

The impact of COVID-19 on the agricultural economy of India and the way ahead

The unprecedented Coronavirus pandemic may lead to a global recession in FY21, with the Indian economy seeing its worst year since 1979-80 on the back of a 60-day lockdown. In this gloom and doom, there is a ray of hope from agriculture as the sector is projected to grow by ~2.8% (NSE estimate) in FY21, given that the summer sowing of rice, pulses and oilseeds in the country is on track and IMD's projection to record a normal monsoon this year. Besides, the lockdown is expected to have a minimal impact on agriculture as several states have taken proactive measures and ensured adequate procurement from the winter crop.

In this context, the NSE had organised a webinar on "*The impact of COVID-19 on the agricultural economy of India and the way ahead*" on May 27th, with an eminent panel consisting of Prof. Ashok Gulati, the Infosys Chair Professor for Agriculture at ICRIER, Dharmakirti Joshi, the Chief Economist at CRISIL and Simon Wiebusch, the Chief Operating Officer for the Crop Science Division of Bayer in India, Bangladesh and Sri Lanka. We summarize key takeaways from the discussion here. We also provide the YouTube link to the webinar.

CRISIL's Dharmakirti Joshi believes that from a growth perspective, India's GDP is likely to decline by 5% in FY21, due to the combined effects of a 60-day lock-down, supply chain disruptions and the ripple impact on several sectors. Further, at least some portion of the loss in national income is anticipated to be of a relatively permanent nature, i.e., unlikely to revive over the next several years, especially given the weak state of the economy prior to the crisis. Mr. Joshi believes Agriculture is the exception here across sectors, with growth estimated at 2.5% for FY21.

The Government's fiscal support package for the economy proposed several key reforms for the sector, in what has been called as the '1991 Moment for Indian Agriculture' by Prof. Gulati. Structural reforms like amendment of the Essential Commodities Act, formulating a central law for agriculture marketing and legal framework on contract farming along with improved agri-infrastructure will facilitate farmers to realise better price from the market in the long-term. The key, however, is effective implementation of these proposals, according to Prof. Gulati. Mr. Wiebusch believes apart from all the disruption, most notably from the significant migration of labour across the country, the current crisis also presents an opportunity to revive not just the agriculture sector, but overall employment in the country. A case in point here is enabling entrepreneurship in the skilled labour travelling across the country to their homeland to engage in agriculture. Technology evolution and derivatives market of agri-commodities may help to bring even higher efficiency in the sector. Prof. Gulati believes the current crisis offers an opportunity for a policy measure (cf. Affordable Housing for all) significant enough to be on the lines of Roosevelt's 'New Deal', or the post WWII Marshall Plan in Europe.

- **Indian economy may shrink by 5% in FY21 amid the coronavirus pandemic:** India's real GDP may decline by 5% in FY21 due to the pandemic, 60-day long nationwide lockdown, unavailability of medical care of the disease and its prolonged and ripple impact on several sectors in the domestic market as well as globally. The economy will suffer the most during the first quarter with 21% decline mainly due to the lockdown imposed by the government, and actual recovery may start over the second half of the FY.
- **Permanent loss of GDP is inevitable:** GDP may not revive to its pre-Covid trend in the next three fiscal years despite of several fiscal and monetary policy measures. Under the current circumstances, India may record a 10% permanent loss in its real GDP from the decadal-trend level.
- **Low immunity to fight the virus:** Indian economy was slowing down even before the crisis hit us. Hence, India's immunity to cope up with

Exclusive link to the webinar held on May 27th, 2020: "[The Impact of COVID-19 on the agricultural economy of India and the way ahead](#)"

Welcome Address: Ravi Varanasi, Chief Business Development Officer, NSE

Moderator: Dr. Tirthankar Patnaik, Chief Economist, NSE

Key speakers:

1. Mr. DK Joshi, Chief Economist, CRISIL
 2. Prof. Ashok Gulati, Infosys Chair Professor of Agriculture, ICRIER
 3. Mr. Simon Wiebusch, Chief Operating Officer, Bayer Crop Science
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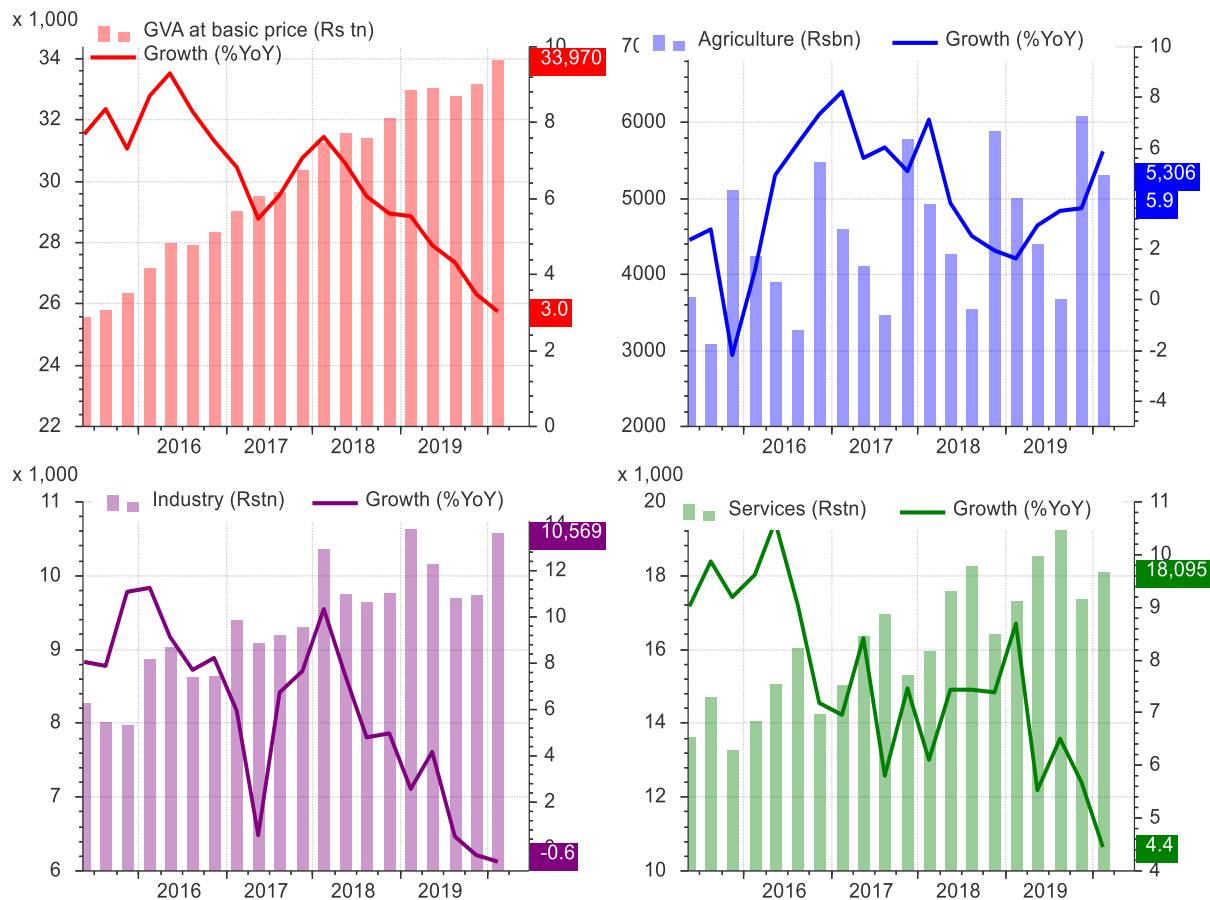
the recent slowdown amid Covid-19 is quite low as compared to its situation during the GFC in 2008 when the country was growing at around 8%.

- **High impact on construction:** Construction sector is the most vulnerable mainly due to the reverse migration and lack of demand during the recession. This may raise total number of unemployment in the country by an alarming rate as the sector employs as many number of people as the manufacturing sector even with a much lower GDP share.
- **Limited impact from the government relief package:** Panellists expressed reservation on the government fiscal relief package given the tight fiscal condition. Most of the incremental borrowing this year would barely be sufficient to meet the shortfall in projected revenue. Other than provisioning free ration and food, cash transfer to a subset of deprived population, moratorium on existing loans and provisioning additional loans to MSMEs, the relief package emphasised mostly on structural reforms which will have limited impact in the short-term. Besides, the government did not provide direct relief to the vulnerable sectors including hotel, restaurants, aviation, construction, automobile, etc. This would delay their recovery process and may have ripple impact on unemployment and accumulate NPAs in the financial system.
- **Liquidity infusion may not be sufficient while credit market remains tight:** Similar to other countries, liquidity support remains to be the major policy action in India taken by the government as well as the RBI. However, it would not be effective in India as the credit market remains tight and a significant part of the economy remains to be outside the scope of organised financial system.
- **Agriculture is the lone exception in the economy which is projected to grow by 2.5% in FY21** given the summer sowing of rice, pulses and oilseeds in the country is on track, with record procurement from the winter crop particularly in Madhya Pradesh, Haryana and Punjab. Punjab government has taken several proactive measures like creating new procurement centres other than mandis to ensure social distancing and timely procurement of rabi crops.
- **Perishable produce affected the most during the lockdown...:** Though agri-products were under essential commodities, the supply chains of all commodities were disrupted heavily due to the nationwide lockdown. Besides, cold storage facilities were unavailable, mandis were not functioning properly, lack of transport services and shortage of labour amid reverse migration and fear of getting infections during the period added additional problem in the system that had adversely affected perishable goods. This may perhaps lead to change in cropping patterns in the coming year as farmers are de-risking and moving to government procured crops, while production of perishables may reduce that may lead to higher vegetable prices.
- **...however, food inflation likely to remain muted in the coming months:** Panellists have assured that there is no need to be concerned about the food inflation over the next few months. The recent rise in food prices are temporary in nature, mainly contributed by supply chain disruptions. Given the current buffer stock maintained by the government, food prices will ease down post the lockdown period.

- **Stimulus package may have long-term positives on agriculture:** The Finance Minister announced three structural reforms in agriculture under the relief package. First, the Essential Commodities Act will be amended to liberalise select agri-products including cereals, pulses, edible oils, oilseeds, onions and potato, while restrictions will be imposed only in extreme situations like, war, pandemic, etc. Second, Government will formulate a central law to bring agriculture marketing reforms to provide marketing flexibility to farmers which is currently restricted to APMCs. Third, Centre will also formulate a legal framework on contract farming focusing risk mitigation, and price and quality assurance for farmers. These measures will facilitate farmers to realise better price from market.
- **Success of legal contract farming depends on the implementation process:** Implementation of legal contract farming may be difficult in India given the fragmentation of the market. Allowing Farmers Producers Organisations (FPOs) and consolidation of supply providers may help to accelerate the process of contract farming. Besides, FPOs should get proper training in using derivatives and require adequate capital at reasonable interest rates to make it successful.
- **Complementary agri-infrastructure is essential:** Several agri-infrastructures like adequate cold storage, better communication, and uniform systems across states are essential to get fruitful impact of these measures on agriculture.
- **Technology evolution and derivatives market may help to bring higher efficiency in agriculture:** The agri-market needs to be technologically upgraded through better infrastructure in the supply chain process, integrating agri-market across states and developing derivatives market for agri-commodities. Even if farmers don't buy derivatives directly, input providers, FPOs and traders can use the futures market to de-risk the farming activities throughout the year.
- **Locust attacks may not have much impact on agriculture:** Given the rabi crop is already harvested and Kharif sowing has not yet started, locust attacks may not have much impact on agriculture, barring horticulture. However, early control measures taken by the farmers may help to minimise its impact on the horticulture crops as well.
- **Need for an export policy:** While it is important to emphasise on revival of consumption demand internally, experts agreed to have a trade policy for agri-commodities where agri-market should be open for trade in excess of the minimum requirement of buffer stock decided by the government.
- **India's vulnerability can be higher than other countries:** India may take longer time to recover and its vulnerability can be much higher than other countries given its high density of population, weak health infrastructure, and limited fiscal space. The reverse migration of unskilled labor force in less developed states may raise additional problems to the current system. This may increase wage rate in relatively developed states due to shortage of labour, while eastern part of the country may face additional burden of surplus labour that may result a sharp decline in wage rates, particularly in the agri-sector which already has a surplus labour force.
- **Provisioning productive employment to migrants:** Though MGNREGA is crucial to generate additional employment, panellists emphasised to provide productive employment to migrant labourers in the eastern belt of the country through front-

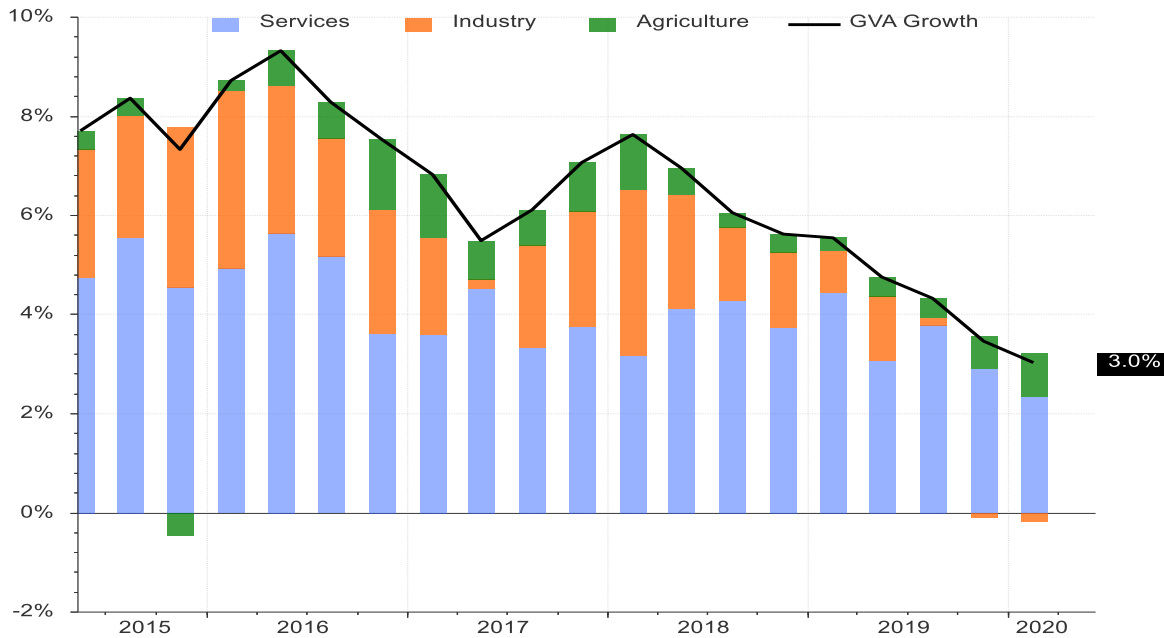
loading of PM Aaawas yojana, investing on roads, agri-infrastructure, water management, food processing industries. Water and power consumption needs to be rationalised. Solar power should be made a third crop for the farmers and buy-back should be in place. These policy actions along with better infrastructure, technological evolution and agri-reform would help in doubling farm incomes in a year.

Figure 1: Agriculture recorded a significant growth since Q1FY20, while other sectors recorded a sharp decline in their respective growth rates amid global and domestic slowdown due to the unprecedented outbreak of Covid-19.



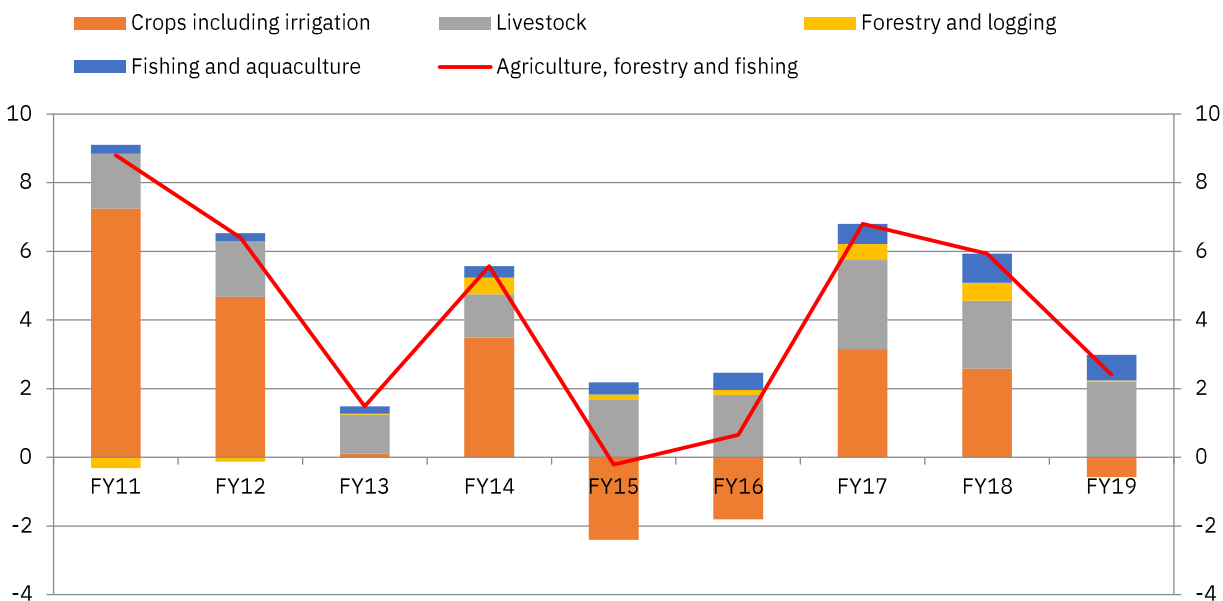
Source: CSO, MOSPI, NSE

Figure 2: Contribution to GVA growth (%YoY): Agricultural contribution to total GVA growth increased over the last two quarters, while the same had declined gradually for Services sector and it turned negative for Industry over the same time period.



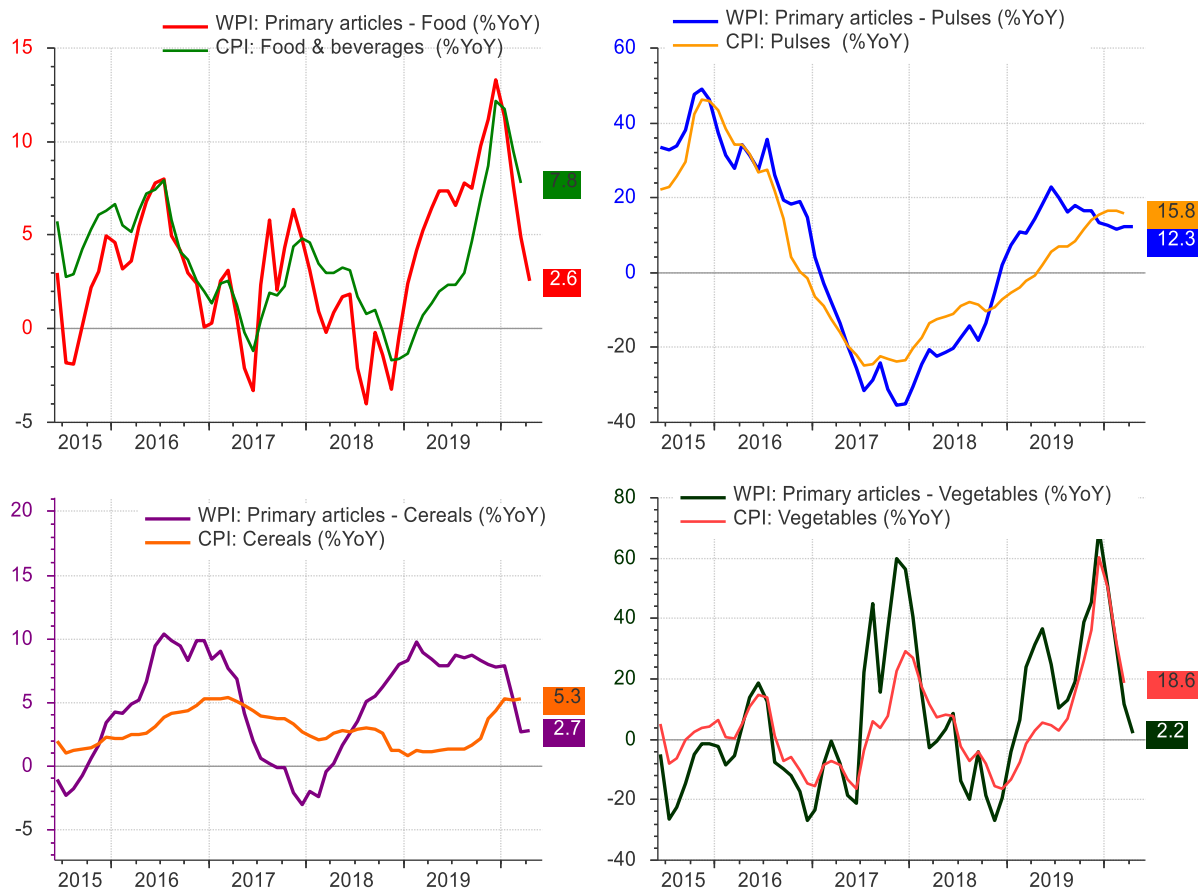
Source: CSO, MOSPI, NSE

Figure 3: Contribution to Agriculture growth (%YoY): Agriculture was able to maintain a decent growth in FY19 as livestock production, fishing and aquaculture maintained a decent growth over the year. Notably, the contribution of livestock production in total agri-growth grew significantly since FY17. Among others, contribution of crops production including irrigation started declining since FY18, while it turned negative in FY19.



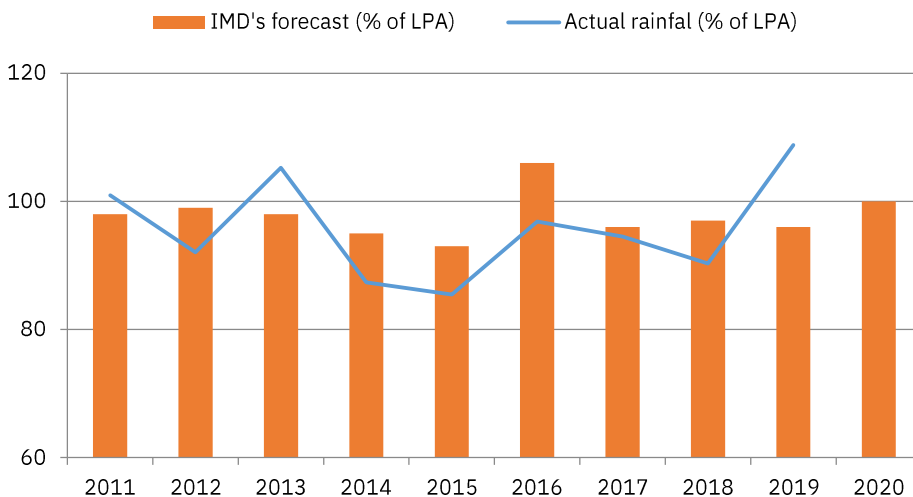
Source: CSO, MOSPI, NSE.

Figure 4: WPI and CPI inflation rates changed mostly in tandem for pulses and vegetables, while inflation of cereals was moving quite differently in wholesale and retail markets. Inflation rate of cereals remains relatively stable in retail market compared to the wholesale market. Moreover, WPI inflation remains lower than CPI across all categories over the last few months, amid a significant mismatch in demand-supply and supply chain disruptions due to the nationwide lockdown.



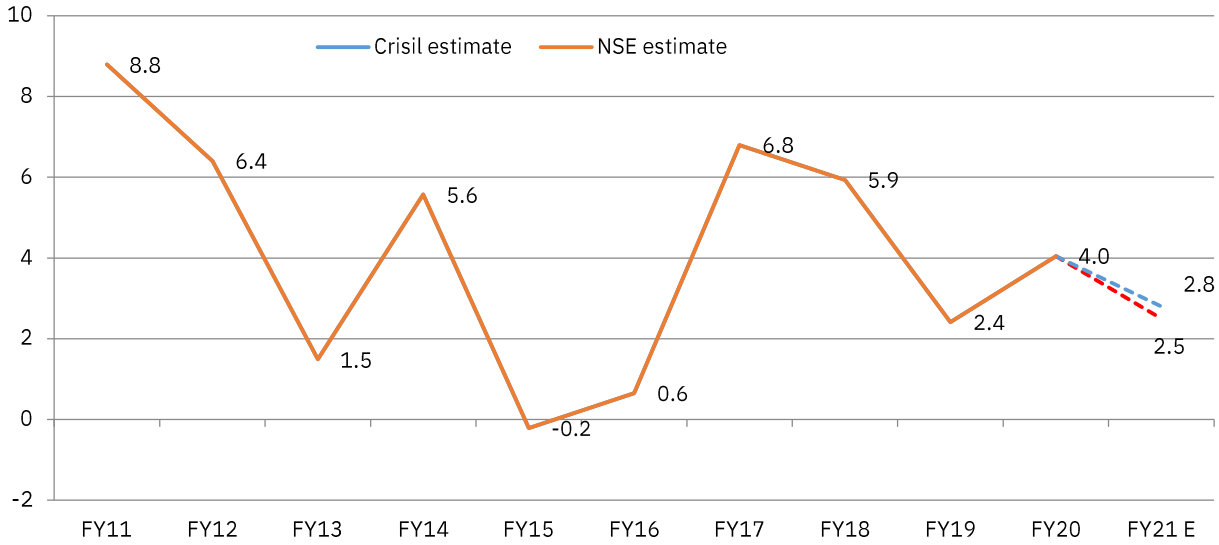
Source: Refinitiv Datastream.

Figure 5: IMD projected to have a normal monsoon in 2020.



Source: CMIE Economic Outlook, IMD.

Figure 6: Agricultural sector is projected to have a decent growth in FY21 as well, given that the summer sowing of rice, pulses and oilseeds in the country is on track with record procurement from the winter crop and IMD’s projection of having a normal monsoon this year.



Source: CSO, MOSPI, NSE, NSE Webinar, CRISIL estimate.

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