

## MSP for Kharif Crops: 2020-21

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The government has announced an increase in the minimum support price (MSP) of kharif crops for the 2020-21 marketing season. On an average, the increase in MSP for the notified kharif crops for the current season is 4.7%. When compared with previous years, the increase in MSP for the current season is seen as being moderate and lower than the increase of the election year 2018-19, where the average increase in MSP was 25%. This could have a bearing on rural incomes which could further weigh down rural demand and thereby the pace of economic revival.

### Main highlights of the MSP increase of kharif crops for the 2020-21 marketing season

- All the 17 notified kharif crops have seen their MSP being raised from year ago.
- The average increase in MSP has been less than 1% from year ago (average MSP increase of 3.8% in 2019-20)
- The year –on-year increase in MSP across crops ranged from 2.1% for moong to 12.7% for niger seed. The average increase in MSP in case of oil seeds has been the highest at 6.2%, followed by cotton at 5%. It is 4.1% for cereals and 3.6% in case of pulses.
- Among crops, Nigerseed has seen the highest increase in MSP (y-o-y) of Rs. 755/quintal, followed by Sesamum at Rs.370/quintal (5.7%).
- Moong has seen the lowest increase in MSP at 2.1% (y-o-y).
- MSP of Paddy and Jowar is to increase by less than 3% (y-o-y)
- The MSP increase (y-o-y) for paddy, jowar and groundnut was the lowest in 5 years.
- The minimum expected returns to farmers over their cost of production (which includes labour cost, input material cost and imputed value of farm labour as computed by the government) is 50% for the notified kharif crops.
- 10 of 17 crops are estimated to provide returns of 50%.
- The returns are expected to be the highest in case of Bajra at 83%, followed by urad (64%), tur (58%) and maize (53%).

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Table 1: MSP Kharif Crop for 2020-21 marketing season -Rs/quintal

	MSP (Rs)	Increase in MSP (Rs)	Projected Cost (Rs)	Return over Cost (%)
Paddy, common	1,868	53	1,245	50
Paddy, Grade A	1,888	53		
Jowar, hybrid	2,620	70	1,746	50
Jowar, Maldandi	2,640	70		
Bajra	2,150	150	1,175	83
Maize	1,850	90	1,213	53
Ragi	3,295	145	2,194	50
Arhar(Tur)	6,000	200	3,796	58
Moong	7,196	146	4,797	50
Urad	6,000	300	3,660	64
Cotton, Medium staple	5,515	260	3,676	50
Cotton, Long staple	5,825	275		
Groundnut in shell	5,275	185	3,515	50
Sunflower seed	5,885	235	3,921	50
Soyabean, yellow	3,880	170	2,587	50
Sesamum	6,855	370	4,570	50
Nigerseed	6,695	755	4,462	50

Source: PIB

Table 2: MSP for Kharif Crop: Last 5 Years (Rs/quintal)

	2016-17	2017-18	2018-19	2019-20	2020-21
Paddy, common	1,470	1,550	1,750	1,815	1,868
Paddy, Grade A	1,510	1,590	1,770	1,835	1,888
Jowar, hybrid	1,625	1,700	2,430	2,550	2,620
Jowar, Maldandi	1,650	1,725	2,450	2,570	2,640
Bajra	1,330	1,425	1,950	2,000	2,150
Maize	1,365	1,425	1,700	1,760	1,850
Ragi	1,725	1,900	2,897	3,150	3,295
Arhar(Tur)	5,050	5,450	5,675	5,800	6,000
Moong	5,225	5,575	6,975	7,050	7,196
Urad	5,000	5,400	5,600	5,700	6,000
Cotton, Medium staple	3,860	4,020	5,150	5,255	5,515
Cotton, Long staple	4,160	4,320	5,450	5,550	5,825
Groundnut shell	4,220	4,450	4,890	5,090	5,275
Sunflower seed	3,950	4,100	5,388	5,650	5,885
Soyabean, yellow	2,775	3,050	3,399	3,710	3,880
Sesamum	5,000	5,300	6,249	6,485	6,855
Nigerseed	3,825	4,050	5,877	5,940	6,695

Source: CMIE and PIB

### Trend in MSP

- The average MSP of oilseeds has increased by 44% in the last 4 years, while that of pulses have increased by 39% and coarse cereals by 57%
- Jowar has seen the highest increase in MSP since 2016-17 – a 91% increase, followed by Niger seeds which has seen a 75% increase in its MSP.
- Among pulses, the MSP increase has been the highest for Arhar (Tur) 61% since 2016-17.
- The MSP of Bajra and Maize has been raised by over 60% in the last 4 years.
- Paddy which is the most procured kharif crop has seen its MSP being raised by 26% since 2016-17.
- The lowest increase in MSP has been in the case of Urad and Soyabean – by 18% and 20% in 5 years.

### Will the increase in MSP result in an increase in farmer incomes or output?

An increase in MSP does not necessarily translate into remunerative prices for farmers. Although the MSP by definition sets the floor price for the seller, the market prices are often seen to rule lower than the MSP owing to higher crop output and supply chain constraints. The benefit of higher MSP accrues to farmers when the government procures the crops from the farmers. Although the government has been procuring oilseeds and pulses under the price support schemes (PSS), its procurement is mainly centred around paddy and wheat for distribution through the PDS (public distribution system) and for the central pool (buffer stock). It has been observed that when MSP incentivizes farmers to grow more of the crop it creates excess supply and prices move down unless backed by procurement.

As a part of the relief measures of the Covid 19 led lockdown the government has been procuring pulses and oilseeds for farmers. If the government continues to procure, farmers could see an increase in their incomes. Farmer incomes will also depend on the crop output which would be contingent on the country receiving normal monsoon during the season. The timing of the arrival and departure of the monsoons too would have a bearing on the output.

We have tried to estimate the likely potential income of farmer owing to the increase in MSP for 2020-21. Here we have assumed the kharif crop output for 2020-21 to be stable at the level of 2019-20. Our findings indicate that

- The aggregate additional income assuming everyone earned an amount equal to the increase in this MSP is around Rs.14,500 crores.
- Paddy has the potential to boost overall income of farmers even though the MSP increase has been the lowest for the crop.
- Soyabean, maize, bajra and groundnut are among the crops that could receive higher remuneration.
- Nigerseed and Sesamum which has seen the highest increase in MSP in 2020-21 are likely to be the least remunerative.
- The remuneration that can be received from the various crops are linked to their production levels. The crops with lower output are less remunerative despite the increase in MSP and vice versa.
- Higher MSPs do not lead to an increase in production. Even those the MSP of crops such as a nigerseed, jowar arhar, sesamum have seen a significant increase in MSP in recent years, the output of these crops has been low.

**Table 3: Potential income of farmer owing to the increase in MSP for 2020-21**

	Unit	3rd Advance Estimate 2019-20	Increase in MSP in 2020-21 over 2019-20: Rs/quintal	Potential increase in overall remuneration with increase in MSP in 2020-21: Rs. Crores
Paddy	Million Tonnes	101.7	53	5,390
Jowar	Million Tonnes	1.7	70	118
Bajra	Million Tonnes	10.3	150	1,547
Maize	Million Tonnes	20.2	90	1,816
Ragi	Million Tonnes	1.7	145	245
Arhar(Tur)	Million Tonnes	3.8	200	750
Moong	Million Tonnes	1.8	146	260
Urad	Million Tonnes	1.7	300	516
Groundnut	Lakh Tonnes	78.1	185	1,445
Sunflower seed	Lakh Tonnes	0.8	235	18
Soyabean	Lakh Tonnes	122.4	170	2,081
Sesamum	Lakh Tonnes	7.5	370	276
Nigerseed	Lakh Tonnes	0.7	755	54
<b>Total</b>				<b>14,516</b>

Source : Agricoop, PIB and CARE Ratings

### Concluding Remarks

- The increase in MSP for the 2020-21 kharif marketing season is only marginally higher than year ago but considerably lower than the marketing year of 2018-19.
- The gains from the MSP for farmers would depend on government's procurement programme.