BUSINESS RECORDER
Founded by M.A. Zuberi

16th June, 2020

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## Overstating the GDP growth rate

The Pakistan Economic Survey of 2019-20 gives the preliminary estimate of the GDP growth rate this year. It is a negative 0.4 percent. The last time the GDP declined in a particular year was as far back as 1951-52, when the economy was hit by a big decline in agricultural production. This time it is clearly the large negative impact of Covid-19.

The PBS estimates at the broad sectoral level indicate that industry and services will both experience a contraction in the level of value added at constant prices in 2019-20. The former sector will witness a decline of 2.6 percent and the latter a fall of 0.6 percent. The only sector with positive growth is agriculture of 3 percent.

Within each sector, there is substantial variation among growth rates at the sub-sectoral level. The industrial sector has sectors like construction and electricity and gas with high positive growth rates, while large-scale manufacturing and mining and quarrying exhibit significant negative growth rates.

Two relatively large service sub-sectors, namely, wholesale and retail trade and transport and communications have been severely disrupted by Covid-19, especially during lockdowns, and consequently, are showing negative growth. Within agriculture, the only sector exhibiting negative growth is cotton ginningdue to the significant fall in cotton output.

The Annexure in the Survey on Covid-19 Advent and Impact Assessment contains some very useful analysis of the consequences of the pandemic.

The annual growth rate pre- and post-Covid-19 has been estimated for each sector. The former relates to the period up to February and the second for the full year up to end-June.

An effort is made to present in this article the implied growth rates by PBS in the two sub-periods separately. The resulting estimates are presented in the Table 1.

Table 1

Pre-and Post-COVID-19 Growth Rates in 2019-20 by PBS

| | Pre-COVID-19a | Post-COVID-19b | Annual |
|---|---|---|---|
| Agriculture | 3.0 | 2.1 | 2.7 |
| Industry | 0.7 | -9.2 | -2.6 |

Services 4.2 -10.2 -0.6

GDP 3.3 -7.8 -0.4

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a July to February b March to June

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The resulting estimates clearly show the big negative shock to the industrial and services sectors due to both demand and supply constraints arising from the global and domestic impact of Covid-19. Demand factors include the precipitous decline in exports of goods due to the spread of the virus in major markets such as the US, the UK and the EU countries.

There is need to examine the validity of the pre- and post-Covid-19 growth estimates. The overall growth rate in the pre-Covid-19 period is on the relatively high side when compared with the performance of the economy in 2018-19 of a GDP growth rate of 1.9 percent. Did the growth pickup sharply and quickly to 3.3 percent in the earlier part of 2019-20?

The first sector examined is agriculture. A 3 percent growth rate is high by recent historical standards. The issue is how this relatively high growth rate was achieved when the level of fertilizer consumption fell by 2 percent. Also, the minor crop sector is unlikely to have shown a growth rate of as high as 5 percent. This sub-sector consists primarily of vegetables and fruits. The prices of these perishable items shot up by 25 percent in January. This indicates the likelihood of supply shortages due to lower output levels and the 5 percent growth rate is definitely on the high side. Overall, the 2.7 percent growth rate of agriculture in 2019-20 is biased upwards, especially when the impact of the locust attack in recent weeks is allowed for.

Turning to the industrial sector, a positive growth rate of 0.7 percent in the pre- Covid-19 period also needs to be examined. The biggest sub-sector, large-scale manufacturing was already experiencing negative growth of 2.9 percent from July 2019 to February 2020, even prior to the entry of the virus in Pakistan. Therefore, in March 2020, the value added in large-scale manufacturing plummeted by 23 percent due to the big fall in exports and factory closures due to the lockdown.

The PES attributes the positive pre-Covid-19 growth rate of the industrial sector to the on-going buoyancy of the construction and electricity and gas sub-sectors. However, consumption of cement in the domestic market showed a relatively low growth rate from July 2019 to February 2020 of 3.8 percent. Similarly, consumption of gas has been, more or less, flat, while the consumption of electricity has shown modest growth. Only the generation of electricity showed high growth of 11 percent.

Overall, it is clear that even in the earlier part of the year the negative growth in large-scale manufacturing dominated the performance of the industrial sector. As such, it is likely that this sector demonstrated marginal negative growth also in the pre-Covid-19 period.

The services sector has been impacted severely by the disruption caused by the spread of the pandemic resulting in partial or full lockdowns and disruptions in the supply chain. As such, it is the sector which has lost its momentum along with industry. The magnitude of loss remains in the realm of speculation. It is clear, however, that the level of economic activity over the year will have contracted in the sector as a whole.

Based on the above analysis, the likely sectoral estimates of growth are presented Table 2.

Table 2

Sectoral Growth Rates in 2019-20 (%)

| | PES | Likely |
|---|---|---|
| Agriculture | 2.7 | 2.0 |
| Industry | -2.6 | -4.5 |
| Services | -0.6 | -2.0 |
| GDP | -0.4 | -1.7 |

Therefore, a plausible estimate of the GDP growth rate in 2019-20 is negative 1.7 percent as compared to the estimate of negative 0.4 percent by the PBS. The World Bank has recently released its estimate of GDP growth in Pakistan in 2019-20 at negative 2.6 percent. The UN's corresponding estimate is negative 1.5 percent.

The first two years of the PTI government have witnessed low or negative GDP growth rates implying a significant fall in real per capita income in the country. Unfortunately, this has probably led to a big increase in unemployment and poverty in Pakistan.

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