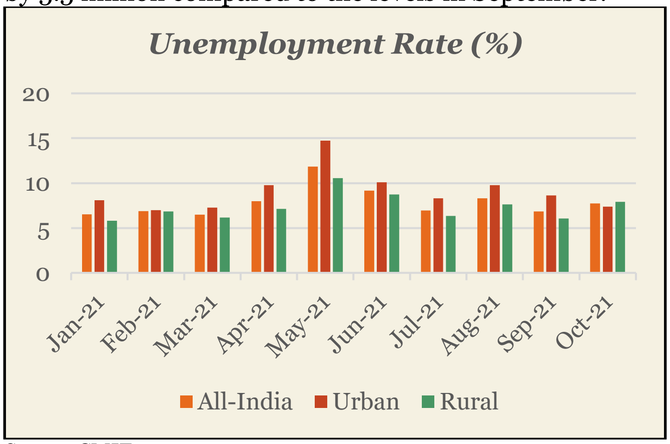
DEAR
ECO THINK
Issue 50/ October 2021

ECONOMY

State of the Economy

- The headline seasonally-adjusted IHS Markit India Composite Purchasing Managers' Index (PMI) rose to 58.7 in October as against a reading of 55.3 in September. This is the strongest monthly expansion witnessed since January 2012. India's services sector recorded its strongest output growth in 10.5 years reflected by an acceleration in services PMI to 58.4 from 55.2 in September. October is the third straight month of recovery for the services sector. Manufacturing activities on the other hand also continued to gather momentum and remained in the expansion territory for the 4th straight month with the manufacturing PMI coming in at 55.9 in October, rising from 53.7 in September.
- As per CMIE data, the unemployment rate after having fallen to 6.68% in September, spiked to 7.75% in October. Despite a 124-basis points month-on-month decline in urban unemployment rate (fell to 7.38%, lowest in 3 months), India's overall unemployment rate rose in October, owing to a sudden 175 basis points rise in rural joblessness rate (rose to 7.91%, a 4-month high). The labour participation rate fell to 40.4% from 40.7% and labour force shrunk by 1.75 million while employment fell by 5.5 million compared to the levels in September.

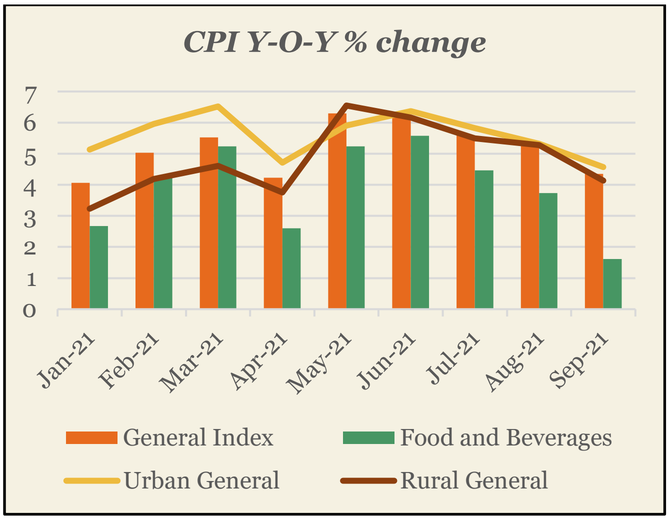


Source-CMIE

- The CMIE Index of Consumer Sentiments generated using its Consumer Pyramids Household Survey rose 2.1% in October 2021. Sentiments have been improving since July, after the second wave of the pandemic and this was the fourth consecutive month of an increase in the index. However, the index is much lower than its pre-pandemic level. The index in October 2021 stood at 59.4 compared to 105.3 in February 2020.
- Record foodgrain production of 150.5 million tonnes as per the first advanced estimates augurs well for the overall agriculture sector. By end September, reservoir levels at 80% of the full reservoir level were above the decadal average, which is expected to boost rabi production prospects.
- India's merchandise exports in October 2021 stood at $35.47 billion, an increase of 42.33% over $24.92 billion in October 2020 and an increase of 35.21% over $26.23 billion in October 2019. This could signify the opening up and further recovery of economies across the globe.

Inflation Outlook

- India's retail inflation in September 2021 fell to a five-month low of 4.35% on the back of a sharp dip in food price inflation. Food inflation based on the Consumer Food Price Index (CFPI) fell to just 0.68% in September after having declined to a seven-month low of 3.1% in August. While vegetables recorded a negative inflation of 22.5%, price rise in oils and fats remained sticky at 34.2% and in the range of 7-8.75% for pulses, eggs and meat. Core inflation (which does not include food and fuel price trends) remained elevated at 5.8% for the third month in a row.



Source-MOSPI

- According to economists, this moderation in the inflation rate could be transient given the rising energy, metals and logistics costs given the global coal and chips shortage. It is opined that a high base would temporarily dampen consumer price inflation for October and November to below 3% before an upturn resumes in the remainder of the fiscal.
- As per NSO data, India's wholesale price index (WPI)-based inflation marginally eased to 10.66% in September from 11.39% in August. Food inflation eased for the fifth straight month and contracted 4.69% in September while fuel inflation and manufactured products inflation stood to 24.91% and 11.41%, respectively during the same month.
- In its bi-monthly meeting in October, the MPC decided to continue with its accommodative stance as long as necessary to revive and sustain growth on a durable basis and mitigate the effects of Covid-19 while ensuring inflation remains within the target. RBI projects CPI inflation at 5.3 per cent for 2021-22; 5.1 per cent in Q2, 4.5 per cent in Q3; 5.8 per cent in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.2 per cent.
- The IMF raised its inflation forecast for India for 2021-22 to 5.6% from the 4.9% estimated in April citing growing inflationary risks worldwide. There is uncertainty surrounding inflation prospects which can be attributed to the path of the pandemic, the duration of supply disruptions, and how inflation expectations may evolve in this environment.

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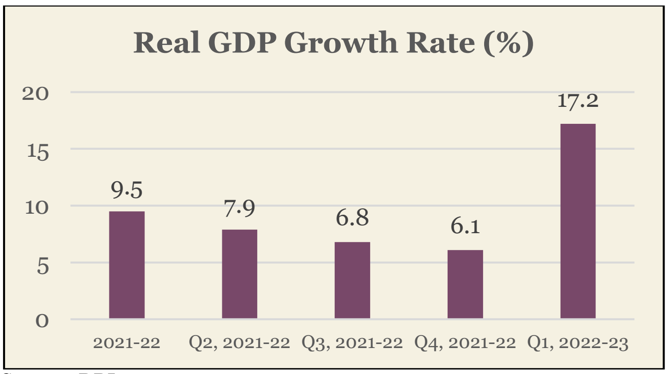
Economic Outlook

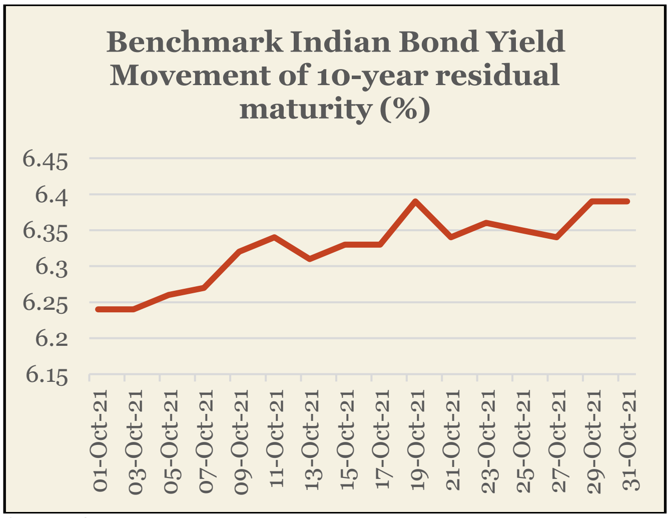
- The IMF in its World Economic Outlook released in October has projected that India will grow at 9.5% and 8.5% in 2021 and 2022 respectively after having contracted by 7.3% in 2020. The forecast for India remains unchanged compared to that in July which had already incorporated a sizeable downgrade of 3% points from the preceding April forecast.
- The IMF, in the same report, projects the global economy to grow at 5.9% in 2021 and 4.9% in 2022, 0.1 percentage point lower for 2021 than in the July forecast. The downward revision for 2021 is said to reflect a downgrade for advanced economies-in part due to supply disruptions-and for low income developing countries largely due to worsening pandemic dynamics (rapid spread of delta and threat of new variants).
- The IMF has accorded top priority to vaccinate at least 40% of the population of every country by the end of this year and 70% by the middle of next year. IMF chief economist Ms. Gita Gopinath has appreciated India on its pace of vaccination. India achieved the key landmark of administering 1 billion vaccine doses on 21.10.2021 having given half of its population at least one shot. This steady pace of vaccination augurs well for economic growth and further opening up of the economy.
- Ratings Agency Moody's in October changed India's sovereign outlook to "Stable" from "Negative" and affirmed the country's rating at Baa3, the lowest investment grade, just a notch above junk status. Risks from a high debt burden and weak affordability remain. S&P Global Ratings and Fitch Ratings have also assigned India the lowest investment grade but with a stable and negative outlook respectively.
- Economic activity has been gaining traction with the ebbing of the second wave. Going forward, rural demand is likely to maintain its buoyancy, given the above normal Kharif sowing while rabi prospects are bright. Global semiconductor shortages, elevated commodity prices and input costs are key downside risks to growth prospects. RBI's growth projection is given below



Source -RBI

Interest Rate Outlook

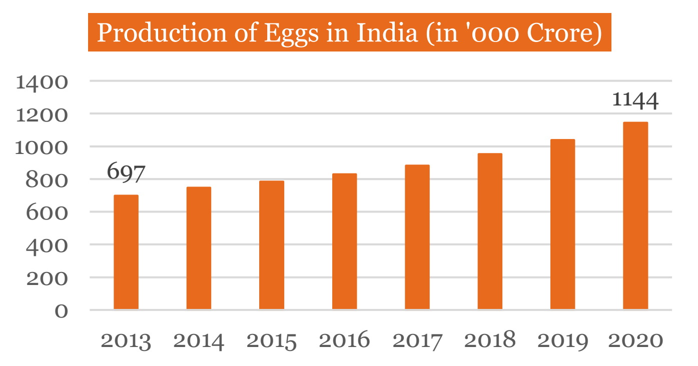
- The Reserve Bank of India (RBI) maintained status quo in its October bi-monthly MPC meet with the MPC members voting to keep the key lending rate- repo rate unchanged at 4 per cent for the eighth time in a row. Reverse repo rate remained unchanged at 3.35 per cent.
- RBI has announced that the Variable Reverse Repo (VRR) auctions will be stepped up fortnightly from ₹4 trillion to ₹6 trillion. RBI may complement the 14-day VRR auctions with 28-day VRR auction.
- Further the Governor has said that there is no need for undertaking further G-SAP operations now given the liquidity overhang and the absence of fresh government borrowing for GST compensation.
- According to RBI deputy governor Dr. Michael Patra, what has changed materially in the latest policy is the shift in active liquidity management to a passive style wherein market determines the rate at which liquidity will be absorbed by the RBI in the 14-day VRRR.

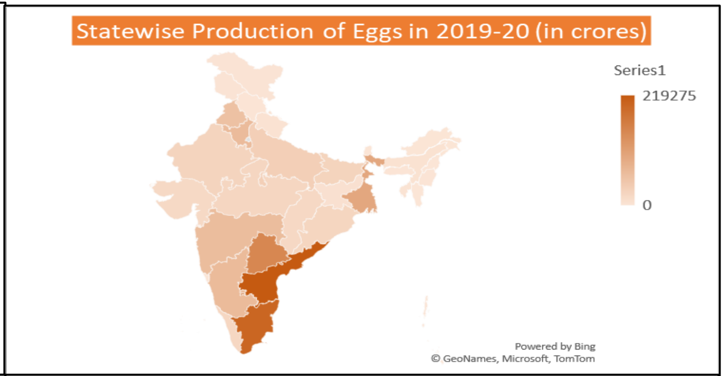


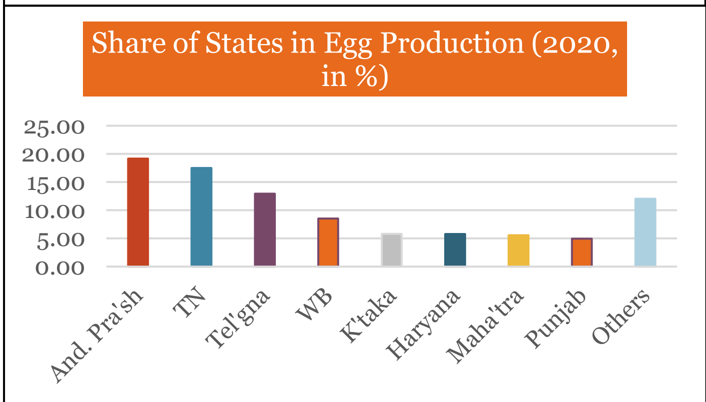
Source-CMIE

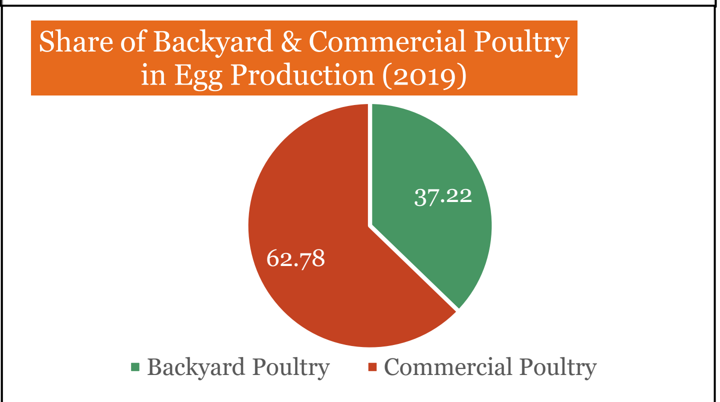
- On the international front, despite the moderate September jobs data, the US Fed is expected to stick to its November tapering announcement. The Bank of England's MPC which met on 2 November 2021 voted to maintain the bank rate at 0.1% and to continue with its programme of UK government bond purchases, financed by the issuance of central bank reserves. The Bank of Canada on 27.10.2021 ended its bond buying stimulus programme and accelerated the potential timing of future interest increases amid worries that supply disruptions are driving up inflation.
- The relentless rise in global crude oil prices and worries of higher inflation worldwide have kept the 10-year G-sec yield at elevated levels in October. The hardening of the US treasury yield has led to a global strengthening of the US dollar and corresponding 1.2% depreciation in Indian rupee in October. Higher interest rates in the world's largest economy and tighter global liquidity may result in outflows of overseas investment from Indian debt market.
- The 10-year G-sec yield increased to 6.36 per cent on November 03, 2021 from 6.24 per cent at the beginning of October 2021.

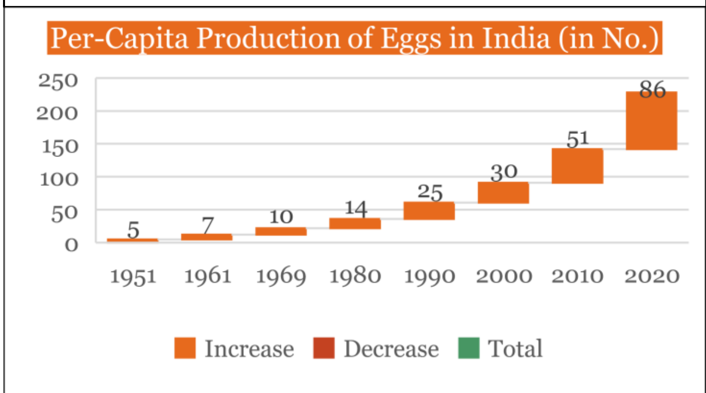
Dashboard of Poultry Sector: Recent Trends

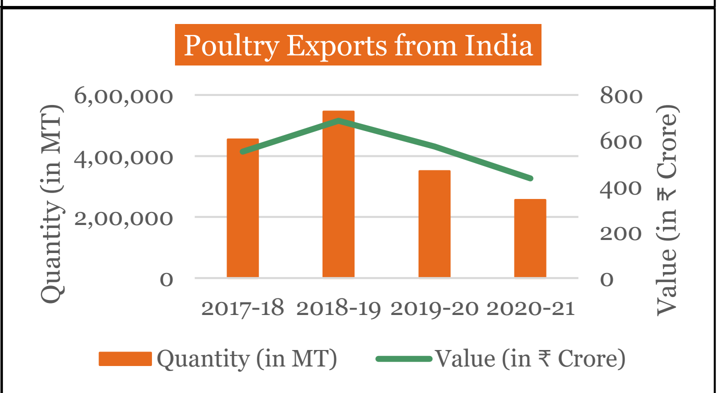












Government Initiatives

Poultry Venture Capital Fund (under National Livestock Mission)

The National Livestock Mission, which commenced from 2014-15, is an initiative of the Ministry of Agriculture and Farmers' Welfare. **NABARD** is the subsidy channelising agency for the *Poultry Venture Capital Fund* under the Entrepreneurship Development & Employment Generation (EDEG) component of National Livestock Mission.

Under EDEG-Poultry Venture Capital Fund, all the 13 activities shall be treated as deleted and new component namely '*Establishment of Backyard Poultry*' shall be included for which the subsidy will be 25% (up to ₹ 12 lakh) for establishment of composite Backyard Poultry Unit having Parent Farm, Hatchery Unit and Mother Unit to rear the chicks produced out of the Hatchery.

Report THINK

A MULTI-BILLION-DOLLAR OPPORTUNITY: Repurposing agricultural support to transform food systems:

This edition of Report Think on the captioned report by FAO focuses upon repurposing agricultural support to drive a transformation towards healthier, more sustainable, equitable and efficient food systems.

Relevance of the report:

Food systems are vital for the 2030 Agenda for Sustainable Development. They support ending poverty, eradicating hunger, achieving food security, improving nutrition, promoting sustainable agriculture, fostering sustainable consumption and production, combating climate change, nurturing nature, and reducing inequalities. However, public support mechanisms for agriculture are not helping to improve the conditions under which food is produced; indeed, they are actively steering us away from achieving the SDGs and the goals of the Paris Agreement.

1. **Government agricultural support policies are not fit for today's food systems:**
   As this report demonstrates, the way governments around the world support agriculture is a factor in the global and environmental challenges that food systems are facing. Agricultural producer support needs to be repurposed, reformed and reconfigured. By repurposing agricultural producer support, governments can optimize scarce public resources to support food systems in ways that make them not only more efficient, but also more supportive of healthy lives, nature and climate.
2. **Agricultural producer support today favours policies that are distorting and harmful to the environment and human health:**
   Between 2013 and 2018, net support to agricultural producers is almost $540 billion per year, representing around 15% of total agricultural production value. Of this, $294 billion was provided as price incentives and $245 billion as fiscal subsidies to farmers, the majority (70%) being tied to the production of a specific commodity. Only USD 110 billion was used to fund transfers to the agriculture sector collectively, in the form of general services or public goods. These forms of support may have significant negative implications on food systems, as they incentivize production practices and behaviour that might be harmful to the health, sustainability, equity and efficiency of food systems.
   The report finds that unhealthy products, like sugar and emission-intensive commodities receive the most support worldwide, and the (relative) disincentives this support creates towards producing healthier and more nutritious foods, such as fruits and vegetables.
3. **The projected impacts of eliminating agricultural producer support make a strong case for the necessity of repurposing, including measures to mitigate negative short-term impacts:**
   As demonstrated by this report's modelling analysis, simply removing agricultural support may have important adverse trade-offs. For e.g., if all agricultural support were removed by 2030, GHG emissions are projected to fall by 78.4 MT CO_2 but crop production, livestock farming production and farm employment are also projected to decrease by 1.3, 0.2 and 1.27 percent, respectively. If agricultural fiscal subsidies alone were eliminated globally, this would result in fewer inputs and land use helping to preserve nature and cutting emissions by an estimated 11.3 MT CO_2 by 2030. However, this would likely hit consumers with higher food costs and hurt farm incomes. The decline in farm income from removal of agricultural subsidies, if not compensated, would push a small portion of the population in developing countries into extreme poverty, thus increasing the prevalence of undernourishment. This analysis makes a strong case for repurposing rather than eliminating agricultural producer support.
4. **Six steps to develop a tailored repurposing strategy for agricultural support:**
   Given the complex trade-offs with other policy areas and the interactions between policy objectives and impacts, any strategy for repurposing agricultural producer support needs to be systematically assessed both to ensure policy coherence across all stages of the food supply chain and in the intersection with other systems, and to leverage potential synergies.
   There is no one-size-fits-all optimal repurposing strategy. A range of factors and country-specific circumstances will define what agricultural producer support measures are most conducive to healthier, more sustainable, equitable and efficient food systems. Nevertheless, this report provides governments with a six-step approach to developing a repurposing strategy that fits their purposes, as summarized here:
   - Step 1: Estimate the support already provided.
   - Step 2: Identify and estimate the impact of the support provided.
   - Step 3: Design the approach for repurposing agricultural producer support, including identifying needed reforms.
   - Step 4: Estimate the future impact of the repurposing strategy.
   - Step 5: Review and refine the repurposing strategy, prior to implementation.
   - Step 6: Monitor the outcomes of the new agricultural producer support.

   A successful repurposing strategy needs to be holistic. This involves setting the right goals, understanding causes and effects, putting in place the right conditions to successfully implement the strategy and creating supportive investment opportunities. In order to gain wide acceptance of the proposed changes in agricultural support and of the needed reforms, a communication and engagement strategy targeting all stakeholders and the general public is very important.
   https://www.fao.org/3/cb6562en/cb6562en.pdf