

Impact of COVID-19 on Socioeconomic Situation of Pakistan

Introduction

In the first quarter of 2020, the world was faced with COVID-19 pandemic which was truly a 'black swan' event – an event whose probabilistic occurrence is rare, but should it occur, the event can have devastating consequences. Globally, stock markets nosedived, factories were shut down, global trade and supply chains were severely disrupted, airports were deserted, offices had stopped their operations and shops remained closed to contain the pandemic outbreak.

On the December 31, 2019, first official case was reported in Wuhan China. Initially it was confined to China until first official case was recorded in Thailand on January 13, 2021. The first case of COVID-19 in Pakistan was reported on 26th February 2020. By 1st June 2020, 76,398 cases were reported with 1,621 deaths, i.e., CFR¹ 2.12%.

Daily maximum cases in Pakistan were reported on June 14, 2020, i.e., 6,825 cases. 213 cases were the lowest official number that were reported on August 30, 2020. Second wave was started in the second week of October, reached 3,795 official case on December 6; maximum in the second wave. Although the cases started increasing the maximum number remained close to 1,000 cases till February 2021.

The ongoing third wave in Pakistan was officially recognized to have started in the second week of March 2021. The number of cases (on March 18, 2021) are increasing at 8 percent infection rate and CFR is 1.2 percent. Total cases are more than 600 thousand and are expected to increase due to increase in infection rate as well as outbreak of new variant of virus.

Impact on Economy – Initial Impact and Assessment

Prevention lies in following COVID-19 SOPs; wear masks, hand washing and maintaining social distance. Third being the most significant SOP that leads to decline in daily business especially in the informal retail and wholesale markets thus leading to numerous business closures and un-precedented job losses. Developed countries like

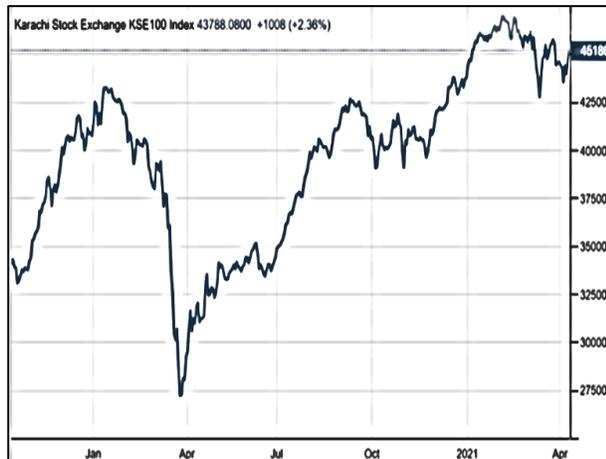
¹ Case Fatality Rate

USA have registered 35 million jobs loss in the first two months. It was also expected that half a billion people might slip below poverty line in developing countries due to job loss.

With the gradual increase in cases and closure of business, both employers and employees have started worrying about their business and jobs. Investors have started becoming concerned about their money invested in companies. Economies around the world have been experiencing the an economic decline similar to the great depression of 1930s. China's GDP shrunk by 10-20% in January and February compared with a year earlier. A similar drop was expected in other countries as well, especially European countries and Iran. Massive government interventions are required to lessen the shock to economy.

The outbreak in China forced factories to stop production, which reduced the demand for oil, raw material, intermediate goods as well as the supply of intermediate and final goods to the world from China. European countries faced a similar situation. Hence, an overall downturn in the global economy was observed. Developing countries, especially outward-oriented countries were affected the most due to disruptions in the overall global value chain.

In the initial days of lockdown in March 2020, the Pakistan stock market lost on average 1500 points daily. The losses in the stock market were mainly attributed to the increase in interest rate first, reduction in oil price second and the onset of coronavirus. Billions of rupees invested in different shares were reduced by one third and in some case half of the value. Graph shows the movements of the Karachi stock markets (KSE-100 Index) which was above 42,000 in January 2020 and was expected to go up, however, outbreak of COVID-19 created panic and it hit harder when the lockdown was announced in the mid-March 2020. Although it started recovering by the End of March, nonetheless, it took almost a year to reach at the same level.



Manufacturing sector, especially the exporters faced difficulties due to the decline in the demand for imports from Pakistan and other developing countries. Numerous consignments of the textile sector were stranded on the sea and then returned because, in wake of the pandemic, no state wanted to bring them inside the country unless everything was back to normal. Exporters also faced with problems in working capital management. Moreover, small businesses, especially freelance entrepreneurs, have

struggled as supply chains dried up, leaving them without products or essential materials.

Globally, 2007-08 financial crisis was considered to be the biggest financial crisis of the world before the current crisis. The current crisis hit services sector the most which has the biggest share in the economy. Due to social distancing, many of the services sector businesses were shut down such as hotels, restaurants, wedding halls and marquees. Similarly, due to border closures and overall business slow down the most effected services sector was wholesale and retail trade that has the maximum share in services sectors in addition to the transport sector.

Overall economic growth in Pakistan contracted to (-) 0.47% in 2019-20 when it already had weak economic growth of just 1.9 percent in the prior year. The COVID-19 further compounded long-standing challenges, especially in the industrial and services sector. However, due to the timely intervention of the government (economic stimulus package), the economy turned back to revival path.

Poverty and Unemployment

In 2015-16, 24.3 percent of the population was living below the poverty line, while 19.87 percent are vulnerable who can slip below poverty line due to any shock. Keeping the spread of the pandemic in perspective, almost 44% of the population is potentially vulnerable (including 24.3% already living below the poverty line) and may require immediate bail out².

The estimates of multidimensional vulnerability index based on PSLM 2014-15 shows that 56.6 per cent of the population have become socioeconomically vulnerable after the outbreak. This implies that various segments of the society may get affected by the pandemic, especially women and children as well as home-based and piece rate workers and marginalized groups including transgenders, persons with disabilities, refugees etc.

The 2017-18 Labor Force Survey estimates show 61.7 million employed labor force. Among these, 23.8 million are agriculture workers and 37.9 million are non-agriculture workers. Out of non-agriculture workers, 27.3 million (72 per cent) work in the informal sector³. Majority of the informal workers fall in the categories of “paid employees” (13 million workers, or 48%) and “own account” or “self-employed” workers (11.2 million, or 41%). ILO and PIDE estimated expected job loss considering two scenarios, i.e., (1) moderate slow-down of economic activity and (2) severe restrictions on economic

² https://www.sdgpakistan.pk/uploads/pub/National_Poverty_Report_2015_16.pdf

³ Wholesale and retail trade sector and manufacturing sector employs most (15.1 million) of the informal workers followed by construction sector (4.43 million), community/social & personal services sectors (4.37 million) and transport/ storage & communication sector (3.14 million).

activities. International Labor Organization (ILO) estimates 12.6 million to 19.1 million vulnerable workers may lose their jobs while PIDE estimates 15.54 million to 18.65 million job loss⁴. It is expected that wholesale and retail trade will lose maximum workers followed by manufacturing, construction and transport. However, expected job loss in non-agriculture sector is between 4.8 million to 5.8 million.

SMEDA⁵ estimates shows that 3.25 million Micro, Small and Medium Enterprises (MSMEs) constitute nearly 90% of all the enterprises in Pakistan and their share in the annual GDP is 40%, approximately. 97% of these enterprises are under individual ownership and hence mainly working in the informal sector. Since most of MSMEs are not documented (other than those workers registered under EOBI or a social security program), they are not protected against loss of employment.

In addition, the gig or platform economy workers⁶, especially those providing geographically tethered services like transportation (Uber and Careem), delivery of items (Bykea)⁷ and domestic work services (Mauqa, Ghar Par) are significantly affected amid lockdown. Such digital platforms treat these workers as independent contractors, hence relieving themselves of any employment responsibilities towards these workers⁸. These white collars workers cannot be part of any *Ehsaas* program or other social protection program.

Socioeconomic Situation

Border closures and lockdown disrupted agriculture value chain. For the local consumer, this translates to potentially reduced availability of farm produce and related products in the market. On the other hand, it may restrict people's access to sufficient/diverse and nutritious sources of food, especially in those areas most impacted by the virus and/or with a pre-existing problem of food security. Lower socio-economic groups are most susceptible to this, particularly women-led households and children (since reduced household incomes and purchasing power will lead to restricted nutritional diversity and rationing of food intake). However, survey data is lacking to

⁴ Table 3 in <https://www.pide.org.pk/pdf/PIDE-COVID-19-Bulletin-4.pdf>

⁵ [State of SMEs in Pakistan, SMEDA](#)

⁶ The platform economy distinguishes between two major forms of work: crowd work and work on demand via apps. Crowd work is performed online and is location-independent. It includes software development, data entry, translation services, etc. Examples are Up Work, Fiverr and Freelancer.

'Work on demand via apps', on the other hand, matches the worker and the client digitally and the work is performed locally. Activities include transportation, food delivery and home services. Major platforms in Pakistan include Uber, Careem (transportation) and Food panda (food delivery).

⁷ Bykea has over 30,000 daily wage earners working with it. It has launched a Rs 7 million relief fund for its driver partners affected by the lockdown and suspension of services amid the coronavirus pandemic.

⁸ The Online Labour Index (OLI) is the first economic indicator providing online gig economy equivalent to conventional labour market statistics. It measures the supply and demand of online freelance labour across countries and occupations by tracking the number of projects and tasks across platforms in real time.

validate the expected adverse impact of the COVID-19.

Tackling Health Issues

Unlike developed countries, Pakistan has fragile healthcare system. Facilities are insufficient to meet the population needs. There is on average one hospital bed available for over 1,680 people⁹. The daily testing was initially very low which was improved as the infection rate increased.

Provision of healthcare for non-COVID related illnesses was one of the major concerns during the first as well as second wave of pandemic which included primary healthcare services such as routine immunization and mother and child healthcare. The lockdown and travel restrictions across countries disrupted supply chains, stock shortages of essential vaccines and resultant disruption of immunization services that might have affected immunization of children.

The COVID-19 pandemic had significant impact on reproductive healthcare and newborn at multiple levels: i) potential shortages of required medications (such as antiretrovirals and antibiotics) due to disrupted supply; ii) health care providers diverted to help address COVID-19 patients; iii) financial resources diverted to COVID-19 response.

Outbreak of the disease put an additional burden of domestic work and disease prevention on women. The responsibility of women in prevention and care of disease extends outside the household as well. Moreover, majority of healthcare professionals (nurses, doctors, etc.) are women. In such cases, these healthcare professionals shoulder the responsibilities of both domestic work and homecare.

Tackling Education Issues

Education is among the few sectors which was closed after the COVID-19 to contain the spread by keeping social and physical distancing. The COVID-19 pandemic has directly impacted 42 million school going children from pre-primary and primary to higher secondary and degree college levels. Low-cost private schools are unable to pay salaries to the teachers and face risk of school closures. This situation stands to potentially exacerbate risks and vulnerabilities to an already weak education system, as well as steepen learning capabilities.

Mobility constraints, non-availability of internet, non-access to tele-schooling facilities has disproportionate adverse impact on the most vulnerable groups, particularly females¹⁰ and other marginalized groups and those in rural areas and urban slums.

⁹ PIDE COVID 19 E-Book

¹⁰ World Bank, Managing the impact of COVID-19 on education systems around the world: How are countries preparing,

Geographically, rural areas and urban slums are potentially at highest risk with more than 70 per cent of current enrolment and large pockets of already out of school children. Hence, the COVID-19 crisis may widen the already existing socioeconomic gap in the educational system and impact the overall literacy rate of the country.

Tackling Gender Issues

Women and other vulnerable groups are the worst hit by pandemic. Women dominate professions such as domestic workers, teachers and instructors in schools and colleges. Due to lockdown conditions, closure of schools and colleges, stalling of transportation and general inability to pay salaries, women are among the most vulnerable to lose employment.

Furthermore, currently 12 million Home Based Workers are working who earn around Rs 3,000 to 4,000 per month. Given that they belong to informal sector, they too face multidimensional issues such as income insecurity and absence of social protection. In the current situation, this segment of labor force is mostly at risk of losing livelihoods due to its inability to supply the required labor hours.

Role of Philanthropy

Pakistanis are very philanthropic nation. Overall, nation is always responsive in the crisis situation. Therefore, the importance of philanthropy cannot be ignored. It has played a vital role in providing critical support to various organizations leading relief and recovery efforts.

Various organisation as well as individuals have participated in philanthropic activities. The philanthropic activities are mostly related to (i) support for hospitals where facilities are inadequate e.g., testing of patients with COVID-19, ventilators, personal protective equipment and other consumables, (ii) Ration packages (iii) public health messaging campaigns.

An Integrated Response for Salvaging the Economy; Saving Lives and Livelihoods

Administrative Response and Establishment of the NCOC

The National Command and Operation Center (NCOC) was setup at the early stages of pandemic and is mandated for reviewing situation continuously and taking day to day important decisions. NCOC is nerve center to synergize and articulate unified national effort against COVID-19 and to implement the decisions of national coordination committee on COVID-19. The center is one window operation to collate, analyze and process information based on digital input and human intelligence across Pakistan

through all provinces, AJ&K, GB&ICT dedicated representatives and centers.

NCOC issued several guidelines for COVID-19 prevention that includes (i) cleaning and disinfection of all areas/sites, objects and potential surfaces where a suspected or confirmed case of COVID-19 has visited, lived, used and/or touched (ii) mandatory wearing of masks and testing of COVID-19, (iii) establishing quarantine facility, (iv) home isolation, (v) social distancing (vi) zoning of hospital for better access and treatment of COVID-19 patients (vii) Cleaning & Disinfection of Environmental Surfaces, (viii) court premises and inside the court rooms, (ix) management of stores for owners and public, (x) industries and workers, (xi) management of the Neonate of suspected or confirmed COVID-19 mother, (xii) air transport, Burial and Safe Management of COVID-19 Dead Body (xiii) Personal Protective Equipment (PPE) and outpatient guidelines for hospital staff (xiv) Health & Safety of Building & Construction Workers (xvii) public transport, domestic air transport and railway stations (xix) Eid-ul-Azha markets (xx) Government offices (xxi) reopening of all the businesses including tourism, restaurants, marriage halls, salons, parlours, cinemas and all mass gatherings and (xxii) reopening of schools.

In addition to the aforementioned guidelines for COVID-19 prevention, COVID-19 1166 helpline was setup in case of an emergency. Some basic preventive measures were selected and communicated through pictorial depiction as well as played on electronic and social media.



Evidence Based Decision Making and Policy Response

COVID-19 Specific PBS Survey¹¹

Pakistan Bureau of Statistics has conducted a special survey¹² for evaluating impact of

¹¹ Evaluating the socio-economic impact of COVID-19

¹² Report is available at

COVID-19 on wellbeing of people¹³ to provide representative results at national/provincial level to inform government on the magnitude/level of effects of this crisis on Employment, Food security and general wellbeing of the population for informed decision making. Questionnaire & methodology was finalized with consultation of all relevant stake holders like FAO, World Bank, UNDP, WHO, independent renowned researches and M/o Planning Development & Special Initiatives (PD&SI).

Main Sector Covered are; Employment, Income, Remittances, Food Insecurity, Access/use to Health Facilities, Housing Characteristics Water, Sanitation & Hygiene and Assistance obtained from Organizations.

The findings show that 27.31 million working population was affected. While, 20.6 million people could not work during the first wave of pandemic. Whereas, 6.7 million people said that their income was declined.

Not surprisingly, 74 percent informal workers were affected. Own account worker (non-agriculture) were the most effected worker (30 percent) followed by casual paid employee (29 percent), regular paid employees (19 percent) and piece rate employed (15 percent).

Larger part of the affected belong to manufacturing sector (26 percent), while construction sector (20 percent) is at number 2, transport and communication sector (17 percent) at number 3 and wholesale and retail trade (15 percent) at number 4.

As a coping mechanism, half of the households reduced their non-food expenditures, whereas almost half also reduced the non-food expenses. Moreover, significant number of households have sold their property or used their savings whereas one third households reported borrowing from their relatives and friends.

Ehsaas has increased the scope of Kafaalat program, however the findings show that 33 percent of the households i.e. approximately 17.07 million households received assistance during the COVID-19 period. Out of which, 19 percent received assistance from government, while private sector assistance is reported as 18 percent. The share of NGOs is 2 percent. Nonetheless, out of 33 percent, 5.5 percent households had received assistance both from government and private sector.

Stimulus Package and Salvaging Economy

During the initial days of the COVID-19 pandemic, after analyzing the initial status and

https://www.pbs.gov.pk/sites/default/files//other/COVID/Final_Report_for_COVID_Survey_0.pdf

¹³ The data is collected between 20 October 2020 to 5 November 2020. The reference period was April 2020 to July 2020 and post August 2020, i.e, recovery period.

possible repercussions at the NCOC, Government came up with Rs 1.24 trillion stimulus package. Besides this stimulus package several other policy measures were taken to reduce the incidence and deaths due to COVID-19 and salvaging economy.

State Bank of Pakistan has also come up with several initiatives. The objective behind the stimulus package is to support investors, exporters and other traders who were severely affected due to COVID-19. These incentives include;

- ▶ Payment of principle on loan obligations deferred for 1 year;
- ▶ Margin call requirements against bank financing reduced from 30% to 20%;
- ▶ Criteria for classification of trade bills relaxed by 6 months; Banks overall pool of loanable funds increased; Criteria for re-structuring/re-scheduling of loan relaxed;
- ▶ Relaxing credit requirements for exporters & importers and relief for individual borrowers;
- ▶ Two new refinancing facilities: first, the ‘Temporary Economic Refinancing Facility’ (TERF) worth Rs 100 billion in bank refinancing to stimulate investment in new manufacturing plants and machinery at 7 percent fixed for 10 years; second, the ‘Refinance Facility for Combating COVID-19’ (RFCC) worth Rs 5 billion to support hospitals and medical centers the purchase of equipment to detect, contain and treat COVID-19;
- ▶ Reduced capital conservation buffer by 100 basis points to 1.5 percent;
- ▶ Increased regulatory limit on extension of credit to SMEs by 44 percent to Rs 180 million;
- ▶ Relaxation of the debt burden ratio for consumer loans from 50 percent to 60 percent.

BOX-1: PM’s Economic Support Package

- ▶ Elimination of import duties on imports of emergency health equipment;
- ▶ Relief to daily wage workers (Rs 200 billion);
- ▶ Cash transfers to low-income families (Rs 150 billion);
- ▶ Accelerated tax refunds to the export industry (Rs 100 billion);
- ▶ Financial support to SMEs (Rs 100 billion);
- ▶ Resources for an accelerated procurement of wheat (Rs 280 billion);
- ▶ Financial support to utility stores (Rs 50 billion), relief in fuel prices (Rs 70 billion), support for health and food supplies (Rs 15 billion), electricity bill payments relief (Rs 110 billion), an emergency contingency fund (Rs 100 billion) and a transfer to the National Disaster Management Authority (NDMA) for the purchase of necessary equipment to deal with the pandemic (Rs 25 billion).

Following the announced interventions/incentives by the SBP, discount rate was reduced from 13.25 percent to 7 percent in June 2020 and maintained till now. In

addition, the reduction in maximum end user rate from 7% to 5% on July 08, 2020 under Temporary Economic Refinance Facility (TERF) resulted in bringing significant increase in number. Despite lower economic growth, the requested amount in the last one year has increased from Rs 36.1 billion by end April 2020 to Rs 690 billion at maturity¹⁴ while over the same period approved financing has reached to Rs 435.7 billion from Rs 0.5 billion.

All the segments of customers including corporate / commercial and retail borrowers show positive response to the debt relief scheme. Out of 1.883 million applications received 1.825 million applications (96.92 %) were approved¹⁵. These loans include 1.717 million approved applications from the customers of microfinance banks involving an amount of Rs 121 billion. Out of total 910 billion deferred and restructured loans, Rs 717 billion was taken by corporate and commercial borrowers.

Health sector obtained approvals of Rs 10.5 billion out of Rs 16.67 billion (they asked) under the RFCC¹⁶. This is the first time that SBP has initiated a refinance scheme for Health sector due to extreme scenario amid pandemic. The main objective was to enhance hospitals' capacities in building COVID-19 specific isolation wards and increasing number vital machinery such as ventilators and oxygen providing equipment.

The Rozgar scheme aims to prevent layoff by financing wages and salaries of employees for six months, i.e., April 2020 – September 2020. Under the risk sharing scheme 2603 SMEs and Small corporates with sales turnover up to Rs 2 billion have applied for financing of Rs 69.4 billion against which Rs 56.2 billion have been approved. The scheme has prevented layoff of 1.849 million employees of 3,331 businesses till end September 2020.

Ministry of Planning, Development Special initiatives has allocated Rs 70 billion especially for COVID-19 related expenditures that mostly includes upgradation of health facilities and WASH related measures. Numerous hospitals had submitted their proposal from all over the Pakistan that were approved at the Planning Commission that mostly includes increase in the health provision facilities. These projects ensure the long-term better provision of better public sector health facilities in Pakistan.

Economic Recovery

Smart lockdown in March 2020 to May 2020 and in the next few months for numerous businesses led to decline in economic activity in the last quarter of 2019-20. The drop-in activities were so severe that normal expected GDP growth has decline from 3.3

¹⁴ As of 31st March 2021, the TERF scheme has matured, consequently no further change is expected.

¹⁵ up to April 02, 2021

¹⁶ The scheme has matured except for new hospitals that will continue till June 30, 2021

percent to negative 0.47 percent, which was partly cushioned by the introduction of the construction sector package in June 2020.

Economy of Pakistan rebounded strongly in FY2021 and posted growth of 3.94 percent which is not only substantially higher than the previous two years (-0.47 and 2.08 percent in FY2020 and FY2019 respectively) but also surpassed the target (2.1 percent for FY2021). Despite strict fiscal constraints, timely and appropriate policy measures taken by the government resulted in a V-Shaped economic recovery.

The government will continue to take the necessary measures for achieving a higher, sustainable and inclusive growth rate. Thus, increased size of PSDP, better containment of pandemic along with roll-out of vaccination and continuation of Ehsaas Programme will keep momentum of the economic growth.
