Poverty & Food Insecurity

Impact of High Electricity, Food Prices: CPI Grows by 13.02% in February

Consumer Price Index (CPI), the key indicator of inflation rose by 13.02 percent in the month of February of the current fiscal year due to increased electricity and energy prices and food prices. Federal Board of Statistics (FBS) reported that in July-Feb 2009-10, CPI also increased 11.08 percent over the corresponding period of last year. The month of February numbers also fell in line with the expectations of analysts and economists, which estimated CPI to settle 13.02 percent to 13.05 percent in the month under review. Though, CPI grew 13.04 percent in the month of February, its growth was curtailed a bit when compared to the month of January, while the same rose 13.68 percent, which analysts believed was caused by the removal of subsidies on the recommendations of the International Monetary Fund (IMF). Analysts said that the despite easing of the growth in CPI in the month of February, it is still posing threats to projections of the government that plans to bring it down to single digit for the current fiscal. An IMF emergency loan package of $7.6 billion agreed in November 2008 helped avert a balance of payments crisis and shore up reserves. The loan was increased to $11.3 billion in July last year. They also opined that though the government reduced the petroleum prices in March, but marginally, and impact of substantial prices in these products for the last two months would have its impact in the coming days. About the new review of the monetary policy at the end of this month, they forecast that policy discount rate is most likely to be unchanged because the inflation has not substantially dropped as the government was foreseeing.

During February current fiscal, food inflation went up almost 15 percent with non-perishable items prices increasing 15.24 percent and perishable items prices 12.52 percent. Fuel & lighting index increase 17.17 percent during the month and house rent index was up 12.73 percent. Transport & communication expenses increased 10.38 percent and education expenses rose 12.93 percent in the said month. During the month of February, Sensitive Price Index and Wholesale Price Index also increased 18.01 percent and 19.29 percent respectively over the same month of last year.

[Daily Times – March 12, 2010]

Inflation Increases 36.3pc in Two Years

The country has seen a massive 36.3 per cent inflation since the present government came to power in 2008, with prices of two basic commodities, wheat flour and sugar, rising by 83 and 168 per cent, respectively. According to official figures, the price of flour which was Rs16.41 per kg on Feb 21, 2008, shot up to Rs30.13 on Feb 4 this year — an increase of 83 per cent. Sugar selling at Rs25 per kg on Feb 21, 2008, recorded a mind-boggling rise of 168 per cent to Rs70 per kg on Feb 4 this year. The prices of ghee and cooking oil, two important kitchen items, saw an increase of 12 and 10 per cent, respectively, over the past two years. The price of ghee, which was Rs315 for 2.5kg in Feb 2008, is now Rs353.

It is worth mentioning that the Supreme Court has taken suo motu notice of the unprecedented increase in the price of sugar and the case is still pending. The Competition Commission of Pakistan has also taken notice of what it terms cartelisation in the sugar industry. The increase in prices of essential items has continued despite regular reviews of the situation by the government and promises to contain the trend and punish hoarders and profiteers. Although the government is providing sugar at a subsidised price of Rs45 per kg through utility stores, people have to wait for hours in queues to buy the sweetener.

[Dawn – March 11, 2010]

Offsetting Impact of Inflation: Proposal to Impose 15% VAT

The Senate Standing Committee on Finance was informed that the imposition of the Value-Added Tax (VAT) would have an inflationary impact and to offset this impact there is a proposal to reduce the VAT rate from 16 percent to 15 percent by exempting 1 percent special excise duty on imports and manufacturing. The VAT will be enforced within the federal and provincial level on goods and services with effect from July 1, 2010 and would be enforced in FATA, PATA, Gilgit-Baltistan and Azad Jammu and Kashmir in the second phase. The committee, which met in the Parliament House with Senator Ahmed Ali in the chair, started consideration of National VAT Bill 2010 for formal approval. Federal Board of Revenue (FBR) Chairman Sohail Ahmed, Direct Taxes member Asrar Raouf and other senior officials briefed the committee on the different aspects of the VAT regime to be enforced from July 1, 2010. During the presentation on VAT, FBR chairman informed the committee that without collection and enforcement by FBR at national level this tax could not be implemented. VAT has been proposed by Pakistan itself and the

International Monetary Fund (IMF) has nothing to do with its implementation. If there was no consensus at the national level, the Parliament and provincial assemblies would not have passed the related legislation.

The Chairman admitted that VAT will have inflationary impact. He informed that the government has not made any commitment with any lending agency for imposing VAT. The parliament is sovereign and what it would decide the FBR would implement the same. If the parliament decides to delay enforcement of VAT by 6 months, we would enforce it after six months. If we are able to implement VAT, realise Rs 500 billion additional revenue and are able to post growth of 25 percent or 28 percent per annum then there would be no need to obtain loans from the IMF and World Bank (WB). Direct Taxes member informed the committee essential food commodities, charities, public sector education, health exports sector and international or sovereign commitments will be exempted from VAT. Explaining this aspect he informed that wheat and wheat flour, pulses, life saving drugs, would remain exempted. Agriculture commodities would be exempted at the time when these would be lifted from fields, however, when such commodities would be traded at market level than the big traders would be brought under VAT. He also informed the federal excise duty on construction sector would be converted into 15 percent VAT and steel sector and these sectors would be allowed input tax adjustment. There would be no special or concessional tax regime for any sector.

VAT, which is based on documenting the businesses and the government, would launch a lottery scheme for the customers who would insist for receipt of their purchases. Similarly, the government would also announce incentives for small retailers who would opt for registration under VAT and the government would provide them free of cost electronic cash registers. On a question he informed the committee that retailers who would get registered under VAT would be allowed input tax adjustment and those who would not get registered under VAT would not be allowed input tax adjustment and due to this registered retailers would have no negative impact on sales.

[Daily Times – March 18, 2010]

Food and Fuel Costs Spur Inflation

High inflation in Pakistan is the outcome of both domestic and international factors. In Pakistan, imported high energy prices and balance of payment (BOP) deficit clearly adds fuel to the galloping inflation. Several domestic factors like shortages of energy and food and rising population, both due to high birth rate and large migration from the neighboring countries, smuggling, hoarding, profiteering, lack of modern marketing and shortage of storage facilities are responsible for demand push inflation. High cost of doing business due to high interest rates is another contributor to hyper inflation. Like previous years, the menace of inflation may continue to torment the masses during the current fiscal year and beyond. News like meat prices are raised by Rs40-50, power and fuel rates are being raised by up to 30 per cent, transportation charges are increased beyond the limit of common men etc. are creating more and more problems across the country. Common men now fear inflation more than they fear anything else. For national peace and harmony this menace needs to be addressed with utmost determination and commitment. Prices stability is of primary concern to the government, to the producers of goods and services, and to the common man. The combined onslaught of high prices and the ever rising poverty level are only increasing the sufferings of the people, and it is an impediment towards achieving prosperity. Inflation needs to be addressed with effective planning and strategy along with the escalating poverty.

Inflation rates in Pakistan up to the end of 1980s had been below double digit levels with the exception of two brief periods following the 1973 and 1979 oil price shocks. Unlike the earlier experience, inflation in the 1990 was not only higher but more persistent. The present high rates of inflation in Pakistan could be explained in terms of factors such as low rate of output growth, monetary expansion, higher dollar price of imports, exchange rate depreciation, increase in excise and sales taxes, and changes in administrative prices such as fuel prices, utility charges and procurement price of wheat. While cost push factors such as increase in the price of fuel, can have temporary effect on the general level of prices, these effects cannot be sustained without an accommodating monetary policy. The inflationary impact of the depreciation of the exchange rate can similarly be regarded as an indirect effect of an escalation of money supply.

Control of inflation should be a matter of priority for a number of reasons. It is important from the point of view of poverty alleviation and social justice. Inflation is a regressive form of taxation and among the most vulnerable to the inflation tax are the poor and fixed income groups. Inflation also causes relative price distortion as some prices adjust more slowly than others. Another form of distortion takes place during inflationary periods when absolute price changes are mistaken for relative price changes. These distortions cause efficiency losses and lower the productive base of the economy. Inflation can discourage savings if the rate of return on savings does not reflect the increase in the level of prices. The uncertainty about future prices can cause unexpected gains and losses in trade and industry and thus discourage long terms contracts and investments. Resources are likely to be channeled into less productive activities like speculation and real estate. Some of these speculative activities, such as speculation on the exchange rate, can have serious macroeconomic consequences. Persistent high inflation increases the number of people below the poverty line. It thus indirectly promotes deprivation and lawlessness.

Global oil prices have shown an almost steady rise since 2003, with the April 2006 price double than what was in January 2004. Demand, supply and speculative factors, and their interrelationships all lead to the steady rise in oil prices. In the last couple of years, global demand for oil grew due to economic strengthening in the US, as well as strong economic performance in developing Asian countries, (especially China and India). From 1990 to 2003 world demand for oil grew at the rate of 1.3 per cent, while for China and India (combined) at 7 per cent rate and accounted for almost 40 per cent of the demand growth.

As Pakistan's economy is growing and so is the energy demand. Consumption of oil and its products grew sharply during the 1980s and 1990s at about 6 per cent per annum, but has become negative during 2002-06 period. Consumption of petroleum products grew negatively (-3.4 per cent) between 2000-01 and 2005-06. In 2005-06, Pakistan consumed 16 million tonnes of oil equivalent (TOE) of petroleum products. Diesel, despite negative growth in the 2000-06 accounted for 52 per cent of the total oil (energy) products consumed, motor spirit accounted for 8.4 per cent, aviation fuel 5 per cent, kerosene 2 per cent, and high octane blending component (HOBC) accounted for a very minor share of 0.06 per cent. High speed diesel (HSD) and fuel oil are the deficit products, during 2005-06, 4.1 million tons diesel and 1.9 million tons fuel oil valuing US $2.8 billion were imported, while crude oil of the amount 8.6 million tons valuing US $3.7 billion was imported. The estimated import of crude oil was $8.4 billion in 2006-07. Although in terms of quantity the growth in imports is not very significant, but in value terms since 2003-04 we find a sharp increase.

Demand for refined petroleum products greatly exceeds domestic oil refining capacity. So nearly half of Pakistani imports are refined products. Given the level of oil resources there is no likelihood for Pakistan to reach self sufficiency in oil. Pakistan's net oil imports are projected to rise substantially in coming years as demand will grow faster than the production. The consumption of petroleum products in the country during 2005-06 was 16.0 million tones. The production of refined products by the local refineries during the same year was 11.0 million tons.

In Pakistan the major import cost in the energy sector is the cost of importing oil and its products and these are mainly used in the transport sector. Transport sector consumes almost 55 per cent of the total oil products, whereas the share of power and industry in the oil usage is 29 per cent and 12 per cent respectively. Even if the high cost of oil imports is managed, the country lacks the necessary infrastructure to handle the increasing volumes of imported oil. Since prices are rising swiftly there is a need for huge investment to improve the infrastructure. The government gave some incentives in the form of Petroleum Policy 1997 to attract private investors. But the current situation is far from satisfactory.

Since 2000, the government has initiated an ambitious pro-market reform program in the petroleum sector. The objective behind these market-based policies was to limit the government role to only policy related issues, and pricing and regulatory responsibilities was passed on to an independent regulatory authority. But such an authority has limited public support mainly due to its poor policies. Popular perception is that various regulatory authorities give more weightage to the producers and suppliers of energy than to the poor consumers. Most frequent rise in the energy prices is their contribution only leading to more hardships for the people.

Unabated rise in various food prices since 2007 is having an increasing share in the high inflation. High food prices are there despite bumper food crops and maximum storage capacity being maintained by the government especially of wheat, rice, pulses etc. However to have a visible and positive impact on inflation, distribution and marketing mechanism, especially of vital food items should be further improved. Smuggling and profiteering must be stopped at all cost. Distribution of food items through utility stores needs to be made more transparent and effective.

[Business & Finance Review – March 15, 2010]