

ARE CONSUMERS DELEVERAGING IN SHORT TERM?

A host of macro numbers released today sends mixed signals on the state of the economy. Notably, even on a YTD basis incremental credit growth is merely 28% of previous year as per the RBI sectoral data. Thus, on an YTD basis the ASCBs advances increased by 1.7% (Rs 1.6 lakh crore) in FY20, compared to last year YTD growth of 6.7% (Rs 5.8 lakh crore). However incremental deposits expanded at Rs 5.3 lakh crores, 117% of like period previous year.

However, there are some positives. First, even though bank credit continues to be a significant laggard, **we need to clearly distinguish between gross credit growth and net credit growth as given out by RBI data.** We define gross credit growth after adjusting the net credit growth data with (a) Repayments as Corporates continue to rapidly deleverage (b) Technical write-offs and (c) Utilized cash credits to find out the actual or adjusted credit growth. **As per our analysis, the actual/adjusted yoy credit growth of ASCBs is 10.2% as against the reported growth of 7.9%. In fact, credit growth is time variant and should ideally be adjusted with upward and downward trend in business cycles.**

Secondly, there has been a substantial jump in retail credit during festive months (Sep & Oct), which has now normalized and expanded by Rs 15,000 crore in Nov'19, mainly because of decline in housing loans. **Bank lending to NBFC sector has jumped significantly by Rs 17,600 crore in Nov, and the YTD growth of such is highest across all segments at 14.0%.**

Thirdly, our estimates of the short-term consumer leverage shows that it reached a peak in FY18 at Rs 1.56 lakh crores has declined significantly after that. During Apr-Nov'19, the consumer leverage has now increased only marginally to Rs 65,337 crore as against Rs 62,886 crore during corresponding period last fiscal. This means that consumer demand will continue to remain depressed till the time consumer leverage declines to comfortable levels. A rate cut is thus unlikely to help arrest the current downturn and only a proactive fiscal policy could be one of policy prescriptions to facilitate growth. We are thus less optimistic of an imminent economic recovery.

Fourthly, based on the latest fiscal deficit numbers released today, even if we keep the fiscal deficit at the same level of Rs 8.07 lakh crore as at end-Nov and assuming 8% nominal GDP growth would imply fiscal deficit of 3.9% of GDP in FY20, keeping everything constant.

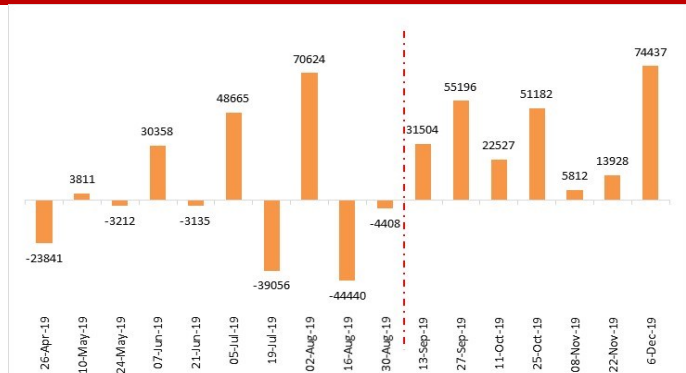
CREDIT GROWTH HAS JUMPED BY RS 2.54 LAKH CRORE BEGINNING SEPTEMBER 2019 TILL 06 DEC'19

- ◆ In the current FY so far (upto 06 Dec'19), the ASCBs YoY credit growth continued its downward journey and touched 7.9% (vis-à-vis 15.1% corresponding period previous year).
- ◆ Even on a YTD basis incremental credit growth is merely 28% of previous year. Thus, on an YTD basis the ASCBs advances increased by 1.7% (Rs 1.6 lakh crore) in FY20, compared to last year YTD growth of 6.7% (Rs 5.8 lakh crore). A deeper analysis of the ASCBs data indicates that though till the end of Aug'19, ASCBs credit growth was declining but the trend has reversed since Sep'19 and credit growth has jumped by Rs 2.54 lakh crore and during the last fortnight (22 Nov to 06 Dec), it has increased by Rs 74,437 crore.
- ◆ Additionally, aggregate deposits of ASCBs has increased by 10.3% (YoY), compared to last year growth of 9.7%. On YTD basis, deposits grew by Rs 5.3 lakh crore till 06 Dec in FY20 vis-à-vis Rs 4.5 lakh crore in FY19. The increase in deposits perhaps reflects the flight of deposits from weak banks / cooperative banks to stronger banks in search of safety.

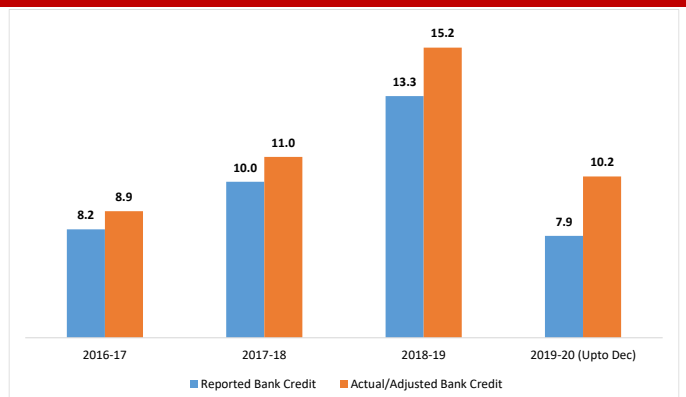
WHAT IS THE ACTUAL (OR ADJUSTED) BANK CREDIT GROWTH?

- ◆ Even though bank credit continues to be a significant laggard, we believe the actual credit growth will continue to remain depressed. **We need to clearly distinguish between gross credit growth and net credit growth as given out by RBI data.**
- ◆ We define gross credit growth after adjusting the net credit growth data with (a) Repayments AS Corporates continue to rapidly deleverage (b) Technical write-offs and (c) Utilized cash credits and deleverto find out the actual or adjusted credit growth. **As per our analysis, the actual/adjusted yoy credit growth of ASCBs is 10.2% as against the reported growth of 7.9%.**

Fortnight Movement of Credit growth (Rs crore)



ASCBs Reported Bank Credit vs Adjusted Bank Credit Growth



Source: SBI Research

NPA written-off by ASCBs

Year	Amount (Rs lakh crore)
FY15 ^	0.60
FY16 ^	0.70
FY17	1.08
FY18	1.63
FY19	2.37

Source: RBI; SBI Research; ^ derived

Sector-Wise Credit Flow (Rs bn)														
Sectors	YTD (Apr-Nov'18)		Monthly Growth (Rs bn)								YTD (Apr-Nov'19)		% YoY	
	Rs bn	%	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19	Nov'19	Rs bn	%	Nov'18	Nov'19
Agri. & Allied	345	3.4	-33	-1	179	-168	40	148	69	-7	227	2.0	7.7	6.5
Industry	91	0.3	-506	-212	-20	-137	-331	97	119	-145	-1135	-3.9	4.0	2.4
MSE (Priority)	-7	-0.1	-12	-37	5	-153	9	82	-32	40	-98	-0.9	11.2	6.2
Infrastructure	669	7.5	88	-228	-154	82	-299	-10	160	54	-308	-2.9	8.9	7.0
Services	2033	9.9	-1006	-272	-32	282	373	117	-94	105	-527	-2.2	28.1	4.8
NBFCs	699	14.1	-178	1	116	16	436	332	-2	176	897	14.0	57.2	29.1
Personal Loans	1577	8.3	21	186	124	217	284	519	339	150	1840	8.3	17.2	16.4
Housing (Including Priority)	1029	10.6	85	83	101	128	150	384	155	60	1146	9.9	15.0	18.3
Other Personal Loans	502	9.9	82	85	21	112	104	96	116	74	690	11.4	24.7	21.1
Gross Bank Credit	4349	5.6	-1508	-73	308	140	330	857	529	318	900	1.0	13.6	7.3

Source: SBI Research

CONSUMERS ARE ALSO DELEVERAGING IN THE SHORT TERM

- ◆ Interestingly, even as corporates continue to deleverage, our estimates of the short-term consumer leverage (estimated 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 crores has declined significantly after that. During Apr-Nov'19, the consumer leverage has now increased only marginally to Rs 65,337 crore as against Rs 62,886 crore during corresponding period last fiscal. This means that consumer demand will continue to remain depressed till the time consumer leverage declines to comfortable levels. A rate cut is thus unlikely to help arrest the current downturn and only a proactive fiscal policy could be one of policy prescriptions to facilitate growth.

SECTORAL CREDIT GROWTH

- ◆ Meanwhile, the sectoral data for the month of November 2019, which accounts about 90% of the total bank credit deployed by 39 SCBs, indicate that credit to Industry and services has declined incrementally by Rs 1.13 lakh crore, while credit to Agri & Allied and Personal loans increased by Rs 2.06 lakh crore. Within industry, credit to 'Cement & Cement products', 'Construction', 'Rubber, Plastic & their Products', 'Jute Products' and 'Telecommunications' has increased incrementally in Nov'19 and credit to all other sectors has declined. In Nov'19, there has been a jump in Rs 21,500 crore in food credit, which deviates from the normal trend growth.
- ◆ There has been a substantial jump in retail credit during festive months (Sep & Oct), which has now normalized and expanded by Rs 15,000 crore in Nov'19, mainly because of decline in housing loans. Bank lending to NBFC sector has jumped significantly by Rs 17,600 crore in Nov, and the YTD growth of such is highest across all segments at 14.0%.

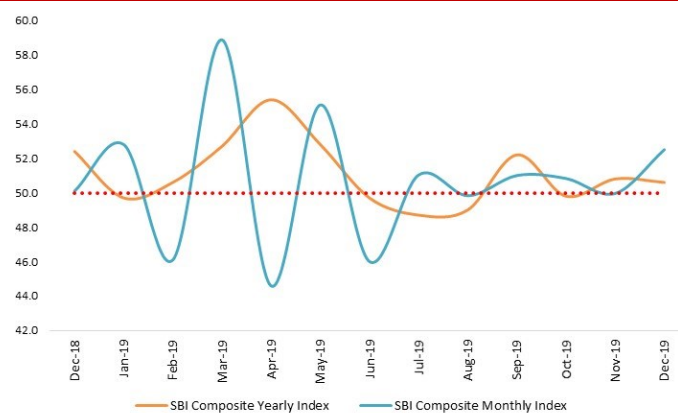
SBI YEARLY COMPOSITE INDEX IS AT 50.6 IN DECEMBER 2019

- ◆ The yearly SBI Composite Index for Nov'19 is at 50.6 (Low Growth) compared to 50.8 (Low Growth) in Nov'19. While, the monthly SBI Composite index increased substantially to 52.5 (Moderate Growth) in Dec'19 compared to 49.96 (Low Decline) in Nov'19.
- ◆ The SBI Composite Index, a leading indicator for manufacturing activities in the Indian Economy aims to foresee the periods of contraction and expansion. The Composite Index has mainly two indices i.e. SBI Monthly Composite Index and SBI Yearly Composite Index. We believe both IIP & IIP Manufacturing growth could be in de-growth mode in October and perhaps marginal expansion in November 2019.

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Short-term Consumer Leverage					
Item	Incremental Credit (Rs Crore)				
	Mar'17 over Mar'16	Mar'18 over Mar'17	Mar'19 over Mar'18	Nov'18 over Mar'18	Nov'19 over Mar'19
Credit Card Outstanding	14453	16496	19634	16650	17598
Other Personal Loans	79776	132479	98754	50156	69043
Advances against Fixed Deposits (Including FCNR (B), NRRR Deposits etc.)	-568	6378	10380	-4333	-19981
Advances to Individuals against share, bonds, etc.	-1669	806	709	413	-1283
Consumer Leverage	91992	156159	129477	62886	65377

Source: SBI Research

SBI Yearly and Monthly Composite Index Trend

Source: SBI Research

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