

# **Would Fiscal and Monetary Measures by the Government anchor the sinking economy in Covid-19 storm?**

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# Would Fiscal and Monetary Measures by the Government would anchor the sinking economy in Covid-19 storm?

Entire world is grappling with catastrophic Coronavirus and no one has succeeded in finding a cure so far. There have been 72000 plus corona positive cases reported till now while the death count has reached near to 34000 . The disease is highly contagious and spreads with the touch, sneeze and cough droplets of the infected person. Not only that, the virus remains alive for hours at surfaces and can be transmitted if contact occurs with objects carrying it. To make the matters worse, the incubation period of the virus is up to 14 days during which a corona positive individual may not show any disease symptoms. The sole way out found so far is quarantining the suspects as well as corona positive people. Moreover, in order to contain the spread of the virus, healthy individuals are advised to stay indoors.

Pakistan is also battling this deadly disease and lockdown has been imposed by the government as the disease is spreading like wildfire and time bomb is ticking fast. With 1658 confirmed cases and 19 deaths, and the continued increase in cases has resulted in current lockdown as the only cure in these times of chaos. The Prime Minister of Pakistan was initially hesitant to lockdown the country due to the economic woes of the country and deep entrenched poverty. The daily wagers constitute a great portion of our population and shutting down of all types of economic activity would affect this section of the society gravely. It is expected that Pakistan can suffer layoffs between 12.3 million to 18.5 million in multiple sectors of the economy as ramifications of partial or complete lockdown. Three eminent economists from PIDE (Pakistan Institute of Development Economics) have highlighted the impact of the virus on economy in three stages in their paper titled “*Sectoral Analysis of the Vulnerable Employed COVID-19 and Pakistan’s Labor Market*”. At Stage-I, the average monthly cost was estimated at Rs.22 billion , Rs.187 billion at Stage-II while the loss would reach at Rs.261 billion per month in Stage-III

In order to save the economy from deeper recession, the government has come up with a relief package amounting to a whopping Rs.1.25 trillion. Along with that, the State Bank of Pakistan has decelerated the interest rate to 150 basis points to provide anchor to the sinking economy in the crisis time. The relief package is multisectoral in nature which aims to address challenges emerged due to Covid-19 outbreak. The breakdown of this important fiscal measure is as follows

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- Rs.200 billion are reserved for low-income groups including daily-wagers and labourers which have been hit hardly by the lockdown.
  - Rs.100 billion worth of tax refunds would be released to tackle the liquidity crunch of industrialists and exporters. Also, deferring of interest rate payments is also being allowed to bolster this sector.
  - SMEs (Small and Medium Enterprises) and Agriculture sector would be given Rs.100 billion. Concessional loans would be granted to producers and deferred interest payments would make the input costs lower for the farmer.
  - 5 million people would be granted a monthly stipend of Rs.3000 for coming four months. For this purpose, Rs.150 billion from the package would be utilized.
  - Per liter price of petrol, diesel and kerosene prices would be slashed by Rs.15 for which the government has to bear the amount of Rs.75 billion
  - Utility bills can be deposited in three months installments for electricity consumers using upto 300 units and gas consumers with Rs.2000 of monthly bills.
  - Rs. 50 billion would be allocated for medical equipment and medical staff.
  - Tax to be reduced or completely abolished on edible items as nutrition is an essential need.
  - Utility Stores Corporation would be granted a sum of Rs.50 billion to provide five edible commodities at subsidized rates. They include flour, sugar, ghee and pulses etc.
  - For procurement of wheat, Rs.280 billion are reserved.
  - National Disaster Management Authority (NDMA) has been procuring kits for which it has been given Rs.25 billion.
  - Rs.100 billion are earmarked for residual/ energy fund.

Apart from above mentioned package, a separate package is in pipeline for construction sector which is expected to be announced in few days. Also, the Panagah network would be expanded while taking precautions against the current pandemic.

State Bank of Pakistan has also come ahead to play its robust role to save the economy from deepening recessionary phase. State Bank has issued a multipronged strategy to cope up with the corona crisis. The strategy involves providing relief package for the households and businesses, supporting the health sector to combat the virus, ensuring the availability and continuity of financial services, relaxing credit requirements for exporters and importers, facilitating new investment and provision of disinfected

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currency notes. But the most important step on behalf of State Bank is evidently the slashing of interest rate.

The high interest rate of 13.25% was criticized too often by economic experts as it became a source of discouraging local investment and tarnishing business confidence. The interest rate was expected to decrease in last quarter of fiscal year 2019. Initially, State Bank decreased it by 75 basis points. But the recent dampened economic activity owing to catastrophic outbreak has forced the bank to be decreased by 1.5% in total to 11%. This crucial monetary measure is the need of the tumbling economy as lower interest rates encourage people to save less and invest more. It would provide a boost to the sluggish economic activity in current strained times.

It is quite encouraging to witness that both the monetary and fiscal wings of the state are working in tandem to offset the adverse effects of the lockdown in particular and virus in general. As posited by Sakib Sherani, former member of Prime Minister's Economic Council, the measures adopted are appropriate direction wise. The policy should be focused on three areas; Slowing the spread of the virus, minimizing bankruptcies and preserving jobs and livelihoods of the people. The package does not deliver the adequate attention to last two areas. Other than that, some elements of the package are not aligned to tackle the mounting challenges of the economy. Some suggestions can be incorporated to provide greater relief to the masses.

- Interest free loans should be extended to all registered businesses in the country for initial period of three months so that wage payments and other business obligations can be met.
- Loan repayments and servicing of interest should be deferred without penalties till end of 2020.
- Swap high cost loans with subsidized credit schemes especially for high spill over sectors.
- Policy rate should be reduced to single digits so that hundreds of billions of budgetary resources could be freed up.
- Complete waiver of GST (General Sales Tax) on food and essential items while reduction in standard rate for other items as well.
- Minimum turnover tax should be waived till end-September.
- Maximum relief should be provided to end consumer through a greater pass through in petroleum prices and electricity/gas tariffs.

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- Government would also have to consider a minimum guaranteed employment programme for three months to help those who have got unemployed.

In order to work on above mentioned recommendations, government would be in need to negotiate a one-year suspension of IMF conditionalities imposed on it in because of \$6 billion extended loan facility. IMF has hinted recently to help Pakistan fight off the hazardous impacts of corona. Dr. Abdul Hafeez Shaikh also revealed that government of Pakistan has initiated negotiations with IMF for grant of \$1.4 billion on fast track basis to cope up with situation. Though IMF has appreciated the recent relief measures by the government and has reserved \$50 billion to aid the struggling economies in wake of current pandemic. Out of this \$50 billion, \$10 billion would be given to poorest members with zero interest rates under RCF (Rapid Credit Facility). It should be noted that funds that would be directed to Pakistan are not interest free. These funds would have the same conditions as IMF Stand by Arrangements. The fiscal and monetary measures adopted by the government are indeed a commendable step towards shielding people from dire consequences of the prevalent situation. However, the incorporation of above suggestions would relief the masses till the lowest socio-economic strata of the society while maintaining the business confidence of investor class.

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