More Clarity on Relief Package Needed

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As the country moved towards a lockdown because of surging Coronavirus cases, expectations of a relief package from the government for providing much-needed support to the economy grew. The 'wish-list' was quite expansive; from massive reduction in POL prices to funding of utility stores and from relief for Small and Medium Enterprises to support for exporters. At least, in our view, the sizeable package worth Rs1,055bn (US$6.6bn) announced on Tuesday was as close to a mirror image of the wish-list as realistically possible. Note that this amount does not include the revenue loss from passing on the impact of lower oil prices, the funds that may be required for shelter homes' expansion and reduction/elimination of taxes on essential food items such as pulses, sugar and ghee.

Relief Package	Rs bn
Wheat procurement	280
Labour force	200
Poor families	150
Export based industries	100
SMEs & Agriculture	100
Emergency funds	100
Utility Stores	50
Medical workers	50
NDMA	25
Total*	**1,055**

Source: Press Briefing

* Does not incl. the revenue loss from passing on the impact of lower oil prices, funds reqd. for shelter homes expansion and reduction/elimination of taxes on essential food items

Furthermore, the whispers of a rate cut got louder during trading hours of Tuesday with word of an emergency SBP's monetary policy committee (MPC) meeting. Following the government's announcement of the fiscal stimulus, the SBP stepped in with a cherry on top in the form of a 150bps cut in the policy rate.
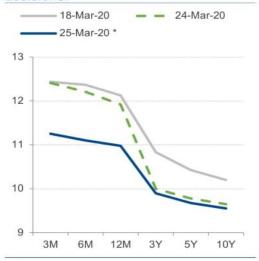
Key takeaways from the relief package and the cut in the policy rate are as follows:

- **The stock market's behaviour has been clearly indicating that it would need an unprecedented level of support in getting back up on its feet.** One should recall the market's behaviour prior to the last MPC's meeting to realize that this has been a trend. Rather expectedly, the index reached its lower circuit breaker limit within minutes, leading to yet another trading halt, something which has unfortunately become norm nowadays. Even after trading resumed, the market was unable to stage a recovery.

- Given that wishes were granted on both the fiscal and monetary fronts (at least in our opinion), this should have allowed for a rare occasion of rejoice in these troubled times. Moreover, **the timing could not have been better considering global markets and commodities are taking a sigh of relief as US policy makers close in on the ~US$2tn stimulus deal.** Alas, that is not the case as we are served yet another halt.

Yield Curves (%) post recent MPC decisions:

Source: JS Research

* Indicative prevailing market yields

- In a rather unorthodox series of events, the latest MPC meeting left the broader market scouting for any shreds of confirmation, particularly in the later trading hours. And when an official confirmation did surface, it did via the Finance Minister.

- The media talk on the relief package lasted about an hour and a half. Of this, less than 8 minutes were spent on the relief package itself while the major segment was spent debating lockdown and curfew.

- An obvious concern of the media personnel was the apparent lack of harmony between the approaches of the federal and provincial governments in dealing with Covid-19. **While the initiatives taken by provincial governments were acknowledged, the rather passive approach by the Centre was questioned.**

- Throughout the media briefing, the PM mentioned several times that his government is 'constantly reviewing' the ongoing situation and the 'coordinated approach' that has been adopted to counter the virus. **To questions of when the federal government would take necessary action, the PM - using a cricket analogy - stated that this is not like a Twenty20 match; it could take much longer. Contrarily, while commenting on China's tremendous efforts, the World Health Organization (WHO) team was most impressed with their speed.**

- PM Khan also made the distinction between a lockdown and a curfew, stating that while it may be an option for developed nations, Pakistan does not have the requisite infrastructure to facilitate a complete lockdown similar to a curfew. **Unless a volunteer workforce was created, it could not be enforced without serious repercussions on the weaker segments of the society. Whereas, other countries in close proximity have announced more ambitious measures, such as a 21-day countrywide lockdown.**

It cannot be overstated how catastrophic the implications of the Coronavirus could be for the global economy. The pandemic has already ripped apart the short term outlook for many economies, with around 80 countries reported to have so far requested emergency funding from the IMF to cope with the outbreak. **International discussions are hinting that this time the fallout on the global economy could even surpass 2008-09 global financial crisis**. As per the Organization for Economic Cooperation and Development (OECD) Secretary General Mr. Angel Gurria, the idea of a rapid V-shaped recovery is far-fetched, where a "U with a long trench in the bottom before it gets to the recovery period" seems more likely. Moreover, **a global financial antidote needs to be developed which could inject cash strapped countries with the necessary resources to stay afloat amid these challenging times.**

For Pakistan in particular, two points need to be considered in context of the ~US$6.6 relief package (the amount being slightly more than the current IMF package). Firstly, how will the package be financed? In this backdrop, the present circumstances might lead to a more lax IMF program, with easing of the front-loaded conditions that have been so challenging for the country's economy. Secondly, how will these funds be transmitted to the general public? In other words, what execution strategy will be employed to ensure that these funds reach the affected population? **Possibly a separate press conference needs to be dedicated to addressing the modalities of disbursement of the package, given the complexity of this exercise.**

Courtesy: JS Research