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Hike in prices of POL products

In the monthly review, while the clock was ticking towards midnight on the last day of February, the federal government announced increases in the prices of all petroleum products up to Rs 4.75 per litre for the month of March, 2019 to pass on the impact of higher international prices to the domestic market. The price of motor spirit (MS) has been raised by Rs 2.50 per litre, high speed diesel (HSD) by Rs 4.75 per litre, kerosene oil by Rs 4 per litre and light diesel oil (LDO) by Rs 2.50 per litre. After the increase in prices, the price of HSD has gone up to Rs 111.43 per litre from Rs 106.68 per litre, MS to Rs 92.88 per litre from Rs 90.38 per litre, LDO to Rs 77.53 per litre from Rs 75.03 per litre and kerosene oil to Rs 86.31 per litre from Rs 82.31 per litre. It may be mentioned, nonetheless, that the Ogra had recommended a sharper increase of Rs 4.71 per litre in the price of MS, Rs 9.49 in the price of HSD, Rs 8.06 per litre in the price of kerosene and Rs 5.12 per litre in the price of LDO. Besides, no change in the rates of sales tax on POL products has been made during March, 2019. In January, 2019, sales tax on MS, HSD, kerosene oil and LDO was increased from 8 percent, 13 percent, 2 percent and 0.5 percent, respectively, to 17 percent.

The increase in the POL products' prices during March, 2019, though lower than recommended by Ogra, would of course have serious consequences for the economy and welfare of the ordinary people. As is usually the case with all the oil importing countries, the increase in oil prices could further slowdown industrial and business activity in Pakistan and retard its growth prospects, leading to higher levels of unemployment. Along with this indirect impact, the prices of most of the commodities and services would also increase, in almost direct proportion to the rise in the prices of POL products, thus accentuating inflationary pressures in the economy and affecting adversely the lives of ordinary people. Life of ordinary people would become more difficult as the inflation rate is already on the up and further increases in prices would be hard to tolerate.

It would be of course natural to criticise the present government for the increase in oil prices without realising that the rise was almost inevitable after the sharp increase in prices in the international market. The government would have been able to cushion the shock of increase in prices in the international market if the fiscal position of the government would have been satisfactory and there was enough space to absorb the impact of this exogenous shock. Unfortunately, the budgetary position of the government is already so precarious that the consolidated fiscal deficit is likely to be almost 7 percent of the GDP during FY19 which would be much higher than the target for the present year and actual outcome in the previous year. According to the provisional data from the FBR, it has missed the tax collection target set for the first eight months of the current year by Rs 235 billion as the Board could raise only Rs 2,328.76 billion against the projection of Rs 2,564 billion. Unfortunately, the government does not seem to be very much concerned about the widening gap in the total revenues and expenditures but is content with its austerity drive and cutting the PSDP. The prospects of a lower international oil price which could enable the government to reduce the domestic prices of POL products are also not very bright. In the meantime, the government could widen and deepen the tax net, introduce a progressive tax regime, and stop leakages and corruption in the system to raise more funds so that its hands are not tied and it could reduce sales tax and petroleum levy to keep the prices of POL products at a lower level in the domestic market. These are, however, long-term measures. As a short-term measure, what the government has done appears to be largely appropriate to the situation and probably unavoidable. In the meantime, let us hope and pray that prices of oil in the international market revert to a lower level and the fiscal position of the government improves to a degree that it could earmark enough funds to keep the domestic prices of POL products at an affordable level.

Editorial