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Editorial

Dear Readers,

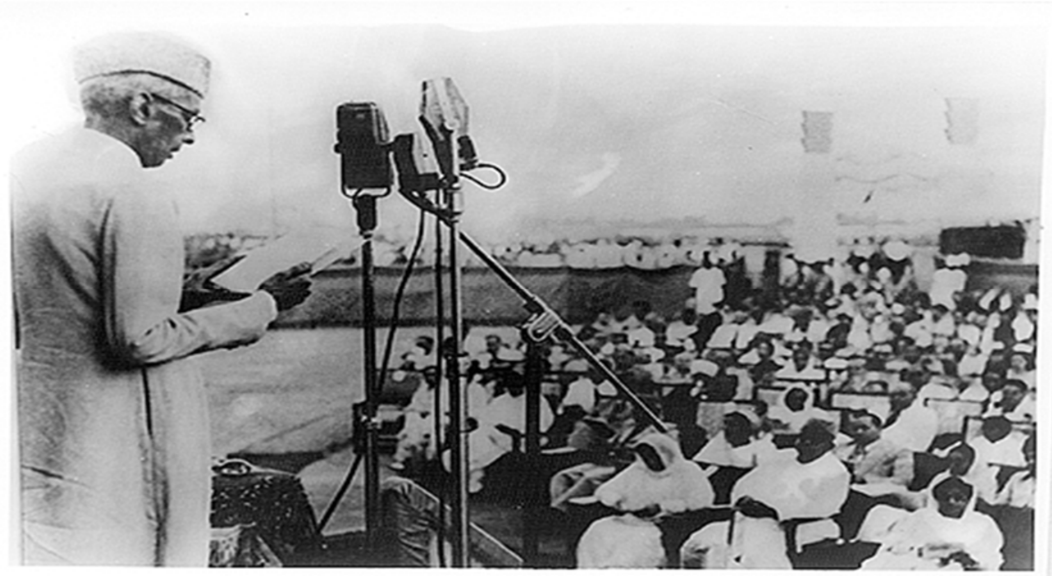
The nation celebrated Eid Ul Fitr after the blissful month of Ramadan with unity and solemn prayers for prosperity of all its people.

We are pleased to inform that the Team Pakistan Institute for Parliamentary Services has continued to deliver its legislative and research services to Members of Parliament, committees and provincial legislatures, as per guidance of the PIPS Board of Governors and the incumbent Executive Director, during the lockdown months of March and April 2020 due to covid19.

As you are aware that PIPS offer Economy and Budget desk services since 2012 annually and same has continued since April 2020 this year. This ECONOMY and BUDGET SPECIAL EDITION of the PIPS Parliamentary Research Digest includes absorbing articles on country's economic performance in FY 2019-20; Way forward for economy viz a viz fall out of covid19 and last but not the least comprehensive Sectoral Comparison for last five years in shape of precise info graphics. The Parliamentary Papers section also shares some relevant data. We are confident that the special issues in May-June 2020 on Economy will provide relevant assistance to MPs for their insights during the budget debate.

Happy reading and profound regards,

Muhammad Rashid Mafzool Zaka
Senior Director General (Research and Legislation)



State Bank Inauguration by the Father of the Nation Quaid e Azam Muhammad Ali Jinnah, July 1, 1948

FROM THE PARLIAMENTARY PAPERS

Information Centre PIPS

Qaiser Iqbal, Librarian &

Areeb Shirazi, Young Parliamentary Officer, PIPS

a. **Financial Health of Pakistan Post 2013-2018:** On March 5, 2019, during the 287th session of 16th Parliamentary Year in Senate, Honorable Minister for Communications presented the statistics regarding Financial Health of Pakistan Post since last five years. Pakistan Post reported an increasing loss since the last five years.

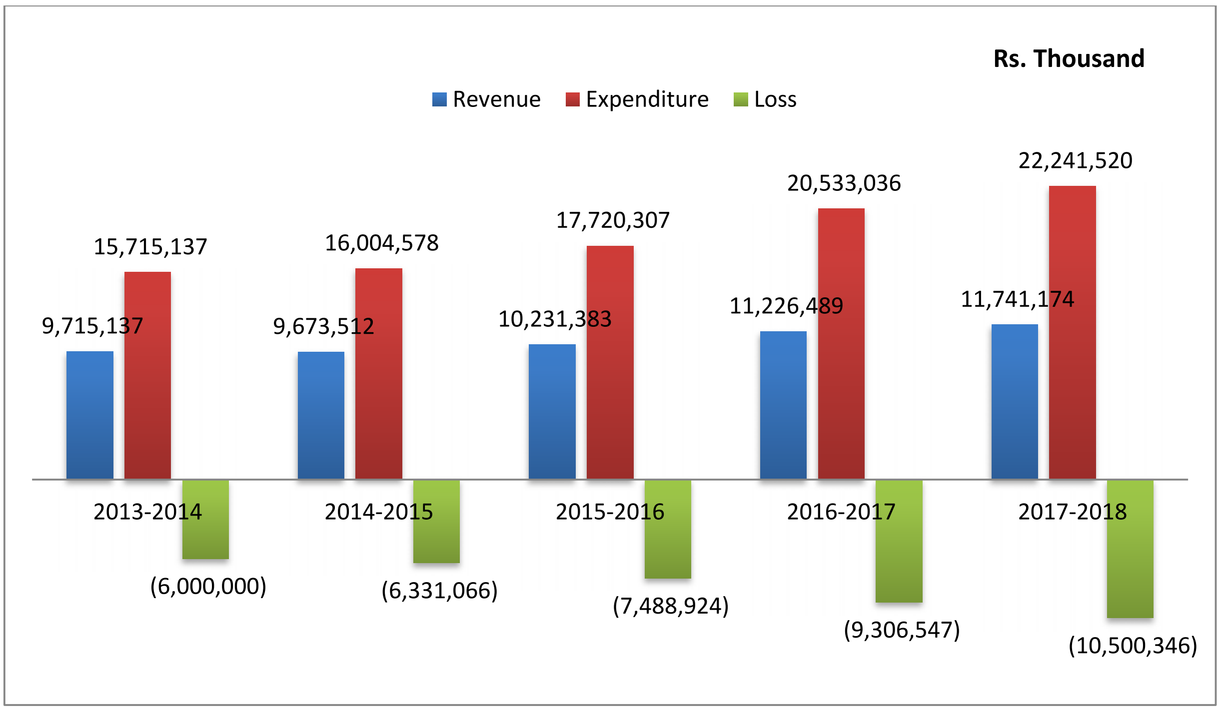


Figure 1 Financial health of Pakistan Post during last five years 2013- 2018 [i]

From the Parliamentary Papers- remaining part of paper is available at page 23

ANALYSIS

Performance of Pakistan's Economy in FY 2019-20: An Academic Appraisal

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Economics is an extremely complicated and vast discipline where we study and learn how to deal with issues related to production of wealth, distribution of wealth and consumption of wealth. These issues are related to interactions of producers, consumers and policy makers and these are complicated in the sense that there exit too many trade-offs as when you want to improve one sector of the economy then suddenly you feel something seriously adverse start to happen to one or two other sectors of economy. In the presence of these trade-offs', performance evaluation becomes even more tricky as there exist multiple point of views and almost all may be correct depending upon different objective to begin with. The debate over complete lock down after the outbreak of COVID-19 and/or the debate over how exchange rate ideally be managed are two glaring examples of complexity and confusion for a common man. Another very basic principle of economics is that nothing is absolute, and every analysis should be in a relative terms. So, the fiscal year 2019-20 under consideration for performance appraisal is not a normal year due to COVID-19 pandemic, which makes this analysis even more difficult. Now bearing in mind the above-mentioned difficulty, let us start our analysis by first enlisting some of the major economic challenges to Pakistan Economy:

1. Slow or stagnant growth and low productivity
2. Low ranking in socio-economic indicators
3. Current account deficit and exchange rate depreciation
4. Fiscal deficit, debt burden and low tax collection
5. National debt
6. Inflation and unemployment
7. Environmental and climate change challenge

Before starting our analysis let us have a brief overview of expected growth performance and the few steps taken at global level to deal with current crisis caused by outbreak of COVID-19. A negative global growth rate is projected at -3.0 % in 2020. Growth in the advanced economies group, is projected at -6.1 % in 2020. Most economies of the developed world are expected to shrink this year; including the United States (-5.9 %), Japan (-5.2 %), the United Kingdom (-6.5 %), Germany (-7.0 %), France (-7.2 %), Italy (-9.1 %), and Spain (-8.0 %). A few Asian countries are expected to have a positive growth rate in 2020 (1.0 %), however, more than 5 percentage points below their average in the previous decade. Chinese economy is projected to grow at a subdued 1.2 % in 2020, India (1.9 %) and Indonesia (0.5 %). For Pakistan, real GDP growth projection varies from negative to positive and the IMF's estimation is -1.5%. To deal with this global slowdown, the G-20 nations on 15th April 2020 announced one-year debt standstill for the world's poorest nations so that they can mitigate devastation caused by Covid-19. Like great depression of 1929-30, the recent crisis is termed as a "Great Lockdown," by the IMF and it is expected to slash $9 trillion of global economies. The situation could get much worse than the Great Depression if the pandemic lingers into the second half of the year or resurges.

At national level, according to the latest data for July-March, FY 2019-20 for Pakistan's economy, the external sector continues to improve on account of modest growth in both exports (1.1%) and workers' remittances (6%) along with significant reduction in imports (16.2%) and increase in FDI (137.3%). Current account deficit is reduced by 73.1% to $ 2.8 bn (1.3 % of GDP) against $ 10.3bn last year (4.7 % of GDP). In order to reduce the impact of Corona virus outbreak, Government has announced Rs.1.2 trillion relief and stimulus package. It aims to provide relief to vulnerable segment, SMEs industry, construction industry, deferment of utility bills of lower income groups, deferment of principal and interest for business, reduction in fuel prices and etc. Similarly, SBP has decided to cut the policy rate further to 8 percent. SBP has also provided various incentives to manufacturing sector and exporters. Combined efforts of Government and SBP will provide a bolster to industry in this deteriorating situation. After the brief overview, now we start performance appraisal of Pakistan Economy if FY 2019-20 and we start from the first challenge that is slow or stagnant growth and low productivity.

1. **Slow or stagnant growth**

Last year, Pakistan missed almost all the targets of growth and graph below clearly shows negative trends when targeted growth rates are plotted against actual growth rates. The targeted growth rates were GDP 6.6%, industry 8%, services 6.5% and agriculture 3.3% whereas actual growth rates were GDP 3.3%, industry 1%, services 4.7% and agriculture 0.8%. This was the performance of last year but even worst is expected this year.

The situation is not different at present as agriculture sector's production for FY2019-20 has been lower than initial expectations. The unfavorable weather conditions and locust attacks have reduced production in many regions of the country. Although there was an increase in area under wheat cultivation (8.9 million hectare) as compared to last year (8.7 million hectare) that was a favorable development but the recent locusts attack and unprecedented rain fall at harvesting time during March-May may result in wheat production being slightly lower than the FCA target of 27.0 million tones. There are some steps taken by government to support agriculture as agriculture credit also registered a significant increase of 13.3 percent during FY20 (July-March) that reached to Rs 912 billion compared to Rs 804 billion in same period last year, increase in wheat support price to Rs 1400 per 40 kg and subsidies on fertilizer and electricity. These are some routine steps occasionally taken by past governments as well, but a clear strategy and direction is missing to turn around and modernize our agriculture. Use of modern technology and shift to hybrid seeds to increase per acre yield and installation of water conservation methods etc. are not showing any promising development in near future.

Industry and services are even more affected due to Covid-19, although government has announced a special package to provide stimulus to industrial and construction sectors. Package includes amnesty scheme, tax exemptions and Rs. 30 bn subsidy for Naya Pakistan. SBP allowed manufacturing sector an advance payment of up to $ 25,000 ($10,000 earlier) for import of raw materials and spare parts. Capital Conservation Buffer (CCB) has been reduced to 1.5% from 2.5% - that will enable banks to lend a supplementary amount of Rs. 800 billion to businesses and households. SBP has given relaxation of one year in repayment of principle amount under various refinance schemes. Credit limit to SMEs has been permanently increased to Rs. 180 million from Rs. 125 million. SBP has announced a temporary refinance scheme to support the employment of workers and all businesses which do not layoff their employees during Apr-Jun 2020 and will be given loans with up to 5% mark-up during this period. Borrowing has been further eased by SBP by bringing interest rate to 8% from 13.25%. Power Division has released Rs. 144.9 billion up till 20th April 2020 out of allocated Rs. 226.5 billion subsidies to ensure uninterrupted electric supply to both consumers and producers. Petroleum Division has released Rs. 22.2 bn up till 20th April 2020 for zero rated industrial sector out of allocated Rs. 24 billion subsidies for the purpose. Here it seems that out of its limited resources, the government tried its level best to provide a stimulus package to industry and services sectors.

2. Low ranking in socio-economic indicators and low productivity of workers

The next two tables show Pakistan's rankings, the first table on left side is of GDP ranking of five selected countries out of 186, 4 from South Asia; like Pakistan, India, Bangladesh and Sri Lanka and the fifth one is South Korea. Pakistan is ranked 147, India 140, Bangladesh 148, Sri Lanka 111 and South Korea 26 out of 186 on the bases of GDP per capita in US$. The second table on right side below is of global competitiveness index and Pakistan's rank is again very low that is; 111 out of 137 countries. These two tables provide the reason why growth rate is low, and it is quite evident that it is because of low productivity of our workers. Our workers lacking in skills, innovation and productive ideas, not much has been done in this regard during this regime up till now.

GDP Ranking (out of 186)

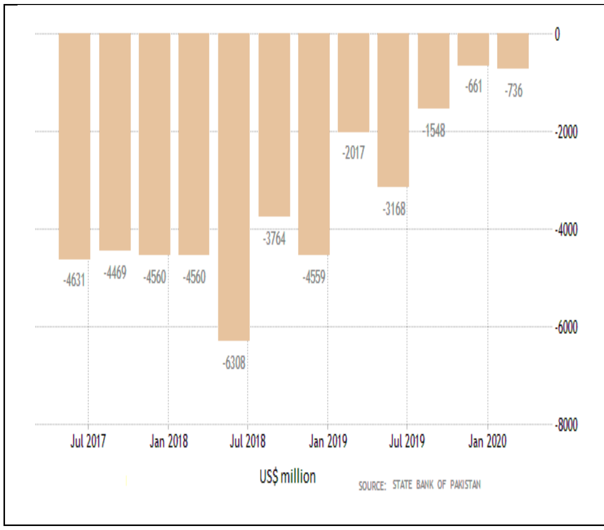
	Pakistan	India	Bangladesh	Sri Lanka	South Korea
GDPPC (USD)	1600	1852	1532	3905	29730
Rank	147	140	148	111	26
GDPPC-PPP	5354	7174	4207	13001	39387
Rank	135	122	140	91	30
GDP (Billion USD)	304	2439	250	84	1530
Rank	42	7	45	67	11
GDP-PPP	1061	9447	687	278	2027
Rank	25	3	33	61	14

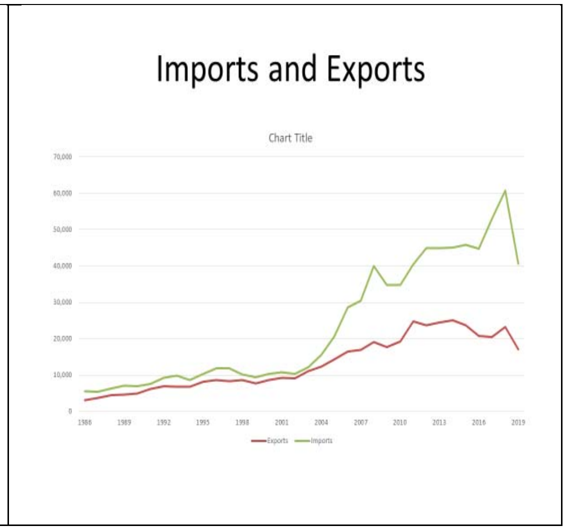
Global Competitiveness Index (2018)

	Pakistan	India	Bangladesh	Sri Lanka	South Korea
GCI-overall (137)	111	39	106	71	26
Institutions	90	39	107	77	58
Infrastructure	110	66	111	85	8
Macroeconomic Environment	106	80	56	94	2
Health and Primary Education	129	91	102	43	28
Higher Education and training	120	75	117	78	25
Goods Market Efficiency	107	56	94	83	24
Labor Market Efficiency	128	75	118	131	73
Financial Market Development	96	42	98	83	74
Technological Readiness	111	107	120	106	29
Market Size	28	3	38	59	13
Business Sophistication	81	39	91	59	26
Innovation	60	29	114	54	18

3. Current Account Deficit and exchange rate depreciation

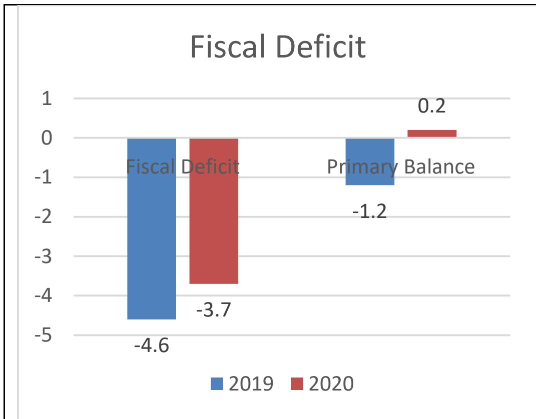
Controversy over how the exchange rate should be managed and there are positives and negatives on both the sides; the way a policy maker chooses to manage the exchange rate. So, it completely depends upon the objective of the policy maker that it chooses economics to work and have an exchange rate determined by the market forces on the basis of its fundamentals or choose to manage exchange rate above or below its equilibrium. If the objective is to have low inflation then an overvalued exchange needs to be managed. It may be a political artful strategy that there is no hue and cry in the masses as the inflation is low and there is no increase in external debt if calculated in domestic currency. Whenever a devaluation or depreciation happens many experts come on TV screens and start telling that this much increase in external debt has happened and their arguments are very attractive for all parties against the regime of that time. It may be much selling politically that a government is successful in keeping domestic currency stronger against all the pressures from the international donors, especially the IMF. But on pure economic grounds, this strategy has serious flaws and extremely devastating ramifications for the core strengths of the economy. If you try to keep an overvalued exchange rate then you simply lose control over balance of payment; that is the payments you have to conduct in foreign currencies would be even harder because of overvalued exchange rate, your imports become cheaper and exports turn out to be expensive and uncompetitive in international markets. So, any country that choose to have an overvalued exchange rate start losing foreign exchange reserves and there are huge costs involved in managing overvalued exchange rate as you have to pour in billions of extra foreign exchange reserves in the market to maintain overvalued domestic currency. If this requirement is not met out of your own foreign exchange reserves then you have to borrow, which will result in even bigger national debt. In this case, not only the current account deteriorates but also that country ceases to be sovereign anymore. In a situation like this one, international donor intuitions come up with their conditionality and you are left with no choice except to surrender your very sovereignty. Hence, basic direction of current regime's policy is correct on economic grounds against all pressures and even with the loss of political capital (voters).

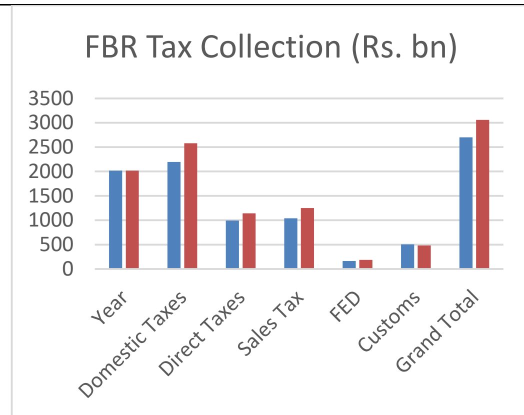




Despite the challenging situation due to COVID-19, Pakistan's current account deficit is showing significant improvement. Exports have performed better in recent months than most of its competitors. During July-March FY2020, current account deficit is reduced by 73.1% to $ 2.8 bn (1.3 % of GDP) against $ 10.3billion last year (4.7 % of GDP). Exports grew by 1.1 % to $ 18.3 bn ($ 18.0 bn last year) during the period under review. Imports declined by 16.2 % to $ 32.9 bn ($ 39.3 bn last year). Consequently, trade deficit reduced by 30.9 % to $ 14.7 bn ($ 21.2 bn last year). Foreign Direct Investment FDI increased by 137.3% and reached to $ 2148.2 million during Jul-March FY20 as compared to $ 905.1 million last year. At present, one may expect too much from any government of the world as every country is trying to come out of challenge after outbreak of COVID-19 but afterwards, Pakistan may start efforts to improve quality of human capital, search for new markets for exports, development of modern entrepreneurship and standardization and quality controls.

4. Fiscal deficit and tax collection





Fiscal management is also rewarding as fiscal deficit started showing improvement. It is reduced to 3.7% of GDP from 4.6%. Similarly, Primary balance posted surplus of Rs 104 bn during Jul-Feb, FY 2020 (0.2 % of GDP) against the deficit of Rs 474 bn (1.2 %of GDP) last year. On expenditure front, first eight months of current fiscal year witnessed a significant rise of 38% in Federal PSDP to stand at Rs.392 bn against Rs.284 bn in the same period last year. On the revenues side, it is expected that the government would be facing a short fall of around Rs1500 billion against the very optimistic tax collection target of Rs. 5555 billion. Now, one cannot ignore that it would be more challenging to manage fiscal accounts after COVID-19 crisis which caused economic slowdown and reduction in FBR receipts and higher expenditures under health and social sectors.

5. National debt

The pace of public debt accumulation has been on a a declining trend with an increase of Rs 1.0 trillion compared to a rise of Rs 2.5 trillion during the corresponding period last year. Although the domestic debt increased during the second quarter FY 2019-20, the rise was lower than the same period last year. Quarterly analysis reveals that the public debt decreased by Rs 0.5 trillion in the second quarter FY 2019-20 compared to a rise of Rs 1.5 trillion in the first quarter. Both the solvency indicators showed improvement from the first to the second quarter as the ratio of total external debt and liabilities to GDP decreased to 39.5% from 45% and the ratio of total reserves to total external debt and liabilities increased to 16.3% from 13.6%. It means that in one quarter, Pakistan's external debt and liabilities decreased by 5.5% in ratio to GDP and total foreign exchange reserves ratio to total external debt and liabilities increased by 2.7%. Concurrently, the efforts to minimize national debt have started showing positive trends.

6. Inflation and unemployment

Inflation has been one of the most problematic area for the current government and besides many of the system's failures to deal with inflation, one was the inevitable trade-off between market based exchange rate to correct current account deficit and inflation in imported items and their dissemination in domestic inflation as well. In the initial moths of current regime, if we deeply investigate the causes of inflation; for e.g. exchange rate depreciation, higher interest rate, and price hike of utilities and fuel items. We find that the government was in a situation of between the devil and deep sea that is to correct current account deficit, which of in extremely alarming proportions, the government was having no choice except to leave exchange rate to a more market based rather than managing over valued exchange rate. As a result, initially inflation hit the consumers very hard. But now exchange rate is largely stabilized based on its fundamentals and consequently inflation has started to depict slowdown as well. Consumer Price Index (CPI) has shown a downward trend for the third month in a row due to a combination of factors including improvement in supply of eatables and reduction in energy prices. Inflation rate fell to 10.2% in March from 12.4% in the previous month.

To mitigate adverse effects caused by COVID-19 in the form of inflation and unemployment, the government has launched "Ehsaas Emergency Cash Program" the biggest cash distribution program in the history of Pakistan with total allocation of Rs. 144 billion to provide immediate cash relief of Rs 12,000 to 12 million families of daily wage earners - whose livelihood has been severely affected by the pandemic.

It seems that performance of government on account dealing with inflation and unemployment has not been up to marks and as far as inflation is concerned, the COVID -19 turns out to be a blessing in disguise for the economy, whereas the situation of unemployment further deteriorated due to it. However, the steps and measures taken by the government to mitigate adverse effects are largely satisfactory in terms of their coverage and transparency.

7. Environmental and climate change challenge

Unlike many other ministries and their programs that were slowing down after COVID-19, the climate change portfolio of Pakistan is steadily rising with the new government planning; mass afforestation programme and further enhancing the already executed projects to better suit the needs of the country. As the government has a vision to create a clean and green Pakistan. The following projects are especially praiseworthy;

- A project of glacial lake outburst floods funded by Green Climate Fund (GCF)

- Constitution of a "Prime Minister's Committee on Climate Change" which will provide high level strategic guidance and platform for coordinated efforts on the issues of climate change.
- The Green Pakistan Program is about to be up scaled to 10 billion Tree Tsunami; Phase 1, in the next Financial year.
- The PSDP allocation for the Climate Change Sector has been kept at 8879.2 million rupees for the year 2019-20. To complete this gigantic task, the government is planning for 4.5 billion plants and the remaining 5.5 billion trees shall be planted through public private partnership (PPP) and innovative financial tools like CSR, Green Bonds etc.
- Cabinet granted "in principal" approval for allocation of up to 1 percent funds of PSDP projects for Clean and Green Pakistan Movement (CGPM). It will be leveraged to make Clean and Green Pakistan movement a success.
- In august 2019 the ministry of climate change has banned the manufacturing, import, sale, export and purchase of plastic bags.

Steps like these are raising Pakistan's stature in the community of nations as a responsible state and if global institutions like the United Nations, the World Economic Forum and International Union for Conservation of Nature (IUCN) are praising these efforts, then one can imagine the global value of these initiatives.

8. Way forward

The overall performance can be graded as above average keeping in mind the difficulties of the period under review. However, there is always room for improvement and in future, dedicated efforts may be initiated to correct fundamentals of the economy. In my humble opinion, there are some very basic things to consider by the authorities; immediately, there is a dire need to create more employment opportunities and allocation of resources; both human and financial into more productive sectors. Whereas in the medium run, the government needs to initiate programs with the focus to increase productivity through investment in human capital, balanced growth strategies, and more value addition chains. Finally, there is genuine need to establish inclusive and just institutions, fair system of rewards and incentives and course correction for self-reliance.

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OPINION

Forecasting the Economic Impact of COVID-19 and The Way Forward

Dr. Muhammad Nasir

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1. Introduction

The COVID19, in terms of its intensity and geographical spread, has unprecedented health and economic consequences. It has become a global pandemic and forced the world into "great lockdown". As of May 31, 2020, more than 6.1 million people around the world were affected with coronavirus with more than 0.37 million deaths. Countries, in an effort to "flatten the curve", took social distancing measures that has resulted in contraction of economic activities. This has led to closures of businesses thereby resulting in major layoffs. This initiated the debate on "lives vs. livelihood" especially in the context of developing countries. The proponents of lockdown believe that complete shutdown is the only way to slow down the spread. The opponents argue that such lockdowns are not economically sustainable in developing countries where governments have limited fiscal space for expanding the social safety nets to protect the vulnerable employment groups. Both arguments carry weight and developing countries have been finding it difficult to solve the "lockdown paradox". And Pakistan is no exception.

The first case of coronavirus in Pakistan was confirmed on February 26, 2020. On March 13, it was decided to close down all educational instructions and suspend international flights at all airports except Islamabad, Lahore, and Karachi airports. In the last week of March, due to increase in confirmed cases, provinces went into lockdown. On April 15, the lockdown was partially relaxed whereas further relaxations were granted on May 11. However, the lockdown period between the last week of March and first week of May have resulted in severe contraction of the economy.

A recent survey by the Small and Medium Enterprise Development Authority (SMEDA) shows that around 51% of the small and medium enterprises reported a100 percent closure of their operations due to COVID-19.[1] Big industries, on the other hand, had also been operating at less than their full capacity. Similarly, aviation was completely closed and the inter- and intra-district public transport was banned. The goods transport was, however, allowed to prevent disruption

[1] SMEDA, Survey Report: Impact of COVID-19 on SMEs,(SMEDA, Aril 2020), available at: https://smeda.org/phocadownload/Research_Publications/SMEDA%20Survey%20Report%20-%20COVID-19%20Impact%20on%20SMEs%20reduce.pdf

in food supplies and other essentials. Restaurants were closed but take-aways were allowed. Hence, this lockdown had differential effects on the various sectors of economy and resultantly on the laying off of vulnerably employed groups in these sectors. Approximately 12 to 18 million vulnerably employed workers faced the risk of laying off during the lockdown.[2]

The government and the State Bank of Pakistan announced various relief packages to protect the vulnerable segment of society through enhancing social safety net, as well as help businesses to retain their employees. However, this has put severe strain on the government's fiscal space through (i) reduced tax collections due to subdued economic activity and (ii) increased expenditure for health sector and social protection. Whether or not such relief packages could be provided in the longer run, if the pandemic does not fade away, would depend heavily on the health of the economy. This requires exploring the quantifiable impact of the COVID19 on the country's economic growth in the current and coming fiscal years. However, due to the fluid nature of the pandemic, such analysis should be done under different scenarios.

The article relies heavily for its analysis on the recently completed study by the Pakistan Institute of Development Economics (PIDE) on the impact of COVID19 on Pakistan's economy which was coauthored by this author along with other colleagues from PIDE.[3] *This articles will first discuss the projections for overall as well as sectoral GDP growth for the two fiscal years along with their implications for fiscal, monetary, and external sectors of the economy under various scenarios. In the light of these projections, it will discuss the way forward to cope with economic challenges resulting from COVID19.*

2. Growth in Fiscal Year 2020

The pandemic has nosedived the growth of developed economies and emerging markets. The global growth is projected to contract by 3% in 2020 assuming the pandemic fade out in the latter half of the year. Against the pre-COVID19 targets of 1.7% and 3.7%, advanced economies and emerging markets are projected to contract by 6.1% and 1.0%, respectively. To formulate better coping policies, it is imperative to first quantify the impact of the pandemic on the country's growth trajectory. It is worth mentioning here that the pre-COVID growth in Pakistan was already subdued due to government's austerity measures. However, the economy was truly exposed to effects of COVID in the beginning of the last quarter of the ongoing fiscal year. The

[2] Nasir *et al.,* "Sectoral Analysis of the Vulnerably Employed COVID-19 and the Pakistan's Labour Market,"*PIDE COVID-19 Bulletin* No. 4 (2020), available at: https://www.pide.org.pk/pdf/PIDE-COVID-Bulletin-4.pdf

[3] This special report titled "Post-COVID-19 Recovery Scenarios for Pakistan's Economy: Projections for Fiscal Years 2020 and 2021" was authored by Muhammad Nasir, Mahmood Khalid, Abdul Jalil, Naseem Faraz, and Nasir Iqbal of the Pakistan Institute of Development Economics (PIDE). The complete study is available at: https://pide.org.pk/pdf/Covid-19-and-Pakistans-Economy.pdf

situation is so fluid that there are significant variations in the GDP growth projections of different national and international organizations. Table 1 reports the annualized growth projections by different institutions for fiscal year 2020. The projections by Planning Commission are way too optimistic whereas that of IMF and SBP presents a very bleak picture of the economy. The NAC projections are cautious and still show contraction in the overall economic activity compared to previous fiscal year. The PIDE provides a range instead of a point estimate. This is an acknowledgment of how uncertain and fluid the situation is in terms of intensity and duration of pandemic and its subsequent impact on different economic sectors due to lockdown.

Table 1 Growth Projections for FY2020

Institution	Projected GDP Growth (%)
International Monetary Fund (IMF)[4]	-1.5
Planning Commission of Pakistan (PC)[5]	2.0 – 2.5
State Bank of Pakistan (SBP)	-1.5
National Accounts Committee (NAC)[6]	-0.38
Pakistan Institute of Development Economics (PIDE)	-1.36 – 0.62

Note: Sources have been provided in the footnotes.

The PIDE estimates translate into fourth quarter GDP loss of 12 to 19 percent compared to the pre-COVID GDP for the same quarter. The agriculture sector is the least affected sector with projected growth remaining positive in the range of 1.50 to 2.17 percent. This is primarily because the important and other crops were not significantly affected by the lockdown. Only livestock sector was considerably affected (10%). The service and industrial sector were, however, severely hit by COVID19. Within these two sectors, the subsectors that observed significant drop include mining and quarrying (15-20%), large scale manufacturing (15-30%), small scale manufacturing (15-30%), slaughtering (10-20%), construction (10-20%), wholesale and retail trade (20-35%), and transport, storage and communication (20-35%).

[4] IMF, Pakistan: Request for Purchase under the Rapid Financing Instrument-Press Release; Staff Report; and Statement by the Executive Director for Pakistan, (Washington: IMF, April 2020)., available at: https://www.imf.org/en/Publications/CR/Issues/2020/04/16/Pakistan-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-Press-Release-Staff-49342

[5] Mehtab Haider, “COVID-19 effects: Pakistan estimates 0.8 to 1,3pc loss to GDP growth,” *The News International,* April 10, 2020, available at: https://www.thenews.com.pk/print/642261-covid-19-effects-pakistan-estimates-0-8-to-1-3pc-loss-to-gdp-growth.

[6] Ghulam Abbas, “Govt projects -0.38pc GDP growth in FY20,” *Pakistan Today,* May 19, 2020, available at: https://www.pakistantoday.com.pk/2020/05/19/govt-projects-0-38pc-gdp-growth-fy20/.

3. Impact on Other Sectors

This contraction in the economic activities is expected to severely affect the tax collection efforts to the meet the pre-COVID target revenues. The FBR after consultation with IMF has already revised the revenue target from PKR 4.8 trillion to PKR 3.9 trillion. This is major drop from the initial target of 5.2 trillion set at the beginning of the fiscal year. The fiscal space for COVID19 related expenditure is projected to be more than 3% of GDP. Reduced revenues and increased expenditure is expected to push the fiscal deficit to around 14% of GDP in the current fiscal year. Due to lockdown, there is substantial decrease in household consumption. The resultant decrease in aggregate demand has push the inflation downward. The fall in oil prices will also help decrease inflation. Hence, inflation in the last quarter is expected to hover around 8 percent. Consequently, policy rate is also expected to remain in the single digit.

On the external front, the situation is not very encouraging. Despite huge trade deficit, the current account is expected to remain balanced thanks to inflow of remittances which so far has remain stable. However, balanced current account aligned with lower level of growth is not something to be content about. Approximately 68 percent of our imports consist of raw materials, and intermediate and capital goods. A significant drop in import therefore affect our production both for domestic consumption and exports. Lastly, with current growth projection, more than 12 million people are expected to be laid off thereby pushing 67 million people in poverty.

4. Projections for Fiscal Year 2021

Due to the evolving nature of the pandemic, the task of projected growth for the next fiscal year is a daunting one. The increase in cases can result in extending the lockdown, both domestic and globally, thereby affecting the growth trajectory. Hence, various scenarios are assumed regarding the duration of lockdown and its potential impact on economic recovery. The baseline scenario assumes pandemic would be under control and lockdown will be over by the end of June, 2020. The is the optimistic scenario. The first alternate scenario assumes that due to relaxation in the current lockdown, there can be a significant surge in case which can again force the government for go for lockdown in the first quarter of next fiscal year. Another alternate scenario could be of second outbreak in the second quarter of FY 2021. However, it is assumed that it would be contained by first half of next fiscal year and the lockdown will end by December, 2020. In the third alternate (worst case) scenario, the second wave extend into the third quarter of fiscal year 2021 and hence the lockdown will have to be extended as well.

Table 2 reports the sectoral and GDP growth projections for fiscal year 2021. In baseline scenario, the growth for fiscal year 2021 is projected at 2.15%. Looking at the growth rates of fiscal years 2019, 2020 and 2021, the growth trajectory appears to exhibit a tilted V-shape recovery. This recovery however is still partial because of households' reluctance to purchase durables and investors cautious behavior. In addition, although some sectors would quickly recover (because lockdown is more like a self-induced supply shock), others will take time to rehire the laid off workers and reach pre-COVID operational capacity. The projected growth rates for the three alternative scenarios are 1.63%, 1.03% and 0.41% respectively. The worst case scenario demonstrates a titled L-shaped recovery due to extended period of negative stagnant growth. These two growth trajectories are shown in Figure 1. It is worth seeing how sensitive the growth recovery paths are to the evolution of pandemic and subsequent decision regarding lockdown extension.

Table 2 Projected Growth Rates for Fiscal Year 2021

Scenario	Variable	FY2021
Baseline Scenario- Optimistic	GDP	2.16
	Agriculture	2.92
	Industry	0.96
	Services	2.33
Scenario 1- Summer Surge	GDP	1.63
	Agriculture	2.63
	Industry	0.21
	Services	1.79
Scenario 2- Second Outbreak	GDP	1.03
	Agriculture	2.19
	Industry	-0.54
	Services	1.20
Scenario 3- Prolonged Second Outbreak	GDP	0.41
	Agriculture	1.86
	Industry	-1.40
	Services	0.57

Source: PIDE Special Report on Post-COVID-19 Recovery Scenarios for Pakistan's Economy

Like growth, other sectors are also sensitive to different scenarios. For instance, the fiscal space required on best case scenarios is almost negligible. This means, once the lockdown is over, the economic activity will start to revive reemploying the laid off workers reducing the burden on social safety net. However, the worst case scenario, the fiscal space required would be around 4.8% of GDP. Correspondingly, the fiscal deficit for these two extreme scenario would be 8.2%

and 17.1% of GDP, respectively. Inflation, however, will remain below 8% even in the worst case scenario, primarily due to subdued demand. Although the current account deficit is expected to remain around 1%-2% of the GDP, significant fluctuations in export and import volumes are expected across different scenarios. Due to lockdown in major corridors as well substantial fall in the oil prices, layoff of migrant workers in expected in next year. This could greatly reduce the country's remittances inflow in the next fiscal year thereby reducing the stock of foreign exchange reserves. As for socioeconomic variables, the projections indicate that unemployment will decrease from 4.23 million in to 3.45 million by the end FY2021 in the baseline scenario. Likewise, the temporary layoffs will observe significant drop (from 12.3 million to 3.9 million) due to the V-shaped recovery. Nonetheless, unemployment and layoffs will jump to 4.65 million and 24 million respectively in the worst-case scenario. Subsequently, number of people remaining in poverty will range between 61 million and 89 million in the two extreme scenarios.

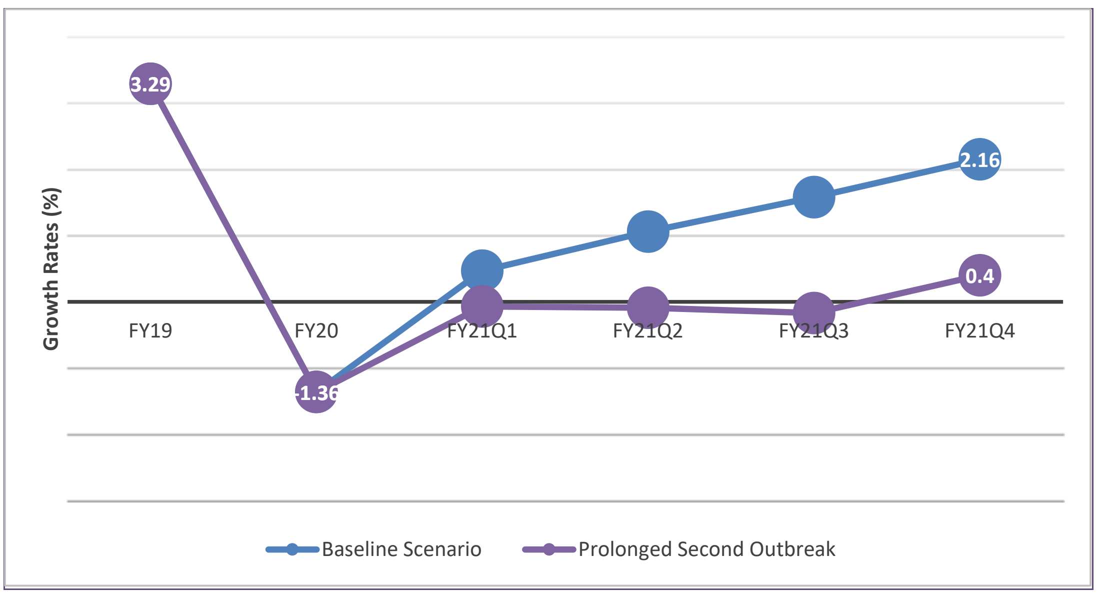


Figure 1 Growth Recovery for Alternate Scenarios

Source: PIDE Special Report on Post-COVID-19 Recovery Scenarios for Pakistan's Economy

5. The Way Forward

The COVID19 has adversely affected the economic growth in the current fiscal year and the situation is not looking very encouraging for the next year either. The pandemic is still evolving, the affected cases are on the rise, and there are high chances of another lockdown. The budget is around the corner and it is going to be a difficult one. But one must remember that "in the midst of every crisis, lies great opportunity". The will be a pandemic budget and will be different from the usual book keeping practice. More thinking should be put in it and the objective should focus on long-run stable growth instead of short-run revenue gains. Following are some of the suggestions to cope with the current challenges posed by COVID19.

- ***Revenue or growth?*** Given the fact the tax collection has been below target in current fiscal year, and that more COVID19 related expenditures (e.g. for health and social safety net programs such as Ehsaas) may be required in the next fiscal year, it would be very tempting to set illusive tax collection targets. The government may also want more revenue to accelerate growth and revive the economy. This may not be surprising because the basic objective of the tax policy here is to first achieve a higher tax-to-GDP ratio no matter the cost, and then generate growth and employment through Public Sector Development Programs (PSDP). In achieving illusive revenue targets, the tax policy kills the economic transactions. It would be a disaster if the current budget follows the same suit of imposing higher and complex taxes to increase revenue collections. In a fluid situation where even the best case scenario projects the growth to be just around 2%, the objective should be to encourage and facilitate growth which could then lead to increased employment and sustainable streams of revenues. For this purpose, the tax system should be simple and broad based. Withholding taxes should be abolished and advance income tax (except the pay roll) should be discourage. The excessive documentation, which creates deadweight loss and leads to increased compliance cost on the businesses and individuals, should be reduced. Businesses should be encouraged to invest by reducing over-regulation and abolishing the permission economy (multiple NOCs for starting a business etc.). The bottom line is that budget should facilitate growth reducing regulations and making the tax system simple, fair, convenient, and transaction friendly (more detail on this available in the PIDE Policy Viewpoint).[7]
- ***Rationalize expenditures:*** In addition to avoiding burdening the economic activity with taxes, the expenditures should also be rationalized. The expenditures should be made only where absolutely necessary such on upgrading health infrastructure and education. The developmental expenditures, especially those going into PSDP to revive growth, should also be reduced. The attempt to revive growth through PSDP will not be effective primarily because of its focus on brick and motor as glamorized in Haq/HAG model which is now obsolete.[8] Instead the let the market functions and revive growth by following the suggestions given in first point.

[7] Nasir *et al.,* "Doing Taxes Better: Simplify, Open and Grow Economy" *PIDE Policy Viewpoint* No 17(2020), available at https://www.pide.org.pk/pdf/Policy-Viewpoint-17.pdf

[8] PIDE has already developed a book (Haque *et al.,* 2020) as well as a policy viewpoint on the subject to note that our growth policy remains framed in the now obsolete Haq/HAG mode which are available at:
https://forms.gle/UCqHjnwU4AZPPYXRA.
https://pide.org.pk/pdf/Policy-Viewpoint-11.pdf

- ***Facilitate and encourage shifting to online work:*** Only 19 percent of the workforce can work remotely (work from home) in Pakistan.[9] Several occupations like service and sales, craft and related trade, and clerical support have huge potential for working remotely. For example, the retail and trade which is a severely hit sector by the COVID-19, would have been in a better situation had this sector provided safe and trusted option of online shopping and delivery. Steps should be taken to encourage this sector to move to online work and this would require facilitating and promoting the IT sector.
- ***Rationalize tariff and encourage competition:*** Tariff has been used as a source of revenue collection instead of a trade instrument to facilitate competition. This policy of protectionism over the years has strangled the economy. And this policy of protectionism got exposed during the COVID when these protected industries failed to retain their workers. It is time to reduce and rationalize tariffs and to facilitate imports of capital and intermediate goods to kick start the economy.
- ***Export of medical equipment:*** Pakistan has potential to export COVID related medical equipment including masks, sanitizers, PPEs, and testing kits. The budget should incentivize the production and export of these equipment to overcome the decline in flow foreign remittances.
- ***Facilitate and Incentivize flow of remittances:*** To offset the expect fall in remittances, different incentives should be offered to overseas Pakistanis. This may include removal of taxes on banking transactions, removal of immigration and registration fees, provision of special discounts on children's school fees in OPF schools, and special package for investment in real estate. This will encourage them to invest their savings in Pakistan and will therefore ensure the flow of foreign exchange.

These are some of the suggestions that will not only have positive effect on economic revival in current pandemic but will also facilitate long-term growth. Once we achieve a high sustainable growth for longer period, it will be followed by sustainable streams of revenue.

[9] Naseem, F. and Nasir, M., "Working from Home in a Smart Lockdown: Changing Dynamics of the Labour Market under COVID-19, *PIDE COVID19 Bulletin* No. 19 (2020), available at: https://www.pide.org.pk/pdf/PIDE-COVID-Bulletin-19.pdf.

ANALYSIS

Sectoral Budgetary Allocations During Last Five Years- Info graphics

Muhammad Adnan Azeem

Accounts Officer

Office of the Controller General of Pakistan[10]

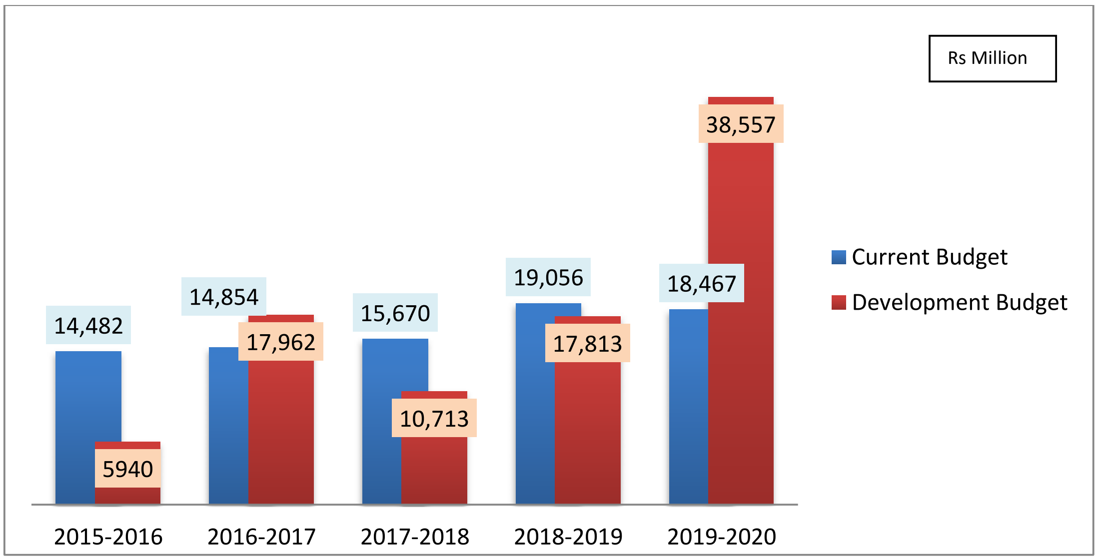


Figure 1 **Roads, Highways & Bridges-comparison of budgetary allocations of last 5 years**

For FY 2019-20, amounts of Rs. 18,467 million was allocated under current budget and Rs. 38,557 million under development budget. The development budget has significantly increased in the current year following government's new intiatives in area of Roads, Highways and Bridges. Current budget however has shown little variability over the last five years.

Rs Million

[10] Special thanks to Mr. Areeb Shirazi, YPO PIPS for providing assistance in developing info graphics.

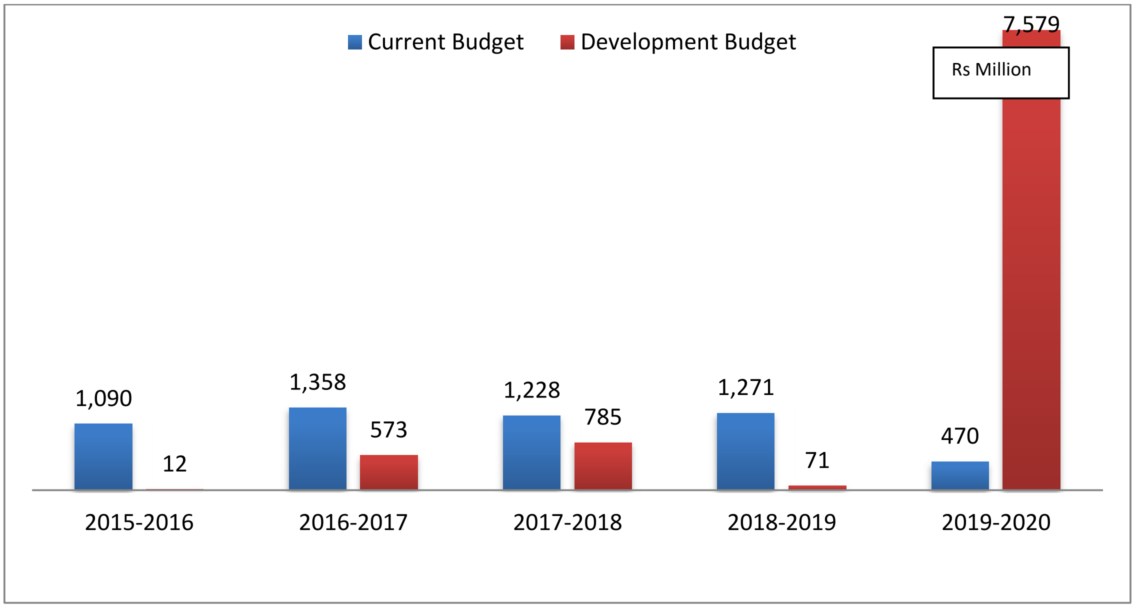


Figure 2 Environment Protection-Comparison of budgetary allocations of last five years

The development budget significantly increased whereas the current budget was reduced For FY 2019-20. The amounts of Rs. 7,5779 million was allocated under development budget whereas a meagre 470 million under current budget. The statistics depict recent prirorities of government regarding envrionment protection and its importance.

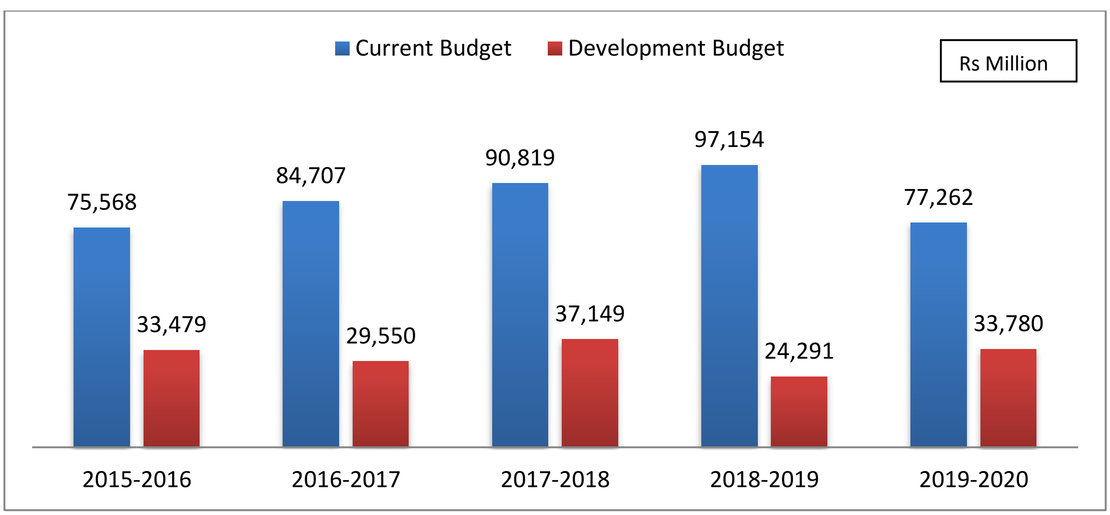


Figure 3 Education Affairs and Services-comparison of budgetary allocations of last five years

The current and development budget in Education Affairs and Services has shown little variability over the last 5 years except in FY 2017-2018, the development budget increased whereas in FY 2018-2019, the current budget increased while the deveopment budget had a signficant decrease.

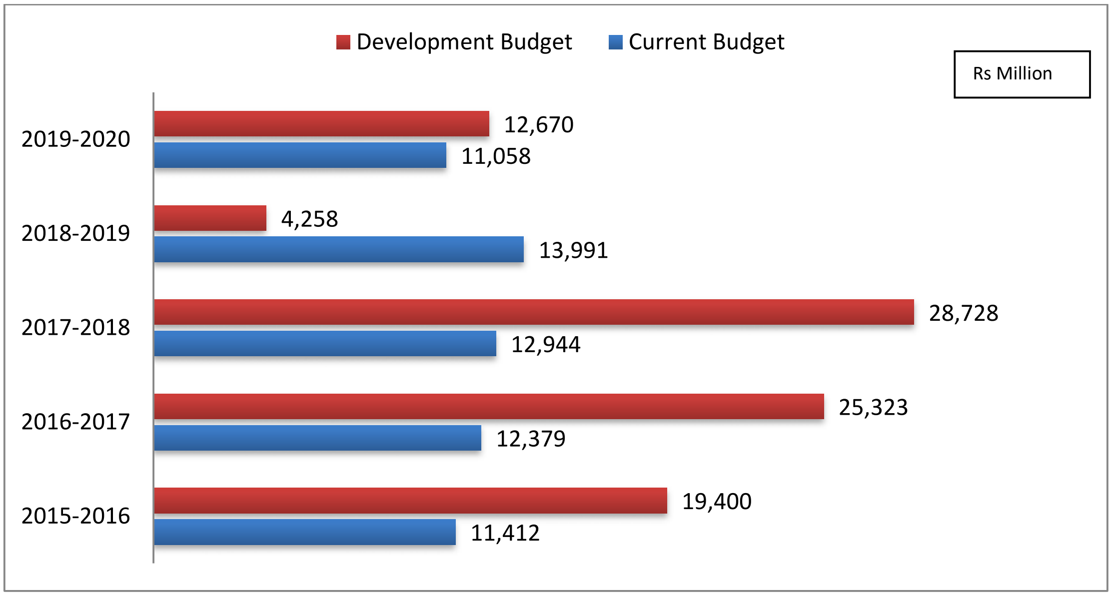
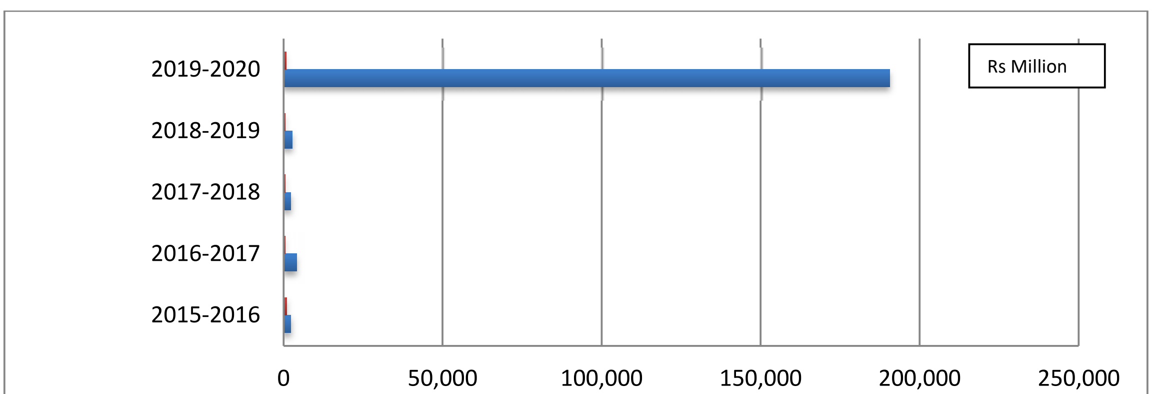


Figure 4 Health-comparison of budgetary allocations of last five years

The allocation under health budget shows significant variations over the last five years. Whereas the current budget has shown negligible change, the development budget has shown frequent variability, owing to government's priorities regarding health in previous years. The development budget seriously plummeted in FY 2018-2019 as compared to preceding years.



	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Development Budget	992	510	509	555	756
Current Budget	2,280	4,097	2,302	2,672	190,594

Figure 5 Social Securities & Welfare (Social Protection)-comparison of budgetary allocations of last 5 years

The development budget in Social Security and Welfare has shown little to no change during the last five years but the current budget has signifcantly increased to Rs 190,594 million in FY 2019-2020. The current expenditure in FY 2018-2019 was only Rs 2,672 million.

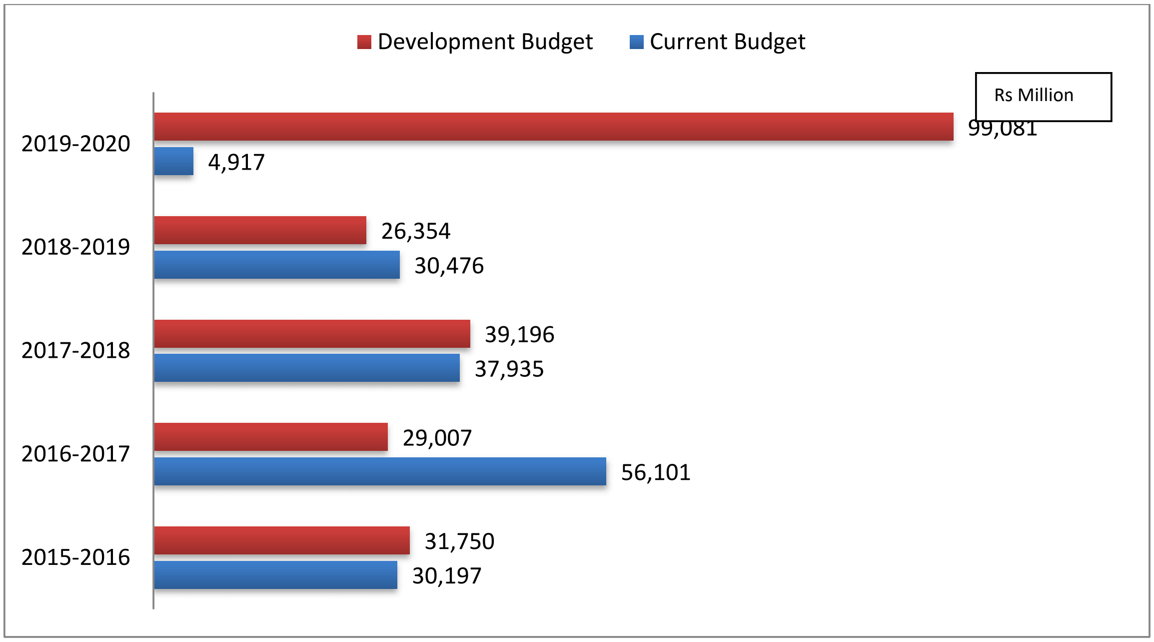


Figure 6 **Agriculture, Food, Irrigation, Forestry & Fisheries-comparison of budgetary allocations of last 5 years**

The current and development expendiuture has shown a lot of variability over the last five years. The current budget allocation in Agriculture, Food, Irrigation, Forestry and Fisheries during the FY 2019-2020 significantly dropped to Rs 4,917 million as compared to Rs 30,476 million in FY 2018-2019. With this drop in current budget, development budget considerably increased to Rs 99,081 million compared to Rs 26,354 million last year.

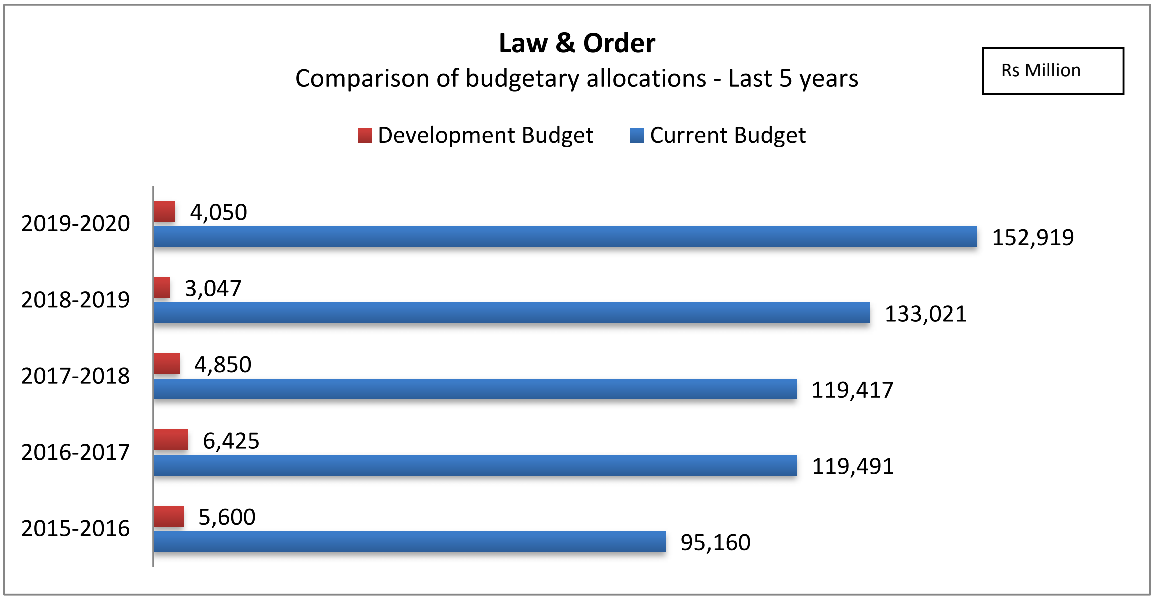
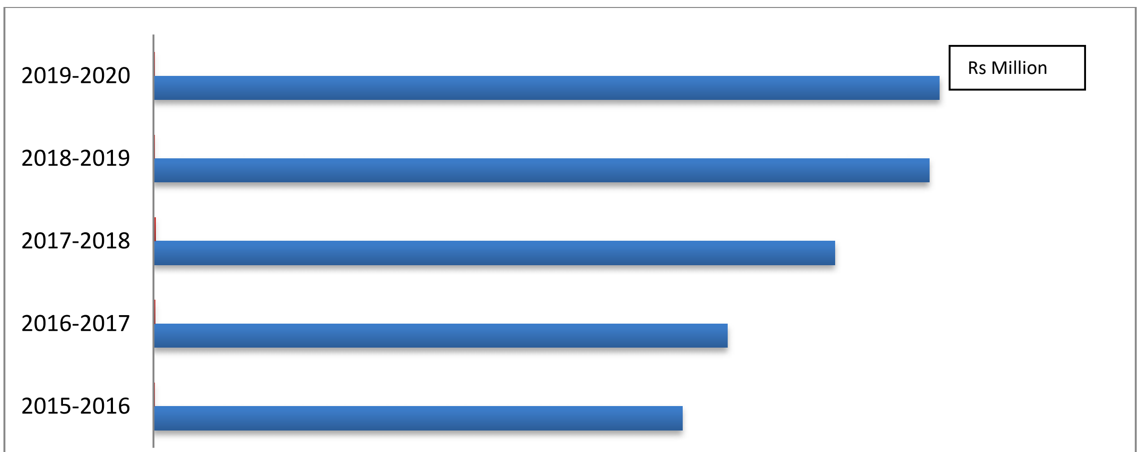


Figure 7 **Law and ordeer-comparison of budgetary allocations of last five years**

The development budget in area of Law and Order has shown little to no variabilty in last five years but current budget has shown signifcant increase. The increase in current budget allocation depicts hiring of more personnel over the last years.



	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Development Budget	1,914	2,499	3,237	1,645	1,771
Current Budget	775,861	841,442	999,237	1,137,710	1,152,535

Figure 8 **Defence- comparison of budgetary allocations of last five years**

The development budget allocation in Defence has been non-variable since last five years. Whereas the current budget allocations have increased signifcantly. The suddent increase in current budget is visible in FY 2018-2019; which is Rs. 1,137,710 owing to security needs of the country.

FROM THE PARLIAMENTARY PAPERS

Information Centre PIPS *(continued)*

Qaiser Iqbal, Librarian &

Areeb Shirazi, Young Parliamentary Officer, PIPS

b. Growth Rate of Industrial Sector 2010-2018: On March 6, 2019, during the 287th Session of 16th Parliamentary Year of Senate of Pakistan, Honorable Minister for Industries and Production presented the statistics regarding the growth rate of industrial sector in country during the last eight years.

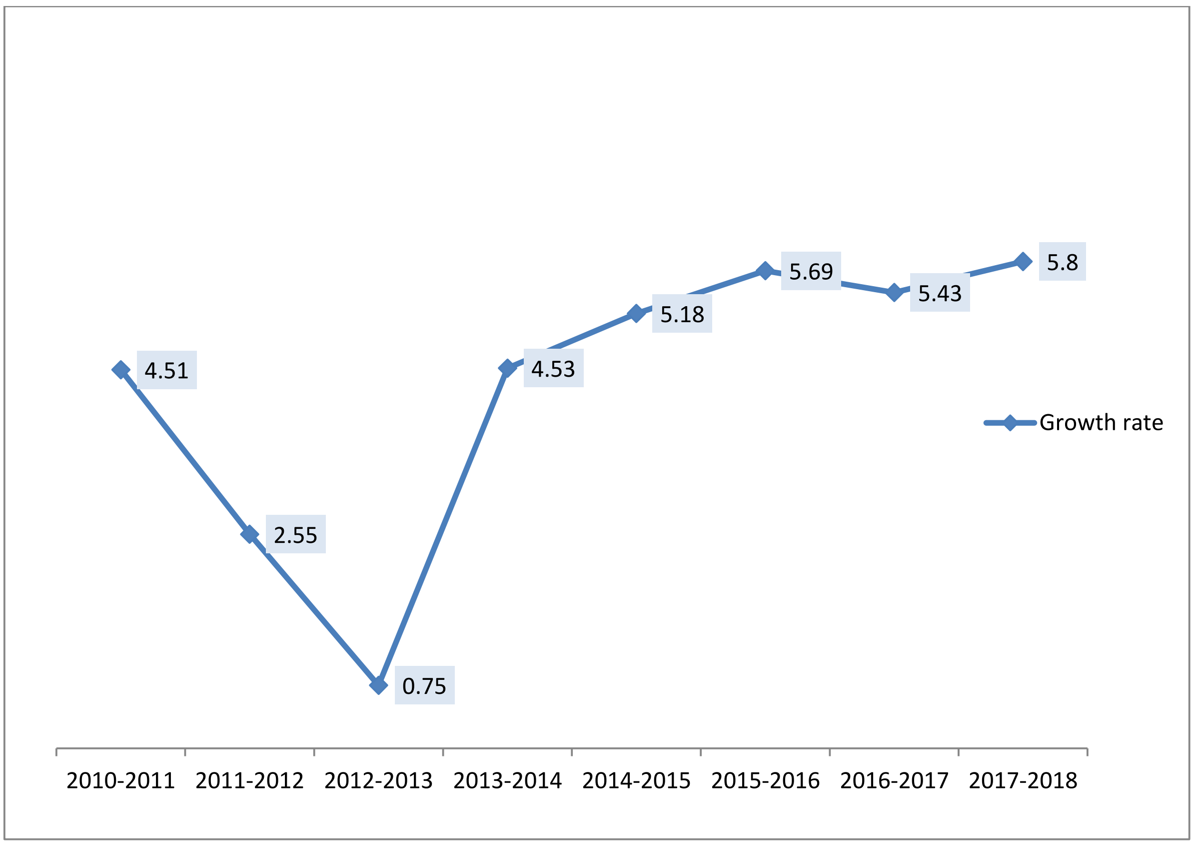
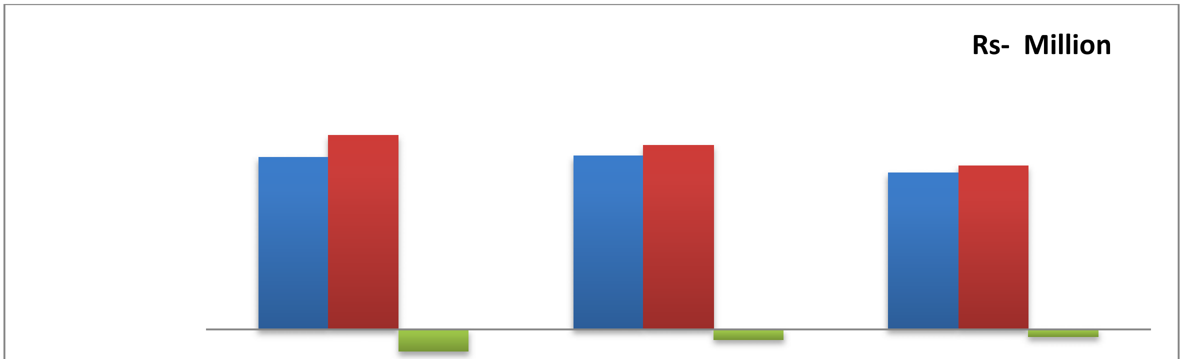


Figure 1 Industrial Sector Growth Rate 2010-2018

c. Pakistan Television Income/ Expenditure 2015-2018: On May 9, 2019, during the 8th Session of 1st Parliamentary Year of National Assembly, Honorable Minister for Information and Broadcasting presented the balance sheet of Pakistan Television, also the income generated through advertisements.



	2015-2016	2016-2017	2017-2018
Income	10,111.13	10,200.73	9,191.33
Expenditure	11,402.04	10,818.84	9,626.78
Loss	(1,290.91)	(618.11)	(435.45)

Figure 2 PTV- Income/ Expenditure 2015-2018

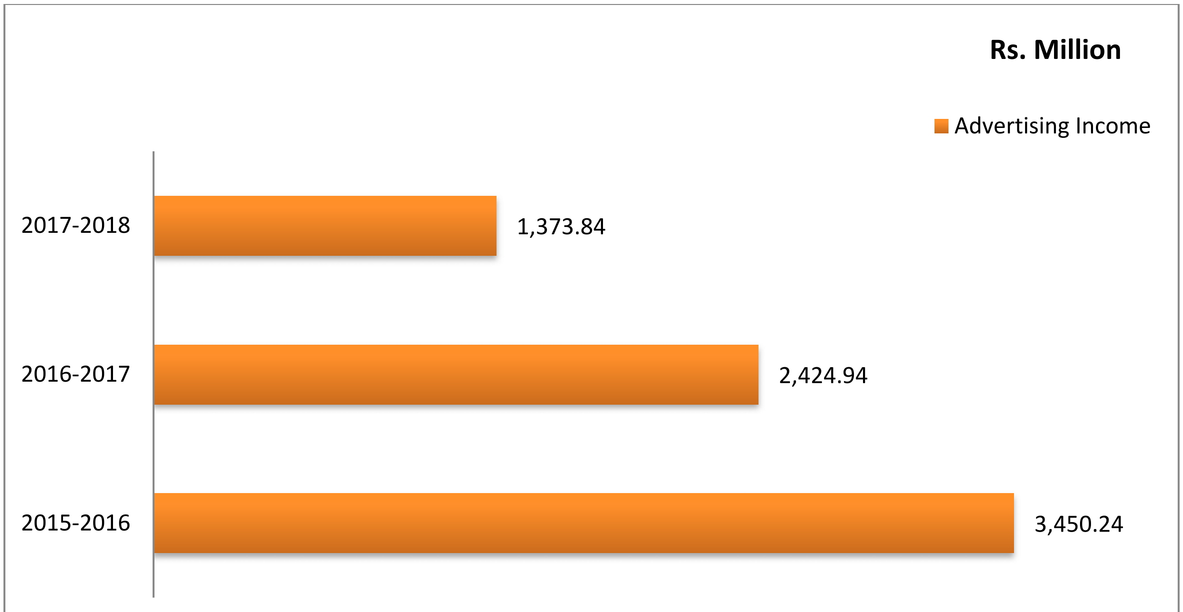


Figure 3 PTV Advertising Income 2015-2018

d. Import of Vehicles 2013-2018: On January 22, 2019, during the 286th Session of 16th Parliamentary Year of Senate of Pakistan, Honorable Minister for Commerce and Textiles presented the statistics regarding import of vehicles during the last five years.

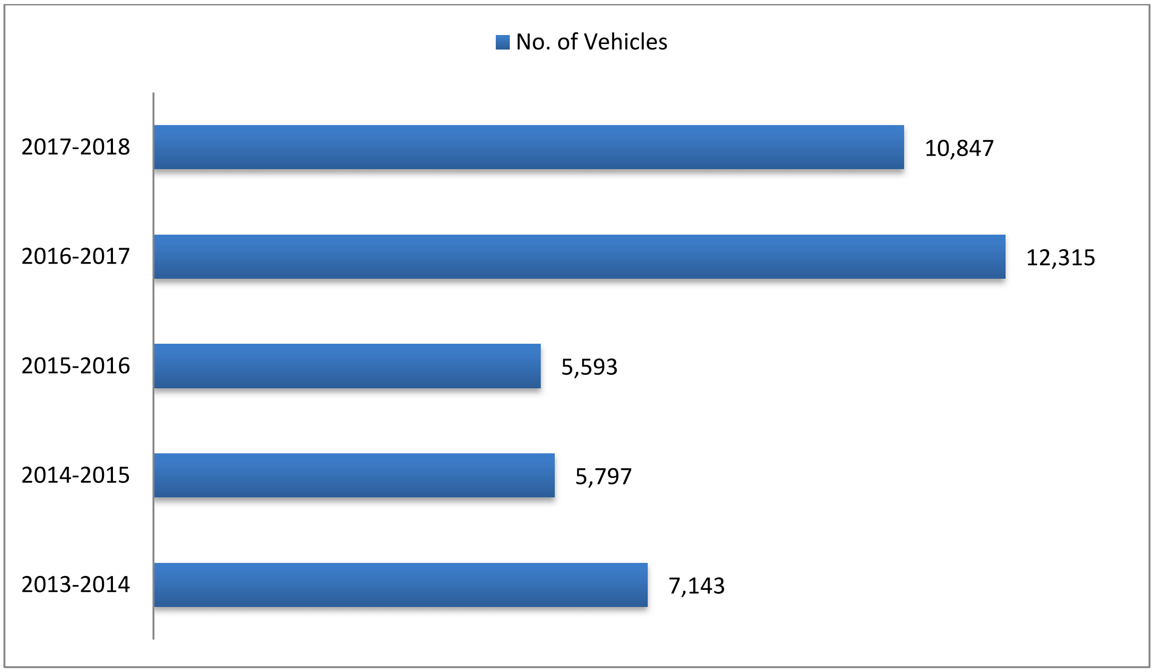


Figure 4 Total Vehicles imported during last five years 2013-2018

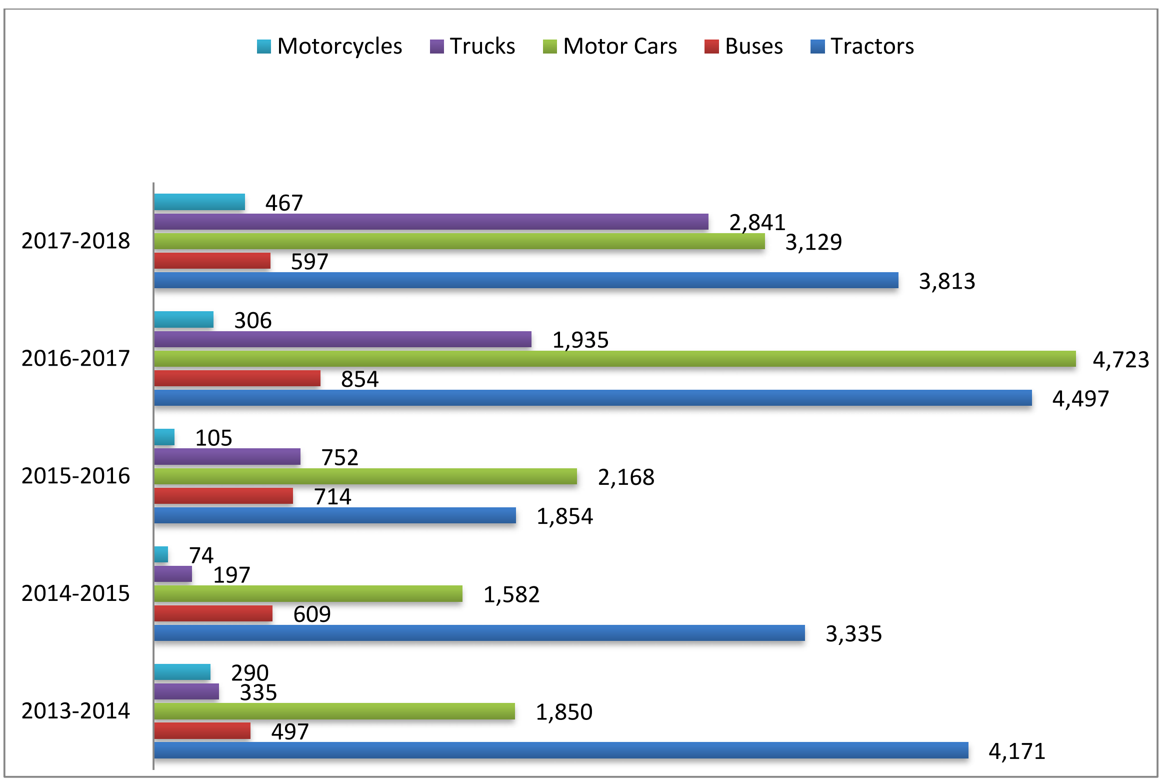
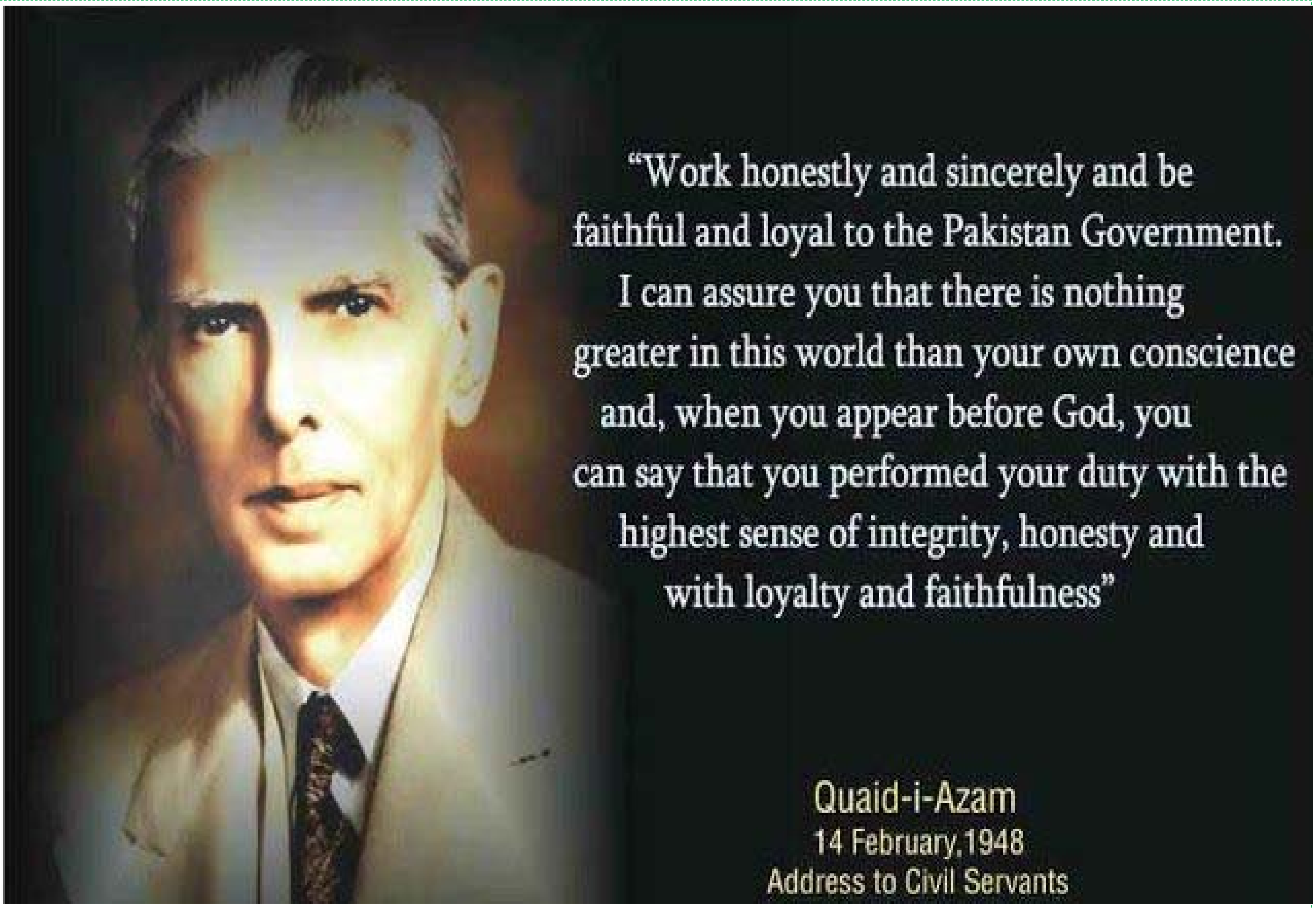


Figure 5 Types of Vehicles imported during last five years 2013-2018



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