



Wheat Price Analysis 2023-24

Policy recommendations by IPIR

INTRODUCTION

Wheat, a staple crop globally, holds significant strategic importance, often posing challenges for governments. In recent months, Pakistan has faced difficulties in stabilizing wheat prices due to governance issues and mismanagement. The Minimum Support Price (MSP) for the 2023-24 period stood at PKR 3,900, yet market prices reduced to PKR 2,900 per 40 kg by the first week of May. This disparity prompted the Prime Minister of Pakistan to task relevant authorities with formulating a robust strategy to regulate wheat supply and prices. The plan necessitates a thorough assessment of current wheat stocks, anticipated demand, and import policies to meet domestic requirements effectively.

Wheat price instability in Pakistan reflects broader governance challenges and mismanagement within the agricultural sector. The discrepancy between the MSP and market prices indicates inefficiencies in price control mechanisms, supply chain disruptions, and inadequate policy enforcement. These issues not only impact farmers' livelihoods but also threaten food security and economic stability.

Addressing the wheat price crisis requires a multifaceted approach that integrates short-term interventions with long-term sustainability measures. A comprehensive plan must consider factors such as production capacity, storage facilities, transportation logistics, market dynamics, and international trade regulations. Strategic planning is essential to mitigate price fluctuations, ensure fair returns for farmers, and stabilize food prices for consumers.

Effective but minimal government intervention is crucial in regulating wheat prices and ensuring food security. Policy measures such as decentralizing MSPs, implementing price stabilization mechanisms, monitoring market trends, and facilitating imports play a vital role in balancing supply and demand dynamics. Transparent governance, regulatory oversight, and stakeholder engagement are key components of successful price management strategies.

Sustainable solutions to wheat price volatility require collaboration among government agencies, agricultural stakeholders, research institutions, and international partners. By fostering partnerships, sharing best practices, and leveraging expertise, Pakistan can develop resilient agricultural systems that withstand market fluctuations and external shocks. Collaborative efforts can enhance policy coherence, resource allocation, and knowledge sharing for sustainable wheat price management.

In conclusion, the challenges faced by Pakistan in regulating wheat prices underscore the need for strategic planning, effective governance, and stakeholder collaboration. By addressing governance issues, implementing transparent policies, and leveraging research-based insights, Pakistan can navigate the complexities of wheat price management and ensure food security for its population. The efforts must be directed to devise a comprehensive plan to represent a positive step towards achieving price stability and sustainability in the wheat sector. Through coordinated actions and informed decision-making, Pakistan can overcome the wheat price challenge and foster a resilient agricultural economy.

STATUS OF CURRENT ISSUE

In Punjab, the largest province of Pakistan and famously known as the "bread basket" of the nation, farmers are urging the government to halt the importation of wheat. Their call comes at a critical time when they anticipate a bumper harvest, yet the market is being overwhelmed by foreign wheat. The farmers are seething over the import of wheat in the latter half of last year and the first three months of this one. This influx has led to a glut in the market, driving down prices.

In Pakistan, agriculture stands as one of the foremost sectors of income, contributing nearly 23 percent to the nation's GDP. Wheat alone accounts for 2 percent of this total.

In 2022, devastating floods wreaked havoc across Pakistan, severely impacting wheat farming and resulting in a shortage of wheat by early 2023.

While Pakistan's annual wheat consumption hovers around 30 million tonnes, the production in 2022 was a mere 26.2 million tonnes. This shortfall led to soaring prices and long queues of people in urban areas desperate to purchase wheat, with some tragic instances of individuals being crushed in the crowds.

In July 2023, just a month before the end of its tenure, the Pakistan Democratic Movement (PDM), the ruling coalition at the time, authorized the private sector to import wheat. According to the Ministry of National Food Security and Research, more than 3.5 million tonnes of wheat were imported between September 2023 and March 2024 from international markets where prices were significantly lower. Consequently, by early April this year, as Pakistani farmers began their wheat harvest, the national and provincial food storage departments were already holding over 4.3 million tonnes of wheat in their stocks.

Typically, the government purchases approximately 20 percent of the wheat produced by local farmers at a fixed price, which amounted to about 5.6 million tonnes based on the 2023 yield of 28 million tonnes. This market intervention aims to ensure price stability, prevent hoarding, and maintain the supply chain. However, this year the government announced it would purchase only 2 million tonnes of wheat from Pakistani farmers. If the farmers match or exceed last year's production, which is anticipated to be around 32 million tonnes, the government's procurement will cover only about 7 percent of the total produce, leaving farmers financially strained. Khalid Mehmood Khokhar, president of the Pakistan Kissan Ittehad (PKI) and a farmer from Multan in Punjab, highlighted that the decision to allow unlimited wheat imports by private importers last year has exacerbated the situation. Farmers are now compelled to sell their surplus wheat at significantly reduced prices, leading to substantial financial losses. Khokhar warned that with an expected bumper crop of nearly 32 million metric tonnes this year and the government's storage already saturated, farmers

might sell less than 50 percent of their harvest, potentially resulting in losses of nearly 380 billion rupees (\$1.4 billion).

WHAT IS MSP?

The Minimum Support Price (MSP) of wheat in Pakistan is a government-set price to ensure farmers receive a fair value for their produce and to stabilize the market. As of the latest data available, the MSP for wheat was set at approximately 3,900 Pakistani Rupees (PKR) per 40 kilograms for the 2023-2024 crop season. This pricing strategy aims to cover production costs and provide a reasonable profit margin for farmers. The MSP is crucial for encouraging wheat production and ensuring food security, although fluctuations in market dynamics and policy changes can impact its effectiveness.

2012-13	1200.00
2013-14	1200.00
2014-15	1300.00
2015-16	1300.00
2016-17	1300.00
2017-18	1300.00
2018-19	1300.00
2019-20	1400.00
2020-21	1800.00
2021-22	2200.00
2022-23	3900.00

Source:- Agricultural Policy Institute, Islamabad

Country	(Rs per 40 kgs)		
	2019-20	2020-21	2021-22
Australia [1]	1,417	1,751	2,893
China [2]	2,973	2,973	2,999
India [3]	2,046	2,140	2,240
USA [4]	1,546	1,705	2,576
Brazil [5]	1,205	1,289	2,129
Pakistan	1,400	1,800	2,200

Notes:

[1] <https://image.info.cargill.com/lib/>

[2] <https://www.fas.usda.gov/data/china->

[3] Ministry of Agriculture & Farmers Welfare, Government of India.

[4] <https://www.ag360insurance.com/crop-insurance-pricing/>

[5] <https://www.cepea.org.br>

COST OF PRODUCTION

Over the past eight years, the trend in wheat production costs in Pakistan has shown a consistent increase in expenses related to land

preparation, irrigation, fertilizer, and seeds. This escalation has significantly impacted farmers' profitability, with the most substantial cost attributed to fertilizers, followed by land preparation. Seed and irrigation costs also play a critical role in the overall production expenses. The sharp rise in production costs in recent years has further strained farmers' financial viability. Mitigating these input costs through subsidies for land preparation, seeds, and irrigation, as well as providing fertilizers at affordable prices, could alleviate the financial burden on farmers and enhance their profitability.

Operations/inputs	2021-22 crop		2022-23 crop		Increase/ Decrease over last year %
	Rs/acre	Share	Rs/acre	Share	
Punjab					
1. Land preparation:	4,600.00	9.37	5,900.00	8.88	28.26
2. Seed and sowing operations:	6,050.00	12.32	5,975.00	9.00	(1.24)
3. Plant Protection & Interculture	1,350.00	2.75	2,000.00	3.01	48.15
4. Irrigation & WCC	4,062.50	8.27	4,050.00	6.10	(0.31)
5. Fertilizers, FYM & Tpt/Application	12,593.14	25.64	19,064.49	28.71	51.39
6. Harvesting & threshing	8,550.00	17.41	10,450.00	15.74	22.22
7. Land rent	20,000.00	40.72	22,500.00	33.88	12.50
8. Other costs (Mark-up, L. Tax)	2,985.34	6.08	5,264.95	7.93	76.36
9. Value of wheat bhoosa	(8,980.00)	(18.29)	(9,150.00)	(13.78)	1.89
10. Net cultivation cost	49,110.97	100.00	66,404.43	100.00	35.21

Wheat Policy Analysis For 2022-23 Crop, Agriculture Policy Institute

POLICY RECOMMENDATIONS

The minimum support price (MSP) policy aims to encourage wheat production by providing farmers with a guaranteed price. However, this policy has imposed a significant economic burden on the government. Our report indicates that the elevated MSP has reduced the country's competitiveness in the international market. Additionally, the cost of wheat production in Pakistan is substantially higher than in India, compelling the government to raise the MSP to sustain farmers' profitability. This high MSP is maintained through subsidies for wheat procurement and distribution, which strain government finances. Moreover, the recent reduction in wheat prices in market has negatively impacted the farmers. Following measures are suggested for the rectification of the wheat crisis.

- 1. Redistribution of Subsidies:** Policymakers should reallocate subsidies towards wheat inputs, particularly fertilizers and seeds, to lower production costs. This approach would alleviate financial pressure on farmers, enhance crop yields, and reduce overall wheat production costs. Consequently, it would boost farmers' profitability, benefit consumers with lower prices, and improve Pakistan's international wheat competitiveness.
- 2. Input Subsidies:** Implementing input subsidies rather than purchase price subsidies could be the most effective policy intervention. By subsidizing fertilizers and seeds, production costs are reduced directly, enhancing farmers' profitability, lowering wheat prices for consumers, and boosting international competitiveness. This approach addresses both economic efficiency and agricultural sustainability.
- 3. Benefits of Reduced Input Costs:** Lowering Reducing input costs would decrease output prices, thereby enhancing farmers' profitability and increasing consumer surplus by making wheat more affordable. Additionally, lower production costs would boost the international competitiveness of Pakistani wheat, enabling it to compete more effectively in global markets and potentially increasing export opportunities.
- 4. Organic development of wheat market with less government interference:** The wheat market has struggled to develop due to the government's excessive involvement, leading to periodic imbalances of supply and demand. This pattern is evident in all countries with government-controlled markets, such as the former Soviet Union and other centrally planned economies. Government wheat procurement policies fail to incentivize small farmers; instead, they benefit flour mills through the

Minimum Support Price (MSP) system. The financial burden of wheat procurement ultimately falls on ordinary citizens through regressive taxation.

5. **MSP decentralization:** The government should cease setting the minimum support price for wheat, formulating wheat export policies, and regulating support price regimes. Instead, its role should focus on promoting research and development, monitoring quality, and maintaining buffer stocks to address extreme shortages. The international market can supply wheat on short notice, reducing the likelihood of shortages. With a well-functioning market, the risk of supply imbalances will be minimized. As in other countries, the government should primarily monitor the market and be prepared to intervene only in exceptional circumstances.
6. **Administrative not Monetary Control by Government:** The retail price of wheat is significantly higher than the proposed Minimum Support Price (MSP), suggesting that an increase in MSP will not fully translate to inflation. A bumper crop combined with effective governance could further mitigate the impact on inflation, whereas poor management could exacerbate it. Consequently, the government must maintain robust administrative control to minimize the effect on food inflation.
7. **Reducing the Gap Between Wheat MSP and Retail Price:** The government should take decisive steps to narrow the gap between the Minimum Support Price (MSP) and the retail price of wheat. Promoting competitiveness in the wheat market can reduce market distortion costs and curb illegal trading. Pakistan faces high wheat production costs and lower productivity compared to other regional countries. By fostering a competitive wheat market, the government can address inflationary pressures

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