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FACT SHEET

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FACTS BEHIND THE ECONOMIST'S GLOBAL NORMALCY INDEX

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Facts behind the Economist's Global Normalcy Index

From July 2021, after rollout of vaccines, the Economist has published the Global Normalcy Index. It is updated weekly. Its recent update on 18 January has caused a stir in Pakistan.

The Index assesses the scale at which an economy is currently operating compared to pre-pandemic level. It also monitors and reports how consumer behaviour may have changed, an indicator of whether some things may never go back to normal, e.g., cinema attendance.

The Index has mostly stayed under the radar in much of the world. That is just as well as there is not much rigour or thought that has gone into its making. Nor does it point to anything significant. Though, it has caused much celebration in Pakistan. With news all bad, it makes sense for government to clutch at the weakest straw that brings it pretenses of glory. In an environment of much chest thumping and unmerited celebration, this is to be expected. Yet, because it is the eminent Economist's Index and because the celebrations don't seem to stop, it serves us well to scratch beneath the surface.

The Index is a comparison with the past, i.e., pre-pandemic levels of economic activity. It is not a measure of economic dynamism or performance. So, an economy in sub-Saharan Africa, which was not especially prosperous in 2020 could have a higher Global Index score in 2022 than that of say Singapore. It merely means that despite the virus, the economic activity of that country is closer to reaching the level of early 2020. (The Index includes just the largest 50 economies in the world).

Two points merit attention.

Most dynamic economies had elevated levels of economic activity before the virus put an end to them. So, those countries that take stringent action against the virus, China and a few more, naturally see greater fall in economic activity. Few would disagree that these are well governed states and even at low normalcy levels, their economies are more buoyant than Pakistan's.

It is especially important to note that the Index does not suggest that an economy lower on the Normalcy Index is performing worse than an economy at a higher level. The more developed economy just has not reached its high 2020 economic activity level or it may have changed the way it conducts some of those activities. The last being the Index's more important point.

The other point to note is that economic activity in Pakistan was already at a snail's pace before the pandemic. A number of mishaps from poor decision making and lack of judgment had brought it to a halt.

In 2019 and 2020, the economy had to face the hubris of an FBR with all guns blazing on a mission to end tax evasion. In effect, it put an end to most business transactions. Also, defying all logic, SBP was celebrating inflow of forex to Pakistan. That money came at 13% interest (LIBOR was less than 2% in January 2020) and cost us dearly in interest in FOREX. Just then, sudden and thoughtless massive devaluation of the Rupee had left the economy reeling in disequilibrium. Firms were constantly adjusting to new prices. The only ones celebrating would have been money changers.

It was no surprise then that FY19 had a growth rate of below 2% and FY 20 of minus 0.5%. In FY 20, the virus affected the economy in just its three last months, not enough to cause negative growth. If the pre-pandemic economic level was already at the bottom, what pride is there in going back to it?

In fact, inadvertently, the pandemic may have saved our economy. It gave a reason to put a hold on the rigours imposed by IMF. IMF encouraged economies to inject liquidity. It rapidly released $ 1.4 Billion for Pakistan. SBP followed their example to make available concessional financing to businesses via its TERF window. The sudden injection of capital revived the economy, which was thus far under assault from several GoP and SBP missteps.

The Economist's Index takes pre-pandemic activity levels as one hundred. When growth is already low or minus before the virus broke, it is no badge of honour to reach back to where our normal was. "Activity is back at normal levels in just two of the countries we track: Colombia and Pakistan," the Economist says. On 18 January 2022, Pakistan stood at 106.6. USA was at 69.5, Japan 69, Vietnam 67.6, China 65.7, South Korea 65.5. All economies in the latter group have much higher vaccination rates than Pakistan, a major condition for return to normalcy. They have far better health and social services and had also made vast amounts of capital infusion, over $ 3 trillion by USA alone. Clearly, they had very high levels of economic activity and it will take a while for them to get back to those levels. Not sure what are we celebrating.

Besides, because of innovation and dynamism, some economic activity may never go back to pre-pandemic levels in advanced economies. A look at the factors that measure the return to norm would explain. The Index measures return to normalcy in three broad categories are:

1. Operation of Transport: measured by public transport operations, flights, and road traffic

2. Recreation and entertainment activities: cinema tickets sold, sports attendance, and time spent outside the home (recall the severe lockdown of early 2020)

3. Work and retail, i.e., is office attendance back to normal and do shops have as many buyers as they did before.

In advanced economies, some of these activities will not return to pre-virus levels. Both road traffic and flights are used less now as many businesses rely more on video conferencing than before. So, where workers traveled frequently for face-to-face meetings, even a 10% decline will slow return to normalcy. In Pakistan, per capita flights and train traffic have been far below those of other countries at the same income level before or after the virus. But with still few people using video platforms, workers must return to work by whatever means possible. The same for entertainment. Economies with higher usage of video and audio streaming, e-Commerce and e-Wallet, foot traffic at shops and cinemas may never be back to normal. In some affluent economies, workers have the financial flexibility to postpone return to work or better balance between work and leisure. This is especially visible in USA.

The Economist's Index is available on their website.

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