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ARE PEOPLE TURNING FRUGAL IN LOCKDOWN: CHOICE IS ALSO BETWEEN LIVES AND LIVELIHOOD AND LIVES!

Issue No. 17, FY21
Date: 01 June 2020

Historical data indicates that most of the credit disbursed in the last fortnight of March is paid back in April. However, in the current year the trend is divergent. In the last fortnight of Mar'20, ASCBs have disbursed Rs 2.65 lakh crore but till 08 May'20 only Rs 1.18 lakh crore credit declined (FY19 at Rs 1.46 lakh crore and much lower than Rs 2.75 lakh crore peak in FY2016). The low incremental decline in credit growth (-1.1% in FY21 vs –1.5% in FY20) in the first one-and-half month is a good sign that customers are using the sanctioned limits during these uncertain times to build up cash.

Importantly, on a YoY basis Credit growth to Industry declined to 1.7% and Services to 11.2% but on YTD basis Credit growth to Industry has increased. **Within Services, there has been an increase in credit to NBFCs, Transport Operators, Retail Traders. Credit to NBFC has increased by Rs 5000 crore, Transport Operators by Rs 4300 crore and Rs 6900 crore to Retail Trade in April 2020. However, the decline in Retail Credit is the largest since Jan 2008, from when the data series is available.**

Meanwhile, we analysed the trend of variations in Deposits and Advances during successive lockdowns for understanding consumer behavior. **The data revealed that Deposits (Savings, Current and Term) increased significantly during Lockdown 1 as people were apprehensive in the beginning of spending and turned frugal.** During Lockdown 2, there was a 25% decline in such Bank Deposits, but Term Deposit accrual was very healthy. The increase in deposits is also attributable to Government spending picking up pace with the hike in WMA limits. The situation became critical during Lockdown 3 when such Deposit growth turned significantly negative, indicating people may have used the initial build up to start spending as they realized that Lockdown could be a recurring phenomenon. However, the depletion was only 12% of the deposit build up in Lock Down 1 and Lock Down 2, indicating significant risk aversion in consumer spending. In Lockdown 4, there has been an increase in deposits again, indicating consumers are uncertain about spending and instead are saving much more in bank deposits.

It is also possible that many households may have marginal propensity to consumption closer to zero because many types of spending are less available due to social distancing.

With Indian going into Lockdown 5, we believe such consumer savings will continue to surge. As far as advances are concerned, there was a jump in term loans in Lockdown 1, and again in Lockdown 4. **We believe while such jump in Lock Down 1 was genuine, as companies availed of unutilized limits, in Lock Down 4, it could be the result of both interest application and some disbursement of unutilized limits**. **The increase in Cash Credit in May might also reflect more the application of interest as most of the companies have taken moratorium .** Thus, such growth in credit component needs to be treated with caution.

Meanwhile, during global financial crisis, to minimize the impact on the Indian economy, packages of measures were announced by the then Government and various estimates peg such value to 2.4%-3.5% of GDP. The nature of the crisis was such that there was no transfer to individuals, but mostly stimulating consumption through indirect tax cuts. The combined fiscal deficit (Centre and States), including the special securities issued to oil marketing and fertiliser companies, thus, reached 10.7% of GDP in 2008-09 (RBI).

However, this time more than 10% of the fiscal package has been in the form of transfer to individuals (includes DBT, cylinders, EPFO Contribution, Insurance, food for migrants and poor families). However, so far the Government consumption has been much more restrained in this package and it is more about supporting businesses through liquidity. A study pegs the value of capital expenditure impact multiplier in India at 2.45. **The present situation warrants more cash transfers and increased capital expenditures however, as the crisis is at an unprecedented scale and has severely impacted peoples' ability to eke out a livelihood. Additionally, international evidence also suggests the more severe and prolonged the economic downturn, the higher the share of households that will be liquidity constrained and the more households will need to use transfer income for basic needs, pushing up overall marginal propensity to consume and a faster recovery.**

CREDIT GROWTH BARRING RETAIL HAS PICKED UP NASCENT PACE IN LOCKDOWN 4 : IS IT MORE OF AN INTEREST APPLICATION OR GROWTH?

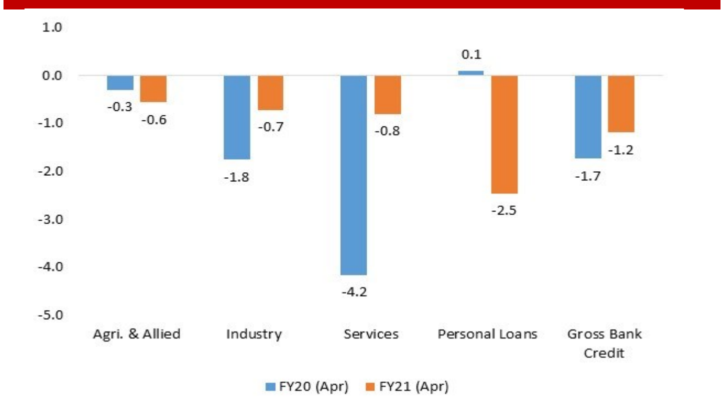
- During FY20, credit offtake was muted with a growth at 6.1% being less than half the growth of 13.3% in 2018-19, due to low momentum and unfavorable base effects. While, aggregate deposits increased by 7.9% in FY20, almost the same level as in FY19 at 7.8%.
- Importantly, RBI's fortnightly data of ASCBs till 08 May 2020 indicates that deposits increased by Rs 2.82 lakh crore (10.6% YoY; last year 10.4%) but credit declined by Rs 1.18 lakh crore (6.5% YoY; last year 13.0%). In line with the overall increase in deposits, balance in PMJDY accounts has also increased by Rs 14,883 crore during 01 April to 20 May.
- Historical data indicates that most of the credit disbursed in the last fortnight of March is paid back in April. However, in the current year the trend is divergent. In the last fortnight of Mar'20, ASCBs have disbursed Rs 2.65 lakh crore but till 08 May'20 only Rs 1.18 lakh crore credit declined (FY19 at Rs 1.46 lakh crore and much lower than Rs 2.75 lakh crores peak in FY2016). The low incremental decline in credit growth (-1.1% in FY21 vs –1.5% in FY20) in the first one-and-half month is a good sign that customers are using the sanctioned limits during this uncertain times to build up cash.
- The sectoral data for the month of April 2020, which accounts about 90% of the total bank non-food credit deployed by 33 SCBs, indicates that the YoY credit growth has declined in all major sectors. However, if we look the incremental credit growth (YTD), except 'Persona Loans' & 'Agriculture", all other sectors has shown less de-growth compared to last year.

ASCBs Incremental Credit Offtake (Rs crore)

Fiscal Year	March	April & May
2015	302574	-198594
2016	280030	-275800
2017	352473	-250525
2018	306392	-104780
2019	251270	-146966
2020	265994	-118455

Source: RBI, SBI Research

Incremental Credit Growth: Sector-Wise



Source: SBI Research, Housing subsidy not taken into account in both packages

Sector-Wise Credit Flow (Rs bn)

Sectors	Loan Outstanding (Rs bn)				YTD (April, FY20)	Monthly Growth (Rs bn)					YTD % (April, FY21)	% YoY	
	Mar-19	Apr-19	Mar-20	Apr-20	%	Apr'19	Jan'20	Feb'20	Mar'20	Apr'20	%	Apr'19	Apr'20
Agri. & Allied	**11113**	**11080**	**11578**	**11513**	**-0.3**	**-33**	**143**	**26**	**18**	**-65**	**-0.6**	**7.9**	**3.9**
Industry	**28858**	**28352**	**29052**	**28844**	**-1.8**	**-506**	**232**	**-247**	**1123**	**-208**	**-0.7**	**6.9**	**1.7**
MSE (Priority)	10672	10660	11494	11008	-0.1	-12	387	-54	542	-486	-4.2	11.9	3.3
Infrastructure	10559	10647	10539	10552	0.8	88	74	-181	352	13	0.1	19.9	-0.9
Services	**24156**	**23150**	**25949**	**25742**	**-4.2**	**-1006**	**614**	**19**	**1611**	**-208**	-0.8	**16.8**	**11.2**
NBFCs	6412	6234	8074	8124	-2.8	-178	86	-335	1037	50	0.6	37.8	30.3
Personal Loans	**22207**	**22228**	**25537**	**24908**	**0.1**	**21**	640	**348**	**216**	**-629**	**-2.5**	**15.7**	**12.1**
Housing (Including Priority)	11601	11686	13390	13307	0.7	85	268	125	100	-83	-0.6	18.6	13.9
Other Personal Loans	6068	6150	7261	6993	1.4	82	215	135	88	-269	-3.7	21.4	13.7
Gross Bank Credit	**86749**	**85241**	**92631**	**91531**	**-1.7**	**-1508**	**1566**	**13**	**2830**	-1100	**-1.2**	**11.7**	**7.4**

Source: SBI Research

- Generally, Agriculture sector credit demand increases in May & June, i.e. before sowing season and banks are now disbursing to all the eligible farmers and also issuing KCC cards to all the farmers to meet their credit requirements timely. **The important thing is that the decline in Retail Credit was the largest since Jan 2008, from when the data series is available.**
- On YoY Credit Growth to Industry declined to 1.7% (6.9% last year), Services to 11.2% (16.8) but on YTD basis Credit growth to Industry has increased. **Within Services, there has been increase in credit to NBFCs, Transport Operators, Retail Traders. Credit to NBFC has increased by Rs 5000 crore, Transport Operators by Rs 4300 crore and Rs 6900 crore to Retail Trade in April 2020.**
- Though Credit to all major industries declined but credit to infrastructure like Power, 'Iron & Steel' ''Petro Chemicals' and 'Petroleum, Coal Products & Nuclear Fuels' increased by Rs 23,900 crore in April 2020.
- Going forward, the decline in credit to retail sector may continue with India and Maharashtra extending lockdown till June 30. While most of the power plants are now working with upto 85% capacity, that might be still be a harbinger more of domestic consumption because of the current heat wave conditions.
- Banks are also leveraging digital platforms to meet the credit requirement in the retail sector. For corporates, they will require more of enhancement of working capital loans as well as term loans over the medium-term until the growth environment stabilizes. We see sectors such as NBFCs, Metal, Automobile, Power, Infrastructure, Tyre & Tubes, Petroleum etc. could be seeking more credit from Banks due to enhanced working capital cycle and also medium term uncertainty. While the forbearance on repayment of loans provides some cushion to banks on asset quality and provisioning, a prolonged slump would make it more vulnerable.

BANKING TRANSACTIONS DURING LOCKDOWN

- 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 using such as a proxy for understanding consumer behavior. The data revealed that Deposits (Savings, Current and Term) increased significantly during Lockdown 1 as people were apprehensive in the beginning of spending and turned frugal. During Lockdown 2, there was a 25% decline in such Bank Deposits, but Term Deposit accrual was very healthy. The increase in Deposits is also attributable to Government spending picking up pace with the hike in WMA limits.

Banking Transactions During Lockdown (Variations in Rs Cr)

Products	Lockdown 1	Lockdown 2	Lockdown 3	Lockdown 4
Savings Deposits	499606	244679	-89720	137796
Current Deposits	-62757	24616	-53002	65687
Term Deposits	175812	146583	22845	59134
TOTAL DEPOSITS	**483767**	**362989**	**-102534**	**238512**
CC, DL, Overdrafts etc.	-9190	-114170	-38735	43420
Term Loans	62304	4565	-16440	7488
TOTAL ADVANCES	**55503**	**-125491**	**-60588**	**52703**

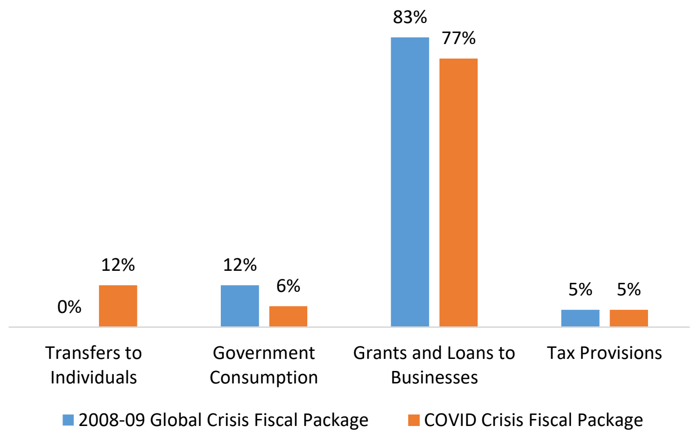
Source: SBI Research: Aggregate extrapolated based on individual banks.

- The situation became critical during Lockdown 3 when such Deposit growth turned significantly negative, indicating people may have used the build up to start spending as they realized that Lockdown could be a recurring phenomenon. However, the depletion was only 12% of the Deposit build up in Lock Down 1 and Lock Down 2, indicating significant risk aversion in consumer spending.
- In Lockdown 4, there has been an increase in Deposits again, indicating consumers uncertain about spending and instead saving in Bank Deposits. With Indian going into Lockdown 5, we believe Consumer Savings will continue to surge. It is also possible that many households, for example employed or retired, may have marginal propensity to consumer closer to zero because many types of spending are less available due to social distancing.
- As far as Advances are concerned, there was a jump in Term Loans in Lockdown 1, and again in Lockdown 4. We believe while such jump in Lock Down 1 was genuine, as companies availed of unutilized limits, in Lock Down 4, it could be the result of both interest application and some disbursement of unutilized limits.
- The increase in Cash Credit in May might reflect more the application of interest as most of the companies have taken moratorium (now extended from 3 months to 6 months). Thus, such growth in credit component needs to be treated with caution.

MARGINAL PROPENSITY TO CONSUMPTION IS ALWAYS HIGHER DURING RECESSIONS

- A paper by World Bank talks about insights for framing successful developmental policies in certain areas based on experiences of different countries over time which could help in future policy formulation. About efficacy of cash transfer programs /CCT it clearly states that there is no clear answer if conditional cash transfer is better than unconditional cash transfer or not. Though conditional cash transfers produce better human capital outcomes than unconditional cash transfers in the short run, they can undermine the social protection dimension of cash transfer programs. Comparing the overall welfare effects require estimates of how effective CCTs are at changing behaviour, as well as judgments on the importance of the desired behaviour change versus other important outcomes.
- The study concludes that the two should be viewed as complements to each other rather than alternatives. Policymakers could provide a basic unconditional cash transfer to, say, adolescent females or poor households, topped up by conditional cash transfers for human capital accumulation and desired health behaviour – providing an incentive to invest in education and health while still guaranteeing a basic level of protection to those who are unable or unwilling to comply with program conditions. It seems that the Indian Government has taken note of this while designing the recent package.
- During global financial crisis, to minimize the impact on the Indian economy, two packages of measures were announced by the then Government to boost demand from a macro economy wide perspective and also to focus on sectors of the economy that may be affected by the downturn. Various estimates peg such value to 2.4%-3.5% of GDP. The nature of the crisis was such that there was no transfer to individuals, but mostly stimulating consumption through indirect tax cuts. The combined fiscal deficit (Centre and States), including the special securities issued to oil marketing and fertiliser companies, thus, reached 10.7% of GDP in 2008-09 (RBI).
- However, this time more than 10% of the fiscal package has been in the form of transfer to individuals (includes DBT, cylinders, EPFO Contribution, Insurance, food for migrants and poor families). Although it is difficult to compare the two packages, however, the distribution is tilted in the same manner, i.e. to provide support to businesses and industries. The overall fiscal deficit of states and Centre, due to the fiscal measures and low growth is expected to be around 13%.

Composition of Fiscal package: Then & Now



Source: SBI Research, Housing subsidy not taken into account in both packages

- However, so far the Government consumption has been much more restrained in this package and it is more about supporting businesses through liquidity. A 2014 study pegs the value of capital expenditure impact multiplier in India at 2.45, while that of transfer impact multiplier at 0.98. The present situation warrants more cash transfers, however, as the crisis is at an unprecedented scale and has severely impacted peoples' ability to eke out a livelihood.
- Additionally, international evidence also suggests that marginal propensity to consume during a crisis is always significantly high for many households, for example those experiencing layoffs, as they use transfer funds for basic needs such as food, housing, and utilities. For example, two studies of the 2008 tax rebates (Parker, et al. 2013 and Sahm, Shapiro, and Slemrod 2010) suggest marginal propensity to consume could be as much as 0.67 for liquidity constrained households in times of crisis. In general, the more severe and prolonged the economic downturn, the higher the share of households that will be liquidity constrained and the more households will need to use transfer income for basic needs, pushing up overall MPC.

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