

Chapter 2

Economic Growth

Pakistan's economy further consolidated the gains from a year earlier as it grew by 6.0 percent in FY22, compared to a 5.7 percent growth in FY21. In the agriculture sector, record production of rice, sugarcane and maize, coupled with improved output of cotton crop more than offset the decline in wheat production during FY22. The growth in industrial sector was largely driven by LSM. Whereas, the expansion in LSM was on the back of increase in development spending, tax relief for multiple sectors in the FY22 budget, and continuation of accommodative monetary policy in the first few months of FY22. An increase in private investment and public development spending resulted in pick-up in the construction sector; while, the electricity, gas, and water supply sectors also grew at a faster pace. Increased activity in the commodity producing sector has positive spillover effects on the services sector. Growth in services was led by the wholesale and retail, with a notable contribution from information and telecommunication. Labor market remained stable during FY22. More industrial workers were hired in both Punjab and Sindh. The wages in the services and construction sectors continued to grow during the period, albeit less than the overall inflation rate. However, towards the year-end, the SBP's Business Confidence Survey (SBP-BCS) and SBP's Consumer Confidence Survey (SBP-CCS) showed deterioration in employment prospects.

2 Economic Growth

2.1 GDP Growth

For the second year running, Pakistan's economy recorded an impressive growth in FY22, after going through a relatively mild Covid-induced contraction of FY20. The contribution came from all three major sectors of the economy. Barring wheat, almost all major and minor crops showed notable growth compared to last year. Supported by the commodity producing sector, services sector contributed more than half to overall growth.

A conducive policy environment played an important role in accelerating economic growth in the early part of FY22 as well. Fiscal and monetary policy stimulus were instrumental in driving growth especially during H1-FY22. Moreover, the economic activities remained broadly insulated from the two further waves of the Covid pandemic during FY22. However, as current account deficit started to widen, the policy environment was tightened as part of structural adjustment program. Overall, the impact of expansionary policies in the early part of FY22 was broad based and more than offset the tapering off of activities in some sectors in the later part of FY22.

GDP growth clocked in at 6.0 percent in FY22, compared to 5.7 percent in FY21 (**Table 2.1 and Figure 2.1**). In terms of sectoral breakdown, the agriculture sector expanded by 4.4 percent in FY22 against 3.5 percent growth last year. Crop and livestock sub-sectors contributed positively to agriculture sector growth during FY22. Record production

of rice, maize and sugarcane crops and increase in cotton output during FY22 more than offset for the decline in wheat output. Livestock continued to perform well and contributed to half the growth in agriculture value addition.

The industrial sector grew by 7.2 percent during FY22, compared to 7.8 percent last year. Notwithstanding a decline in mining and quarrying activities, the contribution to GDP of the industrial sector as a whole was close to last year. In particular, large-scale manufacturing (LSM) remained upbeat for most of the year, with wearing apparel, food, and automobile sectors making significant contributions to growth. An increase in development spending during FY22, tax relief for multiple sectors such as export-oriented industries, automobiles and construction coupled with accommodative monetary policy, including lagged impact of the concessionary financing schemes offered by the SBP, supported the manufacturing activities.

Within the services sector, expansion in the wholesale and retail segment had a positive impact on the overall economic performance. The share of wholesale and retail sector, rose to 18.8 percent in FY22 compared to 18.1 percent last year. Increase in the activities in the commodity producing sector coupled with the rise in imports had a positive impact on the output of this sub-sector.

There was also a notable improvement in the transport & storage, information and communication and education sectors.

Growth, Contribution to GDP Growth and Sectoral Share

Table 2.1

	Growth		Contribution to GDP Growth		Sectoral Share	
	FY21 ^R	FY22 ^P	FY21 ^R	FY22 ^P	FY21 ^R	FY22 ^P
Agriculture	3.5	4.4	0.8	1.0	23.0	22.7
Industry	7.8	7.2	1.5	1.4	18.9	19.1
Services	6.0	6.2	3.5	3.6	58.1	50.2
GDP Growth Rate	5.7	6.0				

P: Provisional, R: Revised

Source: Pakistan Economic Survey 2021-2022

GDP Growth (FY17-22)

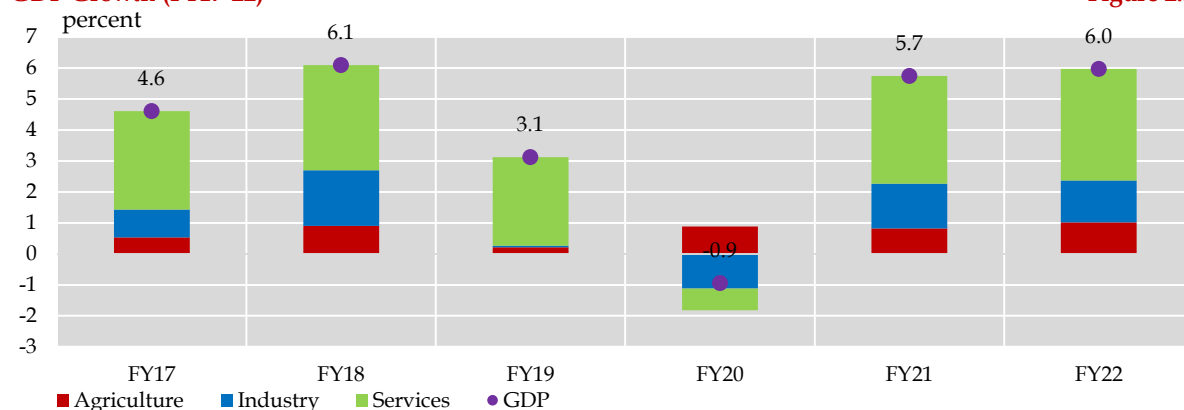


Figure 2.1

Source: Pakistan Bureau of Statistics

Increase in economic activity led to expansion in transport sector activities and information and communication sector.

Meanwhile in the labor market, employment as gauged by number of industrial workers in Sindh and Punjab, remained stable. The improvement in the market was more visible at the start of the year when several sectors were hiring but as the year progressed, it slowed down. The IBA-SBP confidence surveys showed optimism in H1-FY22, however, the optimism subsided largely owing to demand contraction policies coupled with geopolitical uncertainties. The wages continued to grow; however, the growth in wages was lower than inflation rate.

From the expenditure side, GDP growth was driven almost entirely by consumption with minimal contribution coming from the investments. (Figure 2.2 & Table 2.2). This lack of investments does not compare well with cross country analysis.¹ Additionally, Net exports continue to drag economic growth with a contribution of negative 2.5 percent

Private consumption was the main driver of growth whereas the share of government expenditure remained stagnant during the year. The increase in consumption coupled with stagnancy in investment is a cause for concern as it entails the use of foreign savings to finance consumption and investment in the form of Net Exports.

Contribution to GDP Growth

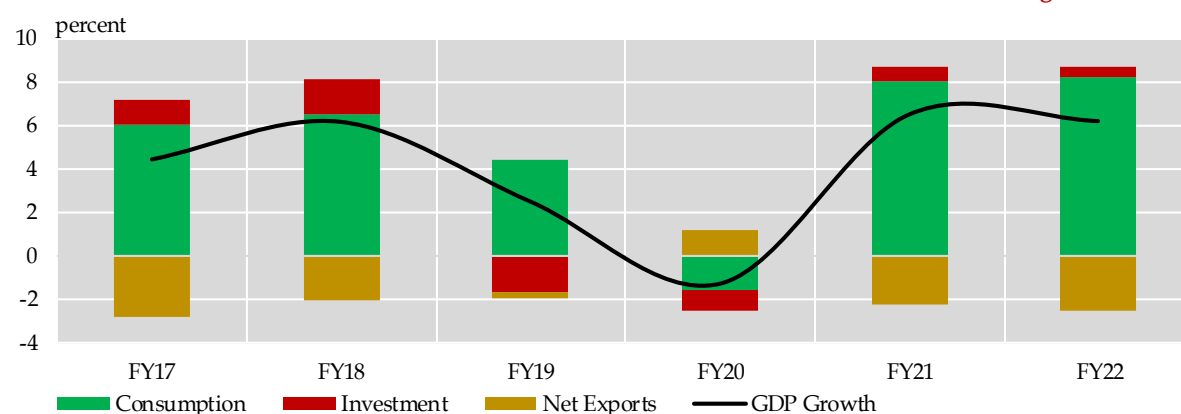


Figure 2.2

Source: Pakistan Bureau of Statistics

¹ For recent cross-country analysis on investment, see Box 2.1 of the SBP's FY21 Annual Report on the State of Pakistan's Economy.

Composition of Aggregate Demand²

Table 2.2

	As percent of GDP		Growth Rates		Point Contribution	
	2021	2022	2021	2022	2021	2022
Total consumption	94.3	96.2	8.4	8.5	8.1	8.3
Total investment	14.6	15.1	4.7	2.9	0.7	0.4
Net exports	-8.9	-11.4	0.2	0.2	-2.2	-2.5

Source: Pakistan Economic Survey 2021-2022

Investment at market prices increased by 24.1 percent during FY22 compared to an increase of 16.0 percent last year. Credit extension through SBP's concessionary financing schemes (LTFF and TERF) played an important role in this growth. Nonetheless, the investment to GDP ratio still remained below the level observed in regional economies (Figure 2.3). Lack of investments and increased reliance on consumption for economic growth made the country vulnerable to external sector shocks. Therefore, structural reforms that generate greater domestic savings, and channel the same into productive investments, remain imperative to provide a sound base for sustainable economic growth in Pakistan.

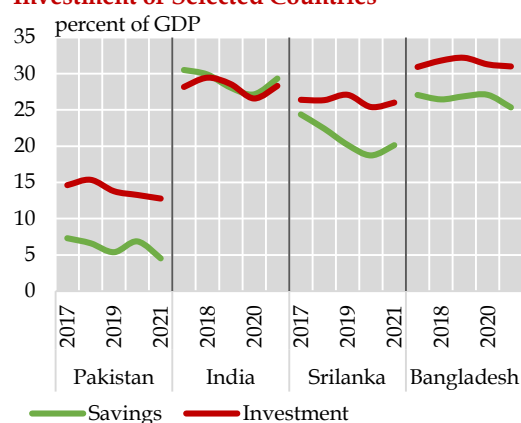
2.2 Agriculture

Agriculture sector growth of 4.4 percent in FY22 was not only more than 3.5 percent seen in FY21, (Table 2.3) it also surpassed the targeted growth of 3.5 percent. This was largely due to a considerable increase in the output of important crops and the growth in livestock sector.

Within the crop sector, production of important crops increased by 7.2 percent. Sugarcane, rice and maize exceeded their targets; whereas, wheat fell short of meeting its target by 2.6 million tons. Cotton, despite higher production than FY21, missed its target by 2.2 million bales. Production of important crops grew mainly because of an increase in area under cultivation and favorable weather conditions especially during the *Kharif* season. In contrast, the *Rabi* season was adversely affected by lower input availability and adverse weather conditions, which affected

Gross Domestic Savings and Investment of Selected Countries

Figure 2.3



Source: World Bank

wheat production. Overall, the increase in crop sector production in the *Kharif* season contributed the most to the sector's performance in FY22.

The contrast in performance between *Kharif* and *Rabi* crops can partly be attributed to input availability. Water availability in *Kharif* was almost the same as last year. However, it remained below average in *Rabi* season. Fertilizer offtake also remained lower than last year, especially in the *Rabi* season, when the global prices surged significantly and domestic gas shortages emerged in the winter season. Whereas, the overall credit availability improved as compared to last year.

The agriculture sector has been growing at a steady rate during the past few years – on average around 3.9 percent per annum in the last 3 years. The performance of the crop sector is even more impressive, which has grown at 6.3 percent during the same period. Despite this performance, the country had to import food products worth US\$ 9.0 billion

² The mismatch in growth between expenditure-based GDP and gross-value-added GDP is due to treatment of financial intermediation services indirectly measured (FISIM) and product taxes (minus subsidies). Available at: www.ecb.europa.eu/pub/pdf/other/mb200312_focus06.en.pdf

Agriculture Sector Growth and its Contribution in GDP Growth**Table 2.3**

	Sectoral Share		Growth		Contribution to GDP Growth	
	FY21	FY22 ^P	FY21	FY22 ^P	FY21	FY22 ^P
Agriculture	23.0	22.7	3.5	4.4	0.8	1.0
Crops	7.1	7.8	6	6.6	0.5	0.5
<i>Important Crops</i>	4.4	4.4	5.8	7.2	0.3	0.3
<i>Other Crops</i>	3.2	3.1	8.3	5.4	0.3	0.2
<i>Cotton Ginning</i>	0.3	0.3	-13.1	9.2	0.0	0.0
Livestock	14.4	14.0	2.4	3.3	0.4	0.5
Forestry	0.5	0.5	-0.5	6.1	0.0	0.0
Fishing	0.3	0.3	0.7	0.3	0.0	0.0

P: Provisional

Source: Pakistan Bureau of Statistics

while exports amounted to US\$ 5.4 billion during FY22 – causing a trade deficit of US\$ 3.6 billion in net food exports. There is a growing cause for concern for food security in Pakistan as it had to import wheat, a staple food, in significant volume for the second year

running. The country may face increased risks to its food security in the wake of growing population and global warming. **Box 2.1** explores the likely impact of climate change on Pakistan's food security.

Box 2.1: Food Security under Climate Change in Pakistan

As the world grapples with rising global temperature, changing rainfall patterns and extreme weather events, the spillover of climate change to food security in regions such as Pakistan is becoming a source of concern for various reasons. While the policymakers have traditionally relied on price intervention and input subsidies to ensure Pakistan is food-secure, the challenges to food security will intensify under climate change from floods, low productivity, poor infrastructure, among other factors.³ Pakistan is the 8th most affected country by climate change due to rising global temperatures – losing around 0.5 percent of GDP in 173 climate-related catastrophes from 2000-2019.⁴ In the worst-case scenario, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) estimates average annual losses in Pakistan can be up to 9.1 percent of GDP, which would be the highest in South-Asia.⁵ (**Figure 2.1.1**)

Due to these vulnerabilities, the impact of climate change on food security needs to be evaluated in Pakistan, which would facilitate the policymakers to adapt, or mitigate these risks. Ensuring food security in Pakistan is primarily linked to wheat – the staple food. Availability and stability in prices of the wheat crop is of critical importance due to its wide-ranging impact, especially on the most vulnerable segment of the society. Increasing temperatures will significantly increase the risks to Pakistan's food security since 77.5 percent of the agricultural production takes place in arid regions where temperatures are likely to increase more than in other climatic zones (**Figure 2.1.2**).

There are multiple channels through which food security will come under stress in Pakistan: (1) Little room to expand area under cultivation (in particular for wheat) in the short to medium term under the prevailing technological constraints. (2) Availability of water in the *Rabi* season acting as a constraint in the canal-irrigated areas of Pakistan. (3) Land degradation due to imbalanced used of fertilizer and also waterlogging. (4) Despite improving wheat yield in Pakistan over the years (**Figure 2.1.3**), climate change is likely to slow down the progress in the future – for instance global wheat yields are likely to drop by 17 percent globally due to changing

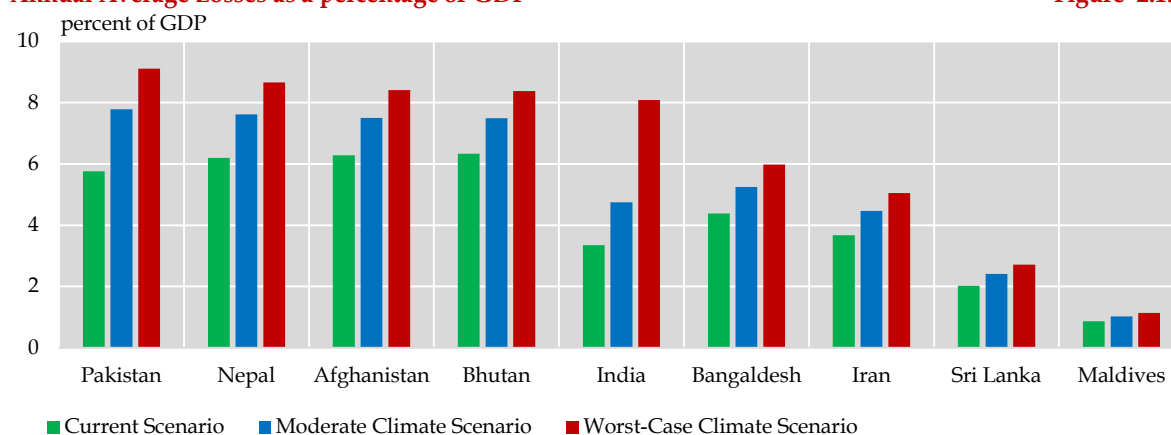
³ Chapter 5, Food Security, Special Report on Climate Change and Land, 2019, IPCC.

⁴ Source: The Long-Term Climate Index, 2019, Germanwatch

⁵ Source: Pathways to Adaptation and Resilience in South and South-West Asia – Subregional Report, 2022, ESCAP, United Nations. Available at: www.unescap.org/kp/2022/asia-pacific-disaster-report-2022-escap-subregions-pathways-adaptation-and-resilience-south

Annual Average Losses as a percentage of GDP

Figure 2.1.1



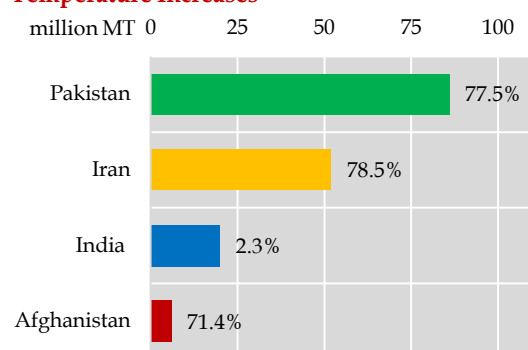
Source: United Nations Economic and Social Commission for Asia and the Pacific

weather patterns⁶. (5) Incessant population growth rate is posing resource availability challenges (6) Increased threat of locusts, especially in the rice-wheat farm systems.³

Climate change poses additional risks to these estimates that would increase the demand-supply gap. There are several policy options that can be considered to counter the threat of climate change to food security. There is a need to increase policy focus on introducing high-yielding varieties of wheat through research and development. Reducing some inefficient subsidies for input, such as water and gas, may help increase fiscal space. Imposition of carbon tax with border carbon adjustment will increase public revenues to fight climate change adversities. Food security in Pakistan has mostly focused on the availability of critical food items. Concentrating on other aspects of food security such as accessibility, utilization and stability may be more beneficial in the long run. This may lead to decreased reliance on wheat and shifting to more balanced diet that may, in turn, also reduce rate of malnourishment and stunted growth.

Agricultural Production Exposed to Aridity and Projected Temperature Increases

Figure 2.1.2



Source: United Nations Economic and Social Commission for Asia and the Pacific

Inputs

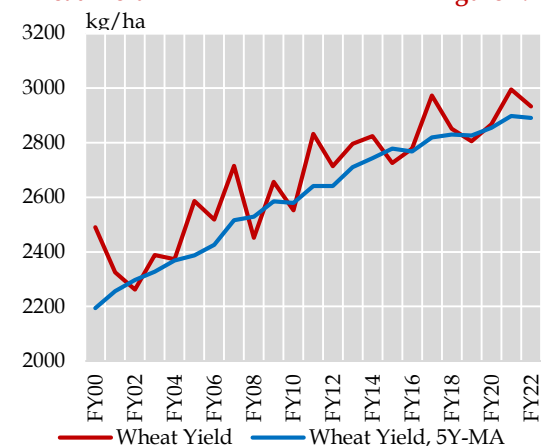
Fertilizer

Prices of fertilizer remained elevated, resulting in lower offtake

In terms of fertilizer usage, urea offtake remained higher than last year, whereas, the

Wheat Yield

Figure 2.1.3

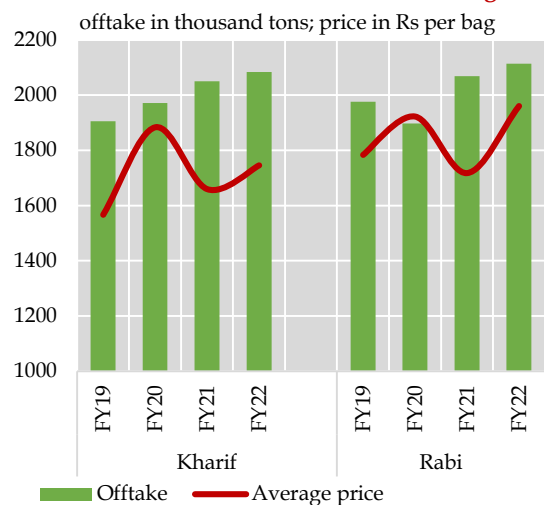


Source: Pakistan Bureau of Statistics Statistics

offtake of DAP contracted during *Kharif* season. Similarly, offtake of urea rose by 3.0 percent while the offtake of DAP contracted by 16 percent in *Rabi* FY22 (Figures 2.4a and 2.4b), compared to previous season. The decrease in the DAP offtake could be traced back to a significant rise in its price, during the *Rabi* season. Whereas, the global DAP price

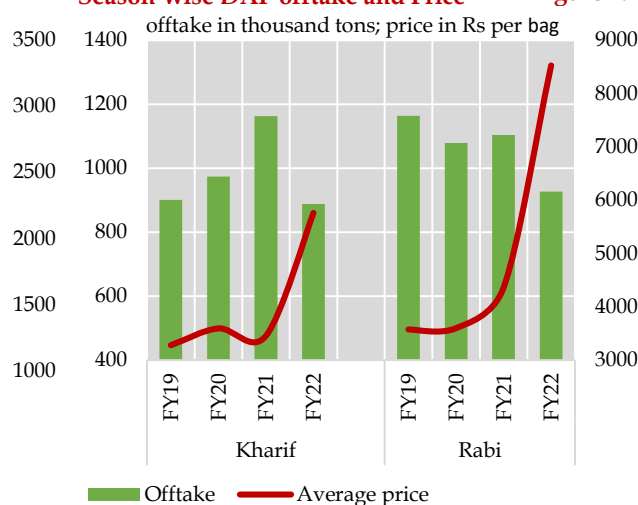
⁶ J. Jägermeyr, C. Müller, A.C. Ruane et al. (2021), Climate impacts on global agriculture emerge earlier in new generation of climate and crop models. *Nat Food* 2, 873–885

Season-wise Urea Offtake and Price **Figure 2.4a**



Source: National Fertilizer Development Centre

Season-wise DAP offtake and Price **Figure 2.4b**

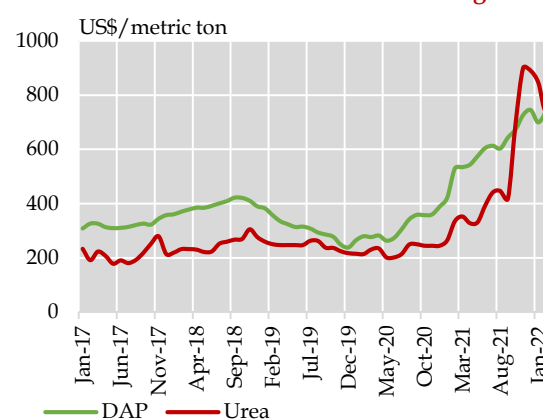


Source: National Fertilizer Development Centre

had been increasing throughout FY22, the escalation was more pronounced at the onset of Russia-Ukraine conflict, which coincided with the *Rabi* season. Given that DAP is predominantly imported, the rise in global prices led to increase in domestic prices as well (Figures 2.4a, 2.4b & 2.5).⁷

With regards to urea application, supply side factors had initially affected its offtake during the sowing period. The suspension of urea production due to curtailment of gas supply during July-August 2021 had caused lower availability of fertilizer during the initial months of *Rabi* season.⁸ Later, the surge in the international urea prices created significant price differential between domestic and global markets which led to hoarding and smuggling of urea.^{9,10} Due to short supply, prices in the secondary market increased considerably.¹¹

Global Urea and DAP Prices **Figure 2.5**



Source: World Bank

Given these supply disruptions, the government allowed import of urea from China, through Trading Corporation of

⁷ Global prices of fertilizers are driven by surging energy costs, supply curtailments, and trade policies. Increase in the natural gas prices resulted in widespread production cutbacks in ammonia and escalating thermal coal prices in China led to a rationing of electricity use in some provinces and forced fertilizer factories to cut production. Moreover, China has announced the suspension of fertilizer exports to ensure domestic availability amid food security concerns. (Source: World Bank Group ; www.blogs.worldbank.org/opendata/soaring-fertilizer-prices-add-inflationary-pressures-and-food-security-concerns)

⁸ Specifically, the current *Rabi* season started with the opening inventory of 0.1 MMT as opposed to 0.5 MMT in the last year. (Source: MNFSR)

⁹ Punjab Government to Crackdown on Fertilizers' Hoarders, date Nov 11, 2021. Available at: www.punjab.gov.pk/node/4660

¹⁰ Source: 'Pakistan Customs, (FBR) foils an attempt of smuggling of urea fertilizers to Afghanistan worth Rs 7.2 million'. (www.fbr.gov.pk/pakistan-customs-fbr-foils-an-attempt-of-smuggling-of-urea-fertilizers-to-afghanistan-worth-rs-7/173311)

¹¹ According to market sources, the farmers were getting urea at Rs 2,200-2,600 against retention price of 1,725/bag for the manufacturers.

Agriculture Credit Disbursements**Table 2.4**

billion Rs

	FY20	FY21	FY22	Growth
1.Farm Sector (i+ii)	637.9	758.2	728.9	-3.9
i)Production	594.3	711.8	686.9	-3.5
All crops	215.3	458.9	374.7	-18.3
ii)Development	43.6	46.4	42.0	-9.5
Tractors	2.5	4.4	10.7	143.2
2..Non-Farm Sector(iii+iv)	576.8	607.7	690	13.5
iii)Working capital	538.9	552.5	620.3	12.3
Livestock/ dairy	279	319.7	349	9.2
Poultry	209.9	192.8	222.9	15.6
iv)Fixed Investment	37.9	55.1	69.7	26.5
Livestock/ dairy	14.5	22.7	41.2	81.5
Poultry	16.1	24.0	19.9	-17.1
Total Agriculture (1+2)	1214.7	1365.8	1418.9	3.9

Source: State Bank of Pakistan

Holding/Size-wise Agricultural Disbursement**Table 2.5**

billion Rs

Sectors	FY20	FY21	FY22	Growth
1.Farm Sector				
Subsistence Holding	180.6	226.0	269.0	19.0
Economic Holding	73.1	78.7	99.0	25.8
Above Economic Holding	384.2	453.5	359.0	-20.8
Sub Total	637.9	758.2	728.0	-4.0
2.Non-Farm Sector				
Small Farm	139.6	139.4	191.0	37.0
Large Farm	437.2	468.2	498.0	6.4
Sub Total	576.8	607.7	690.0	13.5
Total (1+2)	1,214.7	1,365.9	1,418.0	3.8

Source: State Bank of Pakistan

Pakistan (TCP).^{12,13} After easing of urea supply in the market, the offtake rose during February and March FY22, compared to FY21. The improvement offset the decline in offtake during the initial period of *Rabi* season.

Agriculture Credit Disbursements

In FY22, agriculture credit disbursements rose to Rs 14.2 billion, up from Rs 13.7 billion last year. Both production and development loans to the farm sector remained lower than last year (**Table 2.4**). The loans for tractors went up from Rs 4.4 billion to Rs 10.7 billion, as farmers benefitted from Kamyab Jawan Kamyab Kisan Tractor Loan Scheme launched by the government in January 2021.

Working capital and fixed capital disbursements to the livestock and dairy retained their momentum. The increase in the credit offtake can be attributed to higher input prices of feed and wages, which increased the borrowing needs of livestock and poultry sectors.

In contrast to farm sector credit, the credit offtake for non-farm sector grew by 13.5 percent during FY22. The livestock and poultry sectors were the main recipients of the credit

Looking at the composition of the lending, borrowers with small (subsistence) holdings saw an increase of around 19 percent; whereas, credit lent to borrowers with larger holding declined by almost 20 percent (**Table 2.5**). In the non-farm sector, borrowings of the small farm holders rose by almost 37 percent as small farmers benefitted from the crop and livestock insurance schemes.

There was a trend reversal in FY22 as previously it was the large land owners who had been the main recipient of credit. The large farmers were most likely in a better financial position to handle economic shocks compared to small growers. The former might have avoided further credit during FY22 as interest rates started to rise. Moreover, they may have utilized savings from higher agricultural income generated in FY21.

¹² Source: Press release dated January 05, 2022 (PR No. 680), Ministry of Finance, Government of Pakistan.

¹³ Pakistan imported 100,000 tons of urea during February and March 2022. (Source: MNFSR)

Rainfall during FY22

Table 2.6

	Q1-FY22		Q3-FY22
	Monsoon	Post-monsoon	Winter Rainfall
Normal*	140.9	26.4	74.3
Actual	125	23.5	72.7
Excess**	-15.9	-2.9	-1.6
In percentage terms	-11.3	-11.2	-2.2

* The normal level is defined as period average from 1961-2010 (in millimetres)

** The minus sign represents a shortage compared to 'normal'

Source: Pakistan Meteorological Department

Water

Average surface water availability remained lower than last year

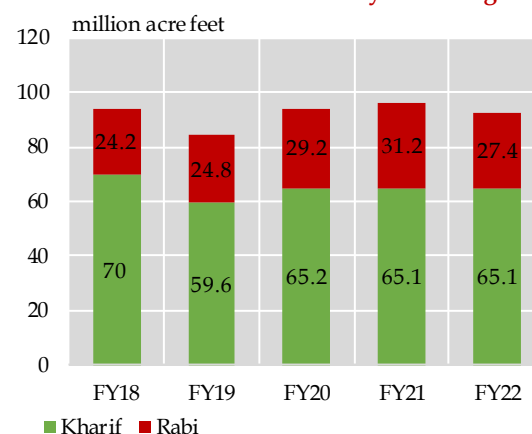
In terms of water input, surface water availability for this year was 4 percent lower than last year and 10 percent lower than the average system usage.¹⁴

During the initial months of FY22, water availability for *Kharif* season remained low, but the situation improved towards the end of the season. Overall, water availability for the season remained at the same level as last year. The surface water availability remained challenging during *Rabi* FY22. The country witnessed inflows of 27.4 million acre feet (MAF) during FY22, showing a decline of 12.3 percent compared to the previous year. In addition, overall rim-station inflows during current *Rabi* season remained 7 percent below Indus River System Authority's (IRSA) estimates.¹⁵ Furthermore, the irrigation water releases were also lower than the long-term average (Figure 2.6).

In terms of rainfall, *Kharif* season began with a dry spell but the situation improved in the later months. Overall, rainfall remained below average for most part of the season (Table 2.6) Lower rainfall and slower melting of ice may have resulted in lesser irrigation water availability during the review period.

Actual Surface Water Availability

Figure 2.6



Source: Indus River System Authority

Output

Cotton

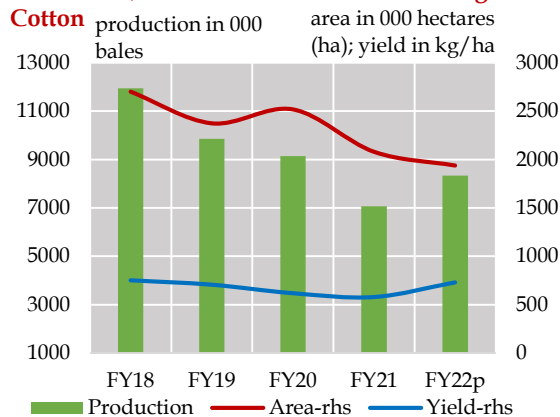
Despite a decline in area under cultivation cotton production was higher than last year

Production of cotton crop for FY22 stood at 8.3 million bales, a 17.9 percent increase over last year. Production of cotton crop increased despite a decrease in area under cultivation, mainly due to increased yields (Figure 2.7). This increase in yields can be attributed to favorable weather conditions and better input availability. The major impetus to this growth came from Sindh, where production grew by 61.0 percent in FY22 to 3.0 million bales. An increase of 25.1 percent area coupled with 28.8 percent growth in yield better prices in both local and international markets contributed to a significant increase in cotton production in Sindh.

Meanwhile in Punjab, the largest cotton producing province, a double digit increase in the yield more than offset the decrease in area under the crop which led to growth of 2.5 percent in FY22. The decrease in area can partially be attributed to growers' preference for sugarcane and in particular maize that is gaining popularity in Punjab.

¹⁴ As per IRSA estimates, the system average is 103 MAF, whereas, the availability for Surface water for FY22 was 92.5 MAF

¹⁵ Source: IRSA newsletter dated 1st - 30th March 2022.

Figure 2.7

Source: Pakistan Bureau of Statistics

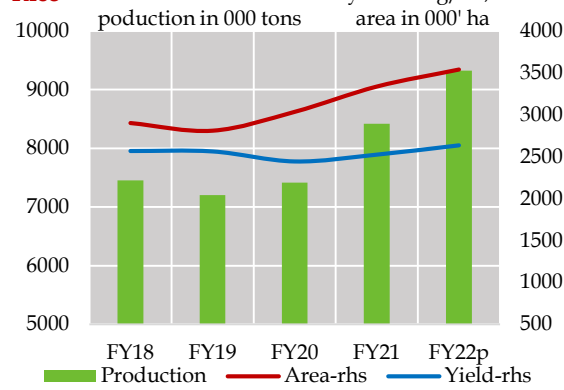
Over time, area under cotton cultivation has seen a secular decline. In Punjab alone the area has declined by almost 40 percent in the last three decades.¹⁶ A major issue in the decline in cotton production is that the genetic base of cotton germ plasm is highly prone to diseases and pest attacks.¹⁷

Rice

Record production of rice in FY22

Record rice production of 9.3 million tons was achieved in FY22 compared to 8.4 million tons last year (Figure 2.8). This increase was mainly attained due to a 6 percent increase in area under cultivation, as farmers continued to shift away from cotton production towards more resilient alternatives; hybrid rice varieties offer a viable option to the growers in this regard.

For the past couple of years, area under rice cultivation is witnessing a rising trend. It has gained popularity especially in Punjab. Higher demand for domestic rice in the export markets and its competitive pricing has made it lucrative for international markets. Despite increase in freight charges and shortage of containers, export earnings from rice increased. As per PBS, rice exports increased by 23.1 percent during FY22.

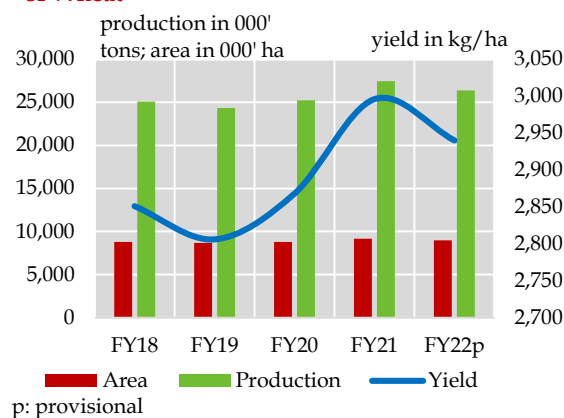
Figure 2.8

Source: Ministry of Finance

Wheat

Wheat output was affected by decline in cultivated area and yield

Wheat production declined by 4.0 percent in FY22 to 26.4 million tons, compared to 27.5 million tons last year (Figure 2.9).¹⁸ The output was also lower than the target of 27.8 million tons set for FY22. The drop in output stemmed from reduction in area and yield, which, in turn, could be linked to lower input availability and above normal temperatures during the *Rabi* season (Table 2.7).

Figure 2.9

Source: Pakistan Bureau of Statistics

¹⁶ According to Punjab crop reporting service, In 1990 the area under cultivation was 5.2 million acres, whereas, in FY22 it was 3.2 million acres.

¹⁷ USDA, Cotton and Products annual report, dated April 02,2021

¹⁸ Pakistan Economic survey 2021-2022

Despite an upward revision in MSP, area under wheat cultivation declined by 2.1 percent compared to previous *Rabi* season (Table 2.7).¹⁹ Multiple factors induced farmers to dedicate lesser area to wheat in the *Rabi* season. One reason was the shortage of irrigation water (Figure 2.6).²⁰ Water reservoirs of Tarbela Dam and Mangla Dam had water storage of 34 percent and 44 percent respectively as compared to last year (end – September, that is the start of *Rabi* season) indicating short irrigation supplies during the initial stages of crop growth.²¹ Moreover, rain-fed areas also witnessed dry spells during the sowing months, making conditions relatively challenging for wheat growers. Other than water availability, the increased cost of production also adversely affected the wheat crop as fertilizer prices, especially of DAP remained elevated due to global market developments (Figure 2.5).

Moreover, there were widespread reports of hoarding by fertilizer dealers in local media; the hoarders were taking advantage of global price hikes and domestic supply shortages, especially of urea, which can be traced to lower availability of gas and suspension of production activities due to maintenance of various fertilizer plants. This prompted government to import urea to discourage hoarding activities.

Maize

Maize delivered record production on the back of higher area under cultivation

Maize production increased by 19 percent to 10.6 million tons during FY22, mainly because of a 16 percent increase in area under cultivation, along with a 2 percent increase in yield. (Figure 2.10). Maize dominated crops performance in FY22, owing to an increase in area under cultivation and improved yield (Figure 2.11).

¹⁹ The minimum support price was increased from Rs 1950/40kg to Rs 2200/40kg.

²⁰ Monthly Agromet Bulletin, National Agromet Centre, Pakistan Meteorological Department. Vol: 11-2021, November, 2021.

²¹ Pakistan: Satellite Based Crop Monitoring System, Volume XII, Issue 04, Serial No. 136 dated 1-April 2022

²² According to Ayub agricultural research institute, maize crop is normally cultivated twice a year in Punjab.

²³ USDA, Grain and Feed Annual report, USDA, dated March, 22, 2022.

Area Under Wheat Crop (p) Table 2.7

area in mn hectares; production in mn metric tons

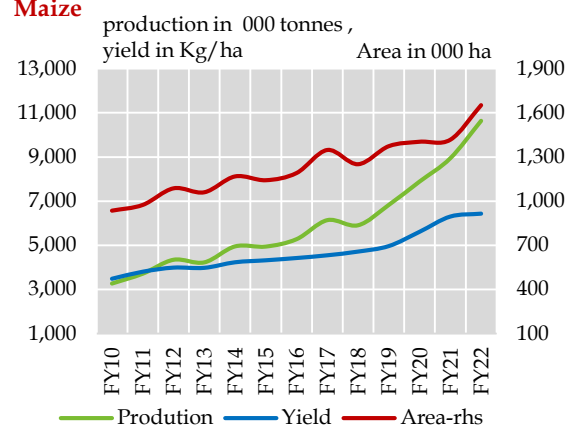
	Area		
	FY21	FY22 Target	FY22
Punjab	6.8	6.6	6.6
Sindh	1.2	1.2	1.2
KP	0.8	0.9	0.8
Balochistan	0.5	0.6	0.5
Pakistan	9.18	9.20	9.0

p: provisional

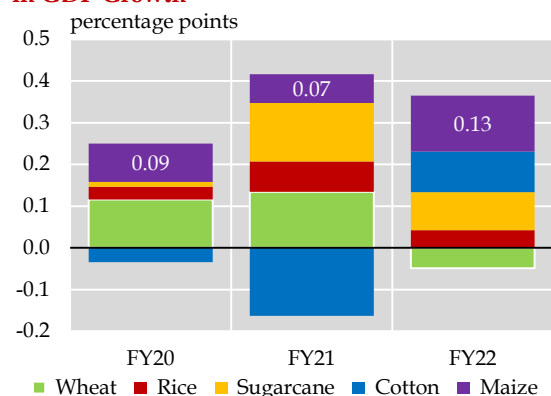
Source: Ministry of National Food Security & Research

Maize cultivation area has witnessed a steady increase over the years, as farmers are substituting cotton crop with maize.^{22,23} In comparison to the long-term yield of cotton, the yield for maize has increased more than threefold since FY01 (Figure 2.12). Area under cultivation of maize has been increasing due to increase in demand and the use of high-yielding seed varieties. In FY22, additional factors such as attractive output prices and an increase in the demand originating from the livestock sector played a part. The demand from poultry sector returned to normalcy after resumption in economic activities in the food services industry such as restaurants.

Production, Area and Yield of Maize Figure 2.10



Source: Pakistan Bureau of Statistics

Contribution of Important Crops in GDP Growth**Figure 2.11**

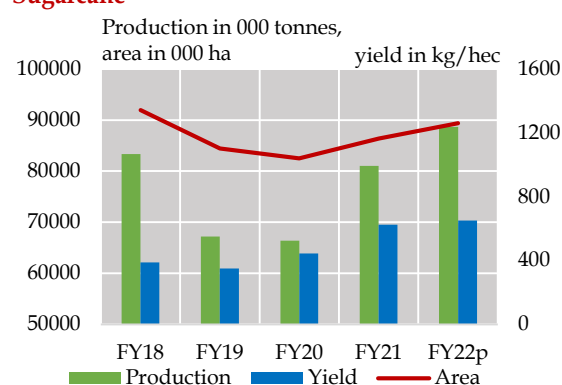
Source: Pakistan Bureau of Statistics and SBP calculations

Sugarcane

Highest ever output of sugarcane in FY22

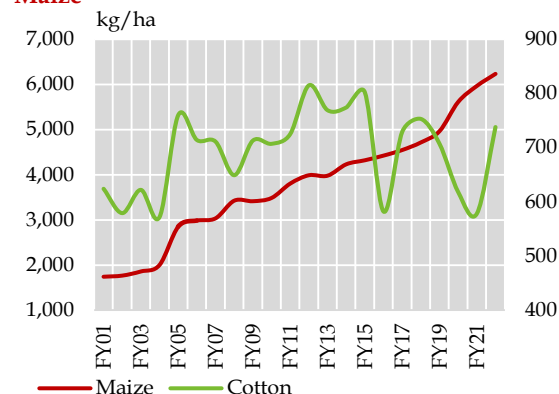
Production of sugarcane crop increased to 88.7 million tons in FY22 from 81.0 million tons last year (Figure 2.13). The record production was achieved on the back of increase in area in Punjab, where it rose by double digits. Moreover, Sindh also recorded an increase in sugarcane cultivation. However, it may be noted that the yields in both provinces remained lackluster, with no improvements over the last year.

In Punjab, the increase in area can largely be attributed to three factors: (i) increase in indicative price of sugarcane from Rs 200 per maund to RS 225 per maund (ii) government's

Area, Production and Yield of Sugarcane**Figure 2.13**

p: provisional

Source: Pakistan Bureau of Statistics

Yield Comparison of Cotton and Maize**Figure 2.12**

Source: Pakistan Bureau of Statistics

direction to sugar mills to clear their outstanding dues to farmers, (iii) better credit support by banks.

Minor Crops

Among minor crops, gram and potato production grew significantly

As per estimates, minor crops such as potatoes, moong and gram showed a notable increase of 35 percent, 30 percent, and 51 percent respectively. (Figure 2.14) Increase in potato production is mainly due to expanding acreage. In Punjab, which contributes more than 80 percent of the national production, area under cultivation went up by 36 percent.²⁴ The increase in acreage can be attributed to a rise in international demand for potatoes.

Domestic production of oilseeds is also gaining momentum. In FY22, oilseeds production increased by 24.8 percent as it continues to benefit from National Oilseed Enhancement Program.²⁵

Moreover, production of pulses such as gram and moong increased due to favorable weather conditions and availability of certified seeds. The significant increase in the gram production mainly emanated from better yields, as area under cultivation was lower compared to previous year. The yield of gram rose by 54.4 percent and stood at 409.3 kg per hectare. Although, the achieved output was

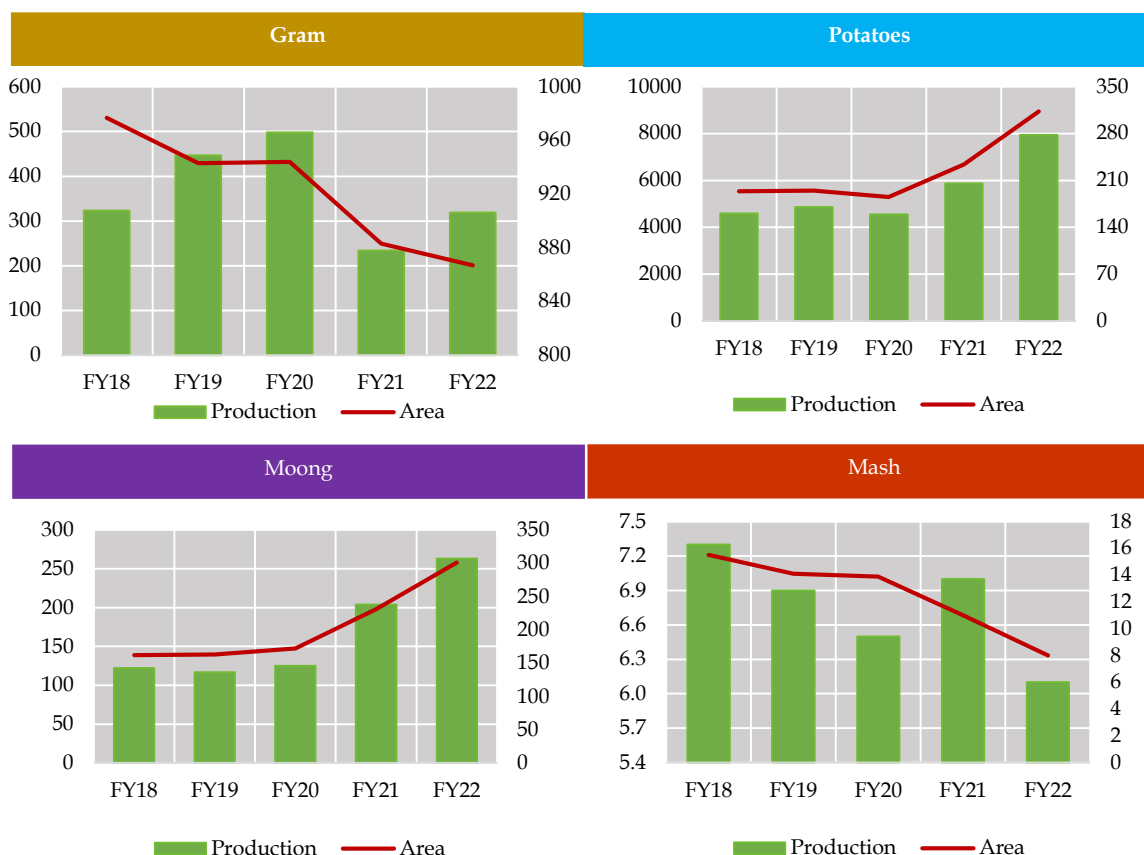
²⁴ Crop Reporting Service Punjab, Government of Punjab

²⁵ Pakistan Economic Survey 2021-2022

Area and Production of Different Pulses

production in 000 tonnes, area in ha

Figure 2.14



Source: Pakistan Bureau of Statistics

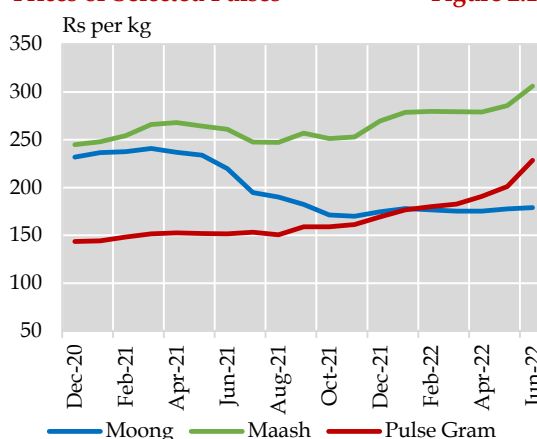
higher compared to previous season, it was still lower than the annual consumption, which hovers around 650 thousand tons per annum. Owing to the supply-demand gap, prices of gram started to increase (Figure 2.15).

Livestock

Livestock sector²⁶ posted a growth rate of 3.3 percent in FY22, against an increase of 2.6 percent in FY21. Moreover, the contribution of livestock to GDP growth increased to 0.5 percent in FY22, up from 0.4 percent in the last fiscal year. Within the livestock sector, major impetus for growth came from the poultry sector, which has been growing at a rate of 10-12 percent per annum (Table 2.8 and 2.9).²⁷

Prices of Selected Pulses

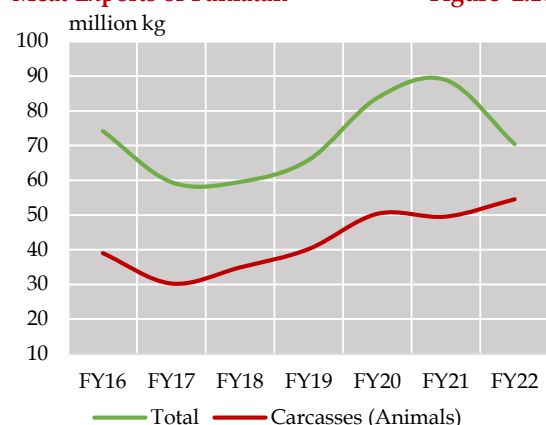
Figure 2.15



Source: Pakistan Bureau of Statistics

²⁶ While most sectors of the economy had been re-estimated on the basis of new information and census for the rebasing of the National Income Accounts to FY16, some sectors, most notably livestock, had not been updated. The lack of new information and the old estimation methodology put some constraint in analyzing the livestock sector (Box 2.1 "Rebasing of National Income Accounts" Chapter 2, the State of Pakistan's Economy, Half-Yearly Report, State Bank of Pakistan).

²⁷ Pakistan poultry association, annual report 2020-2021

Meat Exports of Pakistan**Figure 2.16**

Source: Pakistan Bureau of Statistics

Meanwhile, milk production went up from 63.7 million tons in FY21 to 65.7 million tons in FY22. Milk of cows (24 million tons) and buffalos (39 million tons) contributed majorly to the overall milk production.

The growth in the livestock sector is also reflected in the meat exports (**Figure 2.16**). Pakistan is a net exporter of meat of bovine animals (fresh and chilled). In FY22, the export of meat of bovine animals maintained its upward trend even as the total exports in the category declined. Pakistan's access to the global markets was limited due to the foot and mouth disease, lack of traceability of animals and adequate cold chain infrastructure.²⁸

2.3 Industry

The industrial sector growth was recorded at 7.2 percent for FY22, compared to 7.8 percent last year (**Table 2.10**). While the growth moderated during FY22 compared to FY21, some of this apparent slowdown stemmed from the high base effect. The last year's growth reflected a rebound from the decline in FY20 triggered by strict Covid lockdowns. In terms of contribution to GDP, the industrial sector's contribution remained similar to last year, with the mining and quarrying sub-sector registering negative growth, as it declined by 4.5 percent during FY22, compared to 1.2 percent growth last year.

Livestock Population**Table 2.8**

million	FY20	FY21	FY22
Buffalo	41.2	42.4	43.7
Cattle	49.6	51.5	53.4
Goat	78.2	80.3	82.5
Sheep	31.2	31.6	31.9
Poultry	1,443	1,578	1,725
Camels	1.1	1.1	1.1
Asses	5.5	5.6	5.7
Horses	0.4	0.4	0.4
Mules	0.2	0.2	0.2

Source: Pakistan Bureau of Statistics

The fiscal stimulus, especially during H1-FY22, played a key role in industrial growth during the review period. Increase in development spending by the provincial government, tax relief afforded to the export-oriented sectors such as textile, wearing apparel, automobiles and furniture sectors helped prop up industrial growth. The construction sector activities continued to grow as a result of the *Prime Minister's Package for Construction Sector* announced previously.

Estimated Domestic/Rural and Commercial Poultry**Table 2.9**

million	FY20	FY21	FY22
Day old chicks	1370	1504	1651
Poultry bird	1443	1578	1725
Eggs	20,133	21,285	22,512
Poultry meat	1657	1809	1977

Source: Ministry of National Food Security & Research

Industrial Sector Growth**Table 2.10**

percent	FY20 ^F	FY21 ^R	FY22 ^P
Industrial Activities	-5.7	7.8	7.2
Mining and Quarrying	-7.2	1.2	-4.5
Manufacturing	-7.8	10.5	9.8
Large Scale	-11.2	11.5	10.5
Small Scale	1.4	9.0	8.9
Slaughtering	5.9	6.1	6.2
Electricity, gas, and water supply	3.5	6.3	7.9
Construction	-3.1	2.5	3.1

F: final, R: revised, P: provisional

Source: Pakistan Bureau of Statistics

²⁸ Available at: www.pbc.org.pk/wp-content/uploads/scaling-up-bovine-meat-exports-of-pakistan.

Low interest rates, in particular during Q1-FY22, and concessionary financing schemes such as LTFF, and to some extent, TERF also contributed to industrial sector growth during FY22. The export-oriented textile sector availed the major chunk of fixed investments loans, which led to capacity expansions in the sector due to increase in foreign demand amidst improved international competitiveness in the market-determined exchange rate regime.

Mining and quarrying output declined during the year. This may be traced to drop in extraction of gypsum and limestone minerals. As these minerals are predominantly utilized in manufacturing of cement; the lower production of cement may help explain the drop in output of these commodities. Moreover, there was also a drop in marble extraction during FY22. Increase in energy prices had an adverse impact on the industry as extraction, cutting, grinding, and polishing costs increased. Increase in domestic prices of the local produce due to increasing extraction and transportation costs may also have dampened demand.

Growth in the electricity, gas, and water supply sector accelerated to 7.9 percent during FY22, compared to 6.3 percent in FY21. This was primarily attributed to higher subsidies during the current period compared to last year.²⁹ It is worth recalling that subsidies of Rs 511 billion and Rs 85 billion were allocated for WAPDA/PEPCO and K-Electric in the FY22 Budget, compared to the revised allocation of Rs 350.4 billion and Rs 16 billion last year. Additionally, electricity production rose by 33.1 percent during Jul-Mar FY22 compared to last year.

Meanwhile, growth in the construction sector also picked up to 3.1 percent during FY22,

compared to 2.5 percent a year earlier. This was primarily attributed to an increase in development spending and expansion in construction activities in private sector. In particular, considerable provincial development expenditure was channeled into infrastructure projects, such as the construction of roads and transport services across Sindh and Punjab.

LSM growth picked up from last year, spurred by growth-inducing policies³⁰

LSM sector output grew by 11.9 percent during FY22, compared to 11.6 percent in FY21 (**Table 2.11**). The expansion was relatively broad-based, with 19 out of 22 sectors registering growth during the review period, compared to 15 sectors in FY21. The wearing apparel, food and automobile sectors made the most notable contributions to growth during FY22.

Growth-inducing policies played an important part in generating the LSM momentum. The wearing apparel sector benefitted from power subsidies, tax concession on raw material imports and the SBP's concessionary financing schemes such as TERF and LTFF. Increase in cotton production compared to last year and imports of raw material benefitted textile and wearing apparel industries, however the industry had to rely on imported raw material to meet demand for its products. Within the food sector, the sugar subsector's growth was driven by record output of sugarcane, which in turn benefitted from a significant increase in support prices.³¹ Meanwhile, the automobile sector, benefitted from tax and duty relief offered in the FY22 Budget, as well as from the lagged impact of accommodative monetary policy.

²⁹ For the electricity sub-sector, the subsidies extended at the distribution stage are made a part of the output. Source: PBS (National Accounts of Pakistan, 2015-2016 Base Year)

³⁰ The analysis of LSM sector is based on data released by the Pakistan Bureau of Statistics' Quantum Index of LSM Industries for full year FY22 in October 2022. The LSM numbers in the National Accounts data for the calculation of GDP and overall industrial sector were based on provisional estimates at the time, which was March 2022.

³¹ Specifically, the Punjab and Sindh government set the sugarcane support price at Rs 225 and Rs 250 per maund for the current season, compared to Rs 200 and Rs 202 last year respectively.

LSM Performance

Table 2.11

	wt.	Growth								Contribution			
		Q1		Q2		Q3		Q4		FY21		FY22	
		FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
LSM	78.4	-2.4	9.9	5.7	5.5	9.6	15.7	40.6	16.1	11.6	11.9		
Textile	18.2	-1.9	6.5	10.1	0.7	16.9	2.8	64.3	4.1	18.3	3.5	3.7	0.7
Wearing apparel	6.1	-44.8	20.3	-36.7	20.5	-23.2	58.7	74.9	95.3	-23.3	49.4	-2.6	3.8
Food	10.7	46.8	3.0	48.7	0.3	8.4	23.6	4.8	-4.1	22.2	8.4	3.5	1.4
Sugar	3.8	NA	NA	72.1	-4.0	0.4	59.3	16.5	113.9	16.7	39.1	0.7	1.7
Beverages	2.1	-2.3	7.7	-6.7	2.3	9.8	-6.0	12.0	2.9	3.6	2.0	0.2	0.1
Tobacco	6.7	31.2	16.7	0.9	26.9	23.8	8.0	-4.1	13.1	11.8	15.9	0.3	0.4
Coke & Petroleum Products	6.5	1.5	6.1	6.3	-4.2	34.6	4.0	37.1	-2.6	17.9	0.7	1.2	0.0
Chemicals	3.9	5.4	1.5	13.5	4.9	8.2	18.3	22.9	10.5	12.3	8.7	0.9	0.7
Fertilizers	5.2	2.2	-7.3	13.6	-1.7	2.1	21.5	11.8	1.2	7.4	2.7	0.4	0.1
Pharmaceuticals Products	5.0	13.1	4.7	9.4	-13.9	9.5	8.1	8.0	54.8	9.9	13.6	0.6	0.9
Non Metallic Mineral	4.6	17.7	1.2	12.4	2.3	26.4	-0.3	34.7	0.9	22.1	1.0	1.6	0.1
Cement	3.4	22.8	1.4	19.2	-2.9	34.1	-6.5	34.4	-5.8	27.3	-3.6	1.7	-0.3
Iron & Steel Products	0.4	-17.6	18.7	-6.5	18.1	-1.5	13.2	83.6	15.7	4.9	16.3	0.2	0.7
Fabricated Metal	3.1	-13.9	-4.1	3.6	-5.5	12.0	-10.1	60.8	5.6	9.0	-3.7	0.0	0.0
Automobiles	0.7	-12.9	81.9	41.4	57.1	63.8	33.4	463.3	32.2	65.9	47.4	1.5	1.6
Other transport Equipment	0.2	17.1	-1.3	16.0	-12.6	25.0	-17.7	139.6	-12.4	35.8	-11.2	0.3	-0.1
Electrical Equipment	2.0	-15.5	-3.7	-19.7	-4.0	-16.3	5.6	83.4	11.9	-2.3	2.7	-0.1	0.1
Machinery and Equipment	0.4	13.3	10.8	61.8	18.6	95.5	11.3	44.9	20.5	49.7	15.4	0.2	0.1
Paper & Board	1.6	-2.2	11.3	-3.2	5.5	3.7	9.8	18.0	16.2	3.4	10.6	0.1	0.2
Leather Products	1.2	-44.5	13.5	-40.5	-0.1	-27.9	-4.5	61.9	-2.4	-25.6	0.9	-0.3	0.0
Furniture	0.5	-16.7	848.0	-12.2	407.0	212.5	152.0	872.2	53.1	171.0	180.2	0.4	1.1

Source: Pakistan Bureau of Statistics (based on data released in October 2022) and SBP calculations

Wearing apparel was a significant driver of growth

Wearing apparel production grew by 49.4 percent during FY22, compared to a 23.3 percent decline in FY21. Last year, restrictions in the wake of Covid outbreak had disrupted international trade of goods and services which also affected the export-oriented textile industry. The rebound in FY22 is attributed to the improved performance of the readymade garments sector, whose exports responded to strong demand from Pakistan's major export destinations such as the US, EU-27 and UK.³² The foreign demand was higher as consumers increasingly turned towards cotton based products during work-from-home arrangements in these regions. (Chapter 6: External Sector)

Recent capacity expansions have also supported the sector's prospects. For instance, annual textile machinery imports were recorded at US\$ 765.7 million in FY22, rising by 43.3 percent over the last five-year average) (Figure 2.17). Textile firms also undertook fixed investment by availing SBP's concessionary financing schemes.³³ Moreover, the central bank enhanced the scope of its Export Finance Scheme (EFS) during FY22, which facilitated exporters – including manufacturers of wearing apparel – in meeting their working capital needs.³⁴

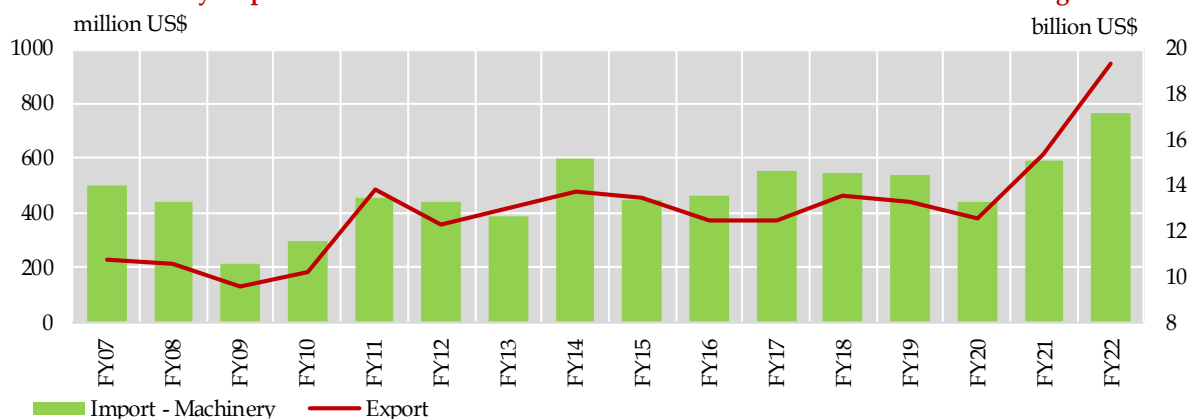
Conducive policies and capacity expansions aided growth of exports of readymade garments, which surged by 55.3 percent during FY22 compared to 23.3 percent contraction last year. Depreciation of PKR also

³² In value terms, the exports of readymade garments grew by 28.7 percent to US\$ 3.9 billion in FY22, compared to US\$ 3.0 billion last year.

³³ Within credit to private sector, the borrowing by textile manufacturers for fixed investment purpose amounted to Rs 42.9 billion in FY20, Rs 66.0 billion in FY21, and Rs 122.2 billion in FY22, respectively.

³⁴ The measure allowed exporters to obtain financing against their proceeds through discounting of export bills/receivables at supportive rates. For details, see the SBP press release titled 'SBP expands Export Refinance scheme to improve exports and forex inflows', dated February 16, 2022.

Textile Machinery Imports



Source: Pakistan Bureau of Statistics

contributed to the sector acquiring competitiveness in the international market.

The automobile sector capitalized on favorable policies and a broader pick-up in economic activity

The automobile sector posted 47.4 percent growth during FY22, compared to 65.9 percent in FY21 (Table 2.11). Lower taxes and duties announced in the FY22 Budget and expansionary monetary policy maintained during Q1-FY22, in continuation from last year, had a favorable impact on the automobile prices and access to auto finance (Figure 2.18). The broader pick-up in economic activities, workers' remittances, improved farm incomes, and launch of new models and variants also contributed to sectoral demand. Even with the end of expansionary monetary policy stance from

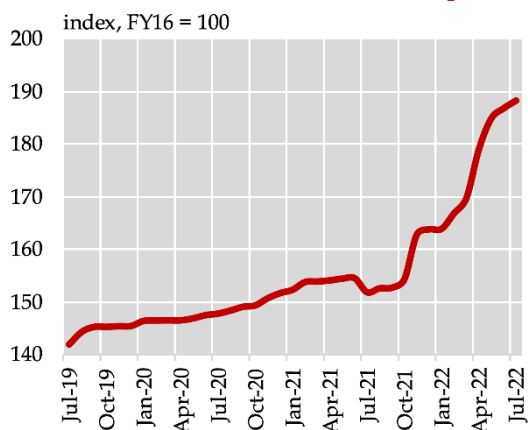
late-September 2021, automobile production remained relatively robust during FY22 overall.

With respect to tax relief, the government had reduced the federal excise duty (FED) on vehicles up to 3,000cc by 2.5 percent, cut the general sales tax for vehicles up to 1,000cc to 12.5 percent from 17.0 percent, and also allowed locally manufactured cars of 850cc or less to be exempted from value-added tax (VAT), in the FY22 Budget. However, the Finance (Supplementary) Bill, 2021 amended the FED structure (Table 2.12). The amendment led to upward adjustment in prices as automobile assemblers passed them on to the consumers.

Similarly, the SBP tightened the monetary policy since September 2021. The relatively costlier access to finance led to a slowdown in auto-financing, with the Q1-FY22 flow of Rs 30.1 billion giving way to more subdued quarterly flows of Rs 15.5 billion, Rs 9.9 billion

Index of Motor Vehicle

Figure 2.18



Source: Pakistan Bureau of Statistics

FED Structure and Rates

Table 2.12

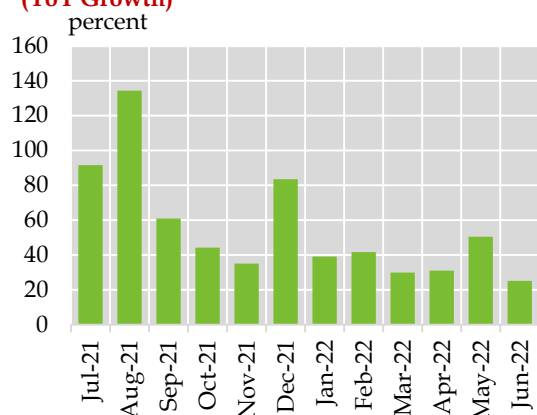
percent		
	Vehicle Slab	Rate
Old structure:		
	0-1,000cc	0.0
	1,001-2,000cc	2.5
	> 2,000cc	5.0
New structure*:		
	0-1,300cc cars	2.5
	1,301-2,000cc	5.0
	> 2,000cc	10.0

* After the Finance (Supplementary) Bill 2021

Source: Federal Board of Revenue

Automobile Manufacturing (YoY Growth)

Figure 2.19



Source: Pakistan Bureau of Statistics

and Rs 4.3 billion in Q2, Q3 and Q4, respectively (Figure 2.19).³⁵ It is worth highlighting that the SBP also introduced restrictions on car financing in September 2021, which prohibited the financing for imported vehicles and tightened regulatory requirements for financing of domestically manufactured/assembled vehicles of more than 1,000 cc engine capacity.³⁶

The reversal of monetary and fiscal stimuli during the year was required under the stabilization program, especially with respect to narrowing the external deficit. Imports of road motor vehicles that had risen sharply during H1-FY22 tapered off in H2-FY22 as a result of ban on luxury items, including the

automobiles sector. Figure 2.20 illustrates how imports subsided over the year. The resulting situation facilitated the domestic automobile producers, as consumers shifted to locally produced vehicles despite the hike in prices.

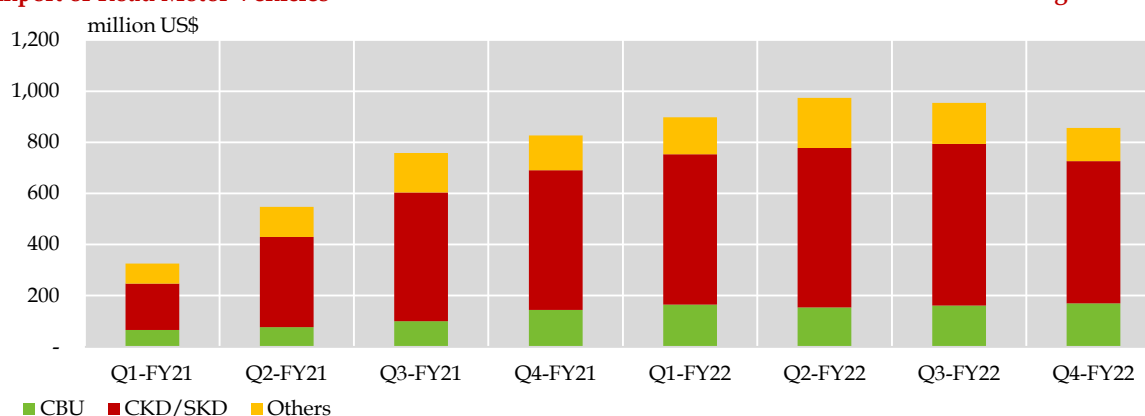
Automobile assemblers also faced headwinds in the form of exchange rate depreciation, elevated prices of raw material and freight, and the global shortage of semiconductor chips, which played a part in delayed deliveries of some models during the review period. Nonetheless, the production and sale of automobiles remained robust, and the manufacturers were able to pass on some of the rising costs to consumers in the form of price hikes.

Construction-allied sectors benefitted from policy support extended

The construction-allied sectors continued to benefit from several policy measures that had been announced last year. These included the government's incentive package for the construction sector, Prime Minister's Package for Construction Sector, SBP's mandatory targets for housing and construction finance, and the pricing and promotion of Mera Pakistan Mera Ghar (MPMG) scheme. During FY22, the central bank advised banks to ensure that the financing for housing and construction targets were met. Banks were

Import of Road Motor Vehicles

Figure 2.20



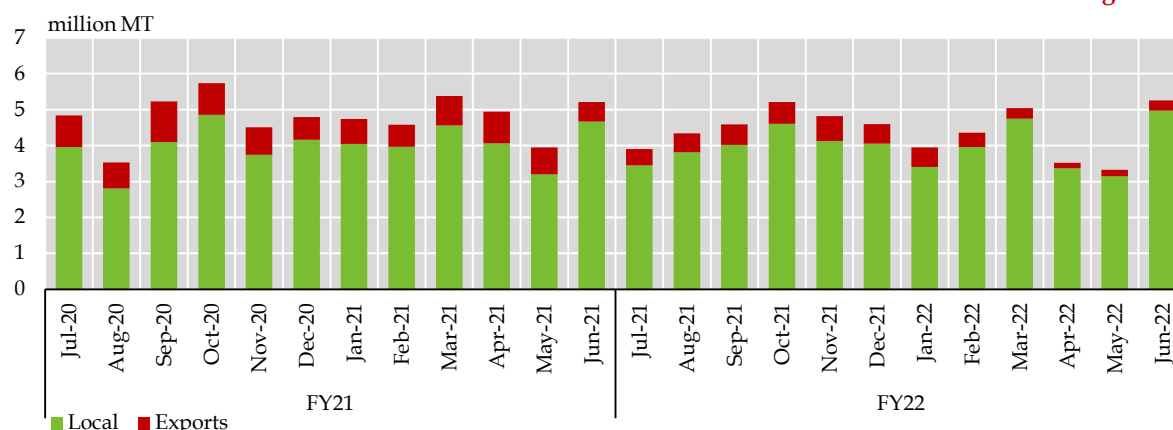
Source: Pakistan Bureau of Statistics

³⁵ On cumulative basis, auto financing flows moderated to Rs 59.7 billion during FY22, compared to Rs 97.0 billion during FY21.

³⁶ For details, see the SBP's press release titled 'State Bank of Pakistan revises Prudential Regulation for Consumer Financing to moderate import and demand growth', dated September 23, 2021.

Cement Sales

Figure 2.21



Source: All Pakistan Cement Manufacturers Association

advised to sanction at least 7 percent of the total domestic private sector credit to the housing and construction sector by December, 2022.³⁷ Furthermore, there was a 33.5 percent growth in PSDP expenditure during FY22, compared to an 11.2 percent growth last year, which supported construction activities on large-scale infrastructure projects.

Marginal growth in local dispatches and declining exports hurt the cement industry in FY22

The cement sector’s output declined by 3.6 percent in FY22, compared to a growth of 27.3 percent in FY21. Cement exports declined considerably during the review period,

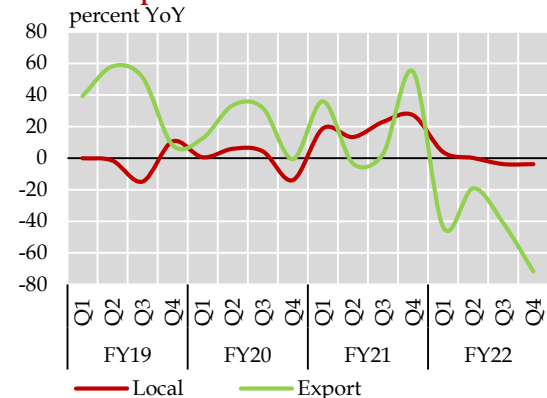
whereas domestic dispatches witnessed an increase in H1-FY22 before posting a decline during H2-FY22 compared to FY21, more specifically in Q4-FY22 (Figure 2.21).

Specifically, cement dispatches declined by 7.9 percent during FY22, compared to 20.1 percent growth last year (Figure 2.22). On the one hand, export dispatches faced a steep drop of 43.6 percent during FY22, compared to 18.7 percent growth in FY21. This was primarily attributed to elevated freight costs and reduced demand for cement and clinker from Afghanistan and Bangladesh, respectively.

On the other hand, domestic dispatches declined by 1.0 percent in FY22 to fall below the 48 million ton mark set last year. The decline can be traced to slower offtake during the months of April and May 2022, as political uncertainty had an adverse impact on the construction sector activities. The slowdown was also partly attributed to the rising prices of cement in the domestic market. Specifically, the price of cement rose by 28 percent on average during FY22, compared to 3.1 percent in FY21. By extension, the elevated domestic prices could be traced to a combination of rising global prices of inputs such as coal, as well as the PKR depreciation.

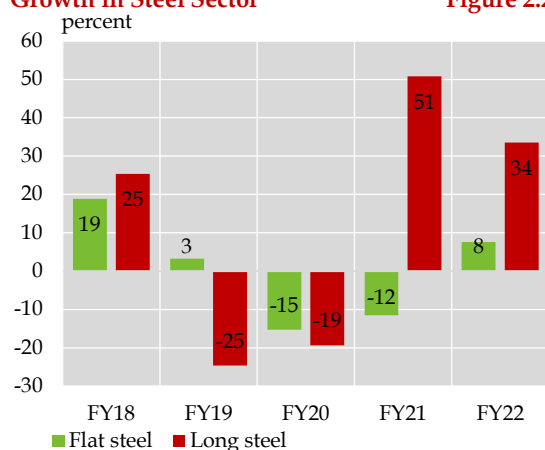
Growth in Cement Dispatches - Local vs Exports

Figure 2.22



Source: All Pakistan Cement Manufacturers Association

³⁷ For details, see IH&SMEFD Circular No. 02 of 2022, January 21, 2022. Previously, the SBP had advised banks to ensure that the financing for housing and construction of (residential and non-residential) buildings was at least 5 percent of their domestic private sector credit by December, 2021 (IH&SMEFD Circular No. 10 of 2020, dated July 15, 2020).

Growth in Steel Sector **Figure 2.23**

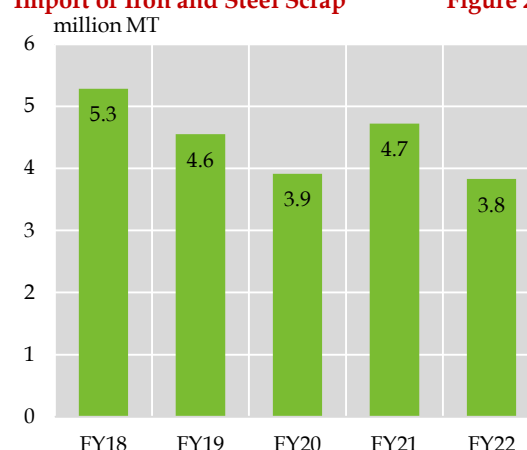
Source: Pakistan Bureau of Statistics

Steel sector's revival was aided by a pick-up in manufacturing of automobiles and appliances

The steel sector's output grew by 16.3 percent in FY22, compared to a 4.9 percent growth in FY21. Within this, the flat steel sub-sector posted 7.4 percent growth in FY22, compared to 9.8 percent decline last year (**Figure 2.23**). Robust growth in manufacturing of automobiles (as previously discussed) and domestic appliances pushed up the demand for flat steel.

On the other hand, the long steel sub-sector grew by 33.1 percent in FY22, compared to 51 percent last year. This was mainly attributed to PSDP spending, (which was 33.5 percent higher during FY22 compared to FY21), and construction activities related to infrastructure development projects. In addition, some large steel manufacturers have also gained market share by differentiating their graded rebars as superior products compared to those produced by smaller, informal sector firms.

The structural change in the steel industry away from energy-intensive cottage producers towards modern large-scale and efficient units may explain significant increase in billets production. The private large-scale steel sector has been expanding its capacity in recent

Import of Iron and Steel Scrap **Figure 2.24**

Source: Pakistan Bureau of Statistics

years, in order to cover the domestic demand-supply gap after the closure of Pakistan Steel Mills and to provide high quality products that the local consumers demanded.³⁸

For the long steel, real estate developers turned to certified and differentiated products used in construction of high-rise complexes.³⁹ The change has been driving out inefficient producers due to steadily rising energy prices. At the same time large-scale units have benefitted from this development as they have expanded capacity and differentiated products. This is also evident from secular decrease in imports of iron and steel scrap that is largely a raw material for small-scale firms in the industry (**Figure 2.24**).

Fertilizer sector experienced a slowdown due to a combination of domestic and global factors

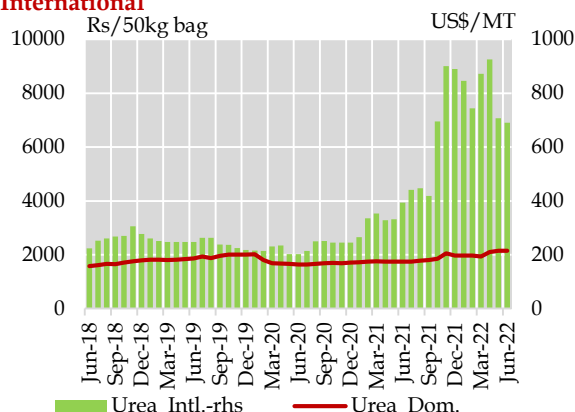
Fertilizer manufacturing registered 2.7 percent growth in FY22, compared to 7.4 percent growth last year. The slowdown was evident across both nitrogen- and phosphorus-based fertilizers.

From the demand side perspective, the sharp escalation of price of DAP had an adverse impact on offtake of the fertilizer, which, in turn, slowed down activities in the segment.

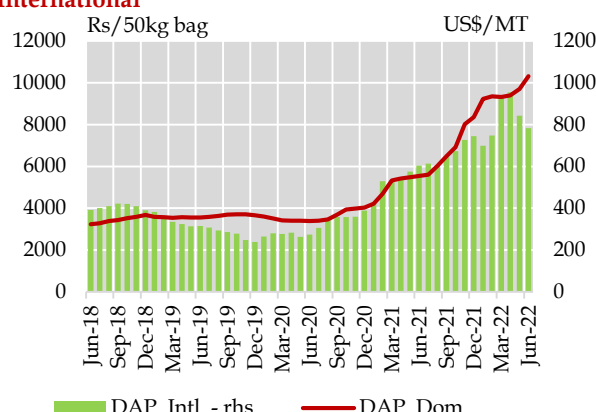
³⁸ Box 2.1, Developments in the Steel Sector of Pakistan, State of Pakistan's Economy Annual Report 2017-18, State Bank of Pakistan

³⁹ For the flat steel, automobile and appliances sector took advantage of the domestically produced steel products, which lowered their costs.

Urea Prices: Domestic vs International **Figure 2.25a**



DAP Prices: Domestic vs International **Figure 2.25b**



Source: National Fertilizer Development Centre & World Bank

The increase in DAP prices can be traced to surge in global price of the product, which is largely imported due to limited domestic capacity (**Figure 2.25a**). In comparison, domestic urea prices remained largely stable despite significant increase in global prices (**Figure 2.25b**). The installed capacity for urea production in Pakistan closely matches the current demand for the product and this insulates the urea from global price fluctuations.

Specifically, the production of nitrogen-based fertilizer – mainly urea – grew by 2.0 percent during FY22, compared to 5.9 percent in FY21. Meanwhile, phosphatic fertilizer production posted 7.5 percent growth in FY22, compared to 18.6 percent expansion last year.

Among urea producers, the production of large firms rose marginally during FY22 compared to FY21. This was mainly attributed to suspended production of some plants for maintenance and upgrades. In addition, the production of small firms was affected by disruption in gas supplies, in particular during Q1-FY22.

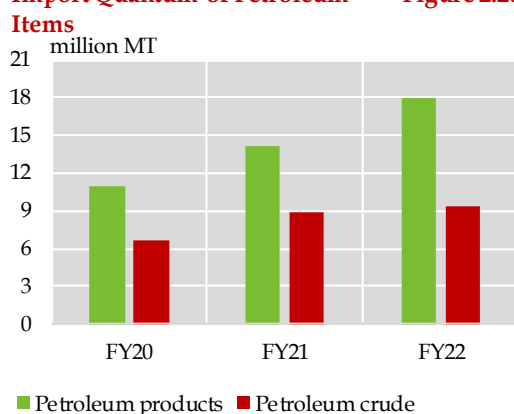
The price and demand for DAP was affected by a sharp increase in the commodity’s global prices. Pakistan is not self-sufficient in DAP production, so global price fluctuations affects prices in the domestic market. The global prices of fertilizer escalated during FY22, owing to rising input costs, supply chain issues, China’s restrictions on fertilizer exports, and the on-going Russia-Ukraine conflict. Since Russia and Belarus – are the

major producers of potash-based fertilizers, restrictions on trade with these countries led to price hike of the commodities. In addition to the conflict, the PKR depreciation also contributed to domestic price rise.

The high price of DAP relative to urea has increased the imbalanced use of fertilizer. This is reflected in fertilizer offtake numbers, with urea offtake expanding by 6.8 percent during FY22 compared to a year earlier, even as DAP offtake declined by 14.0 percent during the same period.

POL sector’s growth moderated amidst capacity issues and growing import of refined petroleum

Growth in the POL sector slowed to 0.7 percent during FY22, compared to 17.9 percent in FY21. Several factors hurt production activities. The refineries have not been upgraded to produce Euro-5 compliant fuels, leading to excess production of furnace oil, for which there is relatively low demand and is environmentally hazardous. This led to increase in imports of refined petroleum products during the period compared to petroleum crude. Specifically, the volume of imports of refined petroleum grew 28.3 percent during FY22 to 18.1 million MT, compared to 14.1 million MT during FY21 (**Figure 2.26**). By contrast, petroleum crude imports grew 5.3 percent to 9.3 million MT, compared to 8.8 million MT last year.

Import Quantum of Petroleum Figure 2.26

Source: Pakistan Bureau of Statistics

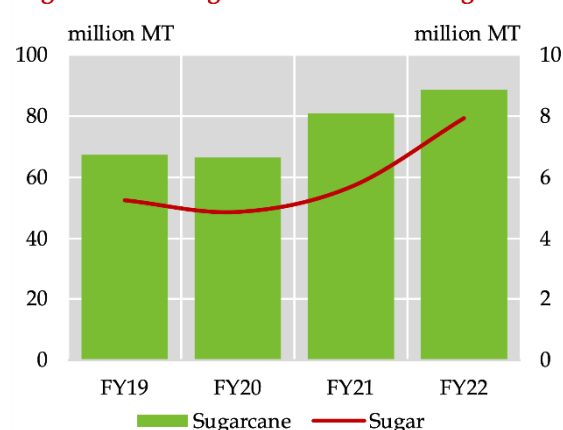
Capacity issues explain part of the preference for rising imports of refined products, as some oil refineries are in the process of upgrading their plants and reconfigure production in favor of Euro-5 compliant fuels in keeping with changing market dynamics and regulations. Globally, advanced economies have continually upgraded to newer Euro standards, from Euro 1 introduced in 1992 to Euro 6 in 2014, with the aim of cutting down air pollution. Pakistan, however, is transitioning to Euro-5 since 2020, having previously adhered to the Euro-2 standard between 2008-2020. The petroleum industry has still not adjusted to the scale of upgrades required, which involve considerable financial cost.⁴⁰

Moreover, in its existing refining process, the industry produces significant amount of furnace oil, which was largely consumed by power plants. As government moved towards cheaper sources of energy in the form of gas, coal, nuclear and renewables, the demand for furnace oil started to decrease over the past few years.⁴¹ Resultantly, there has been a significant build-up of furnace oil. The situation is likely to prevail unless local refineries upgrade to crack furnace oil into refined products such as low-sulphur diesel and petrol. Local refiners are planning to invest in plant upgradation that will reduce

⁴⁰ For example, the estimated cost of the Pakistan Refinery Limited's Refinery Expansion and Upgrade Project (REUP), incorporating the switch to Euro-5 compliance and doubling of production capacity, is US\$ 1.2 billion. Source: Pakistan Refinery Limited Financial Report for Nine Months ended March 31, 2022.

⁴¹ Source: NEPRA

⁴² Local refiners such as Pakistan Refinery Limited and Cnergyico are investing in deep conversion processes.

Sugarcane and Sugar Figure 2.27

Source: Pakistan Bureau of Statistics

production of furnace oil, while increasing production of in-demand products such as petrol.⁴²

Meanwhile, following its exemption from customs duty under the revised China Pakistan Free Trade Agreement (CPFTA), importing fuel from China became lucrative for OMCs. Resultantly, there was a nearly four-fold YOY increase in import volume of motor spirit from China during FY22 – 4.1 million MT compared to 1.2 million MT last year.

Food sector growth was driven by sugar production

The food sector grew by 8.4 percent during FY22, on top of 22.2 percent growth in FY21. The production of sugar expanded by 39.1 percent during FY22, compared to 16.7 percent last year. The increase was mainly attributed to a 9.4 percent increase in sugarcane production compared to a year earlier (Figure 2.27). Rise in sugarcane production can be attributed to its relative profitability compared to high-maintenance cotton crop. In terms of timing, much of this enhanced output was reflected in the Q3-FY22 LSM data, given the relatively delayed harvesting and late crushing of sugarcane this season compared to a year earlier.

Services Sector Growth Table 2.13

	Growth, in percent		Contribution to GDP Growth	
	FY21	FY22	FY21	FY22
	Services	6.0	6.2	3.5
Wholesale & retail trade	10.6	10.0	1.8	1.8
Transport & storage	5.1	5.4	0.5	0.6
Accommodation and food services	4.1	4.1	0.1	0.1
Information and communication	7.5	11.9	0.2	0.3
Finance & insurance activities	5.9	4.9	0.1	0.1
Real estate activities	3.6	3.7	0.2	0.2
Public administration and social security	-0.5	-1.2	0.0	-0.1
Education	3.3	8.7	0.1	0.3
Human health & social work activities	2.8	2.2	0.0	0.0
Other private services	5.0	3.8	0.4	0.3

Source: Pakistan Bureau of Statistics & SBP calculations

Furniture

Furniture manufacturing industry expanded by 180.2 percent in FY22, compared to a growth of 171.0 percent last year. The performance of the sector can partly be attributed to the exports of wooden furniture. Exports of furniture grew by 180.7 percent during the review period, compared to an increase of 171.0 percent last year. Analysis of exports sector data suggests that exports of wooden furniture to the United States increased considerably. Meanwhile, anecdotal evidence suggests that exports of domestic-use wooden furniture to eastern European countries is also picking up.

2.4 Services

Services sector output expanded by 6.2 percent in FY22 compared to 6.0 percent in the previous year (Table 2.13). Activity pickup in the sector was driven by continued policy support, which led to increase in imports and

Wholesale and Retail Table 2.14

Agri credit in bn Rs, Imports in bn US\$		
	FY21	FY22
LSM YoY Growth (%)	10.2	11.7
Agri Credit disbursements	13.6	14.2
Imports	56.4	80.1

Source: State Bank of Pakistan & Pakistan Bureau of Statistics

aided production in the commodity producing sectors.

Moreover, Schemes like Mera Pakistan Mera Ghar and Roshan Apna Ghar also led to positive spillover effects in sectors like banking and real estate.⁴³

Wholesale and retail

Wholesale and retail sector continued to expand on the back of commodity producing sector

The growth momentum in wholesale and retail sector continued, as it grew by 10 percent for the second consecutive year. Growth in agriculture and manufacturing resulted in an expansion of output in the wholesale and retail sector (Table 2.14), as agriculture sector grew by 4.4 percent and LSM grew by 11.9 percent on YoY basis.

Imports also increased to US\$ 80.1 billion in FY22, up from US\$ 56.4 billion last year - showing an increase of 42.1 percent⁴⁴. The rise in imports was mainly due to increase in demand for consumer goods such as food, and inputs for agriculture and industry.

Transportation

Transportation sector witnessed an increase in activity

Transportation sector output rose by 5.4 percent in FY22, compared to 5.1 percent growth last year (Table 2.15). The growth in the sector is mainly due to the improved economic activity in the country.

Air transport rebounded after the removal of restrictions imposed during Covid. POL sales

⁴³ Ministry of Finance, Mid-year Economic Review, July 2021 – December 2021

⁴⁴ Pakistan Bureau of Statistics

Transport, Storage and Communication - GVA of Top 3 Segments growth

Table 2.15

	FY21	FY22
Road transport	9.0	5.0
Air transport	-59.6	26.5
Communication	-12.1	0.3

Source: Pakistan Bureau of Statistics

to the transport sector grew by 10 percent during FY22, compared to 3 percent growth last year.⁴⁵ (Figure 2.28). Sales to aviation and railways; also accelerated during FY22⁴⁶, along with an increase in the sales of light commercial vehicles (LCVs). These indicators point to increased activity in the transport sector.

Sales of tractors showed a considerable increase. Tractor sales in FY22 stood at 58,940 units, whereas, in FY21 the number of units sold were 50,920⁴⁷. This rise in sales can be attributed to continuation of relief package by the government that had allowed the supply of imported farm machinery and equipment at reduced tariffs.⁴⁸

Information and telecommunication

Information and telecommunication gained considerable momentum

The information and communications sector grew by 11.9 percent in FY22, compared to 7.5 percent growth last year. Teledensity rose to 88.34 percent by June FY22, up from 84.6 percent in FY21.⁴⁹ There was also a jump in the number of broadband users during FY22, which may be traced to increase in work-from-home, online learning, and continued rise in e-commerce platforms in the country.

Meanwhile, export of ICT services, including telecommunication, computer and information services, reached US\$2.6 billion in FY22, from US\$ 2.1 billion in FY21. Notable growth was visible in the software, call centers and

⁴⁵ Oil Industry Statistics, OCAC

⁴⁶ OCAC

⁴⁷ PAMA (2022). Annual Sales & production report

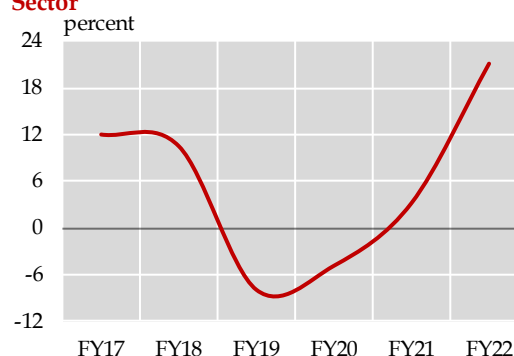
⁴⁸ Customs duty 0-2 percent and GST at 5 percent, Pakistan Economic Survey

⁴⁹ Pakistan Telecommunication Authority

⁵⁰ For details, see Box 6.1 - Factors Underlying Expansion in Pakistan's ICT Services Exports, Chapter 6.

Growth in POL Sales to Transport Sector

Figure 2.28



*MS and HSD

Source: Oil Companies Advisory Council

consultancy services, which can be attributed to increase in global demand for ICT services in the wake of Covid pandemic.⁵⁰

Moreover, digital banking adoption is increasing across the country as transactions via channels like real time online branches continue to gain momentum (Figure 2.29)

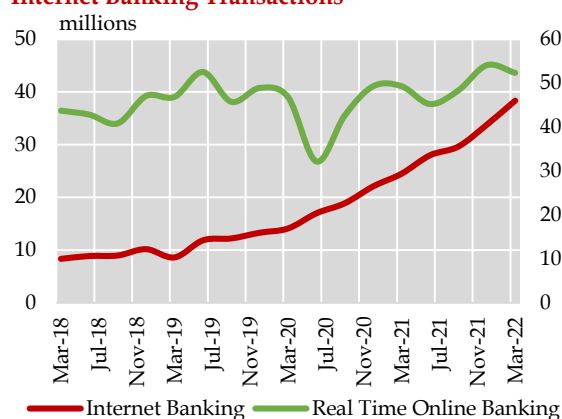
Finance and insurance

Finance and insurance activities decelerated

Finance and insurance activities grew by 4.9 percent, as compared 5.9 percent in

Real Time Online Banking and Internet Banking Transactions

Figure 2.29



Source: State Bank of Pakistan

GVA of Finance and Insurance Table 2.16

percent			
	Point contribution	FY21	FY22
Other Monetary intermediation	5.2	7.1	6.1
Scheduled banks	4.9	7.0	5.9
Non-scheduled banks	0.3	14.0	18.0
Insurance, reinsurance and pension funds	-0.1	0.0	-2.1
Activities auxiliary to financial services	-0.1	15.6	-1.9
Central banking	0.0	-25.0	0.6
Other financial services	-0.1	15.6	-1.9
Finance and insurance	4.9	5.9	4.9

Source: Pakistan Bureau of Statistics & SBP calculations

FY22. Growth in this sector was mainly driven by the banking sector (Table 2.16). Pickup in the banking sector activity is reflected in the increase in assets and deposits. In FY22, banks' deposits increased by 15 percent to Rs 22.8 trillion from Rs 19.8 trillion in FY21. The increase in deposits was mainly due to high remittances and an increase in interest rates. Other indicators such as profit after tax, return-on-assets and return-on-equity, also showed visible improvement during FY22.

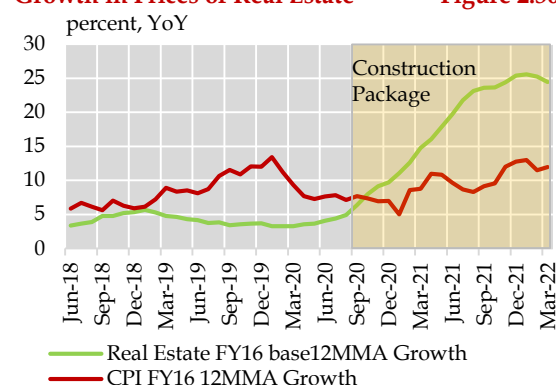
Additionally, in FY22, banks' advances also increased by 21 percent, driven by the higher economic growth and disbursements under refinance schemes of SBP.

Gross value added (GVA) of other financial services witnessed a contraction (Table 2.16) as Pakistan Stock Exchange witnessed headwinds due to political uncertainty, widening current account deficit and a delay in the resumption of IMF program. Insurance, reinsurance and pension funds also witnessed a contraction, as the asset base of life insurance sector slowed down.⁵¹

Real Estate

Real estate maintained its momentum

The real estate sector grew by 3.7 percent in FY22, almost similar to last year's growth of 3.6 percent. The contribution of real estate to

Growth in Prices of Real Estate Figure 2.30

Note: Residential property prices; real estate index has been rebased to FY16 to correspond with CPI base year

Source: Zameen.com, Pakistan Bureau of Statistics

GDP has also hovered around 5 percent in the last five years.⁵² However, deceleration in the commodity-producing sector during Q3-FY22 compared to preceding quarters also started to affect real estate activities (Figure 2.30).

However, the escalation in real estate prices remained higher than the overall inflation rate, which indicates continuing profitability of the real estate sector.

Two subsidy schemes by SBP, *Mera Pakistan Mera Ghar (MPMG)* (for country residents) and *Roshan Apna Ghar* (for overseas Pakistanis), also played a role in boosting activities in the sector.

Other Services

Activities in the education sector picked with the resumption of normal, in-class sessions as the effects of Covid subsided in FY22. Last year, due to mobility restrictions, education institutions had resorted largely to online classes.

The health sector contracted despite an increase in the number of health personnel⁵³. Expenditure on health and education has mostly remained unchanged in recent years.

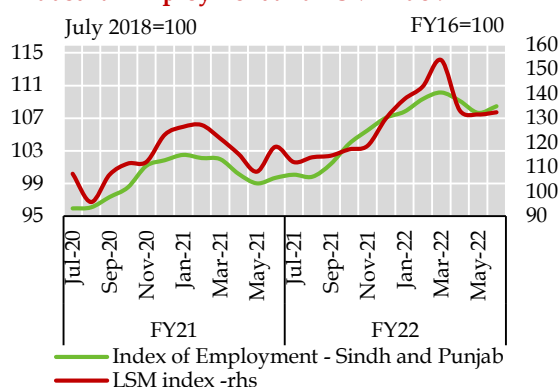
The food and accommodation sector registered an increase of 4.1 percent, same as

⁵¹ Chapter 6.3: Financial stability review – 2021, State bank of Pakistan

⁵² Pakistan Economic survey 2021-2022

⁵³ Pakistan Economic survey 2021-2022

Combined Punjab and Sindh Industrial Employment and LSM Index **Figure 2.31**



Source: Bureau of Statistics, Punjab, Bureau of Statistics Sindh and Pakistan Bureau of Statistics

last year. Whereas, public administration and social security contracted by 1.2 percent, compared to 0.2 percent in FY21.

2.5 Labor Market

Provisional estimates suggest that the labor market remained stable in FY22. More industrial workers were hired in both Punjab and Sindh, and the wages in both the services and construction sectors continued to grow during the period. Meanwhile, SBP's Business Confidence Survey (SBP-BCS) and SBP's Consumer Confidence Survey (SBP-CCS)

Average Number of Employees Hired /Fired in the Industrial Sector during FY22 **Table 2.17**

	FY21	FY22
Punjab	4,873	5,638
Cotton Textiles	2,901	2,592
Wheat Milling	1,384	1,037
Sugar	1,053	655
Leather Footwear	-157	1,751
Cement	-76	54
Pharmaceutical	-200	366
Automobile	4	-2
Sindh*	-1,909	19,550
Cotton textiles	-744	15,629
Sugar	-261	3,673
Leather tanning	440	-1,131
Cement	419	-2,191
Pharmaceutical	2,714	6,840
Automobile	1,153	-5,464

*Excluding the steel industry

Source: Bureau of Statistics, Punjab and Bureau of Statistics, Sindh

showed slight deterioration in employment prospects in the latest outturns.

Industrial employment rose both in Sindh and Punjab

As gauged by the index of industrial employment for Sindh and Punjab, 8.8 percent more workers were hired in the industrial sector during FY22, compared to 4.7 percent growth last year (**Figure 2.31**). Job growth in Sindh was higher in pharmaceutical and sugar sectors, whereas, in Punjab, more workers were hired in the leather footwear industry.

Punjab hired more workers in textile, leather and wheat milling industries

Employment in the industrial sector in Punjab rose by 1.6 percent FY22 compared to an expansion of 1.6 percent last year.⁵⁴ The growth was primarily driven by leather footwear, cotton textiles and wheat milling industries. The increase in job growth in these sectors point to elevated production levels in these industries (**Table 2.17**). The textile and wearing apparel industry growth in production was driven by exports, which grew by 25.5 percent in dollar value terms during FY22. The volume of exports also increased; in particular, for the readymade garments whose volume rose by 55.3 percent during the period.

In the leather footwear industry, foreign demand for products may have contributed to job opportunities. The volume of exports rose by 11.4 percent during FY22 on the back of higher shipments. In similar vein, growth in employment in the cotton textile sector can largely be traced to increase in foreign demand for locally produced goods. Textile exports surged by 25.5 percent during FY22 to US\$ 19.3 billion, compared to US\$ 15.4 billion last year.

The job market for wheat milling workers remained robust in Punjab, as additional job opportunities were created during FY22. Despite lower output of wheat crop in the

⁵⁴ Monthly Survey of Industrial Production & Employment, Bureau of Statistics, Sindh

review period, the increase in industrial workers in this particular industry may point to more wheat growers selling wheat to larger industrial units rather than utilizing the cottage industry for flour. The country also imported 2.2 million tons of wheat during FY22, which also boosted activity in the sector, leading to more workers being hired.

Employment generation in Sindh was impressive – especially in the pharmaceutical sector

More workers were hired in the manufacturing sector in Sindh during FY22.⁵⁵ (Table 2.17). On average, employment during the period rose by 19,550 workers, compared to a decline of 1,909 workers last year. Similar to the situation in Punjab, employment opportunities in cotton textile sector rose significantly.

Increase in private sector healthcare activities, and double-digit growth in production of pharmaceutical products helped create job openings in the industry during FY22. Pharmaceutical sector output expanded by 13.3 percent during FY22, compared to 9.9 percent growth last year. Consequently, the industry, added on average, 6,840 more workers in FY22 compared to 2,714 employees hired last year. It may be traced to increase in economic activities in the healthcare sector, especially in Sindh, where the pharmaceutical

sector production activities are predominantly located.

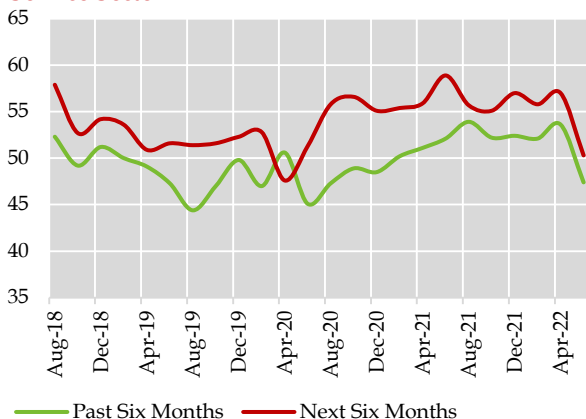
Meanwhile, record production of sugarcane helped create more job openings in Sindh, compared to Punjab. The automobile and cement industry lost more workers during FY22. A decrease in foreign demand, owing partly to an increase in freight costs, hampered growth of the cement producers in the south, which may have led to layoffs in the province. In case of automobile, sharp increase in prices of automobiles, lower localization of parts, and shortage of semiconductor chips adversely affected the demand for labor, which led to lay-offs in the industry.

SBP Confidence Surveys remained broadly positive

The SBP-BCS and SBP-CCS in June 2022 and July 2022 respectively revealed that optimism about employment dipped, which may be attributed to relative slowdown in economic activities during H2-FY22 compared to the preceding period.

For services, the past-six-months-employment index during FY22 fell by 4.7 points and for the next-six-months, the decline was 8.6 points in employment prospects (Figure 2.32a).⁵⁶ For the past six-month period, the index dropped below 50, which indicates that negative

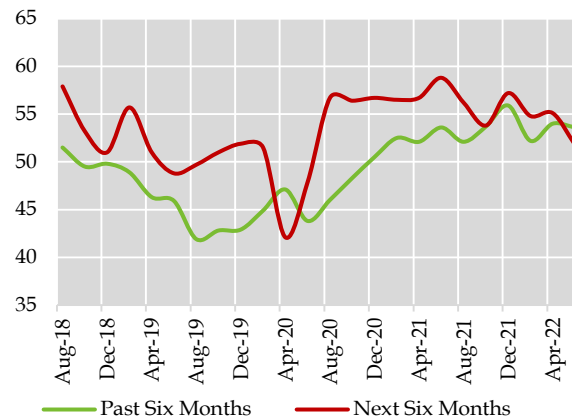
BCS Employment Index for Service Sector



Source: State Bank of Pakistan

Figure 2.32a

BCS Employment Index for Industrial Sector



Source: State Bank of Pakistan

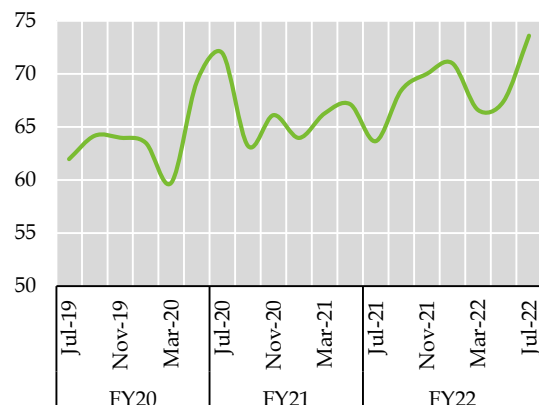
Figure 2.32b

⁵⁵ Monthly Survey of Industrial Production & Employment in Sindh

⁵⁶ From the June 2021 wave to June 2022 of the SBP Business Confidence Survey

Future Unemployment Index (Next Six Months) -SBP CCS

Figure 2.33



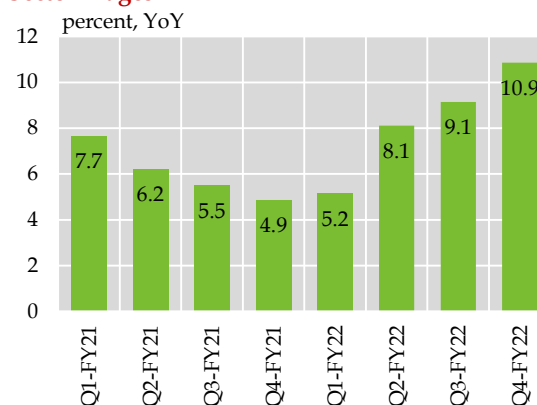
Source: State Bank of Pakistan

sentiments outweighed the positive sentiments.⁵⁷

Similarly, in the case of industry, the next six-month employment indices also fell by 7.0 points, however the past six-month index remained at the same level (Figure 2.32b). In contrast to the services sector, the indices remained broadly positive as both remained above the threshold level of 50 during FY22.

Growth in Construction Sector Wages

Figure 2.34

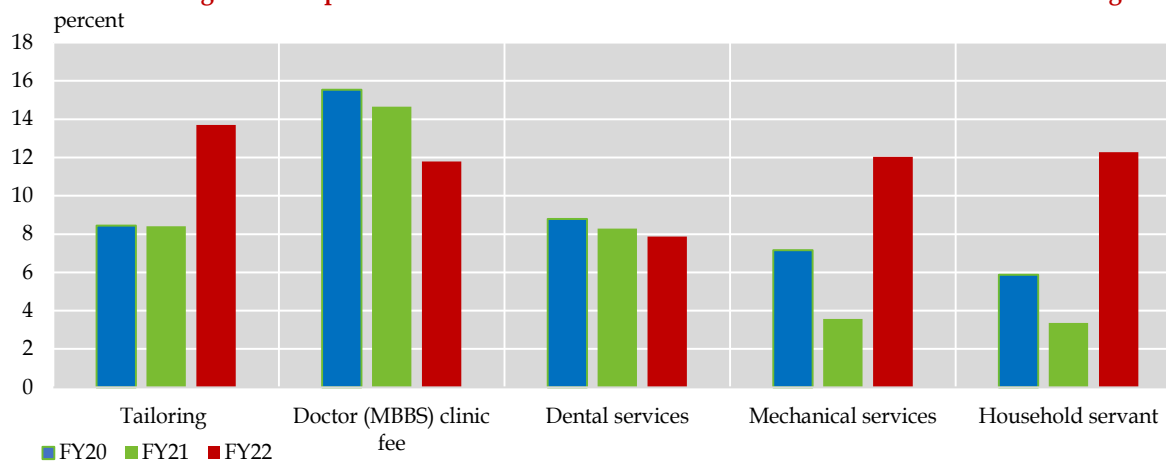


Source: Pakistan Bureau of Statistics

Meanwhile, the results of SBP-CCS indicate deterioration in perceptions about the labor market during FY22 (Figure 2.33). The Diffusion Index of unemployment increased by 10 points between the July 2021 and July 2022 rounds of the SBP CCS. However, since the unemployment index remained above 50, the pessimism about job prospects remained entrenched throughout.⁵⁸ The unfavorable change in unemployment index in the CCS

Growth in Earnings for Occupations in Service Sector

Figure 2.35

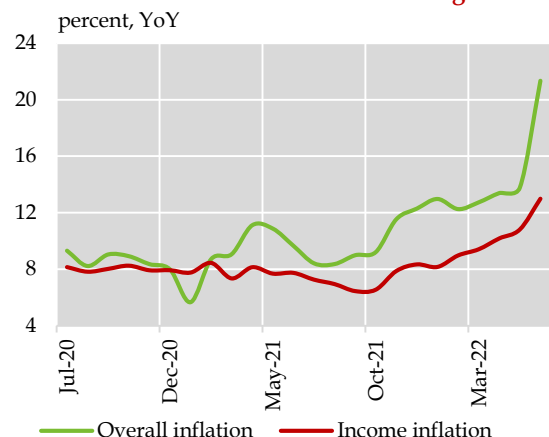


Source: Pakistan Bureau of Statistics

⁵⁷ The survey results of BCS and CCS are presented in Diffusion Index (DI) format, which varies between 0 and 100. The DI can be interpreted as follows: DI < 50 indicates that positive views regarding credit/ availability of funds/ borrowing cost are less than the negative views; DI = 50 shows that positive views are equal to negative views; and DI > 50 indicates that positive views are more than negative views.

⁵⁸ The deviation between consumer and business expectations about economic conditions is not a new phenomenon and may be key to macroeconomic dynamics, according to Mankiw *et al* (2003). Despite sharing the same available set of information, expectations across economic agents varies; the amount of disagreement can be large and vary over time, and some people form expectations based on outdated information. (Source: N.G. Mankiw, R. Reis and Justin Wolfers (2003). *Disagreement about inflation expectations*. NBER Chapters. NBER Macroeconomics Annual 2003, Volume 18, pages 209-270. Massachusetts, NBER.)

Overall vs Income Inflation **Figure 2.36**



Source: Pakistan Bureau of Statistics

highlights concern about rising energy prices and their subsequent second-round impacts.

Wages increased during the year

Indicators of wages in both the services and construction sectors showed growth during FY22. In the construction sector, remuneration of laborers increased. In services sector, there was also a broad-based increase. That said, the inflation in wages remained lower than the

overall inflation rate in FY22.

In the construction sector, wages started to increase marginally at the start of FY22 but gathered pace as the year progressed. A quarterly break-up of wage growth is presented in **Figure 2.34**. Overall during FY22, the wages rose by 11.8 percent during FY22, compared to 5.1 increase percent last year.

In the services sector, wage growth in high-income professions such as medical consultation and dentistry decelerated during the period. However, wages in low-income professions such as mechanical services and household servants rose at higher pace than the professions such as doctors and dentists. (**Figure 2.35**).

That said, wage growth in the services and construction sectors remained well below the inflation rate throughout the year, which points to deterioration in the real incomes in these professions (**Figure 2.36**). The gap between wage growth and overall inflation widened during FY22 compared to last year.