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FIRST LIGHT

05 July 2021

RESEARCH

BOB Economics Research | RBI FSR

Emerging stress in MSMEs and Consumer loans

BOB Economics Research | Trade

Exports see a stellar recovery

SUMMARY

India Economics: RBI FSR

While RBI has lowered its banking sector stress projections, it has pointed out rising stress in MSME loans of PSBs and consumer credit in case of PVBs and NBFCs. Economy is showing signs of recovery which may lead to lower stress build up. However, FSR alludes to new risks emerging from another wave, rising international commodity prices and inflationary pressures therein. We expect GDP growth at 9.7% in FY22 and RBI to normalize monetary policy in Q4FY22 by raising reverse repo rate.

Click here for the full report.

India Economics: Trade

India's trade deficit rose to US$ 9.4bn from US$ 6.3bn in May'21 led by higher oil and non-oil-non-gold imports. Over a 2-year period, exports have risen by 29.7%. On the other hand, imports have increased by only 2%, led by lower gold imports. Non-oil-non-gold imports, barometer of demand, have increased by 11.3%. We expect non-oil imports to improve as domestic restrictions are eased. Exports are likely to remain buoyant implying a trade deficit of US$ 165bn in FY22 (US$ 102.2bn in FY21).

Click here for the full report.

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.46	(1bps)	(14 bps)	79 bps
India 10Y yield (%)	6.04	(1 bps)	2 bps	20 bps
USD/INR	74.56	(0.3)	(2.7)	0.6
Brent Crude (US$/bbl)	75.84	0.9	9.4	75.8
Dow	34,634	0.4	0.3	34.1
Shanghai	3,589	(0.1)	(0.7)	16.1
Sensex	52,319	(0.3)	0.7	46.0
India FII (US$ mn)	**30-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(3.1)	(586.2)	(3,166.8)	(1,139.5)
FII-E	(150.7)	1,498.1	8,084.2	757.8

Source: Bank of Baroda Economics Research

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RBI FINANCIAL STABILITY REPORT (FSR)

02 July 2021

Emerging stress in MSMEs and Consumer loans

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While RBI has lowered its banking sector stress projections, it has pointed out rising stress in MSME loans of PSBs and consumer credit in case of PVBs and NBFCs. Economy is showing signs of recovery which may lead to lower stress build up. However, FSR alludes to new risks emerging from another wave, rising international commodity prices and inflationary pressures therein. We expect GDP growth at 9.7% in FY22 and RBI to normalize monetary policy in Q4FY22 by raising reverse repo rate.

Signs of recovery: RBI exudes optimism on recovery in FSR with COVID-19 infections falling in India and pace of vaccinations picking up. Global financial markets are upbeat on reflation trade. Indian equity markets are increasingly confident of a recovery. However, FSR alludes to emerging risks in the form of future waves of the pandemic, international commodity prices and inflationary pressures, global spillovers amid high uncertainty, and rising incidence of data breaches and cyber-attacks. Accordingly, sustained policy support remains vital.

Lower stress projections…: RBI clearly states that the dent on balance sheets and performance of financial institutions in India has been much less than what was projected earlier, although a clearer picture will emerge as the effects of regulatory relief fully work their way through. GNPA ratio of SCBs is expected to increase to 9.8% in Mar’22 (base case) from 7.48% in Mar’21. In the previous issue of FSR, RBI had projected GNPA ratio to increase to 13.5% in Sep’21 (7.5% in Sep’20). Now even under severe stress, GNPA ratio can increase only to 11.22% in Mar’22. Even capital position is expected to be better with CRAR of SCBs at 15.54% in Mar’22 (base case) from 15.84% in Mar’21. It was projected at 14% in Sep’21 earlier.

…however, stress is building up: Despite restructuring, stress in MSME portfolio of PSBs has inched up. Outstanding loans in SMA0 bucket are at 10.6% (7.8% in Dec’20), SMA1 are at 9.2% (5.6% in Dec’20) and NPA ratio has increased to 15.9% (13.1% in Dec’20). Even in consumer credit, delinquency ratios have seen a large increase for PVBs at 2.4% in Jan’21 (1.2% in Jan’20) and NBFC/HFCs at 6.7% in Jan’21 (5.3% in Jan’20). In wholesale credit, out of Rs 23.09tn outstanding in Sep’20, 7% is now in SMA0 and 2.8% is in SMA1 in Apr’21.

Economy to rebound: Economic impact of second wave is less severe than first wave. Our economy tracker is 8% below Feb’20 baseline compared with 19% dip in May’21. Recent high frequency indicators show a steady turnaround. We expect GDP growth at 9.7% in FY22 led by recovery in industrial activity and normalization of services (post vaccination). RBI is likely to look at normalizing monetary policy in Q4FY22 by reducing gap between repo and reverse repo rates.

Key highlights

- Stress test shows GNPA ratio to rise to 9.8% in Mar’22, under baseline scenario.
- Emerging stress in MSME portfolio of PSBs.
- Consumer credit stress rising for PVBs and NBFC/ HFCs.
- Macroeconomic risks in the form of another wave, rising commodity prices and inflation.

TRADE

02 July 2021

Exports see a stellar recovery

India's trade deficit rose to US$ 9.4bn from US$ 6.3bn in May'21 led by higher oil and non-oil-non-gold imports. Over a 2-year period, exports have risen by 29.7%. On the other hand, imports have increased by only 2%, led by lower gold imports. Non-oil-non-gold imports, barometer of demand, have increased by 11.3%. We expect non-oil imports to improve as domestic restrictions are eased. Exports are likely to remain buoyant implying a trade deficit of US$ 165bn in FY22 (US$ 102.2bn in FY21).

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Export growth steady: As per preliminary data, India's exports were stable at US$ 32.5bn in Jun'21 compared with US$ 32.3bn in May'21. However, on a low base exports have increased by 47.3% in Jun'21 on a YoY basis. Notably, exports had fallen by 12% in Jun'20. Oil exports have increased at a much faster pace at 105.2%. Non-oil exports are up by 41.8%. Within non-oil exports, engineering goods (52.6%) and gems and jewellery (80.5%) have risen the most. Notably, over a 2-year horizon (since Jun'19) exports have picked up sharply by 29.7% in Jun'21 compared with an 8.1% increase in May'21. Over the same time period, non-oil exports are up by 27.3% and oil exports have risen by 49.8%. Within non-oil exports, chemicals (62.4%), and engineering goods (41.7%) have risen the most. On the other hand, exports of gems and jewellery have fallen by 10.8%. Export growth is expected to remain resilient due to improvement in external demand.

Imports rise: India's imports rose to US$ 41.9bn in Jun'21 from US$ 38.6bn in May'21. On a YoY basis, the increase is quite steep at 96.3%. A low base explains this as imports fell by 48% in Jun'20. While oil imports have increased by 114.9% over the last year, non-oil-non-gold imports have risen by 91.9% to US$ 30.2bn in Jun'21. Within this, imports of pearls and precious stones (305%) and electronics (45.3%) have increased the most. On the other hand, imports of silver (91.4%) and project goods (12.5%) declined in Jun'21. Over a 2-year horizon, imports have increased by only 2%, led by decline in gold (64%) and oil (4.7%) imports. Non-oil-non-gold imports have remained resilient and increased by 11.3%.

Trade deficit widens: India's trade deficit expanded to US$ 9.4bn in Jun'21 from US$ 6.3bn in May'21 led by higher oil and non-oil-non-gold imports. The pickup in non-oil-non-gold imports is likely to gain further momentum as domestic activity picks up. Oil imports are also likely to be higher due to rising oil prices. Exports have remained resilient so far and will see a pickup as global demand improves further. As a result, we expect trade deficit to widen to US$ 165bn in FY22 from US$ 102.2bn in FY21, assuming oil prices sustain at current levels (US$ 75/bbl). Even so, CAD is likely to remain within 1.5% of GDP. Thus, we expect INR to trade in range of 73-75/$. Higher oil prices and another Covid wave are a risk to our view.

Key highlights

- Exports steady at US$ 32.5bn (47.3% YoY) in Jun'21 versus US$ 32.3bn (69.4%) in May'21.
- Imports rose to US$ 41.9bn (96.3% YoY) in Jun'21 versus US$ 38.6bn in May'21.
- Oil imports rise further to US$ 10.7bn in Jun'21
- Trade deficit expanded to US$ 9.4bn in Jun'21 from US$ 6.3bn in May'21.

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