

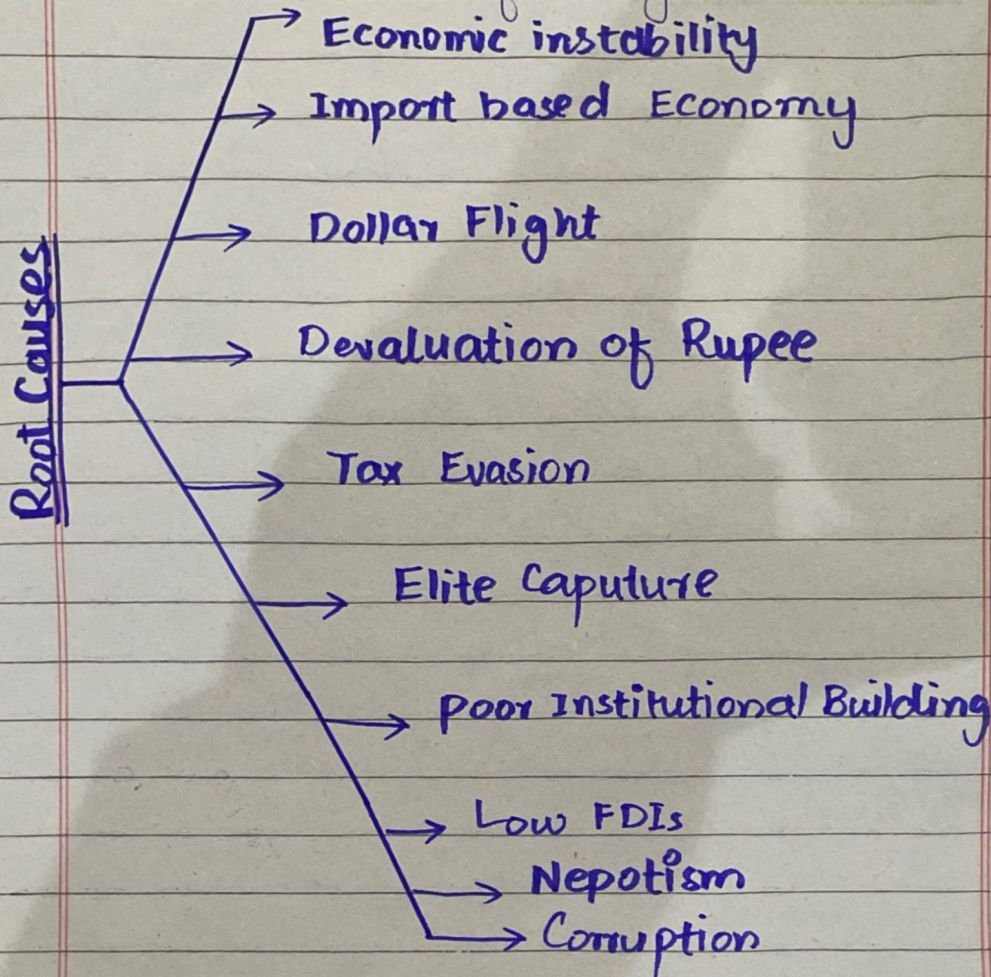
What are the root causes of inflation and unemployment in Pakistan? Analyze how poor governance and policy inconsistency have contributed these economic challenges?

Introduction:

Unemployment and inflation are the persistent issues that have been facing by the state of Pakistan for several decades. However, for the eradication of such issue it is important to explore the root causes these issues. Additionally, there are the multi-dimensional root causes of unemployment and inflation such as economic instability, import based economy, dollar flight, devaluation of rupee, tax evasion, Elite capture, nepotism, low FDI, poor institution building, and corruption. Moreover, Pakistan also facing the challenges of poor governance and inconsistency in policy that are further contributing these economic challenges. These are due to dynastic politics, incompetent leadership, political instability, and situational ideologies. However, such phenomena are the major reasons of poor governance and policy inconsistency and directly impacting the economy of Pakistan.

Root Causes of Unemployment And Inflation:

There are the multi-dimensional causes of unemployment in Pakistan which are the following.



A- Economic instability:

Pakistan is persistently facing the economic instability. Which is a triggering point of unemployment and inflation in the country. Because this is due to three major reasons which further exacerbate these issues.

i- Borrowed Based Economy:

Economic instability is due to the phenomena of borrowed based economy. Dr- Maleeha Lodhi in her book discusses the five faultlines of Pakistan's economy **Pakistan beyond the crisis state** one of them is this, due to consistent loans Pakistan's institutions especially economic institutions have low capacity building which can cause inflation and unemployment. According to a report the inflation rate in Pakistan is **24%** while unemployment rate in Pakistan is **5.50%** in the year **2024** that directly hit the youth according to a report of **World Bank**.

ii- Pile of Undocumented and Informal Economy:

Economic instability also causes by pile of undocumented and informal economy in Pakistan they do not pay taxes that further increases the inflation and unemployment. Because, government of Pakistan pays a large amount of remittances in the guise of loans and can not pay the salaries which directly impacts the tax payers and it causes the inflation and unemployment. A study projected that Pakistan's informal

and undocumented economy is **64%** larger than the formal economy.

B- Import Based Economy:

Basically, Pakistan's economy is import based economy. A big chunk of goods have ~~export~~ imported from the other countries. While due to price hike in international markets inflation and unemployment further increase unprecedently. Import based economy is due to further two reasons.

i- Energy Crisis :

Since long Pakistan has been facing the energy crisis the expensive electricity has almost shut down the industry in Pakistan. expensive electricity provides the approximately **100 rupees** per unit to the industrial sector which causes economic upheaval in the country. And due to this phenomenon it causes the import based economy.

ii- Incompetancy in Global Market :

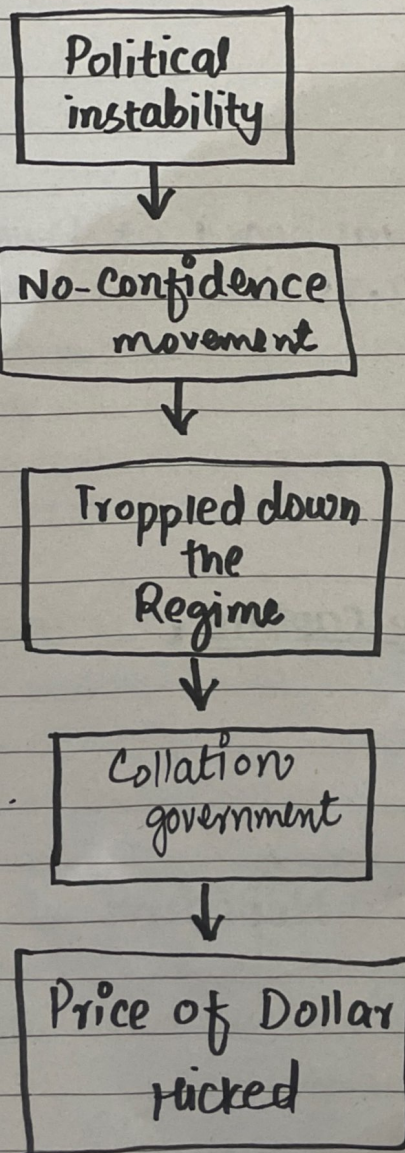
Pakistani goods are incompetent in global market - due to this phenomenon they can not fill the needs even on domestic level which leads towards the imports. According to a report ~~more than~~ in fiscal year **2024** Pakistan's import stood

at \$24.75 billion dollars.

c- Dollar Flight:

Pakistan has witnessed the dollar flight in the year **2021-22** - which caused the sudden inflation and unemployment. In this fiscal year the inflation hit the peak value of the history approximately **46%** - Due to phenomena of **political instability** and **low remittances**.

i)



D- Devaluation of Rupee :

Dollar flight directly impacted the price of rupee - which caused the further inflation and unemployment in the country. According to a report of **Economic Survey of Pakistan** Price of \$1 reached to the equal to **178 Rupees** in fiscal year **2023-24**.

E- Tax Avasion :

As most of the economy of country is informal and undocument-ed due to this phenamena the amount of tax avadours is getting higher day to day. According to a report of **Federal Board of Revenue** the price \$2.78 dollar has been evaded in the form of taxes. which ~~up~~ causes the turbulent economic condition and increased the inflation and unemployment.

F. Elite Capture :

Every institution is under the influence of elite or ruling elite of the country. which employed the phenomena of uplifting the nepobabies. However, **Nepotism** always wins ~~the~~ over the meritocracy. This phenomena increases the unemployment and inflation in Pakistan.

G- Poor Institutional Building :

Poor institutional building is one of the key factor involved in unemployment and inflation. However, system needs reforms especially structural reforms ~~there~~ only way to overcome such economic challenges.

H- Low FDI's :

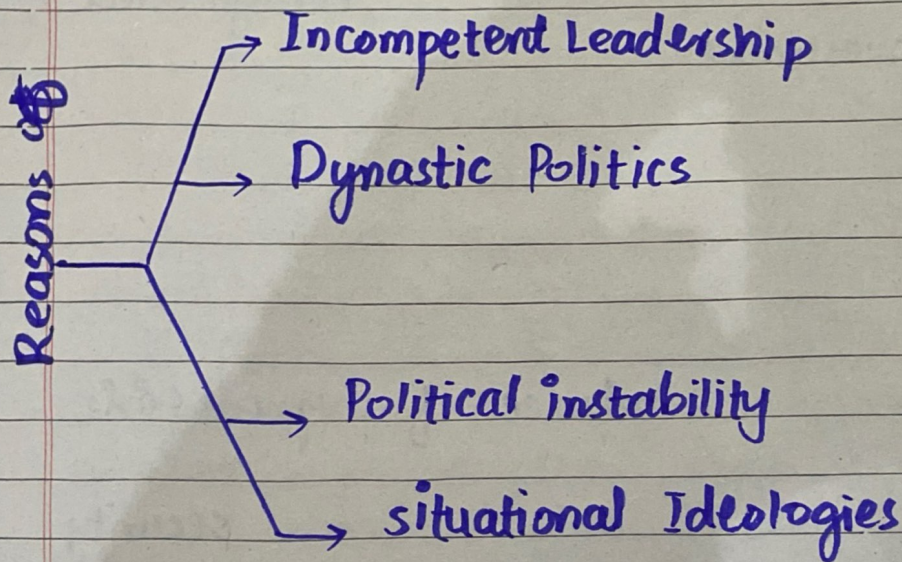
Low inflow of **Foreign Direct Investments** causing the further unemployment and inflation. Because government can not meet to the needs of employs which causes the unemployment. As low inflow of foreign direct investment decreases the remittances which causes the **balance of payment crisis** and leads ~~un~~inflation hike. Moreover, low inflow of FDI's is due to **security concerns** caused by indian proxies such as **BLA "Baloch Liberation Army."**

I- Corruption :

Dyehronic study of Pakistan's issues of inflation and unemployment reveals that corruption is the major cause. According to a report **Pakistan stands on the 138th ranking over 178 countries in world.** This is how inflation and unemployment caused by corruption in Pakistan.

2- Poor Governance And Policy inconsistency Contributing in Economic Challenges:

Poor governance and policy inconsistency are contribution further in economic challenges due to the following reasons -



3- Conclusion:

Unemployment and inflation are the persistent issues of the economy of Pakistan and basically caused by multi-dimensional causes - However, they contributed further in the turbulent economic condition. However, poor governance and inconsistent policies are also big contributors of economic upheaval and can not be solved in a jiffy.