

Rural India - Economy's 'saviour' in 2020-21

What is the issue?

- 2020-21 saw the Indian economy register its worst-ever contraction since Independence and also the first since 1979-80.
- But rural economy was resilient, supported by various factors. Here is a look at them and the future prospects.

What is different this time?

- There have been four instances of negative GDP growth earlier: 1979-80, 1972-73, 1965-66 and 1957-58.
- All four were drought years.
- These years saw agricultural de-growth surpassing that of overall GDP.
- But in 2020-21, there has been record economic contraction, yet no drought.
- And the farm sector (agriculture, forestry & fishing) actually grew by 3.6%.

What are the key reasons for this?

- **Monsoon** - All-India rainfall during the southwest monsoon season (June-September) for 2019 and 2020 were above-normal.
- The country received 971.8 mm and 961.4 mm monsoon rainfall respectively, above the long period average of 880.6 mm.
- Rainfall in the post-monsoon, winter and pre-monsoon seasons of 2019 and 2020 were also good.
- So, 2019-20 and 2020-21 produced back-to-back bumper harvests.
- **Lockdown** - Agriculture was exempted from the nationwide pandemic-induced lockdown.
- There was also the inherent resilience and adaptability of rural economic actors.
- So, the farm sector was relatively insulated from lockdown-imposed supply-side restrictions.
- [The problems agriculture encountered due to the lockdown had more to do with the demand side.

- This was not from rising prices but from forced consumption reduction.]

How were the demand side problems addressed?

- The demand-side problem was partly addressed through enhanced state crop procurement under MSP scheme.
- There was also the first instalment direct transfers to farmer accounts under the PM-Kisan scheme.
- Both these added to the liquidity infusion into the agricultural economy.
- Demand situation improved with the gradual lifting of lockdown restrictions.
- [The MSP procurement intervention was not possible in non-mainstream produce. E.g. vegetables, fruits, poultry, fish, flowers, spices, etc.
- It also did not help in regions (E.g. maize in Bihar) where the institutional mechanisms for procurement were non-existent.
- E.g. Food Corporation of India, NAFED, Cotton Corporation of India or even cooperative dairies]

What else favoured rural economy?

- There was recovery in global agri-commodity prices; better price realizations worked in farmers' favour.
- 2020-21 was also notable for the record 389.35 crore person-days of employment generated under MGNREGA.
- This was yet another source of liquidity infusion.
- Rural consumption, in turn, provided some cushion to the economy.

Will the rural economy perform the same way in 2021-22?

- **Covid-19 cases** - Rural areas were mostly unaffected by the pandemic's first wave.
- However, in the second wave of COVID-19, there are more cases in rural districts as well.
- So, the impact on agriculture per se would depend on the spread, intensity and duration of the infection.
- **Monsoon** - The India Meteorological Department has forecast a 74% probability of rainfall being "normal", "above-normal" or "excess".
- The good news this time is that there is no El Niño.
- There are also increased chances of a La Niña.
- [It is El Niño's counterpart and is associated with above-normal rains and lower temperatures in India for the autumn and winter months.]
- That augurs well for the next rabi crop too.

- The other element influencing rainfall - Indian Ocean Dipole (IOD) - is currently “neutral.”
- But there is a possibility of negative conditions developing during the monsoon months.
- Also, unseasonal summer showers may upset the normal heating pattern.
- These factors might undermine a little the optimism with monsoon rains.
- **Prices** - Global prices of wheat, maize, soyabean, palm oil, sugar, skimmed milk powder or cotton have scaled multi-year highs in the recent period.
- This has helped India’s agri-commodity exports in 2020-21 to recover to near their peak 2013-14 levels.
- But export demand alone may not sustain prices.
- Especially, job and income losses, accelerated post the pandemic, have severely dented domestic purchasing power.
- Also, even the benefits reaped by farmers from improved prices in many crops have been significantly eroded by rising input costs.
- Diesel prices alone have gone up by over a third in the last one year.
- Non-urea fertilizers prices have also gone up.

How does the future look?

- Beyond 2021-22, the real challenge for Indian agriculture and farmers will be on the demand side.
- That is specifically going to come from declining real incomes.
- Particularly affected will be the demand for milk, pulses, egg, meat, fruits, vegetables and other protein/micronutrient-rich foods.

Source: The Indian Express