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Pakistan's Measures to Curb Economic Crisis During Global Pandemic

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Pakistan is facing the daunting challenge of fighting the novel coronavirus, a deadly pandemic that has hit the entire world. The government of Pakistan has fortified its efforts to contain the spread of COVID-19, which has claimed over 110 lives in the country and more than 6000 have been tested positive so far.1 The spread of coronavirus in Pakistan at this point of time, where the country is already facing a balance-of-payments crisis, revenue shortfall, IMF programme, critical reservations

[1] http://covid.gov.pk/stats/pakistan

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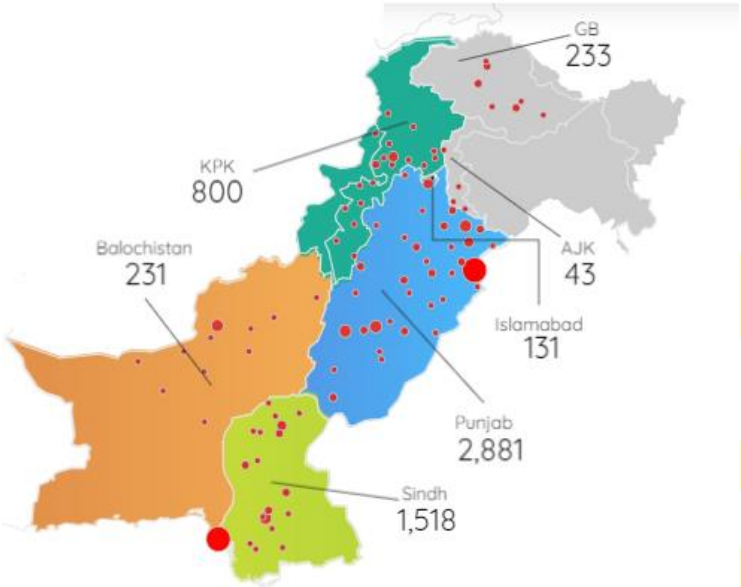
and pressure of FATF and other economic vulnerabilities is highly worrisome. The virus has hit the country while Pakistan government was recovering from an economic crisis and doing the utmost to stabilize the macro-economic situation of the country.



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Although the number of cases in Pakistan by comparison to most of the other countries is considerably less, it still needs to be controlled to prevent a major economic crisis as the country is already struggling with a wavering economy. Prime Minister Imran Khan is wary of complete lockdown in the country as it would result in a terrible economic fallout because Pakistan is still a developing nation, unlike the Western powers who despite advanced technologies are facing numerous challenges fighting with a deadly pandemic. Pakistan has a fragile economy and is a

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debt-ridden country. Economists believe that if the lockdown continues, having all economic and social activities clogged, Pakistan will have to deal with an aggravating economic crisis in the next few months. This global pandemic has paralyzed all activities for an incalculable time, therefore it is necessary to take substantial steps to curb the possibility of a macro economic fallout in the country. The operation of industries in Pakistan is severely affected, along with the shutdown of major businesses and local markets. All the leaders of the world have recognized the depressing reality, that this global pandemic poses unprecedented health and economic challenges leading to a global recession worse than the Great Depression. Thus, to contain this deadly enemy a strong, coordinated and well-crafted response is required. The UN Conference on Trade and Development (UNCTAD) has noted that Pakistan would be one of the few countries to face dreadful crises including mounting debts, a potential deflationary spiral along with the disastrous impact on the health sector.2 The international organizations including the United Nations, the International Monetary Fund and the World Bank have launched worldwide relief packages to support the nations who are struggling with this distressing challenge. The government of Pakistan is urging to reach out for the Global Initiative on Debt Relief aiming to alleviate the developing countries of the financial challenge from the COVID 19 pandemic.

The social distancing steps were taken by the government including the closure of academic institutes across the country, public transport and manufacturing industries, and cessation of international as well as local flights will have an

[2] https://www.dawn.com/news/1545267

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unfavourable impact on the economy. To tackle these challenges, the government of Pakistan is making every possible effort and is taking essential steps in this regard. The government officials have formed a National Coordination Committee for COVID-19, to manage and monitor the critical situation and take required decisions based on prevailing circumstances. The committee is comprised of senior civil and military representatives. Regular meetings are held to review the progress in controlling the spread of a novel virus in the country and the proposed strategies to eliminate the impact of the challenge. Along with other preventive measures, the authorities are devising a comprehensive food security plan in the wake of this pandemic to avoid food shortages in the coming months. Pakistani officials are seeking assistance from international organizations as the country has limited resources to fight against this threat. The UN has assured to extend full support to Pakistan in developing comprehensive strategies to combat the coronavirus.

According to the year 2015 statistics, 24.3% of the population lives below the national poverty line.[3] Economists in the country have predicted that the national

[3] https://www.adb.org/countries/pakistan/poverty

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poverty ratio would sharply jump to over 40% by June 2020.4 The government has announced a multi-trillion rupee relief package under the Ehsaas Program, for the labor class and under-privileged population of the country. A large proportion of the country's labour force is dependent on daily wages, which requires the government to formulate a balanced strategy between allowing businesses to stay open to a degree under a partial lockdown. The financial stimulus package is a great effort to deal with the baneful impact of the coronavirus outbreak on the country's economy. A sum of Rs. 200 billion has been allotted for laborer class across the country. For the export industry, the government has announced tax refunds of Rs. 100 billion and for industries in the agriculture sector. A reduction of Rs. 15 in the prices of petroleum, diesel and kerosene has also been declared. The taxes on food items including sugar, wheat and pulses is planned to be either reduced or eradicated.

In the year 2019, the total external debt of Pakistan was estimated to be $105 billion from the World Bank, IMF, Asian Development Bank etc. and the value of Pakistani rupee was weakened 30% vis-a-vis the US dollar.5 Under these circumstances, it can be anticipated that our national economy is doomed already if the outbreak enveloped the entire country. Pakistan government has appealed to the global community that highly indebted countries are facing a lack of fiscal space, which has hindered their efforts to tackle the challenge to control the spread of the coronavirus.

[4] https://tribune.com.pk/story/2115274/2-millions-fall-poverty-line/

[5] https://www.thenews.com.pk/print/634499-pak-economy-under-dark-shadow-of-coronavirus-vs-deep-chronic-economic-crisis

The Monetary Policy Committee of the State Bank of Pakistan has agreed to cut the policy rate by a further 150 basis points to 11 per cent.6 The State Bank of Pakistan is taking all necessary regulatory measures and coordinating with banks by facilitating deferment and restructuring of their loans. The SBP has also announced a Temporary Economic Refinance Facility (TERF) and its Shariah compliant version to catalyze new investment in manufacturing sectors. It has decided to refinance banks to provide financing at a maximum end-user rate of 7% for 10 years. Moreover. the SBP has offered cash-flow relief through loan refinancing schemes and loan payment holidays to exporters and manufacturers. Another very productive step taken by the SBP is that all banks in the country are instructed to waive all charges on fund transfers via online banking mechanism, for the customers. This will reduce the need for visiting bank branches or the ATM during this pandemic, thus promoting the use of digital payment services through internet banking or mobile phone banking. In collaboration with Pakistan Banks Association, the State Bank of Pakistan has announced a comprehensive relief package to assist economic and social sectors including the households and businesses. It has allowed increasing the overall bank pool of loan funds and has reduced the Capital Conservation Buffer from 2.5% to 1.5%.7

Along with Pakistan governments' efforts discussed earlier i.e. $7.5 billion economic relief and the stimulus package, SBP measures, pledge of emergency aid from the IMF, assistance from our ally China is worth mentioning. Although China being the

[6] http://www.sbp.org.pk/m_policy/2020/MPS-Mar-24--03-2020-Eng.pdf

[7] https://tribune.com.pk/story/2184980/2-sbp-issues-relief-package-households-businesses-covid-19-cases-surge/

most affected country from the fatal virus is struggling with the consequences, it has extended massive support to Pakistan. China has provided $4 million for the construction of a hospital. It is also sending medical teams and health experts to assist Pakistani doctors against this deadly disease. Moreover, it has donated 12,000 test kits, 3,00,000 masks, 10,000 protective suits, 50,000 masks to Pakistan.[8] China has offered both material and technical assistance to Pakistan in this time of dire need. Since China has successfully flattened its curve of corona patients, therefore it now has surplus capacity in the medical field. Thus Pakistan can learn from China's experiences and take control of the critical situation.

This economic crisis seems to linger for a long time, most importantly when Pakistan's economic capability to bear the costs of this pandemic are severely limited. The government will need assistance from respective international institutions like the IMF and the World Bank, along with support from its allies, notably China. Effective strategies and close coordination is required by every segment of the society and the government to curb the economy crisis and deal with this pandemic. For Pakistan, it is of paramount importance to engage domestic as well as foreign institutions to re-stabilize the country's economy.

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[8] https://www.thenews.com.pk/print/635183-china-us-to-help-pakistan-fight-coronavirus