Post Pandemic Business Reset

Race to Normalcy

April 2020

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Executive Summary

Corona Virus is having a profound impact on the economies of various countries around the world. After weeks of complete lockdown in most of the world, economists and policymakers are trying to analyze the situation and looking for ways to minimize the forecasted cost of the pandemic. This research paper aims to provide an analysis of current losses, prospective profitability, and financial stability of major economies around the globe while focusing specifically on Pakistan's economy. For this purpose, the data from credible sources like International Monetary Fund and Organization for Economic Co-operation Development has been gathered to compare the trends and analyze the numbers to predict the extent of the negative impact as well as the possible opportunities available for various industries.

As recorded by IMF, global GDP growth for 2019 was already low as compared to previous years but after the coronavirus pandemic, these forecasts were changed massively with 2020's global GDP growth going as low as -3.0 % and a similar trend were found in OECD's data recorded through Composite Leading Indicator (CLI), Business Confidence Index (BCI), and Consumer Confidence Index (CCI) charts. A similar trend was found in Pakistan's economic growth as the fiscal year 2019-20 was already expected to be the worst year for the country with regards to economic stability which is explained in this paper through various indicators such as rupee parity, foreign exchange rates, tax collection, inflation rates and more. Furthermore, as predicted by economists, this pandemic might lead various countries to a global recession as many industries have started to lay off their staff for very obvious reasons. Though what is important to note here is the fact that due to the drive to achieve normalcy through introducing stimulus packages, IMF has predicted the maximum GDP growth for the year 2021 which stands at 5.8 %.

Along with analyzing the data and the current situation, this report also highlights the various challenges that the economies will have to face as the consequences of the Coronavirus 2020 which include a high inflation period, limited government expenditure, debt, and stagnant export industry. For this purpose, the government and policymakers need to stay attentive towards the available opportunities and help to stabilize the economy as much as possible. Moreover, though the report investigates the fact that it might have some limitations, yet the data and information available have been analyzed to the very best capabilities.

Introduction:

As we grapple with the outbreak of the novel coronavirus, the pandemic is causing major loss of life and economic turmoil. With 2,810,325 confirmed cases and 193,825 deaths, it is a catastrophe that turned the global economy upside down. Its spread has left the businesses around the world revisiting their budgets. Supply shortages are expected to affect a number of sectors due to panic purchases, increased use of goods to combat the pandemic, and disruption of factories and logistics in mainland China, as well as increase in prices.

Global economics and trade were already under stress from a mix of factors from political contests to war to natural disasters. The pandemic has hit them at a weak moment exacerbating negativities. Predictions and projections are depressing with global growth falling to negative 3% or more in the year 2020, oil trading in negative, and demand shrunk to almost nothing, and stock markets under pressure. However, the world is coming together, though slowly but surely and hopes of recovery are alive with IMF predicting positive global growth of 5.8% for the year 2021, which seems very high but reflects the speed with which the low global demand during the pandemic will rise and the supply will catch up beginning from rapid orders for raw materials.

Here we will examine the pre-pandemic macro-economic indicators of the globe and Pakistan, further relating it with during pandemic situation and predicting post-pandemic overall reset of the business environment and the race to normalcy while suggesting policy measures for Pakistan.

Pre-Pandemic Global Macro Trends:

To understand the economy better, it is important to know the economic trends globally before the world was hit by the wave of the coronavirus. Looking back, the year 2017 was a medium-term peak in terms of GDP over 2016. The 2017 global GDP growth rate, as estimated by IMF, was 3.8 %, from then onward, the global GDP growth fell slightly to 3.6 % in 2018. For 2019, IMF had initially estimated the global GDP Growth rate of 3.3 %, recovering somewhat to 3.6 % in 2020. This forecast was made in early 2019. These forecasts are shown in Table 1 below.

	Year over Year				**Q4 over Q4**			
			Projections				**Projections**	
	2017	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**
World Output	**3.8**	**3.6**	**3.3**	**3.6**	**4.0**	**3.4**	**3.5**	**3.6**
Advanced Economies	2.4	2.2	1.8	1.7	2.6	2.0	1.8	1.8
United States	2.2	2.9	2.3	1.9	2.5	3.0	2.2	1.7
Euro Area	2.4	1.8	1.3	1.5	2.7	1.1	1.6	1.4
Germany	2.5	1.5	0.8	1.4	2.8	0.6	1.4	1.3
France	2.2	1.5	1.3	1.4	2.8	0.9	1.6	1.3
United Kingdom	1.8	1.4	1.2	1.4	1.6	1.4	1.0	1.5
Canada	3.0	1.8	1.5	1.9	2.9	1.6	1.8	1.8
Emerging Market and Developing Economies	4.8	4.5	4.2	4.8	5.2	4.7	4.9	5.0
Russia	1.6	2.3	1.6	1.7	1.0	3.4	1.2	1.7
China	6.8	6.6	6.3	6.1	6.7	6.4	6.3	6.0
India	7.2	7.1	7.3	7.5	8.1	6.8	7.2	7.6
Middle East, North Africa, Afghanistan and Pakistan	2.2	1.8	1.5	3.2	-	-	-	-
Saudi Arabia	-0.7	2.2	1.8	2.1	-1.4	4.0	1.0	2.1
European Union	2.7	2.1	1.6	1.7	2.8	1.6	1.7	1.7
Low-Income Developing Countries	4.9	4.6	5.0	5.1	-	-	-	-

Table 1: Global GDP estimates 2019

After this, IMF again published a new forecast in January 2020 before the COVID-19 Pandemic became headline news. According to this forecast, IMF shaved off 0.4 % on the 2019 GDP forecast, and 0.2 % on 2020 GDP growth forecast. Table 2 shows the new IMF forecast issued in January 2020.

	Year over Year						Q4 over Q4		
	Estimates		Projections		The difference from October 2019 WEO Projections		Estimate	Projections	
	2018	2019	2020	2021	2020	2021	2019	2020	2021
World Output	**3.6**	**2.9**	**3.3**	**3.4**	**-0.1**	**-0.2**	**2.9**	**3.5**	**3.3**
Advanced Economies	**2.2**	**1.7**	**1.6**	**1.6**	**-0.1**	**0.0**	**1.5**	**1.9**	**1.4**
United States	2.9	2.3	2.0	1.7	-1.0	0.0	2.3	2.0	1.6
Euro Area	1.9	1.2	1.3	1.4	-0.1	0.0	1.0	1.7	1.2
Germany	1.5	0.5	1.1	1.4	-0.1	0.0	0.3	1.2	1.5
France	1.7	1.3	1.3	1.3	0.0	0.0	1.2	1.3	1.4
Japan	0.3	1.0	0.7	0.5	0.2	0.0	0.5	1.8	-0.3
United Kingdom	1.3	1.3	1.4	1.5	0.0	0.0	0.9	1.8	1.5
Canada	1.9	1.5	1.8	1.8	0.0	0.0	1.8	1.7	1.8
Emerging Market and Developing Economies	4.5	3.7	4.4	4.6	-0.2	-0.2	4.0	4.8	4.8
Emerging and Developing Asia	6.4	5.6	5.8	5.9	-0.2	-0.3	5.3	6.0	5.8
China	6.6	6.1	6.0	5.8	0.2	-0.1	5.9	5.9	5.8
India	6.8	4.8	5.8	6.5	-1.2	-0.9	4.3	6.9	6.1
Russia	2.3	1.1	1.9	2.0	0.0	0.0	1.5	1.6	2.4
Middle East, North Africa, Afghanistan and Pakistan	1.9	0.8	2.8	3.2	-0.1	0.0	-	-	-
Saudi Arabia	2.4	0.2	0.9	2.2	-0.3	0.0	-0.9	2.7	2.2
Low-Income Developing Countries	5.0	5.0	5.1	5.1	0.0	-0.1	-	-	-

Table 2: Global GDP estimates 2020

Then after several weeks of global lockdown, came the IMF report on April 6, 2020, with further reductions in global and countries' GDP growth forecast for 2020. Their forecast for global GDP growth for 2020 is now -3.0 % and 5.8 % for 2021 as shown in Table 3 below.

		Projections		The difference from January 2020 WEO update		The difference from October 2019 WEO	
	2019	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
World Output	2.9	-3.0	5.8	-6.3	2.4	-6.4	2.2
Advanced Economies	1.7	-6.1	4.5	-7.7	2.9	-7.8	2.9
United States	2.3	-5.9	4.7	-7.9	3.0	-8.0	3.0
Euro Area	1.2	-7.5	4.7	-8.8	3.3	-8.9	3.3
Germany	0.6	-7.0	5.2	-8.1	3.8	-8.2	3.8
France	1.3	-7.2	4.5	-8.5	3.2	-8.5	3.2
Japan	0.7	-5.2	3.0	-5.9	2.5	-5.7	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5	-7.9	2.5
Canada	1.6	-6.2	4.2	-8.0	2.4	-8.0	2.4
Emerging Market and Developing Economies	3.7	-1.0	6.6	-5.4	2.0	-5.6	1.8
Russia	1.3	-5.5	3.5	-7.4	1.5	-7.4	1.5
China	6.1	1.2	9.2	-4.8	3.4	-4.6	3.3
India	4.2	1.9	7.4	-3.9	0.9	-5.1	0.0
Emerging and Developing Europe	2.1	-5.2	4.2	-7.8	1.7	-7.7	1.7
Middle East and Central Asia	1.2	-2.8	4.0	-5.6	0.8	-5.7	0.8
Saudi Arabia	0.3	-2.3	2.9	-4.2	1.7	-4.5	0.7
European Union	1.7	-7.1	4.8	-8.7	3.1	-8.8	3.1
Low-Income Developing Countries	5.1	0.4	5.6	-4.7	0.5	-4.7	0.4

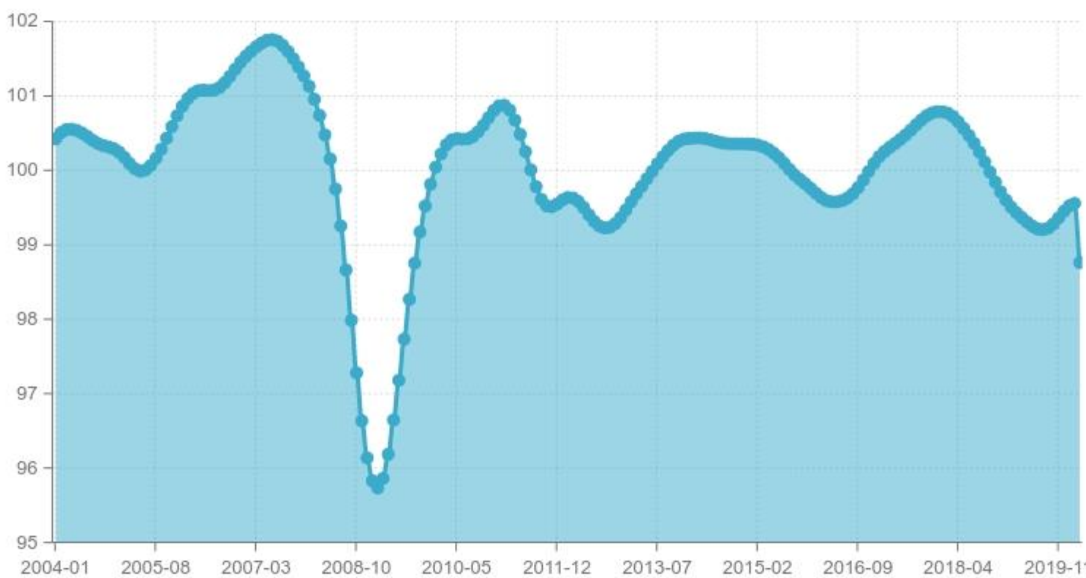
Table 3: Reductions in Global GDP Forecasts 2020

In the last IMF report on World Economic Output, issued in January 2020; the following was noted:

"*Trade policy uncertainty, geopolitical tensions, and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity—especially manufacturing and trade—in the second half of 2019. Intensifying social unrest in several countries posed new challenges, as did weather-related disasters—from hurricanes in the Caribbean, to drought and bushfires in Australia, floods in eastern Africa, and drought in southern Africa.*

Despite these headwinds, some indications emerged toward year-end 2019 that global growth may be bottoming out. Moreover, monetary policy easing continued into the second half of 2019 in several economies. Adding to the substantial support the easing provided earlier in 2019, its lagged effects should help global activity recover in early 2020."

A similar sentiment was noted by the Organization for Economic Cooperation and Development (OECD), just before the Pandemic hit the globe. OECD Composite Leading Indicator issued before the Pandemic headlines are shown in graph 1 below.



Graph 1: OECD Composite Leading Indicator

The composite leading indicator (CLI) is designed to provide early signals of turning points in business cycles showing the fluctuation of the economic activity around its long term potential level. CLIs show short-term economic movements in qualitative rather than quantitative terms.

One can notice that the CLI indicator attained a 7-year peak in 2018, started going down and bottoming out in the third quarter of 2019, but then it started going up again toward the end of 2019.

OECD established two more indicators to further study the global economy. These indicators are discussed below.

Graph 2: OECD Business Confidence Index

This business confidence indicator shown above provides information on future developments based upon opinion surveys on developments in production, orders, and stocks of finished goods in the industry sector. It can be used to monitor output growth and to anticipate turning points in economic activity. Numbers above 100 suggest increased confidence in near future business performance, and numbers below 100 indicate pessimism towards future performance.

Graph 3: OECD Consumer Confidence Index

This consumer confidence indicator shown above provides an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment, and capability of savings. An indicator above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to spend money on major purchases in the next 12 months. Values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less.

Pre-Pandemic Macro Trends of Pakistan:

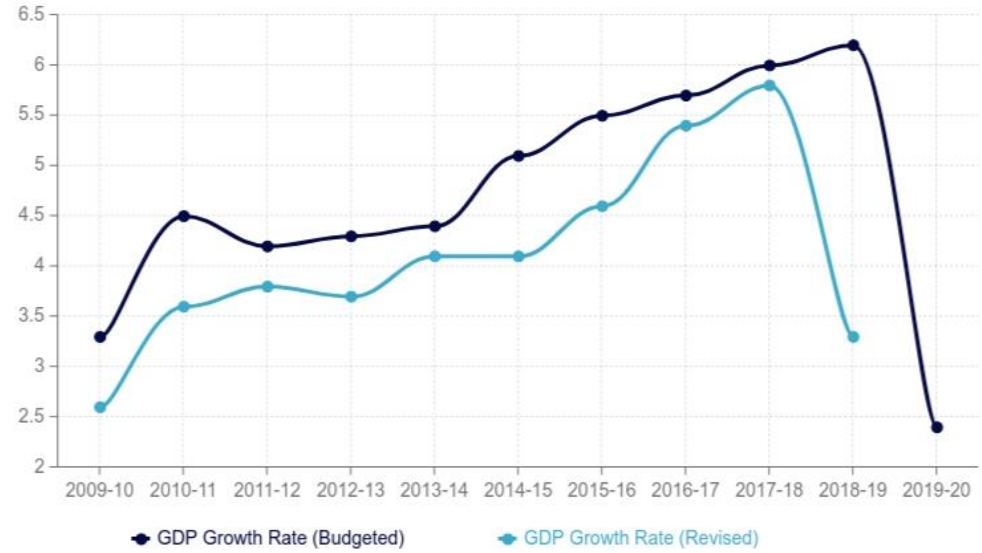
Even before the current pandemic, Pakistan's economy was being widely expected to perform several years' worst during the 2019-20 fiscal years, whereby the GDP growth was being expected to hit a 2.5 % or even lower.

Pakistan's selected macro-indicators till the fiscal year 2018-19 are as follows:

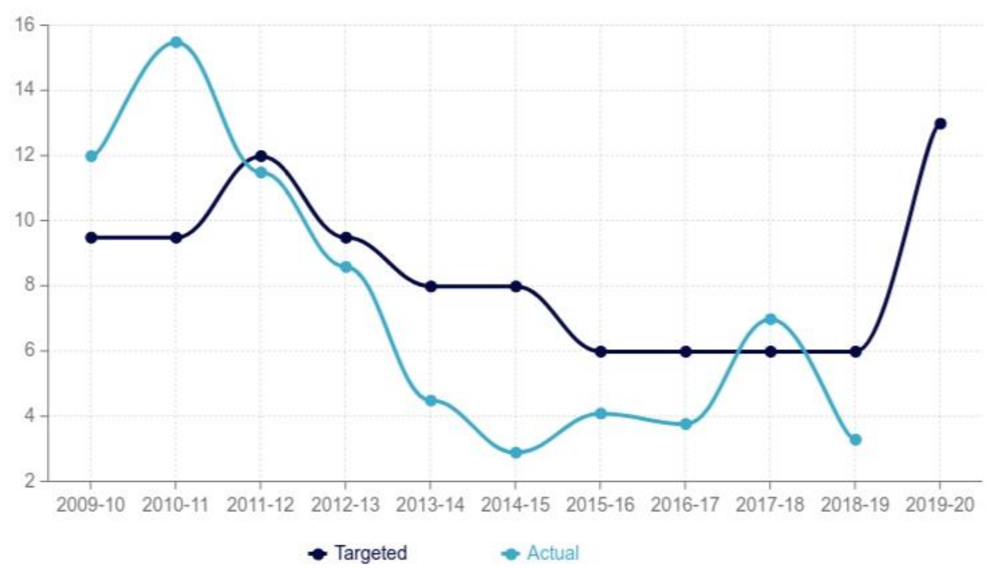
	FY 16	FY 17	FY 18	FY 19	
Percent Growth					
				Target	**Actual**
Real GDP	4.6	5.2	5.5	6.2	3.3
Agriculture	0.2	2.2	3.9	3.8	0.8
Industry	5.7	4.6	4.9	7.6	1.4
Services	5.7	6.5	6.2	6.5	4.7
Private sector credit	11.2	16.8	14.9	-	11.6
CPI Inflation	2.9	4.2	3.9	6.0	7.3
Percent GDP					
Current a/c balance	-1.7	-4.1	-6.3	-4.0	-4.8
Fiscal balance	-4.6	-5.8	-6.6	-4.9	-8.9
Gross public debt	67.7	67.0	72.1	68.0	84.8

Table 4: Pakistan's selected Macro Indicators

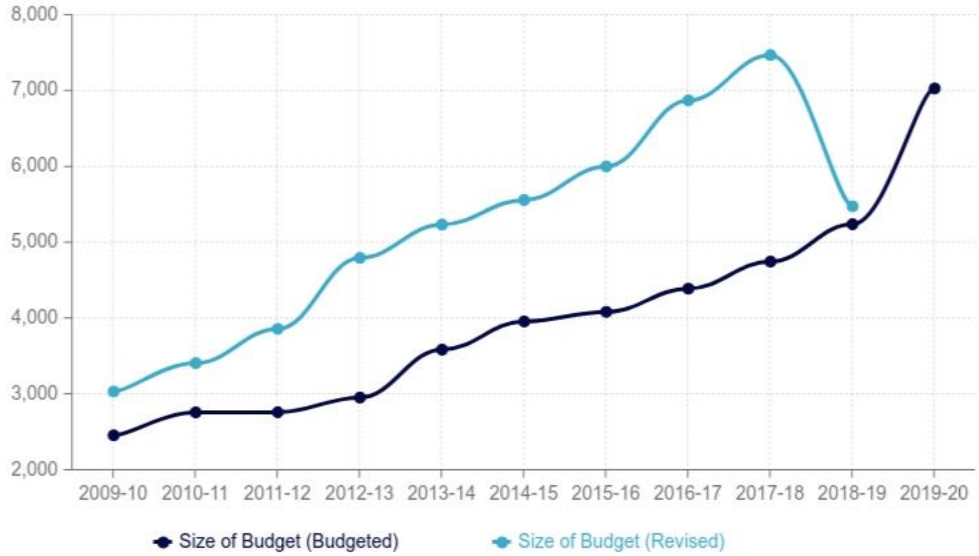
For the fiscal year 2019-20, according to the Federal budget presented in June 2019, the real GDP was expected to grow at a rate of 2.4 % — a massive decline from 2018-19 fiscal year's projected growth rate of 6.2 % — and its revised or actual growth rate of 3.3 %. The last time Pakistan saw a real GDP growth rate resembling this figure was amid a global financial crisis during Pakistan's People's Party era in FY 2009-10 when the revised growth rate came to 2.6 percent.



Graph 4: GDP Growth Rate 2009-2020



Graph 5: Inflation 2009-2020



Graph 6: Size of Budget 2009-2020

According to SBP's 2nd quarterly report for 2019-20, the following table reflects key indicators on Pakistan by December 2019:

	FY 19	HI-FY 19	HI-FY 20
	Growth Rate (Percent)		
LSM	-3.3	-1.7	-2.8
CPI National	6.8	6.0	11.1
Private Credit	11.6	9.5	3.2
Money Supply	11.3	3.6	5.2
Exports	-1.1	1.9	3.1
Imports	-9.9	-2.6	-17.0
FBR tax revenue (billions of Rs)	3,828.5	1,794.8	2,094.1
Exchange rates	-24.1	-12.5	-3.4
	Millions US Dollars		
SBP Liquid Reserves	7,280.4	7,203.7	11,336.1
Workers remittances	21,838.6	11,030.0	11,394.9
FDI in Pakistan	1,668.0	796.8	1,341
Current account balance	-13,830.0	-8,614.0	-2,099.0
Fiscal Balance (% of GDP)	-8.9	-2.7	-2.3

Table 5: SBP 2nd Quarterly Report, Key Indicators

It is noticeable that Pakistan's economy was doing fairly better in the first half of the 2019-20 fiscal year, as compared to the same period last fiscal year, except the growth in private sector credit and the money supply.

Following were the key indicators on Pakistan's economy at the start of 2020, when the effects of Pandemic COVID-19 were not visible:

1. **Rupee Parity:** Due to the efforts by the State Bank of Pakistan, Pakistan Rupee had reached a sound level of stability. From November 2018 value of Rs. 133.5 per Dollar, Rupee value depreciated to its lowest level of Rs.158.8 per Dollar in July 2019, and in the last 5 months of 2019, the Rupee value in the interbank market was just under Rs.155 per Dollar. Money market analysts and currency exchange companies themselves said that they were selling close to 400 million U.S Dollars every month to the banks. This was something that has never happened in Pakistan before. Exchange companies in Pakistan buy foreign currencies from returning Pakistanis who bring foreign exchange in their pockets, to meet their expenses in Pakistan. This is the primary, if not the only, source of foreign currencies inside Pakistan. Up until recently, these exchange companies were selling these foreign currencies to foreign nationals and businessmen (Afghan and Chinese mostly) as well as Pakistani currency smugglers, speculators, and travelers abroad.
2. **Balance of Payments:** From Pak Rupee being sharply overvalued in the middle of 2018 to somewhat overvalued from July 2019, a lot of sanities had returned to the Balance of Payments data. In other words, there had been a significant drop in imports and a small rise in exports. An overvalued Rupee previously had created a dependence on imported goods in the economy, which is globally a normal phenomenon when local currencies are

kept overvalued. Rupee's depreciation in 2019 brought Rupee to its natural value. Here are the figures from March to November 2019.

Month 2019	March	April	May	June	July	Aug	Sep	Oct	Nov
Exports	2.04	2.08	2.32	1.79	2.23	1.89	1.88	2.19	2.11
Imports	4.15	4.18	4.42	4.07	4.18	3.52	3.32	3.63	3.65
Trade Deficit	2.1	2.09	2.10	2.27	1.95	1.63	1.44	1.44	1.54
Workers' Remittances	1.74	1.78	2.31	1.65	2.04	1.69	1.75	2.00	1.82

Table 6: Pakistan's key indicator at the start of 2020

3. **Foreign Exchange Reserves Position:** Total foreign exchange reserves of the country had risen to a record high of over the U.S $ 24 billion at the end of October 2016 and from then onward, these kept declining and reached the U.S $ 13.8 billion at the end of December 2018. As shown in the following table taken from SBP, the foreign exchange reserves have started going up from June 2019.

Date	Jun 2010	Jun 2016	Jun 2018	Jun 2019	Sep 2019
Total Foreign Exchange Reserves	$16.8 Billion	$23.1 Billion	$16.4 Billion	$14.5 Billion	$15.2 Billion
Total Foreign Debt	$61.6 Billion	$73.9 Billion	$95.2 Billion	$106.3 Billion	$106.9 Billion

The last row in the above table shows the total foreign debt and liabilities of Pakistan, for both the government and the private sector. The total figure of foreign debt and liabilities stood at the U.S $ 73.9 billion on June 30, 2016, and the figure went up to the U.S $ 106.9 billion on September 30, 2019.

4. **Inflation & Interest Rates:** The State Bank of Pakistan had shown its resolve to manage the interest rates to boldly counter the inflation and maintain the foreign exchange

reserves as per the IMF directives. During November 2019, the CPI Inflation rose by 12.7 %, 11 % in October, 11.4 % in September, and 10.5 % in August 2019, compared to the corresponding months in 2018. According to Pakistan Bureau of Statistics, the details are as follows:

- **November 2019**: CPI inflation General, increased by 12.7 % on a year-on-year basis in November 2019 as compared to an increase of 11.0 % in the previous month and 5.7 % in November 2018.
- **October 2019:** CPI inflation General, increased by 11.0 % on a year-on-year basis in October 2019 as compared to an increase of 11.4 % in the previous month and 6.5 % in October 2018
- **September 2019:** CPI inflation General, increased by 11.4 % on a year-on-year basis in September 2019 as compared to an increase of 10.5 % in the previous month and 5.4 % in September 2018
- **August 2019:** CPI inflation General, increased by 10.5 % on a year-on-year basis in August 2019 as compared to an increase of 8.4 % in the previous month and 6.2 % in August 2018. On a month-on-month basis, it increased by 1.6 % in August 2019 as compared to an increase of 1.8 % in the previous month and a decrease of 0.3 % in August 2018.

There was a large hue and cry over the interest rates of 13.25 % maintained by the SBP in the past 4 months. Initially, it was being said by the analysts that this interest rate was unnecessarily much higher than the CPI inflation, but this viewpoint is getting less and less vocal in recent weeks. The State Bank Governor opined that by January 2020, the

CPI inflation is likely to start declining. The pressure was building up on SBP to further raise the interest rates.

The businessmen were complaining that the trade and industry were suffering from high-interest rates, but what they need to understand is that the SBP manages the monetary policy only and it is the job of government's fiscal managers to manage the trade and industry.

Interestingly, the inflation had no reason to continue going higher, except for the supply shocks of basic commodities like sugar, wheat, and cotton, as well as the rise in electricity and gas prices.

5. **Tax Collections:** Total taxes collected by the Federal Bureau of Revenues in the July to November 2019 period stood at Rs.1.62 trillion, which was a little over 16% more than last year’s corresponding figure. However, as compared to the target of 1.83 trillion, total taxes collected in July to November 2019 period, were over Rs. 200 billion short of the target. Revenue collection in November grew by 17 % compared to last year to touch Rs. 334 billion. The figure is still short by Rs. 48 billion from the November target, causing the overall revenue shortfall this fiscal year to climb to Rs. 211 billion.

   If one considered the recessionary trend in the overall economy, the 16 % rise in tax collection in the first 5 months of the current fiscal year, is commendable and is largely due to the new tax measures adopted by FBR.

6. **Industrial Productivity**: For the last 15 months until the end of 2019, production of the large-scale manufacturing sector was declining. In the last fiscal year 2018-19, the LSM growth was negative 3.64 %. In the new fiscal year, three months of data (July to September 2019) has shown a decline of 5.9 %. The sub-sectors prominently hit by this

production decline include petroleum products (14.48 %), chemicals (8.93 %), cement (1.46 %), iron and steels (33.21 %), pharmaceuticals (11.95 %), automobiles (34.13 %) and food and beverages (8 %). The only notable positive growth was recorded in fertilizer (15.94 %) and electronics (5.51 %). Textiles production was stagnant while some minor sectors also showed small growth.

7. **Export Sector:** Pakistan's exports had dropped from bn24.8bn in 2017-18 to $24.2bn in 2018-19. In the first 6 months of 2019-20 (July to December 2019), according to the SBP, low global commodity prices in rice and textiles kept putting pressure on Pakistani exports, offsetting decent rises in export volumes, as textiles and rice exporters were able to gain market share in the USA, European Union, and the Middle East. Total growth in exports in the first half of the 2019-20 fiscal year was 3.1% over the same period last year.

8. **Credit to Private Sector:** The private sector credit growth had been negligible in the last six months through November 2019, as shown in the table below where the last row shows the government borrowings from the banks:

Month	June 2019	July 2019	August 2019	September 2019	October 2019	November 2019
Private Sector Credit	Rs.5.87 Trillion	Rs.5.78 Trillion	Rs.5.76 Trillion	Rs.5.79 Trillion	Rs.5.83 Trillion	Rs.5.88 Trillion
Government Borrowings	Rs.12.39 Trillion	Rs.12.40 Trillion	Rs.12.44 Trillion	Rs.12.57 Trillion	Rs.12.77 Trillion	Rs.12.77 Trillion

In a nutshell, Pakistan's economy was in a lot of turmoil already by the end of January 2020. This was the state of Pakistan's economy when the country entered into an economic and social lockdown due to the Coronavirus.

Global Macro Indicators Reviewed During the Pandemic:

Last month's brutal drawdown in global financial markets might seem to indicate that the world economy is on a path to recession. Valuations of safe assets have spiked sharply, with the term premium on long-dated U.S. government bonds falling to near record lows at negative 116 basis points — that's how much investors are willing to pay for the safe harbor of U.S. government debt. As a result, mechanical models of recession risk have ticked higher.

The outbreak has led major institutions and banks to cut their forecasts for the global economy. One of the latest to do so is the Organization for Economic Co-operation and Development. In a March report, the OECD said it downgraded its 2020 growth forecasts for almost all economies. China's gross domestic product growth saw the largest downgrade in terms of magnitude, according to the report. The Asian economic giant is expected to grow by 4.9 % this year, slower than the earlier forecast of 5.7 %, said OECD. Meanwhile, the global economy is expected to grow by 2.4 % in 2020 — down from the 2.9 % projected earlier, said the report.

	2019	**2020 (old)**	**2020 (new, after pandemic)**
World	2.9	2.9	2.4
United States	2.3	2.0	1.9
United Kingdom	1.4	1.0	0.8
Euro Area	1.2	1.1	0.8
China	6.1	5.7	4.9
Japan	0.7	0.6	0.2

While many sectors of the global economy like aviation, tourism, hospitality, Restaurants, general and sports entertainment, etc.; have all suffered, the worst hit is the international crude oil market. A reduction in global economic activity has lowered the demand for oil, taking oil prices to multi-year lows. That happened even before a disagreement on production cuts between OPEC and its allies caused the latest plunge in oil prices. Analysts from

Singaporean bank DBS said reduced oil demand from the virus outbreak and an expected increase in supply are a “double whammy” for oil markets. China, the epicenter of the coronavirus outbreak, is the world’s largest crude oil importer.

“The spread of the virus in Italy and other parts of Europe is particularly worrying and will likely dampen demand in OECD countries as well,” the DBS analysts wrote in a report.

The above-presented decline in Real GDP numbers of OECD member countries and the scenario being painted across the world for different sectors of the economy is likely to change because nobody yet knows when the Pandemic lockdown will start getting lifted around the world.

The IMF April 2020 Forecast for the calendar year 2021 of 5.8 % is an improvement over 3.4 % estimate contained in its January 2020 forecast for the year 2021. This sharp rise in the IMF's estimate for the 2021 calendar year is understandable because a negative growth of negative 3.0 % Global GDP growth estimate for 2020 will call for a rebound in 2021, backed by the over 5 trillion dollars of the additional money supply as a relief measure by the developed economies. Worth mentioning is that the IMF report that was issued on April 6, considered the Pandemic related shutdown, while its January report had not.

Also to be noted is that while OECD estimated the global 2020 GDP growth of 2.4 % due to the Pandemic situation, IMF’s April 6 report has taken the figure down to -3.0 %. There might be further downward revision for global 2020 GDP growth estimates, if the worldwide lockdown extends beyond June 2020, in which case, 2021 GDP growth estimate will most likely change too. If the lockdown ends within the 2020 calendar year, the 2021 global GDP forecast will most likely rise due to the race to normalcy and revival of the business and consumer confidence.

After the pandemic, with the global demand getting restored gradually, businesses will most likely start placing huge orders with their suppliers of raw and intermediate production materials, and production processes will soon peak not only to meet the demand but to take the finished goods inventories to rise to the right levels too. The services sector will start hiring back the staff they laid off during the pandemic. In all the sectors, there will most probably be log jams as supply will struggle to meet the reemerging demand in the economies. This is the reason why the IMF is now projecting a 5.8% growth in 2021 global GDP growth.

The IMF's April 6 projections of 2021 global GDP growth estimates will be further refined by IMF itself in its next quarterly report expected in the first week of July, and then again after 3 more months.

Global Economies during Pandemic:

According to the forecast, lockdowns in Europe and North America are hitting the service sector hard, particularly industries that involve physical interactions such as retail trade, leisure, and hospitality, recreation, and transportation services. Collectively, such industries account for more than a quarter of all jobs in these economies. The United Nations Department of Economics & Social Affairs (UN-DESA) said as businesses lose revenue, unemployment is likely to increase sharply, transforming a supply-side shock to a wider demand-side shock. The analysis also warns that the adverse effects of prolonged economic restrictions in developed economies will soon spill over to developing countries via trade and investment channels. A sharp decline in consumer spending in the European Union and the United States is reducing imports of consumer goods from developing countries. International trade has been heavily hit, as the shipping lines are carrying empty containers on ships after all onshore space has been taken up.

Export orders are being canceled at a high rate, hitting the developing economies hard. Business activity has collapsed from across the world, with hundreds of millions of people getting unemployed.

Due to online ordering and delivery of consumption goods in many countries, E-commerce is thriving like never before. There is, thus far, no shortages being reported throughout the world of essential food and other daily use items, as well as medicines.

According to BBC, total jobless claims in the USA have touched over 16.8 million and economists are expecting the number to rise to 20 million by the middle of April. According to estimates by the International Labor Organization (ILO), in Arab countries, some 5 million fulltime employees have lost their jobs, over 12 million in Europe, and 125 million in Asia and Pacific. The ILO said that more than four out of five people- 81 % - in the global workforce of 3.3 billion were currently affected by full or partial workplace closures.

Several commodity prices have taken a big hit, including crude oil, coal, and metals. But Gold prices are inching up close to 1,700 Dollars per ounce as a haven for investors and speculators. Stock markets crashed the world over, but seem to have found floors in recent days.

One sector in the developed economies is Ecommerce that has increased its foothold in the overall retail business. The coronavirus pandemic is sparking enormous changes in e-commerce over a very short period, according to a study from Adobe Analytics.

Average daily online sales for groceries, for example, doubled by the middle of March compared with the start of the month, the study shows. Overall, e-commerce is up 25 % over the same period, which compares March 13 to 15 with the first 11 days of the month. Using a longer view, grocery spending now represents 8 % of overall e-commerce, up from 6 % three years ago, Adobe Analytics report said.

While online commerce was already making steady inroads in retail's market share, the pandemic, which has shut down brick-and-mortar retail, has created a "forcing function" that's pushing consumers online for all of their needs.

Pakistan's Economy during Pandemic

In the developed economies, it is relatively easier to reach across to the unemployed individuals as well as companies declaring or facing bankruptcies, but in the developing economies, the task is next to impossible. Also, in developed economies, individuals mostly get jobs with monthly salaries, but in developing and poor countries, a major segment of the populations are either on daily wages or self-employed, earning their livelihood on daily basis. Scores of millions of poor people leave their homes without eating anything, in the hope of finding some paid work or clients to bring food to their families at the nights. For these people, the lockdown is like having been left in the middle of a huge desert without food and water. Needless to mention, huge receivables are building on each other, inside these populations as people are unable to pay their rent and other dues to other people.

In Pakistan, the situation is not different from other developing and poor countries. Apart from these daily earners, millions of employed people are being laid off by the employers and these newly laid-off people are living off their savings and loans from friends and relatives.

Here is a Table in which Pakistan is mentioned, contained in the April 2020 report by IMF:

	Real GDP			Consumer Prices			Current Account Balance			Unemployment		
		Projections			Projections			Projections			Projections	
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Middle East and Central Asia	1.2	-2.8	4.0	8.5	8.4	8.7	0.4	-5.7	-4.6	-	-	-
Oil Exporters	-0.2	-3.9	4.6	7.5	7.6	8.1	2.4	-5.8	-4.5	-	-	-
Saudi Arabia	0.3	-2.3	2.9	-1.2	0.9	2.0	6.3	-3.1	-3.4	-	-	-
Iran	-7.6	-6.0	3.1	41.1	34.2	33.5	-0.1	-4.1	-3.4	13.6	16.3	16.7
United Arab Emirates	1.3	-3.5	3.3	-1.9	-1.0	1.5	7.4	1.5	4.1	-	-	-
Iraq	3.9	-4.7	7.2	-0.2	0.8	1.0	-1.2	-21.7	-14.1	-	-	-
Oil Importers	3.7	-0.8	2.9	10.4	9.9	9.7	-5.5	-5.4	-4.7	-	-	-
Egypt	5.6	2.0	2.8	13.9	5.9	8.2	-3.6	-4.3	-4.5	8.6	10.3	11.6
Pakistan	3.3	-1.5	2.0	6.7	11.1	8.0	-5.0	-1.7	-2.4	4.1	4.5	5.1
Morocco	2.2	-3.7	4.8	0.0	0.3	1.3	-4.1	-4.8	-4.3	9.2	12.5	10.5
Afghanistan	3.0	-3.0	4.5	2.3	4.7	4.5	8.6	4.9	5.8	-	-	-
Israel	3.5	-6.3	5.0	0.8	-1.9	0.5	3.5	3.5	3.2	3.8	12.0	7.6
Maghreb	1.9	-6.2	9.3	2.2	3.5	3.8	-6.8	-12.6	-11.0	-	-	-
Mashreq	4.7	1.0	2.6	12.4	6.0	8.0	-5.8	-5.4	-5.2	-	-	-

Table 7: IMF GDP Report 2020

Here is a Table contained in a recent report by Dun & Bradstreet on Pakistan, on layoffs in Pakistan:

Sector	Vulnerable Employments (mn)	Expected Layoffs (mn)	% Layoffs
Wholesale & Retail Trade	6.49	4.55	70.11
Agriculture	12.82	2.56	19.97
Transport and Communication	1.95	1.76	90.26
Manufacturing	2.16	1.51	69.91
Hotels & Restaurants	0.60	0.54	90.00
Vendors	0.79	0.47	59.49
Other community & social	0.43	0.38	88.37
Construction	0.25	0.22	88.00
Public administration	0.25	0.13	52.00
Real Estate & Business activities	0.20	0.10	50.00
Education	0.09	0.06	66.67
Fishing	0.05	0.03	60.00
Electricity, Gas & Water	0.14	0.01	7.14
Health and Social Work	0.19	0.00	0.00
Total	**26.41**	**12.32**	**46.65**

Table 8: Pakistan's Sector Wise Expected Layoffs

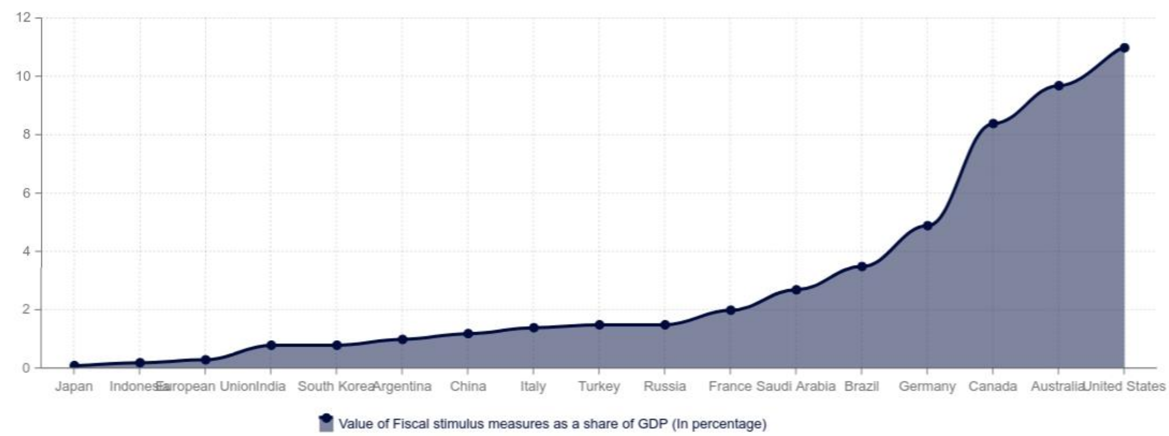
D&B report added that according to the 'Employment Trends' report published by the Pakistan Bureau of Statistics (PBS) in 2018, the total labor force in Pakistan stands at 63.4 million of which vulnerable Employment was 26.41 million (41.6 %). Vulnerable employment is measured as the proportion of own-account workers and contributing family workers in total employment (poor workers generally dependent on daily wages/earnings) who are the largest impacted individuals due to the COVID-19 pandemic. Due to the slowdown in economic activity and a high proportion of vulnerable employment in the country, we could be seeing a significant increase in poverty and unemployment, in the coming months. According to a report by the Pakistan Institute of Development Economists, approximately 12.3 million people are expected to face unemployment in under a scenario of moderate restrictions by the Government (similar to those implemented currently). This is approximately 46.3 % of the total vulnerable employment and 19.4 % of the total employment in Pakistan. Wholesale & Retail Trade is expected to witness the highest layoffs of approximately 4.55 million people. Thus, the poverty rate in Pakistan could increase from 23.4 % to 44.2 % or even higher, depending on when the economic lockdown gets lifted.

Analysis of Stimuli Packages:

The US Government announced in the last week of March 2020, a 2 trillion dollars stimulus package to provide a jolt to an economy reeling from the coronavirus pandemic. Key elements of the package are $ 250 billion set aside for direct payments to individuals and families, $ 350 billion in small business loans, $ 250 billion in unemployment insurance benefits, and $ 500 billion in loans for distressed companies. The Federal Reserve announced its policy rate reduction to 0% and announced its plans to buy as much of the Treasury and Corporate Bonds as necessary to revive the economy.

Prime Minister Shinzo Abe of Japan announced a 108 trillion yen ($ 989 billion) stimulus package, Japan's largest ever, to rescue the corona virus-hit economy with Tokyo and six other economic hubs set to be put in a state of emergency. The package, equivalent to about 20 % of the nation's economic output, will include cash handouts worth 6 trillion yen for households and small businesses hit by the virus and offers businesses deferrals on tax and social service costs worth 26 trillion yen, Abe said Monday.

Very similar packages have been announced by other developed and many developing countries. Here is a chart showing the packages by the developed economies in comparison to their GDP's:



For Pakistan, Prime Minister Imran Khan announced a PKR 1.2trn economic relief package as a crisis response to tackle the coronavirus. Here are the highlights:

- PKR 200 billion earmarked for distribution of the labor class (daily wages)
- Relief for vulnerable families (PKR 144 billion to be distributed between 12 million families over 4 months) and extension of Shelter (*Panahgah*) initiative (PKR 6 billion) across the country.
- PKR 100 billion packages for the Export industry – Tax refunds to be disbursed immediately and loans to be deferred.
- Deferment of loans (principal and interest payments) worth PKR 100 billion for SME's and Agriculture sector as well as provision of concessional loans.
- Also, utility stores will be paid an additional PKR 50 billion.
- PKR 280 billion has been set aside for the procurement of wheat.
- PKR 15 billion allotted for health and food supplies.

- Prices of Petrol, Diesel, Kerosene, and LDO cut by PKR 15/liter at PKR 70 billion. This will ease off inflationary readings by 70 bps.
- Electricity provision of up to 300 units per month at PKR 36 billion and GAS bills of PKR 2,000 to be paid in installments over 3 months (combined outflow PKR 110 billion).
- Emergency / Residual energy provision of PKR 100 billion.
- NDMA to be given PKR 25 billion.

The State Bank of Pakistan announced a reduction of prime interest rates in three tranches; first lowering it from 13.25% to 12.5%, followed by another 150 basis points reduction to 11% which was further cut by 2 % on 16th of April 2020 ultimately reducing it to 9%. Trade and Industry expected greater reduction in the interest rates, though, but SBP seems more cautious considering the fears of flight of hot money – the foreign investment in Pakistan Government T Bills.

Apart from the above, the Government announced another scheme to whiten the black money in Pakistan by announcing an amnesty for the construction industry, according to which for the next 12 months, no questions will be asked about the source of investments made in the construction sector.

Possible Effectiveness of the Stimulus Packages:

The various packages announced by the different countries, especially the developed economies, will in all likelihood, spur both the supply and demand of industrial capital goods and raw materials, as soon as the lockdowns begin to get lifted. These will be supported by the rise in consumer demand in these developed economies. The rise in demand by the industrial, services, and consumers in the developed economies will most likely convert into import orders from not only China but also other exporting countries of the world, including Pakistan. The local economies of the developing countries will also gradually start coming back to normalcy after the economic lockdowns start fading away.

In the developed and many developing countries, the stimulus packages will in likelihood result in a huge supply race towards meeting the fast-rising demand. There could well be supply difficulties faced by both manufacturing and services sectors.

In Pakistan too, the business reset and race to normalcy will begin, but the demand situation might not rise as fast as in the developed economies, because of the setback caused by the pandemic lockdowns. Hirings and raw materials orders will, however, begin somewhat rapidly but one should not expect a race to normalcy.

However, there is a significant caveat related to stimulus packages, as one might ask that if economic stimulus packages are so good then why these are not regularly announced to boost the global economies? The answer is inflation and inflation fears. This enormous rise in the money supply is considered highly inflationary, which is why these are announced only during extreme economic meltdowns. Fortunately for the world, the inflation was already treading low and therefore the interest rates have been at their historical lows.

Not in Pakistan though. The country is staring at another bout of high inflation period after the stimulus spending by the Government rise to a certain level. As a direct repercussion of this inflation, the Rupee can lose more of its value in a short period, further creating inflationary pressures in the economy.

Challenges for Pakistan:

Major Macroeconomic challenges faced by Pakistan are as follows:

1. High Inflation Period before and during the pandemic lockdown. It means excessive Government spending to revive businesses can quickly create higher inflation in the country.
2. Pakistan Government borrowings from local banks and government saving schemes are already huge and many call it unsustainable, which again means only limited government expenditures to revive the economy.
3. The domestic savings rate is low, which means Pakistan has to rely on foreign loans to keep the growth intact.
4. Export Industry seems to be stagnant, and all efforts by the government to grow exports have proved inadequate. Every year, exporters ask for more incentives but it doesn't help.
5. Flight of capital from Pakistan has come down but it continues. This flight of capital is happening when foreigners doing business or working in Pakistan (for example Chinese, Afghan) are allowed to freely buy foreign currency locally, and take this money either in their pockets while traveling to their countries, or through other means of currency smuggling. The foreign currency available with the exchange companies is sold by returning or visiting Pakistanis.

Opportunities:

Following opportunities are available for Pakistan in the current situation:

1. Pakistan can approach the Chinese government to encourage their private investment flows in the export sector of Pakistan. Over 5 Trillion Dollars are going to be injected in the economies by the Developed countries' governments and their central banks, which is going to boost the supply and demand of consumption in their economies. Most of this rise in consumption is going to result in imports from China and fast-developing economies. Pakistan can position itself to make the best of these new opportunities. The Chinese businesses have been flocking to ASEAN countries, to put exporting units in these countries and boost these countries' exports to the USA, Australia, and Europe.
2. Pakistan can make an enormous rise in exports to the developed economies, especially the USA. These countries have provided huge incentives to their business communities as well as to boost their demand sides, which will most likely boost these countries' imports from the developing economies.
3. Pakistan is likely to be provided international debt repayment relief, including IMF, World Bank, Asian Development Bank, Asia Infrastructure Investment Bank, and EXIM Bank of China. Pakistan can use these loan repayment deferments to preserve its macroeconomic strength.
4. The Government of Pakistan and State Bank of Pakistan can enable country's foreign exchange reserves by over US$5bn every year and rising, by disallowing local foreign exchange companies from selling forex to their regular and walk-in customers and also further tighten the amounts of forex that can be taken out in pockets by overseas visitors (both Pakistanis and foreigners).

Recommendations

In light of the statistics available, the following recommendations are suggested:

1. As mentioned in the challenges, rising inflation is going to an inevitable outcome of the relief packages announced by the Government and SBP, and the latter might feel the need to raise interest rates that have to be checked somehow. This inflation contagion has to be managed by the Government by taking strong measures against rising prices of food and other essential items.
2. Pakistan should immediately make formal requests to all its international lenders to either write off some or all their loans to Pakistan and/or to defer their debt repayments without any interest rate.
3. Pakistan needs to approach the Chinese Government to force its exporting companies to make full advantage of Special Economic Zones being launched in Pakistan as a part of the CPEC program.
4. The Government of Pakistan and SBP should announce further incentives to Pakistani exporters, especially the established exporters in these markets, to enable them to boost their exports to the developed countries. Currently, for example, even the established exporters are unable to keep their inventories in those countries to make daily or weekly supplies to the major retailers in those countries, which are commonly done by the exporters of other countries, including India and Bangladesh. The Foreign Exchange Manual of the SBP must be suitably amended to allow Pakistani exporters to increase their market access to the retailers in the developed economies. Many large exporters have developed illegal means to pay for their genuine expenses in developed countries, which is

not allowed according to the SBP's Foreign Exchange Manual. It is to be noted by SBP and the Federal Government that there is a high positive relationship between exporters' expenses in developed economies and the net margins on the export proceeds. For example, if the exporter can make weekly or more frequent supplies to the retailers' inventory or even directly to the retailers' shelves, the retailers would be willing to pay a much better price.

5. The Government of Pakistan should revive the buying and selling activities in the real estate sector for both built-up properties and land. To achieve this, the Government must reduce the taxes when transactions are routed through banks, at actual market values. The real estate buying and selling sector employ several hundred thousand Pakistanis in the brokerage and dealership business. If someone builds a house on purchased land, there should be further tax incentives.
6. To arrest the flight of capital from Pakistan, the SBP must take adequate steps. As mentioned in the report, the main source of capital flight from Pakistan is when foreign currencies available with the local exchange companies, sold by returning and visiting Pakistani expatriates, are purchased by the unscrupulous businessmen and politicians and then smuggled abroad. This flight of capital from Pakistan is also used for under-invoicing by the importers. SBP should force the currency exchange companies to surrender all foreign currencies to the banks and they should only be allowed to buy foreign currencies from returning and visiting Pakistanis.

Conclusion

After the pandemic lockdown is over, expected somewhere in the middle of the 2020 calendar year, the race to normalcy in the developed countries will bring a lot of hope in the manufacturing and services sectors of the developing economies like Pakistan.

The stimulus package announced by Pakistan's Federal Government as well as the State Bank of Pakistan will surely provide fairly strong support to the overall business conditions and sentiments in the country, but it will take a few years for the economy to start steaming forward. Inflation will remain a huge challenge for the government to manage.