BUSINESS RECORDER
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Consumer price inflation at 9.4 pc!

Consumer Price Index (CPI) registered a whopping 9.4 percent increase in March 2019 against 8.4 percent in February 2019 (1.4 percent higher) with 3.23 percent in March 2018 (6.17 percent higher). What is extremely disturbing about the rise in inflation is the fact that food inflation year on year rose by 8.4 percent in March 2019 compared to 0.1 percent in March 2018 and 5 percent in February 2019. In other words, food, the major expenditure item of the poor and vulnerable, a socio-economic group that the Prime Minister consistently maintains is Pakistan Tehrik-i-Insaaf's focus and priority increased by 3.4 percent in March over February 2019, reflecting a disturbing a trend.

To dismiss it as not 'an unusual situation' and, as has become the PTI government's standard defense, cite the prevalent rate in 2008 and 2013 (the first year of the PPP and PML-N administrations) as comparable belies its basic understanding of economic theory. Pakistan's inflation rate in 2008 was way too high because of massive subsidies extended by the Musharraf government to keep the petroleum and oil prices suppressed locally despite a historical high of 140 dollars per barrel in the international market. This was done purely for political reasons (2008 being an election year). By December 2013 the general CPI inflation rate was 9.2 percent which was controlled during the last three years of the PTI administration largely due to a decline in international price of oil. That the Sharif administration frittered away the fiscal space due to this external factor by borrowing heavily from abroad largely accounts for what the PTI inherited. Can the PTI disassociate itself from taking responsibility for the rise in inflation by attributing inflation in 2008, 2013 and at present to the same problem: balance of payment position? And, at the same time, claiming PTI success in dealing with the BoP crisis through successfully procuring loans from Saudi Arabia, the United Arab Emirates and China (a policy similar to what was supported by the previous administration) and maintaining that the public should expect relief in the third year of the PTI tenure. Two factors present a serious challenge to the credibility of this thesis due to lack of understanding of basic economics.

First and foremost, seven and a half months down the line the government has taken no visible measures to contain the budget deficit which, given its tax proposals (with a widening gap between what is budgeted and actual realization of revenue) and failure to slash expenditure (current expenditure has risen dramatically while a cut on public sector development programme, like in previous administrations, is having a consequent negative impact on growth) is projected to rise to the unsustainable level of around 7 percent by the end of the year in the State Bank's recent report. The government has taken no steps to urge the two major recipients of current expenditure to voluntarily sacrifice their allocations for a period of a year or two. To meet the widening deficit it is acquiring domestic loans and printing money - also highly inflationary policies. In contrast both the PPP-led government and the PML-N administration took measures to contain the budget deficit, probably at the International Monetary Fund's (IMF) insistence, during their first three months in power that led to a decline in inflationary pressures.

Secondly and equally importantly, while the rupee erosion is without doubt raising our external debt payments (principal and interest as and when due) yet the cheaper rupee has done little to fuel domestic production or exports while importers have begun stock-piling imports in expectation of a further erosion of the rupee.

To conclude, there appears to be no policy measure to deal with the crisis. The recent decision not to pass on the full extent of Oil and Gas Regulatory Authority's recommendation for a price rise, no doubt in an attempt to contain inflation, would imply lower revenue which unless backed by a reduction in expenditure would fuel inflation. The Prime Minister must acknowledge by now that his government is unable to prescribe a home-grown regimen to meet existing massive economic challenges and perhaps he needs to tap the resources of the three highly respected Economic Advisory Council members whose valuable services were unfortunately lost for reasons that are well known.

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