2 Real Sector

By the end of the first eight months of FY20, economic stabilization was largely achieved and signs of a recovery in economic activity had begun to emerge; however, this process was stalled by the spread of COVID-19 and the ensuing lockdowns all across the country. Manufacturing, transport and trade sectors faced unprecedented losses, as the government tightened containment measures to limit the spread. Agriculture remained somewhat insulated, as most of the important crops had already been harvested before disruptions began to surface. Based on the information available up till March 2020, and provisional assessment of the losses incurred in commodity producing and services sectors during the fourth quarter, real GDP is estimated to post a contraction of 0.4 percent during FY20.

2.1 GDP Growth

To put the real GDP growth estimate for FY20 in perspective, this will be the first time since FY52 – i.e. in 68 years – that Pakistan experiences negative GDP growth. The decline in the industrial sector is expected to deepen from last year due to a broad-based deterioration in Large Scale Manufacturing (LSM). Heavyweight sectors such as textile and food have lost momentum and also turned negative as COVID-19 related lockdowns and mobility restrictions towards the end of Q3-FY20 affected supply chains **(Table 2.1)**. This further added to the continued drag on LSM growth caused by the declining trend in production in automobile and petroleum sectors since the start of FY19.

Table 2.1: GDP and its Components
growth in percent

	FY19^{R}	FY20^{T}	FY20^{P}
Agriculture	**0.6**	**3.5**	**2.7**
Important crops	-7.7	4.6	2.9
Livestock	3.8	3.7	2.6
Industry	**-2.3**	**2.3**	**-2.6**
Mining and quarrying	-3.2	2.0	-8.8
LSM	-2.6	1.3	-7.8
Electricity gen. & dist.	14.5	1.5	17.7
Construction	-16.8	1.5	8.1
Services	**3.8**	**4.8**	**-0.6**
Wholesale and retail trade	1.1	3.9	-3.4
Transport, storage & com.	4.6	3.5	-7.1
Finance & insurance	5.0	6.5	0.8
General gov. services	5.2	5.7	3.9
GDP	**1.9**	**4.0**	**-0.4**
Memorandum item			
Investment-GDP ratio	15.6	15.8	15.4

Data source: Pakistan Bureau of Statistics, the Planning Commission of Pakistan

Limited mobility due to COVID-19 pandemic related lockdown also created a major drag for *transport, storage and communication* and *wholesale and retail trade*, the two most important segments within services, both of which are projected to contract from a year earlier. A notable slowdown is also expected in *finance and insurance*, which owed its large part to the pandemic's impact on business activities and slump in consumer and investor confidence.

Within agriculture, the rise in output of wheat (2.5 percent), rice (2.9 percent) and maize (6.0 percent) from a year earlier should set the tone for an overall turnaround in important crops. That said, declines are expected in cotton (6.9 percent) and sugarcane (0.4 percent) production. As for minor crops, higher production of pulses, oilseeds and vegetables should allow this segment to grow by 4.6 percent. Meanwhile, supply disruptions due to COVID-19 are also expected to lead to a slowdown in the livestock sector's performance.

2.2 Agriculture

While setting the target for agriculture growth in FY20, the government had pinned its hopes on an improved showing of important crops. While the important crops are not expected to achieve the FY20 target, they were nonetheless able to post a turnaround compared to last year.

During the *Kharif* season, pest attacks and untimely rains hurt cotton production, which clocked in at 9.2 million bales against the target of 12.7 million bales. Farmers also dedicated lesser area to sugarcane production, mainly due to delayed payments in earlier seasons; resultantly, sugarcane output of 66.9 million tons was around 1.8 million tons short of its annual target.

Subsequently, during *Rabi* season, wheat production was unable to deliver the bumper crop that seemed to be in sight based on greater area under cultivation, primarily due to heavy rains and unfavorable temperature at harvest time. Provisional estimates indicate wheat output of 24.9 million tons, short of its 27 million tons target for the year.

Inputs

Agriculture credit disbursements were higher by Rs 20 billion and Rs 107.2 billion both during Q3-FY20 as well as for Jul-Mar FY20, respectively **(Table 2.2)**. In the farm sector, corporate farming accounted for the uptick in production loans compared to crops. The rise in this trend shows that the tendency of cultivating and harvesting collectively is gaining momentum, which is further supported by increasing trend in credit for farm development as it includes expenditure on agriculture machinery. Meanwhile, loans availed for acquisition of tractors were relatively lower during the ongoing fiscal year compared to FY19, somewhat highlighting a usual slowdown after few years of high growth, especially in absence of subsidy. For the non-farm sector, the most encouraging development was the rising fixed investment in poultry. On the flip side though, credit disbursement to the livestock/dairy segment witnessed a slowdown.

Table 2.2: Agriculture Credit Disbursements
billion rupees

	Q3		Jul-Mar	
	FY19	**FY20**	**FY19**	**FY20**
Farm sector				
A. Production*	137.3	151.5	368.3	430.9
All crops	58.6	52.9	169.2	163.7
Corporate farming	41.4	51	117.3	134.7
Other	37.3	47.6	81.8	132.5
B. Development**	6.3	6.2	23.8	28.7
Tractor	1.0	0.6	3.2	2.1
Other	5.3	5.6	20.6	26.6
C. Total farm (A+B)	*143.6*	*157.7*	*392.1*	*459.6*
Non-farm sector				
D. Working capital	127	129.6	392.2	420.9
Livestock/dairy	62.5	75.1	195.1	223.9
Poultry	35.8	44.6	97.3	165
Other	28.7	9.9	99.8	32.0
E. Fixed investment	7.1	10.5	20.7	31.7
Livestock/dairy	5.2	2.7	15.5	12.8
Poultry	1.0	6.1	2.2	12.9
Other	0.9	1.7	3.0	6.0
F. Total non-farm (D+E)	*134.1*	*140.1*	*412.9*	*452.6*
Total agriculture (C+F)	**277.7**	**297.8**	**804.9**	**912.2**

*Production loans are for purchase of inputs such as seeds.
**Development loans are for tractors, tube wells and machinery.
Data source: State Bank of Pakistan

In fertilizer, urea offtake during *Rabi* season (Oct-Mar FY20) remained at par with the levels observed in the previous few years (**Figure 2.1**). However, the outcome for DAP was less satisfactory. Even though DAP prices rose only marginally (and at a much lower pace compared to urea) during the period, its offtake was lower than the comparable period last year. The price differential between relatively expensive DAP and urea is a contributing factor; going forward, this may be offset to some degree by the higher subsidy for DAP announced in May 2020 as part of the government's agriculture sector package.

Figure 2.1a: Urea during *Rabi* (Oct-Mar)

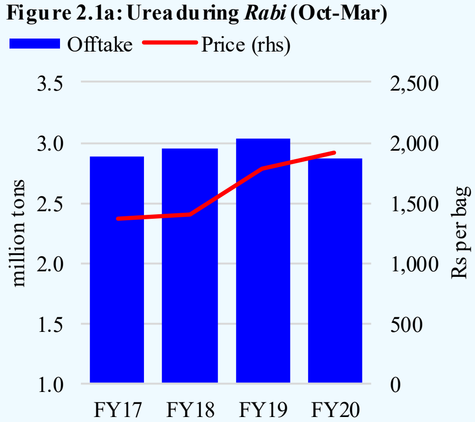
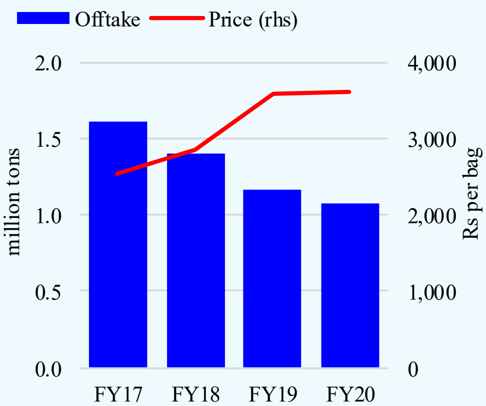


Figure 2.1b: DAP during *Rabi* (Oct-Mar)



Data source: National Fertilizer Development Center

Rabi FY20 Season; Wheat

The area under wheat cultivation (8.8 million hectares) was marginally higher during the review period compared to the *Rabi* season last year (8.7 million hectares). Keeping in view the better input situation compared to FY19 and favorable temperatures during early sowing, the initial outlook for the wheat crop was fairly upbeat.

However, heavy rainfall in the March-May period, accompanied with an unfavorably lower temperature close to harvest time and lower than optimal nutrient offtake, is expected to keep yield below envisaged target. Initial estimates suggested that there was only a 2.5 percent increase in wheat production compared to last year, with output amounting to 24.9 million tons during FY20.

While expected to miss its annual target, the wheat production may prove to be sufficient for domestic consumption. In the bigger picture, a greater downside risk to the wheat crop in particular, and food security in general, is posed by locust attacks – a threat which has been looming on the horizon for some time (**Box 2.1**).

Box 2.1: Threat Posed by Locust Attacks in Pakistan

Locusts, which resemble ordinary grasshoppers in appearance, are notorious for forming large swarms. Desert Locusts in particular form swarms that move rapidly across regions, laying waste to agricultural lands due to their voracious appetite. At their worst, Desert Locusts can trigger plagues with the potential to impact livelihoods for up to a tenth of the world's population.

Pakistan has tackled the menace of desert locusts before. In 2019, the Ministry of National Food Security and Research's (MNFSR's) Department of Plant Protection (DPP – the lead institution in charge of managing the Desert Locust threat in Pakistan) surveyed an area of 932,580 hectares, treated 300,595 hectares in three provinces, and sprayed 150,839 liters of pesticides during control operations.

Despite these efforts, a more severe threat posed by the Desert Locusts emerged in H2-FY20 as new swarms originating in Africa continued to move east. Reports indicate that as many as 61 districts had already been impacted by locust swarms by end-May 2020, with Balochistan being the worst affected province. While the detailed assessment of quantum damage to crops is still forthcoming, the initial estimates indicated that over 115,000 hectares of crops (including wheat, oil seed, cotton, gram, fruits and vegetables) had been affected, according to the Pakistan Economic Survey 2019-20.

Table 2.1.1: Area Treated as Part of Locust Control Operations, 2020

in hectares

	Jan	**Feb***	**Mar****	**Apr**	**Jan-Apr**
Ethiopia	22,550	50,350	51,633	99,948	224,481
Pakistan	**62,295**	**8,299**	**27,675**	**50,289**	**148,558**
Iran	2,041	2,617	39,676	98,658	142,992
Saudi Arabia	44,311	22,645	10,390	29,868	107,214
Kenya	20,000	15,278	38,378	14,637	88,293
India	61,178	11,420	--	1,970	74,568
Eritrea	15,068	12,153	5,640	--	32,861
Sudan	18,714	5,050	870	--	24,634
Yemen	15,465	1,475	3,190	--	20,130
Somalia	15,000	1,053	159	600	16,812
Top-10, Jan-Apr	276,622	130,340	177,611	295,970	880,543
Others	3,585	5,838	3,927	6,302	19,652
Total	**280,207**	**136,178**	**181,538**	**302,272**	**900,195**

* revised numbers for Ethiopia, Kenya for February 2020.

** revised numbers for Ethiopia and Kenya for March 2020.

Data source: FAO Desert Locust Bulletin

Should the control operations not be effective, the resultant losses could be severe, as evident from potential damage scenarios cited by the Food and Agriculture Organization (FAO):

- Scenario 1: 15 percent damage level, for wheat, gram and potato production only.

Estimated losses to agriculture from locust invasion: Rs 205 billion

- Scenario 2: 25 percent damage level. Potential losses for (a) Rabi crops: Rs 353 billion; and (b) Kharif crops: Rs 464 billion

Mindful of the development, Pakistan declared a national emergency on locusts on 31st January 2020, calling upon the National Disaster Management Authority, Provincial Agriculture Departments, and the armed forces to join the DPP in mitigation efforts. A National Action Plan for Surveillance and Control of Desert Locust in Pakistan is duly being rolled out, consisting of three phases: *Phase 1: Jan-Jun 2020; Phase 2: Jul-Dec 2020; and Phase 3: Jan to Jun 2021.*

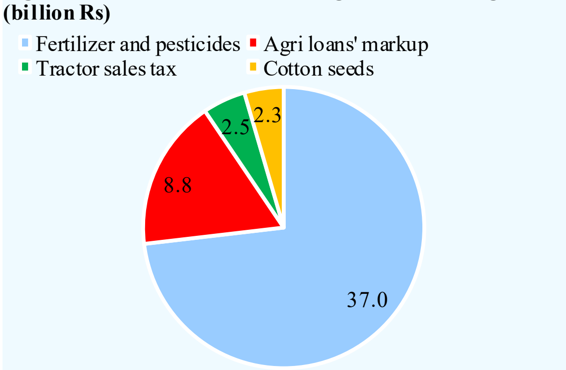
In the first phase, the country has already taken several measures to combat the threat, including treating a vast portion of area deemed to be vulnerable (**Table 2.1.1**). In addition, the Plant Protection Department is hiring a large batch of technical experts on emergency basis to help deal with the locust threat, while Micronair sprayers have also been procured to enhance control operations.

Sources: FAO, MNFSR, and National Geographic

Recent economic measures for agriculture

Realizing the importance of agriculture sector in (i) achieving national food security, (ii) job creation, and (iii) provision of raw material for upstream industries, the Economic Coordination Committee (ECC) of the Cabinet approved a Rs 50 billion package for the agriculture sector on 14th May, 2020, as part of the government's broader Rs 1.24 trillion outlay to soften the impact of COVID-19. This development is likely to boost the prospects of the *Kharif* 2020-21 season.

Figure 2.2: Allocations within the Agriculture Package (billion Rs)



Data source: Economic Coordination Committee meeting - May 13, 2020

As part of the package, farmers would receive a Rs 37 billion subsidy for purchase of fertilizers (**Figure 2.2)**. DAP and other fertilizers would be subsidized by Rs 925 per bag, while the urea and other nitrogen-based fertilizers were allocated a subsidy of Rs 243 per bag. This measure has the potential to boost fertilizer application in the *Kharif* season while also improving the offtake of the more expensive DAP component.

Moreover, a subsidy of Rs 2.5 billion on sales tax of locally manufactured light tractors was announced for a period of one year. While tractor sales had been subdued during Jul-Mar FY20, and agriculture credit disbursements for the acquisition of tractors were also on the lower side during Jul-Mar FY20 compared to last year, this subsidy has the potential to help revive demand. The ECC also earmarked Rs 8.8 billion for reduction in mark-up on agriculture loans, as well as a Rs 2.3 billion subsidy on cotton seeds. The measures may lead to better input availability, ultimately supporting the outlook for crop yields during *Kharif*.[1]

2.3 Industry

Necessary contractionary fiscal and monetary policies and adoption of market based exchange rate led to the curbing of excessive demand in the economy since FY19. But in doing so, growth of the industrial sector got affected negatively.

Nonetheless, some encouraging signs of industrial recovery started to emerge during FY20 following the stabilization phase. Q3-FY20, in particular, began on a relatively positive note for LSM. One of the reasons for this optimism was the performance of export oriented sectors, notably textile and leather, as they started to gain traction. These developments added on to the reversal in trends for cement and food during Q2-FY20 that turned positive during the second quarter after posting negative growth in Q1-FY20 (**Table 2.3**).

However, when the government imposed lockdown in the latter part of March 2020 onwards to control the spread of COVID-19, manufacturing activities were halted across Pakistan, hurting especially the urban-centric and labor-intensive industries. As a result, decline in overall LSM growth accentuated again after a brief period of curtailment due to further deterioration in domestic demand, supply chain disruptions, and fall in exports. It therefore reflected negatively on the LSM outcome of Q3-

[1] The impact of the agriculture package measures on *Kharif* would be discussed in SBP's FY20 Annual Report, once the data on area under cultivation and input situation is available.

FY20.

Table 2.3: LSM Growth
percent

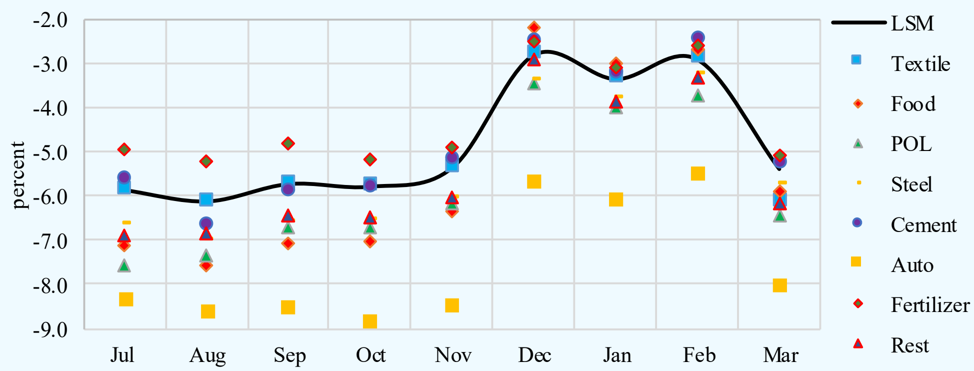
	wt.	Q1		Q2		Q3		Jul-Mar	
		FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
LSM	70.3	-0.5	-5.7	-2.9	0.0	-4.8	-9.7	-2.9	-5.4
Textile	20.9	-0.2	0.2	-0.3	0.5	-0.1	-8.4	-0.2	-2.6
Cotton yarn	13	0.0	0.2	0.0	0.0	0.0	-9.0	0.0	-3.0
Cotton cloth	7.2	0.1	0.1	0.2	0.3	0.0	-8.8	0.1	-2.8
Jute goods	0.3	-8.1	-14.8	-8.0	3.5	-24.8	37.6	-14.1	8.2
Food	12.4	1.9	-8.8	-7.6	15.4	-4.7	-7.8	-4.1	-2.3
Sugar*	3.5	-	-	-37.2	97.1	-8.9	-14.3	-13.3	-1.7
Cigarettes	2.1	4.4	-34.5	9.1	-24.3	8.0	-35.2	7.2	-31.5
Vegetable ghee	1.1	4.1	2.0	-0.7	8.3	1.8	6.4	1.7	5.5
Cooking oil	2.2	6.9	0.2	-3.8	13.9	3.9	14.0	2.2	9.4
Soft drinks	0.9	-6.7	-13.5	8.1	-9.5	-4.4	-11.4	-2.4	-11.8
POL	5.5	-5.4	-14.5	-4.4	-5.9	-8.1	-31.8	-6.0	-17.5
Steel	5.4	-2.9	-17.0	-12.4	-6.8	-18.0	2.0	-11.0	-8.0
Non-metallic minerals	5.4	0.1	-0.9	-2.3	6.3	-11.7	-0.4	-4.9	1.8
Cement	5.3	0.1	-1.4	-3.0	6.3	-12.4	-0.1	-5.4	1.7
Automobile	4.6	-1.2	-33.8	-6.4	-39.0	-14.6	-36.9	-7.6	-36.5
Jeeps and cars	2.8	4.7	-38.6	-0.2	-54.6	-4.5	-50.4	-0.1	-47.7
Fertilizer	4.4	-4.8	15.9	19.2	-5.1	0.2	7.9	4.5	5.8
Pharmaceutical	3.6	-4.8	-11.9	-14.6	-0.7	-5.1	-3.9	-8.4	-5.4
Paper	2.3	3.9	-1.3	-7.5	16.0	-3.3	-1.4	-2.5	4.2
Electronics	2	16.9	11.0	23.1	-6.1	14.3	-36.8	17.7	-13.5
Chemicals	1.7	-6.7	-8.9	0.3	-0.4	-4.8	2.6	-3.8	-2.3
Caustic soda	0.4	17.2	-21.4	-5.3	-7.4	-20.9	-4.5	-4.7	-11.5
Leather products	0.9	0.5	6.3	-4.1	16.0	8.2	-6.5	1.5	5.0

*Sugar production is seasonal. No production takes place in Q1 and hence no growth. Activity usually starts during Q2.
Data source: Pakistan Bureau of Statistics

LSM

The LSM sector had been showing some indications of nascent recovery up until February FY20 as negative growth rates were narrowing every month. However, manufacturing activities were adversely affected as a result of the lockdown. Even though these 10 days in Q3-FY20 represented only a fraction of time, the impact was quite large. Data shows that the embryonic signs of recovery were reversed. Almost all the industries suffered contraction in March FY20. As a result, after showing some improvements in January and February 2020, LSM growth fell sharply in March to negative 5.4 percent on YoY basis. Also, on month-on-month (MoM) basis, growth turned negative in March FY20 after posting a positive growth in February FY20 (**Figure 2.3**).

Figure 2.3: Contribution of Major Industries in LSM Index Growth (YoY)



Points below the LSM line indicate negative contribution; distance from LSM line represents magnitude of contribution to LSM growth. For instance in March 2020, the automobile sector -represented by yellow squared dots in the figure- indicates negative contribution to LSM growth since it is below the black LSM line. The distance between the LSM line (-5.4 percent) and automobile yellow dot (-8.0 percent) indicates that auto sector contributed -2.6 percent in LSM growth.
Data source: Pakistan Bureau of Statistics

As market-driven exchange rate restored competiveness, export-oriented industries also played a part in improving LSM growth during Jul-Feb FY20. Textile sector, driven by higher export orders, registered positive growth of 0.4 percent during the period. This development syncs well with the trend in textile exports, which increased from 1.4 to 5.3 percent during the Jul-Feb FY20, mainly on account of the apparel segment.[2] As has been highlighted in previous reports, the disconnect between the two growth rates is

[2] Another factor that aided export growth and therein LSM was the earlier onset of COVID-19 and lockdowns in China. Cancellation of export orders from China by EU and US benefited countries such as Pakistan for the short-term. Activity in apparel manufacturing thus rose sharply as a result of export demand (see **Chapter 5**).

due to limited coverage of apparel sector in the LSM activity index.

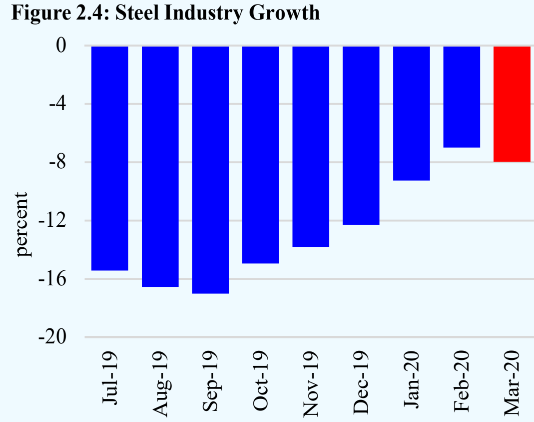
As the retail sector shut-down was the major drag on domestic consumption, some downward pressure also came from lockdowns in major textile export destinations. As a result, textile sector's growth turned negative in March FY20.

Similar to textile, the revival in the leather industry also witnessed deceleration as manufacturing activities stopped at the onset of domestic lockdowns amid lowering global demand due to cascading implementation of lockdowns in many countries across the world. Gains from export competitiveness and some benefit from earlier lockdown in China, that resulted in more export orders, vanished in March FY20. As a result, production activities in leather sector contracted by 30.1 percent MoM in March FY20.

The cement industry was also recovering during Jul-Feb FY20. Cement dispatches rose by 10 percent during this period compared to no growth during FY19. Robust local sales in the north and export-led growth in the south put the cement industry on the path of recovery. However, the dispatches were down by 14.3 percent during March FY20. On the whole though, the sector was able to grow during Jul-Mar FY20 and would be expected to make some recovery given the recently announced incentive package to the construction industry. Similarly, the performance of steel industry that had managed to post marginal recovery, reversed in March FY20. (**Figure 2.4**).

However, a few critical manufacturing industries were spared form the strict restrictions, such as food and pharmaceutical industries. Moreover, the fertilizer sector remained relatively insulated from the lockdown situation, predominantly due to the location of production units in rural areas and their high level of automation. Meanwhile, the

Figure 2.4: Steel Industry Growth



Data source: Pakistan Bureau of Statistics production cycle of the sugar industry for FY20 ended before the outbreak of COVID-19.

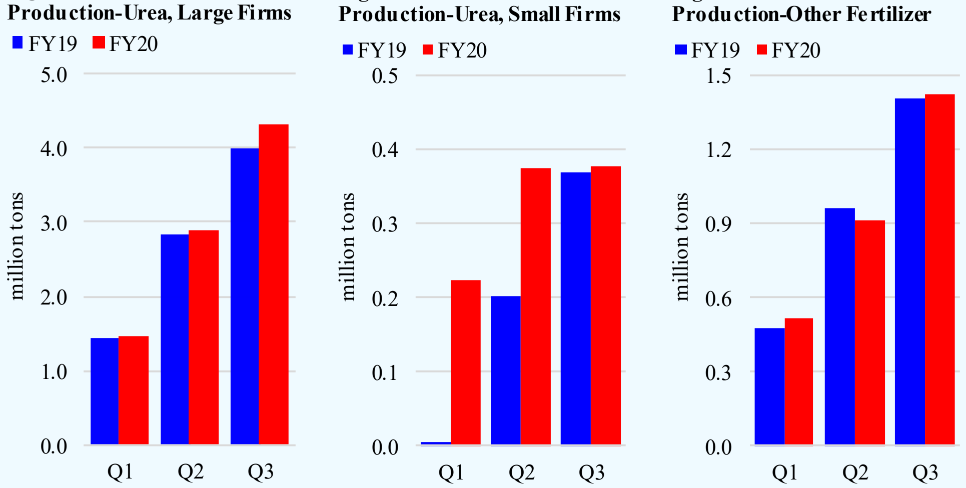
Production of fertilizer industry continued to expand. In Q3-FY20, larger urea producers clearly dominated whereas suspension of gas supplies to smaller units restricted their output noticeably (**Figure 2.5**). Additionally, lockdown measures had relatively lesser impact on the agricultural activity with little impact on demand for fertilizer. This was evident from the overall nutrients offtake for March and April 2020 that shows only mild variation compared to previous seasons.

Sugar production also remained largely immune to the lockdown due to its own dynamics. As envisaged in SBP's Second Quarterly Report for FY20, the sugar industry was not able to keep up with the earlier higher pace of production during Q3-FY20 on the basis of limited raw material (sugarcane) availability. As a result, production activity for FY20 mostly completed prior to the start of the COVID-19 related disruptions.

Figure 2.5a: Commulative Production-Urea, Large Firms

Figure 2.5b: Commulative Production-Urea, Small Firms

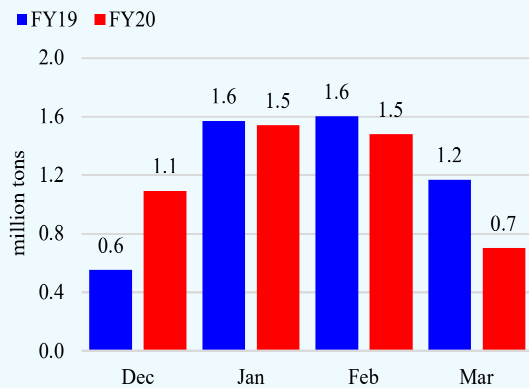
Figure 2.5c: Commulative Production-Other Fertilizer



Data source: PBS

There was, however, one difference from last year; the period of bulk crushing shifted to Dec-Feb in FY20 from Jan-Mar in FY19. This shift in crushing pattern resulted in significant growth in the initial part of the season due to the base effect (**Figure 2.6**).

Figure 2.6: Sugar Production Pattern



Data source: Pakistan Bureau of Statistics

Measures for the industrial sector

While realizing the need to arrest sharp decline in real economic growth during COVID-19, the government, and particularly SBP, announced several incentives to cushion its adverse impacts on current state of employment and to recover production in the post COVID-19 environment, once the lockdown period ends. The recovery phase would also depend on the global economic situation; particularly the extent and duration of the Great Lockdown. Impact evaluation of these measures would be covered in the next reports after data on uptake of these lending schemes and measures become available.

The government extended incentives to the construction sector to revive its growth. These included elevating construction to the status of an industry, revaluation of property prices, rationalization of capital gains tax, and numerous tax incentives such as exemption on sales tax and withholding tax[3], lower rates of taxes for builders and developers, reduction in project approval time, subsidy for housing/mortgage financing etc. These measures are expected to translate into real activities in the construction industry after the mobility restrictions are lifted.[4]

State Bank of Pakistan has also taken a number of measures to help industry tackle the COVID-19 challenge. With an improved inflation outlook, there has been a 625 basis points cumulative cut in the policy rate between March-June 2020. Moreover, a number of refinance schemes have been rolled out to facilitate BMR and expansion of

[3] Withholding tax remained intact on cement and iron & steel industry.
[4] With restrictions on mobility still in place since lockdown -through to May, 2020 at the earliest- the impact of these measures has so far remained limited. That said, the lifting of restrictions on labor movement and public transport along with the construction sector package would revive this sector.

projects, support employment and prevent layoff of workers, and strengthen the health sector to cope better with COVID-19 related challenges. Also, there is a relaxation of one-year in repayment of principal amount under various refinance schemes and credit limit to SMEs has been permanently increased to Rs 180 million, from Rs 125 million.[5]

2.4 Services

The services sector is expected to post a contraction during FY20, which is unprecedented in Pakistan's economic history. It is projected to occur due to the significant decline in *wholesale and retail trade* and *transport, storage and communication* segments (**Table 2.4**).

Table 2.4: Performance of the Services Sector
Percent

	Share in GDP-FY20	Growth	
		FY19^R	FY20^P
Wholesale & retail trade	18.2	1.1	-3.4
Transport, stor. & com.	12.3	4.6	-7.1
Finance & insurance	3.6	5.0	0.8
Housing services	7.0	4.0	4.0
General gov. services	8.6	5.2	3.9
Other private services	11.8	5.8	5.4
Services	**61.4**	**3.8**	**-0.6**

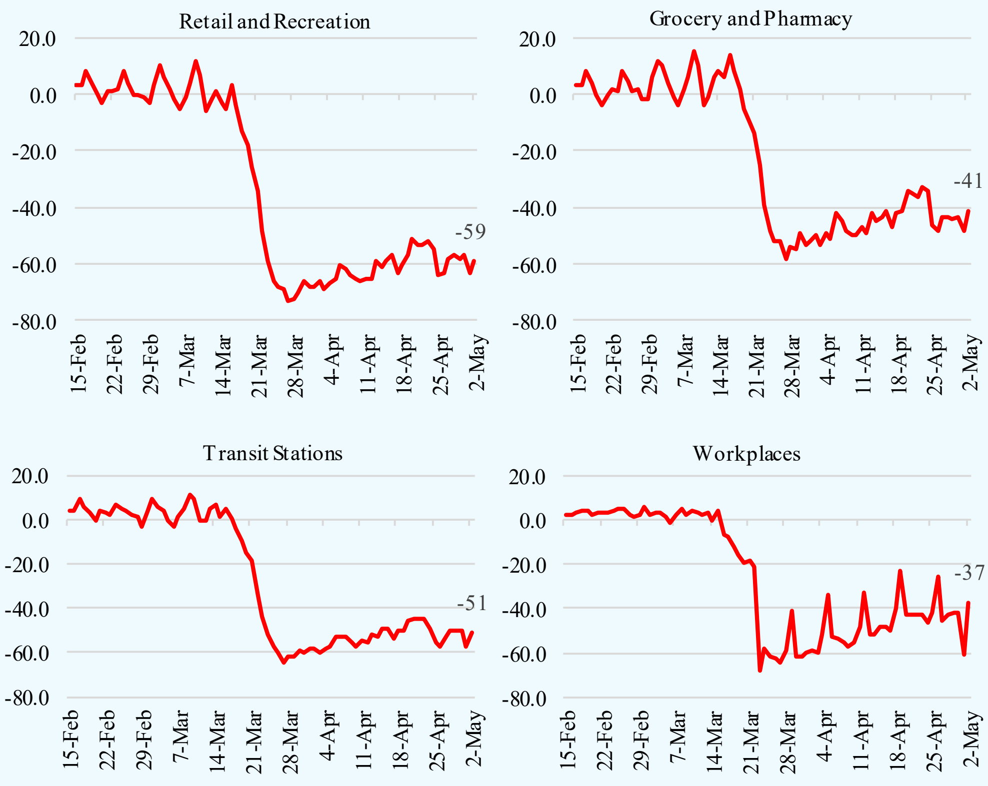
Data source: Pakistan Bureau of Statistics

Clearly, the imposition of a lockdown will have ramifications for the services sector during the remainder of the fiscal year. The closure of shopping malls, restaurants, and other commercial centers, together with social distancing arrangements and curbs on public gatherings, confined a great many people to their homes. The slowdown in imports and contraction in LSM also had a cascading impact on allied services. As a result, wholesale and retail trading activity nosedived immediately following the lockdown, and inched upward only gradually once restrictions were gradually eased (**Figure 2.7)**.

Similarly, complete suspension of flight operations, railways, and public transport for approximately 4-6 weeks, led to a sharp contraction in the transport sector. With non-fuel costs on the higher side, PIA, other domestic airlines and Pakistan Railways faced significant financial constraints. Thereafter, operations were gradually restored with the resumption of a limited number of domestic flights per day and thirty trains from 20th May, 2020. In addition to these disruptions, decline in sales of commercial vehicles also had a considerable bearing on the transportation sector.

[5] Please visit http://www.sbp.org.pk/corona.asp for more details

Figure 2.7: Mobility Changes
percent change, compared to baseline*



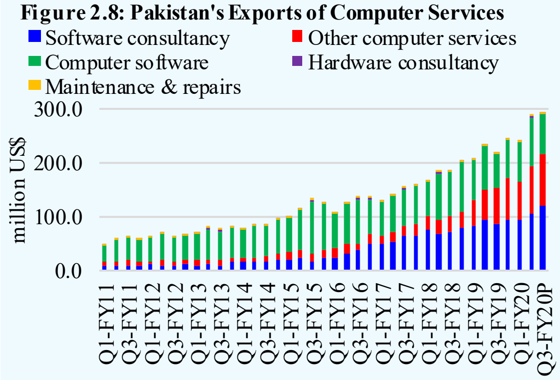
* The baseline is the median value, for the corresponding day of the week, during the 5 week period Jan 3–Feb 6, 2020.

Data source: Google COVID-19 Community Mobility Report - May 2, 2020

That said, the telecom segment witnessed a rise in internet usage following the closure of educational institutes and adoption of work-from-home arrangements by a number of workplaces. Specifically, internet usage grew by 15 percent in just one week following the imposition of lockdown.[6] This was mainly attributed to increased use of e-learning and virtual meeting platforms.

[6] Source: Pakistan Telecommunication Authority press release dated 26th March, 2020.

Figure 2.8: Pakistan's Exports of Computer Services



* as per BPM6 Extended Balance of Payments Services Classification (EBOPS 2010).
Data source: State Bank of Pakistan

In a similar vein, the disruption triggered by COVID-19 was relatively lower for *other private services*. In particular, ICT exports, covered under the *other private services* segment of GDP, were less hindered by lockdown. On this note, the official exports of computer services reached an all-time high of US$ 289 million on a quarterly basis during Q3-FY20 (**Figure 2.8**). The bulk of these exports was comprised of software consultancy services (41 percent) and computer software (25 percent); by their very nature, such services tend to be less affected by work-from-home arrangements, compared to traditional services that are not digitally enabled.

Enhanced provision of government services also acted as a positive shock and provided some cushion to the economy. For instance, apart from direct cash disbursements and ration distribution, some of the provinces doubled the salaries of medical staff and made additional deployments of law enforcing agencies.

As far as *finance and insurance* was concerned, scheduled banks (which represent the lion's share within the segment) experienced contrasting fortunes during Jul-Mar FY20 and Q4-FY20. In the first period, during the predominantly high interest rate scenario, bank profitability was greater on average compared to last year; specifically, the after-tax profit of the banking system was Rs 134.3 billion during Jul-Mar FY20, compared to Rs 111.6 billion in Jul-Mar FY19.

However, these gains were largely diminished in Q4-FY20 amid the lockdowns and uncertainty generated by COVID-19. In an SBP survey rolled out in March 2020 to ascertain the financial institutions' perceptions of imminent risks, respondents foresaw some impact on profitability from a prolonged lockdown, although the bigger hit was expected to come a bit later in their view, during H1-FY21.[7] The respondents had ranked electronics, textile, and 'travel, transport and tourism' as the sectors most likely to be affected by the pandemic, while they had expected trading to be less impacted. In hindsight, perhaps the limited information available at the time regarding the duration and scale of the lockdown had led the respondents to underestimate the vulnerability of the trading sector, and the resulting spillover on bank profitability.

As things panned out, the *finance and insurance* segment is estimated to post a mere 0.8 percent growth for the full year, which would be much lower compared to last year and below its FY20 annual target (**Table 2.4**). The outcome may have been worse had SBP not introduced a number of measures in its response to the pandemic with the aim of supporting the banking system. These included incentives designed to shift traditional cash-based transactions to digital channels and making cheque clearance easier and safer (**Table 2.5**).

Table 2.5: Selected SBP Measures to Facilitate Banking Services as Part of its Response to COVID-19*

Focus	*Circular/Press Release*	*Summary of Proposed Actions*
Better safety and health of employees; reduced customer contact with cash; continued availability of services.	BPRD Circular Letter No. 06 of 2020, dated March 16, 2020	Banks/DFIs were advised to: 1. Create awareness amongst staff and customers about COVID-19; 2. Implement the guidelines issued by WHO and the government; 3. Encourage customers to use Alternate Delivery Channels
Reducing the need to visit bank branches or ATMs, and promoting use of digital payment services	ERD Press Release dated March 18, 2020 PSD Circular No. 02 of 2020	1. SBP instructed banks to waive all charges on fund transfers through online banking channels. 2. Banks were advised to facilitate customers in using online banking while taking precautions to ensure safety/security 3. Financial industry was instructed to facilitate education fee and loan repayments via internet banking/mobile devices
Promoting the use of digital banking and alternate delivery channels; timely resolution of customer issues; taking contaminated notes out of circulation;	ERD Press Release dated 23-Mar-2020 BPRD Circular Letter 08, 2020 FD Circular No.01 of 2020	1. Continuous availability of ATMs would be ensured. 2. Detailed instructions for banks to clean, disinfect, seal and quarantine cash being collected from hospitals and clinics. 3. All critical functions and systems required to provide banking services would remain available. 4. Banks were allowed to maintain skeleton staff at premises and have work-from-home arrangements for other employees
Minimize the risk of COVID-19 spread due to biometric verifications and physical interactions	BPRD Circular Letter 10, 2020	Authorized Financial Institutions were advised to take measures related to, inter alia, biometric verification, monthly cash withdrawal and deposit limits, and daily transaction limit of branchless banking accounts

[7] For details, refer to SBP's Financial Stability Review 2019.

Regulations for Digital On-boarding of Merchants	BPRD Circular Letter No. 11 of 2020	Transaction limit for non-biometrically verified merchant accounts and maximum account balance of such merchant accounts was increased till Sep 30, 2020.
Facilitation regarding paper-based clearing operations help combat COVID-19	PSD Circular No. 04 of 2020	Banks/MFBs were allowed, inter alia, to provide: (1) Direct Cheque Deposit Facility; (2) Doorstep Cheque Collection Facility; (3) Drop box Cheque Collection Facility
Availability of SBP helpline and public warning against fraudsters calling for personal information citing COVID-19	ERD Press Release dated April 6, 2020	(1) If complainants do not get an appropriate response from banks, they may approach SBP helpline; (2) Bank employees /customers still having concerns may notify SBP by email; (3) The general public was again advised against fraudsters
To facilitate donations made to the governments' COVID-19 relief funds via payment cards	PSD Circular Letter No. 02 of 2020	All issuing and acquiring banks shall not charge any service fee (including Interchange Reimbursement Fee, Merchant Discount Rate, Merchant ID Fee), or any other fee that may be applicable on any transactions made to the Relief Fund
Uninterrupted supply of disinfected cash	FD Circular Letter 5 of 2020	Banks were allowed to use the quarantined cash which had completed quarantine period of 14 days.

* Please refer to circulars for full details.

Source: State Bank of Pakistan