

Pakistan witnessing cost push inflation: economist

ISLAMABAD: There is a positive relation between discount rate and inflation in Pakistan and 1 percent increase in discount rate contributes 0.7 percent increase in inflation as per the State Bank of Pakistan's own findings (working paper 34 of 2010).

This was stated by former adviser to finance ministry Dr Ashfaq Hasan Khan while talking to Business Recorder. He further said that in consumer price index (CPI) basket, 37 percent weightage is given to essential food items, which has nothing to do with the discount rate.

He said that Pakistan is witnessing cost push inflation and not demand push on the back of increase in energy, which again has nothing to do with the discount rate. Hasan added that usually monetary policy is used in the developed world, which is a consumer driven society with significant consumer borrowing, and a high discount rate is used to discourage spending to bring down inflation.

However, in Pakistan the situation is entirely different and if interest rate goes up, the working capital cost of industries rises and this increase in cost is passed on to the consumers in higher prices.

Commenting on the SBP's flawed policy to raise the discount rate to deal with the problem of inflation, Khan pointed out that inflation has been rising in spite of a historically high discount rate adding that a high discount rate has serious ramifications on the economy as economic activity has been severely stifled.

Sakib Sherabi former principle economic adviser of finance ministry said that although monetary policy is not the right instrument for controlling food and energy inflation, however, it is an effective tool to deal with core inflation. He said that oil and food prices can not be controlled by discount rate manipulation.

An official on condition of anonymity said that there is a visible uneasiness in government quarters over the increase in inflation and Prime Minister Imran Khan has been chairing meeting after meeting to deal with the challenge but the outcome has so far been zero.