

Stories of Change

# Improving the fiscal policy response to Covid-19 in Pakistan

The Covid-19 pandemic and related restrictions have had profound socioeconomic impacts worldwide. Governments have been faced with responding urgently to mitigate such effects, especially for the most vulnerable. Covid-19 Responses for Equity (CORE) partner Partnership for Economic Policy (PEP) – a Southern-led organisation which believes that evidence produced from an in-country perspective, by empowered and engaged local researchers and policymakers, results in better policy choices – has been working closely with policymakers in Pakistan to assess the Covid-19 impacts and the effectiveness of current and potential policies. As a result, PEP has helped introduce tax reforms for the hardest hit, agricultural subsidies for farmers, and the reduction of trade tariffs for struggling businesses.



Muhammad Yusuf sells spices at the Empress Market, a colonial era market that is one of the busiest and most popular for shopping in Karachi.

Photo: IMF Photo/Saiyna Bashir, CC BY-NC-ND 2.0

## The challenge

As rapid-response policies are implemented to mitigate the immediate health, economic, and social effects of Covid-19, developing country populations – and especially those most vulnerable – are at risk of being left behind. In Pakistan, at the start of the pandemic, public service delivery came under severe pressure. The lockdowns halted economic growth and put employment at risk. Due to the delayed medical solutions and vaccination, the second and third waves of Covid-19 further exacerbated these challenges. Amid low economic growth, and resultant decline in collections from taxes, there was a concern regarding sustainability of social protection offered by the government.

## The research

As part of the CORE **Simulations and Field Experiments of Policy Responses and Interventions to Promote Inclusive Adaptation to and Recovery from the Covid-19 Crisis** project, PEP has been supporting 11 projects in Africa, Asia, and South America since July 2020 to inform inclusive adaptation and recovery policies responding to the Covid-19 crisis.

In Pakistan, the research team is leading a study to explain the macroeconomic and welfare impacts of changes in indirect taxes brought about as a response to the pandemic. The team is using a simulation approach, known as the PEP Single Country Recursive Dynamic Computable General Equilibrium (CGE) model, to guide decision makers to explore the likely impacts that certain policy responses may have had during the first wave of the pandemic. These policy responses are tax relief for commodity producing sectors, and production subsidies in the agriculture sector. The team is studying the effects of the pandemic on women and vulnerable groups and analysing how policy responses may have influenced various forms of inequalities. Another area is the sustainability of tax relief and subsidies as the pandemic continues.

**// The PEP project was instrumental in (a) providing a rapid forecast of how reducing economic activities during lockdowns would impact direct and indirect tax collections, and (b) what this would mean for the government's spending envelope for the next fiscal budget. //**

Deputy Chief of Public Investment Authorisation Section of Ministry of Planning

The study finds that fiscal policy changes designed for the manufacturing sector offer the highest gains in real gross domestic product and reduction in consumer prices; tax relief offered for the services sector firms leads to the highest investment gains; all fiscal responses lead to increases in exports and an even higher increase in import demand; consumption inequalities may have expanded as a result of the pandemic and fiscal policy responses, and that the Covid-19 pandemic has led to the widening of gender inequalities.

### The impact

Throughout the project, the team has engaged with policymakers at the Ministry of Finance, Ministry of Commerce, National Tariff Commission, Federal Board of Revenue, Pakistan Bureau of Statistics, and the Prime Minister's Office. Working closely with these stakeholders, as well as having a representative from the Ministry of Planning, Development and Special Initiatives as a government member of the research team, has been pivotal to the project successfully informing policy in a timely manner.

Since the start of the pandemic, the government has encouraged PEP to participate in its working groups to monitor Covid-19 impacts. The team has also been contributing to government-led public private dialogues where PEP's research has been [regularly cited and discussed](#).

The initial simulations findings informed the formulation of the federal budget for the fiscal year 2021/22, a process led by the Ministries of Finance and Planning. First, the Federal Board of Revenue revisited the design of indirect taxes to ensure tax relief benefits the most in need. Second, a targeted subsidies programme for agriculture was introduced and a Farmer Support Card was launched. Third, trade taxes and tariffs at the import stage were rationalised by the National Tariff Commission. Tariffs on inputs and intermediate goods were further reduced to enhance industrial competitiveness. The Federal Board of Revenue rationalised the general sales tax on large-scale manufacturing, priority agriculture and food items, and selected sub-sectors.

The research team has worked closely with the Pakistan Bureau of Statistics to highlight the need for gendered national income accounts data. As a result, the Pakistan Bureau of Statistics has [publicly acknowledged](#) the need for such data and will now embark on producing gendered data on relevant indicators so that in future a gendered CGE model can be utilised which in turn will also allow a more comprehensive analysis of various forms of horizontal inequalities.

The team recently organised a [national policy conference](#) in which representatives from the Prime Minister's Office shared plans to convene a special meeting to discuss the team's findings with the Prime Minister and the parliamentary committee on finance and economic governance.

The project has demonstrated how useful an up-to-date macro model can be in helping policymakers determine the best policies to use in critical times. The findings will also be useful in future crises.

### Further reading

Ahmed, S. and Ahmed, V. (2021) [Final Report: Simulations of Policy Responses and Interventions to Promote Inclusive Adaptation to and Recovery from the COVID-19 Crisis in Pakistan](#), Brighton: Partnership for Economic Policy (accessed 1 June 2022)

Nazir, A. et al. (2021) [Developing Inclusive and Creative Economies: Creative and Social Enterprise in Pakistan](#), Islamabad: Sustainable Development Policy Institute (accessed 1 June 2022)

### Simulations and Field Experiments of Policy Responses and Interventions to Promote Inclusive Adaptation to and Recovery from the COVID-19 Crisis

Lead partner: Partnership for Economic Policy

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This project focuses on the impact of Covid-19 and the effectiveness of current and potential policies in 11 developing countries to identify more effective and inclusive policy responses to, and recovery from, the pandemic.

### About this report

This Stories of Change was written by Dr Saira Ahmed, Capital University of Science and Technology; Dr Vaqar Ahmed, Sustainable Development Policy Institute; Marjorie Alain, Partnership for Economic Policy; and Karine Gatellier, CORE Knowledge Translation Team at the Institute of Development Studies.

It was produced as part of the Covid-19 Responses for Equity (CORE) Knowledge Translation Programme, which supports the translation of knowledge emerging from the CORE initiative. Supported by the International Development Research Centre, CORE brings together 21 projects to understand the socioeconomic impacts of the pandemic, improve existing responses, and generate better policy options for recovery.

The views expressed herein are those of the authors and do not necessarily represent those of IDRC or its Board of Governors, or IDS.

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DOI: [10.19088/CORE.2022.003](https://doi.org/10.19088/CORE.2022.003)