



# PIDE

## COVID-19 BULLETIN

No. 4

### Sectoral Analysis of the Vulnerably Employed *COVID-19 and the Pakistan's Labour Market*

All the provinces in Pakistan are now experiencing lockdowns, though of different intensities, to 'flatten the curve' of the spread of pandemic COVID-19. These lockdowns would have economic effects which could emerge through several channels including, but not limited to, sharp declines in domestic demand, decreased tourism and business travel, export-imports and production linkages, supply disruptions, and health effects. The issue of immediate concern, however, is the effect on the employment situation in the country resulting in major layoffs, especially of those that fall in the vulnerable employment group. This Bulletin would, therefore, focus on the vulnerable employed<sup>1</sup>.

It is important to understand that the various stages of social distancing have differential effects on different economic sectors, and consequently on the layoffs among the vulnerably employed. Similarly, sectoral effects also vary under each stage of social distancing. This is important because the government protection policies must take these differences into account.

To assess the impact of different stages of the social distancing strategy, we first quantify the impact of each stage on different sectors based on the matrix presented in **Table A**. These stages are:

- Stage I:** Limited Restrictions (which probably happened)
- Stage II:** Moderate Restrictions (We have probably also seen stage 2)
- Stage III:** Complete Restriction (Most likely, we are now close to stage 3)

#### Sectoral Impact of Different Stages of Social Distancing Strategies

**Stage 1** does not have a strong impact on layoffs generally, however, education, hospitality, and wholesale and retail trade sectors are strongly affected. These sectors are also very vulnerable across stages. The vulnerable employment gets severely hit in **Stage II**. The intensity of severity worsens in **Stage III** for obvious reasons (see Table 1).

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<sup>1</sup> To see who is considered to be vulnerably employed, see PIDE COVID-19 Bulletin No. 1.

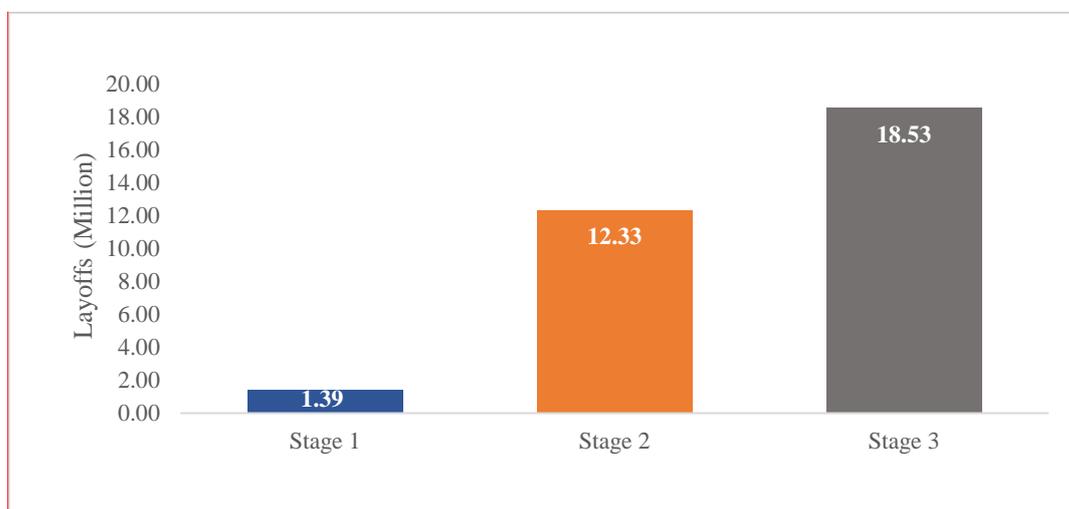
**Table 1: Sectoral Impact of Stages of Social Distancing Strategies**

Sector	Stages		
	I	II	III
	Layoffs (%) of the total employment		
Agriculture	0	20	50
Fishing	15	50	90
Manufacturing	10	70	90
Electricity, gas and water	0	10	10
Construction	0	90	100
Wholesale and retail trade	10	70	90
Hotels and restaurants	20	90	100
Transport and communication	10	90	90
Real estate and business	0	50	70
Public administration	0	50	70
Education	50	70	90
Health and social work	0	0	10
Other community, social activities	10	90	100
Street Vendors	15	60	90

Source: Authors' calculation based on Table A.

Pakistan is somewhere between **Stages I and II** at the moment. It will, however, quickly find itself between **Stage II and III** if the number of confirmed cases continue to grow exponentially. Since the vulnerable job loss has already started in different sectors, a scenario analysis of the three stages may give us some idea of the potential layoffs in the economy for designing an adequate relief package. This is shown in Figure 1.

**Figure 1: Total Expected Layoffs in the Vulnerable Employment**



Source: Authors' analysis based on the Labor Force Survey, PBS 2017-18

It is evident that moving from **Stage I to II** would result in more than ten times increase in the layoffs in vulnerable employment. Going into a complete lockdown (**Stage III**) would push this number to above 18 million.

For an adequate policy response, we must explore the number of sectoral layoffs for these stages. Table 2 provide this information. Interestingly, the impact on agriculture sector would not be experienced in **Stage I**. In **Stage II and III**, however, layoffs may

result from reduced domestic and foreign demand for textiles and other agriculture products. The most hit sectors in **Stage II** are wholesale and retail trade, agriculture, manufacturing, and transport and communication. The vulnerable employment is high in these sectors and they are also more sensitive to lockdown.

**Table 2: Sectoral-wise Expected Layoffs (in millions)**

Sector	Vulnerable Employment	Stage 1	Stage 2	Stage 3
Agriculture	<b>12.82</b>	<b>0.00</b>	<b>2.56</b>	<b>6.41</b>
Fishing	0.05	0.01	0.03	0.05
Manufacturing	<b>2.16</b>	<b>0.22</b>	<b>1.51</b>	<b>1.95</b>
Electricity, gas and water	0.14	0.00	0.01	0.01
Construction	0.25	0.00	0.22	0.22
Wholesale and retail trade	<b>6.49</b>	<b>0.65</b>	<b>4.55</b>	<b>5.85</b>
Hotels and restaurants	0.60	0.12	0.54	0.54
Transport and communication	<b>1.95</b>	<b>0.20</b>	<b>1.76</b>	<b>1.95</b>
Real estate and business	0.20	0.00	0.10	0.14
Public administration	0.25	0.00	0.13	0.18
Education	0.09	0.04	0.06	0.08
Health and social work	0.19	0.00	0.00	0.02
Other community, social	0.43	0.04	0.38	0.43
Vendors	0.79	0.12	0.47	0.71
<b>Total</b>		<b>1.39</b>	<b>12.33</b>	<b>18.53</b>

Source: Authors' analysis based on the Labor Force Survey, PBS 2017-18

Based on the estimates presented in Table 1, we assume the proportions of layoffs for **Stages I, II and III** would be 10% 50% and 60%, respectively. Using these proportions, we look into the expected layoffs by employment status (Table 3). We see that for **Stages I, II, and III**, the majority of layoffs would be of the daily-wage workers and paid workers by piece rate simply because they constitute the bigger proportion.

**Table 3: Expected Layoffs by Employment Status**

Employment Status	Employed (Million)	Stage 1	Stage 2	Stage 3
Daily wage workers	<b>20.27</b>	<b>2.03</b>	<b>10.14</b>	<b>12.16</b>
Paid worker by piece rate or work performed	<b>9.33</b>	<b>0.93</b>	<b>4.67</b>	<b>5.60</b>
Paid non-family apprentice	0.49	0.05	0.25	0.30
Street Vendors	1.00	0.10	0.49	0.59
<b>Total Layoffs</b>		<b>3.11</b>	<b>15.54</b>	<b>18.65</b>

Source: Authors' analysis based on the Labor Force Survey, PBS 2017-18

The estimated monetary value of the layoffs of vulnerable employment in each sector has been shown in Table 4. Since Pakistan has already passed **Stage I** in most of its regions, the government should be looking at the cost of **Stages II and III** while thinking about the possible mechanisms to reach out the laid-off workers. It is worth mentioning here that this is the monthly cost only. As the period of lockdown would extend, the cost would also increase proportionally.

**Table 4: Average Monthly Wage Loss (billion rupees)**

Sectors	Average Wage	Stage I	Stage II	Stage III
Agriculture, forestry, hunting and fishing	9645	0.10	24.98	62.31
Manufacturing	16890	3.72	25.50	32.94
Electricity, gas and water	27600	0.00	0.39	0.39
Construction	16402	0.00	3.63	3.63
Wholesale & retail trade and restaurants & hotels	14541	11.19	73.97	92.86
Transport, storage and communication	21338	4.17	37.52	41.69
Financing, insurance, real estate and business	40178	0.00	3.94	5.51
Community, social and personal services	25530	1.09	9.80	10.89
Street Vendors	15000	1.78	7.12	10.68
Total		22.04	186.86	260.90

Source: Authors' analysis based on the Labor Force Survey, PBS 2017-18

To the extent possible that the spread can be tracked, and lockdown of clusters or cities can be phased out, the monthly cost can be mitigated. It is imperative that the government use all its administrative and other resources to track the virus and track the spread to create firewalls through selective lockdowns and hold the cost down. We will have more on this later!

However, if a coordinated and informed policy does not selectively slow down the spread of the virus, our estimates indicate the cost could be roughly what is shown here.

### **Suggested Policy Response**

Although Table 4 gives benchmark estimates for the monetary value of job loss (economic impact), the requirement of fiscal space for coping with the economic and medical cost is yet to be determined. This would require an income protection level to be decided. The possible ways to address this crisis are provided below:

- i. Out of the box solutions for doing business are needed. For example, it is estimated that in **Stage I** restaurants are going to face up to 20% reduced sales. This will further go down to about 90% when situation moves to **Stage II**. Government should reduce the GST on the sales of restaurants' takeaways. This will help them in keeping of about 50% of their usual business. This way major layoffs can be averted. Same goes for other type of businesses/transactions which can use technology platform and provide social distance as well.
- ii. Livelihood payments be made mandatory. PIDE COVID-19 Bulletin No. 1 discusses the available options.
- iii. Directed credits at lower cost can be provided to those businesses which employ daily/low wage worker to compensate for the output loss and still keep employing a certain number of workers.
- iv. Such pandemics have short and long-run economic costs related to it. Considering the low to zero real growth scenario, significant tax collection shortage will happen both this year and in the next fiscal year. The current tax

collection target will need to be revised downward to prevent FBR from unnecessary revenue pursuit.

- v. In order to provide relief to businesses which engage the most vulnerable workers (especially daily wage workers) GST on their product should be waived.
- vi. For exporters whose containers are stranded in the sea or importers asked to wait for 6 months, government should give them relief for six months to convert their LC on zero rate on the condition that they will not lay off their workers.

**Table A**  
**Stages of Social Distancing Strategies and Policy Responses**

Domestic Policy Measures	Vulnerable employed impact	Backward supply related channels	Possible adjustment policy to protect the vulnerable	Cost and financing
<b>Stage 1: Limited</b>				
<b>Limited warnings and advisories</b>	-fear factor in public; reduced public gathering and shopping.	-producers stop developing inventories	-No action by the government for compensation	Not required
<b>Public gatherings ban</b>	-border line impact on workers' employment, especially to those who are employed seasonally	-no overtime and lay off for helpers		
<b>Social Distancing</b>	-Not all sectors are affected	-overall supply chain is intact		
<b>Schools, colleges, universities closures</b>	- those sectors affected reduce employment by 10-15%			
<b>Stage II: Moderate</b>				
<b>Closure of Public Malls, Restaurants, Parks</b>	-fear factor increases. - non-essential buying stops either by instruction or business closure due to demand reduction.	-Businesses whose products are not sold on retail are closed.	Protect lives and lively hood by facilitating the poor and vulnerable. Difficult to target, may scale up BISP, provinces had their own social protection and up lift program such as Watan Cards etc.	PSDP will be cut, owing to stoppage of some projects as some imports will not be made. Some projects have not started so they can be postponed. Issue catastrophic bonds to generate resources and divert some current expenditures such as pays of officers. Coordinate with donors
<b>Public Transportation closure</b>	- lay off of about 75% workers with some compensatory payments by businesses themselves	- raw material supply is also hit.	So, a joint plan with more provincial monitoring and outreach is involved. Through district administration it is possible. Means testing approach is more suitable but time consuming. Lively hood payments for up to three weeks is a must. Businesses may be provided credit facility from banks, cover for some fixed cost such as the utility bills (only if there is no activity in that business). Exporters can be provided with some relief in the same manner.	
<b>Imports and exports are also reduced</b>	- Own businesses closes down due to non-recovery of variable costs. -except for few sectors majority are affected about 50% layoffs. Tourism, hospitality, transportation, etc. have a 90% layoff -some businesses retain workers, but no payments made	May affect agricultural production and supplies. -export orders are cancelled hence all supply chain gets affected		

i.e. to share the shutdown cost, defer credit payments to banks and waive import duties and GST. Monetary policy response in terms of lowering the discount rates. and philanthropists

<b>Stage III: Complete</b>				
<b>Complete shutdown of the cities in terms of businesses, offices and personal transportation, except for groceries and pharmacies</b>	All business comes to halt. Only restricted movements for subsistence purchases. Very few production activities and people are in a lock down situation	Whole economic system is collapsed Only health sector is active	Managing the food chain by direct procurement and provision	As above

*Source: Authors' observations and interactions as well as information from global experiences.*

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PIDE COVID-19 Bulletin is an initiative by the Institute in response to the current pandemic, which is bound to have serious consequences for the country, specifically for its economy. The Bulletin would carry research that would aid in an informed policymaking to tackle the issue.

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