

IMPACT OF COVID-19 ON PAKISTAN'S ECONOMY

Policy Analysis & Development Wing
Ministry of Economic Affairs

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Impact of COVID-19 on Pakistan's Economy:

From the Perspective of International Financial Institutions

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PREFACE

Policy Analysis & Development Wing of Economic Affairs Division has reviewed recent reports of international financial institutions on COVID-19 and examined its impacts on Pakistan's economy. It is a useful effort to know the perspective of international financial institutions regarding COVID-19 pandemic.

Suggestions for further improvement will be highly appreciated and welcomed.

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Impact of COVID-19 on Pakistan's Economy

1 Introduction

After confirming the first case on 26th February, 2020, Covid-19 is spreading rapidly In Pakistan. As of 27th March, there were only 1,405 confirmed cases. However, it has increased tremendously. Within a month the confirmed cases have increased to 13,328, till 27th April 2020.¹ Pakistan's two major financial and economic hubs i.e. Lahore and Karachi have reported to be affected the most. Around 40% of the confirmed cases belong to these two cities. In order to contain the spread of the COVID 19, the concerned authorities have lock downed the country by putting limits on social and economic activities, halted domestic and international flights, and by closing the public transport including railways. These restrictions have severe impacts on Pakistan's economy.

2. In order to gauge the impact of COVID 19 pandemic on economies, the development partners have prepared various reports. The present analysis is based on IMF, World Bank, and ADB's following recent reports:

- a. **IMF:** Request for Purchase under the Rapid Financing Instrument, April, 2020
- b. **World Bank:** The Economic Impact of COVID-19 on South Asia, April, 2020
- c. **ADB:** The Economic Impact of the COVID-19 Outbreak on Developing Asia. The report is published in March 2020 and primarily based on virus outbreak in China and its effects on other Asian economies

3. The present analysis will help to understand the views of International Financial Institutions regarding Pakistan's macroeconomic outlook.

2 Analytical Review

4. Under the World Bank classification for development, Pakistan is categorized as lower middle income country with per capita income of \$1,497 and total population of 204.65 million

¹<http://covid.gov.pk/stats/pakistan>

in 2019. The Human Development Report 2019 ranked Pakistan at 152 among 189 economies. Health outcomes remain poor, featuring one of the highest maternal mortality ratios in the Asia and the third-highest child stunting rate in the world. An estimated 23 million children are out of school and 24.3% of the population is living below the poverty line.

5. Present government has initiated various social protection programs to mitigate vulnerability, reducing poverty, and providing affordable healthcare and insurance to low-income families. However, the ongoing COVID-19 pandemic underscores the government efforts to strengthening social protection in Pakistan. COVID-19 is becoming a major economic crisis which shut downs almost all economic activities. The economic challenge faced by Pakistan during the ongoing pandemic consists of contraction in aggregate demand for goods and services; disruption in production activities; massive fall in investors and consumer confidence; substantial reduction in trade volume both domestic and external; lower export receipts weaken external position; and tightening of financial conditions leading to complicated situation of external debt maturity refinancing. Table 1 highlights Pakistan’s major economic indicators as estimated by our leading development partners:

Table 1: Major Economic Indicators

Economic Indicators	IMF			World Bank		ADB	
	FY 2020 (Pre COVID)	FY 2020 (Post COVID)	FY 2021	FY 2020 (Post COVID)	FY 2021	FY2020 (Pre COVID)	FY2021 (Pre COVID)
Real GDP Growth (%)	2.4	-1.5	2.0	-1.3	0.9	2.6	3.2
Inflation (%)	11.8	11.3	8.0	11.8	9.5	11.5	8.3
Fiscal Deficit (% of GDP)	-7.2	-9.2	-6.5	-9.5	-8.7	-8.0	-
Exports Growth (%)	5.6	-2.1	4.7	-19.7	-5.3	-	-
Imports Growth (%)	-8.8	-16.0	3.0	-26.3	-7.7	-	-
Remittances Growth (%)	3.4	-4.8	-1.5	6.5	-6.0	-	-
Current Account Deficit (% of GDP)	-2.2	-1.7	-2.4	-1.9	-2.0	-2.8	-2.4
Debt (% of GDP)	84.6	89.8	87.8	90.6	91.8	-	-

Data Source: IMF, World Bank and ADB recent Reports (see page 1, para 2 for detail)

2.1 GDP Growth

- As per IMF projection, Pakistan’s real GDP would grow at a pace of -1.5 percent in FY 2020 mainly due to severe contraction in output during the last quarter of the current

fiscal year. Pakistan GDP growth will witness a contraction for the first time since 1950. However, in FY 2021 the real GDP would grow at the rate of 2.0 percent.

- As per World Bank estimation, real GDP growth of Pakistan will be -1.3% in FY 2020 and 0.9 percent in FY2021. The recovery in FY 2021 depends on the success of efforts to contain the spread of the pandemic in Pakistan and worldwide, and to return gradually to faster growth in line with the expected global recovery.
- ADB's estimation is mainly based on virus outbreak in China and its possible effects on other Asian economies. ADB is of the view that growth in Pakistan will slow as agriculture stagnates, notably affecting cotton output, and as stabilization efforts constrain domestic demand.

2.2 Inflation

- IMF foresees inflation will be 11.3 percent in FY 2020 and it would be reduced to 8.0 percent in FY2021.
- World Bank's estimated inflation is 11.8 percent and 9.5 percent for FY 2020 and FY 2021 respectively.
- According to ADB, Pakistan will struggle with double-digit inflation (11.5 percent) in FY 2020 fueled by escalating food prices, scheduled hikes to utility rates, and domestic currency depreciation and it would decline to 8.3 percent in FY 2021.

2.3 Fiscal Deficit

- Public finances are expected to come under significant pressure. IMF projected that budget deficit is expected to be -9.2 percent of GDP in FY 2020 due to decline in tax revenue and increase in public spending to support the health response, social safety nets for the very poor. However, it is expected that in FY 2021 budget deficits will be improved to some extent and would be around 6.2 percent of GDP.
- World Bank expects that budget deficit will be -9.5 percent of GDP in FY 2020 and it will gradually decline to -8.7 percent of GDP in FY2021.

- As per ADB, the fiscal deficit will be 8.0 percent of GDP in FY2020 as the government continues to prioritize consolidation.

2.4 Balance of Payments and Total Debt

- IMF is of the view that fall in oil prices and weaker import demand provide some support to the current account but the COVID-19 shock will have a severe impact on the balance of payments especially declined remittances and exports. It will **result in new external financing needs of about \$2.0 billion in the last quarter of FY 2020**. It is envisaged that these urgent external financing needs will be met through the use of Fund credit, fresh resources committed by multilateral partners. These disbursements would maintain central bank reserves at \$12.0 billion (2.7 months of imports) by end of FY 2020. The IMF foresees that there would be potential financing gap of around \$1.6 billion in FY 2021, which would be filled through the use of reserve assets, additional support from multilateral partners, and, if needed, additional policy adjustments. According to IMF Pakistan debt as percentage of GDP would reach to 89.8 percent in FY 2020 and would be slightly reduced to 87.8 percent of GDP in FY 2021. Pakistan's public debt is assessed to be sustainable, but risks have increased substantially.
- World Bank also projected significant decline in worker's remittances as well as in exports earning and is of the view that increased multilateral and bilateral flows are expected to be the main financing sources over the medium-term. However, the public debt-to-GDP ratio is expected to increase and with Pakistan's exposure to debt-related shocks remains high. It has been projected that Debt to GDP ratio will reach 90.6 percent in FY2020 and 91.8 percent in FY 2021. Additionally, volatility of oil prices and difficulty in rolling-over of bilateral debt from non-traditional donors (China, KSA and UAE) would compound Pakistan's external risks and contribute to higher financing gaps.

3 Conclusion

6. It can be concluded that COVID-19 pandemic will have severe impacts on Pakistan's economy. World Bank and IMF have projected that for the first time since 1950 real GDP growth of Pakistan will be in negative. The Pakistan is likely to witness considerable decrease in worker remittances and Exports. However, fall in oil prices and weaker import demands provide some support to the current account balance. But due to Pakistan's new external financing needs of

about \$2.0 billion in the last quarter of FY 2020, IFIs expect that Pakistan debt will witness significant increase. Pakistan's public debt is assessed to be sustainable, but risks have increased substantially.

7. The reports haven't quantified the impacts of the macroeconomic conditions on the general public. But we can foresee that due to contraction in economic growth, fall in worker's remittances; unemployment in Pakistan will increase leading towards increase in poverty in Pakistan. It would continue to put pressure for increased social safety spending in near future even after combating the pandemic successfully.

8. Depending upon the effective response of Pakistan and international community in combating the pandemic, IFIs reports suggest that in FY2021 there is slight improvement in macroeconomic indicators.

9. The IFIs have supported the government policies to contain COVID-19 with the view that measures should be targeted and temporary, focusing in particular on increased health spending and utilizing existing social support schemes to provide quick and targeted support to the most vulnerable, but it may not result in permanent distortions of the overall fiscal envelope.
