

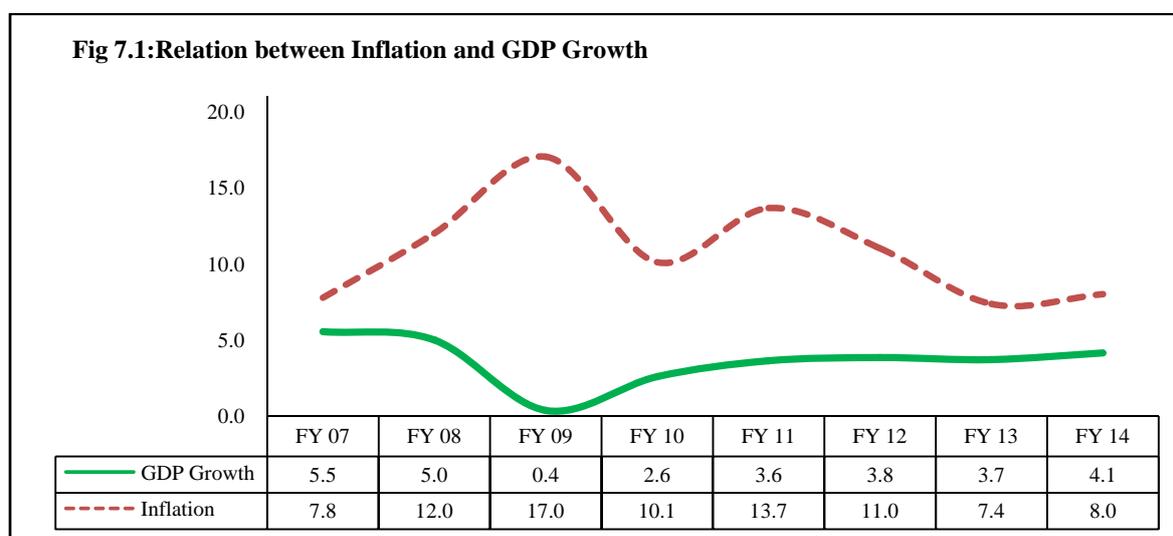
Inflation

Inflation provides important insight on the state of economy and exists in any economy but with a varied rate and intensity. Stable inflation is taken as an integral component of sound macro-economic policies. With higher population growth, rapid urbanization and increase in per capita income in developing economies including Pakistan, inflation with a few exceptions was on rise over the last several years. The rising food prices have pushed up the inflation not only in Pakistan but across the region.

The link between growth and inflation is well documented phenomena in the economic statistics around the world. Inflation at very high level as well as at very low level is harmful for the economy. High inflation affects more the poor than rich, while low inflation can have a negative impact on growth.

The policy objectives of the government are to ensure high and sustained growth and keeping inflation in check. Hence, for a developing country like Pakistan, inflation needs to be stabilized in order to ensure sustained economic growth and macroeconomic stability. The government has been vigilant on inflation and has taken its policy objectives to ensure high growth while keeping inflation in check and making all efforts to reinvigorate the economy, spur growth and maintain price stability through removal of bottlenecks like energy shortages and to enhance the investment.

Since 2005-06, it was observed that whenever the inflation was contained within 8 percent, there was high growth, while whenever the inflation posted a value of double digit the growth remained low as shown in figure below:



In FY 08, the inflation increased to 12 percent from 7.8 percent in FY 07 and this negatively affected the growth as growth declined to 5 percent in FY 08 from 5.5 percent in FY 07. This severity may be seen in FY 09 when inflation increased to 17 percent, growth declined to 0.4 percent. However, the pattern in the relationship between inflation and economic growth was changed during FY 11 as there was an increase in both inflation and growth.

However, whenever the inflation is maintained within 8 percent, there was high growth. Thus the government tries to maintain a moderate level of

inflation for the welfare of society as well as the economy. For medium-term inflation is forecasted to be contained at 8 percent while growth is projected to rise.

Current Year Inflation

The current fiscal year started with single-digit inflation at 8.3 percent in July 2013 and maintained this trend till October 2013 on account of lower international market prices, domestically balanced supply position and appropriate monitoring of prices. Inflation increased in November 2013 to 10.9

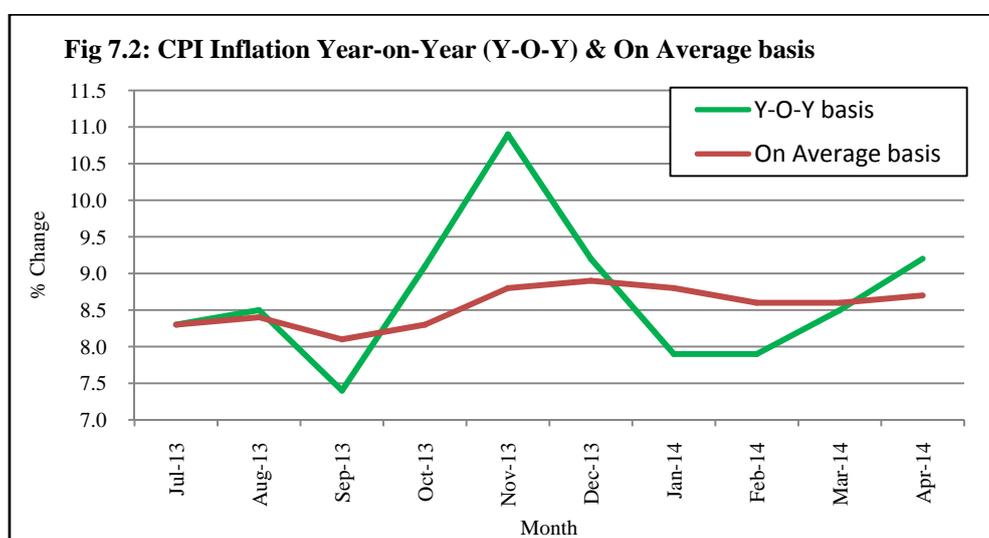
percent on account of electricity prices adjustment combined with short term supply disruption of commodities due to cyclical factors. Inflationary pressures have tapered since December 2013, headline inflation CPI declined to 7.9 percent in January and February 2014. However, it again surged in March and April 2014 at 8.5 percent and 9.2 percent. The factor behind was increase in food

inflation which increased to 9.9 percent on account of demand supply gap. Inflation during July-April 2013-14 averaged at 8.7 percent. There are many factors for increase in inflation. However, food prices were the important stimulant to drive the overall inflation. Trends in inflation rate year on year (Y-O-Y) and on average basis is documented in Table 7.1.

Table 7.1: CPI Inflation Rate Year on Year (Y-o-Y) and On Average Basis

CPI	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Y-O-Y basis	8.3	8.5	7.4	9.1	10.9	9.2	7.9	7.9	8.5	9.2
On Average basis	8.3	8.4	8.1	8.3	8.8	8.9	8.8	8.6	8.6	8.7

Source: Pakistan Bureau of Statistics



It may be noted that present trend of inflation has the combined impact of the increase in GST and reduction in subsidies on fuel and electricity prices. The outlook suggest that since the impact of adjustment has already been realized and further stability and appreciation of Pak Rupee will mitigate any increasing trend in global commodity and fuel prices, these would help in easing the inflationary pressure and this trend will further help in bringing it closer to the inflation target.

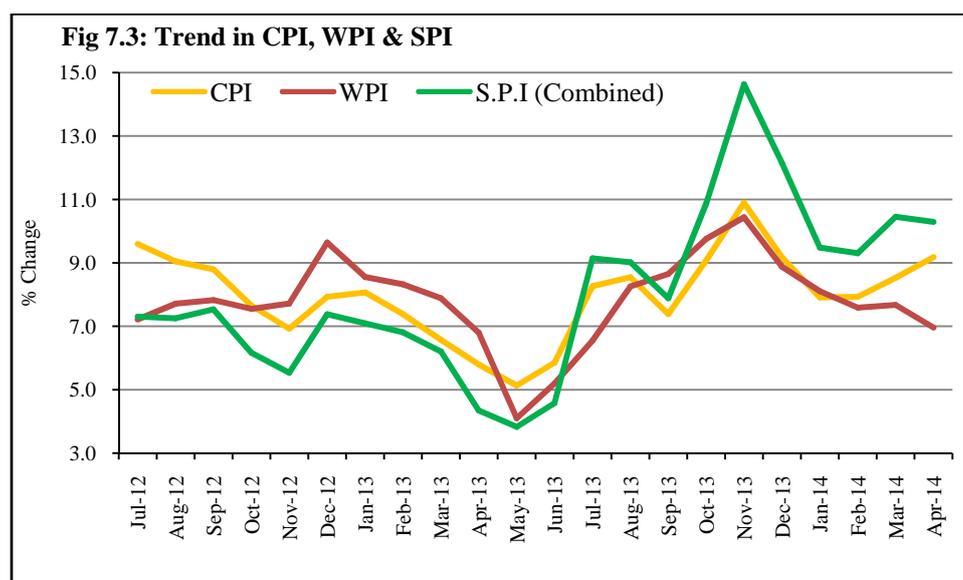
Price Indices used to measure price changes have recorded increase during the course of year July-April 2013-14. The Consumer price index (CPI) recorded at 9.2 percent in April 2014. A similar development has also been reflected in other measures of inflation. The Sensitive Price Indicator (SPI), that gauges weekly inflation of essential items increased to 9.4 percent and the Wholesale Price Index (WPI) inflation increased by 7.0 percent. Their divergent trends of rise as has been seen is naturally bound to occur because the indices differ

from each other in term of commodities, unit and relative weight assigned to various commodities. Table 7.2 and figure below highlight the details.

Table 7.2: Inflation Rate (CPI) Year-On-Year basis

Period	CPI	WPI	SPI
Jul-13	8.3	6.5	9.8
Aug-13	8.5	8.3	10.1
Sep-13	7.4	8.7	8.8
Oct-13	9.1	9.8	10.5
Nov-13	10.9	10.4	14.1
Dec-13	9.2	8.9	11.1
Jan-14	7.9	8.1	7.7
Feb-14	7.9	7.6	7.5
Mar-14	8.5	7.7	9.0
Apr-14	9.2	7.0	9.4

Source: Pakistan Bureau of Statistics (PBS)



The price control is the function of provincial governments. However in order to maintain price stability, ensuring smooth supply and taking corrective measure is always the priority agenda of the federal government. In this connection the Economic Coordination Committee of the Cabinet review the commodity stock and supply position as well as prices of essential commodities in its meetings on regular basis and takes corrective measures to ensure stability in prices. Similarly National Price Monitoring Committee is chaired by Federal Finance Minister and review the price and supply situation in consultation with provincial governments and concerned federal ministries/division and organization. The NPMC has mandated to a) assess the demand and supply of key commodities and b) to take/ propose corrective measures.

In addition SBP control the inflation through its monetary policy. One of the monetary policy was the shift from accommodative to tightening stance. During the first half of current fiscal year, SBP reversed its stance from accommodative to tight

policy as the rate was increased by cumulative 100 bps, staggered in two stages of 50 bps each. This policy stance was largely a reflection of expected inflationary pressure in the medium term on account of high growth in monetary aggregates and upward adjustment in administered prices of electricity and gas. The SBP in its latest Monetary Policy Statement issued on 17th May 2014 maintained the policy rate at 10 percent.

Consumer Price Index (CPI)

Inflation during July-April 2013-14 averaged 8.7 percent as against 7.7 percent in the same period last year. The food group with 37.47 percent weight in CPI basket showed an increase of 9.3 percent. This was higher than the 7.1 percent observed in the corresponding period of last year. Based on the current trend, the contribution of food inflation to the overall CPI is estimated at 40 percent and non-food inflation at 60 percent as against 34 percent and 66 percent respectively in the comparable period last year. The food items inflation increased at higher pace compared to last year.

Table 7.3: Composition of CPI Inflation (July-Apr)

Commodity	Weights	% Change Inflation		Point Contribution	
		2012-13	2013-14	2012-13	2013-14
General (CPI)	100.00	7.7	8.7	7.8	8.7
Food Group	37.47	7.1	9.3	34.0	40.0
a) Food Products, Beverages and Tobacco	34.83	6.6	9.0	29.8	36.1
b) Alcoholic Beverages	1.41	17.5	15.3	3.2	2.5
c) Restaurant & Hotels	1.23	9.9	12.0	1.6	1.7
Non-Food	62.53	8.2	8.2	66.0	60.0
Clothing & Foot wear	7.57	14.7	13.1	14.4	11.4
Housing, Water, Elec. Gas & other Fuel	29.41	4.1	8.7	15.6	29.0
Furnishing & Household Equip.	4.21	13.3	8.7	7.2	4.2
Health	2.19	14.2	6.6	4.0	1.7
Transport	7.20	10.5	4.7	9.7	3.9

Table 7.3: Composition of CPI Inflation (July-Apr)

Commodity	Weights	% Change Inflation		Point Contribution	
		2012-13	2013-14	2012-13	2013-14
Communication	3.22	2.2	3.3	0.9	1.2
Recreation & culture	2.03	18.3	9.2	4.8	2.1
Education	3.94	9.3	8.7	4.7	4.0
Miscellaneous	2.07	10.6	5.2	2.8	1.2
Non-Food Non Energy	53.52	9.9	8.3	68.5	50.9

Source: Pakistan Bureau of Statistics

High food prices emanate mainly from the food shortages caused by bad weather (Thar/ Cholistan drought), climatic conditions (routine yearly flood) and changing pattern of competing crops (cotton and sugarcane) together with competitive prices in the regional countries. The high prices of food in international market can also be blamed that involve demand and supply dynamics.

The non-food inflation at 8.2 percent during the period under review remained stable to be compared with 8.2 percent last year. Amongst the other non food groups, clothing & footwear prices increased by 13 percent due to higher manufacturing cost of textile based products. Recreation charges index increased by 9.2 percent. The furnishing, education and utilities group (housing, water, electricity, gas & fuel) each increased by 8.7 percent. Other sub groups in the category of non-food items moved at moderate rate in the range of 3-6 percent.

Table 7.4: Price impact of food items in CPI (July-Apr) 2013-14

	Items	Weight	Impact
1.	Potatoes	0.48	0.26
2.	Tomatoes	0.45	0.17
3.	Onion	0.54	0.17
4.	Wheat	0.35	0.08
5.	Wheat Flour	4.16	0.91
6.	Wheat Product	0.10	0.02
7.	Fresh Vegetable	1.66	0.28
8.	Pulse Masoor	0.27	0.04
9.	Chicken	1.36	0.19
10.	Pulse Moong	0.23	0.03
11.	Tea	0.84	0.11
12.	Bakery & Confectionary	1.16	0.13
13.	Beverages	1.20	0.13
14.	Nimco	0.46	0.05
15.	Rice	1.58	0.16
16.	Dry Fruits	0.25	0.02
17.	Milk Product	0.63	0.05
18.	Milk fresh	6.68	0.46
19.	Jam, Tomato Ketchup & Pickle	0.25	0.02
20.	Meat	2.43	0.13
	Total	25.0	3.5

Source: Pakistan Bureau of Statistics

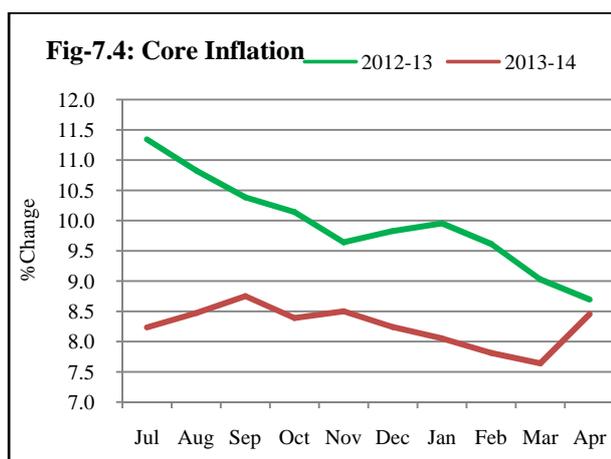
Table 7.5: Price impact of non-food items in CPI (July-Apr) 2013-14

	Items	Weight	Impact
1.	Postal Services	0.07	0.02
2.	Cosmetics	0.39	0.06
3.	Cigarette	1.39	0.21
4.	Woolen Readymade Garments	0.40	0.06
5.	Tailoring	0.88	0.13
6.	Text Books	0.57	0.08
7.	Sewing Needle & Dry Cell	0.15	0.02
8.	Cotton Cloth	1.73	0.24
9.	Foot ware	1.55	0.21
10.	Doctor (Mbbs) Clinic Fee	0.59	0.07
11.	Ready Made Garment	0.97	0.12
12.	Woolen Cloth	0.88	0.10
13.	Electricity	4.40	0.49
14.	Construction Wage Rate	0.33	0.04
15.	Utensils	0.32	0.03
16.	Furniture	0.33	0.03
17.	Construction Input Item	0.56	0.05
18.	Washing Soap & Detergent	0.79	0.07
19.	Household Textile	0.65	0.06
20.	Fire Wood Whole	0.23	0.02
21.	Water Supply	0.50	0.04
22.	News Papers	0.19	0.02
23.	Education	3.94	0.35
24.	Household Servant	1.04	0.09
25.	Stationery	0.40	0.03
26.	Marriage Hall Charges	0.08	0.01
27.	House Rent	21.81	1.76
28.	Mechanical Service	0.46	0.04
29.	Kerosene Oil	0.01	0.00
30.	Plastic Products	0.25	0.02
31.	Personal Care	1.49	0.11
32.	Motor Vehicle Accessories	0.24	0.02
33.	Medical Test	0.32	0.02
34.	Motor Vehicles	0.66	0.03
35.	Household Equipment	0.59	0.03
36.	Motor Fuel	3.03	0.15
37.	Gas	1.58	0.07
38.	Transport Services	2.70	0.10
39.	Drug Medicine	1.27	0.04
40.	Communication & Apparatus	3.15	0.08
	Total	61.0	5.2

Source: Pakistan Bureau of Statistics

Core Inflation

Core inflation is measured through the indices of 43 non-food non-energy items. Non-food non-Energy (NFNE) inflation is calculated by excluding food group and energy items (Kerosene oil, petrol, diesel, CNG, electricity and natural gas) from the CPI basket. By exclusion this index together with food index from the CPI, the remaining represents core inflation. Government borrowing is one of the key factors influencing the trend of inflation. It is because there is positive relation between government borrowing and core inflation.



However, this relationship holds with lag period. The decline in government sector borrowing (July-April) at 15.7 percent against 29 percent in the comparable period has resulted in decline of core inflation to 8.3 percent during (Jul-Apr) 2013-14 to versus 9.9 percent in the same period last year. The retirement of Rs.287.1 billion by the government to SBP during the period under review has also been caused for reduction in core inflation. Central Banks around the world views stable inflation as a very important goal. Policy makers and economists also have good reasons for stable inflation. State Bank of

Pakistan (SBP) has been on the path of steadily increasing the policy rate from previous 9.5 percent to current 10 percent to suppress the aggregate demand and contain inflation.

Table 7.6: Core Inflation

	2012-13	2013-14
Jul	11.3	8.2
Aug	10.8	8.5
Sep	10.4	8.7
Oct	10.1	8.4
Nov	9.6	8.5
Dec	9.8	8.2
Jan	10.0	8.1
Feb	9.6	7.8
Mar	9.0	7.6
Apr	8.7	8.5
Average (Jul-Apr)	9.9	8.3

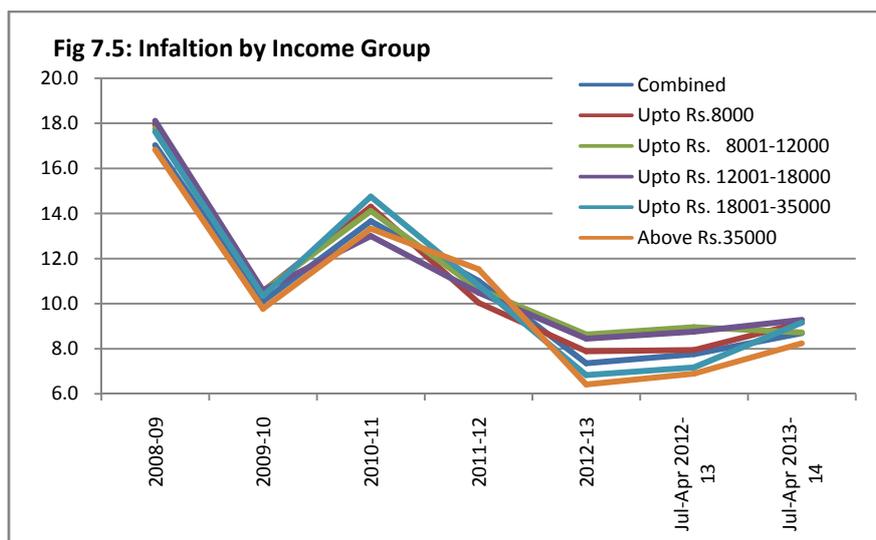
Inflation by Income Group

The consumer price index is also prepared for five income groups (i) upto Rs 8000 (ii) Rs 8001-12000 (iii) Rs12001-18000 (iv)Rs 18001-35000 and above Rs35000. The index is devised to assess the impact of price changes on the cost of living of different income groups. It is compiled on weekly basis. During July-April 2013-14, the increase in the indices for these various groups shows an inconsistent pattern of movement. In other words, Inflation is unevenly distributed across five income quintiles. Inflation at 9.2 percent for the lowest income quintile is more compared to 8.2 percent in the highest quintile. The 9.2 percent increase noted for lowest income group is also higher than the overall level of inflation and shows that low income group are mostly impacted as food takes a greater share in total expenditure for poor individuals, particularly the poorest quintile. Their comparative picture is given in the following table.

Table 7.7: Inflation by Consumer Income Groups (Base Year 2007-08=100)

	Combined	Upto Rs.8000	Upto Rs. 8001-12000	Upto Rs. 12001-18000	Upto Rs. 18001-35000	Above Rs.35000
2008-09	17.0	18.0	17.8	18.1	17.6	16.8
2009-10	10.1	10.5	10.5	10.6	10.3	9.8
2010-11	13.7	14.3	14.1	13.0	14.7	13.3
2011-12	11.0	10.0	10.6	10.5	10.8	11.5
2012-13	7.4	7.9	8.6	8.4	6.8	6.4
Jul-Apr						
2012-13	7.8	7.9	9.0	8.8	7.2	6.9
2013-14	8.7	9.2	8.7	9.3	9.2	8.2

Source: Pakistan Bureau of Statistics



Wholesale Price Index (WPI)

The Wholesale Price Index (WPI) remained stable during the course of year (Jul-Apr) 2013-14. The index of wholesale price is increased by 8.3 percent. This compares favorably with 8.0 percent in the same period of last year. Movement of various groups constituting WPI shows the highest increase (14 percent) in mineral related items followed by agriculture group. However, the impact of the non-food group both in terms of percent change and its contribution to the overall WPI increase was higher and it appears to be emanating mainly from an

increase in the wholesale prices of key consumer items in the country. 59 non-food items scattered in various non-food groups of WPI have recorded substantial increase in their prices and contributed 4.43 percent to the overall WPI increase. Prominent among these were leather, cotton, cotton yarn, cement, chemical, electrical energy and fertilizer etc. Other groups trend was moderate and remained almost at the level of last year. The following Tables 7.8 and 7.9 shows the trend of various wholesale price groups and increase in the items covered under these sub groups.

Table 7.8: Wholesale Price Index

Commodity	Weights	(%) Change July –Apr		Impact	
		2012-13	2013-14		
General (WPI)	100.00	7.92	8.28	7.92	8.28
Agriculture Forestry & Fishery	25.77	6.47	10.74	2.73	4.52
Non-Food	68.89	8.30	8.94	5.72	6.16
Ores & Minerals	12.04	19.45	13.96	2.34	1.68
Food Products, Beverages	31.11	7.04	6.74	2.19	2.10
Other Transportable Goods	22.37	5.92	5.16	1.32	1.15
Metal Products Machinery	8.71	4.71	5.66	0.41	0.49

Source: Pakistan Bureau of Statistics (PBS)

Table 7.9: (%) Change in prices of non-food major items of WPI

Items	Weight	% change July-Apr (2013-14)	Impact
Other leather N.E.C	0.26	137.38	0.35
Leather with out hairs	0.30	44.36	0.13
Salt & pure sodium chloride	0.06	29.59	0.02
Electrical energy	5.49	23.72	1.30
Lathe machines	0.05	23.18	0.01
Pesticides	0.28	14.68	0.04
Bed sheets	0.09	14.44	0.01
Towels	0.12	14.40	0.02
Woven fabrics	0.01	14.26	0.00
Ready made garments	1.06	13.94	0.15
Cultivators	0.06	13.75	0.01
Blankets	0.00	13.75	0.00
Pipe fittings	0.08	13.65	0.01

Table 7.9: (%) Change in prices of non-food major items of WPI

Items	Weight	% change July-Apr (2013-14)	Impact
Ceramics and sanitary	0.02	13.45	0.00
Tractors	0.00	13.40	0.00
Timber	0.02	13.32	0.00
Insecticides	0.13	12.99	0.02
Refrige, wash& sew mach, iron	1.16	12.82	0.15
Hard board	0.16	12.77	0.02
Chemicals	1.77	10.95	0.19
Bricks blocks and tiles	0.16	10.66	0.02
Lighting equipments	1.44	10.56	0.15
Quilts	0.00	9.83	0.00
Motor sprit	1.53	9.73	0.15
Matches	0.05	9.70	0.00
Cement	1.81	9.44	0.17
Paints & varnishes	0.19	8.92	0.02
Soaps & detergent	0.82	8.72	0.07
Hosiery products	0.88	8.59	0.08
Glass sheets	0.21	8.18	0.02
Other fabrics	1.10	8.14	0.09
Coal not agglomerated	0.75	7.95	0.06
Electrical wires	0.09	7.85	0.01
Kerosene oil	0.22	7.73	0.02
Cotton fabrics	0.63	7.73	0.05
Printing paper	0.43	7.68	0.03
Silk and rayon fabrics	0.74	6.81	0.05
Other glass articles	0.16	6.19	0.01
Mobil oil	0.71	5.43	0.04
Diesel oil	5.27	5.35	0.28
Motor vehicles	0.02	5.19	0.00
Bed foams	0.00	5.15	0.00
Dying materials	0.15	5.03	0.01
Steel products	0.39	4.54	0.02
Plastic products	0.46	4.49	0.02
Air conditioners	0.00	4.43	0.00
Chuff cutter	0.13	4.27	0.01
Natural gas liquefied	5.74	3.89	0.22
Blended yarn	0.17	3.74	0.01
Woolen carpets	0.04	3.63	0.00
Cotton yarn	5.25	3.53	0.19
Steel bars & sheets	1.40	3.52	0.05
Auto tyres	0.27	3.10	0.01
Footwear	0.16	2.58	0.00
Bicycles	3.35	2.52	0.08
Fertilizers	2.87	1.83	0.05
Nylon yarn	0.17	0.72	0.00
Medicines	1.14	0.57	0.01
Motor cycles	0.26	0.19	0.00
Total	50.28		4.43

Sensitive Price Indicator (SPI)

SPI monitors prices of 53 items reported every week from 17 different urban centers. The trend of this index is monitored regularly and immediate measures are adopted to control fluctuation in prices. The annualized increase in SPI during July-April 2013-14 was recorded at 9.8 percent which is more relative to 7.9 percent in the same period of last year which is due to increase in prices of potatoes,

chicken, eggs, meat (beef & mutton), wheat/wheat flour, moong and masoor pulse which yields its contribution 7.7 percent to the total increase of 9.8 percent in SPI. The prices of these nine (09) items were affected by a combination of factors like short term supply disruption, higher demand and transportation cost etc. Among these items, prices of potatoes witnessed abnormal increase despite its surplus production this year. It prices continuously increased for the last couple of weeks which resulted

in jacking up the SPI throughout April and it further affected the headline inflation. However, the Federal Minister for Finance took an administrative policy action resultantly the prices started to come down as

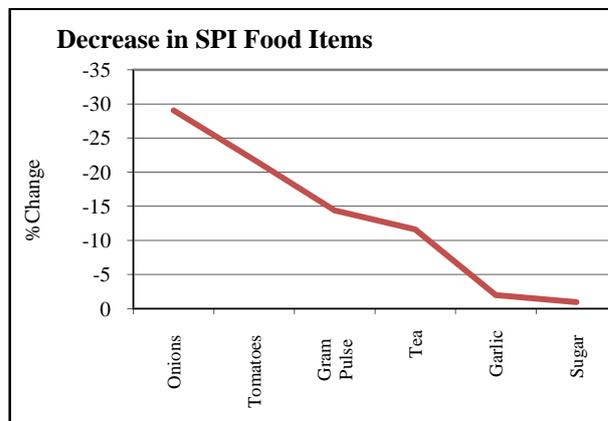
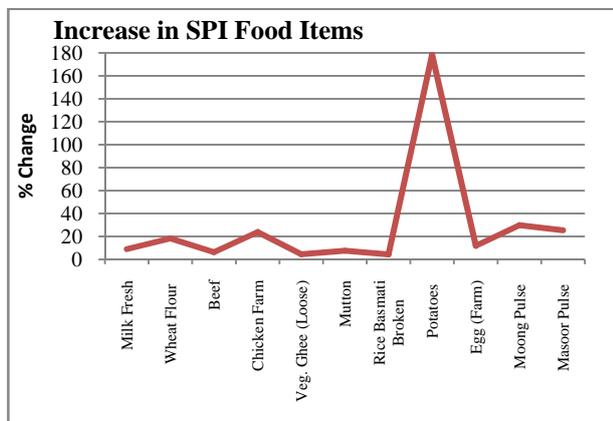
was reflected that SPI for the last five weeks has witnessed declining trend. While comparative prices of essential kitchen items in Sasta Bazar and Open Market is given at Table 7.11.

Table 7.10: (%) Change in prices of major items of SPI

Items	Weight SPI Comb.	(% CHANGE) April 14/April 13	Contribution
Potatoes	1.25	178.46	2.23
Moong Pulse	0.61	29.91	0.18
Masoor Pulse	0.49	25.42	0.12
Chicken Farm	3.56	23.94	0.85
Wheat	0.91	18.99	0.17
Wheat Flour	10.90	18.35	2.00
Egg (Farm)	1.19	11.98	0.14
Milk Fresh	16.84	9.05	1.52
Mutton	2.10	7.67	0.16
Beef	4.27	6.41	0.27
Total	42.11		7.66
Onions	1.42	-29.05	-0.41
Tomatoes	1.18	-21.81	-0.26
Gram Pulse	0.62	-14.38	-0.09
Tea (Packet)	2.15	-11.60	-0.25
Garlic	0.36	-1.98	-0.01
Sugar	2.73	-0.96	-0.03

Source: Pakistan Bureau of Statistics (PBS)

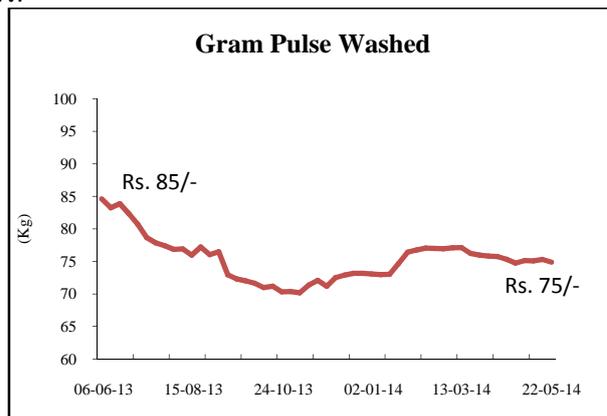
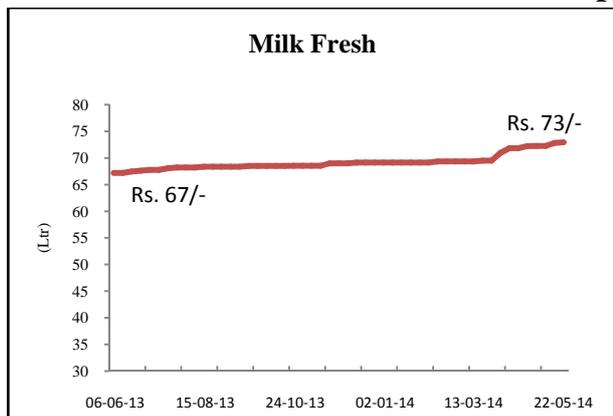
Fig-7.6: Increase and Decrease in SPI Food Items

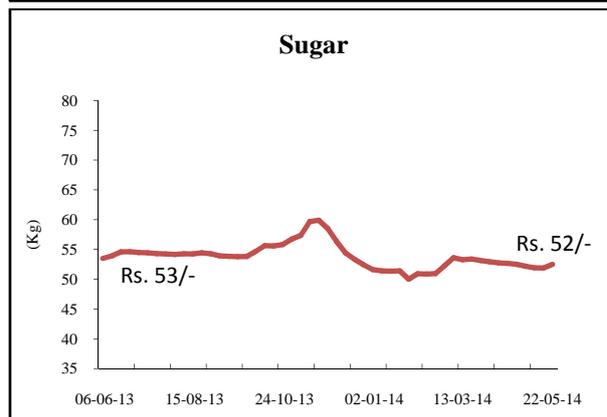
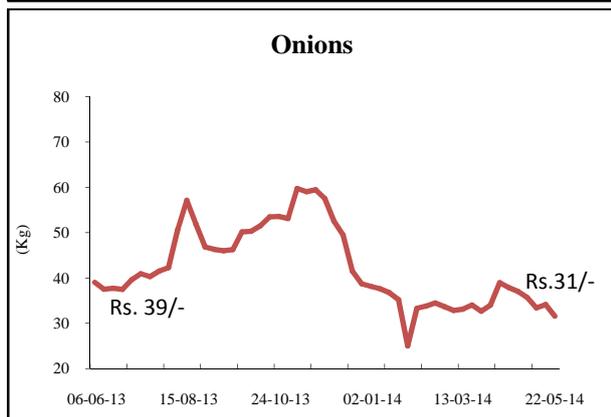
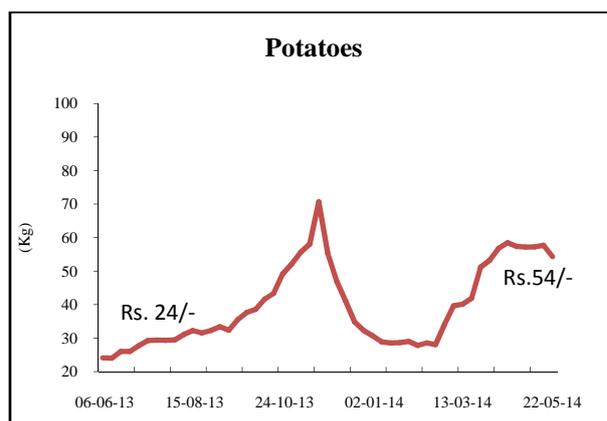
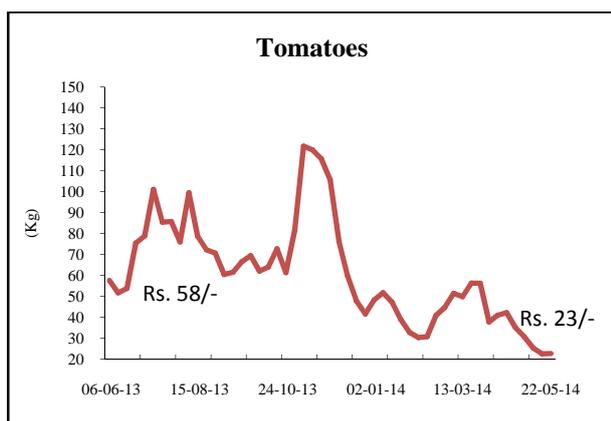


A graphic representation of most essential kitchen items is presented in the Fig-7.7, which indicates the

price trend from June 2013 to 22nd May, 2014.

Fig-7.7





A wide variation has been seen in prices of 19 selected items in Sasta Bazars held at Islamabad and other 4 provinces to compare with prices of these items in open market. Items with significant decline in their noted in almost all Sasta Bazars include

tomatoes, onion, potatoes, garlic, masoor pulse, gram pulse, veg. ghee (loose) and rice irri-6 due to their improved availability in these market.

Table 7.11: Comparison of Prices of Kitchen Items In Sasta Bazar and Open Market

S.No.	Commodity	Unit	Islamabad		Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan	
			Sasta/Itwar/Sahulat Bazar Price	Open Market Prices	Prices Notified by DC Quetta on	Open Market Prices						
			18.05.2014	15.05.2014	18.05.2014	15.05.2014	18.05.2014	15.05.2014	18.05.2014	15.05.2014	10.04.2014	15.05.2014
1.	Wheat Flour av. qlt.	10 KG	390.00	393.75	356.00	368.60	N.A.	443.08	NA	385.00	420.00	435.00
2.	Rice Basmati Broken	KG	82.50	86.25	65.21	74.12	76.25	76.54	67.50	78.33	90.00	90.00
3.	Rice Irri-6	KG	60.00	62.50	51.63	55.34	60.00	61.54	47.50	48.50	N.A.	45.00
4.	Chicken Farm	KG	155.00	160.25	155.50	156.00	N.A.	157.50	161.00	166.00	N.A.	180.00
5.	Egg (Farm)	DOZ	75.00	80.88	66.75	74.27	N.A.	81.23	80.00	78.33	92.50	100.00
6.	Cooking Oil (Tin)	2.5 Ltr.	520.00	540.00	481.67	540.00	N.A.	535.00	540.00	540.00	N.A.	540.00
7.	Veg. Ghee (Tin)	2.5 KG	500.00	510.00	449.25	507.14	N.A.	520.00	510.00	510.00	N.A.	510.00
8.	Veg. Ghee (Loose)	KG	160.00	168.75	153.04	156.88	160.00	161.54	162.50	172.50	165.00	190.00
9.	Bananas	DOZ	125.00	220.63	86.50	97.41	55.00	63.08	75.00	80.00	N.A.	60.00
10.	Masoor Pulse Washed	KG	115.00	141.25	113.42	134.83	116.25	116.54	110.00	114.33	110.00	136.00
11.	Moong Pulse Washed	KG	170.00	172.50	144.71	162.72	157.50	163.08	138.75	146.67	160.00	160.00
12.	Mash Pulse Washed	KG	147.50	154.38	124.33	147.77	127.50	138.08	135.00	135.00	170.00	170.00
13.	Gram Pulse Washed	KG	66.25	88.75	59.71	66.88	76.25	76.54	76.25	76.67	100.00	105.00
14.	Potatoes	KG	58.00	72.50	53.64	60.50	50.00	50.00	55.00	61.67	N.A.	50.00
15.	Onions	KG	35.20	53.44	27.07	33.55	27.50	28.62	38.75	39.17	N.A.	30.00
16.	Tomatoes	KG	22.00	41.56	15.68	22.71	17.50	23.08	25.00	25.83	N.A.	20.00
17.	Sugar	KG	53.50	59.13	50.57	51.48	53.00	52.62	53.00	53.17	53.00	51.00
18.	Red Chillies Powdered	KG	245.00	248.75	190.36	212.52	270.00	286.15	172.50	196.67	N.A.	290.00
19.	Garlic	KG	95.00	170.00	94.93	114.99	97.50	113.08	100.00	100.00	N.A.	160.00

International Prices

The international prices of palm oil have increased by 9 percent since July 2013. The increase in its price is largely responsible for increase in domestic edible oil prices. There has been an increase in the prices of other commodities which are important for

domestic consumption in Pakistan. Prices of sugar increased by 5 percent, wheat 7 percent and DAP 2 percent since July 2013. Fertilizer prices which are highly dependent on energy and natural gas prices move in line with global fuel prices and thus added to production cost.

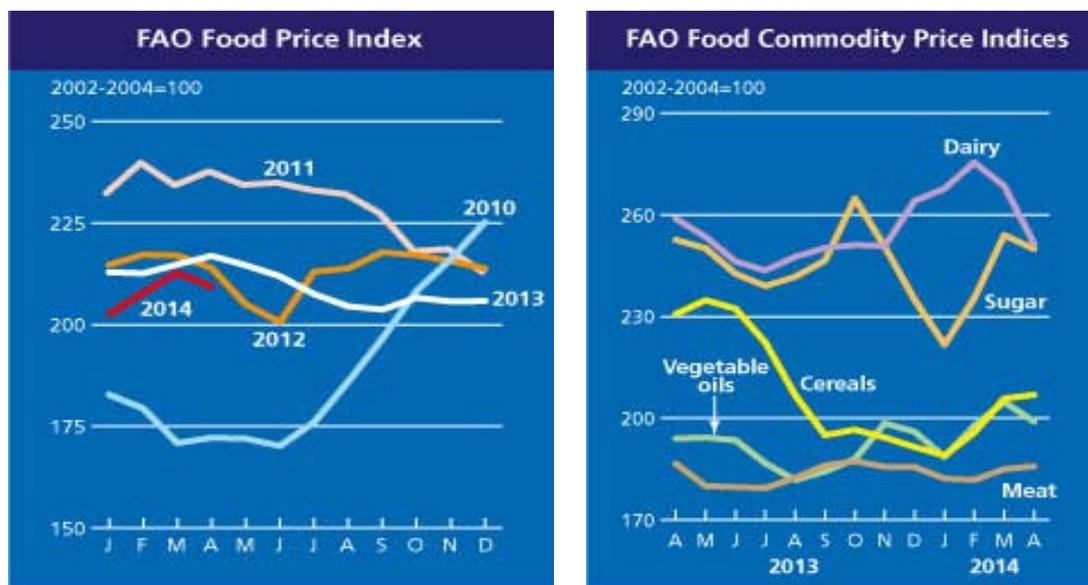
Table 7.12: International Prices of Major Commodities

	Sugar \$/Ton	Palm Oil (\$/Ton)	Soybean Oil (\$/Ton)	Crude Oil (\$/Brl)	Wheat (\$/Ton)	Tea \$/Ton	DAP \$/MT
Jul-13	371.0	833.0	995.0	107.7	304.6	2843.0	460.0
Aug-13	375.0	828.0	997.0	111.0	305.3	2812.0	438.1
Sep-13	384.0	820.0	1026.0	111.6	307.5	2750.0	398.1
Oct-13	411.0	859.0	987.0	109.5	325.7	2818.0	377.3
Nov-13	390.0	921.0	992.0	108.1	306.8	2770.0	351.3
Dec-13	360.0	912.0	989.0	110.7	291.6	2890.0	369.9
Jan-14	340.0	865.0	943.0	107.4	276.1	2950.0	438.3
Feb-14	370.0	908.0	985.0	108.8	292.3	2580.0	490.6
Mar-14	390.0	961.0	1002.0	107.4	323.6	2500.0	499.4
Apr-14	390.0	911.0	999.0	107.8	324.9	2670.0	470.6
%change							
Apr-14/ Jul-13	5.1	9.4	0.4	0.1	6.7	-6.1	2.3

Source: Commodities Price Pink Sheet

The FAO price index which measures monthly price changes for basket of cereals, meat, dairy, sugar and oils showing an increase of 2.4 percent in March 2014 over the index of February 2014. Unfavorable weather condition in the South Hemisphere and parts of the United States were the most important cause of rise. The crisis in Ukraine also affected prices in March 2014. Ukraine is the world's sixth largest wheat exporter which ship to Egypt and other countries in the Middle East and North Africa. The highest rise was in the sugar sub index witnessed a

rise of 8 percent in March over February 2014 due to crops damaged from dry weather in Brazil and forecasted indicating drop of output in India. The vegetable oil index has increased by 3.5 percent in March 2014 over previous month, the second largest increase among the indices after sugar. This was driven by higher palm oil and soybean oil prices due to dry weather in South Asia and South America while 5 percent rise in cereal price index reflects the effect of cold weather on wheat crops in United State. (UN FAO update)

Fig 7.8

FAO food price index decreased by 1.6 percent in April this year due to decline in dairy, sugar and vegetable oil prices. According to Rome based agency (FAO), dairy prices decreased by 6.3 percent as the market of all dairy products has been affected by the reduced purchases by China and Russia.

China is the main importers of whole milk powder and second largest importers of skimmed milk powder while Russia is the main importer of butter and milk powder. Similarly, global sugar prices dropped by 1.6 per cent in April 2014 due to large availabilities in the main producing regions,

including Thailand, India and Australia. Vegetable oil prices also declined by 2.8 percent in the review period due to lower than anticipated import demand notably from European Union. According to FAO new food outlook, overall world cereal stocks are expected to remain relatively stable for 2014, despite rising global consumption.

April 2014 is higher relative to other regional countries. However, Pakistan food inflation is at 9.9 percent compared with 9.7 percent in India and 9.0 percent in Bangladesh. The variation in inflation was on account of different reasons like macro-economic stability bringing the inflation under control, weather, climatic condition and variation in pattern of consumption. Trends and level of inflation is indicated in Table 7.13.

Regional Countries Inflation

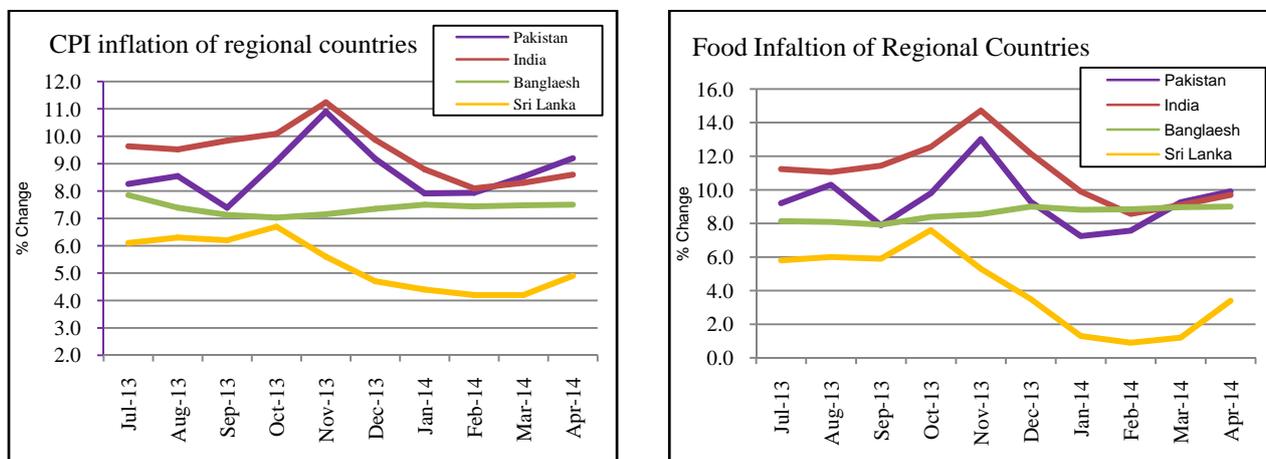
Inflation rate varied among regional countries. Pakistan’s current inflation rate at 9.2 percent in

Table 7.13: Regional Inflation

Period	Pakistan			India			Bangladesh			Sri-Lanka		
	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food
Jul-13	8.3	9.2	7.6	9.6	11.2	8.4	7.9	8.1	7.4	6.1	5.8	6.3
Aug-13	8.5	10.3	7.3	9.5	11.1	7.6	7.4	8.1	6.4	6.3	6.0	6.6
Sep-13	7.4	7.9	7.0	9.8	11.4	7.7	7.1	7.9	5.9	6.2	5.9	6.5
Oct-13	9.1	9.8	8.6	10.1	12.6	7.0	7.0	8.4	5.0	6.7	7.6	5.9
Nov-13	10.9	13.0	9.4	11.2	14.7	7.0	7.2	8.6	5.1	5.6	5.3	5.8
Dec-13	9.2	9.3	9.1	9.9	12.2	7.0	7.4	9.0	4.9	4.7	3.5	5.6
Jan-14	7.9	7.2	8.4	8.8	9.9	6.5	7.5	8.8	5.5	4.4	1.3	7.1
Feb-14	7.9	7.6	8.2	8.1	8.6	6.1	7.4	8.8	5.4	4.2	0.9	7.0
Mar-14	8.5	9.3	8.0	8.3	9.1	6.3	7.5	9.0	5.3	4.2	1.2	6.7
Apr-14	9.2	9.9	8.7	8.6	9.7	6.0	7.5	9.0	5.2	4.9	3.4	6.3

Source: Central Banks of respective countries

Fig-7.9



Step-taken to control inflation

The phenomenon of rising prices of essential items has been a matter of concern to the general public. The government has been using a wide range of price stabilization measures such as liberalizing imports, reforms for increase agricultural product, improvement in market mechanism and intervention in the market through organization like Utility Store Corporation and Trading Corporation of Pakistan.

The government is cognizant of the inflationary pressure and is taking following measures;

- a) The ECC reviews inflationary trend and prices of essential commodities in its meeting on regular basis.
- b) National Price Monitoring Committee (NPMC) Chaired by Federal Finance Minister also monitor prices of essential commodities in consultation with provincial governments and

concerned federal ministries/ divisions and organization.

- c) The provincial governments have also activated their District Price Control Committees to check and maintain the price stability and to establish more Sasta Bazars for the consumers where they can get essential food items at reasonable rates.
- d) The government is finalizing the Food Security Policy, which will ensure production and availability of food items and minimize dependence on the import of essential food items.
- e) The government is also working on revival of Executive Magistracy System, which will help to ensure price stability through better price check.
- f) The SBP under their Monetary Policy control inflation through policy rate. Recently the policy rate has been kept at 10 percent.
- g) The government every year approves the Ramzan Relief Package, under which essential commodities like Atta, Vegetables Ghee/ Oil, Rice, Dal Channa, Basin, Dates, squashes and Syrups, Tea and Milk are sold at reduced rates at USC. As a result of sales of these essential commodities through expanded network of USC on subsidized prices, the consumers get relief. A

package of Rs.2.0 billion has been approved for provision the essential commodities at cheaper rates in Holy month of Ramzan during 2014.

- h) Friday/ Sunday Markets have become popular in all big cities. These bazaars are held to provide essential consumer items such as vegetables and fruits at comparatively lower rates than the open market.

Conclusion

Inflation is not determined by single factor; It is an outcome of growth and financial policies. Government policies to contain budget deficit and control expenditure help in containing inflation within reasonable limits. Presently, on the basis of 10 months trends, inflation averaged at 8.7 percent. Food inflation has emerged as the main contributor to recent inflation in the country. However the appreciation of Pak Rupee and its pass through effect, better reserves position, improvement of Net Foreign Assets (NFA), good wheat harvest and above all better monitoring of prices and corrective measure easing smooth supply are some of the positive indicators would ease inflationary pressure. The IMF in third review have also scaled down their projected inflation from 10 percent to 9.5 percent by end June and 8.8 by end period.
