

Reforms in Pakistan's Economy

written by Saddam Tahir | August 7, 2023



The historic high inflation in Pakistan is hitting the poor and creating “unprecedented” hardships for the low-income groups, the situation has forced the masses to spend much of their income on food. Some causes with recommendations are as follows:

Increase in money supply: The government of Pakistan has been printing more money in recent years in order to finance its budget deficit. This has led to an increase in the money supply, which has put upward pressure on prices. The government can reduce the money supply by increasing interest rates or by selling government bonds. Increasing interest rates makes it more expensive for businesses and individuals to borrow money, which reduces the amount of money in circulation. Selling government bonds also reduces the amount of money in circulation, as the government uses the proceeds of the sale to pay off its debt.

Depreciation of the Pakistani rupee: The Pakistani rupee has depreciated against the US dollar in recent years. This is due to a number of factors, including the country's large trade deficit and political instability. The depreciation of the rupee has made imported goods more expensive, which has also contributed to inflation. The government can strengthen the Pakistani rupee by reducing the trade deficit or by increasing foreign exchange reserves. Reducing the trade deficit means exporting more goods and services than importing them. Increasing foreign exchange reserves means accumulating more foreign currency, which can be used to buy rupees.

Supply shocks: Pakistan has been affected by a number of supply shocks in recent years, such as the COVID-19 pandemic and the war in Ukraine. These have disrupted the supply of goods and services, which has also contributed to inflation. The government can address supply shocks by improving infrastructure or

by providing subsidies to farmers. Improving infrastructure can help make transporting goods and services easier, which can help reduce shortages. Providing subsidies to farmers can help reduce food costs, which is a major component of the inflation basket.



Increase agricultural productivity: Pakistan is a net importer of food, so any increase in the cost of food will have a significant impact on inflation. The government can increase agricultural productivity by providing farmers with access to better seeds, fertilizers, and irrigation systems. This will help to increase crop yields and reduce the cost of food.

Promote exports: Promoting exports will help to increase foreign exchange earnings, which will help to strengthen the Pakistani rupee. The government can promote exports by providing exporters with tax breaks and subsidies. It can also negotiate trade deals with other countries, giving Pakistani exporters preferential access to their markets.

Improve governance: A stable and predictable economic environment is conducive to investment and economic growth. The government can improve governance by reducing corruption and by strengthening the rule of law. This will help to attract foreign investment and create jobs, which will help to reduce poverty and inequality. By taking these measures, the government of Pakistan can help to reduce inflation and improve the lives of its citizens.