



Covid Induced Economic Crisis:

**PBC's Call to Action
to Sustain Employment &
Ensure Business Continuity**

CONTENTS

- A Crisis Unprecedented in its Depth and Width and Uncertain in Duration
- The Three Dimensions of the Impact on the Economy
- Impact on Industry Offtake
- Impact on GDP and the economy
- General Employment Vulnerability
- Sector-wise Unemployment Vulnerability
- Impact on SMEs
- How long will the crisis last?
- So, what would it take to address the economic crisis?
- Liquidity: whose job is it to provide?
- The State Bank's role in the provision of liquidity
- What the SBP could do further
- What the Federal Government can do now
- What the Provincial Governments can do
- What the Federal Government can do after addressing the immediate crisis
- It's an ill wind that blows nobody any good
- We can overcome the crisis together

A Crisis Unprecedented in its Depth and Width and Uncertain in Duration

The economic impact of the Coronavirus crisis, both globally and in Pakistan is unprecedented in its depth and width. It is also unpredictable in duration. The only certainty is that the economic crisis will outlast the medical upheaval. Estimates of the economic disruption range from 12 to 18 months. An “*all-it-takes*” approach being followed by many countries to save employment and ensure business continuity is recommended in Pakistan. These are unusual times requiring exceptional measures.

The government’s Ehsaas Programme will go some way to help alleviate the plight of the poor, many of whom were already job-less. However, saving millions more from losing their jobs and preserving the country’s industrial capacity and capability to produce goods and services for both, domestic consumption and exports (for when the global economy permits), requires urgent and well-coordinated fiscal and monetary policies. These are also needed proactively to reduce the probability and impact of the crisis, rather than reactively, after the crisis has already impacted the country. In today’s circumstances, under-addressing the challenge or delaying the measures, is a bigger risk than over-addressing them. A series of small, incremental and fragmented measures, will have diminishing returns and be wasteful and ineffective.

The Three Dimensions of the Impact on the Economy

There are three dimensions to measuring the impact of the crisis on the economy:

- Impact on industry offtake and the GDP;
- How many jobs will be vulnerable; and
- How long will the crisis last?

Impact on Industry Offtake

An anecdotal survey (Table 1) conducted by the PBC on April 13, 2020 revealed a very significant slowdown in offtake levels in the month of March vs. the same month last year. In the first week of April, most of the industries covered were under lockdown and hence there was hardly any offtake. Food and other essential industries, except petroleum and diesel were left out of the survey as these were not likely to be impacted by the lockdown in any material way. Petroleum and diesel were covered as proxies of economic activity.

TABLE 1: OFFTAKE LEVELS

Sector	+/- % March '20 over March '19	+/- % Wk 1, April'20 vs. Wk 1, April '19
Steel	-50%	-100%
Cement	16.7%	-21.4%
Petrol	-25%	-25%
Diesel	-20%	Nil (border sealed with Iran)
Cables	-40%	-100%
Hotels	-60%	-90%
Non-food retail	-35%	-60%
Restaurants/Take-aways	-40%	-90%
Domestic Appliances	-45%	-100%
Sectors in which offtake levels were already low prior to Covid	+/- % March '20 over Feb '20	+/- % Wk 1 April '20 over Wk 1 March '20
Autos	-70%	-99%
Motorcycles	-35%	-90%
Trucks and buses	-40%	-90%
Tractors	-40%	-70%

Export industries (mainly textiles), were closed in Sindh but partially open in the rest of the country. However, even when they reopen everywhere, the global downturn in demand and store closures, will result in poor offtake. The economy of China is reviving. However, China is a net exporter of textile goods so is unlikely to absorb textile products from Pakistan, other than yarn and fabric. Besides, with the decline in the global price of cotton, Pakistani exporters who acquired cotton earlier will incur losses, even if they find buyers abroad. The outlook on global demand is bleak, with estimates of revival ranging from 6-18 months.

Impact on GDP and the economy

Dr. Hafiz Pasha and Shahid Kardar project the following using their proprietary model for the period April to June 2020:

TABLE 2: Dr. HAFIZ PASHA AND SHAHID KARDAR'S PROJECTIONS

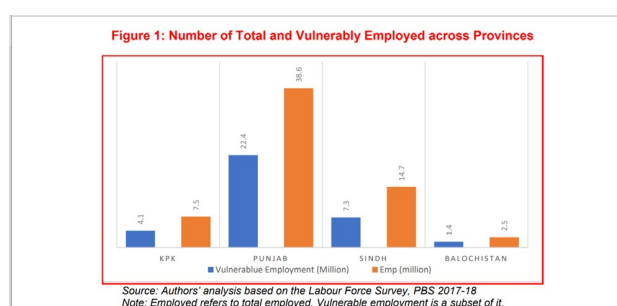
	Change in Q4 FY2020
GDP	Down 13.6%
• Agriculture	• Up 1%
• Industry	• Down 22.3%
• Services	• Down 15.2%
Exports	Down 28%
Imports	Down 0.8%
Private Consumption	Down 9.6%
Private Investment	Down 32.1%
Public Consumption	Up 12%
Public Investment	Up 8%

Looking ahead into FY 2021 and based on Brent oil price/barrel of \$25 (+/-10%), a with an expected decline in both remittances and exports of 15%, we estimate the current account deficit at \$6 Bn, in line with the projected deficit in FY2020 and less than half of the \$13.6Bn in FY2019. On further favourable note, with multilateral and bilateral assistance, the balance of payments in FY 2021 is likely to be positive by \$4-4.5 Bn. GDP growth in that year is likely in the range of -1.5% to zero. Average inflation is likely in the range 6%-8% with supply-side contributing 1.5%. Fiscal deficit which stood at 8.9% in FY2019, and is projected at 8% for FY2020, may be held there in FY2021 if targets are agreed realistically with the IMF and the government takes appropriate action to revive the economy. As this would entail continued borrowing, an expected reduction in the Policy Rate to around 7% would create further space for both the government and the private sector. Unlike the global financial crisis in 2008, to which Pakistan was less exposed and therefore able to recover GDP growth within a year, the impact of the Covid crisis is deeper and recovery will take more than 2 years i.e. in FY2022.

General Employment Vulnerability

The **Pakistan Institute of Development Economics (PIDE)** has published dashboards of total labour and employment vulnerability across provinces. Table 3 below shows the total labour employed in each province and PIDE's estimate of how many jobs are vulnerable. In total, of the 63.3 Mn employed in the country as per the Labour Force Survey 2017-18, 35.2 Mn people or 55% have vulnerable jobs.

TABLE 3: TOTAL EMPLOYED AND THE VULNERABLE



In Table 4, the expected layoffs are further broken down by PIDE into Stages. Stage II refers to moderate restrictions on operations, whilst Stage III is when (and if) a complete restriction is enforced. In terms of impact on employment, Pakistan is estimated to be between Stages II and III. By Stage II, which we have now crossed, the estimated unemployed is 16 Mn. This could grow to 35.2 Mn if a complete lock down is applied.

TABLE 4: EXPECTED LAYOFFS

Table 1: Province-wise Expected Layoffs among the Vulnerably Employed (millions)

	KP	Punjab	Sindh	Balochistan
Provincial Employment	7.5	38.6	14.7	2.5
Vulnerable Employment	4.1	22.4	7.3	1.4
Stage II	2.0	10.1	3.3	0.6
Stage III	2.3	12.1	4.1	0.7

Source: Authors' analysis based on the Labour Force Survey, PBS 2017-18.

Note: Stage II = 50% and Stage III = 60% loss in Vulnerable Employment (Ref: PIDE Bulletin 04)

¹ Stage II refers to moderate shutdown and Stage III means complete shutdown.

Sector-wise Unemployment Vulnerability

A sector-wise projection also shows an unemployment likelihood of 16 Mn, mostly in the manufacturing and construction sectors. Within these, the sub-set of daily wage and contractual workers would be the highest.

TABLE 5: SECTOR-WISE UNEMPLOYMENT ESTIMATE

Sector	Open or Closed?	GDP Contribution \$Bn	Unemployment Expected Mn
Agri, Forest, Fish	Open	57.1	1
Wholesale, Retail	Partial	55.8	2
Manufacturing	Partial	38.5	4
Trans & Storage	Partial	32	1
Civil Service & Defence	Open	22	0
Prof, Scientific & Tech	Closed	18.9	0
Real Estate	Closed	19.1	0
Financial and Insurance	Partial	10.5	0
Mining and quarrying	Partial	7.6	0
Construction	Closed*	6.5	5*
Education	Closed	6.0	2
Hospitality and Food Service	Closed	5.9	1
Information & communication	Open	5.7	0
Healthcare and social serv.	Open	4.4	0
Others	Mixed	3.0	
TOTAL		\$293 Bn	16 Mn

*Pre-Incentive Package for Construction Industry

Dr. Hafiz Pasha and Shahid Kardar have also projected 17 Mn unemployed as a result of the Covid crisis.

Impact on SMEs

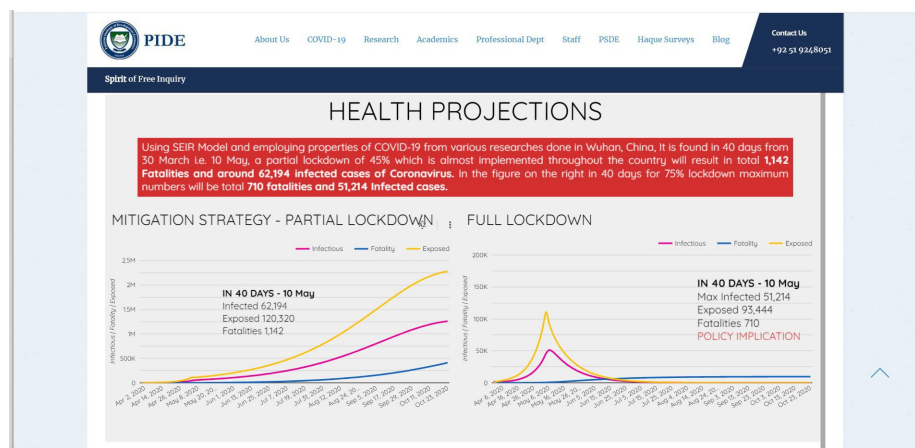
The Sustainable Development Policy Institute (SDPI) estimates the following impact of Covid on SMEs:

- Between 1.1 and 1.4 Mn out of 3.8 Mn SMEs will face a 50% or more decline in their income
- Between 760,000 and 950,000 will not be able to survive the crisis
- 2.4 to 3 Mn SMEs will need some assistance within three months of a one-month lockdown.
- 4.8 to 9.5 Mn of non-agricultural jobs will be at risk after a one-month lockdown
- SMEs will require assistance besides provision of funds

How long will the crisis last?

In Table 6 (left side) PIDE estimates that in a partial lock down, it would take till October 23, 2020 for reported infections and fatalities to peak. It may safely be assumed that it would take another six months, i.e. till end April 2021, before we “rid” ourselves of this crisis. The economic consequences could last another year thereafter.

TABLE 6: HEALTH PROJECTIONS



In contrast to partial closures, PIDE estimates (right side in Table 5 above), that with full lockdown, the peaking of incidents would be in May with significant reduction by June. This is not a course that has been followed anywhere in Pakistan, including Sindh. The governments are now under pressure to allow business to recommence operations. Therefore, it is safe to assume that the economic crisis is likely to persist to varying extent till April 2022. Thus, policies are required to nurture employment and business continuity for two years at the minimum. Not just for three months.

So, what would it take to address the economic crisis?

The two primary needs of the hour for business to sustain employment and continue to operate are:

- First and foremost, **liquidity** or cash flow to operate
- Second, to bring down the **cost** of doing business, in particular the cost of borrowing

Pakistan is fortunate to receive significant fiscal and external account space from the G20/IMF and other Multilaterals to fund the immediate liquidity requirements. Additionally, the IMF's Extended Funding Facility has been put on hold. It is essential that Pakistan renegotiates realistic tax targets in line with the FBR's institutional capability to collect and the government's political will to pursue documentation of the

economy. In the absence of the latter, the formal sector will continue to be taxed disproportionately.

Liquidity: whose job is it to provide?

The task of providing liquidity is a shared responsibility of the State Bank of Pakistan and the Federal and Provincial Governments as outlined below. In the absence of appropriate measures, It is unrealistic and unreasonable to expect business to continue to carry overheads indefinitely, or to start think of reviving the shelved investment plans until the crisis subsides.

The State Bank's role in the provision of liquidity

The State Bank has already undertaken a number of initiatives to inject liquidity, the main ones being:

- **Principal Deferment:** Up to Rs. 4.7 Tr of principal may be rolled over by banks. So far Rs. 20 Bn of loans have been rolled back
- **Temporary Economic Relief:** Up to Rs. 5 Bn is available for new projects at 7% fixed interest for 10 years. There is no information on the uptake so far. Business is currently in the survival mode so demand for funding new projects is likely to be limited. See more on this below.
- **Capital Conservation Buffer:** Up to Rs.800 Bn is to be released by relaxing the buffer from 2.5% to 1.5%. Premature to measure impact.
- **Debt Burden Ratio:** Up to 2.3 Mn individual borrowers may avail of credit as a result. Premature to measure impact.
- **SME Credit Limit:** Enhanced to Rs. 55 Mn. The main obstacle to lending to SMEs is risk-aversion by banks. This aversion is unlikely to decline in the current crisis.
- **Payroll Refinance:** A graduated payroll refinance facility linked to size of payroll and tax status of borrower (at 4% pa interest for those on the Active Taxpayers List and 5% pa for others). See comments below.

Additionally, the SBP has brought down the Policy Rate from 13.25% to 9% in three moves, all in a month. This demonstrates the concern that SBP has with the state of the economy. It has also indicated its readiness to take further appropriate action.

What the SBP could do further

1. In view of the urgent and existential risk to livelihoods and business continuity, reduce the Policy Rate to 7% in two stages. Besides the need to revive a crisis-ridden economy, this is also justifiable in view of a non-cost-push inflation rate of 5.2% with the future outlook trending lower. Incentivizing savings, hence a positive real rate, is now not as important a priority, as reducing borrowing cost to sustain the economy. Nor is protecting "hot deposits," which have mostly left the country. The impact on the exchange rate will be buffered by debt relief from the G20/Paris Club (\$10-12 Bn), Rapid Financing Instrument from the IMF (\$1.4 Bn), assistance from the World Bank and the Asian Development Bank, lower oil imports, depressed import demand, both offset by lower exports and remittances. Thus, the foreign exchange reserves already up \$4 Bn over same period last year are likely to remain healthy.
2. Remove the discrimination against large employers whose interest subsidy is limited in the proposed Payroll Refinance Scheme. Large employers comply with all laws, generate the highest exports, pay a large part of the taxes and have high fixed costs. They need parity relief with other employers.
3. Bring down the Payroll borrowing cost to 2% pa for all formal tax-paying employers.
4. Banks are risk-averse to lending to SMEs. A subsidized vendor financing scheme which channels funds to SME supply chain partners of large companies can help

spread the risk of exposure. No one knows SMEs better than those that transact with them on a daily basis. They are better risk managers than banks.

5. Under the current conditions, investors are unlikely to start new projects. Hence the need to divert the TERF loan refinance scheme to Balancing, Modernization and Replacement of plant in existing ventures. With general borrowing rate trending downwards, there is a need to revise down the fixed rate for TERF.
6. Remove the 100% LC Margin requirement for import of industrial inputs. This is illogical to retain now.

What the Federal Government can do now

1. **Release the remaining Income Tax, Sales Tax Refunds and Export Rebates:** The government's efforts are appreciated. The balance will provide much needed liquidity, now when it is required.
2. **Minimum Turnover Tax under Section 113 be suspended:** Businesses be allowed to file tax returns based on their actual incomes for the current as well as the next Financial Year. A number of businesses are / will face existential threats as demand and profit reduces along with the possibility of dumping of imported products as global suppliers face recession.
3. **Advance Tax deduction under Section 153 be put in abeyance:** Advance Income Tax deducted at various stages of business operations, including imports, local purchases of goods and services and upon sales to final customers be deferred till June 2021. Businesses should of course be required to pay any tax if due with their normal tax returns.
4. **Advance Quarterly Income Tax under Section 147 not be collected:** Since this is an Advance Income Tax and assumes a certain level of income in the coming quarter and which also has to be funded prior to income from any business activity, it is requested that this not be collected for the 4th Quarter 2020.
5. **Input adjustment of Sales Tax u/s Section 8 B:** Currently most manufacturing concerns are allowed input adjustment of sales tax to the extent of 90% of their input. For certain industries this limit has been enhanced to 95%. However, commercial importers are allowed to adjust 100% of their input sales tax in case they have paid minimum value addition tax at import stage. It is requested that this limit be enhanced to 100% for all manufacturing concerns.
6. **Filing of Sales Tax Returns for March, April & May:** As most businesses are currently in survival mode and facing daily emerging challenges, it is requested that Sales Tax returns for March, April & May be filed by June 15th, 2020. This will allow businesses to better manage their liquidity.
7. **Deferral of Payment of Feb to April Utility Bills:** Electricity and Gas utilities fall under the federal control. It would assist business if collection of utility bills for February to April 2020 was deferred to July 2020.

What the Provincial Governments can do

1. The Infrastructure Development Cess levied by provinces be withdrawn or at least deferred for the next 12 months: No cash payment or bank guarantee to be required to be given. The Punjab Government has already done this till June 30,2020.
2. Property tax on businesses be reduced by 50% for the FY2020.
3. Understand that businesses, especially the SMEs, impacted by prolonged lockdown and downturn in the economy cannot be expected to retain employees indefinitely without government help.

What the Federal Government Can do after addressing the immediate crisis

Once the immediate impact of the crisis is addressed, an economic stimulus will be necessary to put the economy on a growth trajectory. The following measures could be used:

1. Reduce the GST rate to revive demand and remove the advantage that the informal sector enjoys
2. Zero-rate items of essential use: food, clothes and house construction materials
3. Revive investment incentives for balancing, modernization and replacement of plant
4. Automate rebates through bank credits upon realization of export receipts
5. Simplify the DTLT scheme and develop processes to allow export prices to be cleansed of all taxes and duties, no matter where incurred in the supply chain
6. Remove turnover based minimum taxes that act as barrier to entry of new players
7. Expedite implementation of cascading tariffs, with duty-free imports of raw materials and low duty on intermediate items not made/available in the country
8. Provide energy to industry at globally competitive costs
9. Incentivize growth of edible oil-seeds, cotton, pulses
10. Secure parity access with Bangladesh for exports to Japan, Canada and Australia
11. Launch a revival package for the hospitality/tourism industry
12. "Walk the Talk" on Special Economic Zones
13. Activate the Tax Policy Board and separate it and Audit from FBR
14. Secure Electronic exchange of trade data, especially with China, to stem under-invoicing
15. Win the agreement of provincial authorities to clamp down on known centers of smuggling
16. Agree qualitative and quantitative limits on transit trade with Afghanistan
17. Transfer the trial jurisdiction of counterfeiting cases to consumer courts and allow the harmed brand owners to retain their own prosecutors

It's an ill wind that blows nobody any good

The Covid crisis is a valuable opportunity for Pakistan to build industries that meet the needs of its own large 220 Mn+ population. The PBC has for years been promoting the concept of **"Make-in-Pakistan."** This aims to create jobs, encourage import substitution and value-added exports. Pakistan's primary resources are land, water, minerals, places of natural beauty and its people. Agriculture has received lip service so far and we have misdirected and sub-optimally deployed our resources. We need to utilize our land and water more efficiently to grow what we need. Edible oil-seeds, cotton, fruits and vegetables, pulses are some examples. Whilst we should continue to export textiles, our domestic market can be developed to use more capacity in the textiles sector. Pakistan is endowed with mineral wealth which has not been exploited to full advantage. Neither has tourism been developed to world class standards. We have one of the largest numbers of freelance software developers who, at half the cost of our neighbour, can provide software to the world that is as good, if not better. This also applies to call centres and business process outsourcing.

Another unexpected outcome of the Covid crisis is a realization that there are benefits of belonging to the documented, formal sector. It is easier for the government to assist those who pay taxes by reducing the tax burden and for the State Bank to help those who borrow by cutting the Policy Rate. The informal sector is difficult to assist.

We can overcome the crisis together

As the largest provider of employment, the formal private sector can work shoulder to shoulder with the government and the central bank to overcome the impact of the Covid crises. It does not expect cash handouts such as those offered by governments abroad. It does, however, need liquidity and lower costs to sustain employment and become more competitive.

About the PBC

The PBC is a private sector business policy advocacy forum composed of Pakistan's largest businesses / groups including multinationals that have a significant investment in and a long-term commitment to the growth of Pakistan. Members turnover represents every ninth Rupee of Pakistan's GDP and together the members contribute 25% of the annual tax revenues and 40% of exports. More information about the PBC, its members and its activities can be found on our website www.pbc.org.pk





The PBC Members by Sector

PBC currently has 82 members, whose businesses cover nearly all sectors of the formal economy. The sector wise representation (in alphabetical order) is detailed below:

Sector	Member Companies
Large-Scale Manufacturing	
Agro Industries	1
Cement	2
Chemicals / Fertilizer	8
Energy	2
Engineering	9
Fast Moving Consumer Goods	18
Packaging Material	2
Pharmaceuticals and Healthcare	6
Textiles	10
Total Members in Large-Scale Manufacturing	58
Services	
Financial service	12
Hospitality	1
Insurance	2
Logistics / Courier	2
Telecommunication	1
Utilities	1
Total Members in the Services Sector	19
Conglomerates	5

29 MNC's from 13 Countries



USA



UK



UAE



Switzerland



Japan



29 MNC's from 13 Countries



Netherlands



France



Bahrain



South Korea



Hong Kong



Germany



Sweden



Turkey





8th Floor, Dawood Center,
M.T. Khan Road,
Karachi, Pakistan

T – +92 21 3563 0528 – 29

F – +92 21 3563 0530

www.pbc.org.pk