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Pakistan Development Update

Special topic: Inflation and the Poor

Thursday October 6, 2022

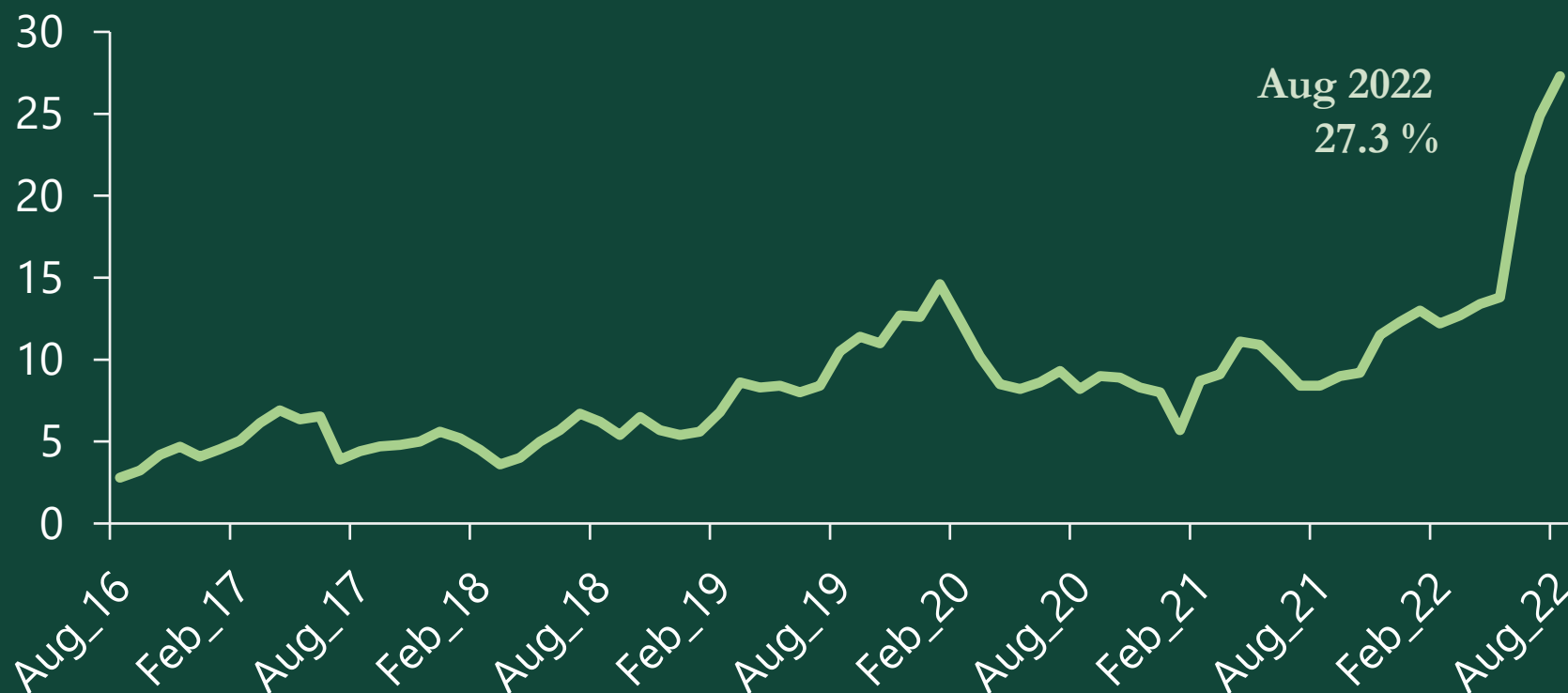
Islamabad



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)

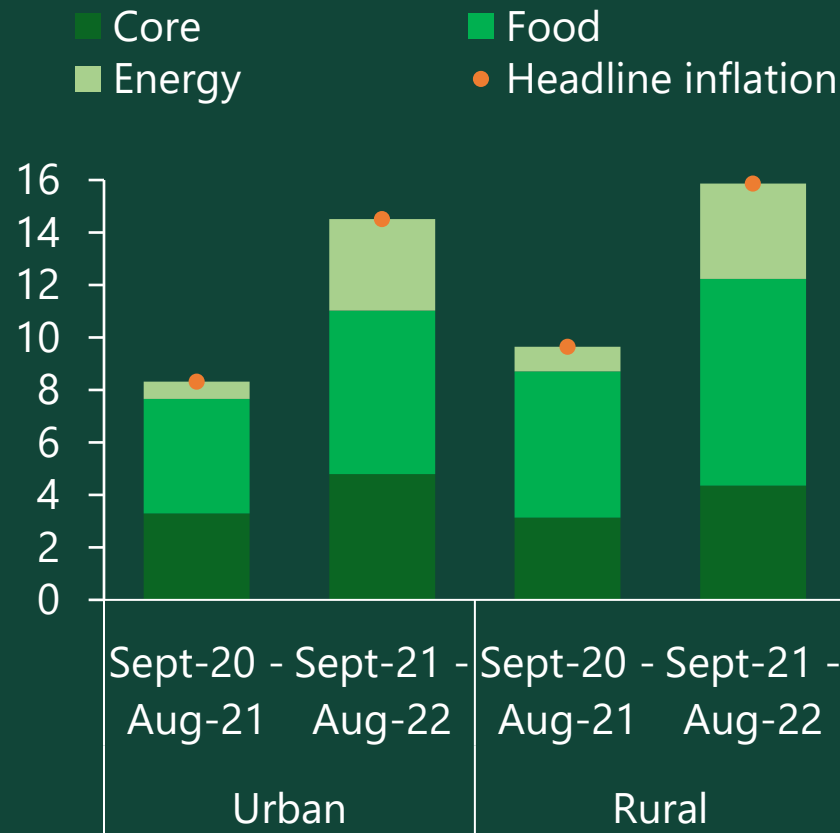


Sources: Pakistan Bureau of Statistics (PBS).

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)



External factors



Domestic economic conditions and policy settings

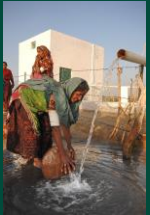


Floods



Quickly rising prices and high volatility of prices impact firms and households.

Impact of inflation on firms and households



Discourages investment decisions

Decline of purchasing power

Leads to investments in less efficient or unproductive assets

Decreasing real incomes

Erodes external competitiveness

Effects on asset prices

Households differ in their characteristics, level of income and consumption patterns



Poor > higher share of food



Rich > Higher share on housing, utilities, and transport

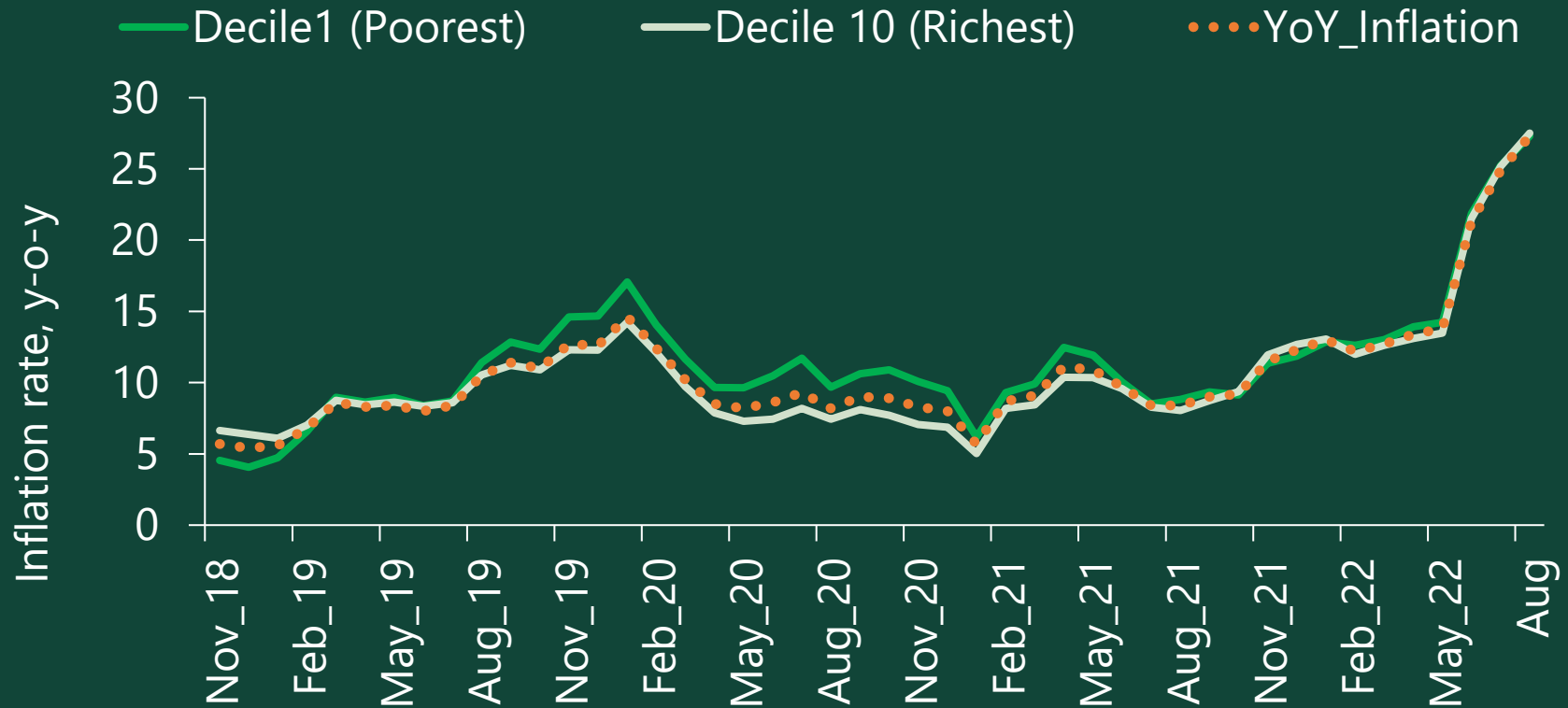
Consumption patterns differ between the poor and rich

Inflation rates differ across households

Price trends differ across categories of goods and services

During times of quickly rising food prices, poorer households experience higher inflation rates

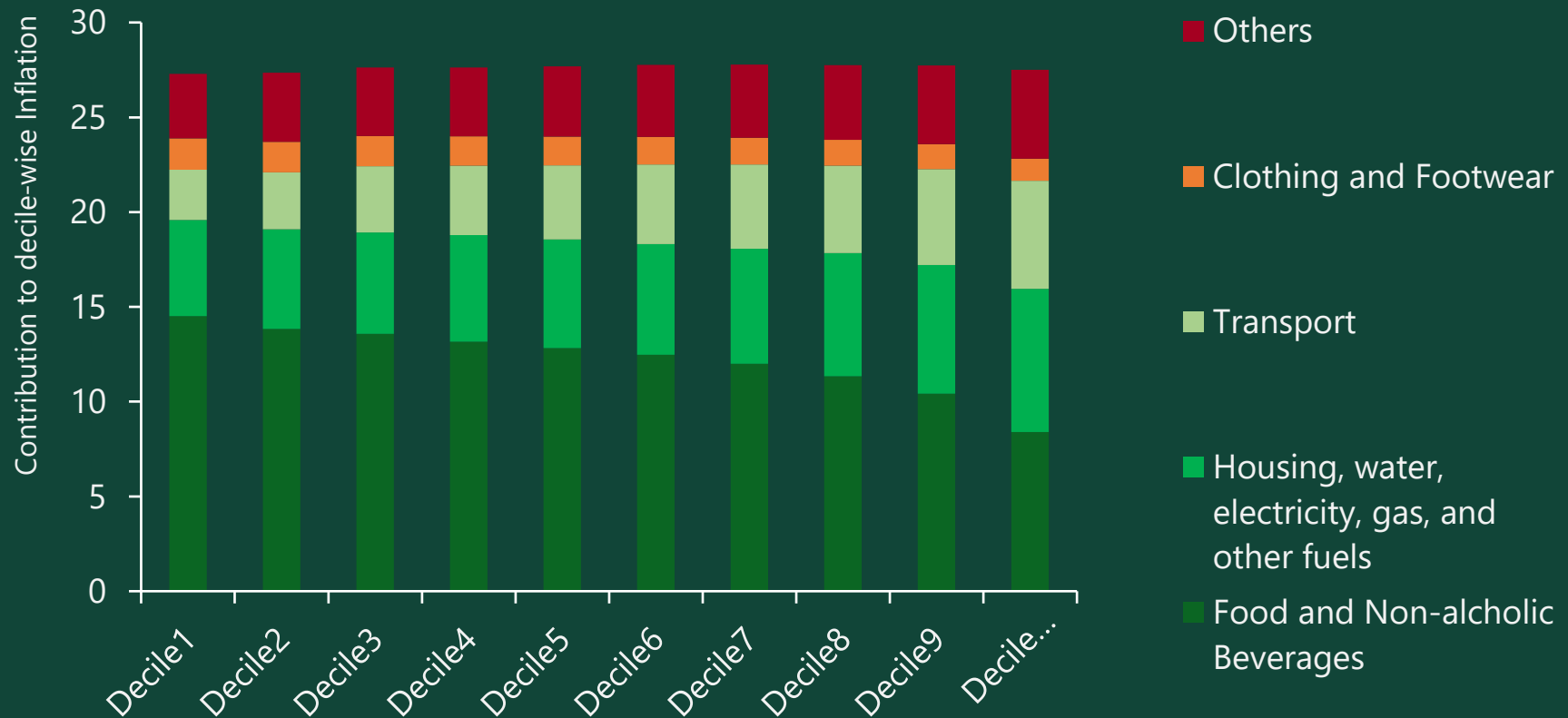
Inflation inequality across deciles



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

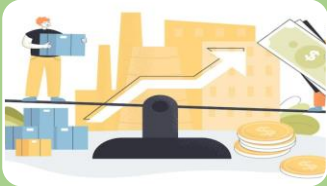


Short- and long-term impact: worse nutrition, less schooling ...



**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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