



IMPACT OF COVID-19 ON ECONOMY OF PAKISTAN

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The pandemic termed the COVID-19 (coronavirus) has exponentially spread across the globe since the first case was reported in Wuhan China in late December 2019. The virus has led to more than 3.1 million cases and 215 thousand deaths across the world.¹ And the numbers are rising. In order to ‘flatten the curve’ of growing numbers of infected people, governments around the world have been forced to impose complete lockdown of their societies and businesses.

The main concern for the Government of Pakistan (GOP) has been the economic impact the lockdown will have on the poor segments of the society, and fragile economy on the whole. The Pakistani Stock Market’s benchmark KSE-100 Index has plunged by over 25% in March, and the rupee by over 6%. Pakistan’s economy is projected to face a loss of up to 4% of its GDP due to disruptions in trade, potential decline in FDI and remittances, and fluxes in other sectors such as aviation, tourism and hospitality, caused by the lockdown imposed in the country. The dire economic effects can already be seen, with widespread lockdowns freezing most normal activity, export orders cancelled and vast numbers of daily workers suddenly jobless.²

Pakistan's forex reserves slumped 12% in the month of March amid virus outbreak, from \$12.8 billion to \$11.2 billion. This decline is due to multiple factors, including panic selling of debt and equities, and reserves are expected to fall further in coming weeks according to State Bank of

¹ Worldometer, “Coronavirus Cases” *Worldometer*, www.worldometers.info/coronavirus/#countries.

² Saad Rajput, “External Account Troubles,” *The Friday Times*, April 17, 2020, www.thefridaytimes.com/external-account-troubles/.

Pakistan (SBP). The policy rate decrease of 2% announced by the SBP led to a total of about \$1.5 billion leaving Pakistani Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs). The World Bank (WB) has projected a 23% decline in remittances for Pakistan, totalling about \$17 billion in 2020 compared with a total of \$22.5 billion in 2019 due to the economic crisis induced by the pandemic, and lockdowns in most cities abroad.³

As demand in economies across the world stagnates with the spread of the virus, Pakistan's exporters will see significantly fewer orders for their products from buyers abroad, at least for the next few months. USA and China are Pakistan's major export partners, any economic downturn that these economies may face, would directly affect countries exports as well as the GDP.⁴

The World Trade Organization (WTO) projections show that world trade could contract by 13% in an optimistic scenario, and by a third of its value in a pessimistic scenario. Global markets are down 35%, credit markets have seized up, and credit spreads have spiked to 2008 levels. According to the UN Conference on Trade and Development (UNCTAD), the economic uncertainty that this has sparked will likely cost the global economy \$1 trillion in 2020 and lower the world GDP to 2% from earlier projected 3%. The economic slowdown in some of the richest economies of the world has caused unprecedented damage: in the US and Europe. In China too, any hopes of a quick recovery are being dampened as the possibility of new outbreaks cannot be ruled out.⁵

The rapid spread of the Covid-19 virus in Pakistan since February 2020 has brought economic activity to a near halt. Most of the country has been placed under a partial lockdown. The closure of non-essential businesses and domestic supply chain disruptions are having a significant impact on wholesale and retail trade and transport, storage and communication, the largest sub-sectors of the services sector.⁶ UNCTAD also placed Pakistan among the countries which would be the hardest-hit by the global pandemic of coronavirus, causing a \$2-\$3 trillion financing deficit in 170 developing countries over this year and next, therefore a need for a raft of measures for their relief.⁷

³ ProPK Staff, "Remittances to Pakistan Will Decline by 23% in 2020 Due to COVID-19: WB," *Pro Pakistani*, April 23, 2020, propakistani.pk/2020/04/23/remittances-to-pakistan-will-decline-by-23-in-2020-due-to-covid-19-wb/.

⁴ Mehtab Haider, "Pakistan's GDP May Contract by More than 4% Due to Trade Disruptions Alone," *Geo News*, April 1, 2020, www.geo.tv/latest/280296-coronavirus-to-reduce-gdp-by-464-claims-study.

⁵ "This Is How Much the Coronavirus Will Cost the World's Economy, According to the UN," *World Economic Forum*, www.weforum.org/agenda/2020/03/coronavirus-covid-19-cost-economy-2020-un-trade-economics-pandemic/.

⁶ "Pandemic a 'Perfect Storm' for South Asia, World Bank Says," *Dawn*, April 12, 2020, www.dawn.com/news/1548587/pandemic-a-perfect-storm-for-south-asia-world-bank-says.

⁷ "UN Warns Pakistan Could Be Hardest-Hit by Economic Fallout of Pandemic," *The Express Tribune*, March 31, 2020, tribune.com.pk/story/2187776/1-un-warns-pakistan-hardest-hit-pandemic/.

Pakistan, so far, has seen a steady increase in cases with the government of Pakistan confident that the lockdown it has put in place has slowed the pace of growth of virus in the country, with about 14,885 cases and 327 deaths as of April 28.⁸ The response measures that the federal and provincial governments have implemented included quarantining more than 3 thousand *zairreens* (religious pilgrims) from Iran, creating quarantine setups at tablighi (preaching) centres, closing borders with all neighbouring countries, international travel restrictions, social distancing measures, and lockdowns of differing scales across all the provinces of the country.

On the whole, the government's economic team has responded admirably by announcing a stimulus package worth Rs1.25 trillion, partly made up of fiscal measures such as tax breaks and concessions to the industry. This package also includes the largest social protection effort in the country's history worth nearly \$1 billion and targeting over 12 million households across the country under the Ehsaas Emergency Cash Program.⁹ Additionally, SBP has introduced a refinance facility to incentivize businesses not to lay off workers. The month of Ramazan, during which remittances spike every year, may still provide significant remittance inflows.¹⁰

The immediate challenge for the GOP is to contain the spread of the COVID-19 pandemic, while minimizing economic losses and protecting the poorest. In the medium-to-long term, the government should remain focused on implementing much needed structural reforms to boost private investment sustainably. However, in dealing with the global economy, a more structured approach should be adopted. Solely personalized attempts at economic diplomacy seldom work, which is why the Prime Minister's well-intentioned appeal to donors for restructuring foreign debt¹¹ needs to be followed by a concerted effort on the economic diplomacy front.

Dwindling exports will be accompanied by a drop in the import bill, as demand at home falls as a result of lockdowns in major cities. There will also be some relief from the recent fall in global crude oil prices. Existing partnerships need to be strengthened, and new ones based on evolving principles of the global economy must to be forged. Ongoing efforts must be complemented with further structural reforms to ensure that the stabilization measures lead to a sustainable growth path for the country.

⁸ "19 Health Advisory Platform by Ministry of National Health Services Regulations and Coordination & NBSP," covid.gov.pk/stats/pakistan.

⁹ "Ehsaas Emergency Cash Programme Receives 62,750,461 SMS," *The News International*, April 12, 2020, www.thenews.com.pk/print/642989-ehsaas-emergency-cash-programme-receives-62-750-461-sms.

¹⁰ "Policy Responses to COVID19," *IMF*, www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P.

¹¹ Amir Wasim, "PM Imran Asks World for Debt Relief in War on Covid-19," *Dawn*, April 13, 2020, www.dawn.com/news/1548748.