

**PAKISTAN: HOW MACRO-MICRO INTERACTION
HAS RESULTED IN AN UNDERVALUED AND
UNDERPERFORMING ECONOMY**

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UNDERVALUED ECONOMY

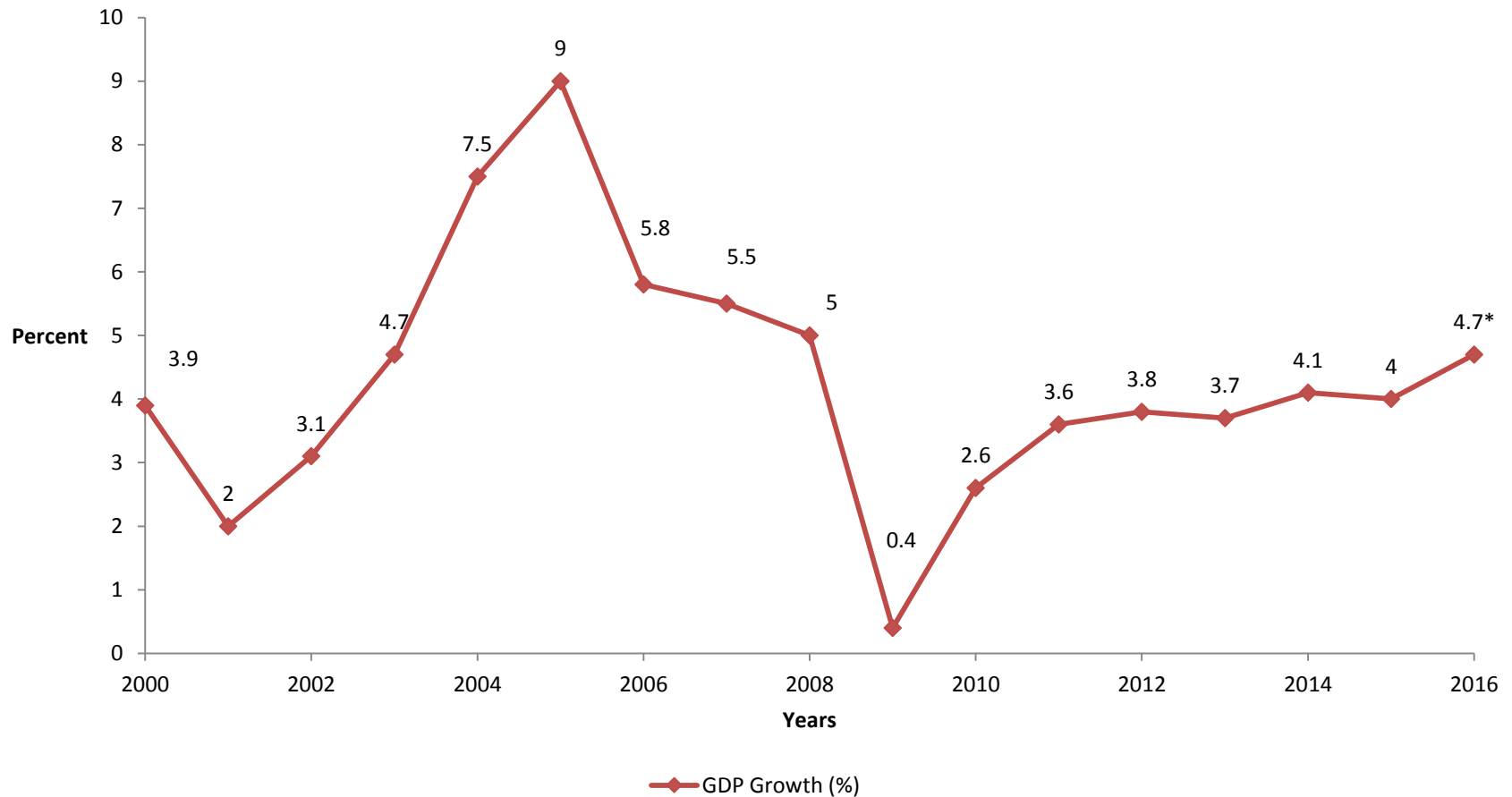
[An economy in disequilibrium / non-optimal use of productive resources]

- An undervalued economy is one that generates high returns in relation to the value of its assets
- An economy that operates well inside the production frontier at any given time and faces *constraints* that *limits* the rate of outward expansion of the frontier over time.

Basic Proposition

- If the binding constraints inhibiting the growth of an undervalued economy are removed it has the potential to move to a higher and sustained growth path in the medium and even short-term.

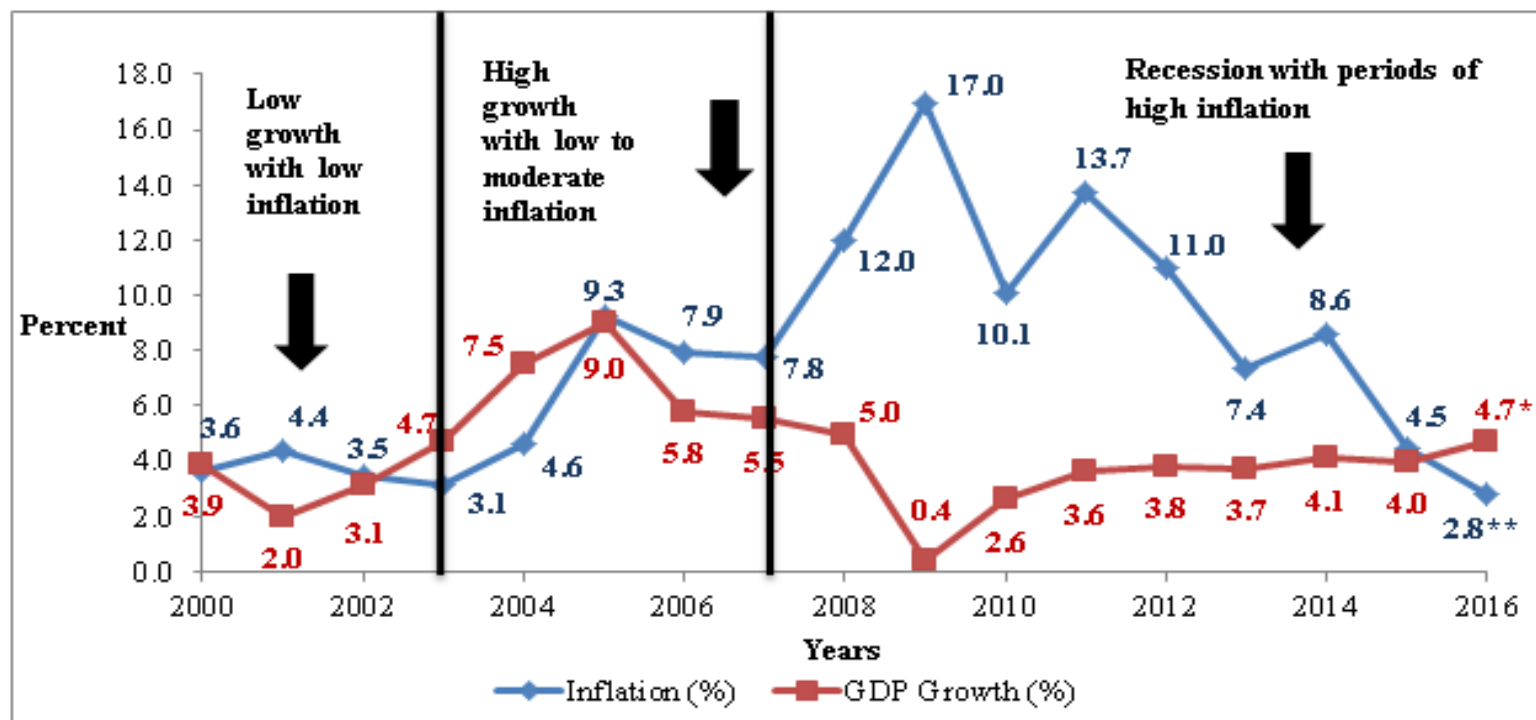
Real GDP Growth (2000-2016)



Source: Pakistan Economic Survey (various issues)

*Provisional for July-March 2016

GDP Growth and Inflation 2000-2016

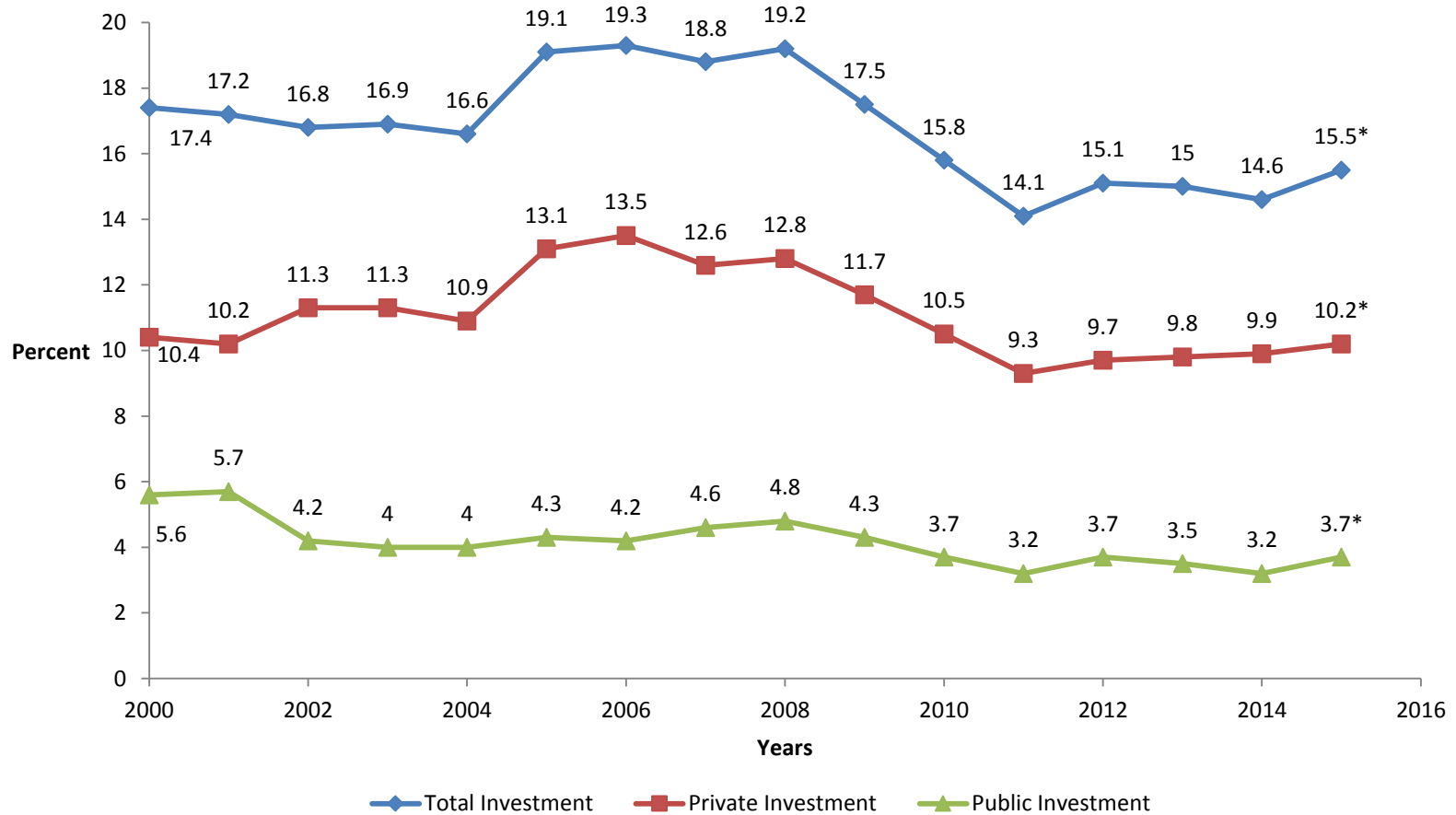


Source: Pakistan Economic Survey (2006-7 and 2015-16)

Growth*: Provisional for July-March 2016

Inflation**: Provisional for July-April 2016

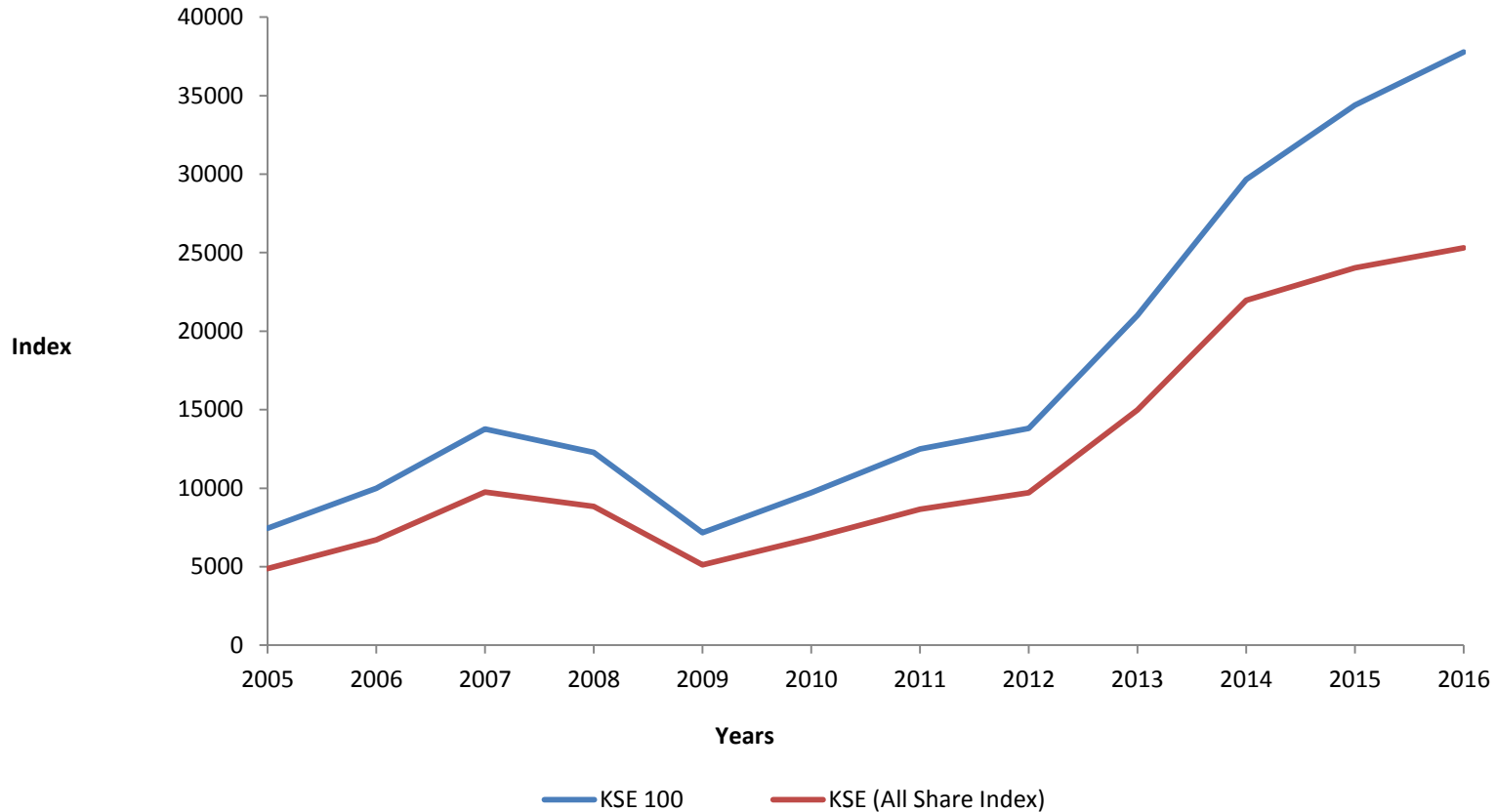
Investment as a % of GDP 2000-2016



Source: Pakistan Economic Survey (various issues)

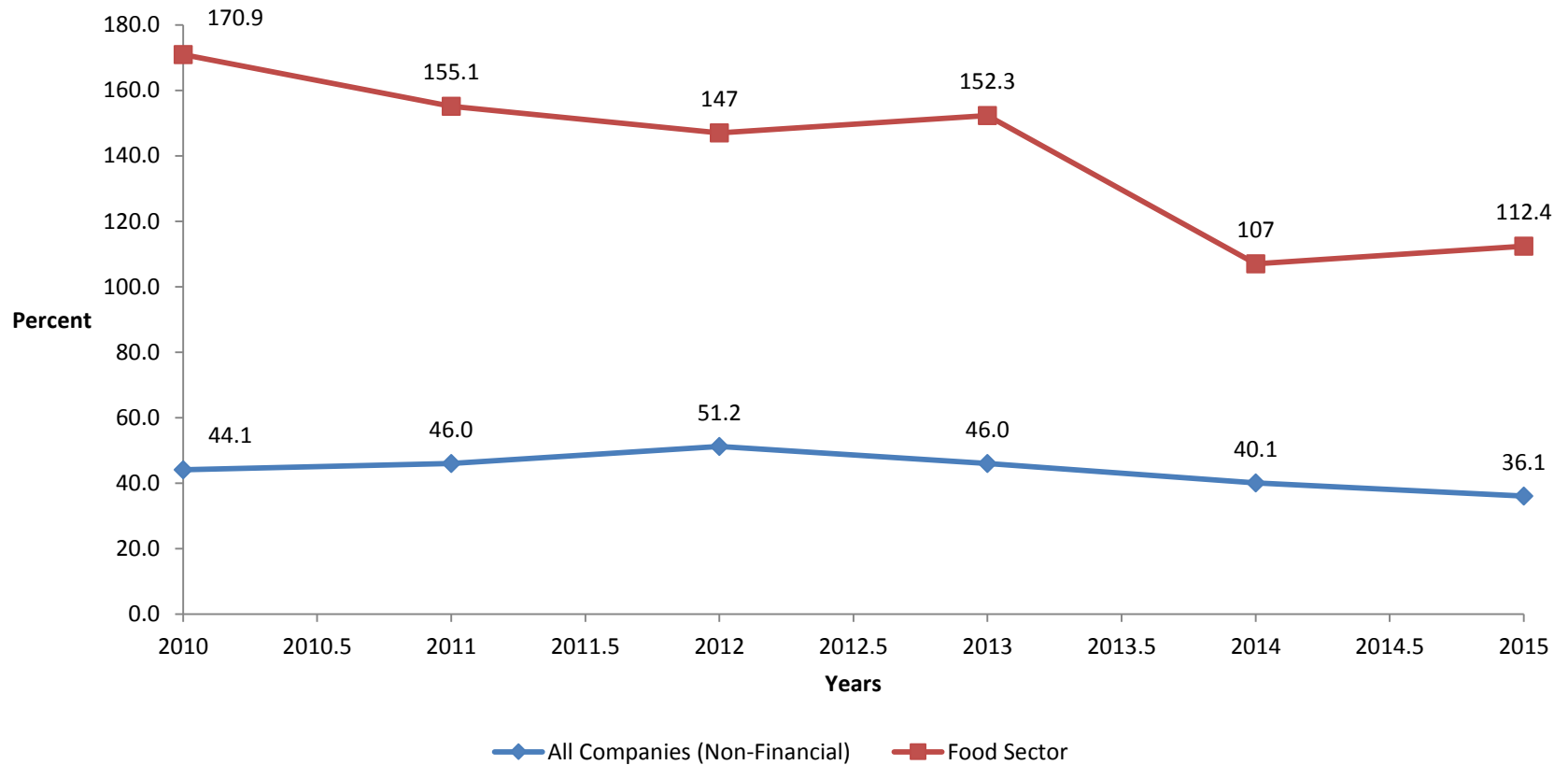
*: Provisional for July-March 2016

Karachi Stock Exchange Index Performance 2005-2016



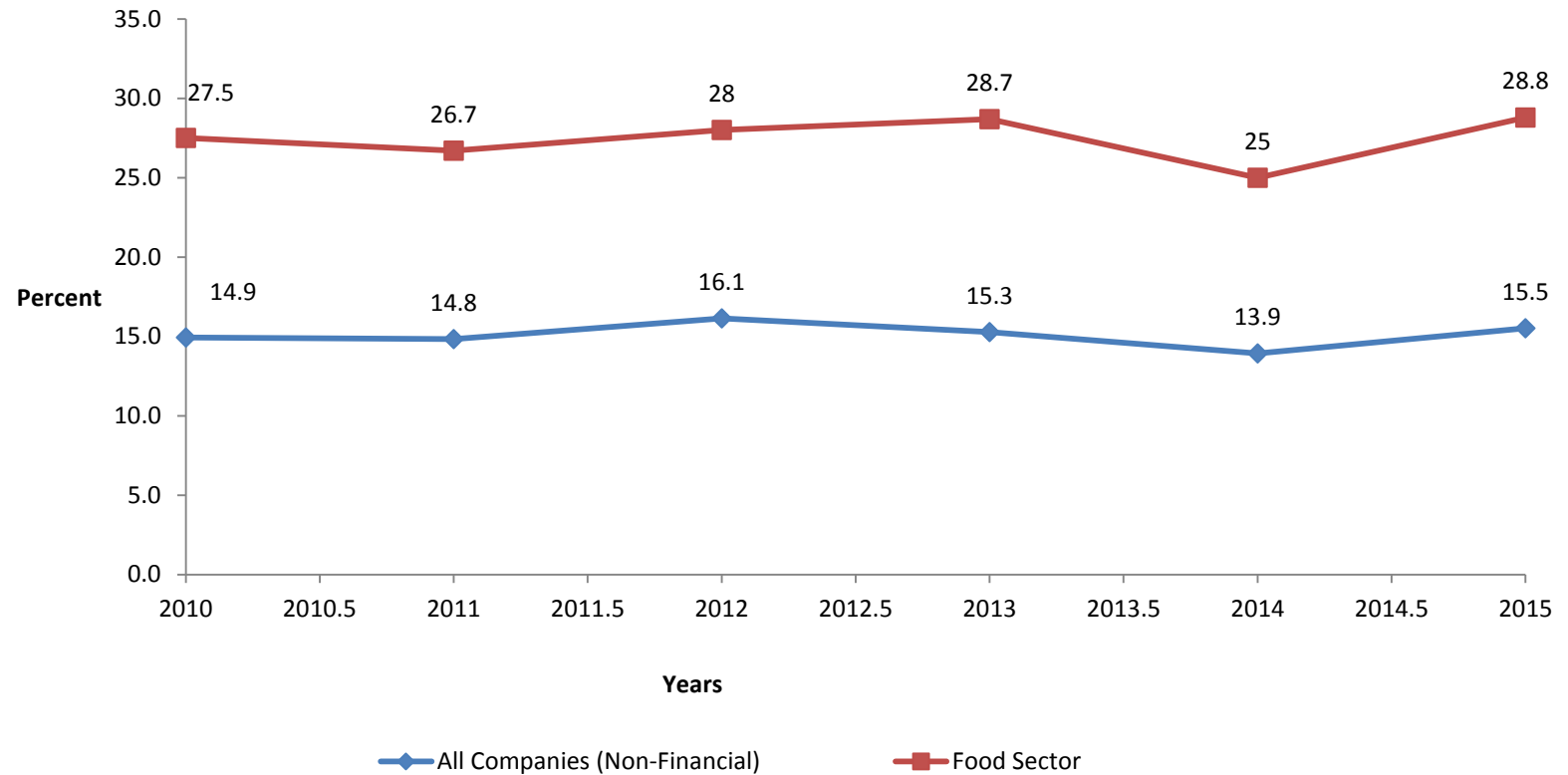
Source: State Bank of Pakistan Annual Report (various issues)

Gross Profit as a % of Net Assets 2010-2015



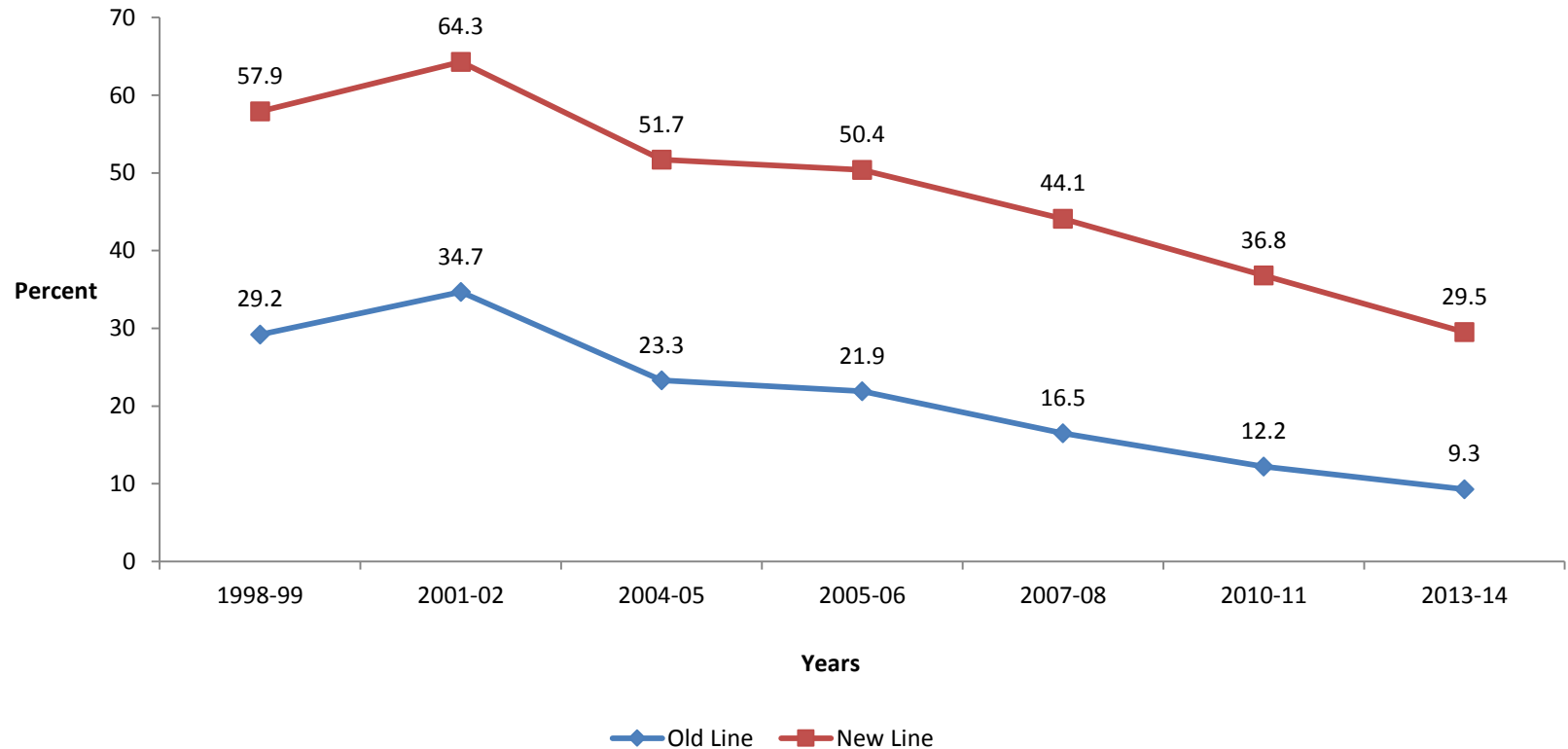
Source: Calculations are based on consolidated Financial Statement data from the State Bank of Pakistan for Non-Financial Sector

Price Cost Margin 2010-2015



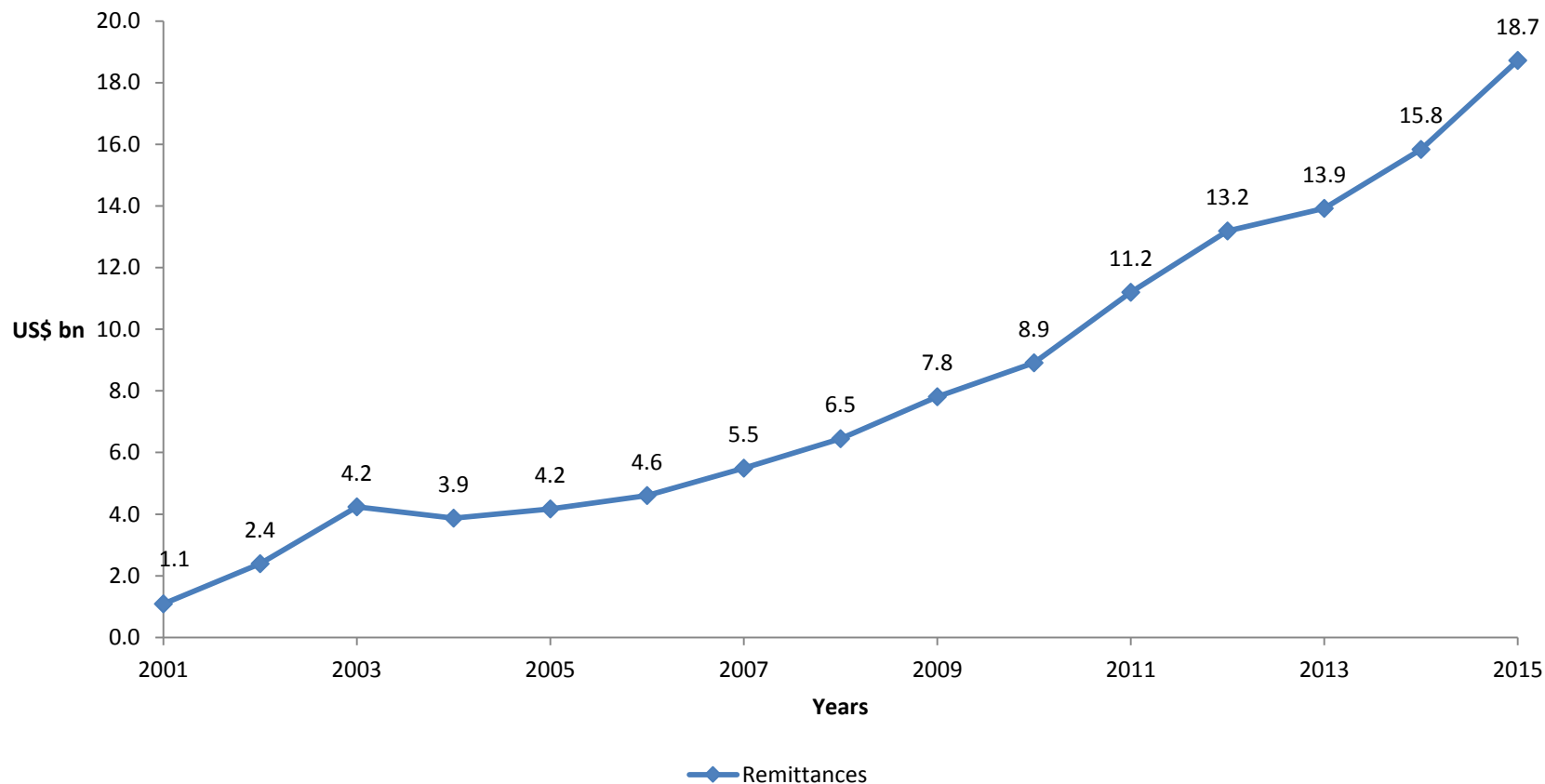
Source: Calculations are based on consolidated Financial Statement data from the State Bank of Pakistan for Non-Financial Sector

Poverty Headcount Ratio for Pakistan (%)



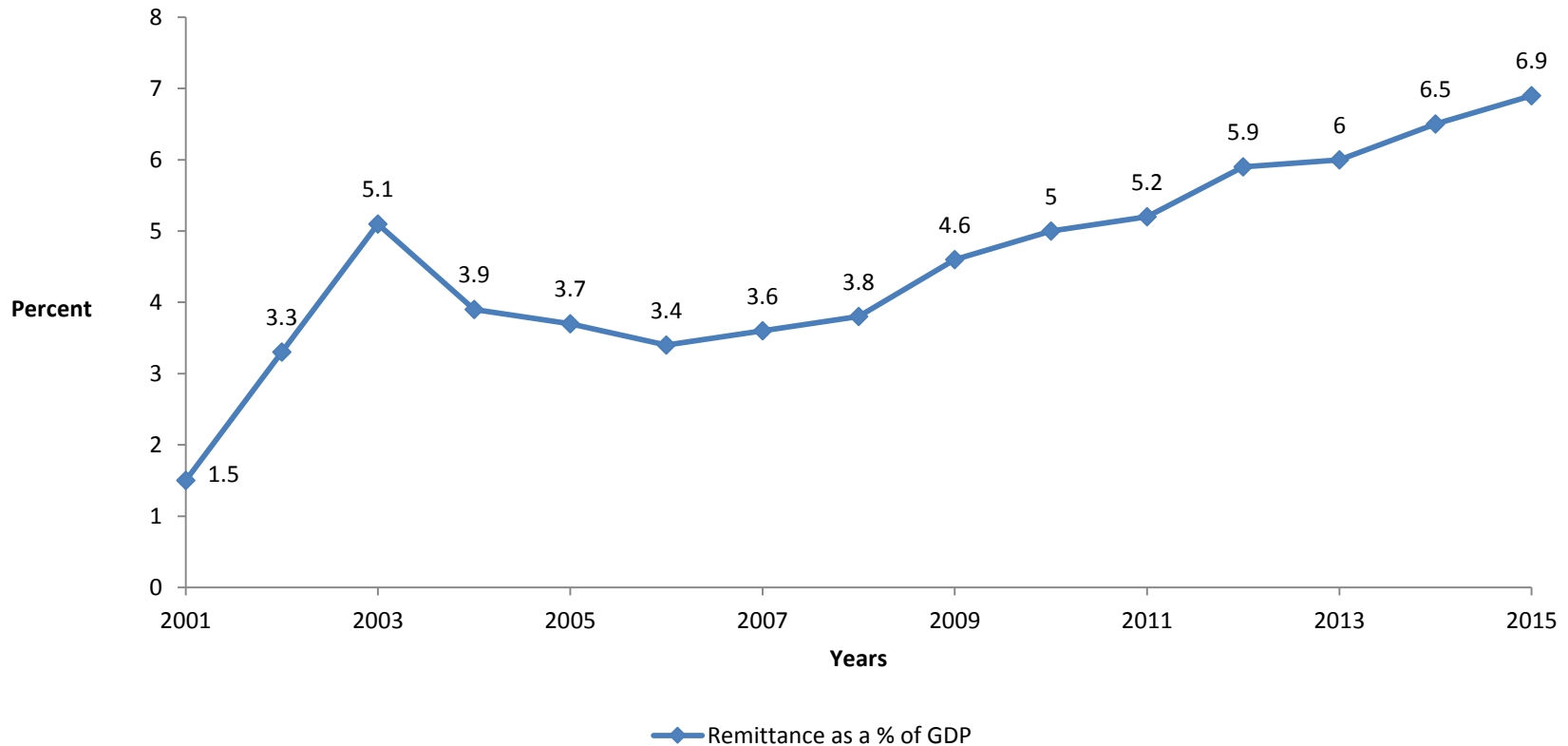
Source: HIES and World Bank Staff Calculations

Remittances Received (US\$ billion) 2001-2015



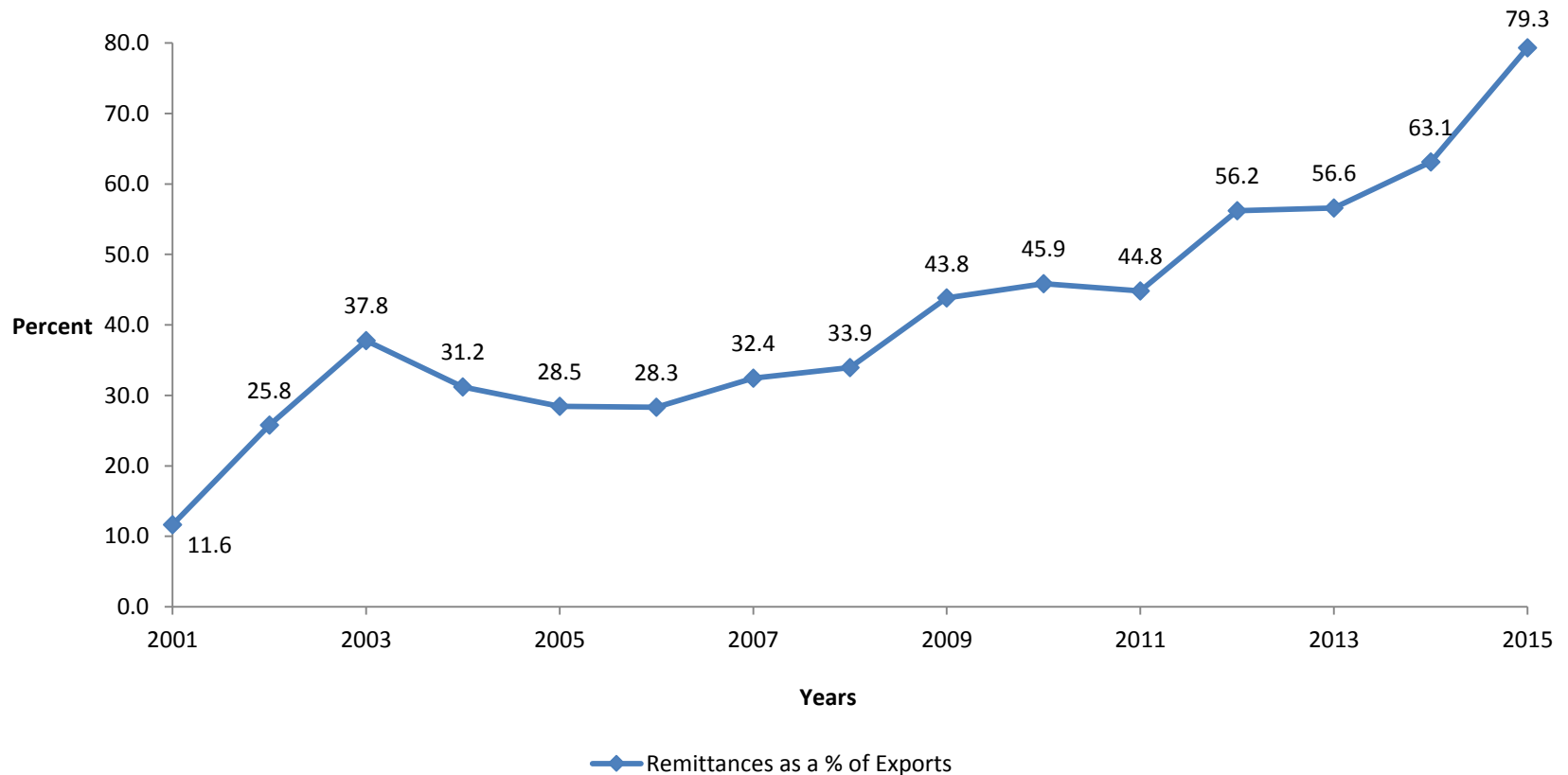
Source: Pakistan Economic Survey 2015-16

Remittances as a % of GDP 2001-2015



Source: Pakistan Economic Survey 2015-16

Remittances as a % of Exports 2001-2015



Source: Pakistan Economic Survey 2015-16

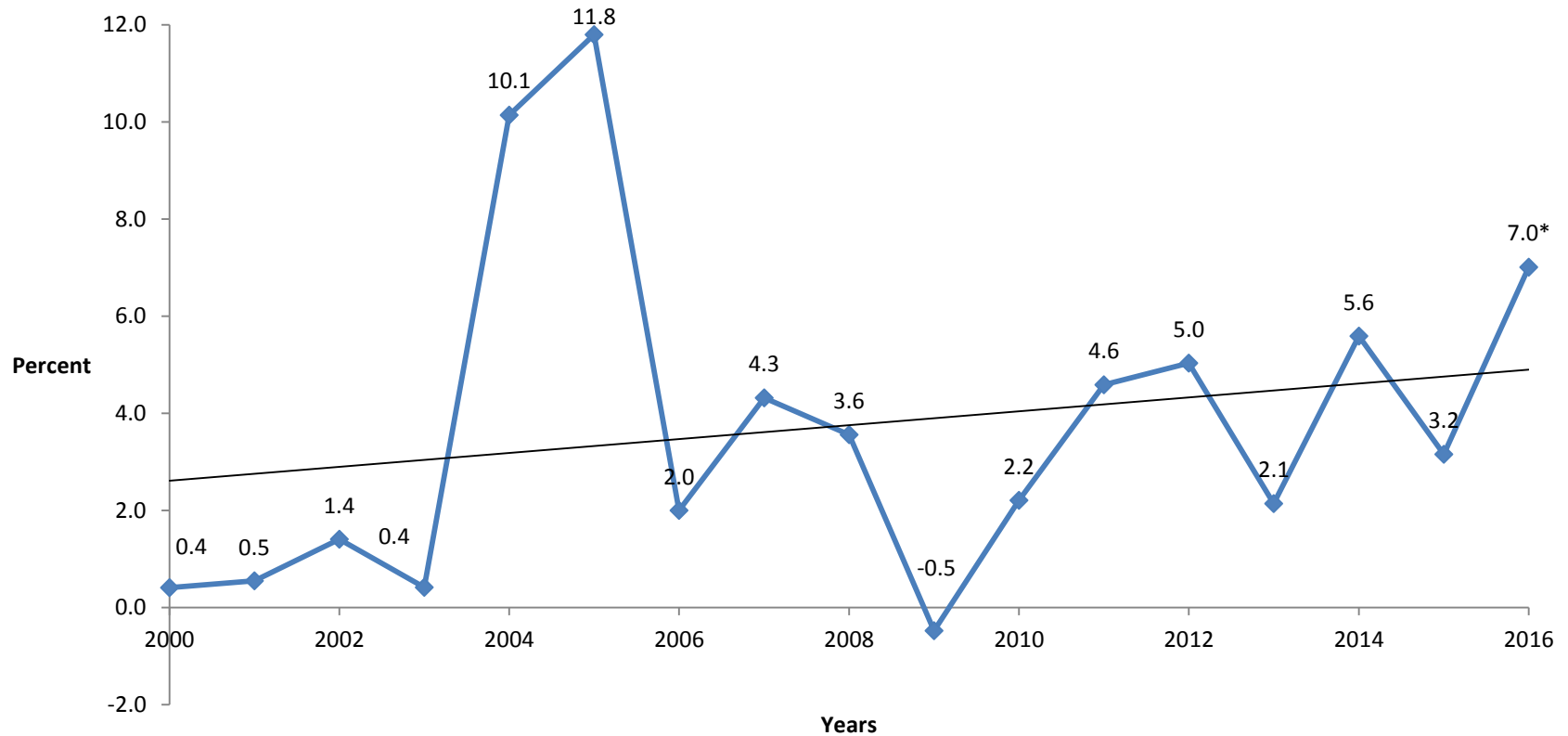
Relation between Poverty Trends and Remittances (as a % of GDP) 2000-2015

Dependent Variables	Log of Poverty Headcount Ratio (Old Poverty Line)	Log of Poverty Headcount Ratio (New Poverty Line)	Log of Poverty Headcount Ratio (US\$ 1.90 International Poverty Line)
Independent Variable			
Log of Remittances as a % of GDP	-0.84 (0.00)*	-0.46 (0.00)*	-1.13 (0.00)*
Constant	4.12	4.49	4.17

() p-values in parentheses

*significant at 5% level

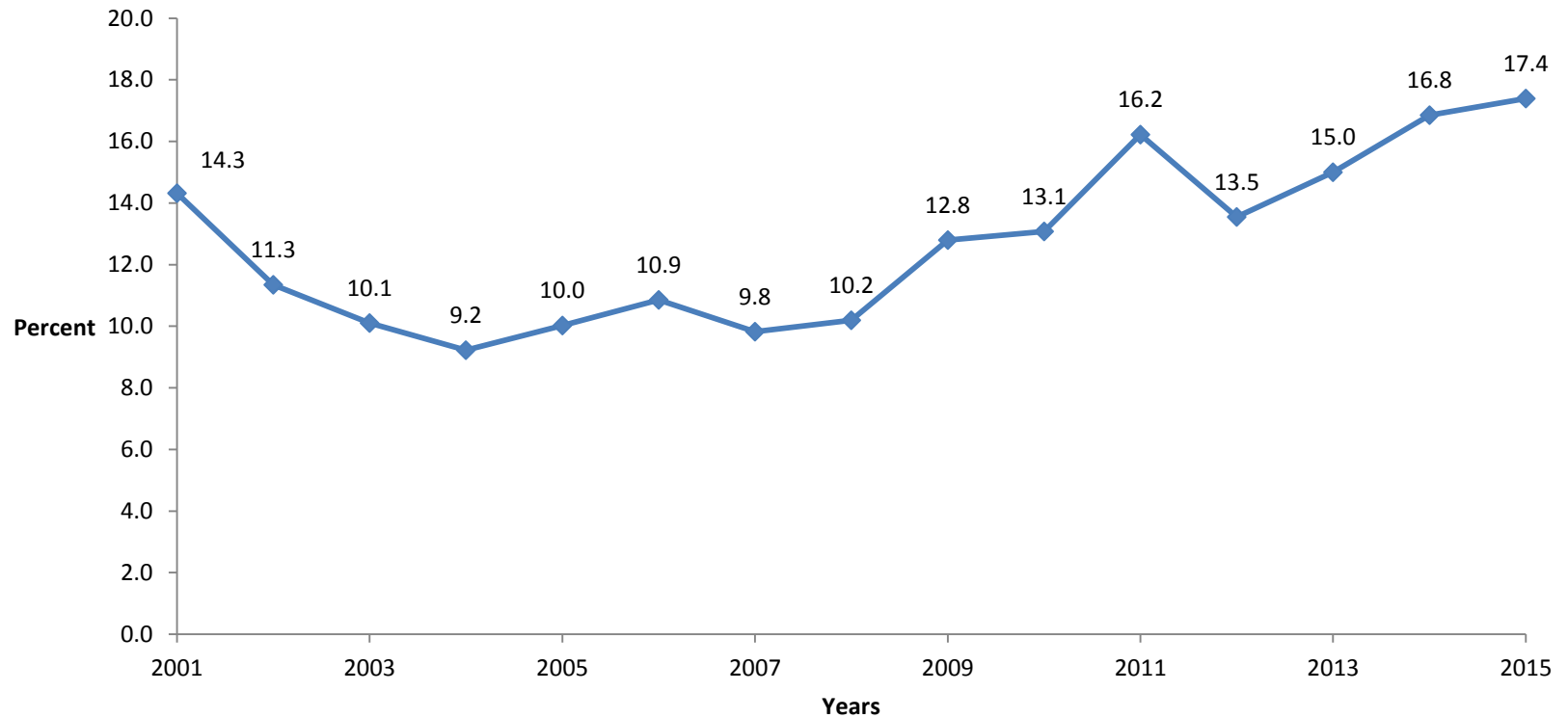
Growth in Household Consumption Expenditure 2000-2016 (at constant prices 2005-06)



Source: Pakistan Economic Survey (various issues)

*: Provisional for July-March 2016

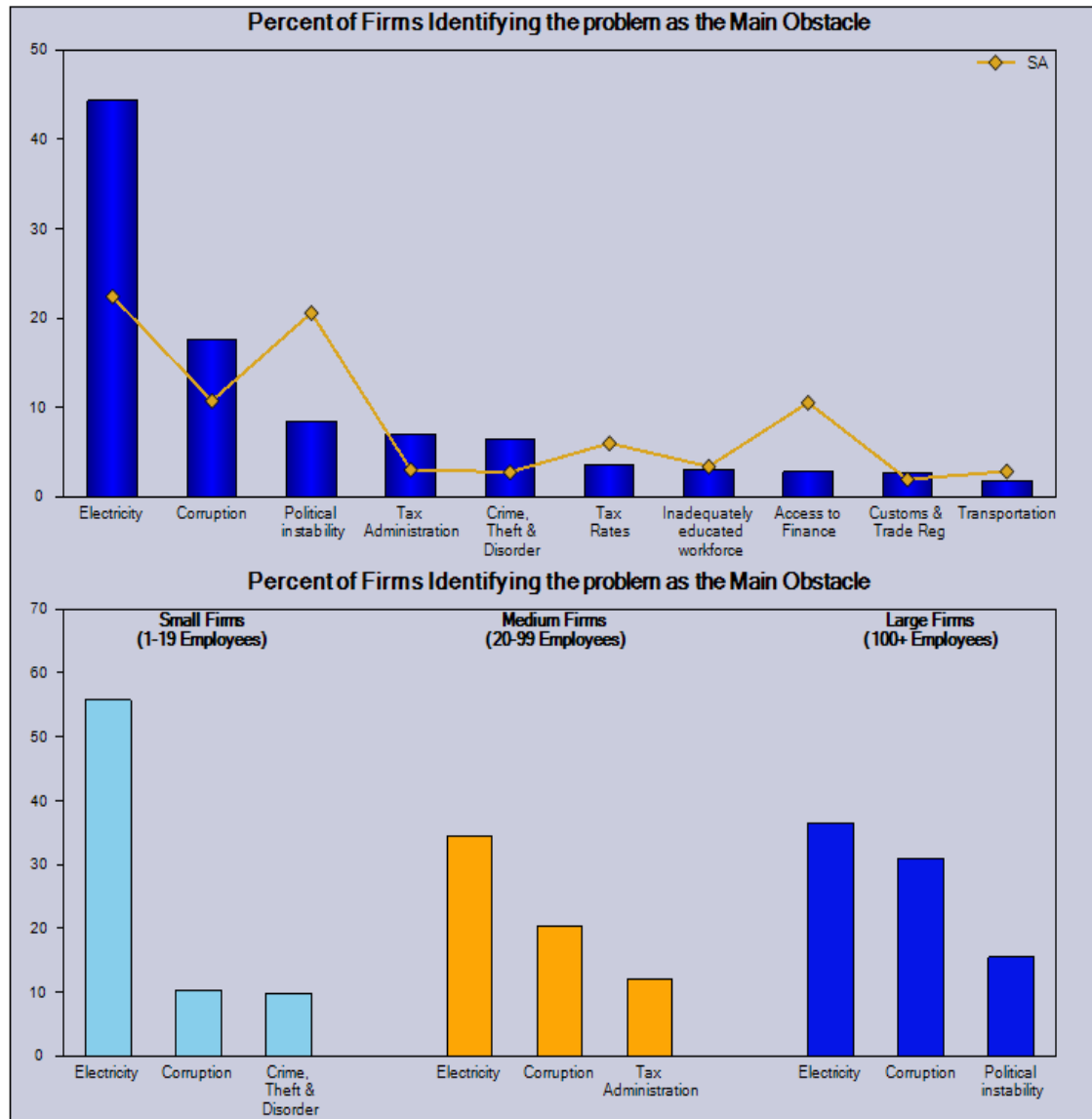
Consumer Goods as a % of Total Imports 2001-2015



Source: Pakistan Economic Survey 2015-16

Pakistan Enterprise Survey 2013

Snapshot of Business Environment in Pakistan



Major Policy Conclusions

- Macroeconomic management has been seriously flawed primarily because it ignored the impact of the manifold increase in remittance inflows and its far reaching impact on the economy.
- Need to identify and analyse much more the factors that determine investment behavior of firms/economic agents in the private sector – *build-up a theory of the Pakistan firm.*
- Economic management must increasingly be based on combining policies that improve the macroeconomic environment with a more realistic assessment of how firms react or do not react to market signals in the face of other binding constraints.

KEY LESSON

To realise the potential of and turn around Pakistan's undervalued economy to a higher and sustained growth plane will require an unrelenting commitment to, and action by the military, civilian government and civil society at all levels to improve the security situation