

Addendum to Chapter 3.8

This addendum amends the sub-section ‘Per Capita Income is steadily rising but inequality is High’ in “Chapter 3.8 – Risks to the Household Sector” on Page Number 104 and 105 of Financial Stability Review (FSR) 2016, respectively. The revisions are in *italics* and **bold**.

Per Capita Income is steadily rising and inequality is Low

The Per Capita Income (PCI) is a useful statistic to understand income trends of households. In the five year period from FY13 to FY17, PCI in Pakistan has increased from US\$ 1,334 (FY13) to US\$ 1,629 (FY17) which translates into an increase of 22.14 percent over the five-year period (**see Figure 3.8.2**). However, PCI adjusted for Purchasing Power Parity (PPP) shows an increase from US\$ 4,461 in FY12 to US\$ 5,011 in FY15 which represents an increase of only 12.33 percent over the four year period.

The Gini Index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. The World Bank Gini Index¹⁶⁷ estimates for Pakistan shows a Gini co-efficient of 29.8 for 2010 while the subsequent Gini Index estimates for 2011 and 2013 are 30.9 and 30.7, respectively. For cross country comparison (see Table 3.8), the Gini Index estimates of peer countries such as Bangladesh, India, Malaysia and Turkey are given in the table below:

Table 3.8

Cross Country Comparison of World Bank Gini Index Estimates for Pakistan and Peer Countries

| S.No | Country | World Bank Gini Index Estimate | | | | |
|---------|------------|--------------------------------|------|------|------|------|
| | | 2009 | 2010 | 2011 | 2012 | 2013 |
| Percent | | | | | | |
| 1 | Pakistan | - | 29.8 | 30.9 | - | 30.7 |
| 2 | Bangladesh | - | 32.1 | - | - | - |
| 3 | India | - | - | 35.2 | - | - |
| 4 | Malaysia | 46.3 | - | - | - | - |
| 5 | Turkey | 39.0 | 38.8 | 40.0 | 40.2 | 40.2 |

Source: World Bank Gini Index estimates

The cross-country comparison shows that inequality in Pakistan is low as compared to some peer countries. It may be noted that high and persistent level of inequality may have adverse impact on the economy. Inequality may lead to stagnation of incomes of a section of households in the economy and those households could increase their borrowings in order to meet their rising consumption expenditures, eventually leading to high and unsustainable level of debts. Conversely, if the incomes of the richest households keep increasing disproportionately due to high inequality, these households could end up with excess savings, which fuels speculative investment and financial bubbles¹⁶⁸.

¹⁶⁷ The World Bank estimate for GINI index is available at: <https://data.worldbank.org/indicator/SI.POV.GINI?view=map>

¹⁶⁸ Interview of Professor Lane Kaneworthy of University of Arizona on Inequality:

<https://economix.blogs.nytimes.com/2014/03/25/qa-a-sociologist-on-inequality/?_r=0>