

Yet more price hikes

The high inflation Pakistan is suffering under is all set to continue after the government increased petroleum prices by over six percent for the month of April. The price of petrol and diesel has gone up by Rs6 per litre, while the price of kerosene and light diesel oil has gone up by Rs3 per litre. With Ogra having asked for a Rs11 per litre increase, the government can claim that it has prevented the consequences of a much higher petroleum price, but one must wonder how such calculations were made when the international price of crude oil has only increased by two percent. The government has said it chose to reduce tax rates on petroleum products to ensure that the full price hike was not transferred. Ogra has said it used the import parity price to calculate the new petrol price, which is likely to mean that petrol price jumps much higher in light of the depreciating rupee. With the value of the rupee having fallen by around 40 percent since last year, petrol prices have not increased by a similar percentage. But one can imagine that the full cost, plus the increased 17 percent GST on all petroleum products, will be transferred onto the public soon.

Since January, the government has relied on petroleum products to recoup part of the FBR's revenue shortfall. Not only were the GST rates raised in January, the government also increased the petroleum levy significantly, including doubling it on high-speed diesel. While it makes for a good source of revenue, since petroleum consumption rarely falls, the cost of the government failing to fulfil its promise to sort out Pakistan's tax structure is falling on consumers – and the larger health of the economy. Consumption taxes cannot be a substitute for income taxes.

The same criticism that was made of the PML-N government, which relied on consumption and withholding taxes to cover revenue shortfalls, now falls on the PTI government. It seems that the tax infrastructure of the country is an issue that no government is equipped to fix. How much this hike in petrol prices is in line with IMF dictates remains to be seen, but it has been IMF practice to call for an increase in the tax on all items of everyday consumption. Electricity and gas tariffs are already set to increase on IMF demands, which is likely to be the case for petroleum products as well. The burden of petroleum prices is yet another burden that the already flailing economy will now have to bear.

Editorial