IPP | Policy Brief 23/2015

Economic Performance of Pakistan 2013-14: A Skeptical Analysis

Shahid Kardar and Imtiaz Ahmed

Institute of Public Policy
BNU

Institute of Public Policy
Beaconhouse National University

Pakistan's economic performance has been lackluster since 2008. Tall claims that economy is back on track are made by the economic managers at the time of presenting 2014-15 annual budget. The recently released Pakistan Economic Survey (PES) is extolling the virtues of the government's policies and attributing all the good numbers to the policies pursued during the last 12 months by the present government. Unsurprisingly, the same document is dismissing all the bad numbers as the outcome of the wrong policies of their predecessors.

The most emphasized number in the PES is the growth rate of GDP. It is claimed that the national output has grown by 4.14 percent compared to the last year's 3.7 percent. Superficially, this growth is the highest achieved by Pakistan since 2008. The pride over this performance, however, is incorrect due to some underlying issues. First, the number (4.14 percent) cannot be taken without a pinch of salt. Not only that the last review by IMF has forecasted the growth rate around 3.1 percent but also due to some clear indications of data maneuvering. Consider, for instance, the fact that 2011-12 GDP growth rate was 4.4 percent and this was revised downward in this year's economic survey (i.e. the revision takes place after two years!) to 3.7 percent. In the present age of communication this delayed revision is not understandable. If the revision was required it should be earlier than at the time of the start of FY15. It means that if this number is taken at its original value ___ which appears more accurate ___ then the present growth rate is only the second highest since 2008. In addition, it leaves one suspicious that to what extent the present growth rate of 4.14 is reliable and for how long! Again, all the investment categories in the year 2011-12 were revised upward while other major indicators were at their previous levels. It increases one's doubts that the revision of the growth rate was actual rather than political. Thirdly, and as explained below in more detail, other macro and social indicators are not supporting the growth rate of 4.14 percent.

To begin with, investment has not grown significantly compared to its previous years' growth rate. Especially fixed investment and total investment have changed insignificantly compared to their values in the comparable periods of last years. For example, the growth rate of public investment has decreased from 18.4 in the first nine months of last fiscal year to 17.1 percent in the comparable period of outgoing fiscal year. Similarly the growth rate of total and fixed investment has decreased by 2 percentage points each compared to their growth rates in previous year. This should be a point of concern for the government as fixed investment is the single most important determinant of long term growth rate.

It is admitted in the PES that the targets for the two major variables ___ tax revenues and exports ___ have been missed. Despite of the fact that tripod of Tax Revenue, Investment and Exports (TIE) is the major focus of economic managers, the slippage provide them the opportunity to rethink their economic priorities.

Ironically, instead of devising an improved plan to mobilize domestic resources to decrease reliance on foreign loans, government is priding over the $2 billion debt acquired through Euro bonds as great success. There is a need to realize that it is after all a debt that Pakistan has to pay back. In fact, one can question the rationale raising the debt at 7.25 to 8.25 percent interest rates. Interest rates in the international markets near zero since the global financial crisis. Thus, the high interest rates investors choose to lend to Pakistan speak volumes about the high risk investors are attaching to Pakistan's economic prospects, even if we account for the higher expected interest rates in the coming years. Moreover, in view of increasing share of debt servicing in the total revenues (i.e.47% of total revenues during July-march 2013/14 compared to 44% for the comparable time period last year), this debt should be interpreted as a bane rather than a boon.

In addition to the above, the failure to mobilize the targeted revenue resources means that government is unable to muster the political will required to implement the effective taxation mechanisms and thus has to take recourse to expensive international debt.

The stability in the value of Pak rupee against US dollar is hailed as another feather in the government's cap. The ire of country's noted economists notwithstanding, the basic principles of economics teaches us that a change in the value of a currency foreign exchange market reflect, dominantly, the interest rate and inflation differential across these countries. Thus as long as there exist a positive differential in inflation rates of Pakistan and US, ceteris paribus, Pak rupee should be depreciated against dollar to keep our exports competitive. A stable and appreciated value of rupee will only hurt our exports growth. Notably the exports growth, one of the three key targets of present government, has already missed its growth target. According to SBP the total exports in the first 10 months stood at $21.04 billion — only $497 million higher than the comparable time period last year. Considering the average exports of $2.1 billion per month over first 10 months of the current fiscal year the economy is expected to miss the export target of $26.6 billion by at least $1.36 billion.

Unlike imports, exports are more dependent on developments outside the domestic economy. Therefore, the sluggish growth in the World GDP during 2013/14 compelled most of the South Asian economies to depreciate their currencies in order to ameliorate the impact of declining world trade. Contrary to the South Asian economies Pakistan appreciated its currency despite the fact that Pakistan's exports to EU (European Union) could gain momentum following the GSP plus status. With exports of $5.7 billion the European Union (EU) is Pakistan's largest export destination in FY13. Such manipulation of currency could not only tumble the competitiveness of Pakistan's exports in international market but it can also imperil the possible gains from GSP plus status granted by EU which is considered one of the major achievements during 2013/14.

The performance on the human development front is the easiest and most desired way of understanding the nature of economic growth. On this front the economy is decelerating or at least remains unimproved. Thus expenditures on education are stagnant at 2 percent of GDP the same level they had in 2009. More depressingly, we are now spending lesser share of our GDP on health as we used to do in 1980s or even during tumultuous 1990s: 0.4 percent compared to 0.8 and 0.7 percent, respectively in 80s and 90s. This should be disquieting given the fact that population is the greatest resource Pakistan has and continue to be so for many years to come.

The rate of unemployment in Pakistan is continuously on the rise. In 2009-10 it was 5.6 percent and climb to 6.2 in 2012-13 and remains unchanged in the outgoing fiscal year. Superficially, it means that we have experienced a jobless growth this year. However, and more worryingly, one cannot admit such a low rate of unemployment given the visible levels of high youth unemployment all around. On the other hand, it also makes mockery of the claims of high, broad based and inclusive growth by the finance minister.

The literacy rates both at national and provincial levels are unbelievable. The net primary enrollment ratio, the basic indicator of human development, is hovering around 55 percent for the last 10 years. This explains volumes about the priorities of our economic managers vis a vis the future of the country. Since 2010 the growth rate has not changed, even by official estimates, from 56 to 57 percent.

The percentage of population living below poverty line as given in PES is 12.4 percent which is surprisingly low. On the one hand there is an increase in unemployment and while on the other the percentage of people living below poverty is decreasing. More surprisingly, the growth rate of agricultural sector has squeezed but rural poverty has decreased despite of the fact that around 45 percent of the rural population is employed in agriculture. These are clear discrepancies in need of explanations.

Comparing development and non-development expenditures in per capita terms is instructive. Compared to last year military expenditures in per capita terms has increased from Rs. 3411 to Rs. 3901 while the total development spending (mentioned as pro-poor spending in the PES) has decreased from Rs. 11000 per person to Rs. 10668 per person. It should also be noted that military expenditures for the last 5 years are constant as percentage of GDP for Pakistan (which should be interpreted as increasing given the fact that national pie is getting bigger each year) while the military expenditures for other countries are decreasing for example India and Sri Lanka. The share of military expenditures in GDP is shown to be constant by locating pensions of military personnels and categories of security related expenditures in other government expenditures heads.

In sum, the overall state of the economic landscape in Pakistan has not changed significantly during the last one year. Admittedly, the time period of one year is insufficient to solve the economic malaise that plagued our economy. However, the government should paint a realistic picture of the economy rather than manipulating the key indicators. It could demand credit for crafting out a well thought out plan, if it were so. But it appears that government was unable to come out with any such plan and most of the policies are devised and implemented in a ham fisted way. In coming years, we can only hope that government will not repeat the mistakes of its first year in office.