SOUTH ASIA AMIDST THE COVID-19 CRISIS
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EXECUTIVE SUMMARY

2020 has pushed humanity into an unfathomable crisis. While nations advanced and built nuclear arsenals, they never expected to be so powerless. Today, the novel Coronavirus Disease 2019 or COVID-19 has confined the entire world and governments are forcing people into lockdowns and curfews. The crisis has shown need for immediate action from governments, individuals, and medical practitioners—some more pressing and urgent than that of others.

The COVID-19 crisis paints an ominous picture for South Asia. Amidst rising panic and intensifying uncertainty across the globe, governments are exercising extreme power in response to this global pandemic. Perhaps the public should be wary of the threat of this power becoming norm and remaining in place even after the crisis is over, a scenario which poses grave threats to individuals, private enterprise and businesses. The World Bank states that the South Asian region will experience the worst economic fallout in 40 years with half of the countries falling in deep recession. Inequality in the region further makes the poor more vulnerable to job losses, infections, price hikes and access to limited health care.

This however was not the case before the pandemic hit. Of all the developing regions of the world, South Asia presented the most favourable regional outlook. With a projected growth rate of 6.3% in 2020, the World Bank placed South Asia slightly above East Asia and the Pacific (World Bank, 2019). Another Economic outlook report by the United Nations estimated South Asia’s regional GDP to reach to 5.1% in 2020. It was viewed as a lucrative region for investment demand (United Nations Department of Economic and Social Affairs, 2020). With some discrepancies, most of the economic forecasts predicted a positive growth pattern for the South Asian region. While economies across the region remain highly divergent, most of the countries presented promising conditions with growth and economic prosperity.

As of 12th June 2020, four major economies of South Asia – namely Bangladesh, India, Pakistan and Sri Lanka – have reported a total of 503,397 cases with 12,021 deaths, as shown in Graph 1. (European Centre for Disease Prevention and Control, 2020) The region has shown exceptionally low infection and death rates compared to other regions. Yet health care experts are deeply concerned about South Asia’s inadequate health infrastructure, and far lesser tests being conducted for adequate and accurate detection of cases as compared to Europe. Experts have also warned about the actual coronavirus cases in South Asia to be at least ten times the number of cases reported. Right now, the number of tests conducted per million are 2,418, 3,384, 3,099 and 3,515 in Bangladesh, India, Pakistan and Sri Lanka respectively. (Worldometer, 2020)

Graph 1: Coronavirus Cases in South Asia between 15th March and 12th June 2020

Source: European Centre for Disease Prevention and Control, 2020
Amidst rising distress, escalating death tolls and burgeoning economic fallout, the pandemic presents a difficult challenge for the South Asian governments. Not only must they devise a crisis response but also deal with food security, fiscal stress and pre-existing vulnerabilities including weak health systems.

South Asia accounts for 25% of the world’s population but contributes only 5% to the world GDP per capita (current US$). (United Nations, 2019). With an average per capita income of USD 2100, it has a significant number of people living in densely populated areas or slums (United Nations Department of Economic and Social Affairs, 2020). This adds to the difficulties involved in preventing domestic transmission of the virus within several parts of the region. The looming threat of an economic crisis is unfolding uniquely in unprecedented ways.

Due to COVID-19, regions like South Asia have presented high vulnerability as hundreds of millions of informal workers are left jobless because of inevitable lockdowns. With weak or no social protection measures, regional governments are required to take more rigorous action to address the issue at hand. With 16.1% of the regional population, approximately 275 million people, (Development Economics Division, World Bank, 2013) living under the international poverty line, the choice for most governments remains between risking either starvation or infection. The idea of not working and staying home is unthinkable when it comes at the cost of missing a meal. Making it almost impossible for the governments to convince people to stay home, and not staying home means spreading the virus. Either scenario is unfavourable and will leave low-income families across South Asia more vulnerable than ever perhaps. Estimates suggest that this pandemic will erase two decades of progress and wake global poverty from its slumber.

Graph 2: Real GDP Growth Rate (Annual Percentage)

Source: International Monetary Fund, World Economic Outlook Database, April 2020
It is clear that the South Asian countries have far less resources to expend towards combating this crisis. Most regional economies have high public debts, seething political instability, ethnocentrism, and a risk of social unrest. This translates to a minimal fiscal space to deal with this health crisis and its socioeconomic impacts.

Regionally several countries are highly dependent on tourism, and the entire hospitality industry rests on tourism’s fragile shoulders. In countries such as Sri Lanka and India, people are not only at a risk to lose direct jobs, but also threatened by indirect job losses. Supply chain disruptions in agriculture and other commodities, a lack of remittances for countries such as Pakistan and Bangladesh could brew the perfect storm.

Even before the pandemic hit, Bangladesh experienced a fiscal deficit of USD 13 billion the previous year with external debt-to-GDP ratio increasing from 12.2 to 12.5%. Around 5% of Bangladesh’s GDP in 2019 came from remittances abroad. With most of the workers being in the Gulf nations and petrol prices falling, remittances will decline sharply. The International Monetary Fund expects Annual GDP growth for Bangladesh to drop to 2 percent in 2020 from 7.9% in 2019. As the Ready Made Garments (RMG) industry takes a severe blow from international cancellations, their recovery remains uncertain. Losses to the sector are estimated at USD 6 billion.

Despite being the largest and most prosperous economy of South Asia, even India had a turbulent 2019. Unemployment reached a 45-year high; deceleration of industrial output was the worst in 14 years, declining by 5.2% and with a growth rate of 4.2% India touched a six-year low. Compounded with a 1.3 billion people lockdown, these do not yield favourable circumstances. According to the International Monetary Fund, India will experience a GDP growth of just 1.9% in 2020, its’s lowest since 1992. According to a survey, conducted by the Federation of Indian Chambers of Commerce and Industry, as much as 53% of Indian businesses have indicated a marked impact of COVID-19 on business operations. Economic experts predict the coronavirus crisis to cripple India’s already fragile economy. The fallout of the tourism industry will further push the hospitality and aviation industries. Aviation is set to lose nearly USD 4 billion. India’s IT and apparel industries are also expected to be impacted negatively, due to a predominantly international clientele.

Pakistan’s economy was already shrinking due to its macroeconomic stabilisation program with the International Monetary Fund. Pakistan, even before the crisis, was showing poor economic progress and dampened economic activity. Inflation averaged out at 7.39% in 2019, 6.14% of the total labour force was unemployed, and total investment dropped from 16.7% to 15.4% of the GDP. The Asian Development Bank (ADB) foresees the coronavirus outbreak could further cost Pakistan’s economy anything between USD 16.387 million to USD 4.95 billion and nearly 946,000 people could be pushed into unemployment. The World Bank fears the country falling into recession. In Pakistan, the informal sector accounts for 72% of employment and will now suffer the most as internal demand has dropped due to the pandemic. The apparel and retail industries are susceptible to disruptions caused by lockdowns leading to supply-chain disruptions.

The Sri Lankan economy had prevalent macroeconomic vulnerabilities, limited fiscal buffers, high indebtedness and large refinancing needs. The country had announced a stimulus package prior to the COVID-19 crisis to support enterprises which were negatively affected by the Easter Sunday Attacks in 2019. Restrictions put in place to counter the coronavirus are now augmenting the damages faced by the country’s manufacturing and tourism sector, which had not entirely recovered from the Easter Attacks blow. Data from Sri Lanka Tourist Development Authority shows that the tourist arrival dropped significantly by 30% and will decline further. Sri Lanka’s Manufacturing Purchasing Manager’s Index (PMI) dropped from 53.6 in February 2020 to a mere 30 in March 2020. The Central Bank of Sri Lanka attributes the loss to “Production and New Orders” sub-index. (Central Bank of Sri Lanka, 2020)

However, even in these challenging times, South Asia has managed to see a silver lining. The region often witnesses cross-border tensions and lack of cooperation. However, this pandemic has been pushing boundaries to create room for regional coordination, improved governance and strengthening of institutions. The SAARC countries have come together to resolve issues and set up a joint relief fund. To mitigate the socioeconomic risks of the pandemic,
rationing food and basic supplies seems to be popular among the South Asian governments.

All four governments have resorted to announcing relief packages, targeted at the most economically vulnerable segments of their population, and introduced policy measures to mitigate the situation.

Luckily, there has been immense unison across the world in these tough times, from medical teams travelling to high-risk areas, to textile-producers making hazmat suits and masks, and perfumeries brewing sanitiser. Emergency support has been extended by international financial institutions as well. The World Bank has rolled out USD 1.4 billion to help governments respond immediately to the crisis (Schafer, 2020). The European Union has also promised funds and support to enhance and strengthen the existing health care system. Other multilaterals such as the International Monetary Fund and Asian Development Bank have also rolled out support programs for the weaker nations.

There already was a need in South Asia to adopt a comprehensive policy approach and focus on industry specific issues, build conducive environment for businesses and facilitate regional trade. However, with the unexpected COVID-19 pandemic in a region such as South Asia, vulnerability to the effects of lockdown remains high as millions of informal workers are left jobless with no social protection measures. Therefore, urgent policy measures must be made by the governments to counter negative impacts of the issue at hand.
**BANGLADESH**

Bangladesh has reported 78,052 confirmed cases and 1049 deaths till June 12th following the identification of its first reported case on 8 March, 2020 (Institute of Epidemiology, Disease Control and Research, 2020). The government declared a general 3-week holiday until 11 April, which was further extended to 25 April. All government offices, private offices, and courts remain closed while commercial banks, grocery stores and medical stores operate on shorter hours.

Bangladesh’s economy is highly dependent on remittances and the textile industry. In textiles, the readymade garments and knitwear sector accounts for approximately 84% of Bangladesh’s exports. Whereas remittances in fiscal year 2019 amounted to USD 16.4 billion, which roughly equates to over 5% of the country’s GDP (International Monetary Fund, 2020). With a majority of overseas workers being employed in the Gulf states, remittances will be hit severely as oil prices continue declining. Apart from the health sector being severely burdened, Bangladesh lost around USD 6 billion when 264 garment factories were hit with order cancellation and postponement (Paul, 2020).

Although, the readymade garments sector is expected to make a quick recovery by the end of 2020 (depending on the length of the pandemic, as international supply chain and demand shocks are overcome); a drop in these two sectors (remittances and textile) will push Bangladesh towards a lower demand in both rural and urban consumer economies.

However, even before the pandemic hit, Bangladesh seemed to be in a precarious situation. Bangladesh experienced a fiscal deficit of USD 13 billion in fiscal year 2018-19, and the Asian Development Bank speculates the economy to shrink by USD 3 billion, by almost 1.1% due to the coronavirus (Rafee, 2020). The International Monetary Fund projections show a drop of 5.4% in Bangladesh’s annual GDP growth rate. IMF’s projected values dropped from 7.4% to 2% from October 2019 to April 2020. Graph 2 depicts the hit Bangladesh’s economy will take because of the coronavirus crisis and projects a positive recovery for the country in 2021. Policies that the government has introduced to mitigate the economic risk are also discussed further.

*Graph 3: Annual GDP Growth for Bangladesh*
The government simultaneously developed a four-pronged programme under a financial plan, to increase public expenditure and monetary supply, formulate a stimulus package, and broaden social safety net coverage. The finance division under the Ministry of Finance issued a revised budget for the fiscal year 2020. In lieu of an increased health expenditure, the Health Services Division was granted an additional BDT 2.5 billion, roughly USD 29 million, to help facilitate the response plan for COVID-19. In collaboration with the Ministry of Disaster Management, the local governments have distributed 24,000 tons of food at the district level to vulnerable households. The Open Market Sale program, designed to purchase rice at one-third of the market price, received a higher allocation in addition to expansion of existing transfer programs for the poor. However, despite price monitoring by the government, prices for basic commodities and food items have inflated and will probably continue to rise. For exporting industries, the Ministry of Finance announced a stimulus package of BDT 50 billion. Under a refinancing scheme, the industries will be facilitated by commercial banks to borrow at 2% interest with a 2-year term and a 6-month grace period. The scheme will be operated by Bangladesh Bank, under which commercial banks will lend at zero interest rate. It aims to benefit over four million salaried workers for a duration of three months. Bangladesh’s National Board of Revenue suspended duties and import taxes on medical supplies, protective equipment and testing kits (International Monetary Fund, 2020).

The COVID-19 crisis has caught Bangladesh’s financial sector at an inconvenient time, with non-performing loans reaching 4.4% of the GDP, and private sector credit growth declining by almost 7% from December 2019 to February 2020 (Rafee, 2020). Bangladesh Bank resumed sales of US Dollar to counterbalance extra pressure on the market, as a direct consequence of lesser flow of remittances from overseas. The foreign exchange rules were also eased to facilitate Bangladeshi nationals visiting overseas.

The Bangladesh Bank is buying treasury bonds and bills from banks to ensure adequate liquidity for supporting operations of financial institutions. The Bank issues circulars to ensure access to financial services, delay non-performing loan classification, and extend tenures of trade instruments. In an attempt to pump cash into the economy, it has cut repo rate from 6% to 5.75% and cash reserve ratio by 50 basis points (International Monetary Fund, 2020). Bangladesh needs to be more vigilant or else this pandemic will undo the economic progress made over several decades and unravel the gaps in its economy. While most of the economy struggles for survival and businesses try to stay afloat, a few are flourishing too. Over the next few months, borrowing from the government sector banks may decline as several large projects involve financial and technical input from China, both of which are expected to be adversely affected. A temporary slowdown in government borrowing may assist private sector lending, through a “crowding in” effect. Digitisation of significant components of the value chain, for the retail and travel industry, will help some businesses fare better than their competitors by focusing more on online sales facilitated through digital platforms. Supermarkets have also had more robust business owing to the crisis, although specifically for groceries (Amit, 2020).
INDIA

So far, India has reported 297,535 confirmed cases of coronavirus with 8,498 deaths till 12th June (Ministry of Health and Family Welfare, 2020). India is working on introducing policy measures to counter the economic impact of the pandemic. India’s chief economic advisor to the government commented that there will be a trade-off between containing spread of infection and its subsequent impact on the economy. As shown in Graph 4, the economy takes a severe hit. According to the International Monetary Fund, India will experience a GDP growth of just 1.9% in 2020, its’s lowest since 1992. The International Monetary Fund has not changed projection for 2021 however and expects the country to make a swift recovery from the crisis once disruptions subside. There has been debate within the country about the current measures being inadequate. The government has worked to introduce fiscal and monetary measures in anticipation of disruptions in demand and supply chain.

India introduced a demonetisation policy, which negatively impacted small businesses and the informal economy. Experts estimate the informal sector to account for 94% of India’s total employment and 45% of the country’s total output (Mukharji, 2020). ‘India, being the fifth largest economy in the world, cannot be found lagging far behind in taking due rectifying actions in time, to protect business from going bankrupt’, said the president of the Associated Chambers of Commerce and Industry of India (Mukherji, 2020).

The Indian government introduced a stimulus package of USD 22.5 billion, which is valued at 0.8% of the economy. Through this fiscal measure, the government intends to target low-income households through cash transfers and food, wage-support to daily-wage workers and insurance coverage for health workers. State governments in India have also introduced measures, mostly direct transfers as ration or cash. While nature and size of these vary across states, cumulatively amounts to around 0.2% of India’s GDP.

Graph 4: Annual GDP Growth for India

Source: International Monetary Fund, World Economic Outlook Database
Additional amount of INR 150 billion has been assigned to improve health infrastructure by Prime Minister Narendra Modi. Tax filing and compliance deadlines have also been extended across several sectors (International Monetary Fund, 2020).

To cater to monetary policy, the Reserve Bank of India (RBI) has provided relief to both lenders and borrowers. Securities and Exchange Board of India provisionally relaxed the norms related to debt default on rated instruments, allowing companies a three-month moratorium on loan repayments. On advice of the Confederation of Indian Industry, RBI reduced the repo and reverse repo rates by 75 and 90 basis points to 4.4 and 4.0 %. Additionally, the RBI released INR 3.7 trillion also introduced three liquidity measures: Long Term Repo Operations, a cash reserve ratio (CRR) cut of 100 basis points, and an increase in marginal standing facility to 3 % of the Statutory Liquidity Ratio.

Simultaneously, the implementation of net stable funding ratio and the last stage of the phased-in implementation of the capital conservation buffers were delayed by six months.

To help with state government’s short-term liquidity needs, RBI has formed a facility and relaxed export repatriation limits. Earlier, the RBI introduced regulatory measures to promote credit flows to the retail sector and micro, small, and medium enterprises (MSMEs) and provided regulatory forbearance on asset classification of loans to MSMEs and real estate developers. CRR maintenance for all additional retail loans has been exempted, and the priority sector classification for bank loans to Non-Banking Financial Companies has been extended for on-lending for FY 2020-21. The RBI directed financial institutions to assess the impact on their asset quality, liquidity, and other parameters due to spread of COVID-19 and take immediate contingency measures, to manage the risks following the impact assessment (International Monetary Fund, 2020).

Economic experts had predicted coronavirus crisis to cripple the already fragile economy. According to a survey, conducted by the Federation of Indian Chambers of Commerce and Industry, as much as 53 % of Indian businesses have indicated a marked impact of COVID-19 on business operations (Mukherji, 2020). The agriculture sector contributes almost USD 265 billion to the GDP (Mukharji, 2020), the current crises makes Indian farmers highly vulnerable as the new crop is ready and needs to be sold. With the lockdown, in effect transporting the crop becomes a challenge. The risk of food being wasted, and farmers not receiving adequate income is high. Indian aviation industry’s losses will surpass USD 4 billion this year according to an assessment by the Centre for Asia Pacific Aviation.

The aviation industry will have a domino effect on tourism and hospitality industry, further pushing down revenues. The Information Technology industry is expected to be hit worse than it was by the global financial crisis of 2008. The damage to GDP as a total direct impact might reach INR 8 trillion (Simhan, 2020). The IT sector depends on clients across the globe, particularly the US, so the extent of damage to these economies will determine the magnitude of damage to Indian economy. Lastly the apparel industry, which employs over 12.9 million individuals, has reported 65 % loss in earnings amounting to USD 2 billion as payment remain with foreign client in lieu of cancelled or delayed orders (Khan, 2020).

On the upside, three industries which have managed to survive the coronavirus epidemic and even flourish in India are telecom, health care and insurance. Telecommunication sector is expected to grow 5 %, as work-from-home and social distancing become norm. These will also increase data consumption, thus raising revenues. The health care sector will benefit after the government announced USD 1.3 billion to encourage companies to manufacture pharmaceutical ingredients domestically.

Due to existing inventory levels across supply chain the impact on industry remains limited. Under government directives, issued by the Insurance Regulatory Development Authority of India, it is compulsory for insurers to cover COVID-19 cases. Being under-penetrated has managed to protect the sector from major disruption. According to a research analyst at Emkay Global, the regulatory authority’s decision will deem favourable for the industry as inquiries for health policies increase (Bloomberg Quint Research, 2020).
PAKISTAN

The coronavirus has claimed 2,463 lives in Pakistan and infected 125,933 people as of 12th June (Government of Pakistan, 2020). Both federal and provincial governments have taken an active role in responding to the crisis. In order to contain the spread, Pakistan imposed extensive travel restrictions, lockdowns and social distancing measures. A report by the Asian Development Bank (ADB) foresees the coronavirus outbreak costing the Pakistani economy anything ranging between USD 16.387 million to USD 4.95 billion, which is approximately 0.01% to 1.57% of its current GDP. Additionally, there is a threat of 946,000 people being pushed into unemployment. Pakistan already has 50 to 60 million people below the poverty line and COVID-19 is estimated to push the number to around 125 million. (Bijian, 2020) According to the Labour Force Survey, the informal sector accounts for 72% of employment and will now suffer the most as internal demand drops due to the pandemic (Ministry of Statistics, 2019).

Prime Minister Imran Khan announced a relief package of PKR 1.2 trillion, the largest in Pakistan’s history. The authorities aim to eliminate import duties on emergency health equipment, provide relief to daily wage workers, administer direct cash transfers to low-income families, accelerate tax refunds to the export industry, and extend financial support to SMEs. The authorities have also earmarked resources towards an accelerated procurement of wheat, financial support to utility stores, relief in fuel prices, support for health and food supplies, electricity bill payments for low-income households, an emergency energy provision, and a transfer to the National Disaster Management Authority for the purchase of equipment to deal with the pandemic. The effects of this crisis will last beyond the current fiscal year, with inflation expecting to average at 11.8% while real GDP shrinks to 1.3% (International Monetary Fund, 2020). Revised reports by both, the World Bank and the International Monetary Fund have projected Pakistan to have negative growth figures of -1.5% in 2020.

Graph 5: Annual GDP Growth for Pakistan

Source: International Monetary Fund, World Economic Outlook Database
Unfortunately, unlike India and Bangladesh, Pakistan will be unable to recover quickly from the crisis and effects will also be seen for the fiscal year 2021. There may be two possible reasons for this prolonged hit. Firstly, Pakistan’s fiscal year runs from July to June compared to fiscal years of January to December for several south Asian countries. Secondly, Pakistan’s economy was already shrinking due to its macroeconomic stabilisation program with the International Monetary Fund.

Towards the monetary and macro-financial policy, the State Bank of Pakistan cut policy rates twice by a cumulative 225 basis points to 11.0% in the span of less than two weeks in March 2020. Additionally, the bank introduced two new refinancing facilities—the Temporary Economic Refinancing Facility worth PKR 100 billion in bank refinancing to stimulate investment in new manufacturing plants and machinery at 7% fixed for 10 years and the Refinance Facility for Combating COVID-19 worth PKR 5 billion to support hospitals for purchase of equipment to detect, contain, and treat COVID-19. These were followed closely with temporary regulatory measures to uphold soundness of the banking system and sustain economic activity. These regulatory measures include reduction in the capital conservation buffer by 100 basis points to 1.5%; increase in the regulatory limit on extension of credit to SMEs by 44% to PRs 180 million; relaxation of the debt burden ratio for consumer loans from 50% to 60%; allowing banks to defer clients’ payment of principal on loan obligations by one year; and relaxation of regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year (International Monetary Fund, 2020).

Like elsewhere in the region, the industries in Pakistan have also taken a hit due to the COVID-19. Over the recent years Pakistan has had low growth rates and the World Bank predicts that it could fall into recession too. Aiming towards microeconomic stabilization Pakistan entered a 39-month arrangement with the International Monetary Fund. Because of this economic activity had already dampened. Pakistan, even before the crisis, was showing bad economic progress. Inflation averaged out at 7.39% in 2019, 6.14% of the total labour force was unemployed, total investment reduced from 16.7% to 15.4% of the GDP (World Economic Outlook Database, 2020). As government expenditures continued increasing, the revenues seemed to be moving in an opposite direction and the Federal Board of Revenue had recorded a PKR 118 billion shortfall in tax collection till December 2019. The government was unable to achieve the revised tax collection target for the first half under the IMF arrangement (Haider, 2020).

Majority of the country experienced shrinking economic activity, in addition to almost all industries were found to have rapidly contracting production. Large-scale manufacturers had registered a contraction of 3.4% but agriculture grew (The News, 2020). According to a report by the World Bank, the textile and apparel industry, being labour-intensive is highly exposed to disruptions caused by lockdowns. The two largest services sector subsectors, Wholesale and Retail Trade and Transport and Communications, are suffering as non-essential businesses remain closed and limited mobility creates supply-chain disturbances. The retail sector employs over 16% of the labour force and contributes more than 30% to the services sector (World Bank, 2020).

While in Pakistan most industries are suffering, there has been a turnaround for the cement industry (BR Research, 2020). As oil and coal prices drop internationally, the energy-intensive cement industry is bound to benefit from it. The government also introduced its PKR 100 billion housing project for 20,000 units earlier in March, and cement factories which had shut operations re-opened their plants (BR Research, 2020). Domestic markets may not get affected significantly in terms of demand if projects follow the planned timeline. Other industries dependent on oil for production such as fertilisers may also benefit from the falling crude oil prices.

The COVID-19 crisis has further strained the economy and continues to be a sticky situation for Pakistan’s government, as expenditure increases while revenue continues being impacted negatively.
SRI LANKA

Sri Lanka as of 12th June has reported 11 deaths and around 1,877 cases due to the coronavirus outbreak (Ministry of Health, 2020). Like other economies in South Asia, poverty is expected to increase as a cause of decline in earnings and loss of jobs. However, the pandemic comes at a very politically and economically fragile time for the country. Sri Lanka was quick to enforce social distancing and lockdown measures and seems to have managed to contain the spread so far. The authorities have imposed a strict nation-wide curfew despite the financial market suffering as Colombo Stock Exchange remains closed. The impact of this crisis will hit Sri Lanka with unmatched severity. As Graph 6 shows, the annual GDP growth of Sri Lanka for three fiscal years, it presents a dreary picture for 2020. According to the International Monetary Fund the country’s growth will enter negative figures, averaging out at -0.5 %.

Sri Lankan government had announced a stimulus package prior to the COVID-19 crisis, to support enterprises which were negatively affected by the Easter Sunday Attacks in 2019. The package includes tax concessions on corporate and income tax and a reduction from 15 to 8 % on Value Added Tax, a blanket moratorium for SMEs on capital repayments. Additionally, it has assigned USD 5 million to the SAARC COVID-19 Emergency Fund as well as for quarantine and other containment measures. Authorities will administer cash transfer payments to vulnerable groups totalling 0.1 % of the GDP. All food, medicine and healthcare equipment imports have been exempted from import taxes. Taxation deadlines for the first quarter of 2020 have been extended (International Monetary Fund, 2020).

Graph 6: Annual GDP Growth for Sri Lanka

Source: International Monetary Fund, World Economic Outlook Database
To ease liquidity conditions, the Central Bank of Sri Lanka lowered the required reserve ratio by 1% for domestic currency deposits and reduced monetary policy rates by 25 basis points. The President has announced 6-month debt repayment moratorium on bank loans for the tourism, garment, plantation and IT sectors, related logistics providers, and SMEs, with reduced rate working capital loans for these sectors and leasing loans for three-wheelers. There will also be a three-month moratorium on small-value personal banking and leasing loans. The interest rate on credit cards will be capped and the minimum monthly repayment reduced. The President has announced that state-owned financial institutions will invest in treasury bonds and bills to stabilize the money market interest rate at 7% (Central Bank of Sri Lanka, 2020).

Authorities have imposed exchange restrictions for 90 days preventing commercial banks from facilitating import of motor vehicles and other non-essential goods under letters of credit, documents against acceptance and advance payment. Sri Lankan Commercial Banks have also been prohibited for three months from purchasing Sri Lankan international sovereign bonds from the market to alleviate pressure on currency (International Monetary Fund, 2020).

Restrictions put in place to counter the coronavirus are affecting the country’s manufacturing and tourism sector adversely. Data from Sri Lanka Tourist Development Authority shows that tourist arrival dropped significantly by 30% and will decline further (PricewaterhouseCoopers, 2020).

While the Asian Development Bank estimates that losses can exceed USD 319 million and the economy is expected to grow at 2.2% in 2020 (Asian Development Bank, 2020). Some recoveries might be possible for tourism as the European Union intends to support the industry with a grant of EUR 3.5 million (European Union, 2020). For manufacturing, about 40% of Sri Lankan goods’ exports are concentrated in a few manufacturing activities, with textiles and garments having the largest share followed by rubber products and tea. Sri Lanka’s Manufacturing Purchasing Manager’s Index (PMI) dropped from 53.6 in February 2020 to a mere 30 in March 2020. The Central Bank of Sri Lanka attributes the loss to “Production and New Orders” sub-index (Central Bank of Sri Lanka, 2020). A report anticipates revenue losses for the apparel and textile industry to reach USD 1.5 billion between March and September 2020 (PricewaterhouseCoopers, 2020) while that of tea is estimated to reach a staggering USD 520 million (Gunadasa, 2020). To make matters worse most of Sri Lanka’s exports are to Europe and the United States, which have been hit badly by the pandemic too. According to estimates the Sri Lankan economy will contract by 0.5%, and in the case of a prolonged outbreak by 3%, placing the financial losses from the pandemic between USD 0.42 billion or USD 2.52 billion (World Bank, 2020).

On the upside, however the health and agriculture industries within Sri Lanka may not be affected by the pandemic. The European Union will provide the health sector EUR 2 million for equipment and medical supplies to be procured by the World Health Organisation and to strengthen laboratory networks across the country. Additionally, the agricultural sector will receive EUR 16.5 million funding to mobilising more private capital in rural areas and assist small businesses and workers in the Uva and Central Provinces (European Union, 2020).

Therefore, the Sri Lankan economy will contract as a direct result of the COVID-19 outbreak and in Sri Lanka macroeconomic vulnerabilities will prevail, with limited fiscal buffers, high indebtedness and large refinancing needs.
Amidst the COVID-19 crisis, South Asia has found itself in the perfect storm. Because of the precarious situation, regional growth could decline anywhere between 1.8 to 2.8 %, the lowest in 40 years (World Bank, 2020). For this fiscal year, the GDP growth for Pakistan and Sri Lanka is in negative territory according to a World Bank report. The report states, “Tourism has dried up, supply chains have been disrupted, demand for garments has collapsed, consumer and investor sentiments have deteriorated, international capital is being withdrawn and inflows of remittances are being disrupted. On top of the deterioration of the international environment, the lockdown in most countries has frozen large parts of the domestic economy.” aptly depicting the predicament of the South Asian economies. (World Bank, 2020)

The International Monetary Fund projected a growth in volume of exports of goods and services for all four countries included in our study. The projected values, in October 2019, showed positive signs of economic growth as depicted in Graph 7. However, no surety remains on these projected values.

Due to weak health infrastructure, fiscal and policy issues, the future of South Asia seems bleak. The coronavirus crisis has left the region in turmoil, with the magnitude of negative impacts depending entirely on the time required to return to normalcy.

The situation has proven to be unchartered territory and only time can truly tell how the region will fare in the long run. Hence the only conclusion is that the longer it takes this disruption to diffuse, the greater South Asia’s damages will be.
INTERNATIONAL ASSISTANCE TO SOUTH ASIA

In these times of adversity, unconditional unison has been witnessed around the world. We have seen stronger economies come forward to support the weaker ones. Medical teams are crossing borders to help the vulnerable and impart expertise. Businesses are modifying operations, textile producers are manufacturing hazmat suits and masks, while perfumeries are now brewing sanitiser. According to the International Monetary Fund (IMF), states facing a higher threat from the COVID-19 crisis include ‘those with weak health systems, inadequate policy space, commodity exporters exposed to terms-of-trade shocks, and others that are particularly vulnerable to spillovers’.

Cooperation in the region has increased. South Asian Association for Regional Cooperation (SAARC) has set up an electronic platform to connect health professionals along with a COVID-19 Emergency Fund, raising USD 21.8 million. Support has been extended by international financial institutions as well. The World Bank has rolled out USD 1.4 billion to help governments respond immediately to the crisis (Schafer, 2020). The IMF made USD 50 billion available exclusively to counter the coronavirus, for the most vulnerable economies USD 10 billion are available at zero interest. In South Asia, Afghanistan, Maldives, Nepal, and Pakistan have received funds under this special facility. The Fund claims to be committed to protect the most vulnerable members. In response to the COVID-19 pandemic, the Asian Development Bank has announced a relief package of USD 20 billion. The European Union has also promised funds and support to enhance and strengthen the existing health care system. It has mobilised EUR 15.6 billion for emergency, healthcare and economic response.

Keeping in mind the fragility of emerging or developing economies, there is a need to redirect funds for galvanizing youth organizations, civil society and non-political actors to combat this crisis. Beyond the overwhelming health risks, South Asia also is at risk economically and politically. Due to large informal economies, the regulations regarding health or labour protection are virtually non-existent or too weak to be implemented. With governments imposing lockdowns, entire sectors and industries have vanished leaving daily wage workers destitute. There is need for an international coordinated response.

The economic fallout in developing countries can be disastrous. To prevent any such economic fallout the developing world is going to not only need a restructured debt policy but also massive capital infusions from developed countries extending financial support. In South Asia, the debt-to-GDP ratios are high, making it difficult to allow fiscal space for relief measures. Oftentimes the cost of borrowing increases a lot for the countries which are already indebted.

International financial institutions and developed economies will have to push adequate cash into the system to help weaker economies deal with liquidity problems. These countries are anticipating the economic shock to be temporary despite its magnitude. The cost of keeping people at home and being paid to not work can easily be financed by rich countries willing to restructure debt and extend aid.

There needs to be a focus on developing capacity and quality of the available health care systems in South Asia. Through technical and financial assistance, there needs to be focused development in the health care sector. The developed countries need to help the weaker ones establish mechanisms to increase outreach to excluded or remote areas. There need to be tracking mechanisms in place which monitor the spread along with containment measures in all such areas. Additionally helping design effective awareness campaigns to communicate mitigation measures, support strategies and useful information.

The governments of developed states need to help developing states’ government strengthen policy responses. In India, we witnessed that Prime Minister, Narendra Modi, imposed a lockdown without any warning or notice. Public transport was suspended, migrant workers were left unemployed, forced to walk miles to get back to their villages. In Pakistan, provincial governments are dictating timings for individuals to shop for necessities. Resultantly, more people are leaving their homes at the same time and contact among people is increasing. To ensure effective lockdowns, law enforcement agencies throughout South
Asia are misusing the authority delegated to them. There is a lot of unjustified harshness towards citizens from security forces where they are beating up or flogging individuals violating the lockdown rules. There needs to be technical knowledge imparted to enable governments to enforce right and fair measures and policy.

Last but not the least, the developed world needs to play a much larger part when the crisis is over. Once the pandemic has successfully been contained and the virus no longer remains a threat, the richer nations should provide economic rescue to the poorer nations. This could be done by supporting trade and local industries once borders reopen, strengthening civil society organizations and actors, promoting innovation and entrepreneurship and facilitating digitalisation. Several South Asian economies depend on tourism and the advantages that enable them to do so will not go away. So prompting its citizens to go visit these places will also help revive tourism industry and several other industries and businesses linked to it.
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