

Covid poses multidimensional challenges to economy: SBP

Says if people do not learn to live with virus the trickle down effect of a tightened lockdown may lead to layoffs

● SALMAN SIDDIQUI
KARACHI

The State Bank of Pakistan (SBP) foresees a highly challenging outlook for the domestic economy.

In a series of video and audio messages on its official Twitter handle, the central bank highlights the multidimensional impact of Covid-19 on the domestic economy, warning that partial lockdown amid prolonged health crisis may continue to restrict businesses and other economic activities and hit the people hard.

The bank says if the people do not learn to live with the virus like adopting precautionary measures, the vulnerable healthcare system would be under severe pressure and may deteriorate.

This would compel the authorities concerned to tighten lockdown which would in turn hinder economic activities, squeeze people's income and their purchasing power and result in layoffs that would further increase poverty.

This all would demand that the government spend more on health, announce stimulus packages for businesses and individuals, particularly the daily wage earners, the SBP suggests. The government has already projected that Pakistan's economy marginally contracted by 0.38% in the outgoing fiscal year, ending June 30, for the first time in 68 years.

"In the baseline case, the impact of Covid-19 on the economy could be like any other calamity," the SBP said in a video message. "If the global outbreak is prolonged the healthcare outcomes will be much worse," it said.

"Healthcare will be stretched and the lockdown will need to be tightened. This will further suppress consumer spend-

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The State Bank

ing and many businesses may face severe pressure. In this adverse scenario higher government spending to support healthcare facilities, businesses and individuals will be needed."

The disruption caused by Covid-19 is more widespread and prolonged. Shopping malls, restaurants and other public spots remained closed and the overall economic activities have been scaled down. The data on industrial activities shows that auto, petroleum and cement sales as well as foods and textile exports have declined considerably in March 2020.

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In terms of capital outflows, according to the SBP, the impact of Covid-19 on Pakistan has been relatively limited compared to the emerging market economies. However, like other countries around the world high frequency indicators of economic activities suggest that Pakistan is also being severely affected by the great global lockdown.

Globally, there has been substantial capital outflow and investors have tended to move capital away from most of the emerging markets in the wake of Covid-19. Pakistan has also witnessed some portfolio capital flight in line with this happening.

"Importantly, however, while capital flight figured currency depreciation in most of the emerging markets, the Pak rupee has experienced less depreciation compared to most other currencies," the central bank said.

From the monetary policy perspective, falling inflation has provided room for central bank to cut the policy rate. The monetary policy committee (MPC) of the SBP has been

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acting proactively to remain ahead of the curve and keep inflationary pressures in the economy contained, it said. Six factorsThe SBP said that six factors should be watched out during these testing times. It said the government expenditure on health and education in Pakistan is relatively low compared to regional countries. Having strong healthcare system and adequate awareness among the public is important in the current scenario.

Second, according to the United Nations (UN) 4 out of every 10 people in Pakistan face multidimensional poverty. This raises challenges of food and social security in the extended lockdown scenario.

Third, Pakistan debt level remains elevated. This constrains the government ability to spend on relevant

sectors. Fourth, Pakistan has monthly and quarterly limited information regarding key sectors such as GDP, livestock and SMEs. This impacts ability to have actual picture of certain parts of the economy in real time.

Fifth, the consumption rate in Pakistan is the highest among regional economies. This means the GDP growth is vulnerable in a limited mobility scenario. Lastly, informality in jobs market is very high. This increases the risk of layoffs and decrease in earnings, the SBP said.

If the global outbreak is controlled over the next few months, consumer spending can be expected to rebound both in Pakistan and globally. "Business will reopen. International trade and other transactions will resume. The economy will be on the path of gradual recovery," the bank said.

Before the outbreak of the pandemic, Pakistan economic fundamentals had improved enough strong, the economy had stabilised and was ready to take off for high growth in years to come, it said.