

‘Be the Bank of Choice for a Transforming India’

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## **BOLD STEPS MUST TO ADDRESS RURAL DISTRESS**

CPI inflation eased to almost new year low to 2.33% (SBI: 2.4%) in Nov'18. Core CPI inflation moderated to 5.73% in Nov'18. The decline in oil prices will keep the CPI inflation below the target in the next couple of months before settling at 3.4% in March. We further expect, CPI inflation to remain below RBI 4% target till July 2019.

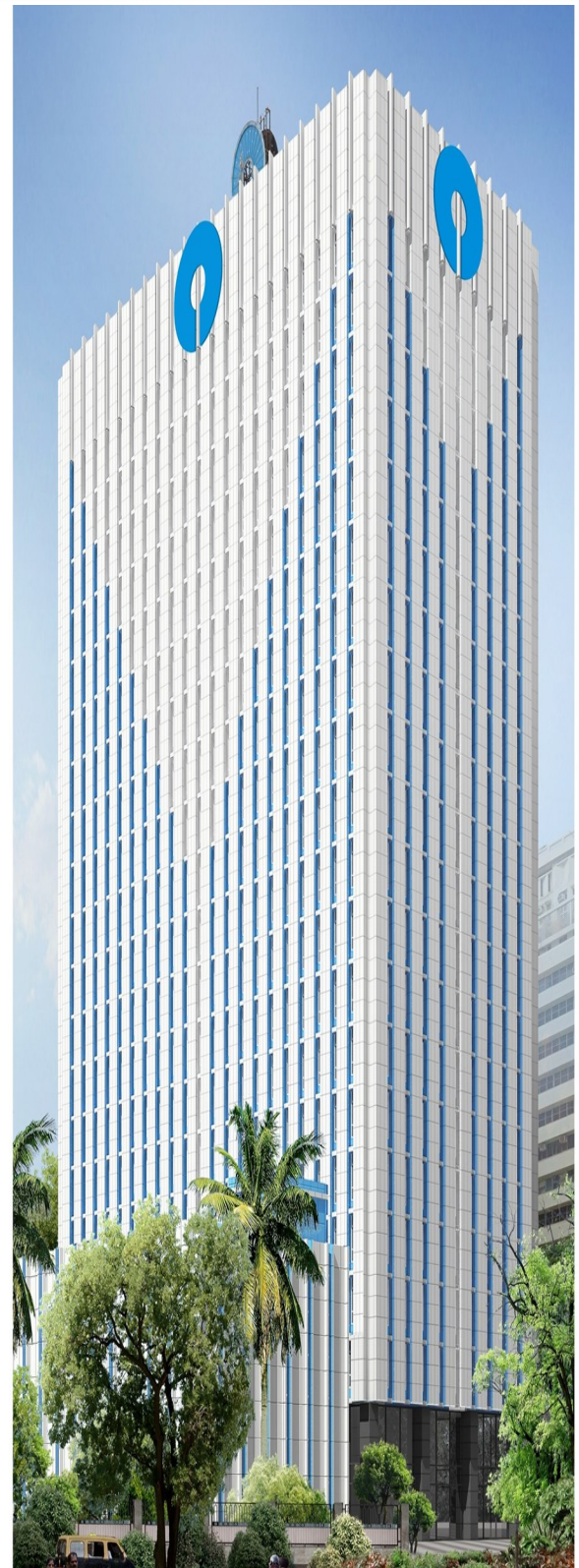
At this rate, we now expect a change in stance by RBI in February policy and a possible rate cut in April policy, that could be incrementally larger than 25 basis points. This is because, growth considerations should now take Centre stage. All leading indicators for November are showing significant deceleration, including Passenger Car sales, Commercial Vehicle sales and even a decline in demand for oil in November with both demand for diesel, kerosene and LPG declining significantly. Oil demand in the current fiscal is half of the decadal demand growth.

One other common thread that runs in the states of Chhattisgarh, Madhya Pradesh and Rajasthan, besides the elections, is the continuous decline in rural food prices in these states significantly more than the national average. In Oct'18, All India food and beverages inflation was -0.14% with 13 states registering negative growth. Maharashtra, Andhra Pradesh and Haryana, the major agricultural states which are due for election next year are also seeing declining food and beverages prices. The recent export policy for agriculture needs State attention in identifying clusters. We however believe that the AASHA procurement scheme should have been aggressively pushed by Niti Aayog for procurement by the states. As of now, none of the states have implemented the scheme and procurement has not taken off meaningfully resulting in farmer distress.

Meanwhile, debt waivers are the flavor of the town now. Several states have already announced the loan waiver to the tune of Rs 1.2 lakh crores since 2017, the implementation of which is still underway. Among the states which are due for election next year Andhra Pradesh, Haryana and Odisha have a fair share of Agri credit. Even if these states individually announce debt relief the combined debt waiver would be at least around Rs 60,000-70,000 crore till May'19. Clearly, a frightening challenge for Indian banks!

Bold steps now has to be taken to allay the apprehensions of the farming community. An Income Support Scheme, if put in place, for small and marginal farmers might turn out be a viable solution. The cost of such scheme will be around only Rs 50,000 crore a year / 0.3% of GDP. This is lower than the incremental debt waiver. The other alternative is to implement an income support scheme like the one rolled out in Telangana in states like Bihar, Assam, Chhattisgarh, Haryana, Punjab, Jharkhand and Uttarakhand where the cost is not prohibitive.

Meanwhile, the growth in IIP for October is heartening. We however, expect IIP growth to moderate in coming months as base effect takes over and a possible slowdown in credit growth.



## CPI INFLATION EASES SHARPLY

- ◆ CPI inflation eased to almost new year low to 2.33% (SBI: 2.4%) in Nov'18 mostly by deflation in Pulses and products (-9.2%) and Vegetables (-15.5%), Sugar and Confectionery (-9%) and eggs (-3.9%). Fuel and light segment though increased by 7.39% in Nov'18 due to elevated level of crude prices. Core CPI inflation increased to 5.78% in Nov'18.
- ◆ There has been a significant shift in one of key risks to inflation. Brent crude prices have now declined to less than \$62 per barrel (bbl). Crude prices which rose from \$63/bbl in Feb'18 to \$86/bbp in Oct'18 has started to decline recently. Crude prices declined by around \$16/bbl as some nations got waivers to import oil from Iran and the subsequent rebalancing by OPEC to stabilize the prices. The decline in oil prices will keep the CPI inflation below the target in the next couple of months before settling at 3.4% in March.
- ◆ For a better understanding of the impact of MSP on CPI Headline inflation, last month we constructed **MSP Inflation Pathfinder** to estimate the realised impact (both direct + indirect) of MSP increase on CPI inflation Trajectory on a real time basis.

## RURAL DISTRESS AND FOOD AND BEVERAGES INFLATION

- ◆ One other common thread that runs in the states of Chhattisgarh, Madhya Pradesh and Rajasthan, besides the elections, is the continuous decline in rural food and beverages prices. For Chhattisgarh the average decline in Aug-Oct period was -1.85%, for Madhya Pradesh 0.38% and for Rajasthan -2.43%. In Oct'18 All India food and beverages inflation was -0.14% with 13 states registering negative growth. Maharashtra, Andhra Pradesh and Haryana, the major agricultural states which are due for election next year are also seeing declining food and beverages prices. The recent export policy for agriculture needs State attention in identifying clusters. We however believe that the AASHA procurement scheme should have been aggressively pushed by Niti Aayog for procurement by the states. As of now, none of the states have implemented the scheme and procurement has not taken off meaningfully resulting in farmer distress.

Rural Food and Beverages Inflation for Oct'18(Y-o-Y%)	
State	CPI inflation
Sikkim	6.73
Assam	4.45
West Bengal	4.33
Bihar	2.88
Meghalaya	2.32
Uttar Pradesh	2.01
Odisha	1.54
<b>ALL India</b>	<b>-0.14</b>
<b>Madhya Pradesh</b>	<b>-0.15</b>
Karnataka	-0.64
Haryana	-1.29
Jharkhand	-1.90
<b>Rajasthan</b>	<b>-2.08</b>
Tamil Nadu	-2.53
Maharashtra	-2.72
<b>Chhattisgarh</b>	<b>-2.77</b>
Andhra Pradesh	-8.30
Source: SBI Research	

## INCOME SUPPORT SCHEME

- ◆ Time has come to take decisive steps in order to alleviate rural distress in the country. Rural CPI has plunged to 17-month low of 1.7% in Nov'18 indicating low demand in the rural India. Reforms in agriculture is the only medium through which we can ease the rural distress. But farm loan waiver is not the solution for this problem. We need to increase farmers' income. Hence there is a dire need to introduce Income Support Scheme at all India level.
- ◆ Calculation suggests that there are around 21.6 crore small and marginal farmers (or 4.3 crore families assuming average household size in rural India as 5.0). Now the only way to redress rural distress (or agriculture distress) apart from ensuring market prices for their produce is **Income Support Scheme**.
- ◆ We can provide **income support of Rs 12,000 per year (Rs 1000 per month) per family** in 2 instalment to each family of small & marginal farmers, apart from other programmes. This could cost around Rs 50,000 crores per year.
- ◆ Alternatively, the Telangana Government has already implemented a scheme (named: Rythu Bandhu Scheme) to support farmer's investment for two crops a year. It is providing Rs 4k per acre per season to 58.33 lakh farmers to support the farm investment. The state Government has made an allocation of Rs 12,000 crores for this scheme in its 2018-19 budget. It's a first of its kind wherein the cash is paid directly to the farmer with no leakages.

## LOAN WAIVER IS THE WORST SOLUTION

- ◆ The ADWDR scheme of 2018 was the scheme launched at Central level with the benefits across all states. The number of eligible farmers under the scheme was highest in Andhra Pradesh followed by Uttar Pradesh and Maharashtra.

- ◆ The debt waiver of 2008 did not dramatically spur the credit growth of the banks, which may be owing to the fact that agriculture credit, as per the mandatory norms needs to be a minimum 18% of the credit (ANBC) of an individual bank (however, in most cases the banks are not able to do so and have to invest the shortfall under RIDF). Out of this 18% even, only 8% is prescribed for marginal/small farmers. As such, the remaining 82% of the credit is having relation with other factors than agriculture.
- ◆ There are seven states besides the Parliament election scheduled for the next year. Considering the farm distress and the lower food inflation resulting in lower revenue generation for the farming community, the Central Government may decide to go for a farm debt waiver scheme, holistically or selectively in some states.
- ◆ On an average the agri credit portfolio has hovered around 11-12% of the credit portfolio for the 16 quarters ending Jun'18. When the last Pan-India agricultural Debt Waiver and Debt Relief Scheme (ADWDRS of 2008) was announced the overall ASCB credit was Rs 2361913 crore, the 12% of which comes out to Rs 2.8 lakh crores. And the total loan waiver was done to the tune of Rs 52,259.86 crore. This was around 18% of the agri credit.

Select Metrics				
Fiscal Year/ (%)	Bank Credit	Gross NPA	GDP	Agri GDP
2005-06	36.95	3.30	9.48	4.81
2006-07	28.14	2.50	9.57	2.94
2007-08	22.30	2.30	9.32	5.51
2008-09	17.51	2.30	6.72	-0.24
2009-10	16.91	2.40	8.59	-0.88
2010-11	21.49	2.30	8.91	8.79
2011-12	16.99	2.80	6.69	6.40
2012-13	14.06	3.40	5.46	1.49
2013-14	13.95	4.10	6.39	5.57
2014-15	9.05	4.6	7.41	-0.22
2015-16	10.91	7.6	8.15	0.59
2016-17	8.16	9.3	7.11	6.29
2017-18	10	11.6	6.68	3.37

Source: SBI Research

- ◆ The recent news of loan waivers amounting to Rs 4 lakh crore seems implausible going by the past trend. Various State Governments including Tamil Nadu, Maharashtra, Karnataka, Uttar Pradesh, Jammu & Kashmir, Punjab, Chhattisgarh, Andhra Pradesh, Telangana and Union Territory (UT) of Puducherry have in the recent past announced their own farm loan/debt waiver Schemes to extend relief to the needy farmers. The states of Maharashtra, Uttar Pradesh, Punjab, Rajasthan and Karnataka have already announced the loan waiver to the tune of Rs 1.2 lakh crores since 2017, the implementation of which is still underway. Rajasthan has already undergone polls. Among the states which are due for election next year Andhra Pradesh, Haryana and Odisha have a fair share of Agri credit. Even if these states individually announce debt relief to the tune of 18% of their portfolio the combined debt waiver for these and the previously announced ones, put together, would be around Rs 2 lakh crores (additional Rs 70,000 crores loan waiver by May 2019, a frightening proposition for Indian banks).

Upcoming Elections		
	Prospective Date of Election	Rural food and beverages inflation (Oct'18)
National	May-19	-0.14
State		
Sikkim	May-19	6.73
Arunachal Pradesh	May-19	11.19
Odisha	May-19	1.54
Andhra Pradesh	Jun-19	-8.30
Haryana	Oct-19	-1.29
Maharashtra	Oct-19	-2.72
Jharkhand	Dec-19	-1.90

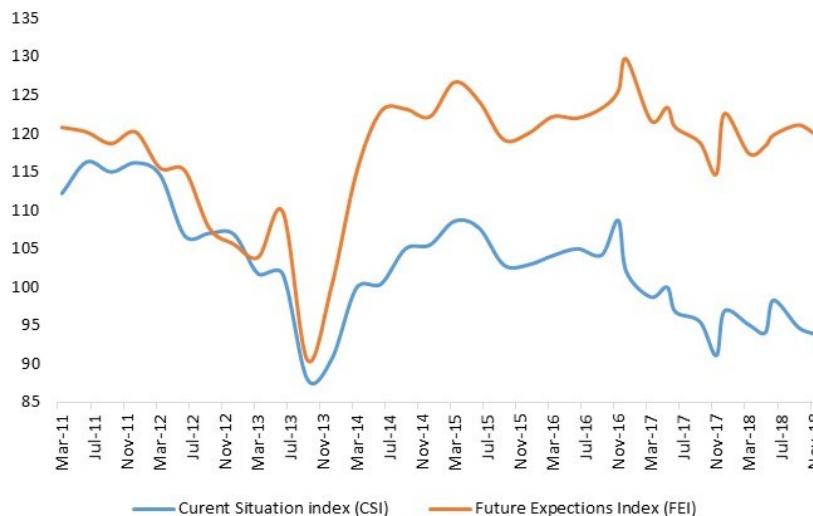
Source: SBI Research

### IIP GREW BY 8.1% IN OCT'18

- ◆ IIP grew at 11-month high of 8.1% in Oct'18, compared to 4.5% in Sep'18 and 1.8% growth in Oct'17 due to higher growth in Manufacturing (7.9%), Electricity (10.8%) and Mining (7.0%). During Apr-Oct'18, IIP grew by 5.6% compared to last year growth of 2.5%. As per Use-Based classification, Primary goods increased by 6.0%, Capital goods by 16.8%, Intermediate goods by 1.8% and Infrastructure/ Construction Goods by 8.7%. The Consumer durables and Consumer non-durables have recorded growth of 17.6% and 7.9%, respectively.
- ◆ In terms of industries, 20 out of the 23 industry groups in the manufacturing sector have shown positive growth during Oct'18 as compared to the corresponding month of the previous year. The industry group 'Manufacture of furniture' has shown the highest positive growth of 41.0% followed by 39.0% in 'Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials' and 30.2% in 'Manufacture of computer, electronic and optical products'. On the other hand, the industry group 'Manufacture of paper and paper products' has shown the highest negative growth of -1.8% followed by -1.7% in 'Manufacture of beverages'.
- ◆ RBI has recently released the results of the Jun'18 round of the Consumer Confidence Survey (CCS) which showed signs of growing pessimism on the general economic situation and the employment scenario as also some cutback in spending.

- ◆ The survey indicates that the percentage responses for economic situation one-year ahead is at 11 months low. This implies that less number of people are now expecting an improvement in economic situation compared to the Dec'17 survey. Meanwhile, the percentage responses for inflation one-year ahead is at 23-months low level, thereby indicating fewer people now believe inflation is going to increase from the current level. Thus, if the trajectory continues like this then a rate cut action can not be ruled out.

**Consumer Confidence Indices (CCI) Trend**



Source: RBI, 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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