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Inflation pains

Escalating price inflation is the new norm in Pakistan — at least for the short-term. The pace of increase in prices, which rocketed to 14.6 per cent last month from just 5.6pc a year ago, is testing the economic pain threshold of the man on the street.

From the time the Imran Khan government began implementing its stabilisation policies to break the economy out of the unending boom-and-bust cycles, people knew from the outset that the improvement would come at significant cost to them. But they didn't imagine the cost could be that huge.

Food prices are rocketing, housing has become dearer, indirect taxes increased and electricity and gas bills have ballooned, leaving little in their pockets to pay for education and health expenses with a steep currency depreciation already having eroded their real incomes.

A government that has come to power promising to create 10 million jobs, and provide better health and education services for the poor and middle class now finds itself in a bind with no space to mitigate the excruciating pain being felt by the middle-class people.

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According to what former finance minister Dr Hafiz Pasha has been writing or saying on TV programmes, the economy will see at least 1.2 million jobs lost during the present financial year as the economy is unlikely to expand by more than 1.2pc against a budget target of 2.4pc. He estimates that 18 million more people may slip into poverty on low growth and double-digit inflation under the present Imran Khan dispensation.

The estimates may be on the higher side but the huge impact slowing growth and rising inflation is going to leave on people is hard to dispute. Worried over the government inability to control food inflation and falling agricultural and industrial output, the State Bank of Pakistan (SBP) also was forced to revise down its optimistic growth rate projection in the last monetary policy statement.

The government is however adamant that its austerity policies will produce an economy powered by higher domestic productivity and exports, and a larger tax base and revenues rather than by consumption based on foreign borrowings and imports — a growth model pursued by the previous PML-N regime.

Its critics nevertheless see the entire plan as defective, urging the government to rethink its policies aimed at compressing the demand in the economy to bridge the twin deficits — current account and fiscal — in view of the cost being borne by the people, businesses and growth. Many are of the opinion — and they have a strong point — that no administration or economic plan can fix the economic mess in a year or two by putting breaks on growth.

As much as businesses and the public at large support the drive to document the economy to increase the tax base and revenues, no one believes that it is possible in the near term and that too without effectively restructuring the corrupt tax administration and reforming the tax regime.

"People just aren't spending money since the announcement of the budget, which has stifled the economy. They are afraid of getting trapped in a corrupt tax system. No other policy, including the hikes in the interest rates, has created a greater impact on growth than the drive to document the entire economy in just one go," the chief executive officer (CEO) of a car company told me recently. "When there is such a large gap between tax collectors and taxpayers, you move slowly by first bridging the trust gap and reforming the systems and procedures instead of going after everyone aggressively without thinking and debating the consequences of such an exercise."

Indeed, the austerity plan has improved the economic "fundamentals". The current account deficit has shrunk by a whopping 75pc and trade gap reduced by around a third on suppressed demand. Tax revenues have risen just below 17pc since July but fall far short of the budget target. The central bank has attracted significantly large, short-term and risky foreign portfolio inflows into the government's debt securities. But exports refuse to grow at a pace to let the SBP relax restrictions on imports and foreign direct investment (FDI) is proving much harder to attract in spite of expectations to the contrary.

Nevertheless, the finance managers as well as the central bank is finding it hard to sell these "achievements" to the businesses or the public. Little wonder that hard-core supporters of the government, including its economic team members, who used to aggressively defend its austerity policies and predict an early turnaround on social media, have in the recent weeks made themselves scarce.

The Perception and Investment Survey, conducted by the Overseas Investors Chamber of Commerce and Industry (OICCI), for instance, shows that foreign investors are concerned over rupee devaluation, gap between policies and implementation, unpaid tax refunds, energy sector inter-corporate debt, increasing tax burden, rising cost of doing business and increase in the interest rates, their long-term confidence in the country's economic potential notwithstanding.

Similarly, another consumer confidence survey carried out by Ipsos in December shows that eight out of every 10 respondents thought that the country's economy was moving in the wrong direction. Consumers are worried about surging price inflation, increasing unemployment, rising poverty and tax burden on them. Four out of every five respondents were more worried about inflation and unemployment and they did not see any hope of an improvement in their lives over the next six months.

Many analysts have dissected the factors behind the rising food inflation using different models, blaming a host of recent developments — currency devaluation, higher interest rates, supply disruptions and shocks, increasing utility prices, governance failure and so on — for the current spate of inflation. Some have predicted that the speed of increase in the food and other prices will start falling from the present month.

But this optimism no longer means anything for the millions who have seen sharp erosion in the quality of their life in a very small time period owing to massive adjustments they are forced to make in their inelastic monthly household expense to barely survive at the sustenance level.

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