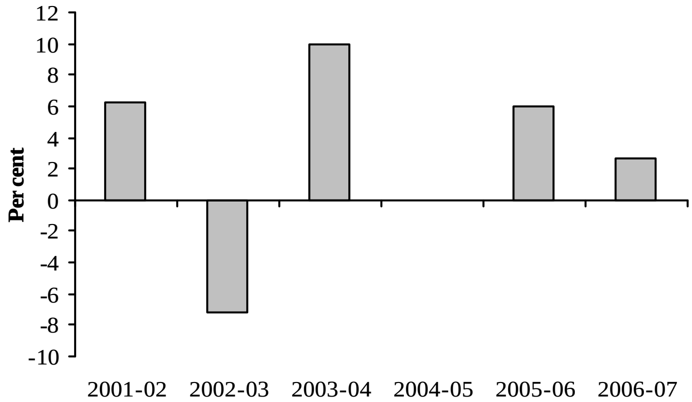
# Agriculture

**Performance during 2006-07**

The advance GDP estimates by the Central Statistical Organisation (CSO) suggest that rate of growth of the agricultural and allied sectors during 2006-07 is expected to be 2.7 per cent as compared to 6 per cent growth witnessed last year (Fig. A.1). Therefore, 2006-07 turned out to be a year of mixed fortunes for Indian agriculture. A disappointing output of cereals and pulses created serious supply constraints and went on to impact inflation adversely. The government was forced to import wheat after a gap of six years to meet the shortage and keep the Public Distribution System (PDS) running. In contrast, the output of sugarcane and supply of sugar touched new highs. The government had to pitch in to increase the level of buffer stocks and initiate steps to subsidise sugar exports.

The poor performance of cereals, pulses and, particularly oilseeds, during the Kharif season of 2006-07 was due to poor distribution of monsoon rains. There were prolonged spells of either weak or no rainfall and its spread across different agro-climatic regions of the country was marked by significant variations. As a result, the output of many crops registered negative growth in 2006-07 over their previous year's levels of output (Table A.1). The revised estimates put out by the Ministry of Agriculture suggest that rice output during 2006-07 is expected to witness a decline of about 0.8 per cent - from 91.8 million tonnes in 2005-06 to 91.1 million tonnes in 2006-07. But, the fall in output of coarse grains is estimated to be higher, at 3.4 per cent from last year's output of 34.1 million tonnes.

**Fig A.1: Growth in Agriculture and Allied Sector's GDP**




The estimated output of pulses in 2006-07 is higher than the previous year's level of production, yet it remained below the target set for the year. Likewise, the output of wheat, which is now estimated at 73.7 million tonnes, represents a 6.3 per cent increase over last year's output of 69.4 million tonnes, which, in turn, fell short of the targeted (75.5 million tonnes) output. Given these levels of output of individual crop segments, the overall food grain production during 2006-07 is expected to witness only a marginal increase of about 1.5 per cent from 208.6 million tonnes in 2005-06 to 211.8 million tonnes in 2006-07.

**Table A.1: Targets and Estimated Output of Selected Crops**

| Crop | Output in 2005-06 | | Output in 2006-07 | |
|---|---|---|---|---|
| | Target | Achievement | Target | Likely Achievement |
| Rice | 87.8 | 91.8 | 92.8 | 91.1 |
| Wheat | 75.5 | 69.4 | 75.5 | 73.7 |
| Coarse cereals | 36.5 | 34.1 | 36.5 | 32.9 |
| Pulses | 15.2 | 13.4 | 15.2 | 14.1 |
| Total Food grains | 215.0 | 208.6 | 220.0 | 211.8 |
| | | | | |
| Oilseeds | 26.6 | 28.0 | 29.4 | 23.3 |
| Cotton | 16.5 | 18.5 | 18.5 | 21.0 |
| Jute and Mesta | 11.3 | 10.8 | 11.3 | 11.3 |
| Sugarcane | 237.5 | 281.2 | 270.0 | 322.9 |

**Source: Government of India, Ministry of Agriculture, New Delhi.**

The output of oilseeds is expected to fall by 16.9 per cent, from 28 million tonnes in 2005-06 to an estimated level of 23.3 million tonnes in 2006-07. The increase in the output of cotton, however, is significant -- from 18.5 million bales in 2005-06 to 21 million bales in 2006-07. The output of other fibre crops, jute and mesta, also witnessed an increase of about 4.6 per over last year's output of 10.8 million bales. The other major crop in the commercial crop segment to have witnessed significant growth during 2006-07 is sugarcane, the output of which is estimated at 322.9 million tonnes and is a new record compared to the earlier peak level output of 299.3 million tonnes achieved during 1999-2000.

On the prices front, the year was characterised by high prices of many food articles, pulses, condiments and spices and cereals in particular, due to a less-than-comfortable supply situation. The prices of edible oils and milk also experienced reversals compared to the trends witnessed during 2005-06. Two successive years of low output (2005-06 and 2006-07) led to tightening in the supplies of food articles in the economy. In the case of edible oils, imports helped bridge the demand-supply gap which was exacerbated by fall in domestic production of oilseeds.

**Prospects for 2007-08**

Given the past behaviour of the agricultural sector, it is obvious that the prospects for 2007-08 critically hinge on the performance of monsoon rainfall, the preliminary estimates for which would be known by the end of April. If the monsoon rainfall turns out to be normal and maintains a balance in its distribution across different regions over the four-month period, the sector should witness higher growth. This is particularly valid if one takes into account the subdued performance of agriculture during 2006-07.

The general increase in the prices of

agricultural commodities due to higher food and non-food demand also means higher incentives, which should lead to an increase in their supplies during 2007-08. The actual stock of cereals (both rice and wheat) with government agencies in the central pool stood at 17.4 million tonnes as on March 22 2007, which is higher than the buffer stocking norm of 16.2 million tonnes for March-end. Last year the stocks of wheat had touched a low of 2 million tonnes in April as against the buffer stocking norm of 4 million tonnes. Therefore, a relatively higher stock of wheat - 5.4 million tones at the end of March - should be a sign of comfort.

Though rice procurement during the current marketing year has been about 20 million tonnes, an increased wheat output should lead to higher procurement of the latter during the year. Last year, only about 9.2 million tonnes was procured. This is evident from the steps that the government has taken this year. For instance, a significant hike has been announced in procurement prices. Stocking limits under the Essential Commodities Act have been tightened to ensure higher procurement by the public agencies. There are also conflicting reports about informal requests to private trade not to buy wheat in the key surplus areas. If true, this is unwarranted and does not reflect well on the policies that are being adopted to provide incentives to farmers on one hand and control inflationary pressures through such means on the other.

It is a known fact that prices of agricultural commodities have hardened because of supply shortfalls arising out of output stagnation. Worries about inflation are justified, but the policy response should not inflict a higher burden on the farmers. The profitability of the agricultural sector could be dampened by this step. It will unnecessarily lengthen the sector's recovery process from stagnation.

The two main weaknesses - mismatch between targets and actual output and systems of managing the food econo-

**Table A.2: Changes in Real Prices of Food Articles (2005-06 and 2006-07)**

| S. No. | Product | Increase in 2005-06 over 2004-05 | Increase in 2006-07 over 2005-06 |
|---|---|---|---|
| 1 | Food Articles | 0.4 | 2.3 |
| 2 | Cereals | 0.0 | 1.8 |
| 3 | Pulses | 7.0 | 23.5 |
| 4 | Edible Oils | -10.6 | 0.4 |
| 5 | Fruits | -0.5 | -0.4 |
| 6 | Vegetables | 7.0 | -1.3 |
| 7 | Milk | -3.9 | 0.9 |
| 8 | Eggs, meat and fish | 7.3 | -1.1 |
| 9 | Condiments and spices | -10.1 | 22.7 |
| 10 | Sugar group | 4.9 | -6.6 |

**Notes:**

1. **Changes in wholesale price indices of commodity groups deflated by wholesale prices index for all commodities.**
2. **The data for 2006-07 are up to March 17 2007.**

my - need to be handled. On the first, there is a clear need to re-examine the approach adopted in setting targets and raising the output of food grains. And, as for managing the food economy, it is essential to reform the process of procurement, holding of stocks and running the PDS.

**Agriculture in the 2007-08 Union Budget**

It is clear from the above that this year's Union Budget was presented against the backdrop of near stagnation in agricultural growth, rural distress, relatively higher inflation led by primary commodities and the desire for inclusive growth. On the face of it, initiatives for rural areas, education and health sound like political compulsions, but they do have the potential to make a significant impact on the vital problems facing Indian economy, provided, of course, that there is a clear focus on the outcomes. The measures for the rural sector of the economy in this year's budget include a wide spectrum of subjects covering rural infrastructure, credit, irrigation, crop specific initiatives, insurance, extension, food processing industries and subsidies. These are discussed below to understand their implications for the rural economy.

To begin with, the budget continues to focus on the main flagship scheme - Bharat Nirman - the objective of which is to provide irrigation, drinking water, roads, electricity, telephony and housing in rural areas in a time-bound manner. The overall allocation for the programme has been increased by 32 per cent to Rs. 24,600 crore, which appears justifiable given the scale and enormity of the task involved.

Within agriculture, the prime focus for the last few years has been on expanding the outreach of formal credit, mainly through the commercial banks. There has been fairly rapid growth in credit disbursal as the target of doubling credit flow to the agricultural sector set in 2004 was surpassed in two years. And, the reach is being expanded through new targets, such as raising credit flows by 18 per cent during the next year and bringing 50 lakh new farmers under the fold of formal credit. The three-year package for the farmers of 31 distressed districts of four states has been expanded with the induction of high-yielding milch animals to provide subsidiary incomes to the farmers living there.

The measures for the irrigation sector include extended provision of irrigation facilities through the Accelerated Irrigation Benefit Programme and the Rainfed Area Development Programme, restoring water bodies and recharging ground water by diverting rainwater into 'dug wells'. While three of the four schemes on irrigation are old, the only scheme which is new is one about recharging of ground water under which subsidy would be provided to farmers through a special escrow account maintained by NABARD.

Virtual stagnation in the output of pulses, its impact on prices and imports, have all led the government to devise a special scheme for raising the output of certified seeds of pulses under the Integrated Oilseeds, Oil palm, Pulses and Maize Development Programme. On extension, the proposal is to revive the dilapidated system and replicate the success achieved during the early phase of the Green Revolution through programmes such as training and visit (T&V), with some suitable changes. On the insurance side, the budget talks about making weather insurance universal. It is being provided since 2004 on a pilot basis. The resolve to take the erstwhile crop insurance scheme in this direction by expanding the pilot scheme should prove beneficial for the farmers living in rain-fed areas. The other new scheme on insurance with wider implications is death and disability insurance for rural landless households.

For the plantation sector, a provision has been made to launch special purpose funds for coffee, rubber and spices along the lines of tea in last year's budget. Likewise, there are a few measures that should help the agro-processing industry and consumers of these products. These include elimination of excise duties on instant food mixes and cut in import duties on irrigation and food processing equipment.

Some of the negative features, which also need to be highlighted, include very little reform in fertiliser and food subsidies. The fertiliser subsidy bill has increased by 30 per cent over the budgeted amount and the actual figure is expected to increase even further. Similarly, knee-jerk reactions like suspending forward trading in agricultural commodities seem like products of a short-term view rather than a long-term perspective.

In sum, given the long-haul fructification of all these initiatives, they are, exceptions apart, unlikely to have an immediate impact on the distress-filled lives of rural people. It is, however, hoped that once the targets set under these programmes are met and the vital recommendations of the National Commission for Farmers implemented after taking a holistic view, the revival of rural sector would be a reality the medium to long-term. In any case, the cumulative effect of poor performance year after year will obviously stretch the recovery process.