The effect of the rising prices of fuel in Pakistan

Fuel prices play an important economic role in the development of a country. Any fluctuations in the oil price have huge consequences on every sector. The Government of Pakistan has announced its decision to increase fuel prices for the month of August. The new pricing for petrol has seen a 4.45 percent rise in the market and Rs.5.65 per liter have been increased for High Speed Diesel. Similarly, there has been an increase of Rs.5.38 per liter for Kerosene oil and an upsurge of Rs.8.9 per liter for Light Diesel. This rise has been placed despite the recent falling global prices of crude oil by more than 12 percent and Pakistan getting a deferred oil facility from Saudi Arabia of $275 million in the month of July. This decision of increasing the fuel prices has been taken by the government due to an increase in taxation of petroleum products as it looks to combat the financial crisis that the country is currently facing.

Where there exists a strong correlation between international crude oil prices and consumer price index (CPI) around that of 0.87 percent, Pakistan's economy is also highly dependent on the imported fuels. The natural gas and oil make up for two of the most consumed energy sources in the country, accounting for 44 percent and 30 percent respectively. The country's petroleum products make up for 50 percent of the modern energy consumption out of which petrol and high-speed diesel have a share of more than 50 percent in the industry. Moreover, the demand of petroleum products is around 21 million tons (as recorded in 2016) and only 19 percent of it is produced locally whereas the rest of the products are imported. The energy prices are then an obvious source for causing inflation in the country.

From a microeconomic perspective, the price fluctuations affect the consumers directly as they make gasoline purchases in the form of finished products. Therefore, a large portion of the public's household budget is likely to be spent on it. Similarly, businesses and their investments are adversely affected as transportation costs for the transferring goods from one place to another also upsurge. On a macroeconomic level, high fuel prices increase cost-push inflation and as a result reduce a country's economic growth. Due to inflation there is an increase in the price of goods made by the petroleum products. In addition, the transportation, manufacturing and heating costs also increase the production cost of a unit of any good. Fluctuations in fuel prices affect the supply and demand of the goods other than oil. An increase in oil price decreases the supply of other goods as the costs of the goods increase. Similarly, the demand of other goods also decreases due to the reduction in purchasing power and uncertainty for the future.

In a nutshell, this decision by the government is going to put a lot of pressure on people and slow down the economic growth which is already in a dismal state. Pakistan has abundance of natural resources available and room for other economic policy alternatives. The government needs to explore various oil and gas refineries and speed up the drilling process. Finally, other approaches should be explored to alleviate the burden on the Pakistani populace of an economy in crisis.