

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Pakistan

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Government of Pakistan Increases Wheat Procurement Price

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Grain and Feed

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Report Highlights:

Government of Pakistan raised the support price for the upcoming wheat crop to Rs1200 per 40 kilograms (\$312/ton), up 14 per cent over the existing price of Rs1050 per 40kg (\$292/ton). The increase will not have any immediate effect on current flour prices, but rather will occur next August when the government starts releasing wheat stocks to flour millers at the new rate. Government's decision will also increase the level of circular commodity debt, increasing pressure on an already fragile economy.

General Information:

On November 22, the Government of Pakistan raised the support price for the upcoming wheat crop to Rs1200 per 40 kilograms (\$312/ton), up 14 per cent over the existing price of Rs1050 per 40kg (\$292/ton). According to an official statement, the support price was increased on a recommendation by the Ministry of National Food Security and Research (NFSR) stating that in order to ensure sufficient domestic production, farmers need help in offsetting the increase in the cost of inputs. It's interesting to note that on November 19, Secretary NFSR informed USDA during a meeting that the wheat procurement price was currently being analyzed, and gave no indication that the increase was imminent.

Belated Announcement Raises Doubts about Government Intentions

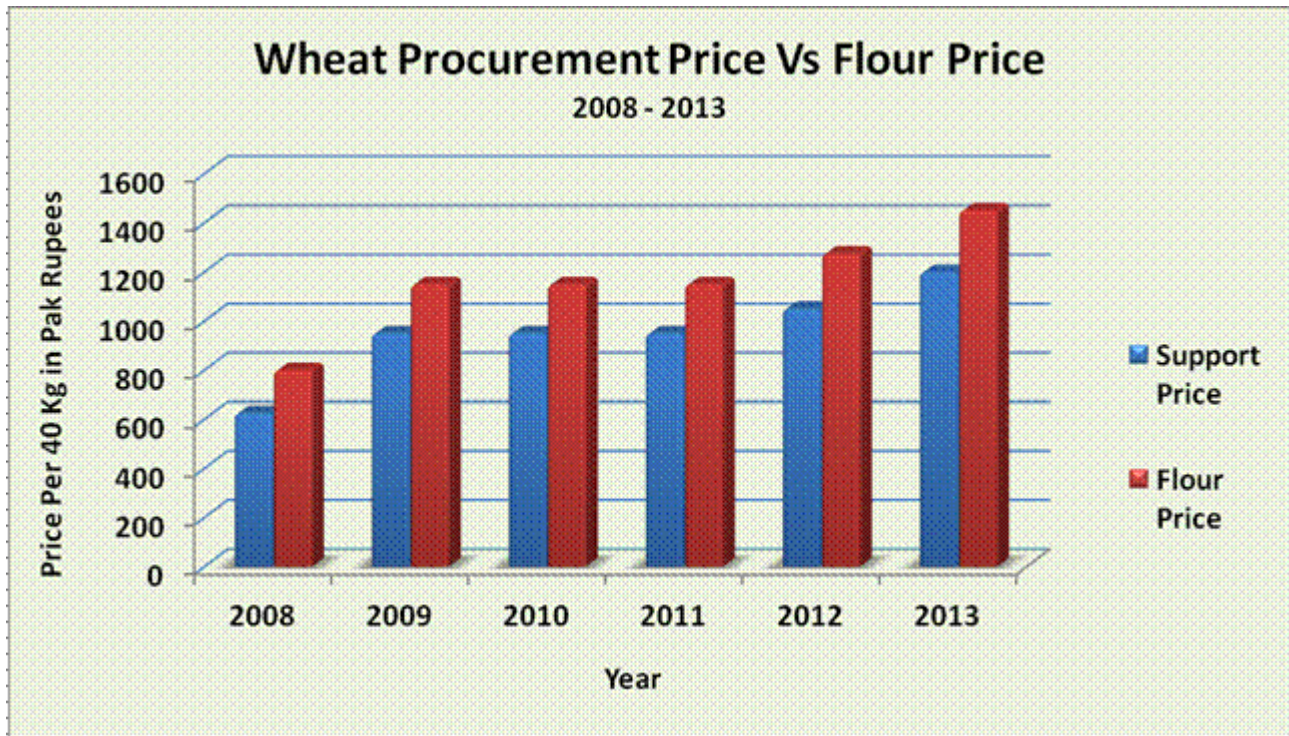
The decision to increase the procurement price was made after about sixty percent of the current wheat planting was completed. According to farmers' organizations, the government is two months late in its announcement as it will have less influence on farmers' decisions. Pakistan's wheat planted area has decreased by five percent during the last two years. It is however interesting to note that in spite of reduced area Pakistan has been able to maintain a steady production level. This is due to better yields as a result of the deposition of rich soils due to floods and availability of new wheat varieties.

The government's decision to increase the procurement price has aroused suspicions from different quarters. Trade and milling industry view the announcement as a political rather an economic decision. It's viewed as an apparent attempt by the government to appease its rural based constituency to gain support in the next year's upcoming general elections. Increasing support prices is perceived as a move to help the party win back rural voters estranged due to multiple issues ranging from a deteriorating energy crisis to a dwindling law and order situation.

Government sources indicate that NFSR and the Agriculture Policy Institute, after a detailed analysis and consultation with the provinces, had initially proposed to the government to retain last year's procurement price because the price of fertilizer was the same as last year. However, NFSR later had to revise the proposal bowing to the political influence.

Concerns regarding Increase in Food Inflation

The increase in the wheat procurement price will not have any immediate effect on current flour prices, but rather will occur next August when the government starts releasing wheat stocks to flour millers at the new rate. The flour prices have risen by 60percent since 2008 and are likely to rise by another 14 percent in August of next year (Graph 1). The graph also indicates the increase in the government procurement price has always resulted in a proportional increase in price of flour.



Circular Commodity Debt Likely to Increase

Food inflation isn't the only disadvantage of higher wheat price. It will put additional burden on the government to borrow more funds from banks to cover its wheat procurement operations and storage of costs.

Pakistan maintains a government controlled wheat marketing system. The Federal government guarantees financing for the purchase of wheat and sets a ceiling price in an effort to provide incentives to farmers. Bank loans are utilized to procure, hold, and maintain stocks of wheat. Provincial governments take on more debt to buy wheat from the new crop every year. The borrowed amount is in addition to the outstanding loans and mark up from last year. This has resulted in a situation where the outstanding amount continues to increase, creating the phenomena of circular debt. According to latest data, commodity debt increased to \$4.5 billion dollar by end of June 2012. Government's decision to increase the procurement price will also increase the level of circular commodity debt, increasing pressure on an already fragile economy.

This year, the government procured 5.7 million tons of wheat; however it has yet to announce a procurement target for the next crop. The government will need about \$1.8 billion to procure wheat if it decides to maintain the previous wheat crop's procurement level.

