

COVID-19 ADVENT AND IMPACT ASSESSMENT

Introduction

The COVID-19 pandemic was first reported on 31st December 2019 in Wuhan City, Hubei Province of China. As of 2nd June 2020, the disease had infected almost 6.4 million people globally with 380 thousand deaths (CFR 5.92 percent). The first case of COVID-19 in Pakistan was reported on 26th February 2020. Since then, 76,398 cases with 1,621 deaths (CFR 2.12 percent) have been reported in the country as of 2nd June 2020.

The Government of Pakistan (GoP), with the support of all provincial governments and development partners, has taken unprecedented steps to counter and minimize the impact of COVID-19 pandemic. However, considering the magnitude of the challenge, the evolving nature of the situation, and the ensuing uncertainty, it is expected that efforts will need to be persistent.

While addressing the pandemic, the GoP is faced with key challenges which are largely two-fold:

- Implement measures to save lives by containing the spread, together with implementing interventions to protect the poor and vulnerable from negative shocks caused by the outbreak and its resultant containment policy actions;
- Put in place immediate measures that support early and quick economic recovery

The situation necessitates the GoP to prepare a comprehensive and consolidated response and recovery strategy, the foundational principle of which is to safeguard the social and economic well being of Pakistan's greatest asset – its people. This strategy should consider the multidimensional aspects around COVID-19 response and recovery, with a clear path towards efficiently and effectively managing its adverse effects. This includes deliberately and proactively mobilizing technical and financial resources – both domestically as well as through support from international partner countries and agencies – to sustain the continuity of economic activities, safeguard jobs, ensure food security, and addressing the social and health needs of the population, particularly among the most vulnerable.

Macroeconomic Impact Assessment

Pakistan's real GDP growth was contracted by 0.4 percent in FY2020. The lockdown was imposed in the second half of March 2020, and subsequently relaxed two months after. Hence, the last quarter of this fiscal year bore the most significant brunt of the COVID-19 crisis.

Pakistan Economic Survey 2019-20

The Sub-committee on National Coordination Committee (NCC) has worked out an impact assessment of COVID-19 on the Real sector of the economy. The details have been given in the table below.

Macroeconomic Overview FY2020

Items	Unit	Prov. 2018-19	Before	After
			2019-20	
Real Sector			Proj.	Prov. Actual
Real GDP Growth	%	1.9	3.3	-0.4
- Agriculture	%	0.6	3.0	2.7
- Major Crop	%	-7.7	2.8	2.9
- Livestock	%	3.8	3.2	2.6
Industrial sector		-2.3	0.7	-2.6
- Manufacturing	%	-0.7	0.5	-5.6
- LS M	%	-2.6	-1.3	-7.8
Services	%	3.8	4.2	-0.6
- Wholesale & Trade	%	1.1	3.2	-3.4
- Financial Businesses	%	5.0	4.7	0.8
Inflation (GDP Deflator)	%	8.4	11.8	9.1
Nominal GDP Growth	%	10.5	15.4	8.6
As % of GDP				
Investment	-	15.6	15.6	15.4
- Fixed Investment	-	14.0	14.0	13.8
- Public Investment	-	3.7	3.8	3.8
- Private Investment	-	10.3	10.2	10.0
National Savings	-	10.8	13.4	13.9
Domestic Savings	-	4.1	6.4	6.8
Foreign Savings (incl. Official Transfers)	-	4.8	2.2	1.5

Source: Sub-committee of the National Coordination Committee for COVID-19 on Economic Analysis: Planning Commission.

In April 2020, exports and imports declined (year-on-year) by almost 55 percent and 35 percent, respectively. While the decline in exports largely reflects lower external demand as well as low production activity domestically, the decline in imports most likely reflects low retail and wholesale trade. Similarly, sharp declines in tax collections and sales of automobiles, cement and petroleum products also indicate an across-the-board economic slowdown. In terms of the GDP's sectoral breakdown, while the impact of COVID-19 was felt overarching, the industrial and services sectors were most hard hit. Agriculture sector has not seen major disruptions but still faces risks due to reduced labour mobility for wheat harvesting in Punjab and partial impediments to wheat procurement, storage and distribution.

Given the impaired liquidity position of potential investors and heightened risk perceptions, there is likely to be a big fall in private investment in coming months when faced with industrial closures and the obvious reluctance of banks to offer loans. The COVID-19 pandemic may bring a 30-40 percent drop in global foreign direct investment (FDI) flows during 2020 and 2021, according to a report released by UNCTAD. The reduction in profit

due to economic slowdown will take away a major component of FDI, that is, the reinvested earnings.

Pakistan's economy may face a loss in business activities because of disruptions in trade, both in imports and exports after the outbreak of COVID-19. The major reason behind this unfortunate decline in output is the fact that the five major trading partners with more than 50 percent share in trade of Pakistan (China, USA, UK, Japan, and Germany) also happen to be the worst hit countries by the COVID-19.

Pakistan needs an investment strategy response in order to reverse some of the Post COVID-19 distress on investment and trade. BOI and other stakeholders are considering following 10-point agenda as a preliminary strategy response for attracting investment into Pakistan¹:

- Industrial Relocation under CPEC-IC to cater for non-Chinese companies as well;
- Incentivizing backward linkages in SEZs;
- Fast tracking of CPEC Projects;
- 5G deployment be expedited to enable the industrial cooperation in technology;
- Building IT and security capacity;
- Revisiting priority sectors for investment;
- Diaspora investment certificates to solicit funds into quality projects;
- Incentivizing and facilitating industrial transformation;
- Devising an SME Survival plan; and
- Providing due diligence for mergers & acquisitions.

On the revenue side, FBR tax collection efforts have been affected severely due to the slowdown and lockdown of the economy in the wake of COVID-19 pandemic. Tax collection which was growing at the rate above 17 percent during July-February, FY2020 has witnessed a significant decline. After the outbreak of COVID-19 pandemic, an average negative growth rate of 13.4 percent was recorded during March 2020 and April 2020 as compared to last year. FBR tax collection is expected to remain at Rs 3.9 trillion during FY2020 against the target of Rs 4.8 trillion.

In addition to shortfall in revenues; reprioritizing of expenditures and increase in public spending due to fiscal stimulus package, budget deficit is expected to exceed the target of 7.5 percent of GDP and may go up to 9.4 percent of GDP.

The global response to this challenge is monetary accommodation complemented with fiscal action. However, uncertainty surrounding the nature and duration of the shocks has complicated the appropriate policy response. Fiscal policy is constrained by a tightening fiscal space compounded by falling revenues and increasing expenditure demands due to social protection, health emergency and direct support to the businesses.

¹ Source: Board of Investment (BOI)

After recording its first contractionary year due to the COVID crisis since 1952, Pakistan is likely to face greater challenges in the next fiscal year starting July 2020. Under normal circumstances, after recording over 3 percent growth, Pakistan could have been reaping the benefits of macroeconomic stability achieved over the last year and would have embarked on a higher growth trajectory of over 4 percent. However, the pervasive and lasting effects of COVID-19 pose serious challenges to the economy which remains susceptible to its aftermath, despite efforts towards the outbreak's curtailment. With an expected 2 percent growth for next year which is even lower than the population growth rate, challenges such as unemployment and poverty are expected to persist and amplify.

A second round of the outbreak could further threaten macroeconomic stability and socio-economic outcomes. Businesses will face liquidity issues, and many more may experience insolvency. They will require different kinds of support, for instance bailouts and provision of cheap funding, among others. Global trade will further dampen thereby constricting exports and remittances inflow, while domestic fiscal adjustment will become even more challenging. Higher debt accumulation will be problematic, financing for development projects may become scarce, revenues might be difficult to increase while expenditure demand may be immense. Synthesizing all this in an intricate policy mix has to ultimately be in place to smoothen this transition from crisis to stabilization.

Socio-economic Impact Assessment

An estimated 56.6 percent of the population is socio-economically vulnerable due to the COVID-19 crisis. Women and children, especially those from more disadvantaged households and those who are home-based workers, will be among the most impacted. To understand the nature of these socio-economic impacts, rapid evidence-based assessment was undertaken focusing on three vulnerability areas: i) economic vulnerabilities, ii) social vulnerabilities, iii) food security related vulnerabilities.

I. Economic Vulnerabilities

a. Employment and labour force: The Labour Force Survey 2017-18, estimates an employed labour force of about 61.7 million across Pakistan of which 23.8 million are agriculture workers and 37.9 million are non-agriculture workers. Out of 37.9 million non-agriculture workers, 27.3 million (72 percent) work in the informal sector. It is these 27.3 million informal sector workers that are most at risk of losing their livelihoods as a result of the COVID-19 crisis. The top two sectors where these informal economy workers are employed are wholesale and retail trade (33 percent) and manufacturing (23 percent).

Among the most vulnerable, the expected loss of employment (across both the agriculture and non-agriculture sectors) is estimated to be between 12.5 million to 15.5 million in case of moderate slow-down of economic activity/partial lockdown, and between 18.7 million and 19.1 million in case of severe restrictions to economic activity/full lockdown. It is expected that wholesale and retail trade will lose maximum workers followed by manufacturing, construction and transport.

b. Enterprise and entrepreneurship: According to SMEDA, 3.25 million SMEs constitute nearly 90 percent of all enterprises in Pakistan and contribute approximately

40 percent to annual GDP. Since most of SMEs are not documented (other than those workers registered under EOBI or a social security programme), they are not protected against loss of employment.

- c. Labour migration and overseas Pakistanis:** Due to the resultant contraction in the global economy and restrictions on international and intercity travel, migrant workers (overseas Pakistanis) may be adversely impacted in terms of permanent or temporary unemployment, or reduction in incomes. About 50,000-60,000 migrant workers who completed their registration at the Protectorate Office could not proceed overseas due to travel restrictions and domestic and international lockdown. Additionally, hiring for 100,000 foreign positions has been halted.
- d. Inequalities in labour force:** Women dominate professions such as domestic workers, teachers and instructors in schools and colleges; several are also employed by SMEs. Due to lockdown conditions, closure of schools and colleges, stalling of transportation, and general inability to pay salaries, women are among the most vulnerable to lose employment. This could act to reduce female labour force participation in the country. In addition, an analysis of home-based workers (HBWs) revealed that there are currently 12 million HBWs who earn around Rs 3,000 to 4,000 per month. Given that they belong to informal sector, they too face multidimensional issues such as low-income security and absence of social protection. In the current situation, this segment of labour force is arguably most at risk of losing livelihoods due to its inability to supply the required labour hours.

Given the above, there is a need to identify potentially vulnerable women-led households (approximately 13 percent) that are at greater risk of poverty, hunger and disease. Databases such as Ehsaas and BISP can be leveraged to identify this target group.

II. Social Vulnerabilities

- a. Healthcare provision:** Healthcare facilities are insufficient to meet the population's need. There is on average only 1 hospital bed available for over 1,680 people. Even under normal conditions, bed capacity is already insufficient to cater to patient needs comprehensively with doctors treating 2 to 3 patients on one bed in public hospitals of large cities. In addition, disrupted supplies are already putting pressure on availability of testing kits, PPE kits and medical supplies. The daily testing rate of Pakistan has improved from 0.03 per thousand population in April 2020 to 0.067 per thousand population in May 2020. Pakistan is at the bottom 15 listed countries. Daily testing rate in UK, Italy, Lithuania (the highest) and Denmark ranges between 1 per thousand to 7 per thousand.

It is critical to step up conversion of facilities such as academic institutions and sports complexes, into make-shift medical and quarantine centers. Pakistan needs to accelerate population testing for COVID-19, and activate local production of PPE kits and medical supplies as much as possible

- b. Health and immunization of children:** Provision of healthcare for non-COVID related illnesses is currently facing disruptions and closures with maximum resources and manpower being diverted towards responding to the COVID-19 outbreak. This includes

primary healthcare services such as routine immunization and general child healthcare. Pakistan has a birth cohort of 6 million children annually, out of which only 66 percent (approximately 3.4 million) are fully immunized. The ongoing lockdown and travel restrictions across countries are leading to disrupted supply chains, stock shortages of essential vaccines and resultant disruption of immunization services. In terms of location, currently immunization services are being provided only from fixed sites. Outreach services have been stopped due to lockdown and non-availability of basic PPE for vaccinators.

- c. Reproductive healthcare and newborn health needs:** Currently, there are about 4.7 million pregnant women in Pakistan. The COVID-19 pandemic will have impact on reproductive healthcare and newborn at multiple levels: i) potential shortages of required medications (such as antiretrovirals and antibiotics) due to disrupted supply; ii) health care providers diverted to help address COVID-19 patients; (iii) financial resources diverted to COVID-19 response. This would not only take away funding from reproductive health programmes and decrease access for patients who rely on free or subsidized care, but also have a compounding effect on the other two sourcing of needed medication and engagement of required healthcare providers.
- d. Inequalities in health-related outcomes:** The outbreak has put an additional burden of domestic work and disease prevention on women. The responsibility of women in prevention and care of the disease extends outside the household as well. Moreover, majority of healthcare professionals (nurses, doctors, etc.) are women. In such cases, these healthcare professionals shoulder the responsibilities of both domestic work and homecare. Hence, such women have a higher risk of exposure to the virus, are more likely to be carriers and transmitters of the disease, and are also more susceptible to stress and overwork induced health issues.
- e. Education and learning continuity:** COVID-19 has directly impacted 42 million school going learners from pre-primary and primary to higher secondary and degree college levels. This situation stands to potentially exacerbate risks and vulnerabilities to an already weak education system, as well as steepen illiteracy levels. It calls for a comprehensive approach to ensure continuity of learning, mitigating the spillover effects of economic recession and safeguarding our frail education system.
- f. Inequalities in educational outcomes:** With the shutdown of public and private schools across Pakistan, there is expected to be a disproportionately adverse impact on the most vulnerable groups, particularly women and those in rural areas and urban slums. Women are twice as likely to be taken out of school in crisis situations. In addition to pre-existing barriers to education, the current crisis is expected to give rise to further limitations due to transport and mobility constraints, and declines in household incomes and purchasing powers. Geographically, rural areas and urban slums are potentially at highest risk with more than 70 percent of current enrolment and large pockets of already out of school children. Hence, the COVID-19 crisis may widen the already existing gender and socio-economic gap in the educational system and impact the overall literacy rate of the country.

III. Food Security Related Vulnerabilities

- a. Agricultural supply chain:** Border closures and existing lockdown conditions, preventing market place activity, will potentially have a disruptive impact on the agriculture value chain. It may lead to reduction in or non-availability of agricultural supplies such as Kharif plant seeds, fertilizers and livestock feed, etc. For the local consumer, this translates to potentially reduced availability of farm produce and related products in the market.
- b. Nutrition:** Lockdown, market closures, trade restrictions and disrupted supply chains may restrict people's access to sufficient/diverse and nutritious sources of food, especially in those areas most impacted by the virus and/or with a pre-existing lack of food security. Reduction in purchasing power will also potentially lead to insufficient food and nutritional intake. These causes stand to decrease dietary intake and increase the prevalence of malnutrition and related health ailments in Pakistan. Lower socio-economic groups are most susceptible to this, particularly women-led households (since they are at higher risk of losing livelihoods) and children (since reduced household incomes and purchasing power will lead to restricted nutritional diversity and rationing of food intake).
- c. Related livelihood:** About 22 percent are dependent on wage labour (skilled/unskilled non-agricultural labour, forestry workers). Around 62 percent of households in the poorest wealth quintile rely on farm labour and daily wage as livelihood. Most of the farmers store wheat for household consumptions. Due to reduced sale of farm produce and related products, and reduction in other non-farm work, they may be compelled to sell their wheat stocks. This would also create nutritional vulnerabilities for such households, limiting their food supply and dietary intake. Another potential coping mechanism to supplement eroding household income, food supplies and other day-to-day essentials might be liquidation of assets by farmers (mainly poultry, livestock and other valuable assets).

Similarly, small entrepreneurs, shopkeepers and small factory owners and labourers who are directly dependent on income sources from daily trade and economic activities linked to the food and agriculture are also likely to experience a sharp decrease in their earnings.

Conclusion

Pakistan has confronted a unique challenge is unique as it emerged at a stage when it was changing gear from stabilization to growth and emergence of COVID-19 thwarted all efforts and impacted entire socio-economic landscape of Pakistan. Globally, it threatens to rapidly reverse the integration of global economic and social systems achieved over decades.

The severity of the COVID-19 impact is yet to be fully determined due to its unprecedented nature. However, it has exposed vulnerabilities which provide an opportunity to reassess our development priorities to fill gaps which have been laid bare by the shock. COVID-19 has provided us with a chance to acutely analyze key areas which the GoP must investigate further and invest in for the resilient, durable and diversified progress. The virus has highlighted over-reliance in certain export areas; a more diversified export base would have

served Pakistan better. Vulnerabilities of the economy's conventional supply chains have been exposed; there is a need to rapidly digitalize and technologically supplement supply chains across various industries, including agriculture. The pandemic has amplified the lack of health facilities and the need to urgently invest in the same. The dire need for reliable data availability and data banks has strongly emerged to better monitor the effectiveness of policy intervention and serve our large population. Lack of investment in research and development, especially in the areas of health, medicine and related equipment to increase self-reliance has not been able to seek warranted attention. COVID-19 offers us a chance to rethink previous approaches to public sector investments and evolve ways to encourage the private sector to step forward to help invest in gaps exposed by the virus in the economy.

While the federal government, in close coordination with relevant stakeholders, continues to work on various initiatives to help the cause, it will be the reorientation of policy and lawmakers' ways of thinking about development which could create the most profound impact to the virus and define whether Pakistan, as a nation, comes out more resilient in the post-crisis world.
