

In quest of economic revival

BOTH the government and the State Bank of Pakistan (SBP) are trying to spur economic growth by facilitating the wealth-creating class, hoping that the trickle-down impact will ultimately benefit ordinary people.

But the Covid-19 pandemic poses a direct threat to the lives and livelihoods of the poor. So the government has come up with specific plans to help the financially weaker segments of society.

The slashing of the interest rate by the SBP and the government's stimulus package are aimed at ensuring economic recovery in the next fiscal year. For the current fiscal year, the economy is bound to see a recession. The government estimates that GDP can contract 1.57 per cent for the first time in 68 years.

Pakistan has so far managed to secure \$3.3 billion-plus external financing from the International Monetary Fund (IMF), Asian Development Bank (ADB) and World Bank. It is expected to get additional financing as and when required. Besides, external debt's rescheduling by creditor countries is also on the cards. International energy prices are at multi-year lows, promising to keep our import bill in check. So, on the external front, Pakistan has some breathing space.

Without ensuring easy movement of labour and materials across cities, exempting the construction industry from lockdowns cannot produce the desired result

This has enabled the PTI government to offer a Rs1.2 trillion package for stimulating economic growth and footing the cost of the war against Covid-19.

The slashing of interest rates by the central bank along with other concessions has come as immediate relief for food and export-oriented industries. They are allowed to work even amidst lockdowns. But there is a caveat. The government has banned food exports for the time being to ensure food security as long as the nation is at war with the pandemic. Meanwhile, all other large-scale manufacturing industries are free to straighten their financial books taking advantage of low interest rates — and build up limited inventories wherever possible. But their sales cannot grow owing to lockdowns and a dip in the people's income level. Even industries like textile that see a surge in sales during Ramazan are laying off employees owing to poor demand. The informal workforce — some 47 million people out of the total 72m — continues to suffer even though provincial and federal governments have expanded social safety nets.

The financial package announced for small and medium enterprises (SMEs) is aimed at ensuring that they help in the revival of the industrial output and consumer demand. To boost consumer demand, the SBP has rolled out a separate concessional finance scheme in addition to benefiting them via low interest rates. The agriculture sector is also expected to benefit from interest rate cuts, increased per-acre credit limits of crops, leeway in the treatment of bad

loans and input pricing incentives. Out of Rs1.2tr, the government has earmarked Rs100bn for agricultures and SMEs.

The turnout of workers at factories exempted from lockdown restrictions is depressingly low

But how all this is going to yield the desired results depends on how the governments are able to fight Covid-19 with minimum collateral damage on the economy. That is not so easy. Unlike ultra-rich countries, Pakistan has resorted to smart lockdowns. Yet the turnout of workers at factories and businesses exempted from lockdown restrictions is depressingly low owing chiefly to a ban on public transport and pillion riding.

Business activity in urban shopping centres is too thin owing to the complex requirements of online business-only restrictions. E-commerce cannot be accelerated overnight. Fintech and logistics infrastructure will have to be strengthened for that purpose — and at a great speed. The SBP had accorded in-principle approval to a fintech, Nayapay, in September 2019. It recently gave such approval to another fintech, Sadapay. So the stage is being set for removing at least one roadblock to e-commerce i.e. the absence of a local version of PayPal. Until they start operating facilitating e-commerce by way of reducing our dependence on the cash-on-delivery system, expecting all businesses to work online is unjustified.

Even the cash-on-delivery system is not working well amidst lockdown restrictions. All provincial governments will have to offer implementable exemptions from lockdown restrictions.

Despite administering a full dose of fiscal-monetary stimuli, policymakers are not sure how soon that will kick-start the economy and create jobs. The Ministry of Planning had estimated in April that the novel coronavirus could devour 12.3m to 18.5m jobs. Even the best-case number — 12.3m — is scary. The problem is too big. Something big needs to be done to tackle it.

The government has found the answer in revitalising the construction sector. It has rolled out a tax amnesty scheme for attracting big investment into this sector and exempted it from lockdown restrictions as well. But those eager to benefit from the amnesty scheme are currently busy with settling critical issues with the Federal Board of Revenue (FBR) and banks. They will move to launch or re-launch actual construction projects at a later stage and will prefer to wait till further relaxation in lockdown restrictions. It is true that activity in the construction industry generates lots of jobs on its own and by way of igniting activity in a large number of allied industries. But unless the situation permits easy movement of labour and materials across cities, just exempting this industry from lockdowns (under well-defined SOPs) cannot produce the desired results.

Whether Pakistan can see signs of economic recovery early next fiscal year depends on, among other things, the flow of credit to the private sector. In ten and a half months of this fiscal year, banks' net credit distribution to the private sector totalled Rs329bn, down from Rs598bn in the year-ago period, latest SBP statistics reveal. Let's hope that monetary easing and other measures aimed at boosting demand for credit lead to a sudden rise in the number before the close of the year. The SBP has so far cut its key interest rate by 425 basis points, bringing it down from 13.25pc to 9pc, at a heavy cost to the millions of depositors.