

## **ECONOMIC DISRUPTIONS GAIN MOMENTUM AS CASES SURGE: OPPORTUNITY FOR ADMINISTRATIVE REFORMS?**

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India has been witnessing a severe second wave with daily new cases more than 3.5 lakh for the past 9 days. Importantly, the share of the top 15 districts in total new cases has significantly dipped to 26.3% in May from 55% in March, indicating the spread of infections is now widely dispersed across the country. The other worrying trend is the increase in rural penetration. The share of rural districts in new cases has increased to 48.5% in May compared to 36.8% in March. Furthermore, google mobility has declined in some States like Kerala, Bihar, Haryana and Uttarakhand but at the same time cases have increased in these States during 27 Apr-03 May when compared to the previous week, thereby indicating the case load is not directly related to people movement.

Coming to the vaccination drive, so far we have given 160.5 million doses of vaccine with around 131 million taken 1 dose and 31.5 million fully vaccinated taking both doses. The percentage of people who have taken double dose to total vaccination doses is now around 19.5%. However, the daily vaccine doses given is now at an average of 17 lakhs per day compared to average of 28 lakhs per day in April. Given this trend, we believe India can only be able to vaccinate 15% of population by Oct'21 (which is required for herd immunity given the other countries' trend) but only if we are able to vaccinate around 55 lakhs daily in September & October.

Given that vaccination could be the only driver as of now to contain the disease, we did an disaggregated analysis to estimate the ideal share of each State in total vaccines based on distribution parameters including population above 18 years, total deaths, Covid cases and deaths in States and juxtaposed it with the vaccine distribution. Our results show that Maharashtra, UP, Delhi and Chhattisgarh might have received lower vaccine doses than they require whereas states like Rajasthan, Kerala, West Bengal and Gujarat have received more. Thus such states with a lower share have to procure large number of vaccines in future from the manufacturers to fill the gap. However, we also need to understand that there will be always a gap in ex-ante and ex-post vaccine distribution given the spread of Covid has been almost difficult to predict.

With the second wave and associated lockdown/restrictions, economic disruption is now clearly visible. At least 20 states are now in lockdown. The number of ratings downgrades are 3.7 times higher than upgrades in April 2021. Our business activity Index which has been declining steeply since April, has dipped to a new low level of 71.7, the level attained in mid-Aug'20. The latest week shows dip in all indicators, except for weekly food arrival and electricity consumption. The decline in labour participation is a matter of concern indicating that the disruption has percolated to the labour market as well. Even the monthly leading indicators, including GST e-way bills, vehicle sales, fertiliser sales have declined in Apr'21 when compared to Mar'21. Given the rise in cases and restriction now imposed in every state real GDP growth of 10.4% looks a bit ambitious. Regarding the question if the pent demand would support economic activity once the restrictions are removed, we believe recovery will actually depend on the psyche of people to come out and this will not happen till the larger population is vaccinated. We thus again re-emphasize the power of vaccination as a primary tool to reduce the severity of infections. We must vaccinate our people on a mission mode, even if it means suspending economic activity for a while after the second wave subsides and get all vaccinated. Also single dose vaccines should be prioritised.

The banking system, meanwhile, is witnessing a new trend that began in FY21. It is well known that both deposits and credit of all the banks always decline in April. However, in contrast this declining trend in deposits has changed from FY21. Deposits had increased by a staggering Rs 1.5 lakh crore in Apr'20 and in FY22 they have already increased by Rs 1.0 lakh crore till 9 Apr'21. It seems people are saving even much more in April FY22. This will have a significant salutary impact on consumption spending. But the credit decline in April also reduced in the last 2-years, it seems the demand for credit has increased much more due to pandemic.

**One food for thought, though! One of the biggest learnings from the pandemic is that Centre / States must now go for serious administrative reform and drastically improve delivery capacities. This could be the biggest second generation reform!**

**WITH STATES UNDERGOING LOCALIZED LOCKDOWNS, ECONOMIC ACTIVITY TAKEN A SEVERE HIT**

- ◆ Our business activity index which has been declining steeply since April, has dipped to a new low level of 71.7, the level attained in mid-Aug’20. This indicates the disruption caused by increased lockdowns/ restrictions imposed in various States. The latest week shows dip in all indicators, except for weekly food arrival and electricity consumption.
- ◆ Even the monthly leading indicators, including GST e-way bills, vehicle sales, fertiliser sales have declined in Apr’21 when compared to Mar’21.

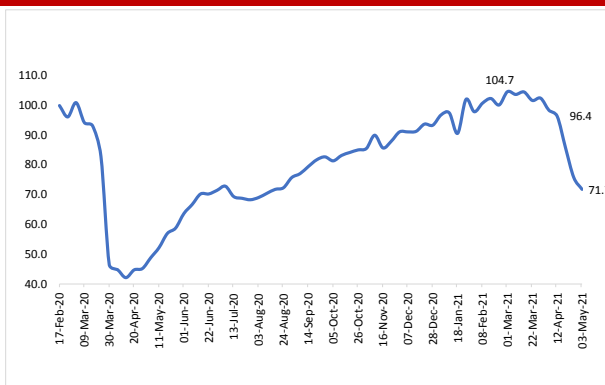
**SBI MONTHLY COMPOSITE INDEX ALSO DECLINED**

- ◆ The yearly SBI Composite Index reached to all time high of 59.8 (High Growth) in April 2021, compared to 55.9 (High Growth) in Mar’21, and 40.0 (Large Decline) in Apr’20, due to base effect. However, the monthly index continued to decline to 50.2 (Moderate Growth) in Apr’21, compared to 52.1 (Moderate Growth) and 24.0 (Large Decline) in Apr’20.
- ◆ Based on the SBI index, we believe IIP & IIP manufacturing may increase in the range of 5-6% in Mar’21 but may see a huge spike in growth in Apr’21, primarily due to base effect.

**COVID UPDATE**

- ◆ India has been witnessing a severe second wave with daily new cases now more than 3.5 lakh for the past 9 days. The share of the top 15 districts in total new cases has dipped in April to 30% and further to 26.3% in May from 55% in March. Another worrying trend is the increase in rural penetration. The share of rural districts in new cases increased to 45.5% in April and 48.5% in May compared to 36.8% in March. When looked district wise there is a clear shift visible with Maharashtra’s rural districts being maximum affected in March (11 of 15 worst affected rural districts from Maharashtra) to now spread to other States including Andhra Pradesh (5 in top 15 worst affected rural districts), Kerala (2 districts), Karnataka (1), Rajasthan (1) and Maharashtra having 6 now. One state which has shown improvement is Chhattisgarh which had 3 rural districts in top 15 during March and has no district now in the top 15 worst affected rural districts.
- ◆ The 7D MA of daily new cases shows that some States including Chhattisgarh, Delhi, Madhya Pradesh, Maharashtra and Uttar Pradesh have witnessed a decline during 27 Apr-03 May when compared to the previous 7 days. However, Google mobility of these States has either remained same or has increased during this period. It has remained the same for the first three States, while it has increased in case of Maharashtra and Uttar Pradesh. Google mobility has declined in some States like Kerala, Bihar, Haryana and Uttarakhand but at the same time they have witnessed an increase in cases during the period, thereby indicating the case load is not directly related to the movement.
- ◆ Also, since vaccination is the only way out of this pandemic states should reduce the vaccine wastage which is quite high in Tamil Nadu, Haryana, Punjab, Bihar and North Eastern States.

**Business Activity Index**



**SBI Yearly and Monthly Composite Index Trend**



Source: SBI Research

**Google Mobility and Daily new cases (7 D MA)**

States/UTs	Daily growth in cases		Daily change in Average Google mobility	
	20-26 Apr'21	27Apr-03 May '21	20-26 Apr'21	27Apr-03 May '21
Bihar	11970	13379	-0.1	-1.0
Chhattisgarh	15539	14894	0.1	0.2
Delhi	24396	23582	-0.9	-0.7
Goa	1664	2613	-4.5	-0.2
Gujarat	13486	13864	-1.0	-5.8
Haryana	10287	13136	-0.8	-1.7
Himachal Pradesh	1589	2561	-1.9	-0.9
Jharkhand	5722	6298	-5.2	-36.8
Karnataka	27442	39623	-2.5	-0.9
Kerala	24925	33892	-0.6	-6.3
Madhya Pradesh	13002	12634	-0.6	0.0
Maharashtra	63638	61042	-0.7	0.3
Odisha	5908	8211	-0.2	-0.3
Punjab	5815	6668	-0.5	-1.5
Rajasthan	14899	17196	-1.3	-0.1
Tamil Nadu	13611	18627	-0.3	0.1
Telangana	6621	7815	-0.8	-0.2
Uttar Pradesh	34335	31748	-0.4	0.8
Uttarakhand	4381	5738	-1.9	-5.5
West Bengal	13084	17279	-1.5	0.8
India	330155	378506	-1.1	-0.7

**VACCINE DISTRIBUTION**

- ◆ Taking the State's population above 18, overall death rate in India, new Covid-19 cases and deaths in last one month, we estimated the share of vaccines' requirement in various States. We looked at State's share in each of these parameters to arrive at the proportion of vaccines that they should ideally get, given the total vaccination doses. This is then compared with actual share based on the vaccine doses allotted to the States so far. Further, some States have vaccine doses in pipeline so a comparison was also done with the State's share attained after including that as well in each State's vaccine supply.
- ◆ We find that certain States like Maharashtra, UP, Delhi and Chhattisgarh are getting lower vaccine doses than they require. For instance, in Maharashtra should have a share of 17.8% in the total vaccine allocation but as per the current data its share is only 10.1%. Even if we include the vaccine doses in pipeline, the share is going to rise marginally to 10.2% which will still be below the required doses.
- ◆ Thus these states have to procure large number of vaccines from the manufacturers to fill the gap.
- ◆ On the other hand, there are States like Gujarat, Rajasthan, Kerala, Odisha and West Bengal where vaccine allocated is more than what is required given their population, their share in deaths and Covid cases and deaths.

**BANKS' GNPA ROSE IN Q4**

- ◆ Quarterly results of banks, mostly private which have published their results show that in Q4 FY21 GNPA ratio has increased for most of the banks, except Bank of Maharashtra and IDBI Bank, when compared to the previous quarter.
- ◆ AU Small Finance Bank has witnessed maximum increase, followed by Kotak Bank and Indusind Bank.

**DEBIT RETURN % STILL DECLINING**

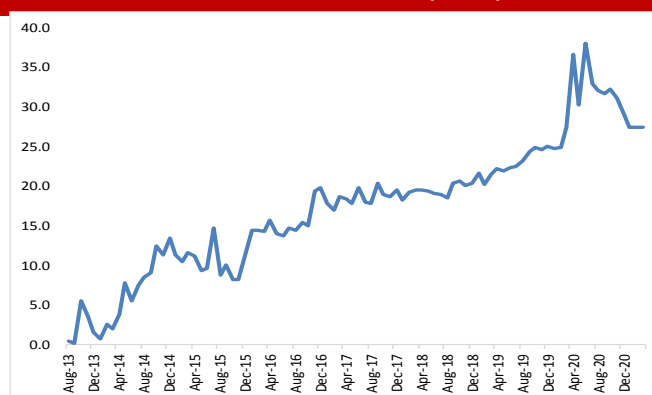
- ◆ NPCI-NACH debit (recurring payments (EMI, Insurance premium etc) return % reached a peak in Jun'20 and has been on a declining trend since then. The % return (value terms) has declined to 27.5% in Mar'21 from the peak of 38.1% in Jun'20. Even the volume percentage has declined to 32.8% from 45.4% during the same period.
- ◆ With various restrictions at state/district level imposed during April, it is yet to be seen whether it affects the recurring payments going forward.

Vaccine Allocation and requirement (% share)			
States	Requirement	Total Supply so far	Total supply including pipeline
Andhra Pradesh	3.4	4.1	4.2
Bihar	5.0	4.9	4.8
Chhattisgarh	4.6	3.6	3.5
Delhi	5.0	2.3	2.3
Goa	0.4	0.3	0.3
Gujarat	4.8	8.0	8.0
Haryana	2.4	2.7	2.7
Himachal Pradesh	0.7	1.2	1.2
Jammu & Kashmir	0.8	1.5	1.5
Jharkhand	2.4	2.2	2.2
Karnataka	6.1	6.1	6.1
Kerala	3.6	4.6	4.5
Madhya Pradesh	4.9	5.4	5.3
Maharashtra	17.8	10.1	10.2
Odisha	2.4	3.6	3.6
Punjab	2.8	2.3	2.3
Rajasthan	4.4	8.2	8.2
Tamil Nadu	4.9	4.2	4.1
Telangana	2.3	3.2	3.1
Uttar Pradesh	12.5	8.6	8.5
Uttarakhand	1.2	1.4	1.4
West Bengal	5.1	6.7	6.9

Source: SBI Research

GNPA (%) Movement - Bank Wise					
Bank	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Bank of Maharashtra	12.81	10.93	8.81	7.69	7.23
IDBI Bank	27.53	26.81	25.08	23.52	22.37
ICICI Bank	5.53	5.46	5.17	4.38	4.96
HDFC Bank	1.26	1.36	1.08	0.81	1.32
Axis Bank	4.86	4.72	4.18	3.44	3.70
Kotak Bank	2.25	2.7	2.55	2.26	3.25
Yes Bank	16.80	17.30	16.90	15.36	15.41
Indusind Bank	2.45	2.53	2.21	1.74	2.67
AU small Finance Bank	1.68	1.69	1.54	0.99	4.25
RBL Bank	3.62	3.45	3.34	1.84	4.34

Source: Bank Results

**NACH Debit Return % (value)**

Source: SBI Research

**RATING UPGRADE/DOWNGRADE**

- ◆ In April 2021, we have seen overall 1019 downgrades against 274 upgrades across sectors, across rating agencies. In consumption related sector also, we observed huge downgrades as compared to upgrades, for example in Consumer durable and apparel there are only 29 upgrades as compared to 119 downgrades. Also, in retailing also there are 91 downgrades as compared to only 6 upgrades.
- ◆ In investment related sectors such as Capital Goods-Non-Electrical Equipment 216 downgrades as compared to 62 upgrades and in construction and engineering we observed 103 downgrades vis-a-vis 23 upgrades in April 2021.

**IMPACT OF STATES' LOCKDOWN ON GDP**

- ◆ We had earlier revised our FY22 real GDP estimate from 11.0% to 10.4%. At that time only a few states (like Maharashtra, Delhi, etc.) imposed lockdowns and most of the states adopted night curfew only. Now the situation has altered completely. Since April 23, India received almost 48 lakh new Covid-19 cases and its spread has reached far with now almost each and every state imposing total/partial lockdown. We are now little apprehensive of a double digit growth in FY22.

**ASCB'S DEPOSITS AND CREDIT IN APRIL**

- ◆ It is well known that both deposits and credit of banks always decline in April, as banks mobilise/disburse more in the last fortnight of the FY to meet the year end targets. However, in contrast this declining trend in deposits has changed from FY21. Deposits had increased by a staggering Rs 1.5 lakh crore in Apr'20 and in FY22 it has already increased by Rs 1.0 lakh crore till 9 Apr'21. It seems people are saving much more in FY22. This will have a salutary impact on consumption spending.
- ◆ But the credit decline in April also reduced in the last 2-years, it seems the demand for credit has increased much more due to pandemic.

**Sectorwise rating upgrade downgrade April 2021 - Select Sectors**

Sector	Rating Upgrades	Rating Downgrades
Healthcare	14	14
Consumer Durables & Apparel	29	119
Textiles	18	82
Pharmaceuticals	9	7
Auto Components and Ancillaries	1	19
FMCG	-	4
Hotels Restaurants & Leisure	2	12
Retailing	6	91
Capital Goods-Non Electrical Equipment	62	216
Construction & Engineering	23	103
Metals and Mining	15	53
Steel	13	41
Capital Goods - Electrical Equipment	3	32
Energy	4	10
IT	10	25
NBFC	2	11
Financials	3	21
<b>Overall</b>	<b>274</b>	<b>1019</b>

Source: SBI Research; CRISIL Quantix; numbers for all rating agencies

**Change in 1st Month Deposits and Credit of ASCBs**

Rs crore	Deposits	Credit
FY17	-142861	-268202
FY18	-193246	-259075
FY19	-44628	-107800
FY20	-89902	-150777
FY21	155690	-97445
FY22*	101357	-60333

Source: RBI, SBI Research \*till 9 Apr'21

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