PAKISTAN’S ECONOMY: A SIGN OF A BLOSSOMING RECOVERY

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ABSTRACT

Pakistan’s economy has seriously affected by COVID-19, which devastated the economic activities and the individuals’ daily lives. This paper discusses some important economic indicators, i.e., GDP growth, inflation, GDP per capita income, entrepreneurship activities and the impacts of the COVID-19 on the economy of Pakistan. Besides, the study highlights the prediction of the upcoming year, taking into consideration of such indicators. This study is a desk review where secondary data is derived from reliable sources. The findings of the study highlight that Pakistan’s economy has been collapsed with different issues. Among these issues, the arrival of the COVID-19 has appeared as a dangerous situation for the economy. It has been devastated all segments of business and individuals’ lives and also entrepreneurship. However, the different predictions regarding Pakistan’s economy claim a massive increase in GDP, per capita income, entrepreneurship activities and inflation decline. In other words, Pakistan’s economy is proving to be a sign of a blossoming recovery in the future. The study’s findings would provide some summarized outcomes for policymakers, government agents, and ordinary individuals towards the economy's growth.

Keywords: Pakistan’s economy, blossoming recovery, inflation, GDP growth, COVID-19, Per-capita income

I. INTRODUCTION

Pakistan’s economy has unscrambled at such a mysterious speed that even seasoned institutions and individuals cannot estimate how the pandemic would impact growth. According to the Asian Development Bank (ADB, 2020), Pakistan’s economy would lose around US$ 16 and 61US$ 61in the best and worst-case scenario. However, Rana (2020) claims the US$ 5 billion GDP would contract by 1.57% due to COVID-19. In consequence, Pakistan’s economy has not been swiftly grown. However, the current developments and future prediction ensure that Pakistan would grow very fast in a coming couple of years. Therefore, the present study reviews the fluctuations of past principle indicators, i.e., GDP and GDP per capita income, entrepreneurship activities and inflation. Besides, it sheds lights on the devastating effects of the COVID-19 on Pakistan’s economy. The outcomes of the study would
assist in understanding the working of the economy. Finally, it would contribute to the literature and economic developments.

II. ECONOMIC UPDATE AND OUTLOOK

Over the past few decades, Pakistan’s economy has been growing slowly. It is noted that an average of only 2% per capita per year, which is accounted as less than half of the South Asia percentage, is somewhat because of unreliable and unpredictable policies related to macro economy. Besides, it relied on export and investment to initiate the economic growth. Sometimes, a significant and speedy consumption-fueled development often keep to substantial fiscal and current account deficits—these eventually mandatory policy contraction, subsequent in recurring boom-bust cycles. FY20 ensures occurrence fiscal differences, the economy goes into a 39 month. Allied adjustment actions, i.e., fiscal amalgamation, have significantly paid to reducing the year's imbalances and upgraded macroeconomic steadiness. Nevertheless, during the final quarter of FY20, Pakistan has adopted restraint measures to combat the pandemic and headed to a stark shrinkage in economic movement. Consequently, in FY20, gross domestic production (GDP) is projected to have dropped by 1.5%.

About half of the working people loses income or jobs. With low-skilled and casual labour hired in essential jobs confronting the sturdiest loss in occupation. Consequently, the incidence of poverty has estimated as enlarged from 4.4% to 5.4 in FY20. Moreover, 40% of families agonized from modest to unadorned uncertainty of food at such a time. Thus, the government of Pakistan concentrated on extenuating the negative socioeconomic impacts of the COVID-19. An incentive package similar to about 2.9% of GDP and rescheduling some fiscal adjustment initiatives. These provide health signs of fragile recovery from July to December 2020 (over the first half of FY21). In this way, it strengthens private consumption and community mobilization, supported by huge remittance influxes. Regarding investment, it somewhat improved, as cement and machinery sales have reached double-digit development.

As far as production is concerned, crop production has remained feeble in initial of FY21. In addition, the production of cotton was negatively influenced due to heavy floods of monsoon. However, after the phased elating of lockdown initiatives (May 2020 onwards), industrial and services factors have enormously improved with business confidence indexes and “Large Scale Manufacturing” beyond pre-COVID levels in December 2020. Consequently, a significant number of informal workers were influenced by the crisis and again returned to their works.

Though significant inflation (July-February FY21), it is yet huge at 8.3% of food inflation. Sin July 2020, 7.0% economic growth rate s uplifted by the State Bank of Pakistan (SBP). In December 2020, the capital adequacy ratio is remained high. The current account, which was deficit is noticed as US$2.0 billion in surplus US$1.1 billion in 2020. A robust remittance inflows more than counterpoise an extensive trade deficit. The portfolio and FDI inflows declined in such a time; nonetheless, the better current account reinforced a balance of payments surplus. Against the US dollar, the Pakistan rupee has been appreciated by 5.4% in 2020. Simultaneously, official foreign exchange reserves improved to US$14.9 billion.

Over the first six months of FY21, the fiscal deficit has been widened, as the growth of outpaced expenditure has increased in the revenues. Under the recuperating of economic action, total revenues raised by 3.7%. At the same time, total expenses increased by 6.2%, moderately obsessed by higher interest costs. As a result, public debt, i.e., guaranteed debt, touched GDP at 87.9% and 86.7%. The estimation of output growth is about to recover progressively over the medium-term, be around 2.2% over FY21-23, generally because of private consumption’s contribution. Nonetheless, the agriculture sector, which was going slowly, is projected to continue fragile, and hence poverty is possible to keep on high level. Moreover, the baseline viewpoint is grounded on the nonappearance of substantial poison flare-ups, which would need more widespread lockdowns.

The current account deficit projections are near 0.8% of GDP (in FY21), as a broader trade deficit is more than balanced by sturdier payments influxes. Though, it is anticipated to grow over the medium term. Exports are predicted to increase from FY22 headlong as external circumstances developed more favourable, and tariff improvements gain adhesion. Nevertheless, imports are also projected to upsurge in line with more vigorous domestic motion and sophisticated oil prices.

Although fiscal alliance initiatives are likely to restart, the deficit is predicted to rise at 8.3% (GDP, FY21). However, by way of revenue-augmenting reforms increase and expenditure validation initiatives restart. However,
public debt would be higher in the medium term, as would Pakistan’s acquaintance with debt-associated shocks. Probability of new pandemic waves, setbacks in mass vaccinations, and the arrival of new vaccine-resistant strains have appeared as the main risks. Besides, more postponements in execution of structural reforms could move to further macroeconomic and fiscal disproportions.

2.1 GDP growth

The data of the Asian Development Bank (ADB, 2021) shows that the GDP of Pakistan remained not satisfactory for a couple of years. It was recorded as 1.9% in 2019. Disappointedly, it gone in negative numbers as -0.4% in 2020. However, the current developments provide favourable digits of 2.0% in 2021. Similarly, the expectations look positive, with predictable GDP up to a 4.0% growth rate in 2022 (Figure 1).

Besides, the comparative economic indicators of Asian economies provide evidence that Pakistan is growing by 2.0% per year (Figure 2). However, among other Asian economies, Maldives is growing fast with 13.1%. Secondly, India also noticed the growing trend of GDP growth with 11.0%. Likewise, South Asia, Bangladesh, Sri Lanka, Nepal, and Afghanistan tackle their GDP growth 9.5%, 6.8%, 4.1%, 3.1%, and 3.0%, respectively (Figure). On the other hand, Bhutan’s GDP growth confronts huge losses up to 3.4% (Figure 2).

![Figure 1. Pakistan’s GDP growth rate](image1)

![Figure 2. GDP growth rate of Asian nations](image2)

2.2 Inflation

According to ADB data, inflation is the most dangerous factor that significantly affected the economy of Pakistan at different times. The scores of ADB show that it remained at 6.8% in 2019. However, in 2020, it is noted with hyper mode with an increase of 10.7% (Figure 3). At such a time, the people of Pakistan severely confronted the challenges of such intolerable circumstances where their purchasing power has been completed destroyed.
fortunately, it is noted with a significant decrease during 2021 with total scores of 8.7%. Likewise, the prediction of ADB further gives the future indication of the decline of inflation up to 7.5% in 2022 (Figure 3).

Comparatively, Pakistan is noticed with high inflation than other Asian economies (Figure). Bhutan remains in the second position after Pakistan. The economy of Bangladesh also faced the significant challenge of inflation of 5.8%. Other Asian economies, i.e., India, Afghanistan, and Nepal’s inflation rate is noted 5.0% to 5.2% (Figure 4). Lastly, Maldives is the fortunate country whose inflation rate is recorded low (3.0) from all the Asian nations during 2021 (Figure 4).

In the other analysis of inflation based on multivariate models for inflation, forecasting was employed. In the model, oil price, CPI, exchange rate, private sector credit, public sector borrowing, M2, trade, and large scale manufacturing were used as key indicators. As a result, inflation rate is remained between 9%-10% in the fourth quarter of FY20. After that, it slowly and gradually falls between 7%-8% (Figure 5). The forecast may vary in both trends (upward and downward) in FY21 shows the quarterly inflation forecast, which depends on the various circumstances. It is estimated to remain in the margin of 5% to 8%.

Nevertheless, the tendency would be predominately downwards. Another cause could be a condensed consumer demand because of COVID-19. The risk may come from fleeting supply commotions and food price shock. In this way, inflation may drop to as low as 5% and grow up to 10%.
2.3 GDP per capita growth

The ADB data shows that the GDP per capita growth of Pakistan remains 0.3% in 2019. However, two years (2020 and 2021) did not stay favourable for the increase of GDP per capita and noticed negative numbers (-2.7 and -0.2%) (Figure 6). But, the predictable score of the GDP per capita growth provides the estimated GDP per capita growth as 1.7% in 2022 (Figure).

When we compared Pakistan with other Asian nations in terms of GDP per capita growth, we found that Maldives is a country whose per capita GDP growth was in the top position with an annual growth rate of 10.9% (Figure 7). India has remained in the second position with a growth rate of GDP per capita of 9.8%. Likewise, other Asian and Southeast nations, including Bangladesh, Sri Lanka and Nepal, have remained on average GDP per capita growth rate as 5.5%, 3.5%, and 1.7%, respectively (Figure 7). Besides, Afghanistan has appeared with a 0.7% GDP per capita growth rate. Unfortunately, Bhutan is one of the countries among the Asian nation that significantly confronted the negative scores (-4.4%) of GDP per capita growth rate (Figure 7).
2.4 COVID-19 outbreak and its impacts on economy

In the fiscal years 2020 and 2021, the outburst of COVID-19 has seriously shatter the economy of Pakistan. Pakistan has lost 1/3 of its revenue due to a 50% decline in export lockdown (Junaidi, 2020). Economists of Pakistan and the World Bank have warned that it may be confronting the massive recession due to lockdown (Naqvi, 2020; World Bank, 2020b), and Pakistan’s GDP growth declined by 2.2% in FY21. Almost 2700 factories in Karachi closed their operations due to lockdowns (Hussain, 2020). About 04 million workers have lost their jobs, and daily wagers were seriously hardest hit by the lockdowns (Hussain, 2020). The micro-enterprises are regarded as significant for the informal economy are hugely affected. 55.6% of businesses were vulnerable (Sohail, 2019). Sector-wise, a vulnerability of micro-enterprises was seriously affected by the pandemic outbreak (Figure 8).

Besides, MSMEs also impact the outbreak of the COVID-19. More than 94.57% of the enterprises’ business have been affected. A significant number (38%) of enterprises severely affected and facing COVID-19 (Figure 9). The top five recorded issues were recorded as 47.83%, 67.93%, 44.02%, 38.04%, and 41.85% for supply chain disruption, financial, reduction in demand, decrease in sales and profit respectively (Figure 10). Furthermore, a decline in sales during 2020 was over 60% (NSBA, 2020). Regarding profit decline, over 2/3 of enterprises’ profit reduced by 60% because of the COVID-19 occurrence (Shafi et al., 2020).
Entrepreneurial activities

Entrepreneurship is a health factor that uplifts the economy through the different sources, i.e., job creation, income generation, diverting individuals’ attitudes towards business (Soomro and Shah, 2015; Shah and Soomro, 2017). It brings prosperity to society and reduces the significant ratio the poverty and unemployment (Memon et al., 2019; Soomro et al., 2019a; Soomro et al., 2019b; Soomro et al., 2020a). However, many socio-economic factors, such as economic situations and norms, beliefs, religion, and other social values, have a significant impact on entrepreneurship activities in Pakistan (Abdelwahed et al., 2021; Soomro and Shah, 2021). The perceived access to finance, self-achievement, and unfavourable entrepreneurial environment and entrepreneurial self-efficacy are the significant barriers to potential entrepreneurs (Lakhan et al., 2021a; Lakhan et al., 2021b). During the COVID-19, the entrepreneurial activities were negatively affected, and individuals purchasing trends were also significantly decreased (Shah et al., 2020). The data of the Global entrepreneurship monitor (GEM) (2019-20) shows that entrepreneurship activities of Pakistan have been reached the lowest level with 43% after Japan (17%) (Figure 11).

Fortunately, the current developments of entrepreneurship activities show that Pakistan’s entrepreneurship is on the way to growth. The Gallup survey of Pakistan through GEM highlights that as compared to 2010, 2011, and 2012, it increases by 10% in a few years (Figure 12). The younger generation’s inclination towards a green economy and entrepreneurial attitudes are positive (Soomro et al., 2020b). Every citizen is willing to perform the entrepreneurship activities in Pakistan, as noticed them with high entrepreneurship perceptions (Soomro and Shah, 2020).
III. 3. CONCLUSION AND IMPLICATIONS

The available data shows that the economy of Pakistan has suffered a lot, especially during the last three years. The economic indicators such as GDP growth rate, GDP per capita income, inflation and entrepreneurship activities are not satisfactory. Notably, the COVID-19 significantly affected almost all segments of life and entrepreneurship. However, the different predictions and estimations ensure that the economy of Pakistan would grow with significant numbers. The economy would resume and recover and surge back quickly within the next few months. Such a quick recovery would continue with substantial growth in exports and imports would increase enormously. In this way, the present study would offer a practical and summarized outlook and fluctuations of the Pakistani economy. The study also would help ensure the business community, policymakers, and deprived people of Pakistan be patient as the economy is growing and entrepreneurship activities are on the track. Finally, the study's findings would contribute to the literature of the economy to understand the economic downturn due to COVID-19 and other specific reasons.

REFERENCES