BUSINESS STANDARD WEBINAR SERIES

Rural India revival difficult to sustain, say economists

SUBHAYAN CHAKRABORTY, ARUP ROYCHOUDHURY & INDIVJAL DHASMANA
New Delhi, 12 August

Some of the top economists of the country have cautioned against euphoria over *Bharat* sustaining India, and said it may not last as structural problems still afflict rural areas.

They were speaking at the first of a series of webinars being organised by *Business Standard* under "Unlock BFSI 2.0". The discussions were moderated by Tamal Bandopadhyay, consulting editor, *Business Standard*.

At the panel discussion titled "Will Rural India Be the New Driver of Growth?", Pronab Sen, country director of the International Growth Centre and former chief statistician, said it was a misconception that the entire rural India was doing well amid the outbreak of Covid-19.

Pegging remittance loss to rural India at ₹60,000 crore in four months, Sen said, "Part of the villages dependent on remittances will not do as well as those six states where the bulk of the procurement takes place. We tend to club all of rural India in one basket."

Pranjul Bhandari, chief India economist at HSBC, said, "Once the kharif season is over after October-November, the sheen of rural demand will be over, and rural wage growth may not sustain."

She said as long as urban India did not pick up, rural India would also suffer. A weak financial sector, she added, would also impact growth in rural India.

Sonal Varma, managing director and chief economist (India and Asia ex-Japan) at Nomura, warned that the rural revival theme should not be overplayed.

Turn to Page 12

The real points of spread of the coronavirus pandemic are small towns, not rural India

PRONAB SEN, country director, International Growth Centre

Agriculture is less than 40% of rural consumption and may not be enough to provide tailwind to offset rural woes

SAJJID CHINOY, chief economist at JP Morgan

(I'm) little doubtful of exuberance about rural India, as structural problems will emerge

PRANJUL BHANDARI, chief India economist, HSBC

Any rural robustness will not offset the GDP contraction this year

RATHIN ROY, director, NIPFP

Farm debt waiver should be legally banned in India

SOUMYA KANTI GHOSH, group chief economic advisor, SBI

India needs an ease of doing business index for the farm sector

SONAL VARMA, MD and chief economist (India and Asia ex-Japan), Nomura

u's...

his year (FY20), we have made ly more profit than last year. That's se we are trying to find the right ce between high growth and profty. We are also entering new marand investing in creating newer ets and segments," said endran. "Otherwise, the profits can gnificantly higher because with passing year we have a large al base – the customers whom we re without spending any money."

st week, BYJU's announced that it d acquire WhiteHatJr, an online rm that teaches coding to school nts, for $300 million. This is the any's biggest acquisition so far. The eness of WhiteHatJr, Raveendran ed out, is that its business model universal appeal and has been st equally successful in India and S.

flows...

ral banks are clear they will print y for the next two years. As they , the cost of capital will further e. Our country will receive more d foreign direct investment (FDI)," Saurabh Mukherjea, founder of ellus Investment Managers.

substantial part of the $7.5 billion as come since April is on account ge share sales in companies such ndustan Unilever, Kotak Mahindra and Bharti Airtel. Large block have witnessed chunky foreign tment, which reflects in the daily tally recorded by depositories. The ally for the year is greater if one des qualified institutional places (QIPs), the investments into n don't reflect in the depositories

nce April, the large part of the has come on account of block sales and follow-on issues by marquee companies. FPI participation in these shares sales is significant. In comparison, secondary market buying by foreign portfolio investors has been muted," Bhat said.

He said foreign portfolio investors were keen to help strengthen the balance sheets of companies they thought would thrive once the lockdown was lifted.

"Foreign portfolio investors are clear about which companies will do well when things become normal. The weaker ones will find it challenging to protect their market share. The consensus is the top two sector leaders will be able to grow," said Bhat.

Rural India revival...

"Unless construction activities bounce, it remains hard to see a pick-up in rural activity. Till now, there hasn't been any acceleration in rural wages, and land prices have also remained lacklustre," she said.

Rathin Roy, outgoing director of the National Institute of Public Finance and Policy, said while manufacturing and services sectors had tanked, agriculture had not, because of which agriculture would form a much larger part of gross domestic product (GDP) in 2020-21. "I would hope that even if Covid affects rural India, it will not diminish output. This is partly due to high unemployment in rural India. Even if 20 per cent of the workforce cannot go to work, they can be replaced by those seeking work," he said.

Sajjid Chinoy, chief economist at JP Morgan, said agriculture might not be the solution to rural woes as it constituted less than 40 per cent of rural consumption.

"A lot of consumption that has been celebrated in the last five years has happened on the back of debt, as households accrued debt and ran down their savings. If you believe the current economic shock is going to be quasi-permanent, then that behaviour should reverse as households become more cautious and savings go up," Chinoy said. As a result, he said, consumption would be hit harder.

He, however, said the terms of trade were slowly moving in favour of the farm sector. "For the last four years, agriculture has grown at 4.8 per cent on average. This was less than a per cent in the previous four years. The reason why the rural economy was depressed was that despite goods production, food inflation was zero per cent. Now, for the past 12 months, it has been more than 7 per cent," he said.

Soumya Kanti Ghosh, group chief economic advisor at State Bank of India, said allied activities were the cornerstone of rural parts and unless that was revived, rural economy won't revive on a sustained basis.

Pointing out that urban income was 1.8 times of rural income, he said unless urban areas recovered, it would not help the economy much.

On ₹1 trillion agri infrastructure fund announced by Prime Minister Narendra Modi, Sen said areas such as warehouses required human capital and not much would change unless that came around.

Ghosh said 24 per cent of the fund was for the power sector but there was still no proper policy for the sector and discoms were bleeding dry.

Roy said that committing finances to the rural sector was not enough unless there was a strategy on how to spend the money. He spoke about the need to eliminate middlemen in farm markets and reduce the cost of input for farmers.

Sen said it was a misnomer that India was a food surplus economy as there was a deficit in the rural economy.

He said though bigger companies were also relocating to rural India, there was a dearth of governance structure to understand the non-farm sector there.

To a query on farm debt waiver, Ghosh said it should be legally banned in the Indian context.

When asked about their estimates of GDP contraction for FY21, Sen pegged it at 11-13 per cent, Ghosh at 6.8 per cent, Bhandari at 7.2 per cent, Chinoy at 6-7 per cent, and Varma at over 6 per cent. Roy refrained from projecting the number at constant prices, but pegged the contraction of GDP at current prices at 13-17 per cent. The experts put riders on their projections.