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ELON MUSK

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# ECONOMIC PULSE

SECTION 3

## Inflation Bites

A battered economy with no headwind in sight

By **Riaz Usman**  
KARACHI



**SPEED BUMPS**

The embattled coalition government is clueless in fixing the economic woes even after six months in power. The economy is bogged down at the hands of hyperinflation and is wayward, to say the least. The fresh wave of inflation in October has nullified all tall claims of macroeconomic management by the Pakistan Muslim League (PML-N) gurus and the country is literally on the verge of default.

Inflation shot up at 26.56 per cent year-on-year in October, over three percentage points higher than the last month's 23.18 per cent and significantly higher than the 9.2 per cent in the same month of the last year, according to the Pakistan Bureau of Statistics (PBS) data.

Pakistan remains in the grip of high food and transport prices, which has pushed the headline inflation in August to a 49-year high of 27.26 per cent. The government is apparently indulged in an auto-correction and booted out its own unselected finance wizard Miftah Ismail, after he failed to jumpstart the economy, which was on a slippery slope after the ouster of Imran Khan in a controversial no-confidence motion in April 2022.

Ismail, who took more than three months to persuade the International Monetary Fund (IMF) for a bailout package, and that too under the toughest conditions in the history of Pakistan, is now a spent force and has devastated the economy, which was picking up to 5.8 per cent growth under the PTI dispensation.

He put the nation into an inflationary spiral by raising electricity tariffs up to 89 per cent. Ismail increased the diesel prices by Rs103 to Rs247.43/litre as

against Rs144.15/litre on April 10, when the Khan's government was toppled.

Ted Stephenson, a professor at George Brown College, Toronto, Canada, said that Pakistan slashed fuel subsidies to control the fiscal deficit and secure the IMF bailout in June. This caused a higher inflation rate.

"The issue in Pakistan, like in many countries, is that the cost or price of some commodities, products and services were being subsidised and supported by the governments in the interest of national wellbeing. We are witnessing the removal of subsidies because the global inflation has made it too expensive to sustain," he added.

"Many governments have kept fuel prices artificially low through subsidies but the rising international oil prices and depleting fuel stocks have squeezed the national budgets and the widespread practice of cushioning the people from fuel price shocks, is no longer working. It has also come to a point where many countries can no longer afford it," Stephenson said.

Ishaq Dar, a qualified chartered accountant, ironically got the responsibility of the Ministry of Finance for the fourth time on September 26, 2022. The government projected Dar as a problem solver but his short-term plan, in this economic situation, will create distortions and worsen the structural imbalances.

Dar's inability to understand the fundamental realities and economic principles will set up Pakistan for the next fiscal and balance of payments crisis.

Soon after grabbing keys of the national coffers, Dar said that he would work to rein in inflation, while cutting interest rates. He also claimed that the rupee was undervalued and promised a strong response to the country's worst

economic crisis. Neither he was able to control the dollar, which is still above Rs220, nor the inflation.

The downside trajectory is killing the very base of growth and undermining the currency to its lowest ebb. This will surely have a toll.

Economists and analysts believe that apart from the inability and indecisiveness of the financial managers of the country, external factors are also pushing the inflation higher and weakening the local currency.

The global waves of inflation after the Russian incursion into Ukraine and aggressive interest rate hikes by the US Federal Reserve have left emerging economies in devastation.

Dr Abid Qaiyum Sulteri, executive director of the Sustainable Development Policy Institute (SDPI), said that the entire world is facing an inflationary trend and Pakistan is no exception.

"If you look at the index of the consumer price, the perishable food items are the main cause of the current numbers of inflation," he added.

For Sulteri, it may remain the same due to the aftermath of the floods, which has caused a major disruption in the food supply chain.

"In short, both external and internal situations of supply chain disruption, post-flood losses and the inflationary trend in every country will only result in more inflation in Pakistan and the government will not be able to control it," Sulteri noted.

Arun Leslie John, chief market analyst at Century Financial, said that a depreciating rupee is another reason for higher inflation in Pakistan.

"The scenario in Pakistan is further compounded by declining farm output due to the devastating floods, which has reduced the overall food output. It is tough for the government to control prices in this environment," John said.

A A H Soomro, an independent analyst, echoed the same sentiment that the impact of the rupee depreciation and global commodity prices is beyond the government's control.

"Due to delayed decision-making, we are under a strict IMF programme to increase utility prices and end subsidies," Soomro added.

### Index-wise increase in inflation YoY

|                                                 |        |
|-------------------------------------------------|--------|
| Perishable food items:                          | 70.47% |
| Transport:                                      | 53.43% |
| Beverages and tobacco:                          | 34.63% |
| Non-perishable food items:                      | 30.58% |
| Restaurants and hotels:                         | 30.38% |
| Furnishing and household equipment maintenance: | 27.61% |
| Recreation and culture:                         | 23.65% |
| Miscellaneous goods and services:               | 22.35% |
| Clothing and footwear:                          | 18.28% |
| Health:                                         | 16.23% |
| Housing and utilities:                          | 11.92% |
| Education:                                      | 10.88% |
| Communication:                                  | 1.58%  |



The middle class is obviously the most affected segment of the society by the fresh wave of hyperinflation in the country

**DR ABID QAIYUM SULTERI**  
Executive Director of SDPI



We are witnessing the removal of subsidies because the global inflation has made it too expensive to sustain

**TED STEPHENSON**  
Professor at George Brown College, Toronto



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**ARUN LESLIE JOHN**  
Chief Analyst at Century Financial

### The Hardest Hit

As Pakistan is passing through a patch of hyperinflation, it has become very difficult to say which segment of the society is suffering the most, the lower-middle class and the poor or the middle class. Obviously, the affluent are exempted.

Dr Sulteri believed that inflation is causing major problems in the common households.

"The middle class is obviously the most affected segment of the society by the fresh wave of hyperinflation in the country. Neither they can approach any social safety net nor do they accept any help from any philanthropist. Their salaries, as well, unfortunately, do not increase with the rise in expenses," he added.

"They are now prioritising their expenditures. Whenever it comes to setting the priorities, the rent always takes the lead, followed by the compromise on the quality and quantity of the food items."

"The lower-middle class and the lower class are also suffering but, unfortunately, they already had nothing to lose. They always had it bad but the middle class endures worse, as they can't ask for money from anyone nor they can go to the "Ehsaas Programme" for help. Hence, the salaried middle class is finding it very hard to make both ends meet," he noted.

John said that inflation erodes a family's purchasing power and hurts those at the bottom of the economic ladder.

"This is because essentials make up a much more significant portion of their budgets, leaving less for discretionary spending. Rising prices also affect the savings of a family," he added.

Soomro said that the common man is now forced to cut back spending, delay investment plans, work overtime, plan to migrate and be stuck in a debt trap. "It will create socioeconomic unrest if the global energy prices do not normalise and the government fails to enact structural reforms," he added. — *Riaz Usman*

### Role of Political Instability

The prevailing political instability in the country coupled with the government's indecisiveness and incompetence have adversely affected the economy. The government, so far, has failed to address the immediate economic challenges such as declining exports, the ailing rupee, and above all, the spiralling inflation.

Dr Sulteri said that the political instability is adversely affecting the rupee-dollar parity.

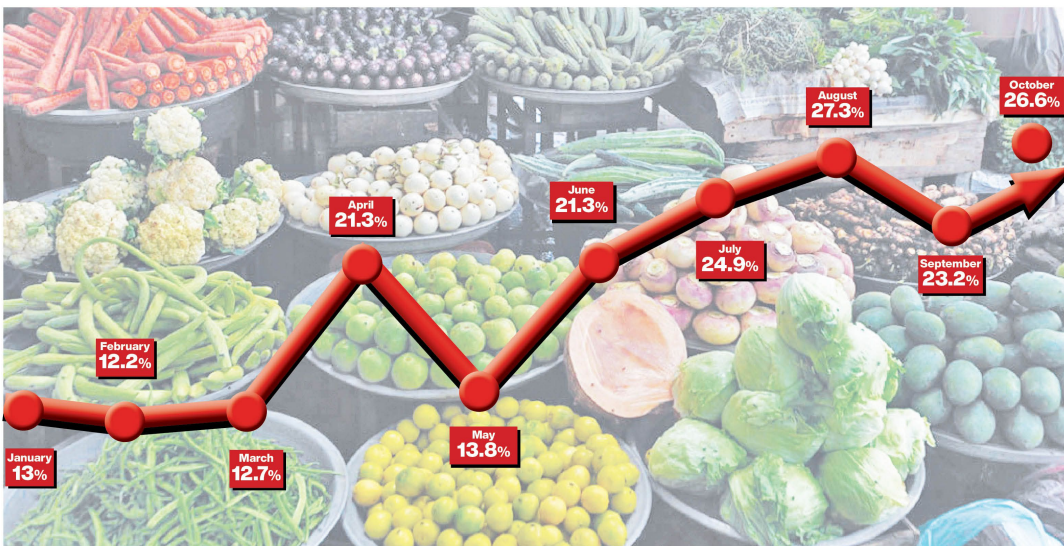
"The value of the rupee decreases with an increase in the demand for the dollar. Naturally, this makes the purchasing value for imports much more expensive. The increase in the value for imported energy or a rise in the prices for gas and electricity, all this cost-push inflation is due to the political instability," he said.

At this time it is very difficult for any government to control inflation. "Especially, even after implementing the monetary policy, which may stabilise the value of the rupee for the time being but it will not make a difference since the inflation is worldwide and Pakistan is not an exception to it," he added.

"I do not think that the government was able to control the inflation the entire year. They need to step towards subsidies for targeted beneficiaries so they can do something for the poorest among the poor," Sulteri noted.

John said that only a stable government will be able to take the tough decisions to put the economy on the growth trajectory.

"When faced with the prospect of elections, the democratic governments tend to be populist, which might not be good for the economy," he added. — *Riaz Usman*



### MINISCOPE



**ECONOMIC WATCH**

PAKISTAN'S ECONOMY IS LIKELY TO GROW

2%

IN THE CURRENT FISCAL YEAR

### CORPORATE LADDERS

THE CHALLENGES OF ORGANISING AN EVENT



You settle yourself in a seat after a seamless entry into the stadium having your ticket checked and passing through security, you buy your snacks and munch through the match and after the game finishes, leave for the car park and drive away **PAGE 32**

### PERVIEWS

SBP IMPOSES  
**Rs531M**  
FINES ON BANKS IN NINE MONTHS OF CY22

### DIGITAL world

LACK OF MARKET SEGMENTATION KEY REASON FOR FINTECHS FAILURE



The lack of proper market segmentation and sizing and innovation to resolve the local problems are among the major reasons for fintechs' failure **PAGE 34**

### FINANCING

ACTUAL USE OF FOREIGN CAPITAL IN CHINA REACHED OVER **\$140B**

### TECHNOLOGY

US DELAYED CHIP DEAL SHOWS ALLIES' PUSHBACK IN FACE OF HEGEMONY



The US delayed deal with allies on its China export ban shows there is increasing pushback from global chipmakers, who are frustrated with the geopolitical games being played by the Biden administration **PAGE 36**

### GREEN

EU HAS ALLOCATED **€300M** TO ACHIEVE GREEN ENERGY PLAN