



Does macro-economic stability matter for household food security?

Special Focus Pakistan

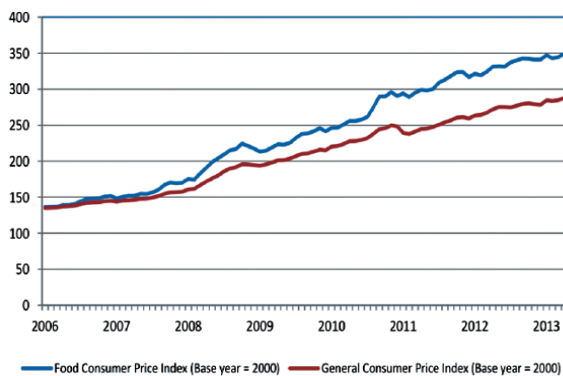
- Several factors are maintaining pressure on food and non-food prices: depreciation of the Pakistani Rupee, deterioration of the trade balance and the widening fiscal deficit, long-lasting effects of floods, and localized droughts.
- Particularly food inflation is deteriorating households' purchasing power and has contributed significantly to food insecurity over the last few years.

Recent inflation is driven by food inflation

Since 2007-08, the consumer price index is led by its food component which represents on average 45% of household expenditure in Pakistan. Price increases of a handful of commodities drive food inflation, namely milk, meat, wheat flour, fresh fruits and fresh vegetables. These commodities account for more than 50% of food inflation since 2007-08. In June 2013, food inflation rose by 8.1% from last year, against 4.4% for non-food inflation¹. Substantial annual increases were recorded particularly for tomatoes (+125%), onions (+88%), fresh vegetables (+30%) and wheat flour (+20%). Government incentives on procurement prices of wheat, rice, cotton and sugar cane, and transmission effects of high global food prices contributed to this food inflation.

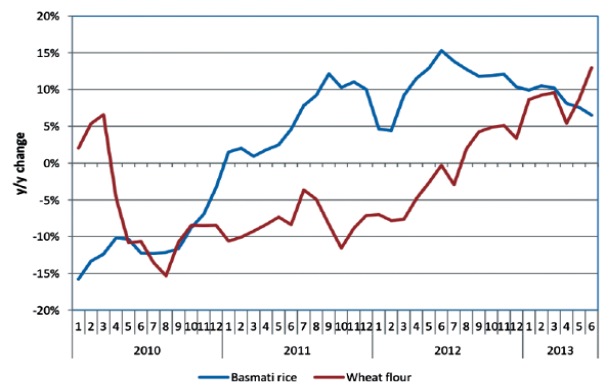
In real terms, both wheat flour and basmati rice prices have increased significantly in recent years. A number of factors have influenced these increases. Despite a slight improvement in wheat production in 2012/13, the estimate of the wheat stock-to-use ratio is 27% lower in 2013/14². In November 2012, the government increased the wheat procurement price by 14.3%. High fuel prices and energy shortages have also contributed to food price increases. The increase in the real price of basmati rice is due to a significant drop in rice production (-27%) caused by the severe flood that hit Pakistan in 2010. In July 2013 the real price of wheat flour was 15% higher than in July 2012. While the July 2013 real price of basmati rice is 7.5% higher compared to July 2012, the year-on-year price differences have been narrowing since mid-2012.

Consumer price indices (general and food CPI)



Source: FAOSTAT

Changes in real price of wheat flour and basmati rice (y/y in %)



Source: WFP

1. Pakistan Bureau of Statistics, Monthly review on price indices, June 2013.
2. United States Department of Agriculture, Foreign Agricultural Service.

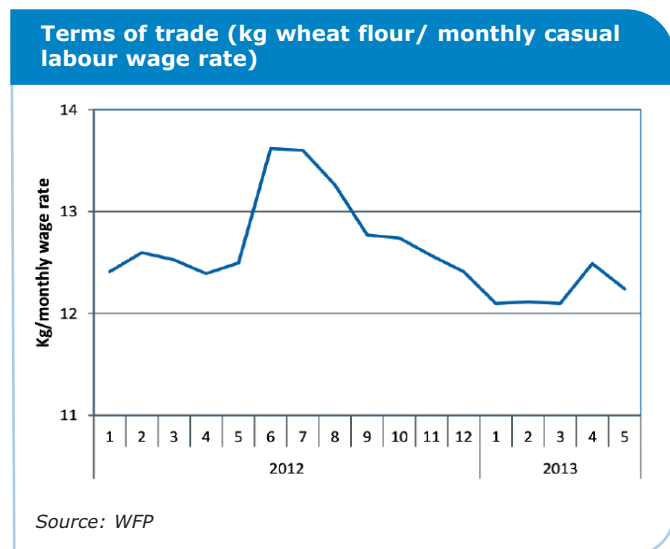
Overall inflation is also caused by macro-economic imbalances

There is a non-food dimension to general inflation, which is caused by macro-economic imbalances. For the last three years, the fiscal deficit stood at 6% of the GDP. Both a substantial increase in government subsidies for food production, as well as increased government expenditures on security contributed significantly to the high fiscal deficits. The government's overall import capacity is weakened by a sharp decline in foreign exchange reserves. During the last decade (2002-2012), the terms of trade between exports and imports deteriorated by 44%, reflecting a major deterioration of the trade balance. As of May 2013, foreign reserves stood at USD 11.5 billion, following two consecutive years of substantial reduction (-24.9% from 2011-12, and -37.1% from 2010-11)³. The current level of foreign reserves is just over two months of imports⁴. Since April 2008, the Pakistani Rupee has depreciated by 54.7% against the US Dollar.

With the steep currency depreciation, imported inflation is transmitted to the economy mainly through fuel products and construction materials. Fuel represents about 40% of total import values in Pakistan. Compared to July 2012, prices of fuel products have increased significantly (petrol, +20.7%; kerosene, +13.3%, and diesel, +10.4%). In July 2013, cement price also increased by 13.1%, compared to July 2012⁵.

Impact on household food security

Over the last few years, adverse economic and climatic conditions (floods and localized droughts) have been deteriorating household food security. Recent studies



3. State Bank of Pakistan.

4. Economic Intelligence Unit, July 2013.

5. Pakistan Bureau of Statistics.

6. Agha Khan University and Ministry of Health 'National Nutrition Survey 2011'.

7. Food Insecurity in Pakistan, WFP, SDPI and SDC, 2009.

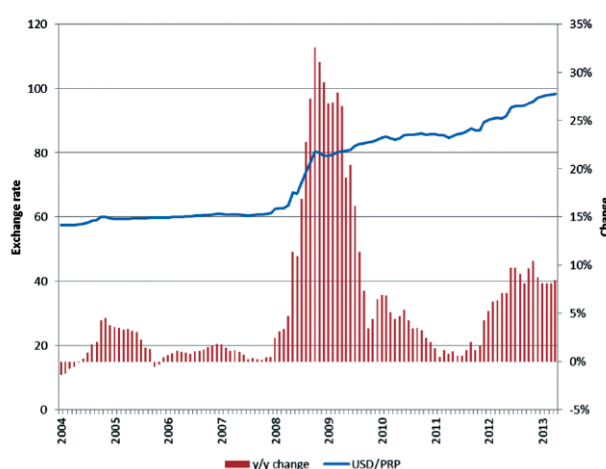
8. WFP, 'The Feasibility of Using Cash and Voucher Assistance to Support Household Food Security, A Study in Eleven districts of Sindh, Balochistan and KPK Provinces of Pakistan', June 2013, draft.

For more information, contact:

Joyce Luma
Deputy Director, PPI - Analysis & Nutrition Service
joyce.luma@wfp.org

Issa Sanogo
Senior Advisor, Economic & Market Analysis Unit
issa.sanogo@wfp.org

Evolution of the exchange rate (USD/PRP)



Source: State Bank of Pakistan

show an increase in food insecurity in Pakistan. A 2011 National Nutrition Survey⁶ found that 58% of Pakistani households were food insecure, whereas a 2009 study on food security reported 49% of the population as food insecure⁷. More recently, a WFP study conducted in eleven districts⁸ estimated the proportion of households with deficient caloric intake at 54%.

The worsening of the food security situation is also reflected in the deterioration of households' purchasing power. The increase of the casual labour wage rate has not compensated price increases of cereals during the last twelve months. Compared to a year ago, the wage rate has increased by 10% while the real price of wheat flour (the main caloric contributor) has gone up by 15% in July 2013.

The government is taking actions to mitigate the hardship faced by households. In early July, Pakistan and the IMF reached a staff-level agreement on a bailout package to improve medium-term growth, help restore fiscal stability and rebalance public finances and the trade account. The government has decided to enforce price controls on essential commodities by law. These efforts are expected to lead to higher growth, create jobs and reduce inflation.

World Food Programme

Via Cesare Giulio Viola, 68/70 - 00148 Rome, Italy
www.wfp.org/food-security



vam
food security analysis