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Editorial

Petroleum products: prices slashed

The government has slashed the prices of petroleum products effective 15 November for a fortnight: high speed diesel (HSD) prices from 1.79 rupees per litre to 1.71 rupees per litre, petrol from 102.40 rupees per litre to 100.69 rupees per litre and SKO (kerosene) from 65.29 rupees to 62.86 rupees per litre. This must be appreciated as it not only reflects a decline in the international price of oil, which is projected not to rise significantly for at least a year due to the ongoing second wave of Covid-19, but more importantly it reflects a decline in government revenue as petroleum levy for HSD has been reduced from 30 rupees per litre to 28.29 rupees per litre and for petrol from 29 rupees per litre to 27.21 rupees per litre. The general sales tax (GST) was unchanged at 17 percent; however, its total collection would decline as the price of the commodity declines or in other words, per litre GST on petrol would be reduced from 14.88 rupees per litre to 14.63 rupees per litre and ex-refinery price of petrol would decline from 47.53 rupees per litre to 46.07 rupees per litre.

The federal government's decision to reduce petroleum levy and total collections under GST however would have some serious negative implications for two reasons. First and foremost, given that Pakistan is currently engaged in talks with the International Monetary Fund (IMF) for the release of the second tranche under the 6 billion dollar Extended Fund Facility any reduction in revenue collections is likely to become a sticking point. Petroleum levy is a major source of revenue for the government, budgeted at a whopping 450 billion rupees for the ongoing year, which would be compromised. In this context it is relevant to note that the first quarter collections (July-September) under petroleum levy were 136.3 billion rupees, well above the budgeted collections of 112.5 billion rupees for the first quarter, and hence the government may have felt comfortable with reducing the levy for the next fifteen days which as per the Federal Board of Revenue (FBR) would reduce revenue by only 1.25 billion rupees.

Secondly, within the macro context it is relevant to note that the government's capacity to generate 4.9 trillion tax revenue as budgeted would remain compromised, partly because the target is unrealistic, partly due to the ongoing lockdown as the second wave of Covid-19 hits Pakistan as well as its major buyers globally, and partly because of the contractionary fiscal and monetary policies that continue to choke off economic activity notwithstanding the recent industrial support packages announced by the government. In the Summary of Consolidated Federal and Provincial Budgetary Operations 2020-21, FBR collected a total of 1.01 trillion rupees July-September however in the comparable period of the year before total collections were reported slightly higher at 1.038 trillion rupees. And non-tax revenue was 315 billion rupees in the first quarter of the current year against 356.3 billion rupees of the period last year. This data leads one to conclude that the government would not be able to withstand the pressure to raise petroleum levy and/or GST to narrow the gap in its revenue targets in future.

Disturbingly, prices throughout the world exhibit a sticky downward movement which is also evident in Pakistan. Hence while a raise in prices of petroleum products had in the past majorly contributed to the inflationary spiral due to its impact on transport costs (of people, goods and services) yet a decline in their prices had rarely been passed onto the general public. One would therefore hope that as input costs decline the general price level is at least contained if not reduced. The government will, therefore, be required to take a cost-benefit analysis of the reduction in prices of petroleum products on the general price level, if any, with obvious political implications, and on the budget deficit which no doubt is under discussion with the IMF at present, before reviewing the prices of these items for the next fortnight.