

## Increase in MSP : Kharif Crop 2018-19

The government has announced an increase in the minimum support price (MSP) of kharif crops for 2018-19, which on an average is nearly 25% higher than that of last year. All of the 17 notified kharif crops have seen their MSP being raised by 3.7% to 52.47%.

The government in the Union Budget for 2018-19 has stated that MSP would be fixed at 50% above the cost of production. The increase in MSP for kharif crop for the 2018-19 season is in line with the announcement made in the Union Budget. *The returns over cost of production (which includes labour cost, input material cost and imputed value of farm labour as computed by the government) is over 50% for all the 17 notified kharif crops.*

### Contact:

#### Kavita Chacko

Sr. Economist  
kavita.chacko@careratings.com  
91-22-6754 3687

#### Sushant Hede

Associate Economist  
[sushant.hede@careratings.com](mailto:sushant.hede@careratings.com)  
91-22-6754 3408

#### Mradul Mishra (Media Contact)

[mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)  
91-022-6754 3515

### Main highlights of the MSP increase of kharif crops for the 2018-19 season

- MSP increase (year-on-year) has been the highest since 2013-14.
- The average increase in MSP in case of cereals at 31% has been higher than that for pulses (at 11%), oilseeds (23%) and fibre (27%).
- Paddy, which is one of most procured crops (along with wheat) by the government, saw its MSP being raised by Rs.200/quintal or 12% from that of last year.
- The MSP increase (y-o-y) has been the lowest in case of pulses such as Urad (3.7%) and Tur (4.1%).
- Ragi (cereal) has seen the highest increase in MSP over the previous year at 52.5%, followed by Nigerseed (oilseed) at 45.1% and Jowar by 42%.
- The increase in MSP (y-o-y) has been the highest since 2009-10 for bajra (37% or Rs.525/quintal), Ragi (53% or Rs. 997/quintal), moong (25% or Rs.1,400/quintal), sunflower seed (31% or Rs.1,288 /quintal), niger seeds (45% of Rs.1,827/quintal) and long staple cotton (26% or Rs. 1,130/quintal).
- The returns over cost is the highest in case of bajra (97%), followed by tur (65%), urad (63%) and long staple cotton (59%). The returns for the remaining 13 notified kharif crops is 50%.

**Disclaimer:** This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

**Table 1: Minimum Support Prices (MSPs): Rs/quintal**

Crop	2017-18	2018-19	% change	Increase in absolute value	*Returns over cost in percent
Paddy Common	1,550	1,750	12.90	200	50.19
Paddy (F)/Grade'A'	1,590	1,770	11.32	180	51.80
Jowar-Hybrid	1,700	2,430	42.94	730	50.09
Jowar-Maldandi	1,725	2,450	42.03	725	51.33
Bajra	1,425	1,950	36.84	525	96.97
Ragi	1,900	2,897	52.47	997	50.01
Maize	1,425	1,700	19.30	275	50.31
Tur (Arhar)	5,450	5,675	4.13	225	65.36
Moong	5,575	6,975	25.11	1,400	50.00
Urad	5,400	5,600	3.70	200	62.89
Groundnut	4,450	4,890	9.89	440	50.00
Sunflower Seed	4,100	5,388	31.41	1,288	50.01
Soyabean	3,050	3,399	11.44	349	50.01
Sesamum	5,300	6,249	17.91	949	50.01
Nigerseed	4,050	5,877	45.11	1,827	50.01
Medium Staple Cotton	4,020	5,150	28.11	1,130	50.01
Long Staple Cotton	4,320	5,450	26.16	1,130	58.75

Source: PIB

\*includes costs towards hired labour (human, bullock & machine), rent paid on leased land, input materials (seeds, fertilizers, manure, irrigation charges), depreciation, miscellaneous farm expenses and imputed value of farm labour.

### Will MSP increase push up inflation?

The MSP by definition sets the floor price for the seller. However, it has been seen that the market price for a number of crops, including cereals, pulses and oilseeds, has been below the MSP in recent times, owing to distress sale by farmers amidst bumper crop output for 2 successive years (2016-17 and 2017-18) and low consumption demand.

The wholesale prices of pulses on an average contracted by over 20% in 2017-18 from that in the previous year, while that of oilseeds by over 10%. Pulses output in 2017-18 is estimated to have been a record 24.5 mn tonnes, a 50% increase from that in 2015-16, while oilseed output rebounded in 2016-17 and 2017-18 following 2 years of drought. The continued higher imports of edible oil amid high output of domestic oilseeds further depressed prices.

The fall in prices consequent to surplus production last year and the resultant farmer distress led to the government to increase its procurement to stem the fall in prices. In addition to its regular procurement of paddy and wheat (for PDS and buffer stock), the government procured pulses and oilseeds under the price support scheme. Despite the higher government procurement, the market prices of pulses and oilseeds continues to rule below the MSP across regions. This has impacted sowing in the current kharif season as sowing decision are predominantly based on prices earned for the previous seasons crop. The area under cultivation so far (as of 27 June'18) has been nearly 10% lower than that of last year. Sown area was lower in case of rice (by 4%), pulses (by 24%), coarse cereals (by 9%), oilseeds (by 49%) and cotton (by 16%).

It needs to be seen if the higher MSP could lead to an increase in sowing in coming weeks. Lower cultivation coupled with higher MSP could push up prices of these crops, albeit to a limited extent. The increase in MSP has been flagged as a major risk for inflation by the RBI. The price rise on account of the new MSP could be staggered over a few months and a sudden spike in prices is unlikely. The forecast for normal monsoons this year, the 3<sup>rd</sup> consecutive year, augurs well for overall agricultural output and thereby food prices. Further, the commodities whose MSPs have been announced have a total weight of less than 4% in the WPI and 7% in CPI. As such, the impact on inflation would be limited.

Based on the extent of transmission of MSP into market prices, we have listed 3 scenarios of the maximum possible impact on inflation i.e. WPI and CPI in 2018-19

**Table 2: Maximum possible impact on inflation**

Transmission of MSP increase to market prices	WPI	CPI
100% Transmission	75 bps	98 bps
50% Transmission	37 bps	54 bps
25% Transmission	19 bps	27 bps

The rise in inflation would prompt the RBI to further tighten its monetary policy. A pickup in inflation during the kharif harvest period could see the RBI raise interest rate by 25 bps in end 2018.

#### Implication on government's fiscal position

The cost to be incurred by the government on account of the higher MSP would mainly depend on the procurements undertaken this year. Given that the government has increased its procurements and has also included pulses and oilseeds in 2017-18, the same is likely to be carried forward this year too. As such, in case of stable procurement the government's food subsidy bill is slated to increase by 7.5% or around Rs.12,800 crs from the budgeted Rs. 1,69,323 crs for 2018-19. In case the procurements are to increase by 5%, the subsidy bill would increase by nearly Rs.13,500 crs.

Any measures by the government to compensate farmers for the difference between market price and MSP, akin to the scheme in Madhya Pradesh, the increase in food subsidy bill would be much higher.

#### CORPORATE OFFICE:

**CARE RATINGS LIMITED (Formerly known as CREDIT ANALYSIS & RESEARCH LIMITED)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

Follow us on  [/company/CARE Ratings](https://www.linkedin.com/company/CARE-Ratings)  
 [/company/CARE Ratings](https://www.youtube.com/channel/UC...)