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Stimulus 2.0: Day-3: Focus on agriculture

Sensex:31098

Nifty:9137

Long-term road-map; little immediate support

Today's announcements focused on agriculture and allied activities. The emphasis was on modernising physical infrastructure, marketing frameworks and legislative arrangements for Indian agriculture; and, thereby, formalise the sector and increase farm income. These steps, however, would not add much to near-term rural income. Yet, from an equity-market perspective, the rural demand story is looking distinctly better than the urban one. We now look forward to the likely stimulus announcements for the formal economy and tax payers.

Projects with fund allocation of ₹1.63 trillion. Announcements today focused mostly on fund allocations for agricultural and allied activities. These include farm-gate infrastructure (₹1 trillion), marketing and branding of micro food-enterprises (₹100 bn), advancement of fisheries (₹200 bn), dairy development (₹150 bn), animal disease control (₹133 bn), promotion of herbal cultivation (₹40 bn), aid to beekeeping (₹5 bn) and a pilot project for transport/storage subsidy for perishables (₹5 bn).

Major structural reforms announced. As part of Stimulus 2.0 announcements, the Finance Minister indicated the intention of the government to amend the Essential Commodities Act. Legislative measures to allow free movement of various agricultural products (including across states) and permission for contact farming across India are also on the government's short-term reform agenda.

No immediate direct income support to farmers announced today. While all the schemes are directed to aid agriculture and allied activities, and people associated with those sectors, no immediate income support is forthcoming. Some such measures, however, were covered in Stimulus 1.0 and Stimulus 2.0 Day 2 announcements.

Fresh budgetary allocation unclear. The amount for farm-gate infrastructure (₹1 lakh) would be raised through NABARD. The rest (₹633 bn) is likely to come from the budget. Yet, it is not clear whether all or part of the funding would come from extant allocations or on a re-allocation of existing budgetary resources.

Encouraging measures, forward-looking reforms. The measures announced today are in the right direction of doubling of farm income by 2022. The necessity and merits of improving infrastructure, marketing and branding of agriculture and allied activities are beyond question. The legislative reform agenda for agriculture can improve productivity, reduce volatility of farm income and modernise Indian agriculture.

Rural economy likely to be better off. On Day 3 of Stimulus 2.0, the government continued to tread cautious in containing budgetary spending on the stimulus. At least in the nearterm, this is negative for the broad equity market and positive for the debt market. Stimulus measures announced so far can improve the medium- to longer-term outlook for the rural economy both in demand and supply. Indications also suggest that the impact of the pandemic so far has disrupted far less the rural than the urban economy. The combined effect of these two suggest that sectors/stocks depending more on rural demand (e.g. two-wheelers, smaller-ticket durables, tractors) are likely to do better than those dependent on urban demand.

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