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<https://islamicreligious.com/index.php/Journal/index>Print ISSN: [3006-1296](#) Online ISSN: [3006-130X](#)Platform & Workflow by: [Open Journal Systems](#)<https://doi.org/10.5281/zenodo.19699085>**Economic Crisis and Class Divide: Analyzing Poverty and Inflation in Pakistan****Benazeer Chandio**

Doctor of Philosophy English Literature, National College of Business Administration & Economics, (Alhamra University) Multan Sub-Campus

benazirchandio360@gmail.com**Abstract**

Pakistan is facing an ongoing economic recession marked by continuous inflation, macroeconomic imbalance, and reemergence of poverty, leading to increasing inequality in the country. The research aims to evaluate the relationship between inflation and poverty in Pakistan with special emphasis on how inflation impacts poor individuals and classes differently than higher social strata. Inflation has always been a serious threat to the economic stability of a country; however, its negative impact increases when it leads to growing levels of poverty among the population. Secondary data gathered from the national and international reports, alongside scientific literature, will be utilized in the research. Qualitative methods will be used to analyze structural and economic factors that contribute to poverty in the context of inflation. The results show that high levels of inflation lead to reduced income and buying power and, as a consequence, lack of access to essential goods, including food products. In addition to that, it has been found by the research that the phenomenon of inflation does not only contribute to an increase in the poverty rate but also causes an increase in income disparity, thus making socio-economic differences more prevalent. It has been estimated that poverty levels in Pakistan have increased to around 25%-28% over the past few years due to various factors like inflation, economic shocks, and vulnerabilities within the country's economy, erasing all the progress that had previously been achieved in reducing poverty.

Keywords: *Inflation, Poverty, Economic Crisis, Class Divide, Income Inequality, Pakistan, Socio-economic Disparities, Purchasing Power, Economic Instability.*

Introduction

There are several macroeconomic issues that Pakistan has been grappling with for the last decade or so. They include but not limited to inflationary pressures, slow economic growth, fiscal imbalances, devaluation of the currency, and increased rates of poverty. The macroeconomic issue that can be identified as one of the most pressing and destabilizing is that of inflation which has had serious implications on the economic and social fabric of Pakistan (World Bank, 2025). Inflation has the effect of decreasing the real income, diminishing the value of savings, and decreasing the purchasing power and therefore affecting adversely the poor and the middle-class who spend most of their income on the basic necessities of life such as food, rent, transportation, and energy (O'Donoghue et al., 2023).

According to empirical research, it is evident that the phenomenon of inflation is both a macroeconomic issue as well as an important factor in determining poverty trends. It has been seen from research findings that rising inflation results in decreasing real wages and increases costs associated with essential consumer goods, which in turn leads to people moving towards the poverty line (Akbar et al., 2025; Imai et al., 2014). In Pakistan, where a considerable number of people already exist close to the poverty line, any increase in the inflation rate would produce considerable distributional impacts. In addition, high inflation rates are

indicative of low economic growth rates over the long term, which further affects poverty conditions negatively.

Apart from the direct effects of inflation, it has been extensively discussed as a regressive economic process that impacts the underprivileged sections of the society in an inequitable manner. According to the Keynesian view, demand-side forces, coupled with structural rigidities, cause inflation, whereas according to the Monetarist point of view, inflation is a result of excessive growth in money supply (Friedman, 1963). On the other hand, in emerging economies, inflation arises out of problems in the supply side and structural impediments. This is the basic tenet of the Structuralist approach to inflation. Therefore, it can be said that all the three views of inflation mentioned above imply that inflation is not a homogeneous phenomenon but a process influenced by institutional and structural variables.

The impact of inflation is not restricted to its effects on the economy alone; rather, its impacts have far-reaching social implications that can destabilize society as a whole. As prices continue to rise, there will be an ever-increasing income disparity that favors the rich while penalizing the poor. The poor, in particular, are likely to suffer because, unlike the rich, who have assets and other forms of revenue streams, they do not have access to any savings or other avenues through which they can generate more income. This uneven burden of inflation has resulted in an even greater class divide within Pakistani society, where income is becoming increasingly concentrated within the country's elite (Farooq & Kunwal, 2025).

Current economic trends also point out that Pakistan has witnessed an upsurge in poverty rates following a continuous reduction in the previous years. It seems that poverty rates, which were falling because of economic growth and focused social welfare programs, are again increasing in recent years, signifying a setback to development achievements (World Bank, 2025). The rise in poverty rates is mostly influenced by the rise in prices and the impact of external shocks to the economy, such as changes in commodity prices, the pandemic, energy crisis, floods, and other environmental catastrophes (Asian Development Bank, 2023; World Bank, 2025).

Additionally, inflation in Pakistan is not merely an economic variable but also one of the major social determinants of well-being. Higher levels of inflation restrict the ability of individuals to access basic necessities like healthcare, education, housing, and nutrition, ultimately resulting in adverse developmental outcomes. Inflation has been found empirically to possess a statistically significant positive correlation with poverty, and therefore its persistent increase results in deteriorating socio-economic living standards of vulnerable sections of society (Akbar et al., 2025). Among other factors, food inflation constitutes one of the key determinants of deprivation because of its direct impact on nutrition and health, as well as the difficulty in adjusting the demand for food faced by poor households (O'Donoghue et al., 2023; Imai et al., 2014).

Moreover, the continuance of inflation results in growing socio-economic inequalities since adjustments to inflation are highly uneven among various income groups, whereby richer people have the ability to invest money, own land or properties, and have multiple sources of income, while poorer people find themselves unable to do so, forcing them to decrease necessary consumption. The resulting difference increases economic inequality and polarizes society through the emergence of clearly defined classes that represent various economic interests. As a result, not only income distribution but also education, healthcare, and employment become unequal, thus promoting social stratification (Lustig, 2020; Ravallion, 2001).

Empirical studies have supported these ideas as well, indicating the adverse effects of macroeconomic instability on poverty reduction efforts. For example, according to Ravallion (2001), growth alone is not enough for poverty reduction if there is a high level of inflation and inequality present in the country. At the same time, Easterly and Fischer (2001) note that the problem of inflation can be viewed as a "tax on the poor" because it reduces their income. In regard to the case of Pakistan, these observations become even more valid due to weak institutions and redistribution possibilities in the country.

In this regard, the analysis of the connection between poverty and inflation becomes vital in resolving the problem of class divide in Pakistan. Since the correlation between macroeconomic volatility and structural inequality indicates that inflation is not only an economic factor but also has a social dimension in terms of deprivation and opportunities, the following study will seek to explore the role of inflation in increasing poverty and inequality in Pakistan. Based on a synthesis of available theoretical evidence and recent economic developments, the purpose of this study will be to provide an in-depth discussion of the present economic turmoil in Pakistan and its effects on society and economy.

One more factor involved in comprehending the connection between inflation and poverty relates to the workings of the labor market. Inflation tends to exceed the rate of wage increments, especially in the case of informal labor markets, where increments are not frequent and are not regulated. As observed by Card & Krueger (1995), the labor market conditions in developing countries are marked by rigidity and are not conducive to rapid changes in wages in response to macroeconomic trends. In Pakistan, where informal employment forms a substantial part of the labor force, inflation causes a fall in real wages and thus adds to poverty and economic inefficiency.

Background

Poverty levels have fluctuated greatly in Pakistan based on the dynamics of its economic growth, policy decisions, and global factors. The beginning of the 2000s was characterized by high poverty levels, which exceeded 60%, but economic development, inflows of remittances, and measures to mitigate poverty resulted in their reduction to about 21.9% by 2018-19 (World Bank, 2025). However, despite the period of stability, achievements in this sphere proved to be rather fragile, with the situation reverting back since the last couple of years owing to a number of factors such as the current pandemic, floods, and economic instability (World Bank, 2025).

According to recent estimations, the level of poverty has considerably increased, where the rate of poverty is estimated to reach 25.3% between the years 2024 and 2025, placing millions of people below the poverty threshold (Daily Pakistan, 2025). Another estimation suggests that the poverty rate could be as high as 28.8%, indicating the severity of the economic crisis and the vulnerability of many segments of society (Pakistan Today, 2026).

The other factor contributing to this negative trend is the steady rise in inflation rates. Pakistan witnessed a sudden spurt in inflation, with levels touching almost 29% within 2022-23, among the highest in many years (Independent News Pakistan, 2026). These high levels of inflation have had a serious impact on disposable incomes, since salaries have not been able to match price hikes. This has resulted in a noticeable drop in purchasing power among consumers, especially those belonging to poorer segments of society, which makes it tough for them to buy necessities like food, accommodation, and energy.

In addition, the high inflation rate in the country has contributed to widening socio-economic disparities, mainly because it has impacted vulnerable communities more. People belonging

to lower socio-economic classes invest a higher proportion of their income in necessities, making them more prone to price changes in critical sectors such as food and energy. Thus, inflation has widened the gap between the poor and rich people since the former is less resilient to financial instability than the latter (O'Donoghue et al., 2023).

Moreover, price shocks of energy have made a great contribution to the increase in the level of inflation within Pakistan. Since the country is dependent on foreign sources for its fuel requirements, it is highly sensitive to any changes in international prices of oil. As mentioned by Hamilton (2009), price hikes for oil products are responsible for inflationary shocks and recessions. In Pakistan, price hikes for energy have caused higher costs of production and transportation, leading to high prices for consumers.

In summary, the recent economic performance of Pakistan shows the impact of macroeconomic instability along with the influence of external forces on the reversal of achievements made in reducing poverty. The relationship between inflation and poverty makes it necessary to come up with effective measures to stabilize price levels and promote inclusive growth.

Additionally, the devaluation of exchange rates has been a significant factor that has contributed greatly to the escalation of inflation in Pakistan. According to various studies, currency devaluation results in an increase in the cost of goods that are imported such as fuel and food, which consequently causes inflation (Pass through effect) (Khan & Qasim, 1996). Being a country that depends heavily on foreign products, any changes in the exchange rate will have a great impact on prices and thus consumer welfare.

Literature Review

There are many studies on the effect of inflation on poverty in both empirical and theoretical perspectives. There is a consistent observation across various studies that there exists a strong correlation between poverty and inflation because the latter impacts actual income and the ability to buy goods and services. An empirical study conducted by Akbar et al. (2025) shows that inflation has a statistically significant and positive effect on poverty in Pakistan, implying that there is a direct effect of rising prices on increasing poverty rates in Pakistan.

Besides making people poorer, inflation is another factor that affects income distribution. According to studies, inflation negatively affects low-income households since they spend more on consumption. In this case, food inflation is one of the leading causes of welfare losses in the country, which affects poorer households since they are more susceptible to changes in commodity prices. The same applies to Easterly and Fischer's view that inflation operates like a regressive tax; this means that the burden of the tax is not borne by all equally but by those who cannot afford to save and invest their money due to inflation-hedging products.

A third area of research examines the relationship between inflation and fiscal policy. According to literature, inflation may be induced by the use of an expansionary fiscal stance, especially where such policies are funded through borrowings and monetary expansions in emerging markets (Sargent & Wallace, 1981). Additionally, Fischer (1993) observes that macroeconomic instability, which includes high levels of inflation, fiscal deficits, and exchange rate variability, tends to undermine economic performance and exacerbate poverty outcomes. This is consistent with the experience of Pakistan, where continued fiscal imbalance and external debt have fueled inflationary spirals.

Moreover, recent studies have increasingly drawn attention to the multidimensionality of poverty as well as its vulnerability to macroeconomic changes. Poverty in Pakistan cannot be defined just by economic factors such as income, since it is also characterized by the lack of

education, health care, and other essential needs. According to Farooq and Kunwal (2025), poverty is greatly affected by the change in inflation rates, which clearly demonstrates that macroeconomic factors play an important role in defining the level of overall social welfare. There is an increasing amount of research showing the powerful connection between inflation and income inequality. Inflation is found to increase poverty as well as redistribute income from poorer sections to richer sections of society. According to Albanesi (2007), this occurs because inflation lowers the real wage rate of labor while making capital and other assets more valuable. On the same note, Romer and Romer (1999) discover that inflations have a negative impact on poor families since they lack financial tools to protect themselves against inflation. In Pakistan, such a situation has made social inequalities more pronounced since financial institutions are not widespread in this developing country.

An equally crucial area of study considers the effects of inflation on consumption behavior in households. According to Deaton (1989), inflation forces households to adjust their expenditure decisions, leading to reduced spending on non-basic items that have a positive impact on welfare. Such changes are most pronounced among poor populations due to budget constraints. In situations of high inflation, households focus on basic necessities like food and housing while limiting spending on healthcare and education.

Moreover, a number of researchers have analyzed the broader structural determinants that influence the inflation-poverty linkages. The World Bank (2025) points out that structural shortcomings such as low productivity, limited employment prospects, and budgetary problems magnify the effects of inflation on economically disadvantaged people. Exogenous shocks like the COVID-19 outbreak and natural calamities due to climate change have further complicated this problem due to disruptions in economic activity and a rise in the cost of living. All these factors together lead to the negation of progress toward poverty alleviation and the growing gap between classes in Pakistan.

It is also found in the literature that inflation adversely impacts those people who do not have access to any financial institutions. As explained by Honohan (2008), financial exclusion restricts poor households' capacity to safeguard their savings against inflation using interest-based savings schemes or investment opportunities. The country of Pakistan is one such country where the majority of its people do not have access to banking facilities, resulting in their savings being quickly depleted due to the impact of inflation.

Structurally speaking, inflation in developing countries is mostly caused by supply side problems than demand side pressures. According to Chenery and Syrquin, structural deficiencies including problems like poor infrastructure, inefficiency, lack of agricultural output, and market inefficiencies play a role in causing inflation. In the case of Pakistan, problems including shortages of energy, inefficient logistics, and reliance on imports result in cost push inflation, especially for primary goods.

Another important literature stream that is applicable here centers around the interplay between inflation and unemployment. As explained by Blanchard (2017), a country where both the level of inflation and unemployment is high will find itself in an extremely difficult situation because policies that address inflation will likely worsen unemployment. This scenario is common in Pakistan because, during periods of high inflation, the economy will be slow and unemployment levels will be rising. This makes things worse for people because the poor get poorer and employment becomes limited.

In addition to this, research further stresses the need for social protection measures to cushion the effects of inflation. As per Barrientos (2013), social welfare schemes, if well-targeted, have

the potential to lessen the risk of poverty through income support provided to the affected individuals. But during periods of high inflation, the effect of such programs is likely to be diluted if there are no changes in the benefit levels to adjust for the cost of living.

There are additional cross-country studies that confirm the link between inflation and poverty. Dollar, Kleineberg, and Kraay (2016) prove that macroeconomic stability, which involves low and stable inflation, is crucial for achieving sustainable reductions in poverty levels. According to their study, high inflation rates lead to slow poverty reduction and greater income inequality. The cross-country evidence is consistent with what happens in Pakistan, as inflation continues to erode economic stability and undo the efforts to reduce poverty.

Several studies have provided empirical support for the inflation-poverty linkage from a cross-country perspective as well. As per Ravallion (2001), macroeconomic instability, especially inflation, hampers poverty reduction activities by lowering real wages and introducing more uncertainties in the labor market. On the same lines, Bruno and Easterly (1998) revealed that the period of high inflation is accompanied by low rates of economic growth, and hence poor poverty outcomes result. In the South Asian region, studies reveal that apart from aggravating poverty incidences, inflation also enhances poverty depth due to reduced access to basic necessities (Imai et al., 2014).

Further empirical evidence also focuses on the impact of inflation volatility on poverty-related consequences as opposed to only inflation. According to a study conducted by Aisen & Veiga (2008), increased inflation volatility results into greater uncertainty, lower investments, and ultimately lower economic growth, which indirectly leads to higher levels of poverty. The same has been stated by Dollar & Kraay (2002), who point out that although economic growth is beneficial for poverty reduction, the effect is greatly hindered if the economy is facing macroeconomic instability due to highly volatile inflation. This is particularly true for the case of Pakistan where inflation is known to be volatile in nature.

Furthermore, there is increasing literature on the impact of inequality in magnifying the impact of inflation. Where income inequality is high, the impacts of inflation are even worse on poorer segments, making poverty levels soar higher. According to Lustig (2020), lack of redistributive policies makes inflation worsen inequality and hampers sustainable development. In Pakistan, given the already wide gap between the rich and poor, inflation has played its part in reinforcing socio-economic class distinctions by restricting upward social mobility.

To sum up, it is clear from the literature reviewed that the level of inflation in Pakistan has significant implications for poverty and inequality. It is not only a cause of poverty but has also contributed to the widening inequalities between the richer and poorer segments of the society.

Research Questions

- 1: Describe the relation between inflation and poverty in Pakistan.
- 2: Discuss how the recent economic turmoil has influenced class relations in Pakistan.
- 3: Examine how much inflation influences increasing inequality.
- 4: Which policies should be adopted to minimize the effect of inflation on poverty?

Research Methodology

In this regard, the current study will be based on qualitative methodology using secondary data analysis in order to determine the impact of inflation on poverty and the consequences of both factors in relation to class differences in Pakistan. Qualitative methodology has been deemed more suitable for the current study because it facilitates understanding of the subject

matter in depth, taking into account the socio-economic environment and macroeconomic policies without needing primary data gathering efforts.

Data Sources

The data used in conducting the study above was sourced from diverse secondary sources such as:

- Research documents published by international organizations like the World Bank and IMF
- Statistics provided by national bodies like the Pakistan Bureau of Statistics and State Bank of Pakistan
- Articles published in reputable journals relating to inflation, poverty, and inequalities
- Working and policy papers from research agencies like the Pakistan Institute of Development Economics
- This choice of data sources was made taking into consideration their credibility and contribution in addressing inflation and poverty issues.

Research Design and Approach

The study adopts a theme-based and analytical approach in exploring the connection between trends in inflation and poverty. Literature review and data collection, along with categorization and analysis, will be done with special emphasis on common themes emerging from the review, such as purchasing power reduction, income disparity, and the vulnerability of poor households.

In addition, a longitudinal view is adopted by considering available data about the link between inflation and poverty between 1981 and 2024 through existing literature. This perspective will help understand how inflation has affected poverty levels and socio-economic inequalities in Pakistan over a long period of time.

Data Analysis Technique

The research was conducted using content analysis, whereby the results of different investigations were compared in order to determine the degree and nature of the correlation. In particular, various indicators, such as the rate of inflation, the ratio of those living below the poverty line, as well as income distribution among different groups, were evaluated.

Inclusion Criteria

In order to ensure rigorousness and relevancy of information, articles and documents which meet the following requirements were chosen for this study:

- Recently published within the specified period of time (2000 – 2025)
- Dealing with Pakistan or similar developing countries
- Dealing with inflation, poverty and income inequality as variables
- Academic sources

Limitations of the Study

Despite its analytical strengths and comprehensive review of existing literature, this study has several limitations that should be acknowledged. First, the study relies entirely on secondary data sources, including published research articles, institutional reports, and government statistics. As a result, the validity and depth of the findings are dependent on the accuracy, reliability, and methodological rigor of the original studies. Any limitations, biases, or inconsistencies present in those sources may indirectly influence the conclusions of this research.

Second, the absence of primary data collection limits the study's ability to capture real-time, lived experiences of households directly affected by inflation and poverty. While secondary

data provides valuable macro-level insights, it may not fully reflect micro-level variations such as individual coping strategies, household decision-making, and regional disparities within Pakistan. This restricts the study's ability to present a more nuanced, ground-level understanding of inflation's impact on different socio-economic groups.

Third, the variation in methodology for measuring poverty and inflation may have implications on comparison between different studies. For example, some researchers use the method of income poverty line, whereas others apply the multi-dimensional poverty index. Similarly, there may be differences in measuring inflation based on different baskets of goods chosen for analysis or different time periods taken into account. This may lead to difficulties in combining all findings to produce an overall conclusion.

Fourth, the scope of the study is restricted due to the temporal and contextual limitations of the research. In other words, the study addresses only current economic phenomena in Pakistan. Any fast-changing factors, such as the economy itself or intervention in its functioning, may render certain results irrelevant.

Ethical Considerations

This study strictly follows all the ethical standards for conducting research since all the sources used have been cited, attributed, and acknowledged according to the APA 7th edition. All the information gathered for this research work has been obtained from academic and institution-based resources.

As this research work relies exclusively on a secondary data analysis, no human primary data has been collected. As such, ethical issues such as informed consent, confidentiality, anonymity, and any other related issues cannot be raised here.

Additionally, every effort has been made to make sure that there is no misrepresentation or misuse of the existing findings. This means that the sources have been critically analyzed and properly cited.

Generally, this research project complies fully with all the ethical standards of conducting academic research.

Findings

Analysis of the secondary data and related literature indicates that there are many findings which are highly significant and relevant to each other in the context of the impact of inflation on poverty and inequality in class structures in Pakistan. These findings shed light on the implications of inflation, both direct and indirect, and also show us the changing economic scenario.

1. Inflation as a Key Driver of Poverty

Among the important results found by the current research is the finding that there exists a significantly positive correlation between inflation and poverty level in Pakistan. The empirical studies show that an increase in the rate of inflation will lead to an increase in the poverty level because of the decrease in the purchasing power. According to Akbar et al. (2025), through econometric analysis, it was shown that there is a causal effect of inflation on poverty levels for the long term. This issue is particularly important for the economy of Pakistan since the major part of its population depends on constant or low earnings which cannot change according to the changes in inflation rates.

2. Rising Poverty Trends and Reversal of Progress

Yet another important discovery pertains to the loss of ground gained in the fight against poverty over the last two decades. Although the government had managed to reduce poverty levels to about 21.9% by 2018-19, more recent studies indicate a marked rise in poverty levels

to about 25-28% following economic setbacks in recent years (World Bank, 2025; Daily Pakistan, 2025). This dramatic spike suggests that millions have been driven back to poverty status, thereby indicating the vulnerability of economic achievements made previously. The surge in poverty rates can be attributed largely to factors including inflation, sluggish economic growth, and the COVID-19 pandemic, among others.

3. Declining Purchasing Power and Real Income Compression

The study also indicates that the impact of high inflation has greatly lowered the purchasing power of individuals, especially during times when the rate of inflation reached a high point of about 29% in 2022–23 (Independent News Pakistan, 2026). At such points, the price of basic necessities has greatly risen, but there has not been any increase in wages, either because of stagnation or insufficiency. In other words, the gap between expenditure and income has widened, which has resulted in lowering the real income level. This trend is more pronounced among the middle and low-income classes of society.

4. Disproportionate Impact on Low-Income Households

A crucial discovery made from this research is that not all members of society are affected by inflation in an equal manner. In fact, it is the poor people who suffer most from inflation. It is evident from scientific studies that poor families allocate more of their money to spending on basic necessities such as food, which means that they are much more sensitive to inflation compared to wealthy individuals (O'Donoghue et al., 2023). Therefore, when there is an increase in food inflation, these families are affected much more adversely in terms of welfare than richer families.

5. Widening Class Divide and Income Inequality

In addition, the results show that the impact of inflation has led to the creation of a class difference in Pakistan. Inflation has affected the economic situation of the poor people, resulting in increased inequality in society where wealth is accumulating at the upper economic classes and economic distress among lower economic groups. Inequality has also been created through the lack of educational and job opportunities for individuals (Farooq & Kunwal, 2025).

6. Multidimensional Impact on Living Standards

In addition to income and consumption, inflation is a multifaceted phenomenon in influencing quality of life. High costs of living have had an effect on essential services including health care, education, and housing, especially in the most disadvantaged segments of society. People may be compelled to undertake measures such as cutting back on meals, taking children out of school, and postponing medical services. These changes have not only an impact on their immediate situation but also in the long term.

7. Interaction of Inflation with Structural and External Factors

Moreover, the study emphasizes that the effect of inflation on poverty can be exacerbated by structural deficiencies and shocks from outside. Structural factors like unemployment, poor economic growth, deficits in fiscal policy, and governance issues act along with the influence of inflation to make poverty worse. Furthermore, shocks such as changes in the global prices of commodities, diseases, and natural calamities act along with the influence of inflation to make poverty worse. This indicates that the effect of inflation on poverty is more complex than just its direct influence.

8. Long-Term Implications for Economic Stability and Social Cohesion

In addition, from the results presented, the continuous presence of both inflation and poverty in the country represents great danger to economic stability and unity in society. Growing

social inequality and class distinctions may give rise to social unrest, decreased economic production, and erosion of public trust. Without adequate policy measures to address this problem, there is no hope for a solution to the problem of inflation and poverty in the country.

9. The Role of Inflation Expectations

Another key insight that has emerged is the role played by inflation expectations in influencing economic behavior and outcomes relating to poverty. Where individuals expect future prices to rise, they tend to change their economic behaviors, which may involve cutting down expenditure on welfare enhancing goods like education and health care services. As noted by Mankiw (2019), expectations regarding future inflation can be self-fulfilling, which reinforces the occurrence of inflation in future periods. In Pakistan, high levels of inflation have brought about uncertainty among households.

10. Impact on Human Capital Formation

It is also observed by the study that chronic inflation has an adverse impact on the formation of human capital. Increased expenses in relation to education and medical care cause poor people to cut back on these necessary expenditures. As emphasized by Becker (1993), investment in human capital plays a vital role in facilitating sustainable economic growth and alleviating poverty. But when people experience financial problems due to inflation, their investments in human capital become restricted.

Recommendations

Recommendations based on the results obtained from this research can be made for minimizing the negative impact of inflation on poverty and mitigating the growing gap between the rich and poor in Pakistan. Both short-term and long-term strategies will be covered in the recommendations, highlighting measures that encourage sustainable economic growth.

1: Strengthening Social Protection Programs

It is vital to expand and improve social protection policies to protect vulnerable groups from the negative effects of inflation. Social protection schemes that already exist, like cash transfer programs, should be improved in their scope and effectiveness to guarantee that the most vulnerable segments of the population get assistance quickly. Cash transfer programs – conditional or unconditional are able to assist in stabilizing households and protecting vulnerable groups from sliding into absolute poverty. The use of digital payments and improved means of beneficiary identification can increase efficiency (World Bank, 2025). Moreover, social protection policies need to become flexible and easily scalable during emergencies.

2: Controlling Inflation through Effective Monetary Policy

Effective monetary policies play a crucial part in controlling inflation and ensuring macroeconomic stability. There should be a uniform approach and transparency of policies that the State Bank of Pakistan must follow, which includes the use of policies for inflation targeting, interest rates changes, and money supply control. Cooperation among monetary and fiscal policymakers becomes necessary in order to avoid any conflicting policies. Cutting down on government deficits and borrowing can be one such method to reduce the pressure of inflation.

3: Promoting Inclusive Economic Growth

The strategy for alleviating poverty entails long-term economic growth and development that involves all members of society. The policy initiatives in addressing the issue include creating employment opportunities especially within labor-intensive industries including farming,

manufacturing, and SMEs. Investment in developing the potential of the individual through education and other training programs is crucial in improving employment capacity and productivity. Additionally, encouraging entrepreneurial activities and accessing finance for small firms will contribute significantly to income generation, and consequently reducing income disparities (Asian Development Bank, 2023).

4: Subsidizing Essential Goods and Services

Subsidies for basic necessities, including food, energy, and electricity, are a quick fix to alleviate the hardships caused by rising inflation among poor households. Nevertheless, there is a need for effective designs to eliminate any inefficiencies that might arise during implementation. Through a well-structured targeting framework, subsidies for these necessities may be distributed to the appropriate people without losing their value along the way. For instance, price stabilization of food items may assist in alleviating the volatility of these essential commodities, which negatively impacts poor people (O'Donoghue et al., 2023).

5: Improving Governance and Policy Implementation

Governance and institutional reforms are indispensable to address the underlying factors that cause inflation and poverty. Good governance will help in making economic policies more efficient by increasing transparency and accountability in governance. Moreover, government institutions need to improve the provision of services to the citizens through effective public sector reforms. Evidence-based policymaking is also important. In addition, the availability of reliable data can help in making decisions and evaluating policy outcomes (Farooq & Kunwal, 2025).

6: Enhancing Food Security and Agricultural Productivity

Considering the substantial role that food inflation plays in causing poverty, efforts towards food security should be emphasized as one of the priorities of government policies. Investments in the infrastructure of agriculture and farming, as well as logistics management, could lead to higher output and stability in food prices. Furthermore, encouraging small farmers with subsidies and other incentives will help bring development to impoverished rural areas. Efficient food delivery systems will guarantee equal access to vital goods, especially in times of economic uncertainty.

7: Expanding Employment Opportunities and Labor Market Reforms

The problem of unemployment and underemployment must be solved as far as the consequences of inflation on poverty must be addressed. The labor market reforms are supposed to ensure good job creation, proper pay, and respect for workers' rights. The employment guarantee and public work projects would not only provide people with a means of living but also contribute to building up the country's infrastructure.

8: Building Economic Resilience and Crisis Preparedness

The susceptibility of Pakistan to external shocks calls for economic resilience in order to deal with such events effectively. The government needs to prepare strategies and emergency funds that would enable it to deal with any type of crisis such as pandemics, natural calamities, and global economic changes. This would not only help cope with future shocks, but it will also be useful in efforts to alleviate poverty.

9. Improved Price Surveillance and Market Regulation

It is necessary for the government to improve mechanisms for price surveillance and regulation to avoid any unnecessary price increases and market manipulation. The adoption of efficient price surveillance mechanisms will be essential for preventing any kind of hoarding

and market manipulation. It has been found that inefficient market regulation may lead to persistent inflation in developing countries (Stiglitz, 2012).

10. Enhancing Wages and Income Policies

In order to cushion the effect of inflation on the welfare of households, it is recommended that the government adopts a policy that will ensure that real wages are protected. Regular reviews of minimum wages, public sector incomes, and pensions according to inflation can help enhance the incomes of the people. In addition, enhancing labor policies and formalizing income sectors can assist in achieving sound income policies. There is evidence that income policies such as indexing of wages can mitigate the negative effect of inflation on poor people (Card & Krueger, 1995).

Conclusion

It is clear from this research paper that inflation can be considered one of the primary reasons of class inequality and poverty within the country. The findings presented in the paper confirm that inflation has caused many problems that lead to economic insecurity within Pakistani society. Inflationary trends have resulted in the reduction of real incomes, lower purchasing power, and higher cost of living. All these factors have particularly affected people with low and middle incomes, since they spend most of their money on basic necessities, such as food, accommodation, transportation, and healthcare services.

The current economic crisis in the country can be seen as another reason why poor people are becoming poorer within the region. Various factors have led to the economic problems, which include, among others, the coronavirus pandemic, global inflation, energy crises, internal political turmoil, and natural disasters related to weather changes. Inflation has been one of the mechanisms that have influenced negatively on economic security within families. As a result, millions of people have become poor again because they could not benefit from previous improvements in terms of socio-economic well-being.

Moreover, the paper stresses that inflation has the potential to exacerbate socio-economic inequalities since it adversely affects poor families more than rich families. This is because rich people can easily protect themselves through asset diversification and investments; hence, their lives will not be greatly affected by inflation. On the other hand, poor people will find it hard to purchase basic commodities, which will affect them directly. Therefore, inflation leads to a bigger disparity between different socio-economic classes.

Moreover, the results indicate that inflation has both direct and indirect effects on poverty. Inflation directly impacts the purchasing power of families by reducing their wages. However, inflation indirectly impacts poverty by limiting access to basic services such as health care, education, and food security.

In summary, this study highlights that inflation cannot be regarded as a temporary macroeconomic problem; rather, it is a structural problem that affects poverty trends and class relationships within Pakistan. Policy-making efforts should thus focus on both immediate actions aimed at providing relief to vulnerable groups and more permanent measures designed to promote productivity and job creation, among other things.

In addition to this, tackling inflation needs an approach towards policy-making that would involve a combination of monetary, fiscal, and structural approaches. Single-policy solutions may not suffice when tackling complicated issues in economics like inflation and poverty. According to Fischer (1993), macroeconomic stability plays an important role in ensuring economic growth and the alleviation of poverty. Hence, a unified strategy that makes sure economic policies are consistent with social targets needs to be considered.

The fact that there still remains inflation means that there is a need to address the issues within the structural framework of the economy, which include the problems of disruption within supply chains, lack of energy, and other fiscal imbalances. If not dealt with, the effects of such short-term solutions will not be sustainable (Stiglitz, 2012). Without appropriate actions, the income disparity between the wealthy and the poor will increase, ultimately resulting in further socio-economic disparities and possible unrest. It is imperative to implement an inclusive policy agenda in order to effectively manage inflation, alleviate poverty, and foster sustainable development in Pakistan.

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