

CREATING FISCAL SPACES IN PAKISTAN DURING COVID-19 CRISIS

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With the spread of pandemic COVID-19 all countries are moving towards lockdown to maintain social distancing. In order to lessen the speedy movement of economy toward depression, creating fiscal spaces is very challenging especially for developing countries. The developing countries face difficulty in creating fiscal space to finance development projects even during routine days. For instance, the present PTI government in the beginning faced extreme difficulty before an agreement with IMF. During that time government tried many options including austerity, but none of them worked. Now with this pandemic crisis, with huge diversion of resources toward health, creating fiscal space is extremely challenging for all developing countries.

In recent past we have witnessed many shocks with huge negative impact on work economies; including, 9/11, SARS and 2008 financial crisis, but the impact of COVID-19 pandemic crisis on world economy will be much bigger than any earlier crisis. During 2008 crisis, the major issue was creating aggregate demand, production was not that much affected and inventories were built. However, the situation is very different now, this is broadly a supply shock. Workers cannot go to their workplaces and thus shortage is unavoidable. Many countries face such situation during country-wide unions' lockdown, which affect the aggregate supply, but in that situation, there is window of bargain along with expected timelines. However, in present situation there is no window of bargain and no expected timeline. At the same time, present shock is also a demand shock as well due to sudden unemployment, especially those in informal sector, working on piece rate and daily wages. However, we can expect that these spending and high aggregate demand will back once the pandemic is over—though without any guarantee when and how much.

1. Liquidity Management

To maintain fiscal space during and after the crisis is liquidity management. State Bank needs to continuously monitor the stress testing. I suggest that there should be clear

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plan for market participants, institutions, and investors for liquidity risk management strategies. The government should have a very clear picture of available cash and its management and must ensure the liquidity required to mitigate COVID-19 operations. Similarly, the federal and provincial planning and finance departments/ministries need to carefully evaluate (re-evaluate) the payments and ensure the liquidity of credit. These departments should also need to find out how much cash they will need and for how long (with some approximations).

Last but not least the audit and procurement offices need to opt different protocols and payment and procurement. They will have to think about optimizing time, procedure, may be needed to rely on old dealers with high confidence.

State Bank of Pakistan's stance on COVID-19 aimed to targets both supply and demand side. Nevertheless, their scheme "Facilitating New Investment" announced on 24th March 2020 worth of PKR 100 billion, seems irrelevant at this point in time. These resources may be diverted to support the selected businesses with high potential, to prevent them from bankruptcies. During this crisis seeking new investment is very difficult and out of context.

2. Federal and Provincial PSDP Projects

Both federal and provincial government need to reprioritize their development budgets. The projects, not of urgent nature, not started yet and with 10% of spending of their respective total budget should be diverted toward COVID-19 mitigation operations. For instance, in Federal PSDP the projects related to 'Defence Production Division', 'Communication Division', 'Board of Investment', 'Housing and Works Division' etc. and the projects in other ministries approved but not started yet, their funds should be redirected. Same exercise should be carried out at provincial level.

3. Austerity

In late 2019, the PTI government immediately after coming into power initiated a campaign to take austerity measure. This campaign was a very good start but unfortunately the present government failed to take austerity measures in true spirit. Many federal institutions in post devolution scenario, which are huge burden on economy; including board of investment, ministry of technical training and professional

education, ministry of health services and coordination, planning commission, and many other such departments should be completely abolished. These departments are totally irrelevant in present devolved scenario and their subsidiary departments can easily handle their small operations for Islamabad, GB and AJK. During present COVID-19 crisis these initiatives are difficult but after the epidemic crisis the economic crisis will continue for a longer period of time and probably at that time the government will need to take the serious austerity measures.

4. Support from International Financial Institutions

It is very difficult to flatten the curve in developing countries. With high level of poverty, nature of wage settlements in informal sector if the government leaves it to workers to choose between work and disease, even with chances of catching the disease the workers will choose to work. To mitigate the economic impact of COVID-19 especially in developing countries, a collaborative international effort is required to maintain the necessary supply chain and to support the poor and vulnerable households. G8/G20 countries are the major policy-making forums for internal financial design but due to lack of representation of developing countries, most of their decisions are in favor of its rich partners. But now they should consider the situation differently. Although IMF and other multilateral lending and aid agencies already announced support for developing countries including Pakistan but efficient and timely utilization and distribution is still a challenge.

Even all these measure do not guarantee that damaging effects of the lockdown and the extent to which it may help the households and businesses from variety of indispensable losses. The government needs to be innovative in management, resource allocation and should be ready for making many tough and unusual decisions.