**PAKISTAN’S ECONOMY AND THE IMPACT OF FLOOD**

ISHRAT HUSAIN

Pakistan had been suffering from three serious shocks even before the recent floods caused devastation to human lives, property, infrastructure and social services in the country. Pakistan was engaged in fighting the militants and terrorists since the U.S. initiated the war in Afghanistan. Forty three billions of dollars of losses have been incurred so far in the fight against terror and the country has been virtually shut out as a destination for investment, capital flows, tourism and trade. Second was the demand side shock caused by the decline in the purchasing power of the majority of Pakistanis due to stagnating income, double-digit inflation and growing unemployment for the past three years. Third, the synchronized recession in the global economy hasn’t helped either in stimulating domestic economy. In 2007-08 it was the food-fuel price induced adversity and later on the world faced a financial crisis in 2008-09 of a magnitude that has not been witnessed since the 1930s. It is in this context that it needs to be stressed that no country with the resources and capacity as that of Pakistan can single handedly meet the onslaught caused by these floods. The pace, extent and magnitude of the stimulus provided jointly by the domestic and international community would determine as to how soon the Pakistani economy is stabilized.

 The floods have displaced 20 million people, damaged or destroyed more than one million houses, infrastructure, and washed away standing crops from 10 percent of the cultivable area. The losses of livestock, poultry, etc. which provide cash incomes to the poor are quite substantial. According to the UN observers, the 2010 Floods in Pakistan have caused more devastation than the combined effects of Asian Tsunami, 2005 earthquake in Kashmir and the recent Haiti earthquake. The loss of life has indeed been contained but the loss to property and incomes have been considerably higher. Internal displacement of people has been on a massive scale. Preliminary estimate of flood damages prepared by the World Bank and ADB amount to about $ 10 billion. Researchers at Ball State University and Tennessee State University have put the damage to the infra-structure, buildings, contents and agricultural assets between $5.1 – 7.1 billion.

 The economic performance before the floods was recording some modest improvement. Growth was picking up and was estimated to reach 4.5 percent in 2010-11. Headline inflation was forecast at 11.5 percent lower than the previous year. Official reserves had increased and the nominal exchange rate remained stable as the current account deficit was narrowing. Higher inflows of workers’ remittances, rising export earnings and fall in import prices and volume all contributed to this favorable outcome. However, the outlook for the fiscal balances remained bleak. Escalating Defense expenditures, lower tax revenues, higher spending by the Provincial Governments and shortfall in Coalition Support Fund reimbursements and other foreign financing had widened the fiscal deficit. This larger deficit was financed by the borrowings from the State Bank of Pakistan and the banking system which fed into higher inflationary expectations and also crowded out private sector credit. According to the IMF, the program deficit target would have been missed by a margin of 1.7 percent of GDP. The repeated postponements of introduction of Reformed GST (RGST) had also raised doubts about the achievement of the agreed tax revenue targets. It is not obvious whether the Government has attained internal political consensus and the Federal Board of Revenue has developed the requisite capacity to launch this tax soon. Reforms in the power sector that were expected to plug in the leakages in the collection of electricity tariffs and reduce the budgetary subsidies are also not proceeding at the desired pace.

What has been the impact of the floods on the economy? The recent IMF report has concluded that the economic outlook has deteriorated sharply. The agricultural sector has been hit hard and the loss of output would reduce GDP by over 2 percent. These output losses combined with disruption in supply chains arising from damage to infrastructure have pushed up the prices of food, vegetables and fruits. Floods had also disrupted international trade with the supplies of exports and imports held up and fuel could not be delivered to power plants. Inflationary pressures will thus intensify and inflation rate may rise to about 14 percent. Public finances are likely to be affected with lower revenue collections, higher outlays for needed humanitarian assistance and continued needs of the defense services in fighting the Taliban and consolidating their hold on the areas from where they have expelled these extremist elements. The current economic scenario for 2010/11 therefore looks bleak as GDP growth would be only 2.8 percent, inflation 13.5 -14 percent, current account deficit 3.1 percent and fiscal deficit nobody knows for sure where it will end up.

A timely and appropriate response of the domestic and international community to this calamity can not only contain and mitigate the risks to the economy but also turn it into an opportunity for economic revival. This goal is achievable if the post-relief rehabilitation and reconstruction activities are carried out in a framework of burden sharing and not business-as-usual.

The stimulus to kick start the economy in the post-flood relief period can be provided in two ways. First, the immediate task would be to facilitate the return of approximately four million families to their respective habitats and enable their transition from dependence on relief goods to restoration of livelihoods. Cash grants, microfinance loans, the supply of seeds, fertilizers, bullocks, implements and housing material should be provided to them before the sowing season starts. Microfinance banks and Microfinance Institutions (MFBs and MFIs), Pakistan Poverty Alleviation Fund and Zarai Taraqati Bank can provide the financing for these purposes. MFBs and MFIs should be given lines of credit by the government, banks and international donors for channeling micro loans to the poor for agriculture, housing and micro businesses. Agricultural production can in this way bounce back to higher levels as some of the areas that do not receive water normally would also come under cultivation this year and water stressed lands would be able to retain higher moisture content because of floods. Rural incomes will rise as a result of higher output and higher producer prices and create demand for consumer goods that will help the domestic manufacturing industry. Second, the physical rehabilitation and reconstruction work including housing can be financed from allocations from the Benazir Income Support Program, funds at the parliamentarians’ disposal, the People’s Work Program, Bait ul Mal and Zakat and provincial development budgets. These public sector funds should be supplemented by corporate sector, NGOs, Civil Society groups, wealthy individuals, philanthropists and expatriates. These groups may operate in specific areas or be assigned specific tasks without being asked to donate cash contributions. Similarly, the international donor community can undertake projects of their choice in a particular district directly or through local organizations. The spending generated by these large, medium and small projects in the flood affected areas would have a multiplier effect on the economy through employment, construction, cement, steel, paints and chemicals, wooden products and more than 30 industries that will be involved.

 The distress caused by this tragedy can thus be converted into a stimulus for the economy if there is adequate effort to mobilize resources nationally and internationally, proper planning, coordination at various levels, assignment and delineation of responsibilities among different players, and involvement of the public, private and non-governmental sectors in the implementation of the projects and the activities.