

There are two emerging trends for Indian Banks that deserve special attention.

First, some of the large Indian Banks are now pushing their quarterly results to earlier dates. We believe, this could be construed as a leading indicator of an improvement in asset quality cycle. To establish such a correlation, we took the Q4 and Q2 results of the 12 Public sector banks that will remain after the recent merger announcements of the Government. The time period considered for our study was beginning Q4 FY10 to Q4FY19. Our results show that the two are positively correlated with correlation coefficient of 55%. As the asset quality review was initiated in 2015, the dates of bank result went well beyond their usual timing which usually used to be till 30 April for Q4 and 31 October for Q2. However, recently, macro-stress tests for credit risk of RBI indicate that under the baseline scenario, SCBs' gross nonperforming asset (GNPA) ratio may decline from 9.3% in March 2019 to 9.0% in March 2020. Simultaneously, Bank Results are now being pushed to be declared more within the first month of the preceding quarter that went by. When we look at the available results of Public Sector Banks for Q2 FY20, the GNPA ratio is around 11.7%, lower than the overall PSB Mar'19 ratio of 12.6%. Thus, pushing forward of the result date could clearly act as an indicator of banking sector asset quality.

Second, the recent movements in stock markets across economies (India included) has confounded everyone. We believe, in the Indian context there could have been the flight of bank deposits to the equity markets as evident from increasing participation of retail investors from April 2019, albeit with some volatility. Interestingly, as we are transcending to a lower interest rate regime, we are clearly witnessing relatively lower pace of increase in time deposits compared to participation of individuals (retail and HNI) in the NSE cash market. We are now in a regime of lower interest rates with RBI cutting the rates steadily from Feb'19 till Oct'19. We however reiterate that the impact of declining interest rate regime since 2015 is also being felt by the depositors / pensioners. It is in fact imperative in a country with less than 5% of the population having access to social security, that the bank depositors are at least compensated with a sufficient positive real rate of return and are treated at par with the borrowers too. Further considering that there are more than 4 crore pensioners who have average term deposits of Rs 3.34 lakh per account, the net impact on Private Final Consumption Expenditure (PFCE) due to low interest income could be a decline of 30 basis points. **The Government can provide tax exemption to Senior Citizens Savings Scheme (SCSS) to support the senior citizens and this move will have a minimal impact on fiscal deficit of 2 basis points.**

BANK RESULTS DATE AS LEADING INDICATOR OF ASSET QUALITY

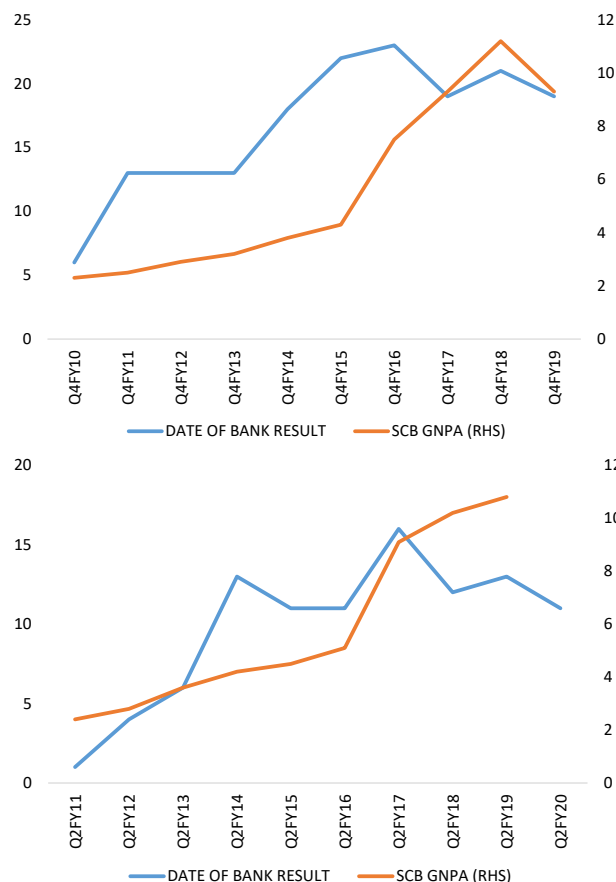
- ◆ The increased pace at which NPAs were recognised led to the NPA cycle peaking in Mar'18. With most of the NPAs already recognised, the NPA cycle turned around with SCB GNPA ratio declining to 9.3% in Mar'19.
- ◆ Over the years it has been seen that bad results prompt companies to push their results date earlier. We tried to see The movement of Bank GNPA in relation to bank results declaration date.
- ◆ For this exercise we took the Q4 and Q2 results of the 12 Public sector banks that will remain after the recent merger announcements.
- ◆ Each bank was assigned a number for Q4 for different fiscal years depending on the date of result. Then these numbers were added across banks to get a single number for Q4 of different fiscal years. This final number was then mapped with the corresponding SCB GNPA ratio for that quarter.
- ◆ For instance, in case of Q2 results announced till 31 October are assigned 0 value, results between 1 Nov-10 Nov are assigned the value 1 and results beyond that are given the value 2. Thereafter the values are added for that quarter to get a single number.

Let B_i represent bank with $i = 1, 2, \dots, 12$
 $B_{iQ2j} = 0$ if result date $\leq 31/Oct/j$
 $= 1$ if $1/Nov/j \leq \text{result date} \leq 10/Nov/j$
 $= 2$ if result date $> 10/Nov/j$
 where $j = FY11, FY12, \dots, FY19$

$$\text{Hence } N_{Q2j} = \sum_{i=1}^{12} B_{iQ2j}$$

- ◆ This exercise was conducted for Q4 as well. For Q4, results announced till 30 April are assigned 0 value, results between 1 May-10 May are assigned the value 1 and results beyond that are given the value 2.

Bank Result Date and SCB GNPA (%) trend



Source: SBI Research

- ◆ The results show that the two are positively correlated with correlation coefficient of 55%. The time period considered for the study is Q4 FY10 to Q4FY19.
- ◆ The graph also shows that as GNPA ratios have moved up so have the results date. As the asset quality review was initiated and continued the dates of bank result went beyond their usual timing which used to be till 30 April for Q4 and 31 October for Q2.
- ◆ Macro-stress tests for credit risk of RBI indicate that under the baseline scenario, SCBs' gross nonperforming asset (GNPA) ratio may decline from 9.3% in March 2019 to 9.0% in March 2020.
- ◆ We are also now seeing that the dates have started to come down as NPA recognition is taking place. When we look at the available results of Public Sector banks for Q2 FY20, the GNPA ratio is around 11.7%, lower than the overall PSB Mar'19 ratio of 12.6%. So pushing forward of the result date could act as an indicator of banking sector asset quality. However, more data remains to be seen going forward.

IS THERE A FLIGHT OF BANK DEPOSITS TO EQUITY MARKETS

- ◆ In India citizens are market averse and bank deposits are their chief source of savings.
- ◆ However, we are now in a regime of lower interest rates with RBI cutting the rates steadily from Feb'19 till Oct'19. When we look at the change in the NSE retail + HNI investor turnover and time deposits between April-September 2019, we find that the turnover indexed to April has moved up at a faster place in case of retail investor turnover while that of time deposits has gone up at a lower pace.

- ◆ Another noticeable thing is the higher volatility in case of market turnover when compared to change in time deposits during this period.
- ◆ This raises some concerns that the deposit growth might be coming down. The structure of term deposits has gradually shifted to lower interest rate buckets in recent years, with individuals share of term deposits with interest rates above 8% declining from 82.2% in March 2015 to 11.8% in March 2019 as per RBI data.
- ◆ The falling interest rate regime since 2015 has severely impacted the pensioners who have lost interest income of Rs 5845 annually.
- ◆ **Further considering that there are more than 4 crore pensioners who have average term deposits of Rs 3.34 lakh per account, the net impact on Private Final Consumption Expenditure (PFCE) due to low interest income will be 0.30%.**
- ◆ Government has an excellent scheme for senior citizens. Under Senior Citizens Savings Scheme (SCSS), a senior citizen can deposit Rs 15 lakh and the current interest rate is 8.6%. However, the interest on SCSS is fully taxable which is a major drawback of this scheme (the interest amount for Rs 1 lakh deposit for 5 years is around Rs 51,000 which is taxable). **The Mar'18 outstanding under SCSS was Rs 38,662 crore. It will be fair if such amount is given full tax rebate as the revenue foregone by the Government could be only Rs 3092 crore, that will have the minimal 2 bps impact on Government fiscal deficit.**

Individuals share in term deposits of SCBs according to interest rate range

Interest Rate Range	2015	2016	2017	2018	2019
Less than 6%	14.8	15.5	11.4	6.0	2.6
6 % and above but less than 8 %	2.9	25.9	58.3	79.0	85.7
8 % and above	82.2	58.6	30.2	15.0	11.8

Source: SBI Research

Impact of Lower interest Regime on Pensioners

Average Deposit of a pensioner in India	Rs	334000
Annual interest Income in 2015 @ 8.5%	Rs	28390
Present Annual interest Income @ 6.75%	Rs	22545
Annual Net loss to a Pensioner	Rs	5845
Impact on PFCE considering there are 4.1 crore Pensioner who have term deposits in banks	%	0.30

Source: SBI Research

Disclaimer:

The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

Contact Details:

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point
Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone: 022-22742440
: @kantisoumya