

Agriculture

Agricultural forecasts suggest record production of foodgrains in a year with rainfall, six per cent above normal. However, management of foodgrains continues to challenge policymakers due to lack of infrastructure. Food inflation in other food categories continues to haunt Indian citizens.

I. Backdrop

The outlook for agricultural sector for 2013-14 has been fairly positive as agricultural GDP for the first half of the current financial year has witnessed a growth of 3.6 per cent. The first quarter of 2013-14 experienced 2.7 per cent growth and the second quarter recorded a growth of 4.6 per cent over their respective quarters of the previous year. These estimates are based on the first advance estimates of crop output, which were released during the last week of September 2013.

As per these estimates, kharif foodgrain output was estimated to be 0.9 per cent higher than last year's level of output. The output of rice, coarse cereals, and pulses exhibited a marginal increase over their preceding year's levels of output. And, same is the case with output of oilseeds. However, the second advance estimates, which are likely to be released soon are expected to revise these estimates upwards due to better and more accurate information, therefore actual increase in output for the kharif season may work out to be higher than what is reflected in the first advance estimates.

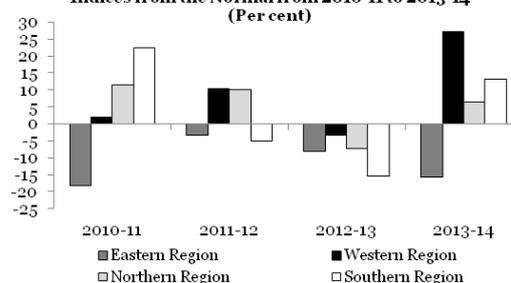
This was also suggested in the estimates for kharif season reported by us in the last quarterly review because monsoon rainfall during June-September period of 2013-14 has been excess to normal in large parts of the country.

The actual rainfall received during the monsoon season was 6 per cent above its long-term average and of the total 36 agro-meteorological sub-divisions, 31 sub-divisions covering about 78 per cent of all districts in the country received normal to excess rainfall.

The spatial distribution of seasonal rainfall at the level of sub-divisions and districts was also fairly good as reflected in the shares of sub-divisions and districts that received normal to excess rainfall.

Thus, in comparison to 2012-13 the spread of monsoon rainfall during 2013-14 was fairly satisfactory. And, a comparison of the performance of monsoon rainfall during the period from the beginning of June to the end of September over the last four years reveals that this year's rainfall has been the best in three of the four major regions of the country (Figure A.1). The only exception was the eastern region, which on the whole received below normal rainfall.

Figure A.1: Deviations in Regional Monsoon Rainfall Indices from the Normal from 2010-11 to 2013-14 (Per cent)



As a consequence, improved soil moisture due to good monsoon rainfall and significantly higher level of water storage in major reservoirs of the country also suggest better crop outlook for the rabi season as a whole. The actual storage of water in 85 reservoirs of the country during the beginning of January 2014 was 123 per cent of last 10 years average level of storage. And, reports from the Ministry of Agriculture also suggest that the incidence of pests and diseases has remained below Economic Threshold level for most of the crops and there is no shortage of other inputs such as fertilisers.

Though very little information is available on the actual crop output for the rabi season at this stage, nevertheless, signals are that wheat output is likely to exceed the target set for the year because area sown under wheat is 6.3 per cent higher than last year's acreage at this time of the year. And, acreage devoted under rabi rice, rabi pulses, and oilseeds is also higher than the previous year's acreage under these crops.

Hence, subject to normal weather conditions and assuming expected growth in crop output it is quite likely that output of foodgrains in 2013-14 may turn out to be significantly higher than what was achieved in 2012-13. Our estimates suggest that overall foodgrain output is likely to set a new record, around 270 million tonnes (Table A.1).

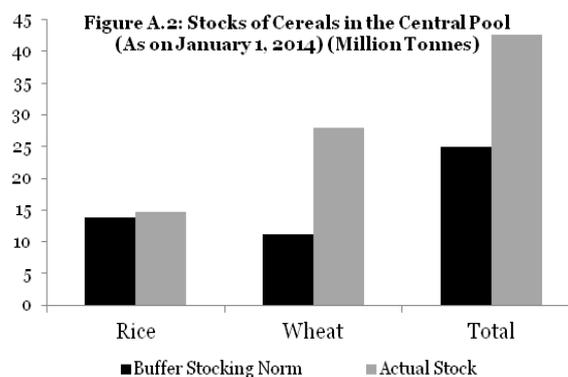
And, same is the case with a few non-foodgrains such as oilseeds and cotton.

Notwithstanding better performance of the main agricultural commodities, food inflation still continues to remain very high as the prices of a few commodities such as vegetables; cereals; eggs, meat, and fish; and, condiments and spices have risen at a faster rate in 2013-14 compared to last year. Though wholesale price indices of pulses have fallen this year and milk prices have also been lower in 2013-14 compared to last year.

But, the increase in wholesale prices of vegetables due to their seasonal nature has been very high and has been the main reason for increase in prices of food articles in 2013-14.

Though as mentioned earlier because the outlook for supplies of main food articles for the remaining period of the year is much better the prices of food articles are likely to witness a slower growth going forward. For cereals in particular, the actual stock of both rice and wheat with government agencies in the central pool stood at 42.7 million tonnes as on January 1 2014, which is 17.7 million tonnes more than the buffer stocking norm of 25 million tonnes (Figure A.2). Therefore, significantly

higher stock of rice and wheat at the beginning of the year (January) should be a sign of great comfort as far as supplies are concerned, yet more than adequate level of stocks is also putting extra pressure on carrying costs and losses that occur because of inadequacy of storage facilities.



There are huge implications for the overall food subsidy bill, which is also expected to be higher. The increase in both procurement as well as storage has led to a significant increase in costs. This has widened the difference between economic cost and issue prices, which have remained at the same level for the past several years. The subsidy bill will again come under considerable pressure as the burden of additional supplies of wheat and rice during the next marketing year starts building up in April.

Whereas there may be some merit in keeping extra stocks for meeting the requirements of new food bill, however, questions about proper mechanisms for addressing food security for different types of households and efficient utilisation of resources remain highly relevant in the light of several inefficiencies that plague the existing systems.

Table A.1: Actual and Estimated Output of Selected Crops

| Crops | Output in 2012-13 (Million tonnes) | Provisional Output for 2013-14 (Million tonnes) | Estimated Output for 2013-14 (Million tonnes) |
|-------------------|---------------------------------------|---|---|
| Rice | 104.4 | | 107.6 – 112.4 |
| Kharif | 92.8 | 92.3 | 95.1 – 99.7 |
| Rabi | 11.6 | | 12.4 – 12.7 |
| Wheat | 92.5 | | 99.9 – 100.1 |
| Coarse cereals | 40.1 | | 43.5 – 46.1 |
| Kharif | 29.5 | 31.0 | 33.9 – 36.4 |
| Rabi | 10.5 | | 9.6 – 9.7 |
| Pulses | 18.5 | | 20.3 – 21.2 |
| Kharif | 5.9 | 6.0 | 6.7 – 6.9 |
| Rabi | 12.5 | | 13.6 – 14.2 |
| Total Food grains | 255.4 | | 271.1 – 279.0 |
| Kharif | 128.2 | 129.3 | 135.6 – 142.9 |
| Rabi | 127.2 | | 136.0 – 136.1 |
| Oilseeds | 31.0 | | 39.6 – 40.6 |
| Kharif | 20.9 | 24.0 | 27.7 – 28.4 |
| Rabi | 10.1 | | 11.8 – 12.2 |
| Cotton (bales) | 34.0 | 35.3 | 37.1 – 41.7 |
| Sugarcane | 339.0 | 341.2 | 331.1 – 341.9 |

Sources: Ministry of Agriculture and Computed.

Notes:

1. Provisional output data for 2013-14 are based on first advance estimates.
2. Estimated output for 2013-14 is based on area, production, and yield equations.

Table A.2: Changes in Wholesale Price Indices of Food Articles in 2012-13 and 2013-14 (April – December)

| S. No. | Product | Increase in 2012-13 over 2011-12 | Increase in 2013-14 over 2012-13 |
|--------|-----------------------|-------------------------------------|-------------------------------------|
| 1 | Food Articles | 9.5 | 14.5 |
| 2 | Cereals | 11.5 | 14.4 |
| 3 | Pulses | 21.7 | -5.8 |
| 4 | Vegetables | 18.0 | 49.5 |
| 5 | Fruits | -0.9 | 6.3 |
| 6 | Milk | 8.2 | 5.1 |
| 7 | Eggs, meat and fish | 15.0 | 13.8 |
| 8 | Condiments and spices | -15.6 | 16.0 |
| 9 | Other food articles | -12.5 | -4.3 |

Source: Computed.