THE GREAT LOCKDOWN

Global Economic Meltdown and Pakistan's Economy

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Introduction

No one at the beginning of the year 2020 would have the slightest hunch that Coronavirus is capable of bringing the world economy on an unprecedented halt. The reports of esteemed financial institutions present a bleak picture of world economy for the ongoing year with the slow conditional recovery expected in year 2021. According to IMF, Global economy will shrink by three per cent in 2020, much worse than the 2008-09 financial crisis as the world experiences "The Great Lockdown" following the outbreak of coronavirus. The IMF's chief economist, Gita Gopinath said

"The crisis could knock $9 trillion off global GDP over the next two years. It is first time since great recession that both advance and emerging economies are in recession. If the pandemic does not retreat in second half of 2020 and financial condition worsens, the global economy could decline another three per cent in 2020. And if crisis rolls over into 2021, it will reduce global GDP by eight per cent based on base line scenario"

According to the Economist Intelligence Unit (EIU),

'The world economy already faces an economic downturn worse than the Great Depression. But this could be followed by another "possibly much worse downturn" as world governments are giving trillions of dollars in stimulus packages to help prop up their economies. Sovereign debts that they are racking up may push the global economy into a second recession. There is a risk of a subsequent recession, driven by a debt crisis from governments with weak balance sheets'

"Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices. Risks of a worse outcome predominate," IMF said in its World Economic Outlook released recently.

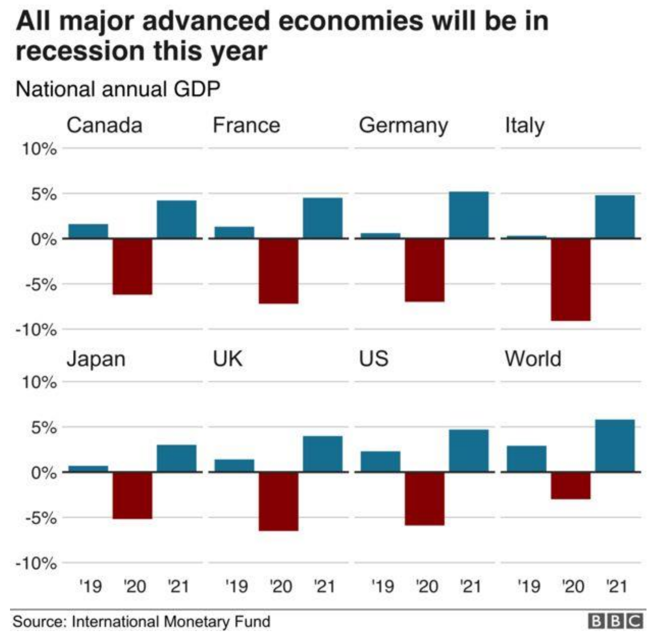
The economic fallout around the world due to the virus could include recessions in the US, euro-area and Japan, the slowest growth on record in China, and a total of $2.7 trillion in lost output—equivalent to the entire GDP of the UK.

Hard Hit Industries

As governments impose strict lockdowns and consumers stay at home, tourism and travel-related industries are among the worst hit at sector level. The International Air Transport Association warns that virus outbreak can cost worldwide air carriers between $63 billion and $113 billion in proceeds in 2020. With major disruptions confronting sporting events, restaurants, and other services, shares of main hotel companies have also nosedived in the last few weeks. Similarly, global film industry is expected to lose over $5 billion in lower box office revenues. Asia's service sector in particular would take a major hit and take time to rebound. Similarly, factories, shops and restaurants have been hard hit by national lockdowns. By March, Chinese services and manufacturing sector slumped to record lows, its automobile sales sank a record 80%, and exports shrank by some 17% in January and February combined. In Pakistan, cement, automobile, oil and gas sector are registering huge losses among many others facing the same scenario.

Advanced Economies

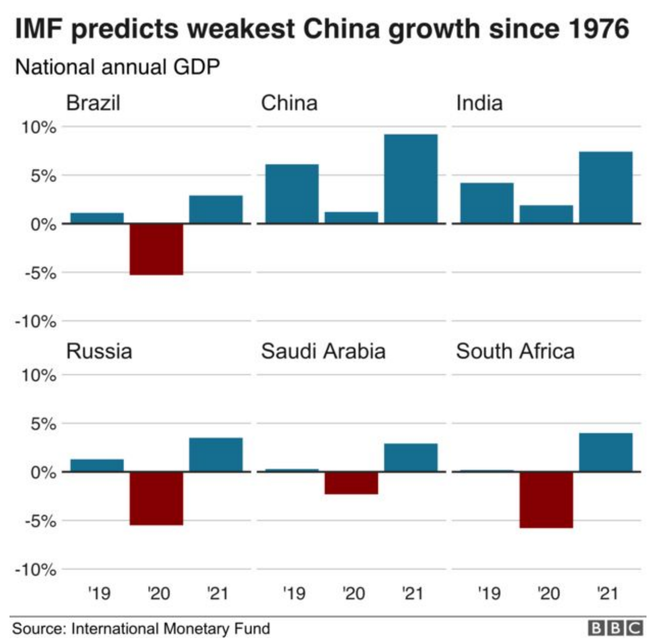
Advanced economies group where several countries are experiencing widespread outbreaks and deploying containment measures is projected to contract 6.1 per cent in 2020. Most economies in the group are forecast to contract this year, including the US is expected to shrink by 5.9 per cent, Japan by 5.2 per cent, the UK by 6.5 percent, Germany by 7 percent, France by 7.2 percent, Italy by 9.1 percent and Spain by 8 percent. The IMF predicts the UK economy will shrink by 6.5% in 2020, compared with the IMF's January forecast for 1.4% GDP growth. A decline of this magnitude would be bigger than the 4.2% drop in output seen in the wake of the financial crisis. It would also represent the biggest annual fall since 1921, according to reconstructed Bank of England data dating back to the 18th century while the euro area as a whole is forecast to contract 7.5%.



The US economy is expected to contract by 5.9% this year, representing the biggest annual decline since 1946. Unemployment in the US is also expected to jump to 10.4% this year.

Emerging Economies

A report by IMF warns that Economies in Asia will see zero growth this year for the first time in 60 years, Asia has been among the fastest-growing regions in the world. During previous crises such as the Asian financial crisis in 1997 and the global financial crisis around 2008-2009, the region still managed to grow and registered average growth rates of 1.3% and 4.7%, respectively. The economies of Asia’s largest trading partners are expected to experience deep contractions



Director of IMF’s Asia and Pacific Department is of the opinion that “While there is huge uncertainty about 2020 growth prospects, and even more so about the 2021 outlook, the impact of the coronavirus on the region will be severe and unprecedented.” The projections drawn for Asian region show Japan to shrink by 5.2%, South Korea to shrink by 1.2%, Southeast Asia’s five largest economies; Indonesia, Thailand, Malaysia, Singapore and the Philippines to collectively contract by 1.3% whereas India would grow by 1.9%. China, the world's second largest economy growth figures for the first three months of 2020 on Friday, is expected to grow by 1.2% this year. This is a significant fall from the 6% growth predicted earlier. But measures have started pay off and there are signs of recovery and is expected to see a rebound in activity later this year, with growth bouncing back to 9.2% next year, China and India are the only bright spot in IMF's 2020 forecast, growing by 1.2 per cent and 1.9 per cent, respectively

China is one of the few economies poised to grow in 2020, according to the fund's projections. But the IMF's 1.2% growth forecast for the country is a sharp slowdown from China's economic performance in previous years. This sharply contrasts with China's growth performance during the Global Financial Crisis, which was little changed at 9.4 percent in 2009 thanks to the important fiscal stimulus of about 8 percent of GDP but this time such stimulus cannot be expected and hence China would not be able to help Asian region grow.

Growth Expectations for 2021

With global rebounding to 5.8 percent next year, the advanced economy group is forecast to grow at 4.5 percent, while growth for the emerging market and developing economy group is forecast at 6.6 per cent. The rebound in 2021 depends critically on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence. Nonetheless, the level of GDP at the end of 2021 in both advanced and emerging market and developing economies is expected to remain below the pre-virus baseline. There are hopes for advanced economies reach pre-virus level of growth in 2022.

Pakistan's Economy in shambles

Pakistan economy had already been struggling as it took a nosedive from growth rate of 5.4% in FY2018 to around 3% FY2019. With the lock down imposed for about a month, the economy is under mounting strain. Both internal and external sectors of the economy would suffer a serious setback due to Covid-19.

External impact

Corona Virus has primarily disrupted the Global Value Chain also called GVC. It means that the movement of imports and exports has been disturbed. Exporters from Pakistan are unable to process their orders and the payments from previous orders have also been halted in most cases as businesses abroad, mostly in Europe and the U.S have been shut down. Movement of goods and cargo is also blocked making it extremely difficult to maintain the flow of business. Conversely, imports cannot be completed as lockdowns have shut down every major city in the world. People are not coming to offices and Governments have ordered to work from home. Trade involves tangible goods, which cannot be handled without human presence. There are a huge number of private companies in Pakistan that heavily rely on imports for running successfully. Commercial importers will suffer from delays or complete stoppage of value chain while industrial importers will have to stop production because of non-availability of raw material. After the initial grace period, the shortfalls in revenue will result in salary cuts and then finally, job losses. According to Pakistan Institute of Development Economics (PIDE), there will losses of jobs in the millions, particularly for semi-skilled and daily wage earners. Around

2.4% of the Annual GDP will be lost due to COVID-19, which can send the country into a spiraling recession.

Internal side

On the internal side, the closure of schools, offices, factories and markets will hit the small and medium businesses. There is a possibility of mass bankruptcies. As the middle- and lower-income groups struggle to earn enough income to feed themselves and pay for basic necessities, which can result in hyper-inflation, joblessness and complete collapse of the economy. The Prime Minister of Pakistan realized this scenario and has taken considerable criticism for not implementing a complete lockdown of the whole country. In his words, we are faced with two challenges, Corona Virus and its economic impact on the poor segments of the society.

Initial loss assessment by Federal Government

The initial assessment of the losses to different sectors is listed below

- Under moderate restrictions, employment loss could be up to 12 million, around 20pc of employed labour force of the country. The total labour force in the country stood at 60-65 million. Moderate estimates calculated, showed that the lingering pandemic could result into unemployment ranging from 12 to 20 million while the monthly average losses of losing jobs stood at Rs180 billion to Rs260 billion.

- Initial estimates put a business loss amount over Rs450 billion for the fourth quarter (April-June) period of the current fiscal year. The government's business loss might escalate further because it did not include the overall losses on account of GDP growth and important sectors like agriculture, manufacturing and services sectors amid halting economic activities in all sphere of lives.

- Security and Exchange Commission of Pakistan (SECP) shared information that the stock market tumbled and it so far caused losses to the tune of Rs200 to 250 billion.

- FBR could see a decrease in revenue/cash outflow of around Rs600 billion alone in the fourth quarter (April-June) period of the current fiscal year. Initially, the FBR had estimated revenue losses of Rs380 billion but they revised upward their losses in the wake of additional Rs200 billion losses on account of deferment of utility bills, including electricity and gas and then release of stuck-up refunds to the tune of Rs100 billion. It is not yet known that the FBR took revised target of Rs 5.2 trillion or Rs4.8 trillion. However, the FBR sources said that the tax collection could maximum go up Rs4.2 trillion but the possibility of Rs4.4 trillion seemed out of question. Renowned economist Dr Hafeez A Pasha stated that the FBR could collect Rs4 trillion maximum till the end of the current fiscal year

- Planning Commission's estimates showed that there was an expected sharp slowdown in imports of up to 60pc, exports could potentially go down by up to 10pc "Impact of trade contraction only on GDP could be up to 4.6pc in the last quarter if combined imports and exports go down by 20pc," This figure of 4.6 percent losses in GDP during the last quarter could be roughly quantified around Rs700 to Rs800 billion losses in the April-June period of FY2020 if exchange rate in terms of dollar versus rupee is estimated at Rs165 against dollar.

In order to keep the economy thriving, Prime Minister has announced a relief package aiming to provide support to different sectors of the economy. Besides that, IMF has approved a debt relief of $1.4 billion under Rapid Financing Instrument (RFI) which would boost the foreign exchange reserves and would also create fiscal space to combat Covid-19. On the other hand, there are speculations that Pakistan's public debt may rise to 90% of national economy equivalent to Rs.37.7 trillion by the end of current fiscal year. With major industries registering mammoth losses in wake of current lockdown, robust trends in Foreign Direct Investment and Pakistani rupee gaining some value against dollar, the signals for the economy of Pakistan are quite mixed. The covid-19 situation is worsening day by day with sources predicting the peak is yet to reached. The resources of the country are under extreme strain while government is trying to ward off the disease employing best of minds and resources. Much like other parts of the world where growth rate predictions have been revised down, Asian development Bank in its latest report has predicted that Pakistan GDP would shrink to 2.6% from 3.3% while inflation would remain around 11.5%. The current situation does not foretell a promising future for Pakistan's economy. The economy can rebound to better growth levels quick if Coronavirus is controlled but for now, nothing can be claimed with absolute surety.

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