

VITAL ECONOMIC OPERATIONS MANAGEMENT (VEOM)

PLANNING AND DEVELOPMENT DEPARTMENT, GOVERNMENT OF KHYBER PAKHTUNKHWA

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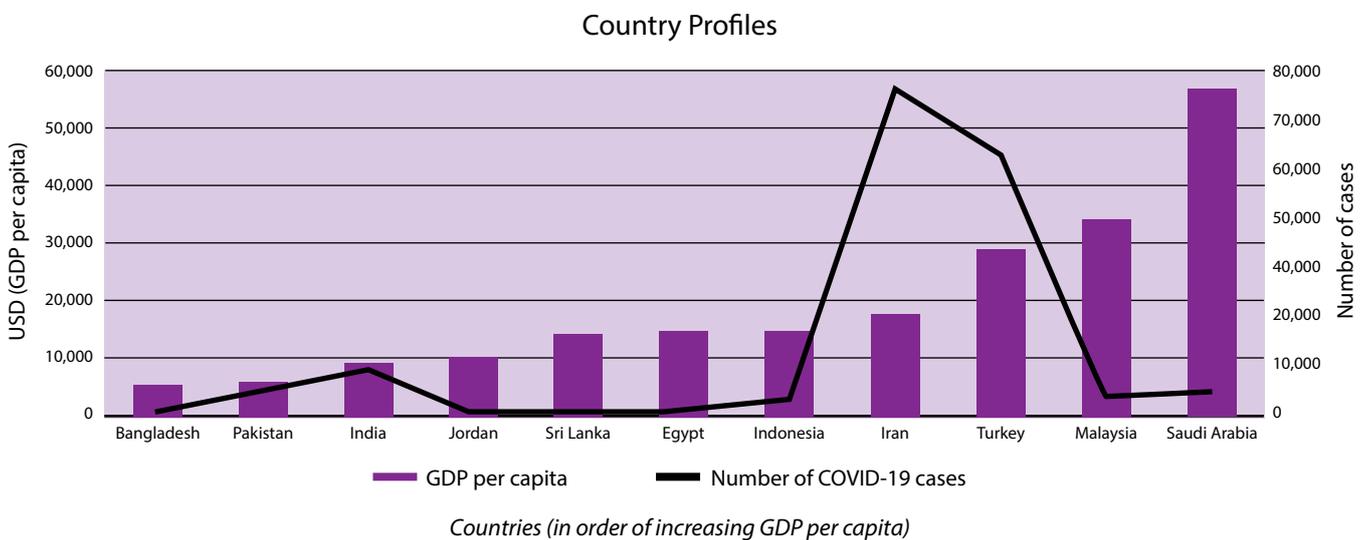
COMPARATIVE REVIEW OF FISCAL AND MONETARY POLICIES ADOPTED BY SELECT ECONOMIES

LESSONS FOR KHYBER PAKHTUNKHWA FROM THE EMERGING GLOBAL PRACTICE

The developed world has been able to offer massive stimulus packages to their economies in order to counter the effects of the novel coronavirus pandemic, COVID-19. The United States has announced plans for a package valued at roughly 10% of the GDP, Germany's stimulus roughly equals a third of its GDP, France's package comes up to 14% of its GDP, and Japan has pledged to a fund equaling 19% of its GDP.

Pakistan does not have enough fiscal space to rival the packages announced by the larger economies, so it is worthwhile comparing the relief announced by its government with other comparable economies and assessing whether the planned initiatives will suffice for the policy objectives.

For this purpose, data was gathered on the fiscal and monetary policies announced by selected economies from Asia and Middle East. Their GDP per capita (US\$) (PPP)ⁱ as well as the impact of COVID-19ⁱⁱ are summarized in the chart belowⁱⁱⁱ:



SIZE OF ECONOMIC STIMULUS PACKAGE AS % OF GDP

Almost all of the above-mentioned countries have announced plans to provide fiscal support, and some have even topped up their initial plans in subsequent announcements. So, their fiscal support packages^{iv} were tabulated as a percentage of their GDP and the results are shown below:

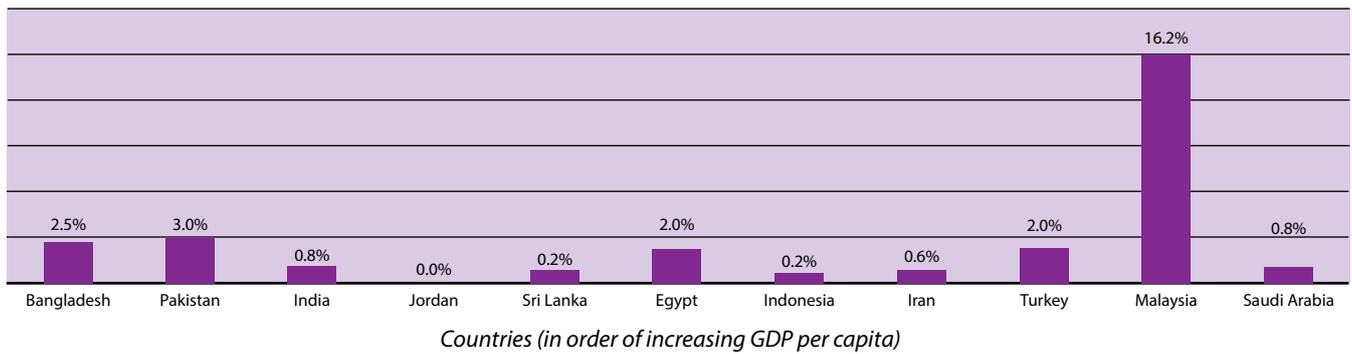
ⁱ <https://www.imf.org>

ⁱⁱ <https://www.worldometers.info/coronavirus/>

ⁱⁱⁱ All graphs computed and drawn by VEOM team

^{iv} Data on fiscal and monetary packages: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Fiscal Stimulus (as % of GDP)

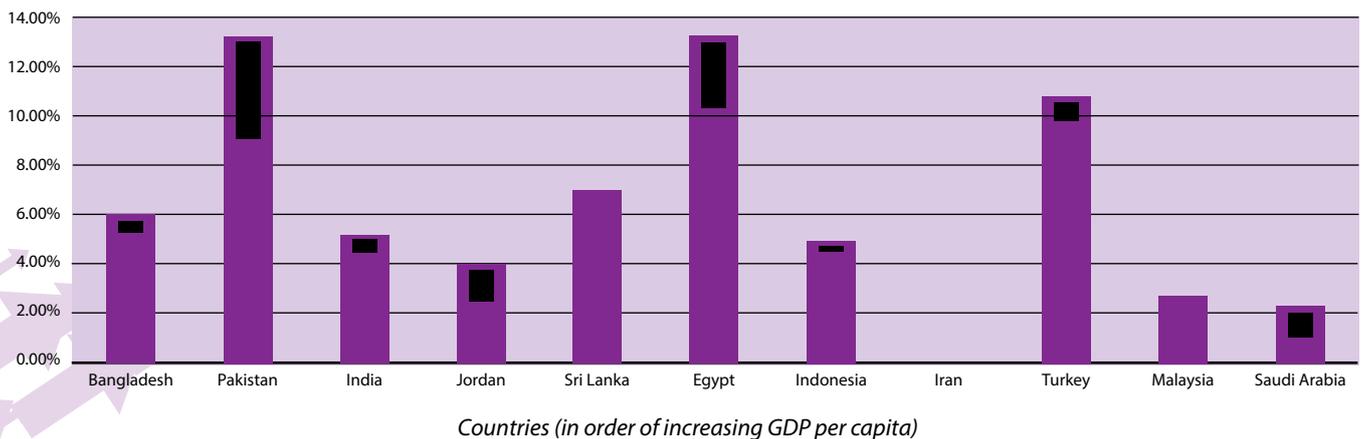


It becomes evident that with the exception of Malaysia, all others have offered packages valued at less than 3% of their GDP, which makes Pakistan one of the better performers in the group. It is worth noting that some of the healthier economies in the group such as Saudi Arabia are being simultaneously hit by a drop in the oil prices, which limits the fiscal space available to the government.

INTEREST RATE CUT ACROSS ECONOMIES

The salient feature of the monetary policy, interest rate reduction, is tracked below. The red bars show the drop from the original rate.

Interest Rate Cut (absolute %)



Both Egypt and Pakistan had interest rates in double digits at the onset of the pandemic. Pakistan has revised its rate downwards in multiple phases, resulting in the highest overall cut (4.25%). Egypt has also slashed generously. In terms of proportion, Saudi Arabia reduced its rate to less than half of its original level. It is the economy with the fifth largest forex reserves in US dollars, so it is least concerned with capital outflows.

CONCLUSION

The size of the fiscal package is handsome, but beneficiaries should be selected on the basis of meticulous profiling. Unintentional leakages will place a strain on the funds and dent the faith of the population. Stockpiling, artificial shortages and inflation in prices threaten to erode the buying power of individuals and adversely affect their standard of living. The reduction in interest rate is in response to the demands of the business community but it should be treated as a necessary but not sufficient condition. Deferment in loan and tax payments and support for payment of employees' salaries will be helpful. But it is important to remember that the economy will be exposed to a demand side and supply side shock simultaneously. Businesses will be constrained to produce, but whatever they produce may not be consumed as more people find their incomes depressed. Hence successful implementation of the packages would require careful monitoring of the situation to assess if the policies are meeting the needs of the hour and if revisions are required. At the same time, precautions around social distancing will need to be observed to ensure that no unforeseen burden is placed on the health system and the economy.