Analyzing the impacts of inflation rates on household expenses for families below poverty line in Pakistan

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Introduction:

Inflation, a pervasive economic concept, refers to the general increase in prices accompanied by a decline in the purchasing value of money. It is typically measured as a percentage change in the Consumer Price Index (CPI), which represents the average price level of a basket of goods and services commonly purchased by households. While inflation is an inherent aspect of most economies, its consequences can have a significant impact on household expenses, particularly for families living below the poverty line.

The repercussions of inflation on household budgets can be extensive and multifaceted. As prices rise across various sectors, essential goods and services become more expensive, leaving families with the burden of increased expenses. For families struggling to make ends meet, such as those living below the poverty line, these price hikes can be especially challenging. The allocation of limited financial resources becomes increasingly strained as a greater proportion of income must be dedicated to meeting basic needs. This can force low-income households to make difficult choices, such as compromising on nutrition, healthcare, education, or saving for the future.

Furthermore, inflation's impact on household expenses is not uniform, as it can disproportionately affect different expenditure categories. For example, food prices are particularly sensitive to inflationary pressures, and a rise in agricultural or transportation costs can result in a significant increase in grocery bills. Housing expenses, including rent or payments, may also escalate, making housing affordability a critical concern for economically vulnerable families. Additionally, healthcare costs, including medical services and prescription medications, may also experience inflationary pressures, straining the financial resources of households already facing economic hardship.

The consequences of inflation extend beyond immediate financial burdens. Inflation can exacerbate income inequality within societies. As prices rise, those with higher incomes may have more flexibility to adapt their spending patterns or seek higher-paying employment opportunities. Conversely, individuals and families living in poverty often find themselves trapped in a cycle of limited options. Their wages may not keep pace with rising prices, leading to a decline in their real income and purchasing power. Consequently, inflation can widen the gap between the rich and the poor, deepening existing socioeconomic disparities.

The impact of inflation on household expenses can be divided into two main categories:

- **Direct impact: Inflation can directly increase the cost of goods and services that households purchase.**

Inflation can directly increase the cost of goods and services that households purchase in Pakistan. This is because inflation causes the prices of goods and services to rise. When prices rise, it takes more money to buy the same amount of goods and services. This can have a significant impact on households, especially those that are already struggling to make ends meet.

For example, If a person is not below poverty line in Pakistan and spends 50,000 rupees per month on groceries. If the inflation rate is 2%, then the price of groceries will increase by 2%. This means that the household will need to spend 51,000 rupees per month to buy the same amount of groceries. This may not seem like a lot of money, but it can add up over time. Inflation can also impact households that are trying to save money in Pakistan. When prices rise, the value of savings decreases. This is because savings are typically held in cash or in low-interest savings accounts. When the prices of goods and services rise, the purchasing power of savings decreases.

- **Indirect impact: Inflation can indirectly increase the cost of goods and services by making it more expensive to borrow money.**

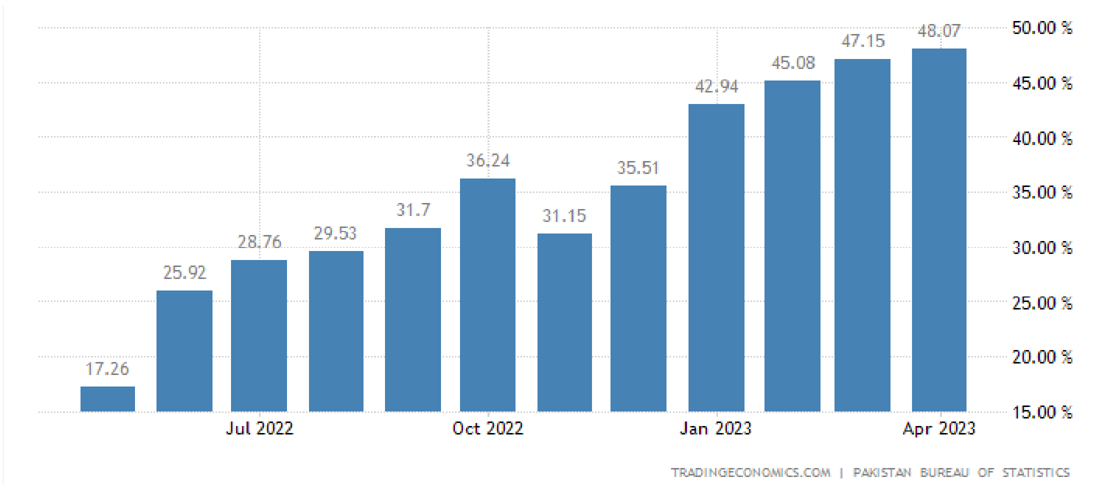
Inflation can also indirectly increase the cost of goods and services in Pakistan by making it more expensive to borrow money. This is because when inflation increases, interest rates typically increase as well. Interest rates are the cost of borrowing money. When interest rates increase, it becomes more expensive for businesses to borrow money to invest in new projects. This can lead to higher prices for goods and services.

For example, let's say that a business in Pakistan needs to borrow 10 million rupees to expand its operations. If the interest rate is 5%, then the business will need to pay 500,000 rupees in interest over the life of the loan. If the interest rate increases to 7%, then the business will need to pay 700,000 rupees in interest over the life of the loan. This increase in interest costs will be passed on to consumers in the form of higher prices.

Inflation can also make it more expensive for households to borrow money to buy a home or a car in Pakistan. This is because when inflation increases, interest rates typically increase as well. When interest rates increase, it becomes more expensive for households to borrow money to finance these major purchases. This can lead to higher prices for homes and cars.

Inflation has a significant impact on household expenses in Pakistan, particularly for families living below the poverty line. The direct and indirect consequences of inflation lead to increased financial burdens, limited access to savings, and challenges in meeting basic needs. Addressing these issues requires targeted interventions, including policy measures that alleviate the immediate financial strains, promote income growth, and enhance the overall financial well-being of vulnerable households as providing funds through different income supports like Benazir or ehsaas is not a long term solution to deal with inflation.

Food inflation is a significant concern for many people in Pakistan. The graph shows that the inflation rate for food has been increasing steadily over the past year. In April 2023, the inflation rate for food was 48.07%. This means that prices for food were 48.07% higher in April 2023 than they were in January 2022.



Inflation can have a significant impact on households and businesses in Pakistan. It can make it more difficult for households to afford basic necessities and for businesses to invest in new projects. This can lead to higher prices for goods and services.

The direct impact of inflation on household expenses is more pronounced for families below the poverty line. In 2023, the inflation rate in Pakistan is at an all-time high of 36.4%.[1] This means that the prices of goods and services are rising at a rapid pace. This is having a significant impact on households, especially those that are already struggling to make ends meet.

[1] "Pakistan Food Inflation." Trading Economics, https://tradingeconomics.com/pakistan/food-inflation

Families below the poverty line are particularly vulnerable to the effects of inflation. This is because they tend to spend a larger proportion of their income on basic necessities, such as food and shelter. When the prices of these goods and services increase, it can have a significant impact on the household budget.

For example, let's say that a family below the poverty line in Pakistan spends 50% of their income on food. If the inflation rate for food is 48.07%[2], then the price of food will increase by 48.07%. This means that the family will need to spend an additional 24% of their income to buy the same amount of food. This may not seem like a lot of money, but it can add up over time.

In the example above, the family's income is Rs. 30,000. If the inflation rate for food is 48.07%, then the family will need to spend an additional Rs. 7,210 to buy the same amount of food. This means that the family's total food expenses will increase to Rs. 10,210 approximately.

The increase in food expenses can have a significant impact on the family's budget. For example, if the family's income is only Rs. 30,000, then the increase in food expenses will take up 24% of their income. This means that the family will have less money to spend on other necessities, such as housing, clothing, and transportation.

Inflation can also make it more difficult for families below the poverty line to save money. This is because when prices rise, the value of savings decreases. For example, let's say that a family below the poverty line in Pakistan has 10,000 rupees in savings. If the inflation rate for food is 48.07%, then the purchasing power of that savings will decrease by 48%. This means that the family will be able to buy 4,807 rupees less worth of food with their savings.

In the example above, the family's savings is Rs. 10,000. If the inflation rate for food is 48.07%, then the family will be able to buy Rs. 4,807 less worth of food with their savings.

[2] "Pakistan Food Inflation." Trading Economics, https://tradingeconomics.com/pakistan/food-inflation.

This means that the family will have to spend more money on food, which can have a significant impact on their budget.

The direct impact of inflation on household expenses is more pronounced for families below the poverty line because they tend to spend a larger proportion of their income on basic necessities, and they have less access to savings. The government of Pakistan can take steps to help these families cope with the effects of inflation, such as providing subsidies on basic necessities and increasing the minimum wage.

This is because families below the poverty line tend to spend a larger proportion of their income on basic necessities, such as food and shelter.

In Pakistan, the inflation rate is currently at 36.4%. This means that the prices of goods and services are rising at a rapid pace. This is having a significant impact on households, especially those that are already struggling to make ends meet.

Families below the poverty line are particularly vulnerable to the effects of inflation. This is because they tend to spend a larger proportion of their income on basic necessities, such as food and shelter. When the prices of these goods and services increase, it can have a significant impact on the household budget.

For example, a family below the poverty line in Pakistan spends 50% of their income on food. If the inflation rate is 36.4%, then the price of food will increase by 36.4%. This means that the family will need to spend an additional 18.2% of their income to buy the same amount of food. This is a significant amount of money, and it can make it very difficult for families below the poverty line to make ends meet.

A breakdown of how the inflation rate affects the family's budget:

Situation A: Breakdown of how the inflation rate affects the family's budget who spends 10,000 rupees on food:

- Before inflation, the family spends 10,000 rupees on food.
- After inflation, the price of food increases to 14,807 rupees.

- The family now needs to spend 14,807 rupees on food, which is 4,807 rupees more than before inflation.
- This represents a 48.07% increase in the family's food budget.

Situation B: Breakdown of how the inflation rate affects the family's budget who spends 5000 rupees on food:

- Before inflation, the family spends 5,000 rupees on food.
- After inflation, the price of food increases to 7,403 rupees.
- The family now needs to spend 7,403 rupees on food, which is 2,403 rupees more than before inflation.
- This represents a 48.07% increase in the family's food budget.

The impact of inflation on the family's budget is significant. The family now has to spend more money on food, which means they have less money to spend on other necessities, such as housing, transportation, and healthcare. This can lead to a number of problems, including food insecurity, homelessness, and poor health.

The impact of inflation on household expenses is more pronounced for families below the poverty line because they tend to spend a larger proportion of their income on necessities, and they have less access to savings.

The indirect impact of inflation on household expenses is also more pronounced for families below the poverty line.

In addition to the direct impact of inflation on household expenses, there is also an indirect impact. The indirect impact of inflation is felt through the following channels:

- **Wage stagnation:** When inflation rises, wages tend to lag behind. This means that families below the poverty line are not seeing their incomes rise at the same rate as prices. This can make it difficult for them to keep up with their expenses.

- **Increased debt burden:** When inflation rises, the value of savings decreases. This means that families below the poverty line may have to borrow more money to meet their expenses. This can lead to an increased debt burden, which can make it difficult to get out of poverty.
- **Reduced access to credit**: When inflation rises, banks may become more reluctant to lend money. This can make it difficult for families below the poverty line to get the credit they need to start or expand a business. This can limit their opportunities to earn more income and improve their standard of living.

This is because families below the poverty line tend to have less access to credit.

Hypothetically if a family which is not below the poverty line in Pakistan has a monthly income of 100,000 rupees. They spend 50% of their income on food, which means they spend 50,000 rupees on food each month.

If the inflation rate is 36.4%, the price of food will increase by 36.4%. This means that the family will now need to spend 68,200 rupees on food each month. This is an increase of 18,200 rupees per month.

The family's income has not increased, so they will have to find a way to cover the extra 18,200 rupees per month. They may have to borrow money, cut back on other expenses, or find a way to earn more income.

If the family borrows money to cover the extra expenses, they will now have to pay interest on the loan. This will increase their debt burden and make it more difficult to get out of poverty.

If the family cuts back on other expenses, they may have to go without basic necessities, such as healthcare or education. This can have not only a negative impact on their health and well-being but also a major class shift.

If the family is unable to find a way to earn more income, they may fall into poverty. This can have a devastating impact on their lives, and it can be difficult to get out of poverty once you are in it**.**

When inflation increases, the cost of borrowing money also increases. This can make it more difficult for families below the poverty line to afford basic necessities.

The table provides a breakdown of food items along with their respective prices per kilogram (kg), quantities, and total costs. The prices are listed in Pakistani Rupees (Rs).

Food items	**Price per kg**	**Quantity**	**Total cost**
Adrak (Ginger)	Rs. 750	1 kg	Rs. 700
Garlic	Rs. 350	1 kg	Rs. 360
Lemon	Rs. 100	Pao	Rs. 280
Peas	Rs. 150	1 kg	Rs. 140
Aalu (Potato)	Rs. 100	1 kg	Rs. 180
Onion	Rs. 60	1 kg	Rs. 80
Green chilli	Rs. 30	Pao	Rs. 100
Tomato	Rs. 50	1 kg	Rs. 50
Okra	Rs. 120	1 kg	Rs. 170
Chicken	Rs. 675	1 kg	Rs. 360
Mutton	Rs. 1600	1 kg	Rs. 1600
Beef	Rs. 1100	1 kg	Rs. 1100
Flour (Atta)	Rs. 795	1 kg	Rs. 795

Total | | | Rs. 6,855

When inflation increases, the cost of borrowing money also tends to increase, making it more challenging for these families to afford basic necessities. The table reflects the current rates and costs of various food items in Pakistan.

Analyzing the table, food prices have risen across several essential items. For instance, ginger is priced at Rs. 750 per kg, garlic at Rs. 350 per kg, and lemon at Rs. 100 per pao (a local unit of measurement). These prices contribute to the overall cost of food, which for the items listed in the table amounts to Rs. 6,855.

Situation A: To put this expenditure into perspective, let's consider an individual with a monthly income of 30,000 rupees. The total cost of food items listed in the table represents approximately 23% of their income. This proportion highlights the significant portion of income that individuals in Pakistan may need to allocate for purchasing essential food items.

The total cost of food items for a person with an income of 30,000 rupees in Pakistan is Rs. 6,855. This means that the person will have to spend about 23% of their income on food. This is a significant amount of money, and it is important to find ways to reduce food costs.

Situation B: If the salary of a person is 10,000 rupees instead of 30,000 rupees, the impact of the food costs becomes even more significant. The total cost of food items listed in the table is 6,855 rupees, which accounts for approximately 68.55% of the monthly income.

Spending almost 70% of the monthly salary on food expenses leaves very limited room for other essential needs and expenses such as rent, utilities, transportation, healthcare, and education. This scenario indicates that individuals with a salary of 10,000 rupees would face a significant challenge in meeting their basic needs and maintaining a reasonable standard of living.

Such a high proportion of income spent on food highlights the vulnerability of individuals with lower incomes, particularly those living near or below the poverty line. It underscores the urgent need for measures to address rising food prices and improve affordability, as well as to provide support to individuals and families facing financial constraints.

Conclusion

In conclusion, the extensive and multifaceted repercussions of inflation on household expenses, with a particular focus on families living below the poverty line in Pakistan. It has been established that inflation, characterized by a general increase in prices and a decline in the purchasing power of money, significantly impacts the allocation of limited financial resources for low-income households. The consequences of inflation on household budgets are not uniform and disproportionately affect different expenditure categories, such as food, housing, and healthcare.

The direct impact of inflation on household expenses is more pronounced for families below the poverty line due to their higher proportionate spending on basic necessities and limited access to savings. The increased costs of essential goods and services, such as food, have a substantial impact on the budgets of impoverished families, forcing them to allocate a larger portion of their income towards meeting basic needs. This, in turn, leads to difficult choices and compromises in other areas, including nutrition, healthcare, education, and saving for the future. Moreover, inflation erodes the purchasing power of savings, making it more challenging for low-income households to build financial security.

In addition, the indirect impact of inflation on household expenses, particularly for families below the poverty line is also an issue. Factors such as wage stagnation, increased debt burden, and reduced access to credit exacerbate the financial challenges faced by impoverished households. As wages fail to keep pace with rising prices, families struggle to cover their expenses, resulting in a higher reliance on borrowing, increased debt burdens, and limited opportunities for income growth. These factors further hinder their ability to escape poverty and improve their standard of living.

To mitigate the adverse effects of inflation on households, especially those below the poverty line, the government of Pakistan can implement various measures instead of making people dependent on Ehsaas or Benazir is not a long-term solution. These may include providing subsidies on necessities, increasing the minimum wage, and implementing policies to control inflation through measures like raising interest rates.