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Our Correspondent

EIU sees consumer inflation to remain elevated in Pakistan

KARACHI: Economist Intelligence Unit (EIU) sees consumer inflation in Pakistan to remain untamed in the near future as cash-strapped government would be compelled to take inflationary measures to overcome fiscal challenges.

"We expect consumer prices to remain elevated in the coming months," EIU said in a latest analysis. "We expect the State Bank of Pakistan (the central bank), currently committed to inflation-targeting, to maintain its tight monetary policy stance."

The central bank kept its benchmark interest rates unchanged at a decade-high at 13.25 percent in the last monetary policy as opposed to the market's expectation.

January consumer inflation reached 14.6 percent, above the central bank's annual target range of 11 to 12 percent. It was the highest since December 2010 and significantly higher than the average increase of 9.4 percent for the whole of 2019. While the EIU noted persistent inflationary pressures, the rise in prices in January was stronger than expected.

Inflation in January was driven primarily by rising prices for food items-the category with the highest weighting in the consumer basket, which registered a rise of 23.7 percent year on year.

Supply-side shocks to staple items such as wheat, tomatoes and sugar in recent months were a major reason for the acceleration in food inflation. Another key driver was the 18.6 percent year-on-year rise in prices in the transport category, which affects multiple economic sectors.

British advisory service said the Pakistani authorities are under a compulsion to increase its nontax revenue with tax collection falling short of the target. EIT said the government put off an economy-wide increase in gas prices in January, "probably because of the negative political fallout that would have resulted".

"Nevertheless, we expect this proposal to be authorised in the near future, in order to generate additional nontax revenue and to help to meet stiff fiscal targets under an ongoing IMF program," it said.

The government deferred a decision, at least third times, to push gas tariff up 15 percent during an Economic Coordination Committee of the cabinet's meeting earlier this week. It constituted a committee to deliberate on the impact of and alternatives to gas price hike and sought its recommendations during the next meeting.

The apex tax authority Federal Board of Revenue (FBR) is expected to miss the revenue collection target of the current fiscal year. Authorities are currently negotiating with the IMF mission to relax the revenue target.

Sources said the government requested the IMF mission to further slash the FBR annual target second time by over Rs300 billion, bringing it down from Rs5.2 trillion to less than Rs5 trillion mark.

The government has already revised up nontax revenue target by 0.8 percent of GDP to make up for the shortfall in tax revenue collection by the FBR and keep the budget deficit, especially the primary deficit, within the desired limits.

Last year, Pakistan agreed to a $6 billion worth of IMF's loan program to avert balance of payment crisis on conditions to introduce structural changes. EIU further said agricultural output would be affected by the ongoing locust infestation in Sindh and Punjab provinces. Cotton production has already tumbled to eight million bales compared with an average annual output of 14 million bales in the recent past.

The government declared the locust attack situation a national emergency and set up a fund of Rs7.3 billion ($47 million) to deal with the crisis.