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RESEARCH NOTES

HARNESSING GROWTH TO COMBAT UNEMPLOYMENT

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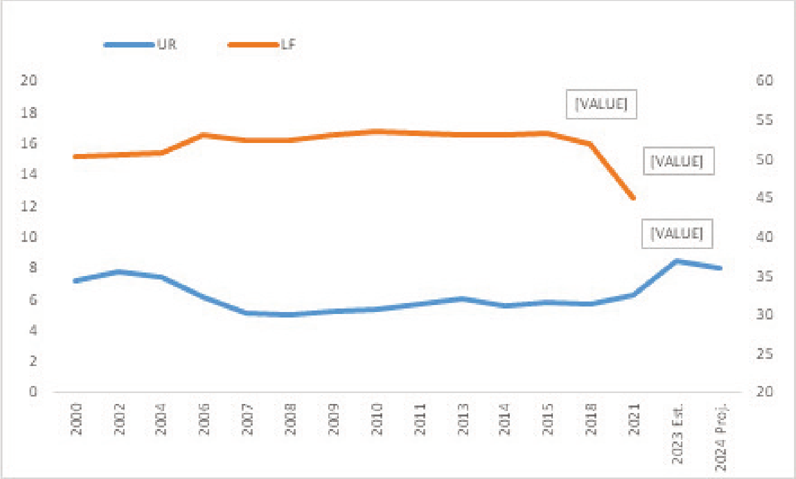
Countries across the globe are adopting measures to align their growth to progress towards achieving the Sustainable Development Goals (SDGs). Pakistan is also trying to cope with the SDGs' targets and goals. However, staying on track with around 24 per cent inflation rate and sluggish economic growth in the fiscal year 2023-24 is very challenging. Moreover, another major problem that undermines the country's socioeconomic stability is unemployment. The International Monetary Fund (IMF) has estimated an 8.5 per cent unemployment rate in 2024, the highest recorded in the past 20 years. This alarming figure underscores a significant economic challenge faced by the country that overshadowed the hope of millions of people due to the fear of joblessness. Moreover, the increasing unemployment and decreasing labour force participation re-



Source: Authors' estimation.

FIGURE 1

Unemployment Rate & Labour Force Participation Rate (10 Years and above)

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ported in LFS-2021 raises serious concerns about inclusive growth. One possible reason for this trend is the significant rise in workers registering for overseas employment, which, according to the Pakistan Economic Survey 2022–23, increased by almost 117 per cent from 382,439 in 2018 to 829,549 in 2022. This change implies that many people are looking for possibilities overseas since there are not enough employment opportunities at home, making achieving inclusive economic growth in the nation more challenging.

TABLE 1

Outlook for Unemployment 2021-2025

	2021
Labor Force (millions)	76.9
Unemployment Rate (per cent)	6.2%
Unemployed (millions)	4.77
Employed (millions)	72.13
	2025
Labor Force (millions)	83.9
	2021-2025
New Entrants to the labour force (millions)	7
Total number of currently unemployed and new entrants	11.77
Employment elasticity	0.70
Scenario 1: Change in employment required to achieve 0% unemployment target (per cent)	16.31%
Scenario 1: Annual employment growth required to achieve a 0% unemployment target (per cent)	3.85%
Scenario 1: Required annual real GDP growth rate for 2021-2025 (per cent)	**5.51%**
Scenario 2: Change in employment required to absorb entrants (per cent)	9.70%
Scenario 2: Annual percentage growth in employment required to absorb entrants (per cent)	2.34%
Scenario 2: Required annual real GDP growth rate for 2021-2025 to absorb labour force (per cent)	**3.35%**
Scenario 3: Change in employment required to reduce unemployment by 50% (per cent)	13.01%
Scenario 3: Annual percentage growth in employment required to reduce unemployment by 50% (per cent)	3.10%
Scenario 3: Required annual real GDP growth rate for 2021-2025 to reduce unemployment by 50% (per cent)	**4.44%**

Source: Authors' estimations following Chami, M. R. (2012), International Monetary Fund (IMF).

In 2021, the most recent year for which the Pakistan Bureau of Statistics conducted a labour force survey, the unemployment rate was recorded at 6.2 per cent among 76.9 million people. To reduce unemployment by 50 per cent, it was imperative to sustain a 4.44 per cent annual growth rate in the subsequent four years.

Nevertheless, this target turned out to be elusive. Despite securing the growth rate above the target in 2022, the subsequent years did not meet expectations. In fact, in 2023, the economic situation worsened significantly, with the country experiencing a

TABLE 2

Outlook for Unemployment 2024-2025

	2024
Labor Force (millions)	81.8
Unemployment Rate (per cent)	8.50%
Unemployed (millions)	6.953
Employed (millions)	74.847
	2025
Labor Force (millions)	83.9
	2024-2025
New Entrants to the labour force (millions)	2.1
Total number of currently unemployed and new entrants	9.1
Employment elasticity	0.6993
Scenario 1: Change in employment required to achieve 3.1% unemployment target (per cent)	8.60%
Scenario 1: Annual employment growth required to achieve a 3.1 % unemployment target (per cent)	8.60%
Scenario 1: Required annual real GDP growth rate for 2024-2025 (percent)	12.30%
Scenario 2: Change in employment required to absorb entrants (per cent)	2.81%
Scenario 2: Annual percentage growth in employment required to absorb entrants (per cent)	2.81%
Scenario 2: Required annual real GDP growth rate for 2024-2025 to absorb labour force (per cent)	4.01%
Scenario 3: Change in employment required to reduce unemployment by 50% (per cent)	7.45%
Scenario 3: Annual percentage growth in employment required to reduce unemployment by 50% (per cent)	7.45%
Scenario 3: Required annual real GDP growth rate for 2024 - 2025 to reduce unemployment by 50% (per cent)	10.65%

Source: Authors' estimations following Chami, M. R. (2012), International Monetary Fund (IMF).

negative growth rate of 0.2 per cent. This downturn in economic performance directly impacted the employment situation, raising the unemployment rate, which the IMF currently estimates to be 8.5 per cent.

Assuming that the estimated employment elasticity remains the same, the country now faces an even steeper challenge. To achieve the desired unemployment rate (3.1 per cent), 12.3 per cent growth is required in the coming fiscal year 2024-25. Even to merely reduce unemployment by 50 per cent, a growth rate of around 10.7 per cent is required for the coming fiscal year 2024-25. Furthermore, to generate sufficient employment opportunities for absorbing new entrants into the labour market, 4.01 per cent growth is required. This scenario illustrates the intricacy of the economic situation, as it highlights the need for sustained and substantial economic growth not only to reduce existing unemployment but also to accommodate the continuous influx of new labour force.

A thorough analysis of sectoral growth offers important insights into Pakistan's economic environment and its implications for job creation and social upliftment. By understanding how different sectors contribute to growth and employment, we can assess their potential to reduce poverty and achieve inclusive growth.

The most recent data released by the Pakistan Bureau of Statistics shows that the agriculture sector emerged as the most contributing sector, growing by 6.3 per cent in 2023-24, and its share in GDP also slightly increased from 23.2 per cent in 2022-23 to 24 per cent in 2023-24. The agriculture sector's estimated elasticity is 0.79, which means that total employment has increased by 0.79 percentage points for every one percentage point increase in sectoral production growth. This indicates that expansion

TABLE 3

Annual Growth Rate by Sector

Growth Rate	**2021-22**	**2022-23**	**2023-24**
Overall	6.2	(0.20)	2.4
Agriculture	4.2	2.3	6.3
Mining and quarrying	(6.66)	(3.31)	4.85
Manufacturing	10.86	(5.29)	2.42
Electricity, Gas, Water Supply	4.36	9.95	(10.55)
Construction	1.83	(9.25)	5.86
Wholesale and retail trade	10.21	(3.99)	0.32
Transportation and storage	4.45	3.76	1.19
Information and Communication	17.96	(0.82)	(3.02)
Finance and Insurance Activities	6.92	(9.42)	(9.64)
Real Estate Activities (OD)	3.69	3.66	3.78

Source: Authors' estimation.

in agriculture output relies more heavily on employing additional labour rather than improving efficiency and technology.

The industrial sector, comprising mining and quarrying, manufacturing, electricity, Gas, water, and construction, contributed 18.2 per cent of total GDP, and its share has continuously decreased since 2021 from 19 per cent to 18.2 per cent. Specifically, the manufacturing sector expanded at a moderate rate of 2.42 per cent, while the mining and quarrying sector acquired 4.85% growth in the fiscal year 2023-24. Considering the computed average employment elasticity of Mining and manufacturing, about 0.80, coupled with the sector's higher average pay compared to traditional sectors, it plays a pivotal role in fostering industrialization and improving income distribution by offering ample employment opportunities. However, concerns regarding its ability to meet the escalating workforce demands have been heightened due to its sluggish performance, particularly in relation to the performance of large-scale manufacturing that secured only 0.07 per cent growth in this fiscal year despite the fact that in the industrial sector, the large scale manufacturing is the sector that contributes the most (8.2 per cent in GDP). The other commodity-producing sector, construction, has greater potential to absorb new entrants into the labour market. Its growth is also attributed to a gain in employment rather than productivity, as shown by the estimated employment elasticity (0.85).

The electricity, Gas, and Water Supply sector is the only commodity-producing sector whose growth is primarily driven by increased productivity rather than employment. Productivity accounts for almost two-thirds of sectoral growth, with just one-third (0.30) coming from increased employment. However, in contrast to the previously discussed industries, which have shown positive growth, the electricity, gas,

TABLE 4

Employment Elasticities by Sector

Sectors	**Elasticity 2000-2021**
Agriculture, Forestry and Fishing	0.79***
Construction	0.85***
Electricity, Gas and Water supply	0.30**
Financial and insurance activities, Real estate activities(FR)	0.92***
Mining & Manufacturing	0.80***
Transportation and storage, Information and Communication(TIC)	0.64***
Wholesale and retail trade	0.51***
Others	0.74***

Source: Authors estimation using Pakistan Bureau of Statistics data.
Note: *** indicates significance at the 1 per cent levels.
** indicates significance at the 5 per cent levels.

and water supply sectors have experienced challenges with negative growth (10.55). With negative growth, this sector exacerbated unemployment rather than contributing to employment.

The elasticity Table 4 shows that activities performed in the tertiary sector have a greater potential for employment generation. For every one percentage point rise in output of Financial Insurance and Real Estate activities, employment climbed by 0.92 percentage points, while productivity improved by 0.08 percentage points. With an impressive growth rate of output, this sector can contribute significantly to resolving the unemployment problem. Unfortunately, in 2023-24, the Finance and Insurance activities demonstrated underwhelming performance and witnessed a negative growth (9.64), which hinders their potential to create jobs. In addition to these high-elasticity sectors, there is much room for job creation in the other services sector. With an employment elasticity of 0.64, the transportation and information and communication sector may help reduce unemployment. However, due to the transport industry's meagre growth rate of around 1 per cent and the information and communication sector's negative growth (3.02), these sectors were also unable to contribute to the creation of jobs in the fiscal year 2023–2024. Similarly, the wholesale and retail sector, which has an employment elasticity of 0.51, is experiencing a growth rate of just 0.32 per cent.

Policymakers must adopt a multifaceted approach to foster economic recovery and ensure inclusive growth in light of the diverse performance exhibited across sectors. Firstly, targeted measures should be implemented to support sectors experiencing negative growth. This may involve providing incentives for innovation, investment, and infrastructure development to stimulate growth and job creation. Simultaneously, efforts should be directed towards enhancing the competitiveness of sectors with positive growth, such as agriculture, mining, and manufacturing. This can be achieved through initiatives aimed at improving productivity, access to markets, and technology adoption to sustain their momentum and maximize their contributions to the economy. Moreover, supporting expansion in high-elasticity services subsectors can also help create jobs and promote stability and development in the economy.