

Poverty & Food Insecurity

Domestic Context

Pakistan CPI-based inflation up 13.68%

Pakistan's consumer price index (CPI), a key indicator of inflation, rose 13.68 percent in January 2009-10 over the previous year, official statistics indicated on February 10. The growth in the inflation reversed the declining trend in the previous months when inflation's growth decelerated. The inflationary pressures in month of January could be attributed mainly to electricity and petroleum prices hike in the last month, which fuelled the inflation to post growth over the previous year. During July-January of current fiscal, CPI also rose 10.79 percent over the corresponding months of previous year. Analysts said during Jan-10, the government increased electricity and petroleum prices by an average of 12 percent and 10 percent respectively as one-time adjustment due to subsidy elimination for fiscal stability. The increased prices directly impacted over inflation (cumulative weight of 6.3 percent in CPI basket). Conversely, indirect impact in terms of uneven increase in the transportation cost had negative impact on inflation outlook in the short term.

Food inflation registered 15.49 percent growth during the period under review. Non-perishable food item prices increased 14.76 percent whereas perishable food items recorded 21.30 percent increase in their prices. **Fuel & lighting index** rose 20.19 percent during January this over the last year whereas house rent index posted 13.38 increase this month. **Transport & communication index** rose 9.43 percent, education expenses increased 13.68 percent and medical expenses increased 5.88 percent. The detailed analysis of the Sensitive Price Index (SPI) prices for Jan-10 reveals that few items, within the food category, were observed to post over 100bps MoM increase in prices. Sugar (1.92 percent weight in the CPI) remained exceptional with 19 percent MoM increase and food prices (40.3 percent weight in the CPI) contributed passively this time around to the CPI in Jan-10 due to being relatively stable. Early this financial year, government estimated that the inflation would be curtailed at single digit but tariff increase in energy sector for removing subsidy has dampened the efforts to contain the inflation and provide relief to masses. Analysts said an upsurge in **oil prices** will remain a risk to domestic inflation along with further expected depreciation in Pak rupee against US dollar and felt the upcoming surge in inflation will force the State Bank of Pakistan (SBP) to maintain its stance in forthcoming monetary policy. The State Bank of Pakistan kept the discount rate unchanged in the last monetary policy statement at 12.5 percent owing to expected rise in CPI inflation and the impact of law and order situation. **Sensitive Price Index (SPI) and Wholesale Price Index (WPI)** also rose 18.35 and 19.64 percent respectively during month of January over last year.

16.50 percent Inflation Rate Expected till June -- Survey by PIDE

Pakistan Institute of Development Economics (PIDE) revealed that expected inflation in the country would remain at 16.50 percent from February to June 2010. According to a survey conducted by PIDE, 90 percent of the respondents believed that the law and order situation affect inflation expectations in addition to international inflation, foreign aid and financial development. It revealed that expectations played a crucial role to determine economic indicators. "It also played a key role in central banking practice. Information about expectations could provide evidence on the extent to which shocks affect the inflationary process," it said. The PIDE inflation expectation survey reflected opinion about a range of variables including inflation, state of the economy and monetary policy action. The survey revealed that people were expecting that inflation would rise in future. It showed that demand-pull, cost-push and structural factors were responsible for current inflation in Pakistan and that the government policies were not useful to enhance growth.

Inflation Expectations: An overwhelming majority of the respondents i.e. 91.9 percent expected that inflation rate during current year would be higher than the target rate (9 percent). Whereas, three percent of the respondents were of the view that it would be lower and four percent said that it would remain the same.

Current **cause of inflation** includes demand-pull, cost-push and structural inflation. The survey revealed that cost-push factor was much responsible for causing inflation. The contribution of cost-push inflation was 29.1 percent, followed by demand-pull factor (14 percent) and structural factors (13.5 percent). Collectively, all of the three factors were contributing about 56.1 percent to current inflation. Some of the professionals i.e. 45.3 percent

predicted that increase in food prices was the current cause of inflation. About 22 percent of the respondents think that increase in oil prices also accelerate current inflation. Whereas, 14.3 percent respondents expect that utility prices were responsible for current inflation. Majority of the respondents (66.4 percent) think that coordinated monetary and fiscal policies were required to control inflation in Pakistan. Expectations about the consumer prices appear to be different in view of different people. Some of the respondents (46.7 percent) said consumer prices would increase more rapidly, 28.9 percent were of the view that it would increase at the same rate, while 3.9 percent of the respondents think that consumer prices would remain the same in the next year (2009-2010). The survey revealed the government policies were not sufficient to curb inflation.

Expectations of people regarding interest rate showed that 67.5 percent of the respondents were in favor of low **interest rates**, 11.9 percent said that higher rates were best for the economy, while remaining said that there would be no change in it.

About 26.4 percent respondents think that during the month of February, the value of domestic currency remained same, while 52.7 percent expect that it would depreciate and the remaining argued that it would appreciate. For the next five months, 20 percent of the respondents expected the **exchange rate** to appreciate whereas 69.1 percent predict that it would depreciate and the remaining were of the view that there would be no change in it. All these observations showed that majority of the respondents were of the view that exchange rate will depreciate in future.

As far as **unemployment** was concerned, 61.3 percent respondents think that it would increase in the next five months. Furthermore, unemployment would keep on increasing by the next 12 months according to 67.6 percent of the respondents.

Average expected **economic growth** rate for next five months appears to be 2.086 percent. Majority of the respondents (67.5 percent) were of the view that it would decrease as compared to current rate, 11.9 percent said that it would increase as compared to current rate, while others say that it would remain the same. In this regard 52.6 percent of the respondents were of the view that government's current policies were not sufficient to enhance growth, 13.8 percent said that these policies were useful, while the remaining were not clear about the government policies.

Diverse Factors Affecting Food Security

The factors affecting food security in Pakistan include decline in productivity and incomes from traditional crops, global food price surge, increase in poverty and growing incidence of food related diseases. A member Planning Commission, Muhammad E Tusneem said **dependence on imported food** also attributed to the factors affecting food security in Pakistan. Due to **non-availability of cold storages**, inappropriate handlings are responsible for loss of 10 percent grains, 40 percent of fruits and vegetables across the country, he added. About 10-15 percent of water loss could be minimised through the watercourse improvement project, in which lining of water resources would be carried out. He attributed **poor governance and political interventions** as the major impediments in the way of agricultural development. "Governments are reluctant to share information with the informed members of society and methodology followed by the government departments for sharing information was obsolete and was often a waste of time and resources", he added. The **ineffective governance, lack of information sharing and lack of communication at the grassroots level** are the major causes of poor agricultural yields in Pakistan, Mateen Siddiqui, Director Agribusiness Support Fund said. Besides, the government functionaries concealed data in order to hide corruption, he said. The food security, concepts and perspectives exist when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life," Mateen added. Food insecurity exists when people do not have physical or economic access to food as defined above, he said. He said there was dire need from shift to intensive farming from extensive farming, giving example he said we have cultivated sugarcane in unsuitable cotton belt, like D I Khan. Poor farmers go through the vicious cycle of shortages and surplus production. Farmers in NWFP had started sowing seeds ahead of time. They adapted to climate change without even knowing what it is. Bottom up agricultural data should be gathered from bare foot doctors, he stressed. Scientifically designed storages could reduce post-harvest losses to 10 percent. Agriculture contributes to the emission of greenhouse gases (GHG) like Carbon Dioxide (CO₂), Methane and Nitrous Oxide. Burning of residues of crops leads to emission of CO₂, whereas livestock was the major source of emission of Methane and Nitrous Oxide. Another source of Carbon sequestration was Carbon sink in the soil. Less privileged farmers in the developing countries were most affected by adverse impacts of climate change. Likewise, rain fed, coastal and mountainous belts were more likely to be

affected by adverse impacts of climate change, he said. A major part of our fruit is lost during picking, packing and transporting stages of fruit and concern of farmers is non-availability of resources. He stressed on the need of seasonal forecast, besides weather forecast on daily or weekly basis. He suggested agri-research and scientific technology should be employed for adaptation to and mitigation of climate change impacts.

Wheat Stocks May Spoil Due to Lack of Storage Capacity

Sindh Food Department's lack of wheat storage capacity is likely to result in spoiling huge quantity of the commodity during the upcoming wheat procurement season which may cause substantial financial losses to the provincial exchequer. Against the storage capacity of 5 to 6 lacs tonnes of the commodity in the province, previous year the provincial food department procured around 12 to 13 lacs tonnes of wheat majority of which was placed in the open or some with flour mills. Despite passage of one year, the department has managed to sell off only 7 to 8 lacs tonnes of the commodity while rest is lying in its godowns spread across the province. Now the wheat procurement season is almost round the corner and reports of the bumper crop in the province like elsewhere in the country, the provincial food department is set to purchase around 12 to 13 lacs tonnes of the commodity from farmers and growers. Already burdened with the responsibility to take care of the old stock of wheat, the department is likely to face in near future another major challenge of procuring the wheat and ensuring its storage, which appears to be a monumental task as claimed by some major dealers in the open market and flourmill owners. Completely oblivion of the emerging situation, the officials of the provincial food department appear least bothered to arrange additional storage of new arrival in next one month", claimed a leading wheat dealer while giving his opinion to the scribe. He said unless government do not make drastic measures of enhancing wheat storage capacity, large chunk of the commodity may either be spoiled to ruined during the monsoon season during July and August.

Mohammad Yousuf, Chairman All Pakistan Flour Mills Association, Sindh Chapter, replying to a query of the scribe conceded about lack of storage capacity by the Sindh Food Department specially when its has failed to get rid of previous years stock. Replying to a question he claimed that previous year perturbed by the reduced wheat storage capacity, the provincial food department had solicited help of flourmills association to help them overcome the problem. "We promptly arranged around one lacs tonnes of the storage capacity of the commodity in our godowns but this year it would be a difficult proposition to make extra storage space for the huge quantity of the wheat which the government would start procuring from farmers in next 30 days or so" he remarked. He urged the government to make extra storage capacity for the expected fresh wheat arrivals from Sindh Interior on war footing otherwise it would be difficult for the department to avert ruining of large quantity of wheat which would be lying in open spaces specially during rainy season. Replying to a question, he also suggested the government to allow export of surplus wheat in shape of its byproducts including sooji and maida, which would also help earning precious foreign currency to the national exchequer in the process.

Global Context

India Aims for Higher Growth, Greater Food Security

The Indian President said on February 22 that India's economy will accelerate in the coming years as it recovers from the global downturn and the government will act to protect the poor from the impact of food inflation. Pratibha Patil said the economy was likely to grow about 7.5 percent in the current fiscal year ending in March, and the government would aim for annual growth rate of 8 percent in the next fiscal year and nine percent in 2011-12. "It is imperative that as our economy grows apace, the disadvantaged sections of society be made part of the Indian success story," Patil said in a speech opening the budget session of India's parliament. Asia's third-largest economy is recovering, with factory output surging, but food prices are growing at the fastest pace in 11 years and the government fears a backlash from millions of rural poor who are its main voters. The President's annual speech, which lays down the priorities of the government for the year, reflected those concerns over inflation as food prices keep rising at an annual rate of nearly 20 percent, primarily because of a poor summer harvest.

Patil said that in the longer term, our food security can be ensured only through sustained efforts at increasing agricultural productivity combined with a comprehensive reform of the public distribution system and open market intervention. My government is committed to bringing forth legislation to ensure food security." Rising prices have sparked opposition-backed street protests and left the government little elbow room to push through financial reforms such as easing fuel price controls. But the ruling Congress party faces no risk of losing power anytime

soon. The Prime Minister's economic advisory council last week said surging food prices threatened to fan broader inflation and endanger the economic recovery. Signs of divergence in views between the government and central bank over the best policy balance have emerged, with the bank increasingly concerned about inflation while the government insists policy focus must remain on economic recovery. With growing evidence of economic recovery, including a record 16.8 percent jump in factory output in December, the government is under pressure to rollback the fiscal stimulus deployed to soften the impact of the global financial crisis. The government has signed off about 1.86 trillion rupees (\$40 billion) in tax concessions and a further \$4 billion in new spending since 2008, straining the deficit and borrowing. Analysts expect Finance Minister Pranab Mukherjee to announce the expiry of some of the emergency measures in the budget speech as he looks to cut the fiscal deficit, which is on track to balloon to a 16-year high in the current financial year. Patil did not mention stimulus withdrawal in his speech. The speech also made no reference to a government panel's recommendation to remove or relax price controls on various fuels, possibly signalling that the government believed Indians were not ready yet to pay the cost of market liberalisation.

The above news on food security and poverty were published in different newspapers during the month of February.