Impact of COVID-19 on Economic and Social Indicators of Pakistan: A Camparative Analysis

Sundus Aijaz Mughal[1]

Abstract

COVID-19 has acted as a global pandemic resulting in a global lockdown for the many months during 2020. It has impacted inversely on growth rate which declined by -0.38 percent where industry and service sectors are gone through dismissal by representing -2.64 and -0.59 percent passive performance. However agricultural sector has met the growth of 2.67 percent as compare with the last year. The measures government is taking is surely adding more to government expense, the more expense is made in health sector besides offering direct cash support to the nations. There are liquidity measures taken to secure financial stability. Ehsas monthly program is a big-time challenge for government to pursue, with an allocation of 144 billion which has a cash relief capability for daily wage earners. Till 28 May there is a disbursing of 112.6 billion to almost 9.3 million families. The government simulation packages to large scale manufacturing and 525 basis point cuts in SBP policy rate has caused to regain KSE 100 closed at 16.7 percent in May 2020 that is higher in comparison to March 2020. The government is expecting roll over payment related to power project from China and COVID related support from Asian Development Bank.

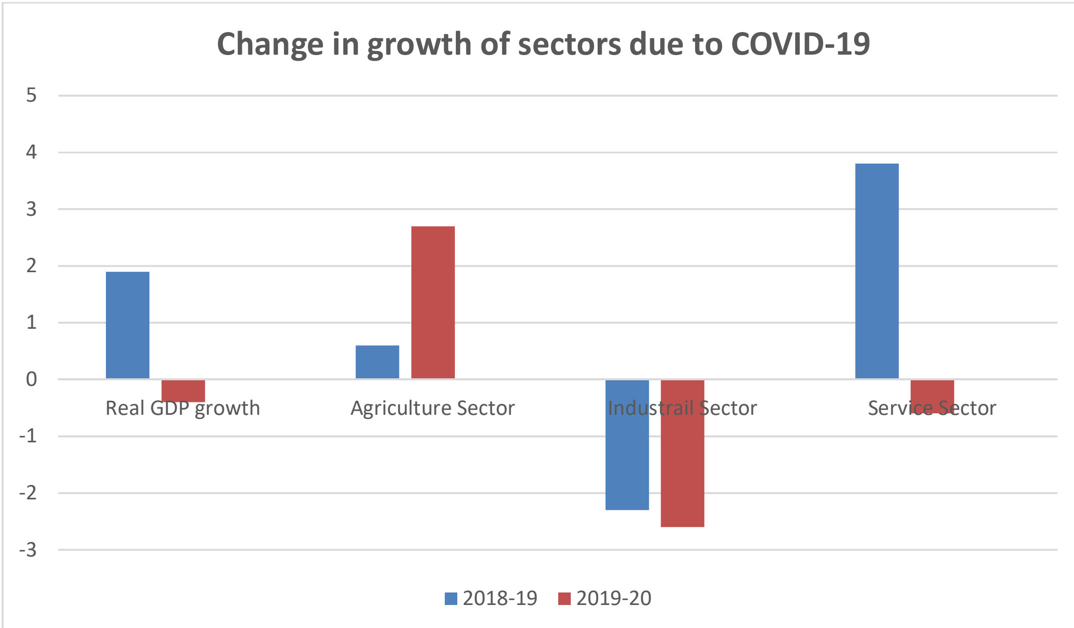
Introduction

Covid 19 is a pandemic, alike all other countries Pakistan is also affected from it negatively. The impact has been noticed on almost important indicators including budget of 2020-21. The freezing of government salaries and pensions is a big-time step followed by emphasize on reducing inflation to 6 percent. There is seen no rise in interest this for this fiscal year. In this paper the impact of Covid 19 on Pakistani economy would be analyzed in great detail from aspect economical (internal and external indicators) and social changes (health and nutrition). The economic indicators that would be discussed with respect to Covid 19 impact assessment are employment, inflation, GDP (agriculture, service and manufacturing) and external factors such as FDI and remittances.

Impact of COVID 19 on GDP: Analysis of Pakistan

The real GDP growth by 2019-20 was 1.9 percent however it was projected at 3.3 percent but it declined by -0.4. In terms of GDP breakdown is it evident from the facts that agriculture sector has not faced as much crucial task as much industrial and service sector have faced. Though the labor mobility in Punjab was quite less and thus agricultural sector has also affected in harvesting season of wheat.

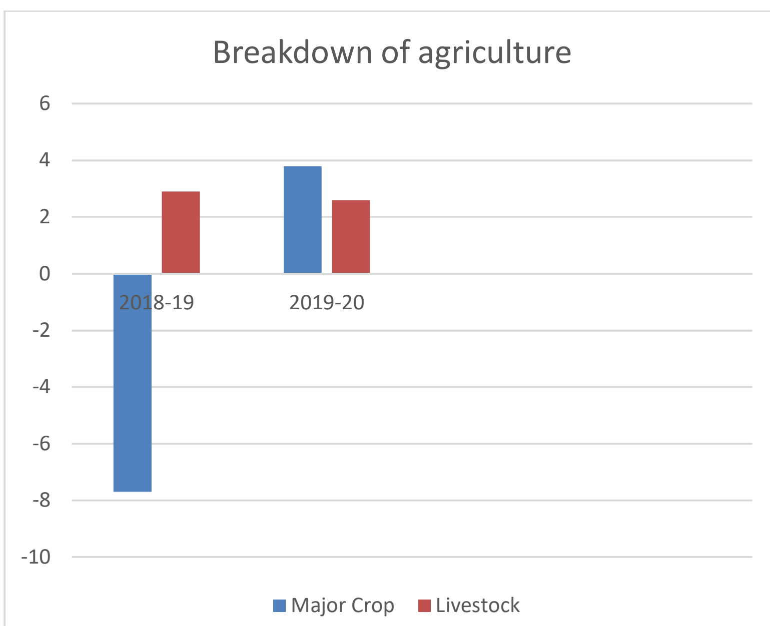
[1] *Lecturer in Economics, Concordia College, Gujrat and PhD Scholar, University of Gujrat, Pakistan*



Source: Economic Survey 2019-20.

Agriculture Not Witnesses Significant Impact of COVID-19

It grew by 0.6 percent in 2018-19 but it was projected to grew by 3 percent in 2019-20 but due to Covid impacts the actual growth of agricultural sector is by 2.7 percent only. The major crop actually has negative growth by -7.7 percent in 2018-19 but it increased to 2.9 percent in actually in 2019-20 but its projection was only 2.8 percent. This has shown a positive trend after Covid. The livestock market grew by 3.8 percent in 2018-19 but it has increased by 2.6 percent in reality but it was projected to increase by 3.2 percent.



Source: Economic Survey 2019-20.

The evident positive change has been noticed in major crops but rest of the projections are negative. The production of wheat, maize and rice has been increased since previous year, there is a growth of 2.58 percent in livestock and a growth of 2.29 percent in forestry.

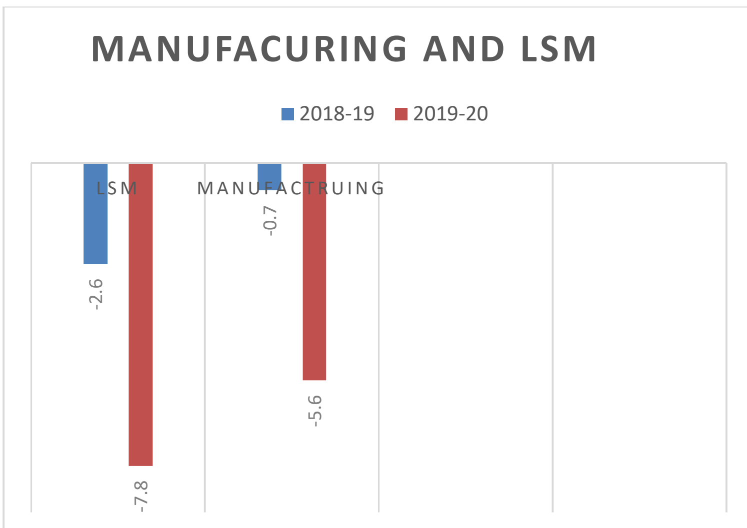
Industrial Sector

There is seen quite a negative impact of Covid 19 on industrial sector. Though it showed negative growth by -203 percent in 2018-19 but it was projected to grow by 0.7 percent but it has shown -2.6 percent negative growth.

The manufacturing sector has intensively affected as it showed 0.7 percent change in 2018-19 and it projected to grow by 0.5 percent but what actually happened is the negative growth by -5.6 percent.

Large Scale Manufacturing

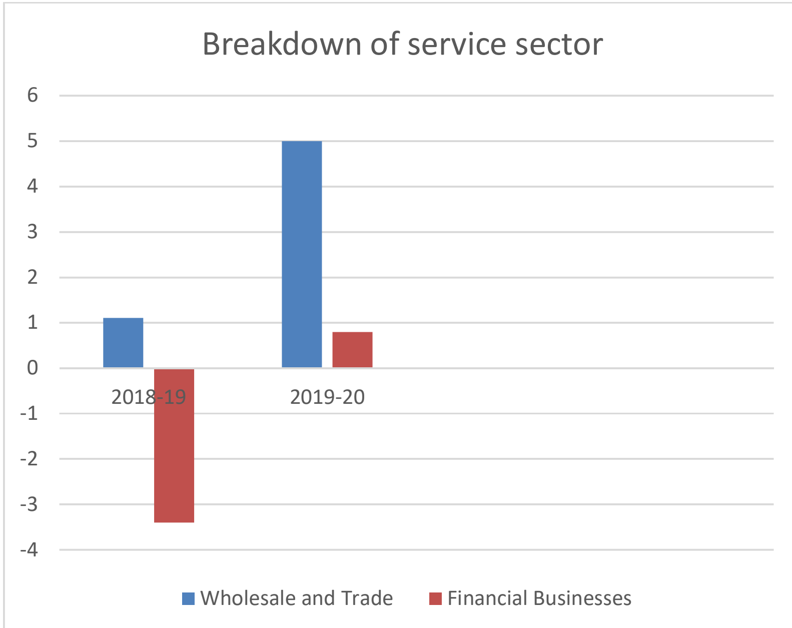
The large-scale manufacturing has witnessed a sever impact as compare to month to month manufacturing. Large scale manufacturing has witnessed a subdued performance by -5.4 percent from July-march 2020. Textile sector which is an important sector of Pakistan is also labor intensive and it is fully vulnerable due to Covid 19 leading to severe damage to LSM.



Source: Economic Survey 2019-20.

Services Sector

The service sector alike all above mentioned sectors have also declined and the growth of 2018-19 was 3.8 percent but it has shown a decrease by -0.6 percent in reality, though it was expected to grow by 4.2 percent. No matter it is wholesale market or financial market both have contracted by -3.4 and 0.8 percent respectively the projection for wholesale and financial sectors were 3.2 and 4.7 respectively whereas in 2018-19 these sectors show of 1.1 and 5.0 percent respectively.



Source: Economic Survey 2019-20.

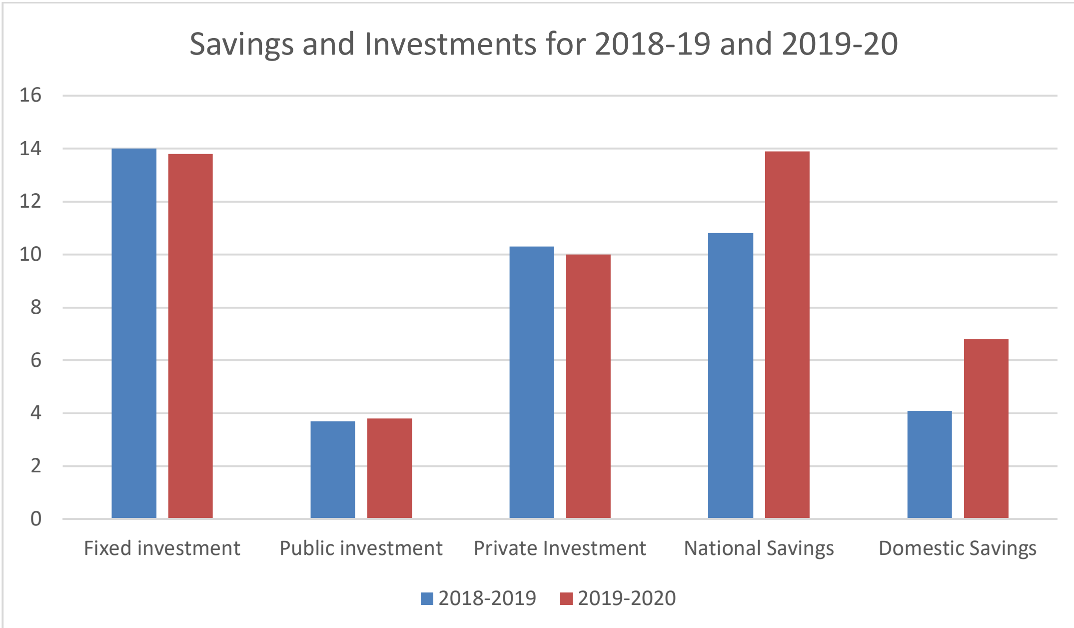
Impact on Revenue Sector/Government Expenditures

Alike all other sectors the tax collection is also slowed down, tax collection was growing at 17 percent from July 2019 to February 2020 but it reduced to -13.4 percent from march to April 2020 (in comparison to last year). This has impacted on preferences of government expenditures and the budget deficit has grown to 9.4 percent of GDP where it was expected to stay at 7.5 percent of GDP. The falling revenues and increasing expenditures of government are noticed due to increased spending in health department, giving support to businesses and providing social protections. The tax revenue was going quite at good pace, indirect and sales taxes grew by 15.7 percent and federal excise duty also increased to 12.0 percent but from March to April 2020 the tax collection has decreased to 13.2 to 13.5 percent.

However fiscal deficit has been reduced to 3.8 percent from July to March 2020 though it was 5 percent for 2018-19. The primary balance has witnessed surplus of 193.5billion from July to March 2020, all provinces has also shown a surplus of 394.1 billion which was 291.6 billion last year (UNDP 2020).

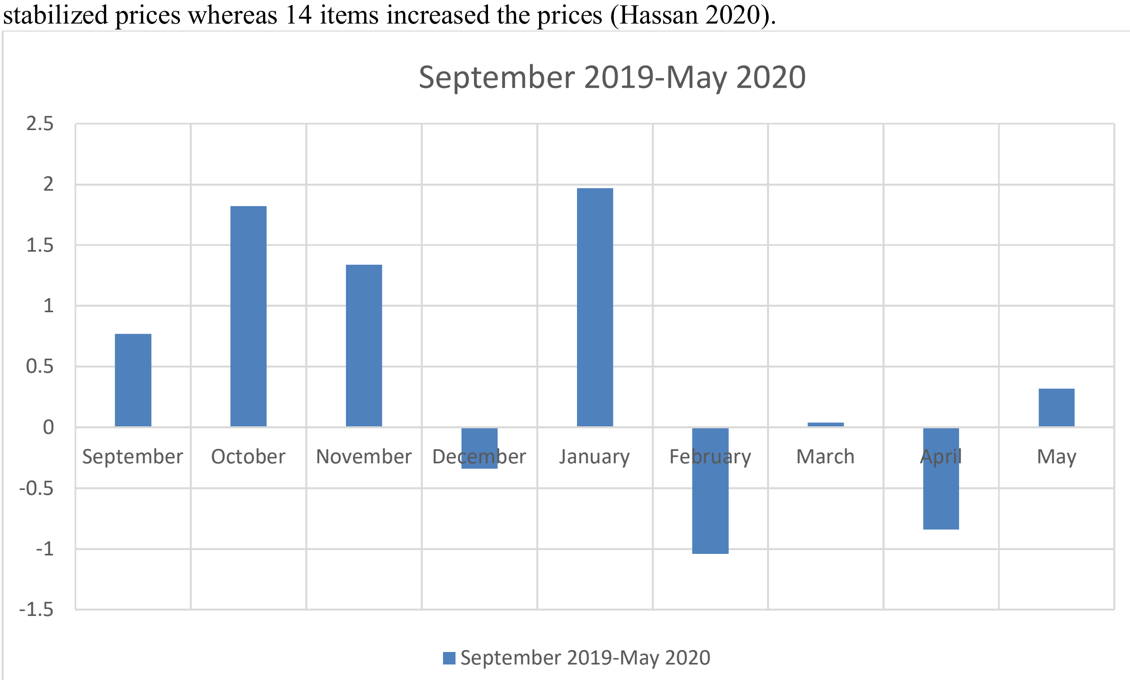
Impact on Savings and Investments

The investments are declined but not to negative value as it was projected to stay still at 15.6 percentage of GDP but it declined to 15.4 percentage of GDP. The national savings are actually increased as percentage of GDP from 10.8 percent in 2018-19 to 13.9 percent in 2019-20. The foreign savings are constantly declining as it shown a trend of 4.8 percent in 2018-19 but is declined to1.5 percent in 2019-20.



Impact on Inflation

Price stability is the utmost preference of government right now however supply and demand shocks have occurred on global level. The utility stores corporations have also provided with subsidies. The essential utilities are provided at subitized rate. The CPI index has fallen to 8.5 percent and decline in inflation is a , it was as high at 11.22 percent from July to April 2020. Sensitive price indicator has analyzed movements of 51 products , the week which ended on 14th May 2020 recorded 26 items on stabilized prices whereas 14 items increased the prices (Hassan 2020).



Source: Economic Survey 2019-20.

Impact on Monetary Policy/Interest Rate

A cut is made to the basis points cuts of 525 and this is expected that the employment will be generated besides providing relief to the affected people from pandemic. Besides that, M2 (cash, checking deposits and near money) is also expanded by 9.66 percent. Interest rate has been reduced gradually since April 2020; it was 11 percent on 16 April, 2020 which was 8 percent by 18 May, 2020. It was 8 percent persistent by June 22, 2020.

Unemployment

There are a lot of protests noticed in Karachi when females were laid off a week before a labor day from a garment factory in result of lockdown. There are 75 percent of laborer's who are unregistered as per labor union of Pakistan. This is happening all around the country as per news reports, the 75 percent of labor force which is informal is 65 million, though 40 percent of these are in agricultural sector which is still safe to go. Finance minister Abdul Hafiz Shaikh in an interview to the Dawn has alarmed that the contraction in economy is expected to worsen. IMF had projection for unemployment rate to increase to 6.2 percent in 2020, which was 5.5 percent in January 2020.

Impact on External Sector

Fpreign Direct Investment

The economic survey projected that there are heightened risk perceptions and thus private investment is going to fall a big time in coming months. The industrial consumers are also possible as banks are seen quite reluctant in offering loans. Talking particularly about FDI the inflows are going to be affected by 30-40 percent in 2020-21 according to the report of UNCTAD. Because the foreign investors are earning less in this period thus they are left with little to invest back in the future.

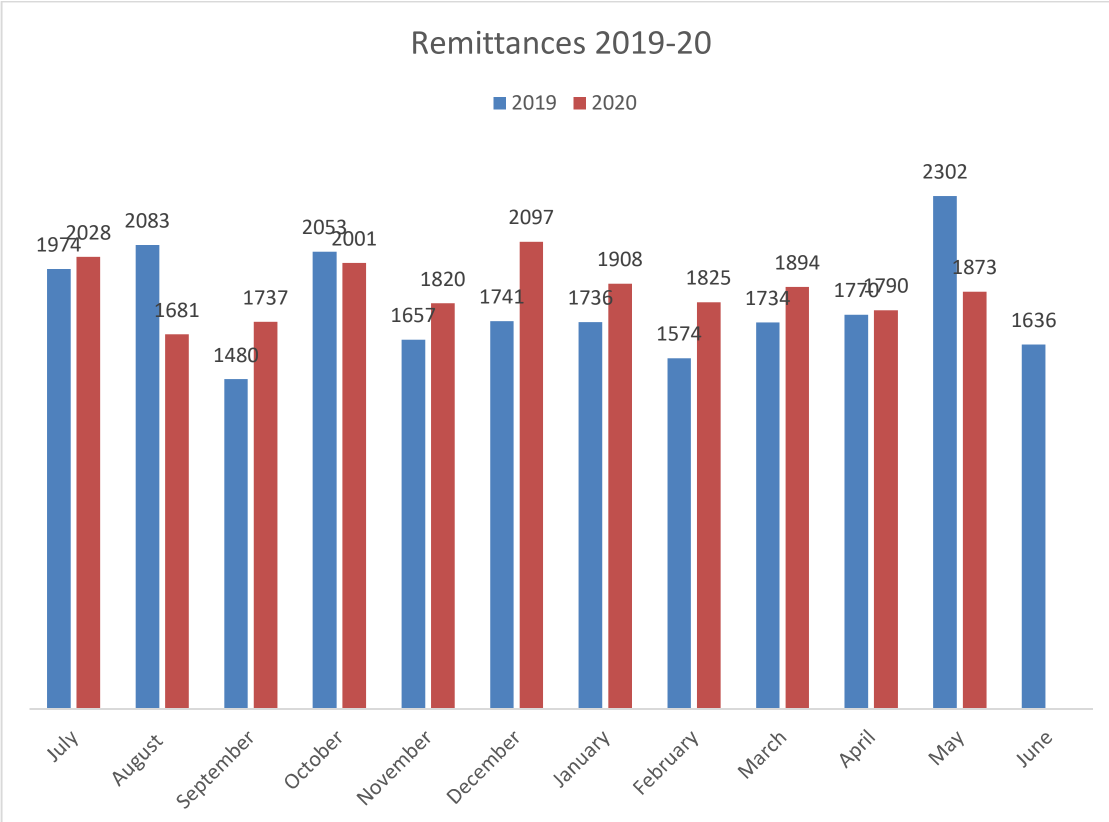
The inflows of FDI were actually improved for the July to April 2020 by $2871 million whereas it was at $ 2314million last year for similar months. The inflows of FDI has increased by 24.1 percent whereas its outflow has been decreased by 54.9 percent $590.1 million for the period of July to April 2020 in compensation to similar period of last year at $1308.2 million.

FDI has declined by 242 million USD in March 2020, whereas it had an increase of 126 million USD in previous quarter. On 19 June, 2020 SBP has informed that Norway, Malta, Netherlands Switzerland and the UK are coming up are top 5 investors in Pakistan however china and UAE has divested in last two months. 57.5 million has come from Norway, in May 2020 followed by a decent investment from Malta at 18.5 million USD. Investors from Germany, Italy and the US showed the leas interest with $3.3, $2.5 and $2.2 million USD respectively. china showed the largest amount of disinvestment of $22.2 million during Covid months (Khan, 2020).

However, FPI has shown drastic changes by $565.5million outflow in April 2020. It was even higher for March 2020 at $ 1830 million. It declined to 77 percent in march 2020 and 79 percent in April 2020. FPI is an investment in equity market painted a quite depressive picture in these months, the net outflow for the month of May 2020 is $110.6 million. The US has acted as the biggest withdrawal at $22.5 million for the month of May, 2020 (Haqqani, 2020).

Remittances

On year over year basis there was an increase of 1.1 percent in remittances inapril2020 the highest share of remittances occurred from KSA, UAE, USA, UK, and other GCC countries respectively. however, a growth of 5.5 percent is noticed from July to April of 2020 to previous year and that growth rate was higher by 5.5 percent.



Source: Economic Survey 2019-20.

Imports/Exports and Trade Deficit

Imports and exports have also shown a very changed pattern after Covid 19. As the whole the world is going through a transition phase, the change noticed in imports/exports is evident all around. The less movement of borders have caused the decrease in both imports and exports.

According to April 2020 statistics the exports are declined by 55 percent and imports are declined by 35 percent. There are two main reasons for decline in exports i.e. lesser activity domestically and lesser demand from bilateral countries. So is the case with imports as wholesale trade is low . the decline has taken place in purchase of automobiles, petroleum products a cement causing the imports to be low as well. the may 2020 statistics show that exports declines by 2.4 percent and imports have declined by 16.9 percent and trade deficit has reduced to 29.5 percent. Exports and imports of services are also declined at 7.6percent and 18.9 percent respectively

The business activities in Pakistan are also lesser because the bilateral trading partners of Pakistan (top 5) are also severely affected by the Covid 19 and these are regarded as the worst hit countries which are China, USA, UK, Japan, and Germany (Abbas, 2020).

Social Impact of COVID-19

The impact of Covid 19 on health sector is not only on the new patients' statistics but the other non Covid related illnesses and their treatments are also disrupted.

The social impact of Covid 19 is also there. There are social vulnerabilities present in health care provision. there is onl7 1 bed available to 1680 people. There are 2 to 3 patients present on each bed in public hospital in urban regions however the medical supplies are also limited. There is high need to accelerate local production of kits as well as medical supplies. There is a requirement that population testing for Covid 19 is also made faster and easily possible.

Childcare and Reproductive Healthcare

The other disrupted healthcare facilities include vaccinations and immunizations of children. The travel limitations have caused less supply stock of immunization services. The reproductive healthcare is also affected as physicians are directed to address Covid patients. The reproductive health programs as well as patients who were given health subsidies are also adding compound effect on the sector.

Education

There are 42 million school going children who are also affected from preprimary to college level, there is already a weak educational system and this has a risk of steepening the illiteracy levels. There is a more sever foreseen impact on women especially those living in rural areas. Whenever there is crisis the women are taken out of school double than men. The women are suffering in education as well because due to Covid 19 the purchasing power of households have been reduced and income is not as much as before leading women to quit education.

Nutrition

Reduction in purchasing power has caused the people to sacrifice on high nutritional food. The market restrictions have also caused lack of access to various food items. The dietary intake is not optimal , however lower socio-economic groups are more volatile especially the houses where women are the only earners (Sharif, 2020).

There are 22 percent of people who are relying on wage labor only whereas 62 percent of who rely on farm working and daily wage. Such people who used to store wheat for their personal usage are also selling it to get money, this has created a lot of vulnerability for such people. There is a mechanism to support food supplies to such groups and increase liquidity of their assets such as livestock. Besides farmers there are shopkeepers and small factory owners who earn from daily trade and activities but their earning is at risk now.

Conclusion

There is presented a 10 point agenda as a preliminary strategy to overcome the issues such as 5G deployment to enable industrial cooperation, building IT as well as security, new priorities for investments, new acquisitions, finding quality projects, giving incentives to the industries which go through reforms, launch a survival plan for already existing small and medium enterprises, working fast in CPEC projects and incorporating with non-Chinese companies in this regard as well. The second round of Covid 19 brought more severity. The expected growth rate for next a few years was lesser than population growth rate. Thus, poverty is expected to prevail and it can intensify further. The exports have remittances flow may decreased further because further dampening of global trade. Pakistan fortunately has suffered less economically as compared to other economies however the liquidity issues prevailed with the businesses.

A quick glimpse of internal and external economic indicators:

Indicator	Change
Tax collection/revenue	Decreased
Social safety programs	Increased
Expenditure	Increased
FDI	Decreased (China biggest withdrawal)
FPI	Drastically Decreased(US biggest withdrawal)
Imports	Decreased
Exports	Decreased
Trade Deficit	Reduced

Savings	Increased
CPI	Decreased
Remittances	Steady
GDP	Decreased
Manufacturing	Drastic Decrease
Agriculture	Increased
Services	Decreased
Monetary Policy/Interest rate	Expanded/Reduced

References

- Abbas, G. (2020). *Inflation eases to 8.5pc in April*. Pakistantoday.com.pk. Retrieved 24 June 2020, from https://www.pakistantoday.com.pk/2020/05/01/inflation-eases-8-5pc-april/.
- *COVID-19 pandemic | UNDP in Pakistan*. UNDP. (2020). Retrieved 24 June 2020, from https://www.pk.undp.org/content/pakistan/en/home/coronavirus.html.
- Dawn.com. (2020). *Pakistan's inflation rate slows to 8.2pc year-on-year in May*. DAWN.COM. Retrieved 24 June 2020, from https://www.dawn.com/news/1560612.
- Finance.gov.pk. (2020). Retrieved 24 June 2020, from http://www.finance.gov.pk/survey/chapter_20/Annex_III_COVID_19_Advent_and_Impact_Assesment.pdf.
- *Pakistan Discovers the High Cost of Chinese Investment*. Thediplomat.com. Retrieved 24 June 2020, from https://thediplomat.com/2020/05/pakistan-discovers-the-high-cost-of-chinese-investment/.
- Hassan, K. (2020). *Pakistan's economic transformation*. Thenews.com.pk. Retrieved 24 June 2020, from https://www.thenews.com.pk/print/650652-pakistan-s-economic-transformation.
- *Foreign direct investment in Pakistan: Fiscal Year 2020*. Daily Times. Retrieved 24 June 2020, from https://dailytimes.com.pk/610768/foreign-direct-investment-in-pakistan-fiscal-year-2020/.
- *Pak GDP to contract by 1.6pc in current fiscal: Economist Intelligence Unit*. Thenews.com.pk. (2020). Retrieved 24 June 2020, from https://www.thenews.com.pk/print/656244-impact-of-covid-19-pandemic-pak-gdp-to-contract-by-1-6pc-in-current-fiscal-economist-intelligence-unit.
- *Pakistan Takes Action to Reduce Social Impacts of COVID-19*. World Bank. (2020). Retrieved 24 June 2020, from https://www.worldbank.org/en/news/press-release/2020/05/21/pakistan-takes-action-to-reduce-social-impacts-of-covid-19.
- *Pakistan's deficit and poverty rate to soar due to coronavirus, govt estimates show*. Newspaper. (2020). Retrieved 22 June 2020, from https://www.dawn.com/news/1557111.
- Sharif, S. (2020). Impact of COVID-19 Pandemic: Government Relief Package and the Likely Mis-Allocation of Loans in Pakistan. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3572718