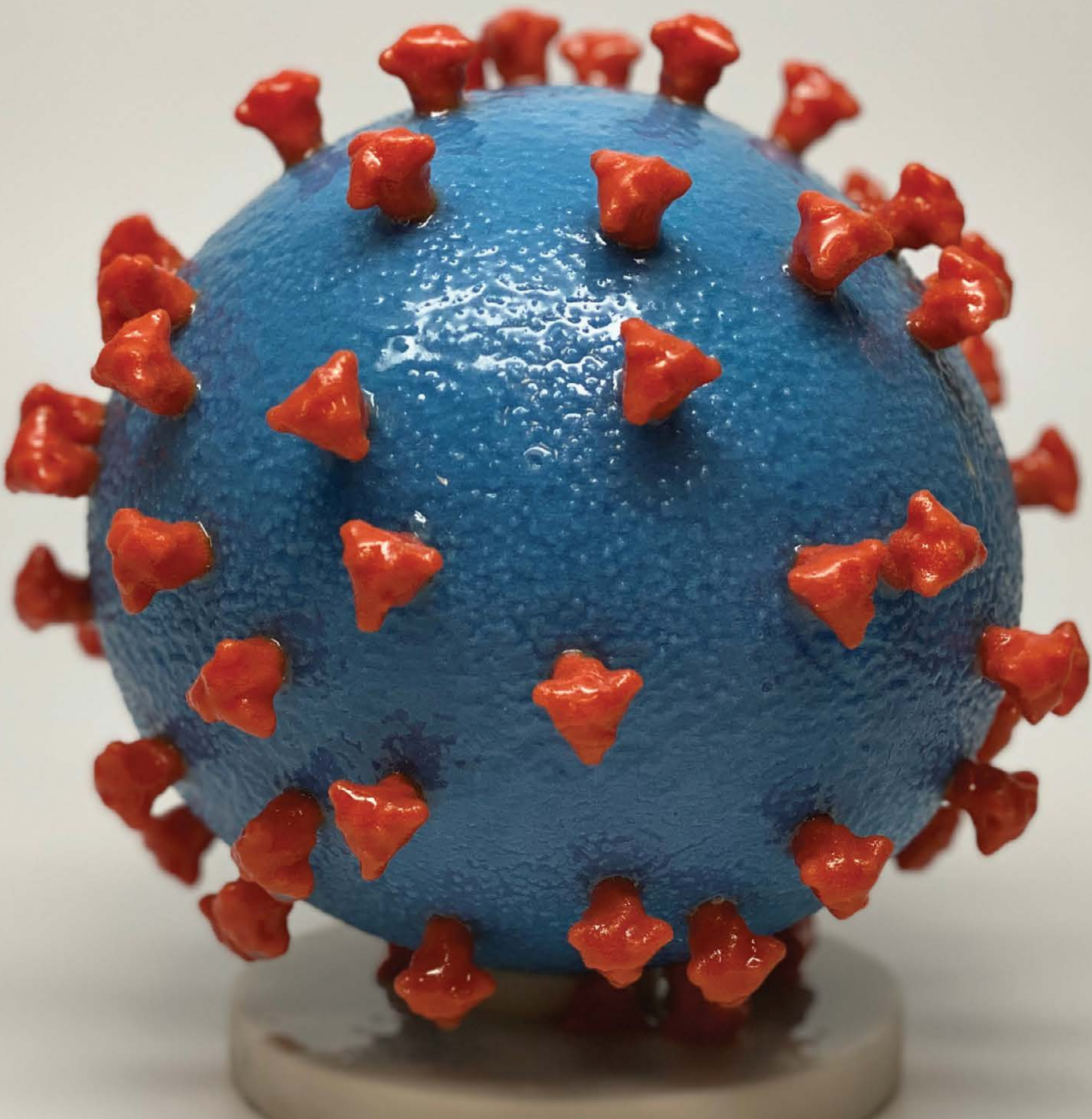
ECONOMIC IMPACT OF COVID-19 ON PAKISTAN



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Research and Publications Department

Institute of Cost and Management Accountants of Pakistan

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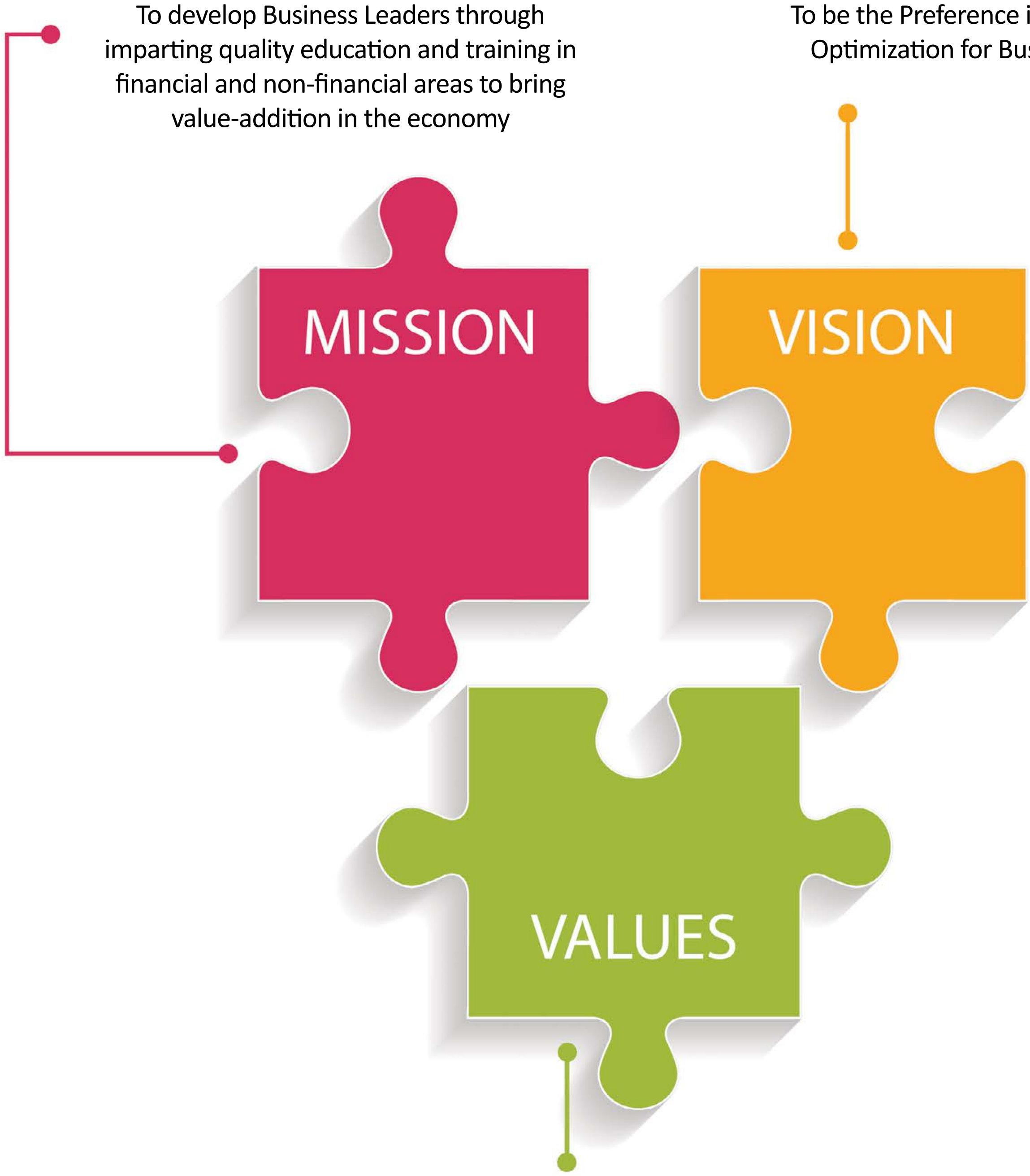

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Foreword

The coronavirus (COVID-19) is sweeping the globe and causing colossal damage to human lives; the figure of death almost exceeding 150,000 and still the virus is spreading like wildfire. The COVID-19 pandemic has shaken the foundations of global economies and affected the everyday lives of global communities.

This is an unprecedented and difficult time from a human and economic perspective. Lockdown of businesses has crippled the world economies and it looks that we are heading towards a global recession. Pakistan is also under a lockdown situation with an increasing trend of coronavirus affectees being seen in almost all parts of the country.

ICMA Pakistan is closely monitoring the situation and complying with the Government's advice to ensure that we play our part in controlling the spread of this deadly disease. Moreover, responding to the emerging requirements due to outbreak of COVID-19, the Institute has taken the following initiatives:

- Discount@ 25% in the coaching fee of the students
- Initiating online coaching classes on regular basis for students
- Arranging Live Webinars and conferences to continue CPD activity for members. Recently, an International CFO Convention was organized with foreign speakers on panel, including President IFAC
- Launched a ''COVID-19 RESOURCES HUB' which contains essential resources to equip our members with the latest developments and help them navigate through this critical time
- All Government and Regulatory Bodies' notifications issued on COVID-19 have been made available at one page on the Hub which will keep on updating by placing new notifications
- One page on Hub is dedicated for members to provide their input on COVID-19 and its implication.

This booklet titled 'ECONOMIC IMPACT OF COVID-19 ON PAKISTAN' is also a timely initiative by the Institute to assess the implications of COVID-19 pandemic on different sectors of the national economy.

I am sure that this booklet would provide a useful reference document for our members, students, policy makers, economists, finance professionals and other stakeholders to have a panoramic view of the situation faced by our national economy amid COVID-19 outbreak in Pakistan.

Zia ul Mustafa, FCMA
President, ICMA Pakistan

Preface

ICMA Pakistan has always played a proactive role in keeping its members, in particular and the policy makers, regulators, business and industry, in general; abreast with the vital issues and challenges concerning the national economy and the profession. In the present context of pervasive spread of COVID-19 in Pakistan, the Research Directorate of the Institute has come up with a brief paper that assesses the impact of this deadly coronavirus on the various sectors of the national economy. The paper also presents a 'way forward' for the consideration of the Government on how to deal with COVID-19 implications.

Chapter 1 reviews the global impact of COVID-19 especially on global growth, demand and supply.

Chapter 2 provides an overview of Pakistan's response to COVID-19 pandemic, including the Economic Relief Package and other incentives announced by the Government.

Chapter 3 discusses the macro-economic impact of COVID-19 on Pakistan, especially on the GDP growth, poverty and un-employment, CPI Inflation, tax revenues, remittances, stock market, currency market, foreign exchange reserves and agriculture sector.

Chapter 4 assesses the impact of COVID-19 on the manufacturing sector, especially steel industry, cement industry, automobiles, chemicals & Dyes, pharmaceuticals, textiles, paper & paperboard.

Chapter 5 evaluates the impact of COVID-19 on the Services sector such as banking, insurance, real estate, aviation, tourism and hospitality and education sector.

Chapter 6 reviews the impact of the pandemic on the foreign trade of Pakistan that covers exports and imports as well as the Afghan Transit Trade (ATT).

Chapter 7 provides an assessment on the impact of COVID-19 on the ongoing CPEC projects.

Chapter 8 presents a 'Way Forward' including recommendations for the consideration of policy makers.

It is hoped that the members and other stakeholders would find this booklet informative and beneficial.

Muhammad Yasin, FCMA
Chairman, Research and Publications Committee

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ECONOMIC IMPACT OF COVID-19 ON PAKISTAN

Preamble

We are witnessing our world passing through a critical juncture of its history when an invisible enemy in shape of COVID-19 pandemic (Novel Coronavirus-19) has wreaked havoc in almost 209 countries and territories, killing around + 80,000 people [81,018 as of April 7, 2020] and affecting over one million people and this figure is increasing with every passing day. The severity of this deadly disease is so much that the World Health Organization (WHO) had to officially declare COVID-19 a pandemic.

The countries all over the world are imposing strict measures to control the spread of coronavirus. Pakistan is not an exception. During the last one month, the Federal and Provincial Governments have taken immediate measures to protect the lives of general public and save them from the adverse effects of coronavirus. These measures include complete and partial lockdown of cities; closing borders; stopping flight operations, travel bans, restrictions on social gatherings, disallowing gatherings at mosques for daily prayers and Jumma prayer; closing of education institutions, offices, marriage halls, restaurants, shopping centres and public parks; and cancelling all sports events. These measures of social distancing would also likely to have an impact on the national economy.

ICMA Pakistan has always played a proactive role in keeping its members, in particular and the policy makers, regulators, business and industry, in general; abreast with the vital issues and challenges concerning the national economy and the profession. In the present context of pervasive spread of COVID-19 in Pakistan, the Research Directorate of the Institute was tasked to come up with a brief paper that takes into account the possible impact of this deadly coronavirus on the various segments and sectors of the national economy and to suggest possible remedial measures and action plan that could be considered by the government to deal with the repercussions of extended halt of business and industrial activities in the country as a result of complete lockdown.

Before proceeding to the main part of this paper on 'economic impact of COVID-19 on Pakistan', it would be worthwhile to first take into account the global impact of this pandemic vis-à-vis a valid fear expressed by few experts that we are heading towards another global recession?

Is global recession in the offing?

It is being warned by economists that the coronavirus outbreak is likely to lead to a global recession. The business enterprises around the world are therefore worried about the short as well as long term implications of the recession. This recession, according to experts, would be different from the global financial crisis of 2008 which led to a collapse in demand; whereas recession due to COVID-19 pandemic is expected to collapse the global supply chain, especially of food items. The impending recession is also going to particularly take heavy toll on fragile states which are highly prone to unrest and conflict.

Realizing the severity of COVID-19 and its repercussion on the global economy, the IMF, World Bank and the Asian Development Bank (ADB) have all set aside additional amounts to help the countries affected with this pandemic. The IMF has set aside USD 50 billion whereas the World Bank and ADB have earmarked USD 12 billion and USD 6.5 billion respectively for helping the affected countries, especially the developing world. It is the need of the hour that international NGOs and World Food Program should also come forward with some funds to contribute their part in this drive.

CHAPTER 1

Global Economic Impact of COVID-19

"A Global Problem calling for a Global Response"

China, the second largest economy of the world was the first country where this pandemic emerged in the mid of December 2019 in the city of 'Wuhan' – the capital of Central China's Hubei province. Subsequently, this virus spread rapidly to other parts of the globe, causing turmoil mostly in the European Union, USA, Japan and South Korea. With increasing number of deaths due to coronavirus, these large economies had no option left but to go for complete quarantine and lockdown, leading to dramatic economic slowdown. The negative economic impact of COVID-19 on these countries was so much that it affected their supply chain, production lines and equity markets. The global aviation and tourism sectors reported over 80 percent decrease in sales and revenues. The stock markets are doing record lowest businesses. Majority of industries are either closed or running on minimal production. That limited production equals limited sales and profits which are then reflected in the stock markets. The cross-border trade flows are sharply falling and above all the developing post-COVID-19 situation reveals that it could even lead to massive unemployment at global level.

We begin with the negative impact of COVID-19 on China's economy. Since China is the second largest economy of the world, its production, exports and imports drive the world GDP. Due to strict lockdown in China, all business and industrial activities came to a standstill, resulting in shrinking of production, growth and services by over 40 percent and in financial terms, a loss of around USD 25 billion. Secondly, almost all major global companies and conglomerates having their critical offices and production facilities in China had to shut down their facilities which had a trickle-down effect upon the global trade.

In China, Europe and the USA, the Governments are trying to rescue the major businesses from possible bankruptcy as well as avoid massive job losses through injecting liquidity. The foremost objective of this emergency measure is to keep the market running at optimal levels. The developing countries, in particular, are facing large funding gaps due to the fact they are mostly dependent upon foreign income on a combination of commodity exports, workers remittances and tourism. Some of these countries might even collapse as a result of shortage in tax revenues and not getting timely support from donors.

Impact on Global 'Demand and supply'

Ms. Kristalina Georgieva, MD IMF is of the view that this shock is somewhat unusual as it affects significant elements of both supply and demand in following ways, which will spill over cross borders:

a) Disruption in Supply – Due to following factors:
- Morbidity and Mortality
- Restricted mobility due to containment efforts
- Higher cost of doing business due to restricted supply chains
- Tightening of credit

b) Falling of Demand – Due to following factors:
- Higher uncertainty
- Increased precautionary behaviour
- Containment efforts
- Reduced ability to spend due to rising financial cost

According to MD-IMF, one-third of the economic losses from COVID-19 will be **Direct costs** [from loss of life, workplace closures and quarantines] whereas the remaining two-third will be **Indirect costs** [e.g. retrenchment in consumer confidence and business behaviour and tightening in financial markets]. She, however, feels that the financial systems now are more resilient than before the Global Financial Crisis and through global coordination mechanism the recovery of demand and supply can be accelerated.

The IMF has the following facilities and instruments in its toolkit to help countries respond to the economic impact of the coronavirus.

Emergency financing. The Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) provide emergency financial assistance to member countries without the need to have a full-fledged program in place. These loans—which could amount up to $50 billion for low-income and emerging markets—can be disbursed very quickly to assist member countries implement policies to address emergencies such as the coronavirus. Emergency lending to low-income countries available under the RCF is about $10 billion, and for emerging markets under the RFI it could amount to about $40 billion. In 2016, the IMF provided an RFI emergency loan to Ecuador after one of the strongest earthquakes in decades.

Augmenting existing lending programs. The IMF can modify as needed existing programs in support of countries to accommodate urgent new needs arising from the coronavirus. IMF was the first international financial institution to swiftly provide additional financing for Guinea, Liberia, and Sierra Leone in 2014 to fight the Ebola outbreak. The IMF's response helped these countries make room in their budgets for critical health spending, and served as a catalyst for donors, whose assistance was largely directed at health spending.

Grants for debt relief. The Catastrophe Containment and Relief Trust (CCRT) allows the IMF to provide grants for debt relief to the poorest and most vulnerable countries with outstanding obligations to the IMF to help address disasters, including public health disasters. This facility was used to support Guinea, Liberia, and Sierra Leone during the 2014 Ebola outbreak. The CCRT is currently under-funded with just over $200 million available against possible needs of over $1 billion.

New Financing Arrangement. IMF can also provide support through a new financing arrangement under its existing facilities such as Stand-By Arrangements, although some tools listed above would generally be preferable, including because they can be disbursed quickly to address urgent financial need.

Capacity Development: IMF can support vulnerable countries through capacity development. Given the need to quickly redirect public resources, IMF remain closely engaged with the affected member countries and development partners, working as needed to reprioritize capacity development activities.

Global Growth in 2020 seemingly to go down

The **IMF** predicts that the global growth in 2020 will drop below last year's level. How much it will fall and for how long; IMF say it is difficult to predict now as it would be largely depending upon the epidemic and the timelines and effectiveness of the actions taken by the respective countries. This would be particularly challenging for countries which are having weaker health systems and response capacity.

The **OECD** [Organization for Economic Cooperation and Development, Paris] in its Interim Economic Assessment Report titled *'Coronavirus: The World Economy at Risk'* issued on March 2, 2020 predicts that if the coronavirus continues to spread, the annual global GDP growth would drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020. OECD further predicts that adverse impact on confidence, financial markets, travel sector and disruption to supply chain would lead to downward revisions in all G20 economies in 2020, particularly ones strongly interconnected to China, such as Japan, Korea and Australia. For other countries, OECD predicts that the adverse consequences of COVID-19 would be significant such as:

- Direct disruption to global supply chain
- Weaker final demand for imported goods and services
- Wider regional declines in international tourism and business travel
- Risk aversion in financial markets leading to decline in equity prices

The **World Bank**, USA in its latest report titled '*World Bank East Asia and Pacific Economic Update April 2020'* has projected growth in the developing East Asia Pacific (EAP) region to slow to 2.1 percent from an estimated 5.8 percent in 2019, in a scenario if the economy recovers from the pandemic. However, in the worst-case scenario the growth will be negative 0.5 percent if the pandemic continues in 2021. The growth in China is projected to decline to 2.3 percent in the best-case scenario and 0.1 percent in the worst-case scenario in 2020, from 6.1 percent in 2019.

The **Fitch Solutions**, UK – one of top three global ratings agencies, in its Special Report titled '*Global Economic Outlook – COVID-19 Crisis Update'* issued on April 2, 2020, expects that the world economic activity may decline by 1.9% in 2020 with US GDP down by 3.3%, the eurozone down by 4.2% and he UK down by 3.9 percent. It further predicts that China's recovery from the disruption in first quarter of 2020 will be sharply curtailed by the global recession and annual growth will be below 2 percent in China.

The **RMS** [Risk Management Solutions, USA] which is world's leading catastrophe risk modeling company, forecasts that around USD 1.5 trillion of economic activity could be lost to COVID-19. It may be noted here that last year the global output stood at USD 86.5 trillion.

The **Oxford Economics**, a UK-based economic think tank, predicts that the global GDP in 2020 would be 2 percent, some 0.5 percent points below its forecast made earlier in January 2020.

The **Moody's** in its latest report has predicted an economic growth slowdown across the Asia Pacific region with impact felt primarily in trade and tourism and other sectors due to supply chain disruptions.

The **United Nations** has reported that because of Corona around 900 million children are not attending schools as all countries with Corona have shut down their educational activities. The social cost of this prospect is still under consideration for a proper estimate.

CHAPTER 2

Pakistan and COVID-19 Outbreak

"Corona Se Darna Nahi Larna Hai"

According to the Report of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) prepared in collaboration with humanitarian partners and Government of Pakistan, the number of confirmed cases in Pakistan has risen to 2708 [as of April 4, 2020] and so far, there are 40 deaths. The age sex distribution of COVID-19 confirmed cases depicts that 68% are male; 32% are female and 3 of the cases are transgenders (WHO Pakistan). Moreover, 69% of the cases are in the 20-59 years age; 17.5% cases are in 60 years and above while 10.57% of the cases are in less than 20 years age. According to WHO Pakistan, around 50% of the reported cases are men between 20-59 years age. The most affected Province due to COVID-19 virus is Punjab 1196, followed by Sindh with 830 cases (as of April 5, 2020].

According to National Command and Operation Centre (NCOC), Pakistan the local transmission of COVID-19 has jumped to 38% from an earlier estimation of 29%, which indicates an increasing trend. Similarly, the Ministry of National Health Services, Regulation and Coordination (NHSRC) in a report submitted to the Supreme Court, indicates that COVID-19 cases in Pakistan could reach 50,000 by end of April 2020.

Like other COVID-19 affected countries, the Government of Pakistan also took a number of immediate measures to restrict the spread of coronavirus in the country, most of which have been discussed earlier in this report under the preamble. To meet the negative implications of COVID-19 on various sectors of the economy, the Prime Minister of Pakistan also announced on March 24, 2020, an 'Economic Relief Package' and on April 3, 2020 an incentivized 'Relief package for the construction industry'. The salient features of these economic relief packages are briefly provided as under:

Economic Relief Package

The total amount of economic relief package announced is **Rs. 1.2 trillion** with following key measures:

Economic Relief Package		
Sr.	**Measure**	**Amount earmarked (Pak Rs)**
1	Relief to daily wage workers	200 billion
2	Cash transfers to low-income families	150 billion
3	Accelerated tax refunds to export industry	100 billion
4	Financial support to support the Agriculture sector and SMEs	100 billion
5	Accelerated procurement of Wheat	280 billion
6	Financial support to Utility Stores	50 billion
7	Relief in Fuel prices [Rs. 15/liter decline in prices of gasoline and diesel]	70 billion
8	Support for health and food supplies	15 billion
9	Relief to people in electricity bill payments	110 billion
10	Emergency Energy provision	100 billion
11	Transfer to National Disaster Management Authority (NDMA) to purchase necessary equipment to deal with pandemic	25 billion
	Total	**Rs. 1.2 trillion**
12	Elimination of import duties on import of emergent health equipment	----
13	Monthly stipend of Rs. 3,000 ($20) to over 5 m people for 4 months	----

On March 27, 2020, the Prime Minister also announced the formation of a youth force titled **'Corona Relief Tigers'** to help the Government to fight against the spread of coronavirus in the country. This force would be utilized to supply food items to poor people in their houses in case COVID-19 cases sharply rose in the locality. The recruitment began on 31st March 2020 and so far over 300,000 youth have registered.

SBR Monetary Measures

The State Bank of Pakistan on March 17, 2020 announced some monetary and macro-financial measures to keep the economy moving to face the onslaught of COVID-19. These measures include the following:

- A 'Temporary Economic Refinancing Facility (TERF) worth Rs. 100 billion in bank refinancing to stimulate investment in new manufacturing plants and machinery at 7% fixed for 10 years.
- A Refinance Facility for Combating COVID-19 (RFCC) worth Rs. 5 billion to support hospitals and medical centers in purchasing equipment to detect, contain and treat COVID-19.

On March 24, 2020, the State Bank cut the policy rate by 150 basis points and announced that it will follow with regulatory measures in coordination with banks. In fact, the policy rate was lowered twice by a cumulative 225 points to 11.0 percent in a span of two weeks.

Relief Package for Construction Industry

On April 3, 2020 the Prime Minister Imran Khan announced an incentivized package for the construction industry which was hailed by the builders and developers. The salient features of the incentives are:

- Construction sector to be given the status of an industry.
- A 'Construction Industry Development Board' to be set up to support the sector.
- No questioning about source of income from people investing in construction sector this year.
- Fixed tax rate on per square foot or square yard basis to be charged from the construction sector.
- Waiving off withholding tax on all construction sectors except for steel and cement sectors.
- Reduction in sales tax to be made in coordination with provinces.
- Any family selling their house will not have to pay any capital gains tax.
- Provision of subsidy of Rs30 billion for the Naya Pakistan Housing Scheme.
- Fixed tax @ 10% on people carrying out construction in Naya Pakistan Housing Scheme for the poor.

The primary motive for announcing the above package for the construction industry is to make an attempt to mitigate the economic impact of coronavirus outbreak as this would provide jobs to daily wage workers.

The Government decided in principle that all industries connected to the construction will continue to operate even during the lock down so that daily wage workers can continue job and save from hunger.

Special Fundings to Pakistan to fight COVID-19

Since the outbreak of COVID-19, the Government has been approaching the international donor agencies to provide special grants to meet the exigencies in the wake of spread of the pandemic in the country. On March 26, 2020 the Government decided to seek USD 3.7 billion additional financing from the three multilateral creditors, including another loan of USD 1.4 billion from the IMF.

Based on confirmed news in print media, it is reported that following amounts have either been received or commitments made by multilateral agencies to provide funds to Pakistan to combat COVID-19:

Additional/Special Funding from Donors to Pakistan Government to fight COVID-19		
Sr.	Agency	Amount (USD)
1	The World Bank	200 million
2	Asian Development Bank (ADB)	2 million
3	Government of P.R. of China	4 million
4	Government of USA	1 million
5	Government of Japan	2.1 million

It is also expected that IMF may accede to Pakistan Government's request to provide USD 1.4 billion additional funding under Rapid Finance Instrument (RFI) for combating against COVID-19.

It is pertinent to mention here that Mr. Hussain Dawood, Chairman of Dawood Hercules Group and Engro Corporation have pledged Rs. 1 billion along with a contribution of services to the Government, on behalf of his family and both organizations to battle the coronavirus in Pakistan. This is highly appreciable and it is hoped that other Business tycoons and Groups shall also come forward to follow the suit and supplement the efforts of the Government in its fight against the deadly disease.

CHAPTER 3

Macro-economic Impact of COVID-19 on Pakistan

3.1 Impact on GDP Growth

The GDP growth for FY 2019-20 has been projected at 3 percent. However, the outbreak of COVID-19 would definitely have an adverse impact on growth which is expected to go down to any limit.

The **Ministry of Finance**, Government of Pakistan, in its latest 'Monthly Economic Update' for March 2020, has feared that due to coronavirus outbreak there will be reduction in GDP growth; however, the magnitude of this reduction is uncertain. The following negative repercussions of COVID-19 on economy have been feared by the Ministry of Finance:

- Domestic production [and exports] may suffer due to less supply of intermediate goods and decrease in global demand and commodity prices
- Exports and remittances inflows may suffer due to economic downturn in China, USA and ME.
- More government spending and disturbance in fiscal balance will have negative implications.

The **World Bank** Pakistan Office, in its fresh economic assessment of the country has revised its real GDP growth projection to 1.1% of GDP, from an earlier projection of 2.4% for FY 2019-20. This revision is mainly because of steep decline in the economic activity since March 2020; and slowdown in the manufacturing and services sector which accounts for 80% of total economic activities. According to the World Bank, the current situation caused by the pandemic would continue for over 6 months which means last quarter of 2019-20 [Apr-Jun] and first quarter of 2020-21 [Jan-Mar].

The **Asian Development Bank (ADB)** has however, predicted in its recent publication on 'Asian Development Outlook' that despite implications of COVID-19, Pakistan would be able to achieve the GDP growth of 2.6 percent. This is just 0.2% down from the earlier ADB project of 2.8% made four months back. ADB observed that at the growth rate of 2.6%, Pakistan will be the sixth slowest growing economy in South Asia, trailed by Sri Lanka and the Maldives only.

The **Moody's Investor Services** has also lowered the forecast for Pakistan growth rate at 2% for FY 2019-20 due to COVID-19 as against its previous projection of growth rate of 2.9% for this year. It believed that recent steps by SBP would soften the impact of the pandemic on the country's banks.

The **Topline Research** has predicted that Pakistan's GDP growth may go down between 0.0 to 0.5 percent in FY 2019-20 due to lockdown related disruptions and subsequent fall in aggregate demand.

On account of the possible drop in the GDP growth rate due to COVID-19, the experts have roughly estimated that the country would sustain an **initial economic loss of Rs. 1.3 trillion**. The ADB has estimated that Pakistan's economy would sustain USD 5 billion loss due to coronavirus.

The key reasons for economic loss which would lead to drop in GDP growth for 2019-20 can be attributed to reduction in FBR's tax revenues, exports and imports, workers' remittances; gradual drop in consumer demand on non-essential items and disruption in the supply chain.

3.2 Impact on Poverty and Unemployment

Poverty and labour markets are strongly related because labour market earnings are among the main sources of income for the workers, especially for the daily wagers. COVID-19 will have far-reaching impact on both the poverty line as well as the labour market in Pakistan.

According to International Labour Organization (ILO), the economic and labour crisis created by the coronavirus pandemic could destroy upto 25 million jobs around the world if the governments do not act fast to protect their workers from the impact. Pakistan is not an exception as a large segment of its workforce are daily wagers and with the economic activities coming to a halt, their earnings have also been stopped which could lead to more complications for them in the near future.

According to Human Development Index, Pakistan ranks 150 out of 189 countries in poverty with around 55 million people living below the poverty line, constituting 29.5 percent of total population. The share of rural residents in poverty is consistently more that double that of urban residents. Experts say that due to COVID-19, it is expected that the rate of poverty could rise to 50% of total population which means that 120 million people may come below the poverty line by end of 2020.

According to World Bank Data for 2019, the total labour/work force in Pakistan is around 75 million. As per PIDE estimation, around 19 to 20 million workers could lose their jobs in various sectors due to prolonged nation-wide lockdown and resultant slow-down in the economic activity.

Dr. Hafiz Pasha, a former Finance Minister of Pakistan thinks that the unemployment rate of 5.8 percent reported in the Labour Force Survey 2017-18, may surge to 8.1 percent in FY 2020-21. Dr. Hafiz Pasha and Mr. Shahid Hafeez Kardar, a renowned economist and former Governor SBP, have jointly developed and released a comprehensive assessment of the anticipated economic losses due to COVID-19, in which they pointed out that there will be increase in number of unemployed workers to 3.1 million in case of less severe shock; and almost 5 million in case of extreme shock. They predict that the temporary unemployment resulting from lockdown could be as much as 10.5 million workers, mostly daily wage and contract/casual workers in establishments.

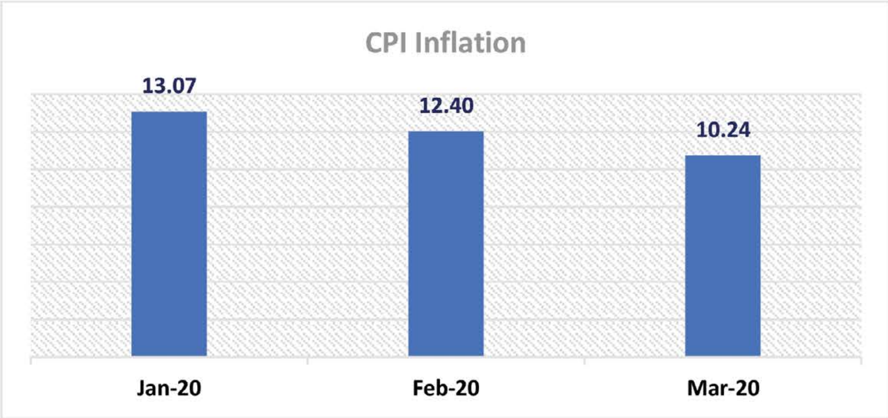
According to Pakistan Workers' Federation, as of March 28, 2020, at least half a million garment and industry workers had been dismissed in the Punjab province alone. This is support by an observation made earlier in a report prepared by the Clean Cloths Campaign (CCC) – the garment industry's largest alliance of labour unions and NGOs – that around 85% of textile and garment workers in Pakistan lack formal contracts and hired on piece-rate basis and therefore are not registered with any provincial social security institutions. Hence, in the absence of any proper contract or appointment letter, the management can lay them off anytime without salary during a shutdown.

The Human Rights Watch (HRW) has also expressed the fear that the daily wagers in Pakistan which constitute 47 percent of the work force in the service sector such as marriage halls, hotel industry and others, would be worst effected and can be pushed further into poverty due to lockdowns. HRW has asked the Government to provide assistance to low-wage workers to help offset the intense economic hardship and food insecurity resulting from the closure of businesses.

It is good to know that the Sindh Government has issued directives prohibiting employers from laying off workers during the lockdown period, ensuring payment of salaries, and establishing an emergency fund to address the negative economic consequences of COVID-19. The Sindh government has also set up a tripartite mechanism with representatives of employers, workers, and government to deal with salary complaints. The federal and Punjab governments have also announced economic packages for businesses and workers and monthly payments of PKR 3,000 (US$20) and PKR 4,000 ($27), respectively, for workers who lose their jobs.

3.3 Impact on CPI Inflation

Fuel and food items are the main top drivers of inflation. According to the State Bank of Pakistan (SBP), the outlook for inflation in Pakistan has improved as a result of domestic deceleration in food prices and significant decline in consumer price expectations, which led to cut in interest rates twice.



As can be noted in the above graph, the consumer price inflation (CPI) rate has gradually come down from 13.07% in Jan 2020 to 12.03% in Feb 2020 and 10.24 in Mar 2020, respectively.

As per Pakistan Bureau of Statistics, CPI inflation of 10.24% in March 2020 has improved from same month last year. Food and food items e.g. pulses, fresh vegetables and wheat saw a downward trend.

ADB has forecasted that inflation rate for Pakistan would increase to 11.5% in FY 2020, reflecting a sharp rise in food prices in the first part of fiscal year. The other factors for rise in inflation are planed utility price hikes; constrained domestic demand and impact of COVID-19.

3.4 Impact on Tax Revenues

Tax revenues forms the basis for the preparation of budget; however, in the present uncertain economic situation due to COVID-19 outbreak, the Government seems to be unclear about the actual tax collections by the FBR by end of June 2020. It is expected that tax revenues would fall down considerably and FBR would not be able to even meet its revised tax revenue target of Rs. 5.5 trillion.

It is pertinent to mention here that the FBR was faced with massive revenue shortfall even before the coronavirus outbreak in the country. The annul revenue target was slashed from Rs. 5.555 trillion to Rs. 5.238 trillion and subsequently FBR also requested the IMF to allow further reduction in its envisaged target from Rs. 5.238 trillion to Rs. 4.8 trillion.

During first nine months [Jul-Mar] of FY 2019-20, FBR missed the revenue target by Rs. 470 million as total collections during this period was only Rs. 3.05 trillion as against the revised target of Rs. 3.520 trillion. FBR says that POL consumption dropped massively in the aftermath of lock down in different parts of country and this is also affecting the revenue collection target negatively.

In the present uncertain economic situation due to complete lockdown of businesses, especially in Karachi, the FBR estimates major revenue losses in the range of Rs. 300 billion to Rs. 380 billion during the period from March to June 2020. Furthermore, the FBR is also seeking further reduction in the tax revenue target for FY 2020 to Rs. 4.4 trillion till June 2020.

3.5 Impact on Remittances

According to the World Bank, remittances are estimated to have contributed over USD 700 billion to the global economy and this figure is likely to be much higher if remittance through informal channel is also considered. As per World Bank, Pakistan is one of the top ten recipients of international remittances with over six million Pakistanis living and working abroad, mainly in the Gulf & Middle East Countries, North America and Europe. The remittances received by Pakistan are estimated by the World Bank to be almost 8 to 9 percent of the total GDP.

In 2019, Pakistan received remittances worth USD 21.8 billion from overseas Pakistan whereas for 2020, the Government is eyeing over Rs. 22 billion as growing emigration of workforce is expected to offset a potential slowdown in gulf economies due to oil fall. According to the Ministry of Finance, Government of Pakistan the remittances reached to USD 15.1 billion during the first eight months [Jul-Feb] of current FY 2019-20, i.e. up 5.4% year-on-year. In addition to official remittances through the banking channels, an estimated 40 percent amount is also transferred every year through informal means such as hand-carry, hawala and others.

The on-going global economic slow-down due to the COVID-19 outbreak is certainly expected to result in substantial fall in the remittance inflows into the developing countries, including Pakistan. In the GCC countries, a good number of overseas workers have already been laid off due to closure of businesses and economic slowdown due to coronavirus outbreak. If the situation prolongs, the Pakistani overseas workers will begin losing jobs.

According to Pakistan Institute of Development Economics (PIDE), the Pakistan workers mostly in GCC countries are often employed in construction and services sectors. As per the Bureau of Emigration and Overseas Employment (BEOE) Pakistan, around 38% of Pakistani workers abroad work as laborers' 12% as taxi drivers; 7% as masons; 5% as carpenter and 4% as technicians. These professionals can be seriously impacted due to prolonged lockdown in GCC countries. This would resultantly lead to sharp fall in remittances during 2020, in addition to increase in poverty level.

It is hoped that when the world economies would resume full activity in post-COVID-19 scenario, they would recalibrate the situation and re-hire these workers but this would take some time. The Government need to take immediate cognizance of the situation by taking up with GCC authorities.

3.6 Impact on Stock Market

The Pakistani Stock Market's benchmark KSE-100 Index has plunged by over 25 percent in March 2020 and it is persistently under decline. Because of increasing number of infected people in Pakistan and across the world, the investors seem to be nervous and adopted a 'dump-and-run' approach to exit the risky assets. The massive selling pressure from the investors led to halt in trading activity on various occasions during March 2020 on KSE-100 and KSE-30 Index. This halt of trading was required to safeguard investors during volatile markets. On March 9, 2020, the KSE 100 Index went down 2,106 points and trading had to be halted to avoid panic selling. On March 19, 2020, the PSX fell to its lowest in more than five years.

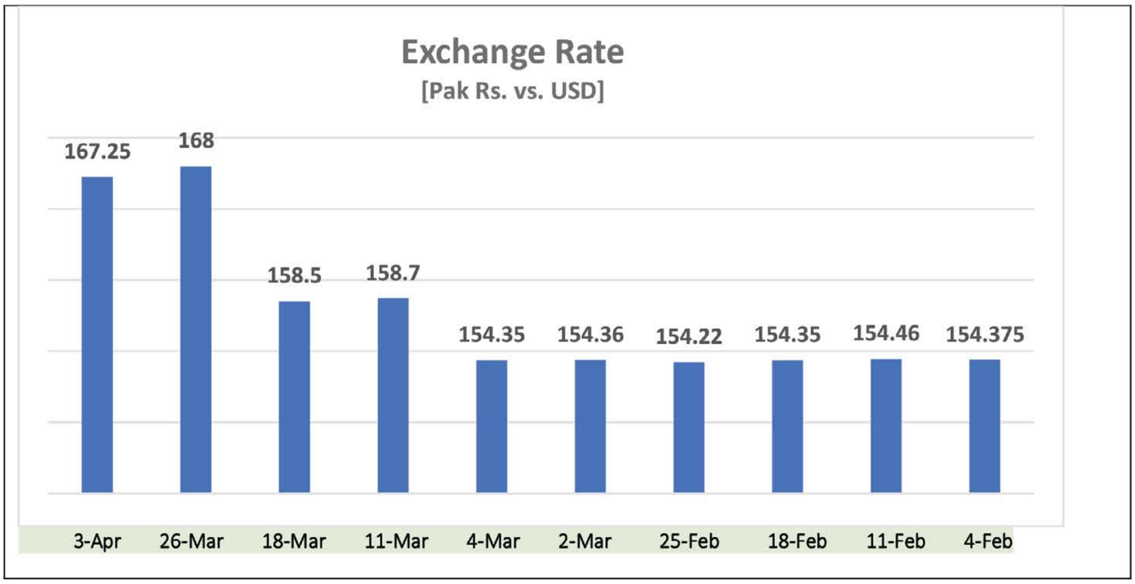
It is good to see that the PSX management has made sure the market remains functional like other global and regional stock markets during the current crisis. Majority of the PSX staff are working remotely to keep the market moving as any closure of stock exchange would have far reaching negative implications. It may be noted that during the 2008 global financial crisis, the PSX was closed for trading which greatly affected the investors who suffered huge losses. Experts says that PSX has still not recovered from the 2008 market closure. Hence, it is imperative that PSX keeps operating.

The PSX now seems to be recovering as according to press report, the PSX gained 1,277.09 points with the KSE-100 Index closing at 30,786.62 points on April 2, 2020. We expect that the stock exchange would recover soon after the pandemic.

PSX has recommended to the Government to ask the state-owned financial institutions to pour in capital in shape of long-term investment in the stock market to protect investors and to avoid further decline in trading activity due to panic selling. In this context, it has made a presentation to the Ministry of Finance which is under consideration. If this is implemented, it would be a win-win situation for everyone, including the market, insurance policy holders and pension fund beneficiaries.

3.7 Impact on Currency Market

After drastic depreciation of Pak Rupee in the first half of last year, the rupee had become stable as can be seen from the below chart. The Pak Rupee was hovering around Rs. 154 by first week of March 2020. This stability was mainly due to smooth progress of IMF program as well as tight monetary policy of the State Bank of Pakistan. However, with the outbreak of COVID-19, a volatile situation is being seen in the currency market with Pak Rupee jumping at 158.5 on March 18, 2020 and then to 168 on March 26, 2020. On April 3, 2020, the Pak Rupee was 167.25 against US Dollar. During March 2020, the Pak Rupee plunged by over 6 percent after a good period of stability. The State Bank had to intervene subsequently as a result of which the rupee recovered slightly against the dollar.



According to the President of Forex Association of Pakistan, the foreigners have begun pulling out their investments from government securities in Pakistan. Some experts opine that the drastic fall in value of Rupee in inter-bank market is due mainly to forward buying for payment requirements. The money dealers are of the view that suspension of flights to Dubai has caused decline in the supply of foreign currencies, in particular the US Dollar, which led to fall in Pak rupee.

In the present scenario when coronavirus cases are rising phenomenally all over the globe, it seems quite difficult that there would be any improvement in the value of Pak Rupee against dollar due to short supply phenomenon. The gold prices are also being affected and it reached Rs. 95,200 per tola in Pakistan despite that its price in the international market has plummeted.

3.8 Impact on Forex Reserves

According to the State Bank of Pakistan (SBP), the forex reserves has declined by USD 804 million to USD 11.2 billion during the week ending March 27, 2020. This decline is primarily due to government external debt payments @ Rs. USD 441 million and other official payments. The total liquid forex reserves stood at USD 17.387 billion on March 27, 2020. This includes USD 11. 186 million reserves held by the SBP and USD 6.20 billion held by the commercial banks.

As the coronavirus outbreak hit the global financial markets, the forex reserves of Pakistan also plunged more than 12% or USD 1.6 billion in just three weeks in March 2020. The reserves fell down from USD 12.8 billion as on March 6, 2020 to USD 11.2 billion on March 27, 2020. One of the reasons attributed by experts of this fall in forex reserves is panic selling of debts and equities. Around USD 1.9 billion of FDI in shape of investments in government treasury bills, equity and bonds were taken out of Pakistan in March 2020. The total net inflow now stands at USD 1.15 billion.

It is expected that with aids and grants received from the foreign governments as well as international and regional donor organizations to assist the Pakistani Government to meet the expenses in controlling COVID-19 would gradually improve reserves position in due course of time.

3.9 Impact on Agriculture Sector

Pakistan is self-sufficient in the production of major staples. It is ranked at 8th position in producing wheat, 10th in rice, 5th in sugarcane, and 4th in milk production. However, the coronavirus outbreak would have negative impact not only on the farmers but also the agricultural production.

The Pakistani farmers play a significant role in the sustainability of agriculture and food security in the country as well as for exports. For quite some time, they have been facing lot of challenges such as locust attack. The Asian Development Bank has observed that the locust infestation in over two decades damages harvests of cotton, wheat and other major crops. Hence, the Government has already declared a national emergency to combat the infestation. Now, the outbreak of coronavirus pandemic has posed yet other challenges for our farmers.

The farming community now fear a second agriculture emergency at the national level in shape of lockdowns and transport closure, which is affecting their supplies of inputs such as harvesting machines and reapers, chemicals and inputs for existing crops. This could lead to increasing the vulnerability to disease of current harvest and reduction in farm incomes. The unavailability of input due to logistic bans would surely disturb the farm economy. This could even lead to low yields of the upcoming corn crop which is a major grain for poultry feed and as fodder for the dairy industry. This would eventually affect the production of milk, meat and vegetables for daily usage. Further, the food processing industry will be impacted due to unavailability of manpower and logistic blockade.

There is another issue for farmers and that is where they will sell their produce as all the grain markets and vegetable markets are closed due to lockdown situation. The agriculture imports of seeds, pesticides, fungicides and special fertilizers would also be greatly impacted. Similarly, due to curtailment of operation by airlines, the export of fruit and vegetable to Europe, Far East and the Middle East would also suffer greatly. The fruit producers will also be suffering due to shortage of global demand due to closure of hotels and restaurants and drop in tourism worldwide.

CHAPTER 4

Impact of COVID-19 on Manufacturing Sector

The manufacturing sector is the key pillar of Pakistan's economy and constitutes about 20% of the total output produced in the national economy. The manufacturing sector contributes around 13% in the GDP; 60% in tax revenues and 17% in providing employment to labour force. This sector has three constituents viz. Large-Scale Manufacturing (LSM), Small-Scale Manufacturing (SMEs) and slaughtering. The share of LSM in total manufacturing is around 80% with 12.2% share in the GDP whereas SMEs sector has 13.8% share in manufacturing with 2% share in the GDP. Major industries under LSM include steel, cement, sugar, pharmaceuticals, textiles, chemicals, automobiles, engineering, construction, paper & board etc.

The COVID-19 outbreak in Pakistan is likely to have an adverse impact on different manufacturing industries which may ultimately lead to decline in its share in total GDP growth in 2020 and 2021. The Government under its 'Economic Relief Package' announced in March 2020, has offered upto Rs. 100 billion to the industrial sector as a support to combat the situation created due to COVID-19 pandemic. This special package would be utilized in resolving the liquidity issue of industrial sector such as DLTL payments and sales tax refunds; providing technology upgradation fund (Rs. 30 billion); and supporting export-oriented textile sector.

It is expected that in the next few months the manufacturing activities would slow down as major raw materials and finished goods for this sector comes from China and other countries. Secondly, there is also slowdown in the consumer demand due to lockdowns which would mainly affect the SMEs. The LSM sector has witnessed negative growth of 3.37% in the first 7 months (July-Jan) of FY 2020 and it is expected that with lockdown continuing due to coronavirus fear, the growth in LSM would further go down.

We would now analyze the impact of COVID-19 pandemic on selected manufacturing sector:

4.1 Steel Industry

China is the largest producer of steel and alloy and due to coronavirus impact on china, the global steel industry has issues in supplies of steel for their manufacturing industries, including Pakistan. In fact, Pakistan steel industry is dependent on raw material imports from China and Japan and if the coronavirus impact continues beyond April 2020, Pakistan will have to move towards and expensive alternative which would definitely increase the cost of production and slow down manufacturing and construction activities in the country. India is the second largest producer of steel after China and therefore Pakistan can buy raw material for steel production from India but the current bilateral relations between the two countries is not friendly at the moment. Already, during last few months, both countries restricted import of different industrial raw materials into each other country. Some steel sector people are procuring raw material from Russia for local steel production.

The Pakistan Steel Re-Rolling Mills Association has asked for a bail-out package from the Government to save this industry from the adverse impact of coronavirus outbreak. He pointed out that due to prevailing slow economic activities, the pace of work on public sector development projects and CPEC is disturbed and also there is reduction in the turnover of steel industries to unsustainable level. The Association demands reduction in turnover tax from 1.5% to 0.25% and restoration of fixed sales tax regime for steel industry instead of federal excise duty.

4.2 Automobile Industry

When the COVID-19 outbreak started in China almost two months back, most of the leading auto manufacturers like Toyota and Honda immediately closed their plants and asked their workers to leave China. Subsequently, with coronavirus spreading to Europe and USA, the auto manufacturers halted their operation in several countries like Mexico, Brazil, Argentina, the Philippines and USA.

The nation-wide lockdown imposed by the Federal and provincial governments and the threat of coronavirus rapidly spreading across the country have compelled the auto manufacturers in Pakistan as well to halt their operations. It may be noted here that the auto sector of Pakistan was already passing through a tough time due to inflation, high taxes and the devaluation of the rupee. Secondly, there was also decline in sales due to low consumer demand and expensive automotive parts. The sales figures of almost all the local manufacturers have witnessed a sharp decline as the demand for vehicles is eroding. The coronavirus outbreak has further accentuated the suffering of auto industry and caused billions of losses. It is feared that with prolong lockdown it may lead to lay-off of workers.

Due to lockdown, almost all the auto companies including Toyota Pakistan, Honda Pakistan, Pak Suzuki, and many others have shut down their production factories as well as their dealerships and other operations. New entrants like KIA Motors and Hyundai Nishat have also stopped their operations due to lockdown. Similarly, the Chinese manufacturers in Pakistan like JW Forland, United, Regal, Master, and Changan have suspended manufacturing operations until further notice. The manufacturers of OEM parts and other auto-related industries like tire manufacturers have also halted their operations. One of the reasons behind shutting down plants is that due to lockdown, the works and other employees cannot commute to manufacturing plants.

4.3 Cement Industry

The cement industry has been affected directly and indirectly by the COVID-10 pandemic. The foremost affect is that cement exports though land route to Afghanistan have been suspended due to closure of borders with Kabul [now it is being opened as per latest news]. It may be noted that Pakistan exported 1.73 metric tons of cement to Afghanistan between July 2019 to February 2020, representing a 55% YoY increase from 1.12. metric tons in 8 months of FY 2018-19.

According to the Cement Manufacturers Association, total dispatches during March 2020 stood at 3.721 million tons which is 14.26% less than the dispatches of 4.340 million tons during the corresponding month of last year. The pressure was higher from the domestic market where the uptake was reduced to a little less than 3.2 million tons from 3.85 million tons in March 2019.

Experts believe that if the cement exports halts altogether over the next few months, the cement industry is likely to lose an estimated 0.8 million tons of export dispatches by end of June 2020. The loss in exports will depend on how long the border shutdown will last.

Despite above adverse implications, the recent announcement of special package for the construction industry by the Government would definitely benefit the cement industry as it is expected that the demand for cement consumption in the country will increase.

4.4 Chemical & Dyes Industry

Pakistan's imports from China are worth USD 12 billion, most of which comprise of chemicals and dyes which form basis raw material for our textile industry. In 2018, Pakistan imported 31% of organic chemicals and 24% of miscellaneous chemical products from China. The value-added textile sector especially required ample quantity of dyes and chemicals to complete processing and finishing of fabric. Due to liquidity issues and cash flow constraints, the textile exports normally keep inventory of chemicals and dyes for not more than one or two months.

The present situation is that still now when China has recovered from COVID-19 pandemic, a large number of shipments of chemicals and dyes are stuck up at the Chinese ports for clearance issues. The chemical importers are also facing shipment delays from China despite placing orders that would create supply gaps and for those textile exporters who are not having buffer stocks would surely be finding difficult to meet the export orders. This would hurt overall textile exports.

The chemical importers have three alternative countries for importing dyes viz. India, South Korea and Taiwan. According to the concerned Association, chemicals from India is banned whereas South Korea is heavily affected by coronavirus and Taiwan exporters are quoting very high prices. The local prices of chemicals have also gone up by 50% to 100 percent. Due to shortage of chemicals the production is suffering badly which if continued could lead to decline in textiles exports. One of the important raw material is polypropylene fiber which is required in producing medical supplies and protective gears. It is imperative that Pakistan Government through its Embassy in China may take up this issue with the Chinese Government to expedite the clearance of shipments to Pakistan.

4.5 Pharmaceutical Industry

Pakistan imports almost 95% of its pharmaceutical raw material from China whereas the rest come from Japan, Spain and Italy. India is also one of the biggest exports of medicinal raw material; however, both countries have halted trade due to political tension. India has also recently banned raw material export due to fear of its scarcity.

Due to lockdown in the above-mentioned countries, except China, the pharma industry fears that there would be shortage of imported raw material required for producing various medicines to combat the threat of coronavirus. Air operations with China is also suspended at the moment due to which raw material is being transported via ship which may prolong the delivery time. The present situation is that the production of essential medicines has been reduced significant which, with the lockdown continuing, would trigger a medicine crisis in the next few months. Even now, a large number of drugs used in Pakistan for chemotherapy, neurological diseases, psychological and psychiatric disorders including depression are already running short. In addition to the medicines, surgical masks, surgical gloves, sanitizers and other medical products are also running short.

Despite the above scenario, it is anticipated that pharma companies who offer products or services that are effective in prevention of spread of COVID-19 may depict some improvement in revenues.

4.6 Textile Industry

The entire textile sector chain starting from spinning to garments manufacturing and textile exports are all under serve pressure due to complete lockdown in the country, in addition to stoppage in imports of basic raw materials required by the industry and cancellation or deferment of export orders. Due to this critical situation, many textile mills have either temporarily shut down their production partially or completely for the next few weeks [by end of April 2020] in order to prevent inventory build-up due to shortage of storage capacity.

According to a news report, the apparel and home textile manufacturers in Faisalabad have cut their output to a fifth whereas small manufacturers have gone as afar as laying-off temporary workers and furloughing other staff. If the lockdown persists for another month, this could even lead to significant fall in textile exports and an unmanageable level of unemployment in the textile sector.

Having said that, it is presumed that in the longer run due to relief package announced by the Government for textile exporters, the situation would improve and gradually textile exports would increase. There is also a blessing in disguise. Due to world-wide spread of COVID-19 pandemic, many exporters in USA, Europe and other countries, have canceled orders from China and this could be of benefit to our textile exporters who can make extra efforts to approach global textile importers.

The All Pakistan Textile Mills Association (APTMA) has demanded that the government should freeze gas and electricity bills for the spinning industry for at least two months so that the industry could operate without any interruption in these difficult times and avoid mass unemployment of workers. APTMA also asked Government to take drastic measures to save export-oriented textile industry from the negative economic impact of coronavirus.

As far as domestic sales of garments and other home textile items are concerned, the same have also been greatly affected due to lockdowns. The holy month of Ramazan is just around the corner and any prolonged closure of markets and businesses would definitely impact sales revenues of retailers. During the lockdown period, these retail shops have furloughed most of their sales staff.

4.7 Paper & Board Industry

Paper industry of Pakistan is an important industry and primarily serves the requirements of the domestic market. Pakistan imports wood pulp, paper and board to the tune of over USD 600 million from different countries which are used as raw material for the packaging and paper industry. The top pulp and paper producing countries are China, USA and Germany which are now affected by COVID-19 pandemic. Hence, imports of raw material from these countries would be affected. Similarly, Pakistan imports RIM papers (A4 size) from China which has huge domestic consumption.

With the outbreak of coronavirus, the paper industry in Pakistan is likely to suffer due to shortage of above raw material. The alternate sources of imports are quite expensive and may take time due to which it would be difficult to continue to run the production lines. Furthermore, switching to alternative sources would lead to an increase in prices of the products.

CHAPTER 5

Impact of COVID-19 on Services Sector

The services sector is the most important sector, both in terms of GDP share and employment. This sector has provided steady support to Pakistan's economic growth with share in GDP standing over 50 percent. In fact, the growth rate of services sector is higher than the growth rate of agriculture and industrial sector. The services sector accounts for 54% of GDP and little over one-third of total employment. As per the Economic Survey (2018-19), the services sector posted a growth of 4.71 percent during FY 2018-19.

Now we will see how COVID-19 would have an impact on different service-oriented sectors in Pakistan:

5.1 Banking Sector

The outbreak of coronavirus is likely to impact the earnings of commercial banks in Pakistan. For instance, the portion of income derived by banks from the international trade will be affected as the trading with exporting countries will be reduced due to critical lockdown situation worldwide, especially in USA and Europe. The trading with China has also been affected which will surely reduce the earnings of banks derived from income as a result of bilateral trade transactions with China.

The State Bank of Pakistan (SBP) has relaxed regulation for the banking sector to insulate them from the effects of coronavirus and also to ease pressure of lower interest rates on the banks' earnings. The lower rates would reduce net interest margins and diminish banks' earnings. Further, the State Bank has issued an advisory to all banks listing measures to be taken to stop the spread of COVID-19 pandemic and to ensure uninterrupted availability of financial services to the public and business. This would be done by banks by keeping bare minimum staff with restricted timings to ensure continuity of essential banking services.

Experts believe that with around 40 to 45 percent lending in real private sector, the risks of banks to COVID-19 pandemic is quite low given the level of collateralization retained by them against these loans/advances. Further, the low leveraging of the economy with credit to private sector at around 20 percent of GDP makes our financial sector less vulnerable to shocks than many other countries where this ratio is much higher. Experts also say that regulatory relaxations by SBP in classification of their loans/ advances portfolio would also facilitate. As the lockdowns are expected to be gradually lifted, the rush to withdraw deposits for business operations would be mitigated.

5.2 Insurance Sector

The outbreak of coronavirus is likely to increase the insurance claims in the country. With rising cases of coronavirus patients in the country, the insurance industry will have to face inadequate re-insurance cover in health segment. The overall impact on the financial profile of insurance companies will vary and depend on the proportion of health segment contribution in their overall business mix.

The local insurance sector [along with global insurance industry] is unlikely to cushion the losses due to COVID-19 pandemic which is running unprecedentedly high. However, this is for those insurance companies which are insuring the health segment. A large segment of Pakistani insurance companies is not covering communicable-disease to prevent losses. The coronavirus pandemic despite being a challenge also offers new opportunities for the insurance industry. Those insures who are health insurance policies are expected to get more business in the long-run.

5.3 Real Estate Sector

The COVID-19 is likely to also impact the real estate and property market in all major cities of Pakistan including Karachi, Lahore, Islamabad, Multan etc. At present, due to lockdown it is difficult to ascertain the behaviour of buyers and sellers; however, the property dealers believe that if the global and local travel bans prolong, it would cause major shock to the real estate sector.

The overseas investment is providing large support to the Pakistani property market. The overseas Pakistanis normally visit the country during vacations of Eid-ul-Fitr and invest in property. This time it seems quite difficult due to global travel bans and it is expected that if this uncertainty continues, the property prices will drop by as much as 10% to 20 percent. Hence, those who will be selling their properties during this period would definitely suffer loss; whereas those buying properties will benefit from their investments. Secondly, some housing societies like Bahria Town Karachi, Lahore and Islamabad as well as projects of DHA have closed their offices and facilities for the time being as a precautionary measure. LDA has also closed its One window operation to avoid public dealings.

In case of prolonged lockdown, the property transaction would practically come to a standstill and could improve only if the situation gets better and trade activities resumes.

5.4 Aviation Sector

Aviation is one of the important global service industries which connects people, culture and businesses across the continents. As already mentioned earlier in this report under 'Global Impact of COVID-19', many international airlines and carriers have stopped their flight operations which has greatly impacted the travel, tourism and business trips all around the globe.

According to the Civil Aviation Authority (CAA) of Pakistan, the outbreak of coronavirus has already caused over USD 15 million loss to PIA and aviation industry due to suspension of flight operations. According to the Federal Minister for Aviation, Mr. Ghulam Sarwar Khan, PIA has lost Rs. 1.2 billion (USD 7.6 million) approx. during last one month due to suspension of flights to different countries. He further stated that there is overall loss of Rs. 4 billion to PIA as it brought back stranded Pakistanis from few countries free of charge in the wake of coronavirus. One of the reasons behind this huge loss to PIA was that empty aircrafts (around 27 flights) were sent to the Kingdom of Saudi Arabia to bring back 8.824 Umrah pilgrims. Similarly, PIA brought 40 passengers from Qatar and 100 from UAE.

It is expected that the effects of the coronavirus would be witnessed throughout the year, affecting the local travel as well as local transportation industry in Pakistan.

5.5 Tourism & Hospitality Sector

Tourism is one of the most important areas of the services sector. According to United Nations (UN) the international tourism is expected to sustain loss of USD 50 billion due to 3% drop in tourists as a result of outbreak of COVID-19. Pakistan, which is lately encouraging tourism in norther parts of the country and the government also announced lucrative packages. However, all these efforts are seemingly to go in vain with coronavirus pandemic damaging the global tourist industry. Presently, the global tourist destinations are seeing limited visitors with only few airlines are operation.

The contribution of tourism in Pakistan stood at around 2.8 percent of in 2015 and there is immense potential to increase the tourism sector to grow to USD 1 trillion by 2025. If the flight operations are suspended continuously and there is also no decline in COVI-19 case in Europe, USA and other countries, the tourism industry in Pakistan would greatly suffer.

The hospitality industry is also bearing the brunt of the virus as citizens have been restricted from travelling due to which hotel bookings in major cities of the country have dropped significantly. According to Pakistan Hotels Association (PHA), several events in Pakistan were cancelled due to non-participation of foreign delegates which resulted in cancellation of hotel bookings. PHA says that the Pakistan's hotel industry lost Rs. 100 million in February 2020 alone due to drop of foreign guests. The hotel booking rate in Pakistan which stood at 95% till January 2020 has now declined to 40 percent by the first week of March 2020. Further, summer holidays used to be the peak tourism season in Pakistan, however, this would be affected due to premature vacations announced in Sindh.

5.6 Education Sector

In an attempt to contain the spread of COVID-19 pandemic, most of the governments around the world, including Pakistan, have closed down educational institutions [schools, colleges, universities etc]. As of 8th April 2020, approximately 1.716 billion learners have been affected due to school closures. According to UNESCO monitoring, 188 countries have implemented nationwide closures and 5 have implemented local closures, impacting about 99.4% of world's student population.

On 23 March 2020, Cambridge International Examinations (CIE) released a statement announcing the cancellation of Cambridge IGCSE, Cambridge O Level, Cambridge International AS & A Level, Cambridge AICE Diploma, and Cambridge Pre-U examinations for the May/June 2020 series across all countries. International Baccalaureate exams have also been cancelled.

In compliance with the Government directives to close all schools, colleges and universities and postpone all upcoming examinations in order to protect the students from infection and minimize the spread of virus, almost all the educational institutions in Pakistan have found alternate methods to make sure that the learning and coaching are not disrupted. Many prominent private schools and professional Institutes have immediately adjusted their strategies to conduct online classes for their students. Some of them have resorted to host prepared recorded lectures while others are using Zoom or other video-conferencing tools such as Skype to provide lectures to students. This sort of teaching is a unique experience for our educational system as the Pakistani students are accustomed to the classroom environment and it is not easy for them to shift to online classes all of a sudden. In a country, like Pakistan shifting to online education is not that easy, however, despite this fact, many educational institutions strengthened their IT infrastructure to support move to online education.

ICMA Pakistan has also introduced coaching facilities for its nation-wide students. These online classes are held as per pre-announced schedules and the attendance of students is mandatory and monitored. The students are allowed to attend the classes using desktop computer, laptop, table and smart phone. The Duration of classes are same as face-to-face classes. It is an attempt to ensure that the present circumstances are not a hinderance to our students' educational progress. It is good to see that students and faculty are beginning to adjust to this new way of teaching.

CHAPTER 6

Impact of COVID-19 on Foreign Trade

Due to the outbreak of COVID-19 pandemic, the global economies have gone into recessionary phase and the demand for their products especially textiles and apparel have reduced to a considerable level. Many exporters have received emails from buyers of European Union asking for halt of consignments of export products to them as major ports and docks in these countries are not functional anymore due to lockdowns. The Pakistan's exports depicted improvement during February and March 2020; however, due to coronavirus outbreak, the exporters are fearing setback in the coming months.

According to the briefing made by the leading exporters of the country to the Government officials, the Pakistan's exports might come down to USD 2.67 billion in the next few months. According to the estimates, the exports could either tumble by 25% (USD 1.336 billion) at the minimum and by 50% (USD 2.672 billion) at the maximum during the period of March-June 2019-20. This situation would create liquidity issues for the exporters as well as continuity of business for them as they are not expecting further export orders and faster recoveries of their proceeds from their international buyers. The exporters have urged the Government to help them come out of this crisis mainly in expediting refunds.

According to statistics released by Pakistan Bureau of Statistics (PBS), exports increased 13.82% year-on-year in February 2020. Amid a global slowdown in trade, exports from Pakistan have increased by 3.65% in the current fiscal year. Imports have continued to decline, registering a decrease in value of 14.06%. The trade deficit in the first eight months of FY20 was 26.52% lower than the same period of FY2019.

6.1 Impact on Exports

Pakistan's more than fifty (50) percent exports are destined to five major trading partners viz. China, USA, UK, Japan and Germany and it is unfortunate that four of them are worst-hit by COVID-19. Hence, it is quite likely that with ongoing economic recession and cancellation of export orders from buyers in these countries, the exports from Pakistan in the coming month would greatly suffer. This could also have an adverse impact on Balance of Trade and to the overall GDP growth during FY 2019-20. Similarly, exports with Afghanistan and Iran through land route are also going to be impacted.

It may be noted here that the World Bank has also made an initial survey from March 12 to March 18, 2020 from a sample of export-oriented industries in Pakistan and concluded that export orders were disrupted in the range of 25% to 50 percent. According to the Federal Secretary Commerce, due to cancellation of orders, the exports might face loss in the range of USD 2 billion to USD 4 billion.

The Pakistani exporters are demanding from the Government that in view of delayed payments by international buyers, the limit for depositing export proceeds with the State Bank of Pakistan may be enhanced from present 180 days to 360 days which would provide their relief to adjust finances. The exporters are also demanding that the Turnover tax be also slashed from 1.5% to 1 percent till the COVID-19 spread is over. Both these demands are quite valid and Government must accept them.

As every global challenge can result in opportunities for other countries, Pakistan can benefit from the slowdown in trade flow between China and the US as well as the EU in textile products as it can capture some of the market in these countries for textiles, made-ups and apparels.

6.2 Impact on Imports

Pakistan heavily relies on imports of capital and intermediate goods from USA and China which are utilized in the production of finished goods for exports and domestic consumption. Pakistan especially sources bulk of its raw material, intermediate and capital goods from China for various industries e.g. textiles, chemicals & dyes, etc. which are going to be affected even beyond April 2020.

Under the Pak-China Free Trade Agreement, around 1/4th of country's overall imports to the tune of USD 17 billion, comes from China and sold in the local markets in Pakistan. Hence, with slowdown in imports from China, this would definitely have an adverse impact on imports and domestic sales. For instance, mobile phones, chargers, earphones as well as artificial jewellery, children's toys and diapers, spare parts, etc are imported in large quantity from China which would definitely increase their prices in the local markets. Similarly, garlic is also imported from China and its price has already increased sharply in the local market due to shortage of supply.

It is expected that the Chinese currency Yuan would depreciate by 3 to 5 percent, due to which the import bill of Pakistan may decline by USD 200 million to USD 300 million. Further, it is being projected that the international prices of certain commodities like crude oil and palm oil/soya bean oil will also decline [which are major import items for Pakistan] as a result of which the trade balance could improve and help ease out inflation in the local market. However, on the other hand, the shrinkage of import bill would have negative impact for the FBR revenue collection drive. It is further expected that the petroleum levy might also be reduced in view of low consumption of petroleum due to lockdown in different parts of the country.

6.3 Impact on Afghan Transit Trade (ATT)

The Afghan–Pakistan Transit Trade Agreement (also known as APTTA) is a bilateral trade agreement signed in 2010 that calls for greater facilitation in movement of goods between the two countries. According to the data of Pakistan Customs, the Pak-Afghan trade increased from US$ I billion to USD 2.3 billion in FY 2018-19 with cargo mainly transported through Torkham and Chamber borders. During the first eight months [Jul-Feb] of current FY 2019-20, Pakistan's exports to Afghanistan were recorded at USD 728.315 million as against USD 777.153 million during same period last year. An average of around 245 containers cross the borders with Afghanistan on daily basis, carrying goods, including food stuff. When the coronavirus outbreak started in early March 2020, the borders with Afghanistan was sealed for any kind of movement of people and goods which affected trade supplies. It was estimated that this caused loss of around USD 7 to USD 10 million.

Responding to Afghanistan Government's special request and based on humanitarian grounds, the Pakistan Government w.e.f 10th April 2020, has allowed movement of cargo trucks and containers to cross-over into Afghanistan through Torkham and Chaman border crossing points thrice a week (i.e. on Monday, Wednesday and Friday) after custom clearance.

CHAPTER 7

Impact of COVID-19 on CPEC Projects

The COVID-19 pandemic is likely to have a negative impact on various development projects being pursued under the Pak-China Economic Corridor (CPEC) agreement. The construction work on different ongoing projects have been delayed due to affect of COVID-19 spread in China two months back.

At present around 10,000 to 15,000 Chinese nationals are working on different CPEC projects in Pakistan whereas thousands of Chinese are residing in Pakistan for business purposes or are working on some other projects. Most of them left for China in January 2020 to celebrate the Chinese New Year with their families. Some of the Chinese technicians have to postpone their return to Pakistan because of China's efforts to control population movements and prevent the spread of the epidemic.

The Chinese Government is following a 'double-quarantine policy' for officials of Chinese companies who are working on CPEC projects. The officials traveling to Pakistan spend 14 days in quarantine in China before travelling to Pakistan and after reaching Pakistan, they remain in quarantine for 14 more days. Established medical procedures are also followed during the process by both sides.

The Pakistan Government thinks that though there is temporary halt in activities under CPEC, the short-term impact of coronavirus will be counter-balanced by effective and swift mobilization of resources for timely completion of CPEC. The Foreign Minister of Pakistan, Mr. Shah Mahmood Qureshi, also assured that both the countries are committed to the scheduled construction plan and CPEC would go ahead despite impact of COVID-19 pandemic. He said 'There's a temporary dip, but things will revive quickly.

Recently, the Pakistan Government has approved the establishment of 10 special economic zones in the four provinces. Further, MoU are also being planned to be signed with China for the establishment of two new joint working groups for agriculture and science & technology under CPEC.

The first phase of construction of CPEC which included 22 major energy and transportation infrastructure projects are operationalized and now both sides are all set to launch the construction of second stage. Mr. Asim Saleem Bajwa, Chairman CPEC Authority has clarified that rumours about the CPEC slowing down is totally baseless and the second phase of CPEC is being launched with enhanced scope and addition or more sectors like agriculture and food security, science and technology and tourism.

CHAPTER 8

Way Forward

This Chapter presents the way forward and recommendations for the consideration of the Government on how to deal with the COVID-19 pandemic and its implications on different sectors of economy and society, especially in context of building strong health systems; rescuing the economy, facilitating businesses and reviving proper management of supply chain, affected by prolonged lockdown.

8.1 Removing Flaws in the Healthcare system

The outbreak of COVID-19 pandemic has exposed many flaws and weaknesses in the country's healthcare system which need to be dealt with on top priority by the Government such as:

- Lack of quality health services both at federal, provincial and local levels
- Lack of preparedness and capacity to deal effectively with any pandemic-type situation
- Lack of adequate infrastructure e.g. Personal Protection Equipments (PPE), Ventilators etc
- Lack of proper Quarantine system in hospitals
- Lack of trained quarantine specialists who can deal with COVID-19
- Low number of patients to Bed ratio
- Low patient to doctor ratio

The Government must take the following initiatives to strengthen the healthcare system and capacity:

a) Developing a national health Action Plan to deal with pandemics
b) Expanding conventional health care facilities and medical equipment factories
c) Allocation of additional resources to hospitals to handle epidemics
d) Launching of special programs for training of quarantine specialists
e) Launching of awareness and biosafety programs for medic and paramedics
f) Upgrading of laboratories for diagnosis of COVID-19 and other such diseases
g) Ensuring free and subsidized testing and treatment for the poor segment of population
h) Establishing a state-of-the art research centre in emerging and re-emerging infectious diseases
i) Undertaking effective and well-resource public health measures to prevent infection
j) Adjusting health care and macro-economic policies

8.2 Expanding Social Safety net programs

The coronavirus outbreak and lockdowns have also exposed the weakness in the social safety net programs in the country. Food security has become a significant challenge. Though the Government has taken initiatives in the wake of virus outbreak by launching different programs to ensure that money is transmitted to those unprivileged people of society who are daily wage earners who could not make their both ends meet due to lockdowns. The welfare organizations in the country are playing a significant role in reaching out to the poor and needy and providing them food items; however, the government is lacking such social safety network to reach out to all the people, especially in rural areas. This could also lead to misuse of money and resources.

The Government must ensure integration and expansion of social safety net programs with proper supply framework in place. Disbursement of cash and food-related commodities should be made through partner involved in social safety net type of activities. There is also need for a strong monitoring framework to ensure that deserving gets the food and cash.

8.3 Ensuring proper Supply Chain

The coronavirus outbreak and lockdowns have brought to limelight the inherent distortions in the supply chain network. The farmers and food distributors are facing problems in reaching markets and channelizing their products.

The government must analyze this situation and propose practical solutions to lessen the impacts of food shortages as well as ensure proper supply chain mechanism by linking it to transportation of food and other edibles to different parts of the country, transportation of crops to the market and other forms of transportation in the form of B2B and B2C.

8.4 Adjusting Fiscal and Monetary policy to meet the COVID-19 crisis

The Government need to adjust its fiscal and monetary policies to meet the COVID-19 crisis. The fiscal measures should support the public health response and provide social protection to cushion against shocks, especially for the most economically vulnerable. For instance, provision of subsidies on health care expenditure to people and expanded social safety nets could provide temporary relief to the families whose earnings have been adversely affected by the outbreak.

The businesses who have suffered by the outbreak may also be provided with liquidity injections to help them stay in businesses and maintain beneficial links to the Global Value Chains (GVCs). Similarly, easy access to liquidity for companies would help them to survive the current disruption.

The laid off workers during the lockdown period must also be provided with employment support by the Government so that they can reintegrate into the economy after the outbreak is abated. This would ensure that temporary deprivation does not translate into long-term losses of human capital.

8.5 Diverting funds from PSDP to small development schemes

Due to coronavirus outbreak, the utilization of public sector development program (PSDP) is likely to slow down. In order to provide more jobs to people, it is suggested that the local works development schemes may be initiated both through the federal and provincial governments and funds may be diverted from PSDP to small schemes through SDG Accelerated Program.

8.6 Increasing budgetary allocation for social sector

The outbreak of COVID-19 pandemic must provide an opportunity to the government to rethink its strategies towards allocations for social sector. It is high time that the Government must increase its budgetary allocations for the social sector, especially the health and education, for effectively dealing with the impending scale of the COVID-19.

8.7 Assessing the funding gaps

The Government through the Ministry of Planning may undertake quick assessment of the funding gaps which is quite essential to provide appropriate support on both the aggregate demand and supply sides, especially of those below and around the poverty line. There is also need for making multiple assessment of funding gap for short to medium terms.

8.8 Incentivizing the Textile sector to capture export market

With the outbreak of COVID-19 pandemic, the global textile buyers are anticipating disruption to the supply chains from China, which accounts for a big part of global textile production, and rethinking their sourcing strategies. It is therefore a golden opportunity for the Pakistani textile sector companies to grab a considerable share in the global export market. There is already mounting orders for textile products being received by the Pakistani exporters.

The issue is that the textile sector is faced with host of challenges in shape of higher energy tariffs and the lack of supply chain. The Government must come forward and paly the cards right to convert threats into opportunities, by infusing much-needed impetus into the struggling textile industry. In this context, the government will have to incentivize the textile industry by reducing power tariffs and establishing proper supply chains for raw materials required by the industry. Needless to say, that proper supply chain is essential to enhance exports and take advantage of current opportunity.

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