Further rise in inflation

Pak. Economics Dawn 14/4/05

By Sultan Ahmed

WEEK after week in recent times Prime Minister Shaukat Aziz has been taking the nation by surprise by announcing higher growth rates in the economic sector. Those who have benefited are glad to hear that, and the promise of far more, while the poor and low income groups are baffled and raise a number of questions.

Last week the prime minister announced the agriculture growth rate in this financial year will be five per cent and not four per cent — a target set earlier. If the country has produced a record crop of 15 million bales of cotton, the wheat crop will be 22 million tonnes this year. To induce and reward that, the support price for wheat has been raised from Rs 350 for 40 kg to Rs 400. If that could mean more money in the hands of the surplus farmers, particularly the large farmlords, it would also mean higher consumer prices for the people outside the farming belt. The government would help pump Rs. 25 billion into the rural areas through this process, says the prime minister.

A fortnight ago he said that Pakistan had joined the ranks of the ten countries in the world with the highest rates of economic growth after it achieved seven per cent growth this year. The country will go on to achieve eight per cent growth from next year onwards. Joining the race to announce higher growth figures, Dr. Salman Shah, Adviser to the prime minister on finance says the country has already achieved over 7.5 per cent economic growth.

While the general belief is there has been a shortage of water in the country because of the erratic monsoon and the earlier low level of water in the reservoirs, the prime minister says there is an increase of 30 per cent in the water supply this year. But the farmers in Lower Sindh do not seem to have benefited

tion appreciably, not only in cotton.

The governor of the State Bank of Pakistan has probably the right answer to such questions. He said when higher economic growth takes place some groups gain and other groups lose. During the last three years of economic progress the businessmen have gained and the common man lost, he said. And now it is the turn of the common man to gain. Hence the high inflation rate of 10.25 per cent is being reined in and interest rates are being increased.

The fact is that the businessmen got not only over Rs. 300 billion of bank credit easily and quickly but also at very low rates of interest during the first eight months of this year. All that pushed up the inflation officially to 10.25 per cent and the Sensitive Price Index to 13.33 per cent, spotlighting the extent of the food inflation. Hence, the State Bank's discount rate has been raised by 1.7 per cent to 9 per cent.

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Reducing money supply through the conventional means alone cannot lower inflation in a country like Pakistan with a large informal economy. There is a lot of money afloat outside the banking circuit, which can exert pressure on prices and keep up the demand for goods. And the high velocity of circulation of money in view of the high prices may make up for the fall in bank credit and money supply.

Pakistan accustomed to high inflation and

cause of the high prices is the high cost of transportation or freight rates which needs to be brought down.

But while we can import vegetables and even meat from outside, we can't be importing liquid milk which can be too costly to store. And if we are producing as much milk as the prime minister says the government should ensure fair distribution at reasonable prices and not at the prevailing rates. Fish prices are very high. And those in the fish trade always say the prices are high as a great deal of fish is exported. But the export performance of a country with a long coastline like ours is very poor. We are losing at both ends in the fish trade, which is inexcusable.

While the government is gloating over its economic achievements, the donors, including the World Bank and the Asian Development Bank, want the Pakistan government to take major decisions in crucial areas which will speed up further development. The World Bank wants Pakistan to take a decision on its water policy along with settling the issue of the large dams like Kalabagh and Bhasha this month.

The Asian Development Bank, which is ready to provide up to 3.6 billion dollars for development of the infrastructure, wants Pakistan to decide on the pipeline or lines which are to bring gas from outside. The government has been discussing all the three options — gas from Iran, the pipeline for which will eventually end up in India, the Turkmenistan-Afghanistan gas pipeline and the gas from Qatar.

A meeting with the oil minister Mani Shankar Aiyar of India may take place in Islamabad this month. And the ministerial council of Pakistan and Turkmenistan may also discuss the gas pipeline project this month. The ADB wants decision and action instead of prolonged indecision in which case the funds lapse.

Pakistan has also revived the 1,000 MW electricity grid from Tajikistan, which was earlier mooted in the 1990s.

water supply this year. But the farmers in Lower Sindh do not seem to have benefited by that as their lands have been devastated too often in recent times by floods.

He also took the nation by surprise by announcing Pakistan had become the sixth among the big producers of milk in the world. He took a futuristic turn on Saturday when, following laying the foundation stones of three cement factories and a paper mill in the Punjab he announced that five years from now Pakistan will be a strong, prosperous industrial state. He spoke of an industrial revolution taking place in the country.

Evidently he now perceives a country that has passed the take-off stage and allied phases, and is well on its way to being a highly industrialised state, not dependent on textile mills alone. It is good to see Pakistan being able to produce 22 million tonnes of wheat at a time when the Food and Agriculture Organization (FAO) has announced a global shortfall of 4.2 per cent in cereal production in 2005, which means higher wheat prices around the world.

The world will produce 612 million tonnes of wheat, which will be 15 million tones short of the output last year. That means larger demand in the world for wheat and higher world prices which we have been spared to a large extent because of the 22 million tonnes output after earlier fears of 20 million tonnes.

If we are the sixth milk producer in the world where is the milk going? Why is not the rise in production meeting the legitimate demand of the country? It can't be explained away saying it goes to make the new ice creams or packaged yoghurt. And why are the milk plants, except a few, not functioning or functioning very poorly and milk is selling in the cities around Rs. 36 when packaged. A five per cent increase in agricultural production should have improved the supply situa-

ply.

Pakistan accustomed to high inflation and heavy interest rates. When Moeen Qureshi was prime minister in the 1990s he raised the bank rate to 20 per cent plus one per cent withholding tax. Banks were then lending money at 25 to 30 per cent. Of course many of them later defaulted on repayments. This is a sellers' market with a great deal of market manipulation and tactical hoarding. Such evils have to be combated through more than conventional means or half-measures given up midway.

It may take a long time before our traders and businessmen get attuned to moderate profits. They should be trained to get more through higher turn-over instead of trying to earn more through selling less at high prices.

The government has eventually come to realize the importance of increasing supply, wherever necessary through imports, in a land of 154 million people. A price committee has been set up headed by Dr. Salman Shan, adviser to the prime minister on finance, to explore the means to reduce prices. The committee at its first meeting decided to explore the markets in the region to import the consumer items in short supply in Pakistan and make arrangements to import them. It decided to use provincial and district governments and their price checking mechanisms to bring down the prices. The utility stores too are to be geared up for selling goods cheap.

The committee's final strategy will take sometime to evolve. It should not be disheartened by its initial failures. It must try hard, and very hard to achieve positive results for almost a permanent problem in Pakistan. The problem often arises out of hoarding and market manipulation, and markets functioning more like cartels, and traders and businessmen thriving on very high profits. Added

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Power production from coal at Thar which a Chinese company was to begin soon has also a non-starter as the Chinese company which signed the memorandum of understanding wants more than 5.34 cents per unit which Pakistan has offered. In fact Pakistani consultants say we should be paying far less. The issue has to be solved on a governmental level. Meanwhile there is a move to make it a joint Pakistan-China project instead of a Chinese Company undertaking that single-handedly.

Another setback is that Japan has ruled out early formation of a Free Trade Area or Preferential Trade Area with Pakistan. They are very cautious in this regard and do a great many calculations. Instead Japan will resume the economic aid suspended in 1998 following our nuclear explosions, and encourage their private sector investment in Pakistan.

Meanwhile, high price of oil which is one of the causes of inflation in Pakistan, is here to stay, says the IMF. It said that rising living standards in China and the rest of the developing world will keep oil prices sky-high for decades to come. Even a 100 dollars per barrel is not being ruled out. Oil last week touched its peak of over 58 dollars a barrel before its modest slide down.

It said that in 2030 the average price of a barrel of oil would be 39-56 dollars a barrel in real terms. In nominal terms, without adjusting for inflation, it would be 67-96 dollars.

Evidently we have to explore for more oil and gas seriously and sign gas agreements with others as quickly as possible as China or India are doing. There is no scope for slackness in this regard in view of the ghastly scenario presented to us so frequently and by varied responsible agencies.