

ECOWRAP

Q2 FY22 GDP PEGGED AT 8.1%: FY22 GDP GROWTH NOW SEEN IN THE RANGE OF 9.3%-9.6%, WITH 42% FULLY VACCINATED

Issue No. 45, FY22
Date: 22 Nov 2021

Based on SBI Nowcasting model, the forecasted GDP growth for Q2 FY22 would be around 8.1% (with upward bias). The model uses the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of FY13 to Q2 of FY22. Q2 GVA is estimated at 7.1%. We now believe that FY22 GDP growth rate could be in the range of 9.3%-9.6%. The reason for the upward revision is that India recorded only 11% increase in Covid cases during Q3 2021, second lowest among top 15 most affected countries, and the increase in cases has declined to 2.3% in Nov'21 over Sep'21. So far, 115.79 vaccine doses have been administered, with 81% of the eligible population receiving at least a single dose and 42% of the eligible population both doses. In certain states including Himachal Pradesh, Gujarat, Uttarakhand, Kerala, Karnataka, Telangana and Madhya Pradesh more than 50% of the eligible population has been fully vaccinated.

India's projected 8.1% growth rate in Q2 (FY22) is the highest growth across all economies. The average GDP growth of 28 selected economies has decelerated to 4.5% in Q3 (2021) as against 12.1%. Also at an annual rate of 9.3-9.6%, India's real GDP growth would now be 1.5%-1.7% higher than the pre-pandemic level of FY20.

Meanwhile, on 19 Nov'21, PM has announced to repeal all the three agriculture laws and will complete the constitutional process in the upcoming winter session of Parliament. PM has also announced to form a committee to decide, among others, making the system of MSP more effective and transparent. We suggest 5 key agricultural reforms that could act as enablers even without these bills.

First, MSP as a price guarantee is always a tricky issue. For example, hypothetically buying of cereals at MSP in essence making procurement a public good, will drive down the prices significantly below MSP. Specifically, as India is an oligopsony market where there are large number of small and marginal farmers/ sellers while the buyers are either the Government and/or Private, the Private Buyers will always have an incentive to strike a deal separately as the market has many small farmers / sellers willing to sell their produce but unable to do because of lack of market outside APMC. The bottom line, however, is that it is an outcome that the Government will never want. On a lighter note, this reminds us what happened to King Akbar once. One day, Emperor Akbar had told Birbal that he was planning to take a bath in milk and that all his ministers should cooperate and get milk to fill the bathtub. However, each minister decided that since milk was costly, he would get the water, while the others would get milk. The end result was that all the ministers brought water!

First, instead of MSP as a price guarantee that farmers are demanding, the Government could insert a quantity guarantee clause for a minimum period of 5 years that procurement to production percentage of crops (being currently procured) should at least be equal to last year percentage (with safeguards in exceptional events like droughts, floods etc). Historical trend in case of procurement indicates that the average procurement of wheat has jumped from 26% in FY14 to 36% in FY21 and that of paddy from 30% to 48% during the same period.

Second, explore converting the Minimum Support Price to Floor Price of Auction on National Agriculture Market (eNAM).

Third, efforts must also continue to strengthen APMC market infrastructure. Based on a Government report, as per our estimates, the monetary loss for cereals is almost Rs 27,000 crore due to harvest and post-harvest losses. The losses for oilseeds and pulses are Rs 10,000 crore and Rs 5,000 crore, respectively.

Fourth, establish a Contract Farming Institution in India that will have the exclusive right to oversee price discovery in Contract Farming. Contract farming has been instrumental in many countries by providing growers access to supply chains with market and price stability, as well as technical assistance. The experience of Thailand shows market certainty (52%) and price stability (46%) were prime factors due to which farmers participated in contract farming.

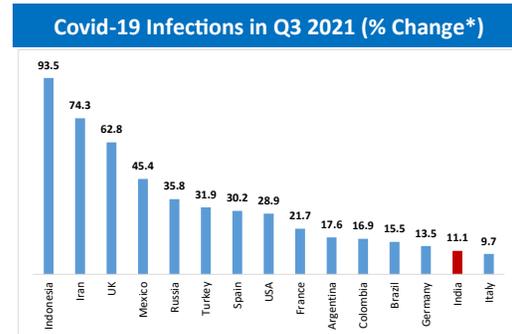
Fifth, ensuring a symmetric procurement across states. The procurement of cereals had continued to be asymmetric, with top paddy producing states like West Bengal (First) and Uttar Pradesh (Second) witnessing very low procurement, even as states like Punjab and Haryana that are not largest producers witnessing much larger procurement. For the record, for Punjab and Haryana, the procurement of cereals were 83% of produce, while for some other states this was in single digits!

GDP GROWTH IS ESTIMATED AT 8.1% IN Q2 FY22

- ◆ India’s GDP grew in double digits and stood at 20.1% in Q1 FY22 and RBI has estimated full year FY22 real GDP growth would be 9.5% consisting of 7.9% in Q2, 6.8% in Q3 and 6.1% in Q4.
- ◆ **As per our (SBI) ‘Nowcasting Model’, the forecasted GDP growth for Q2 FY22 would be 8.1%, with an upward bias. The full year (FY22) GDP growth is now revised upwards to 9.3%-9.6% from our earlier estimate of 8.5-9.0%. With this the real GDP will be around Rs 2.4 lakh crore more than the FY20 Real GDP of Rs 145.69 lakh crore.**
- ◆ Our ‘Nowcasting Model’ is based on 41 high frequency indicators associated with industry activity, service activity, and global economy. The model uses the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of FY13 to Q2 of FY22. The details of the full model were shared in *SBI Ecowrap dated 20 Nov’20 & again on 10 Feb’21*.
- ◆ The reason for the revision is that India remained unscathed in Q3 from the global situation, which is marred by supply disruptions, stubborn inflation and surges of infections during Q3 2021. India recorded only 11% increase in cases during Q3 which is second lowest among top 15 most affected countries. Further, the total Covid-19 active cases reached the lowest of 1.24 lakhs since June’2020 and India’s Cumulative COVID-19 Vaccination Coverage exceeds 1.15 billion mark. With this, the economic activity has gained momentum and reached pre-Covid level.
- ◆ As RBI also indicated (RBI Bulletin Nov-21), global economic activity is shedding momentum with supply chain disruptions turning more protracted than previously anticipated. Lockdowns, labour shortages, disruptions to logistics networks, and capacity constraints have resulted in big increases in freight costs and delivery times.
- ◆ US GDP growth nosedived to 4.9% (y-o-y) in Q3 2021 from 12.2% in Q2. Resurgence in infections together with supply shortages weighed heavily on consumption and production activity, while fall in Government assistance pay-out, residential fixed investment and exports added further to the downside. For China, growth momentum lost its pace in Q3, with the economy expanding at 4.9% (y-o-y) vis-a-vis 7.9% in Q2 as factory activity took a major hit amidst multiple headwinds. The average GDP growth of 28 selected economies decelerated to 4.5% in Q3 as against 12.1%.

FY22 Real GDP Projections		
	SBI	RBI
Q2 P	8.1	7.9
Q3 P	6.0-6.5	6.8
Q4 P	6.0-6.5	6.1
Annual P	9.3-9.6	9.5

Source: RBI; SBI Research



Source: SBI Research: * 30 Sep over 30 Jun

Country-wise Real GDP growth (% YoY)					
Country	2020		2021		
	Q3	Q4	Q1	Q2	Q3
Austria	-4.5	-6.1	-4.2	12.6	4.8
Belgium	-3.6	-4.4	0.0	15.1	4.7
Canada	-5.1	-3.1	0.3	12.7	3.8
Czech Republic	-5.4	-5.3	-2.5	8.1	2.7
Denmark	-1.3	-0.5	-0.1	9.8	5.4
Finland	-2.7	-1.7	-1.2	7.8	3.9
France	-3.6	-4.3	1.5	18.8	3.3
Germany	-3.7	-2.9	-3.0	9.9	2.5
Hungary	-4.5	-3.4	-1.5	17.4	6.1
Israel	-1.4	0.0	0.7	14.5	5.9
Italy	-5.4	-6.6	-0.7	17.0	3.8
Japan	-5.4	-0.8	-1.3	7.7	1.3
Korea	-1.0	-1.1	1.9	6.0	4.0
Lithuania	-0.6	-0.2	0.8	8.9	6.0
Latvia	-2.9	-1.8	-0.2	10.5	5.1
Mexico	-8.7	-4.6	-2.7	19.5	5.8
Netherlands	-2.6	-3.1	-2.3	10.7	5.0
Poland	-1.8	-2.5	-1.1	10.8	5.2
Portugal	-6.3	-6.8	-5.7	16.2	4.3
Slovak Republic	-2.2	-2.3	0.3	10.1	1.3
Spain	-8.7	-8.8	-4.2	17.5	2.7
Sweden	-1.9	-1.8	-0.2	9.5	3.7
United Kingdom	-8.1	-7.1	-5.8	23.6	6.6
United States	-2.9	-2.3	0.5	12.2	4.9
China	4.9	6.5	18.3	7.9	4.9
Indonesia	-3.5	-2.5	-0.8	7.3	3.7
Romania	-5.1	-2.2	-0.5	13.8	8.0
Saudi Arabia	-4.1	-4.2	-3.0	2.8	6.2
Average	-3.6	-3.0	-0.6	12.1	4.5

Source: OECD; SBI Research

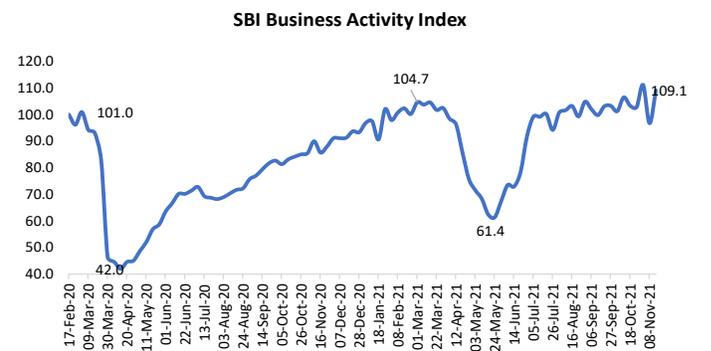
HIGHER BUSINESS ACTIVITY AND GREATER VACCINATION COVERAGE

- ◆ Our business activity index shows activity above pre-Covid level since Aug’21, with only a few weeks reading moderately below 100. The indicator declined during the Diwali week, however, it picked up again the next week to 109.1 for the week ended 15th Nov’21. The uptick has been majorly due to significant jump in RTO revenue collection, apple mobility and weekly food arrival.
- ◆ Daily new cases in India has come down with 7 days MA at 10,500. The total active cases have moved down to 1.25 lakh. The recovery rate has been above 98% since 11 Oct’21. This has been possible owing to greater vaccination coverage. So far, a total of 115.79 crore doses of vaccine have been distributed, with 81% of the eligible population receiving at least a single dose and 42% of the eligible population fully vaccinated. In certain states including Himachal Pradesh, Gujarat, Uttarakhand, Kerala, Karnataka, Telangana and Madhya Pradesh more than 50% of the eligible population has been fully vaccinated. However, other States including Jharkhand, Uttar Pradesh, Bihar and Punjab are lagging behind and need to speed up.
- ◆ Thus, with a large population already vaccinated we believe that momentum of economic growth is likely to remain on the upside.

REPEAL ALL THREE AGRICULTURAL LAWS & FORMATION OF A COMMITTEE FOR BETTER MSP

- ◆ On 19 Nov’21, PM has announced to repeal all the three agriculture laws and will complete the constitutional process in the upcoming winter session of Parliament. PM has also announced to form a committee to decide on matters like promotion of zero budgeting farming i.e. natural farming, scientifically change the crop pattern keeping in mind the changing requirements of the country and make MSP more effective and transparent. The committee will include representatives of the central government, state governments, farmers, agricultural scientists and agricultural economists.
- ◆ Interestingly, MSP as a price guarantee is always a tricky issue. If we consider buying of cereals at MSP a mandated one for buyers, in essence making procurement a public good, this will drive down the prices at which it is bought to zero.

SBI Business Activity Index



Source: SBI Research

Full vaccinated (% of eligible population)			
Himachal Pradesh	82%	Odisha	44%
Gujarat	66%	Rajasthan	43%
Uttarakhand	59%	Andhra Pradesh	41%
Kerala	56%	Maharashtra	39%
Karnataka	56%	Tamil Nadu	38%
Telangana	53%	West Bengal	36%
Madhya Pradesh	52%	Punjab	31%
Haryana	46%	Bihar	31%
Assam	46%	Uttar Pradesh	28%
Chhattisgarh	45%	Jharkhand	26%
India			42%

- ◆ This can be understood through a simple example of what happened to King Akbar once. One day, Emperor Akbar told Birbal that he was planning to take a bath in milk and that all his ministers should cooperate and get milk to fill the bathtub. However, each minister decided that since milk was costly, he would get the water, while the others get milk. The end result was that all the ministers brought water!
- ◆ We believe the following **5 agricultural reforms are essential**
- ◆ **First**, Instead of MSP as a price guarantee that farmers are demanding, the Government may ensure a quantity guarantee clause for a minimum period of 5 years that make its mandatory of procurement to production percentage of crops (being currently procured) being at least equal to last year percentage (with safeguards in exceptional events like droughts, floods etc).

- ◆ **Second**, converting the Minimum Support Price to Floor Price of Auction on National Agriculture Market (eNAM). However, this will not completely solve the problem as the current data shows that average modal prices in e-NAM mandis is lower than the MSP in all kharif commodities (except Soyabean).
- ◆ **Third**, efforts must also continue to strengthen APMC market infrastructure. As per our estimates which are based on a government report, the monetary loss for cereals is almost Rs 27,000 crore due to harvest and post-harvest losses. The losses for oilseeds and pulses are Rs 10,000 crore and Rs 5,000 crore, respectively.
- ◆ **Fourth**, establish a Contract Farming Institution in India that will have the exclusive right to oversee price discovery in Contract Farming. Contract farming has been instrumental in many countries by providing growers access to supply chains with market and price stability, as well as technical assistance. The experience of Thailand shows market certainty (52%) and price stability (46%) were prime factors due to which farmers participated in contract farming.
- ◆ **Fifth**, ensuring a symmetric procurement across states. The procurement of cereals had continued to be asymmetric, with top producing states in paddy like West Bengal (First) and Uttar Pradesh (Second) witnessing minimal procurement, even as states like Punjab and Haryana that are not largest producers witnessing much larger procurement.

A Comparison of Mandi Price with MSP (in Rs)			
Crops	MSP FY22	Average Modal Price (e-NAM) (till 19th November 2021)	Difference
Jowar	2738	1664	-1074
Bajra	2250	2046	-204
Maize	1870	1525	-345
Ragi	3377	2192	-1185
Arhar	6300	5918	-382
Moong whole	7275	5780	-1495
Urad whole	6300	5138	-1162
Soyabean	3950	6291	2341
Paddy- Common	1940	1526	-414

Source: e-Nam, Department of Agriculture and Cooperation, SBI Research

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