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SUBJECT: MACRO ECONOMICS

ASSIGNMENT#1:

**DISCUSS IMPACT OF CORONA VIRUS ON PAKISTAN'S
ECONOMY.**

INTRODUCTION:

Pakistan's economy was already struggling but after COVID-19 outbreak there are significant dangers of economic collapse. Our country is at the brink of bankruptcies and we are not capable to overcome the disruption caused by this outbreak. And the biggest impact of this virus was on Pakistan's dwindling economy.

PAKISTAN'S ECONOMY BEFORE COVID-19:

Before COVID-19 the government declared this year to be of development, growth, wealth creation and economy was in the process of stabilization and on the road of recovery. The current account deficit had dropped by 73%. There was improvement in credit rating and our rank in business index got higher from 136 to 180. Foreign investments and exports had increased. Stability was noted in currency and reforms were taken by the government to ease up doing business in Pakistan.

IMPACTS OF CORONA VIRUS ON PAKISTAN'S ECONOMY:

- The greatest impact of corona virus was on global value chain. The flow of trade was totally disrupted. There was a great problem in import and export. Most of the export of Pakistan was with US and Europe but that was totally stopped due to the one month isolation period in Pakistan. Pakistan was not able to complete

their orders and most of the previous order payment was also stopped. Maintaining the business flow has been really difficult as most of the private sectors in Pakistan rely on imports to run. Heavy delays were seen in the movement of cargo and goods.

- Imports are falling every month. 15% of machinery imports, 40% of petroleum imports and 20% of raw material imports for textiles had fallen in the past few months. Our exports of textile experience around 38% of decrease because this industry depends on the imports of raw material and most of the orders were cancelled post COVID-19. Nearly 70% of “ready to ship” export orders of textiles were either delayed or cancelled due to the lockdown in Europe and US.
- The commerce ministry of Pakistan is estimating US\$ 3 million in exports loss that will be creating a devastating cash flow problem for our textile industry and this loss can even go up to 5-billion US\$.
- A severe impact is expected to be seen on remittances by overseas Pakistani which further adds up to this crisis. In Pakistan’s GDP remittances account is up to 8% and estimated drop of more than 2 billion US\$ is being estimated in fiscal year 2020 which will have great negative effect on external finances of Pakistan. It is estimated that Pakistan can see the loss of around 2.4% of the annual GDP due to corona virus which is more than sufficient to throw the economy into a recession.
- As all the businesses and manufacturing factories have put their worth on hold and they don’t have enough money to pay their workers. They have started to expel most of their employees. Nearly a million people have lost their jobs. Daily wages can’t find work and this unemployment range can go up to 3 million which will directly affect our GDP but it can decline up to -1.5%. The

work force of around 56% which includes people employed in agriculture wholesale, retail trade, hotels and restaurants. Real estate and transportation sectors comes under vulnerable employment. They can lose their job any time at any cost at any moment.

- The government is unable to reach their tax target of 5.5% trillion. It was reduced to 4.5 trillion by April, 2020.
- Even the FBR haven't achieved their target to collect the tax revenue and the expenditure has risen to 2.6 pkr.
- The industrial growth can see up to 3% and the service sector up to 1.7% decrease in this fiscal year.
- Small and medium businesses has also been suffering like the closure of educational institutes, public and private offices, factories and markets. They can go into bankruptcies at any point and a struggling to pay their bills which might results in rise in unemployment rate, hyperinflation and complete fall down of economy.
- Pakistan airlines and railways has lost 25 billion post COVID.
- The Pakistan pharmaceutical companies has seen 50% reduction in sales and a 300% inflation in the raw material cost.
- Pakistan is unable to pay its debt. In the next 3 years Pakistan have to pay 28 billion in debts to its creditors. Right now Pakistan is seeking to achieve debt relief from the IMF.
- The prices of basic necessities like food items, medicines has risen up to 30% and this inflation can go up to 70% in the near future.

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Explain the functions of Central Bank.

Functions of Central Bank:

The main function of central bank central bank are as follows:

1) Issue of Currency:

In every country the central bank is responsible for printing and issuing its currency throughout the country .The currency issued from the central bank is declared as legal throughout the country as legal tender money. Only the central bank has the authority to print its country's currency notes. This helps to get better control, uniformity and supervision. It will also be helpful to avoid over-issue of currency by individual banks.

This system can be different from country to country. Against the currency notes issued the central bank has to keep a reserve which can be in the form of foreign securities, silver or gold.

2) Banker, Agent and Advisor to the government:

A central bank also performs as a banker agent and advisor to the government. On behalf of the government it receives and make payment. Central bank has also the cash of government in their current accounts. On behalf of the government it also manages payments. Government can take loans for an amount of time from the central bank if necessary. The public debt is also managed by central bank of the country. Central bank also acts as an advisor in economics and monetary policies to the government.

3) Custodian Of Cash Reserves:

An amount of cash is kept in central bank by all commercial banks for legal compulsion or conversion. In busy seasons they draw out money and in slow seasons they pay it back and also in time of need it also helps other banks with guidance and advices. To strengthen the banking system the money reserves are centralize in central bank. This way it is more structured and elastic. In the time of financial emergency and prices this system becomes more helpful.

4) Custodian of Foreign Exchange:

As mentioned above a country's gold and foreign exchange reserves are in the custody of central bank. It supervises the external value of currency. It also manages exchange control and imposes restrictions and all the foreign currency of the country managed through central bank which can use its reserves for international payments.

5) Clearing House:

For member banks it helps in clearing and settlement of accounts. The mutual claim of banks on each other are cleared in clearing house. The difference of payment settles these types of issue. As it keeps cash of member banks it becomes convenient to settle these types of claims.

6) Lender Of Last Resort:

If there is a financial crisis or the member banks exhausts or run out of their cash reserves then they lend money from central bank as last resort. This can save the banking system from possible failure which helps in saving country from financial collapse.

7) Controller Of Credit:

With the help of monetary policies the central bank controls the money supply and credit. Full employment and the price stability are the two main objectives of credit control. While operating

commercial banks creates a large sum of credits which can result in inflation in economy that is why the central bank is needed to supervise and modify the credit rates.

