DEAR
ECO THINK
Issue No.57/ June 2022

ECONOMY

State of the Indian Economy

Economy grew by 4.1 per cent in the fourth quarter of 2021-22, pushing up the annual growth rate to 8.7 per cent

- India's real GDP grew by 4.1 per cent in March 2022 over its level in March 2021.
- This is the lowest y-o-y growth in real GDP among the four quarters of fiscal 2021-22. However, this low growth was expected by the markets. RBI's professional forecasters' survey of early April 2022 had expected real GDP to scale up by an even more modest 3.9 per cent in the quarter ended March 2022.
- Anaemic growth of 1.76 per cent was seen in private final consumption expenditure (PFCE) while the markets had expected it to grow by 3.9 per cent. PFCE accounts for 55 per cent of GDP and therefore its growth plays an important role in determining the growth of India's real GDP.
- Government expenditure grew by a robust 30 per cent in the quarter ended March 2022, compared to the previous quarter. But, compared to a year ago, the growth was a modest 4.8 per cent. This is the second year in succession when the peak quarter of government final consumption expenditure has shifted to the March quarter.

MSP for kharif crops raised in range of 4.4-8.9% for 2022-23

Crop	₹/Quintal	% Change
Paddy (Common Grade)	2,040	5.2
Jowar (Hybrid)	2,970	8.5
Bajra	2,350	4.4
Ragi	3,578	6
Maize	1,962	4.9
Tur (Arhar)	6,600	4.8
Moong	7,755	6.6
Urad	6,600	4.8
Groundnut	5,850	5.4
Sunflower Seed	6,400	6.4
Soyabean (Yellow)	4,300	8.9
Sesamum	7,830	7.2
Nigerseed	7,287	5.2

Source-CMIE

Fiscal deficit improved to 6.7% in FY22 on higher tax mop up

- Fiscal deficit for 2021-22 improved to 6.71 per cent of the GDP over the revised budget estimate of 6.9 per cent mainly on account of higher tax realisation.
- In April 2022, the government scaled up capital expenditure. This grew year-on-year by 67.5 per cent to ₹789 billion.
- The fiscal deficit is expected to increase because of the Central government's efforts to control inflation and also to support vulnerable sections of society. One of the biggest fiscal measures the government took to arrest rising inflation is the excise duty cut of Rs.8 per litre on petrol and ₹ 6 per litre on diesel announced on May 22, 2022.

Employment gains

- India's employment data for May 2022 shows stability at the macro level and simultaneously a positive movement of labour at the sectoral level.
- Even though a small fall in the labour participation rate was seen, a larger fall was seen in the unemployment rate.
- While 7.83 per cent of those who were seeking employment in April were left unemployed, only 7.12 per cent were left unemployed in May. Employment increased from 402.9 million in April 2022 to 404 million in May 2022. This is the second consecutive month of an increase in employment. The increase in April was much bigger at nearly 7 million.
- Shift in employment from agriculture to industry and services: Cumulatively, over April and May of 2022, agriculture shed 14.7 million jobs. Industry provided 15.6 million jobs and services provided another 7.2 million jobs. As a result, 8 million net additional jobs were created in the past two months.
- As India moves into its kharif sowing season in June, the demand for labour from agriculture is expected to increase. This could help lead to an increase in the labour participation rate and also the employment rate.

Rapidly depreciating exchange rate

- The Indian rupee touched a lifetime low of ₹78.28/$ on 13 June 2022 after US inflation data raised the prospects of aggressive Fed tightening later this week. On the domestic front, persistent FII selling (May being eighth consecutive month of net selling) continues to dampen sentiment.

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- From ₹ 74.51 per US $ in November 2021, average ₹/$ exchange rate dropped to ₹77.32 in May 2022. This is a depreciation of 3.6 per cent.
- A rapidly depreciating rupee further increases the prospects of imported inflation at a time when global commodity prices, including energy prices, are not showing any signs of easing.

Inflation Outlook

Household Inflation expectation rise

- Households' median inflation perception rose to 10.1 per cent in May 2022 from 9.7 per cent in March 2022, as per the Reserve Bank of India's (RBI) Inflation Expectations Survey of Households (IESH).
- The RBI has revised its 2022-23 inflation forecast upwards to 6.7 per cent from its previous forecast of 5.7 per cent. Till the third Quarter of fiscal 2022-23, RBI expects inflation to be higher than the upper band of 6 per cent of its target inflation rate. The hike in its inflation projections is also likely to have prompted the RBI to hike repo rate. It also implies further rate hikes in the coming policy announcements.
- The latest increase in repo rate will lead to another round of hike in lending rates by banks. The rate hike will get transmitted soon as almost 40 per cent of floating rate linked outstanding rupee loans of SCBs are linked to external benchmark which is the repo rate. Banks have also started hiking lending rates based on marginal cost of funds basedfunds-based lending rates (MCLR). On June 7, HDFC Bank hiked MCLR by 35 basis points.

Interest Rate Outlook

Interest rates to rise

MPC Meeting (6 to 8 June 2022)

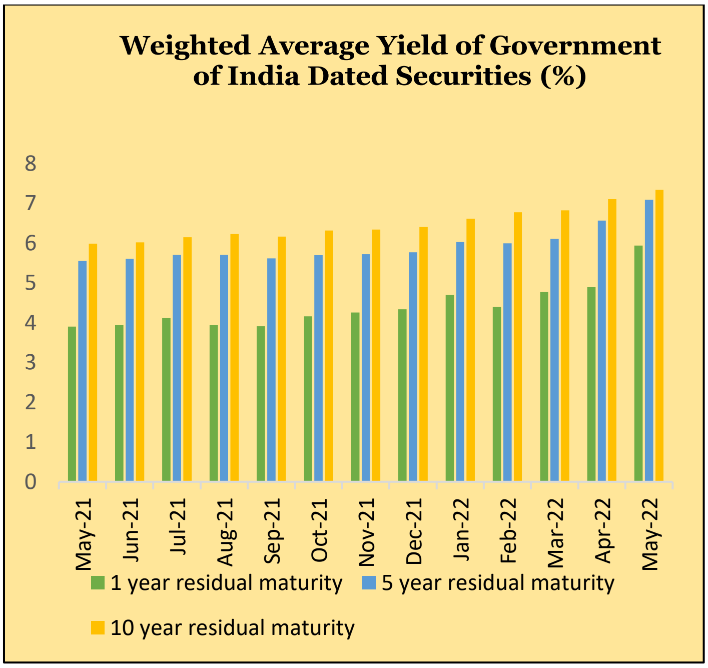
Reserve Bank of India's Monetary Policy Committee (MPC) decided to hike the Policy Repo Rate by 50 basis points to 4.9% in its June meeting. This is the second hike in repo rate during the current fiscal year. MPC noted that inflation is likely to remain elevated for the first three quarters of the current financial year and sees inflation for the year at 6.7%. Real GDP growth rate for the year has been retained at 7.2%. The policy statement clearly mentions a withdrawal of the RBI's accommodative stance to pull back inflation within the target band.

WACR on the rise

From a low of 3.13 per cent in the week ended February 4, weighted average call money rate (WACR), the operating target of monetary policy, rose to 3.38 per cent in the week ended April 8. It has been rising ever since and has hit 4.05 per cent on June 3. But throughout the rising trajectory, it remained below the Standing Deposit Facility (SDF) rate, indicating the large surplus liquidity in the system. Call money rates will move higher as the RBI's withdrawal of accommodation further reduces surplus liquidity in the system.

Yield on government securities

Yield on government securities with 10-year residual maturity is on a continuous northward journey. Each monetary policy announcement has led to a spike in G-Sec yields. From 6.91 per cent on 7 April, G-Sec yield spiked to 7.16 per cent on 11 April, after the SDF rate was introduced above the reverse repo rate in the first monetary policy announcement for 2022-23. The off-cycle repo rate hike of May 4, recorded a sharp reaction. From 7.12 per cent on May 2, yield surged to 7.4 per cent on May 5. On June 7, yield had gone up further to 7.52 per cent. On June 13, the benchmark 10-year bond yield hit 7.60 per cent, its highest since Feb. 28, 2019.



Source-CMIE

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Azadi Ka Amrit Mahotsav

DEAR ECO THINK

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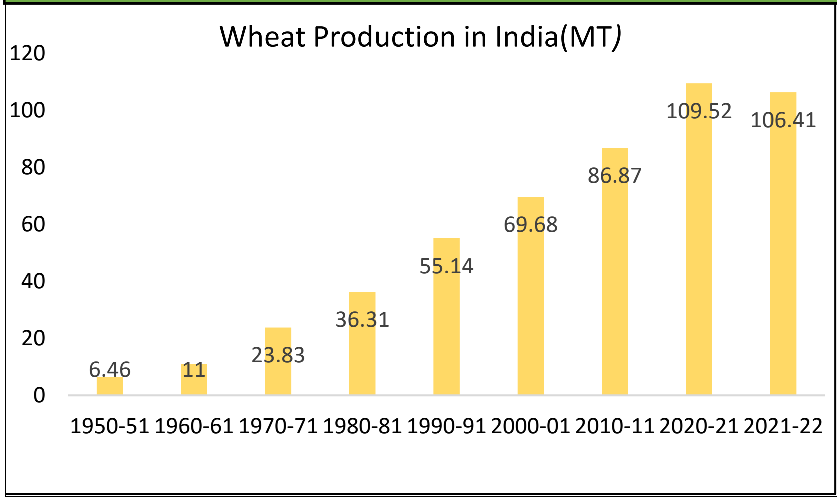
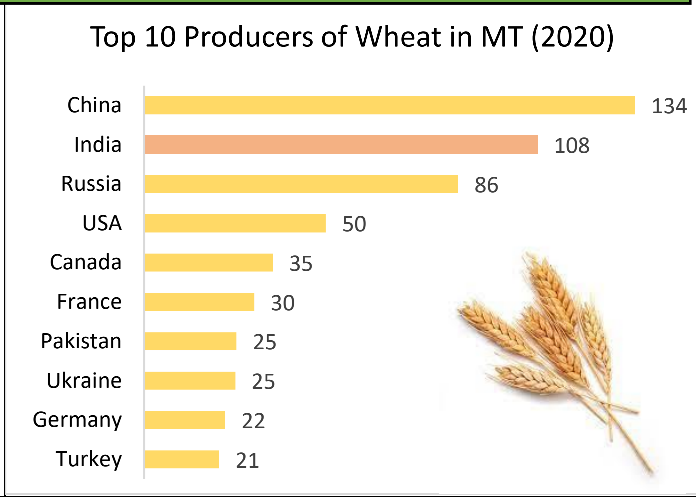
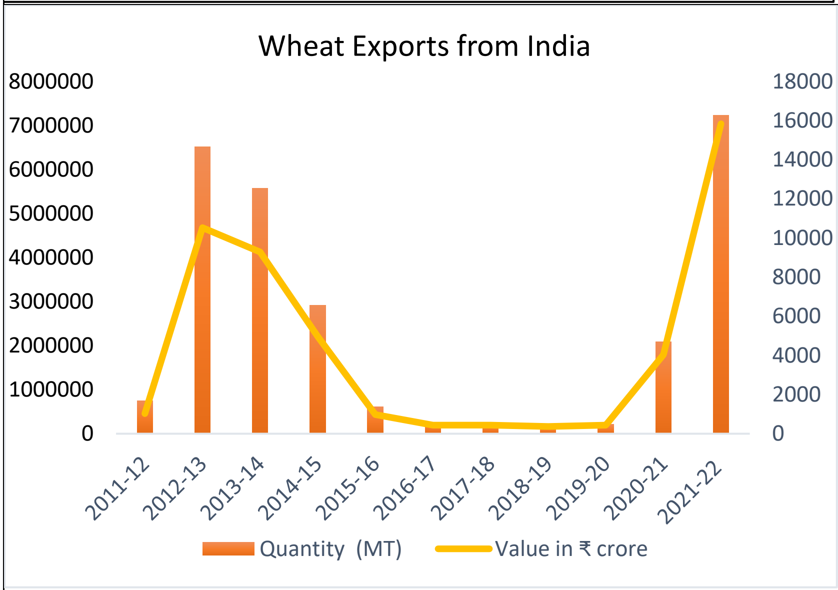
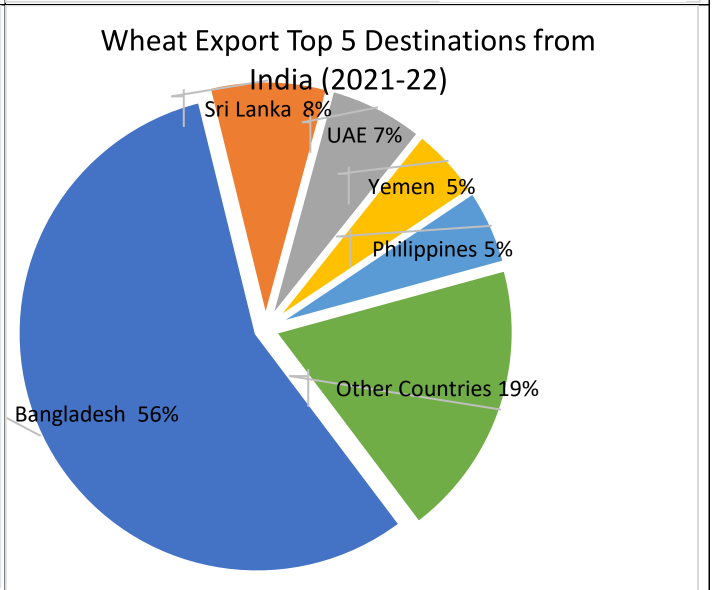
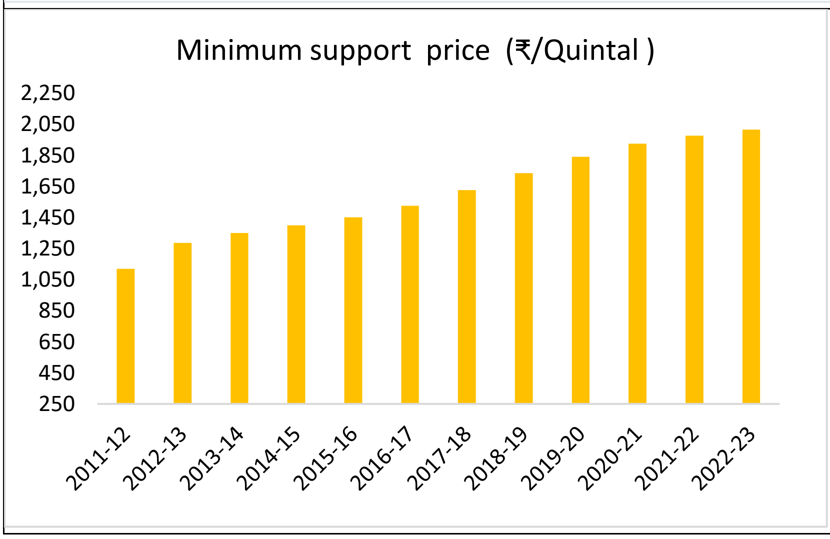
Dashboard on Wheat with Focus on Current Trends

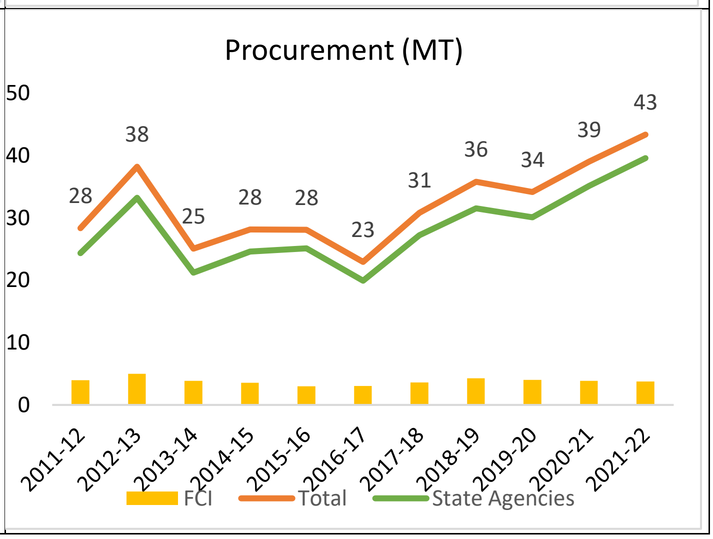












Source- CMIE, FAOSTAT, https://dashboard.commerce.gov.in/commercedashboard.aspx

The International Monetary Fund (IMF) has welcomed India's decision to relax its earlier announced ban on wheat exports. The Food and Agriculture Organisation (FAO), in its latest Food Outlook, has forecast that India's wheat export will be around seven million tonnes (MT) in 2022-23 despite the wheat export ban. Wheat export during the fiscal is expected to remain well above the country's export average over the past five-years.

Report THINK

Global Food Policy Report (GFPR) 2022: Climate Change and Food Systems

This edition of Report Think covers the captioned report released by the International Food Policy Research Institute (IFPRI). This is an annual flagship publication of IFPRI. The focus of this year's GFPR is on food systems transformation and climate change which also echoes the warnings issued by recent IPCC reports of the world entering a "Code Red for Humanity". Food systems are not only impacted by climate change but are also a major cause of one-third of global greenhouse gas emissions with two-thirds of that resulting from agriculture, forestry and other land use. Though investing in food system transformation is key to address the climate change problem, yet it is vastly underfunded with only a small part of climate finance directed toward this goal.

Key Findings of the Report:

For India:

1. **Food Production and Hunger:**
India's food production could drop 16 per cent by 2030. The number of Indians at risk from hunger in 2030 is expected to be 73.9 million in 2030. Additionally, if the effects of climate change were to be factored in, the vulnerable population would increase to 90.6 million. The aggregate food production index is projected to drop from 1.6 to 1.5.
2. **Positive Calorie Consumption:**
Climate change will not impact the average calorie consumption of Indians and this is projected to remain roughly the same at 2,600 kcal per capita per day even in a climate change scenario.
3. **Average Temperatures:**
The average temperatures across India is projected to rise by between 2.4° C and 4.4° C by 2100. Summer heat waves are projected to triple in India by 2100.

For the World:

1. **Increase in Food Production:**
Global food production will grow by about 60 per cent over 2010 levels by 2050 in the context of climate change. This is 8 percentage points less than would be the case without climate change. Production and demand are projected to grow more rapidly in developing countries, particularly in Africa, than in developed countries, due to projected growth in population and incomes.
2. **Shift in Diets:**
Diets are shifting towards high-value foods including more fruits and vegetables, processed food and animal sourced food outside of high-income countries. Meat production is projected to double in South Asia, West and Central Africa by 2030 and triple by 2050. Despite this growth, per-capita consumption levels in developing countries will remain less than half of those in developed countries.
3. **Processed Food:**
The demand for processed foods shows up in the growing production of oil crops. By 2050 production is expected to more than double in Southeast Asia, West and Central Africa.
4. **Fruits and Vegetables:**
Production of fruits and vegetables is projected to more than double in most regions (Central and West Asia and North Africa; East and Southern Africa; and West and Central Africa) by 2050.
5. **Inequitable Distribution of Produce:**
Due to regional differences in access to food nearly 500 million people are projected to remain at risk of hunger. Globally, about 70 million more people will be at risk of hunger because of climate change, including more than 28 million in East and Southern Africa.

Policy Recommendations:

- **Investments in R&D for Innovation:**
Public investments in R&D for productivity-increasing and emissions-reducing innovations should be doubled from current levels, with at least US$15 billion of the increase for innovations benefiting food systems in LMICs (low- and middle-income countries).
- **Improved Governance of Resources:**
Policymakers should provide incentives for integrated landscape management through local governance, promote the adoption of clean energy sources through appropriate financial incentives, work to restore soil quality, strengthen rights for land tenure, and ensure equitable access to water and other natural resources.
- **Healthier Diets and more Sustainable Production**
To support healthier global diets, all countries should adopt national food-based dietary guidelines, prioritize R&D for nutrient-rich foods, and support changes in the food environment that encourage consumers towards healthy and sustainable choices.
- **Improving Value-Chain Efficiency:**
Free and open trade should be an integral part of climate-smart agricultural and food policies while investing in low-emissions solutions for safe, efficient storage and transportation along value chains.
- **Reorienting Financial Flows:**
Repurposing government support to the agricultural sector would provide a major opportunity to do away with harmful subsidies and border measures as well as reorient finance towards R&D in green innovations. https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/135889/filename/136101.pdf