Inflation matters for growth and investment and has a direct impact on household welfare.
Over the past year, inflation in Pakistan rose rapidly breaking from past trends.

Pakistan National Headline Inflation (percent, y-o-y)

Aug 2022
27.3 %

Sources: Pakistan Bureau of Statistics (PBS).
Higher food and energy prices underpinned increases in inflation

Average contribution to headline Inflation in Rural and Urban Areas in Pakistan (percent, y-o-y)

- Core
- Energy
- Food
- Headline inflation

External factors

Domestic economic conditions and policy settings

Floods
Quickly rising prices and high volatility of prices impact firms and households.
### Impact of inflation on firms and households

<table>
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<th>Discourages investment decisions</th>
<th>Decline of purchasing power</th>
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<td>Leads to investments in less efficient or unproductive assets</td>
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<td>Erodes external competitiveness</td>
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Households differ in their characteristics, level of income and consumption patterns

Consumption patterns differ between the poor and rich.

- Poor: higher share of food
- Rich: Higher share on housing, utilities, and transport

Price trends differ across categories of goods and services.

Inflation rates differ across households.
During times of quickly rising food prices, poorer households experience higher inflation rates.

Inflation inequality across deciles

Source: World Bank staff calculations based on PBS data. Note: Decile 1 being the poorest ten percent, and Decile 10, the richest 10 percent of households. Deciles calculated using per adult equivalent household consumption expenditure.
Drivers of inflation differ between relatively poorer and richer households

Contribution of different categories to inflation across deciles, August 2022

Source: World Bank staff calculations based on PBS data. Note: Decile 1 being the poorest ten percent, and Decile 10, the richest 10 percent of households. Deciles calculated using per adult equivalent household consumption expenditure.
Welfare losses are higher among the poor

Inflation reduces the real purchasing power for all households ...

... but welfare losses will be higher among the poor

- Poor have limited savings
- Reduce consumption and/or switch to lower quality goods
- Short- and long-term impact: worse nutrition, less schooling ...
Policy options to contain inflationary pressure, while also protecting the most vulnerable households.
Policy options

- **Implement** a coherent and prudent monetary and fiscal policy
- **Undertake** sectorial policies with sustainable fiscal cost that largely benefit poor households
- **Mitigate** the impact on poor households through well-targeted and temporary expansions of social protection programs
- **Enhance** economy-wide productivity growth
Thank you

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