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Macroeconomic Indicators and Market Dynamics: Unraveling the Link Between Poverty and Purchasing Power

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Abstract

Poverty and purchasing power are fundamentally shaped by macroeconomic conditions, particularly in developing economies such as Pakistan where structural imbalances persist. The combined effect of exchange rates changes, inflationary pressures, and interest rates changes has not frequently been examined simultaneously in a combined long-run and short-run structure notwithstanding their importance. The current research attempts to fill this gap by examining the macroeconomic factors that explain the linkage between poverty and the economic erosion of purchasing power as a lens of understanding it. The movement of exchange rates, rate of inflation and change in interest rates are considered as key explanatory variables and poverty as dependent variable. The empirical investigation will adopt the Autoregressive Distributed Lag Spread (ARDL) to reflect equilibrium conditions and those of adjustment in the short run, which is based on macroeconomic theory and welfare economics. The findings indicate a strong and robust long-run cointegrarity relationship, and exchange rate depreciation and rising interest rates have negative associated impacts on the purchasing power, which contributes to poverty intensification, and inflation has a positive short-run pass-through impact that declines in the long run. The error correction term shows that there is a quick drift toward a long-run equilibrium emphasizing the sensitivity of poverty to macroeconomic shocks. Diagnostic testing makes model stability and reliability possible. The policy-relevant contribution that the study presents is the idea that poverty-reduction programs in Pakistan should consider including both macroeconomic stabilization instruments and selective welfare provision to protect purchasing power under economically turbulent situations.

Keywords: Poverty, Purchasing Power, Exchange Rate, Inflation, Interest Rate, Macroeconomic Indicators, ARDL, Pakistan

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Introduction

Poverty constitutes one of the most intractable socio-economic problems of the developing economies which sabotages sustainability in growth, decreases social welfare and inhibits human capital development. In Pakistan, where structural weaknesses, frequent fiscal deficits, and external shocks have perennially defined the macroeconomic context, the decline in purchasing power has become a key avenue in the reinforcement of poverty. Although the interrelationship between poverty and income distribution, employment creation, and other issues have been widely explored, there is an important need to test the relationship between poverty and fundamental macroeconomic variables like fluctuations in exchange rate, inflationary or deflationary forces, and changes in the interest rate, among others. Such variables affect not only actual living cost and income sufficiency but determine consumption patterns, investment attitude, and overall financial stability.

Despite the extensive literature on the relationship between macroeconomic stability and poverty, much of the current literature analyses these drivers individually thus failing to consider the dynamic and interactive consequences of these drivers on purchasing power. Examples include: Appreciation of the exchange rate leads to appreciation of the domestic price of imported goods, which will have a disproportionate impact on the low-income household, as well as higher interest rates could restrict access to credit, thereby limiting consumption smoothing and investment in valuable assets. Inflation, however, has a more ambiguous relationship, destroying real incomes with a lag but sometimes bringing short term nominal income gains in economies with limited wage indexation. The interaction of these macroeconomic forces develops a mechanism of transmission that ultimately establishes the course of poverty reduction or intensification.

The case of Pakistan is especially telling in that case of regular macroeconomic shocks, significant import dependence, and sensitivity to external shocks. The policy regime of the country has shifted between inflation containment and growth promotion, frequently at the cost of exchange rate management and income equalization. This highlights the necessity of an eclectic model of analysis which encapsulates both the short-term and long-term effects of macroeconomic variables on poverty, and in particular considers purchasing power as an intermediating variable.

In this context, the current study will attempt to address this research gap through the Autoregressive Distributed lag (ARDL) tool that it will use to examine the short- and long-term effects of exchange rate, inflation, and interest rates on the levels of poverty in the case of Pakistan between the years 1984 and 2024. This framework is anchored in welfare economics and macro stability theory and allows dual estimation of equilibrium relationships and adjustment processes, providing both theoretical and policy lessons. The study makes a contribution to the similar fields due to its inclusion of macroeconomic and social aspects of the phenomena, expanding the research concerning the solutions to poverty alleviation in volatile economic realities that demonstrate the importance of simultaneous policies of stabilizing purchasing power alongside active and constructive growth.

Literature Review

The linkage between macroeconomic indicators and poverty is one that has been well researched but contextual to the extent that results have always been inconclusive. Purchasing power is an important influencer of household welfare in welfare economics, a measure of the true value of income when adjusted to reflect inflation, currency

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fluctuations and lending interest rates. The theoretical modeling of such a relationship is highly influenced by the concept of Keynesian consumption theory, where income, prices, and interest rates are assumed to have collective effect on the pattern of consumption by households (Keynes, 1936). Simultaneously, monetarist school of thought pays special attention to the impact of inflation and the stability of money on the maintenance of the real value of income and the sustainable growth (Friedman, 1968).

High volatility of exchange rates has a far-reaching impact on poverty, especially in developing countries that rely on imports. Depreciation often increases the national price of imported necessities, which affects low-income groups disproportionately, since the consumption baskets of the poor are dominated by basic products. Specifically, (Gnangnon,2021) concluded that depressed exchange rate worsens poverty levels in African economies since prices of imports are raised as a result. The same findings were described by (Mustafa et al.2024) in the situation of Pakistan, where exchange rate volatility decreased purchasing power and increased income inequality. On the other hand, in some export-based scenarios, balanced devaluation can improve labor and earnings, but such gains tend to evade the poorest populations (Umeaduma and Dugbartey, 2023).Inflation's relationship with poverty is multidimensional. (Persistent inflation erodes real wages and savings, undermining purchasing power and exacerbating income poverty (Islamiah, 2025). The adverse effects are particularly severe in economies lacking effective wage indexation or social safety nets. Studies such as Azam and Khan,(2022) confirm a significant positive correlation between inflation and poverty rates in developing countries. In Pakistan, Shahid, (2023) demonstrate that inflation disproportionately affects rural households due to their higher dependence on purchased food items. However, in certain cases, moderate inflation may accompany economic expansion, temporarily reducing poverty through nominal income gains (Rehman et al., 2022), although such effects are often short-lived without corresponding productivity growth.

Interest rate policies influence poverty primarily through credit accessibility and investment incentives. High interest rates, which are normally applied to suppress inflation or means of maintaining exchange rates, may have the effect of limiting access to credit by those households with low income and by small businesses, therefore, curtailing the means of earning income (Deka etal., 2022). Empirical Evidence conducted in Pakistan indicates that high interest rates lower the growth of credit in the private sector, which subsequently limits job generation and wage earnings, as demonstrated by Rehman, (2024). On the contrary, low interest rates may induce efficient investment and boost household income, when supported by stable inflation levels, although monetary growth beyond reasonable limits may end up forming inflationary pressures to nullify the mentioned effects (Mustafa et al.,2024).

Although such studies have concentrated on the relative impacts of exchange rate, inflation, or interest rates on poverty, as separate entities, few studies have employed a holistic approach to evaluate their combined and dynamic contributions to purchasing power (Puspitasari et al., 2024). Specifically, how interactions between these macroeconomic variables affect the real consumption capacity of households in Pakistan has not been examined to any significant extent, given that macroeconomic instability has plagued the country and poverty alleviation is a central development concern. Also, majority of previous research has been based on static models, which restrict their capacity to discriminate between the short-run volatility and long-run equilibrium associations.

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The current study mitigates these weaknesses by utilising the ARDL approach, since it provides a single empirical framework explaining a long-term response as well as short-term correction. In addition to expanding the empirical base related to poverty and macroeconomic stability, this contribution offers practical suggestions to policy makers who need to cushion the purchasing power in a turbulent economic world.

Data and Variables

Strong empirical findings must depend on consistent, reliable, and theoretically informed data. The current analysis uses an annual time-series data on Pakistan between the years 1980 through 2024 and is long enough that it should span out the underlying structural and long-run dynamics of purchasing power and poverty, but also be able to negate pertinent short-run fluctuations. The choice of variables is also made on thematic relevance, as well as empirical evidence in previous research studies, addressing that the analysis is built around the macroeconomic-welfare nexus as intended to be seen in the study. Data were obtained exclusively from reputable national and international databases, such as World Bank data base with World Development Indicators (WDI), and International Financial Statistics (IFS) or State Bank of Pakistan (SBP), ensuring the validity and comparability of the data on a cross country basis.

Poverty, as measured by poverty headcount ratio (POV), such as the percentage of the population living below the national poverty line, is a dependent variable in this study. Three independent variables are the exchange rate (ER), inflation rate (INF), and lending interest rate (INT), which effectively form concentric macroeconomic fundamentals that define purchasing power among households. The exchange rate is a measure of external price competitiveness and import costs; inflation a measure of the destruction of real income; interest rates the cost of credit and capital affecting both consumption and investment. Collectively, these variables present a consolidated macro-economic system of analysing the dynamic on poverty and purchasing power in Pakistan.

Table 1: Description of Variables

Variable	Description	Measurement/Unit	Source	Expected Impact on POV
POV	Poverty headcount ratio	% of population below national poverty line	WDI	Dependent variable
ER	Exchange rate (PKR per USD)	Annual average	SBP	Positive: depreciation increases import costs and reduces real incomes, potentially increasing poverty
INF	Inflation rate	Annual % change in CPI	IFS/WDI	Positive: higher inflation erodes purchasing power, pushing more households into poverty
INT	Lending interest rate	Annual %	WDI/IFS	Positive: higher borrowing costs constrain consumption and investment, exacerbating poverty

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1.1 Inclusion of the exchange rate (ER) will reflect the influence of external sector forces in the production of domestic prices and buying power where depreciation of the currency increases the prices of foreign good and decreases real incomes of the households. To show the depreciation of the purchasing power due to the increase in the consumer prices, inflation (INF) has been included which directly affects the living standards and poverty levels. Lending interest rate (INT) is the price of credit in the economy where high interest rates will deter borrowing on either consumption or productive investments which may limit income earning.

1.2 The study seeks to reportedly measure both external and home monetary effects of poverty by incorporating these macroeconomic determinants into a single unit of analysis to derive a holistic explanation of the interaction between market and policy parameters that influence household welfare in Pakistan.

Model Specification

The empirical model to be used in the present study provides an avenue through which it will explore the dynamic relationship that exists between the incidence of poverty (POV) and its major macroeconomic determinants within two theoretical contexts that are the Keynesian theory of consumption and the structuralist school of development perspectives. The Autoregressive Distributed Lag (ARDL) approach is used to embrace the short-run and long-run equilibrium interplay of variables. The method is especially applicable to intermediate-sized sample sizes and variables that show a mix of integration levels; this makes the methodology robust and prevents bias due to unit-root pre-testing.

The exchange rate (ER), inflation rate (INF), and lending interest rate (INT) are included as explanatory variables in the model as they capture the dynamics of the external sector, as well as the domestic monetary factors that have a cumulative effect on the purchasing power and level of poverty. The analysis based on such macroeconomic indicators and incorporated in a composite analytical framework can further knowledge on how the volatility in the exchange rate, inflationary pressure and cost of funds interrelate and impact on household welfare in Pakistan. This interdisciplinary approach gives more empirical perspectives that have had a direct policy significance in ensuring a tradeoff between macroeconomic stabilization policies and poverty alleviation measures in emerging markets.

Functional form of the model is:

$$POV=f(ER,INF,INT)$$

Econometric form of the model is expressed as:

$$POV= \beta_0 + \beta_1 ER + \beta_2 INF + \beta_3 INT + \mu_i$$

Econometric Methodology

The data analysis combines the Autoregressive Distributed Lag approach and the Augmented Dicky- Fuller and Phillips Perron (PP) unit root tests to assure strong estimation and proper evaluation of the integration properties of variables.

Unit Root

The order of integration of the variables must be determined before proceeding to ARDL bounds testing procedure since this method considers that none of the left hand-side variables should have a higher order of integration than I(2). In this regard, the study utilizes two most common tests of stationarity, namely the Augmented DickeyFuller (ADF) and Phillips Perron (PP) tests. The level and first-differenced form of each variable are investigated, with specification including an intercept and optional deterministic trend.

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These tests determine whether the time series data have a unit root, meaning that they are not stationary, or they are stationary following a difference. In econometric modeling, stationarity is critical because spurious regressions are a probability. The finding that all the variables are of order I (0) or I (1) confirms the applicability of the ARDL methodology as a correct and reliable method of estimation in this case.

Cointegration Test

Once the order of integration of the variables has been determined, the second thing to be determined is whether there is a long-run equilibrium relationship linking the variables. Cointegration analysis plays an important role in determining whether variables, which taken singly are non-stationary, can shift in the same direction with the passage of time in a consistent and economically relevant way.

Cointegration is being tested by using the ARDL bounds testing procedure created by Pesaran et al. (2001) in the present study. This method is especially applicable to models with coefficients containing variables that are combined at mixed orders, I(0) and I(1) and even small sample sizes can be accommodated. In contrast to classical cointegration procedures, including Engle-Granger or Johansen, the bounds testing procedure is even more flexible and robust as it does not demand the variables to be integrated whatever order (Mustafa et al., 2025).

The approach evaluates the combined significance of lagged level variables by using an F-statistic. A rejection on the null hypothesis of no cointegration is obtained when the calculated F-statistic surpasses the upper critical value, which proves the existence of long-run equilibrium relationship. When the F-statistic is lower than the lower limit, the null hypothesis cannot be rejected, which means non-cointegration. The values that appear to be between the limits are labeled as inconclusive and need additional examination (Natsiopoulos andTzeremes, (2024).

This methodology assumes a strong basis to confirm or reject the existence or lack of existence of a stable long-run relationship between poverty levels (POV) and its principle macro-economic determinants exchange rate (ER), inflation (INF), and interest rate (INT) within the context of purchasing power dynamics in a country like Pakistan.

ARDL

An autoregressive distributed lag (ARDL) model, first introduced by Pesaran and Shin (1995, 1999), Pesaran et al. (1996) and Pesaran (1997) is used to study the dynamic interaction between poverty and its fundamental macroeconomic determinants in Pakistan. This technique has a number of benefits over traditional methods of cointegration, like those of Johansen and Juselius (1990). Conventional cointegration techniques estimate long-term relationships in a system of equations whereas the ARDL approach parametrizes a single reduced-form equation thus increasing computational ease and interpretability (Pesaran & Shin, 1995). Specifically, it is remarkable that the bounds testing procedure behind ARDL enables valid inference whether the regressors are entirely I(0), entirely I(1), or a combination of the two, removing the necessity to conduct numerous pre-tests. Its applicability to small-sample situations as well as this versatility renders the ARDL methodology especially pertinent to the analysis at hand. Besides, it eliminates possible biases related to unit root testing, which can give unreliable results because of periodicity of macroeconomic time series, which makes conventional methods of cointegration not ideal.

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The general ARDL model employed in this analysis defines the connection between liability to the amount of poverty (POV) and its macro regularities exchange rate (ER), inflation (INF), and interest rate (INT), similarly identifying short-run fluctuations and long-term balance changes in a single econometric framework.

$$\Delta(POV) = \alpha + \beta_1(POV)_{t-1} + \beta_2(ER)_{t-1} + \beta_3(INF)_{t-1} + \beta_4(INT)_{t-1} + \sum_{i=1}^{\alpha 1} \delta_1 \Delta(POV)_{t-i} + \sum_{i=0}^{\alpha 2} \delta_2 \Delta(ER)_{t-i} + \sum_{i=0}^{\alpha 3} \delta_3 \Delta(INF)_{t-i} + \sum_{i=0}^{\alpha 4} \delta_4 \Delta(INT)_{t-i} + + \varepsilon_t$$

In the ARDL framework, the estimated parameters associated with the level variables represent the long-run multipliers, while the first-difference operator (Δ) captures the short-run dynamic adjustments, and the white noise error term accounts for unexplained random shocks. The cointegration test within this setting enables the estimation of the long-run equilibrium relationship alongside the short-run dynamics.

Accordingly, the general ARDL specification for the present study, linking poverty levels (POV) with key macroeconomic determinants such as the exchange rate (ER), inflation (INF), and interest rate (INT) is formulated to capture both the persistent structural effects and the immediate transitory responses within a unified econometric model.

$$\Delta(POV) = \alpha + \sum_{i=1}^{\alpha 1} \eta_1(POV)_{t-i} + \sum_{i=0}^{\alpha 2} \eta_2(ER)_{t-i} + \sum_{i=0}^{\alpha 3} \eta_3(INF)_{t-i} + \sum_{i=0}^{\alpha 4} \eta_4(INT)_{t-i} + \varepsilon_t$$

The following specification can be employed to estimate the short-run dynamics of the "Macroeconomic Determinants and Poverty–Purchasing Power Nexus" model, enabling the analysis of how deviations from the long-run equilibrium are corrected over time while capturing the immediate impacts of changes in the exchange rate, inflation, and interest rates on poverty levels.

$$\Delta(POV) = \alpha + \sum_{i=1}^{\alpha 1} \lambda_\lambda \Delta(POV)_{t-i} + \sum_{i=0}^{\alpha 2} \lambda_2 \Delta(ER)_{t-i} + \sum_{i=0}^{\alpha 3} \lambda_3 \Delta(INF)_{t-i} + \sum_{i=0}^{\alpha 4} \lambda_4 \Delta(INT)_{t-} + \omega ECM_{t-1} + \varepsilon_t$$

Diagnostic and Stability Tests

To ensure the accuracy, reliability, and robustness of the estimated ARDL model, a comprehensive set of diagnostic and stability tests is conducted. These tests assess the validity of the model specification and the statistical properties of its residuals. Specifically, the analysis examines the presence of serial correlation, heteroscedasticity, and potential misspecification, along with stability assessments using the CUSUM and CUSUMSQ tests. Passing these diagnostic checks confirms that the model is statistically sound, free from major econometric issues, and suitable for drawing reliable inferences regarding the relationship between macroeconomic determinants and the poverty–purchasing power nexus.

Results and Discussion

This section presents the empirical findings obtained from the ARDL model, encompassing unit root tests, bounds testing for cointegration, and both long-run and short-run estimations. In addition, a series of diagnostic and stability tests are conducted to verify the robustness, reliability, and validity of the estimated model.

Unit Root Tests

The stationarity properties of the variables were assessed using the Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) unit root tests.

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Table 2: Unit Root Test Results (ADF and PP Tests)

Variable	ADF Level (Stat, p-value)	ADF 1st Diff. (Stat, p-value)	PP Level (Stat, p-value)	PP 1st Diff. (Stat, p-value)	Integration Order
POV	-2.103 (0.217)	-6.781*** (0.000)	-2.024 (0.242)	-6.802*** (0.000)	I(1)
ER	-3.019* (0.053)	-6.931*** (0.000)	-2.959* (0.061)	-6.928*** (0.000)	I(1)
INF	-2.243 (0.198)	-6.842*** (0.000)	-2.178 (0.210)	-6.851*** (0.000)	I(1)
INT	-4.412*** (0.004)	–	-4.286*** (0.006)	–	I(0)

*Note: ***, *, and * indicate significance at the 1%, 5%, and 10% levels, respectively. No variable is integrated of order two, validating the use of the ARDL bounds testing approach.*

These results confirm that none of the variables are integrated of order I(2), thereby validating the suitability of the ARDL bounds testing approach.

Bounds Test for Cointegration

ARDL bounds test was applied to examine the presence of a long-run equilibrium relationship among the variables.

Table 3: Bounds Test Results

Test Statistic	Value	I(0)	I(1)	Decision
F-Statistic	9.3089	3.17	4.21	Cointegration confirmed

The F-statistic exceeds the upper bound at the 1% level, indicating the existence of a stable long-run relationship between POV and all other selected variables.

Long-Run ARDL Results

Table 4: Long-Run ARDL Coefficients

Variable	Coefficient	Std. Error	t-Statistic	p-Value
ER	-0.247143	0.035065	-7.0482	0.0000
INF	0.302881	0.088893	3.4072	0.0023
INT	-1.649264	0.084874	-19.4320	0.0000
C	58.84253	2.406676	24.4497	0.0000

The long-run ARDL estimates reveal three significant macroeconomic determinants of poverty in Pakistan. Exchange rate depreciation (ER = –0.2471, $p < 0.01$) increases poverty by raising import prices and eroding real incomes, consistent with cost-of-living and trade-competitiveness theories (Ravallion, 2001; Easterly & Fischer, 2001). Inflation (INF = +0.3029, $p < 0.01$) exacerbates poverty through reduced purchasing power and higher staple food prices, disproportionately affecting low-income households (Ferreira et al., 2010). Conversely, higher interest rates (INT_ = –1.6493, $p < 0.01$) are associated with poverty reduction, likely reflecting macroeconomic stabilization effects that curb inflation and attract investment, outweighing potential credit-access constraints (Odhiambo, 2009). These results imply that maintaining exchange-rate stability, controlling inflation, and strengthening financial intermediation are essential for sustainable poverty reduction in Pakistan.

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Short-Run ECM Results

Table 5: Short-Run ARDL–ECM Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
D(ER)	0.0186	0.0324	0.5744	0.5710
D(ER(-1))	0.5717***	0.0868	6.5865	0.0000
D(ER(-2))	0.4217***	0.1232	3.4221	0.0022
D(ER(-3))	0.3440***	0.1099	3.1297	0.0046
D(INT)	-2.5948***	0.4487	-5.7835	0.0000
D(INT(-1))	-0.9955*	0.4965	-2.0050	0.0564
D(INT(-2))	-1.6706***	0.5161	-3.2370	0.0035
CointEq(-1)	-1.2226***	0.1890	-6.4690	0.0000

Notes: ***p < 0.01, **p < 0.05, *p < 0.1

In the short run, past exchange rate depreciation significantly increases poverty, as shown by the positive and highly significant coefficients of D(ER(-1)), D(ER(-2)), and D(ER(-3)), indicating persistent inflationary pass-through and erosion of real wages (Ravallion, 2001; Loayza & Raddatz, 2010). Conversely, higher interest rates reduce poverty in the short term, with significant negative coefficients for D(INT), D(INT(-1)), and D(INT(-2)), suggesting that monetary tightening curbs inflationary pressures that disproportionately burden the poor (Odhiambo, 2009). The error correction term (CointEq(-1) = –1.2226, p < 0.01) confirms rapid adjustment toward the long-run equilibrium, with more than 122% of disequilibrium corrected within a year, reflecting a strong speed of adjustment mechanism.

Diagnostic and Stability Tests

Table 6: Diagnostic Tests

Test	p-Value	Result
Breusch–Godfrey LM	0.510	No serial correlation
Breusch–Pagan–Godfrey	0.421	No heteroscedasticity
Ramsey RESET	0.232	Model correctly specified
Jarque–Bera	0.645	Residuals are normal
CUSUM & CUSUMSQ	Stable	Model stable

The diagnostic tests confirm that the ARDL model meets all essential econometric assumptions. The Breusch–Godfrey LM test (p = 0.510) indicates no evidence of serial correlation in the residuals, while the Breusch–Pagan–Godfrey test (p = 0.421) suggests homoscedasticity, confirming the absence of heteroscedasticity. The Ramsey RESET test (p = 0.232) verifies that the functional form of the model is correctly specified. The Jarque–Bera normality test (p = 0.645) confirms that the residuals follow a normal distribution. Additionally, the CUSUM and CUSUMSQ plots remain within the 5% significance bounds, affirming the structural stability of the model throughout the sample period. Collectively, these results underscore the reliability, validity, and robustness of the model, rendering it suitable for sound inference and policy formulation.

Conclusion and Policy Recommendations

The results of the present study indicate that exchange rate depreciation (ER) and high interest rates (INT) have significant long-run and short-run adverse impacts on poverty reduction in Pakistan, implying that macroeconomic instability enhances income inequality and restrains household welfare. In contrast, inflation (INF) has a positive relationship with poverty over the long term, stating that an upward trend in prices negatively impacts the purchasing power, hurting households with low incomes the most.

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Short-term outcomes support the consideration that poverty levels are sensitive to the variation in exchange rate and interest rate, showing the fragility of the poor to direct macroeconomic shocks.

These findings are corroborative to the Keynesian theory of aggregate demand and the monetary transmission process, wherein the fall of the exchange rate causes the rise of prices of imports, which boosts the cost of living, and high interest rates stalls economic activity, which leads to a rise of unemployment and poverty. The inflation-poverty relationship is also corroborated by previous empirical studies (e.g., Ravallion, 2012; Dollar & Kraay, 2002) that inflationary pressures are harmful to the poor.

Findings of the present study also illustrate a sound coordinated macroeconomic policy framework directly consider the negative impacts of exchange rate depreciation, high interest rates, and inflation on efforts to reduce the level of poverty in Pakistan. The policymakers must focus more on ensuring exchange rate stability by managing its foreign exchange wisely and intervener with its foreign exchange managed in such a way that a high level of volatility is avoided to save the households at the risk of rising prices in imports. Meanwhile, the monetary policy should be calibrated in a way to keep interest rates at a level that will stimulate productive lending and spending, to make sure that economic growth is translated into actual poverty reduction. Considering the inflationary pressure that was witnessed, the fiscal and the monetary authorities need to act synchronously so as to regulate inflationary pressures, strengthen home industries and lessen reliance on imports. Complimentary actions, e.g. extension of special schemes of social protection, provision of inexpensive credit to tiny enterprises and finance investment in skills should be taken in order to hedge vulnerable groups against macroeconomic shocks and permit their active engagement in economic development. By embedding these measures together into an integrated policy agenda, Pakistan can work into a more robust, fairer and inclusive economy.

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