

Coronavirus and macroeconomic interventions—part III

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M. ALI KEMAL(<https://nation.com.pk/Columnist/m-ali-kemal>)

October 28, 2020

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Eight months have passed since the first case of coronavirus reported in Pakistan. On June 12 we had 6825 cases, the maximum reported in 24 hours. Daily cases afterwards declined; reached three digits by 31 July and declined further to 196 cases by 10 September. This was the time when schools/colleges/universities started opening as well as restaurants were gearing up to start in-house dining and businesses were running according to the new normal. Economic activity was picking under the strict guidelines given by the government.

During September 2020, the world economy remained on track for economic recovery. This is evident from trading patterns of the major trading partners of Pakistan. Our exports grew to \$5.4 billion in the first quarter of the current fiscal year, while imports grew to \$10.6 billion in the same period. The trade deficit was \$5.25 billion which is slightly higher than the previous year in the same period. Nonetheless, three cheers to remittances that push the current account to surplus. Exchange rate that is considered to be the competitiveness indicator slipped below Rs161/\$. Though this is not a healthy sign for exporters. We may see an increase in imports unless further restrictions are imposed.

[Court extends stay order in Sharifs' Jati Umra residence case](https://nation.com.pk/29-Apr-2021/court-extends-stay-order-in-sharifs-jati-umra-residence-case)

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Similarly, large-scale manufacturing has shown some improvement in July and August compared to the last year during the same months. The QIM index shows 5 percent growth in July 2020; 1.2 percent in August 2020. Textile, food and beverages,

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coke and petroleum and pharmaceuticals and chemicals were the main contributors to the growth of large-scale manufacturing. Industries that have negative growth in manufacturing are automobiles, iron and steel and electronics.

The Stock market regained the status which was lost in COVID when the index went down to 27000 points; now it is close to 42000 points. Investors have confidence that it will go up further to the 44000 points that was experienced in mid-2018. The partial increase in index value is due to only plausible space to invest savings. In addition, investors are regaining their loss in profits during COVID. PRIME institute prosperity index shows an improvement in overall prosperity in July 2020.

Tax revenue collection has slightly improved than the previous year and above than the target of the first quarter of the current fiscal year. Overall, expenditures in the first quarter are reduced while PSDP spending has increased. Fiscal deficit is expected to remain on target, although the risk of high public spending amid COVID remains, the government needs to be very vigilant.

[India to use animal crematorium site as it struggles to cope with rise in COVID deaths \(https://nation.com.pk/29-Apr-2021/india-to-use-animal-crematorium-site-as-it-struggles-to-cope-with-rise-in-covid-deaths\)](https://nation.com.pk/29-Apr-2021/india-to-use-animal-crematorium-site-as-it-struggles-to-cope-with-rise-in-covid-deaths)

The discount rate remained unchanged in the last monetary policy announcement despite a slight surge in inflation. Year-on-year inflation in July 2020 was 9.3 percent and in August 2020 was 8.2 percent; month-to-month inflation was 2.5 percent in July 2020 and 0.6 percent in August 2020. Several contracts have been signed with the development partners to improve the reserve position of SBP. Henceforth, is it ambitious to assume that the discount rate must not change even though inflation due to administered prices and food prices go up further to one percentage point. Economic activity though picking up, is lacklustre and thus less chances to invite demand pull inflation.

Based on fiscal, monetary and exchange rate strategies and on prospects for the international environment one may expect that soon we have all economic sectors working at their capacity. The trend may also lead to assume further that economic activity is expected to rebound in the current fiscal year.

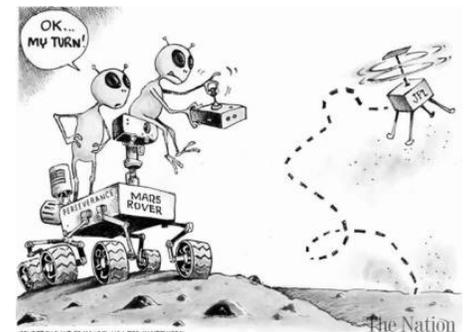
Although the numbers are moving in somewhat right directions. But a surge in the COVID cases is ringing the bell of the second wave. Pakistan was among the top ten countries in June/July 2020 when the COVID cases were at a peak in Pakistan. Alhamdulillah we are now at number 24. Considering the increase in the number of cases in most of the European countries it is very much expected that Belgium, Netherlands, Czechia and Poland crossed Pakistan in a few days/weeks. This also implies that the entire Europe may follow smart lockdown policies that restrict the international economic environment.

[Electioneering for NA-249 by-elections ends 48 hours before polling \(https://nation.com.pk/29-Apr-2021/electioneering-for-na-249-by-elections-ends-48-hours-before-polling\)](https://nation.com.pk/29-Apr-2021/electioneering-for-na-249-by-elections-ends-48-hours-before-polling)

Although a more effective smart lockdown policy is adopted to control COVID spread. Nevertheless, prevention is necessary, or the economy will be severely hit by the second wave. Businesses will face liquidity issues, and many more may experience



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insolvency due to lower economic activity. Although the government has announced cheap financing rates to support business and hoard their employees, however, micro enterprises and many small enterprises may not have obtained the loan.

Domestic fiscal adjustment will become even more challenging. Fiscal spending, in consort with lower economics activity, lower tax revenues may increase the debt burden. However temporary debt burden may not be a problem, especially with lower interest rates. It is also possible, "if parliament allows" the stimulus package will be given at zero percent interest rate as a special case of pandemic.

Furthermore, fiscal deficit in the presence of lower economic activity, lower revenues, higher expenditures due to subsidies and stimulus spending will not settle to pre pandemic level at least for the next one year. Interestingly, numerous spending will be lower due to lower economic activities; such as circular debt of the energy sector etc.

[Shaukat Tarin to chair ECC meeting tomorrow \(https://nation.com.pk/29-Apr-2021/shaukat-tarin-to-chair-ecc-meeting-tomorrow\)](https://nation.com.pk/29-Apr-2021/shaukat-tarin-to-chair-ecc-meeting-tomorrow)

Putting the burden of taxes and non-tax components to reduce fiscal deficit will reduce the already pressed buying power of the middle class. Therefore, raising taxes of any kind is definitely not a good idea. On the other hand, reducing tax rates is not an option for the government in the wake of a higher fiscal deficit. However, to give respite to the middle and lower middle classes, the government may increase the lower limit of the income tax bracket. One possible way is to start taxing those individuals who are earning at least 1.2 million a year and exempt all earnings below that level. This would give somewhat relief to the lower and middle class.

Overall, schools, colleges, universities and businesses must design their own SOPs for social distancing inside and outside the vicinity and implement hygiene standards following government SOPs. Several schools and departments of several universities are closed either new corona cases or not following SOPs. Similarly, restaurants are sealed by the administration for not following standard SOPs. Certainly, it is difficult to adopt new practices in the new normal and it will also increase the cost of production for businesses, but it will increase globally hence relative competitiveness may remain the same.

[Amjad Sabri remembered on his 5th death anniversary. \(https://nation.com.pk/29-Apr-2021/amjad-sabri-remembered-on-his-5th-death-anniversary\)](https://nation.com.pk/29-Apr-2021/amjad-sabri-remembered-on-his-5th-death-anniversary)

Besides following SOPs (no mercy on that) the following few points are important to improve economic activity;

Review the financial inclusion policy and remove all the bureaucracy hurdles. Increase domestic commerce. Allow thel as and small shops in cities with lower or no regulations. Reduce regulations and provide all possible incentives to home-based workers and entrepreneurs including rationalising energy prices for them, reduce regulations for financial access etc. Increase uninterrupted, high speed and inexpensive internet to all. Increase access to affordable and clean electricity to all. Increase the lower income tax limit to Rs. 1.2 million. Substantially reduce corporate income tax rates instead of giving rebates and duty drawbacks on custom duties to

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[Crises of COVID-19](https://nation.com.pk/28-Oct-2020/crises-of-covid-19)

(<https://nation.com.pk/28-Oct-2020/crises-of-covid-19>).

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- YES
- NO
- DON'T KNOW

