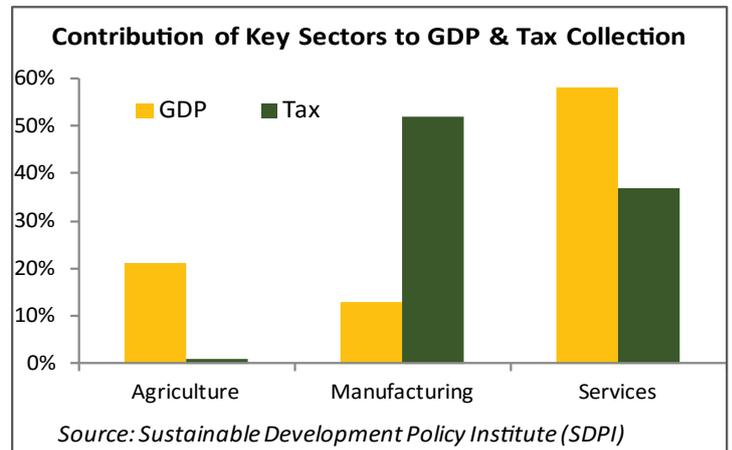
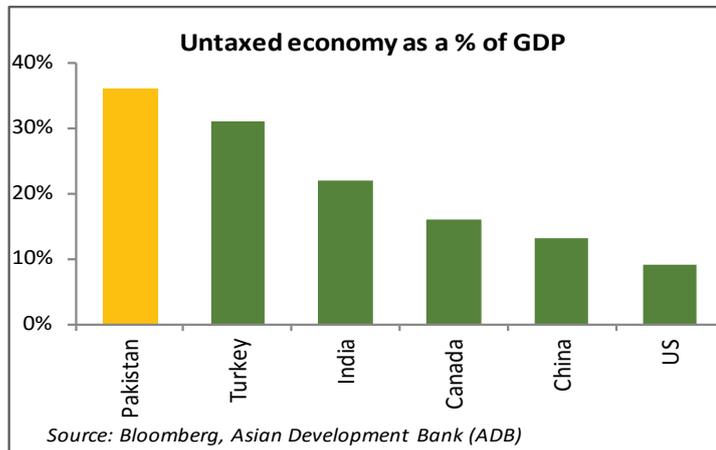


## The Real Size of Pakistan Economy?

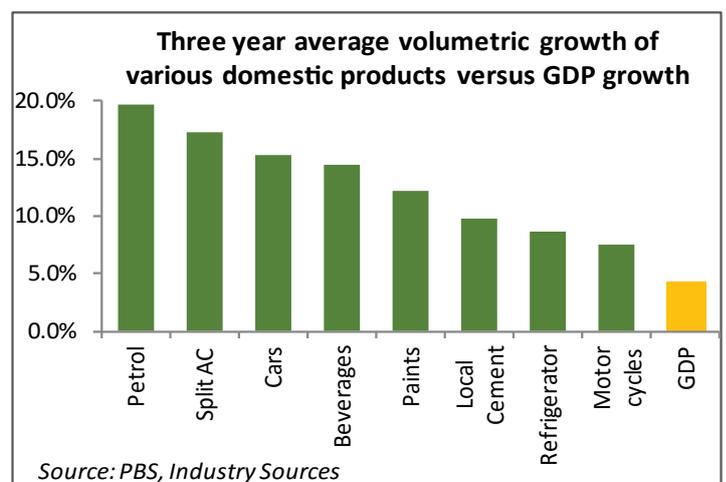
While talking of potential size of Pakistan's economy, most people especially foreigners don't realize that the GDP of our economy is much larger than the official figure of USD285bn. This is because the official data does not capture the contribution of informal economy, which as per different estimates varies between 30% to as high as 90% of the official GDP. Taking a guestimate of 50% contribution coming from informal economy, the actual GDP of Pakistan economy is around USD428bn. Income generated by the informal economy is usually not recorded for taxation purposes, and is often unavailable for inclusion in GDP computations.



There are a large number of economic activities that fall outside the official reporting system and do not come under the tax net. Some of these activities are illegal, such as corruption, smuggling, and narcotics. Other activities are legal but are not reported to avoid taxes such as beauty parlors, hair salons, tyre shops, grocery stores, etc. This group as a whole comprises the underground or black economy. Among others, the key reasons for the incessant growth of the underground economy are abundant availability of bearer financial instruments such as foreign exchange bearer certificates, and prize bond schemes, etc, which are mostly exempt from tax obligations and reporting requirements. Onerous tax burden, punitive regulations & reporting requirements, along with heavy handedness of tax authorities has also contributed to the growth of the informal or parallel economy. Gross under reporting of property values, negligible tax collection of agriculture income, and no reporting or under-reporting of income by businesses, add to the undocumented economy. The only exception is large corporate and also salaried class that is documented and taxed heavily.

The underground economy causes large fiscal losses to the government due to loss of tax revenues, demand pressures on public services, inefficient allocation of resources, and distortion of incentive structure and the growth trajectory of the economy. This is also a key reason for high cost of doing business, which combined with discretion exercisable by the public officials, has restrained the private sector-led development strategy of the economy. About 50% of the labor force in Pakistan is working in the parallel economy based on some studies.

On the positive side, the undocumented demand from Pakistan's 195 million people means the nation's purchasing power is higher than the official per capita income of USD1560/annum, which is evident from the rise in consumer demand and changing lifestyle in both larger and smaller cities. New shopping malls and restaurants are coming up in urban areas along with new housing societies to cater to the rising middle class, urban population. To get an idea of the real purchasing power, prices of newly built 500sq yard house in posh localities of Karachi and Islamabad has reached upto USD1mn, and luxury apartment above USD0.5mn. Rise in consumerism is evident from double digit volumetric growth in Refrigerator, Deep freezer, Beverage, Paints, Cement, Motorcycle, Automobile, Petrol sales during the last three years versus average 4.3% real GDP growth. Around 14% p.a. corporate earnings growth of the listed companies over the last 5 years also corroborates with this view.



Instead of isolated measures, a comprehensive policy framework is needed to reduce the size of the black economy, which entails economic liberalization, fiscal discipline, enhanced space for the private sector, tax reforms with a focus on tax cuts and broadening of tax base. Reforms to reduce corruption should be an essential element of this strategy. Sound and predictable legal system is absolutely necessary that penalizes the illegal activities and unfair practices, and fosters entrepreneurial activity. Strengthening and overhauling the governance system, property rights and enhancing the administrative capacity of the state are essential for reducing the size of the black economy, and unlocking the potential of the economy.