GROWTH OUTLOOK SOMBRE: INCOME SUPPORT AND BANK RECAPITALISATION IMMEDIATE PRIORITIES

The yearly SBI Composite Index for Jan’19 have now declined to 19-month low of 49.70 (Low Decline), compared to 52.40 (Moderate Growth) in Dec’18. With the decline in growth in the SBI Composite Index, we believe IIP Manufacturing growth may grow at 0% and IIP may grow at 0.5%-1% in Jan’19. Clearly, IIP outlook currently look fragile and weak even as global conditions remain uncertain.

Specifically, rural sentiments continue to be a spoilsport. We now understand that NITI Aayog is actively considering an Area Based Income Compensation (ABIC) scheme for farmers. Our estimate suggests that if an ABIC scheme akin to Price Differential Scheme (PDS) is implemented for Rabi crops, i.e, Wheat, Barley, Gram & Lentil only, the cost could be around Rs 17,000 crore (~Rs 1600/acre) whereas if income support at equivalent Rs 4000 per acre provided under same crops, then the cost could be Rs 41,969 crore which is significantly higher than the differential scheme. Hence ABIC scheme is indeed cost effective.

However, the ABIC scheme has many disadvantages. For example, the scheme could potentially cover only 1 crore farmers (against an universe of 15 crores) that is too little. Also, there are some additional costs not covered in ABIC scheme. Also, delay in timely payment, and window for selling the crops under the scheme is limited to two to three months etc. The Income Support scheme do have challenges, but it will have no leakage under DBT transfer and will have multiplier effect on the economy. We thus actively recommend an Income Support scheme on a per farmer basis to be rolled out on an immediate basis in Rabi season itself. The Government could decide the quantum of income support per farmer (@Rs4000 per farmer for all farmers is Rs 60000 crore, if for small and marginal farmers, the cost could decline to Rs 50,000 crore). We also emphasize that fiscal policy choices must not obfuscate the roll out of such an income support scheme at least for now!

We also request that Government should infuse the promised recapitalisation amount of Rs 54,487 crore (net of promised Rs 1,06,000 crores) by March 2019. This will act as a big enabler for banks! For the record, PSBs may require another Rs 50,000 crore of growth capital in FY20.
SBI ECOWRAP

SBI YEARLY COMPOSITE INDEX AT 19-MONTH LOW IN JAN’19

- The yearly SBI Composite Index for Jan’19 has declined to 19-month low of 49.70 (Low Decline), compared 52.40 (Moderate Growth) in Dec’18. While, the monthly SBI Composite index remained volatile but improved to 52.80 (Moderate Growth) in Jan’19 from 50.1 (Low Growth) in Dec’18.
- 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.
- With the decline in growth in the SBI Composite Index, we believe IIP Manufacturing growth may grow at 0% and IIP may at 0.5% in Jan’19.

Chart 1: SBI Yearly and Monthly Composite Index Trend

How to Read SBI Composite Index

<table>
<thead>
<tr>
<th>Index Value</th>
<th>Read as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 42</td>
<td>Large Decline</td>
</tr>
<tr>
<td>42 to 46</td>
<td>Moderate Decline</td>
</tr>
<tr>
<td>46 to 50</td>
<td>Low Decline</td>
</tr>
<tr>
<td>50 to 52</td>
<td>Low Growth</td>
</tr>
<tr>
<td>52 to 55</td>
<td>Moderate Growth</td>
</tr>
<tr>
<td>55 &amp; Above</td>
<td>High Growth</td>
</tr>
</tbody>
</table>

Source: SBI Research

CAPITAL INFUSION IN PSBs AND REQUIREMENT

- In December 2018, Government moved proposal for enhanced bank recapitalisation outlay from Rs 65,000 crore to Rs 1,06,000 crore in FY19.
- As of December 2018, a total amount of Rs 51,513 crore has been infused into PSBs. So, Government needs to infuse another Rs 54,487 crore (net of Rs 1,06,000 crores) infusion by March 2019.
- Recently, RBI has deferred the implementation of the last tranche of 0.625% of Capital Conservation Buffer (CCB) from March 31, 2019 to March 31, 2020. This one year window has afforded an opportunity to PSBs by an estimated relief of around Rs 35,000-38,000 crore.
- Assuming a 11% credit growth in FY20 with credit risk weighted assets of 70% (RWAs to Gross Advances ratio declined from 80.26% in Sep-17 to 71.20% in Sep-18), PSBs may be requiring around Rs 50,000 crore growth capital in FY20.
- However, the same also depends upon some major variables i.e. alternate long term investor, recoveries from NCLT, investment environment, out of NCLT settlements/auctions, treasury gains / loss, MTM provisioning of investments, additional or provision write-back.

Capital Infusion planned and infused so far in FY19

<table>
<thead>
<tr>
<th>Banks</th>
<th>Amount in cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCA Banks</td>
<td>38887</td>
</tr>
<tr>
<td>Allahabad Bank</td>
<td>4844</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>4032</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>2555</td>
</tr>
<tr>
<td>Indian Overseas Bank</td>
<td>2157</td>
</tr>
<tr>
<td>Bank of India</td>
<td>10885</td>
</tr>
<tr>
<td>Oriental Bank of Commerce</td>
<td>5500</td>
</tr>
<tr>
<td>Bank of Maharashtra</td>
<td>4498</td>
</tr>
<tr>
<td>Uco Bank</td>
<td>3056</td>
</tr>
<tr>
<td>United Bank</td>
<td>2159</td>
</tr>
<tr>
<td>Non PCA Banks</td>
<td>12626</td>
</tr>
<tr>
<td>Andhra Bank</td>
<td>2019</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>8247</td>
</tr>
<tr>
<td>Syndicate Bank</td>
<td>2350</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51513</strong></td>
</tr>
</tbody>
</table>

Total planned for FY19: 106000
Balance to be infused in FY19: 54487
FARMER DISTRESS: IS AREA BASED INCOME COMPENSATION (ABIC) SCHEME BETTER THAN INCOME SUPPORT SCHEME?

- We now understand that NITI Aayog is actively considering an ABIC Scheme which we believe is somehow similar to price differential scheme (PDS) and though costs much less than the income support scheme, it will serve the desired purpose that an income support scheme might do. The only difference that ABIC scheme has with PDS is that in the case of former, the scheme is willing to compensate any price gap as opposed to PDS where the compensation is capped to certain extent.

- The Union Budget 2018-19 has proposed a pre-determined principle of offering to farmers a threshold MSP of at least 1.5 times the cost of production for both the Rabi and Kharif crops. However, the monthly mandi prices in 2018-19 indicate that the market prices of all Rabi crops are ruling below the MSP in major producing States. For example: wheat prices ruling below MSP in UP, Rajasthan and MP, gram prices below MSP in all major producing States like MP, Maharashtra and Chhattisgarh etc. This trend shows that a high MSP is not only a policy instrument to sustain higher production and income but it should also be backed up by an effective procurement mechanism to arrest the falling prices.

- Despite the Budget announcement to implement price differential scheme, till now no improvement has happened. Our estimate suggests that if an ABIC scheme akin to Price Differential Scheme (PDS) is implemented for Rabi crops, i.e, Wheat, Barley, Gram & Lentil only, the cost could be around Rs 17,000 crore (~Rs 1600/acre) whereas if income support is provided for same crops, then the cost could be Rs 41,969 crore (total area under Wheat, Barley, Gram & Lentil is 42.46 ml hectare) which is significantly higher than the differential scheme.

- However the ABIC scheme has many disadvantages. For example, the scheme could potentially cover only 1 crore farmers (against an universe of 15 crores) that is too little. Also, there are some additional costs such as transportation cost, storage cost, information gap that are not covered in ABIC scheme. Also, delay in timely payment, quality checking and window for selling the crops under the scheme is limited to two to three months etc that are too restrictive. The only advantage is that ABIC scheme will not alter the market mechanism and the cost is much lesser in compare to income support scheme.

- Similarly under Income support scheme, some major challenges are like identifying the proper beneficiary, exclusion of tenant farmers, 100% digitalisation of land records which is still undone in some States etc. Apart from this, if the scheme is implemented based on per acre per year, then idle and uncultivated land owner will also get away with the benefit. In certain cases, it may discourage some farmers to produce as even if he doesn’t produce he can still get the cash benefit. **But the most positive aspect of this scheme is, it will have no leakage under DBT transfer and have multiplier effect on the economy.**

- Hence we actively recommend an immediate roll out of an income support scheme based on a per farmer basis. The Government could decide the quantum of income support per farmer (@Rs 4000 per farmer for all farmers is Rs 60000 crore, if for small and marginal farmers, the cost could decline to Rs 50,000 crore)

\[
\begin{array}{|c|c|c|}
\hline
\text{Rabi Crops} & \text{Based on MSP} & \text{Income Support Scheme (Rs crore)} \\
\text{2019-20 (Rs acre)} & & @ Rs 4000 per acre for these 4 crops based on area under cultivation \\
\hline
\text{Wheat} & 8652 & \text{15 crore/ Ideal Scheme} \\
\text{Barley} & 228 & \text{Rs 41,969 crore} \\
\text{Lentil} & 553 & \text{Rs 60,000 crore} \\
\text{Gram} & 7682 & \text{Rs 17,115 crore (Rs 1600/acre)} \\
\hline
\text{All 4 Crops} & \text{Rs 17,115 crore (Rs 1600/acre)} & \text{Rs 41,969 crore} \\
\hline
\text{Farmers Covered} & 1 crore & 1 crore \\
\hline
\end{array}
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Source: SBI Research

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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