

Inflation: A result of poor economic policies or a part of global economic woes

Outline

I- Introduction

Thesis statement: Pakistan has been affected by the issue of high inflation for many years. Poor economic policies are the primary driver for causing surge in inflation, global economic fluctuations being the secondary one. However, it is the flawed economic policies that have exacerbated the impacts of global economic problems in the country.

II- Highlighting the current situation of inflation in Pakistan ✓

III- Poor economic policies of Pakistan, a pertinent cause for higher inflation ✓

(a) Ineffective monetary policy spawns high inflation ✓

Case in point: 39.18pc inflation rate due to

high policy rate of 22pc in 2023

(b) Fiscal policy of ^{the} government leads to inflationary pressures

Case in point: Persistent fiscal deficits driven by high public spending and inadequate revenue collection

(c) Inadequate taxation policies, a clear manifestation of price hike

Case in point: Low Tax-to-GDP ratio 10.4% in FY 2022.

(d) High dependency on imported fuels for energy

(e) Continuous pursuance of IMF bailout programs trigger financial instability

Case in point: External debt accounted for 36.5pc of the country's nominal GDP in 2023

(f) Exchange rate fluctuation leading to higher prices for imported goods and services

Case in point: A depreciation of currency by over 20pc in 2023

IV- Inflation in Pakistan due to global economic woes

(a) Russian invasion of Ukraine causes high energy and food prices

(b) Palestine-Israel war ^{is} disrupting maritime trade
Case in point: Halt in maritime trade in Red Sea

(c) Global power rivalry having profound consequences

Case in point: US-China trade war has drastic impact on Pakistan

(d) Negative effect of supply chain disruption

Case in point: 60% of Pakistan's exports faced raw material shortages in FY 2020-21

(e) International ~~poli~~ monetary policies bring about significant policy changes in Pakistan

Case in point: Interest rate decisions

V- Poor economic policies of Pakistan exacerbate global economic problems in the country

(a) Premature opening of the economy

Case in point: Integrating with global trading system

(b) Exchange rate volatility, and inflation

Case in point: Strategy of frequent devaluation of Pakistani rupee

(c) The policy of dependency correlates with the global shocks

Case in point: The neo-liberal policy of IMF

VI- What strategies Pakistan should adopt to control high inflation?

(a) Rebalancing the fiscal account

Case in point: Raising tax-to-GDP ratio

(b) Pursue the policy of self-reliance

Case in point: Examples of India, Bangladesh

(c) An optimal balance between fiscal consolidation

and economic expansion ✓
Case in point: Austerity at the centre and
fiscal stimulus for provinces

(d) Encouraging diversification of economies

(e) Adjustable policy rate " to incentivise supply
side ✓

VII- Conclusion

Inflation is good for the healthy growth of economy but at the optimal rate of 2-3%. However, a rise ^{at} in this rate generally destabilizes a country socially, politically, and economically. Unfortunately, Pakistan is such a country which has to face hike in inflation.

According to State Bank of Pakistan, the inflation rate was 29.18% in 2023, raising questions about its root causes. This complex issue highlights both internal and external factors.

Domestically, poorly designed economic policies, like fiscal mismanagement, ineffective monetary policies, and high dependency on the foreign stakeholders are the driving factors for unparalled inflation. Such flawed policies ^{have} caused

the country to feel the global economic shocks too. Therefore, the global economic

fluctuations in ^{the} form of the disruption of supply chains, US-China trade war and, most importantly, international monetary policies are drastically impacting Pakistan's economy in the form of high inflation.

Thus, it is the need of the hour for the country to ponder on the mitigation strategies.

The policy of self-reliance is one of the

crucial factors to nullify the shocks of world economy. Moreover, the diversification of economy and effective fiscal policy of management could take Pakistan out of the ravine of inflation and stabilize it at each domain.

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