Agriculture

Performance During 2005-06

The second advance estimates put out by the Ministry of Agriculture for 2005-06 indicate that food grain production during the year is expected to increase by about 2.3 per cent from 204.6 million tonnes in 2004-05 to 209.3 million tonnes in 2005-06 (Table A.1). The output of rice currently estimated at 87.9 million tonnes in 2005-06 exhibits approximately 3 per cent increase over the previous year's 85.3 million tonnes. The estimated 73.1 million tonnes of wheat output indicates marginal increase of about 1.5 per cent over the last year's 72 million tonnes.

The production of coarse cereals is marginally up by about 0.2 per cent from 33.9 million tonnes in 2004-05 to 34 million tonnes in 2005-06. The output of pulses, however, is expected to grow at 7.6 per cent from 13.4 million tonnes in 2004-05 to 14.4 million tonnes in 2005-06. But, as a consequence of the shortfall in the production of wheat, coarse cereals and pulses against their targets, the overall production of foodgrains during 2005-06 is likely to remain below the target of 215 million tonnes, by about 2.6 per cent.

The output of other crops such as oilseeds, cotton, and jute and mesta is also estimated to witness a shortfall against the targets set for the year 2005-06. Despite exhibiting slight recovery in output compared to the last year's, the production of oilseeds is estimated to remain below the target by 0.8 per cent. The levels of output

Foodgrain production during 2005-06 is expected to increase by about 2.3 per cent, to 209.3 million tonnes

Table A.1: Estimated Output of Selected Crops in 2004-05 and 2005-06 (million tonnes)

Crops	2004-05	2005-06 (Targets)	2005-06 (2nd Advance Estimate)
Rice	85.3	87.8	87.9
Wheat	72.0	75.5	73.1
Coarse cereals	33.9	36.5	34.0
Pulses	13.4	15.2	14.4
Total foodgrains	204.6	215.0	209.3
Oilseeds	26.1	26.6	26.4
Cotton*	17.0	16.5	16.4
Jute and Mesta*	10.5	11.3	10.6
Sugarcane	232.3	237.5	266.9

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

* Million bales of 170 kgs of cotton and 180 kgs of jute and mesta.

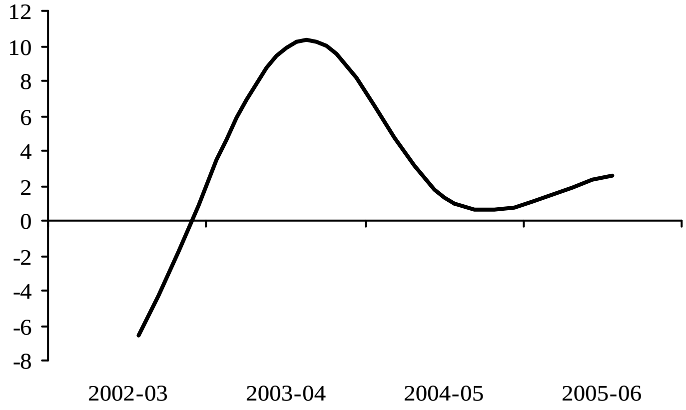
of fibre crops — cotton, jute and mesta — which are estimated to be 16.5 million bales and 10.7 million bales, respectively, also expected to fall short of their targets set for 2005-06. Among the other crops, sugarcane is the only one for which the output is likely to exceed the target, by about 12.4 per cent. This again is due to the lower level of target, which showed negative growth during the preceding three-years starting from 2002-03.

Such a mixed performance of the agricultural sector is mainly due to rainfall conditions. Unanticipated weather conditions — high temperature, untimely rains, hailstorm and consequent drop in temperature — dampened the prospect of rabi crop. But for the recovery of rainfall during critical stages and significant improvement in the storage of water in major reservoirs of the country, the impact of poor distribution of rainfall on agriculture would have been adverse.

The modest performance of the output of various crops is also reflected in the advance estimates of the national income released by the Central Statistical Organisation (CSO) recently. The estimates suggest that agricultural and allied sectors' GDP is likely to show 2.3 per cent growth rate (Fig A.1). Although this is better than last year's growth of 0.7 per cent, it is not sufficient to push the average growth rate of this sector to 4 per cent, which is the target set for the Tenth Five Year Plan. The average growth rate for the four-year period from 2002-03 to 2005-06 of the 10th FYP has clocked 1.5 per cent per annum, which is even lower than the poor rate of growth experienced during the 9th FYP (1.9 per cent per annum).

Thus, the year 2005-06 has turned out to be a year of rather modest growth for the agricultural sector. On the price front, the year has been characterised by low prices for most of the food products. The average rate of inflation for food articles has been about 4 per cent from April to January, which is just about the same as the overall rate of inflation.

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



But, there have been two developments, which are worth highlighting. One is related to the management of food stocks, mainly wheat, and the other related to allied poultry sector.

Sugarcane output is likely to exceed its target by about 12.4 per cent

There has been depletion in the stocks of wheat during the past few years due to exports, releases under PDS and other welfare programmes including food-for-work. In January 2006, wheat stock had fallen below their minimum buffer-stocking norm of 8.4 million tonnes by about 2.4 million tonnes. To beef up the stock held by the central agencies, the government had to import half-a-million tonnes of wheat recently and soon it is likely to import another one-and-a-half million tonnes. There is no denying the fact that stock of wheat had fallen below its minimum stocking norm, but contracting additional imports at a time when wheat crop has already started arriving in the market does not reflect very well on the management of food stocks.

The actual stock of both rice and wheat even on March 28, 2006, stood at 17.7 million tonnes, which was more than the minimum norm of 16.2 million tonnes, mainly due to increased procurement of rice. This is enough to meet the requirements of the PDS and other social welfare programmes for the time-being. The procurement of wheat, which has already begun, will help in replenishing the depleted stocks. And, if the decision to exclude above-poverty line households (APL) from the PDS had taken and implemented, the rate of stock depletion would have been reduced to a certain extent.

As far as supplies of other commodities such as pulses and edible are concerned, the situation is likely to remain comfortable due to imports, which have been compensating for the loss in domestic output of these two commodity groups.

Among the allied sectors, the worst-hit has been the poultry sector due to the outbreak of avian flu, which so far has luckily remained restricted to some parts of only two states — Maharashtra and Madhya Pradesh. The immaculate response with which the government acted through the help of veterinarians for culling of birds and supplies of drugs aided in not spreading the disease to other areas of the country. To ease the burden of outbreak, the government also granted one time reduction of 4 percentage points in the interest payments on bank loans taken by the poultry units. These measures helped in limiting the damage and provided some relief to the poultry industry.

Prospects for 2006-07

The prospects for 2006-07 hinge very much on the performance of monsoon, the forecast for which would be known by the end of April. The early indications are that monsoon is likely to be normal this year. Clearly, if the monsoon turns out to be normal and its distribution across regions remains adequate, the agricultural sector should witness higher growth this year. This is particularly true if one takes into account the below average performance of this sector during the last two years.

At the moment, the outlook is optimistic on certain other grounds as well. At the end of March 2006, the storage levels of water in about 76 major reservoirs were more than last year's, as also the average during the last ten years. Further, pest and disease attack incidence has remained below the economic threshold levels for most of the crops.

The recent budget has announced a list of measures, which may have a positive impact on the sector's growth. This is discussed in the next section. The worrying factors, however, continue to be the management of food economy, chances of spreading avian flu to other parts of the country, which at the moment, appears to be under control, and long-term growth prospects for this sector.

Agriculture in Budget 2006-07

In the area of agriculture and rural development, the focus of this year's budget is mainly on consolidation and strengthening of on-going programmes such as enhancing the supply of rural credit, Bharat Nirman and Rural Employment Guarantee Programme, which were initiated in 2004-05 and 2005-06 respectively. There is very little in the budget in terms of new ideas or initiatives as far as agricultural and rural development sectors are concerned.

The promise to double the flow of credit to the agricultural sector was made in 2004-05. And the credit flow numbers suggest that there was 44.1 per cent growth in agricultural credit in the first year and preliminary indications suggest that the target fixed for 2005-06 is likely to be exceeded. Accordingly, the goal for this year has been fixed at Rs 1,75,000 crore. In addition, 2 per cent relief in the interest rate burden on loans borrowed during 2005-06 has also

The on-going procurement of wheat will help in replenishing the depleted stocks

At the end of March 2006, the storage levels of water in about 76 major reservoirs were more than last year's, as also the average during the last 10 years been provided.

In terms of expanding coverage under the fold of formal credit, banks have been asked to open a special window for tenant farmers through joint liability groups. And, the NABARD (National Bank for Agriculture and Rural Development) has been asked to open a separate line of credit in its micro finance portfolio for financing farm production and investment activities through Self-Help Groups (SHGs).

However, the real big difference, which is likely to be made in the coming years is the reduction in interest burden for farmers by providing them short-term loans at 7 per cent. This, however, will be made possible through a provision of special support to NABARD, which has been providing refinance to co-operative and regional rural banks (RRBs) for further lending.

The Bharat Nirman was launched in 2005-06 to provide basic amenities and infrastructure in rural areas with specific targets to be achieved by 2008-09. The targets fixed under the programme are challenging in view of the past records of missing targets whether it is providing road connectivity or provision of other basic infrastructure services such as safe drinking water to all habitations, power and telephone connectivity.

The mission approach adopted in the programme and increased budgetary allocations, which have witnessed 54 per cent increase this year, are steps in the right direction. And, relatively better progress made in the first year of its implementation is encouraging, but the achievement of final targets will depend upon the support of state governments and agencies involved in the implementation of these programmes.

The Rural Employment Guarantee Programme, another flagship programme of the government, has been allocated Rs 12,870 crore. And, various other on-going programmes such as Accelerated Irrigation Benefit Plan (AIBP), which has been designed to complete on-going major and medium irrigation schemes and programmes to repair, renovate and restore water bodies have been strengthened with additional resources.

Some incentives have also been provided to the food processing sector through priority sector status for bank credit, reductions in duty on packaging machines (from 15 per cent to 5 per cent) and exemptions from excise duty for certain dairy products. Further, there is a reduction in the excise duty on ready-to-eat packaged food and instant food mixes such as dosa and idli from 16 per cent to 8 per cent. For the plantation sector, special fund for the tea industry to help rejuvenate old plantations, was long overdue.

All these measures are likely to benefit rural areas in the long run, but the levels of benefits will depend very much on the achievement of final targets, preventing large-scale leakage that takes place in these programmes and survival of assets created under the programme. Also, there are some genuine questions about equity, particularly in the case of rural credit, given the fact that only about a quarter of all cultivator households have access to formal credit. Moreover, other important issues such as improving the quality and effectiveness of current expenditure pattern, especifically subsidies either through rationalisation or targeting have also been left for the future.

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