Institute of Historical & Social Research

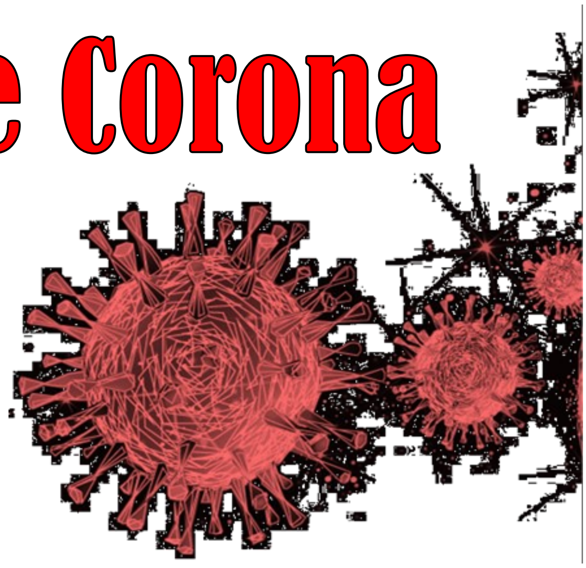
IHSR

Institute of Historical & Social Research

Centre for People's History and Dynamics of Change

Pakistan

Coping with the Corona Crisis



ECONOMY

1 May –15 May

The latest fortnightly report on the economy focuses on some of the actions taken by the government, its export sector, the central bank and, independent minded, industrial leaders of our nation to contain the effects of a prolonged inhibition in economic activity; ensuring that the foundations of banking, industry and consumer sentiments remain unscathed, during the pandemic emergency.

We begin by highlighting how the global restrictions placed on travelling and the precipitous fall in oil prices, allowed the narrowing of Pakistan's trade deficit, in addition to empowering the government to generate greater tax revenue from the sale of petroleum based products. Based on its analysis that a financial volatility could arise in the banking sector, due mainly to a backlog of circular debt and rising loans, dispensed, in the past, to now mostly insolvent businesses, the central bank advised vulnerable banks & financial institutions to temporarily halt the payment of dividends to conserve their capital.

Finally, this report pays tribute to the business acumen of leaders in the textile industry, who saw an opportunity, in the pandemic crisis, to transform their mills from producing clothing to manufacturing personal protective equipment, in the process, redirecting their redundant workers to their new responsibilities and hoping to recuperate losses from factory shutdowns from March and April.

Economic Highlights

- Government slashes the prices of oil and other petroleum products.
- Export restrictions from April had a negative bearing on figures for May.
- Improved tax collection enables a lowering of the fiscal deficit.
- Government advises banks to temporarily halt the payment of dividends.

Website: www.ihsr.pk

Written & Compiled by Syed Abbas Mehdi ; designed by Ali Ashar

ECONOMIC HIGHLIGHTS

- **Government slashes the prices of oil and other petroleum products:** During the first week of May, the government provided some reprieve to Pakistani consumers by slashing the prices of oil & most petroleum based products, lowering them in the range of between 15 and 38 percent. World oil prices fell during May, due, mainly, to a glut in global oil reserves. Price reductions at the pump provided the government with greater leverage to generate tax revenues from petroleum sales.

- **Export restrictions from April had a negative bearing on figures for May:** Government's decision to temporarily halt the export of certain essential goods during the month of April had a negative bearing on export figures for May, when they fell by a wooping 54 percent from a year ago; declining from $2.08 billion (April, 2019) to $957 billion (April, 2020).

- **Improved tax collection enables a lowering of the fiscal deficit:** Pakistan's fiscal deficit hovered around 3.8 percent of its GDP, an improvement over the previous year's figure, which stood at 5 percent of, last year's, GDP. This year's fiscal discipline was partly made possible by the streamlining of tax collection, as well as the approval of $3.3 billion in external financing from multilateral aid agencies under a pandemic emergency relief program.

- **Government advises banks to temporarily halt the payment of dividends:** In an effort to shield the Pakistani banking system from financial volatility arising from a pile up of both circular debt and anticipated loan defaults from insolvent businesses, the State Bank, last week, advised all member banks, including microfinance and development financial institutions to offload risk by placing a temporary moratorium on payments of dividends to its stock & share holders. This advisory was applicable for dividend payouts from earnings made during the last banking quarter, ending on March 31st, as well as for the half year, ending on June 30th. Banks' shareholders responded with a resounding disapproval of this latest move by the premier central bank.

References for article: "The textiles industry repositions itself to earn the trust of world's personal protective equipment buyers"

- Atiq, S.K. (2020, April 17). Covid-19 challenge and textile sector. *The Nation. Retrieved from https://nation.com.pk/17-Apr-2020/covid-19-challenge-and-textile-sector*
- Jamal, N. (2020, May 11). Textile sector masking' its way forward. *Dawn: Business & Finance weekly, p.1* Retrieved from https://www.dawn.com/news/1556258
- Kelland, K. (2020, March 25). Who should wear a face mask and do they stop the virus? REUTERS. Retrieved from https://www.reuters.com/article/us-health-coronavirus-facemasks-explaine/explainer-who-should-wear-a-face-mask-and-do-they-stop-the-coronavirus-idUSKBN21C2PT
- Monno, K. (2020, May 27). Covid-19 and textile exports. *The Nation. Retrieved from https://nation.com.pk/27-May-2020/covid-19-and-textile-exports*

References for article: "Firefighting the pandemic's economic contagion"

- Aazim, M. (2020, May 11). We need faster credit distribution. *Dawn: Business & finance*. Retrieved from https://www.dawn.com/news/1556253
- Ali, M. (2020, April 10). SBP to businesses: stop firing people, get a cheap loan instead. *Pakistan Today*. Retrieved from https://profit.pakistantoday.com.pk/2020/04/10/sbp-to-businesses-stop-firing-people-get-a-loan/
- Jamal, N. (2020, May 4). Helping the little guy. *Dawn: Business & finance.* Retrieved from https://www.dawn.com/news/1554398/helping-the-little-guy

Correction: In our last report on the economy , dated (15 April –30 April), we had, erroneously, printed the article : *" Lock down & Employment Catastrophe in Pakistan "* with an incorrect authorship. Full credit for writing this article goes to **Ms. Saba Aman.**

The textiles industry repositions itself to earn the trust of world's personal protective equipment buyers

The textiles & clothing industry of Pakistan has remained at the forefront when it comes to earning valuable foreign exchange for the nation, with approximately 60 percent of overall export revenues attributed to this sector alone. Besides, this industry employs a large number of both skilled and semi-skilled workers, providing an important avenue of employment for the teeming millions of Pakistanis. However, *this industry had recently reported massive cancellations of shipment orders of its traditional clothing & apparel products, mostly by its foreign partners, squeezing cash-flows and placing a question mark on the industry's ability to retain all of its labor force.*

Textile manufacturers, as a whole, and enterprising leaders of renowned local brands in particular, are increasingly taking a second look at their manufacturing facilities and supply chains, gradually working to reconfigure some facilities, while simultaneously making it a top priority to train & appropriate manpower to satiate the world's appetite for quality manufactured cotton-based face masks, personal protective equipment, caps, and other cotton & textile based products. The industry has had to improvise, as a response to worldwide exponential growth in demand for such gear & equipment, happening within a short timeframe, presenting itself with an opportunity to retain its workforce by redeploying them to fulfil newly acquired orders. The vulnerabilility of millions of textile jobs became apparent when factories had to temporarily shut their doors, following the government's lockdown directives of pandemic containment.

Enterprising brand leaders, including Ahmed Jahangir, executive director of Nishat Mills, a leading Pakistani textile manufacturer, took a collosal decision of temporarily halting the manufacture of certain traditional clothing products, responding to dwindling world demand for luxury clothing, as the world refocused its resources to battle and contain the covid-19 pandemic. *The textile industry soon responded by focusing on manufacturing and procuring new orders for personal protective gear & equipment, whose demand had suddenly sky-rocketted, both within Pakistan and abroad, following the discovery that they were effective in containing the spread of the pandemic.*

As explained by Ahmed Jahangir, Nishat Mills responded to the stimulus provided by regular inquiries issuing forth from interested foreign buyers, presenting a wish list of life saving protective equipment during routine purchase negotiations. *Before other nations could pounce upon this opportunity to win new customers, several Pakistani textile owners independently decided to reposition themselves in order to fulfil order requests;* wishing to recoupe financial loses incured from fallen revenues occuring in the first quarter of this year, when the industry, as a whole, was overwhelmed by order cancellations leading to financial loses, pushing businesses to furlough their redundant workers.

To take the fall in export earnings into perspective, the year-on-year export earnings for April fell from $2.08 billion (April, 2019) to $957 million (April, 2020), a precipitous decline of 54 percent. *Ahmed Jahangir stated that winning the first consignment of 60,000 masks from local businesses allowed Nishat Mills to redirect at least 500 semi-skilled stitching jobs to complete these orders, removing some of the pressures it and other factory owners faced when considering the retention of its workers.* As several countries move towards a gradual withdraw in lockdown restrictions, often making it incumbent upon its citizens to wear protective face masks in public, the demand for personal protective equipment is expected to remain intact, especially up until a vaccine for covid-19 is made available in the market; allowing an important export earning industry to capture a nitch for itself in the world market for protective caps, masks, gowns and other textile based personal protective equipment.

Besides cotton-based protective gear & equipment, Pakistan's textile owners expressed a desire to make non-woven protective equipment, as their manufacturing was relatively less time consuming. Most hospitals, caregivers and front-line health workers were recommended to use non-woven N95 masks, breathers, etc., however, base materials required to make them remain in short supply. Manufacturers recently got together to petition the government in removing key bureaucratic impediments in the importation of materials, asking for *duty-free imports of essential melt-blown materials, needed to make non-woven masks.* They opined that Pakistan's world class textile mills could be requisitioned to make non-woven masks, in stellar time, enabling the retention of thousands of jobs, providing some employment guarantees to its workforce whose employable future remains in doldrums.

(References on page 2)

Firefighting the pandemic's economic contagion:

Coordinating monetary easing measures in conjunction with fiscal space creation to contain a downward economic spiral

With most world economies set to contract this year, Central banks have been quick to announce generous monetary easing measures, early on, to save the private sector from insidious ruin, made possible by the demand-side shocks witnessed through the lowering of worldwide consumer sentiments. These sentiments quickly translated into temporary declines in worldwide demand for most consumer items other than groceries and household goods.

In order to strengthen the resolve of the private sector to reorganize its finances, most Central banks, and closely followed by the State Bank of Pakistan, unwielded generous monetary easing measures early in their fight to contain the contagion of falling cash reserves and mercurial balance sheets, witnessed by most companies facing a dwindling demand for their products. *However, the problem lies in the banks' indifference to the credit needs of small Pakistani businesses. They have, traditionally, maintained an unsatiable appetite for lending to the government, preferring to invest in long-term government treasury bills;* whose high interest rates and relative safety and surety of returns, make them better investment instruments as compared to private sector loans. Lending to the private sector remains subdued, due to the burden of greater risk of default involved with these loans. The trend of lending to the public sector was substantiated by the IMF brokered loan agreements that required the gradual raising of the interest rate, which stood at 13.25 percent up until February, of this year.

The unleashing of the covid-19 pandemic and the following economic recession, tested the resolve of the State Bank to maintain a restrictive monetary policy of high lending rates. However, its resolve weakened, when by its own estimation, the Pakistani Gross Domestic Product was anticipated to contract by 1.57 percent in the next fiscal year starting in July, 2020. Thereafter, Pakistan's premier bank got into the fire containment mode by embarking on an unprecedented reversal of its high policy rate, lowering it by successive notches; 425 basis points in all, within three emergency monetary policy meetings.

The Monetary and Fiscal policy coordination committee, an arm of the government, worked tooth and nail to consolidate the credit creation aims of the State Bank through the unleashing of several income support, utility payments support and loan default protection programs for Micro, Small and Medium enterprises (MSMEs) and Small & Medium enterprises (SMEs), facing tepid business prospects, under lockdown restrictions. Notwithstanding the fact that *Pakistani banks dispensed a total credit of only Rs 329 billion, this fiscal year, to the private sector; compared with Rs 598 billion in total credit loaned during the last fiscal year; amounts that pale in comparison to the credit disbursements made to the federal government of Rs 1.82 trillion, up until end of April, this year.*

Pakistani banks are loath to open up credit lines to small businesses for various reasons including the perceived inability of these businesses to fulfil stringent collateral requirements set by banks. Their risk aversion towards extending credit to the private sector in general and for making loans to small unregistered businesses in particular, makes the announcement of fiscal and monetary relief packages for small businesses only a noble gesture bereft of a follow up announcement of bringing changes in banking regulations; redressing anomalies of unbalanced credit extensions of the past. To enable banks to appropriate credit for vulnerable businesses belonging to the the MSMEs and MSEs sectors, the government should require banks to maintain a healthy portfolio of loans dedicated to these sectors, including a percentage of overall credit limits going to micro & cottage industrial enterprises. New regulations are needed that address the relaxation of application procedures for small business loans in order for these businesses to avail themselves of the recently announced economic relief packages.

An important underlying reason for the State Bank's decision to switch to monetary easing involved the making available of credit cheaply for the private sector. During these precarious times for private businesses, the availability of loans at discounted prices and the assurance given by the government for bearing the first 40 percent loss on non payment of loans, is a boon for businesses. If used as intended, small to medium sized enterprises, affected by the recent closures and subdued economic activity, could use these credit lines to not only patch fissures in there balance sheets but also save their workforce from being made redundant while salaries could be paid more frequently. *The government is banking on the trickle down effect of consolidating businesses at the top, which will slowly materialize into job security for the millions at the bottom.*

(References on page 2)

Budgeting for citizens' care

By Jawaid Bokhari

BRAVING the challenges of falling tax revenues, reduced development spending, rising fiscal deficit and swelling debts, the prime minister's advisor on finance Dr Abdul Hafeez Shaikh expects the government to focus on mitigating sufferings of the people in the 2020-21 budget.

Deviating from the prioritized austerity agenda, Dr Sheikh in a recent television interview said: it is the basic principle of economics that when money comes in the hands of the people through government spending, it helps generate economic activities, job creation and in tackling the recession. So in the next budget, he elaborated, the government will mitigate sufferings of the people and give cash, food products and recreate employment opportunities.

In a bid to make that happen, Islamabad has secured the financial support of some $3.3 billion from multinational agencies for fighting coronavirus and its impacts on the economy. More fiscal space will be available from the one-year breather on debt repayments to G-20 states estimated at $1.9bn.

Similarly, the debt-servicing cost is likely to be reduced both by an anticipated further decline in the policy rate, with exchange-rate volatility remaining subdued because of cheaper imports of oil, as well as falling domestic demand further hit by recessionary headwinds.

Owing to a rising slack in economic activities, banking spread in March has already dropped by 49bps year-on-year and 18bps on a month-on-month basis. *Notwithstanding these positive developments, according to the International Monetary Fund (IMF), the debt-GDP ratio will go up to 90 per cent by the end of June.*

While trying his best to enhance tax revenues reasonably, Dr Sheikh clarified that documentation of the economy will not be so strict that it will hurt businesses. Observing that the real players are businesses, investors, exporters, workers and farmers, he hoped to come up with a budget that meets the expectations of the people.

However, if one looks at the speeches made on International Labour Day on May 1 and recent events organised by social activists, it appears that the government and civil society are not on the same page. *The participants of the May Day forum were of the view that the government is using tax money to bail out big businesses and offering peanuts to the deserving poor.*

Despite getting a huge stimulus and relief package from the government, industrialists have so far retrenched more than 6 million workers, and according to one estimate, and the number might reach 12m, lamented Karamat Ali, Executive Director of Pakistan Institute of Labour Education and Research. Women's Democratic Front representatives called for, among other things, free universal healthcare, as a right, while demanding gender and economic justice.

Out of the Public Sector Development Programme of Rs710bn — nearly half of the amount remains unutilized

All these demands have to be seen in the context of the government's capacity to deliver on its ambitious uplift programme. To quote the latest official data of the authorised federal development spending of Rs526bn – out of the annual Public Sector Development Programme of Rs710bn – nearly half of the amount remains unutilised.

Aware of its limitations, *the government needs to encourage local communities to undertake micro socio-economic development projects on an unprecedented scale across the country while extending technical help with small financial assistance.*

In his book titled *A Journey Through Grassroots Development,* Shoaib Sultan Khan devoted an entire chapter on the Daudzai Project launched in 1972 to demonstrate the most cost-effective way to execute a project with multiple benefits. Such a project, he wrote, was made possible by organising people around a solution of a problem which they thought to be their own principal priority. The experience of the project can offer a way in which people can be empowered to improve the quality of life by themselves with the government serving as a catalyst.

Speaking on Labour Day, social activist Hina Jilani said had there been strong local governments equipped with resources, there would have been a visible difference in the handling of the corona-sparked crisis.

The PTI election manifesto had pledged to devolve power and decision-making to the people through an empowered local government. Nothing of the kind has happened. Instead, Prime Minister Imran Khan has now decided to transfer Rs30bn from the Sustainable Development Goals (SDG) programme from the cabinet division to the parliamentary affairs division. This will enable effective participation of parliamentarians in the disbursement of funds for small and, currently community-driven, development schemes.

According to the IMF, Pakistan needs Rs6.2tr to be spent in 10 years to honour its commitment to the United Nations SDGs monitoring body. Owing to enormous sums of money required, it was stipulated in the UN mandate that the government, business and society would join hands to implement the ambitious SDGs programme.

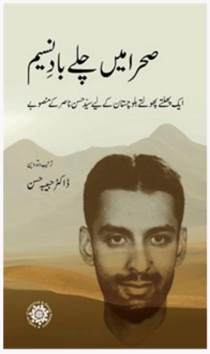
The government says it is doing its best, given the limitations of its resources and administrative capacity. *The macroeconomic indicators can only be improved by the sustained expansion of the economy propelled primarily by domestic demand that is, in turn, fueled by the needs of the common citizens enjoying a good standard of living. That is the key challenge the next budget needs to address.*

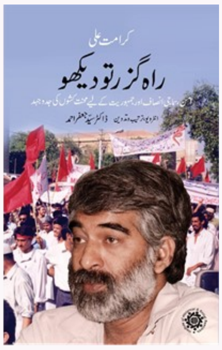
(Published in Dawn, The Business and Finance Weekly, 11 May 2020)

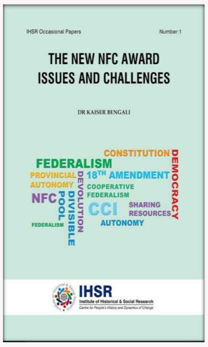
Institute of Historical and Social Research (IHSR)

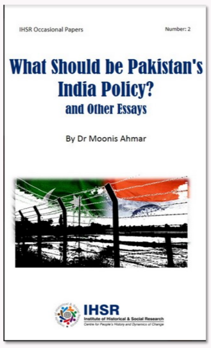
Institute of Historical and Social Research (IHSR) is a Karachi (Pakistan) based research organization with a very vibrant progressive and pro-people vision. Established by the S.M. Sohail Trust, the Institute is an independent and non-profit organization which undertakes researches on historical and socio-political issues, particularly with reference to Pakistan. The researches conducted by the Institute cover different disciplines independently as well as in a multidisciplinary manner. In the area of historical research it deviates from traditional modes of historiography and views history from below, encompassing the common people, adopting their sociopolitical contribution, ethos and values and creative pursuits as the major determinants of historical evolution. The Institute, on the one hand preserves the sources of peoples' history, retrieves the relevant historical documents, and conducts original research, dealing with the ways of life and thinking and the movements reflecting the concerns of the people at a given point in the past. On the other hand, the Institute disseminates its historical research in the form of books, monographs and reports on occasionally held seminars and conferences. Preservation and publication of the political literature of Pakistan is of special interest for the Institute.

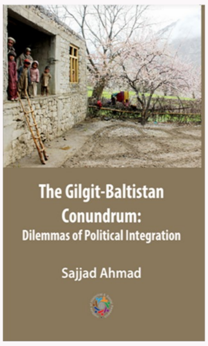
In the domain of social research, the Institute focuses on contemporary socio-political issues of the country, again with the common people as the central point of reference. These researches are done and projected in a manner that these can be made use of by the policymakers, planners and civil society representatives. These researches generate, through access to the relevant official and un-official primary sources, interaction with the informed individuals and technical experts, consultation with opinion-makers, and amassing information through field work. Such researches of the Institute find place in its publications, policy briefings, seminars, and in the press conferences and are made available at the Institute's website.

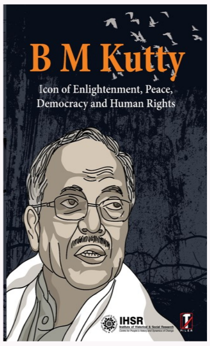



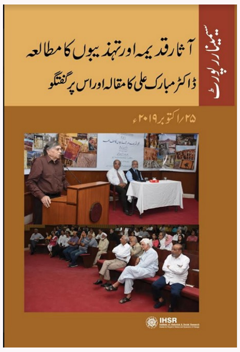


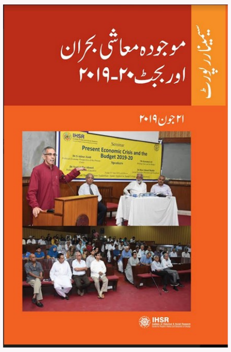
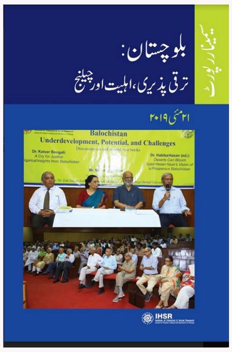










IHSR
Institute of Historical & Social Research
Centre for People's History and Dynamics of Change

Published by the Director,

Institute of Historical and Social Research.

22-23, Shaheed-e-Millat Road, Karachi.

Tel: (92 21) 34140035