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LOCKDOWN, MORATORIUM AND CONSUMER HABITS: THE NEW UNKNOWNS

Issue No. 24, FY21
Date: 29 June 2020

The current uptick in equity markets reflect the eternal conundrum of the linkage between the real and financial sector. In effect, Indian financial markets that was in a precipitous declining mode till the announcement of lockdown1 has now bounced back with RBI pumping in adequate liquidity in the market and such movement has been largely synchronous since March 25.

Interestingly, there is also an apparently a weak linkage between buoyant markets and economic recovery that has got only amplified since the global financial crisis, largely reflecting irrational exuberance. Plotting the credit spreads between a AAA rated paper and 10 year yield on g-secs / proxy for tightening financial conditions / against the SBI Composite Index / proxy for economic activity over the period Nov'09 till May'20 we find that the correlation coefficient is mildly negative. **In fact, as the scatter plot now shows, the gap between such data and markets are now the most on record.**

Meanwhile our estimate show that around 35%-40% on an average portfolio is under moratorium for the banking system, including NBFCs. The Q4 results of the banks indicate a sequential decline in NPA numbers, which is because that the moratorium has prevented any loan-account to downgrade and helped banking industry in reining in fresh slippages but the real picture will emerge after the September quarter. Interestingly, **Indian banks have 8.5 deposit accounts per loan account.** This data clearly shows the depositors in the banking system far outpaces the borrowers and given that India does not have a comprehensive social security system, a large part of the populace depends on interest income on bank deposits as a source of income.

However, there is an interesting shift in possible consumer behavior during lockdown that could have wider positive ramifications for the India banking system.

First, consumer leverage has declined significantly during the first moth of lockdown. Per card transaction has also declined from as high as Rs 12000 to 3600 in the case of credit cards and Rs 1000 to Rs 350 in the case of debit cards. It could be also possible that consumer spending has shifted from luxury purchases to purchases of daily essentials and groceries. Our estimates of the consumer leverage shows that in the current fiscal because of exceptional circumstances this decline is 16 times more than what happened in April 19.

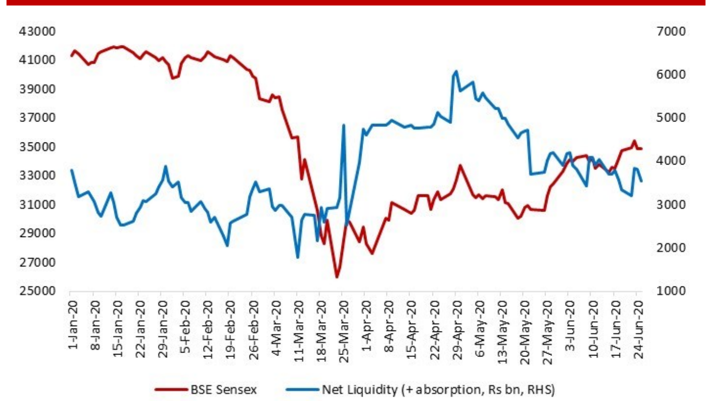
Now the question is how much of this consumer deleveraging in April is because of lockdown / lack of business and how much is because of consumer actually maintaining a discipline in consumer behavior. We believe this will be crucial in deciphering in which direction the asset quality of the banks are moving in FY21. It seems that till date the consumers have maintained a robust payment culture. **Additionally, consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans and there might be a conscious shift in portfolio of bank loans from unsecured loans to collateralised loans**. We believe this will augur well for consumer behaviour in term of minimising risks in current times and hence also good for banks!

We also must be mindful that the share of agriculture in overall GDP is at 13.3% and thus a rural led growth though most welcome is unlikely to make a material difference to overall prospects. **Since FY52, the maximum agricultural growth has been 15.6% and translating that into current weight can give hypothetically 200 basis point lift in GDP growth**! **We must think of a second round of fiscal support at least for beleaguered sectors!**

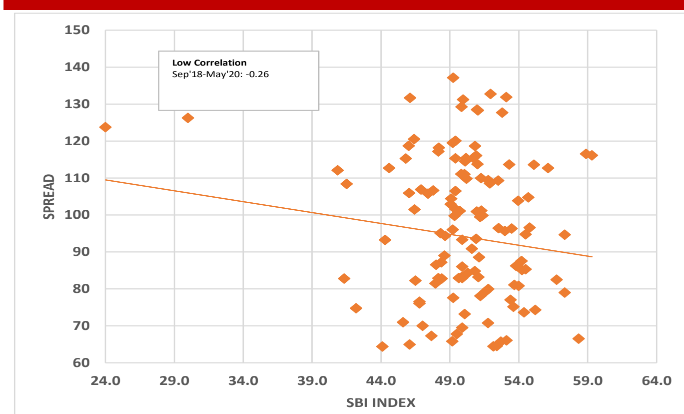
BEAUTIFUL MARKETS DOES NOT SIGNIFY BEAUTIFUL ECONOMY

- Due to the ongoing COVID-19 outbreak, the global financial markets tumbled in March 2020 and declined to the lowest levels. The Indian markets also slumped to the low level on 23 March 2020 - Sensex touched 25,981 (negative return of 37% from the closing of 01 Jan'20) and Nifty also touched the low of 7610 (negative return of 38% from the closing of 01 Jan'20). In line with the global market recovery and RBI liquidity support, Indian market is rebounding gradually, despite weak economic activity, slow demand revival, weak corporate earnings and unrest at international border etc. In effect, Indian financial markets that was in a precipitous declining mode till the announcement of lockdown 1 has now bounced back with RBI pumping in adequate liquidity in the market and the movement has been largely synchronous since March 25.
- **Interestingly, there is apparently a weak linkage between beautiful markets and economic recovery that has got amplified**. Plotting the credit spreads between a AAA rated paper and 10 year yield on g-secs / proxy for tightening financial conditions / against the SBI Composite Index / proxy for economic activity over the period Nov'09 till May'20 we find that the correlation coefficient is mildly negative. In April and May however, the Monthly SBI Composite Index has declined to 30 (Large Decline) in May compared to 24 (Low Decline) in Apr'2020. **In fact, as the scatter plot now shows, the gap between data and markets are now the most on record.**
- IMF, in it's latest estimate is projecting a deeper recession in 2020 and a slower recovery in 2021. Global output is projected to decline by 4.9% in 2020. India's GDP will be significantly lower than global GDP decline at 4.5% in 2020. However, as per our estimate, India's GDP growth, which has been exhibiting a decelerating trend since Q4 FY18, could decline upto 40% in Q1 FY21 owing to the nation-wide lockdown imposed in order to fight Covid-19 pandemic.
- We also must be mindful that the share of agriculture in overall GDP is at 13.3% and thus a rural led growth is unlikely to make a material difference to overall prospects. Since FY52, the maximum agricultural growth has been 15.6% and translating that into current weight can give hypothetically 200 basis point lift in GDP growth!

BSE Sensex vs Daily Liquidity Position



SBI Index vs 10 Yr AAA Corporate Spread(Nov09-May'20)



Source: SBI Research

MORATORIUM OF LOANS

- Following the Covid-19 led lockdown, RBI has extended the moratorium on loan repayment till end of August and banks has offered the same option to the customer. However, the amount of loans under moratorium varies across banks. Among PSBs, SBI is at lowest at 23%, Canara Bank & PNB 30%, BoB 65%, Bank of India 41% of the customer opted for moratorium, However, for Private Sector Banks moratorium ranges between 25-75%. Small Finance Banks and those dealing with micro lending like Bandhan Bank have seen more than 90% of their micro loan book come under moratorium.
- The Q4 results of the banks indicate a sequential decline in NPA numbers, which is because that the moratorium has prevented any loan-account to downgrade and helped banking industry in fresh slippages but the real picture will emerge after the September quarter.

DEPOSIT AND LOAN ACCOUNT HOLDERS

- According to RBI's BSR database, Indian banks have 23.2 crore loan accounts and 197.3 crore deposit accounts as of Mar-19. **This means that Indian banks have 8.5 deposit accounts per loan account.** Among credit accounts, the highest share was of demand loans (11.6 crore or 50%) and among deposit accounts highest share was of savings account (164 crore or 83%).
- This data clearly shows the depositors in the banking system far outpaces the borrowers and given that India does not have a comprehensive social security system, a large part of the populace depends on interest income on bank deposits as a source of income.

CONSUMER BEHAVIOR DURING LOCKDOWN:FINANCIALISATION OF SAVINGS INCREASING?

- **Stock Market:** Data from NSDL's active client accounts (in residents category) indicate that active accounts in this category increased by 1.73 lakh in last two months (these were the months of lockdown).
- **Gold ETF:** Investment into gold ETFs picked up in January this year with investors putting in Rs 202 crore, which was the highest level in seven years. That was followed by an all-time high investment of Rs 1,483 crore in February. However, during the lockdown the cumulative investment in April and May month was Rs 1,546 crore (which is equivalent to 3.7-3.8 tonne of gold).
- **Gold Bond:** In the June quarter, so far, gold buying in the form of sovereign gold bonds has been 6.7 tonne, with investment up to Rs 3,107 crore.

Number of Accounts in Lakh (SCBs, Mar-19)

Asset Side		Liability Side	
Type	No. of Accounts	Type	No. of Accounts
Cash Credit	127	Current	810
Overdraft	78	Savings	16433
Demand Loans	1162	Term	2484
Medium Term Loans	482	-	
Long Term Loans	467		
Others	7		
Total Credit A/Cs	**2323**	**Total Deposits A/Cs**	**19727**

Source: RBI; SBI Research

Bank Credit Outstanding (Rs CR)

Bank Group	Mar-19	Mar-20	% YoY	Moratorium (Avg. %)	
				%	Amount
PSBs	5770605	6012694	4.2	41%	24,62,799
SFBs	60238	94919	57.6	70%	66,443
RRBs	283670	300981	6.1	-	
FBs	405618	434776	7.2	-	
Pvt Banks	3298236	3606192	9.3	40%	1442477
ASCB	**9818367**	**10449562**	6.4	-	
NBFC Gross Adv*	1984200	2354211	18.6	46%	1082937

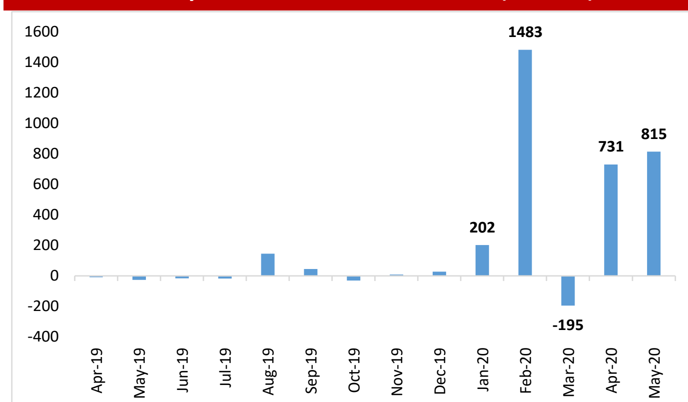
Source: SBI Research, *Sep 19 and Sep 18

Bank Wise Gross NPA (%) Movement

Banks	Dec-19	Mar-20	Change (%)
ICICI Bank	5.95	5.53	-0.42
HDFC Bank	1.42	1.26	-0.16
Axis Bank	5.00	4.86	-0.14
Yes Bank	18.87	16.80	-2.07
IndusInd Bank	2.18	2.45	0.27
SBI	6.94	6.15	-0.79
Punjab National Bank	16.30	14.21	-2.09
Bank of India	16.30	14.78	-1.52
Bank of Baroda	10.43	9.40	-1.03
Canara Bank	8.36	8.21	-0.15
Union Bank of India	14.86	14.15	-0.71
Indian Overseas Bank	17.12	14.78	-2.34
Bank of Maharashtra	16.77	12.81	-3.96

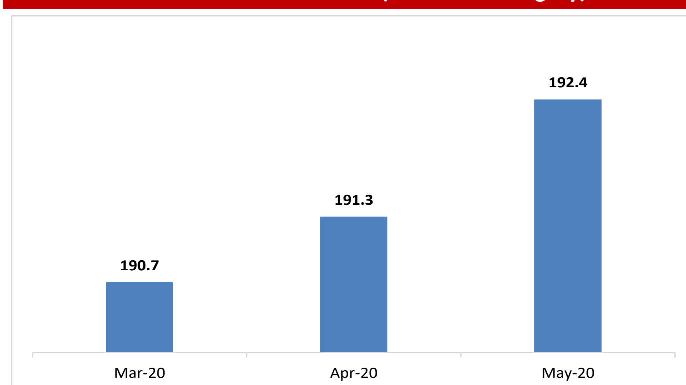
Source: SBI Research

Monthly Inflows/Outflows in Gold ETF (Rs crore)



Source: AMFI; SBI Research

Number of Active Client Account (Residents Category) in lakh



Source: NSDL; SBI Research

FINANCIALISATION OF SAVINGS

- India's financial savings (as % of GNDI) has declined from 11.9% in FY18 to 10.6% in FY20. However, we believe that people's preferences of financial assets during lockdown and in subsequent months will give fillip to the financial savings in India and we expect a jump in financial savings in FY21.

CARD SPENDING DURING LOCKDOWN AND CONSUMER LEVERAGE

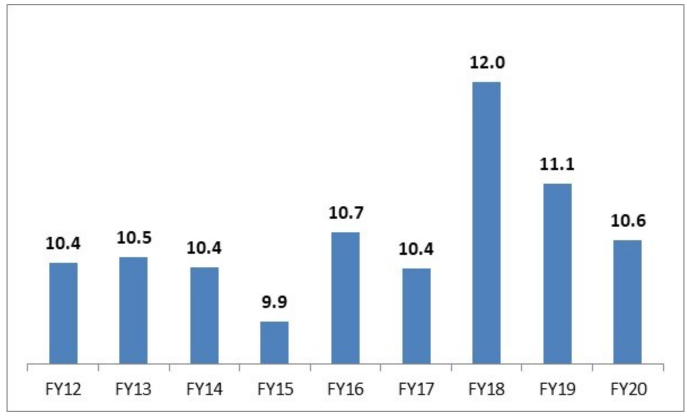
- As expected card spending has declined significantly during the Apr month. The total value of credit + debit cards transactions has decelerated from Rs 1.51 lakh crore in Jan'20 to merely around Rs 50,000 crore in Apr'20. Per card transaction has also declined from as high as Rs 12000 to 3600 in the case of credit cards and Rs 1000 to Rs 350 in the case of debit cards. **It could be also possible that consumer spending has shifted from luxury purchases to purchases of daily essentials and groceries.**
- Interestingly, even as credit card spending has significantly declined during April 20, our estimates of the short-term consumer leverage (presented as sum of credit card, personal loans, advances against FD, shares, bonds outstanding, etc.) which has reached a peak in FY18 at Rs 1.56 lakh crore declined significantly to Rs 1.29 lakh crore. However during FY20, it has increased marginally to Rs 1.35 lakh crore, reflecting possibly consumer stress. However in April it has declined by a whopping Rs 50,076 crores. It may be noted that in April, there is always a decline, but in the current fiscal because of exceptional circumstances this decline for example is 16 times more than what happened in April 19.
- Now the question is how much of this consumer deleveraging in April 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 are moving in FY21. It seems that till date the consumers have maintained a robust payment. Additionally, consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans.

Per Credit and Debit Card Transaction

Month	Credit Cards			Debit Cards		
	Number of Cards (Lakh)	Total Transaction (Rs Crore)	Per Card Transaction (Rs)	Number of Cards (Lakh)	Total Transaction (Rs Crore)	Per Card Transaction (Rs)
Nov-19	544	60130	11051	8308	77577	934
Dec-19	553	65736	11880	8053	83953	1042
Jan-20	561	66573	11863	8164	84575	1036
Feb-20	572	62148	10873	8230	80146	974
Mar-20	577	50574	8758	8286	65303	788
Apr-20	574	20765	3620	8294	29043	350

Source: RBI; SBI Research

India's Gross Financial Savings (% of GNDI)



Source: SBI Research

Consumer Leverage

Item	Incremental Credit (Rs Crore)					
	FY17	FY18	FY19	FY20	Apr'19 over Mar'19	Apr'20 over Mar'20
Credit Card Outstanding	14453	16496	19634	19832	4264	-11116
Other Personal Loans	79776	132479	98754	119332	8243	-26853
Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	-568	6378	10380	-3377	-15484	-11591
Advances to Individuals against share, bonds, etc.	-1669	806	709	-931	-573	-516
Consumer Leverage	**91992**	**156159**	**129477**	**134856**	**-3550**	**-50076**

Source: RBI; SBI Research

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