Economy Will Need Reset and Reboot after Recession

ISLAMABAD: Pakistan is facing the worst economic conditions in its history — a negative economic growth at 1.57 per cent and a fiscal deficit of 9.6pc — during the current fiscal year owing to economic losses in the aftermath of coronavirus pandemic.

“In a worst-case scenario, the growth rate could remain negative at 1.57pc of GDP”, said the Ministry of Finance on Tuesday after Adviser to PM on Finance and Revenue Dr Abdul Hafeez Shaikh met with representatives of multilateral lending agencies. The poverty situation was also likely to worsen in the country, the statement noted.

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This is the first time that the government has officially affirmed that the country would be in recession even though many leading lending agencies like the International Monetary Fund and the World Bank had estimated negative 1.3-1.5pc GDP growth for the current fiscal year.

Pakistan’s economy grew by 3.3pc last fiscal year and was estimated to maintain that pace before the pandemic.

DFID, World Bank and UN warn against relaxation of lockdown

The meeting presided over by Dr Shaikh and attended by leading development partners, including World Bank, Asian Development Bank (ADB), Department for International Development and United Nations Development Programme underlined several challenges the country was likely to face on the economic front due to the impact of pandemic on the national, regional and global economy. The meeting warned against any relaxation in the lockdown.

The finance ministry said the participants agreed that while it was too early to predict the impact of Covid-19 but if the crisis persisted then the manufacturing and service sectors as well as the exports were likely to be severely affected by 2020. On the positive side, Pakistan’s agriculture growth was likely to remain intact.

The participants said the fiscal deficit could rise to 9.6pc of the GDP while the impact on poverty could also be higher due to closure of businesses and restricted economic activity.

It was also pointed out that the Covid-19 crisis had drastically affected the global economy that could shrink by 3pc. Similarly, it was also felt that there would be negative growth throughout 2020 and the chances of recovery were expected from the start of 2021.

The meeting underlined the need for pursuance of a clear, transparent and unified plan of action combining a “whole of the country” approach backed by necessary constitutional measures to sail out of the crisis. The meeting emphasised expenditure rationalisation, particularly reduction of low-impact spending, and revenue generation as key areas of focus in coming months.

“It was felt that the construction sector could provide the key for resurgence of economic activity”, the ministry said in a statement.

The meeting also warned against the relaxation of lockdown which could further increase the infection rate and put an unbearable burden on the healthcare system which was already finding it hard to provide regular healthcare services due to increased focus on dealing with the Covid-19.

It was suggested that the country would be required to “reset and reboot” its economy to get above the red line. It was felt that the second tranche of cash grants to those vulnerable segments who were adversely affected by lockdown and closure of businesses would be required to further the relief efforts.

The ADB informed the meeting that they are interested in giving local currency loans to small and medium enterprises adversely affected by this crisis.

The meeting also noted that the speed, efficiency, and transparency with which Pakistan has already disbursed more than Rs75 billion to its millions of vulnerable population was unprecedented in the entire region and such a thing was unimaginable in the recent past of the country, the statement said.

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