

Inflation: A Big Problem in Pakistan

What Is Inflation

Inflation means a persistent rise in the general price level in a country over a number of years. In Pakistan, general price level is persistently raising since the Partition. Dearness is due to the declining economic growth, expansionary policies, output setbacks, higher taxes and a depreciation of the rupee.

Causes of Inflation

These are the major causes of inflation in Pakistan.

- Tax is stolen by powerful and the amount collected anyhow either goes in the corrupt hands or is used to facilitate the upper and privileged class.
- We are an oil dependant country and unfortunately prices of our all items depend mostly on the rates of oil. We are failed to promote and use the alternate sources for fuel.
- We didn't worked effectively on solar, wind, sold waste, coal and bio gas systems etc and just relied on petrol and diesel etc.
- We are far behind in innovation, research and development. We are using traditional means of getting energy and are not using modern techniques and tools.
- All prices go up with increase in the fuel prices. Local vendors and investors raise the prices themselves. We don't have a proper monitoring and control system for prices at government level. We really need an effective and powerful prices control and regulatory authority.
- We focus much on loans from international resources like IMF and World Bank etc. They give us loans on their own terms and interests without considering the issues of poor and common people. Ultimately, all burdens come on the shoulders of poor.
- Unfortunately, we collect more tax from poor in form of general sales tax and very less in term of income and property tax from upper class.
- The main reason of inflation is the increase in the prices of regular items, such as wheat, sugar, ghee and other items. Most of the industries are closed due to government policies creating unemployment.
- The major cause of increase in the price level is an increase in currency or credit money. Increase in stock of money induces people to demand more and more of goods and services. The policy of deficit financing has led to the

increase in the quantity of money in the country, particularly after 1972. In January 1993, currency in circulation was Rs 166 billion, which has gone up to Rs 834 billion in June 2007. At the end of the fiscal year 2007-08 it is more than 1050 billion. In this year, currency in circulation is 5,358,604 PKR mn in January, 2020.

- Population of Pakistan is increasing at the rate of 1.8% per annum. At this time the population of the country is 162 million. The pressure of population has increased the aggregate demand for commodities, thus pulling up the general level of prices in the country.
- Policies of devaluation and depreciation play a pivotal role in ups and downs of the economy. After partition one US dollar was equal to 4.50 rupee of Pakistan. The Government of Pakistan devalued its currency in 1952, 1972, 1982, 1996 and 1997. In 1972, it was devalued by 131% to increase exports. Due to steep currency devaluation, the size of Pakistan's economy will be \$312 billion at the end of Prime Minister Imran Khan's term.
- Non development expenditures, like on defence, police, community affairs, civil administration, repayment of loans with interest etc have increased manifold. These were Rs 529 billion in 1997-98, which rose to Rs 1056 billion in 2007-08. In current FY20, total development expenditures is expected to Rs 949.8 billion –a drop of 17.5pc compared to last year's budget.
- While the oil prices have gone up in international market oil importing countries, like Pakistan, are forced to increase the domestic price of oil. In 1973 oil prices rose up from 2 dollar per barrel to 10 dollar per barrel. Currently it has reached a record level of \$54.04 per barrel.
- Unfortunately, there has always been political instability in Pakistan, due to which investment in the long term industrial ventures in the private sector could not take place that's why there is shortage of every kind of items and there is inflation.
- Agriculture sector contributes 20.9% to GDP of Pakistan and industrial sector more than 15%. Both the sectors are facing serious problems and their growth is very slow. Due to shortage of food items and industrial goods, there is inflation.
- DDDs (Three Dees) means fiscal deficit, trade deficit current account deficit are responsible for inflation.
- Non-economic ills e.g. smuggling, black-marketing, hoarding and profiteering have also been a source of an increase in general prices.

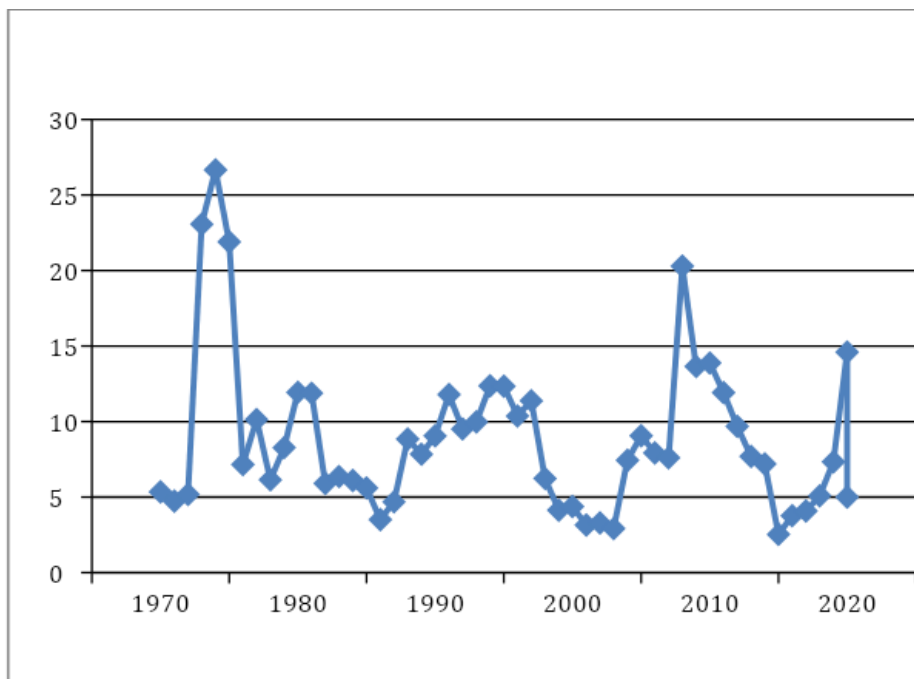
Effects of Inflation

- Inflation and price hike has affected everyone badly. High prices of each and every thing has made it very difficult for poor and middle class to survive and feed their families. Our Ruling and upper class has nothing to do with the issues of common people. They are enjoying all facilities of their lives without thinking about the poor. Our Channels and media houses are giving more coverage to upper and ruling class.
- Non issues are addressed and discussed more while common and basic issues of general public are ignored and not taken seriously. Politics and interests of ruling class are focused and given more attention while general public issues like, unemployment, inflation, terrorism, lack of basic necessities etc are not given much attention.
- If we look at the figures and numbers given by government, everything seems fine but ground realities are entirely different. Poor is becoming poorer day by day.
- People don't have earning power. Job market is very poor and majority of educated, skilled and talented youth don't have jobs. Situation is getting worst and problems for the poor are rising day by day.
- It is a huge problem for employees, taking fixed salaries.
- It generates unfair distribution of income and wealth.
- Inflation reduces the saving of the population.
- It is a cause of unfavorable balance of trade and payment.
- Inflation increases the rate of interest.
- It creates a lot of social evils.
- It is difficult for consumers to purchases more goods.
- It generates very bad effects on the poor labor force.
- It is harmful for creditors.
- Inflation reduces the purchasing power.

Inflation: A Root Cause in History Of Pakistan

The inflation rate in Pakistan eased to 12 percent year-on-year in February of 2020 from 13.1 percent in the previous month, which was the highest level since June of 2011, as food & non-alcoholic beverages cost slowed (16.2 percent vs. 19.3 percent in January). On the other hand, housing & utilities inflation was steady (at 8.0 percent) while prices advanced faster for clothing & footwear (10.9 percent vs. 10.5 percent) and transport (15 percent vs. 14.3 percent). On a monthly basis, consumer prices declined 0.3 percent, after a 1.6 percent rise in the previous month.

Historical Data of Inflation In Pakistan



Measures to Control Inflation

There are different techniques that the government should use to control inflation; every method has different effects, some work well some didn't. For example, controlling inflation through wage and price Controls can cause a recession and cause job losses.

- The most used technique of controlling inflation is through a contractionary monetary policy. The purpose of contractionary monetary policy is to reduce a money supply within an economy by declining bond prices and increasing interest rates. This helps reduce spending because where there is a limited amount of money to go around, those who have money want to keep it and save it, instead of spending it.
- The second method is to increase reserve requirements on the amount of money banks are legally required to keep on hand for covering withdrawals. The more money banks are required to hold back, the less they have to lend, consumers will borrow less, which will decrease spending.
- The third tool is also directly or indirectly reduced the money supply by performing policies that encourage reduction of the money supply. Calling in debts that are owed to the government and increasing the interest paid on bonds so that more investors will buy them.
- We need to reform and reorganize our tax system. Main thing is transparency and honesty. If tax is collected and used with full responsibility and in a transparent way then the things might go in good direction. Commonly used and basic items should be tax free. More tax should be collected from luxury items.

LAST but not least, we need solid and practical actions to overcome the common people's issues. If we take up the matter with sincerity then nothing is impossible to achieve but the main thing is to act rather than merely speak and promise.