

Agriculture

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After an initial delay of about a week, the southwest monsoon remained unpredictable and erratic during the month of June. Rainfall remained confined to virtually the west coast of the country in the first two weeks, and the all-India rainfall deficiency (in that period alone) was as high as 59 per cent at the end of the second week of June. By the third week of June, the monsoon had progressed towards West Bengal and neighbouring states in the eastern region and Saurashtra and Gujarat region in the western region. A heavy spell of rainfall in these regions reduced the all-India rainfall deficiency somewhat — from 59 per cent at the end of second week to 49 per cent by the end of third week — and the monsoon had covered the entire country by June 30.

Extensive rainfall, particularly over the central and northern states of the country during the last week of June, reduced the all-India rainfall deficiency to 15 per cent by the month end. (A number of sub-divisions in

central and northern parts of the country such as Saurashtra and Kutch, Gujarat, Rajasthan, eastern Madhya Pradesh, central Maharashtra, Vidarbha, Punjab and Haryana received normal or even excess rainfall). As a result of this improvement in the monsoon rainfall during the last week of June the number of sub-divisions with deficient or scanty rainfall came down from 28 as on June 22 to 17 as on June 30.

The main sub-divisions where rainfall remained deficient during June include the north-eastern states, West Bengal, Jharkhand, Bihar, Uttar Pradesh, Uttaranchal, Himachal Pradesh, Jammu and Kashmir, parts of Rajasthan and Maharashtra, Madhya Pradesh, Andhra Pradesh and Tamil Nadu. Comparing the performance of monsoon rainfall in June over the last five years (including 2002-03, which was a drought year), it turns out that rainfall has been quite inadequate this year (Table A.1). This is revealed by the overall deficiency (-19 per cent) as well as the large

After a late arrival and erratic progress until the third week of June, the monsoon has recovered

Table A.1: Deviations in the Monsoon Rainfall Indices from the Normal during June (per cent)

| Region | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---------|---------|---------|---------|---------|---------|
| Eastern Region | 15.3 | 24.3 | 4.0 | 20.9 | -5.8 | -28.2 |
| Western Region | -4.3 | 52.2 | 46.2 | 16.9 | 6.0 | -7.4 |
| Northern Region | 116.6 | 130.7 | -18.9 | 8.0 | 43.0 | -48.1 |
| Southern Region | 22.7 | 4.1 | 8.5 | -14.3 | -4.8 | -8.0 |
| All India | 16.0 | 41.1 | 19.8 | 13.9 | 2.7 | -18.8 |
| Agro-climatic regions receiving deficient rainfall (Per cent) | 25.0 | 16.7 | 25.0 | 16.7 | 22.2 | 52.5 |

Source: Computed.

Notes:

1. These are deviations in regional level rainfall indices computed on the basis of un-irrigated area under foodgrains as weights.
2. The eastern region includes – Assam, Bihar, Orissa and West Bengal.
3. The western region includes – Gujarat, Madhya Pradesh, Maharashtra and Rajasthan.
4. The northern region includes – Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab and Uttar Pradesh.
5. The southern region includes Andhra Pradesh, Karnataka, Kerala and Tamilnadu.

number of agro-climatic regions that received deficient rainfall: 53 per cent in 2005-06 compared to 17 - 25 sub-divisions during the earlier years.

Prospects for 2005-06

Although it is too early to predict with certainty the exact rate of growth in the agricultural sector during the current year, if the monsoon continues with the same momentum it is quite likely that the agricultural sector may witness a relatively higher rate of growth in 2005-06. Any such growth during 2005-06 should be viewed in light of the sector's poor performance in 2004-05 (1.1 per cent growth) (Fig A.1).

Though there are indications from India Meteorological Department (IMD) suggesting that overall rainfall deficiency is likely to reduce in the next couple of weeks, one has to exercise caution in expecting a huge recovery. The overall distribution of rainfall during the rest of the monsoon season is critically important — borne out of the experience of the past few years suggesting that poor distribution of rainfall among regions during the monsoon can affect agricultural output adversely (Fig A.2). Further, water in major reservoirs until recently stood at 87 per cent of last year's storage level and 80 per cent of last ten years storage levels. Thus significantly higher agricultural sector output during 2005-06 is subject to the revival of the monsoon, which witnessed acute rainfall deficiency during the month of June. The other factor that might impinge upon agricultural sector growth in 2005-06 is the damage to crops due to heavy floods in certain parts of the country, which so far has affected only one state (Gujarat).

Nevertheless, the overall outlook remains optimistic on a couple of grounds. Firstly, recent indications from IMD suggest that rainfall deficiency is likely to reduce as the season progresses. Secondly, price expectations in 2005-06 remain high due to a lower level of stocks (particularly wheat) with the government agencies in comparison to earlier years. With last year's output being less than expected, the price outlook for many agricultural

Fig A.1: Annual Rates of Growth in GDP (Agriculture and Allied Sectors)

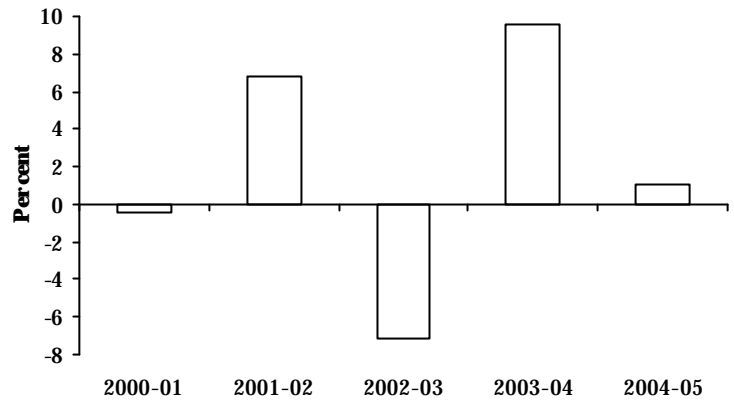
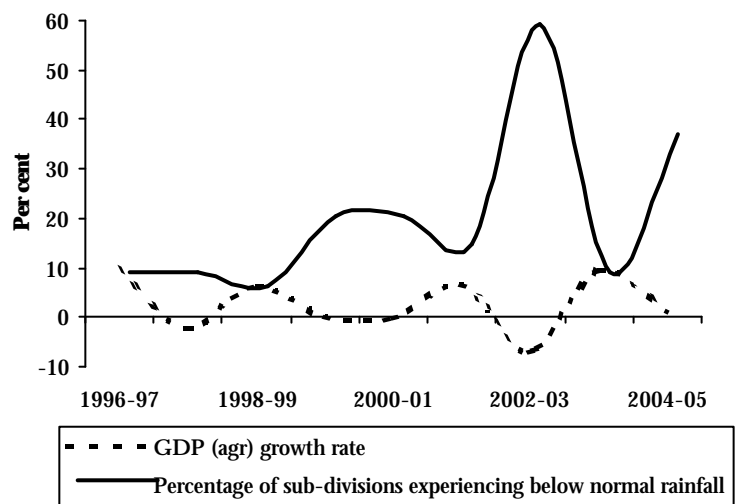


Fig A.2: Agricultural GDP Growth and Rainfall



commodities including wheat, rice, coarse cereals, pulses, oilseeds, jute and mesta and sugarcane remains buoyant (Table A.2). Thirdly, there is so far no reported shortage of fertilisers and the incidence of pests and diseases has also remained below the economic threshold level for most of the crops. Fourthly, measures announced in the budget — such as increasing credit flow for the agricultural sector by 30 per cent — will help farmers in easing constraints on capital requirements.

Thus, an exceptional monsoon during the remainder of the season coupled with low base and buoyant price expectations imply that output is likely to exhibit a higher rate of growth during the current year.

Worries have been expressed over

Agricultural output in 2005-06 is likely to be better than last year

Table A.2: Output of Selected Crops in 2003-04 and 2004-05

| Crop | 2003-04 | 2004-05 | Percentage Change |
|---------------------|----------------|----------------|-------------------|
| | Million tonnes | Million tonnes | |
| Rice | 88.3 | 85.3 | -3.4 |
| Wheat | 72.1 | 72.0 | -0.1 |
| Coarse cereals | 38.1 | 33.9 | -11.0 |
| Pulses | 14.9 | 13.4 | -10.1 |
| Total Food grains | 213.5 | 204.6 | -4.2 |
| Oilseeds | 25.3 | 26.1 | 3.2 |
| Cotton (\$) | 13.8 | 17.1 | 23.9 |
| Jute and Mesta (\$) | 11.2 | 9.7 | -13.4 |
| Sugarcane | 237.3 | 232.3 | -2.1 |

Source: Ministry of Agriculture.

Notes: \$ Million bales.

supplies of cereals due to inadequate stocks held by central and state agencies. Provisional data reveal that as of May 31, the stock of cereals with the central and state agencies was 26.6 million tonnes comprising 11.2 million tonnes of rice and 15.4 million tonnes of wheat. Clearly, given the current procurement of both wheat and rice, very little will get added to the existing level of stocks before the onset of kharif procurement. As the current level of stocks is below the minimum norm prescribed for July 1, (26.9 million tonnes) worries regarding the supply of foodgrains through the Public Distribution System (PDS) have dominated the headlines.

These concerns, however, appear to be misplaced for the following reasons. Firstly, the procurement of rice during the current marketing season (2004-05), estimated at 22 million tonnes, has been 5.3 per cent higher than last year's level of 20.9 million tonnes so far. This has made up for the 11.5 per cent loss in the procurement of wheat (two million tonnes) due to less than expected output and relatively higher prices in the open market, which lured private trade to buy more wheat from the market and resulted in lower pro-

urement this year. There is no denying the fact that there may be some pressure on stocks due to increase in the off-take of wheat, but not to the extent that would reduce stocks of cereals substantially. To a certain extent surplus stocks of rice can be used to fulfill the requirements of the PDS. There will be some depletion in stocks from now onwards but rice produced in 2005-06 will start arriving in the market by the end of September, which will make up for the depletion in inventory.

Secondly, the current level of stocks is below the recently established new norm of 26.9 million tonnes in April 2005. However, when viewed against the earlier norm of 24.3 million tonnes, the stock situation appears comfortable. Thirdly, with the recovery in rainfall, prospects for a higher output of coarse cereals have improved significantly. This will ease the pressure on wheat supplies from the PDS. Finally, to contain the pressure on stocks and boost off-take from the open market, the government has the option of lowering import duties on wheat. This will force private trade to off-load their inventories and import wheat if the need arises.

Output is likely to exhibit a higher rate of growth during the current year

There may be some pressure on stocks due to increase in the off-take of wheat, but not to the extent that would reduce stocks substantially