through rise in retail NPA in coming quarters.
- However, it should be highlighted that the banks would have already considered it in additional Covid related provisioning and thus the situation is not alarming.

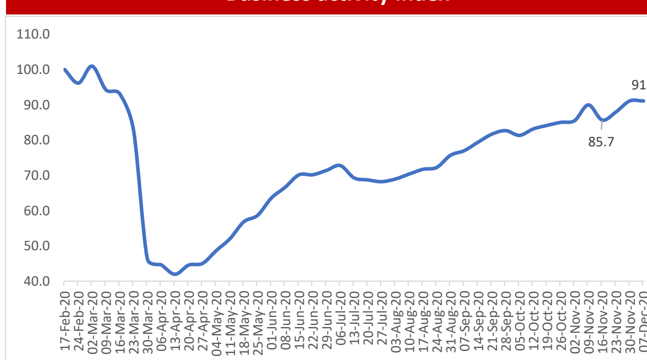
Quarters to reach pre-pandemic level



Source: SBI Research

Leading Indicators in Oct & Nov'20				
	%Change From Pre covid Level Peak		%Change from Pre Covid Level (Feb-20)	
Indicators	Oct-20	Nov-20	Oct-20	Nov-20
PMI Manufacturing#	4	1	4	2
PMI Service#	-3	-4	-3	-4
SBI Yearly Index#	-2	-2	2	3
SBI Monthly Index#	4	7	9	12
AQI (7 City Average)	-47.4	-28.1	-20.5	8.7
No of Transactions at RTO	-16.5	-14.5	-3.8	-1.5
Revenue Collections at RTO	-8.1	-3.9	11.3	16.4
No of GST E way Bills Generated	12.2	0.9	12.2	0.9
Electricity Demand	-8.7	-19.4	10.7	-2.3
Revenue Earning Freight Traffic of Major Commoditie(Rs Cr)	-6.6	-4.4	-2.8	-0.4
Tractor Sale Domestic	2.5	-23.0	89.8	42.7
Domestic Passenger Vehicle Sale$	9.2	0.4	23.4	13.5
Domestic Two Wheelers Sale$	0.0	-22.1	58.6	23.6
Weekly Food arrival inTonnes-Average				
Cereals	-96.9	-96.5	-27.1	-17.1
Pulses	-54.3	-79.3	88.3	-14.9
Fruits	-66.5	-78.7	146.5	56.8
Vegetables	-45.2	-40.3	31.3	43.1
Retail Food Prices (Modal) (Rs/Kg)-Average				
Vegetables	-25.2	-19.5	90.3	104.7
Cereals	-20.1	-18.1	-1.5	0.9
Pulses	0.0	0.2	10.9	11.0
Oil & Fat	66.0	67.8	81.3	83.3
Petrol Consumption	-10.5	-2.7	-2.4	6.1
Diesel Consumption	-29.5	-9.6	-23.3	-1.6
Source: SBI Research,#Difference,$% Change from Pre covid level when it shows a positive YoY				

Business activity index



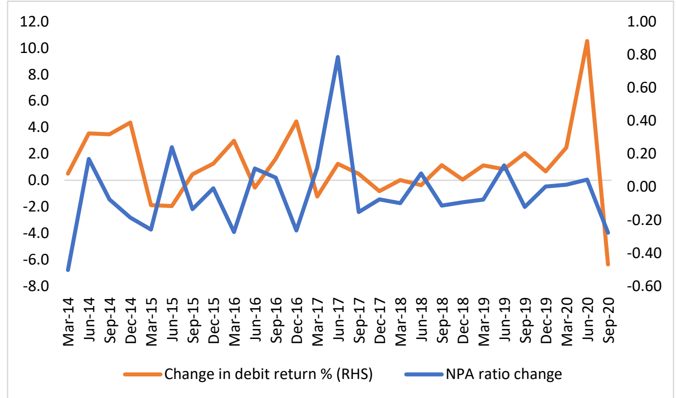
Source: SBI Research

- Additionally, when we look at the debit (recurring payments including EMI, insurance premium, etc) return % of National Automated Clearing House (NACH) it declined after peaking in Jun'20. However, it remains at elevated levels and also increased modestly in October to 32.3% compared to 31.7% in September and 27.6% in March.
- Also, the change in % return of total debits is modestly positively correlated with change in retail NPA ratio. Even the Granger causality results show that change in % return in total debits causes change in retail NPA ratio with 1 quarter lag and the result is significant @5% level of confidence. Thus, we believe that we need to look at the trends for next couple of months before deciphering the quality of retail book.
- However, it should be emphasised that besides NACH debit there are multiple modes of payment like cheques, cash etc. Also NBFC which have lower collection efficiency generally account for high bounce rates.
- The good thing is that the per-transaction return (value) has also declined to Rs 7495 in Oct'20 compared to Rs 8071 in Apr'20.
- However, there is one learning for retail credit scoring models of for banks and credit bureaus. Between 2008 and 2020, various parts of Indian retail portfolio has faced crisis like conditions -more often associated with natural calamities than pure economic shocks. So clearly there is enough systemic data available with credit bureau and with large lenders where the behaviour of crisis susceptible borrowers can be studied. Each successive shock has higher economic fallout than the previous one. It creates a strong case for building capabilities of crisis susceptibilities of Individual borrowers. As such, Indian credit bureau who have done an excellent job with supporting the decade long retail credit growth with their scores and data are possibly best placed to take the first steps towards creating individual's crisis susceptibility scores at a system wide level **(inputs from Deep Narayan Mukherjee is gratefully acknowledged!)**

WE ESTIMATE FISCAL DEFICIT OF CENTRE NOW AT 8% OF GDP

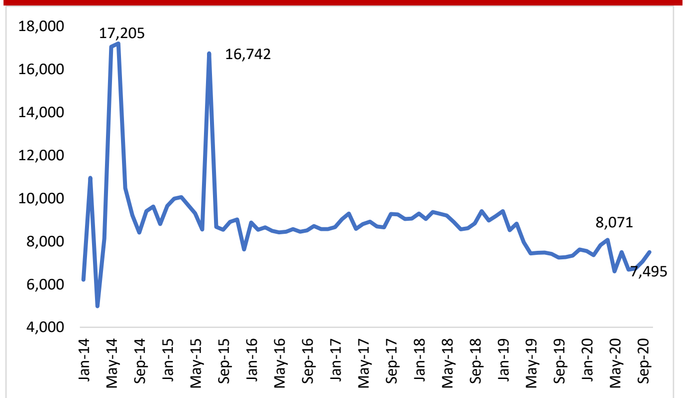
- We are revising our Fiscal deficit estimates downwards as GDP is revised upwards and also expenditure rationalisation which is visible in the CGA data till Oct'20. We believe that net revenue collection of the Government is likely to fall below its budgeted estimates by Rs 3.8 lakh crore. Also, Government has spent additional amount due to various Covid amounting to Rs 4.5 lakh crore. Moreover, going by the expenditure trends of CGA we believe that Government can rationalise some of its expenditure which it considered in budget estimates for FY21 of around Rs 50,000 to 80,000 crore. Taking into account all these things fiscal deficit will come around Rs 15.5-15.8 lakh crore or 7.8-8.0% of GDP.

Change in Debit return % & NPA ratio



Source: SBI Research, NACH

Per transaction NACH debit return value (Rs)



Source: SBI Research, NACH

Revised Fiscal Deficit projections FY21 (Rs lakh crore)	
Shortfall in Net tax Revenue	3.0
Shortfall in Non tax Revenue	1.3
Shortfall in Disinvestment receipts	1.6
Total Revenue shortfall to Centre (adjusting for gains from duty hike & DA freeze)	**3.8**
Additional spending due to various stimulus packages	**4.5**
Expenditure cut in BE FY21	**0.5**
Fiscal Deficit BE	7.9
New Fiscal Deficit	**15.8**
New Fiscal Deficit (% of GDP)	8.0%

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