

Record inflation

Inflation has continued to hit record levels, while the country's economic growth is nowhere close to being on track. This is the news that has come from the State Bank this week about the first quarter of the current fiscal year. While the SBP maintained a positive spin on developments by claiming that Pakistan remains on the 'adjustment path', much of the numbers are gloomier than its own predictions. The SBP has made it clear that poor performance across a number of sectors, including manufacturing and agriculture, will mean that growth will not meet the four percent target that was set out at the start of the year. The SBP has advised the government to fix structural vulnerabilities to bring growth back on track, but what this means is unclear. Is it asking for a different set of policies? That does not seem to be the case, since effectively the path being followed is the one the SBP and government both agree on. This means that any deviations from the trajectory promised by the government are due to the existing set of policies – not anomalies that can be fixed by more of the same policies.

The SBP remains worried about the current account deficit, where it noted that there has yet to have been a significant rise in exports. This is worrying given that devaluation was supposed to lead directly to export increase. Instead, we have seen a situation where prices have continued to rise, but the supposed benefits of devaluation are not showing any signs of being delivered. The only good thing to have happened is the shrinking of imports, which is something that has been repeated often enough. The SBP is also concerned about two other issues: the delay in implementation of tax measures and weak management of food prices. How higher taxation would lead to a better economic performance is not so clear. If anything, the current hyped tax environment has created low-spending from both investors and consumers, which is in stark contrast to the last two years of the previous PML-N government.

The issue of food prices is a different one altogether. Control mechanisms for food prices have effectively been destroyed over the last three decades. One can be forgiven for wondering which government institution is responsible for maintaining the price of food items. There is none. Regulation of food prices would need a new, empowered institution, which is not happening anytime soon based on existing trends. The government can move to stop hoarding, but no action has been taken as yet. This means that citizens will continue to pay higher prices in a poorly performing economy for the foreseeable future.