State Bank of Pakistan

# Annual Report

2022-2023

## The State of Pakistan's Economy

# The State of Pakistan's Economy 2022-2023

October 23, 2023


State Bank of Pakistan

# The State of Pakistan's Economy

Annual Report
For the year 2022-2023
of the Board of Directors of State Bank of Pakistan

Economic Policy Review Department

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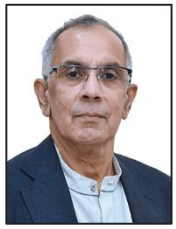

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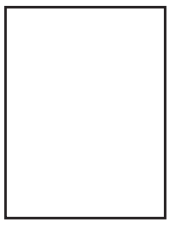

Corporate Secretary

# LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi.
October 23, 2023

**Dear Mr. Chairman,**

In terms of Section 39(2) of the State Bank of Pakistan Act, 1956, the Annual Report of the Board of Directors of State Bank of Pakistan on the State of Economy for the year 2022-23 is hereby enclosed for submission to the Majlis-e-Shoora (Parliament).

With warm regards,

Yours sincerely,

**(Jameel Ahmad)**
Governor
Chairperson, Board of Directors

**Muhammad Sadiq Sanjrani**
Chairman
Senate
Islamabad

# LETTER OF TRANSMITTAL

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October 23, 2023

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With warm regards,

Yours sincerely,

**(Jameel Ahmad)**
Governor
Chairperson, Board of Directors

**Raja Pervaiz Ashraf**
Speaker
National Assembly
Islamabad

# LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi.
October 23, 2023

**Dear Finance Minister,**

In terms of Section 39(2) of the State Bank of Pakistan Act, 1956, the Annual Report of the Board of Directors of State Bank of Pakistan on the State of Economy for the year 2022-23 is hereby submitted.

With warm regards,

Yours sincerely,

**(Jameel Ahmad)**
Governor
Chairperson, Board of Directors

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# Chapters

## *Box Items*



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# Economic Review

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# 1 Economic Review

## 1.1 Overview[1]

Pakistan's economy faced multiple challenges during FY23, as lingering structural weaknesses amplified the impact of successive domestic and global supply shocks of unprecedented nature. The country's macroeconomic situation had already started to deteriorate since the second half of FY22 amid the fallout of Russia-Ukraine conflict, high global commodity prices and an unplanned fiscal expansion. The situation worsened during FY23 owing to the impact of floods, delay in the completion of the 9th review of the IMF's EFF program, continuing domestic uncertainty, and tightening global financial conditions.

A large supply shock in the form of floods that hit the country during the initial months of FY23 weighed heavily on economic conditions. The resultant supply chain disruptions did not only fuel inflationary pressures and constrained economic activity, but also had implications for the external and fiscal accounts. Likewise, the impact of uncertain global economic and financial conditions, softening – but still elevated – global commodity prices, higher debt servicing and dearth of external inflows increased stress on external account, which reverberated across the economy. The country managed to meet its external debt obligations; however, fall in the SBP's FX reserves along with negative sentiments in foreign exchange market, led to a large PKR depreciation during FY23 (**Table 1.1**).

In order to reduce pressures on external account, the government and the SBP introduced various temporary restrictions on imports during the year. The limited availability of inputs compounded the effect of supply bottlenecks and various demand compression policies in place since late FY22, restricting the pace of economic activity, and thus exports.

**Selected Economic Indicators** **Table 1.1**

| | FY21 | FY22 | FY23 |
|---|---|---|---|
| *Growth rate* (percent)* | | | |
| Real GDP [a] | 5.8 | 6.1 | 0.3 |
| Agriculture | 3.5 | 4.3 | 1.6 |
| Industry | 8.2 | 6.8 | -2.9 |
| o/w LSM | 11.5 | 11.9 | -8.0 |
| Services | 5.9 | 6.6 | 0.9 |
| National CPI (period average)[a] | 8.9 | 12.2 | 29.2 |
| Private sector credit [b] | 11.2 | 21.1 | -0.8 |
| Money supply (M2)[b] | 16.2 | 13.6 | 14.2 |
| Exports [b] | 13.8 | 26.7 | -14.1 |
| Imports [b] | 24.4 | 31.8 | -27.3 |
| Tax revenue –FBR [c] | 19.2 | 28.9 | 16.7 |
| Exchange rate (+app/-dep)[b] | -1.3 | -9.8 | -28.5 |
| Policy rate (end-period) [b] | 7.0 | 13.75 | 22.0 |
| *billion US dollars* | | | |
| SBP's reserves (end-period) [b] | 17.3 | 9.8 | 4.5 |
| Workers' remittances [b] | 29.5 | 31.3 | 27.0 |
| Current account balance [b] | -2.8 | -17.5 | -2.4 |
| *percent of GDP* | | | |
| Fiscal balance [d] | -6.1 | -7.9 | -7.7 |
| Current account balance | -0.8 | -4.7 | -0.7 |
| Investment [a] | 14.5 | 15.7 | 13.6 |

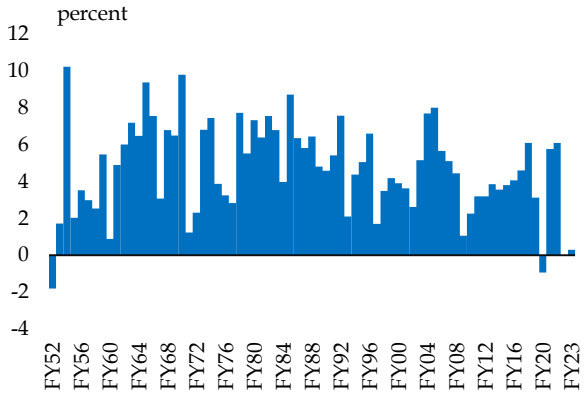
* The numbers relating to real GDP growth rate and its sub-components for FY21, FY22 and FY23 are on constant basic prices of 2015-16 and represent final, revised, and provisional estimates, respectively.
Sources: [a] Pakistan Bureau of Statistics; [b] State Bank of Pakistan; [c,d] Ministry of Finance

induced supply shortages and fanned inflationary pressures. Lastly, global monetary tightening and lackluster external demand contributed to reduced exports and weak capital inflows. These factors compounded the impact of existing structural deficiencies that have marred a sustainable expansion in Pakistan's exports.

In addition to these supply shocks, the longstanding inefficiencies in the energy sector, which include high operational and distribution losses and overdue capacity payments, as well as un-targeted subsidies and delayed tariff adjustments, pushed power sector circular debt

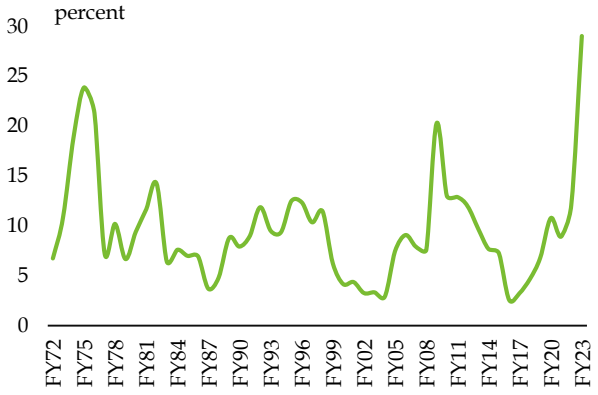
[1] The analysis and projections presented in this report were prepared on data outturns for FY23 and finalized in September 2023, using data and developments as of then.

**Real GDP Growth** **Figure 1.1a**




Source: Pakistan Bureau of Statistics

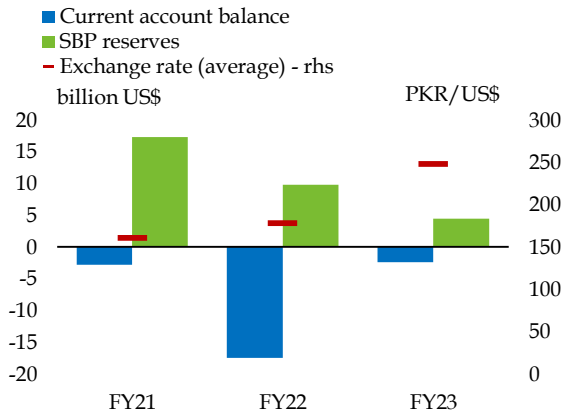
**CPI Inflation*** **Figure 1.1b**




*Base 2015-16 (NCPI)

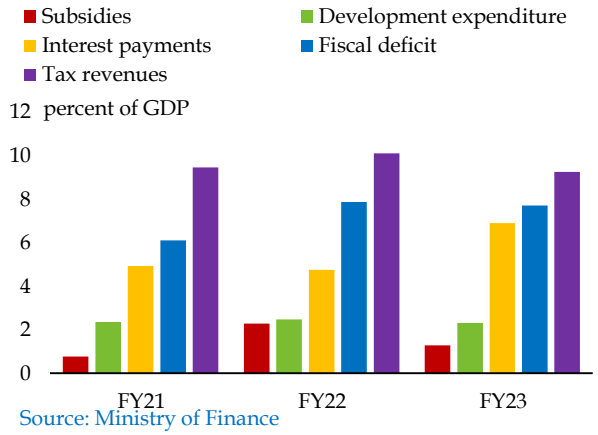
Source: Pakistan Bureau of Statistics

**External Account** **Figure 1.1c**




Source: State Bank of Pakistan

**Rising Interest Payments Overshadow Fiscal Performance** **Figure 1.1d**



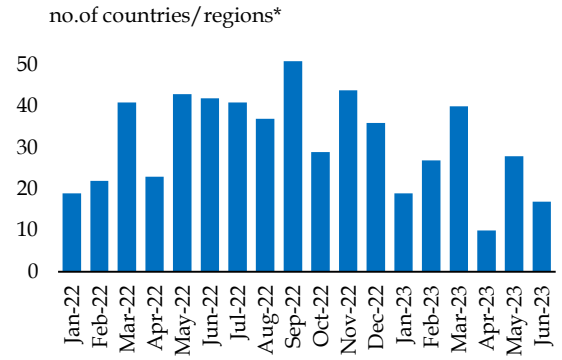

Source: Ministry of Finance

stock to a historic high level in FY23. Therefore, the government resorted to increasing energy tariffs on multiple occasions during the year despite a decline in global energy prices during the second half of FY23. This, together with less than planned fiscal consolidation and the need to boost revenues, necessitated re-imposition of Petroleum Development Levy (PDL) on petroleum products, which further stoked inflationary pressures.

The combined effect of these developments led to substantial deterioration in Pakistan's macroeconomic performance during FY23. The real GDP growth fell to the third lowest level since FY52 (**Figure 1.1a**), whereas average National CPI (NCPI) inflation soared to a multi-decade high (**Figure 1.1b**). While current account deficit (CAD) narrowed considerably, inadequate foreign inflows kept external account under consistent pressure, leading to a decline in SBP's FX reserves for the second consecutive year during FY23 (**Figure 1.1c**). Meanwhile, reflecting the unsustainable fiscal policy stance of the past several years, a sharp increase in interest payments, persistently large energy subsidies and lower-than-targeted tax collection led to less than envisaged fiscal consolidation during FY23 (**Figure 1.1d**).

The SBP responded to the escalating macroeconomic challenges by continuing monetary policy tightening that had started since September 2021. The SBP raised the policy rate by a cumulative 825 basis points (bps) during FY23, after a 675 bps increase in the

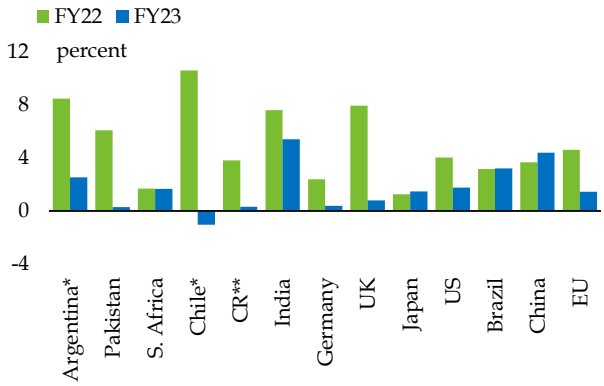
**Number of Countries Increasing Policy Rates** **Figure 1.2a**




* 96 EMDEs and AEs, including one region, EU-27

Sources: IMF, Haver Analytics

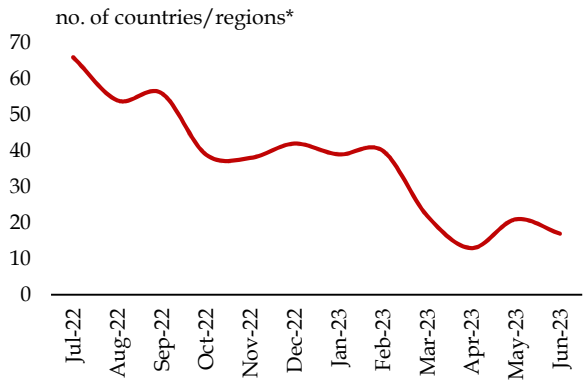
**Real GDP Growth Across Major Economies** **Figure 1.2b**




* Jul-Mar FY23, CR** stands for Czech Republic

Sources: Bloomberg, OECD and PBS

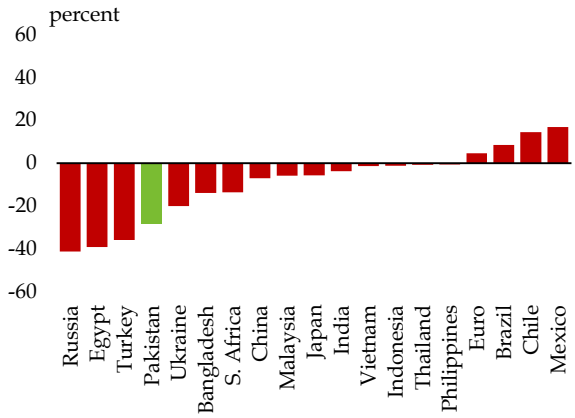
**Economies Reporting Rising Inflation in FY23** **Figure 1.2c**




* 96 EMDEs and AEs, including one region, EU-27

Source: Haver Analytics

**Change in Emerging Markets Currencies during FY23** **Figure 1.2d**




Sources: IMF, Haver Analytics

previous year. This was in addition to various administrative measures to slow domestic demand and placate pressures on the external account. Furthermore, to bolster revenue collection, the government introduced new tax measures in the second half of FY23.

Given the significant role played by domestic challenges, Pakistan's macroeconomic conditions somewhat diverged from the experience of other emerging economies, especially during the second half of FY23. The fallout of Russia-Ukraine conflict had further added to already strong global inflation, pushing it to multi-decade peaks around the start of FY23. In this backdrop of worsening inflationary outlooks, central banks across emerging and advanced economies had started monetary tightening since 2021 (**Figure 1.2a**). The synchronous policy tightening and persistent geo-political tensions weighed down global economic activity and financial conditions during FY23 (**Figure 1.2b**).

The moderating demand, alongside some improvement in supply prospects, induced a downtrend in global commodity prices, especially the energy prices, for the most part of FY23. While the headline inflation had started to ease globally (**Figure 1.2c**), central banks continued to hike policy rates, albeit at a slower pace in the second half of FY23, amid the challenge to achieve inflation targets and persistence of underlying inflationary pressures. This was in contrast to Pakistan's experience, where deteriorating inflation and external

account outlooks necessitated large increases in policy rate during H2-FY23.

The continuation of tight monetary policy stance had serious repercussions for global financial conditions. First, the ensuing increase in financial vulnerability, including hefty mark-to-market losses on debt securities, and concentration of deposits, triggered failure of two banking institutions in the United States, and the loss of market confidence in one bank in Europe during FY23. Second, increasing policy rates in advanced economies contributed to exchange rate depreciation in a number of emerging economies (**Figure 1.2d**). Third, the rising cost of funding, along with weakening currencies reinforced debt distress in vulnerable economies.

In the case of Pakistan, a variety of domestic shocks augmented the impact of tightened global financial conditions and slowdown in external demand during FY23. Particularly, summer flash floods inundated large swathes of the country's land and caused enormous loss of lives, livelihood and infrastructure. Agriculture was one of the hardest hit sectors with significant damages reported to important Kharif crops.

The weather conditions remained unfavorable for cotton crop from the beginning of the Kharif season. Amid drought like situation, the target for cotton sowing area was missed. This, together with the havoc wreaked by record high rainfall and flooding, especially in the provinces of Sindh and Balochistan, suppressed cotton production to a multi-decade low in FY23. In the same vein, rice production also posted a double-digit decline. However, a bumper wheat crop and a decent performance by livestock sector partly offset the impact of these losses during FY23. Conducive weather conditions mainly helped a notable increase in wheat production during Rabi season, despite lower usage of fertilizers. Although livestock sector suffered losses from floods, the overall impact remained muted. Meanwhile, various incentives announced by SBP during the year led to a sizeable increase in agriculture credit, which also supported the overall performance of the sector.

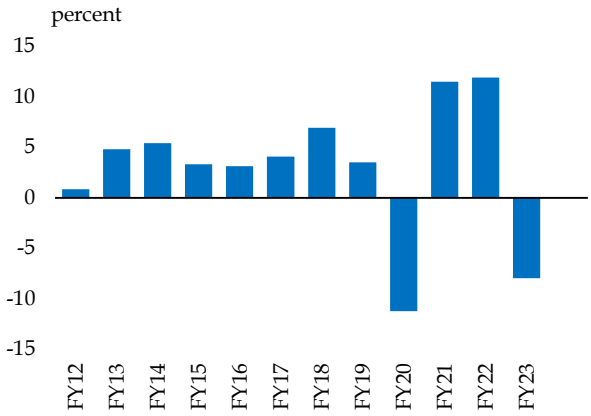
With the backward and forward linkages with the rest of the economy, the impact of the losses in agriculture spilled to industry and services sectors. In addition, a range of unfavorable domestic and global events including FX constraints, weaker currency, rising cost of production, slowing global demand and heightened domestic uncertainty dented economic activity during FY23. These shocks magnified the impact of contractionary policies introduced since FY22. Hence, after witnessing a consistent expansion during the preceding two years, a broad-based decline in Large-scale Manufacturing (LSM) drove contraction in industrial activities during FY23 (**Figure 1.3a**).

Production in around one-fifth of the industries covered in LSM, mainly textile, food, pharmaceuticals, petroleum refining, automobiles, non-metallic minerals, tobacco, and chemical products, fell to the lowest level since FY16. A number of factories announced intermittent closures of operations during the year (**Figure 1.3b**). In line with the performance of manufacturing sector, industrial employment in the provinces of Sindh and Punjab also saw a notable decline during FY23.[2] Furthermore, tracking the shrinking value addition by commodity producing sectors, wholesale and retail and finance and insurance services contracted, driving a notable deceleration in services sector growth in FY23.

In addition to the slowdown in economic activity, demand compression policies and administrative measures, translated into a broad-based drop in imports during FY23. Softening global prices also contributed to this downtrend. On the other hand, the combined effect of the constrained domestic production and anemic global demand stifled both textiles

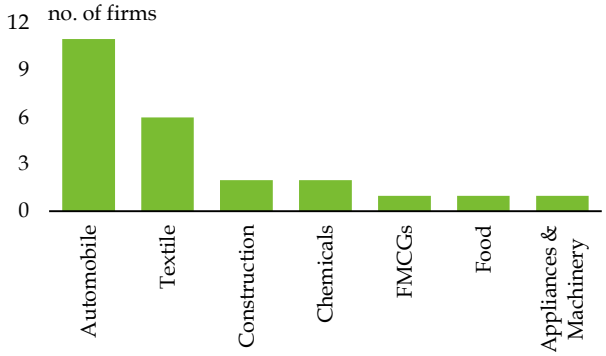
[2] Sources: Bureaus of Statistics of Punjab and Sindh.

**LSM Growth Shrinks Considerably** **Figure 1.3a**




Source: Pakistan Bureau of Statistics

**Major Sectors Announcing Temporary Plant Closures during FY23*** **Figure 1.3b**




*information before December 2022 was not available

Sources: Pakistan Stock Exchange, Securities and Exchange Commission of Pakistan

and non-textile exports during FY23. The PKR depreciation, however, provided room to exporters to renegotiate prices to maintain market share in some products.

Moreover, after witnessing a consistent expansion in the past six years, workers' remittances saw a double digit decline during FY23, with inflows from all major corridors shrinking with the exception of the US. Apart from the role played by the global economic slowdown, resumption of cross-border air travel and elevated spread between interbank and open market rates also partly explain this decline. However, significant reduction in goods and services imports more than offset the impact of weakening foreign exchange earnings from exports and workers' remittances, and CAD fell to an eleven-year low of 0.7 percent in terms of GDP during FY23.

Notwithstanding the respite provided by the narrowing CAD, unfavorable external financing conditions weighed heavily on the external account position during FY23. Specifically, the delay in finalization of the 9th review under the IMF's EFF program considerably undermined the confidence of international investors and lenders. The rising domestic uncertainty and weakening FX liquidity conditions led to downgrading of Pakistan's credit ratings, whereas the country's risk premium also spiked significantly. The worsening outlook of the external account discouraged adequate official inflows and private investments required to meet scheduled debt repayments. This, in addition to tightened global financial conditions, contributed to net outflows from financial account during FY23, leading to a sizeable decline in the SBP's liquid reserves to US$ 4.5 billion and 28.5 percent depreciation in PKR by the end of FY23.

Weaker rupee, together with substantial supply disruptions, fueled imported inflation during FY23. In addition, upward adjustment in energy prices, increase in taxation, and other levies, alongside rising domestic uncertainty, kept inflation on a strong and persistent uptrend during the most part of the year. The impact of these supply shocks seeped into general prices and inflation expectations, pushing NCPI inflation to a multi-decade peak of 29.2 percent during FY23, around the upper bound of SBP's revised inflation projection range of 27 – 29 percent. This was despite a slump in domestic demand amid a range of contractionary measures introduced since last year.

Non-perishable food items were the chief source of inflation, followed by the Non-Food Non-Energy (NFNE) and energy group during FY23. Within food group, milk and milk products, wheat, edible oil and vegetable ghee, and ready-made food were the leading contributors to inflation. In addition to the impact of supply

shocks, longstanding structural deficiencies, such as inadequate policy attention on development of food supply chain, low Research & Development (R&D) for developing climate change resistant high yielding crop varieties, and persistent imperfections in the food commodities market, also partly explain the rising spree in food prices during FY23 **(Box 3.1).**

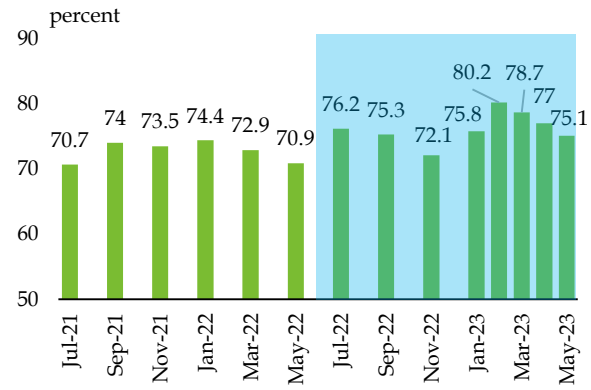
Importantly, core inflation remained in double digits throughout the year, largely manifesting the second-round effects of rising food and energy prices to broader prices, wages and inflation expectations (**Figure 1.4a**). Mainly tracking the increase in energy prices, inflation expectations rose notably in FY23, compared to last year, and reinforced the increase in underlying inflationary pressures (**Figure 1.4b**).

Despite the hike in energy tariffs, energy subsidies widely exceeded budget estimates during FY23, reflecting sluggish pace of reforms in the energy sector. In overall terms, both interest and non-interest current spending exceeded budget targets in FY23. Specifically, a cumulative 1,500 bps hike in the policy rate since the start of FY22, government's growing reliance on domestic sources to finance fiscal deficit, weakening currency and expiry of Debt Service Suspension Initiative (DSSI) last year, contributed to a jump in interest payments during FY23.

Meanwhile, spending under the Benazir Income Support Program (BISP) also increased substantially to address rising social vulnerabilities. The catastrophic floods are estimated to have pushed over 8 million more people into poverty during FY23.[3] This, together with multi-decades' high inflation had serious repercussions for general social wellbeing. In this context, the expansion in BISP envelope mainly encompassed emergency cash transfers to flood affected families, and increase in the coverage, as well as, size of per beneficiary cash grant. In addition, the government also ramped up running of civil government expenditures and introduced various relief measures for current and retired employees in the shape of increments in salaries and pensions. Furthermore, federal PSDP spending saw a decent increase in FY23, after falling consistently for the past many years.

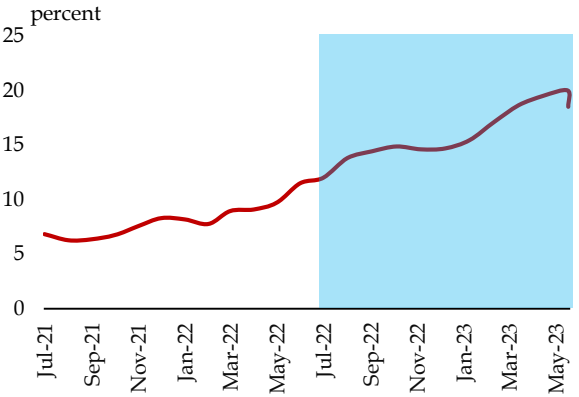
On the revenues side, import compression, lackluster economic activity, and continued sales tax exemption on petroleum products drove a slowdown in the pace of FBR tax collection during FY23. This is despite some additional tax measures announced through the Finance (Supplementary) Act 2023 in the second half of

**Inflation Expectations Remained Elevated during FY23** **Figure 1.4a**




Source: State Bank of Pakistan

**Core Inflation Maintained an Uptrend in FY23** **Figure 1.4b**




Source: Pakistan Bureau of Statistics

[3] Source: Ministry of Finance (2023). *Pakistan Economic Survey 2022-23*. Islamabad: MoF.

the fiscal year. However, PDL collection helped a steep increase in non-tax revenues and shored up overall revenue collection during the year. Nevertheless, a high growth in spending overshadowed the increase in revenues, pushing both fiscal and primary imbalances widely above target levels during FY23, contrary to a significant fiscal consolidation envisaged in the budget.

The large fiscal deficit underpinned a commensurate increase in public debt burden during FY23. Although scheduled repayments and inadequate external inflows led to a drop in the public external debt stock in terms of US$, weak rupee led to increase in external debt in PKR terms. Given the dearth of external financing, the government mostly relied on domestic sources for deficit financing. To benefit from the rising interest rates, market preference remained tilted towards floating-rate PIBs (PFLs) through most of the year. The government's growing reliance on floating-rate long-term instruments has, however, increased repricing risks.

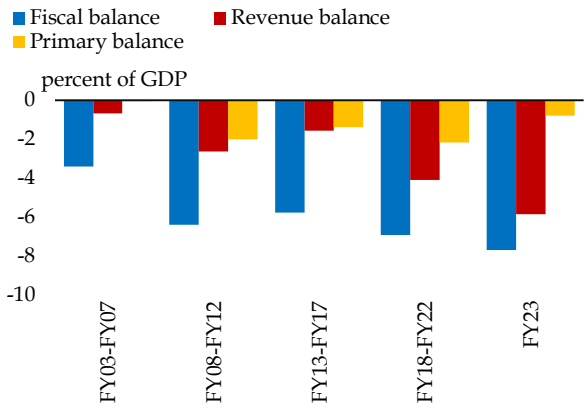
Amid continued reliance on commercial banks to finance the fiscal deficit, Net Domestic Assets (NDA) of the banking system grew sharply during FY23. However, the stress in the external account led to a sizeable contraction in Net Foreign Assets (NFA), partially offsetting the impact of increased government budgetary borrowing on broad money growth during FY23. Moreover, Public Sector Enterprises (PSEs), especially in the power sector, also stepped up borrowing from the commercial banks, mainly to settle circular debt related payments. On the other hand, private sector credit slowed considerably during FY23 due to aggressive monetary tightening together with a slump in economic activity. Specifically, the working capital loans posted a noticeable decline, whereas fixed investment also remained muted during the year. The soaring budgetary borrowing needs of the government, and expanding currency in circulation inflated liquidity requirements of the money market. In response, SBP considerably increased the frequency and volume of longer-tenor OMOs during FY23.

Pakistan's economic performance in FY23 highlights the importance of addressing lingering structural impediments that pose serious risks to macroeconomic stability on a recurrent basis. Foremost among these are challenges in fiscal policy reforms. Particularly, inadequate and slow tax policy reforms with focus on one-off quick fixes have constricted the resource envelope even for meeting current expenditures. In addition, increasing use of indirect and withholding taxes as compared to focusing on income tax, has significantly impacted both the inflation and inflation expectation. On the other hand, slow pace of reforms to address inefficiencies in PSEs has led to permanent drain on fiscal resources. The resultant chronic fiscal imbalances have straitjacketed the government's ability to undertake development spending required to enhance the economy's productive capacity **(Figure 1.5a)**. To put things into perspective, interest payments consumed more than half of the FBR tax collection on average during the past five years, limiting fiscal space for development spending.

The scarcity of public resources to match the country's development needs has also discouraged private investment. Hence, the country is grappling with a low-investment trap, while the growth model is mainly centered on consumption **(Figure 1.5b)**. Meanwhile, anemic investment in physical and human capital, as well as R&D over the last few decades has prevented development of a technology-intensive manufacturing base, which is manifested in concentration of low value-added goods in country's exports **(Figure 1.5c)**.

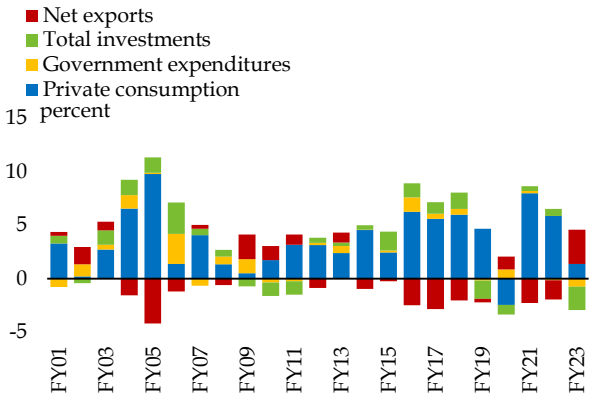
In addition to sub-optimal state of human and physical capital, multifaceted factors, which are offshoots of the country's archaic policy environment, have marred the country's ability to generate sustained increase in exports. These include low competitiveness of exports, lack of innovation and product development, high cost

**Large Imbalances in the Fiscal Account** **Figure 1.5a**



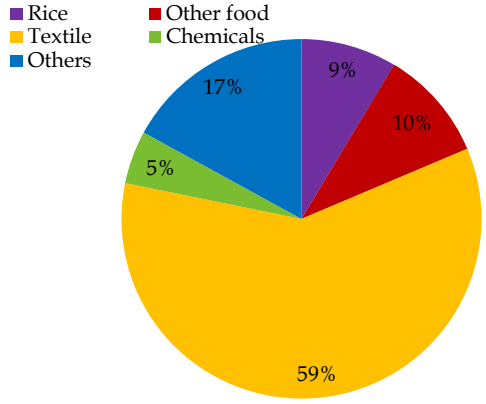

Source: Ministry of Finance

**Low Investment is a Hallmark of Pakistan's Growth Experience** **Figure 1.5b**



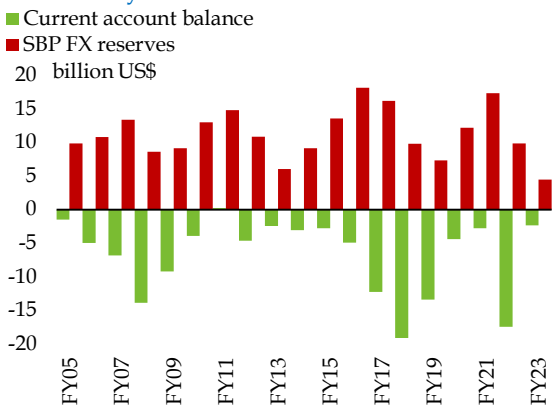

Source: Pakistan Bureau of Statistics

**Commodity Concentration of Exports (Average FY19-FY23)** **Figure 1.5c**




Source: Pakistan Bureau of Statistics

**Consumption-led Growth Frequently Causes Balance of Payments Crisis** **Figure 1.5d**




Source: State Bank of Pakistan

of doing business, lack of product and market diversification, inability to meet quality standards, unavailability of efficient supply chains, continued reliance on imported raw materials and capital goods and a long range of sector specific issues. At the same time, stagnant crop yields and lack of attention to development of food supply chain and imperfections in food market have considerably increased the country's reliance on imported food commodities. These trends underpin unsustainable current account balance, which has increased the country's vulnerability to global supply shocks through pressures on FX reserves and exchange rate **(Figure 1.5d).**

The situation requires initiation of comprehensive reforms with an aim to address various sectoral imbalances to ensure availability of resources for economic growth and development. To this end, expediting tax policy reforms aimed at increasing documentation, widening of tax base, improving tax administration, eliminating leakages and creating a culture of tax compliance, assume a center stage. Similarly, restricting non-interest current spending by ensuring speedy implementation of governance reforms in PSEs is instrumental to contain fiscal slippages and create fiscal space for undertaking needed public investment in human and physical capital.

Especially, energy sector reforms need to be prioritized to stem the buildup of circular debt by minimizing transmission and distribution

losses, aligning energy tariffs with cost, eliminating untargeted subsidies, and speedy implementation of reforms for reducing the energy cost. Also, there is a need to lower energy intensity of the economy through adoption of unconventional means. Furthermore, strengthening Public Financial Management (PFM) is required to improve efficiency and transparency of fiscal spending. An improvement in public investment will go a long way in crowding in private investment in the key sectors.

Furthermore, manufacturing and exports sectors require technological upgradation to improve competitiveness and minimize reliance on imports. In this regard, there is also a need to create conducive environment to support inflow of FDI in exportable sectors, to encourage technology transfers and advancements in labor skills. Similarly, agriculture sector reforms aiming at enhancing crop yields (**Box 2.1**), development of food supply chain and addressing market imperfections are required to brace for the rising challenge of climate change. These measures will not only help alleviate import reliance but are also crucial for achieving price stability. There is a crucial need to expedite these reforms to achieve a high and sustainable economic growth, required to absorb the new entrants in labor market, improve social welfare and lift the general standard of living in the country.

In this context, the availability of factual information about macroeconomic conditions, markets, businesses, as well as individual welfare, is an important ingredient for evidence-based policy making. This report includes a special chapter on the need to streamline the state of Pakistan's National Statistical System (NSS). The chapter discusses preparedness of Pakistan's NSS statistical system to meet the growing need for informed decision-making and highlights important gaps in Pakistan's official statistics in terms of coverage and frequency and identifies some suggestions for NSS reforms.

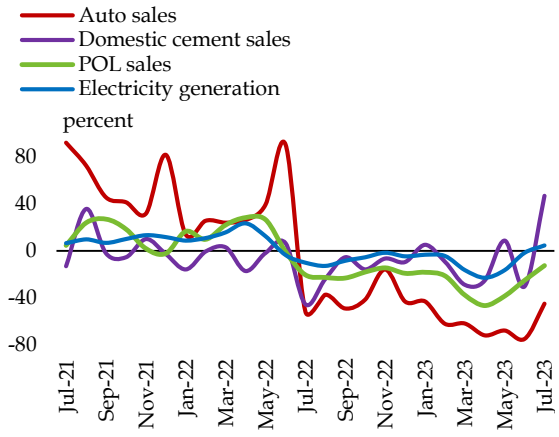
## 1.2 Economic Outlook

After a year of turbulence, Pakistan's economic situation has started to show some early signs of improvement. The country was able to secure a US$ 3.0 billion Stand-By Arrangement (SBA) from IMF, towards the end of FY23, which helped in alleviating immediate risks to some extent. The initial disbursement of US$ 1.2 billion under the SBA in July 2023, alongside US$ 3 billion bilateral inflows, helped reverse the declining trend in the SBP FX reserves. Furthermore, according to the July 2023 World Economic Outlook, the prospects for global economic growth in 2023 have somewhat improved, compared to earlier projections. Similarly, the non-energy global commodity prices have also eased compared to last year. These trends may have positive implications for Pakistan's economy.

The high frequency indicators are suggesting bottoming out of economic activity from July 2023 (**Figure 1.6**). The withdrawal of guidance on import prioritisation from end-June 2023, alongside gradual ease in FX position, is expected to somewhat ameliorate supply chain situation and lift growth in LSM as well as exports.

Moreover, an expected rebound in cotton and rice production will support agriculture growth in FY24. To encourage cotton production, the

**High Frequency Demand Indicators** **Figure 1.6**




Sources: APCMA, PAMA, OCAC and NEPRA

government announced a minimum price of Rs 8,500 per 40 kg for the FY24 crop. According to the preliminary information, the incentive has helped in securing increase in cotton sowing area, and is also likely to encourage farmers to scale up crop management practices despite rising prices of fertilizers and pesticides. Reflecting the impact of these incentives, cotton arrivals posted a strong 97.5 percent increase as on September 1, 2023, compared to the same period last year. Similarly, favourable weather conditions and a steep increase in domestic rice prices incentivised growers to expand area under rice crop and hence production in the ongoing year.

The expansion in commodity producing sectors is expected to have a knock-on impact on services in FY24. However, the impact of various demand compression measures introduced in past two years may contain the pace of recovery in economic activity. Reflecting these considerations, the SBP expects the real GDP growth to fall in the range of 2 – 3 percent in FY24 **(Table 1.2)**.

The lagged impact of monetary tightening, and other contractionary measures, is expected to keep domestic demand in check. Moreover, prospects of improvement in supply situation on account of likely increase in production of important crops and resumption of imports, is expected to further moderate inflationary pressures in FY24. In addition to the improvement in domestic supplies, a high base from last year and sluggish trend in non-energy global commodity prices are expected to help bring down inflation in the range of 20.0 – 22.0 percent in FY24. However, unforeseen climate events, adverse movements in global commodity prices, especially oil, and external account pressures are some important upside risks to this outlook.

The SBP projects fiscal deficit in the range of 7.0 – 8.0 percent in FY24. Higher interest payments

**Macroeconomic Targets and Projections for FY24** **Table 1.2**

| | Target | SBP Projections |
|---|---|---|
| | *Growth rate (percent)* | |
| Real GDP[a] | 3.5 | 2.0 – 3.0 |
| CPI (average)[a] | 21.0 | 20.0 – 22.0 |
| | *billion US$* | |
| Remittances [a] | 30.5 | 25.5 – 26.5 |
| Exports (fob)[a] | 30.0 | 28.0 – 29.0 |
| Imports (fob)[a] | 58.7 | 50.0 – 52.0 |
| | *percent of GDP* | |
| Fiscal deficit [b] | 6.5 | 7.0 – 8.0 |
| Current a/c deficit | | 0.5 – 1.5 |

Sources: [a] Annual Plan 2023-24, [b] Federal Budget 2023-24

may continue to prevent a notable reduction in spending during FY24. Non-interest expenditure, however, is expected to remain contained on account of lower subsidies and grants. A tepid recovery in economic activity is likely to shore up revenue collection during FY24. In FY24, the government has envisaged to boost revenues by increasing PDL to Rs 60/litre, and announcing higher rates on top income tax brackets, builders, developers and property, and introducing additional GST on unregistered businesses.

The outlook for the external account improved at the start of FY24. The finalization of Stand-By Arrangement with the IMF was instrumental in reviving confidence of multilateral and bilateral creditors, as well as international investors, and led to sizeable foreign inflows during the first two months of FY24. On the other hand, slightly improved global and domestic growth prospects are expected to bolster foreign exchange earnings from exports of goods and services. Although import volumes are likely to increase, lower commodity prices may prevent a significant expansion in imports bill during FY24. Workers' remittances in FY24, however, are expected to remain slightly lower compared to the last year's level. Accounting for these factors, SBP projects the current account deficit to fall in the range of 0.5 – 1.5 percent of GDP in FY24.

# Economic Growth

Pakistan's economic growth decelerated sharply to 0.3 percent in FY23, the third lowest outturn in the country's history, as shocks once again exposed domestic economy's lack of resilience to sustain higher growth sans reforms. A confluence of contractionary policies and administrative measures aimed at slowing domestic demand to contain inflationary pressures, external vulnerabilities, massive floods, domestic uncertainties and supply shocks stemming from global recessionary concerns adversely affected domestic economic activity during FY23. The brunt of the contractionary policies and administrative measures was borne by industrial sector, which recorded a contraction driven by large-scale manufacturing (LSM). Agriculture sector, despite devastating floods, managed to grow as strong showing by livestock and improved post-flood crop yields offset the damages to cotton and rice crops. Decline in production of major crops and contraction in industry, combined with slump in imports, had adverse knock on impact on services sector, especially to the wholesale & retail trade and finance & insurance, which represents more than 33 percent of services sector. The available information on labor market shows a reduction in industrial employment in Punjab and Sindh in line with downtrend in LSM. SBP surveys also reflect deterioration in employment sentiments in industrial and services sectors for the past and coming six months.

# 2 Economic Growth

## 2.1 GDP Growth

The real GDP growth decelerated considerably to 0.3 percent in FY23, from around 6 percent during the previous two years (**Table 2.1**). This was the third lowest growth recorded in the history of Pakistan.[1] Both the structural weaknesses, amplified by domestic and global shocks, and policy-induced slowdown in domestic demand severely constrained the post-pandemic momentum in growth.

On the domestic front, contractionary policies and administrative measures amid increased inflationary pressures, stress on external account, wide-spread rains and floods, supply chain disruptions and political uncertainty weighed heavily on economic activities. From the external side, Russia-Ukraine conflict, elevated commodity prices, and monetary tightening especially by advanced economies to contain spiraling inflation led to a slowdown in global economic growth. This had dampening effect on Pakistan's exports as well as remittances.

The structural vulnerabilities are reflected by the composition of real GDP measured from the expenditure side, with consumption accounting for more than 90 percent. The investment, on the other hand, fell to 13.6 percent of GDP in FY23 after remaining around 15 percent during the previous four years. Similarly, the exports remained around 10 percent of GDP on average during the last five years (**Table 2.2**).

Given the GDP composition, the swings in consumption, especially private consumption, usually fuelled by accommodative macroeconomic policies, lead the fluctuations in growth. Low investment, constrained by low domestic savings (**Figure 2.1**), and thus limited capacity to meet domestic demand is most of the

**Growth and Sectoral Shares in GDP** — Table 2.1

| | Growth | | | Sectoral Share | | |
|---|---|---|---|---|---|---|
| | FY21 | FY22[R] | FY23[P] | FY21 | FY22 | FY23 |
| Agriculture | 3.5 | 4.3 | 1.6 | 23.0 | 22.6 | 22.9 |
| Industry | 8.2 | 6.8 | -2.9 | 19.0 | 19.1 | 18.5 |
| Services | 5.9 | 6.6 | 0.9 | 58.0 | 58.3 | 58.6 |
| **GDP** | **5.8** | **6.1** | **0.3** | **100.0** | **100.0** | **100.0** |

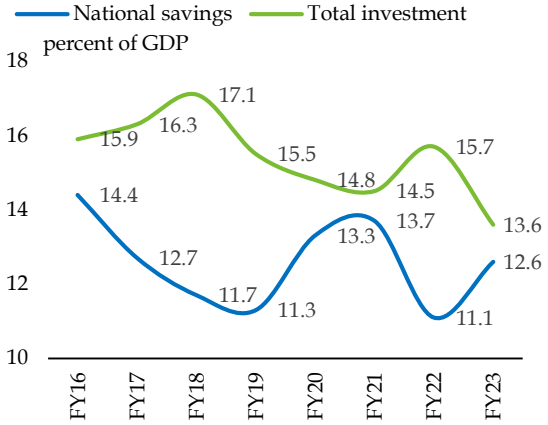
R: Revised, P: Provisional
Source: Pakistan Bureau of Statistics

**Components of GDP from Expenditure Side** — Table 2.2
as percent of GDP

| | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Consumption | 94.6 | 93.3 | 94.4 | 96.2 | 94.0 |
| Household* | 83.9 | 81.5 | 83.5 | 85.7 | 84.2 |
| Government | 10.7 | 11.8 | 10.9 | 10.5 | 9.7 |
| Investment | 15.5 | 14.8 | 14.5 | 15.7 | 13.6 |
| Exports | 9.4 | 9.3 | 9.1 | 10.5 | 10.1 |
| Imports | 19.5 | 17.4 | 18.0 | 22.5 | 17.7 |
| Net Exports | -10.1 | -8.1 | -8.9 | -12.0 | -7.6 |

* including NPISH
Source: Pakistan Bureau of Statistics

**Savings & Investment Trend** — Figure 2.1




Source: Pakistan Bureau of Statistics

[1] The magnitude of contraction in GDP was 1.8 and 0.9 percent, respectively, during FY52 and FY20.

**GDP Growth from Expenditure Side** **Table 2.3**

growth in percent

| | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Consumption | 4.8 | -1.6 | 8.6 | 5.9 | 0.7 |
| Household* | 5.6 | -2.8 | 9.4 | 6.7 | 1.6 |
| Government | -1.6 | 8.5 | 1.8 | -1.3 | -7.2 |
| Investment | -9.7 | -6.1 | 4.0 | 5.5 | -15.4 |
| Exports | 13.2 | 1.5 | 6.5 | 5.9 | -8.6 |
| Imports | 7.6 | -5.1 | 14.5 | 11.0 | -17.8 |
| Net Exports | 3.1 | -10.9 | 22.6 | 15.5 | -25.3 |

* including NPISH

Source: Pakistan Bureau of Statistics

time associated with widening of current account deficit. Such a situation warrants contractionary policies to slow domestic demand, which reduces consumption that, in turn, drags down growth.

This boom and bust cycle keeps on repeating, and FY23 was no different. In response to contractionary policies to slow domestic demand in order to reduce inflationary pressures and contain current account deficit, the growth in real consumption decelerated to 0.7 percent in FY23 from 5.9 percent in FY22. Importantly, the real investment has fallen much precipitously by 15.4 percent in FY23 (**Table 2.3**), which also reflects deterioration in business confidence due to increased domestic uncertainties and outstanding bottlenecks.

The brunt of the contractionary policies and resultant slower consumption growth during FY23 was borne by industry and services sectors. The sector-wise analysis shows that deceleration in real GDP growth was largely driven by contraction in industry, led by large-scale manufacturing (LSM) and construction. In addition to the impact of policy-induced slowdown in demand, reduced availability of raw materials due to floods and import restraints affected industrial activity negatively. Several firms experienced temporary shut-downs in production mostly due to supply chain disruptions. The political and economic uncertainty, especially surrounding the IMF program, also weighed heavily on business sentiments.

Despite flood-induced severe damages to two major *kharif* crops, cotton and rice, the agriculture sector registered growth in FY23, albeit slower compared to the previous year. While bumper wheat crop as well as increase in sugarcane and maize production partially compensated for lower cotton and rice output, the major impetus to agriculture growth came from better performance of the livestock sector.

In line with the decline in production of major crops and contraction in LSM as well as a slump in imports, growth of the services sector considerably moderated in FY23. Within the services sector, growth in the *wholesale and retail* sector declined owing to its direct linkages with industry, agriculture and imports. In contrast, the *transportation and storage* witnessed expansion due to increase in road transport services. While *information and telecommunication* maintained its upward trajectory, the growth in *finance and insurance* services decelerated mainly due to high inflation.[2]

**Agriculture Growth** **Table 2.4**

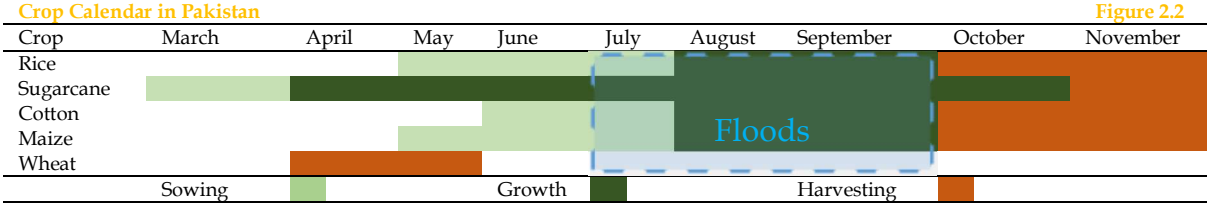
percent

| Sector | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Agriculture | 0.9 | 3.9 | 3.5 | 4.3 | 1.6 |
| Crops | -4.4 | 6.3 | 5.8 | 8.2 | -2.5 |
| Important crops | -8.6 | 5.2 | 5.8 | 5.4 | -3.2 |
| Other crops | 3.6 | 9.2 | 8.0 | 11.9 | 0.2 |
| Cotton ginning | -11.2 | -4.1 | -13.1 | 9.2 | -23.0 |
| Livestock | 3.7 | 2.8 | 2.4 | 2.3 | 3.8 |
| Forestry | 7.2 | 3.4 | 3.4 | 4.1 | 3.9 |
| Fishing | 0.8 | 0.6 | 0.7 | 0.4 | 1.4 |

Source: Pakistan Bureau of Statistics

[2] The real interest rates remained mostly in negative during FY23.

**Crop Calendar in Pakistan** **Figure 2.2**




*Floods mainly coincided with the harvest and growth period of major Kharif crops

Sources: FAO and National Agromat Center

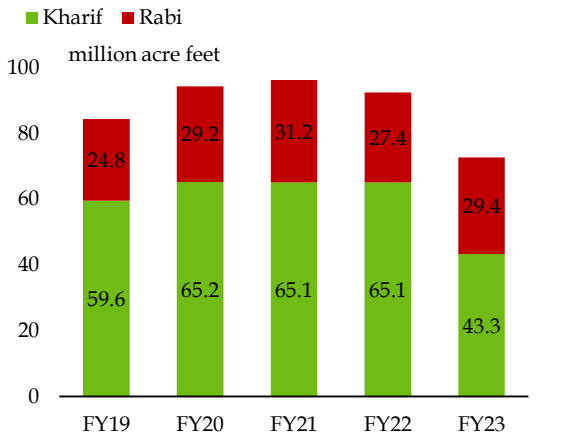
Going along with the downward trajectory in LSM, the industrial employment both in Punjab and Sindh declined during FY23. In addition, the SBP Business Confidence Survey (BCS) and Consumer Confidence Survey (CCS) also manifested deterioration in employment sentiments both in industrial and services sectors.

## 2.2 Agriculture

After three consecutive years of commendable performance, the growth in agriculture sector decelerated to 1.6 percent during FY23 (**Table 2.4**). The deceleration was mainly due to important crops, which registered a 3.2 percent decline during FY23 as compared to a growth of 5.4 percent in the previous year.

The crop sector was affected by unfavorable weather conditions, particularly during *Kharif* season. A drought-like situation at the start of the season was followed by heavy monsoon rains causing flash floods especially during July-August 2022, just before the harvesting stage of cotton and rice crops (**Figure 2.2**). Also, the increased cost of production impacted the crop yields. However, increase in production of wheat and sugarcane partially compensated for the losses in cotton and rice crops. The main support, however, was provided by a notable acceleration in growth of livestock sector.

**Surface Water Availability** **Figure 2.3**




Source: Indus River System Authority

### Inputs

### Water availability

The water availability was on average lower by 21.4 percent in FY23 as compared to the previous year. A season-wise breakdown reveals that water availability was 33.5 percent lower during *Kharif* in FY23. However, it improved after the floods and was up by 7.3 percent for the FY23 *Rabi* season as compared to the previous year **(Figure 2.3)**

Besides lower water availability, the water supply situation was also quite erratic during *Kharif* season. The season commenced with a drought-like situation as rainfall during April and May 2022 was below normal. However, the situation reversed as heavy monsoon rains set in during June 2022 that continued during July and August 2022, resulting in floods.[3] Similarly, the irrigation water flows also remained stressed during the start of the season, but improved later in the year with higher than normal rainfall. These manifestations of climate change have posed

[3] Pakistan Meteorological Department (2022). *Monthly Weather Report*. Islamabad: PMD.

**Fertilizer Supply and Demand** **Table 2.5**

| | Kharif FY22 | | Rabi FY22 | | Kharif FY23 | | Rabi FY23 | |
|---|---|---|---|---|---|---|---|---|
| | Urea | DAP | Urea | DAP | Urea | DAP | Urea | DAP |
| Opening stock | 298 | 55 | 116 | 353 | 200 | 276 | 294 | 460 |
| Imported supplies | 0 | 733 | 100 | 385 | 103 | 185 | 298 | 302 |
| Domestic production | 3,106 | 444 | 3,272 | 443 | 3,158 | 451 | 2,928 | 226 |
| Total availability | 3,404 | 1,232 | 3,489 | 1,181 | 3,460 | 912 | 3,520 | 988 |
| Closing stock | 116 | 353 | 294 | 255 | 294 | 460 | 67 | 284 |

Sources: National Fertilizer Development Centre/ Economic Survey of Pakistan

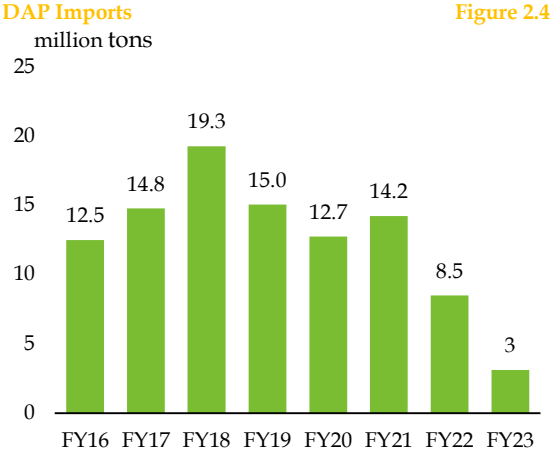
serious challenges to productivity in the agriculture sector.

### Fertilizer Availability

Gas shortages, and consequently higher prices, affected the availability of fertilizer during FY23 **(Table 2.5).** In *Kharif* season, domestic production of urea expanded owing to which total availability of urea improved as compared to the previous year. In contrast, DAP availability remained constrained, and the trend continued during *Rabi* on account of lower imports **(Figure 2.4**). From the demand side, total offtake of urea declined by 3.7 percent during *Kharif* and increased by 4.5 percent during *Rabi* as compared to the previous year. However, DAP offtake declined in both *Kharif* and *Rabi,* by 44.7 percent and 23.4 percent, respectively **(Figure 2.5a & 2.5b).**

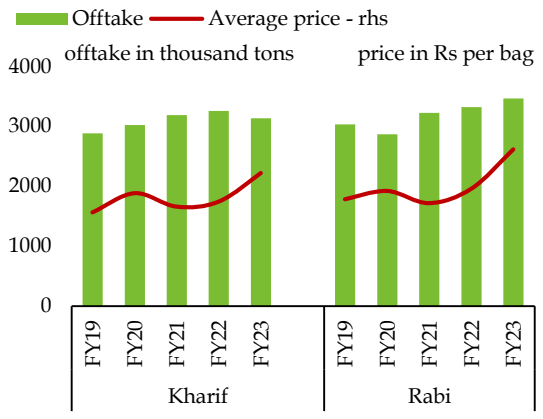
The lower fertilizer offtake during FY23, particularly of DAP, was largely due to elevated prices. The international fertilizer prices that had started to increase in the post-pandemic period, reached historic high by June 2022 due to reduced supply in the aftermath of Russia-

**DAP Imports** **Figure 2.4**

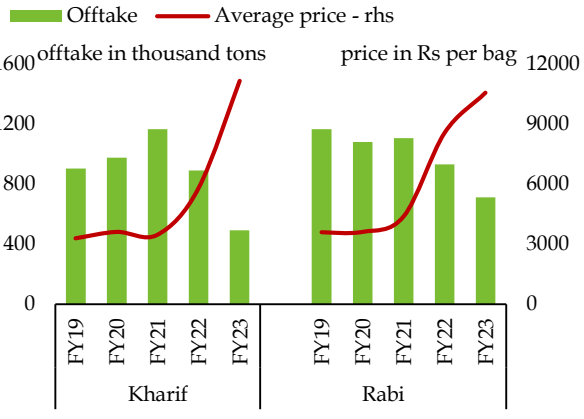



Source: Pakistan Bureau of Statistics

**Season-wise Urea Offtake and Price** **Figure 2.5a**

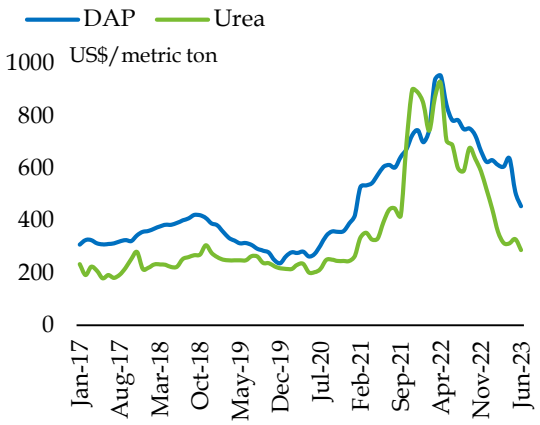



**Season-wise DAP Offtake and Price** **Figure 2.5b**




Source: National Fertilizer Development Centre

**Global Urea and DAP Prices** **Figure 2.6**




Source: World Bank

Ukraine conflict, sanctions on Belarus, and ban on fertilizer export by China.[4]

Although fertilizer prices started to moderate from the beginning of FY23 on account of decline in global gas prices and the reopening of fertilizer plants in Europe, these were still higher than the pre-pandemic levels **(Figure 2.6 )**.[5] Further, the impact of moderation in international prices was offset by depreciation of PKR. Moreover, urea prices also stayed high during the review period on account of high gas tariffs.

**Credit availability**

Credit disbursement to the agriculture sector increased by 25.2 percent during FY23, as compared to 3.9 percent in the previous year **(Table 2.6).** The growth was majorly driven by production loans. In addition, loans for corporate farming expanded significantly.

Higher credit disbursement was mainly due to increasing cost of production arising from high input prices (such as fertilizer, energy and labor wages) and an increase in land rents **(Table 2.7)**. Meanwhile, numerous initiatives by the State Bank of Pakistan, including adoption of

**Agriculture Credit Disbursement** **Table 2.6**

billion Rupees

| Sector | FY21 | FY22 | FY23 |
|---|---|---|---|
| **Farm Sector (Production)** | | | |
| All crops | 458.9 | 374.7 | 438.8 |
| Horticulture | 34.8 | 34.4 | 36.6 |
| Corporate farming | 34.1 | 57.0 | 110.6 |
| Others | 184.0 | 220.8 | 331.1 |
| **Subtotal** | **711.8** | **686.9** | **917.1** |
| **Farm Sector (Development)** | | | |
| Tractor | 4.4 | 10.7 | 10.9 |
| Farm machinery | 0.21 | 0.7 | 2.5 |
| Tube well | 0.2 | 0.5 | 1.7 |
| Sprinkle and trickle irrigation | 0.0 | 0.0 | 0.0 |
| Others | 41.5 | 30.1 | 34.7 |
| **Subtotal** | **46.4** | **42** | **49.7** |
| **Non-Farm Sector (Working Capital)** | | | |
| Livestock/dairy | 319.7 | 349.0 | 394.7 |
| Poultry | 192.8 | 222.9 | 261.0 |
| Others | 40.1 | 48.4 | 70.4 |
| **Subtotal** | **552.5** | **620.3** | **726.0** |
| **Non-Farm Sector (Fixed Investment)** | | | |
| Livestock/dairy | 22.7 | 41.2 | 58.8 |
| Poultry | 24.0 | 19.9 | 15.4 |
| Others | 8.4 | 8.7 | 8.9 |
| **Subtotal** | **55.1** | **69.7** | **83.1** |
| **Grand Total** | **1,365.9** | **1,418.9** | **1,776.0** |

Source: State Bank of Pakistan

agriculture credit scoring for banks' performance, introduction of champion bank concept and the implementation of risk mitigation, crop loan insurance and credit guarantee scheme – facilitated and reinforced agriculture credit uptake during FY23.

In addition, the government also launched the *PM Kissan Package* in October 2022, which provided subsidized seeds to facilitate recovery

**Weighted Average Cost of Production (at farm gate)** **Table 2.7**

Rupees per acre

| | FY22 | FY23 | Change (%) |
|---|---|---|---|
| Cotton | 68,830 | 76,155 | 10.6 |
| Maize | 69,672 | 78,580 | 12.8 |
| Sugarcane | 117,044 | 117,955 | 0.8 |
| Wheat | 47,432 | 69,999 | 47.6 |

Source: Agriculture Market Information System

[4] World Bank (March 2023), *Food Security Update. Washington D.C: WB.*
[5] World Bank (February 2023), *Food Security Update. Washington D.C: WB.*

from floods. Other initiatives under the *Kissan* packages included; markup waiver scheme, under which mark up of around Rs 3 billion was waived off for the farmers affected by floods. Credit also expanded due to GoP markup subsidy scheme, interest free loans, and risk sharing scheme, and PM youth business and agriculture loan schemes.

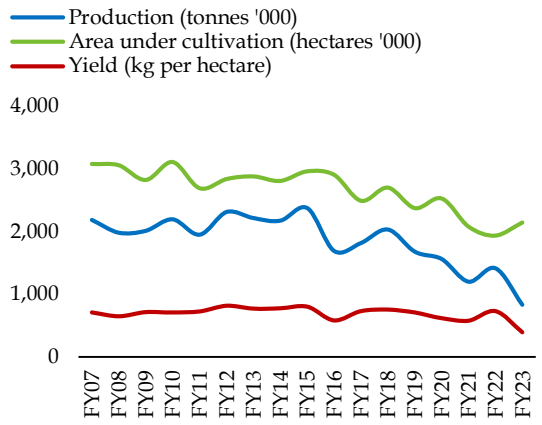
## Output

### Cotton

After a moderate recovery in FY22, cotton production dipped to a multi-decade low in FY23 **(Figure 2.7).** Despite an increase in area under cultivation, cotton production declined by 41 percent during FY23 as floods damaged the crops in major cotton-producing areas, like Sukkur, Shaheed Benazirabad, in Sindh and Rajanpur, DG Khan and Taunsa in Punjab. Other than floods, environmental factors such as, higher-than-average temperatures, low water availability, and pest attacks also affected cotton yields.[6]

Specifically, area under cultivation of cotton increased by 10.7 percent in FY23 after a considerable decline in the past two years **(Figure 2.7)**. This increase can be attributed to high domestic cotton prices during FY22.[7] The cotton yield, however, remained significantly lower than regional countries due to heat stress, lack of climate change resistant seeds and relatively lower profitability.

Cotton - Production, Yield and Area — Figure 2.7




Source: Pakistan Bureau of Statistics

The trends in cotton yields are not different from other crops. In this backdrop**, Box 2.1** discusses how yields of various crops can be improved by effectively utilizing different ICT tools.

**Box 2.1: Leveraging ICT in Agriculture**

Agriculture has become knowledge-intensive over time and farmers face challenges like limited access to information, financial services, and markets.[8] Information and Communication Technology (ICT) tools help address these challenges . For instance, mobile phones, sensors, and satellites play a pivotal role in making information accessible to farmers, resulting in higher productivity and low operational costs.[9] For instance, sensors can help in detecting diseases and pest attacks, whereas satellite can help in predicting weather and climate conditions, yield estimation and monitoring crop health at different stages. Similarly, mobile phones can be used to provide real time information to farmers regarding weather conditions, input prices and optimal input usage.

The integration of ICT in agriculture has significantly enhanced yields by bridging information gaps in countries like Kenya, India, and Rwanda among others. By effectively utilizing mobile apps and sensor technology, farmers can access weather forecasts, expert advice, and market prices. For instance, Plantix - a mobile app advisory - has gained significant traction in India that helps farmers detect nutrient deficiencies, pests, and diseases within seconds. The

[6] SUPARCO (September 2022), *Suparco Crop Bulletin*. Islamabad: SUPARCO.
[7] For details, see External Sector, State of Pakistan's Economy Report, State Bank of Pakistan, HY23
[8] Sources: Information and Communication Technology (ICT) in Agriculture, 2017, Food and Agriculture Organization of the United Nations.
[9] UNDP (2017), *Precision agriculture for small holders' farmers*. New York: UNDP.

**Tech Startups in Selected Countries** **Table 2.1.1**

| Application | Country | Description |
|---|---|---|
| WeFarm | Kenya | WeFarm is a mobile based platform that allows farmers to exchange information with other farmers and connect with stakeholders, i.e., government and agricultural business. |
| Plantix | India | Plantix is a mobile crop advisory application that gives diagnosis and treatments for pests, nutrient deficiencies and diseases based on photographs taken by a smartphone. |
| BKK | Pakistan | Bakhabar Kissan provides weather updates, crop advisory and disaster management services along with capacity building via SMS, phone calls, and other social platforms. |
| M-Farm | Kenya | M- Farm allows users to gain information about prices of inputs and retail prices of agricultural produce. |
| Riccult | Pakistan | Riccult is a free app and provides weather forecast and crop advisory to farmers. |
| Agrocenta | Ghana | Agrocenta connects small-scale farmers to a wider online market and provides real time information through IVR and SMS. |

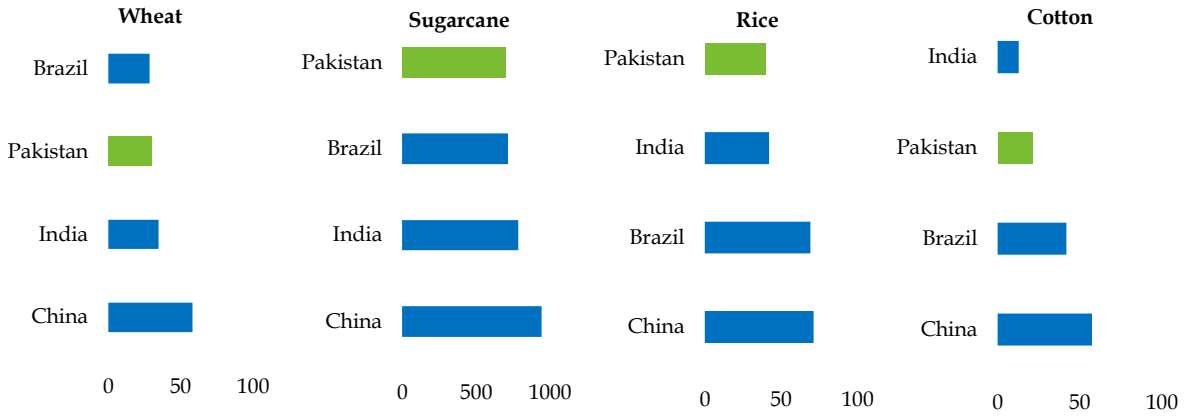
app has been downloaded over ten million times.[10] In Kenya, services like M-Farm enable informed decision-making by providing crop-specific advice.

Easy and quick access to information via digital advisories and marketplaces lowers search costs significantly. In rural Niger, for instance, information pertaining to agricultural prices obtained through mobile phones decreases search costs by 50 percent.[11] With the expansion of mobile networks in Niger, differences in grain prices have decreased by 20 percent.[12] Similarly, in Ghana, providing information to farmers via mobile phones in local languages in some cases increased yields by almost 50 percent.[13] As per the Food and Agriculture Organization (FAO) estimates, 25 percent of damages in agriculture are caused by extreme weather, and ICT-based advisories can help farmers prepare better for such events.

As per the National Productivity Council of India, soil health cards in India, made after collecting soil samples via GPS, have reduced the use of chemical fertilizers by 8–10 percent and increased productivity by 5–6 percent. In Vietnam, farmers saved 15-20 percent of water by using smart irrigation practices enabled by ICT tools. Similarly, drones helped in eliminating 98 percent of *armyworm* invasion in China.

ICT enabled solutions can also connect farmers with financial services by providing them with digital platforms to access loans and insurance. Similarly, digital access to marketplaces can lower transaction costs, increase price transparency, and enable farmers to access new markets. In China, there were 9.85 million online shops being run by

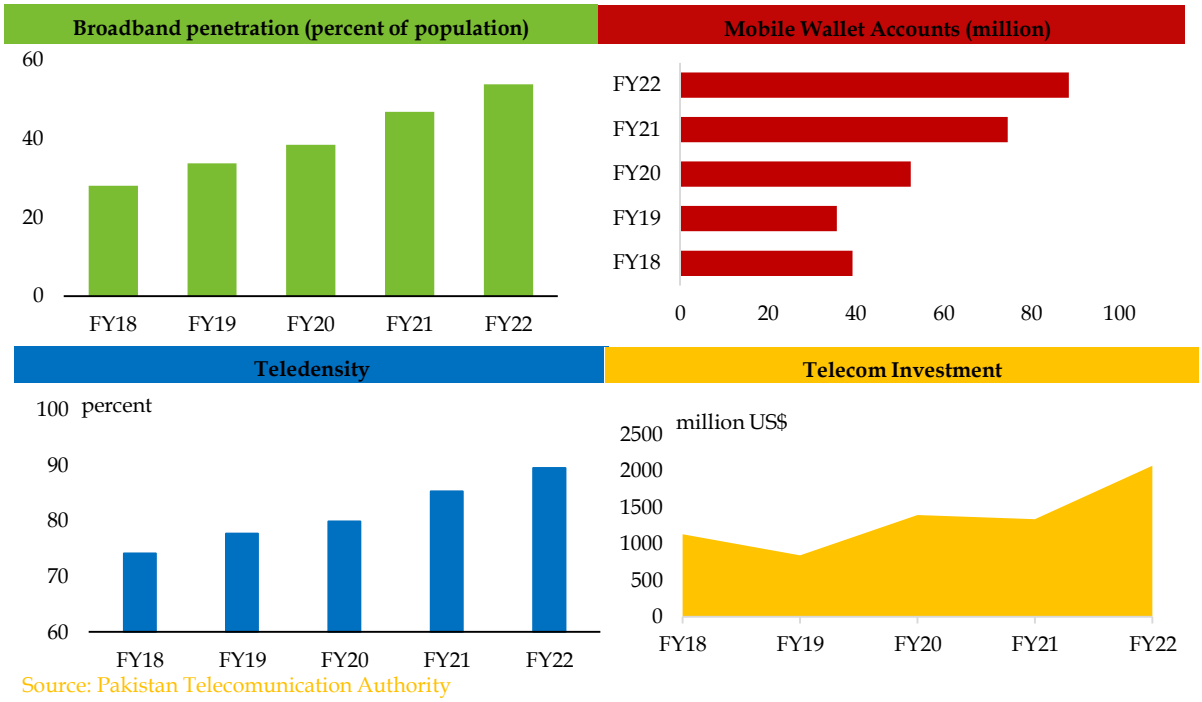
**Yield of Major Crops (000 kg/ha)** **Figure 2.1.1**




Source: Food and Agriculture Organization

[10] ITU (2020), *Emerging Technologies for Development*. Lahore: ITU.
[11] Food and Agriculture Organization (2017), *Information and Communication Technology (ICT) in Agriculture*. Rome: FAO.
[12] ibid
[13] World Bank (2017), *ICT Sourcebook*. Washington D.C: WB

Telecom Indicators Figure 2.1.2




Source: Pakistan Telecomunication Authority

rural farmers as of 2017.[14] Providing information to farmers via extension services generated additional income of US$ 2 to 3 billion for farmers and 50 percent of them reported reduced spending on inputs.
Lastly, ICT tools can also help increase farm productivity by providing easy access to mechanization services, such as tractors. For instance, Hello Tractor, operational in almost fifteen African countries, provides a virtual platform to connect tractor owners with farmers looking for tractor services. **Table 2.1.1** summarizes some tech startups using ICT tools across the world.

Pakistan has lagged behind other countries in terms of crop yields **(Figure 2.1.1)** and has become a net importer of food items as demand continues to outstrip supply. Pakistan can capitalize on its expanding ICT sector and growing tele density **(Figure 2.1.2)** to bridge information gaps and enhance agricultural productivity.

Adopting ICT in Pakistan's agriculture can play a transformative role in bridging the information gaps faced by farmers. ICT applications can provide farmers with access to timely, accurate, and relevant information, enabling them to make informed decisions and improve their agricultural practices. Pakistan has startups like Ricult, Bakhabar Kissan, and Mandi Express that provide advisory and finance services to farmers, but issues like low literacy and lack of digital skills have hindered the effective utilization of ICT tools.[15] To fully harness the potential of ICT in agriculture, Pakistan needs to improve digital infrastructure, promote digital literacy and encourage public-private partnership.

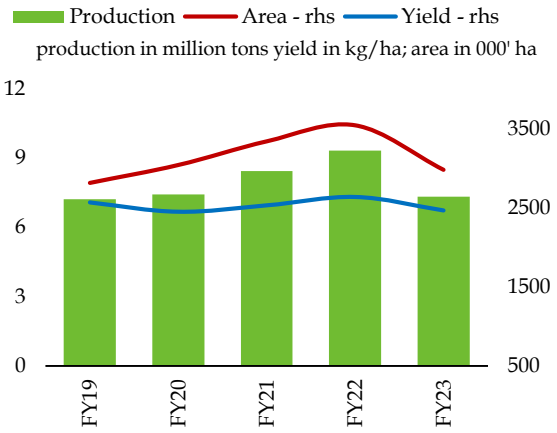
**Rice**

After a bumper crop in FY22, rice production declined by 21.5 percent in FY23 **(Figure 2.8).** The most flood damages were reported in Sindh, which mainly produces non-basmati varieties of rice. Districts of Jacobabad, Larkana and Kashmore remained inundated.

The losses were comparatively lower in Punjab province, where mostly basmati rice is grown. Production of non-basmati rice, the coarse type

[14] World Bank (2019), *Future of food: Harnessing Digital Technologies to Improve Food System Outcomes*. Washington D.C: WB.
[15] World Bank (2018), *Private Sector Solutions to Helping Smallholders Succeed,* Washington D.C: WB.

**Rice - Production, Yield and Area** **Figure 2.8**



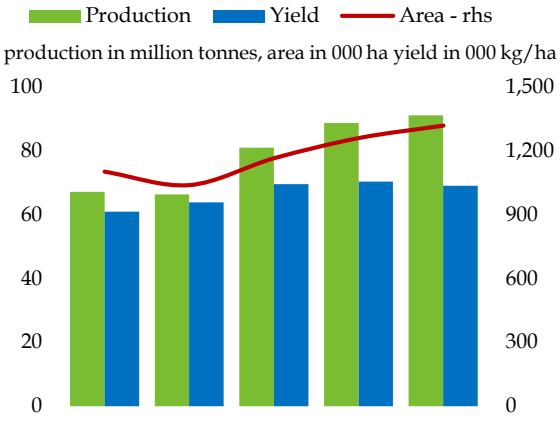

Source: Pakistan Bureau of Statistics

of rice, is gaining momentum in Pakistan owing to the prevalence of high prices and high yielding varieties in the local market introduced by various private companies.[16]

**Sugarcane**

Sugarcane production increased by 2.8 percent in FY23, as compared to a growth of 9.4 percent in FY22 **(Figure 2.9).** Being relatively more resilient to standing water, the flood-related damages to sugarcane crop remained limited. However, the yields declined compared to the previous year. Moreover, major sugarcane-

**Sugarcane - Production, Yield and Area** **Figure 2.9**




Source: Pakistan Bureau of Statistics

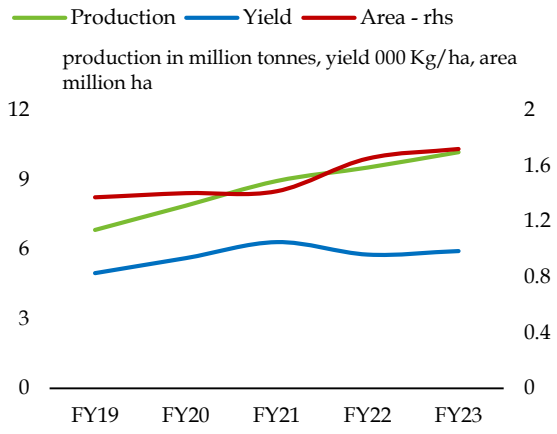
growing regions like Faisalabad, Sarghoda, and Mardan remained unaffected by floods. Therefore, despite expansion in area under cultivation encouraged by higher prices of last few years; the growth in sugarcane

production decelerated.

**Maize**

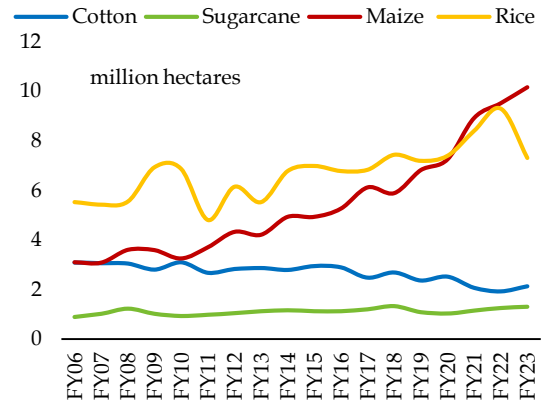
In line with past trends, maize production continued to maintain upward momentum, mainly due to an increase in area under cultivation and availability of high-yielding varieties of hybrid seeds **(Figure 2.10)**.[17] In

**Maize - Production, Yield and Area** **Figure 2.10**




Source: Pakistan Bureau of Statistics

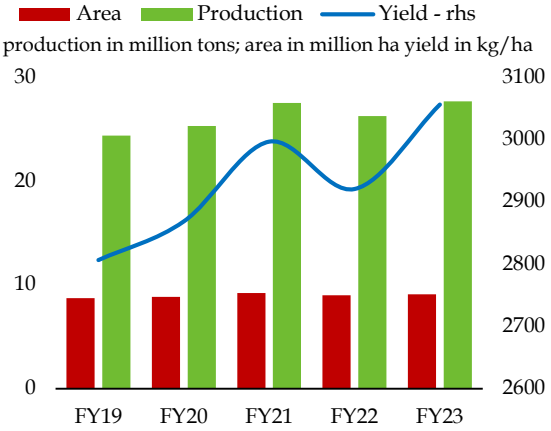
**Area under Cultivation of Major Kharif Crops** **Figure 2.11**




Source: Agriculture Market Information System

[16] USDA (2023), *Food and Grain Report*. Washington D.C: USDA.
[17] For more details, See Chapter 2, State of Pakistan's Economy Annual Report 2020-2021

**Wheat - Production, Yield and Area** **Figure 2.12**




Source: Pakistan Bureau of Statistics

fact, higher yields and hence better returns are inducing farmers to grow more Maize by increasing area under cultivation. However, this has been achieved at the cost of reduced area under other crops (**Figure 2.11).**

### Wheat

Better water availability in the post-flood period benefitted the wheat crop in terms of improved yields. Wheat production witnessed an increase of 5.4 percent in FY23, against a decline of 4.6 percent last year **(Figure 2.12).** Other than favorable weather conditions, wheat crop also remained safe from rust and locusts attacks due to the increased usage of rust resistant varieties.[18] Despite lower fertilizer usage and no significant expansion in area, yield increased by 4.7 percent. In addition, the government ensured adequate supply of seeds, as the on-farm seeds perished due to floods. Kissan package also facilitated the provision of subsidized wheat seeds in flood affected areas.

Higher market prices of wheat also encouraged farmers to increase area under cultivation, which was up 0.7 percent against a decline in the previous year. Later, in March 2023, the government increased the Minimum Support Price (MSP) to Rs 3900/40 kg in Punjab and Rs 4000/kg in Sindh, compared to a uniform price of Rs 2200/40 kg in FY22 to compensate for the high cost of production.

### Other Crops

In line with previous trends, production of potatoes increased by 4.8 percent during FY23 **(Table 2.8).** The steady uptrend in area under cultivation and production of potatoes during the past few years largely owes to better prices and export opportunities.

Production of pulses, however, witnessed a mixed trend due to lower area under cultivation and floods. The *Kharif* pulses (moong and mash), in particular, were adversely impacted by floods, while *Rabi* pulses (masoor and gram) lost acreage to cotton crop in FY23 **(Table 2.8)**. As per Punjab Crop Reporting Service, major moong growing areas, Sargodha and DG Khan divisions, witnessed a decline in area under cultivation for moong by 29 percent and 24.3 percent, respectively. In contrast, acreage for cotton – a major crop - increased in the Sargodha

**Area and Production of Other Crops** **Table 2.8**

area in 000 hectares, production in 000 tonnes

| | FY22 | | FY23 | | Change (percent) | |
|---|---|---|---|---|---|---|
| | Area | Production | Area | Production | Area | Production |
| Mash | 8 | 6 | 7 | 4 | -12.5 | -31.1 |
| Moong | 302 | 264 | 218 | 135 | -29.0 | -48.9 |
| Gram | 862 | 316 | 830 | 238 | -4.0 | -24.7 |
| Potatoes | 314 | 7,937 | 341 | 8,319 | 8.6 | 4.8 |
| Oilseeds | 5,793 | 2,768 | 6,742 | 2,283 | 16.0 | -18.0 |
| Onions | 141 | 2,062 | 128 | 1,684 | -9.0 | -18.3 |

Source: Pakistan Bureau of Statistics

[18] USDA (March 2023), *Food and Grain Report*. Washington D.C: USDA.

**Gross Value Addition of Livestock Sector** **Table 2.9**
billion Rupees

| | FY21 | FY22 | FY23 |
|---|---|---|---|
| **Gross Output** | **6,795.4** | **7,018.2** | **7,263.3** |
| Natural growth and regeneration | 794.6 | 818.1 | 836.1 |
| Sold for slaughtering | 1,351.1 | 1,389.5 | 1,429.2 |
| Livestock products | 3,899.7 | 4,017.8 | 4,140.2 |
| Poultry products | 676.2 | 730.2 | 789.1 |
| Honey bee keeping | 53.2 | 40.8 | 49.4 |
| Silkworm rearing | 0.0 | 0.0 | 0.0 |
| Animal husbandry | 20.5 | 21.4 | 19.0 |
| Hunting | 0.2 | 0.4 | 0.3 |
| **Intermediate Consumption** | **1,524.3** | **1,628.4** | **1,670.0** |
| **GVA** | **5,271.1** | **5,389.8** | **5,593.3** |

Source: Pakistan Bureau of Statistics

and DG Khan divisions by 50 percent and 17 percent, respectively. Similarly, area under cultivation for mash decreased by 15 percent, whereas cotton acreage increased by 76.8 percent in North Punjab.[19]

**Livestock**

The growth in value addition in livestock sector accelerated to 3.8 percent in FY23, from 2.3 percent in the previous year **(Table 2.9)**.[20] Major impetus to the growth came from poultry that, despite issues in availability of feed, registered higher growth in FY23 compared to the previous year **(Table 2.10).** Moreover, the flood-related losses to livestock were also limited compared to

**Estimated Livestock Population** **Table 2.11**
million numbers

| Species | FY21 | FY22 | FY23 |
|---|---|---|---|
| Cattle | 51.5 | 53.4 | 55.5 |
| Buffalo | 42.4 | 43.7 | 45 |
| Sheep | 31.6 | 31.9 | 32.3 |
| Goat | 80.3 | 82.5 | 84.7 |
| Camels | 1.1 | 1.1 | 1.1 |
| Horses | 0.4 | 0.4 | 0.4 |

Source: Pakistan Bureau of Statistics

**Poultry Products** **Table 2.10**
million numbers

| | FY21 | FY22 | FY23 | Change |
|---|---|---|---|---|
| Day old chicks | 1,504 | 1,651 | 1,813 | 9.8 |
| Poultry birds | 1,578 | 1,725 | 1,887 | 9.4 |
| Eggs | 21,285 | 22,512 | 23,819 | 5.8 |
| Poultry meat | 1,809 | 1,977 | 2,160 | 9.3 |

Source: Pakistan Bureau of Statistics

the estimated animal population **(Table 2.11)**. Increased credit availability and numerous government's initiatives such as, Prime Minister Backyard Poultry Project to facilitate the sector may have contributed to higher growth in poultry.[21]

## 2.3 Industry

The industry recorded a contraction of 2.9 percent during FY23, in contrast to a heathy growth of 8.2 and 6.8 percent in FY21 and FY22, respectively (**Table 2.12**). The drag mainly came from decline in LSM, construction, and mining and quarrying.

Manufacturing, the largest component in the industry, contracted by 3.9 percent during FY23, against over 10.9 percent growth in the previous year. The contraction was primarily due to slump in LSM output, reflecting the impact of both the slowdown in demand and supply chain disruptions amid floods and foreign exchange constraints.

Construction industry recorded a contraction of 5.5 percent in FY23, after registering moderate growth in the previous two years. Increases in input prices and wages, higher borrowing cost, and slower growth in development spending are main factors that constrained construction activity during FY23.[22] Further, floods and general economic slowdown, along with political uncertainty, expiry of amnesty schemes,

[19] The increase in areas under cultivation of cotton crop was the highest in Faisalabad division followed by the Sahiwal and Lahore divisions.
[20] Estimated by using intergenerational growth based on the livestock survey 2005-06
[21] Ministry of Finance (2023), *Pakistan Economic survey 2022-2023.* Islamabad: MoF.
[22] Growth in PSDP spending decelerated to 17.1 percent during FY23 from 30.5 percent in the last fiscal year.

**Growth in Industrial Production** **Table 2.12**

percent

| | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Industry | **0.2** | **-5.7** | **8.2** | **6.8** | **-2.9** |
| Mining and quarrying | 0.5 | -7.2 | 1.7 | -7.0 | -4.4 |
| Manufacturing | 4.5 | -7.8 | 10.5 | 10.9 | -3.9 |
| Large scale* | 3.5 | -11.2 | 11.5 | 11.9 | -8.0 |
| Small scale | 9.0 | 1.4 | 9.0 | 8.9 | 9.0 |
| Slaughtering | 5.9 | 5.9 | 6.1 | 6.3 | 6.3 |
| Electricity, gas and water supply | 5.5 | 3.5 | 9.0 | 3.1 | 6.0 |
| Construction | -18.1 | -3.1 | 2.4 | 1.9 | -5.5 |

* Large scale manufacturing growth is based on National Income Accounts estimates.

Source: Pakistan Bureau of Statistics

and constraints in fresh disbursements in subsidized lending schemes including Mera Pakistan Mera Ghar Scheme, also affected construction.[23]

Lackluster performance of LSM and construction – the major users of most minerals as raw materials - spilled over to mining & quarrying activities as well. Sharp decline in the production of gas and oil was primarily due lack of new discoveries and lower extraction.

### Mining and Quarrying

Mining and quarrying, having 9.0 percent share in the industrial sector, contracted by 4.4 percent during FY23, relatively lower than 7.0 percent decline in the previous year **(Table 2.12).** The reduction was majorly driven by fall in the production of gypsum, sulphur, crude oil and natural gas. Their impact was partially offset by increase in the production of other minerals including coal and dolomite **(Table 2.13)**. The decline in the production of mining and quarrying, besides slower economic activity, could be attributed to a significant reduction in Gross Fixed Capital Formation (GFCF) in the sector, which declined by 23.5 percent during FY23, compared with 1.9 percent decrease in the previous year.[24] Moreover, use of outdated mining technology and destruction of road infrastructure due to heavy rains and floods may also have slowed mining and quarrying activity during FY23.

### Electricity

Despite sharp deceleration in electricity generation and gas production, the value addition by electricity, gas and water supply increased by 6.0 percent during FY23. This was mainly because of power subsides, which are part of the gross value addition. The electricity generation increased by only 0.8 percent during FY23 compared to an increase of 9.0 percent in the previous year **(Figure 2.13)**. This

**Growth in Production of Principal Minerals** **Table 2.13**

percent

| Years | Coal | Dolomite | Gypsum | Lime stones | Sulphur | Crude Oil | Natural Gas |
|---|---|---|---|---|---|---|---|
| FY19 | 20.7 | -3.3 | 1.7 | 6.7 | -6.0 | -0.2 | -1.5 |
| FY20 | 55.9 | -36.1 | -14.6 | -12.9 | -3.7 | -13.6 | -8.3 |
| FY21 | 9.5 | 28.5 | 17.5 | 16.4 | -2.8 | -1.9 | -2.9 |
| FY22 | 4.9 | 25.5 | -8.0 | -23.8 | -16.0 | 1.9 | 2.2 |
| FY23 | 22.6 | 13.7 | -30.6 | -4.6 | -28.2 | -9.7 | -9.0 |

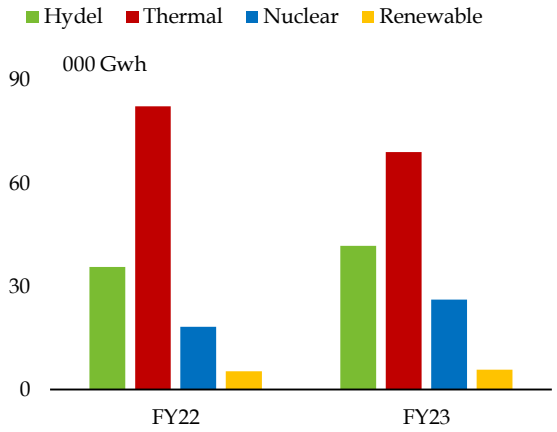
Source: Pakistan Bureau of Statistics

[23] Source: IH&SMEFD Circular No. 10 of 2022 and IH&SMEFD Circular No. 09 of 2022 dated June 30, 2022.

[24] Source: Pakistan Bureau of Statistics.

deceleration in electricity generation can be attributed to slowdown in economic activity, lower demand due to rise in electricity tariffs, and the challenges faced by some power plants in importing coal.

**Electricity Generation** **Figure 2.13**




Source: National Electric Power Regulatory Authority

### Large-Scale Manufacturing

The LSM output contracted by 10.3 percent during FY23, against 11.7 percent expansion in the previous year **(Table 2.14**). The contraction was similar to that observed during the pandemic, i.e. FY20. Monthly data shows that LSM output remained on a downward trajectory throughout FY23 (**Figure 2.14)**. The decline in LSM was quite broad-based, as 18 out of 22 sectors registered negative output compared to the previous year (**Figure 2.15**).

Textile, food, petroleum, chemicals, non-metallic minerals, pharmaceuticals and automobile were the main contributors to the contraction in LSM (**Table 2.15**).[25] Tobacco, iron & steel and electrical equipment are other major industries that recorded decline in production during FY23.

Export-oriented sectors, including wearing apparel, furniture, leather and football, are the only LSM groups that posted increase in production during FY23. Within the groups showing overall decline, production of some of

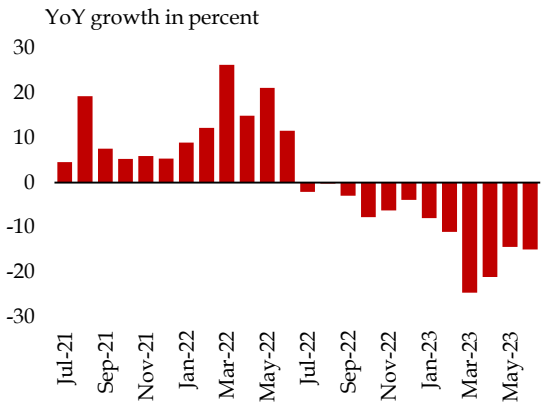
**Contribution of Major LSM Sectors** **Table 2.14**

| Sectors | Weights | Growth (Percent) | | Contribution | |
|---|---|---|---|---|---|
| | | FY22 | FY23 | FY22 | FY23 |
| LSM | **78.4** | **11.7** | **-10.3** | **11.7** | **-10.3** |
| *Of which* | | | | | |
| Food | 10.7 | 8.3 | -6.9 | 1.4 | -1.1 |
| Cooking oil | 1.5 | 8.7 | 13.6 | 0.2 | 0.3 |
| Beverages | 3.8 | 0.9 | -6.4 | 0.0 | -0.3 |
| Soft drinks & mineral waters | 1.6 | -2.5 | 2.9 | -0.1 | 0.1 |
| Tobacco | 2.1 | 15.9 | -28.4 | 0.4 | -0.7 |
| Textile | 18.2 | 2.8 | -18.7 | 0.6 | -3.7 |
| Wearing apparel | 6.1 | 49.4 | 27.2 | 3.8 | 2.8 |
| Paper & board | 1.6 | 18.7 | -8.7 | 0.4 | -0.2 |
| Coke & petroleum | 6.7 | 0.7 | -13.4 | 0.0 | -0.9 |
| Jet fuel oil | 0.5 | 33.2 | 6.6 | 0.1 | 0.0 |
| Chemicals | 6.5 | 8.7 | -7.0 | 0.7 | -0.5 |
| Soaps & detergents | 0.3 | 15.0 | 36.1 | 0.1 | 0.1 |
| Pharmaceuticals | 5.2 | 13.6 | -28.8 | 0.9 | -1.8 |
| Non-metallic mineral | 5.0 | 1.0 | -12.1 | 0.1 | -0.8 |
| Iron & steel products | 3.4 | 16.3 | -5.1 | 0.7 | -0.2 |
| Electrical equipment | 2.0 | -0.1 | -15.5 | 0.0 | -0.5 |
| Automobiles | 3.1 | 47.4 | -50.0 | 1.6 | -2.2 |
| Buses | 0.1 | 12.8 | 5.1 | 0.0 | 0.0 |
| Furniture | 0.51 | 180.2 | 35.5 | 1.1 | 0.5 |

Source: Pakistan Bureau of Statistics

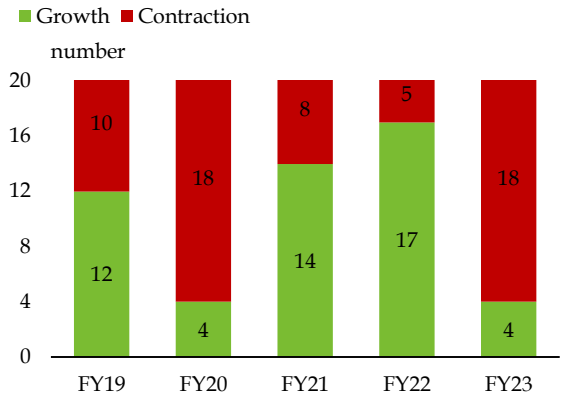
[25] These sectors cover around 70 percent weight of the overall LSM output.

**Monthly Quantum Index of Manufacturing (QIM)** **Figure 2.14**




Source: Pakistan Bureau of Statistics

**Number of Sectors Showing Growth and Contraction** **Figure 2.15**




Source: Pakistan Bureau of Statistics

the items including cooking oil, soft drinks, jet fuel oil, soaps & detergents, and buses also registered increase during FY23.

Both supply and demand side factors have affected the LSM output. The contractionary policies, squeeze in real incomes due to high inflation and fall in exports has considerably reduced demand for manufactures, especially of durables. On the supply side, floods and supply disruption, reduced availability of raw materials and energy shortages, especially of gas and LNG, as well as high input prices affected production.[26] In addition, increase in electricity tariffs and fuel prices also added to cost of production during FY23.

### Textile

Production of textile, having the largest share in LSM, dropped by 18.7 percent during FY23 against a moderate increase of 2.8 percent in the previous year. The drag mainly came from large decline in the production of yarn and cloth by 22.1 and 12.4 percent, respectively, during FY23 **(Table 2.16)**.[27] Slump in production of yarn and cloth was the direct result of lower cotton production due to floods as well as issues in import of cotton. Moreover, increase in borrowing cost, higher energy prices, and lower external demand also had bearing on the performance of the textile industry.

**Distribution of Growth in Major LSM Sectors** **Table 2.15**

percent

| | LSM | Textile | Food | Petroleum | Chemicals | Pharma | Minerals | Auto |
|---|---|---|---|---|---|---|---|---|
| Weight | 78.4 | 18.2 | 10.7 | 6.7 | 6.5 | 5.2 | 5.0 | 3.1 |
| Maximum | 16 | 21 | 30 | 21 | 13 | 14 | 22 | 101 |
| 3rd Quartile | 12 | 8 | 18 | 7 | 9 | 7 | 8 | 52 |
| Median | 3 | 1 | 7 | -8 | 5 | 3 | 2 | -11 |
| Mean | 3 | 0 | 9 | -4 | 6 | 1 | 4 | 8 |
| 1st Quartile | -7 | -11 | 2 | -13 | 3 | -5 | -2 | -35 |
| **Minimum** | **-12** | **-19** | **-9** | **-21** | **-7** | **-29** | **-12** | **-53** |
| **FY23** | **-10** | **-19** | **-7** | **-13** | **-7** | **-29** | **-12** | **-50** |

Source: Pakistan Bureau of Statistics

[26] Source: All Pakistan Textiles Manufacturing Association (APTMA)
[27] Yarn and cloth sub-sectors contribute around 90 percent in the textile industry.

**Textile and Wearing Apparel: Production and Growth** **Table: 2.16**

million MT, growth in percent

| Textile & wearing apparel | wt. | Cumulative quantity | | | Growth | |
|---|---|---|---|---|---|---|
| | | FY21 | FY22 | FY23 | FY22 | FY23 |
| Yarn | 8.9 | 3.4 | 3.5 | 2.7 | 0.5 | -22.1 |
| Cloth* | 7.3 | 1,048.4 | 1,050.8 | 920.6 | 0.2 | -12.4 |
| Jute goods | 0.3 | 0.07 | 0.06 | 0.06 | -17.4 | 9.9 |
| Woolen & carpet yarn | 0.1 | 0.01 | 0.01 | 0.02 | 46.2 | 47.6 |
| Woolen blankets** | 0.9 | 71.5 | 92.4 | 43.0 | 29.3 | -53.5 |
| Wearing apparel*** | 6.1 | 37.2 | 55.7 | 70.8 | 49.4 | 27.2 |

*million square meter, **000 number, ***million dozen

Source: Pakistan Bureau of Statistics

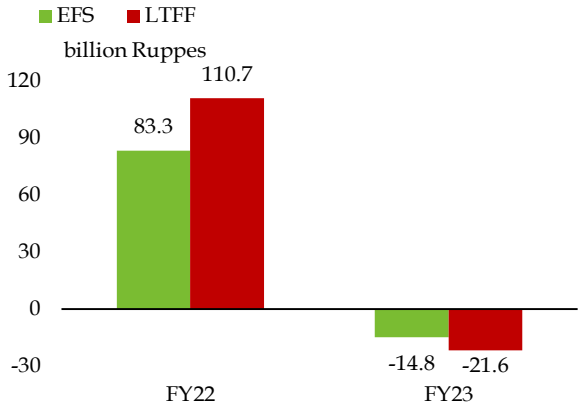
The capping of the sanctioned limits under the refinance schemes reduced availability of additional funding at the concessional rates during FY23. Moreover, the linking of Exports Finance Scheme (EFS) and Long Term Financing Facility (LTFF) rates with the policy rate might have increased the financial cost. Consequently, textile sector recorded significant reduction in borrowing under subsidized schemes **(Figure 2.16)**.[28]

From the demand side, both higher inflation and slowdown in economic activity in advanced economies constrained demand for Pakistan's exports which is evident from decline in textile export volume, except for wearing apparel (see **Chapter 6** for detail).[29] Driven primarily by higher exports, the production of wearing apparel recorded an expansion of 27.2 percent during FY23, compared with 49.4 percent in the previous year **(Figure 2.17).**[30]

**Food**

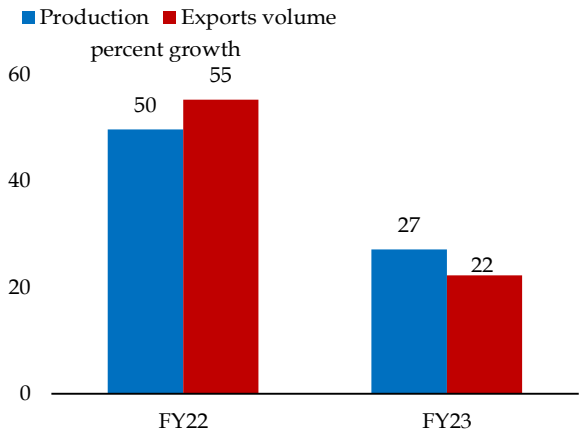
Production of food group declined by 6.9 percent during FY23, against an increase of 8.3 percent in FY22. The contraction was led by reduction in the production of sugar, wheat & rice milling (**Figure 2.18).** Decline in sugar production, despite record sugarcane harvest, was due to delayed start of crushing season that might have diverted sugarcane for making *gurh.* In case of wheat & rice milling, it was lower rice production that limited milling activity.

**Borrowing by Textile Sector under EFS & LTFF** **Figure 2.16**




Source: State Bank of Pakistan

**Wearing Apparel** **Figure 2.17**




Source: Pakistan Bureau of Statistics

[28] See Chapter 3: Monetary Policy and Inflation

[29] The exports volume of hosiery, bed-wear and cotton yarn dropped by 49.1, 21.3 and 20.6 percent respectively during FY23.

[30] Anecdotal evidence suggests that demand for made-ups from Pakistan increases as squeeze in income on account of slower economic activity or higher inflation led the foreign buyers to switch away from relatively expensive brands.

Cooking oil and vegetable ghee was the major item in the food sector that showed increase in production during FY23.

The output of cooking oil and vegetable ghee rose by 13.6 and 10.6 percent, respectively in FY23. The increase shows the manufactures' attempt to benefit from a sharp fall in prices of edible oils (palm and soybean) in the international market **(see Chapter 6)**.[31]

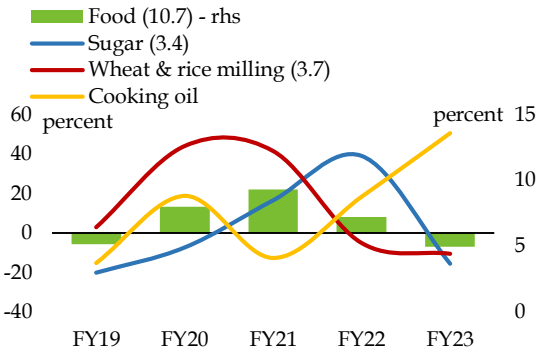
**Coke & petroleum**

Production of coke and petroleum products declined by 13.4 percent during FY23, compared to an increase of 0.7 percent in the previous year **(Table 2.14)**. With the exception of jet fuel oil, production of all POL products, including LPG, considerably declined, largely driven by fall in demand. According to Oil Companies Advisory Council (OCAC), the sale of petroleum products plummeted by 26.0 percent during FY23, mainly reflecting overall domestic economic slowdown and increase in fuel prices during FY23.[32]

**Pharmaceuticals**

Production of pharmaceuticals experienced a decline of 28.8 percent during FY23, compared with 13.6 percent growth the previous year (**Figure 2.19**). The sharp decline is largely explained by restraints on import of raw material (**Figure 2.20**). Further, relatively higher increase in input costs vis-à-vis medicine prices also affected production during FY23.[33]

**Growth of Selected Food Sector Components*** **Figure 2.18**



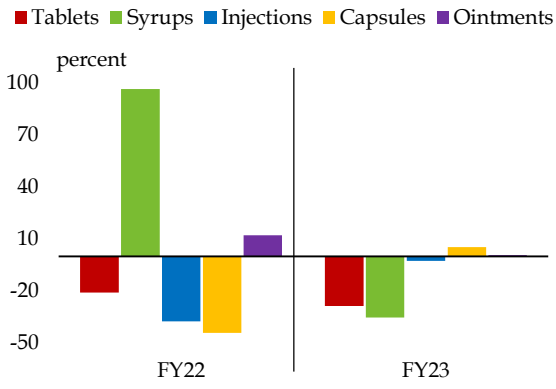

* The QIM weight of the Food sector and selected sub-sectors is given in parentheses.

Source: Pakistan Bureau of Statistics

**Automobiles**

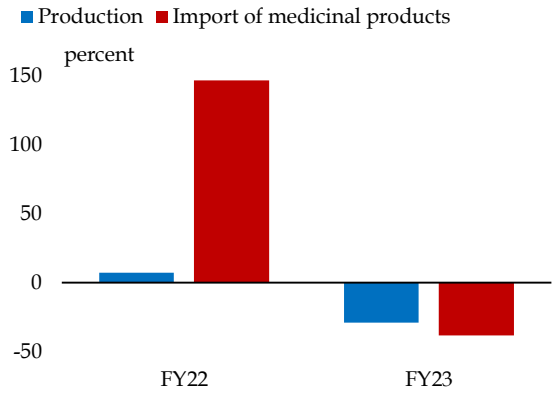
Automobiles manufacturing registered a sharp decline of 50.0 percent during FY23, against a growth of 47.4 percent in last year (**Figure 2.21**). Except for buses, the production of all other segments – jeeps & cars, LCVs and trucks –

**Growth in Production of Medicinal Products** **Figure 2.19**




Source: Pakistan Bureau of Statistics

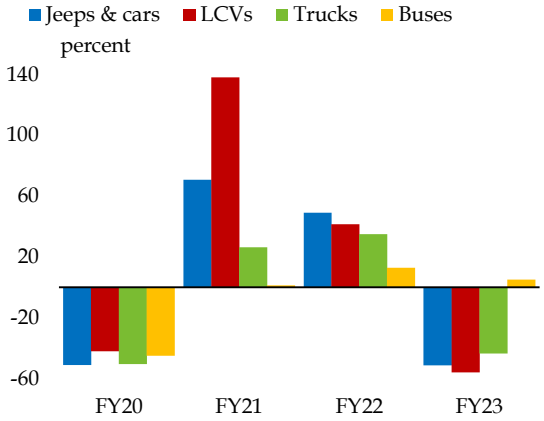
**Growth in Domestic Production and Import of Medicinal Products** **Figure 2.20**




Source: Pakistan Bureau of Statistics

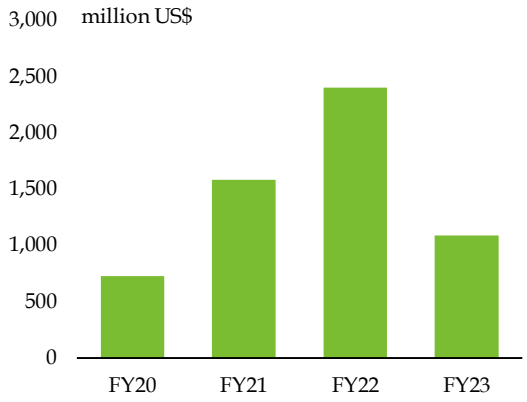
[31] Prices of palm oil and soybean oil declined by 32.4 and 16.9 percent, respectively, in FY23 against a sharp increase of 49.6 and 43.2 percent, respectively, in FY22.
[32] Prices of diesel, kerosene and furnace oils on the average increased by 66.3, 59.9 and 14.3 percent, respectively, during FY23.
[33] The prices of medicinal raw materials increased by 43.9 percent during FY23 compared with 10.4 percent in FY22.

**Growth in Automobiles** **Figure 2.21**




Source: Pakistan Bureau of Statistics

**Imports of CKD/SKD - Automobiles** **Figure 2.22**




Source: Pakistan Bureau of Statistics

dropped, during FY23.

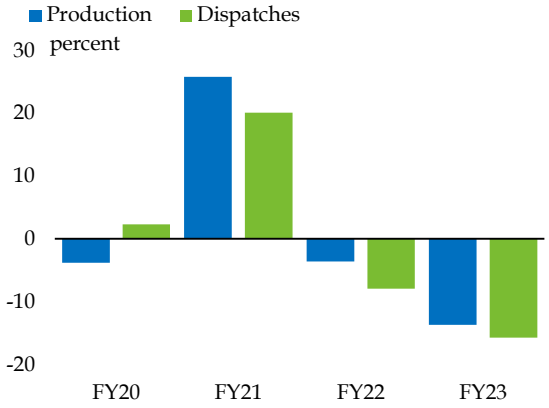
Both demand and supply side factors have contributed to the sharp contraction in automobile manufacturing. On the demand side, the auto sale plummeted by 50.4 percent during FY23, against an expansion by 41.7 percent in the previous year. Several factors have contributed to lower demand, including increase in prices on account of higher input costs and weak currency, increase in borrowing cost; and prudential regulatory measures to contain credit for consumption purpose (**see Chapter 3 - Monetary Policy and Inflation**); and reduced income due to general economic slowdown and floods.[34]

On the supply side, the import restrictions, where the auto manufacturers were allowed to import half of the previous year's import values (the restriction was, however, removed from January 2023 onwards) adversely impacted production.[35] Nevertheless, availability of parts and CKDs in stock facilitated higher production of buses to meet increased demand from public transport sector **(Figure 2.22)**.[36]

**Cement**

In line with subdued construction activity, cement production declined relatively sharply by 13.7 percent during FY23, compared to 3.6 percent drop in FY22 (**Figure 2.23)**. Furthermore, cement exports also declined due to economic slowdown in destination countries such as Sri Lanka, China and Bangladesh (**Figure 2.24**).[37] Moreover, issues in availability

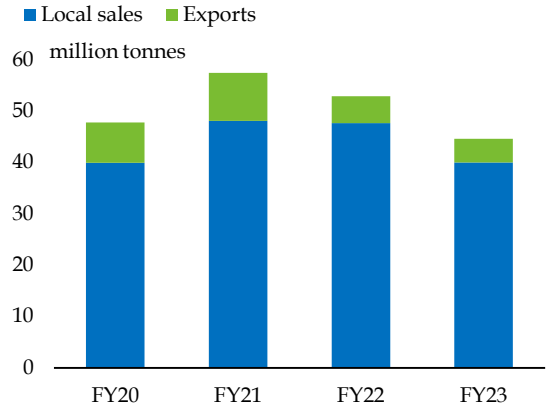
**Growth in Cement Production and Dispatches** **Figure 2.23**




Sources: Pakistan Bureau of Statistics and APCMA

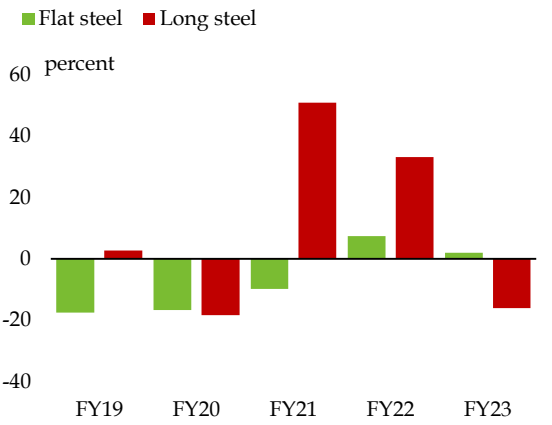
[34] The average prices of motor vehicles, vehicles accessories and motor fuel surged by 34.8, 34.3 and 62.0 percent, respectively during FY23 compared with 9.3, 14.2 and 37.8 percent respectively.
[35] State Bank of Pakistan, EPD Circular Letter No. 20 of 2022 December 27, 2022
[36] Ministry of Finance (2023), *Chapter 3 -Pakistan Economic survey 2022-2023.* Islamabad: MoF.
[37] The launch of two developmental projects by the World Bank in Afghanistan has created a surge in cement demand from Afghanistan.

**Cement - Local Sale and Exports** **Figure 2.24**




Source:All Pakistan Cement Manufecturars Association

**Growth in Steel Products** **Figure 2.25**




Source: Pakistan Bureau of Statistics

and higher prices of imported coal[38], and delay in the implementation of rehabilitation projects in the flood affected areas also dented production.[39]

**Steel**

Steel production declined by 5.1 percent during FY23, as opposed to 16.3 percent increase in the previous year. The major drag came from 16.0 percent decline in the production of long steel, which is mainly used in construction. Growth in production of flat steel, which is used in manufacturing of automobiles and home appliances, decelerated to 2.1 percent during FY23 (**Figure 2.25**). Besides lower demand, steel production was also impacted by reduced availability of imported scrap, a basic raw material for local industry.

**Components of Services** **Table 2.17**

percent

| | Share in Services | Growth | |
|---|---|---|---|
| | | FY22 | FY23 |
| Wholesale and retail trade | 30.7 | 10.3 | -4.5 |
| Transportation and storage | 18.2 | 4.1 | 4.7 |
| Accommodation and food Services | 2.5 | 4.1 | 4.1 |
| Information and communication | 5.2 | 16.3 | 6.9 |
| Finance and insurance | 3.1 | 7.2 | -3.8 |
| Real estate | 9.8 | 3.7 | 3.7 |
| Public administration and social security | 7.5 | 1.8 | -7.8 |
| Education | 5.2 | 5.7 | 10.4 |
| Human health and social work | 2.9 | 2.7 | 8.5 |
| Other private services | 15 | 4.8 | 5 |
| **Services** | | **6.6** | **0.9** |

Source: Pakistan Bureau of Statistics

## 2.4 Services

Slowdown in the commodity producing sectors, combined with a sharp decline in imports, dragged down the services sector growth to 0.9 percent in FY23, from 6.6 percent in the previous year. Within the services sector, *wholesale and retail trade* – with 30 percent share in services sector – contracted by 4.5 percent against a robust growth of 10.3 percent last year. The *wholesale and retail trade* was directly affected by decline in the production of important crops and contraction in LSM, along with fall in import volumes **(Table 2.17).**

In contrast, the value addition in *transport and storage* sector expanded by 4.7 percent, as compared to 4.1 percent increase in FY22. The expansion is mainly due to the growth in GVA of road transport, expansion in NHA (National Highway Authorities) activities and increase in the sale of buses. The GVA of air transport also

[38] On the average, coal price increased by 67.7 percent during FY23 compared with 21.0 percent in the last year.
[39] Ministry of Finance (2023), *Chapter 3 -Pakistan Economic survey 2022-2023.* Islamabad: MoF.

**GVA of Transport and Storage Services** **Table 2.18**
growth in percent

| | FY22 | FY23 |
|---|---|---|
| Air transport | 54.4 | 21.6 |
| Road transport | 2.7 | 5.2 |
| Total transport and storage | 4.1 | 4.6 |

Source: Pakistan Bureau of Statistics

grew by 21 percent, as supported by a significant increase in operating revenue of Pakistan International Airlines (PIA) in CY22 **(Table 2.18)**.

*Information and communication*, another major services sub-sector, maintained some momentum, growing by 6.9 percent in FY23 on top of 16.3 percent growth in FY22. This was mainly contributed by IT services, which benefitted from rising ICT Exports **(Figure 2.26).**[40] During FY23, ICT accounted for 35.7 percent of the total services exports, supported by establishment of seven Special Technology parks by Pakistan Software Export Board in FY23 **(Table 2.19).** Moreover, the broadband penetration expanded to 54.1 percent during Jul-Mar FY23, as compared to 51 percent in FY22.[41]

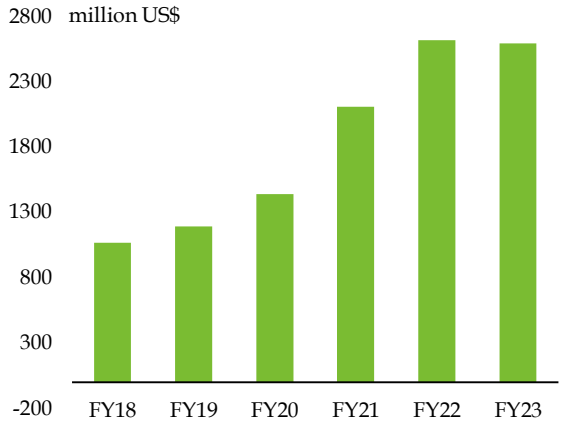
Growth in *finance and insurance* contracted by 3.8 percent in FY23, as compared to a growth of 7 percent in the previous year. The decline mirrored the trend in the GVA of scheduled banks, which has the largest share in the sector (**Table 2.20).** Despite a moderate increase in loans and advances, the GVA of the banking

**Special Technology Parks** **Table 2.19**

| S.No. | STP | City |
|---|---|---|
| 1 | Sitara Software Technology Park | Faisalabad |
| 2 | Euro-Heights Gujrat | Gujrat |
| 3 | Innovation & Entrepreneurship Center (Mehran UET Jamshoro) | Jamshoro |
| 4 | NASTP Karachi | Karachi |
| 5 | BZU Multan STP | Multan |
| 6 | Sarhad Software Technology Parks – SSTP | Peshawar |
| 7 | Alpha Techno Square NASTP Rawalpindi | Rawalpindi |

Source: Pakistan Bureau of Statistics

**ICT Exports** **Figure 2.26**




Source: Pakistan Bureau of Statistics

sector declined due to negative real interest rates.[42] Other financial services, also witnessed a decline, as stock exchange faced severe headwinds due to delays in the resumption of the IMF program and heightened political uncertainty. GVA in the *education services* witnessed an increase of 10.4 percent in FY23 compared to increase of 5.7 percent in the previous year.

## 2.5 Labor Markets

The labor market data, reported by Punjab Bureau of Statistics (PBOS) and Sindh Bureau of Statistics (SBOS), show decline in industrial employment in Punjab and Sindh in line with contraction in LSM output (**Table 2.21**). In addition, the SBP Business Confidence Survey

**GVA of Finance and Insurance** **Table 2.20**

| | FY22 | FY23 |
|---|---|---|
| Central banking | 14.1 | 2.0 |
| Other monetary intermediation | 7.9 | -2.4 |
| Scheduled banks | 7.8 | -2.8 |
| Non-scheduled banks | 11.0 | 12.7 |
| Other financial services | -3.0 | -17.1 |
| Activities auxiliary to financial services | -10.9 | -16.7 |

Source: Pakistan Bureau of Statistics

[40] Computer services, software consultancy and call center services make up the majority of ICT exports.
[41] Ministry of Finance (2023), *Pakistan Economic survey 2022-2023.* Islamabad: MoF.
[42] Inflation remained high during FY23

**Growth in LSM and Industrial Employment** **Table 2.21**

percent

| | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|
| LSM | -11.0 | 11.6 | 11.7 | -10.3 |
| Punjab employment | -2.3 | 1.6 | 1.6 | -2.4 |
| Sindh employment | -11.1 | 9.6 | 23.2 | -10.5 |

Source: Pakistan Bureau of Statistics

(BCS) and Consumer Confidence Survey (CCS) also showed deterioration in employment sentiments both in industrial and services sectors, for past and next six months.[43]

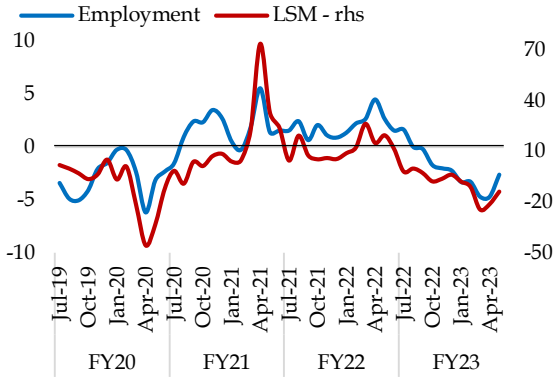
**Punjab**

The industrial employment declined by 2.4 percent during Jul-May FY23 in Punjab compared to an increase of 1.6 percent in FY22 (**Figure 2.27**). The reduction in industrial employment in Punjab was predominantly driven by significant lay-offs in engineering, textile, food, cement, and tobacco sectors during Jul-May FY23 (**Figure 2.28**).

Increase in unemployment in textile during Jul-May FY23 is mainly attributed to restricted activity in spinning, weaving and woolen sub-sectors. Lower employment in engineering industry was largely due to 29.3 percent reduction in hiring by the automobile sub-sector during Jul-May FY23 compared with 0.2 percent decline in the same period of FY22.

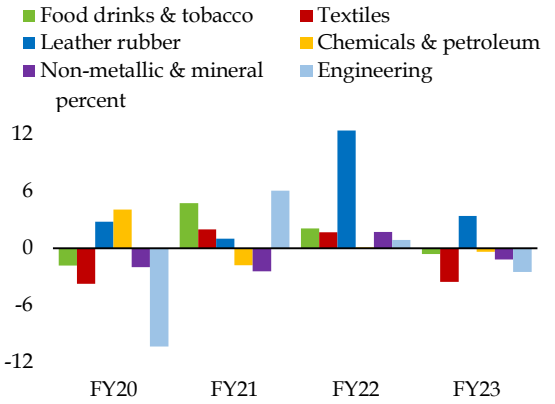
On the other hand, employment recorded slight increase in food, leather, rubber, and paper & paper board sectors during Jul-May FY23. Increase in employment in food was contributed by cooking oil and sugar industries.[44] Notwithstanding lower employment during FY23, textile industry continued to remain the largest employer, followed by food, drinks & tobacco sectors (**Figure 2.29**).

**Punjab: Industrial Employment and LSM Index** **Figure 2.27**



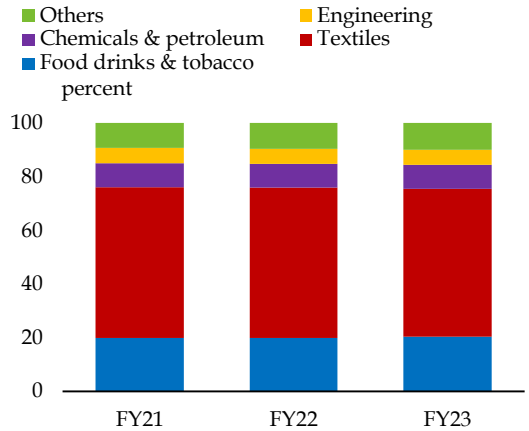

Sources: Pakistan Bureau of Statistics and Punjab Bureau of Statistics

**Punjab: Labor Growth in Major Industrial Sectors** **Figure 2.28**




Source: Sindh Bureau of Statistics

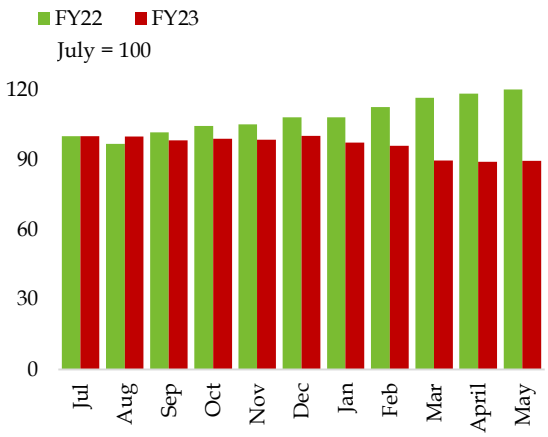
**Punjab: Sectoral Labor Share** **Figure 2.29**




Source: Punjab Bureau of Statistics

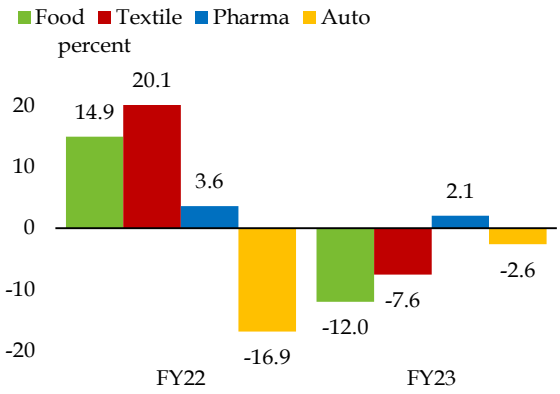
[43] The comparative data from BCS and CCS was reported for the last waves of FY23 and FY22.
[44] As reported by PBOS, job creation in food sector decelerated due to lay-offs in dairy, wheat milling and tobacco sub-sectors during FY23.

**Sindh: Industrial Employment Index** **Figure 2.30**




Source: Sindh Bureau of Statistics

**Sindh: Employment Growth in Major Sectors** **Figure 2.31**

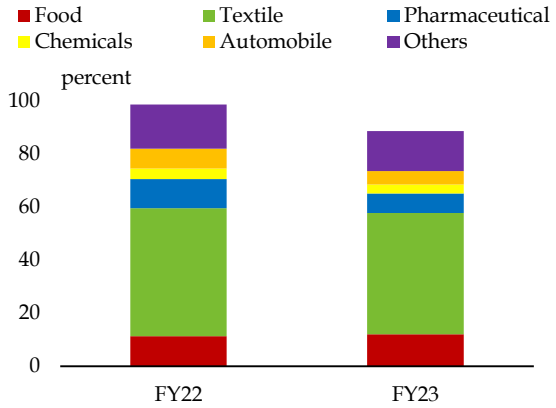



Source: Sindh Bureau of Statistics

## Sindh

Sindh recorded 10.5 percent decline in industrial employment during Jul-May FY23 against an increase of 23.2 percent in the comparable period of FY22 (**Figure 2.30**). There was a reduction in employment in all the major sectors, including food, beverages, leather tanning, textile, petroleum, chemicals, and automotive. Meanwhile, employment increased in electrical equipment, pharmaceutical, paper & paper board and rubber industries **(Figure 2.31).** Similar to Punjab, the textile industry remains the major employer, followed by food, in Sindh (**Figure 2.32**).

**Sindh: Labor Share in Major Industrial Sectors** **Figure 2.32**



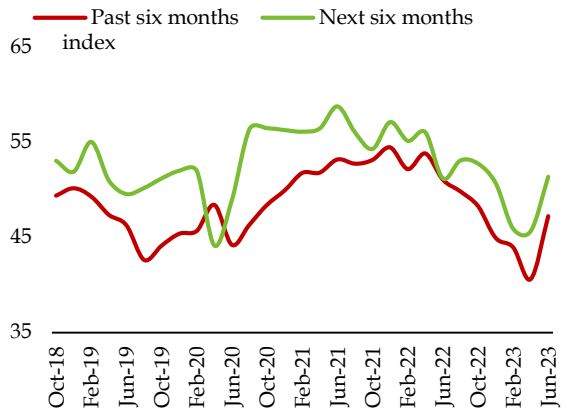

Source: Sindh Bureau of Statistics

## Business Confidence Survey (BCS)

The BCS in June 2023 shows decline in perceptions of businessmen about overall and industrial employment for the past and future six months. Specifically, the survey recorded drop in opinions about overall employment to 47.2 in June FY23 compared to 51.1 in the corresponding period of the previous year (**Figure 2.33**).

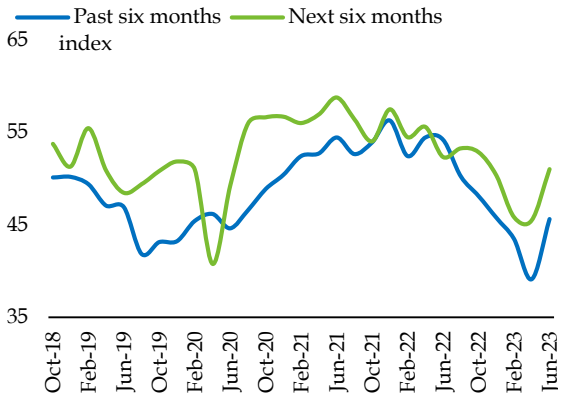
Similarly, the diffusion index for employment in the industrial sector decreased to 45.6 and 51.0 for the past and future six months, respectively, during FY23; down from 54.2 and 52.3 in FY22. Whereas, the employment perception in services

**BCS Index for Overall Employment** **Figure 2.33**



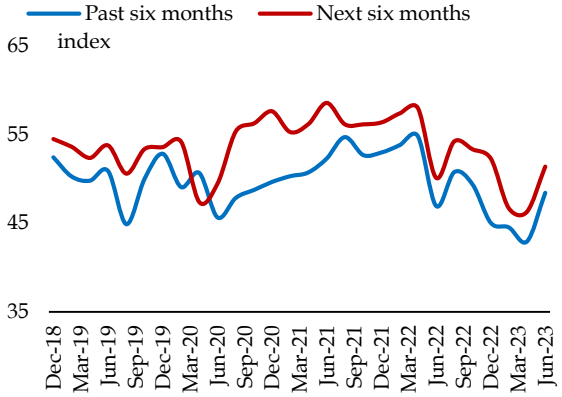

Source: State Bank of Pakistan

BCS Employment Index for Industrial Sector — Figure 2.34




Source: State Bank of Pakistan

BCS Employment Index for Services Sector — Figure 2.35



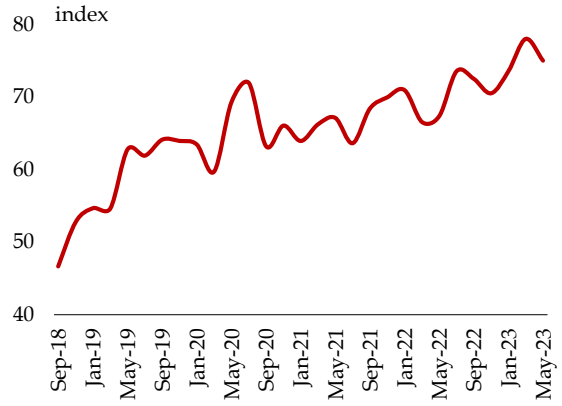

Source: State Bank of Pakistan

sector recorded improvement to 48.4 and 51.4 for the past and future six month respectively in June FY23 from 46.9 and 50.1 in the same period of the previous year (**Figure 2.34 and 2.35**).

### Consumer Confidence Survey (CCS)

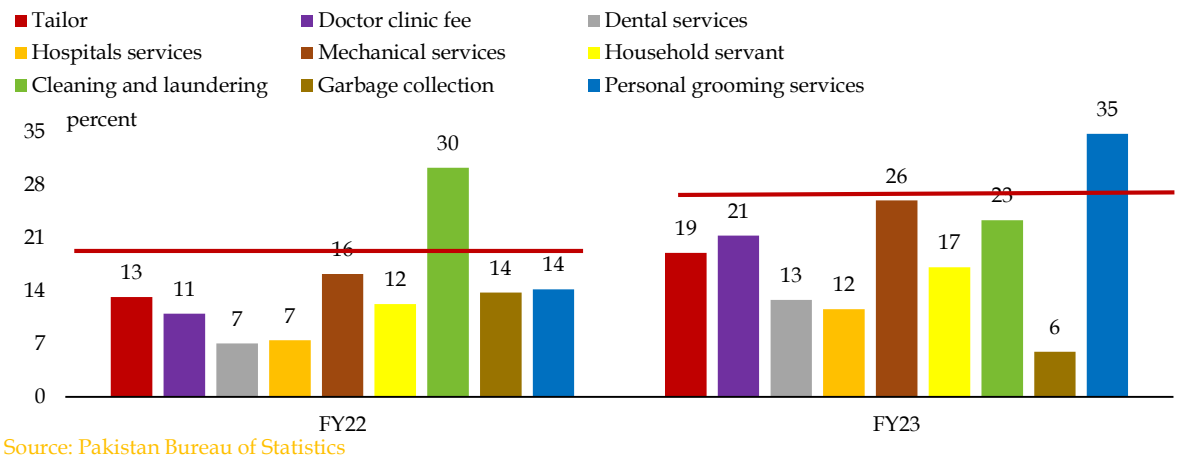
The CCS also shows consumers' expectations of an increase in unemployment. In the latest wave of the survey, conducted in May 2023, 75.1 percent of respondents had anticipated a rise in overall unemployment over the next six months, against 67.4 percent in the corresponding month of the previous year **(Figure 2.36).**

CCS Unemployment Index (Next Six Months) — Figure 2.36




Source: State Bank of Pakistan

Growth in Wages - Services — Figure 2.37




Source: Pakistan Bureau of Statistics

**Wages**

The PBS data shows that wages increased by 19.1 percent during FY23, compared to a rise of 14.0 percent in FY22. The growth in wages reflects increase in minimum wage and salaries of both private and public sector employees in the face of rising cost of living (**Figure 2.37**).

In comparison with FY22, apart from cleaning and laundering and garbage services, all categories of wages included in CPI basket, registered significant rise during FY23. The highest increase was recorded in wages of personal grooming services followed by hike in cleaning and laundering, mechanical services, doctor clinic fee and tailoring during FY23 compared with the previous fiscal year (**Figure 2.37**). Similarly, remuneration of household servants, dental services and hospital services recorded double digit rise during the current review period relative to the previous year.

# Monetary Policy and Inflation

The Monetary Policy Committee (MPC) raised the policy rate by a cumulative 825 bps during FY23 to 22 percent, amid deteriorating inflation and external account outlooks. A confluence of global and domestic supply shocks and their second round effects, alongside longstanding domestic structural weaknesses, contributed to persistent inflationary pressures and elevated inflation expectations, pushing the average NCPI inflation to multi-decade high in FY23. This was despite a slump in domestic demand due to monetary policy tightening and a range of contractionary measures introduced since FY22, and was visible in narrowing of current account deficit. However, weak external inflows kept the external account under pressure, leading to a large depreciation in PKR. Given inadequate availability of external financing, the government increased its reliance on commercial banks to finance deficit that led to a substantial increase in Net Domestic Assets of the banking system. Contraction in the Net Foreign Assets, nevertheless, partly offset the impact of the expansion in NDA on broad money growth during FY23. On the other hand, private sector credit declined during FY23 amid rising cost of borrowing and slowdown in economic activity. Specifically, the working capital loans posted a noticeable decline, whereas fixed investment also slowed down considerably during the year.

3

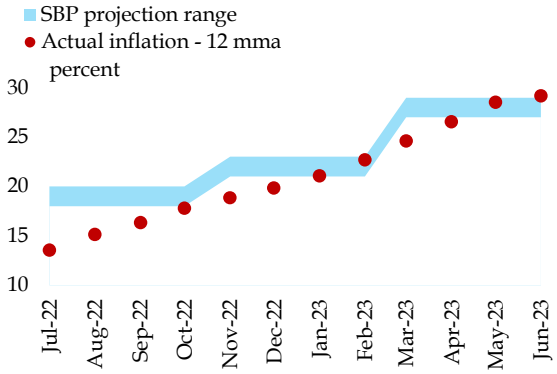
# 3 Monetary Policy and Inflation

## 3.1 Policy Review

SBP continued to tighten monetary policy stance amid rising inflation expectations, multi-decade high inflation outcomes and sustained pressures on the external account. During FY23, the SBP's Monetary Policy Committee (MPC) increased the policy rate by a cumulative 825 basis points (bps) to 22 percent. The interaction of sequential domestic and global supply shocks with longstanding structural issues, which amplified input costs and raised inflation expectations, led to intense and persistent inflationary pressures during the year. Thus, the average headline National CPI (NCPI) inflation soared to 29.2 percent in FY23, around the upper end of SBP's revised inflation projection range of 27 – 29 percent (**Figure 3.1**).

The surge in inflation was broad-based with rising food prices having a dominant contribution, followed by Non-Food Non-Energy (NFNE) and energy group. Inflation maintained an uptrend almost throughout FY23, with around 90 percent of the items witnessing double-digit increase in prices in both the rural and urban baskets **(Figure 3.2)**.

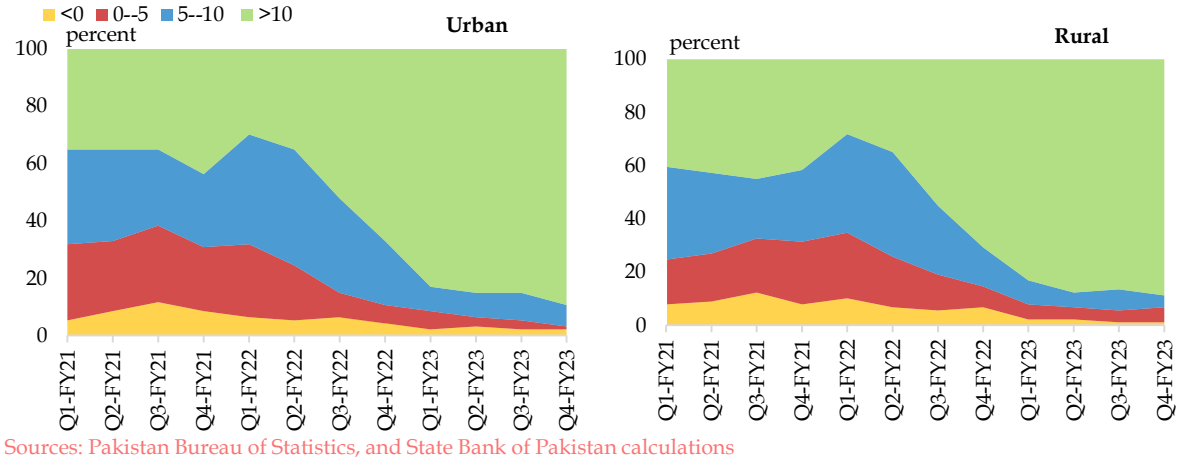
**Inflation Projections and Actual Inflation - FY23** Figure 3.1




Sources: PBS, SBP projections and calculations, Planning Commission

FY23 began with highly uncertain global economic environment because of the fallout of Russia-Ukraine conflict. In the case of Pakistan, the confluence of global economic uncertainties and domestic challenges further augmented inflationary pressures. A multitude of domestic factors, including flood related domestic food shortages; hike in energy prices; domestic supply constraints amid prioritization of imports; increase in taxation and other levies introduced through the Finance (Supplementary) Act 2023; less than planned

**Frequency Distribution of Changes in Prices of CPI Items** Figure 3.2




Sources: Pakistan Bureau of Statistics, and State Bank of Pakistan calculations

fiscal consolidation; and rising domestic uncertainty, contributed to a sustained uptrend in inflation during the year. In addition, uncertain global economic and financial conditions; elevated global commodity prices; stringent external financing conditions; and delay in completion of the 9th review under the IMF's EFF program, kept external accounts under stress, leading to PKR depreciation, which further stoked inflationary pressures (**Figure 3.3**).

These macroeconomic challenges presented significant risks to price and financial stability and medium-term economic growth prospects. While monetary tightening signified slowdown in domestic demand and thus economic activity in the short-term, these concerns were outweighed by risk of inflation expectations

**Supply Shocks, FY23** **Figure 3.3**

| Months | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PKR Change (yoy; %) | -27.3 | -25.7 | -27.1 | -22.2 | -22.2 | -21.2 | -24.7 | -34.2 | -35.9 | -35.3 | -31.5 | -28.7 |
| Global Commodity Prices (yoy; %) | 39.2 | 48.3 | 28.2 | -0.1 | 4.9 | 4.1 | -5.0 | -14.2 | -29.8 | -25.1 | -30.1 | 22.3 |
| Electricity Tariffs - Annual Rebasing (Rs. per KWh) | 3.5 | 3.5 | | 0.91 | | | | | | | | |
| Electricity Tariffs - Quarterly Adjustments (Rs. per KWh) | 0.57 from Jun 1 & 1.55 from Jul 1 | | 0.51 | 1.49 to 3.21 | | | | 1.49 to 3.21 | | 0.5 | | |
| Natural Disaster | Floods in July-September 2022 inundated about one-third of the country, and damaged livestock and crops | | | | | | | | | | | |
| PDL - Avg. of Petrol/Diesel (Rs. per liter) | 7.5 | 15.0 | 22.5 | 24.9 | 31.3 | 38.3 | 41.9 | 45.0 | 47.5 | 50.0 | 50.0 | 50.0 |
| Tax Related Measures | Finance Act 2022 | RD on imports raised | | | | | | Finance (Supplementary) Act 2023; GST raised from 17 percent to 18 percent | | | | |
| Import-related restrictions | MoC's ban on 500+ import items in Jul-Aug<br>SBP's prior approval list extended in July to include machinery & electronics | | | | 100 percent CMR extended in Dec<br>SBP issued prioritization list in Dec | | | | | | | |
| Gas Prices | Effective Jan 01, 2023, government increased gas price for almost all sectors: for domestic use: from 33 to 112 percent (depending on the slab); for commercial use: ~29 percent | | | | | | | | | | | |
| Inflation (yoy; %) | 24.9 | 27.3 | 23.2 | 26.6 | 23.8 | 24.5 | 27.6 | 31.5 | 35.4 | 36.4 | 38.0 | 29.4 |

Sources: SBP, PBS, IMF, NEPRA, MoC, FBR, OGRA

becoming entrenched. In a bid to anchor inflation expectations and provide support to PKR, the SBP continued to tighten its monetary policy stance during FY23 in all its reviews with the exception of three occasions, when the MPC decided to keep the policy rate unchanged in August, and October 2022 and on 12th June 2023.

Around the time the MPC met in July 2022, macroeconomic outlook had worsened noticeably. Particularly, unwinding of energy subsidies, and continued growth momentum of domestic demand in conjunction with surge in global commodity prices, pushed the year on year (YoY) inflation substantially to 21.3 percent in June 2022 from 13.8 percent a month earlier. The upsurge in demand, in addition to lingering domestic uncertainty and strengthening of the US$, further accentuated pressures on PKR. In view of deteriorating inflationary situation and external account outlook, the MPC raised the policy rate by 125 bps in July 2022. Besides, to strengthen the monetary policy transmission, the MPC also linked the interest rates on EFS and LTFF loans with the policy rate.

Considering the latest developments, the MPC anticipated strong second round effects emanating from increase in energy prices after removal of power subsidies, and projected the average headline NCPI inflation to remain elevated in the range of 18 – 20 percent during FY23. Accounting for the impact of fiscal consolidation envisaged in the budget and the lagged impact of monetary tightening since September 2021, real GDP growth was projected in the range of 3 - 4 percent in FY23. The committee also projected the CAD to fall to 3 percent of GDP in FY23, based on the assumptions of falling imports, moderating domestic demand and the continued resilience in remittances and exports. This assessment was subject to substantial uncertainty arising from the path of global commodity prices, domestic fiscal policy stance and exchange rate movement.

By the time, the committee met in August and October 2022, the risks to inflation and external account outlooks appeared to have contained on account of several factors. First, as seen from the high frequency indicators, the lagged impact of monetary tightening and a range of demand compression measures introduced since last year had successfully curtailed the pace of economic activity. Second, with rising risks to global economic growth prospects, global commodity prices were also on a downtrend. Third, the successful completion of combined 7th and 8th reviews under the IMF's EFF program in August 2022 improved external account outlook. Lastly, a significant supply shock in the form of floods was expected to further weaken demand-side pressures on inflation and current account balance.

In view of these developments and a cumulative monetary tightening by 800 bps since September 2021, the MPC decided to keep the policy rate unchanged in its meetings convened in August and October 2022, while indicating its intentions to remain data-dependent.

As the year progressed, the changing domestic and global economic landscape and successive supply shocks significantly altered the macroeconomic outlook. Particularly, the monsoon floods that hit the country during Jul-Aug 2022 gave rise to food shortages, which amplified existing price pressures. In addition, after the reversal of a temporary administrative cut in electricity prices, energy inflation rose sharply in October 2022, whereas inflation expectations edged up due to increased uncertainty about the path of food and energy prices. The combined impact of these factors along with the second round effects of strong food and energy prices to broader prices and wages, spurred inflation momentum considerably in October 2022.

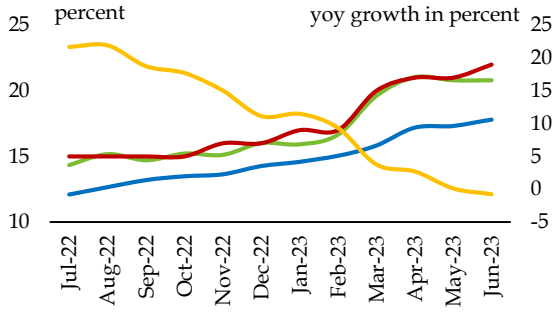
These developments raised concerns about persistent and pervasive inflationary pressures and entrenchment of inflation expectations, which prompted MPC to resume monetary tightening by raising the policy rate by 100 bps in its meeting in November 2022, despite visible slowdown in economic activity and reduction in

CAD. Moreover, after incorporating the impact of floods, the MPC revised its assessment of macroeconomic outlook in November 2022. Specifically, the Committee raised the inflation projection range for FY23 to 21 - 23 percent, whereas the real GDP growth projection was trimmed to around 2 percent.

Notwithstanding the impact of monetary contraction and weakening domestic demand, the headline inflation remained on an upward trajectory as flood driven damages to agriculture produce and livestock exacerbated shortages of various consumer food items causing upward pressure on food prices. In addition, fiscal slippages and external account vulnerabilities owing to meagre financial inflows net of scheduled debt repayments, stemming from tightened global financial conditions and domestic uncertainties also weighed on inflation outcomes through weakening of PKR.

To address the rising external account vulnerabilities, SBP and the government introduced temporary restrictions on imports during the year, which though alleviated pressures on external accounts, amplified domestic shortages of various non-essential items, adding to price pressures. On the other hand, to address concerns about fiscal performance, the government announced increase in taxes and levies through the Finance (Supplementary) Act 2023 in February 2023, and also introduced upward adjustments in POL and gas prices during February 2023. These measures caused upward drift in inflation expectations, besides resulting in an upsurge in inflation from March 2023 onwards.

**Lending Rates and Private Sector Credit- FY23** **Figure 3.4**




Source: State Bank of Pakistan

These developments led the MPC to further revise the inflation projection range upward to 27 – 29 percent for FY23 in March 2023. Keeping in view the deterioration in the near-term inflation outlook, the MPC raised the policy rate by a cumulative 600 bps during the second half of FY23. While assessing the implications of monetary tightening, the MPC noted that, barring any unexpected shocks, the real interest rates had entered a positive territory on a forward-looking basis, which was expected to anchor inflation expectations and bring inflation down towards the medium-term target of 5 – 7 percent by end FY25.

In addition to policy tightening, MPC also emphasized the need of various structural reforms, to achieve the objective of price stability during the year. These included: (i) introduction of non-traditional measures to curtail energy demand for containing trade deficit to sustainable levels and reducing pressures on external accounts; (ii) introducing administrative measures and ensuring timely imports to ease food inflation; (iii) aligning domestic energy prices with global prices and provision of targeted support to the vulnerable segment of society; and (iv) achieving targeted fiscal consolidation to complement monetary tightening to help bring inflation down.

The rise in policy rate was transmitted to weighted average lending rates, which combined with the impact of floods and supply chain disruptions, weakened economic activity during FY23, leading to a decline in private sector credit (**Figure 3.4**).

## 3.2 Global Inflation and Monetary Policy Responses

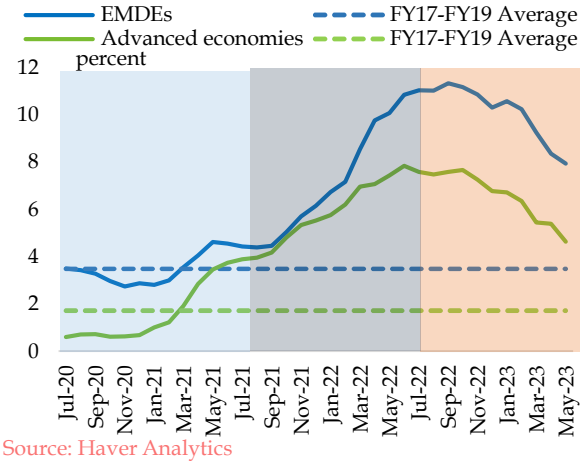
After peaking out around the mid of 2022, headline inflation started to moderate in emerging and developing economies (EMDEs) as well as in advanced economies (AEs) (**Figure 3.5a**); whereas, core inflation remained persistent (**Figure 3.5b**).[1] The declining trend in headline inflation was precipitated by receding global commodity prices, particularly of energy and food, since mid-2022 due to softening global demand alongside some improvement in supply prospects (**Figure 3.6**).

Global economic activity, as measured by Sentix Economic Indicator, remained downbeat in 2022, with only a slight uptick in 2023 (**Figure 3.7**). The global monetary tightening, which had kicked off in late 2021 and early 2022 to tame post-Covid and post-Ukrainian conflict inflationary pressures, helped to slow the pace of global demand. The tightening cycle continued into FY23, as central banks struggled to bring inflation within the targets. The contractionary policies, along with the slowdown in Chinese economy in 2022 amid Covid resurgence and downbeat real estate market, heightened the risk of a global economic recession, which further kept global demand in check.[2, 3]

The knock-on impact of these developments in terms of a contraction in global demand for energy products (crude oil and natural gas) was quite pronounced.[4] On the supply side, rerouting of Russian oil via non-sanctioned countries, primarily China and India, contained oil prices, after AEs implemented price cap and ban on oil imports from Russia in December 2022.[5] Moreover, OECD countries decided to release strategic reserves, which helped offset, in part, the OPEC+ production cuts introduced earlier.

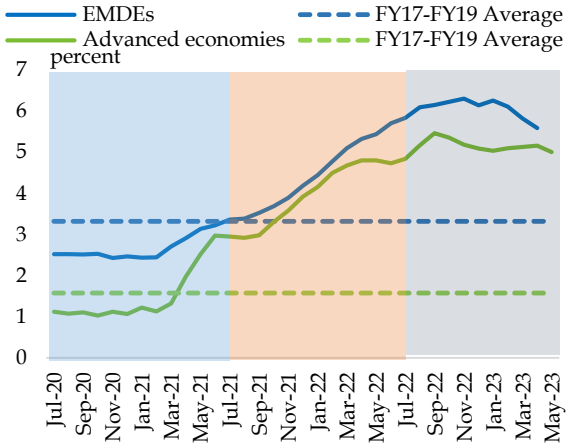
The prices of natural gas, after peaking in August 2022, also came down from Q2-FY23 onwards, as fears of shortages in the wake of the Russia-Ukraine conflict had prompted European

Headline Inflation — Figure 3.5a




Source: Haver Analytics

Core Inflation — Figure 3.5b




[1] AEs refer to Canada, France, Germany, Italy, Japan, the United Kingdom and the United States; whereas EMDEs refer to a group of 83 countries.

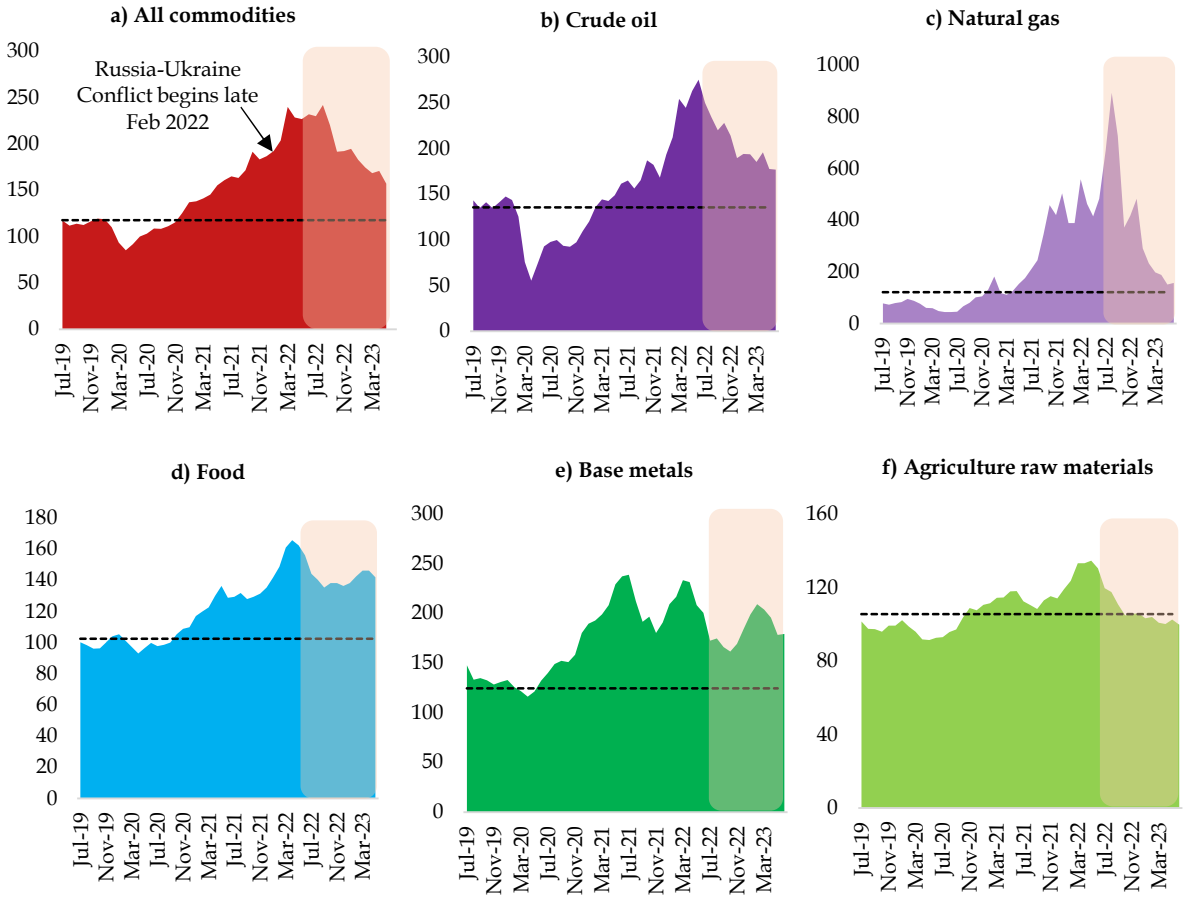
[2] Growth in world's real GDP declined from 5.8 percent in 2021 to 3.3 percent in 2022. It is expected to decline to 3.0 percent in 2023. Source: OECD, Haver Analytics

[3] China's oil and gas consumption in 2022 declined for the first time since 2000 on year on year basis. Source: IMF, World Economic Outlook April 2023

[4] Source: International Monetary Fund (2023). *World Economic Outlook*. Washington D.C.: IMF

[5] The EU and the UK banned the seaborne crude oil imports from Russia on December 5, 2022. (Source: www.energyandcleanair.org/eu-ban-on-russian-oil-why-it-matters-and-whats-next/)

Global Commodity Price Indices — Figure 3.6



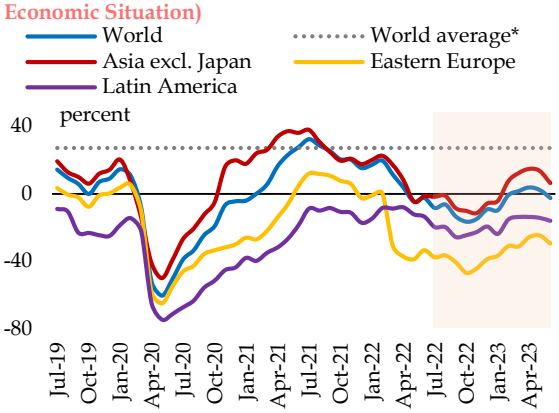

* The dotted lines represent FY17-FY19 average

Source: IMF primary commodities data

countries to adequately fill their storage facilities with LNG imports (partly replacing natural gas). Additionally, warmer-than-expected winter in Europe helped keep demand pressures on gas prices in check. Besides, food prices also retreated in FY23, mainly due to improvement in supply of key food items with the Black Sea Grain Initiative signed in July 2022. Nevertheless, food prices remained volatile in the second half of FY23, with some restrictions still in place, like India's ban on wheat and rice exports, and uncertainty surrounding the Russia-Ukraine conflict.

While headline inflation declined, core inflation turned out to be stickier (**Figure 3.5b**). In the

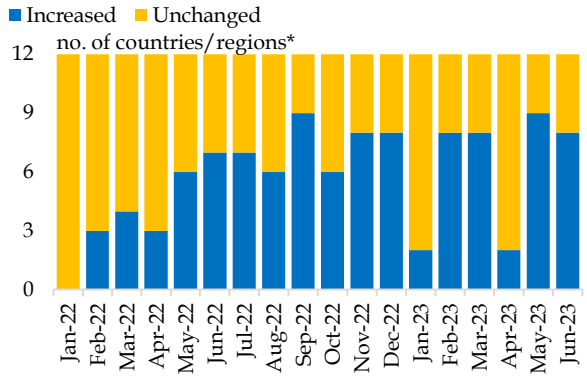
Sentix Economic Indicator (Current Economic Situation) — Figure 3.7




*FY17-FY19

Source: Sentix Index, Haver Analytics

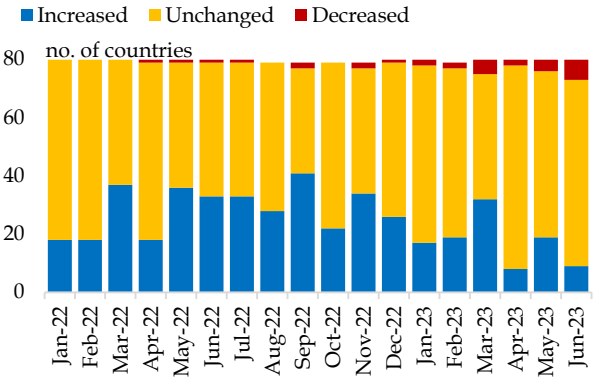
Policy Rate Trends in AEs Figure 3.8a




Note: 11 countries + 1 region (Euro Area)

Sources: Haver Analytics, Bank of International Settlements, Central Banks' websites; SBP calculations

Policy Rate Trends in EMDEs Figure 3.8b




Note: 80 countries

case of advanced economies, core inflation almost plateaued, whereas in emerging and developing economies, it showed some signs of receding only in the last quarter of FY23. This was despite year-on-year decline in prices of base metals and agriculture raw materials.[6] Second round effects of the earlier increases in the energy prices, tight labor markets and services inflation, which responds to interest rate changes with relatively longer lag, explain higher core inflation.

The persistence of underlying inflationary pressures led many central banks to adopt aggressive monetary policy stance across AEs and EMDEs (**Figure 3.8a & 3.8b**). The pace of monetary tightening, which was rapid in 2022, somewhat reduced in 2023 (January through June). Nevertheless, with inflation still exceeding the pre-Covid levels, as well as the inflation targets, many central banks maintained tight monetary stance, and some central banks in advanced economies further increased the policy rates during the second half of FY23. However, some emerging economies started to reduce policy rates in H2-FY23 in view of lower inflation outturns. This was in contrast to Pakistan's experience, where deteriorating inflation and external account outlooks necessitated a large increase in the policy rate during H2-FY23.

## 3.3 Pakistan's Monetary Aggregates

The broad money (M2) grew by 14.2 percent in FY23, slightly higher than 13.6 percent in the previous year. The growth in M2 was entirely due to Net Domestic Assets (NDA) of the banking system, which expanded by Rs 5,860.5 billion in FY23 compared to Rs 4,782.9 billion in FY22. The Net Foreign Assets (NFA) of the banking system, reflecting increased stress on external accounts, contracted by Rs 1,932.8 billion in FY23 **(Table 3.1).**

On the asset side, a considerable increase in government budgetary borrowing from the banking system underpinned the expansion in NDA during FY23. The increase in net budgetary borrowing was largely due to unavailability of external financing. Furthermore, borrowings by the Public Sector Enterprises (PSEs) also increased, as energy sector relied heavily on the domestic banking system mainly to settle circular debt related payments. Likewise, the financing under commodity operations was higher than last year, as increase in wheat support price enhanced

[6] Base metals include: Aluminum, Cobalt, Copper, Iron Ore, Lead, Molybdenum, Nickel, Tin, Uranium, Zinc; Agriculture raw materials include: Cotton, Wool, Timber, Rubber, and Hides

**Monetary Aggregates[P]** **Table 3.1**

flows in billion Rupees; growth in percent

| | Change in Stock | | Growth | | Contribution to M2 Growth | |
|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| M2 (A+B) | 3,304.9 | 3,927.7 | 13.6 | 14.2 | 13.6 | 14.2 |
| A. NFA | -1,478.0 | -1,932.8 | -203.9 | -256.6 | -6.1 | -7.0 |
| B. NDA | 4,782.9 | 5,860.5 | 20.3 | 20.7 | 19.7 | 21.2 |
| Budgetary borrowing | 3,133.0 | 3,744.7 | 20.4 | 20.2 | 12.9 | 13.6 |
| SBP | -191.1 | 105.4 | -3.6 | 2.1 | -0.8 | 0.4 |
| Scheduled banks | 3,324.1 | 3,639.3 | 33.1 | 27.2 | 13.7 | 13.2 |
| Commodity operations | 229.7 | 352.3 | 25.4 | 31.1 | 0.9 | 1.3 |
| Private sector credit | 1,612.1 | -72.9 | 21.1 | -0.8 | 6.6 | -0.3 |
| PSEs | -43.3 | 293.7 | -3.1 | 21.5 | -0.2 | 1.1 |
| Other items net | -156.3 | 1,116.0 | 8.7 | -56.9 | -0.6 | 4.0 |
| Reserve money | 663.1 | 2,100.8 | 7.7 | 22.5 | - | - |
| Currency in circulation | 662.5 | 1,576.3 | 9.6 | 20.8 | 2.7 | 5.7 |
| Deposits | 2,615.1 | 2,327.6 | 15.1 | 11.7 | 10.8 | 8.4 |

P: provisional

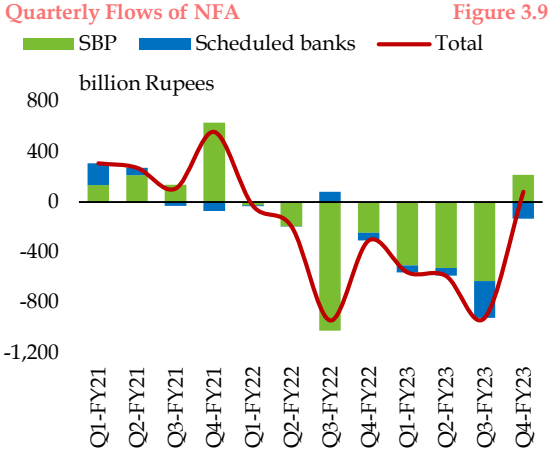
Source: State Bank of Pakistan

borrowing needs of the procurement agencies. Meanwhile, credit to the private sector remained lackluster during FY23 due to the deteriorating economic conditions and rising cost of borrowing amid high interest rates.

With regards to NFA, reduced financial inflows due to uncertainty surrounding the resumption of IMF program in particular and domestic economic environment in general, affected the NFA of the banking system. SBPs' NFA reflected most of this decline. However, disbursement of some multilateral and commercial loans in the last quarter of FY23 slightly alleviated pressures on the SBP's FX reserves; hence NFA posted a marginal increase after witnessing a consistent downtrend since Q1-FY22 **(Figure 3.9)**. On the liability side, the growth in currency in circulation accelerated to 20.8 percent in FY23 from 9.6 percent in the previous year, while growth in deposits decelerated from 15.1 percent in FY22 to 11.7 percent in FY23 **(Figure 3.10).**

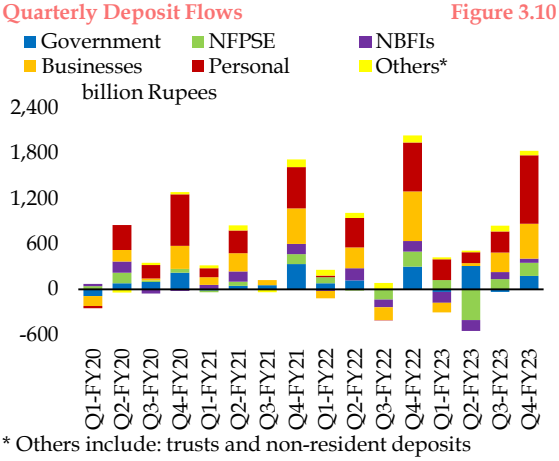
More than half of the increase (55.7 percent) in currency in circulation was concentrated in Q4-FY23, which included the month of Ramazan and two Eid festivals. While the withdrawal of

**Quarterly Flows of NFA** **Figure 3.9**




Source: State Bank of Pakistan

**Quarterly Deposit Flows** **Figure 3.10**




* Others include: trusts and non-resident deposits

Source: State Bank of Pakistan

deposits for Ramazan and Eid related spending partly explains this increase, rising macroeconomic uncertainty and high inflation also contributed to the higher currency in circulation. Meanwhile, an overall slowdown in domestic economic activity and decline in workers' remittances was mainly responsible for the deceleration in deposit mobilization during FY23.

Segment-wise bifurcation shows that the deposits of private businesses and Non-Financial Public Sector Enterprises (NFPSEs) decelerated during the review period. The slight slowdown in the deposits of private businesses reflects their inclination to use own funds in a high interest rate environment. In the case of NFPSEs, the slowdown is explained by the reclassification of some of the NFPSEs as federal government institutes from December 2022 onward. On the other hand, deposits of Non-bank Financial Institutions (NBFIs) declined during FY23, as the NBFIs partly shifted their deposits to the government securities aiming to earn higher returns. Meanwhile, personal deposits grew by 15.9 percent in FY23, encouraged by favorable returns on deposits offered by banks amid higher interest rates.

### *Credit to PSEs*

Credit to the PSEs registered an increase of Rs 293.7 billion during FY23, compared to a net retirement of Rs 43.3 billion last year. Bulk of the borrowings were made by a leading oil marketing and distribution company to meet liquidity needs amid pending receivables from other energy-related enterprises.[7] These borrowings primarily reflected the fallout of higher operational losses, particularly the perennial structural deficiencies in the energy sector such as un-targeted subsidies, delayed tariff adjustments, and increase in circular debt over the past many years.[8] Consistently large overdue payments in the energy sector amplified liquidity pressures during FY23. This is despite adjustments in power and gas tariffs during FY23, to contain the pace of accumulation in circular debt.

### *Commodity Financing*

The overall financing under commodity operations increased by Rs 352.3 billion in FY23, compared to an offtake of Rs 229.7 billion last year **(Table 3.2).** Borrowing by wheat procuring agencies dominated this expansion, largely due to increase in Minimum Support Price (MSP) of wheat in order to incentivize farmers.[9] In line with the seasonal procurement operations for wheat, the entire borrowings were concentrated in Q4-FY23.[10] Meanwhile, sugar-procuring agencies increased their borrowings in FY23, as the government allowed sugar mills to export 250,000 MT of sugar in January 2023 **(Chapter 6).**

**Commodity Financing** **Table 3.2**

flows in billion Rupees

| | FY22 | FY23 |
|---|---|---|
| **Total** | **229.7** | **352.3** |
| Wheat | 223.5 | 299.1 |
| Sugar | -0.2 | 39.9 |
| Cotton | 0.1 | 0.2 |
| Rice | 0.0 | 0.0 |

Source: State Bank of Pakistan

### *Government Borrowings*

The government's budgetary borrowings from the banking system grew by 20.2 percent during FY23 over last year. Besides large fiscal deficit, unavailability of adequate external flows increased government's reliance on commercial banks to finance the deficit. Consequently, the

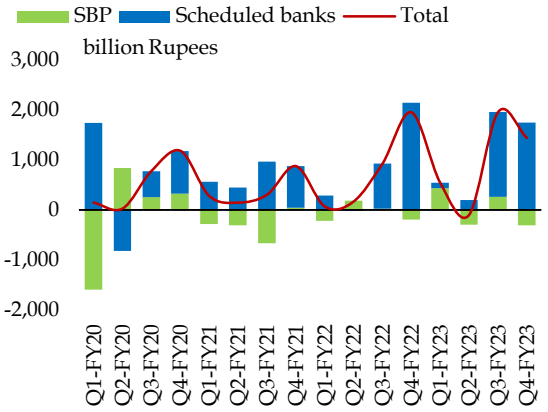
[7] Source: Quarterly Financial Statement of Pakistan State Oil for the period ended March 31, 2023, (www.dps.psx.com.pk/download/document/207213.pdf)

[8] Power sector circular debt rose to Rs 2.5 trillion on end-March 2023, from Rs 2.3 trillion on end-June 2022. Source: International Monetary Fund (2023). *Country Report No. 23/260*. Washington D.C.: IMF.

[9] The provincial governments of Sindh and Punjab announced a sizeable increase in MSP of wheat from Rs 2,200 per 40kg to Rs 4,000 and Rs 3,900 per 40kg respectively for the crop year of 2023-24.

[10] During Q4-FY23, net borrowings by the wheat procurement agencies was Rs 357.6 billion.

Government Borrowings from the Banking System — Figure 3.11




Source: State Bank of Pakistan

government borrowed Rs 3,639.3 billion from commercial banks in FY23, compared to a borrowing of Rs 3,324.1 billion last year **(Figure 3.11).**

### *Primary Auctions*

Soaring inflation and external pressures that led to almost successive hikes in the policy rate by a cumulative 825 bps during FY23, kept upward pressure on cut-off rates in the auctions of government securities throughout the year. Further, the market remained inclined towards 3-month T-bills and floating coupon PIBs (PFLs) to minimize losses due to increase in interest rates in the intervening periods. On its part, to contain rollover risk while meeting its large financing requirements, the government also allocated higher targets (on net of maturity basis) for PFLs **(Table 3.3)**. Specifically, the government assigned around one-half (46.1 percent) of the auction targets, on net of maturity basis, to PFLs followed by 22.3 percent for variable rental rate (VRR) GoP Ijara Sukuks and 13.6 percent for T-bills.

In overall terms, the market offered nearly double the target amount during FY23. Within T-bills, the government assigned most of the targets (net of maturity) to 12-month bills followed by 6-month bills. Given the market expectation of increase in interest rates, most of the market offers were placed in 3-month T-bills, where the offer-to-target ratio stood at 3.9 during FY23 (**Figure 3.12**). On the other hand, the offers for 6-month and 12-month bills remained lower than the targets. Following the increase in the policy rate, the cut-off rates remained on an upward trajectory during the year in almost all auctions. Investors' keen interest in 3-month paper urged the government to accept about 60 percent of the offered amount in this instrument. Most of the issuances were made during the fourth quarter when the investors shied away from locking funds in PFLs.[11]

For PFLs, the market behavior underwent a shift during the year. The quarterly trends show that the market offers for PFLs exceeded three times of the target amount during H1-FY23, in a bid to benefit from attractive returns by locking funds in medium and long-term variable rate instruments. However, in Q4-FY23, the market moved away from PFLs and shifted its interest towards T-bills and fixed rate PIBs. The offer-to-target ratio for PFLs fell to 1.0 times in Q4-FY23 from an average of 3.0 times during the first three quarters. The higher yields on fixed rate PIBs made it an attractive instrument as market was expecting a status quo or decrease in policy rate in the last quarter.

In overall terms, the total acceptance of fixed rate PIBs slightly exceeded the maturing amount during FY23, because of the market's interest to lock funds at prevailing higher interest rates offering about twice the net of maturity amounts. However, to avoid higher cost of borrowing, the government accepted only about one-third of the offered amount in fixed rate PIBs.

Similar to the conventional market, the government set higher targets (net of maturity) for VRR Shariah-compliant instruments. However, the market's interest in Islamic

[11] In view of a sharp increase in financing requirements, the government mobilized around three times of its pre-auction target amount on net of maturity basis via conventional instruments.

Auction Summary — Table 3.3

billion Rupees

| | Target | Maturity | Offered (competitive) | Accepted (all) |
|---|---|---|---|---|
| **Treasury Bills** | | | | |
| Q1-FY23 | 4,950.0 | 5,061.3 | 9,731.1 | 5,023.9 |
| Q2-FY23 | 5,800.0 | 5,798.7 | 9,641.2 | 5,235.5 |
| Q3-FY23 | 5,400.0 | 5,104.0 | 8,207.9 | 5,255.3 |
| Q4-FY23 | 8,275.0 | 7,726.6 | 14,387.2 | 10,957.0 |
| FY23 | 24,425.0 | 23,690.6 | 41,967.4 | 26,471.7 |
| **Pakistan Investment Bonds** | | | | |
| ***Fixed Rate*** | | | | |
| Q1-FY23 | 500.0 | 1,132.2 | 1,977.0 | 687.0 |
| Q2-FY23 | 525.0 | - | 977.4 | 255.5 |
| Q3-FY23 | 300.0 | - | 358.4 | 26.4 |
| Q4-FY23 | 360.0 | - | 765.5 | 333.5 |
| FY23 | 1,685.0 | 1,132.2 | 4,078.3 | 1,302.4 |
| ***Floating Rate*** | | | | |
| Q1-FY23 | 620.0 | - | 2,123.7 | 1,253.4 |
| Q2-FY23 | 840.0 | 292.3 | 3,147.9 | 2,152.7 |
| Q3-FY23 | 970.0 | - | 1,908.1 | 1,396.7 |
| Q4-FY23 | 1,030.0 | 682.3 | 1,048.0 | 552.4 |
| FY23 | 3,460.0 | 974.6 | 8,227.7 | 5,355.2 |
| **Ijara Sukuks** | | | | |
| ***GIS-FRR*** | | | | |
| Q1-FY23 | 65.0 | | 78.1 | 19.7 |
| Q2-FY23 | 120.0 | | 5.6 | 0.2 |
| Q3-FY23 | 110.0 | | 6.2 | 1.2 |
| Q4-FY23 | 120.0 | | 241.7 | 113.9 |
| FY23 | 415.0 | - | 331.6 | 135.0 |
| ***GIS-VRR*** | | | | |
| Q1-FY23 | 195.0 | | 220.3 | 101.1 |
| Q2-FY23 | 280.0 | | 372.0 | 243.8 |
| Q3-FY23 | 360.0 | | 112.8 | 35.5 |
| Q4-FY23 | 370.0 | | 591.1 | 355.5 |
| FY23 | 1,205.0 | - | 1,296.2 | 735.9 |
| **Total FY23** | **31,190.0** | **25,797.4** | **55,901.2** | **34,000.2** |

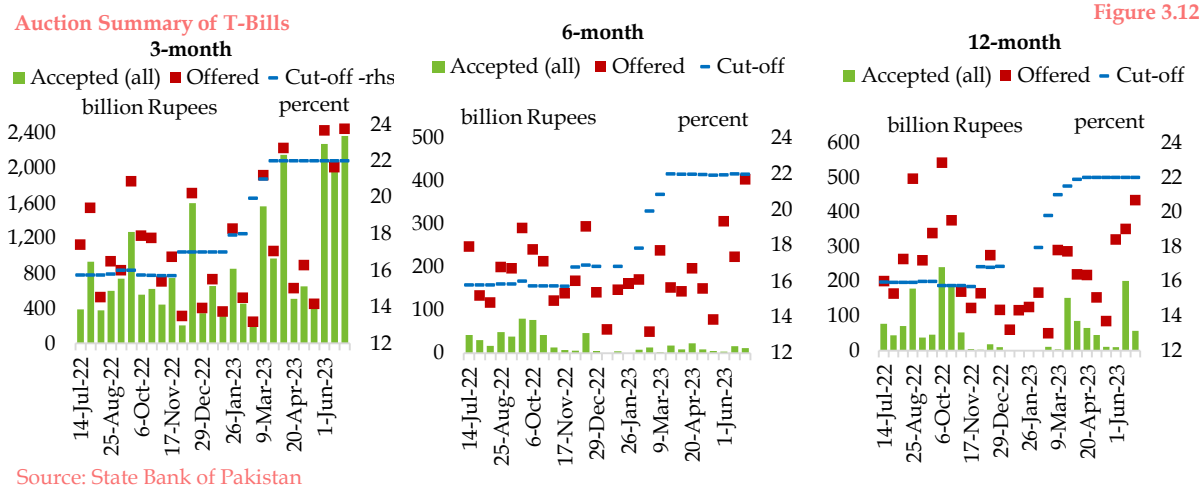
Source: State Bank of Pakistan

instruments remained lukewarm in the first three quarters of FY23 (**Table 3.3**). In H1-FY23, auction of GoP Ijara Sukuks only consisted 5-year bonds, as the market did not find 5-year FRR lucrative in an increasing interest rate environment, and shifted towards VRR. Nonetheless, the introduction of 1-year and reintroduction of 3-year Ijara Sukuks in Q3-FY23 revived market interest in these instruments. Moreover, after the introduction of relatively shorter-tenor Sukuks, the market did not make any bids in 5-year FRR. Similarly, offers in 5-year VRR also remained low throughout the year, except for May and June 2023.

Another reason for lower offers in the Shariah-compliant instruments was relatively tighter liquidity condition in the market for Islamic Banking Institutions (IBIs). Although, the introduction of shorter-tenor Ijara Sukuks helped in managing this gap, the market could not capitalize on the opportunity to earn higher profit due to lower deposits. This, along with the mismatch between the maturity of OMO (Open Market Operations) injections and the

Figure 3.12

Auction Summary of T-Bills




Source: State Bank of Pakistan

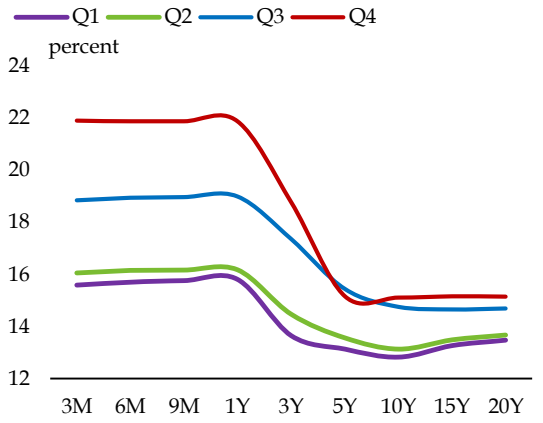
securities restricted participation in the market for the Islamic debt securities. For instance, the longest tenor OMO is of 77 days, whereas the shortest tenor GoP Ijara Sukuk is of one year. In view of these factors, the government mobilized only 61.1 percent of its net of maturity target amount from VRR and 32.5 percent from FRR.

Meanwhile, the increase in interest rates along with high inflation expectations, economic uncertainties, external sector weaknesses and limited financing avenues shifted the yield curve upward **(Figure 3.13)**. This led to increase in spread between the secondary market yields and the policy rate, especially in H2-FY23. For instance, the average quarterly spread between the policy rate and yields on 12-month paper increased to 132.5 bps, 126.7 bps for 6-month and 102.4 bps for 3-month paper in Q3-FY23.

In overall terms, in response to a cumulative 825 bps hike in the policy rate, the yield of 3-month paper rose by 767 bps, whereas it increased by 772 bps and 763 bps for 6-month and 12-month, respectively. On the other hand, the hike in the yield of longer-tenor instruments remained relatively low during FY23 with 315 bps increase in 5-year bonds, 240 bps in 10-year and 178 bps for 20-year bonds, indicating monetary policy easing in the long-run.

Figure 3.13

Average Quarterly Yield Curve

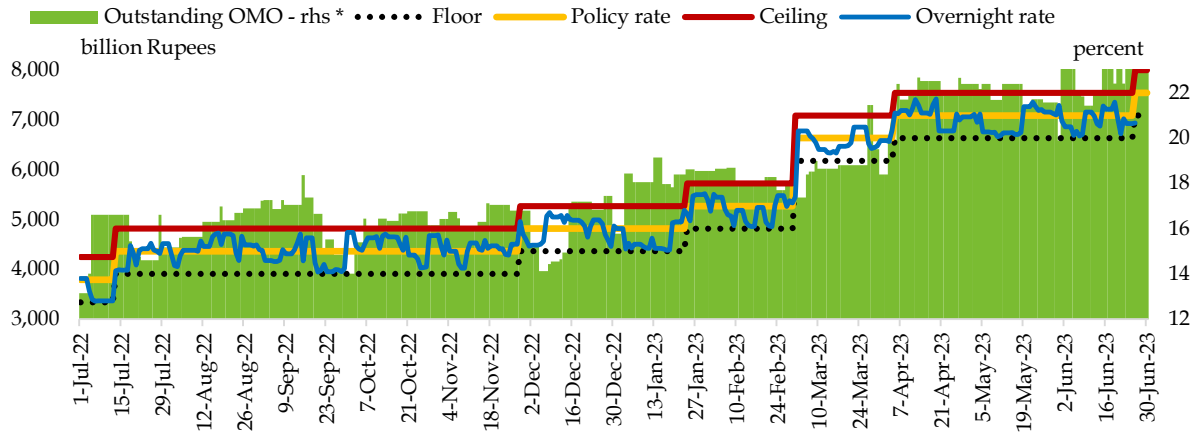



Source: State Bank of Pakistan

### *Interbank liquidity*

Liquidity requirements of the interbank money market remained substantially higher in FY23 compared to last year. Several factors contributed to increased demand for liquidity. First, amid unavailability of external financing, and restrictions on borrowing from the SBP, the government mostly relied on commercial banks to meet its financing requirements. Second, the government made a net retirement of external debt, over Rs 1 trillion in PKR terms, which drained liquidity from the interbank market. Third, the rising macroeconomic uncertainty and escalating inflationary pressures resulted in a large expansion in currency in circulation that rose by around Rs 1.6 trillion in FY23 compared

Liquidity Indicators, FY23 Figure 3.14




Source: State Bank of Pakistan

to Rs 662.5 billion in FY22. Lastly, on the supply side, deposit mobilization of commercial banks remained considerably lower in FY23.

Keeping in view the significant pressures on interbank liquidity conditions due to above-mentioned factors, SBP provided liquidity through regular 7-day and longer-tenor OMOs. The average outstanding stock of OMOs more than doubled to Rs 5,823.7 billion in FY23, from Rs 2,495.4 billion in FY22. The share of longer-tenor OMOs, 63-days and 77-days, rose substantially to 56.8 percent of overall liquidity injections in FY23, compared to 5.0 percent last year.

Also, the frequency and volume of these longer-tenor OMOs considerably increased to meet market's higher liquidity requirements. During FY23, the SBP cumulatively injected Rs 32.5 trillion through 41 longer-tenor OMOs compared to around Rs 5.7 trillion through nine longer tenor injections in FY22. The liquidity thus injected via longer-tenor OMOs more than sufficed the requirements of the market, thus the ONR remained below the policy (target) rate most of the time (on 125 days) during FY23 **(Figure 3.14).** Meanwhile, with the exception of the last quarter, the ONR remained more volatile in FY23, compared to FY22.[12] In FY22, ONR mostly remained above the policy rate, due to both increase in liquidity requirements and the market's expectation about further monetary tightening because of rising inflationary pressures.

OMO Mop-ups Table 3.4

amount in billion Rupees

| | Total no. of mop-ups | | Avg. amount per mop-up | |
|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 |
| **Q1** | 1 | 6 | 203.0 | 432.9 |
| **Q2** | 2 | 5 | 47.7 | 178.2 |
| **Q3** | 0 | 4 | - | 503.1 |
| **Q4** | 2 | 5 | 296.3 | 246.7 |
| **Total** | 5 | 20 | 178.2 | 336.7 |

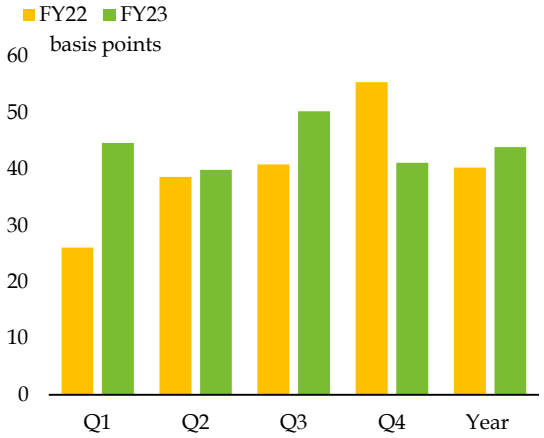
Source: State Bank of Pakistan

This is also evident from high activity on SBP corridor's floor almost throughout FY23.[13] Furthermore, the SBP conducted twenty OMOs to mop up excess liquidity from the interbank market, compared to 5 times last year, whereas the volume of liquidity mopped up in each OMO nearly doubled to Rs 336.7 billion in FY23 from Rs 178.2 billion in FY22 **(Table 3.4)**. However, the volatility in ONR was lower in Q4-FY23 than that observed in Q4-FY22 **(Figure 3.15)**. In Q4-FY22, the market's expectations of rate hikes in the light of rising inflationary pressures and growing borrowing needs of the government induced higher volatility in the

[12] The standard deviation of ONR increase to around 257 bps in FY23 compared to 218 bps in FY22

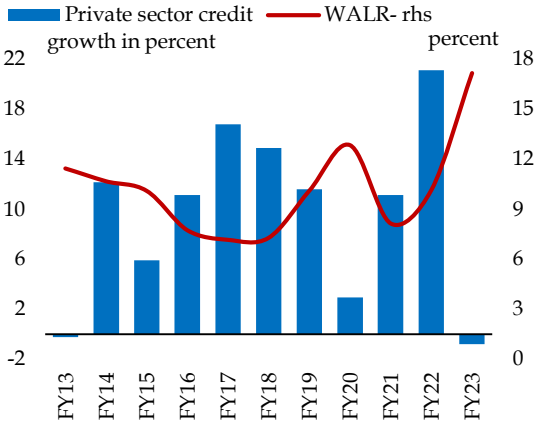
[13] In overall terms, the market used SBP repo facility 558 times and parked a cumulative sum of Rs 17.1 trillion during FY23, compared to Rs 7.3 trillion placed on 217 occasions in FY22.

Deviation in Overnight Repo Rate Figure 3.15




Source: State Bank of Pakistan

Credit to Private Sector Figure 3.16




Source: State Bank of Pakistan

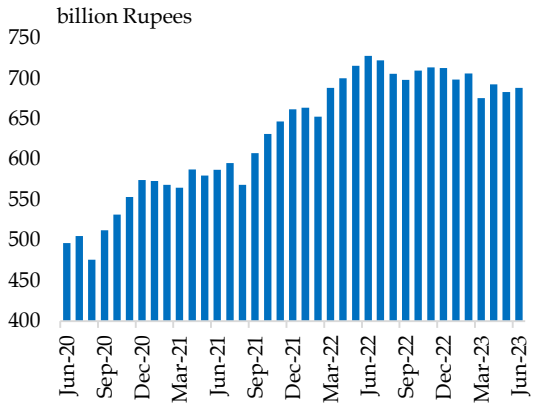
ONR. On the other hand, in Q4-FY23, the market was expecting the policy rate to either decrease or remain unchanged; the policy rate remained at 21 percent for most of the time in Q4-FY23, which also resulted in fewer deviations from the policy rate.

To effectively manage the liquidity of IBIs, the SBP started Shariah Compliant Mudarabah Based OMOs (injections only) in the fourth quarter of FY22.[14] The average outstanding stock of these OMOs slightly increased to Rs 539.0 billion during FY23 from Rs 467.3 billion in FY22. This increase indicates relatively tight liquidity conditions in the Islamic based money market (Mudarabah).

## 3.4 Credit to Private Sector

Credit to private sector declined by 0.8 percent in FY23, compared to a growth of 21.1 percent last year **(Figure 3.16).** A host of factors discouraged private sector credit offtake during FY23. First, the policy-driven moderation in the pace of economic activity contained the credit demand of industries. The SBP also linked the rates on EFS and LTFF to the policy rate for strengthening the transmission mechanism of monetary policy.[15] Moreover, a new framework has been developed under which the SBP's operational involvement in the two largest refinancing schemes (EFS and LTFF) is set to cease at the end of a 5-year transition period beginning from July 2023.[16] The borrowing under the refinancing schemes has peaked out since June 2022; while as of June 2023, the total outstanding amount under EFS declined by 5.4 percent to Rs 688.4 billion from Rs 728.1 billion as of June 2022 **(Figure 3.17).**

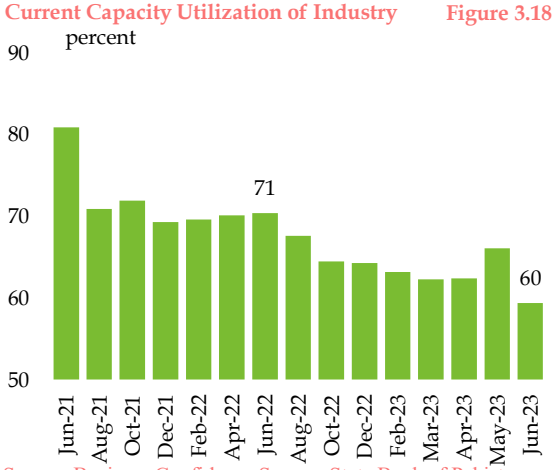
Export Financing Scheme (Outstanding Stock) Figure 3.17




Source: State Bank of Pakistan

[14] Currently, this mechanism only allows Islamic banks to borrow from the central bank via OMO injections or through SBP reverse repo (ceiling) facility; while OMO mop-ups and SBP repo (floor) facility are not available to IBIs.
[15] SBP, on average, raised the rates of EFS (from around 4 percent in FY22) and LTFF (from around 5 percent in FY22) to over 13 percent in FY23. Source: IH&SMEFD Circular No. 6, 7, 11 and 13 of 2022, State Bank of Pakistan.
[16] Source: International Monetary Fund (2023). *Country Report No. 23/260*. Washington D.C.: IMF

Current Capacity Utilization of Industry — Figure 3.18




Source: Business Confidence Survey, State Bank of Pakistan

The slowdown in credit to private sector businesses mainly came from working capital loans, while growth in fixed investment loans decelerated. According to the SBP's Bank Lending Surveys during FY23, the overall demand for loans declined due to multiple factors, including deterioration in economic conditions, political uncertainty and increased cost of borrowing. The lower demand for credit is also in line with 5.1 percent decline in total number of loan applications received by banks in FY23 over last year.

On the demand side, the slowdown in domestic economic activity and construction led to significant fall in credit uptake **(Table 3.5).** Moreover, the flood-related disruptions and FX constraints, that led the government and the SBP to introduce various measures to contain domestic demand and imports during FY23, also impinged on economic activity and hence private sector borrowings. In particular, constrained availability of raw materials resulted in partial closure of various businesses in the manufacturing sector during the review period, which include textiles, automobiles and

Credit Demand Slows Amid Lower Economic Activity — Table 3.5

growth in percent

| | FY22 | FY23 |
|---|---|---|
| **Cost of production** | | |
| Exchange rate* (PKR/USD) | -9.8 | -28.5 |
| Electricity tariffs | 22.6 | 25.6 |
| Domestic fuel prices | 37.8 | 62.0 |
| Cotton prices | 69.1 | 8.8 |
| Sugarcane prices | 13.6 | 27.5 |
| Construction input items | 11.4 | 32.5 |
| **Economic activity** | | |
| LSM | 11.7 | -10.3 |
| Car sales | 54.9 | -58.7 |
| PoL sales | 14.4 | -26.5 |
| Cement dispatches | -1.0 | -16.0 |
| PSDP | 33.5 | 17.1 |
| **Remittances** | 6.2 | -13.6 |

*Bank floating average exchange rates

Sources: SBP, MoF, PBS, PAMA, World Bank

refined petroleum sectors.[17] This also led to a decline in capacity utilization during FY23 **(Figure 3.18).**

### *A mix of demand and supply side factors contained textile sector's working capital requirements*

Textile sector working capital loans slumped to Rs 55.9 billion in FY23, compared to Rs 237.7 billion last year **(Table 3.6).** Several factors have contributed to this decline. First, the overall demand for textile products has been affected both in the domestic as well as international markets, which is in line with a slowdown in local and export sales of the textile sector during Jul-Mar FY23, compared to the same period last year **(Figure 3.19).** On the international front, slower economic activity amid rising cost of living and mortgage rates have affected the demand for the country's textile products, as reflected by lower export volumes of major textile products during the period **(Chapter 6)**. Second, the textile industry was also affected by

[17] Source: Pakistan Stock Exchange, Nishat Chunian Ltd. (www.dps.psx.com.pk/download/document/199808.pdf); Crescent Fibres Ltd. (www.dps.psx.com.pk/company/CFL); Pak Suzuki Motor Company Ltd. (www.dps.psx.com.pk/download/document/205072.pdf); Indus Motor Company Ltd. (www.dps.psx.com.pk/download/document/207293.pdf); Attock Refinery Ltd. (www.dps.psx.com.pk/download/document/207869.pdf)

**Loans to Private Sector Businesses** **Table 3.6**

flows in billion Rupees

| | Total Loans* | | Working Capital** | | Fixed Investment | |
|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **Private Sector Businesses** | **1,215.5** | **31.1** | **698.8** | **-145.0** | **451.4** | **173.8** |
| Manufacturing | 903.0 | 89.4 | 610.0 | -39.9 | 279.6 | 128.8 |
| Textile | 364.1 | 95.2 | 237.7 | 55.9 | 122.2 | 40.3 |
| Refined petroleum | 2.9 | 47.2 | 4.4 | 45.4 | -1.5 | 1.9 |
| Basic pharmaceutical products | 11.0 | 17.3 | 9.2 | 15.7 | 0.0 | 1.9 |
| Cement, lime and plaster | 42.6 | 36.5 | 7.9 | 9.9 | 34.3 | 27.0 |
| Wearing apparel | 53.8 | 10.4 | 42.8 | 5.9 | 8.9 | 4.6 |
| Rice processing | 33.1 | 3.3 | 27.2 | 4.7 | 5.7 | -1.4 |
| Vegetable and animal oils and fats | 6.2 | 1.9 | 4.4 | 0.8 | 1.5 | 1.1 |
| Sugar | 47.3 | -12.3 | 49.2 | -1.2 | -1.9 | -11.4 |
| Fertilizers | -1.5 | -8.4 | -9.9 | -6.1 | 8.4 | -2.3 |
| Motor vehicles | 29.9 | -12.8 | 18.2 | -13.0 | 10.7 | 1.2 |
| Paper & paper products | 40.9 | 3.9 | 24.9 | -15.9 | 16.0 | 19.7 |
| Basic chemicals | 31.0 | -3.9 | 24.4 | -20.5 | 6.6 | 16.7 |
| Basic iron and steel | 44.2 | -35.5 | 32.4 | -37.6 | 11.8 | 2.3 |
| Telecommunications | 91.2 | 63.2 | -4.3 | 14.9 | 95.4 | 48.3 |
| Agriculture, forestry and fishing | 34.2 | 17.9 | 19.2 | -6.2 | 13.9 | 24.2 |
| Construction | 33.9 | 1.9 | -0.4 | 9.4 | -4.4 | 1.0 |
| Real estate activities | 6.2 | -0.8 | 0.7 | 0.7 | 0.7 | -2.3 |
| Mining and quarrying | -3.1 | 14.4 | -8.6 | 16.9 | 5.5 | -2.5 |
| Power generation, transmission and distribution | 58.8 | -47.6 | 17.2 | -41.8 | 41.7 | -5.8 |
| Transportation and storage | 13.5 | -8.4 | 10.0 | -2.3 | 2.9 | -6.1 |
| Wholesale and retail trade | 69.3 | -69.9 | 64.3 | -73.6 | 2.7 | -9.1 |

*Total loans in FY22 and FY23 include net borrowings of Rs 65.3 billion and Rs 2.3 billion, respectively, under construction financing. The data on credit/loans has been revised since June 2020 due to inter-sectoral adjustment in private sector business (see IH&SMEFD Circular Letter No. 28 of 2020). Therefore, in this table, total loans may not be necessarily equal to the sum of working capital and fixed investment loans ** working capital includes trade financing

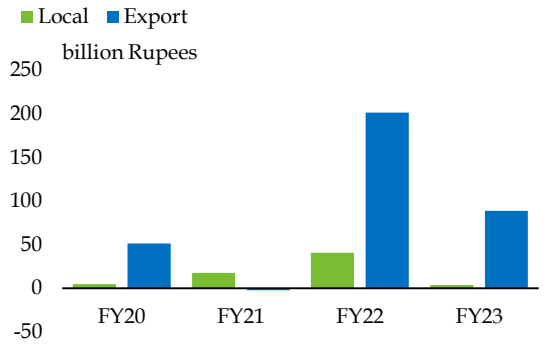
Source: State Bank of Pakistan

the discontinuation of Regionally Competitive Energy Tariffs (RCET) in June 30, 2022.[18]

Third, floods severely affected cotton crop production, which fell by 41.0 percent in FY23.[19] Lower availability of domestic cotton for textile industry was instrumental in driving down the production of cotton yarn and cotton cloth (major textile items) by 22.1 percent and 12.4 percent, respectively, in FY23, which also translated into lower credit offtake by the industry.

Fourth, as mentioned above, the linking of the EFS rates with the policy rate resulted in the EFS rate rising to over 13 percent on average in FY23

**Textile Sector Sales (net)*** **Figure 3.19**



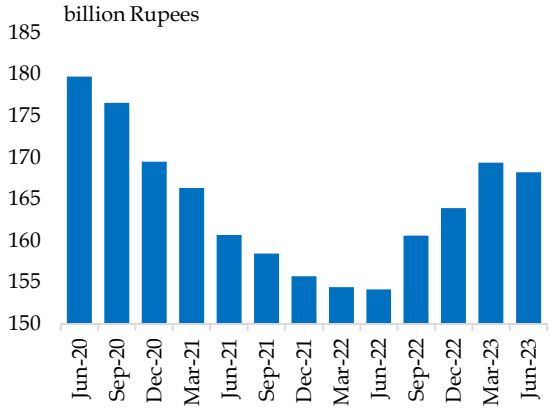

* July-March

Source: State Bank of Pakistan- quarterly financial statement analysis of selected listed non-financial companies

[18] Source: APTMA press release dated July 21, 2022, (www.aptma.org.pk/wp-content/uploads/2023/08/16.-21st-July-2022.pdf)

[19] Source: Ministry of Finance (2022-23). Pakistan Economic Survey. Islamabad: Ministry of Finance.

**Gross NPLs of Textile Sector** **Figure 3.20**




Source: State Bank of Pakistan

from around 4 percent in FY22, might have resulted in lower borrowing. The textile sector performance was also reflected by the increase in gross non-performing loans (NPLs) **(Figure 3.20).**

### *Rising inventory levels along with worsening financial position raised working capital needs of petroleum refining*

Refined petroleum, was one of the few sectors, where credit offtake was higher than last year. This increased borrowing is attributed to the sector's deteriorating financial position. Some of the major oil refineries had temporarily shut down their distillation units in order to manage the higher inventory levels, which rose by 66.0 percent owing to the fall in demand for petroleum products during FY23.[20,21]

### *Slowdown in construction activities led to a net retirement in credit by iron and steel sector*

A major drag to working capital loans came from a net retirement of Rs 37.6 billion by iron and steel firms, compared to an offtake of Rs 32.4 billion last year. This reflected sluggish construction activity in both public and private sectors, which pared demand for construction-allied sectors, including iron and steel. This can be seen from a deceleration in PSDP spending from 33.5 percent in FY22 to 17.1 percent in FY23. Furthermore, weakening incomes, decline in remittances, crop losses and a general downturn in economic activity contributed to the slack in private sector construction activities. In addition, import constraints and reduced availability of construction material, also weighed on borrowing needs of the sector.[22]

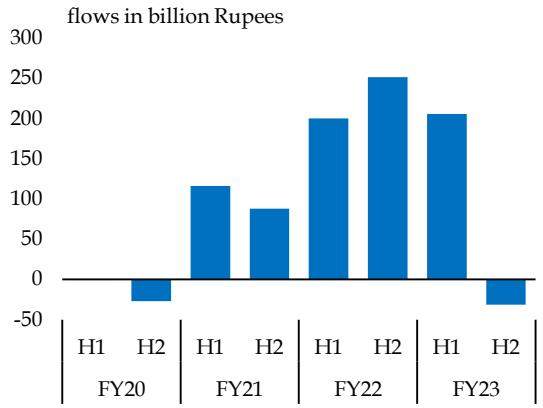
Among the non-manufacturing sector, wholesale and retail trade retired loans of Rs 73.6 billion in FY23, compared to an offtake of Rs 64.3 billion last year. The previous year's increase was due to higher borrowings by major oil marketing companies (OMCs) to finance the import of petroleum products. In FY23, however, an overall slowdown in economic activity dampened the demand for petroleum products, which led the OMCs to retire loans (**Table 3.5**).[23] Further loan retirements came from the wholesale businesses of fertilizers, as relatively lower international DAP (Di-Ammonium Phosphate) prices during FY23 contained the borrowing needs of wholesalers.[24] Moreover, the lower demand for loans is also explained by a 63.5 percent decline in the imports of DAP.

### *Fixed investment loans lost momentum*

The fixed investment loans decelerated to Rs 173.8 billion in FY23, compared to an offtake of Rs 451.4 billion last year. The entire increase was concentrated in H1-FY23; as the pace of disbursement under the SBP's concessionary financing schemes (LTFF and TERF) tapered-off in the second half **(Figure 3.21).** In fact, the

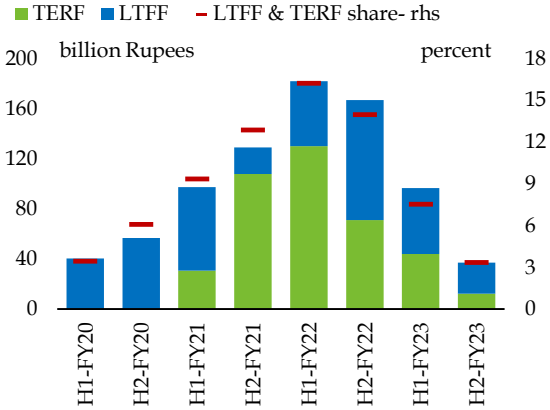
[20] Source: Pakistan Stock Exchange, also available at: www.dps.psx.com.pk/download/document/207869.pdf
[21] Source: SBP; Quarterly Financial Statements Analysis of Selected Listed Non-Financial Companies, March 31, 2023.
[22] Steel manufacturing declined by 5.1 percent during FY23, over last year.
[23] Petroleum products sales posted 26.5 percent y/y decline during FY23. Likewise, the import volume of petroleum products also dropped by 38.4 percent during the year.
[24] Average DAP prices in the international market dropped by 13.6 percent during FY23 (Source: World Bank).

Fixed Investment Loans Figure 3.21




Source: State Bank of Pakistan

Gross Disbursements under LTFF and TERF Figure 3.22




Source: State Bank of Pakistan

share of LTFF and TERF disbursements in total fixed investment loans declined from 15.0 percent in FY22 to 5.6 percent in FY23 **(Figure 3.22).**

Lower loan disbursements under LTFF may be attributed to linking of LTFF rates with the policy rate aiming to strengthen the monetary transmission, as the financing rates under LTFF rose from 5.3 percent in FY22 to 13.7 percent in FY23, on average. Meanwhile, the slowdown in disbursements under TERF is due to the maturity of the scheme in March 2021. Out of the approved amount, most of the disbursements were made in FY22.[25]

Within the manufacturing sector, textile dominated fixed investment loans by borrowing Rs 40.3 billion in FY23, compared to an offtake of Rs 122.2 billion last year. The textile firms borrowed for enhancing production capacity, and to reschedule loans. Other than textile, cement industry was a notable borrower of long-term loans within the manufacturing sector. Major cement manufacturers borrowed long-term loans for capacity expansion and investment in the renewable energy sources.[26]

In the non-manufacturing sector, the telecom sector availed fixed investment loans amounting to Rs 48.3 billion during FY23, compared to an offtake of Rs 95.4 billion last year. A major telecom firm availed syndicate financing for injecting equity into its wholly-owned subsidiary, besides capacity expansion.

### *Consumer financing dropped*

Consumer loans posted a net retirement of Rs 40.4 billion in FY23, compared to an offtake of Rs 192.2 billion last year **(Table 3.7).** While loans to consumers remained lackluster for all segments, the major drag came from automobile loans.

The downtrend in overall consumer loans is primarily attributed to high borrowing cost, as reflected by increase in the average WALR to 17.5 percent during FY23, from 10.2 percent last

Consumer Financing Table 3.7

flows in billion Rupees

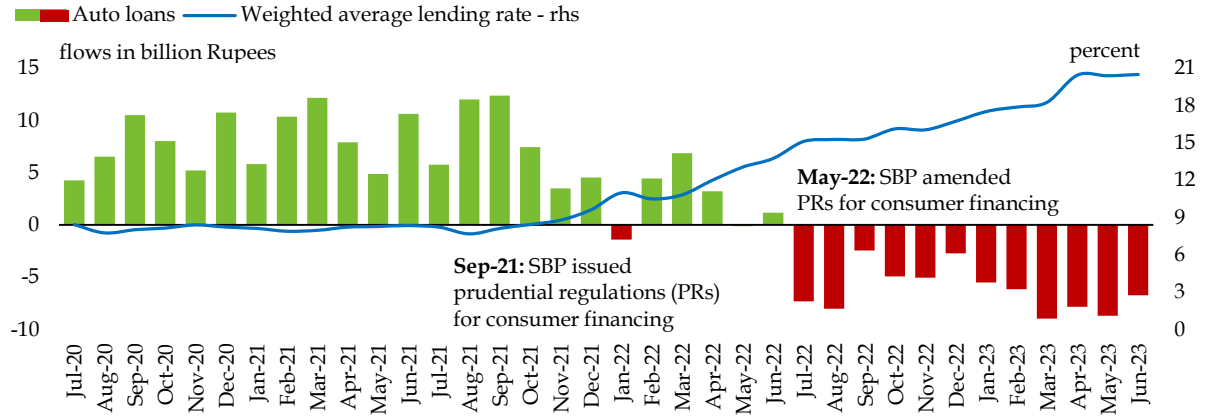
| | FY21 | FY22 | FY23 |
|---|---|---|---|
| **Total Consumer Financing** | **174.0** | **192.2** | **-40.4** |
| Credit cards | 12.0 | 17.7 | 21.0 |
| House building | 23.8 | 97.1 | 11.6 |
| Personal loans | 43.0 | 16.4 | 1.2 |
| Consumers durable | -1.8 | 1.2 | 0.0 |
| Auto loans | 97.0 | 59.7 | -74.1 |

Source: State Bank of Pakistan

[25] As of end-June 2023, Rs 394 billion (over 90 percent) of the total approved amount of Rs 436 billion under TERF has been disbursed to the private sector businesses.

[26] For details, see Chapter 3 of SBP's Half Year Report FY23 on the State of the Pakistan's Economy.

**Automobile Loans** Figure 3.23




Source: State Bank of Pakistan

year **(Figure 3.23).** Besides higher interest rates, SBP's macro-prudential measures also restricted auto finance. In September 2021, and later in May 2022, SBP had introduced several amendments to the Prudential Regulations (PRs) for consumer financing aiming to moderate the auto loans by increasing the down-payment requirement and reducing the maximum tenure of auto financing.[27] Moreover, in May 2022, banks were required to obtain prior approval from the SBP at the time of opening L/Cs of 25 high value capital goods, including CKD cars.[28]

In addition, the automobile manufacturers raised car prices, owing to the increase in cost of production, which further pared the demand for vehicles. This is in line with 58.7 percent decline in car sales during FY23 over last year.

Apart from auto loans, house-building loans also decelerated amid sluggish construction sector. Borrowing for house-building segment dropped to Rs 11.6 billion during FY23, compared to an offtake of Rs 97.1 billion last year.

## 3.5 Inflation

The average headline National CPI (NCPI) inflation rose to 29.2 percent in FY23, from 12.2 percent in FY22. The surge in inflation was broad-based with non-perishable food items having a dominant contribution, followed by the Non-Food Non-Energy (NFNE) and energy group (**Table 3.8**). A host of domestic and global supply shocks led to the surge in inflation, including: (i) flood-induced domestic food shortages; (ii) increase in energy prices; (iii) exchange rate depreciation; and (iv) domestic supply constraints arising from raw material shortages. Moreover, rising domestic uncertainty also compounded price pressures during the year.

Inflationary pressures intensified during the second half of FY23, with the worsening impact of supply shocks (**Figure 3.24**). The impact of escalating food and energy inflation spilled over to general prices, which increased costs and also raised inflation expectations, pushing core

[27] The PRs issued in September 2021 included: (i) reduction in maximum tenure of the auto finance facility from seven years to five years; (ii) maximum limit of Rs 3 million in aggregate, allowed to be availed by a person from all banks/DFIs; (iii) increase in the minimum down payment for auto financing from 15 percent to 30 percent. In May 2022, two main amendments were introduced in the existing PRs: (i) The maximum tenure of auto finance facility was reduced from 5 years to 3 years for vehicles above 1,000 cc, and from 7 years to 5 years for vehicles up to 1,000 cc; and (ii) the PRs issued earlier to be applicable on financing for all locally assembled/ manufactured vehicles. Source: SBP, BPRD Circular Letter No. 29 of 2021, and BPRD Circular Letter No.19 of 2022.
[28] Source: State Bank of Pakistan. (www.sbp.org.pk/epd/2022/FECL9.htm)

**Average CPI Inflation and Contribution** Table 3.8

percent

| | Urban | | | | | | Rural | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Items** | **Wt.*** | **H1-FY23** | **H2-FY23** | **FY22** | **FY23** | **Cont.*** | **Wt.*** | **H1-FY23** | **H2-FY23** | **FY22** | **FY23** | **Cont.*** |
| **CPI** | **100.0** | **23.1** | **30.4** | **11.8** | **26.8** | | **100.0** | **27.9** | **37.0** | **12.6** | **32.6** | |
| Food & non-alcoholic beverages | 30.4 | 30.7 | 42.8 | 13.7 | 37.0 | 11.8 | 40.9 | 33.9 | 47.9 | 13.2 | 41.2 | 17.6 |
| Perishable food items | 4.5 | 45.6 | 38.2 | 7.5 | 41.8 | 1.9 | 5.8 | 49.9 | 42.6 | 9.0 | 46.1 | 2.7 |
| Non-perishable food | 26.0 | 28.2 | 43.5 | 14.7 | 36.2 | 10.0 | 35.1 | 31.4 | 48.7 | 13.9 | 40.5 | 14.9 |
| Wheat | 0.6 | 48.6 | 83.4 | 10.9 | 66.8 | 0.5 | 3.5 | 46.6 | 86.7 | 9.2 | 67.6 | 2.6 |
| Wheat flour | 3.0 | 31.2 | 81.1 | 16.0 | 56.7 | 1.7 | 3.4 | 28.8 | 75.4 | 15.9 | 52.8 | 1.9 |
| Cooking oil | 1.1 | 56.2 | 36.6 | 49.9 | 45.1 | 0.7 | 0.6 | 56.5 | 28.7 | 55.4 | 40.6 | 0.4 |
| Meat | 2.0 | 24.5 | 19.9 | 20.7 | 22.1 | 0.5 | 1.7 | 24.7 | 19.8 | 21.0 | 22.1 | 0.5 |
| Milk fresh | 7.1 | 26.9 | 33.8 | 12.5 | 30.5 | 2.1 | 10.4 | 26.1 | 37.5 | 11.0 | 32.0 | 3.0 |
| Veg. ghee | 1.0 | 51.9 | 28.6 | 50.4 | 38.8 | 0.6 | 2.4 | 55.9 | 26.0 | 52.6 | 38.8 | 1.5 |
| Pulse masoor | 0.2 | 65.8 | 20.2 | 32.1 | 40.0 | 0.1 | 0.2 | 72.4 | 24.1 | 31.1 | 45.0 | 0.1 |
| Tea | 0.8 | 42.4 | 94.8 | 8.2 | 69.5 | 0.6 | 1.3 | 38.8 | 87.5 | 7.7 | 64.0 | 0.7 |
| Clothing and footwear | 8.0 | 18.1 | 19.7 | 10.8 | 18.9 | 1.5 | 9.5 | 16.3 | 20.8 | 9.9 | 18.6 | 1.8 |
| Housing, Elec., Gas | 27.0 | 10.8 | 12.2 | 9.6 | 11.5 | 3.0 | 18.5 | 19.1 | 19.6 | 13.5 | 19.4 | 3.4 |
| Electricity charges | 4.6 | 31.4 | 19.9 | 22.6 | 25.6 | 1.2 | 3.4 | 31.4 | 19.9 | 22.6 | 25.6 | 0.9 |
| Furnish. & H.H equip. | 4.1 | 24.9 | 38.0 | 11.9 | 31.7 | 1.3 | 4.1 | 26.3 | 38.6 | 13.7 | 32.8 | 1.3 |
| Health | 2.3 | 12.7 | 18.4 | 9.7 | 15.6 | 0.4 | 3.5 | 16.6 | 19.4 | 9.0 | 18.0 | 0.6 |
| Transport | 6.1 | 53.1 | 43.9 | 24.4 | 48.1 | 3.3 | 5.6 | 57.2 | 46.0 | 23.4 | 51.1 | 3.0 |
| Motor fuel | 2.9 | 70.5 | 55.1 | 37.5 | 62.0 | 2.3 | 2.5 | 73.4 | 58.1 | 37.1 | 64.9 | 2.0 |
| Communication | 2.4 | 1.5 | 6.9 | 3.2 | 4.2 | 0.1 | 2.0 | 1.3 | 2.6 | 1.0 | 2.0 | 0.0 |
| Recreation & culture | 1.7 | 22.9 | 58.7 | 8.3 | 41.2 | 0.6 | 1.4 | 27.8 | 59.2 | 9.3 | 44.0 | 0.5 |
| Education | 4.9 | 10.6 | 7.3 | 4.9 | 8.9 | 0.4 | 2.1 | 9.9 | 15.3 | 4.5 | 12.6 | 0.2 |
| Restaurants and hotels | 7.4 | 28.5 | 38.8 | 12.7 | 33.9 | 2.5 | 6.2 | 26.7 | 33.4 | 12.3 | 30.2 | 1.8 |
| Misc. goods & services | 4.8 | 22.3 | 36.4 | 10.4 | 29.6 | 1.5 | 5.0 | 21.4 | 36.7 | 10.9 | 29.3 | 1.5 |
| NFNE | 53.7 | 14.1 | 18.2 | 8.1 | 16.2 | 8.2 | 42.6 | 17.4 | 23.5 | 9.0 | 20.6 | 8.3 |

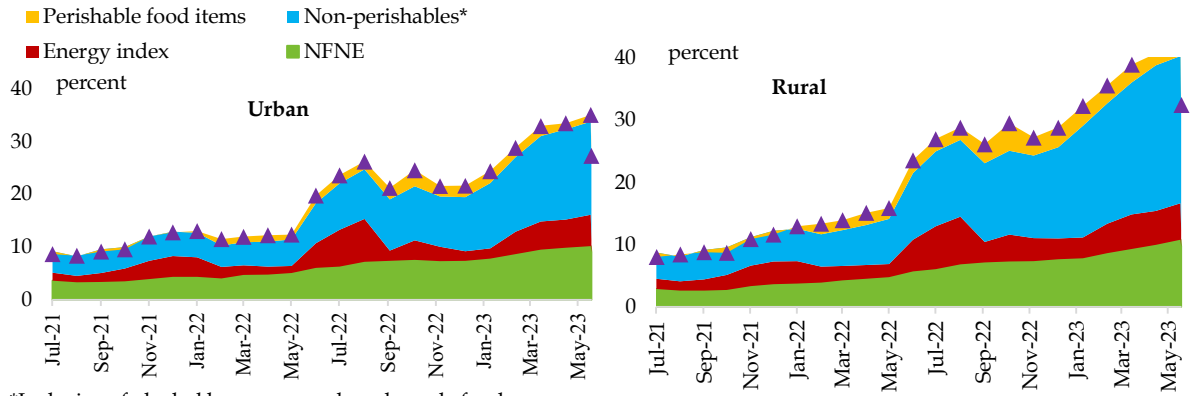
*wt. = weight and Cont.= Contribution for FY23

Sources: Pakistan Bureau of Statistics and SBP calculations

inflation to a multi-year high in FY23. This was despite a notable contraction in domestic demand.

Aside from the impact of supply shocks, upsurge in inflation during FY23 also represented the impact of delayed structural

**Composition of CPI Inflation** Figure 3.24




*Inclusive of alcohol beverages and readymade food

Sources: Pakistan Bureau of Statistics, and State Bank of Pakistan calculations

reforms as well as a large and unsustainable fiscal deficit. Specifically, inflation in energy sector that contributed more than one-tenth to overall inflation during FY23, reflected the impact of chronic inefficiencies in the energy sector.

The broader fiscal consolidation efforts by the government during FY23 for arresting circular debt and increasing revenue, resulted into upward adjustments in administered energy prices on multiple occasions during FY23, despite the downtrend in the global energy prices during the second half of FY23. On the other hand, food inflation that spiked to 39.0 percent in FY23 depicted the impact of supply shortages stemming from floods and constrained availability of imported items as well as multifarious structural impediments in the non-perishable food group (**Box 3.1**).

***Supply shortages and weakening Rupee intensified food inflation***

Food inflation soared to around three times of the last year's level in both rural and urban areas and contributed more than half to headline NCPI inflation during FY23.[29] Particularly, steady increase in the prices of non-perishable items including milk and its products, wheat, readymade food and edible oil drove the uptrend in food inflation.

**Box 3.1: Challenges in Controlling Food Inflation in Pakistan**

SBP has increased the policy rate by a cumulative 1500 bps since September 2021, to 22 percent in June 2023, to anchor inflation expectations and to contain seepage of food and energy prices to broader prices in the economy. However, maintaining price stability in the medium to long-term would also require plugging the domestic policy lacunas, inefficiencies and structural issues in several sectors, one of which is the food supply chain. Pakistan's food supply chain is underdeveloped and is vulnerable to global supply shocks through consistent food imports. A breakdown of inflation into its components shows food group alone contributed more than half in headline CPI inflation, while non-perishable food items remained a major driver of food inflation during FY23 (**Figure 3.1.1**).[30]

The break-up of food inflation shows that food grains (wheat, wheat flour, rice and pulses), livestock products (meat and milk), and cooking oil and vegetable ghee remained dominant contributors during the past two decades (**Figure 3.1.2**). Multifaceted factors are responsible for persistent increase in prices of these commodities. These include, among others growing climate change challenges, lack of focus on seed market, livestock sector development and imperfections in the food market.

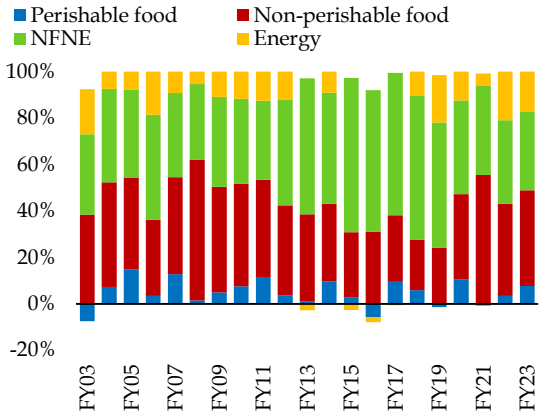
***Mitigating structural bottlenecks in development of livestock sector.*** Surging fresh milk and meat prices contributed over one-quarter to food inflation, due to widening supply-demand gap of livestock products, in the past two decades. Over the years, the rising demand pressures, driven by income levels, shifting consumers' preferences and increasing exports of meat, in the absence of corresponding improvement in supplies have led to a significant increase in prices of milk and meat in the domestic market.

A number of factors have arrested the growth potential of livestock sector in the country. Livestock farming is mostly an informal activity in Pakistan, characterized by sub-optimal animal rearing practices given lack of nutrient-rich feed and poor extension services that have squeezed milk and meat yields below global averages.[31] In addition, overreliance on undeveloped indigenous breeds, high startup and operational cost of dairy business, seasonal fodder shortages, widespread animal diseases, inadequate value chain, and poor pricing mechanism of livestock products

[29] Food inflation surged by 37.6 percent and 41.1 percent in urban and rural baskets during FY23, as opposed to 13.4 percent and 13 percent in FY22 for urban and rural regions, respectively.
[30] Inflation indices in Figure 3.1.1 and 3.1.2 are based on following base years: FY02-08 on base year of FY00, FY09-16 on FY08, and FY17-23 on FY16.
[31] Extension services aim at improving productivity of the agriculture sector by spreading knowhow about efficient agriculture practices through transfer of knowledge.

are some other factors restraining growth potential of livestock products.[32] To close the demand-supply gap of livestock products, there is a need to focus policy efforts on addressing supply chain issues, with special attention on: (i) conducting a livestock census to provide reliable estimates of latest livestock production trends in the country, to help informed decision making; (ii) developing feed industry, to ensure domestic availability of animal feed at affordable prices; (iii) creating awareness about effective means to handle seasonal fodder shortages; (iv) strengthening livestock extension and veterinary services, to increase awareness of livestock farmers about effective animal rearing practices and management of livestock diseases; (v) establishing and maintaining infrastructure for livestock value chain; (vi) revamping marketing system to ensure fair prices; and (vii) policy attention on commercial livestock farming.

**Contribution to CPI Inflation** **Figure 3.1.1**



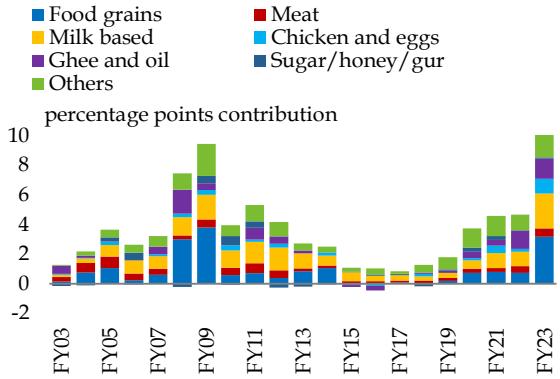

Sources: Pakistan Bureau of Statistics, and State Bank of Pakistan calculations

***Enhancing crop productivity*:** Despite being an agricultural country, Pakistan is not able to adequately meet its domestic food requirement, including wheat and sugar. Similarly, while the country is ranked among one of the large producers of rice, the domestic prices of rice frequently witness double-digit increases. In fact, Pakistan has mostly remained a net importer of food commodities, especially edible oil, pulses, tea – and occasionally sugar and wheat **(Figure 3.1.3)**.

This has increased the country's vulnerability to global price shocks and adverse exchange rate movements. Both these factors have also intensified domestic shortages contributing to food inflation during the last few years.

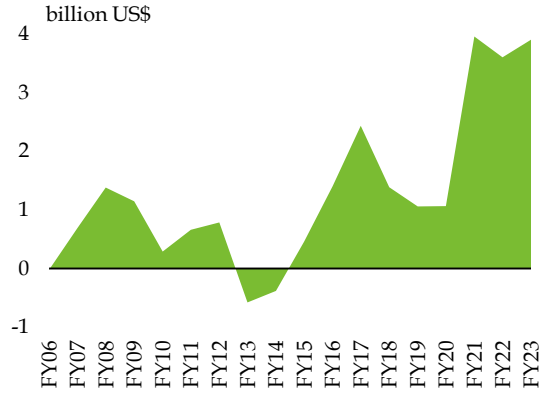
In order to improve crop yields, the government encourages production and use of fertilizers through various incentives, such as provision of subsidized gas to fertilizer manufacturing plants as well as direct price subsidy to farming community. However, falling domestic gas production, sharp increase in international LNG prices, and limited fiscal space have constrained the government's ability to sustain such subsidies.

**Drivers of Non-perishable Food Inflation** **Figure 3.1.2**




Sources: Pakistan Bureau of Statistics, and State Bank of Pakistan calculations

**Net Food Imports of Pakistan** **Figure 3.1.3**




Sources: Pakistan Bureau of Statistics, and State Bank of Pakistan calculations

[32] Sources: (i) S. K. Jafri, S. Z. Hussain, and A. Abbasi (2022). "Analyzing Meat Export Potential in Pakistan", SBP Staff Note 3/22. (ii) M. A. Sattar (2020). "What is Holding Back Milk Production in Pakistan?", PIDE Blog (iii) A. A. Burki and M. A. Khan (2016). "Economic Impact of Dairy Sector in Pakistan: Lessons from the Past to Build a Resilient Future". First Edition. Lahore University of Management Sciences.

Furthermore, such measures do not address the factors underlying low agriculture productivity and market imperfections. Food market imperfections are pervasive at both the pre-harvest and the post-harvest stages. These mainly include: (i) inefficiencies in the seed market in the form of inadequate policy focus on R&D to develop climate change resistant and high yielding crop varieties, unabated proliferation of spurious seeds and ineffective agriculture extension services; (ii) issues in the use of crop nutrients; and (iii) imperfections in food market stemming from information asymmetries, informal trade with neighboring countries, administrative weaknesses across the wholesale and retail chain, and deficient storage facilities.[33] The literature suggests availability of better seeds alone can improve crop yields by around 15-20 percent, while optimal use of other inputs such as fertilizer, pesticides and irrigation, can enhance crop productivity by up to 45 percent.[34]

In order to ensure agriculture sector's preparedness for climate change, the focus should be on resolving structural weaknesses in seed market. In this regard, following aspects are important: (i) strengthening the monitoring, supervision and legal framework to check spread of spurious seeds; (ii) abating financial and human resource constraints of public sector R&D institutions to encourage development of high yielding seed varieties; (iii) leveraging and facilitating foreign investment in seed sector and to incentivize joint partnerships with MNCs; and (iv) proper enforcement of the existing Intellectual Property Right (IPR) regime to encourage domestic and foreign investment for development of new seed varieties.

Another important issue is poor extension services to improve farmers' knowhow about efficient crop management practices that leads to unbalanced use of fertilizer, which have eroded soil quality overtime, limiting the gains from these crop nutrients.[35] This situation warrants upgrading human resource base in extension services departments to ensure sustainability of gains from fertilizer application.

Post-harvest food market inefficiencies include imperfections stemming from information asymmetries, informal trade with neighboring countries, administrative weaknesses across the wholesale & retail chain, and deficient storage facilities.

***Facilitating market development for food commodities and buildup of storage facilities in the private sector.*** The policy efforts should aim at constituting timely information sharing mechanisms about likely demand-supply gap of food commodities based on estimates of consumption and available stocks of the commodities, future price trends, expected weather patterns and timely forecasts of impact of extreme weather events on production size. This information is not only critical for farmers, but also support relevant authorities to manage domestic supplies, in the case of crop failures due to adverse weather conditions. The development of dynamic information systems would, however, require improving human capital base in relevant federal and provincial government agencies, use of latest technologies, such as satellite imaging to monitor crop size, and coordination between various government agencies. In this backdrop, the need for policy attention to address agriculture sector inefficiencies by alleviating market imperfections in the food sector, reforming seed market to ensure wide scale availability and adoption of high yielding, climate-change resistant seed varieties, and development of livestock sector can hardly be over emphasized to attain price stability in the country.

### *Rising cost of feed spurred increase in milk prices*

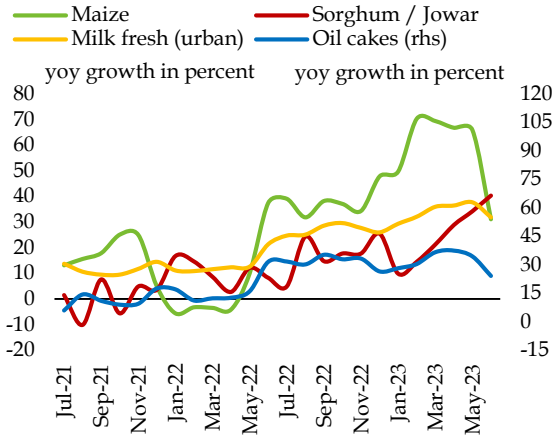
Increase in prices of milk, including fresh milk, milk powder and other dairy products, contributed about 2.4 and 3.3 percentage points to average inflation in urban and rural areas, respectively, during FY23.

[33] Source: (i) S. K. Jafri, M. Imran, and M. H. Asif (2022). "Investigating Pakistan's Seed Industry Dynamics", SBP Staff Note 2/22. (ii) A. Khalid and Sabahat (2020). "Price Stabilization Mechanism in Pakistan's Food Market: Exploring Issues and Potential Challenges", SBP Staff Note 2/20.

[34] (i) A. A. Ali (2016). "Role of seed and its technological innovations in Indian agricultural sector" Bioscience Biotechnology Research Communications, 9(4), 621-624. (www.doi.org/10.21786/bbrc/9.4/8). (ii) S. R. Paroda (2013). "Indian Seed Sector: The Way Forward", Lecture, Indian Seed Congress, Gurgaon, Haryana. (www.nsai.co.in/storage/app/media/Dr.%20Raj%20Paroda%20Lectures%20-%20NSAI_13-2- 2013_Corrected.pd)

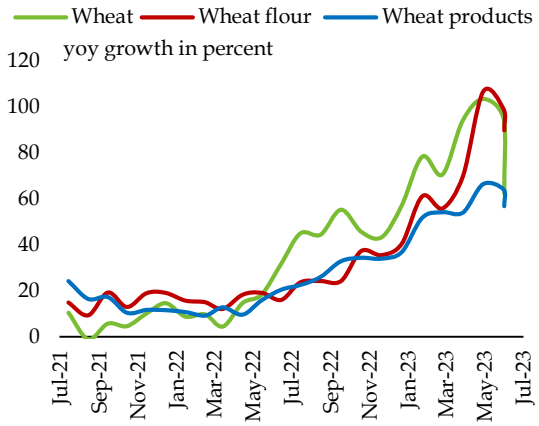
[35] M. Ali, F. Ahmed, H. Channa, and S. Davies (2016). "Pakistan's Fertilizer Sector Structure, Policies, Performance and Impacts." International Food Policy Research Institute, Discussion Paper, 01516.

**Livestock Feed Prices** **Figure 3.25**




Source: Pakistan Bureau of Statistics

**Price Trends in Wheat and Wheat-based Products (Urban)** **Figure 3.26**




Source: Pakistan Bureau of Statistics

One of the main reasons was a surge in cost of livestock feed such as maize and oil cakes, due to flood-related supply shortages **(Figure 3.25)**. Moreover, floods resulted in loss of a significant number of animals and disrupted road networks, particularly within Sindh and Balochistan.[36] Furthermore, increase in transportation and labor costs on account of hike in oil prices also added to milk prices.[37]

### *Supply shortages impacted wheat prices*

Wheat flour prices in urban and rural areas shot up by 56.7 percent and 52.8 percent in FY23, as opposed to 16.0 percent and 15.9 percent in the preceding year. Wheat prices were already on the rise since start of FY22 due to decline in wheat production and rising international wheat prices on account of Russia Ukraine war. The post-flood shortages as well as increase in minimum support price (MSP) catalyzed the rise in wheat prices FY23 **(Figure 3.26)**.[38]

Importantly, floods not only damaged the wheat storage facilities of both the government and the rural community, the concerns about delay in drainage of standing water from fields caused doubts about the wheat outlook for the upcoming year as well. [39] Additionally, there was approximately half a million ton of export to Afghanistan through unofficial trade.[40] To allay concerns over supply situation, the country increased wheat imports to 2.7 million tons during FY23, compared to 2.2 million tons last year. However, the rising prices in international market partly neutralized the impact of improvement in supplies.

Moreover, provincial governments of Sindh and Punjab announced a sizeable increase in MSP of wheat from Rs 2,200 per 40kg to Rs 4,000 and Rs 3,900 per 40kg respectively for the crop year of 2023-24.[41] This decision further strengthened the increase in prices. Specifically, rising concerns over supply situation exacerbated the uptrend in

[36] Ministry of Planning Development & Special Initiative (2022). *Pakistan Floods 2022 Post-Disaster Needs Assessment*. Islamabad: MoPDSI

[37] Pakistan Dairy Association, Press Release No. DSA\PDA\PM\020 Dated 11th February 2021 (available at: www.pda.com.pk/2021/02/19/letter-to-the-pm/ accessed on August 11, 2023.

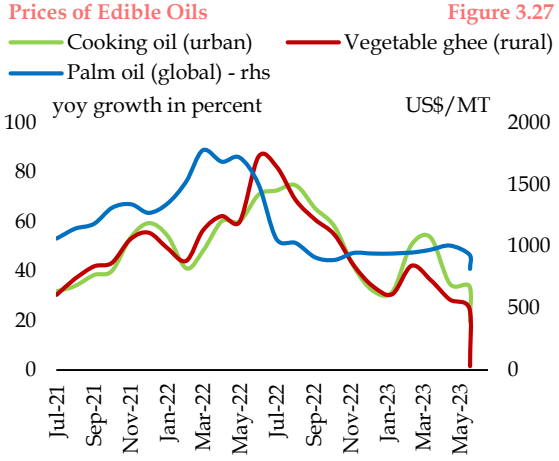
[38] FAO (2022). *GIEWS Special Report*. No. 351. Rome: FAO

[39] Farmers store approximately 60 percent of their wheat production the purpose of personal consumption and seed for the next season. Source: USDA (2020). *United States Department of Agriculture Grain and Feed Report, April 2020.* Islamabad: USDA

[40] USDA (2023). *Grains and Feed Update June 2023*. Report Number: PK2020-0022 Islamabad: USDA.

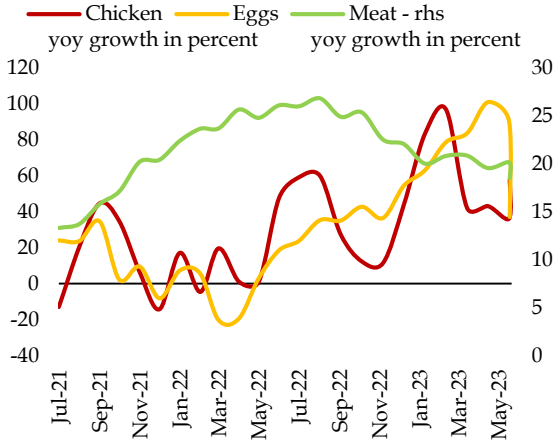
[41] Space and Upper Atmosphere Research Commission (2022). *PAK-SCMS Bulletin*. Volume XII, Issue 03, Serial No. 135 1-March 2022 and Space and Upper Atmosphere Research Commission (2023) Volume XII, Issue 12, Serial No. 144 1-December 2022. Karachi: SUPARCO; DG Public Relations, Government of Punjab (dgpr.punjab.gov.pk/node/16960#:~:text=The%20spokesperson%20of%20Food%20Department,on%20that%20fixed%20support%20price, accessed on August 18, 2023)

Prices of Edible Oils — Figure 3.27




Sources: State Bank of Pakistan and World Bank

Poultry and Meat Prices (Urban) — Figure 3.28




Source: Pakistan Bureau of Statistics

prices of wheat and its flour during the second half of the year **(Figure 3.26).**

### *Rupee depreciation mainly explains rising edible oil prices*

Edible oil was one of the major contributors to food inflation in both urban and rural areas, explaining around one-tenth of overall food inflation during FY23.[42] However, the pace of increase in edible oil prices slightly eased, especially during the second half of FY23 in both urban and rural baskets **(Figure 3.27)**. The decline in international palm oil prices primarily drove this trend.

However, despite an average 32.4 percent dip in international palm oil price in FY23, domestic edible oil prices remained high mainly due to weak local currency and some delays in the clearance of imports. In addition, a general increase in cost of production amid elevated energy prices, also contributed to higher domestic edible oil prices in FY23.

### *High input costs kept inflation in the readymade food elevated*

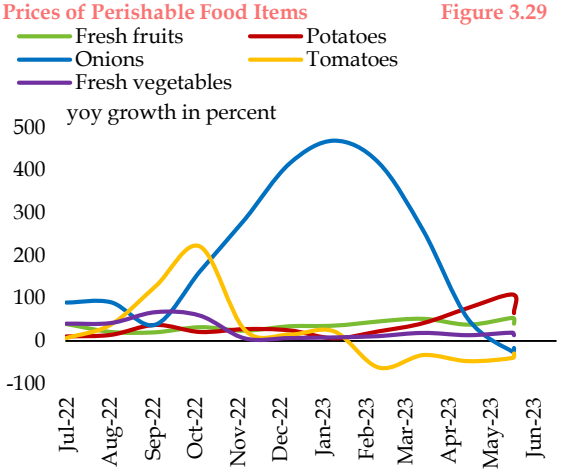
Increase in prices of edible oil, wheat, rice, poultry, and meat, which are major components of readymade foods, mainly drove up the readymade food prices by 37.0 percent and 33.6 percent in FY23, in urban and rural areas, compared to 13.7 percent and 14.1 percent rise in FY22.

Rice prices, witnessed a steep increase of 59.7 percent in urban areas in FY23, as compared to 11.1 percent in FY22. This surge mainly came from 21.0 percent dip in rice production due to floods in FY23. Similarly, the prices of poultry and meat rose significantly over last year **(Figure 3.28)**. This can partly be attributed to damages caused by floods, which not only affected the animal population but also disrupted transportation routes.[43] Another contributing factor was issues in soybean imports that led to increased feed prices and subsequently higher chicken and egg prices.[44]

Similarly, rising operational cost of the sector further strengthened the price increase in readymade food. Due to the limited availability of natural gas, particularly during the winter season, liquefied gas is commonly used for cooking by homes and restaurants. Since LPG and LNG are mostly imported inputs, the movement in exchange rate and substantial

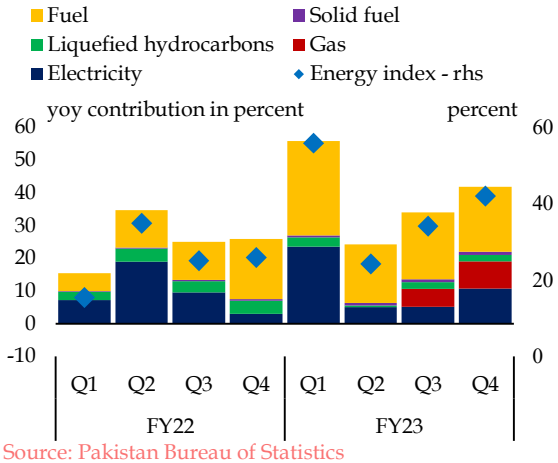
[42] Edible oil, including, constituted 1.4 percent and 1.9 percent of total urban and rural inflation, respectively. Especially, the share of cooking oil and vegetable ghee accounted for 3.6 and 4.1 percent, respectively in urban and rural food inflation.
[43] Ministry of Finance (2022-23). *Pakistan Economic Survey*. Islamabad: MoF.
[44] Source: USDA, Foreign Agricultural Service, Pakistan: Food and Agricultural Import Regulations and Standards Country Report

Prices of Perishable Food Items Figure 3.29




Source: Pakistan Bureau of Statistics

Breakdown of Energy Inflation - Urban Figure 3.30




Source: Pakistan Bureau of Statistics

increase in gas prices internationally during FY23 increased domestic prices of these items.

### *Floods also had a significant impact on the prices of perishable food items*

The prices of perishable food items in urban area rose by 41.8 percent during FY23, compared to 7.5 percent rise in FY22. This surge mainly came from a steep increase in the prices of onions, particularly during Oct-Jan FY23 due to both reduced cultivation area and extensive flood-related damages in Sindh and Balochistan (**Figure 3.29**).[45]

To counter the shortages, onion imports that increased to 617.1 million kg (US$ 176 million) during Jul-Feb FY23, from 134.2 million kg (US$ 22 million) in the same period last year helped to ease onion prices from January 2023 onwards.

## Energy inflation

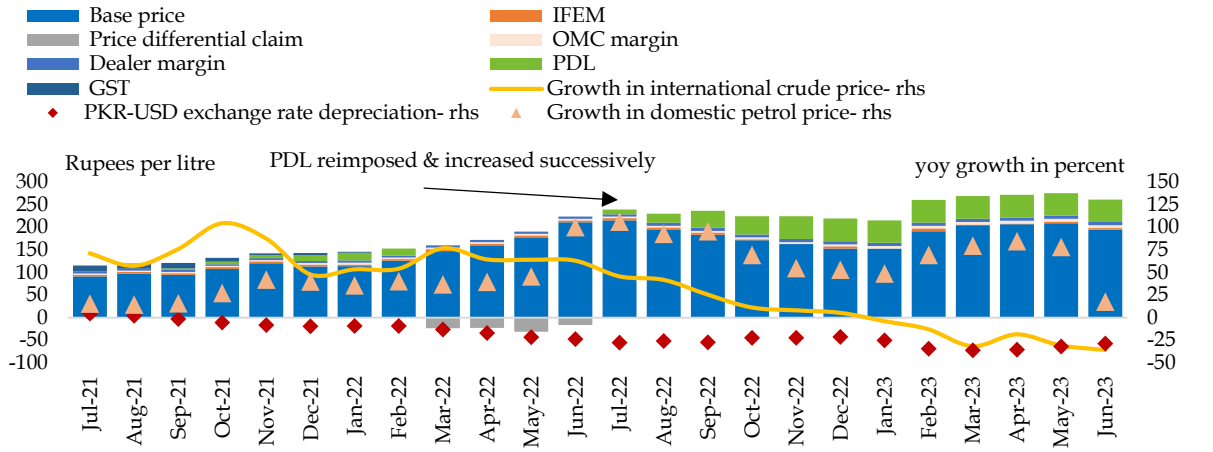
Energy inflation spiked to 38.4 percent and 39.1 percent in urban and rural areas in FY23, accelerating from the previous year's 25.3 percent and 24.8 percent, respectively. Detailed data shows that the surge in energy inflation was primarily contributed by motor fuel and electricity charges, followed by gas (**Figure 3.30**).[46] In addition to elevated level of global prices of crude and LNG, the rise in energy inflation also manifested the impact of perennial structural issues in the energy sector that has led to accumulation of a huge circular debt stock. A significant part of increase in electricity tariffs is meant to stem the flow of circular debt. Likewise, to boost revenue collection, the government re-imposed petroleum development levy (PDL) on transport fuels from July 2022.

The contribution from motor fuels remained consistently higher throughout the year on account of various factors. First, the international price of crude oil remained elevated in the first half of FY23, before starting a downtrend in the second half (**Figure 3.31**). Second, relatively weak currency outweighed the gains from decline in international oil prices (**Figure 3.31**). Third, the government allowed hikes in margins of dealers in August 2022, and twice of OMCs in December 2022 and January 2023, which further added momentum in fuel

[45] The production of onions declined to around 1.7 thousand tonnes in FY23 from 2.1 million tonnes in last year. In addition, the cultivation area of the crop also shrank to 128 thousand hectares in FY23 from 141 thousand hectares. Source: Pakistan Bureau of Statistics

[46] In case of rural areas, solid fuel had notable contribution to energy inflation, given its vast use during gas shortages in most of the rural regions in the country.

Composition of Petrol Prices; Impact of International Crude Prices and PKR Depreciation — Figure 3.31




Source: Oil and Gas Regulatory Authority

price increase.[47] Fourth, in a bid to bolster non-tax revenue, the government re-imposed PDL on transport fuels from July 2022. The levy on petrol and diesel was increased to Rs 50 per liter by November 2022 and April 2023, respectively.[48]

Another major contributor to energy inflation was electricity charges during FY23.[49] Annual rebasing, quarterly adjustments, and monthly Fuel Charge Adjustments (FCAs) were imposed to align power tariffs with the cost recovery, so as to slow down buildup of circular debt. However, during FY23, these adjustments also carried the impact of delayed revisions for FY22 on account of annual rebasing and quarterly adjustments. A total annual rebasing of Rs 7.91 per KWh for FY22 and FY23 was introduced in three stages during Jul-Oct FY23. The quarterly adjustments for FY22 started in June 2022, which were followed by timely adjustments for the first two quarters of FY23 (**Table 3.9**).[50]

FCAs augmented the electricity prices, especially in the first quarter of FY23 (**Figure 3.32**). Source-wise power generation data shows that the cumulative gas and coal-based generation had a sizeable share in the overall power generation (**Figure 3.33a**).[51] Furnace oil was also used in the fuel mix, particularly in the last quarter of FY22, amidst its falling but still elevated price (**Figure 3.33b**), which translated into higher FCAs in FY23.

However, with international energy prices receding, and a relief package offered to consumers in September 2022, FCAs turned almost negligible as the year progressed. Also, with government having already introduced substantial annual and quarterly tariff adjustments in Q1-FY23, contribution of electricity charges to energy inflation remained muted in the second and third quarters of FY23.

Nonetheless, the last quarter witnessed a hike in contribution by electricity charges to energy inflation. The hike came in contrast to same period last year, when government froze electricity prices by providing subsidy to protect consumers from the sharp upsurge in

[47] Average monthly dealer margins was increased from Rs 3.4 per liter in FY22 to Rs 4.4 per litre in FY23.
[48] Average monthly PDL on petrol was up from Rs 5.5 per liter in FY22 to Rs 42.3 per liter in FY23. Similarly, average monthly levy on diesel was Rs 3.9 per liter in FY22, which increased to Rs 30.1 per liter in FY23. Data sources: Oil & Gas Regulatory Authority & Pakistan State Oil
[49] Annual rebasing and quarterly adjustments are done on account of capacity charges, transmission charges and market operator fee; variable operation & maintenance charges; and impact of transmission and distribution losses on FCA. Whereas, FCA is meant to cover variable cost of fuels used to generate power. Source: NEPRA
[50] Quarterly tariff adjustments usually apply for 2-4 months from the date of enforcement.
[51] Between Q4-FY22 and Q4-FY23, the cumulative share of gas and coal-based generation stood at nearly half of the total.

**Annual Rebasing and Quarterly Adjustments in Electricity Tariffs** Table 3.9

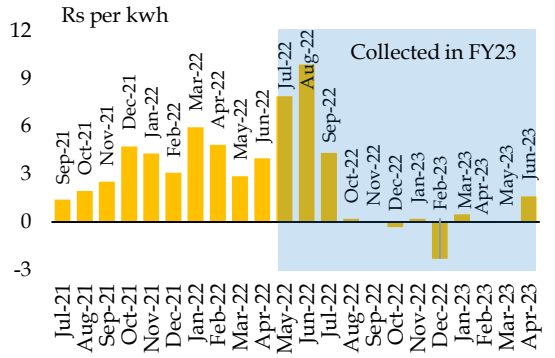
| Cumulative Annual Rebasing for FY22 & FY23 | | |
|---|---|---|
| **Stage** | **Unit (Rs per KWh)** | **w.e.f** |
| First stage | 3.5 | July 25th 2022 |
| Second stage | 3.5 | August 1st 2022 |
| Third stage | 0.91 | October 1st 2022 |
| **Total** | **7.91** | |
| **Quarterly Tariff Adjustments (for Residential Consumers)** | | |
| **Quarter** | **Unit (Rs per KWh)** | **w.e.f** |
| Q1-FY22 | 0.57 | June 1st 2022 |
| Q2-FY22 | 1.55 | July 1st 2022 |
| Q3-FY22 | 0.51 | September 1st 2022 |
| Q4-FY22 | 1.49 to 3.21 | October 1st 2022 |
| Q1-FY23 | 1.49 to 3.21 | February 1st 2023 |
| Q2-FY23 | 0.5 | April 1st 2023 |

Note: 1) Quarterly adjustments usually apply for 2 to 4 months from the date of enforcement; 2) Quarterly adjustments for Q3 and Q4 of FY23 to be determined & collected in FY24

Sources: IMF & NEPRA

international energy prices in the wake of the Russia-Ukraine conflict. Besides, the government had deferred part of FCAs for the months of August and September 2022 to provide partial relief to consumers during floods. The deferred FCAs were to be collected in 8 months – March 2023 to October 2023

**Fuel Charge Adjustment (FCA)** Figure 3.32



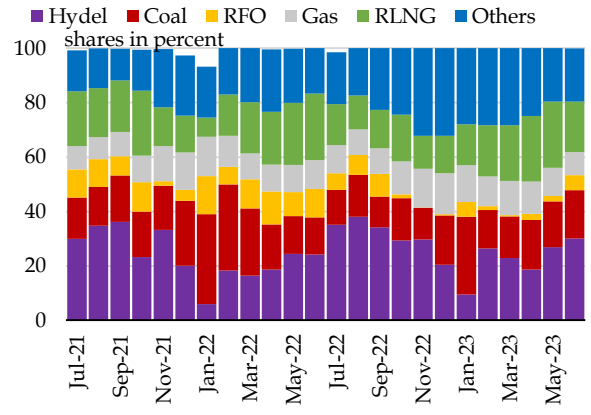

Note: x-axis indicates months for which FCA was charged; indicative months around the bars are months in which FCA was actually billed. FCA is collected with a one-month lag.

Source: National Electric Power Regulatory Authority

(**Table 3.10**), which pushed up electricity prices in last quarter of FY23.

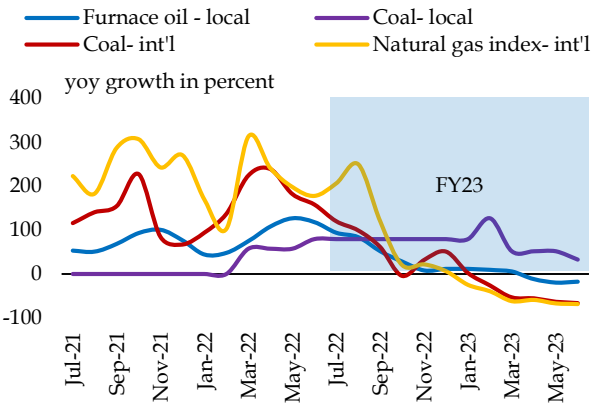
Besides motor fuel and electricity, gas charges were increased in the second half of FY23 (**Figure 3.30**).[52] Two new slabs were added to domestic sector consumption in the unprotected category. Depending on the slab, government raised gas prices from 33.0 percent to 112.0 percent, averaging 64 percent.[53] Besides, there was also a hike of around 29 percent in gas prices for commercial and export-oriented establishments (for gas used in captive power generation).[54]

**Power Generation by Source** Figure 3.33a




Source: National Electric Power Regulatory Authority

**Price Trend of Fuels Used in Power Generation** Figure 3.33b




Sources: Pakistan Bureau of Statistics and Haver Analytics

[52] Source: OGRA notification dated February 15, 2023, effective from January 01, 2023

[53] This information is calculated for comparable slabs in the new and previous notifications only. Source: OGRA

[54] In absolute terms, commercial tariffs increased from Rs 1,283 to Rs 1,650 per MMBTU, and exported-oriented tariffs, from Rs 852 to Rs 1,100 per MMBTU. Source: OGRA

Recovery of Deferred FCAs from August-September Bills - XWDISCOs — Table 3.10

Rupees per KWh

| | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Protected (=<200 units)** | 2.00 | 2.00 | 1.50 | 0.95 | 0.89 | 1.00 | 1.00 | 1.00 | **10.34** |
| **Non-protected (=<200 units)** | 2.75 | 2.75 | 2.25 | 0.95 | 0.79 | 1.50 | 1.75 | 1.50 | **14.24** |
| **Non-protected (201-300 units)** | 2.75 | 2.75 | 2.25 | 0.95 | 0.79 | 1.50 | 1.75 | 1.50 | **14.24** |
| **Private Agricultural** | 3.00 | 2.00 | 0.50 | 0.50 | 0.50 | 0.90 | 1.50 | 1.00 | **9.90** |

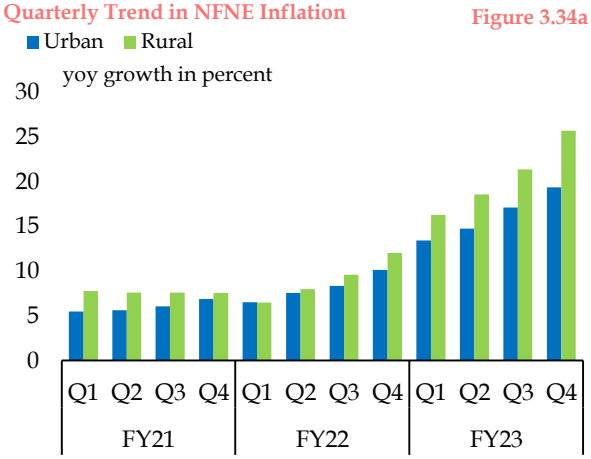
Source: National Electric Power Regulatory Authority

### *Second round effects of multiple supply shocks and elevated inflation expectations drove core inflation*

Core inflation doubled in both the urban and rural baskets in FY23 compared to the previous year, reaching multi-years' high of 16.2 and 20.6 percent, respectively.[55] Elevated prices of core goods mainly underpinned this increase, followed by services and house rent. Quarterly data show that core inflation gathered pace as the year progressed, both on year-on-year and quarter-on-quarter basis (**Figure 3.34a**). Furthermore, core inflation in rural areas remained higher than urban areas throughout FY23.[56] As shown in **Figure 3.34b**, increase in core inflation was quite broad-based. Top contributors of NFNE inflation were house rent, articles for personal care[57], washing soap/detergents, cotton cloth, transport services, education, marriage hall charges, personal effects[58], and text books, among others (**Figure 3.35**).

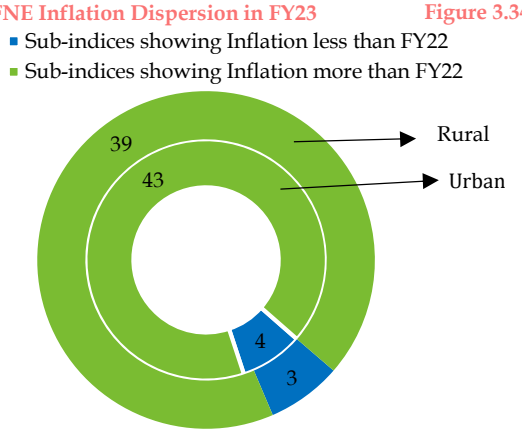
The steady increase in core inflation was despite a notable slack in domestic demand during FY23. The demand management measures introduced since the previous year, including a cumulative 1500 bps increase in the policy rate since September 2021, flood-induced damages to

Quarterly Trend in NFNE Inflation — Figure 3.34a




Source: Pakistan Bureau of Statistics

NFNE Inflation Dispersion in FY23 — Figure 3.34b




Sources: Pakistan Buraeu of Statistics, and State Bank of Pakistan calculations

[55] This is the highest level of core inflation recorded since FY16, when PBS first introduced separate inflation indices for urban and rural areas.

[56] Rural inflation exceeded urban inflation primarily because of different spending patterns of households in both baskets. For example, rural households spend more on transport services and less on house rents than their urban counterparts. With transport services inflation at record highs, it has hit rural areas harder than urban areas. Moreover, cost of transporting goods from urban centers to rural areas has also gone up. This explains the relatively higher inflation in rural and urban areas for similar goods. For instance: cotton cloth, drugs and medicines, text books, among others.

[57] Articles for personal care include: soap, tooth paste/brush, hair color, hair removing cream, shaving cream and blade, disposable razor, shampoo, lipstick, nail polish, perfume, face cream, talcum powder, hair oil, tissue paper (perfumed), and pampers

[58] Personal effects include: gold 24 carat, silver 24 carat, wall clock, artificial jewelry, suitcases & trunks, ladies purse

Top Contributors to NFNE Inflation (Urban) in FY23 — Figure 3.35

YoY growth in percent

| | wt. | Contribution to CPI Inflation | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **House rent** | 19.3 | 0.9 | 5.6 | 5.6 | 5.6 | 5.3 | 5.3 | 5.3 | 5.4 | 5.4 | 5.4 | 5.3 | 5.3 | 5.3 |
| **Top Contributors in Goods** | | | | | | | | | | | | | | |
| **Goods** | 18.2 | 4.9 | 16.5 | 20.5 | 21.9 | 22.9 | 23.1 | 23.9 | 25.2 | 28.7 | 33.2 | 35.7 | 37.1 | 34.6 |
| Appliances/Articles/Products for personal care | 3.0 | 0.8 | 15.8 | 19.6 | 22.1 | 23.8 | 24.3 | 25.7 | 26.7 | 31.8 | 34.3 | 38.7 | 40.1 | 38.4 |
| Washing soap/detergents/match box | 1.4 | 0.7 | 24.7 | 28.9 | 37.7 | 41.5 | 43.4 | 46.6 | 47.0 | 51.6 | 57.2 | 60.4 | 63.7 | 62.0 |
| Cotton cloth | 2.2 | 0.6 | 18.1 | 23.5 | 23.7 | 24.2 | 22.2 | 21.4 | 20.7 | 18.8 | 32.7 | 31.5 | 31.5 | 28.4 |
| Personal effects n.e.c. | 0.9 | 0.4 | 18.2 | 21.2 | 22.8 | 19.2 | 19.3 | 24.9 | 32.6 | 38.6 | 36.8 | 44.8 | 53.3 | 45.5 |
| Text books | 0.7 | 0.3 | 8.7 | 20.0 | 17.2 | 20.6 | 20.5 | 59.2 | 71.3 | 74.1 | 74.0 | 106.8 | 114.0 | 114.0 |
| Motor vehicles | 0.8 | 0.3 | 24.0 | 38.4 | 34.9 | 34.3 | 28.2 | 27.5 | 28.0 | 38.8 | 45.5 | 41.5 | 38.0 | 36.6 |
| **Top Contributors in Services** | | | | | | | | | | | | | | |
| **Services** | 16.3 | 2.3 | 14.3 | 15.6 | 15.9 | 16.8 | 15.4 | 14.6 | 15.4 | 16.8 | 16.2 | 16.2 | 15.9 | 13.5 |
| Transport services | 1.7 | 0.5 | 39.7 | 44.6 | 42.4 | 41.3 | 33.4 | 28.4 | 30.0 | 33.1 | 30.6 | 28.8 | 24.1 | 12.5 |
| Education | 4.9 | 0.4 | 10.5 | 10.1 | 10.0 | 11.1 | 11.1 | 10.8 | 10.4 | 10.4 | 5.8 | 6.0 | 5.7 | 5.9 |
| Marriage hall charges | 1.8 | 0.4 | 21.7 | 24.2 | 24.3 | 24.5 | 18.8 | 17.0 | 19.9 | 25.5 | 32.3 | 32.9 | 33.4 | 25.3 |
| Personal grooming services | 0.8 | 0.2 | 18.2 | 20.6 | 27.5 | 30.8 | 29.5 | 29.1 | 31.7 | 31.1 | 31.0 | 31.9 | 37.5 | 34.7 |
| Tailoring | 1.1 | 0.2 | 12.4 | 17.1 | 17.4 | 17.8 | 17.6 | 17.4 | 18.7 | 23.6 | 24.3 | 21.2 | 19.7 | 19.0 |
| Household servant | 0.8 | 0.1 | 13.3 | 14.3 | 15.1 | 20.1 | 20.6 | 20.5 | 19.5 | 17.2 | 18.4 | 18.7 | 18.5 | 17.1 |
| **NFNE Inflation** | 53.7 | 8.2 | 12.0 | 13.8 | 14.4 | 14.9 | 14.6 | 14.7 | 15.4 | 17.1 | 18.6 | 19.5 | 20.0 | 18.5 |

Note: 1) This heat map is extracted from one drawn for all 47 sub-indices of core inflation, which are sorted by contribution to growth in overall inflation in FY23 in the descending order. 2) Red= highest, Green= lowest

Sources: Pakistan Bureau of Statistics, and State Bank of Pakistan calculations

economic activities, and squeezed real incomes of households, have considerably slowed domestic demand during FY23.

Growth in households' real final consumption expenditure is estimated to have decelerated significantly to 1.7 percent during FY23, from 6.8 percent last year **(Figure 3.36)**. Similarly, the domestic sales of various high frequency demand indicators slumped during the year **(Figure 3.37)**.

The surge in core inflation, notwithstanding the visible contraction in domestic demand, largely reflects the pass- through of exchange rate depreciation and the second round effects of energy and food prices that spilled over to broader prices and wages (**Figure 3.38a**). High food and energy inflation dampened real incomes of labor, which pushed wage inflation during the year. Escalating sharply in FY23, low-end wages rose by 21.2 percent, about thrice the average 7.6 percent increase observed during previous five-year.[59] The federal and provincial governments also raised minimum wages, which partly contributed in wage inflation in FY23.[60]

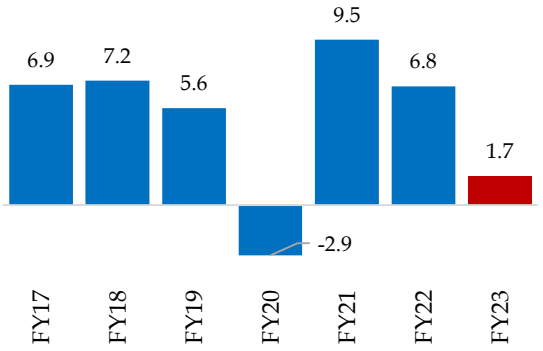
In addition, supply shortages of non-essential imported goods as well as PKR depreciation added to price pressures by increasing the cost of imported raw materials and intermediate goods for manufacturing (**Figure 3.38b**), while outweighing the impact of softening global commodity prices, and anemic import demand (**Chapter 6 – External**). Furthermore, revenue mobilization measures introduced in February 2023 through the Finance (Supplementary) Act 2023, including increase in GST rate from 17 percent to 18 percent, and advance tax of 10 percent on functions and gatherings arranged in marriage halls, marquees, hotels, restaurants, or any other place used for such purpose also fueled price increase of goods and services.

[59] Low-end wages include charges/wages for tailoring, household servant, cleaning and laundering, construction worker, garbage collection, dental services, doctor fee, mechanical services, and personal grooming services.

[60] The federal government had increased the minimum wage rate from Rs 17,500 to Rs 20,000 in FY22. In FY23, the provinces raised the minimum wage rates to Rs 25,000 per month. Source: Employers Federation of Pakistan (www.efp.org.pk/minimum-notifications/page/2/)

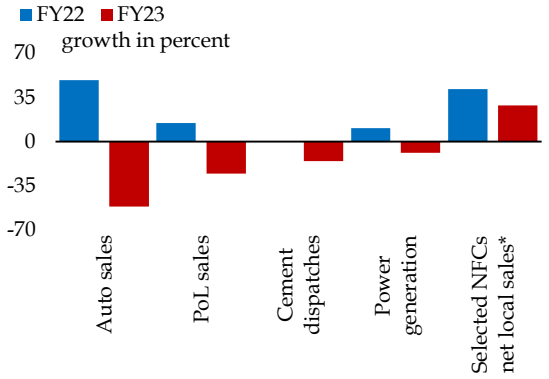
**Households Final Consumption Expenditure** **Figure 3.36**

growth in percent




Source: Pakistan Bureau of Statistics

**Slowdown in Demand Side Indicators** **Figure 3.37**

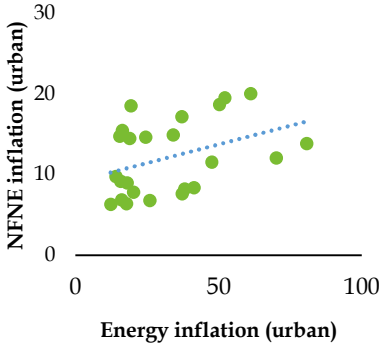



*Jul-Mar, NFC stands for Non-financial companies

Sources: SBP Quarterly Financial Statements Analysis Mar-2023, NEPRA, APCMA, OGRA, PAMA

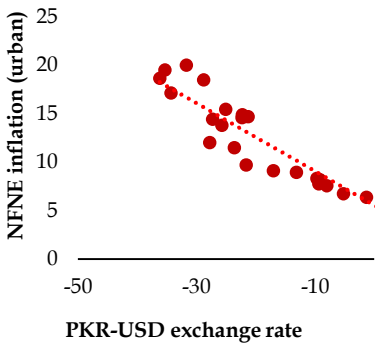
Lastly, increasing inflation expectations reinforced the uptrend in underlying inflationary pressures, as consumers and firms incorporated these into wages and prices (**Figure 3.38c**). Literature suggests that consumers' and businesses' inflation expectations mainly track the trend in energy inflation. In addition, the current and expected course of food and non-energy prices, employment level and interest rates also weigh on consumers' inflation expectations.[61] Global commodity price outlook, monetary policy decisions and exchange rate movements are other factors that influence consumers' inflation expectations.

**Interaction of Energy Inflation with NFNE Inflation** **Figure 3.38a**



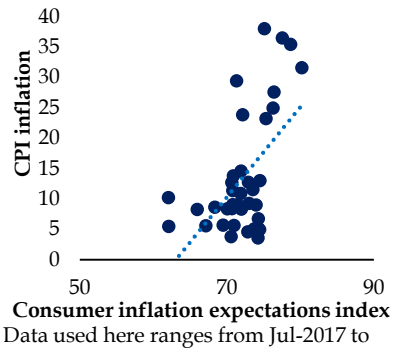

Note: YoY growth for monthly data during Jul 2021-Jun 2023

**Interaction of Exchange Rate with NFNE Inflation** **Figure 3.38b**




Note: YoY growth for monthly data during Jul 2021-Jun 2023

**CPI Inflation Influenced by Consumer Inflation Expectations** **Figure 3.38c**




Data used here ranges from Jul-2017 to Jun-2023, corresponding to months in which Consumer Confidence Surveys were conducted

Sources: Pakistan Bureau of Statistics and State Bank of Pakistan

[61] H. Abbas, S. Beg, and M. A. Choudhary (2015). "Inflation Expectations and Economic Perceptions in a Developing Country Setting", available at: (www.sbp.org.pk/ccs/paper.pdf) (ii) R. Moessner (2022). "Determinants of Inflation Expectations in the Euro Area", Intereconomics: Review of European Economic Policy, 57(2), 99-102. (iii) M. D. Patra, and P Ray (2010). "Inflation Expectations and Monetary Policy in India: An Empirical Exploration", International Monetary Fund.


# Fiscal Policy

Fiscal and primary balances somewhat improved in FY23 compared to FY22, but missed the budget targets by wide margins. The improvement vis-à-vis last year was mainly due to deceleration in growth of non-interest expenditures. Revenue balance, on the other hand, deteriorated with growth in current expenditures outpacing the growth in total revenue. Within the revenue, non-tax revenue grew substantially, supported by higher PDL collection, while growth in tax revenue decelerated due to slowdown in demand-cum-economic activity and contraction in imports. The entire increase in tax collection came from direct taxes, supported by increased bank profitability and imposition of higher super tax on firms. The growth in expenditures was mainly led by marked increase in interest payments on the back of rising interest rates and stock of debt, especially the floating rate debt, while growth in non-interest expenditures decelerated. Moreover, provincial surplus, though lower than FY22, helped in containing the overall fiscal deficit.

# 4 Fiscal Policy

## 4.1 Fiscal Trends and Policy Review[1]

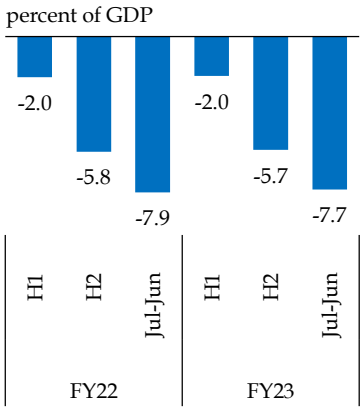
Fiscal deficit at 7.7 percent of GDP in FY23, was slightly lower than 7.9 percent in FY22, but substantially higher than the budget target of 4.9 percent and revised estimate of 7.0 percent (**Figure 4.1a**). Importantly, the envisaged fiscal consolidation could not be achieved as there was a primary deficit of 0.8 percent of GDP, against the budgeted surplus of 0.2 percent of GDP (**Figure 4.1b**). It, nevertheless, shows improvement compared to a primary deficit of 3.1 percent recorded in FY22. Moreover, revenue deficit increased to 5.8 percent of GDP in FY23, from 5.2 percent in FY22 (**Figure 4.1c**).

The improvement in fiscal indicators, fiscal and primary deficits, compared to FY22, is attributed to marked deceleration in growth of non-interest expenditures. Additionally, provinces posted a combined surplus of 0.2 percent of GDP in FY23, though lower than 0.5 percent achieved in the previous year, which helped contain primary as well as overall fiscal deficit.[2] The deterioration in revenue balance was, however, on account of higher interest payments that kept the growth in current expenditures higher than the growth in total revenues (**Table 4.1**).

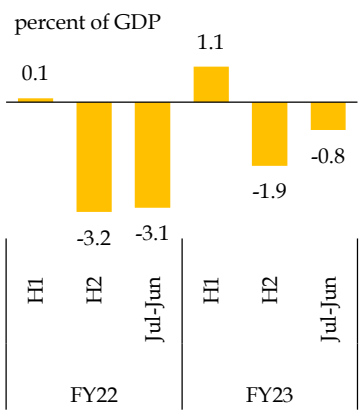
Total expenditures grew by 21.5 percent in FY23 as compared to 29.0 percent in the previous year.[3] The slower growth in expenditures was largely because of a sluggish growth in non-interest expenditures amid lower grants and subsidies, as well as deceleration in the growth of overall development spending and net lending. Within the current expenditures, however, a sharp increase in interest payments more than offset the impact of reduction in grants and subsidies. Interest payments on both the domestic and external debt soared in the backdrop of rising debt stock and interest rates.

Despite deceleration in growth of expenditures, it remained higher than the growth in revenues, which also recorded some acceleration. The

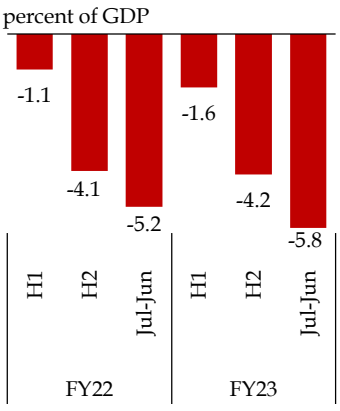
**Fiscal Balance** **Figure 4.1a**




**Primary Balance** **Figure 4.1b**




**Revenue Balance** **Figure 4.1c**




Sources: Ministry of Finance, and SBP calculations

[1] *Fiscal balance* is total revenue minus total expenditure; *primary balance* is fiscal balance adjusted for interest payments; *revenue balance* is total revenues minus total current expenditures.

[2] The provincial surplus at Rs 154.6 billion in FY23 was considerably lower than the budgeted Rs 750 billion for the year and Rs 351 billion in FY22.

[3] In absolute terms, total expenditures stood at Rs 16.2 trillion in FY23, against the budget target of Rs 9.6 trillion and actual expenditure of Rs 13.3 trillion in FY22.

**Consolidated Fiscal Indicators** **Table 4.1**

billion Rupees; percent

| | Values | | Growth in percent | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | H1 | | H2 | | Jul-Jun | |
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **1. Total revenue (a+b)** | **8,035** | **9,634** | **18.0** | **18.8** | **14.8** | **21.0** | **16.4** | **19.9** |
| (a) Tax revenue | 6,755 | 7,819 | 29.9 | 16.9 | 26.5 | 14.7 | 28.1 | 15.7 |
| Federal | 6,143 | 7,169 | 32.1 | 17.4 | 26.2 | 16.1 | 28.9 | 16.7 |
| Provincial | 612 | 650 | 10.3 | 11.7 | 29.9 | 1.6 | 20.5 | 6.1 |
| (b) Non-Tax | 1,280 | 1,815 | -14.6 | 26.4 | -29.9 | 64.5 | -21.5 | 41.8 |
| Federal | 1,152 | 1,649 | -17.8 | 28.5 | -28.1 | 65.5 | -22.2 | 43.1 |
| Provincial | 128 | 166 | 43.1 | 4.5 | -41.1 | 56.8 | -14.6 | 29.3 |
| **2. Total expenditure (a+b+c)** | 13,295 | 16,155 | 18.7 | 19.8 | 37.0 | 22.7 | 29.0 | 21.5 |
| (a) Current expenditure | 11,521 | 14,583 | 16.0 | 29.6 | 35.4 | 24.5 | 26.8 | 26.6 |
| Mark-up payments | 3,182 | 5,831 | -1.5 | 77.1 | 35.7 | 88.4 | 15.7 | 83.2 |
| Defence | 1,412 | 1,586 | 7.0 | 22.7 | 7.4 | 6.2 | 7.2 | 12.3 |
| Non-markup | 8,339 | 8,752 | 26.2 | 8.2 | 35.3 | 2.9 | 31.6 | 5.0 |
| (b) Development expenditure & net lending | 1,657 | 1,953 | 24.8 | 11.4 | 26.6 | 21.2 | 26.0 | 17.8 |
| (c) Statistical discrepancy | 116 | -381 | - | - | - | - | - | - |
| 3.Overall budget balance | -5,260 | -6,521 | - | - | - | - | - | - |
| *percent of GDP* | *-7.9* | *-7.7* | - | - | - | - | - | - |
| 4.Primary balance | -2,077 | -690 | - | - | - | - | - | - |
| *percent of GDP* | *-3.1* | *-0.8* | - | - | - | - | - | - |
| 5. Revenue balance | -3,486 | -4,950 | - | - | - | - | - | - |
| *percent of GDP* | *-5.2* | *-5.8* | - | - | - | - | - | - |
| 6. Financing (a+b) | 5,260 | 6,521 | | | | | 54.6 | 24.0 |
| (a) External (Net) | 1,178 | -680 | | | | | -11.9 | -157.7 |
| (b) Domestic (Net) | 4,081 | 7,201 | | | | | 97.6 | 76.4 |
| Non-Bank | 981 | 3,673 | | | | | 399.8 | 274.5 |
| Bank | 3,101 | 3,529 | | | | | 65.9 | 13.8 |

Source: Ministry of Finance

acceleration in revenue growth was led by non-tax revenue on account of higher petroleum development levy (PDL) collection in spite of decline in petroleum sales. Transfer of the SBP profits, a major component of the non-tax revenues, decreased due to changes in transfer mechanism of SBP profits after amendments in the SBP Act. On the other hand, growth in tax revenue decelerated considerably. Contraction in dutiable imports, slowdown in economic activity, and floods negatively impacted tax collection, while higher inflation, rising interest rates, and revenue mobilization measures taken in the Finance Act 2022 and Finance (Supplementary) Act 2023 propelled tax collection.

With slower growth in tax collections, the FBR tax-to-GDP ratio fell to 8.5 percent in FY23 amidst narrow tax base with increased reliance on indirect and withholding taxes. This combined with substantial subsidies and grants, which resulted in persistently high fiscal deficit and mounting debt servicing, are posing challenges for maintaining debt sustainability. The steady increase in interest expense is not sustainable as it may limit fiscal space for development, and other essential spending for social protection.

The situation warrants efforts to address these long-standing structural problems in order to reduce fiscal deficit and generate primary surplus to lessen the pace of debt accumulation. Besides broadening of tax base, paring losses of inefficient Public Sector Enterprises (PSEs), particularly related to power sector, is much

**Total Revenue Collection** **Table 4.2**
collections in billion Rupees; growth in percent; contributions in percentage points

| | Collection | | Growth | | | | | | Contribution | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jul-Jun | | H1 | | H2 | | Jul-Jun | | Jul-Jun | |
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **Total revenue (1+2)** | **8,035** | **9,634** | **18.0** | **18.8** | **14.8** | **21.0** | **16.4** | **19.9** | **-** | **-** |
| 1.Tax revenue | 6,755 | 7,819 | 29.9 | 16.9 | 26.5 | 14.7 | 28.1 | 15.7 | 21.5 | 13.2 |
| Federal | 6,143 | 7,169 | 32.1 | 17.4 | 26.2 | 16.1 | 28.9 | 16.7 | 20.0 | 12.8 |
| Provincial | 612 | 650 | 10.3 | 11.7 | 29.9 | 1.6 | 20.5 | 6.1 | 1.5 | 0.5 |
| 2.Non-tax revenue | 1,280 | 1,815 | -14.6 | 26.4 | -29.9 | 64.5 | -21.5 | 41.8 | -5.1 | 6.7 |
| Federal | 1,152 | 1,649 | -17.8 | 28.5 | -28.1 | 65.5 | -22.2 | 43.1 | -4.8 | 6.2 |
| Provincial | 128 | 166 | 43.1 | 4.5 | -41.1 | 56.8 | -14.6 | 29.3 | -0.3 | 0.5 |

Sources: Ministry of Finance, and SBP calculations

needed to achieve fiscal discipline and reducing debt stock to sustainable levels of 60 percent of GDP.[4] This would, in turn, help create fiscal space for enhancing productivity by investing in infrastructure, health, education, training, and research and development.

## 4.2 Revenue

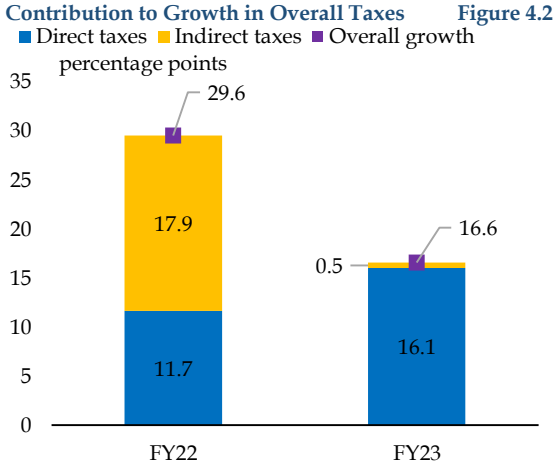
Total revenue grew by 19.9 percent in FY23 compared to 16.4 percent in FY22 (**Table 4.2**). The acceleration in revenue growth was mainly due to increase in non-tax revenue (NTR) in FY23, which was, in turn, propelled by higher PDL collections. On the other hand, growth in tax revenue decelerated in FY23 due to contraction in imports and low economic activity, despite a sharp rise in market prices. Growth in provincial revenues was slower, impacted by various tax relief measures announced by provinces.[5]

### FBR Tax Revenue

FBR tax revenue grew by 16.6 percent in FY23, almost half the previous year's growth of 29.6 percent (**Table 4.3**). As a result, FBR tax to GDP ratio fell to 8.5 percent in FY23, from 9.2 percent in FY22. This was despite additional revenue measures announced in the Finance (Supplementary) Act in February 2023. A confluence of factors contributed to this slower growth in FBR taxes, including import compression; a considerable moderation in domestic demand; contraction in LSM output; devastating floods; zero GST on POL products and crude; and ad-hoc exemptions on duties, for instance taxes on imports and supply of relief goods—mainly medicines, food items, and ambulances— in the wake of floods.

The additional tax measures – increase in super tax, GST, and FED, however, helped the FBR to get close to the target for FY23. The breakdown shows that collection of direct taxes surpassed the target, almost compensating for the shortfall in indirect taxes. More specifically, withholding taxes and voluntary payments contributed majorly to the growth in direct taxes. On the other hand, indirect tax collection grew only marginally due to import curtailment, especially

**Contribution to Growth in Overall Taxes** **Figure 4.2**




Sources: Federal Board of Revenue, and SBP calculations

[4] As per Fiscal Responsibility and Debt Limitation Act 2005
[5] See "**Provincial Fiscal Operations**" section for more details on provincial revenue.

of dutiable imports, which dented the import-related collections of sales tax, FED, and customs duties.

There are four main factors that contributed to growth in FBR taxes in FY23. First, high inflation that helped indirect taxes to record increase despite fall in sales. Second, increase in interest income on investment in government securities, saving certificates, saving deposits, banks' profits, and income taxes paid thereof. Third, increase in tax rates in the Finance Act 2022 and Finance (Supplementary) Act 2023. For example, increase in income tax rates on salaries, increase in super tax from four percent to ten percent on high-earning persons; increase in GST from 17 to 18 percent; increase in GST on locally manufactured cars and luxury imports to 25 percent. Fourth, administrative efforts by FBR to improve tax compliance and ease of doing business (**Box 4.1**).

**Box 4.1: FBR's Administrative Measures**

The measures taken by the FBR during FY22 and FY23 are summarized as follows:

**a)** ADR (Alternative Dispute Resolution), an out-of-court dispute-solving mechanism that facilitates ease of doing business, was revised through the Finance Act 2022, to make it more efficient and effective. One of the key changes was that disputes involving question of both fact and law could now be brought up for resolution; earlier, it was just the question of fact.

**b)** SWAPS (Synchronized Withholding Administration and Payment System), an automated system of collection and deduction of withholding taxes, was rolled out through the Finance Act 2022, which is initiated to streamline WHT collection, deduction, and payment to FBR, by the withholding agents.

**c)** Discontinuance of gas and electricity connections of sales tax agents, as well as Tier-1 retailers, who do not register for sales tax purpose, or notified tier-1 retailers registered but not integrated with the FBR's computerized system. This compliance-enhancing measure was implemented through the Finance Act 2022.

**d)** Introduction of National Sales Tax Return (NSTR) in January 2022 to facilitate ease of doing business by simplifying and consolidating the sales tax returns filing. NSTR aims to streamline the older process, where sales tax agents had to file separate sales tax returns every month to each of the different sales tax collecting authorities.

**Direct taxes led growth in FBR taxes**

Direct taxes grew by 43.2 percent in FY23, driving almost the entire growth in overall taxes (**Figure 4.2 & Table 4.3**). Domestic collections constituted a little over 90 percent of total direct tax collections, which, in turn, mainly comprised of withholding taxes (61.3 percent) and voluntary payments (29.6 percent) in FY23 (**Table 4.4**).

*Withholding taxes*

Withholding taxes grew by 30.8 percent in FY23 compared to 24.0 percent increase in the previous year. The growth was also broad-based, with major contribution from taxes on bank interest and securities, contracts, and salaries (**Table 4.4**).[6]

Collection of withholding tax on bank interest and securities more than doubled in FY23 compared to the previous year. As mentioned above, this was mainly because of rising interest rates and increased investment in government securities and other saving instruments. Moreover, withdrawal of tax benefit on investment in federal government securities also supported higher collection. Earlier, profit on debt of all persons (other than banking companies) was taxed at a reduced rate of 15 percent. As per the Finance Act 2022, this rate applies only to those persons whose profit does not exceed Rs 5 million.[7]

Collection of withholding tax on contracts maintained the previous year's momentum

[6] It may be noted here that the tax rate for persons not on Active Taxpayer List (ATL) is usually double the rate for those on ATL.
[7] The scope of the reduced rate benefit was curtailed in the Finance Act 2022.

**Snapshot of FBR Tax Collection – Growth and Contribution** **Table 4.3**

values in billion Rupees; growth/net achievement in percent; contribution in percentage points

| | Values | | Growth | | Contribution in Overall Growth | | Achievement (Percent of Target) | |
|---|---|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **1. Direct Taxes** | **2,285** | **3,272** | **32.0** | **43.2** | **11.7** | **16.1** | | **114.8** |
| Import | 288 | 290 | 31.8 | 0.8 | 1.5 | 0.0 | - | - |
| Domestic | 1,997 | 2,982 | 32.0 | 49.3 | 10.2 | 16.0 | - | - |
| **2. Indirect Taxes** | **3,864** | **3,897** | **28.2** | **0.9** | **17.9** | **0.5** | **99.8** | **89.6** |
| Sales Tax | 2,532 | 2,592 | 27.4 | 2.4 | 11.5 | 1.0 | 98.3 | 92.3 |
| Import | 1,741 | 1,618 | 56.0 | -7.0 | 13.2 | -2.0 | - | - |
| Domestic | 792 | 974 | -9.3 | 23.0 | -1.7 | 3.0 | - | - |
| FED | 321 | 370 | 15.7 | 15.3 | 0.9 | 0.8 | 95.2 | 80.9 |
| Import | 23 | 14 | 16.2 | -38.5 | 0.1 | -0.1 | - | - |
| Domestic | 298 | 356 | 15.7 | 19.4 | 0.9 | 0.9 | - | - |
| Customs | 1,011 | 935 | 35.0 | -7.5 | 5.5 | -1.2 | 105.3 | 86.2 |
| **Grand Total (1+2)** | **6,148** | **7,169** | **29.6** | **16.6** | **29.6** | **16.6** | **-** | **99.6** |

Note: Tax revenue numbers of FBR and Ministry of Finance may not tally

Sources: Federal Board of Revenue, and SBP calculations

despite slowdown in economic activity.[8] Two major developments helped in steadying the growth in collection from contracts. One, under the Finance Act 2022, the scope of taxable services was expanded to include Real Estate Investment Trust (REIT) management services and services offered by National Clearing Company of Pakistan Limited (NCCPL). Two, sale of goods or services under section 153, including rice, edible oils, transport services, air cargo services, courier services, freight forwarding services, and others, led to higher WHT collection amid higher prices.[9] For instance, transport services witnessed 54.6 percent inflation in FY23, compared to 15.1 percent last year. Similarly, charges of inland courier services spiked by 13.4 percent in FY23, almost double the increase in previous year.[10]

Withholding tax on salaries was up by 40.7 percent in FY23, compared to 29.3 percent increase in FY22. Upward revision in progressive rates for income tax slabs in the Finance Act 2022 provided the major impetus to collection from salaries. Across the seven slabs (previously 12), there was an increase in tax liability of salaried individuals with taxable income exceeding Rs 3.6 million (top three slabs), or closer to the upper limit of the middle slab (that is, Rs 2.4 million to 3.5 million), when compared to their tax liabilities under last year slabs. Moreover, salaries of the federal government employees were also increased in FY23.[11]

WHT collections from electricity bills almost maintained the pace observed in the previous year, despite a fall in electricity generation, and hence its supply, during FY23. The improved collection mainly owes to increase in electricity charges that offset the impact of lower electricity generation in FY23.[12] Imposition of fixed income tax on retailers and some service providers in their electricity bills in the Finance Act 2022 provided further boost.

The growth in WHT on imports decelerated, despite increase in rate from 2.0 percent to 3.5

[8] 'Contracts' refers to sale of goods or services, and execution of contracts, as per section 153 of the Income Tax Ordinance 2001.
[9] Source: Pakistan Bureau of Statistics
[10] Source: Pakistan Bureau of Statistics
[11] BPS-2022 replaced BPS-2017 pay structure, and the pay brackets were revised upwards. In addition, an ad-hoc relief was given equal to 15 percent of the basic pay, up from 10 percent. Source: Ministry of Finance; ww.finance.gov.pk/circulars/circular_01072022.pdf
[12] Electricity generation was down 9.5 percent in FY23. Source: NEPRA

**Direct Tax Collection** **Table 4.4**

values in billion Rupees; growth in percent; contribution in percentage points

| | Values | | Growth | | Contribution to Total Direct Taxes (net) | |
|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **Collection on demand** | **101.1** | **161.7** | **26.2** | **59.9** | **1.2** | **2.7** |
| **Voluntary payment** | **676.4** | **1,093.6** | **44.6** | **61.7** | **12.0** | **18.3** |
| Advance tax | 597.9 | 974.6 | 44.5 | 63.0 | 10.6 | 16.5 |
| **Withholding taxes** | **1,534.3** | **2,007.0** | **24.0** | **30.8** | **17.2** | **20.7** |
| Bank interest & securities | 155.0 | 314.9 | 14.8 | 103.2 | 1.2 | 7.0 |
| Contracts | 341.4 | 424.5 | 25.5 | 24.3 | 4.0 | 3.6 |
| Salaries | 196.2 | 276.1 | 29.3 | 40.7 | 2.6 | 3.5 |
| Electric bills | 71.4 | 98.6 | 39.2 | 38.0 | 1.2 | 1.2 |
| Telephone/mobile phones | 67.9 | 86.9 | 7.4 | 28.1 | 0.3 | 0.8 |
| Export | 65.0 | 77.3 | 54.0 | 19.0 | 1.3 | 0.5 |
| Imports | 281.6 | 289.8 | 28.9 | 2.9 | 3.6 | 0.4 |
| Dividends | 83.3 | 87.1 | 30.6 | 4.5 | 1.1 | 0.2 |
| **Net direct tax*** | **2,284.9** | **3,272.4** | **32.0** | **43.2** | **32.0** | **43.2** |

* Net Direct Tax is adjusted for Direct Tax refunds. Components are recorded on gross basis

Sources: Federal Board of Revenue, and SBP calculations

percent, largely due to lower import values. Moreover, withholding tax on sale, purchase or transfer of immoveable property was also enhanced from 1.0 percent to 2.0 percent. Additionally, Finance Act 2022 also removed a holding period condition, under which taxpayer did not have to pay the tax if holding period exceeded four years.[13]

*Voluntary Payments*

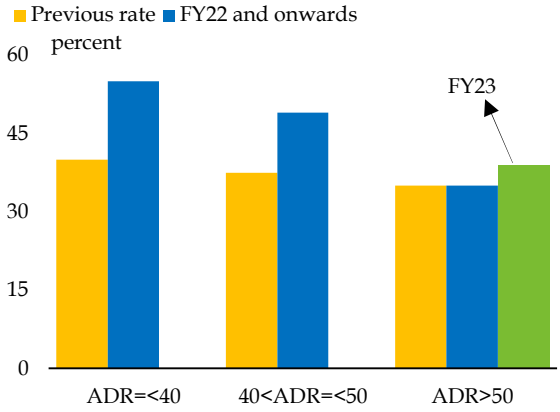
Voluntary payments grew by 61.7 percent in FY23, as compared to 44.6 percent last year. The major factors resulting in higher voluntary payments include:

i. Imposition of cascading super tax on high-earning persons under the new section 4C, replacing 4B, of the Income Tax Ordinance.[14] Under the section 4C, super tax on banking companies, whose income exceeded Rs 300 million in FY23, was raised from 4.0 percent to 10.0 percent. In case of non-banking companies, 10.0 percent super tax was imposed retrospectively for FY22 (**Table 4.5**).

ii. Upward revision in tax on income generated from investment in government securities; this tax is determined based on banks' advances-to-deposit ratio (ADR) (**Figure 4.3**).[15]

iii. Increase in minimum tax on banks' income from 35.0 percent to 39.0 percent in FY23.

**ADR-linked Tax on Investment in Government Securities** **Figure 4.3**




Source: Finance Act 2022

[13] For purchasers not on the ATL, the tax was increased by 250 percent.

[14] Until FY22, super tax had been applied under section 4B, 'Super tax for rehabilitation of temporary displaced persons'. In FY23, a new section, 4C ('Super tax on high-earning persons'), replaced it; it was purported to target the wealthier sections of the country, as per Finance Act 2022.

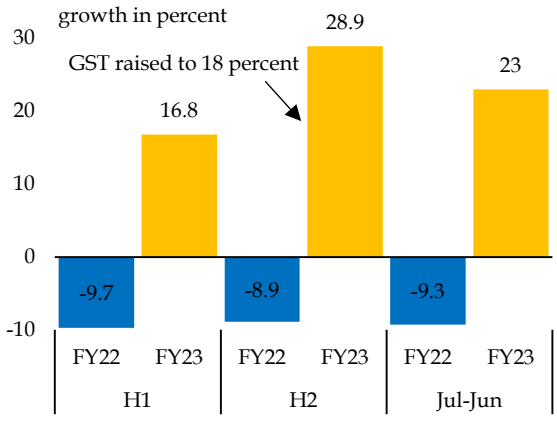
[15] It may be noted here that these ADR-linked taxes have been abolished in FY24 budget. Source: FBR SRO 226(I)/2023, dated February 27, 2023

It is important to note here that banks' profits increased considerably in CY22 in a high interest rate environment, which augmented the impact of aforementioned tax revisions on voluntary payments. In CY22, banks' overall profit-before-tax grew by 55.8 percent, which is about six times the average growth of previous five years (CY17-CY21).[16] Scheduled banks' net investment in government papers, which rose from 50.6 percent of total credit in December 2021 to 54.6 percent in December 2022 and 58.4 percent in June 2023, remained the main source of bank profitability.[17]

**Growth in indirect taxes remained flat, dragged by contraction in import-related taxes**

Indirect tax collection increased by only 0.9 percent in FY23, compared to 28.2 percent growth in the previous year. This sharp deceleration was led by decline in import-related taxes (sales tax, FED, and customs duty).

**Domestic GST Collection** **Figure 4.4**




Source: Federal Board of Revenue

**Super Tax on High Earning Persons for FY23** **Table 4.5**

| No. | Income under section 4C | Rate for FY23 |
|---|---|---|
| 1 | Where income does not exceed Rs.150 million | 0% |
| 2 | Where income exceeds Rs 150 million but does not exceed Rs 200 million | 1% |
| 3 | Where income exceeds Rs 200 million but does not exceed Rs 250 million | 2% |
| 4 | Where income exceeds Rs 250 million but does not exceed Rs 300 million | 3% |
| 5 | Where income exceeds Rs 300 million | 4% |
| 6 | Where income exceeds Rs 300 million and the business is banking | 10% |
| 7 | Where income exceeds Rs 300 million and persons are engaged in the business of airlines, automobiles, beverages, cement, chemicals, cigarette & tobacco, fertilizer, iron & steel, LNG terminal, oil marketing, oil refining, petroleum & gas exploration & production, pharma, sugar & textiles | 10% for the FY22* |

Note: S. No. 1 to 5 pertain to income from any business--banking or otherwise. S.No. 6 and 7 pertain to banking & a group of specific businesses, respectively, provided their income levels are exceeding Rs 300 million apiece.

*This tax applies retrospectively for the FY22

Source: Finance Act 2022

While PKR depreciation partially offset the impact of contraction in imports in dollar terms, it was mainly the decline in dutiable imports – automobile, cell phones, and other luxury items – that led to lower import-related taxes.[18] Moreover, there was an increase in GST on imports of non-essential luxury items to 25 percent during H2-FY23.[19] Together, these factors limited the fallout of the reduction in imports on tax collection in FY23.[20]

Nevertheless, decline in import-related taxes was offset by higher collections of domestic sales tax and FED. These were supported by higher inflation translating into higher GST and FED;[21] increase in GST from 17 percent to 18

[16] Data source: State Bank of Pakistan

[17] These ratios are calculated using end-June stocks.

[18] Import-related taxes are assessed based on values of import in PKR. Hence, exchange rate movements, among other factors, play pivotal role in tax collection on imports. Import values in PKR fell by only 5.2 percent as depreciation partially offset the decline in imports in USD.

[19] New tax rate applied over 800 tariff lines, including cars (CBU); home appliances (CBU); aerated water and juices; confectionery; sanitary and bathroom wares; carpets; chandeliers; chocolates; doors and window frames; leather jackets and apparels; articles of jewelry; and others. Source: FBR SRO No. 297(I)/2023, dated Mar 08, 2023; www.download1.fbr.gov.pk/SROs/2023382232741774SRO-297-OF-2023.pdf

[20] Import-related taxes (sales tax, FED, and customs) fell by 6.7 percent in FY23, as compared 45.7 percent increase in FY22. Source: Federal Board of Revenue

[21] For more details, see Inflation section in Chapter 3.

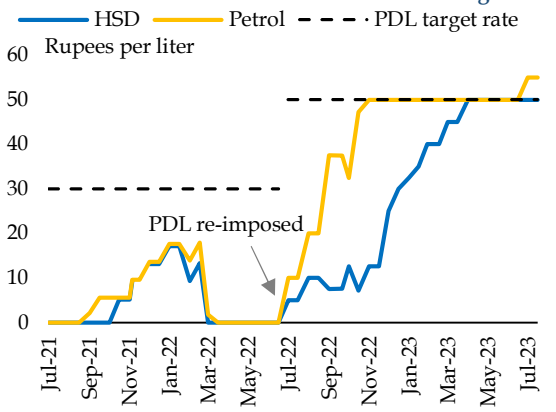
percent in the Finance (Supplementary) Act 2023 (**Figure 4.4**); and increase in GST on locally manufactured cars to 25 percent.[22]
The revenue measures announced in the Finance Act 2022 were already expected to boost GST and FED collections in FY23. The major revenue measures included: (i) expansion in the categories of Tier-1 retailers by adding jewelers (except those with shop size less than 300 square feet); (ii) discontinuation of gas and electricity utilities for retailers not registered with FBR's real-time sales reporting system aimed at enhancing compliance of retailers, as well as other sales tax agents, with digitalization protocols of FBR; additionally, a penalty system was also enforced for the non-compliant Tier-1 retailers;[23] and (iii) increase in FED on cigarettes and air travel in club, business and first class in the Finance Act 2022 and Finance (Supplementary) Act 2023.

In the light of these developments, domestic sales tax and FED rose despite subdued economic activity and zero GST on POL products (MS and diesel) and crude.[24] Domestic GST collection from POL products still posted a notable increase of 41.9 percent in FY23 compared to the previous year. This is explained by GST on other POL products, including furnace oil, HOBC, JP-8, and JP-1. Additionally, there was a positive revenue impact of the international crude prices trending higher in Jul-Jan FY23 than same period last year, as well as sharp exchange rate depreciation, both of which lifted the base prices of the POL products.

**Non-Tax Revenue**

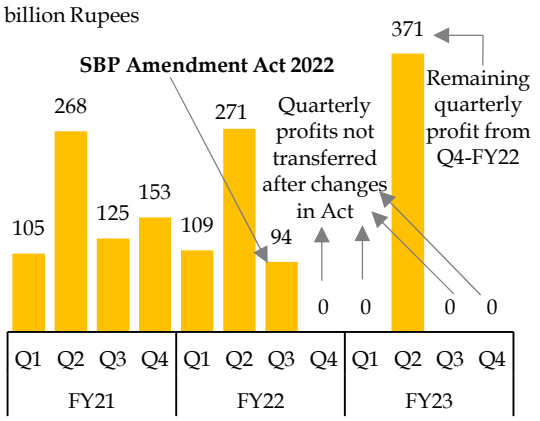
After recording declines in the preceding two years, NTR increased by 41.8 percent in FY23 (**Table 4.6**). Almost the entire growth came on the back of sharp increase in collection form petroleum development levy (PDL), which reached Rs 579.9 billion in FY23. In FY22, the levy was kept either zero or much below the budget target (**Figure 4.5**), as the government attempted to provide relief to masses in the face of rising international oil prices. However, starting from July 2022, the levies on petrol and hi-speed diesel were re-imposed, and gradually increased to the budgeted target of Rs 50 per liter apiece. This provided boost to PDL

**Trend of PDL** **Figure 4.5**




Sources: Pakistan State Oil, and Oil and Gas Regulatory Authority

**Trend of Transfer of SBP's Surplus Profits** **Figure 4.6**




Source: Ministry of Finance

[22] Source: FBR SRO No. 297(I)/2023, dated Mar 08, 2023; www.download1.fbr.gov.pk/SROs/2023382232741774SRO-297-OF-2023.pdf
[23] Penalty of a half million rupees for first default; Rs 1.0 million for second default after 15 days of order for first default; Rs 2.0 million for third default after 15 days of order for second default; Rs 3.0 million for fourth default after 15 days of order for third default; regardless of these penalties, premises of retailers might be sealed as well.
[24] GST on these products was removed in March 2022 through FBR SRO 321(I)/2022, with effect from February 2022.

**Non-Tax Revenue (NTR) Collection - Consolidated** **Table 4.6**

percent

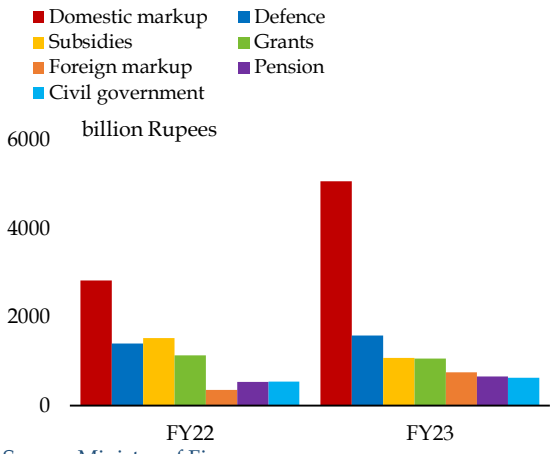
| | Growth | | | | | | Contribution to Total NTR | |
|---|---|---|---|---|---|---|---|---|
| | H1 | | H2 | | Jul-Jun | | Jul-Jun | |
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **(a) Federal** | **-17.8** | **28.5** | **-28.1** | **65.5** | **-22.2** | **43.1** | **-20.1** | **38.8** |
| Petroleum levy | -74.6 | 154.0 | -61.5 | 599.0 | -70.0 | 354.7 | -18.2 | 35.3 |
| Mark-up (PSEs & others) | -25.9 | 138.2 | 71.2 | 21.5 | 15.2 | 64.8 | 0.7 | 4.4 |
| Royalties on oil\gas | 11.2 | 45.0 | 44.8 | 22.9 | 28.1 | 32.4 | 1.2 | 2.3 |
| Dividend | 118.8 | 57.2 | -47.2 | 64.8 | -2.2 | 60.2 | -0.1 | 2.0 |
| Windfall levy against crude oil | 590.9 | 188.3 | 302.5 | 39.4 | 373.1 | 92.6 | 0.7 | 1.0 |
| Passport fee | 49.2 | 57.9 | 84.8 | 61.1 | 65.7 | 59.6 | 0.5 | 1.0 |
| Profits of PTA | 108.9 | -16.2 | 215.7 | -19.4 | 164.8 | -18.2 | 3.9 | -1.5 |
| Surplus profit of State Bank of Pakistan | 2.0 | -2.3 | -66.3 | -100.0 | -27.2 | -21.6 | -10.9 | -8.0 |
| **(b) Provincial** | **43.1** | **4.5** | **-41.1** | **56.8** | **-14.6** | **29.3** | **-1.3** | **2.9** |
| **Non-tax Revenue (a+b)** | **-14.6** | **26.4** | **-29.9** | **64.5** | **-21.5** | **41.8** | **-21.5** | **41.8** |

Sources: Ministry of Finance, and SBP calculations

collection, particularly in the second half, even compensating for falling POL sales.[25] As a result, the government overshot the revised target of Rs 542 billion.[26]

On the other hand, SBP profit transfers were significantly lower in FY23 due to change in transfer mechanism in light of the amendments to the SBP Act (**Figure 4.6**). As per the new rules, the surplus profits are to be transferred to the government within 30 days of making the annual financial statements public by the SBP.[27] It may be noted here that there was a transfer of Rs 371 billion in Q2-FY23 in arrears from Q4-FY22.[28] On the other hand, provincial non-tax revenue also grew by 29.3 percent in FY23, compared to decline of 14.6 percent in FY22, mainly on account of charges collected from transfer of property, and administration charges and fees.

**Cumulative Federal Current Expenditures** **Figure 4.7**




Source: Ministry of Finance

## 4.3 Federal Expenditures

Federal expenditures grew by 21.2 percent in FY23, slightly lower from 26.3 percent growth in FY22. Slower growth in expenditures, despite a surge in mark-up payments, was due to decline in non-interest current expenditures, primarily on account of reduction in subsidies and grants. In contrast, other current expenditures including defence, pension and running of civil government increased. In particular, the defence affairs and services witnessed a higher growth in FY23 relative to FY22 (**Figure 4.7**). Importantly, development expenditures

[25] Sales of petrol and diesel fell by 16.8 percent and 28.5 percent, respectively, in FY23 from the year ago. Sources: Ministry of Finance and Oil Companies Advisory Council

[26] The government was initially falling short of the budget target of Rs 855 billion during FY23, which could be ascribed to gradual—instead of one-off—increase in PDL to budget target of Rs 50 per liter, as well as lower POL sales.

[27] Source: SBP Act 2022 (Amended); https://www.sbp.org.pk/about/act/SBP-Act.pdf

[28] The changes in Act will see transfer of first full year surplus profits of SBP in first half of FY24.

**State of Federal Expenditures** **Table 4.7**

billion Rupees, growth in percent

| | Absolute | | Growth | | As percent of Total Expenditures | | As percent of GDP | |
|---|---|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **Total expenditures (a+b)** | **9,350.1** | **11,332.4** | **26.3** | **21.2** | **100** | **100** | **14.0** | **13.4** |
| **(a) Current expenditure** | **8,451.6** | **10,867.2** | **33.1** | **28.6** | **92.3** | **92.4** | **12.6** | **12.8** |
| Mark-up payments | 3,182.4 | 5,831.1 | 15.7 | 83.2 | 34.8 | 49.6 | 4.8 | 6.9 |
| Domestic | 2,828.6 | 5,071.2 | 12.1 | 79.3 | 30.9 | 43.1 | 4.2 | 6.0 |
| Foreign | 353.9 | 759.9 | 56.6 | 114.7 | 3.9 | 6.5 | 0.5 | 0.9 |
| Defence affairs and services | 1,411.6 | 1,585.5 | 7.2 | 12.3 | 15.4 | 13.5 | 2.1 | 1.9 |
| Pension | 541.9 | 666.3 | 23.1 | 23.0 | 5.9 | 5.7 | 0.81 | 0.8 |
| Running of civil government | 546.7 | 634.0 | 8.1 | 16.0 | 6.0 | 5.4 | 0.8 | 0.7 |
| Subsidies | 1,529.6 | 1,080.3 | 259.9 | -29.4 | 16.7 | 9.2 | 2.3 | 1.3 |
| Grants to provinces and others | 1,239.3 | 1,070.0 | 36.0 | -13.7 | 13.5 | 9.1 | 1.9 | 1.3 |
| Grants to provinces | 97.5 | 82.0 | 16.2 | -15.9 | 1.1 | 0.7 | 0.1 | 0.1 |
| Grants to others | 1,141.8 | 988.0 | 37.9 | -13.5 | 12.5 | 8.4 | 1.7 | 1.2 |
| **(b) Development expenditure and net lending** | **701.1** | **890.4** | **-11.1** | **27.0** | **7.7** | **7.6** | **1.0** | **1.1** |
| **Total development expenditure** | **558.1** | **743.0** | **-19.6** | **33.1** | **6.1** | **6.3** | **0.8** | **0.9** |
| **PSDP** | 558.1 | 743.0 | -16.4 | 33.1 | 6.1 | 6.3 | 0.8 | 0.9 |
| Development grants to provinces | 157.7 | 91.0 | -30.3 | -42.3 | 1.7 | 0.8 | 0.2 | 0.1 |
| **Net lending** | **143** | **147.3** | **51.4** | **3.0** | **1.6** | **1.3** | **0.2** | **0.2** |
| Provinces | 102.6 | 87.5 | 485.2 | -14.8 | 1.1 | 0.7 | 0.2 | 0.1 |
| Others | 40.4 | 59.9 | -47.5 | 48.2 | 0.4 | 0.5 | 0.1 | 0.07 |

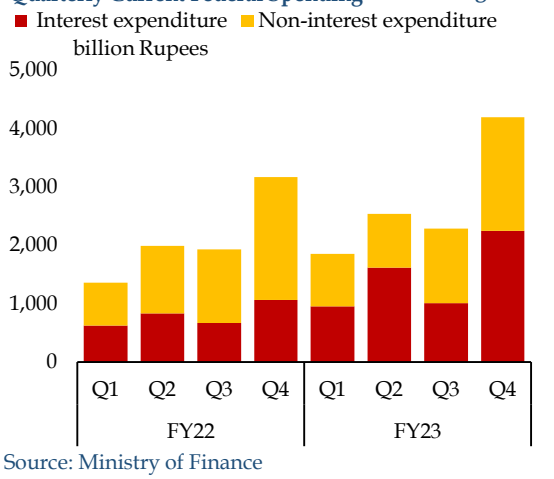
Source: Ministry of Finance, and SBP calculations

increased in FY23, against a decline observed in the previous fiscal year (**Table 4.7**).

### Federal Current Expenditures

Growth in federal current expenditure decelerated slightly to 28.6 percent in FY23 from 33.1 percent in FY22. The deceleration was primarily due to lower subsidies and grants. Substantial increase in interest payments, remained the major contributor to still elevated growth in current expenditures, accounting for 54 percent of the federal current expenditures during FY23 (**Figure 4.8**). Meanwhile, defence, pensions and running of civil government also witnessed higher spending during FY23.

**Quarterly Current Federal Spending** **Figure 4.8**




Source: Ministry of Finance

### *Steep rise in interest expenses*

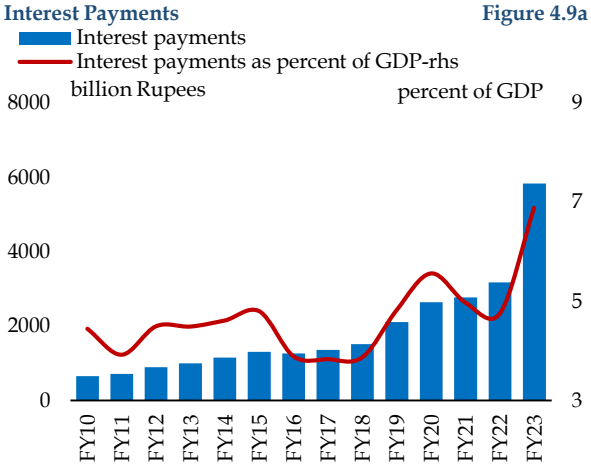
The mark-up payments surged by 83.2 percent in FY23, compared to 15.7 percent increase in the

**Interest Payments as Percent of Major Fiscal Accounts** **Table 4.8**

| | Average FY17-FY21 | FY22 | FY23 |
|---|---|---|---|
| Fiscal balance | 71.6 | 60.5 | 89.4 |
| Total tax revenues | 46.6 | 47.1 | 74.6 |
| Total expenditure | 23.7 | 23.9 | 49.6 |
| Current expenditures | 28.4 | 27.6 | 53.7 |
| Defence | 180.9 | 225.4 | 367.8 |
| Pension | 527.2 | 587.3 | 875.1 |
| Running of civil govt. | 424.4 | 582.1 | 919.7 |
| Subsidies | 927.2 | 208.1 | 539.8 |
| Grants | 377.3 | 278.7 | 545.0 |
| Development expenditures | 154.2 | 192.0 | 654.9 |

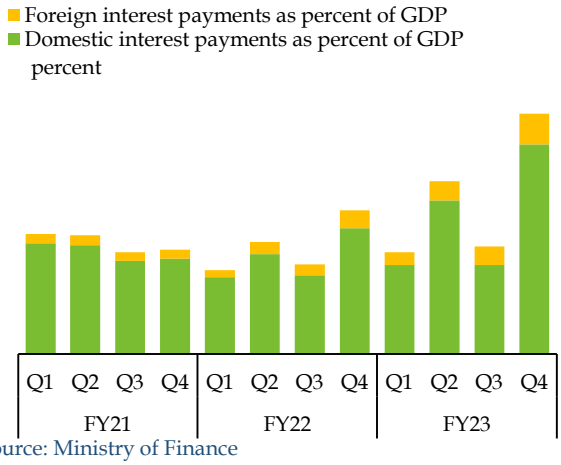
Source: Ministry of Finance

**Interest Payments** **Figure 4.9a**




Source: Ministry of Finance

**Quarter-wise Interest Payments** **Figure 4.9b**




Source: Ministry of Finance

previous year. In absolute terms, interest payments rose to Rs 5.8 trillion (**Figure 4.9a**); about 70 percent of tax revenues and 93 percent of the fiscal deficit in FY23 (**Table 4.8**). Unlike in FY22, when interest payments remained relatively muted until March 2022 and then rose in last the quarter, these rose steadily throughout FY23 (**Figure 4.9b**). Though interest payments on both the domestic and foreign debt rose sharply, mark-up on domestic debt constituted around 87 percent of the total expense.

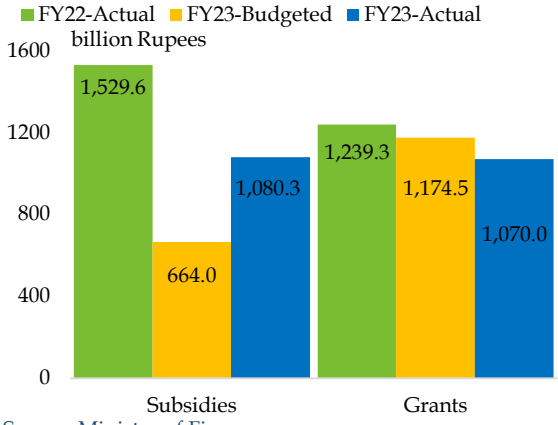
The actual markup payments exceeded the budgeted target of Rs 3.9 trillion for FY23 by 48.7 percent.[29] Increased borrowing, mostly via short-term T-bills and floating rate PIBs, resulted in higher mark-up payments on domestic debt in FY23. In addition, higher debt servicing reinforced financing requirement to pay off high priced loans. Moreover, the rising share of floating rate instruments in the outstanding debt further increased the buildup of interest payments.

External debt servicing posted a significant increase of 114.7 percent during FY23. This mainly reflects the impact of PKR depreciation and the resumption of markup payments to bilateral creditors after expiration of Debt Service Suspension Initiative (DSSI).[30]

***Subsidies and grants, despite steep fall, remain substantial***

Total subsidies decreased to Rs 1.1 trillion (1.3 percent of GDP) in FY23 from Rs 1.5 trillion (2.3 percent of GDP) in the previous year (**Figure 4.10**).[31] Almost 67 percent of the subsidies in FY23 were meant for power sector, mainly

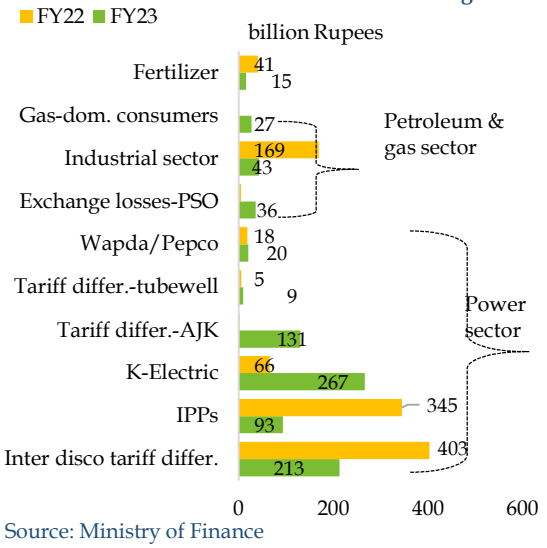
**Federal Subsidies and Grants: Actual vs Targets** **Figure 4.10**




Source: Ministry of Finance

[29] This was against the target of Rs 3.1 trillion budgeted in FY22.
[30] For details, see **Chapter 5 - Domestic and External Debt**
[31] The target for overall subsidies was set at Rs 664 billion, out of which Rs 463 billion were allocated for power sector, including for settlement of circular debt. Against this, power sector received Rs 870 billion during FY23. This large deviation from the target was mainly due to higher accumulation of circular debt and payments made under fiscal package.

**Disbursement of Federal Subsidies** **Figure 4.11**




Source: Ministry of Finance

including tariff differential payments related to AJK, agriculture tube wells, receivables to DISCOs, K-Electric and WAPDA/PEPCO (**Figure 4.11**).[32]

After power, a substantial amount of subsidies was provided on petroleum products; which comprised subsidies to industrial sector, domestic consumers and payment to PSO on account of exchange losses. The industrial sector remained the major recipient of petroleum and gas subsidies, which include subsidized LNG and electricity and extension of industrial support package (ISP).[33]

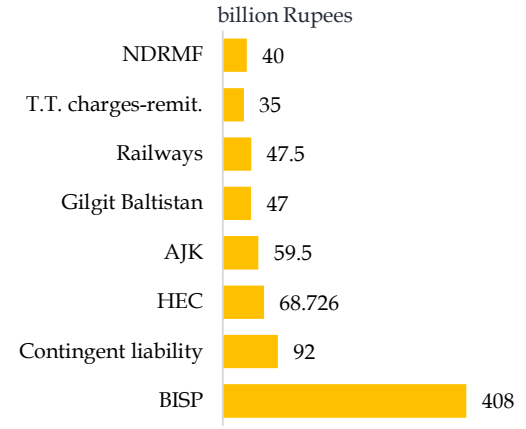
Moreover, the government also provided subsidy of Rs 44 billion in flood affected areas, specifically on fertilizer (Rs 15 billion), mark up on Mera Pakistan Mera Ghar Scheme (Rs 10 billion), markup subsidies & risk sharing scheme for farmers (Rs 3 billion) and markup subsidy for Rabi crops (Rs 8 billion).

Similar to subsidies, total grants were recorded at Rs 1,070.0 billion in FY23, lower by 13.7 percent from Rs 1,239.3 billion in FY22 (**Figure 4.12**). Benazir Income Support Program (BISP) remained a major recipient of federal grants, followed by contingent liabilities, other grants and grants to HEC.

In FY23, the BISP received Rs 408 billion against the budgeted amount of Rs 360 billion. Through BISP, emergency cash assistance of Rs 70 billion was disbursed to 2.72 million families affected due to floods during 2022.[34] Under this cash assistance program, the government provided emergency assistance of Rs 25,000 per family.[35] Moreover, the BISP program also covered the ongoing schemes carried under Unconditional Cash Transfer (UCT) and Conditional Cash Transfer (CCT) programs.

Under the Benazir Kafalat, which is a major UCT program,[36] the government provided cash assistance of Rs 7,000 per family to around 7.7 million families in first half of FY23, which was

**Disbursement of Federal Grants** **Figure 4.12**




Source: Ministry of Finance

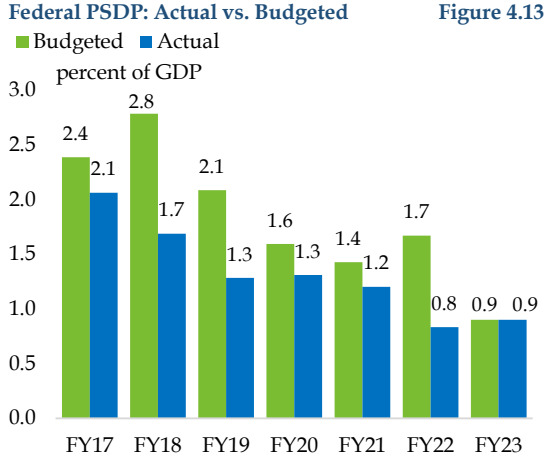
[32] Figure 4.11 is based on data of Jul-Mar period.
[33] To generate demand for ample available electricity and boost industrial activity, the government had announced ISP scheme in November 2020. Under the scheme, peak and off-peak tariff structure for industrial consumers was abolished initially for the period from November 2020 till end April 2020. However, due to higher energy demand, the package was first extended till June 2022 and then till October 2023. (Source: NEPRA (2021), State of Industry Report)
[34] Initially the government announced package of Rs 28 billion which was increased to Rs 70 billion. (Source: MoF press release, August 30, 2022 (PR No. 106)
[35] Source: Benazir Income Support Program. www.bisp.gov.pk/
[36] Initiated in 2008, the objective of "Benazir Kafaalat Program" is to cushion against negative effects of slow economic growth, food crisis and inflation on the poor, particularly women, through provision of cash assistance to eligible families.

later increased to Rs 8,750 with an inflation adjustment of 25 percent with effect from January 01, 2023. The coverage of UCT Kafalat program was also extended to 9 million families based on the live National Socioeconomic Registry (NSER) database. The major CCT program, i.e. 'Benazir Taleemi Wazaif' scheme, disbursed Rs 23.4 billion during FY23 to the children of BISP beneficiaries.[37] Other than BISP, the government also carried out non-budgeted Pakistan Poverty Alleviation Fund (PPAF) program. One of the major schemes under the program was Interest-Free Loan (IFL) Program, which provides funding to the microenterprises of poor and marginalized households.

***Increase in salaries and pensions***

Expenditures on both pension and running of the civil government recorded a significant increase during FY23. The major impetus came from relief measures for serving and retired employees announced in FY22. In July 2022, the government had announced 15 percent ad-hoc relief allowance for all federal employees and employees of autonomous/ semi-autonomous bodies and corporations. In addition, government also made upward revisions in salary scale of BPS-1 to BPS-21 civil servants.[38] Moreover, a special allowance was granted to civil employees in grades BPS 1 to BPS 16.[39] Similarly to increase in salary, pension was also increased by 15 percent to Rs 666.3 billion in FY23, which also resulted in higher current expenditures.[40]

**Federal PSDP: Actual vs. Budgeted** **Figure 4.13**




Source: Ministry of Finance

**Federal Development Expenditures**

The federal development expenditures increased sharply by 33.1 percent in FY23, against a decline of 16.4 percent in FY22, mainly reflecting higher disbursements under federal PSDP. In terms of GDP, the PSDP saw a slight increase to 0.9 in FY23 percent from 0.8 percent last year.

Federal development spending has consistently fell short of the budgeted amount during the last few years, owing to growing fiscal imbalances and rising subsidies, grants and interest payments.[41] In contrast to FY22, when the targeted PSDP was higher than the previous two years, the government envisaged a lower target for FY23 **(Figure 4.13).**

During the first half of FY23, the federal PSDP releases were lower than the previous year, in line with the strategy of releasing 10 percent of the allocation in Q1, 20 percent in Q2, 30 percent in Q3, and 40 percent in Q4. Further, the ongoing PSDP projects also faced some operational bottlenecks including difficulties in opening of Letter of Credits (LCs) for import of

[37] According to BISP, Benazir Taleemi Wazaif Scheme was initially introduced in five districts in November 2012; the coverage was expanded gradually, and in 2020 all districts of the country were covered. Under this scheme, the children of BISP families are provided with quarterly stipend (varies with sex, age and education level) with the condition of enrolment in school with 70 percent attendance. As of June 2023, 12.0 million children have been enrolled in the scheme and Rs 63.3 billion has been disbursed.
[38] Office Memorandum F. No. 1(2) lmp/2022-283, dated July 01, 2022, Regulations Wing, Finance Division
[39] Office Memorandum F. No. 9(7) R-1/2014-62/2023, dated Feb 14, 2023, Regulations Wing, Finance Division
[40] Office Memorandum No. F.4 (1) Reg.6/2022-486, dated July 01, 2022, Regulations Wing, Finance Division
[41] The PFM reforms comprises: (i) budget management; (ii) development projects, maintenance and use of public assets; (iii) control of public finance consolidated fund and public account; (iv) treasury management; (v) special purpose funds; (vi) accounting and reporting; (vii) public entities; (viii) non tax-revenue; and (ix) ease and authority to make rules

**PSDP Targets vs. Disbursements** **Table 4.9**

billion Rupees

| Ministry/Division | PSDP Allocation | Expenditure | | | |
|---|---|---|---|---|---|
| | | Jul-May | Percent of Allocation | Jul-Jun | Percent of Allocation |
| Provinces and Special Areas (Previously under FD/KA&GB) | 128.8 | 61.0 | 47.4 | 100.5 | 78.0 |
| National Highway Authority | 99.2 | 62.1 | 62.6 | 114.8 | 115.7 |
| Water Resources Division | 102.6 | 80.6 | 78.6 | 115.5 | 112.6 |
| Cabinet Division | 116.1 | 64 | 55.1 | 93.4 | 80.5 |
| Higher Education Commission | 44.7 | 30.5 | 68.2 | 43.0 | 96.2 |
| NTDC/PEPCO | 50.1 | 89.5 | 178.5 | 116.7 | 232.7 |
| Planning, Development & Special Initiatives Division | 5.4 | 2.8 | 52.1 | 4.4 | 82.4 |
| Railways Division | 26.1 | 25.3 | 96.9 | 25.3 | 97.0 |
| Housing & Works Division | 22.9 | 11.2 | 48.8 | 22.2 | 96.9 |

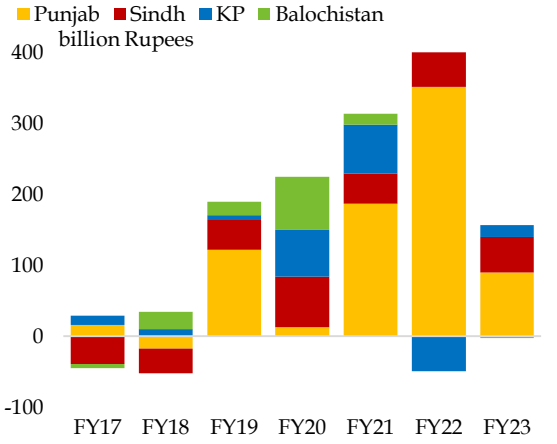
Sources: PSDP 2022-23, Ministry / Division-wise Summary (July - May and Jul-Jun, 2023), Planning Commission Ministry of Planning, Development and Special Initiatives

machinery.[42]

The pace of releases further decelerated when the government reallocated funds from development projects to flood relief activities amid a limited fiscal space and external support to deal with catastrophic floods. Thus, disbursement under federal PSDP remained at Rs 499.8 billion during FY23 against the budgeted Rs 727 billion.[43]

Around 164 projects were completed during FY23. The major development projects envisaged in the Budget 2022-23 included: i) ongoing development project in merged districts of Khyber Pakhtunkhwa; ii) construction of roads and infrastructure specially motorway sections; iii) major dams, including Diamer Bhasha and Mohmand dams; and iv) power projects, such as installation of coal fired power project in Jamshoro and enhancement in transmission capacity of NTDC system etc. The comparison of ministry-wise allocation and actual position of expenditures suggests that most of the federal ministries and other institutions received less than the targeted allocation till May 2023, the actual disbursement bounced sharply in June 2023 (**Table 4.9**).

**Provincial Surplus** **Figure 4.14**




Source: Ministry of Finance

## 4.4 Provincial Fiscal Operations

The provincial fiscal accounts exhibited deterioration in FY23. In consolidated terms, the overall provincial surplus contracted sharply from Rs 351.0 billion (0.5 percent of GDP) during FY22 to Rs 154.6 billion (0.2 percent of GDP) in FY23 year. The surplus could only reach 20.6 percent of the Rs 750 billion target envisaged for FY23.[44]

[42] For details, see **Chapter 6**

[43] Planning Commission of Pakistan

[44] FY23 budget envisaged an increase of 31.6 percent to Rs 750.0 billion, compared to Rs 570.0 billion last year.

**Provincial Fiscal Operations** **Table 4.10**
billion Rupees; percent

| | Values | | Growth | |
|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 |
| **A. Total revenue (a+b+c)** | **4,687.5** | **5,299.4** | **25.7** | **13.1** |
| a. Provincial share in federal revenue | 3,589.0 | 4,223.5 | 30.9 | 17.7 |
| b. Fed loans and transfers | 357.8 | 260.5 | 9.3 | -27.2 |
| c. Provincial own revenue | 740.7 | 815.4 | 12.5 | 10.1 |
| Taxes | 612.4 | 649.6 | 20.5 | 6.1 |
| Non-taxes | 128.3 | 165.9 | -14.6 | 29.3 |
| **B. Total expenditures (a+b+c)** | **4,336.5** | **5,144.8** | **27.0** | **18.6** |
| a. Current | 3,200.8 | 3,859.6 | 12.5 | 20.6 |
| b. Development | 1,216.6 | 1,241.0 | 57.9 | 2.0 |
| c. Statistical discrepancy | -80.9 | 44.2 | 17.1 | -154.6 |
| **Overall balance (A-B)** | **351.0** | **154.6** | **33.3** | **-56.0** |

Source: Ministry of Finance

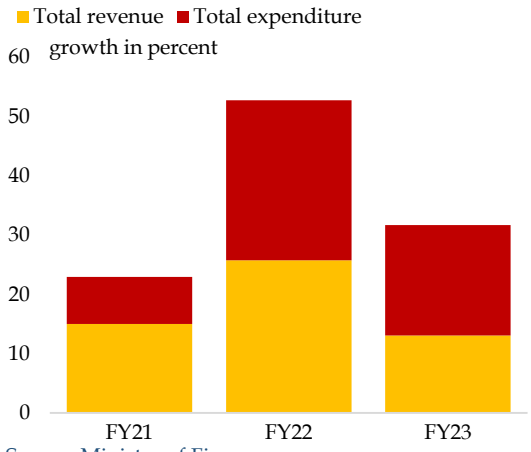
Province-wise analysis reveals that Punjab contributed the most in overall contraction in provincial surplus, whereas Balochistan posted a deficit during FY23. On the contrary, Sindh and KP generated higher surplus during FY23 compared to last year (**Figure 4.14**). The reduction in provincial surplus mainly came from slower growth in revenues, coupled with higher current expenditures (**Table 4.10 and Figure 4.15**).

## Provincial Revenues

Growth in provincial revenues decelerated to 13.1 percent in FY23 from 25.7 percent in in the previous year. The deceleration is explained by lower provincial share in federal revenues, and decline in provincial own revenue.

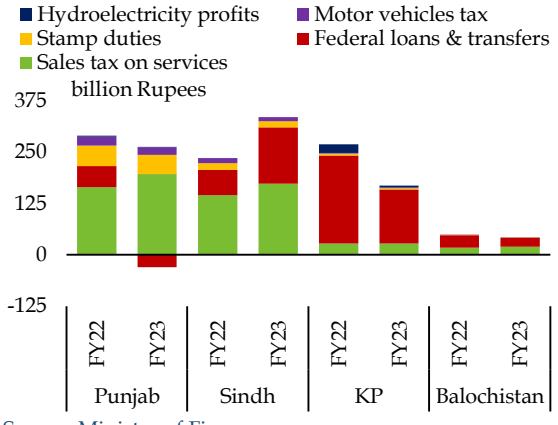
Provincial own revenue collection grew by 10.1 percent in FY23, against 12.5 percent increase in FY22. The deceleration in provincial own revenue came from tax revenues, which recorded a growth of 6.1 percent to Rs 649.6 billion in FY23 compared to Rs 612.4 billion last year. Among different sources of taxes, sales tax on services contributed the most, followed by other taxes and stamp duties. Within provinces, around 46 percent of the taxes were collected by Punjab, 44 percent by Sindh and 6.4 percent and 4.0 percent by KP and Balochistan respectively (**Figure 4.16**).

**Provincial Revenues and Expenditures** **Figure 4.15**



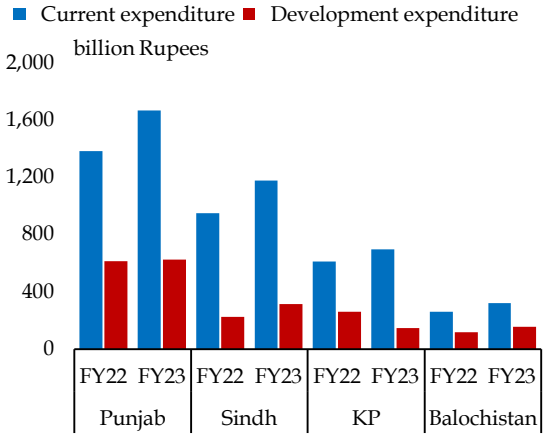

Source: Ministry of Finance

**Major Sources of Provincial Own Revenues** **Figure 4.16**



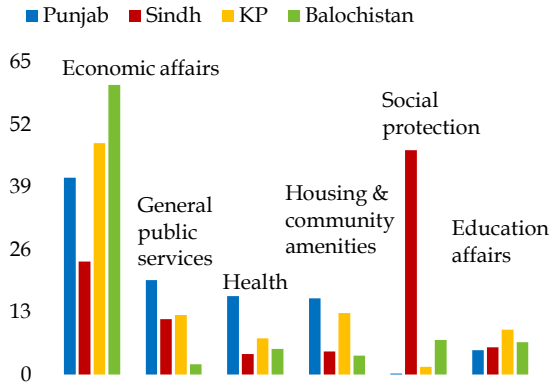

Source: Ministry of Finance

**Segregation of Provincial Expenditures** **Figure 4.17**




Source: Ministry of Finance

**Priorities in Development Spending in FY23 (percent share in provincial development expenditure)** **Figure 4.18**




Source: Ministry of Finance

The moderation in growth of provincial own tax collection during FY23 may be attributed to different tax relief measures announced in respective budgets of provinces. For instance, extension of the reduced sales tax rate on services for more than 30 sectors and registration and token tax exemption on electric vehicles in Punjab. Moreover, no new taxes were announced by Sindh in its FY23 budget, whereas special moratorium was placed on collection of cotton fee, professional tax and entertainment duty. Sindh also exempted export-oriented sector from Sindh Infrastructure Development Cess, reduced rate of levy for services provided by cable TV operators, and lowered the Sindh Sales Tax from 13 percent to 8 percent for commission charges. KP also provided relief on various taxes and fee in FY23, which include 20 percent exemption in excise duty on first time registration of motor vehicles, and zero tax on land with full exemption from capital value tax (CVT) and registration fee.

Provincial non-tax revenues registered a growth of 29.3 percent in FY23, against a decline of 14.6 percent in the previous year. The growth mainly came on account of other non-tax sources, including receipts of forests department. In contrast, the major non-tax sources, transfer of hydroelectricity profits to KP, which remained lower at Rs 4.9 billion in FY23 compared to Rs 21.0 billion during last year. This was because most of the federal grants and loans were diverted to finance the food related activities in Sindh.

**Provincial Expenditures**

The growth in provincial expenditures also decelerated to 18.6 percent during FY23, from 27.0 percent in FY22. The deceleration was due to slower growth in development expenditures, while current expenditures grew sharply (**Figure 4.17**).

The current expenditures rose by 20.6 percent in FY23, compared to 12.5 percent in FY22, majorly driven by increased expenditures on executive & legislative organizations, financial and fiscal affairs including salaries and pension expenditures of respective provinces. The increase in salaries and pension was due to special ad-hoc relief and disparity allowance to employees announced by different provinces in their FY23 budgets. Public order and safety affairs, was other major head that recorded 13.3 percent increase in FY23. The increase was mainly driven by a 15.5 percent more allocation to police department compared to previous year.

Provincial development spending increased by only 2.0 percent in FY23, compared to 58.0 percent increase recorded in FY22. Khyber Pakhtunkhwa witnessed a major decline, whereas Punjab and Sindh also contained the

pace of development spending. Within the development spending, major thrust came from economic affairs, as funds were diverted to finance the ongoing projects in construction and transport sector specifically in Punjab, KP and Balochistan. In Sindh, the provincial resources were diverted to social protection and agriculture and allied sectors (**Figure 4.18**).


# Domestic and External Debt

Public debt grew at a faster pace during FY23 compared to the previous year. Both the domestic and external components contributed in the sharp rise in the public debt. Domestic debt increased on account of high financing needs and limited external inflows, while entire increase in external debt stemmed from depreciation of PKR against US dollar. The external debt, however, declined in dollar terms owing to higher scheduled payments and lower-than-expected external disbursements in the backdrop of delay in the completion of the 9th review under the IMF's EFF program and downgrading of Pakistan's credit rating by the international rating agencies. In case of domestic debt, the government raised funds mainly through borrowing from the non-bank entities, contrary to the previous year, when borrowing had been majorly sourced from the banking sector. Further, the bank borrowing was concentrated in T-bills, while there was a net retirement in unfunded debt. As a result, the maturity profile of the public debt marginally shortened, which more than offset the improvement in the maturity profile of external debt. Furthermore, the debt repayment capacity of the government somewhat weakened on the back of higher interest payments, slowdown in FBR tax revenues, and decline in foreign exchange earnings. The external debt sustainability indicators, however, displayed a mixed picture.

5

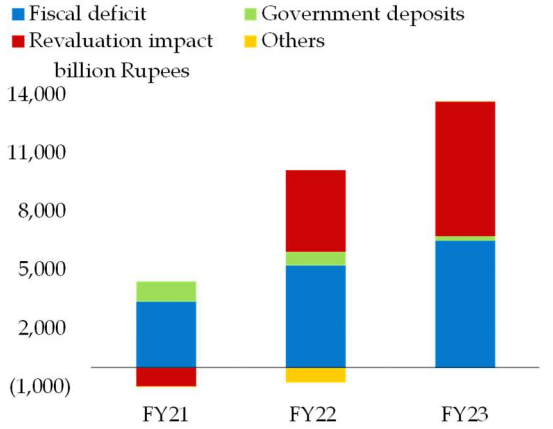
# 5 Domestic and External Debt

## 5.1 Public Debt

The pace of debt accumulation accelerated, with gross public debt rising by 27.7 percent during FY23 compared to 23.5 percent in the previous year. Resultantly, gross public debt to GDP ratio increased to 74.3 percent in FY23 from 73.9 percent in FY22 (**Figure 5.1 & Table 5.1).** The increase in debt largely emanated from higher government financing needs due to large fiscal deficit and depreciation of PKR against the US dollar **(Figure 5.2)**.

In terms of composition, major impetus came from domestic debt; it contributed around 56.6 percent in the expansion of public debt in FY23, compared to 51.4 percent in FY22 **(Figure 5.3)**. This resulted from increased government reliance on domestic sources to finance the deficit due to less than estimated external inflows. On the other hand, the increase in external debt (in PKR terms) solely stemmed from the depreciation of PKR against the US dollar during FY23.[1] This has more than offset the decline in external debt in dollar terms

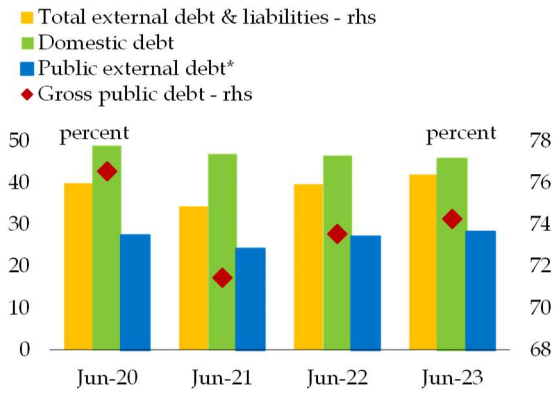
Sources of Increase in Public Debt — Figure 5.2




Sources: State Bank of Pakistan and Ministry of Finance

because of higher scheduled repayments and limited external inflows. Within the domestic debt, the government mainly raised funds through non-bank sources during FY23. This is contrary to FY22, when banking sector was the major source.[2,3] The main reason behind this shift was lucrative rates with lower risk vis-à-vis other investment avenues, which attracted non-banks' investment in government securities.

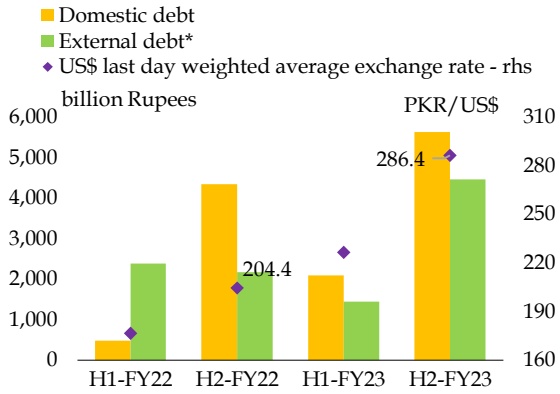
Debt Indicators as Percent of GDP — Figure 5.1




*government external debt + debt from IMF

Source: State Bank of Pakistan

Category-wise Change in Public Debt — Figure 5.3




*including debt from the IMF

Source: State Bank of Pakistan

[1] The PKR depreciated by around 28.6 percent against the US dollar at end June 2023 compared to end June 2022.

[2] Non-bank institutions include insurance companies, holding companies, investment companies, refinance companies, etc. that does not have full banking license and cannot accept deposits from the public. However, they do facilitate alternative financial services such as investment, risk pooling, financial consulting, brokering, money transmission and check cashing.

[3] The banking sector includes both scheduled banks and SBP.

**Summary of Pakistan's Debt and Liabilities** **Table 5.1**

billion Rupees

| | Stock | | Flows | |
|---|---|---|---|---|
| | End-June 2022 | End-June 2023 | FY22 | FY23 |
| Gross public debt (sum I to III) | 49,242.0 | 62,880.1 | 9,375.9 | 13,638.1 |
| I. Government domestic debt | 31,085.4 | 38,808.9 | 4,820.0 | 7,723.5 |
| II. Government external debt | 16,747.0 | 22,030.9 | 4,307.9 | 5,283.9 |
| III. Debt from IMF | 1,409.6 | 2,040.2 | 248.0 | 630.7 |
| IV. External liabilities | 2,275.6 | 3,101.9 | 897.2 | 826.3 |
| V. Private sector external debt | 3,697.7 | 5,159.1 | 1,122.7 | 1,461.4 |
| VI. PSEs external debt | 1,667.1 | 2,150.8 | 602.5 | 483.7 |
| VII. PSEs domestic debt | 1,393.4 | 1,687.2 | -43.3 | 293.7 |
| VIII. Commodity operations | 1,133.7 | 1,485.9 | 229.7 | 352.3 |
| IX. Intercompany external debt | 837.6 | 1,114.0 | 204.6 | 276.5 |
| **Memorandum Item** | | | | |
| **Gross public debt (as percent of GDP)** | **73.9** | **74.3** | - | - |
| Total debt of the government* | 44,361.5 | 57,778.3 | 8,693.0 | 13,416.8 |

*as per FRDLA definition

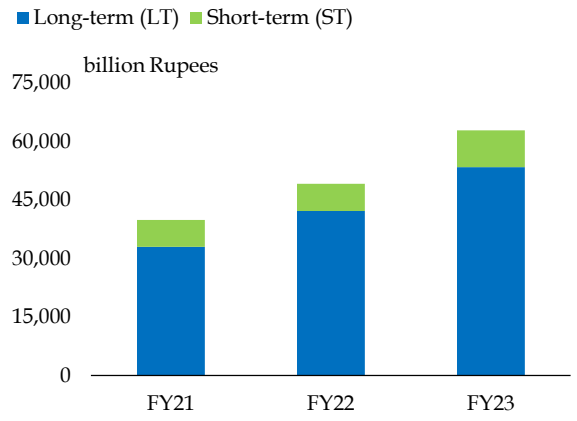
Source: State Bank of Pakistan

Funds mobilized through the banking sector (on net basis) decreased slightly in FY23, mainly due to retirement of loans to the SBP.[4]

The maturity-wise analysis shows a slight deterioration in maturity profile of the public debt. This largely owed to increase in the share of T- bills as well as reduction in unfunded debt in the domestic debt, which offset the improvement in maturity profile of external debt amid retirement of short-term commercial and multilateral debt **(Figure 5.4a and Figure 5.4b)**. The increase in share of short-term debt has given rise to rollover risk.[5,6]

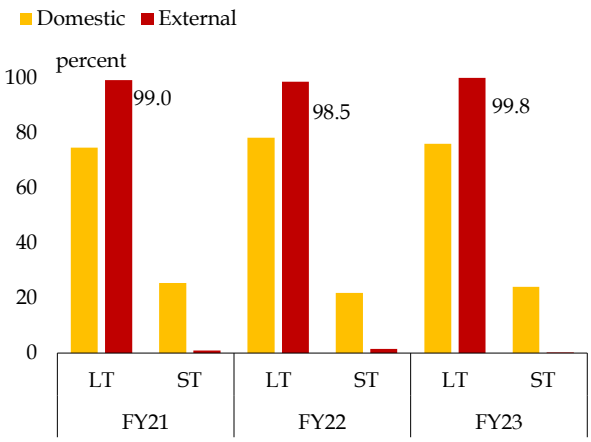
Moreover, the repayment capacity of the government also weakened on the back of higher interest payments (both domestic and external), lower foreign exchange earnings and decelerated FBR tax revenues.[7] Specifically, the

**Composition of Public Debt** **Figure 5.4a**




Source: State Bank of Pakistan

**Composition of Domestic and External Debt** **Figure 5.4b**



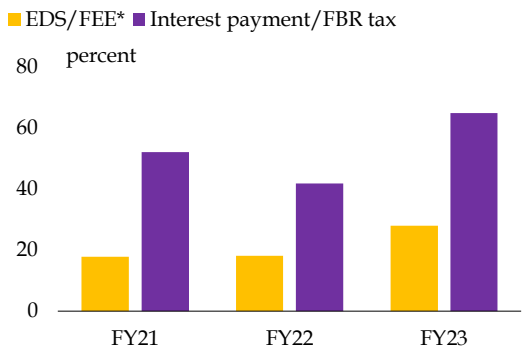

[4] As per the amended SBP Act, "The Bank shall not extend any direct credits to or guarantee any obligations of the Government, or any government-owned entity or any other public entity."

[5] Rollover risk is associated with the refinancing of debt if interest rates increases by the time debt is about to mature and is needed to be rolled over. The issuer would have to refinance their debt at a higher rate and incur more interest charges.

[6] Short-term debt includes debt instruments having maturity of less than or equal to a year.

[7] The repayment capacity is assessed by two ratios: domestic interest payments-to-FBR taxes and public external debt servicing (EDS)-to-foreign exchange earnings (FEE).

**Debt Repayment Capacity** **Figure 5.5**




*EDS: External debt servicing
*FEE: Foreign exchange earnings
Source: Ministry of Finance and State Bank of Pakistan

FBR tax revenues grew by 16.6 percent during FY23, compared to 29.6 percent last year. Meanwhile, interest payments on domestic debt grew by 71.2 percent, compared to 13.5 percent in the previous year. Consequently, the interest payments-to-FBR tax ratio deteriorated in FY23 **(Figure 5.5)**.

Similarly, the rise in external debt servicing and decline in foreign exchange earnings led to increase in external debt servicing-to-foreign exchange earnings ratio. The decline in foreign exchange earnings resulted from sluggish exports and workers' remittances. Meanwhile, the surge in external debt servicing stemmed from higher scheduled repayments, expiration of DSSI and increase in LIBOR/SOFR.[8]

The short-term public external debt (STPED) to reserves and external ratios strengthened amidst a considerable reduction in short-term debt, while solvency indicators deteriorated on the back of higher external debt servicing and muted external inflows. Moreover, there were net outflows from investment in Naya Pakistan Certificates (NPCs) due to global monetary tightening and domestic uncertainties.[9]

These developments created some challenges for debt sustainability and fiscal position. First, with more debt being raised through floating rate long-term instruments, the government's interest rate risk has increased.[10] Second, inadequate external inflows have resulted in increased reliance on domestic borrowings at relatively higher interest rates, which has increased government's funding cost. Third, within the domestic market, investors' interest remained tilted towards relatively shorter-tenor instruments which increased the rollover risk. Fourth, increased reliance on commercial banks, amid higher financing requirements, has left little space for the government to bargain on the cost of borrowing.

To maintain debt sustainability and improve repayment capacity, it is important to take various structural and non-structural measures aiming at: (i) reducing fiscal deficit by widening tax base and maintaining fiscal discipline; (ii) increasing external inflows by diversification of exports and remittances; (iii) attracting Foreign Direct Investment (FDI); and (iv) keeping a balance between lengthening of the maturity profile and the cost of borrowing while contracting debt.[11]

## 5.2 Domestic Debt

The stock of domestic debt rose to Rs 38.8 trillion at the end of June 2023, up by 24.8 percent compared to 18.4 percent increase in FY22 **(Table 5.2)**. Persistently higher fiscal deficit and inadequate external inflows were the main reasons behind this sharp increase, which forced government to meet its financing

[8] Secured Overnight Financing Rate (SOFR) measures the cost of overnight borrowing in cash against treasury securities as collateral; whereas, the LIBOR is the rate banks used to borrow from each other internationally. The LIBOR has now been replaced by SOFR. Most of the interest payments in Pakistan have been shifted to SOFR as of June 2023, while the remaining shall be converted either at the time of rollover/renewal or new coupon payment, etc.
[9] For instance, the average Economic Policy Uncertainty (EPU) Index of Pakistan increased to 196.5 during FY23 compared to 149.5 in FY22 (source: State Bank of Pakistan).
[10] Interest rate risk arises for bond owners from fluctuating interest rates.
[11] To attract more external inflows Pakistan needs to work on ease of doing business and political stability.

Government Domestic Debt and Liabilities — Table 5.2

billion Rupees

| | Stock | | Share in Domestic Debt | | Flows | | Growth | |
|---|---|---|---|---|---|---|---|---|
| | End-June 2022 | End-June 2023 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **I. Permanent Debt, of which** | **20,843.7** | **26,021.5** | **67.1** | **67.1** | **4,939.6** | **5,177.8** | **31.1** | **24.8** |
| GOP Ijara Sukuk | 2,279.8 | 3,150.6 | 7.3 | 8.1 | 1,614.6 | 870.8 | 242.7 | 38.2 |
| PIBs | 17,687.0 | 22,009.3 | 56.9 | 56.7 | 3,097.0 | 4,322.3 | 21.2 | 24.4 |
| Prize Bonds | 374.6 | 382.5 | 1.2 | 1.0 | -69.1 | 7.9 | -15.6 | 2.1 |
| **II. Floating Debt, of which** | **6,804.1** | **9,335.3** | **21.9** | **24.1** | **123.7** | **2,531.2** | **1.9** | **37.2** |
| Market Treasury Bills | 6,752.4 | 9,269.2 | 21.7 | 23.9 | 75.4 | 2,516.8 | 1.1 | 37.3 |
| **III. Unfunded Debt, of which** | **3,336.0** | **2,925.6** | **10.7** | **7.5** | **-309.9** | **-410.4** | **-8.5** | **-12.3** |
| NSS (Net of Prize Bonds) | 3,208.3 | 2,817.6 | 10.3 | 7.3 | -289.6 | -390.7 | -8.3 | -12.2 |
| **IV. Foreign Currency Instruments** | **8.7** | **383.8** | **0.0** | **1.0** | **2.0** | **375.1** | **29.3** | **4,315.4** |
| **V. Naya Pakistan Certificates (NPCs)** | **92.9** | **142.7** | **0.3** | **0.4** | **64.7** | **49.8** | **228.9** | **53.6** |
| **Government Domestic Debt (I+II+III+IV+V)** | **31,085.4** | **38,808.9** | **-** | **-** | **4,820.0** | **7,723.5** | **18.4** | **24.8** |

Source: State Bank of Pakistan

requirements through domestic borrowing notwithstanding high borrowing cost.

### *Non-bank entities were major source of domestic financing*

The institution-wise data shows that, in contrast to past trend, most of the increase in domestic debt during FY23 came from non-bank sources (around 51.4 percent), such as Development Financial Institutions (DFIs), Insurance Companies, Money Market Funds, etc. **(Figure 5.6)**. Due to lucrative rates and low risk, these investors showed greater interest in government securities. Investment by scheduled banks was low in first half of FY23, however, it rose significantly in H2-FY23 as government's financing requirements increased amidst falling external financing. Consequently, the share of scheduled banks domestic funding increased from 28.0 percent in H1-FY23 to around 52.4 percent in H2-FY23. However, due to retirement of maturing PIBs held by the SBP (around Rs 291.0 billion), the overall share of banking sector in the change in domestic debt decreased to 48.5 percent during FY23 from 78.8 percent in FY22.[12]

### *PIBs and T-bills mostly contributed in the domestic debt accumulation*

Government mainly raised financing through PIBs and T-bills during FY23. In the first three quarters, most of the increase in domestic debt resulted from PIBs and Ijara Sukuk, while there was net retirement in T-bills due to high cost of borrowing. In Q4-FY23, however, T-bills worth Rs 11.0 trillion were issued due to investors' inclination to lock funds in shorter-tenor T-bills amidst rising interest rates environment and domestic uncertainties. Meanwhile, continuing the previous trends, the National Saving Schemes (NSS), net of prize bonds, registered net outflows during FY23. This compelled the GoP to borrow through T-bills. Consequently, the maturity profile of domestic debt shortened due to surge in short-term debt (floating debt) and decline in the stock of unfunded (long-term) debt during FY23 compared to FY22 **(Table 5.2)**.

[12] Based on stock position, the share of banking sector in the stock of domestic debt declined to 69.4 percent at end- June 2023 from 74.6 percent at the end of June 2022; mainly due to retirement in SBP debt (from 21.3 percent by the end of June 2023 to 16.3 percent at End-June 2023). The share of scheduled banks in debt stock decreased slightly from 53.3 percent to 53.1 percent due to increased borrowing from non-bank.

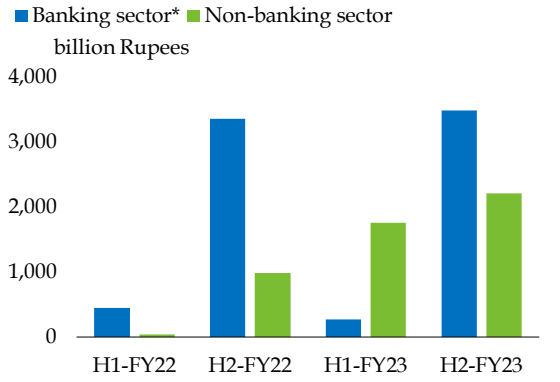
On the one hand, concentration of domestic debt in floating rate instruments, which include floating rate PIBs (PFLs) and variable rental rate (VRR) Sukuk, has increased the interest rate risk. On the other hand, rise in stock of T-bills led to increase in both rollover risk and interest rate risk. The resulting increase in interest payments further added to growing financing needs and hence further accumulation in debt stock.[13]

### *The share of permanent debt remained unchanged*[14]

The stock of PIBs grew by 24.4 percent and reached Rs 22.0 trillion during FY23, compared to Rs 17.7 trillion at the end of June 2022 **(Table 5.2)**. This increase mainly resulted PFLs, accounting for 80.2 percent of debt raised through PIBs, driven by lucrative returns compared to fixed rate PIBs.[15]

The auction profile of PIBs shows that the investors were more inclined towards relatively shorter-tenor instruments in case of PFLs and medium-term instruments (5-year and 10-year) in case of fixed rate PIBs **(Figure 5.7a & Figure 5.7b)**. This was because banks expected increase in policy rate near term over the medium term.

Increase in Domestic Debt Holding- Institution wise — Figure 5.6

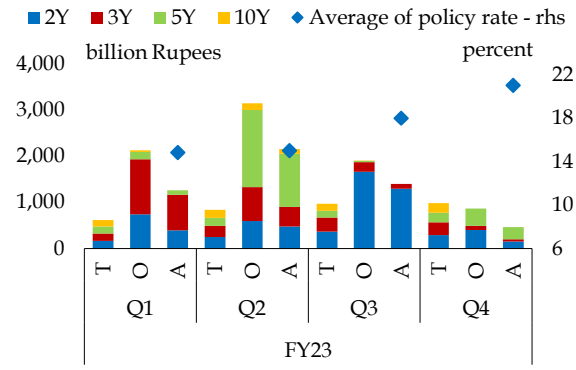



* Banking sectors includes both scheduled banks and SBP

Source: State Bank of Pakistan

The quarterly analysis depicts that investors were inclined towards 5-Year instruments, especially in PFLs, during Q2-FY23, as the market was expecting an increase in policy rate in the short and medium-term owing to persistently rising inflation.[16] Given increased economic uncertainty in Q3-FY23, the market was keen on short-term quarterly coupon

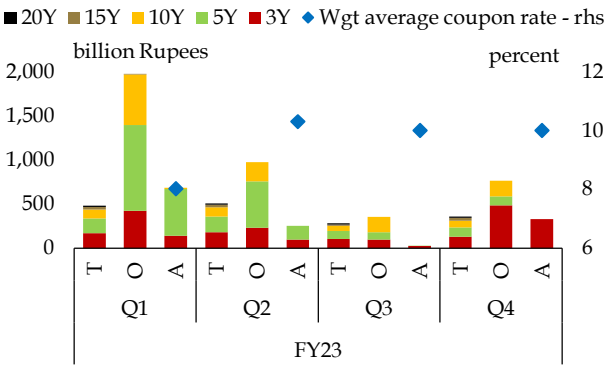
Auction Summary of PFLs — Figure 5.7a




T: Target O: Offered A: Accepted

Source: State Bank of Pakistan

Auction Summary of Fixed PIBs — Figure 5.7b




T: Target O: Offered A: Accepted

Source: State Bank of Pakistan

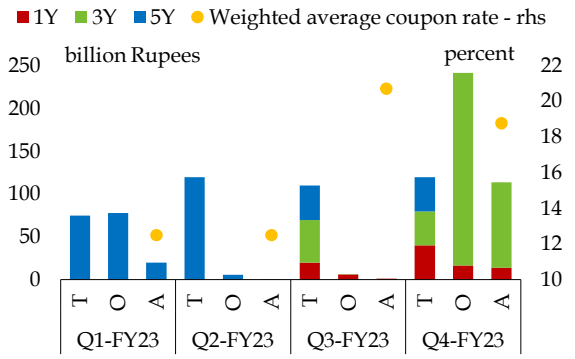
[13] The coupon payments of floating rate instruments are linked to the cut-off rates of 3-month and 6-month T-bills. With the increase in policy rate, the cut-off rates of the T-bills also increased which resulted in higher interest payments.

[14] Permanent debt mainly consists of PIBs, Ijara Sukuk and Prize Bonds.

[15] The offered amount in PFLs was nearly twice of that offered in Fixed PIBs.

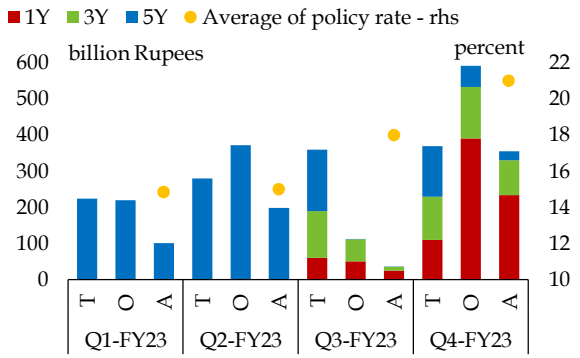
[16] In October 2022, CPI reached to 26.6 percent on YoY basis with Food Inflation of around 36 percent which was way more than policy rate of 15 percent.

**Auction Summary of GoP Ijara Sukuk- Fixed** **Figure 5.8a**




T: Target O: Offered A:Accepted
Source: State Bank of Pakistan

**Auction Summay of GoP Ijara Sukuk-Variable (VRR)** **Figure 5.8b**




T: Target O: Offered A: Accepted
Source: State Bank of Pakistan

instruments to benefit from the lucrative rates.[17] However, in Q4-FY23, the market moved away from PFLs towards investing in fixed rate PIBs and T-bills **(**see **Chapter 3** for more details**)**.

The participation of primary dealers (PD) in the auction of Islamic instruments remained limited during FY23. The government raised Rs 870.8 billion (net of maturity) through Ijara Sukuk compared to Rs 1.6 trillion in the previous year **(Table 5.2)**. Overall, major part of this was raised through variable rental rate (VRR) Ijara Sukuk, in line with the tendency in the conventional market and trend seen in the previous year **(Figure 5.8a & Figure 5.8b)**.

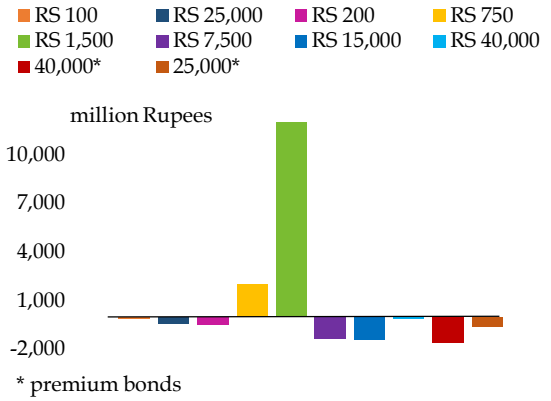
The main reasons for lower subscription of Islamic instruments include: (i) deceleration in Islamic deposits amidst increase in inflation; (ii) prevailing economic uncertainty; and (iii) availability of longer term instruments only. In the first half of FY23, only 5-year Sukuk were available for the investors. The market did not find 5-year fixed rental rate (FRR) Sukuk profitable due to an upward trajectory in inflation and rising interest rate. Therefore, it shifted investment towards VRR Sukuk. Nonetheless, with the introduction of 1-year and reintroduction of 3-year Ijara Sukuk in Q3-FY23, the market started to make offers in Shariah-compliant instruments. After the introduction of these shorter-tenor Sukuk, the market did not bid for 5-Year FRR. Similar was the case with VRR Ijara Sukuk, except for the month of May and June 2023. Therefore, the overall offered amount in Sukuk auctions remained low, thus the government accepted amount was lower than the target.[18] Other reasons for issuing fewer Ijara Sukuk were higher bid rates and longer maturities, which made it less attractive compared to other available options to the government (see **Table 3.3** of **Chapter 3** for details).

Although floating rate instruments helped the government in fulfilling its financing requirements, these increased government's cost of borrowing due to inverted yield curve, higher yields on shorter-tenor compared to the longer-tenor instruments, amidst investors' increased preference for shorter-term bonds.

Prize bonds recorded net inflows in FY23, for the first time since FY19 **(Table 5.2)**. These inflows were concentrated in Rs 1500 and Rs 750 denominations. Meanwhile, prize bonds of other denominations showed net outflows (**Figure 5.9)**. This is due to government's decision to

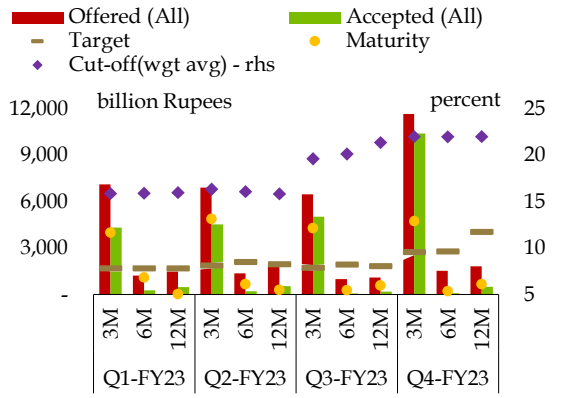
[17] Two and Three Year PFLs are quarterly coupon paying instruments, their coupon is reset either on quarterly basis, or on the day of settlement of each auction of 3-month T-bills during the life of the bond (i.e. fortnightly), as may be announced by the State Bank of Pakistan through the auction calendar.
[18] The overall offered amount in Sukuk was almost close to the target.

**Net Flows of Prize Bonds during FY23** **Figure 5.9**




Sources: Central Directorate of National Savings and State Bank of Pakistan

**Auction Summary of T-bills-Instrument-wise** **Figure 5.10**




Source: State Bank of Pakistan

discontinue higher denomination bearer bonds to improve the documentation of the economy and to mitigate risk of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) related risks.[19] Therefore, the investors moved their funds in Rs 1,500 and Rs 750 denomination bearer bonds.

There were net outflows in Rs 100, Rs 200 and premium bonds (Rs 25,000 and Rs 40,000) despite increase in gross receipts. The factors behind encashment were: (i) uncertainty about government policy and investors' lack of trust as they suspected that the government might discontinue these bonds at any time; and (ii) the shift of investors' interest towards government securities due to higher returns.

### *Significant accumulation in floating debt*

Floating debt (instrument maturing within a year) showed a significant increase of Rs 2.5 trillion in FY23, compared to an addition of only Rs 123.6 billion (net of maturity) in the previous year. In view of the prevailing economic uncertainty and increasing interest rates, the market remained inclined towards investment in 3- month T-bills, almost throughout FY23. Resultantly, the GoP mobilized most of the amount through these T-bills despite its target to retire these bonds on net basis.

Overall, on cumulative basis the government made net retirement of T-bills worth Rs 521.8 billion during the first three quarters of FY23, due to higher bid rates demanded by the market. However, during Q4-FY23, in view of growing fiscal needs amidst inadequate external financing, the government accepted a significantly higher amount for 3-month T-bills **(Figure 5.10)**. Resultantly, the stock of T-bills (on net basis) increased by around 3.0 trillion in Q4-FY23. Specifically, the share of 3-month paper in T-bill stock increased from 55 percent in FY22 to 83 percent by the end of FY23.

### *Net outflows from unfunded debt*

Unfunded debt recorded net outflows for the third consecutive year **(Table 5.2)**.[20] Most of the outflows were registered in Special Saving Accounts (SSA), followed by Regular Income Certificates (RIC), Special Saving Certificates (SSC) and Defense Saving Certificates (DSC) **(Figure 5.11a)**. The outflows from the above-mentioned instruments offset the net inflows in Short Term Savings Certificates (STSC), Savings Accounts and Pensioners' Benefit Account

[19] Government discontinued bearer Prize bonds of 7,500, 15,000, 25,000 and 40,000 in FY21. The Rs 25,000 and Rs 40,000 bearer bonds were then replaced with premium bonds of Rs 25,000 and Rs 40,000, respectively.
[20] Unfunded debt mainly comprises National Saving Schemes (NSS)-net of prize bonds.

(PBA). The main reasons for outflows despite increase in gross investments **(Figure 5.11b)** included: (i) institutional withdrawal from DSC; (ii) non-competitive profit rates compared to government securities; and (iii) reinvestment of the withdrawn money on higher rates.[21] This resulted in inflated gross receipts and, at the same time, showed outflows.

An important highlight of the fiscal year is the introduction of Sarwa Islamic Saving Accounts and Sarwa Islamic Term Accounts (SITA) in Q4-FY23. The government was able to mobilize around Rs 5.0 billion via these Shariah-complaint instruments. The data shows that most of the net inflows came from Sarwa Islamic Saving Account.

### *Decline in investments of Naya Pakistan Certificates (held by residents)*

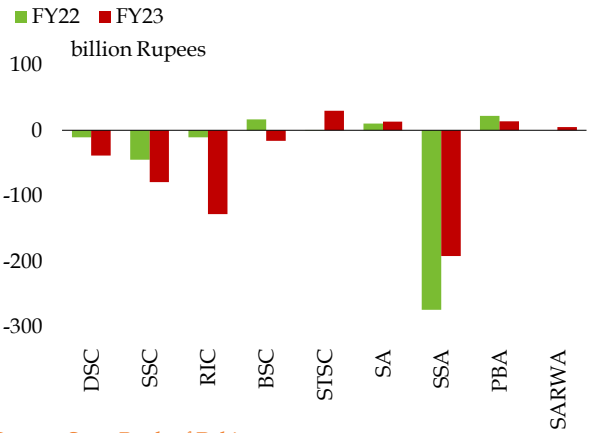
Residents' investment in NPCs declined to Rs 49.9 billion (on net basis) in FY23 against previous year's Rs 64.7 billion despite revaluation gains of US Dollar against PKR **(Table 5.2).** The decline resulted from monetary tightening around the globe and political instability in the country. Given higher returns on other instruments, the domestic investors did not find NPCs lucrative. For instance, the average spread between 3-month NPCs (in US dollar) and 3- month LIBOR (US dollar) decreased to around 69.3 bps in January 2023 from around 349.5 bps in June 2022, making NPCs relatively less profitable for investors given increased risk due to political instability.[22] Furthermore, the increased kerb market premium diverted investors towards other avenues. Resultantly, the investors withdrew their funds from NPCs.

### *Sharp increase in interest payments on domestic debt*

Interest payments on domestic debt rose to around Rs 4.9 trillion during FY23 compared to 2.8 trillion in FY22; a growth of 71.2 percent compared to 13.5 percent last year. This largely emanated from increasing share of floating rate instruments amidst higher borrowing requirements and rising interest rates **(Figure 5.12a)**.

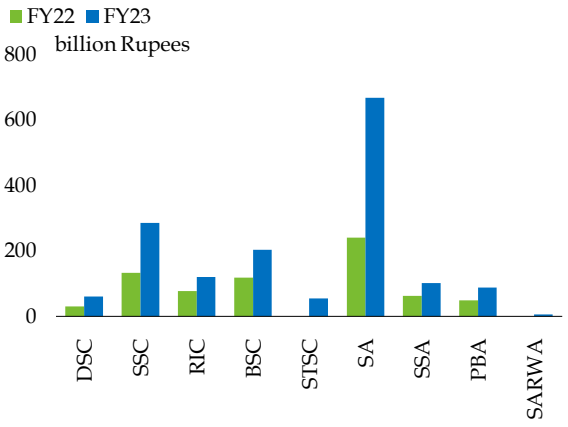
The interest payments on floating rate PIBs and Ijara Sukuk particularly increased as a result of the increasing share of these instruments in the outstanding debt stock and rising interest

National Saving Schemes Net Flows — Figure 5.11a




Source: State Bank of Pakistan

National Saving Schemes Gross Inflows — Figure 5.11b

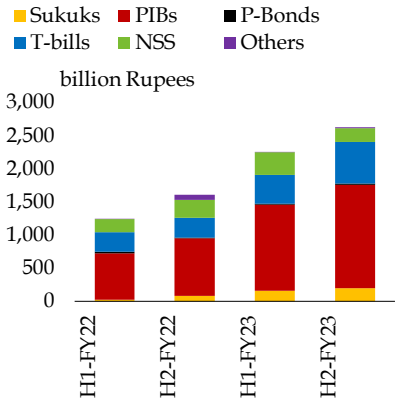



Source: State Bank of Pakistan

[21] Almost all NSS instruments can be converted into cash any time. However, the tenor of profit payment on these may vary depending on the saving scheme. In increasing profit rates environment, the investors may withdraw their money from previous scheme and invest the same in more profitable schemes.

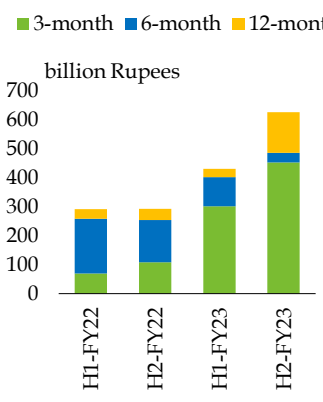
[22] The interest rates for NPCs in GBP, USD, EUR were not revised till 22 January 2023.

Interest Payments - Domestic Debt Figure 5.12a



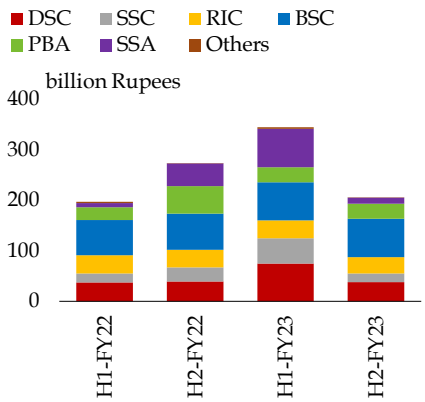

Source: State Bank of Pakistan

Interest Payments - T-bills Figure 5.12b




Source: State Bank of Pakistan

Interest Payments - NSS Figure 5.12c




Source: State Bank of Pakistan

rates/returns.[23] Moreover, interest payments on T-bills, especially the 3-month paper, also contributed in this increase. For instance, the interest payments on 3-month T-bills increased to Rs 756.4 billion during FY23 from Rs 179.3 billion in FY22 **(Figure 5.12b)**.[24]

The increase in interest payments on NSS resulted from rising profit rates, especially in DSC, SSC, and BSC **(Figure 5.12c)**. However, the profit payments of RICs slightly declined in FY23 due to decrease in stock which more than offset the impact of marginal increase in profit rates.[25]

## 5.3 External Debt and Liabilities

The stock of public external debt (PED) dropped by US$ 4.8 billion during FY23, compared to an addition of US$ 2.4 billion in FY22 **(Table 5.3)**.[26] This reduction was on account of: (i) higher principal repayments; (ii) limited external financing amidst rising global interest rates and uncertainty surrounding the completion of the IMF's EFF program; and (iii) revaluation gains from appreciation of the US dollar against other international currencies. During FY23, Pakistan made net repayments to commercial banks, Paris Club, multilateral institutions (short-term loans) and Euro/Sukuk bonds. The net foreign exchange liabilities, mainly swaps, also decreased by US$ 303 million during FY23 compared to an increase of US$ 2.4 billion in the previous year **(Table 5.3)**.

As a result, the maturity profile improved slightly due to higher share of long term debt in the stock of overall external debt after net retirement of short-term debt. This led to improvement in short-term public external debt (STPED) to external debt and reserves ratios. Meanwhile, the solvency counterparts weakened.

### *NPCs (held by non-residents) recorded net outflows*

NPCs (held by non-residents) registered a net outflow of US$ 419 million in FY23, despite an upward revision in profit rates in November 2022 and at the end of January 2023. As discussed earlier, this was on account of increasing interest rates and higher inflation in foreign countries (implying low savings), political and economic instability in the country,

[23] The coupon payment of floating rate instrument is linked to the cutoff rates of 3M and 6M T-bills.
[24] The share of 3-month T-bills in interest payments increased to 15.5 percent from 6.3 percent during FY22.
[25] The profit rates were increased by around 247 bps and by 240 bps in case of BSC and PBA, whereas, the interest rates of RIC only increased by 48 bps.
[26] Public External Debt does not include external liabilities.

**Summary of Public External Debt** **Table 5.3**

million US$

| | Stock | | Share in Public External Debt (percent) | | Change in Stock During | | Growth (percent) | |
|---|---|---|---|---|---|---|---|---|
| | Jun-22 | Jun-23 | Jun-22 | Jun-23 | FY22 | FY23 | FY22 | FY23 |
| **Public external debt (1+2)** | 88,838 | 84,050 | - | - | 2,381 | -4,788 | 2.8 | -5.4 |
| **1. Government external debt, of which** | 81,941 | 76,926 | 91.5 | 92.2 | 2,868 | -5,015 | 3.6 | -6.1 |
| i) Long term (>1 year), of which | 80,592 | 76,766 | 91.3 | 90.7 | 2,377 | -3,826 | 3.0 | -4.7 |
| Paris club | 9,232 | 7,901 | 9.4 | 10.4 | -1,494 | -1,331 | -13.9 | -14.4 |
| Multilateral | 34,023 | 37,363 | 44.5 | 38.3 | 187 | 3,340 | 0.6 | 9.8 |
| Other bilateral | 18,053 | 17,572 | 20.9 | 20.3 | 3,232 | -481 | 21.8 | -2.7 |
| Euro Sukuk global bonds | 8,800 | 7,800 | 9.3 | 9.9 | 1,000 | -1,000 | 12.8 | -11.4 |
| Commercial loans/credits | 9,481 | 5,564 | 6.6 | 10.7 | -214 | -3,917 | -2.2 | -41.3 |
| Naya Pakistan Certificates | 953 | 534 | 0.6 | 1.1 | 144 | -419 | 17.8 | -43.9 |
| ii) Short term (<1 year), | 1,349 | 160 | 0.2 | 1.5 | 491 | -1,189 | 57.2 | -88.1 |
| of which, Multilateral | 1,327 | 160 | 0.2 | 1.5 | 821 | -1,167 | 162.4 | -87.9 |
| **2. From IMF** | 6,897 | 7,124 | 8.5 | 7.8 | -487 | 227 | -6.6 | 3.3 |
| **Foreign exchange liabilities, of which** | 11,134 | 10,831 | - | - | 2,372 | -303 | 27.1 | -2.7 |
| Central bank deposits | 2,700 | 2,700 | - | - | - | - | - | - |
| Other liabilities (SWAP) | 4,535 | 4,225 | - | - | -114 | -310 | -2.5 | -6.8 |
| Allocation of SDR | 3,897 | 3,904 | - | - | 2,487 | 7 | 176.4 | 0.2 |

Source: State Bank of Pakistan

and downgrading of Pakistan's rating by the credit rating agencies over liquidity concerns.

### *Gross external disbursements (GED) remained significantly lower than budget estimates*

Pakistan received much lower gross external disbursements (around US$ 10.8 billion) during FY23, compared to both budget estimates (US$ 22.8 billion) for the year and actual disbursements in FY22 (US$ 15.4 billion).[27] The main reason for decrease in external financing, as explained above, was uncertainty surrounding completion of the IMF program that affected inflows from other bilateral and multilateral sources as well.

The disaggregated analysis of GED in FY23 shows that around one-half of the foreign financing came from multilateral sources, followed by commercial banks, and friendly-countries **(Figure 5.13)**.[28] In the first three quarters, multilateral institutions, IMF and bilateral sources remained the main sources of GED. However, disbursements from foreign commercial banks in Q4-FY23 increased the share of banks from 11.6 percent to 20.3 percent. Although it helped in stemming fall in reserves, it also resulted in higher interest rate and rollover risks of the external debt.

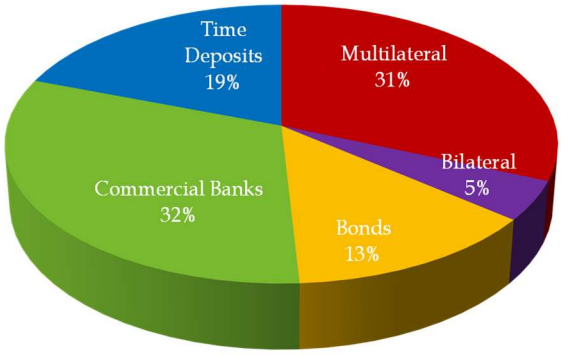
During FY22, around 62.7 percent of the external disbursements came from foreign commercial banks and multilateral institutions, followed by deposits with the central bank and Euro bonds. However, in FY23, no amount could be raised through Eurobonds (despite having a budget estimate of US$ 2.0 billion) as a result of elevated country risk.

In the multilateral category, similar to FY22, Asian Development Bank (ADB) and World Bank (WB) accounted for more than 80 percent

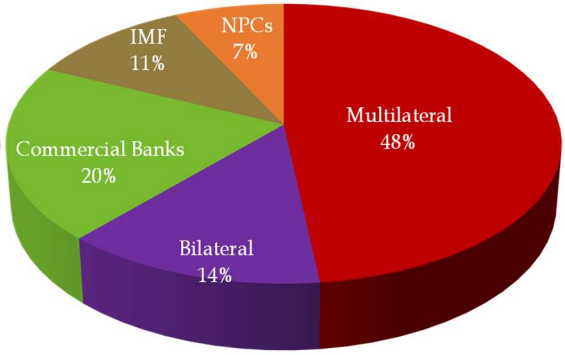
[27] Gross external disbursement during FY23 include loans and grants, while these also included deposits of US$ 3.0 billion, excluding guaranteed loans, in FY22.

[28] In the first three quarters, multilateral institutions, IMF and bilateral sources remain the main external financers.

Gross External Disbursements FY22




Gross External Disbursement FY23 Figure 5.13




Source: Economic Affairs Division

of the financing from multilateral institutions during FY23 **(Figure 5.14)**. Meanwhile, in bilateral category, major external disbursements in FY23 came from Saudi Arabia and China **(Figure 5.15)**.

In absolute terms, major decrease in external disbursements came from Islamic Development Bank (IDB), international bonds, commercial banks and deposits, which offset the increase in inflows from the IMF, Saudi Arabia, NPCs, ADB, WB and Asian Infrastructure Investment Bank (AIIB) (**Table 5.4)**.

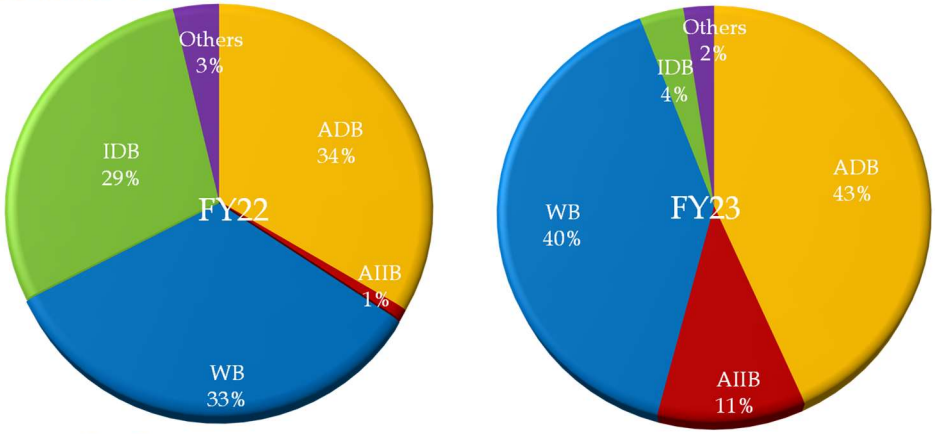
### *Major external inflows were meant for budgetary support*

In terms of utilization, more than two-thirds (around 68.4 percent) of the foreign financing was used for budgetary support during FY23, followed by project-related financing and short-term credit for import of oil and LNG. Similar to the previous year, most of the financing from the WB and loans from the friendly countries consisted of project aid. Nevertheless, contrary to FY22, major inflows from ADB and AIIB were employed to finance budgetary operations in FY23. Meanwhile, all the short-term credit provided by Saudi Arabia and Islamic Development Bank (IDB) was utilized for oil and gas import **(Table 5.4)**

### *External debt servicing soared to record level in FY23*

The government repaid US$ 17.8 billion during FY23 compared to around US$ 13.0 billion in the

External Disbursement - Multilateral Figure 5.14




Source: Economic Affairs Division

Gross External Disbursement and Utilization - Major Contributors — Table 5.4

million US$

| Donor | Project | | Program/Budgetary Support | | Others | | Total | | Change |
|---|---|---|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | |
| ADB | 905.6 | 464.3 | 720.3 | 1,801.7 | - | - | 1,625.9 | 2,266.1 | 640.2 |
| AIIB | 41.6 | 59.0 | - | 500.0 | - | - | 41.6 | 558.9 | 517.3 |
| IDB | 79.0 | 16.8 | - | - | 1327.8 * | 161.0* | 1,406.8 | 177.8 | -1,229.0 |
| IMF | - | - | - | 1,166.2 | - | - | - | 1,166.2 | 1,166.2 |
| WB | 825.8 | 1,140.8 | 721.9 | 940.8 | 31.33 ** | 16.4 ** | 1,579.0 | 2,099.5 | 519.0 |
| China | 162.6 | 128.0 | - | - | - | - | 162.6 | 128.0 | -34.6 |
| Saudi Arabia | 1.1 | - | - | - | - | 1182.3* | 1.1 | 1,182.3 | 1,181.2 |
| USA | 69.8 | 31.1 | - | - | - | - | 69.8 | 31.1 | -38.7 |
| Japan | 20.6 | 35.2 | - | - | - | - | 20.6 | 35.2 | 14.7 |
| France | 15.5 | 33.8 | - | - | - | - | 15.5 | 33.8 | 18.3 |
| NPCs^ | - | - | - | 789.0 | - | - | - | 789.0 | 789.0 |
| Bonds | - | - | 2,041.7 | - | - | - | 2,041.7 | - | -2,041.7 |
| Com. Banks | - | - | 4,863.3 | 2,206.0 | - | - | 4,863.3 | 2,206.0 | -2,657.3 |
| Time Deposits *** | - | - | 3,000.0 | - | - | - | 3,000.0 | - | -3,000.0 |
| Others | 99.6 | 85.8 | 514.3 | 86.1 | 0.1 | -0.0 | 614.0 | 170.4 | -442.1 |
| Total disbursements | 2,221.1 | 1,994.8 | 11,861.6 | 7,489.7 | 1,359.2 | 1,359.7 | 15,441.9 | 10,844.3 | -4,597.6 |

*Short-term credit **TDPs *** not included in public external debt as these are part of external liabilities.

^ NPCs became part of external disbursements for the first time in FY23

The total may vary due to round-off impact

Source: Economic Affairs Division

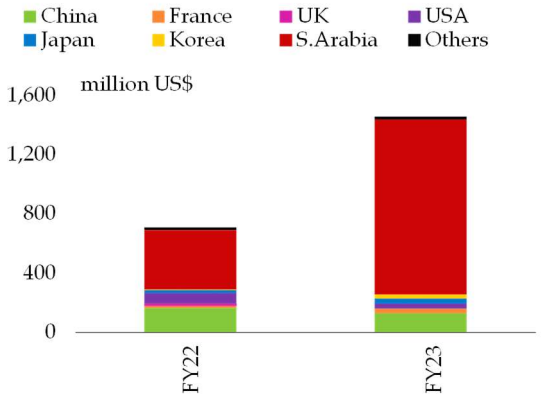
previous year **(Table 5.5).**[29] However, the debt servicing on foreign liabilities declined to US$ 224 million during FY23 from US$ 330 million in FY22 due to reduction in stock.

The disaggregated analysis of debt servicing shows that increase in both principal and interest payments contributed to higher debt servicing during FY23. Nonetheless, the major increase resulted from the scheduled principal repayments **(Table 5.5)**.

Detailed analysis reveals that bulk of debt servicing was made to commercial banks, followed by bilateral and multilateral creditors. In addition to this, a major chunk of debt servicing was made on account of international bonds, multilateral short-term debt, the IMF and NPCs.

Factors behind the higher debt servicing during FY23 included: (i) higher previous outstanding stock; (ii) increase in LIBOR amid global monetary tightening; and (iii) expiration of Debt Service Suspension Initiative (DSSI).[30] As most of the external loans were contracted on floating

External Disbursement - Bilateral — Figure 5.15




Source: Economic Affairs Division

[29] It includes debt servicing (principal and interest payments) of public external debt. It does not include debt servicing of foreign liabilities.

[30] DSSI helped in lowering external debt servicing in the first half of FY22.

**Public External Debt Servicing** **Table 5.5**

million US$

| | Total | | Principal | | Interest | |
|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| **1. Public external debt (a + b +c)** | 12,990 | 17,820 | 11,002 | 14,732 | 1,988 | 3,088 |
| **a. Long-term Govt. debt, of which** | 11,276 | 15,086 | 9,455 | 12,438 | 1,821 | 2,647 |
| Paris Club | 599 | 1,317 | 503 | 1,121 | 97 | 196 |
| Multilateral | 2,101 | 2,470 | 1,654 | 1,702 | 447 | 768 |
| Other Bilateral | 763 | 2,143 | 502 | 1,568 | 261 | 576 |
| Euro/Sukuk global bonds | 1,587 | 1,611 | 1,000 | 1,000 | 587 | 611 |
| Commercial loans /credits | 5,508 | 6,380 | 5,152 | 5,942 | 357 | 438 |
| NPCs | 718 | 1,164 | 645 | 1,105 | 73 | 59 |
| **b. To the IMF** | 1,154 | 1,362 | 1,014 | 966 | 140 | 396 |
| **c. Short-term Govt. debt** | 560 | 1,372 | 533 | 1,328 | 28 | 44 |
| **2. Foreign exchange liabilities** | 330 | 224 | - | - | 330 | 224 |

Source: State Bank of Pakistan

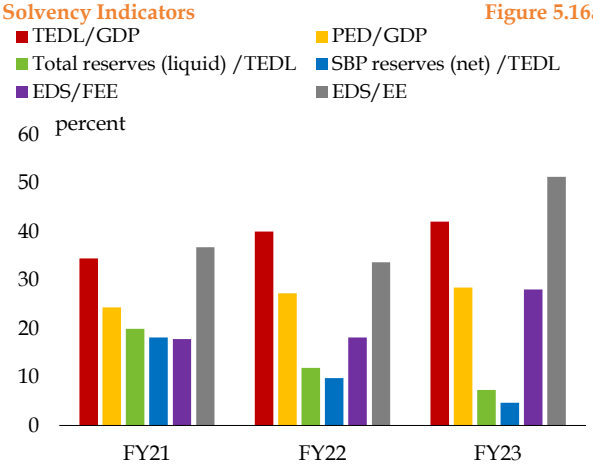
rate, the uptick in LIBOR/SOFR resulted in increased interest payments.[31]

### *External debt sustainability indicators displayed mixed picture*

The short-term debt indicators improved while solvency indicators witnessed deterioration during FY23 **(Figure 5.16a & 5.16b)**.[32] All the solvency indicators somewhat weakened due to: (i) higher debt servicing; (ii) lower foreign exchange earnings such as exports and workers' remittances **(**see **Chapter 6** for more details); and (iii) reduction in dollar denominated GDP compared to external debt.

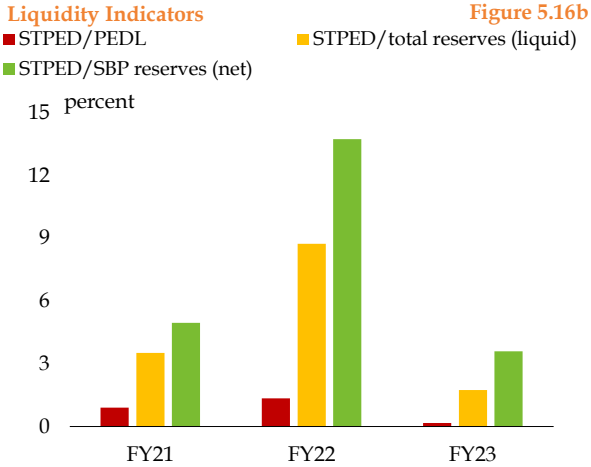
The subsequent fall in foreign exchange reserves of the country, resulted in lower Total Reserves-to-Total External Debt and Liabilities (TEDL) and SBP reserves-to-TEDL ratios. Moreover, decline in export receipts and remittances worsened External Debt Servicing (EDS)-to-Export Earning (EE) and EDS- to- Foreign Exchange Earning (FEE) ratios. The decline in exports resulted from increase in cost of production, unavailability of imported raw materials and global economic slowdown. Meanwhile, slower economic activity squeezed job opportunities and increase in global inflation reduced the savings of Pakistani workers

**Solvency Indicators** **Figure 5.16a**




Sources: State Bank of Pakistan and Economic Affairs Division

**Liquidity Indicators** **Figure 5.16b**




Sources: State Bank of Pakistan and Economic Affairs Division

[31] During FY23, the average SOFR increased by 396 bps, whereas LIBOR for 12-month US dollar rose by 247 bps.
[32] See Annual Report 2021-2022 (State of Pakistan's Economy) for explanation of External Debt Sustainability.

abroad, which led to decrease in worker's remittances (see **Chapter 6** for details).

It is important to highlight that the improvement in EDS-to-FEE and EDS-to-EE shown in FY22 had resulted from decrease in EDS due to restructuring of debt under the DSSI and uptick in both exports and remittances. Nonetheless, the short-term public external debt (STPED) ratios to reserves and external debt improved in FY23 on the back of lower outstanding short-term debt at the end of FY23. The reduction in short-term debt was primarily due to retirement of around US$ 1.2 billion short-term multilateral debt. This offset the effect of lower FX reserves. Resultantly, Short Term Public External Debt (STPED)-to-Public External Debt and Liabilities (PEDL); STPED-to–total liquid reserves and STPED-to- SBP net reserves showed significant improvement **(Figure 5.16b)**.

# External Sector

Pakistan's external account remained under stress throughout FY23, primarily due to domestic uncertainty, delay in the completion of the 9th review under the IMF's EFF program, and unfavorable global conditions. Financial account recorded net outflows mainly because of honoring scheduled debt repayments on time amid inadequate external inflows. The reduced financial inflows overshadowed a considerable improvement in current account balance, largely due to policy-induced import compression that more than offset the decline in exports and remittances. Hence, SBP's liquid foreign exchange reserves declined by US$ 5.3 billion in FY23 and exchange rate remained under pressure with a significant depreciation of 28.5 percent during the year.

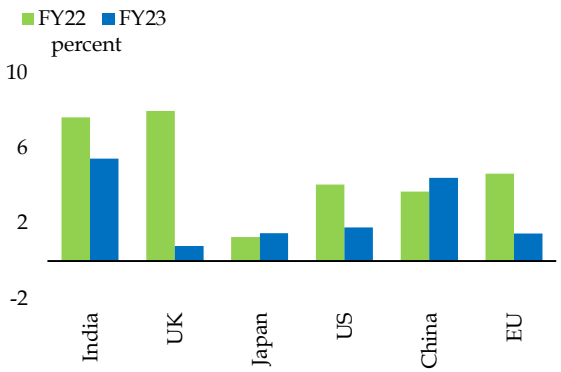
# 6 External Sector

## 6.1 Global Economic Review

Global economic activity slowed in FY23, mainly due to geo-economic concerns and a synchronized policy tightening by central banks in a bid to anchor inflation expectations and bring down inflation (**Figure 6.1**). Global inflation reached a multi-decade high in FY23, owing to sustained increase in commodity prices driven by pent-up demand and supply chain disruptions amid Russia-Ukraine conflict, and later by tightened labour markets.

The aggressive monetary policy tightening alongside adverse developments, particularly the continuing of US-China trade tensions and Russia-Ukraine conflict, contributed to weakening global economic activity. As a result, growth significantly decelerated in major economies (such as the EU, UK, USA and India) during FY23. Due to highly integrated global supply chains, slower growth in the major advanced economies (AEs) and emerging markets and developing economies (EMDEs) had a direct impact on their trading partners and, by extension, on global trade. Further, increasing trade barriers and US$ appreciation increased the cost of tradeable goods for several economies, further slowing global trade in FY23.

**Real GDP Growth in Major Economies*** **Figure 6.1**




*average of four quarters

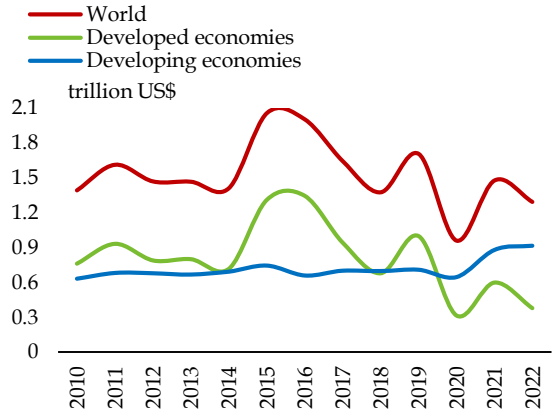
Sources: Bloomberg, OECD and PBS

Similarly, global Foreign Direct Investment (FDI) flows contracted by 12.4 percent to US$ 1.3 trillion in 2022, led by decline in investment in advanced economies, mainly because of a significant fall in international project financing, and global mergers and acquisitions **(Figure 6.2).** Unfavourable global economic conditions, including weak fiscal positions, rising debt levels and fears of recession, put investments on the hold. Moreover, the reconfiguration of global supply chains also remained a cause of concern in the wake of geo-economic fragmentation, which is adversely influencing global FDI flows (**Box 6.1**).

The remarkable surge in global commodity prices in the post-Covid period, driven by a combination of factors, including a strong recovery in demand and numerous pandemic-related supply constraints, was further fueled by Russia-Ukraine conflict. Despite significantly large drops from their peaks from mid of 2022, commodity prices remained above the pre-Covid level **(Figure 6.3)**. Moreover, freight and cargo rates, though trending down, are still higher than the pre-Covid averages (**Figure 6.4**).

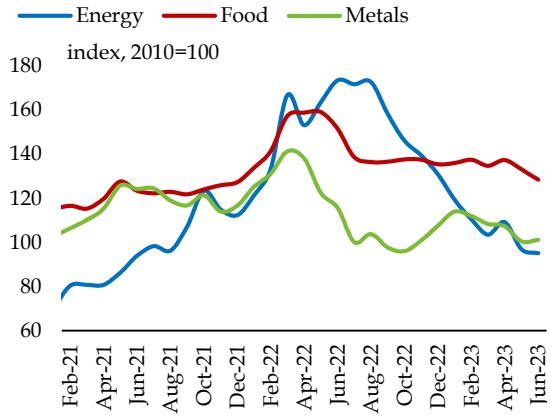
Record high inflation prompted a synchronized policy response across the globe. Almost 95 percent of the central banks raised policy rates between early 2021 and mid-2023. Even though

**Global FDI Inflows** **Figure 6.2**



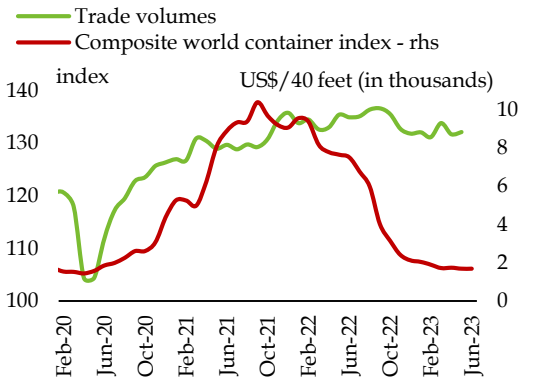

Source: United Nations Conference on Trade and Development

**Global Commodity Prices** **Figure 6.3**




Source: World Bank

**Global Trade Volumes and Shipping Rates** **Figure 6.4**

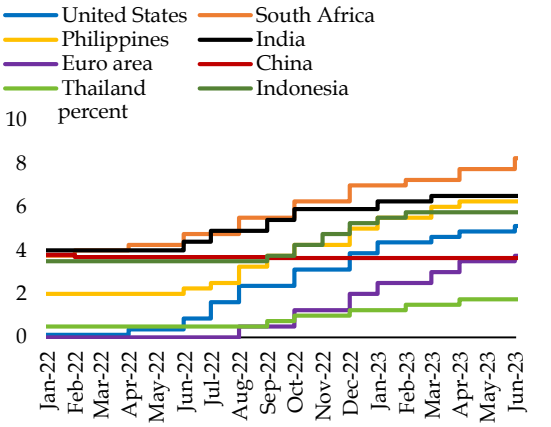



Source: CPB World Trade Monitor

the monetary tightening was at a historical pace **(Figure 6.5)**, policy rates were still lower than inflation and, in the case of some AEs, even below the expected inflation, implying negative real rates.[1] This, nevertheless, had implications for EMDEs. First, it led to capital flight from EMDEs **(Figure 6.6)**. Second, it increased cost of raising funding from international capital markets. Third, slower growth in advanced economies meant lower demand for exports.

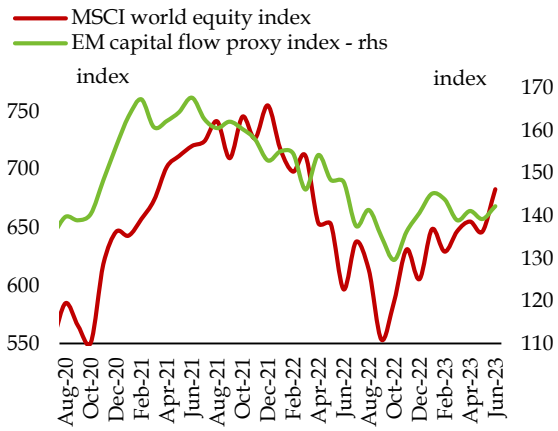
The uncertain global macroeconomic environment alongside monetary tightening, especially in the USA, and further strengthening of US dollar weakened the capacity of EMDEs to service their existing debt. It also affected the prospects of raising new funding through issuance of sovereign bonds at a time when government debts are peaking,[2] with the pandemic already having weighed heavily on EMDEs' debt levels, and even causing some economies to default on their debts.[3]
Sharp policy rate hikes and tighter financial conditions exposed some of the vulnerable banks. Valuation losses caused by inadequate risk management practices dented the confidence of depositors and investors leading to a funding crisis and the failures of two

**Global Policy Rates** **Figure 6.5**




Source: Bank for International Settlements

**MSCI World Equity Index** **Figure 6.6**




Source: Bloomberg

[1] BIS Annual Economic Report, June 2023
[2] Arteta, Kamin, Ruch (December 2022). 'How Do Rising US Interest Rates Affect EMDE's?', World Bank Working Paper.
[3] Belarus, Ghana, Malawi, and Sri Lanka defaulted on their sovereign debt during 2022, bringing the total number of countries in default to eight. Source: Global Financial Stability Report – April 2023, IMF

regional US banks, Silicon Valley Bank and Signature Bank. Later, Credit Suisse, a global systemically important bank (GSIB) in Europe, also succumbed to loss of market confidence. However, the market anxiety was contained by policymakers' timely and strong response to fend off systemic risks.[4]

**Box 6.1: Geo-economic Fragmentation and a Paradigm Shift in Global FDI Flows**

Following the Global Financial Crisis of 2008-09, the global economy began to face geo-economic fragmentation, described as policy-driven reversal of global economic integration often guided by strategic considerations. Events, such as the Brexit, growing US-China trade tensions, and the Russia-Ukraine conflict have raised questions about the benefits of increasing globalization.[5] The Covid-19 pandemic accentuated the skepticism about globalization, especially when countries adopted policies restricting the cross-border movement of goods and even banning travel in some cases. Although the lockdowns curbed the spread of the virus, some constraints, such as restrictions on the export of crucial medical products, impaired public trust in open trade policies. The start of Russia-Ukraine conflict in February 2022 created geopolitical divide between countries, disrupting trade, putting the global financial system at risk, and raising tensions as well as uncertainties.

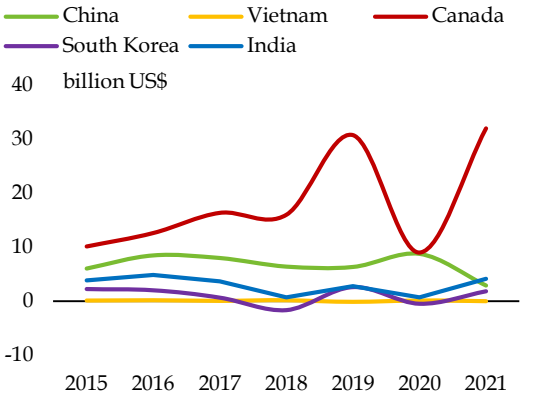
The de-globalization, or 'slow-balization', is reflected in declining global FDI, reinforcing FDI fragmentation. The decreasing FDI is defined by differing patterns across FDI-host countries, with flows concentrated in geo-politically aligned countries, especially in key sectors of national or economic interests. Trade practices are also increasingly shifting towards trade alliances between political and economic allies, termed 'friend-shoring' by the IMF. Supply chains are re-routed to economies that are recognized as being politically and/or economically 'safer' with lower risks to prevent possible trade disruptions.[6]

The policies adopted by major economies also indicate the tendency towards 'friend-shoring'; for example, the Science Act, the Inflation Reduction Act, and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act by the USA, and the European Chips Act.[7,8,9] These policies have targeted the strategic FDI-sectors as well, leading to stagnant FDI inflows into China, particularly in the research and development and semiconductors' sectors.

From CY20 to CY22, FDI fell by around 20 percent, when compared to the period following the GFC 2008. The decline is uneven across the globe; FDI into China fell by more than the Asian average, while FDI into the USA and emerging European economies did not fall as much (and in some cases, even rose). FDI flows from the US to China and Vietnam fell, as the country rerouted its investments to Europe, Canada and Korea, indicating that geo-political factors are at play **(Figure 6.1.1)**.[10]

Global FDI fragmentation may have implications for Pakistan, as FDI flows into Pakistan have been sourced from only a few countries over the years, including China (including Hong Kong), the USA, the UK, Japan and the UAE. In the recent past, there has been an upward trend in FDI inflows from China. In contrast, there has been a continuous decline in FDI

**Country-wise Net Outward FDI from USA Figure 6.1.1**




Source: Organisation for Economic Co-operation and Development

[4] Source: World Economic Outlook, IMF, April 2023
[5] Aiyar et al (January 15th, 2023). 'Geo-economic Fragmentation and the Future of Multilateralism', IMF Staff Notes.
[6] World Economic Forum, (Feb 17, 2023). 'What's the difference between 'friendshoring' and other global trade buzzwords?'
[7] Source: www.congress.gov/117/bills/hr5376/BILLS-117hr5376enr.pdf
[8] Source: www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/
[9] Source: commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-chips-act_en
[10] Source: Organisation for Economic Co-operation and Development

from the USA, one of the major sources of FDI in the past, indicating possible implications for overall gross FDI flows into Pakistan with the downward trend.

In this background, the recent initiative, Special Investment Facilitation Council (SIFC), may help attract FDI from Saudi Arabia and other Gulf countries. The SIFC has targeted US$ 100 billion in FDI over three years, and has aimed at achieving US$ 1 trillion by FY35 in Pakistan. In line with the FDI fragmentation phenomenon, the SIFC has especially advocated attracting investment from friendly countries, especially Gulf Cooperation Council countries, such as Saudi Arabia and the UAE. This appears to further reflect the FDI fragmentation concept present on a global level.

## 6.2 Pakistan's Balance of Payments

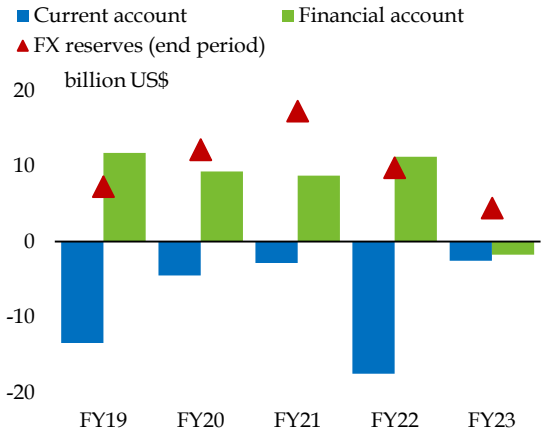
Pakistan's external account remained under pressure in FY23 on account of reduced financial inflows, despite a substantial narrowing of current account deficit (CAD). The financial account witnessed net outflows of US$ 1.8 billion during FY23, in a sharp contrast to net inflows of US$ 11.3 billion during FY22 (**Table 6.1**).

Financial inflows in the form of foreign investment, and official and private foreign loan disbursements were insufficient to finance even lower CAD and meet external obligations (**Figure 6.7**). Moreover, due to the delay in completion of the IMF's Extended Fund Facility (EFF) program and tight global financial conditions, other multilateral and bilateral creditors withheld their financing to Pakistan. This was at a time when increase in the country's risk premium and downgrading of credit ratings made it challenging to borrow from commercial sources (**Figure 6.8**).

The CAD contracted primarily due to large decline in trade deficit where the policy-induced import compression more than offset the decline in exports and workers' remittances. In line with the goods trade account, the services account deficit also narrowed sharply. On the other hand, primary income account deteriorated during FY23 as the increase in interest payments on external debt more than offset the drop in repatriation of profits on foreign investments.

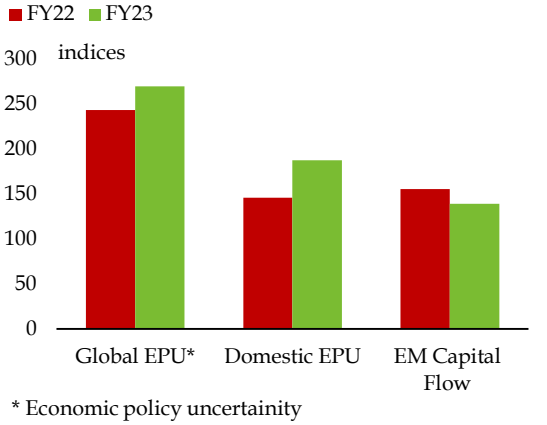
These developments led to drawdown in SBP's liquid FX reserves by US$ 5.3 billion to US$ 4.5 billion by the end of FY23. Particularly, the repayment of long-term multilateral loans, maturing Eurobond in December 2022 and repayment of commercial borrowings, contributed to depletion in the country's forex reserves. With persisting external account pressures and strengthening of US$,

**Pakistan's Balance of Payments** **Figure 6.7**




Source: State Bank of Pakistan

**Uncertainty and EM Capital Flows** **Figure 6.8**




* Economic policy uncertainity

Sources: SBP, FRED and Bloomberg

**Pakistan's Balance of Payments** **Table 6.1**

million US$

| | | | | FY23 | |
|---|---|---|---|---|---|
| | FY21 | FY22 | FY23 | Abs. Change | YoY Change (%) |
| **Current account balance** | **-2,820** | **-17,481** | **-2,387** | **15,094** | **-86.3** |
| **Merchandise trade balance** | **-28,634** | **-39,050** | **-24,076** | **14,974** | **-38.3** |
| **Exports, of which** | **25,639** | **32,493** | **27,903** | **-4,590** | **-14.1** |
| Textile exports | 14,415 | 18,442 | 16,628 | -1,814 | -9.8 |
| Non-textile exports | 11,224 | 14,051 | 11,275 | -2,776 | -19.8 |
| **Imports, of which** | 54,273 | 71,543 | 51,979 | -19,564 | -27.3 |
| Energy imports | 9,747 | 18,743 | 17,539 | -1,204 | -6.4 |
| Non-energy imports | 44,526 | 52,800 | 34,440 | -18,360 | -34.8 |
| **Services balance** | **-2,516** | **-5,840** | **-761** | **5,079** | **-87.0** |
| **Primary income balance, of which** | **-4,400** | **-5,248** | **-5,732** | **-484** | **9.2** |
| Interest payments | 2,176 | 2,994 | 4,840 | 1,846 | 61.7 |
| **Secondary income balance, of which** | **32,730** | **32,657** | **28,182** | **-4,475** | **-13.7** |
| Workers' remittances | 29,450 | 31,279 | 27,027 | -4,252 | -13.6 |
| **Financial account balance*** | **-8,768** | **-11,261** | **1,781** | **13,042** | **-115.8** |
| **Direct investment (net)*** | -1,648 | -1,702 | -316 | 1,386 | -81.4 |
| **Portfolio investment (net)*, of which** | -2,774 | 55 | 1012 | 957 | 1740.0 |
| Eurobonds/Sukuk | 3,000 | 1,000 | -1,012 | -2,012 | -201.2 |
| **Build-up in FX assets abroad** | **1,345** | **2,613** | **-1,032** | **-3,645** | **-139.5** |
| **FX loans & liabilities** | **5,691** | **12,226** | **-2,127** | **-14,353** | **-117.4** |
| **Banks** | **499** | **846** | **1,242** | **396** | **46.8** |
| **General government** | **5,738** | **6,117** | **-2,075** | **-8,192** | **-133.9** |
| Disbursements | 9,808 | 11,256 | 9,896 | -1,360 | -12.1 |
| Amortization | 5855 | 8,343 | 11,660 | 3,317 | 39.8 |
| Other liabilities (net) | 1,785 | 3,204 | -311 | -3,515 | -109.7 |
| **Other sectors** | **922** | **2,491** | **-1,294** | **-3,785** | **-151.9** |
| Disbursements | 2,163 | 3,271 | 434 | -2,837 | -86.7 |
| Amortization | 1,253 | 1,111 | 1,666 | 555 | 50.0 |
| Other liabilities (net) | 12 | 331 | -62 | -393 | -118.7 |
| **SBP's liquid reserves (end-period)** | **17,299** | **9,815** | **4,467** | **-5,348** | **-54.5** |
| **PKR app(+)/dep(-) in percent** | **-1.3** | **-9.8** | **-28.5** | | |

*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa

Source: State Bank of Pakistan

PKR depreciated against US dollar by 28.5 percent during FY23.

The fall in foreign exchange reserves with foreign payments outpacing foreign inflows, has become a recurring concern. The drawdown in FX reserves not only hurts country's ability to meet foreign obligations, but also affects investors' confidence that further exacerbates the prospects of sustained foreign inflows. In this context, maintaining adequate level of FX reserves hinges upon enhancing exports by addressing longstanding structural issues pertaining to narrow manufacturing-cum-export base.

### *Current Account*

The current account deficit narrowed to US$ 2.4 billion in FY23, from US$ 17.5 billion recorded in

the previous year (**Figure 6.9**). This sharp improvement mainly stemmed from significant contraction in goods and services trade deficit despite a fall in goods' exports. Export receipts witnessed a decline of 14.1 percent during FY23 due to economic slowdown in Pakistan's major export destinations, increased cost of production, supply chain constraints and flood-induced losses to agriculture produce. Moreover, workers' remittances declined by 13.6 percent, first time in the last six years, to US$ 27.0 billion in FY23.

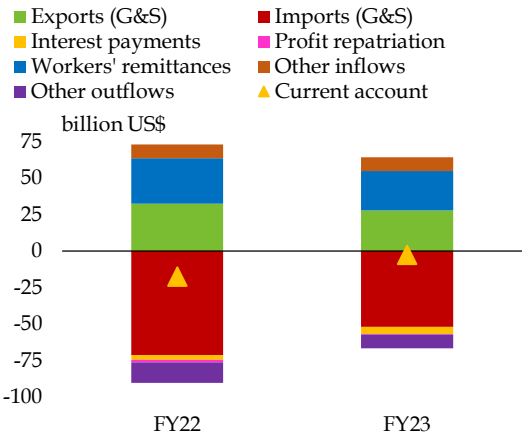
The broad-based decline in imports was mainly led by slowdown in domestic demand; continued policy and administrative measures taken by the SBP[11] and the government over the last two years; foreign exchange constraints; and a downtrend in global oil prices. Meanwhile, the services import also plunged by 37.7 percent compared to last year, tracking the decline in merchandise import bill mainly due to lower outflows on account of freight payments.[12]

In contrast to the improvement in the goods and services trade balance, the primary income deficit increased by 9.2 percent. The widening of the deficit can be traced to higher interest payments that offset the impact of lower repatriations of profits on foreign investment.

***Services Account***

The services trade deficit narrowed sharply to US$ 0.8 billion in FY23, from US$ 5.8 billion in the preceding year. Notably, the services imports decreased by 37.7 percent to US$ 8.1 billion in FY23, from US$ 12.9 billion in FY22. The decline was mainly driven by substantially lower freight payments, attributed to drop in merchandise imports (**Table 6.2**). This is also substantiated by the decline in number of imports' containers during the year (**Figure 6.10**). Moreover, fall in global shipping rates to pre-pandemic levels also contributed to the lower freight payments. It may be noted here that freight costs peaked out in FY22, following the post-Covid surge in global trade volumes that had put strain on freight rates. These pressures faded as global trade normalized in FY23, leading to decline in freight costs.[13] (**Figure 6.11**).

**Current Account: Receipts (+)/Payments (-)** **Figure 6.9**




Source: State Bank of Pakistan

**Number of Import Containers** **Figure 6.10**


Sources: Bloomberg and State Bank of Pakistan

[11] Imposition of cash margin requirements on additional 177 items in April 2022 (www.sbp.org.pk/bprd/2022/CL9.htm), along with reporting requirements for banks to report CMR collected on the related imports, sunset clause of which was later extended to March 31, 2023 (www.sbp.org.pk/bprd/2022/CL37.htm); Requirement for banks to obtain prior approval from SBP before opening L/Cs of 25 high value capital goods, including CKD cars in May 2022; (www.sbp.org.pk/epd/2022/FECL9.htm), to which complete Chapters 84 and 85 of HS codes were included in July 2022 (www.sbp.org.pk/epd/2022/FECL11.htm)

[12] The average CIF ratio was declined to 4.0 in FY23 from 5.1 in FY22.

[13] Freight factor remained lower at 4.1 percent in FY23 compared to 5.2 percent in FY22.

**Breakdown of Services Trade Account** **Table 6.2**

million US$

| | Import (M) | | Export (X) | | Trade Balance (X-M) | |
|---|---|---|---|---|---|---|
| | FY23 | Change from last year | FY23 | Change from last year | FY23 | Change from last year |
| **a) Transport, of which** | **3,917.2** | **-3,487.9** | **893.9** | **79.9** | **-3,023.3** | **3,567.8** |
| Sea freight | 2,856.4 | -3,268.8 | 250.5 | 103.9 | -2,605.9 | 3,372.6 |
| Air passengers | 785.0 | 53.1 | 419.7 | -7.7 | -329.3 | -60.8 |
| Air freight | 51.4 | -298.3 | 24.1 | -8.8 | -27.3 | 289.9 |
| **b) Travel, of which** | **1,878.2** | **465.4** | **974.0** | **431.8** | **-904.2** | **-33.6** |
| Education exp. | 337.9 | 72.3 | 11.6 | 0.8 | -325.8 | -71.5 |
| Other (personal) | 1,525.9 | 393.2 | 948.5 | 423.9 | -577.0 | 30.6 |
| **c) ICT Services, of which** | **298.0** | **-313.8** | **2,593.3** | **-25.706** | **2,295.3** | **288.1** |
| Telecom | 37.5 | -31.4 | 488.8 | -15.7 | 451.2 | 15.8 |
| Computer services | 253.9 | -275.2 | 2,099.0 | -10.4 | 1,845.1 | 264.8 |
| **Total services** | **8,063.4** | **-4,879.0** | **7,303.0** | **200.6** | **-760.5** | **5,079.7** |

Source: State Bank of Pakistan

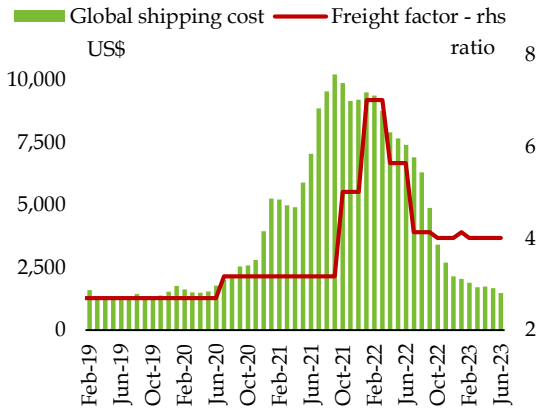
On the other hand, import of travel-related services recorded an uptick and reached US$ 1.9 billion in FY23, from US$ 1.4 billion in the previous year. With the resumption of international flights, the payments constituting personal air travel, especially for education and religious purposes, increased by 33.1 percent from FY22. The increase also reflects costlier airline tickets due to higher international oil prices.

Meanwhile, export of services grew by 2.8 percent to US$ 7.3 billion in FY23. The information and communication technology (ICT) services, which have the largest share in services export, almost maintained its FY22 level of US$ 2.6 billion in FY23 (**Figure 6.12**). The plateauing of ICT exports despite addition of new firms in the market may be attributed to decline in imports of state-of-the-art IT equipment for production of high-end software and exporters not bringing their remittances due to exchange rate volatility.

### *Primary Income Account*

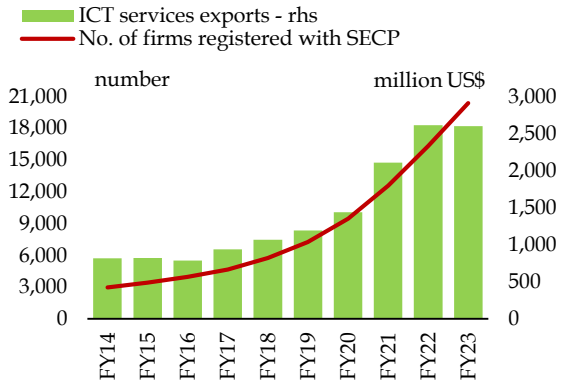
The primary income deficit increased to US$ 5.7 billion in FY23, from US$ 5.2 billion in the previous year. The increase is largely on the back of higher interest payments on FX loans that offset a decline in repatriation of profits on foreign investment (**Figure 6.13**). Interest

**Global Shipping Cost and Freight Factor** **Figure 6.11**




Sources: Bloomberg and State Bank of Pakistan

**Growth of ICT Services Firms and Exports** **Figure 6.12**




Sources: Securities & Exchange Commission of Pakistan and State Bank of Pakistan

**Remittance Inflows to Pakistan from Major Corridors** **Table 6.3**

million US$

| | FY20 | FY21 | FY22 | FY23 | Change in FY23 | |
|---|---|---|---|---|---|---|
| | | | | | Absolute | Percent |
| US | 1,743 | 2,600 | 3,087 | 3,091 | 4 | 0.1 |
| UK | 2,569 | 4,091 | 4,493 | 4,057 | -436 | -9.7 |
| Germany | 392 | 432 | 509 | 530 | 21 | 4.2 |
| France | 240 | 423 | 488 | 443 | -45 | -9.3 |
| Australia | 340 | 598 | 753 | 593 | -160 | -21.3 |
| Canada | 313 | 595 | 708 | 551 | -157 | -22.2 |
| GCC | 15,135 | 17,223 | 17,226 | 14,287 | -2939 | -17.1 |
| *Saudi Arabia* | *6,613* | *7,726* | *7,754* | *6,446* | *-1308* | *-16.9* |
| *UAE* | *5,612* | *6,165* | *5,846* | *4,649* | *-1198* | *-20.5* |
| *Other GCC* | *2,910* | *3,332* | *3,625* | *3,191* | *-434* | *-12.0* |
| Other countries | 2,399 | 3,489 | 4,015 | 3,477 | -538 | -13.4 |
| **Total remittances** | **23,132** | **29,450** | **31,279** | **27,028** | **-4251** | **-13.6** |

Source: State Bank of Pakistan

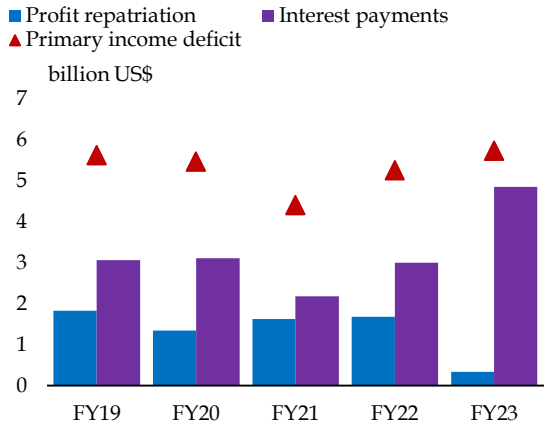
payments on external debt rose to US$ 4.8 billion in FY23, from US$ 3.0 billion in FY22. The rise in interest payments largely reflects global factors, including synchronous global monetary tightening, and the expiration of the DSSI[14] that resulted in accumulation of both long and short term debt servicing.

However, there was a decline in profit repatriation to US$ 331 million in FY23, from US$ 1.7 billion in the previous year. The dip in repatriation can partially be explained by foreign exchange constraints, and decline in profits of some of the foreign corporations due to slowdown in domestic economy. Sector-wise analysis shows that the drop in profit repatriation was led by financial firms, followed by communication (particularly telecom), power (especially thermal power), and the food sectors (**Figure 6.14**).

### *Workers' Remittances*

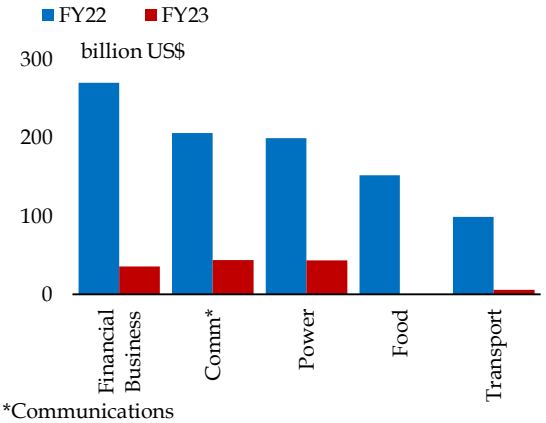
Workers' remittances recorded a decline in FY23 for the first time in last six years. After reaching

**Pakistan's Primary Income Account** **Figure 6.13**




Source: State Bank of Pakistan

**Sector-wise Profit Repatriation** **Figure 6.14**

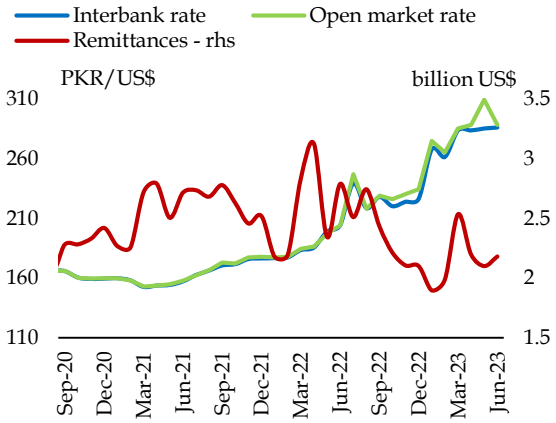



*Communications

Source: State Bank of Pakistan

[14] Except with South Korea. (www.ead.gov.pk/NewsDetail/OGFkNWU3MDQtYTRiZC00ZjA5LWJkY2YtMGI1MDY0YjlhZTQ1)

**Remittances and Exchange Rate** **Figure 6.15**



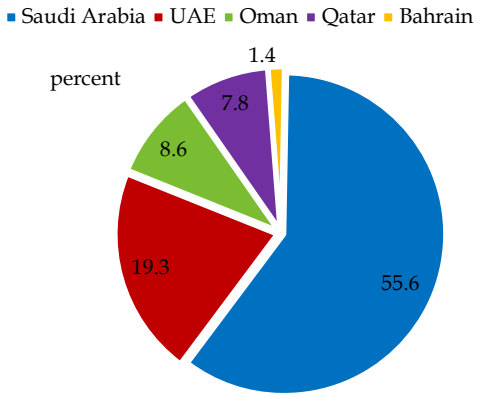

Source: State Bank of Pakistan

a record US$ 31.3 billion in FY22, remittances dropped by 13.6 percent to US$ 27.0 billion in FY23. Remittance flows declined from all major corridors, except for the US. On the basis of annual remittances received during FY23, Saudi Arabia, UAE, UK and US remained top remittance corridors **(Table 6.3)**.

The waning impact of fiscal stimulus provided during the pandemic to support economic activity, along with monetary contraction to contain higher inflation, led to economic slowdown in high-income countries. The global slowdown also impacted the Gulf Cooperation Council (GCC) economies through lower global oil demand and moderating crude oil prices. While slower economic activity restrained job opportunities, the increase in inflation and higher interest rates reduced savings. Together, these factors had bearing on the remitting capacity of Pakistani workers.

In addition to global developments and domestic economic and political uncertainties, increased exchange rate volatility and high kerb market premium also led to decline in remittance flows through formal money channels (**Figure 6.15**). Some remittance inflows may also have been routed through informal channels after the resumption of international air travel, as several blue-collar workers (particularly from the KSA and UAE) depend on the personal networking to send remittances back home.

**Top Five Destinations for Pakistani Migrants - FY23** **Figure 6.16**

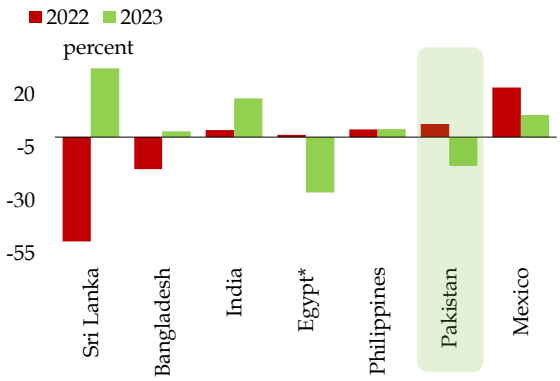



Source: Bureau of Emigration & Overseas Employment

Contrary to declining remittances, 0.8 million Pakistani workers were registered through Bureau of Emigration and Overseas Employment (BEOE) and Overseas Employment Corporation (OEC) during FY23. Out of this, number of workers registered for Saudi Arabia, UAE, Oman and Qatar were 55.6 percent, 19.3 percent, 8.6 percent and 7.8 percent respectively (**Box 6.2**) (**Figure 6.16**).

While remittance flows to major recipient countries improved during FY23, remittances to Pakistan and Egypt recorded a significant decline (**Figure 6.17**). These two countries experienced increased gap between interbank and open market exchange rates.

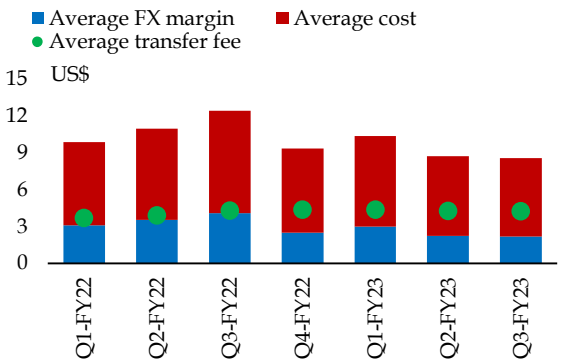
**Growth in Remittances to Major Recipients** **Figure 6.17**




Growth rate; *Jul-Mar

Sources: Haver Analytics and State Bank of Pakistan

**Cost of Sending Remittances* to Pakistan from Major Corridors#** **Figure 6.18**




*transaction amount of US$ 200; #UAE, Saudi Arabia, USA & UK

Source: World Bank Remittance Prices

As per the World Bank (WB) estimates, remittance flows to low and middle-income countries (LMICs) have increased by 8.0 percent to US$ 647 billion in 2022 and remained a larger source of external finance relative to FDI, official development assistance (ODA) and portfolio investment flows. Most of this growth is backed by the developments during H1-FY23.[15] Similarly, remittance flows to South Asia reached US$ 176 billion in 2022, mainly owing to remittance flows to India crossing the US$ 100 billion milestone.

*Cost of sending remittances to Pakistan*

Total cost of remittances is composed of transfer fee and foreign exchange margin. As shown in (**Figure 6.18)**, the fluctuations in the average cost of sending remittances to Pakistan from major corridors has largely been due to volatility in the average foreign exchange margin, while average transfer fee remained almost unchanged.[16]

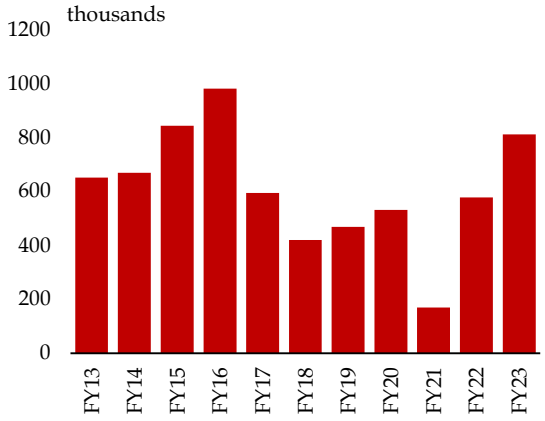
Average foreign exchange margins charged by money transfer operators (MTOs) and exchange companies in Saudi Arabia, UAE, US and UK initially increased in Q1-FY23, but declined in the subsequent two quarters.

**Box 6.2: Pakistan's Migration Trends and Remittances[17]**

Pakistan has witnessed a significant increase in labour migration in FY22 and FY23 compared to the preceding two years. However, according to annual migration data of BEOE, the recent surge in emigration is not the first of its kind, as the country has previously experienced similar spikes as well, such as during FY15 and FY16 (**Figure 6.2.1**).

Pakistan's labour migration flow by skills composition shows that highly-qualified and highly-skilled labour force each account for only 2.0 percent (on average) of the overall emigration between FY20 and FY23. Number of migrants under each skill composition increased during FY23 and FY22 after a significant dip during FY21 (**Figure 6.2.2**). The recent spike in emigration could also be due to post-pandemic resumption of international travel and opening up of host economies.

**Labor Migration Trend of Pakistan** **Figure 6.2.1**




Source: Bureau of Emigration & Overseas Employment

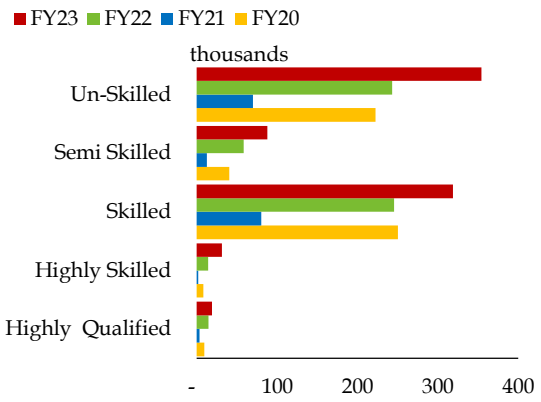
Overall migration under occupational trades identified as highly-qualified and highly-skilled has been increasing between FY20 and FY23 (**Figure 6.2.3**). As they constitute a very small portion of emigrants, they can hardly have

[15] Such as stronger labour market in the US and OECD countries, increased labour demand led by oil boom in GCC and FIFA World Cup 2022 in Qatar, and a sharp rise in Russian remittances to the neighboring Central Asian countries. Migration and Development Brief 38, June 2023 (Source: World Bank)

[16] For remittances sent through banks / exchange companies benefitting from Government's T.T Charges Reimbursement Scheme, the fee component borne by the remitter stands at zero.

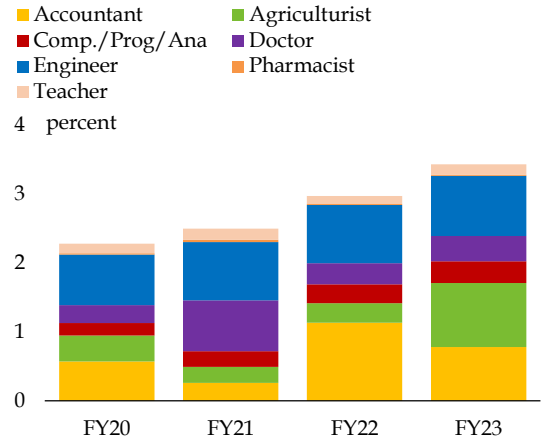
[17] This analysis is based on the data for workers registered with BEOE for employment abroad. This data does not cover the number of workers returning to Pakistan.

**Labour Migration Flow by Skill Composition (FY20 - FY23)** **Figure 6.2.2**




Source: Bureau of Emigration & Overseas Employment

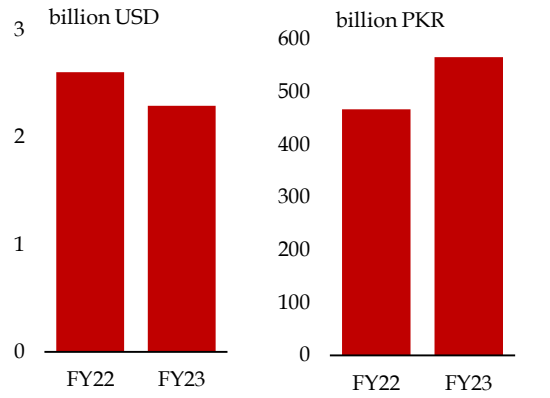
**Migration Under Occupational Trades** **Figure 6.2.3**




Source: Bureau of Emigration & Overseas Employment

any significant impact on remitances. However, top occupational trades recruited for overseas work during FY23 consist of mostly blue-collar jobs. Further, comparison shows that remittances in US$ have declined during FY23, whereas remittances in PKR were on a rising trend **(Figure 6.2.4)**. This implies that: (i) exchange rate depreciation has lowered remittances in US$, as lower dollar amount results in higher remittance in rupee terms compared to the previous year; and (ii) the contnuing dominance of blue-collar workers in total migration mix leads to lower average ticket size and hence lower US$ denominated remittances. Provided that global and domestic economic conditions begin to improve going forward, increasing migration may improve the flow of remittances to Pakistan.

**Workers' Remittances in USD vs. PKR** **Figure 6.2.4**




Sources: State Bank of Pakistan

## *Financial Account*

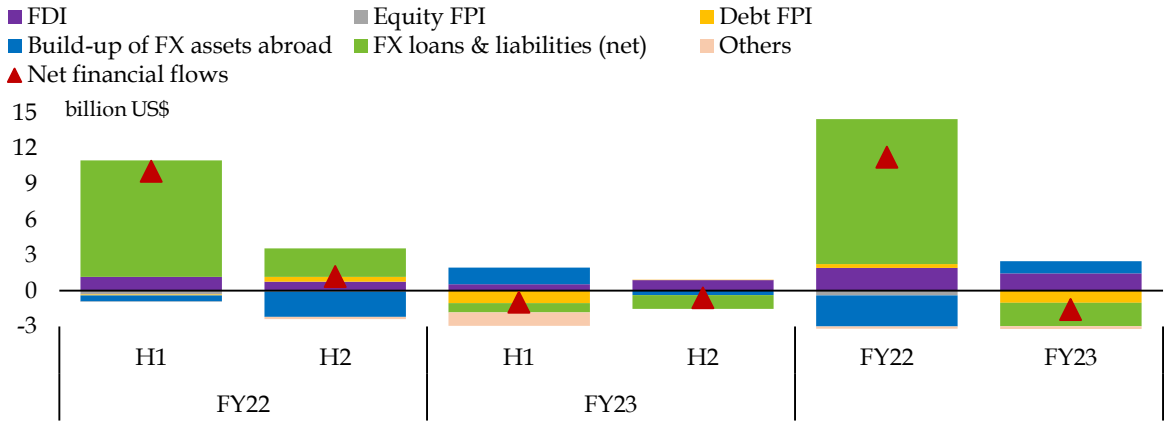
Financial account witnessed a net outflow of US$ 1.8 billion in FY23, compared to net inflows of US$ 11.3 billion during FY22, following the decrease in disbursement of official loans, higher amortization of official and private loans, and drop in private inflows (**Figure 6.19**). Delay in the completion of the 9th review under the IMF's EFF program had a domino effect on disbursements from other multilateral and bilateral partners. The resulting fall in inflows increased strains on external account in FY23, with only 47.1 percent of the budget estimates of loans being disbursed during the year.[18] Private inflows also dwindled amidst turbulent global geopolitical environment, prevailing domestic uncertainties, and volatility in exchange rate. Portfolio flows were particularly affected by global financial conditions amidst across-the-board monetary policy tightening and the downgrading of Pakistan's sovereign ratings.

### *Foreign Direct Investment*

Net FDI inflows into Pakistan fell to US$ 1.5 billion in FY23, from US$ 1.9 billion in FY22. Lower FDI inflows are attributed to economic slowdown, and domestic uncertainty. Moreover, with the completion of CPEC-related projects in FY23, FDI from China in power sector also dropped. However, China's share in FDI remained dominant with 29.7 percent,

[18] There was a 116 percent decline in realized disbursements of FX loans in FY23.

**Financial Account Breakdown** **Figure 6.19**

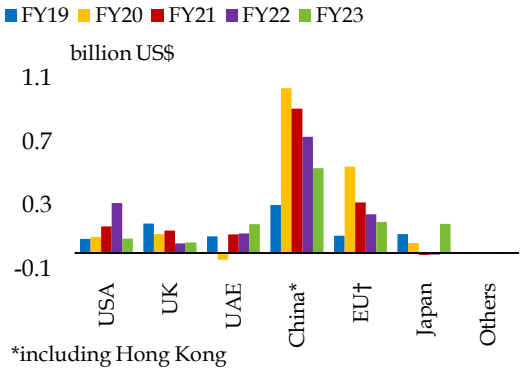



Source: State Bank of Pakistan

followed by the UAE and Japan with 12.4 and 12.6 percent share, respectively.

Over the years, Pakistan's sources of FDI inflows have been limited to a few countries and sectors. China (including Hong Kong), the USA, the UK, Japan and the UAE have remained as main sources of FDI in the country, with the EU's role declining recently. For instance, CPEC projects have managed to attract significant FDI since the inception of the corridor; resultantly, a bulk of FDI has been flowing from China into Pakistan over the years. This marks the concentration of FDI into CPEC-centered sectors. (**Figure 6.20**). However, as these projects reached the completion phases, investment started to taper off.

**Country-wise FDI Inflows in Pakistan** **Figure 6.20**



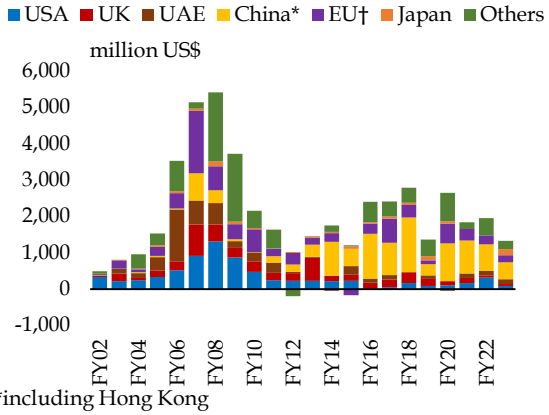

*including Hong Kong
†includes 10 EU countries that have invested in Pakistan

Source: State Bank of Pakistan

Sector-wise gross FDI inflows show that power sector continued to dominate in FY23, followed by financial business, and transport and its equipment. The inflows in power sector, amounting to US$ 660.2 million, largely came from China, mostly into coal-powered power projects under the CPEC, including the Thar Coal Block project, which was completed in FY23. Inflows into the power sector also came from France for a newly-inaugurated Uch power project (**Figure 6.21)**.

Financial business received US$ 348.8 million in FDI inflows mainly in banking sector. Foreign shareholders of a few banks opted to reinvest their earnings instead of repatriation due to exchange rate depreciation and foreign exchange constraints.

**FDI Trends** **Figure 6.21**

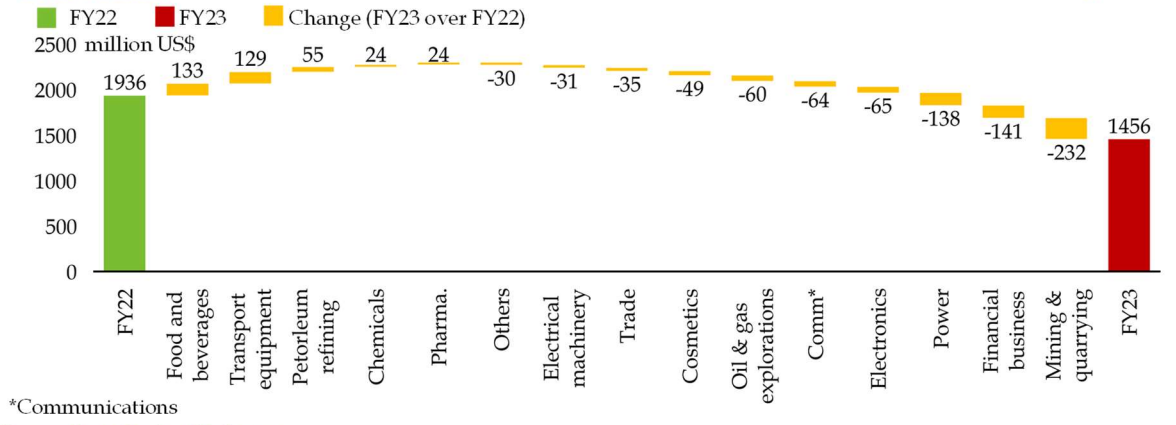



*including Hong Kong
†includes 10 EU countries that have invested in Pakistan

Source: State Bank of Pakistan

Sector-wise FDI

Figure 6.22




*Communications

Source: State Bank of Pakistan

From the perspective of FDI outflows, the largest outflow was recorded from mining and quarrying sector in FY23, followed by communications, financial business and power sectors (**Figure 6.22**). The outflow from mining and quarrying sector is explained by the settlement of the disputed Reko Diq case between the government and Tethyan Copper Limited.[19]

The communications sector also underwent significant gross FDI outflows due to high corporate taxation environment and lower average revenue per user (ARPU) that affected earning prospects of telecom companies – the country has an ARPU of US$ 0.80 per month, compared to the global average at US$ 8.26 per month.[20] The majority of the outflows from the communications sector were to Norway during FY23, followed by the UAE, Malaysia and China.

The oil and gas exploration sector witnessed a decline in gross FDI inflows in FY23 compared to the previous year mainly from Hong Kong, Italy and the UK. These developments appear in the midst of a natural depletion of non-renewable resources in Pakistan and fewer new discoveries of oil or gas fields.[21]

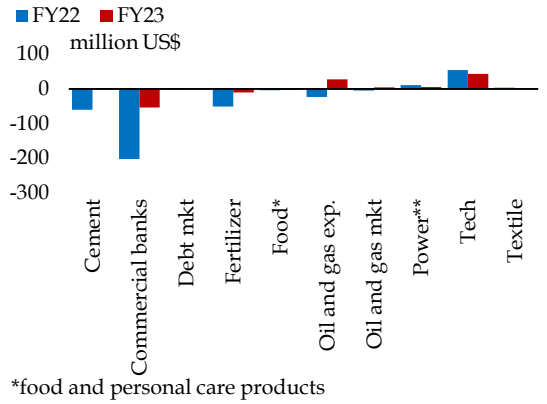
***Foreign Portfolio Investment***

Pakistan witnessed higher net FPI outflows in FY23, amounting to US$ 1.0 billion against outflows of US$ 79 million during the same period last year. The outflow in FY23 was almost entirely due to one-off US$1.0 billion repayment of Sukuk bond that matured in December 2022. Flows in other debt instruments and equity were almost balanced out. A sector-wise breakdown of net FPI showcases outflows from sectors including commercial banks, fertilizer, cement, food and personal care products (**Figure 6.23**).

Inflows under the foreign portfolio investment were affected by both the domestic and external factors. Lower corporate profits amid high inflation, rising interest rates and depreciating currency, super tax on high-earning firms, uncertainties surrounding the IMF program, and domestic political environment were the major factors that kept the equity market under pressure (**Figure 6.24**).[22] Among the external factors, the most prominent was higher global

[19] Source: UNCTAD, Investment Policy Hub (www.investmentpolicy.unctad.org/investment-disputesettlement/cases/463/tethyan-copper-v-pakistan)
[20] GSM Intelligence, 2022/23
[21] Source: Pakistan Energy Outlook Report, 2021-2030
[22] Financial Stability Review, State Bank of Pakistan, 2022

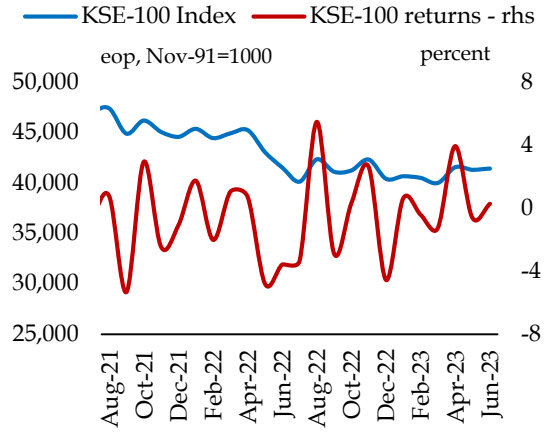
**Sector-wise Net FPI Flows** **Figure 6.23**




*food and personal care products
**power generation and distribution

Source: National Clearing Company of Pakistan, Ltd

**KSE-100 Index** **Figure 6.24**



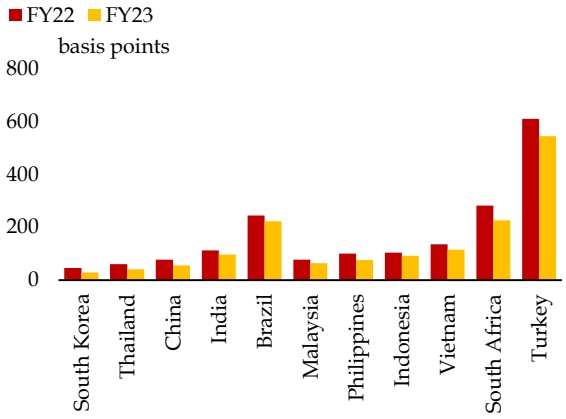

Sources: State Bank of Pakistan and Haver Analytics

interest rates that led to outflows from EMDEs, and Pakistan was no exception. Further, downgrading of Pakistan to a frontier market by the MSCI and cut in sovereign credit rating by Moody's, Fitch and S&P also contributed to drop in FPI inflows into the country. [23]

Also, the scheduled bond issuance of US$ 2.0 billion could not be initiated due to the prevailing domestic uncertainties and unfavorable conditions in the international capital markets. Higher interest rates in the AEs, and domestic policy uncertainties led to higher bond yields and surge in credit default swaps (CDS) rates of Pakistan. The CDS rates reached record levels, much higher compared to many emerging markets (**Figure 6.25 a & b**).

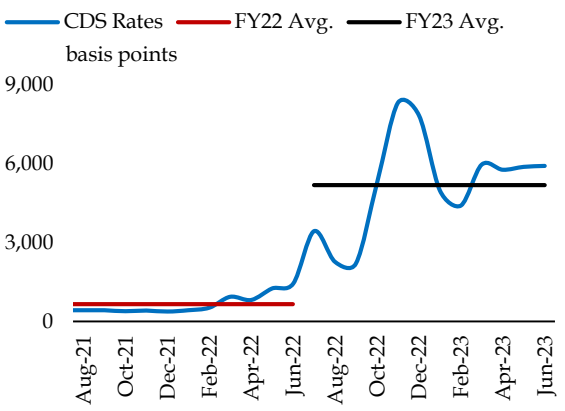
Roshan Digital Accounts also recorded outflows in FY23, with decline in investment in both the conventional and Islamic Naya Pakistan Certificates (NPCs) due to domestic uncertainties and higher country risks (**Figure 6.26)**. This was despite upward revision in return on NPCs.

**Average CDS Rates** **Figure 6.25a**



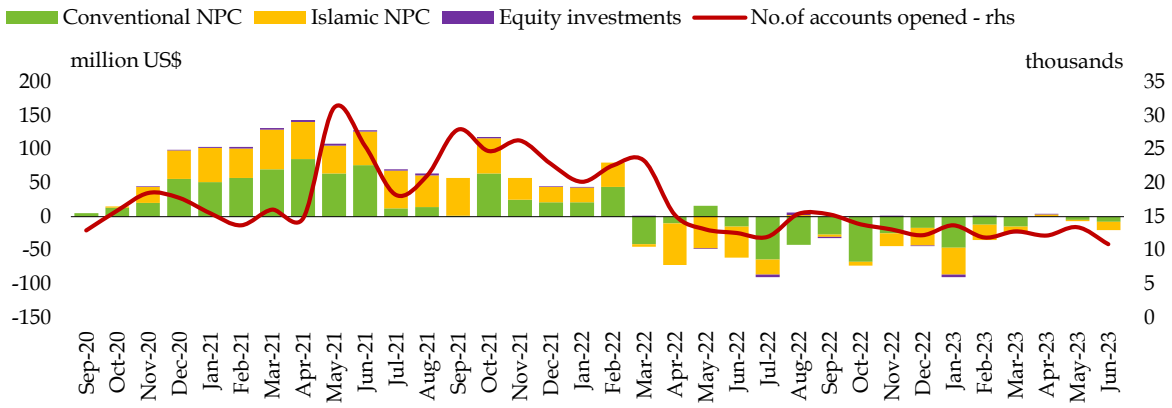

Source: Bloomberg

**Pakistan's CDS Rates** **Figure 6.25b**




[23] Reuters (www.reuters.com/markets/asia/moodys-slashes-pakistans-rating-amid-payment-crisis-2023-02-28/); Bloomberg (www.bloomberg.com/news/articles/2022-12-22/pakistan-downgraded-by-s-p-as-fiscal-economic-outlook-worsens); Fitch Ratings (www.fitchratings.com/research/sovereigns/fitch-downgrades-pakistan-to-ccc-14-02-2023#:~:text=Fitch%20Ratings%20%2D%20Hong%20Kong%20%2D%2014,of%20'CCC%2B'%20or%20below)

**Roshan Digital Account Flows** **Figure 6.26**



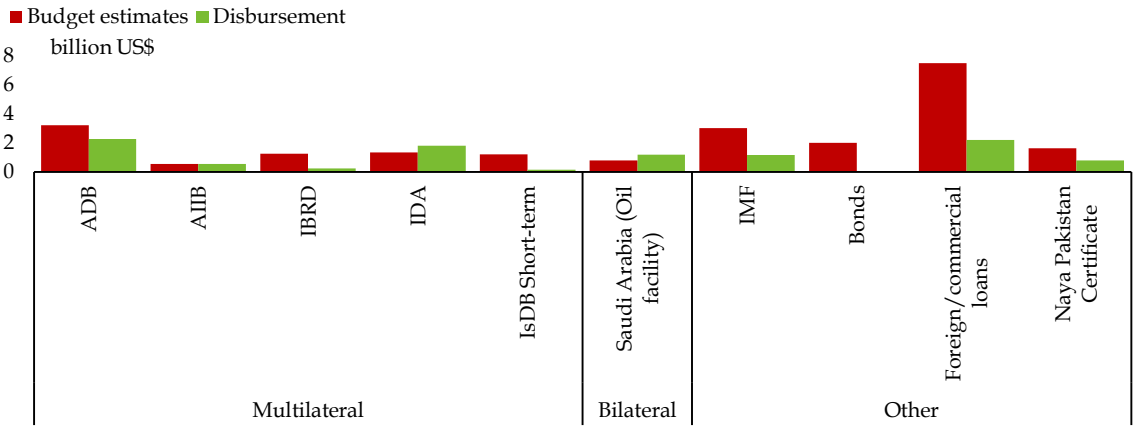

Source: State Bank of Pakistan

### *FX Loans and Liabilities*

During FY23, net outflows of FX loans amounted to US$ 2.1 billion, compared to net inflows of US$ 12.2 billion in FY22. Loan disbursements stood at US$ 10.7 billion during FY23 – about 47 percent of the budgeted US$ 22.7 billion – compared to US$ 15.2 billion in FY22 (**Figure 6.27**).[24] The delay in the release of the IMF tranche under the EFF was the key reason behind the shortfall in disbursements, which also impacted inflows from other multilateral and bilateral creditors.

In case of multilateral loan inflows, Asian Development Bank (ADB) dominated via Building Resilience with Active Countercyclical Expenditures program that aims to alleviate the aftereffects of the economic turmoil in the country through social protection measures, enhanced business support, and food security efforts.[25] The entire US$ 2.05 billion of the program funding was disbursed during FY23. Inflows from the ADB also included those received under the Integrated Social Protection Development Project to support the government's efforts in implementing the Ehsaas Program's prioritized objectives.[26]

**FX Loans - Budget Estimates vis-a-vis Disbursed** **Figure 6.27**



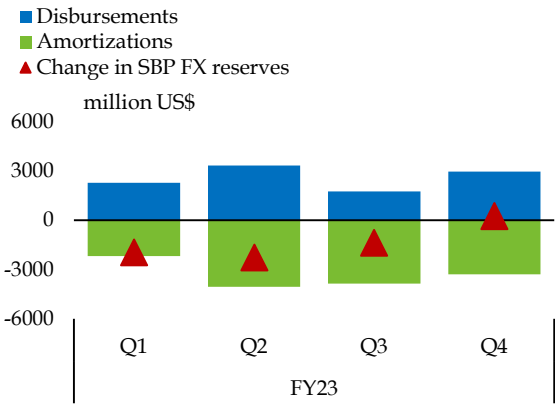

Source: Economic Affairs Division

[24] Source: Monthly Disbursements Report of Foreign Economic Assistance, June 2023 - Economic Affairs Division
[25] Building Resilience with Active Countercyclical Expenditures Program, Asian Development Bank (www.adb.org/projects/56148-001/main)
[26] Integrated Social Protection Development Program, Asian Development Bank (www.adb.org/projects/45233-007/main)

Among bilateral loans, the largest external inflows was Saudi oil facility, amounting to US$ 1.2 billion, as part of the Import of Saudi Goods (Petrol) Project and Saudi Fund for Development (SFD) for import of oil products.[27] Other inflows included foreign commercial loans totaling US$ 2.2 billion and disbursement of US$ 1.2 billion under the IMF's EFF program. However, another tranche was initially planned to be disbursed in FY23, but was delayed due to prevailing economic and political uncertainties in the country. Nonetheless, rollovers of loans amounting to US$ 7.0 billion (US$ 4.0 billion from China and US $3.0 billion from Saudi Arabia) along with re-financing of Chinese commercial loans of US$ 1.3 billion eased pressures on foreign exchange reserves.

Inflows from the World Bank included US$ 249 million from International Bank of Reconstruction and Development (IBRD) and US$ 1.8 billion from the International Development Association (IDA) arm of WB. Most inflows from IDA were disbursed for Crisis Resilient Social Protection program as part of Benazir Income Support Programme (BISP), followed by inflows for Pakistan Meteorological Department to strengthen the early warning system (US$ 161 million) and the Sindh Flood Emergency program (US$ 143 million). Disbursements from the IDB (both long-term and short-term) amounted to US$ 161 million during FY23 as short-term credit.

**Disbursements, Amortizations & FX Reserves** **Figure 6.28**




Source: State Bank of Pakistan

Amortization of official loans during FY23 amounted to US$ 11.7 billion, compared to US$ 9.5 billion in FY22. Most of the amortization was of long-term loans, totaling US$ 10.4 billion, while short-term amortization was US$ 1.3 billion.

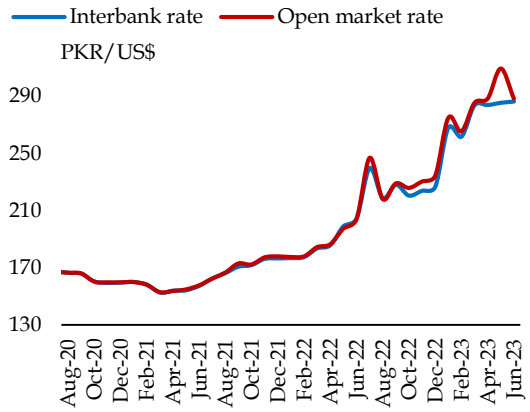
## 6.3 Exchange Rate and Reserves

Pakistan's foreign exchange reserves fell for the second consecutive year in FY23. Higher scheduled payments, lower FDI, net outflows from debt and equity securities, and lower than budgeted loan disbursements led to fall in SBP's foreign exchange reserves by US$ 5.3 billion in FY23. On the other hand, commercial banks' reserves dropped by US$ 920 million mainly on account of outflows under trade financing, albeit lower than the previous year, and drawdown of FE-25 deposits.[28]

In the first quarter of FY23, SBP's liquid forex reserves dropped by US$ 2.0 billion mainly on account of amortization of loans of US$ 2.2 billion that more than offset the materialization of US$ 1.2 billion tranche after the completion of 7th and 8th review under IMF's EFF and US$ 1.1 billion under other multilateral and bilateral inflows. In Q2-FY23, though financial inflows picked up predominantly on the back of long-term loans, quarterly amortizations reached a record high of US$ 4.0 billion (including repayment of US$ 2.3 billion and US$ 1.0 billion under commercial loans and Sukuk bond respectively), resulting in SBP's reserves depleting by another US$ 2.3 billion to US$ 5.6 billion by end-December 2022. In Q3-FY23, amortization stood at US$ 3.8 billion, whereas official financial inflows remained scanty (US$ 1.7 billion). During Q4-FY23, an uptick in multilateral inflows and commercial loans combined with slightly lower amortization provided respite to continuously declining SBP's

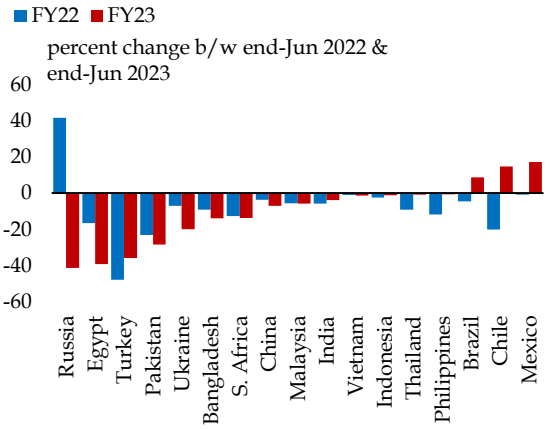
[27] The Saudi Fund for Development, United Nations Development Programme (www.undp.org/pakistan/saudi-fund-development)
[28] FE-25 deposits dropped by US$ 718 million during FY23.

**Exchange Rate Movement** **Figure 6.29**




Source: State Bank of Pakistan

**Exchange Rate Movements - EMEs** **Figure 6.30**




Source: Haver Analytics

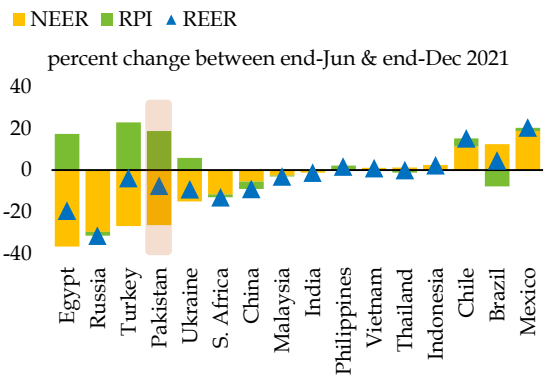
liquid FX reserves, which rose by US$ 259 million after consecutively dropping for six quarters (**Figure 6.28**).

The external account pressures, together with domestic political uncertainty and continuous strengthening of US$, resulted in PKR depreciating by 28.5 percent against US dollar during FY23. Except for a slight QoQ appreciation of 0.6 percent observed during Q2-FY23[29], PKR remained under pressure throughout the year. The persistence of external pressures and associated volatility in exchange rate also resulted in widening spread between interbank and open market exchange rates during FY23. The deviation of open market rate from the interbank rate, particularly during Q2 and Q4 of FY23, reflected prevailing economic uncertainties, especially related to the IMF program **(Figure 6.29)**. Moreover, there were some seasonal factors contributing to increase in demand for foreign exchange in Q4. Other than usual tourism-related travel, this year saw increased number of Pakistanis traveling for Hajj, as Saudi government allowed the full quota for first time since the pandemic.

A cross country analysis show that currencies of many EMEs' depreciated against US$ during FY23 (**Figure 6.30**) except a few Latin-American countries such as Mexico, Chile and Brazil which had started monetary tightening ahead of US. A large part of the depreciation of emerging market currencies was explained by strengthening of US$, driven by US monetary tightening and investors' appetite for US securities resulting in capital outflows from EMDEs.[30]

Nominal effective exchange rates (NEER) in some of the Latin-American and South-East Asian EMs appreciated during the period, whereas, Pakistan was among those EMs where NEER depreciated that outweighed rise in

**Change in REERs of Major EMEs during FY23*** **Figure 6.31**




*JP Morgan effective exchange rates (deflated by CPI)
Source: Haver Analytics

[29] In addition to a spike in multilateral inflows during Q2-FY23, QoQ imports also declined by 19 percent that is highest since Q3-FY09 mainly on the account of import compressing measures taken in the previous months.
[30] Obstfeld, Maurice and H. Zhou. (2022). "The Global Dollar Cycle.', Brookings Papers on Economic Activity, Fall. 361-427.

**Trade Balance** **Table 6.4**

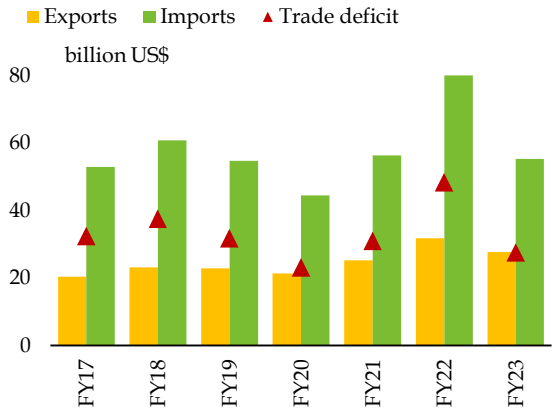
million US$

| | FY22 | FY23 | Change (YoY) Absolute | Change (YoY) Percent |
|---|---|---|---|---|
| **Trade Balance** | **-48,354.1** | **-27,595.0** | **-20,759.1** | **-42.8** |
| **Exports** | **31,782.2** | **27,734.9** | **-4,047.3** | **-12.6** |
| Textile, of which | 19,329.9 | 16,501.8 | -2,828.1 | -14.6 |
| *Apparel* | *9,025.7* | *7,928.7* | *-1,097.0* | *-12.2* |
| *Home textile* | *4,404.2* | *3,691.2* | *-713.0* | *-16.2* |
| *Cotton yarn* | *1,206.8* | *844.3* | *-362.5* | *-30.0* |
| Non-textile, of which | 12,452.1 | 11,233.1 | -1,219.0 | -9.7 |
| *Rice* | *2,512.8* | *2,149.1* | *-363.7* | *-14.5* |
| *Sports goods* | *364.9* | *404.8* | *39.9* | *10.9* |
| **Imports** | **80,136.3** | **55,329.8** | **-24,707.5** | **-31.0** |
| Energy | 23,318.4 | 17,014.6 | -6,304.2 | -36.8 |
| Non-energy, of which | 56,817.6 | 38,315.2 | -18,502.2 | -32.6 |
| *Palm oil* | *3,549.3* | *3,640.7* | *91.4* | *2.6* |
| *Machinery* | *10,920.4* | *5,807.9* | *-5,112.5* | *-46.8* |
| *Transport* | *4,453.5* | *1,758.2* | *-2,695.3* | *-60.5* |

Source: Pakistan Bureau of Statistics

relative price index (RPI). Pakistan's depreciation of 26.3 percent in NEER is also associated with appreciation (in case of Vietnam) or relatively lower depreciation (in case of India and China) in nominal exchange rates of its competitors. Further, with relatively lower inflation in these competitor countries, Pakistan's relative price index (RPI) increased by 18.8 percent during the year, offsetting the impact of large nominal depreciation from the stand point of country's competitiveness. As a result, depreciation of real effective exchange rate (REER) was limited to only 7.5 percent during FY23 (**Figure 6.31)**, which nevertheless contributed, along with other factors, in narrowing trade deficit**.**

**Trade Account** **Figure 6.32**




Source: Pakistan Bureau of Statistics

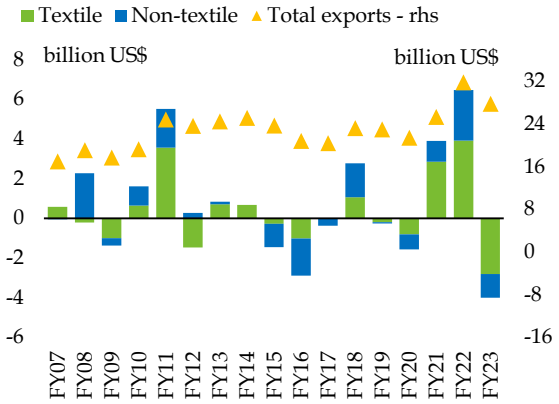
## 6.4 Trade Account[31]

Pakistan's trade deficit (in goods) contracted by 42.9 percent to US$ 27.6 billion in FY23, compared to US$ 48.4 billion in the previous year (**Figure 6.32**). This substantial improvement in trade balance was on account of a broad-based fall in imports, induced by various policy and administrative measures taken by the government and the SBP to contain domestic demand. Exports also edged down, relatively at a slower pace than imports, on account of both the global and domestic factors (**Table 6.4**).

It is important to note that in the long run, a sustainable trade balance, achieved by a broad-based and sustained expansion in exports is

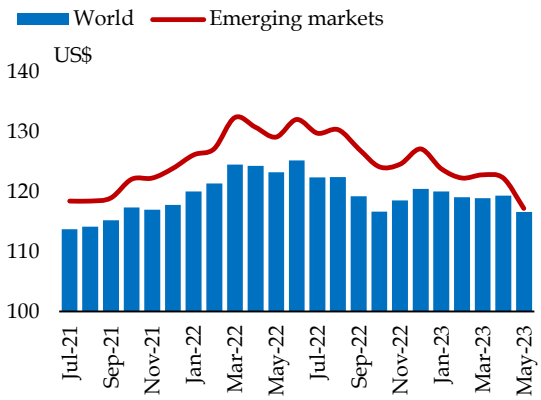
[31] This section is based on customs data reported by the PBS. The information in this section does not tally with the payments record data, reported in **Section 6.2**. The difference between the two data series is discussed in Annexure on Data Explanatory Notes.

**Pakistan's Merchandize Exports and Change in Textile and Non-Textile Exports** **Figure 6.33**




Source: Pakistan Bureau of Statistics

**Unit Values of Exports from Emerging Economies** **Figure 6.34**




Source: CBP World Trade Monitor

central to the external account stability in Pakistan. This could be achieved by addressing key structural issues in manufacturing and agriculture sectors, including low skilled human resource, use of traditional practices, and limited export outreach. Moreover, retaining the GSP+ status in the EU market is also crucial for the export sector, as it offers a competitive advantage over non-GSP+ textile exporters through preferential import tariffs on Pakistan's exports to the EU (**Box 6.3**).

**Exports**

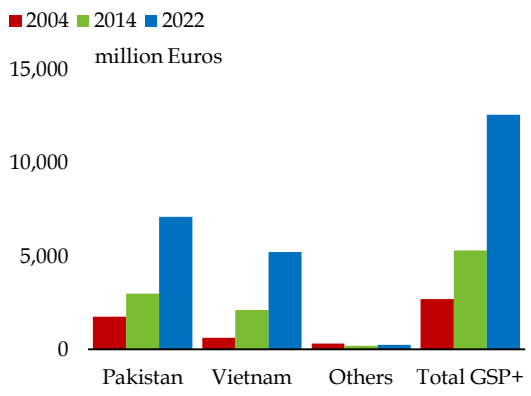
After crossing US$ 30 billion mark for the first time in FY22, Pakistan's merchandise exports contracted by 12.7 percent to US$ 27.7 billion in FY23. This decline was an outcome of both demand and supply side factors, including increased cost of production, shortage of raw materials, disruptions due to the flash floods, and slowdown in global economic activity amid monetary tightening in advanced economies. Moreover, amid PKR depreciation, the exporters had to renegotiate the export prices. Resultantly, the apparel exporters managed to overcome their losses by acquiring more orders. Meanwhile, non-textile exports declined by 9.8 percent (**Figure 6.33**). In overall terms, both volumes and unit prices contributed to decline in merchandize exports.

The slowdown in textile sector amid lower cotton production and increase in cost of borrowing, following the linking of rates on SBP's concessionary refinance scheme (LTFF) with the policy rate, reinforced the downtrend in total exports during the year. On the other hand, fall in international commodity prices resulted in lower unit values for exporters (**Figure 6.34**). In terms of destinations, the decline in exports was apparent in all traditional markets including, US, EU, China, and Bangladesh.

**Box 6.3: Pakistan's Textile Exports Performance under the GSP+ Status**

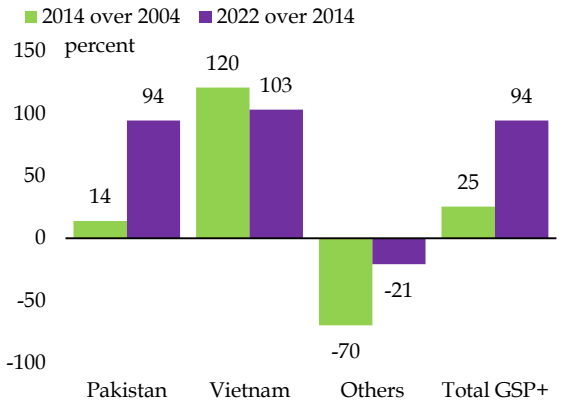
GSP+ is a special incentive arrangement within the standard Generalised Scheme of Preferences (GSP) of the European Union (EU). GSP+ was started in 2014 with the objective to provide additional trade benefits to the vulnerable low- and lower-middle income economies, particularly to facilitate them in achieving sustainable development, good governance, poverty eradication, and their participation in the global economy. However, these benefits are subject to strict compliance with 27 core international conventions related to human rights, labor rights, protection of the environment, climate change, and good governance.

**Value Increase in Textile Exports of GSP+ Countries** **Figure 6.3.1 a**




Source: Eurostats

**Volume increase in Textile Exports of GSP+ Countries** **Figure 6.3.1 b**




Source: Eurostats

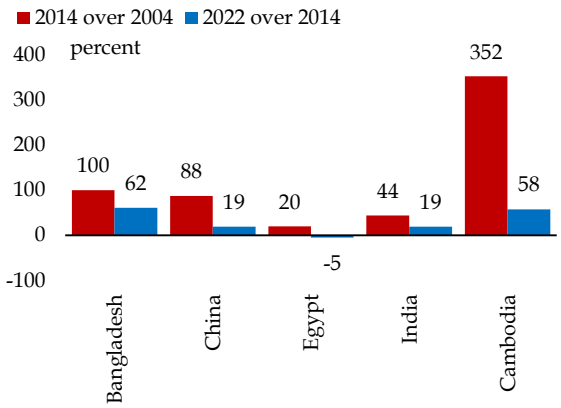
The GSP+ program allows the eligible countries duty-free access to EU market under the available tariff lines. The scheme involves complete elimination of import duties on majority of the EU's tariff lines for all GSP+ beneficiaries, including Pakistan along with six other member states.

Pakistan has remained one of the largest GSP+ beneficiaries since the initiation of the arrangement, and is presently one of the six Asian countries that has been awarded this special status. The current GSP+ status of all the beneficiaries is valid until December 2023; the renewal of this preferential scheme is subject to its approval from the EU Council.[32] This box reviews the trade performance of Pakistan under the GSP+ status and highlights its significance in giving impetus to exports of the country, particularly the textile exports. The preferential tariff rates under GSP+ have given boost to Pakistan's trade relations with the EU, enabling duty-free access to 66 percent of the product categories for exports, such as apparel and clothing; home textile; fabric and yarn; food products; leather apparel; and surgical goods, among others. Notably, more than 78 percent of Pakistan's existing exports to the EU take place under preferential import tariffs offered in GSP+. In view of the conducive environment enabled under the GSP+, the EU market has emerged as Pakistan's most important export destination in the recent years, especially for textile and clothing, comprising 20 percent of our total textile sector exports globally—worth around EUR 7 billion.[33]

In particular, the textile exports to EU have more than doubled to EUR 7.1 billion in 2022 from EUR 3.0 billion in 2014, accounting for a volumetric increase of 94.0 percent in the same period (**Figure 6.3.1a**). It is further evident in Pakistan's textile export volumes growing at much faster pace after the introduction of GSP+ compared to the growth prior to joining the GSP+, during the period 2004 to 2014 **(Figure 6.3.1 b)**. In absolute terms, the volumes almost doubled in a span of ten years to 2022. On the other hand, the volumetric increase in textile exports of non-GSP+ competitor countries was relatively slower compared to the GSP+ countries + during the period (**Figure 6.3.2**).

The GSP+ status of the member countries is renewed periodically by the EU, which is contingent on satisfactory assessment regarding the implementation of 27 fundamental

**Volume Increase in Exports of Non-GSP Competitor Countries** **Figure 6.3.2**




Source: Eurostats

[32] Except for Viet Nam, which expired in January 2023.

[33] European commission: EU trade relations with Pakistan. Facts, figures and latest developments. (policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/pakistan_en)

international conventions. In this context, the current GSP+ status of all the beneficiaries is valid until December 2023; the renewal of this preferential scheme is subject to its approval from the EU. Therefore, in order to continue this preferential treatment for Pakistan, it is important to demonstrate compliance with the 27 core conventions, as well as some additional requirements pertaining to environmental safety and climate change, employment accessibility to individuals with physical disability, and abolition of child labour.

**Major Textile Exports** **Table 6.5**

million US$

| | FY22 | FY23 | Change | VE | PE |
|---|---|---|---|---|---|
| Apparel | 9,025.7 | 7,928.7 | -1,097.0 | 1,581.9 | -2,678.8 |
| Home textiles | 4,404.2 | 3,691.2 | -713.0 | -798.6 | 85.6 |
| Cotton fabrics | 2,437.9 | 2,022.0 | -415.9 | -581.7 | 165.8 |
| Cotton yarn | 1,206.8 | 844.3 | -362.5 | -200.9 | -161.6 |
| Other textile made-up (excl. towels & bed wear) | 849.1 | 692.5 | -156.6 | | |
| Other textile material | 761.4 | 713.1 | -48.3 | | |
| Art silk and synthetic textiles | 460.1 | 412.3 | -47.8 | -127.8 | 80.0 |
| **Total Textile Exports** | **19,329.9** | **16,501.8** | **-2,827.1** | **-** | **-** |

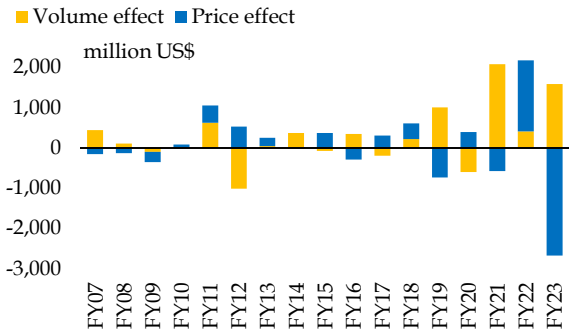
Note: VE: Volume Effect; PE: Price Effect

Source: Pakistan Bureau of Statistics

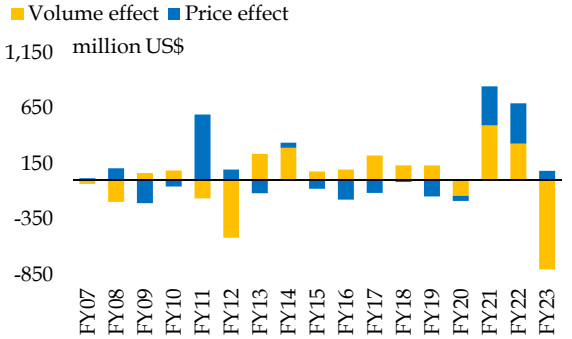
## Textile Exports

Textile exports declined by 14.6 percent to US$ 16.5 billion in FY23, down from US$ 19.3 billion in FY22, accounting for around 70 percent of the contraction in total exports. The decline was broad-based as export of all leading product categories, including apparel (hosiery and ready-made garments), home textiles (bed-wear and towels) and other textile made-ups (which include items like washing and dish cloths, curtains, table linen) was significantly lower compared to the previous year (**Table 6.5**). Both the prices and volumes contributed to lower textile exports across all major categories, barring wearing apparel that witnessed an overall upsurge in volumes. In case of apparel, the disruptions in shipments from China due to its Covid-related restrictions diverted export orders, especially from EU and the US, to alternate markets, including Pakistan (**Figure 6.35 a and b**).[34]

**Breakdown of Change in Apparel Exports** **Figure 6.35a**




**Breakdown of Change in Home Textile Exports** **Figure 6.35b**

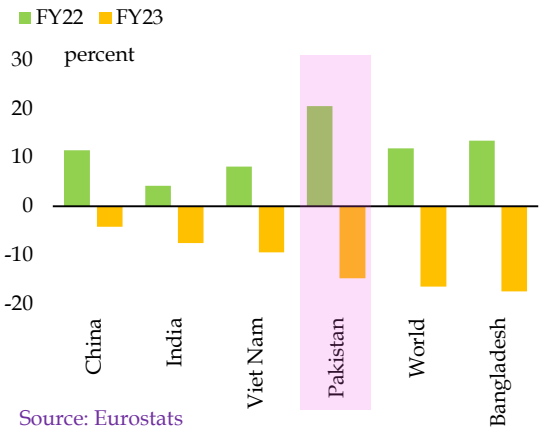



Note: Sum of volume effect & price effect equals change during a given year

Source: Pakistan Bureau of Statistics

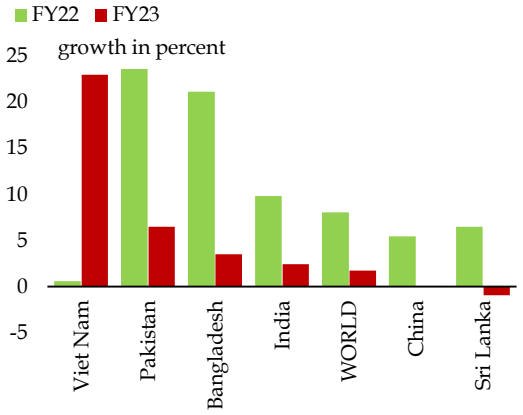
[34] US apparel volume imports from China dropped by 2.4 percent in 2022 compared to last year. While, shipments from rest of the world grew in the same period. Source: Emerging Textiles

**Growth in Import Volumes of Home Textile - EU** **Figure 6.36**




Source: Eurostats

**Growth in Import Volumes of Apparel - EU** **Figure 6.38a**




Source: Eurostats

***Volume Impact***

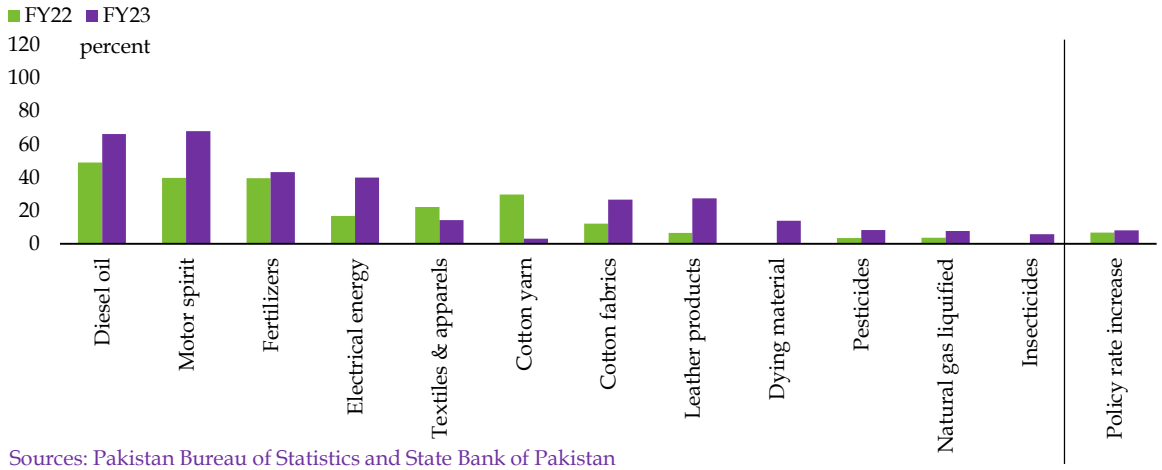
The volume of Pakistan's textile exports recorded a sharp decline in all categories, except for wearing apparel, during FY23. In this regard, both demand and supply side factors were at play. On the demand side, the slowdown in all traditional markets weighed heavily on the external demand, resulting in fall in export volumes (**Figure 6.36**). On the supply side, the increase in domestic prices of raw materials, high energy tariffs, and elevated financing costs, inflated the overall cost of production owing to which the textile sector faced challenges in continuing the growth momentum of the previous year. Moreover, in view of the flood-related agriculture losses, especially cotton, the textile sector faced severe shortages of the key raw material (**Figure 6.37**).

Within the textiles, the export volumes of wearing apparel edged up by 17.5 percent in FY23 compared to 3.0 percent last year. The uptrend in the volume effect was visible mainly on account of diversion of export orders from China to other markets including Pakistan. Meanwhile, depreciation created space for exporters to lower their PKR margins by cutting back prices amid an opportunity to capitalize on higher orders (**Figure 6.38a)**.

***Price Impact***

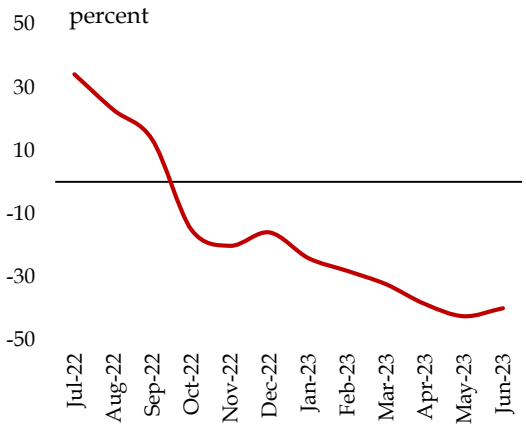
Global commodity prices started to taper off during FY23. This was mainly due to

**Change in Cost of Production - Prices (percent growth)** **Figure 6.37**



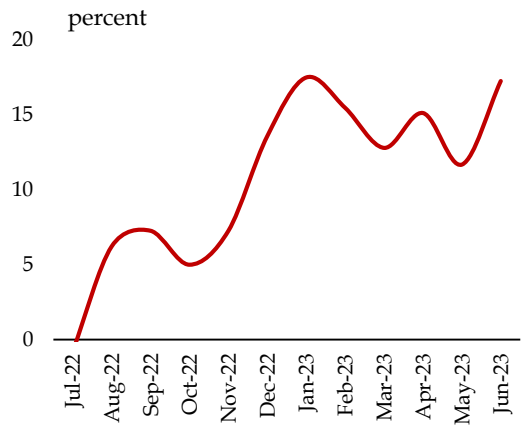

Sources: Pakistan Bureau of Statistics and State Bank of Pakistan

**Growth in Global Cotton Prices** **Figure 6.38 b**




Source: World Bank

**Growth in Global Rice Prices** **Figure 6.39**




Source: World Bank

normalization returning to supply chains and logistic operations. More specifically, the international cotton prices recorded a considerable decline of 40 percent in FY23 compared to the preceding year, which reduced the cost of production and was reflected in the export prices of cotton-based apparel globally (**Figure 6.38 b**).

**Non-textile exports declined mainly on account of lower volumes**

Non-textile exports posted a decline of 9.8 percent to US$ 11.2 billion in FY23 from US$ 12.5 billion in the previous year (**Table 6.6**). The decline was mainly visible in the agro-food products, following the agricultural production losses due to floods. Other non-textile exports, including chemicals, also registered a volume-led decline on account of higher cost of inputs.

Within the agro-food exports, there was a sharp decline in rice output as floods significantly affected the production of non-basmati rice. Therefore, export of non-basmati rice declined by US$ 319.6 million during FY23 despite higher prices. The global supply side constraints pushed the prices upward, as India imposed ban on export of rice in September 2022 in view of national food security and rising food inflation (**Figure 6.39**).

In other food exports, the government allowed sugar mills to export 250,000 MT of sugar in January 2023. Sugar export fetched US$ 104.5 million in FY23. Also, exports of meat gained

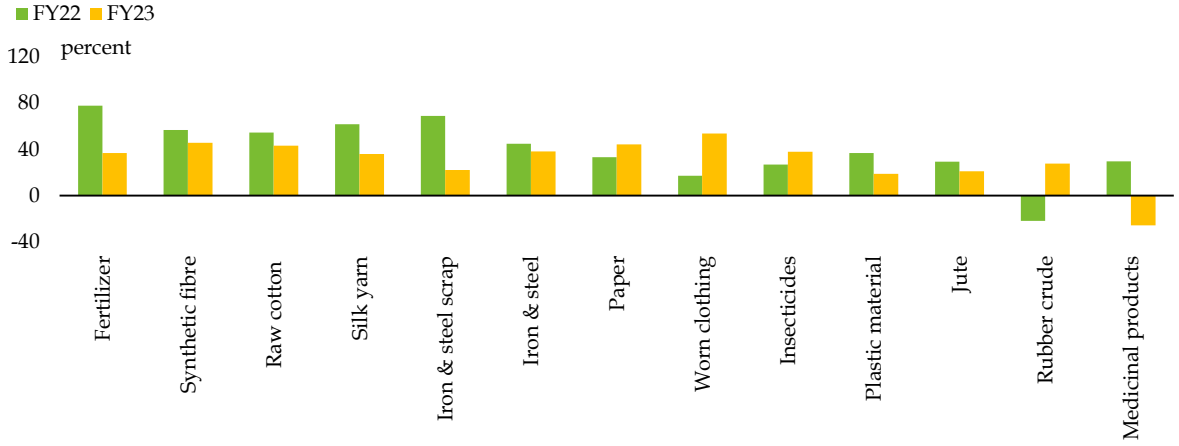
**Major Non-textile Exports** **Table 6.6**

million US$

| | FY22 | FY23 | Change |
|---|---|---|---|
| Rice, of which | 2,512.8 | 2,149.1 | -363.7 |
| Basmati rice | *694.5* | *650.4* | -44.1 |
| Non-basmati rice | *1,818.3* | *1,498.7* | -319.6 |
| Fish and fish preparations | 430.9 | 496.3 | 65.4 |
| Sugar | - | 104.5 | 104.5 |
| Fruits | 477.3 | 283.4 | -193.9 |
| Leather products | 621.1 | 577.4 | -43.7 |
| Chemicals | 1,569.1 | 1,387.0 | -182.1 |
| Sports goods | 364.9 | 404.8 | 39.9 |
| **Total Non-textile** | **12,452.1** | **11,233.1** | **-1,219.0** |

Source: Pakistan Bureau of Statistics

**Change in Unit Values of Imported Raw Materials (PKR - percent growth)** **Figure 6.40**




Source: Pakistan Bureau of Statistics

further traction on account of new orders from China and Egypt during FY23. Pakistani exporters tapped the market of Egypt in H1-FY23. As a result, the meat exports increased by 25.1 percent to US$ 426.7 million in FY23 compared to US$ 341.0 million in the previous year.

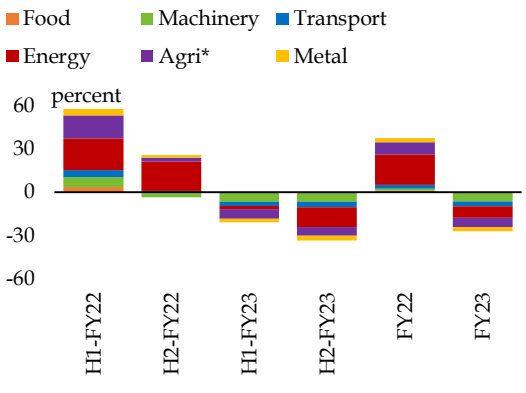
A significant volumetric decrease was witnessed in exports of leather products, as is also evident from sluggish activity in leather industry. Higher costs of raw materials, including the imported tanning chemicals and electricity subdued the production levels, which resulted in 7.0 percent decrease in leather exports during FY23 compared to a rise of 14.5 percent the previous year (**Figure 6.40**).

Export of cement and clinker registered a decline of 15.2 percent in FY23 due to lower shipments, particularly to China and Bangladesh. This volumetric decline could be attributed to weak demand in China amid a slowdown in construction activity. On the other hand, export of sports goods rose 10.9 percent in FY23 especially on account of higher demand of footballs, attributed to FIFA World Cup held in November and December 2022.

**Imports**

Imports declined by 31.0 percent to US$ 55.3 billion in FY23 from US$ 80.1 billion in FY22. Both energy and non-energy imports witnessed a broad-based decline **(Figure 6.41)**. While energy imports remained high in the start of the

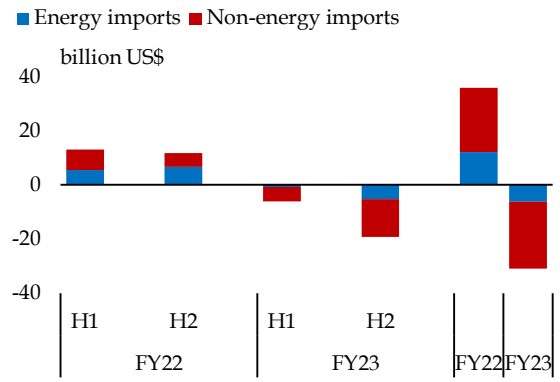
**Sectoral Contribution to Import Growth** **Figure 6.41**




* Agri & other chemicals

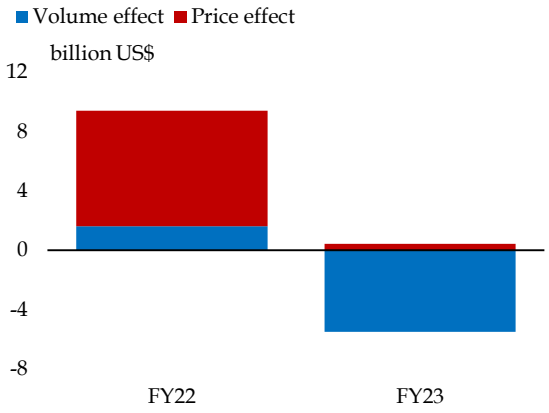
Source: Pakistan Bureau of Statistics

**Change in Energy and Non-Energy Imports** **Figure 6.42**



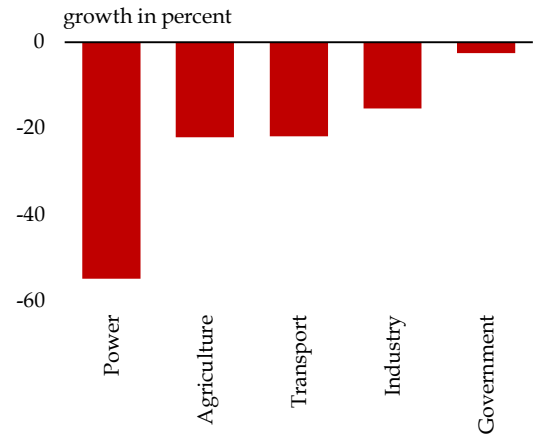

Source: Pakistan Bureau of Statistics

**Volume and Price Effects in Energy Imports** **Figure 6.43**




Source: Pakistan Bureau of Statistics

**Energy Sales in Various Sectors** **Figure 6.44**




Source: Oil Companies Advisory Committee

year, they started to fall as the year progressed **(Figure 6.42)**. This was mainly because of the administrative and regulatory measures taken by the government and the SBP, slowdown in domestic demand, and policy tightening. Further, PKR depreciation also discouraged imports.

**Energy Imports**

Energy imports, which more than doubled in FY22 predominantly due to higher international crude oil prices, fell by 27.0 percent to US$ 17.0 billion in FY23. The volume impact was more pronounced than the positive price impact. The decline in energy imports[35] was volume-driven **(Figure 6.43)**, reflecting lower demand as indicated by drop in POL sales to all sectors, including industry, agriculture, transport, power and government, with power sector's sales shrinking by more than half **(Figure 6.44)**.[36]

Energy prices also declined from their peaks during FY23. Average crude oil price fell by 37.0 percent in June 2023 from its recent high level at June 2022, whereas, natural gas prices declined by 81 percent from their peak in August 2022. The decline in crude oil prices was due to a mix of demand and supply side factors.[37] Natural gas prices declined on account of developments related to Europe, such as lower demand amid milder winter, a rise in relatively cheaper Japanese LNG imports, increased focus on energy conservation, and redirection of Russian mineral fuel exports (including natural gas and coal) from Europe to China, India and other EMDEs.

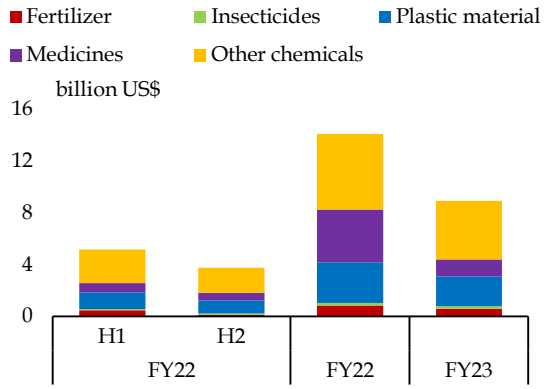
**Non-energy Imports**

Non-energy imports decreased by 32.6 percent to US$ 38.3 billion in FY23. While all non-energy groups recorded decline, it was more pronounced in agriculture & chemical (medicinal products, other chemicals and plastic material) and machinery (mobile phones and power generating machinery) followed by transport (especially CKD/SKD motor cars), and metal (iron and steel / scrap).

This broad-based decline in non-energy imports was mainly a result of demand compression policies and administrative measures, such as monetary policy tightening, expanding the list of items (by adding HS codes of chapter 84 and 85) requiring SBP's prior approval, increasing

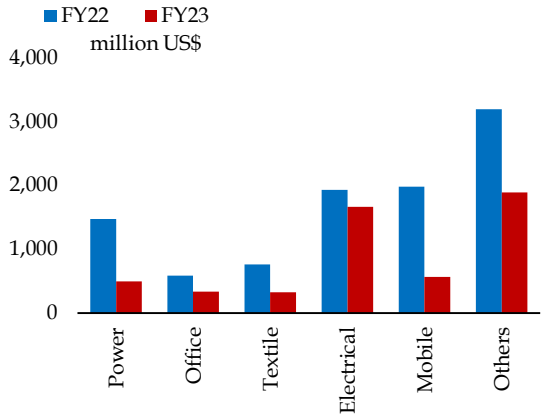
[35] Petroleum products and petroleum crude.
[36] Oil Companies Advisory Council (www.ocac.org.pk/wp-content/uploads/2022/05/New-Jul-2022-Jun-2023-ENE-Pak.pdf)
[37] On the demand side, monetary tightening in US, banking sector turmoil, and China's lackluster reopening have raised concerns about slower global economic growth and oil demand. On the supply side, global oil supply increased on the back of higher than expected oil flows from Russia. Further, introduction of a price cap by the Group of Seven (G7) industrial countries on Russian seaborne crude oil in December 2022 and oil products in February 2023 has put downward pressure on oil prices.

**Imports of Agriculture & Other Chemicals** **Figure 6.45**




Source: Pakistan Bureau of Statistics

**Machinery Imports** **Figure 6.46**




Source: Pakistan Bureau of Satistics

regulatory duty on various items, imposition of an annual limit of US$ 30,000 per person on card based cross-border transactions, tightening regulations for exchange companies, and extending the timeline for maintaining cash margins for another quarter till March 2023.

*Agriculture and Chemical*

Agriculture and chemical imports fell sharply during the year, contributing 6.4 percentage points to overall 31 percent decline in imports **(Figure 6.45)**. Within this group, import of medicinal products fell by 67.3 percent, mainly because of lower imports of Covid vaccines.

Since imports of plastic materials and other chemicals mostly include raw materials, which is directly linked with domestic production of plastic goods, the slowdown in domestic economic activities resulted in a substantial decrease in the imports of plastic materials and other chemicals by 27.5 percent and 22.7 percent respectively.

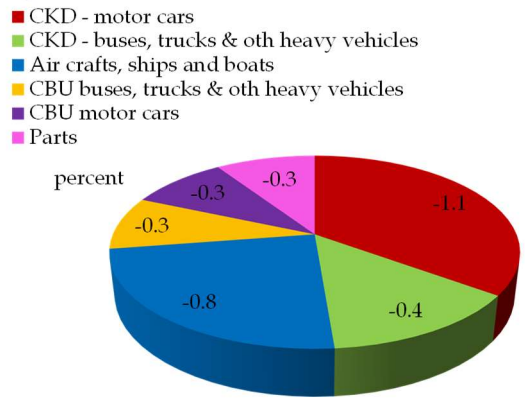
Fertilizer imports declined by 28.5 percent during FY23, mainly on account of a significant decline in volume of DAP imports. Moreover, fertilizer prices moderated from their peaks in 2022, while demand weakened due to affordability and availability amid supply-side issues such as ammonia production cuts in Europe, sanctions on Russia and Belarus, and export restrictions in China to ensure domestic availability.[38]

*Machinery*

A decline of 46.8 percent in machinery imports during FY23, mainly reflects the impact of regulatory and administrative measures— such as prior approval of SBP before opening L/Cs — to restrain import of non-essential items within the machinery group such as mobile phones. Monetary policy tightening, linking of LTFF rates with the policy rate, and exhaustion of TERF also affected machinery import.[39] Within the machinery, import of mobile phones recorded the largest decline of 71.2 percent in FY23. In July 2022, as part of the regulatory measures to compress imports, chapter 85 (that also includes mobile phones) of HS codes was added to the list of items requiring SBP's prior approval before opening L/Cs. In addition, Mobile Device Manufacturing (MDM) Regulations 2021 issued by Pakistan Telecommunication Authority (PTA) also paved way for local manufacturing of mobile phones resulting in a significant decline in the import of completely built unit (CBU) phones over the last

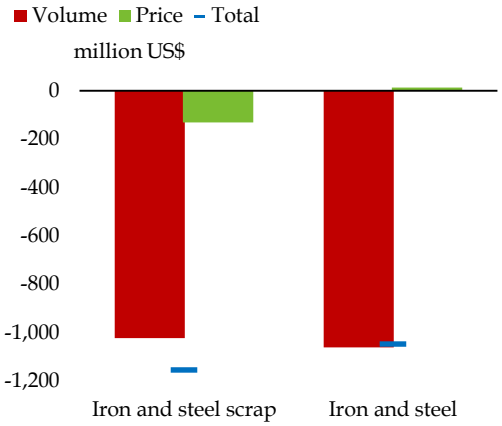
[38] World Bank Blogs (blogs.worldbank.org/opendata/fertilizer-prices-ease-affordability-and-availability-issues-linger)
[39] Fixed investment loans disbursed under TERF declined from PKR 201 billion in FY22 to PKR 54 billion in June FY23

**Contribution to Growth in Transport Group Imports - FY23** **Figure 6.47**




Source: Pakistan Bureau of Statistics

**Volume and Price Effect in Steel Imports** **Figure 6.48**




Source: Pakistan Bureau of Statistics

few years **(Figure 6.46)**.[40] Similarly, import of power generating machinery also fell by 66.1 percent during FY23 due to constraints on imports as well as the completion of energy projects under CPEC.[41]

*Transport*

Imports under transport group dropped by 60.5 percent during FY23. More than 40 percent of the contraction was explained by lower CKD/SKD and CBU cars **(Figure 6.47)**, which declined considerably by 54.9 percent and 72.9 percent respectively. This is followed by the decline in import of CKD/SKD and CBU heavy vehicles.

Major factors behind this reduction are lower demand due to monetary policy tightening, administrative measures, PKR depreciation, and sharp increase in domestic prices. Import-compression measures related to transport sector, included an initial ban on imports of CBU motor vehicles (announced in May 2022[42]) which was replaced by higher duties.[43] In addition, the amended prudential regulations for consumer financing (announced in September 2021[44], and the requirement for banks to seek SBP's approval before opening LCs for high value capital goods, also contributed to the decline in CKD motor vehicles.

*Metals*

Metal group imports declined by 36.4 percent during FY23, mostly driven by iron and steel, and iron and steel scrap, given fall in construction activity and auto sales. The reduction in iron and steel import is primarily driven by volumes, as there was a slight increase in prices. On the other hand, falling import of iron and steel scrap is explained by the decrease in both volume and prices **(Figure 6.48)**. This trend is also in tandem with global iron ore prices. Except for the seasonal jump in global demand for iron ore due to rise in China's steel output in Q3-FY23, iron ore prices declined by 25.0 percent in June 2023 fall from its peak in March 2022.

*Food*

Food imports declined only slightly by 1.0 percent in FY23. This modest decline was largely due to the decline in other food imports

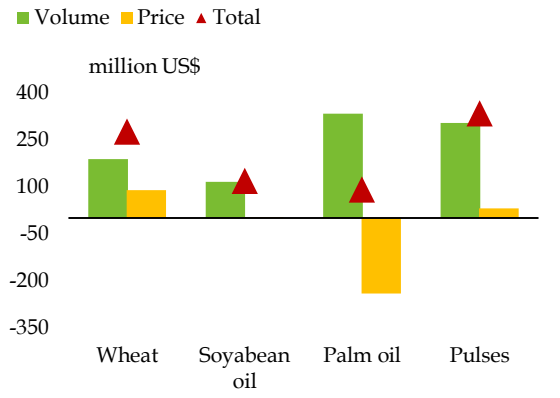
[40] Pakistan Telecommunication Authority – Annual Report 2022
[41] Source: cpec.gov.pk/energy
[42] Source: www.commerce.gov.pk/wp-content/uploads/2022/05/SRO-Ban-on-Import-of-Luxury-and-N_essential-Items.pdf
[43] Source: fbr.gov.pk/Budget2022-23/CustomsSROs/SRO-966(I)2022.pdf
[44] Source: www.sbp.org.pk/bprd/2021/CL29.htm

that was partially offset by higher increase in pulses, wheat, soybean oil and palm oil.

Pakistan, normally, starts import of wheat around August after having concrete information on domestic crop and available wheat supplies[45]. However, considering volatile international markets and uncertainty regarding wheat availability through Black Sea, Trading Corporation of Pakistan (TCP) began early tendering during May 2023.[46] This resulted into the highest wheat imports (in value terms) in the last fourteen years.[47]

Except for palm oil imports, which increased because volumetric growth offset the impact of falling prices, the import growth of pulses, wheat and soybean oil was driven by both increased volumes and prices **(Figure 6.49)**.[48]

**Volume and Price Effect in Food Related Imports** **Figure 6.49**




Source: Pakistan Bureau of Statistics

However, the price impact of these commodities was relatively subdued during FY23 against the substantially higher price impact recorded during FY22.

[45] USDA (2023). Grain and Feed Annual – Pakistan, (March), Washington D.C.
[46] Source: www.ppra.org.pk/elv_org.asp?orgid=32&orgname=Trading%20Corporation%20of%20Pakistan%20(TCP)&PageNo=1
[47] Source: Pakistan Bureau of Statistics (PBS)
[48] The prices of palm oil and soybean oil, however, decreased from their peaks owing to higher edible oil supplies in 2022, the BSGI, the end of several export bans, and better global supply chain conditions.

# Pakistan's National Statistical System: A Primer

Statistics play a vital role in improving economic development by supporting evidence-based policymaking, and reducing information asymmetry for businesses, markets and individuals. It is therefore paramount for a country's National Statistical System (NSS) to be well-structured and well-functioning, where the NSS is understood as an ensemble of National Statistical Organisation (NSO), sub-national statistical agencies, and other producers of official statistics. In Pakistan, the subject of NSS is under researched, even as underlying factors that typically drive reforms in statistics and the NSS, such as need for evidence-based policy reforms and lack of market information, are increasingly becoming prominent. Drawing on internationally accepted principles, standards and best practices, this Special Chapter serves as a primer on the country's NSS. The chapter focusses on the independence of NSO; the state of coordination within the NSS and data users and producers outside the NSS; availability of administrative data; the demand for statistics; and prominent gaps in Pakistan's official statistics. The chapter concludes that the country's NSS needs a comprehensive review and substantial reforms to bring it at par with international best practices.

# 7 Pakistan's National Statistical System: A Primer

## 7.1 Introduction

The link between official statistics and economic governance has been well understood and put into practice since more than a millennia.[1] Tracking the fast paced changes in economics, politics and society, the role of official statistics and statistical systems gained further prominence since mid of 20th century given its indispensable contribution towards economic growth and development.[2]

There are three distinct but complementing ways by which official statistics contribute towards economic growth and development of a country. First, official statistics are a key building block of evidence-based policymaking.[3] While economic reforms are dependent on reliable statistics, policymakers also demand high-frequency granular data for mid-course corrections, policy calibrations, and impact assessment.[4]

Second, proper collection and dissemination of market information reduces asymmetries, and thus contributes towards better functioning of markets.[5] For businesses, data provides basic input and impetus for new initiatives, product development and improvement, innovations, efficiency gains and optimum utilization of resources. At the same time, access of individuals to quality data improves their decision-making related to savings, consumption, mortgages, investments, salary negotiations and so forth.[6]

Third, in the wake of a growing global trend towards devolution and fiscal decentralization, [7] increased focus on sub-national economic and developmental statistics is particularly helpful in comparing regional socio-economic disparities, competitiveness, and business opportunities. It also contributes to healthy competition between sub-national governments against quantifiable targets, such as economic growth and unemployment. Furthermore, it documents the performance of reform and policies experimented in different sub-national regions.[8]

The increasing significance of official statistics has resulted in the transformation of national statistical systems over the last eight decades. While the demand for improvements has come about as a result of criticism by policymakers and the general public over the methodologies, frequency, coverage, availability and dissemination of official statistics,[9] the changes have also been triggered by a host of other factors.

The strategic importance of official statistics became prominent during the second World War, when economists could not adequately estimate the resources needed for war due to insufficient statistical basis.[10] In the ensuing

[1] Historical accounts suggest that enumeration of and compilation of statistics about people, livestock, and food items dates back to at least 2000-1000 BCE in ancient Egypt, Greece, and China. Source: A. Whitby (2020)
[2] I. Krizman, B. Tissot (2021); K. Shangodoyin (2011); D. Sanga (2013); Y. Carrière-Swallo and V. Haksar (2019); World Bank (2021[a]).
[3] EU Parliament (2021); Australian Bureau of Statistics (2010); Evidencecolloborative.org (2016)
[4] I. Krizman, B. Tissot (2021); K. Florence, et al (2009)
[5] For instance, the availability of reliable macroeconomic or corporate data and its comparability with international standards has been found to lower borrowing costs in primary and secondary debt markets. For details, see I. Krizman, B. Tissot (2021)
[6] Y. Carrière-Swallow, V. Haksar (2019); P. C. Nutt (2006); B. Lorenc, et al (2011)
[7] A. Rodríguez-Pose, N Gill (2005)
[8] C. Xu (2011); PARIS21 (2016)
[9] T. Orlik (2014); P. C. Mahalanobis (1965)
[10] D. Coyle (2016)

years, increasing regional and international economic and trade integration led to further improvements in statistics and national statistical systems.[11]

The trends in global trade were followed by growth and development of commodity, capital and foreign exchange markets; cross border investments (particularly as part of global value chains); and the onset of new industries, production processes and new economic activities. These created a need for both new statistics and improvements in existing statistics and statistical systems to better capture changing economic structures. Similarly, privatization, deregulation and market liberalization that particularly affected reallocation of factors of production, required improvements in the ways statistics were collected, compiled and disseminated.[12]

More importantly, the global agenda of Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs) pushed for improvements in statistics and statistical systems for reliable, timely and granular information to monitor progress on wide-ranging indicators.[13,14] Moreover, shocks to economy have also driven improvements in statistics and statistical systems. For instance, the global financial crisis of 2008 and the Covid-19 pandemic renewed emphasis on cash transfers and social protection programs around the world that necessitated the creation of different types of social registries. These registries, in turn have begun to closely collaborate with national statistical systems.[15]

The pandemic also influenced governments to strengthen efforts for the collection of new high-frequency data from various public and private data sources, such as Google Mobility, electronic payments; sentiment indicators, and night light data. This also accelerated adoption of Information Communication and Technology (ICT) by national statistical organisations.[16] At the same time, increasing digitalization of the economy creates demand for its measurement as well as the need for more frequent surveys and censuses to keep track of fast changing dynamics.[17]

## Factors necessitating improvements in official statistics in Pakistan

In Pakistan, the importance of improving national statistical systems and statistics is increasing as the aforementioned underlying factors are gaining prominence. For instance, statistics needed for evidence-based policymaking to support some of the key reform areas are found to be either inadequate or unavailable. Studies have found that unreliable statistics have constrained accurate assessment of infrastructure deficiencies in Pakistan.[18] Similarly, unavailability of reliable statistics is an impediment to the development of various productive sectors. Taking an example of the livestock sector, there are questions about Pakistan's potential for the export of meat and dairy products given inadequate or unreliable data on the production and consumption of meat, milk, and other related products.[19] Similarly, statistics relating to the shortage of housing in Pakistan have been found to be in

[11] PARIS21 (2019); OECD (2008)
[12] For instance, demand for statistics for ownership structures of businesses (vis-à-vis vertical integration corporate groups); new sectors of production (such as outsourcing, sub-contracting); corporate and sectoral employment trend. Source: OECD (2008); C. Rangarajan (2001)
[13] While the MDGs were concluded at the end of 2015, the data availability was only 68 percent for all MDG goals. On the other hand, the SDG, to be concluded by 2030, is a more ambitious agenda with the crosscutting focus on 17 goals, 169 targets and 230 indicators, compared to 8 Goals, 19 targets and 61 indicators in MDSs. Source: UNCTAD.
[14] PARIS21 (2023)
[15] D. C. Muñoz, et al (2018); N. Kabeer and H. Waddington (2015)
[16] United Nations (2022[a]); Bank for International Settlements: D. M. Anderson, A. Whitford (2014)
[17] OECD (2020[a]); ADB (2021); T. Highfill, C. Surfield (2022); Australian Bureau of Statistics (n.d); United Nations (2019)
[18] World Bank (2021[b]).
[19] S. K. Jafri, et al (2022); World Bank (2023)

want of adequate basis, which has led to misplaced policy diagnosis.[20]

The absence of reliable market information and high frequency economic indicators is another constraint. For instance, limited data on firms and lack of market information is also considered as one of the key challenges faced by industries in Punjab, particularly by new entrants.[21] Soft information suggests that prospective Chinese investors eyeing investment opportunities in various sectors under the China Pakistan Economic Corridor (CPEC) also face similar challenges.

There is also insufficient statistical basis to adequately estimate revenue potential of the country. Limited data on production units, such as enterprise surveys or economic censuses, makes it difficult to measure the size or prevalence of the informal sector.[22] This impairs the quality of official statistics, both in terms of market sizing in particular and representation of economy in general, while also affecting tax collection. For instance, in 2019, a lack of consensus between the tax authorities and the textile association over the domestic market size of textile products – a basic market statistics – led to resistance in the reversal of zero rating of general sales tax (GST) on the industry.[23]

Meanwhile, economic structure is gradually changing on account of several reasons. These include growing number of Free Trade Agreements and gradual trade openness, alongside the government's plans for market liberalization,[24] and attracting foreign investment particularly with the aim of becoming a part of the global value chain.[25] Change in economic structure because of these factors amid increased digitalization of the domestic economy also necessitates improvement in statistical system.[26]

Similarly, despite some progress in SDGs data reporting, there are still noticeable data gaps. Pakistan has selected 193 out of a total of 247 indicators for national reporting, of which it reports data on 133 indicators. Moreover, the growing intensity and frequency of natural disasters, such as floods, necessitates developing frameworks and information inventories to support a monitoring and response mechanism through evidence-based policymaking and analysis.[27]

In this background, this special chapter attempts to answer the question whether Pakistan's statistical system is ready to deliver on the growing need for accurate data to facilitate timely and informed decision-making.[28] Accordingly, the rest of the chapter is divided as follows. Section 7.2 lays the conceptual foundation of what constitutes a statistical system. The section also identifies some methodological constraints, to comparisons between the statistical systems of various countries as a caveat to drawing comparisons with international best practices in the ensuing sections.[29]

Section 7.3 flags some of the prominent gaps in Pakistan's official statistics from the perspective

[20] Pakistan Institute of Development Economics (2022)
[21] Punjab Industrial Policy 2018
[22] Y. Cho, Z. Majoka (2020); World Bank (2020)
[23] G. Ejaz (2022)
[24] For instance, in power sector. Source: National Power Policy 2013; National Electricity Policy 2021
[25] Board of Investment
[26] Ministry of IT & Telecom (2018)
[27] National Disaster Risk Management Framework Pakistan, 2007; Pakistan SDGs Status Report, 2021
[28] Pakistan's statistical system is an under-researched subject, hence this special chapter is entitled as a primer. It undertakes broad assessment of the country's statistical system, and is not intended to be exhaustive in nature.
[29] Box standard cross-country comparisons of statistics and statistical systems are a difficult proposition, and as such extremely limited. Therefore, following global literature on NSS, this special chapter draws on international best practises to review Pakistan's statistical system. In addition, it has benefited from conversations with various public and private sector stakeholders, including current and former office holders of federal and provincial statistical agencies.

of coverage, frequency and other related facets, albeit without detailed methodological assessments given the scope and nature of this chapter. In light of Sections 7.2 and 7.3, Section 7.4 will review Pakistan's statistical system —its structure, independence, coordination among various stakeholders, and the demand side of the statistical system. Discussion on each of these aspects starts with a conceptual review of the theme, followed by a review of existing institutional arrangements and a comparison of current domestic practices with global best practices. Section 7.5 summarizes key insights from the chapter, alongside proposals for policy deliberation.

## 7.2 What is a National Statistical System?

There is no international consensus on the exact definition of a National Statistical System (NSS); neither at the United Nations, nor among other multilateral organisations. However, the NSS is generally, accepted as an ensemble of public sector organisations, ministries and departments of a country that jointly or separately collect, process, and disseminate official statistics on wide ranging socio-economic aspects: from population trends to business and economic conditions, environmental factors, health, education, and other social indicators.[30]

The NSS comprises a number of actors, and operates in a larger statistical ecosystem (**Figure 7.1**). The primary institution responsible for coordinating the development, production, and dissemination of official statistics within the NSS is known as the National Statistical Office (NSO). In addition to the NSO, government ministries, departments, or agencies, known as other producers of official statistics (OPOS), also contribute to the production and dissemination of official statistics. These include central banks, ministries of health, agriculture departments, environmental agencies, trade and commerce departments and crime investigating agencies. OPOS may release statistics on their own, or through the NSO, depending on the legal structure and the degree of centralization and devolution of the NSS in a country. Consequently, the role of the NSO and OPOS may also vary.

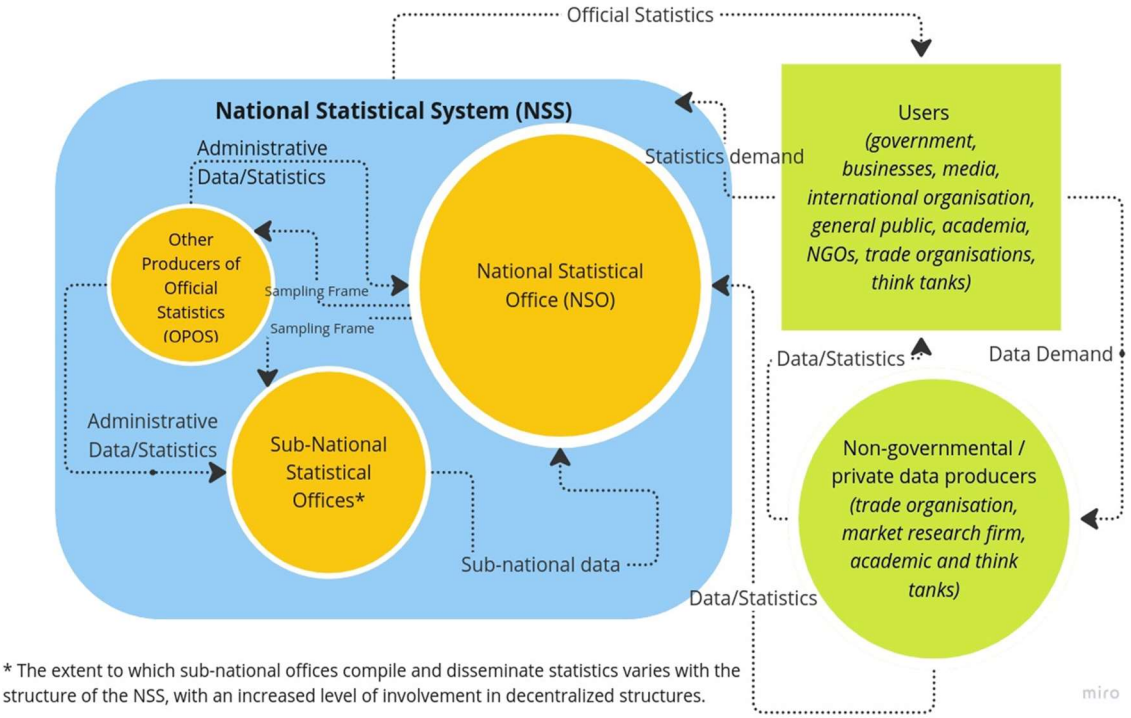
The structure of an NSS varies across countries, influenced by national circumstances and historical developments. Generally, the structure can be categorized on a spectrum of centralization to decentralization. In a centralized system, for example Canada, a single statistical organisation has primary responsibility for collecting and disseminating official statistics.[31] On the other hand, countries with a decentralized structure, such as the US, have multiple organisations and policy departments – or OPOS - responsible for producing statistics in their respective domain.

The NSS can also be regionally centralized, decentralized or devolved to sub-national regions. For instance, in Germany, each region has separate bodies responsible for conducting statistical surveys as mandated by law. However, even in a decentralized setup, certain official statistics are produced at the national level by federal authorities. In Germany, approximately one-third of official statistics result from central surveys carried out under the Federal Statistical Act.[32] Regardless of the structure, an effective coordination is required between different actors of the NSS to produce reliable statistics on a timely basis.

While the NSS encompasses the producers of official statistics, the statistical ecosystem also includes other data producers – such as non-government organisations, trade organisations, and private sector data gathering firms – who

[30] Statistics Canada (2016)
[31] ibid
[32] United Nations (2018); D. Holt (2008)

**Statistical Ecosystem** **Figure 7.1**




Source: SBP, based on various studies cited in this special chapter particularly, United Nations (2022). The Handbook on Management and Organization of National Statistical Systems. 4th Edition of the Handbook of Statistical Organization. New York: UNDESA

produce a wide variety of statistics, often based on sampling frames and other statistics provided by the NSS. The statistical ecosystem also includes various types of public and private sector users who create a demand for statistics, and also directly or indirectly supply information to the NSS and other producers of statistics.

The NSOs and its sub-national offices typically obtain data through censuses, surveys and administrative sources, such as customs data for foreign trade or civil registries for demographic changes. In addition, commercial data streams and sources, like satellite imagery and cell phone data, are also used; whereas OPOS typically rely on their own administrative records.[33]

## The challenge of commensurability

The structure of NSSs vary around the developed and developing world. They also come in different forms and sizes that make them difficult to compare or benchmark. This has led to substantial variations in the methodologies and other aspects covered in the evaluation reports of national statistical capacities.[34] Three key reasons behind the challenge of comparability are discussed below.

Firstly, while there are certain standards and classifications,[35] there is no single definition of

[33] United Nations (2022[b])
[34] C. Willoughby (2008)
[35] For instance, the United Nation's System of National Accounts is a statistical standard to compile and measure economic activity, whereas its International Standard Industrial Classification of All Economic Activities (ISIC) provides countries reference

data quality. Quality is understood as a generic term across various dimensions, such as: relevance, accuracy, timeliness, accessibility, interpretability, and coherence. However, the absence of precise definitions of quality makes the exercise of cross-country comparisons rather challenging, and prone to subjectivity. [36]

Secondly, because national statistics do not always comply with international standards on methodologies and definitions, the lack of uniformity poses a challenge to cross country comparisons and global monitoring. Even when they comply with international standards, the varieties of statistical methodologies allowed within the standards and frameworks, amid an absence of clear documentation of methodologies adopted by countries, particularly developing economies, renders country comparisons rather difficult.[37]

Thirdly, there is a lack of clarity over the scope of the NSOs alongside noticeable differences in the structure of the NSS. There is no clear agreement or unambiguous recipe for success over which actor within the NSS should produce which statistics, or what should be the core function of the NSO.[38] The NSS, as mentioned earlier is not well defined, nor is there a blue print for successful NSS. [39] They can be set up differently in response to varying national needs, structure of economy, political structure, socio-economic challenges, administrative set up and legal environment.

In cognizance of these challenges, this primer relies on three main types of analytical frames to study the NSS in Pakistan. First, the UN Fundamental Principles of Official Statistics (UNFPOS). While the UNFPOS does not provide details of how an NSS should be structured, it lays out key principles to guide country-level and international practices on various aspects, including on national coordination, use of international standards for classification, production process of statistical systems, and professional ethics.[40] Inspired by UNFPOS, other multilateral organisations have developed different standards and guidelines on various aspects of NSS.[41]

Second revolves around best practices sourced from country-specific case studies produced by independent policy research institutes and assessments of country-specific NSS by regional and global institutions. This includes National Strategies for the Development of Statistics (NSDS) of developing and emerging economies prepared by respective governments. Prepared under the guidelines provided by Partnership in Statistics for Development in the 21st Century (PARIS21),[42] the NSDS are government owned strategies to develop capacity to produce, disseminate and mainstream the use of statistics through the collective and coordinated work of the NSS.[43]

Third relates to global monitoring of statistics that emerged after the launch of UN's MDGs, and particularly SDGs, which led to the realization of data gaps for monitoring. These monitoring efforts include World Bank's Statistical Performance Indicators (SPI) that compare global NSS on the use, services, products, sources and infrastructure related to

classification of productive activities. Similarly, the IMF's BPM6 provides concepts, definitions, classifications, and conventions for balance of payments and international investment position.

[36] I. Krizman, B. Tissot (2021); G. Brackstone, (1999); P. Allum, M. Agca (2001)

[37] S. Chen, F. Fonteneau, et al (2013)

[38] OPM (2009)

[39] R. Edmunds (2005)

[40] United Nations, Resolution No. 68/261, Fundamental Principles of Official Statistics, adopted by the sixty-eighth session of General Assembly, on 29 January 2014.

[41] UN (2022[b]); UNECE[a]; OECD (2022); OECD (2020[b]); PARIS21

[42] PARIS21 is a global partnership to develop statistics for the 21st Century. It was established in November 1999, by the UN, the European Commission, the OECD, the IMF, and the World Bank.

[43] PARIS21

data.[44] It also includes Open Data Inventory (ODIN) that assesses country-level NSS on the subject of coverage and openness.[45]

Some of the key points of emphasis common to these indicators, principles, guidelines, and best practices include: independence of the NSO; effective coordination between the NSS and the statistical ecosystem; availability of reliable administrative data by OPOS and integration thereof; and an adequate demand for statistics.

## 7.3 Prominent Gaps in Pakistan's Official Statistics

As discussed in the preceding section, cross-country comparisons of statistical systems is a challenge due to the diversity of datasets and statistics thereof; statistical systems; and demands of data users in each country. However, there is a certain degree of global consensus on certain data dissemination standards and uses, such as the International Monetary Fund's (IMF) dissemination standards, and the measurement of SDGs that has given a fresh impetus to the monitoring of and improvements in NSSs around the world.[46]

In line with these trends, the World Bank has developed SPI to assess the maturity of a country's statistical system on an overarching framework across five pillars.[47] Among the 186 countries ranked on the SPI, Pakistan is ranked 87th, lagging behind its peer economies **(Table 7.1).** The three pillars of SPI in which Pakistan performs well are data usage, data products and data infrastructure. It is important to note that data use is measured solely based on the international usage of official statistics, as the assessment of usage by local academia, media, and others is limited due to a paucity of indicators. On the other hand, the final score for data products relies on the availability of SDGs indicators. International support and cooperation in collection of these datasets has also helped Pakistan fare better in this category. For instance, Pakistan's Demographic and Health Survey 2017-18 was carried out with financial and technical support from bilateral and multilateral organisations.[48]

In terms of data infrastructure, Pakistan ranks slightly better than comparable countries, but has room for improvement in standards and methods. For instance, Pakistan's National Accounts and Consumer Price Index (CPI) are not annually chain-linked.[49] Moreover, the country does not comply with the Generic Statistical Business Process Model (GSBPM) and Government Finance Statistics Manual (GFSM) that provide guidelines for processing and reporting of various statistics.[50]

Pakistan's performance in the areas of data services and data sources is relatively weak. The low score in the data services category, which assesses the connection between data users and producers, can be attributed to low scores in data releases and online access. Additionally, Pakistan's utilization of geospatial data and administrative data in the data sources category also warrants improvement.

From the perspective of dissemination and openness, Pakistan's weak standing in SPI reflects in other benchmarks as well. For instance, in the IMF's data dissemination

[44] The World Bank's SPI was introduced in 2021. It builds on and replaced the Bank's earlier Statistical Capacity Index, which was in place since 2004. The SPI is a shift from monitoring 'capacity' to measuring 'performance'.
[45] Open Data Inventory (2022)
[46] While these global benchmarks take roots in the UN's Fundamental Principles of Official Statistics, they do not always fully capture the true picture of statistics.
[47] H. Dang, et al (2021)
[48] NIPS (2017-18)
[49] Out of the 193 countries for which data was available, 40 countries had an annually chain-linked CPI (Source: World Bank SPI 2022); Annual chain linking requires revision of base year annually and linking YoY changes. Source: IMF[a]
[50] IMF[b]; UNECE[b]

**Statistical Performance Indicators 2022** **Table 7.1**

| Country | Best Performing Country* | Pakistan | Bangladesh | India | Sri Lanka |
|---|---|---|---|---|---|
| **SPI Overall Score** | **93.6** | **71.1** | **69.7** | **78.2** | **79.1** |
| **Pillar 1 - Data Use** | **100.0** | **100.0** | **90.0** | **100.0** | **100.0** |
| Data use by international org. | 1.0 | 1.0 | 0.9 | 1.0 | 1.0 |
| **Pillar 2 - Data Services - Score** | **99.7** | **61.9** | **61.9** | **87.7** | **81.8** |
| Data releases | 1.0 | 0.5 | 0.5 | 1.0 | 1.0 |
| Online access | 0.9 | 0.4 | 0.4 | 0.6 | 0.5 |
| Data services | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Pillar 3 - Data Products** | **94.2** | **86.8** | **85.8** | **86.3** | **78.0** |
| Social statistics | 1.0 | 0.9 | 0.9 | 0.9 | 0.7 |
| Economic statistics | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 |
| Environmental statistics | 1.0 | 0.7 | 0.7 | 0.8 | 0.8 |
| Institutional statistics | 1.0 | 0.7 | 0.9 | 0.8 | 0.8 |
| **Pillar 4 - Data Sources** | **88.9** | **46.9** | **51.0** | **62.0** | **80.4** |
| Censuses | 1.0 | 0.8 | 0.8 | 0.7 | 1.0 |
| Surveys | 1.0 | 0.7 | 0.6 | 0.5 | 0.7 |
| Administrative data | 1.0 | 0.0 | 0.5 | 1.0 | 1.0 |
| Geospatial data | 0.8 | 0.4 | 0.1 | 0.3 | 0.6 |
| **Pillar 5 - Data Infrastructure** | **100.0** | **60.0** | **60.0** | **55.0** | **55.0** |
| Standards and methods | 1.0 | 0.6 | 0.6 | 0.6 | 0.6 |

* Scores of the best-performing country in the relevant pillar and sub-indicator.
Note: The highest value for a pillar is 100, and 1 for its various components. SPI covers 5 pillars and was designed to have 22 sub-dimensions across the pillars. However, due to lack of data, it reports a total of 16 dimensions, of which only 14 sub-dimensions (enlisted in this table) are used for the calculation of overall SPI score.

Source: World Bank, Statistical Performance Indicator 2022

standards, Pakistan adheres to the Enhanced General Data Dissemination System (e-GDDS), whereas neighboring countries such as India and Sri Lanka subscribe to the more advanced Special Data Dissemination Standard (SDDS). Among the requirements of SDDS that Pakistan does not meet, are the production of quarterly GDP, wages and employment data.[51] However, as part of the structural benchmarks agreed with the IMF for the 9-month Stand-By Arrangement, the country is scheduled to start compiling and publishing quarterly national accounts from Q1-FY24 onward.[52]

Similarly, Pakistan ranks 121st out of 195 countries covered in ODIN. In comparison, India and Sri Lanka hold the 82nd and 96th positions, respectively **(Table 7.2)**.[53] Except for statistics related to money and banking, international trade, and balance of payments, official statistics in Pakistan need substantial improvement in coverage and openness across a wide range of data classified under social statistics, economic and finance, and environment statistics. For instance, Pakistan's ranking in the category of crime and justice data is poor due to the unavailability of indicators on homicide rates, prison populations, and limited coverage of crime rate data. Moreover, besides coverage, Pakistan's sub-score in openness significantly lags behind that of top-ranked Singapore, as well as its South Asian neighbors, Sri Lanka and India.

## Indicative list of specific data gaps

In the context of the aforementioned gaps in Pakistan's official statistics, it is useful to shed

[51] Pakistan Bureau of Statistics (2020)
[52] International Monetary Fund (2023)
[53] Open Data Watch

Open Data Inventory 2022 — Table 7.2

| Data categories | Coverage sub score | | | | | Openness sub score | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country* | SGP** | PAK | BGD | IND | LKA | SGP | PAK | BGD | IND | LKA |
| Population & vital statistics | 75 | 30 | 0 | 0 | 60 | 100 | 30 | 40 | 60 | 50 |
| Education facilities | 75 | 30 | 30 | 30 | 40 | 100 | 40 | 30 | 60 | 50 |
| Education outcomes | 75 | 40 | 40 | 40 | 40 | 100 | 40 | 40 | 50 | 50 |
| Health facilities | 75 | 70 | 30 | 40 | 70 | 100 | 40 | 30 | 70 | 70 |
| Health outcomes | 38 | 50 | 30 | 30 | 40 | 100 | 30 | 40 | 60 | 50 |
| Reproductive health | 75 | 40 | 60 | 50 | 50 | 100 | 40 | 40 | 60 | 50 |
| Food security & nutrition | 50 | 38 | 0 | 25 | 25 | 100 | 40 | 0 | 50 | 50 |
| Gender statistics | 75 | 30 | 40 | 30 | 30 | 100 | 30 | 50 | 40 | 50 |
| Crime & justice | 75 | 0 | 0 | 50 | 30 | 100 | 40 | 30 | 70 | 40 |
| Poverty & income | 38 | 0 | 40 | 20 | 80 | 100 | 0 | 40 | 30 | 50 |
| **Social statistics sub score** | 65 | 33 | 28 | 32 | 47 | 100 | 33 | 34 | 55 | 51 |
| National accounts | 100 | 38 | 38 | 75 | 38 | 100 | 40 | 40 | 60 | 50 |
| Labour | 75 | 60 | 40 | 50 | 80 | 100 | 30 | 40 | 60 | 30 |
| Price indexes | 100 | 38 | 38 | 38 | 75 | 100 | 30 | 40 | 80 | 60 |
| Government finance | 100 | 63 | 75 | 50 | 63 | 100 | 30 | 40 | 70 | 60 |
| Money & banking | 67 | 100 | 100 | 67 | 100 | 100 | 40 | 40 | 90 | 60 |
| International trade | 100 | 100 | 50 | 50 | 100 | 100 | 30 | 30 | 60 | 50 |
| Balance of payments | 100 | 100 | 100 | 83 | 100 | 100 | 40 | 30 | 60 | 50 |
| **Eco. & fin. statistics sub score** | 91 | 67 | 60 | 58 | 77 | 100 | 34 | 37 | 69 | 51 |
| Agriculture & land use | 38 | 60 | 70 | 30 | 50 | 100 | 40 | 40 | 50 | 50 |
| Resource use | 83 | 88 | 63 | 38 | 38 | 100 | 40 | 40 | 90 | 40 |
| Energy | 100 | 50 | 67 | 100 | 50 | 100 | 40 | 40 | 70 | 40 |
| Pollution | 100 | 13 | 0 | 13 | 0 | 100 | 40 | 0 | 80 | 0 |
| Built environment | 75 | 80 | 60 | 50 | 60 | 100 | 40 | 50 | 40 | 50 |
| **Environment sub score** | 77 | 60 | 52 | 43 | 41 | 100 | 40 | 34 | 66 | 36 |
| **Overall score** | 77 | 52 | 45 | 43 | 54 | 100 | 36 | 35 | 63 | 46 |

* SGP = Singapore; PAK = Pakistan, BGD = Bangladesh, IND = India, LKA = Sri Lanka

** Highest ranked.

Note: Scores in any given category are based on 10 elements, 5 each for openness and coverage. Coverage elements: first administrative level (for instance, provincial level data), second administrative level (for instance, district level data) data available last 5 years, data available last 10 years and indicator availability. Openness elements: Machine readability, Non-proprietary format, Metadata Availability, Download Options, Data license/Terms of use.

Source: Open Data Watch

light on some of the key challenges across a variety of economic and social indicators. These include the unavailability of some key indicators, infrequent compilation and dissemination of data, under collection of administrative data, and a lower information base for the production of various indicators.[54]

*National Accounts and other key indicators:*

In Pakistan, GDP calculations are based on the latest System of National Accounts[55] - SNA 2008 - and the figures are released annually. However, in a 2022 survey of 170 countries, Pakistan was one of the 26 nations that did not produce quarterly estimates of GDP.[56] Moreover, sub-national or provincial GDP figures are also not reported, despite the 18th Constitutional Amendment that devolved several policy areas to provinces. The provinces have made attempts to produce provincial GDP estimates. However, this is not a regular feature and requires comprehensive review and

[54] The list is not intended to be exhaustive due to scope constraints. Moreover, since users are integral to identification of data gaps, some of the discussion in this subsection is based on anecdotal evidence and soft information.

[55] SNA 2008 is a statistical framework that provides a comprehensive, consistent and flexible set of macroeconomic accounts for policymaking, analysis and research purposes. Source: United Nations (2009).

[56] A. Silungwe, et al (2022)

**Global Stocktaking of National Accounts Statistics: Based on 2020 survey of NSOs** **Table 7.3**

| | % of total responses in a particular category *(Green cell represents Pakistan's presence in the category)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **1-10** | **11-20** | **21-30** | **31-40** | **Over 40** | | | |
| No. of activities estimated annually | 5 | 35 | 18 | 7 | 35 | | | |
| | **No** | | **Yes** | **Yes, but the estimates are not published** | | | | |
| Quarterly GDP (any approach) | 15 | | 84 | 1 | | | | |
| Annual estimates of some or all institutional sector accounts | 45 | | 53 | 2 | | | | |
| | **Monthly** | **Quarterly** | **Annually** | **Biennial** | **Triennial** | **Quin-quennial** | **Deci-annual** | **Irregular** |
| Population Census | - | - | - | - | - | 10 | 64 | 26 |
| Agricultural Census | - | - | 2 | - | - | 9 | 29 | 60 |
| Business Register | 28 | 2 | 39 | - | - | 1 | 2 | 28 |
| Structural business survey data | 15 | 10 | 46 | - | - | 1 | - | 29 |
| Household Budget Survey/Survey of Living Conditions | 1 | 9 | 19 | 4 | 1 | 1 | - | 65 |
| Other agricultural information | 14 | 24 | 49 | 1 | - | - | 1 | 11 |
| Value Added/Goods and Services Taxation information | 40 | 36 | 19 | - | - | - | - | 4 |
| Corporate Income Tax information | 11 | 14 | 72 | - | - | - | - | 3 |
| Personal Income Tax information | 18 | 16 | 60 | - | - | - | - | 6 |
| Social Security Information *(such as employment or benefits information)* | 25 | 30 | 36 | - | - | - | - | 9 |
| Customs import and export declarations information from customs authorities | 77 | 16 | 7 | - | - | - | - | 1 |
| Consumer price indices | 100 | 0 | - | - | - | - | - | - |
| Import and export price indexes | 52 | 37 | 9 | - | - | - | - | 2 |

* Cells not highlighted in green indicate that response to the questionnaire was left blank.

Source: A. Silungwe, A. Baer and V. Guerreiro (2022). 2020 *Global Stocktaking of National Accounts Statistics: Availability for Policy and Surveillance.* Working Paper No. 2022/029. Washington D.C.: IMF.

coordination between the federating units to ensure consistency.[57]

From the perspective of source data, Pakistan's national accounts are based on estimates of 11-20 economic activities. In comparison, advanced economies like the US and Canada, and even developing country peers like Sri Lanka and India track around 40 activities for their national accounts.[58] Various types of source data, such as those related to taxation and social security, are not available **(Table 7.3)**.[59] While Pakistan produces the CPI on monthly basis as per international best practices, it does not report Producer Price Index (PPI). The PPI can serve as an early indicator of inflation, allow assessment of business cost pressures, and improve policy formulation. In contrast, other South Asian economies, such as Sri Lanka and Bangladesh regularly publish the PPI. [60] Similarly, while Pakistan reports monthly trade data from custom authorities, it reports trade price indices

[57] For instance, KPK Bureau of Statistics published its provincial GDP for FY21, and Punjab has also estimated its GDP used in informing Punjab Growth Strategy 2023. Source: KPK BoS, Planning and Development Board. Punjab; Punjab Bureau of Statistics[a]

[58] Economic activities are categorized based on the industry or sector in which they occur, such as livestock, manufacturing, and education.

[59] A. Silungwe, et al (2022)

[60] Sri Lanka's Department of Census and Statistics[a]; Bangladesh Bureau of Statistics

on quarterly basis. This is unlike majority of the countries.[61]

Gaps also exist at the sectoral level. For instance, harvest prices of crops are not available in Pakistan. In contrast, annual state disaggregated data on 'Farm Harvest Prices' is available for 36 principle crops in India.[62] The last agriculture census in Pakistan was held in 2010, a notable time gap of more than 10 years, whereas frequent floods, climate change and changing market dynamics warrant more frequency of such surveys.

Similarly, estimates of livestock, which contributes to 63 percent of agricultural GDP and around 14 percent of national GDP, is based on inter-census growth between livestock surveys of 1996 and 2006 amid an absence of annual or five-yearly surveys. Only three livestock surveys have been conducted so far, starting in 1986 through 2006, indicating a large time gap in providing reliable information on sectoral dynamics. The country also does not estimate income, outlay, savings, and financial flows and stocks by institutional sectors accounts.[63]

*Labour and unemployment:*

Official data related to labour, particularly wages and unemployment, plays a crucial role in policymaking - both from the perspective of macroeconomics, such as monetary policy, and from the lens of development policies, such as those relating to structural changes in employment, working conditions, and wage gaps.[64] In popular discourse too, unemployment remains one of the most talked about socio-economic problem in Pakistan and around the world.

While Pakistan has recently started conducting Labour Force Survey (LFS) at the district level through the use of technology, the frequency of the survey has been low.[65] Since 1963, Pakistan has conducted only 36 annual LFS and 8 quarterly surveys (4 each in FY11 and FY13).[66] Moreover, the results of LFS are published with a considerable time lag, which decreases its effectiveness for analyzing and reflecting on the prevalent trends in employment and wages.[67]

This is unlike international best practices, where unemployment and wages are tracked on a quarterly or even monthly basis. In some countries, key labour statistics are gathered through social registries, whereas other countries rely on frequent labour market surveys. For instance, Sri Lanka and India have been conducting quarterly LFS since 1990 and 2018, respectively.[68] Likewise, Nigeria has recently adopted the best practices for quarterly LFS, and have incorporated digital technologies to ensure geo-referencing of enumerators' locations.[69]

Developed countries, such as Canada, have been conducting their LFS on a monthly basis since 1952. Over the years, the scope of the Canadian LFS has also expanded to include employment, payroll, and hours worked that provide insights on earnings and job data, categorized by

[61] A. Silungwe, et al (2022)

[62] PBS (2022); PBS[a]

[62] IMF[c]

[63] Institutional sectors are groupings of institutional units, forming structural building blocks for financial statistics. An institutional unit is an economic entity capable of owning assets, incurring liabilities, engaging in economic activities, and conducting transactions with other units or entities. This encompasses households, as well as legal or social entities like corporations, non-profit organisations, and government units, IMF[c]

[64] ILO

[65] Pakistan Bureau of Statistics (2020-21)

[66] PBS[b]

[67] SBP (2021)

[68] Sri Lanka's Department of Census and Statistics[b]; Ministry of Statistics & Programme Implementation, India.

[69] J Lain, U. Pape (2023)

industry and geographical regions.[70] In the US, the Bureau of Labor Statistics reports monthly employment and unemployment figures collected through the Current Population Survey,[71] whereas in the UK a monthly LFS is complemented by administrative data from Jobseeker's Allowance & Universal Credit to gain more granular information about individuals availing unemployment benefits.[72]

*Small and Medium Enterprises (SMEs):*

Pakistan has a large SME segment that is estimated to contribute 40 percent of GDP, 25 percent of exports and 78 percent of non-agricultural employment.[73] However, despite its widely accepted importance for both macroeconomic and developmental objectives, SMEs footprint in Pakistan's economy and trends thereof is not adequately measured.[74]

Data about economic activities of SMEs and other business enterprises comes from the Census of Economic Establishments of 2005, after which no such census has been conducted.[75] From the perspective of national accounts, the Small and Household Manufacturing Industries survey serves as the primary tool; the last such survey was conducted in 2015-16, after a gap of about ten years, and henceforth the inter-census growth rate is being applied for estimating annual growth.[76]

There are no monthly or quarterly estimates for SME production, unlike the large scale manufacturing index that tracks monthly production of large industries. Nor does Pakistan report annual estimates for the number of SMEs or their contribution to the economy. Also, most of the current data collection mechanisms in Pakistan captures either small or large firms, and only accounts for the manufacturing sector. This is an inadequate information base for policy and planning for the SME sector.[77]

In contrast, Malaysia reports SMEs' contribution to GDP and exports on an annual basis across the agriculture, manufacturing and service sectors, and their key sub-sectors. This is based on data from censuses of establishments and enterprises conducted every five years, complemented by annual economic surveys and administrative data. In the Philippines, SMEs performance is measured through the Annual Survey of Philippine Business and Industry that tracks a wide range of activities including employment, income, subsidies, information regarding assets, and sales from e-commerce.[78] In the UK, annual estimates on SMEs come from the Inter-Departmental Business Register managed by the UK's national statistics office, whereas in Canada, the information is gleaned from the country's Business Registry updated on a monthly basis, alongside triennial sample surveys, monthly surveys and data from Canada's revenue agency.[79]

*High-frequency economic indicators (HFEIs):*

Short-term indicators or high-frequency economic indicators do not only provide important insights on fast changing economic conditions but are also used to fill the gaps in official data - which are available with lags. They help policymakers understand the underlying trends in the economy and spot turning points in the business cycles. The HFEIs are not only important for monetary policy

[70] Statistics Canada[a&b]
[71] Bureau of Labor Statistics
[72] Office of National Statistics
[73] SMEDA (2022) and SBP (2022)
[74] Pakistan Bureau of Statistics (2020)
[75] ibid
[76] Pakistan Bureau of Statistics (2022)
[77] Pakistan Bureau of Statistics (2020)
[78] Ministry of Economy, Department of Statistics Malaysia; OECD (2019)
[79] OECD (2014).

decisions[80] but, as the Covid-19 pandemic showed, they are also important to assess policy responses in real-time.[81] However, HFEIs are more meaningful in terms of causal relationships when they are integrated in a coherent and comprehensive analytical and statistical framework. In particular, the HFEIs need to be aligned with traditional benchmarks, such as quarterly national accounts and gross value added by economic activity.

Globally, countries are increasingly making efforts for availability of these indicators on a monthly, weekly and even daily basis from both the demand and supply side across agriculture, manufacturing and service sectors. Examples of these indicators include: new and existing house sales; indices for new orders and turnover for industry, retail and construction; same-store retail sales; and daily truck toll mileage index; freight (air, sea and land); new employment in services and industry; and tourism related statistics.

The HFEIs rely both on administrative sources — such as building permits, unemployment insurance claims, and railroad traffic — and trade organisations for statistics relating to the sector/region in their scope. For instance, in the US, the Federal Reserve of New York has constructed a weekly economic index of some daily and weekly indicators of real economic activity including American Staffing Association Staffing Index,[82] the Association of American Railroads, and fuel sales to end users.[83] With the growing digitalization of economies, alternate data is also being used. This includes: the relative frequency of internet searches for word like unemployment, short-term work and vacancies; average nitrogen dioxide concentration in the air, and credit card transaction data.[84]

In Pakistan, certain HFEIs are available and are being used by policymakers, including the SBP. These include monthly agriculture credit disbursement published by the SBP, monthly sales data by automotive and cement manufacturers association, monthly fuel sales data provided by Oil Companies Advisory Council, monthly electricity generation data provided by National Electric Power Regulatory Authority, and monthly public sector development spending shared by the Planning Commission. Some of these are also used for the purpose of now casting.[85] However, a lot of key HFEIs are either not compiled or are not publicly released. These include federal taxes withheld, short term service indicators, such as hotel occupancy, retail sales, comparable-store sales, highways tolls, building permits, domestic air passenger and cargo traffic, and indexes tracking online job market placements.[86]

In addition to other overarching institutional challenges discussed in Section 7.4, these gaps mainly stem from a lack of timely administrative data releases by policy departments, and sectoral data recorded by trade organisations. Moreover, in the absence of high frequency data for traditional measures, such as quarterly national accounts data, it is difficult to gauge the efficacy or predictive power of such high-indicator indices.[87]

[80] SBP (Forthcoming)
[81] IMF Presentation 2021
[82] The American Staffing Association Staffing Index tracks temporary and contract employment with data coming from a large panel of staffing companies.
[83] Federal Reserve Bank of New York
[84] Bundesbank; Federal Reserve Bank of New York
[85] Now casting refers to the practice of using recently published data to update key economic indicators that are published with a significant lag, such as real GDP. Source: IMF
[86] For example, The Naukri JobSpeak is a monthly index used in India that calculates hiring activity based on the job listings on the Naukri.com website every month. Source: Reserve Bank of India.
[87] SBP (Forthcoming)

*Civil Registration & Vital Statistics:*

Civil Registration and Vital Statistics (CRVS) is the process of collecting information on vital events such as births, marriages, migrations, deaths, and causes of death. By recording events in real-time, CRVS becomes a real-time source of statistics. While CRVS may not completely replace surveys and censuses designed to extract specific information, it can inform the design of surveys and censuses. In developed countries, the use of CRVS for producing official statistics is already common. For instance, Statistics Sweden utilizes registered person data provided by the Swedish Tax Agency as the basis for population statistics.[88]

However, in the case of Pakistan, the collection and usage of vital statistics is currently limited. It is estimated that approximately 42 percent of children under five years old are officially registered, and only 36 percent possess a birth certificate. Similarly, less than 5 percent of deaths in the country are being registered. The reporting of complete and accurate causes of deaths is also lacking, whereas the adoption of the International Classification of Diseases at hospitals is not widely practiced due to limited awareness and training among hospital staff. Nonetheless, it is worth noting that the government is aware of the importance of CRVS and is taking steps to strengthen the CRVS mechanism.[89]

## 7.4 The State of Pakistan's NSS

In the context of the foregoing discussion, this section sheds light on Pakistan's NSS including its overall structure, and some of the overarching interrelated challenges. The latter includes those relating to independence of the NSO, coordination within the NSS and the statistical ecosystem, administrative data, and the overall demand for statistics in the country.

### Basic structure

Pakistan's NSS is at an intermediate position of the continuum between a centralized and decentralized statistical system.[90] The Pakistan Bureau of Statistics (PBS) serves as the central agency of the country's NSS, or the NSO. The PBS is mandated both to collect data and statistics, and to coordinate statistical activities at the national level. It is headquartered in Islamabad with four provincial offices and 34 Field Offices across the country.[91]

The PBS collects data via both primary and secondary sources. For instance, as part of its primary data collection, PBS conducts various censuses, such as population and housing census, Mouza census, and livestock census. Another source of primary data is surveys, such as Pakistan Demographic Survey, Pakistan Social and Living Standards Measurement (PSLM), Household Intergraded Economic Survey (HIES) and LFS. The PBS also collects data from secondary sources such as Pakistan customs, federal ministries and provincial governments, for various data sets such as external trade, production index and social statistics.[92]

The country's NSS also includes four Provincial Bureau of Statistics (PBoS), one in each province, and two statistical cells at Gilgit Baltistan and AJ&K that do not have full-fledged bureaus.[93] The PBoS are responsible for the collection, compilation and dissemination of statistics on policy areas devolved to provinces after the 18th Constitutional Amendment, while coordinating among various statistical cells of provincial departments. They are also responsible for coordinating with the PBS on statistics compiled

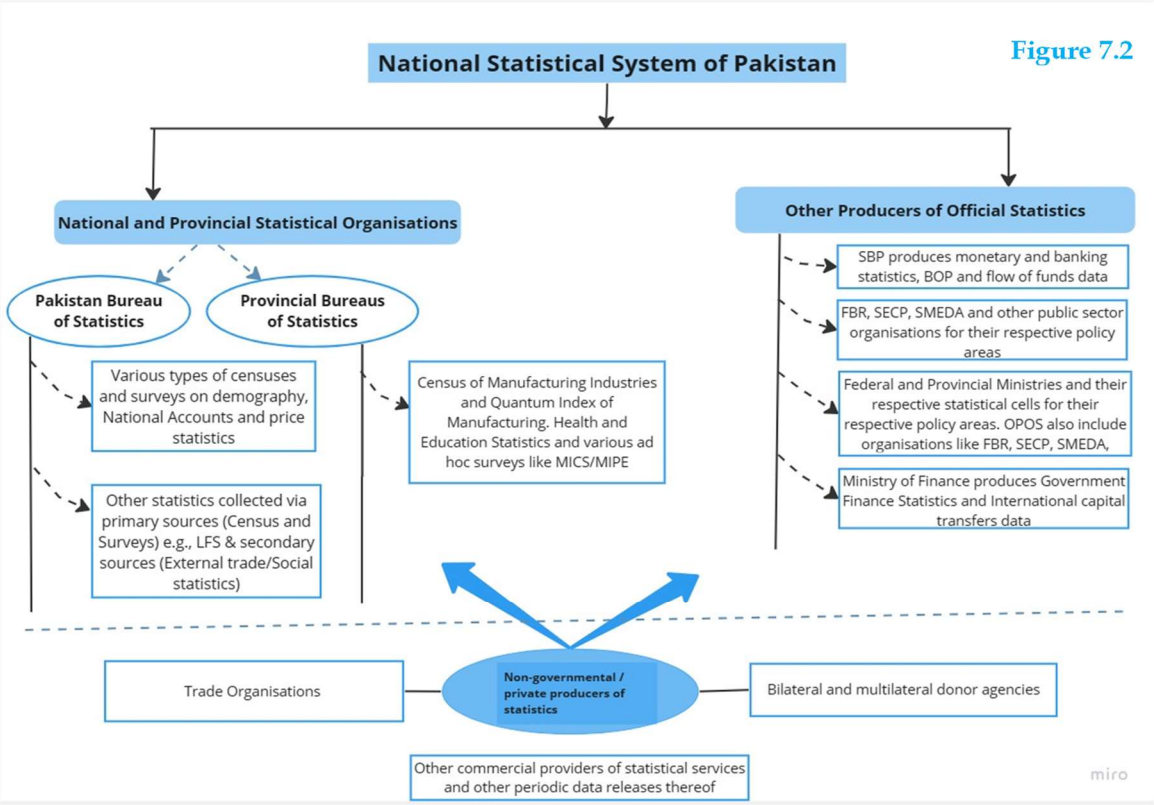
[88] Statistics Sweden
[89] Ministry of Planning, Development & Reform and Planning Commission
[90] Pakistan Country Paper, United Nations
[91] PBS[c]; PBS (2023)
[92] PBS[d]
[93] Pakistan Bureau of Statistics (2020)

by it, and serve as a liaison between the Federal and Provincial Governments for various statistical matters, in addition to serving as a Secretariat for the Provincial Statistical Council.[94]

Both the PBS and the PBoS operate primarily under the General Statistics (Reorganization) Act 2011 (GSR) (as amended up to February 2022)[95] that provides the legal basis for compilation, analysis, and dissemination of statistics in the country. It outlines the structure and functions of statistical agencies of Pakistan and gives an institutional mechanism for the overall working of NSS in Pakistan. Furthermore, the Industrial Statistics Act, 1942 gives a legal framework for gathering various facets of industrial data.[96]

In addition to PBS and PBoS, OPOS also form a part of NSS (**Figure 7.2**). They comprise different statistical cells or research and analysis units under various federal and provincial ministries and policy departments. For instance, the Agricultural Policy Institute of the Ministry of National Food Security and Research publishes "Agricultural Statistics of Pakistan" which is a data bank on agriculture at a national level, and Ministry of Industries and Production which collects data on Large Scale Manufacturing (LSM).[97]

**Figure 7.2**




Sources: SBP based on various documents and websites cited in this special section chapter particularly: (a) National Development Strategy 2021-2030 (b) PBS website (www.pbs.gov.pk) (c) Sindh Bureau of Statistics and Punjab Bureau of Statistics website

[94] Punjab Bureau of Statistics[b]; Sindh Bureau of Statistics
[95] Senate of Pakistan
[96] Industrial Statistics Act 1942
[97] Pakistan Bureau of Statistics (2020)

Moreover, public sector organisations and institutions like the Federal Board of Revenue (FBR), provincial taxation organisations and departments, Security Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP), registries like the National Database and Registration Authority (NADRA) and the Benazir Income Support Programme (BISP), which collects data relevant to their field of work, are also by definition a part of the country's OPOS.

Lastly, while non-government and private producers of statistics, such as multilateral agencies and business associations respectively, are not a part of the NSS, they are an important part of the statistical ecosystem. At the one end, the statistics they produce relies on the data supplied by the NSS. For instance, they depend on the PBS for sampling frames. This is because the PBS is the custodian of sampling frames of Pakistan, mandated to support all national and international organisations, departments, agencies for conduct of surveys and censuses as per international standards.[98] At the other end, non-government and private data producers also supply data to the NSS.[99] Furthermore, commercial providers of statistical services also contribute to the overall statistical system by providing data, such as on the start-up and equity landscape of Pakistan.

## Independence of NSO

The professional independence of a statistical organisation is critical for public trust in the NSO; the United Nations Fundamental Principles of Official Statistics requires statistical agencies to compile data impartially and make it public accordingly.[100] Therefore, it is not enough that an NSO is independent by way of legal stipulation but it also has to be widely perceived and acknowledged as such by the public.[101] Literature suggests that NSOs are most independent if they are not reporting to the ministries of planning, finance, industries or any other ministry that needs statistics to support their policies both at the time of policymaking and at the time of performance review of those policies.[102]

Different countries have undertaken reforms to strengthen the independence of their NSOs. For example, in 2007, the UK passed a law that provides statutory protection of independence of its NSO by creating an independent board known as the U.K. Statistics Authority (UKSA). The UKSA is a body corporate[103] working as a non-ministerial department that reports directly to the UK Parliament. It has the statutory objective of promoting and safeguarding the production and publication of official statistics, including developing and maintenance of its definitions, methodologies, classifications and standards.[104]

Similarly, the National Statistics Committee (NSC) in Kyrgyz Republic is mandated to present its work directly before congress and public bodies.[105] The head of the NSC is appointed by, and reports to the President, which ensures non-interference by ministries and various policy departments. Moreover, following best practices, such as that in the US, the appointment of the head of the NSC in Kyrgyz Republic is made such that it does not coincide with the term of the administration,

[98] Pakistan Bureau of Statistics (2020)
[99] For example, trade organisations like Pakistan Automobile Manufacturing Association, Pakistan Sugar Mills Association, and Pakistan Cotton Ginners Association supply data to PBS and PBoS.
[100] United Nations (2015)
[101] D. T. Holt (2008); Principles and Practices for a Federal Statistical Agency (2017)
[102] C.W Howard (2021)
[103] A body corporate is an organisation such as a company or government that is considered to have its own legal rights and responsibilities.
[104] UK Statistical Authority, Section 9, Statistics and Registration Service Act 2007
[105] S. Khwaja, T.K Morrison (2002)

which strengthens the element of professional independence of the statistical body.[106]

In Canada, where the NSO – Statistics Canada (SC) - reports to the Minister of Innovation, Science and Economic Development,[107] legislation has explicitly empowered the Chief Statistician – the head of the NSO - to reinforce the SC's independence. The office of the Chief Statistician in SC is empowered to take decisions on collection, compilation, release, methods, work plans of official statistics, and any rules or instructions thereof. Moreover, the law requires that any ministerial directives on methods procedures and operations to the Chief Statistician are tabled in written form to the Canadian Parliament, whereas the office of the Chief Statistician may require ministerial directives on statistical programs to be made in writing and made public before it acts on it.[108]

In comparison, the PBS has evolved through various organisational forms and reporting lines that include Economic Affairs Division and Ministry of Interior in its initial years. Even when the NSO was reporting to a separate Statistics Division, the division itself was a part of a portfolio of finance or planning ministries for many years. In its current form, the PBS is an attached department of the Ministry of Planning Development and Special Initiatives (MOPDSI) as per the February 2023 amendment to the GSR Act 2011 that had originally conceived it as an attached department of the Ministry for Finance, Revenue, Economic Affairs and Statistics (**Figure 7.3**).[109] Similar to the PBS, the PBoS are also working as attached departments of the respective provincial planning and development departments.

The GSR Act 2011 vests powers and functions of the PBS and overall direction, management, control and superintendence with the Governing Council (GC). The GC is chaired by the minister in charge, i.e. minister of MOPDSI, with vice chairman being the office bearer of Deputy Chairman of Planning Commission. Other ex-officio members of the GC are: Secretary of the MOPDSI, and Chief Statistician of PBS who acts as the secretary of the GC. In addition, four members from the private sector are appointed by the Federal Government.[110] Decisions of the GC are taken by majority votes, with the chair having a casting vote in case of equal votes.

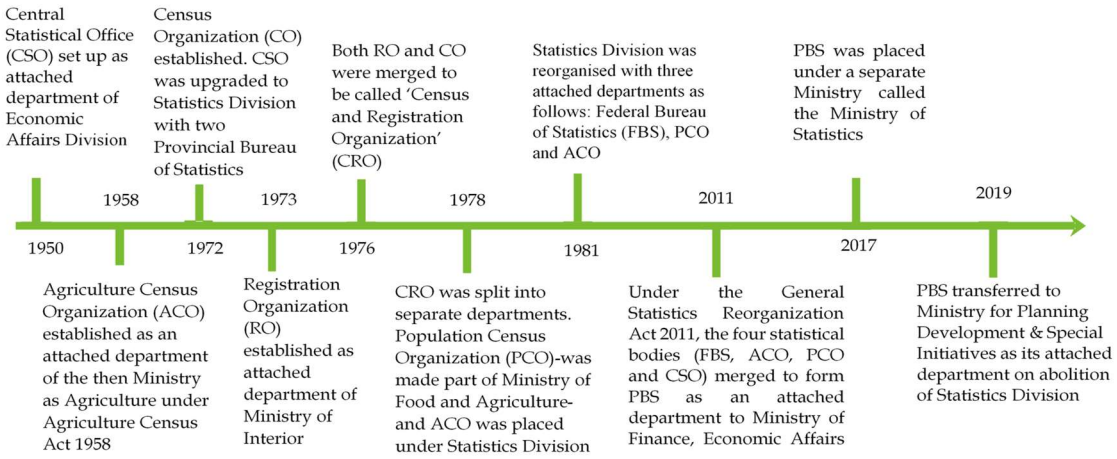
The Chief Statistician of PBS has the powers to supervise, appraise, and review administrative affairs of PBS's activities under the guidance of the GC. However, it is effectively the GC, as chaired and vice-chaired by the planning ministry, that has the powers to guide and oversee the management and administrative affairs of the PBS, review and approve work plans, recommend budgets to the federal government and constitute committees to carry out day to day business and functions of the PBS against its work plan and goals.[111]

## Coordination within the NSS and statistical ecosystem

One of the essential ingredients to achieve consistency and efficiency in the NSS of a country is effective coordination among various statistical agencies, which as discussed earlier include NSOs and OPOS. The importance of such coordination is even more significant in decentralized statistical systems, like in Pakistan, to ensure harmonization amid an increasing contribution of administrative data to the NSS. It also ensures standardization that makes statistics comparable at global and national level. It also serves as the first step

[106] S. Khwaja, T.K Morrison (2002); Principles and Practices for a Federal Statistical Agency (2017)
[107] Statistics Canada Fees Report Fiscal year 2021–22
[108] Government of Canada; Section 4.2 (1), Statistics Act R.S.C., 1985, c. S-19
[109] Amendment of Section 6, Ordinance No. XIV of 2011 (amended as of February 22, 2022); Section 6 of the General Statistics (Reorganization) Act 2011
[110] Section 5 and 6, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)
[111] Section 8, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)

**Brief History of National Statistical Office of Pakistan** **Figure 7.3**




Source: Pakistan Bureau of Statistics website. Information on the Statistics Division of the Government of Pakistan (https://unstats.un.org/unsd/dnss/docViewer.aspx?docID=51#start accessed on May 27, 2023); Introduction Bureau of Statistics , Punjab (bos.gop.pk); UN website. (https://unstats.un.org/unsd/dnss/SearchResults.aspx); S.R.O. 82 (KE), 2018, Notification August 2, 2018, The Gazette of Pakistan, Part II, Ministry of Statistics, Statistics Division, Islamabad: PBS

towards integrated statistics, which minimizes duplication and respondents' burden while enhancing cost efficiency and the quality of statistics through data corroboration from multiple sources.[112]

The importance of coordination may be gauged by the fact that national statistical systems that feature as best practices have either a separate body for coordination, or have other formal institutional mechanisms for it. For instance, in the Philippines, the National Statistics Coordination Board's (NSCB) was established as the coordinating body on statistical issues separate from the country's NSO. The NSCB is primarily is a federal body with representatives of various statistical agencies and OPOS of the country as well as representation of the private sector and local government. At subnational level, the functions of the NSCB are replicated through its regional divisions.[113]

In China, where there is no separate body for the purpose of coordinating statistical affairs, the country's NSO - National Bureau of Statistics (NBS) – has signed inter-departmental protocols for data collection and dissemination with different ministries, which are updated regularly for smooth functioning of this mechanism. As per the statistical law in China, respective ministries collect data as approved by the NBS, and therefore, all data published by the respective ministry forms a part of official data and is disseminated following appropriate quality control procedures. This ensures standardization and harmonization of datasets.[114]

Similar practices of legal or formal agreement with other ministries and official bodies for collection and dissemination of statistics are found in Romania. Despite the presence of a separate Statistics Council for Coordinating Statistical Authority, Romania's NSO - National Institute of Statistics and Economic Studies - has formal agreements with other statistical agencies and ministries that produce data that helps to smoothen working relationships between these

[112] UNFPOS Principle 8; S. Khwaja, T.K Morrison (2002); United Nations ESCAP; FAO (2014)
[113] M. B. Sarwar, et al (2018); UN Statistics Division
[114] S. Khwaja, T.K Morrison (2002)

bodies.[115]

In cases where there is no separate agency for coordination among various statistical agencies, global best practices suggest that the NSO or a designated statistical agency has a clear legal mandate, representation from all other statistical agencies, and well-defined TORs through which coordination between statistical agencies is ensured. For instance, in the United States, which has a highly decentralized statistical system, the Office of Management and Budget is legally mandated with coordinating the U.S. federal statistical system. It delegates this function to the Chief Statistician, who chairs the Interagency Council on Statistical Policy where all statistical agencies have representation. Inter-agency committees are formed to raise common concerns and recommendations of these respective committees are issued as formal directives for all agencies to follow.[116]

In Pakistan, the GSR 2011 tasks the PBS to formulate, prescribe and implement principles for conducting official statistics in Pakistan including standardization and harmonization of concepts, definitions and classifications pertaining to official statistics. It is also tasked with reducing duplication within the country's NSS, and overall regulation and coordination of statistical activities, including independent monitoring, evaluation and review of statistics and the NSS.[117] This is also in line with the guidelines of the Interagency and Expert Group on SDG Indicators that assigns the role of coordination across NSS to the NSO.[118] The PBoS are mandated to do the same at provincial level across the line departments within the province.[119]

However, coordination mechanism among and within the statistical organisations is weak.[120] While there is some level of coordination within the NSS, such as for large census, surveys and key indicators,[121] these interactions are on ad-hoc basis. Unlike best practices discussed earlier, there are no permanent institutional and legally mandated platforms for coordination. The GC, as highlighted in the previous section, does not have any ex-officio membership of the PBoS, nor any of the OPOS. This contributes to problems of comparability, given differences in the calendar of surveys, and definitions and classifications.[122]

The state of the Users Council at national and provincial level is similar. Under the GSR 2011, the Users Councils are required to be constituted to perform various functions, including coordination of statistics related policies and operations, addressing statistical gaps, and reducing duplication and differences.[123] However, while the National Users Council has been notified at the federal level, it had not held any meeting until December 2020,[124] whereas a review of PBS's official newsletters for the period between December 2020 and December 2022 suggest that the council did not meet after that as well.[125] Similarly, Users Councils at the provincial level had not been notified up until December 2020,[126] and soft information suggest that it was still not been notified until June 2023.

It is also important to note that ex-officio membership of the User Council of the PBS is

[115] S. Khwaja, T.K Morrison (2002)
[116] Principles and Practices for a Federal Statistical Agency (2017)
[117] Section 4 and 8, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)
[118] PBS (2020)
[119] Section 20, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)
[120] PBS (2020)
[121] IMF[d]
[122] For instance, Multiple Indicator Cluster Surveys (MICS) are done by provinces in different years. Source: UNICEF MISC
[123] Section 13, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)
[124] PBS
[125] PBS[e]-News Bulletin available on PBS website for the period December 2020 to December 2022
[126] PBS (2020)

not specified, neither at the federal level nor at the sub-national level.[127] This also implies that there is no permanent forum for cooperation between PBS and PBoS, on the lines of the abolished National Statistical Council, where PBoS could share their views and plans. While coordinating platforms between the PBS and PBoS are necessary to be created with due representation of other statistical agencies, there is also a need for data users' and producers' councils across the country.[128] This will improve coordination as producer councils work to integrate data by developing a comprehensive framework ensuring standardization and resolution of common challenges. While the country's NSS is responsive to the needs of international donor agencies, the aforementioned gaps point toward the fact that the NSS also needs to significantly improve its responsiveness and relevance to expanding needs of policymakers and other domestic stakeholders.[129]

## Administrative data

With growing digitalization of government records and ICT usage across administrative and policy functions of government departments and specialized public sector organisations, NSOs around the world have started using administrative data for compiling official statistics. While administrative data is not always a replacement for traditional statistical sources, such as census and surveys, they provide valuable insights on monthly trends across various facets of the economy, including taxation, population, health, education, pension, labour, motor vehicles, construction, and state of markets. In addition to providing timely information in an increasingly fast-paced economic environment, administrative data improves sampling frames and statistical coverage for traditional sources.[130]

In particular, three key features of administrative data make it an essential ingredient in modern NSS. First, they offer rich information, often near-actual information rather than only estimates, on businesses, markets and individuals at the micro level. Second, they are high frequency, ranging from quarterly and monthly to even weekly numbers. Third, they provide comprehensive coverage of the formal sector, while also helping authorities to address informality via triangulation and corroboration of data.[131]

Administrative data can enhance a wide range of statistics. For instance, administrative records on health, education, and welfare can be used in assessment of expenditure with regard to national accounts, in addition to its usefulness in impact assessment of relevant policies. Similarly, as is being practiced in the UK, demographic administrative data – CRVS - and migration statistics can inform census statistics.[132]

The integration and merging of various administrative records with one another and with tax data can also offer policy insights through corroboration and triangulation of data. For instance, Statistics New Zealand's Integrated Data Infrastructure (IDI) provides anonymized data based on individual life events such as income, benefits, migration, health, and education. It also has a Longitudinal Business Database (LBD) with information on topics like agriculture, business financials, and employment.[133] Both LBD and IDI are linked through tax data and complement each other. Other examples include Statistics Canada's Longitudinal Administrative Databank, a

[127] Section 12, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)
[128] PBS[f]
[129] Pakistan Bureau of Statistics (2020)
[130] D. P. Cheung (2008)
[131] P. Bachas, A. Jensen (2022)
[132] L. Rivas, J. Crowley (2018); I. Krizman, B. Tissot (2021)
[133] Statistics New Zealand

research tool comprising of information on household, family, income, immigration, pensions, spending and taxes. Similarly, Statistics Denmark's Integrated Database for Labor Market Research provides data on workplaces on an individual level, which can be used for analysis on mobility, job creation by companies, and link between individuals and companies.[134]

The use of taxation record is particularly useful given its usage in national accounts data, for instance through tracking of new industries and business models via value added sales taxes, and improved estimates of intermediate consumption needed for gross value added. For instance, flow of timely tax data is used in compilation of GDP in current and constant prices. In Gambia, the coordination between NSOs and tax authorities is enabling the development of a business register and the compilation of quarterly GDP estimates.[135]

In Pakistan too, opportunities exist for the NSO and the NSS to benefit from the usage of administrative data through an integrated system. Pakistan has multiple sources of administrative data. These include NADRA (civil registry), BISP (social registry), SECP (company's registry), education records at the Higher Education Commission and various education Boards, FBR (tax data), records of tax bodies that levy provincial GST on services, vehicle registration records, automated land records in Sindh and Punjab as well as the e-stamp for real estate transfer of ownership.[136]

For instance, one such integration of administrative records with traditional sources could emerge from the coordination between the PBS and tax authorities, particularly after the 7th Housing and Population census. The census has been conducted digitally for the first time in the country's history, through which the PBS has integrated the data for development of frame for economic census.[137] The tax authorities, the FBR and provincial tax bodies for GST on services, along with the SECP and district offices that hold records of Association of Persons and partnership firms can jointly maintain a business register. To this end, the PBS can provide guidance on data quality, industry classification, harmonization and standardization, while tax authorities, the SECP and district offices can provide their respective data. This can help the PBS to regularly update its sampling frames, monitor business cycles, and acquire useful information for preparation of quarterly national accounts. At the same time, this will help tax authorities to broaden their tax base by analyzing the geo-tagged clusters of economic establishments that PBS will have, once census results are finalized.[138]

However, these opportunities are constrained by a host of factors. First, except for some public sector organisations and policy departments, administrative departments and ministries in the country give low priority to their statistical functions, resulting in outdated, non-automated administrative processes and record keeping thereof. Second, as discussed in the previous section, Pakistan's NSS is marked by weak coordination between the PBS and PBoS as well as between other producers of statistics, and statistics users. Without coordination, even if datasets are automated, they may lack standardization and harmonization.

Third, the legal framework regulating the NSS in Pakistan needs improvement. Unlike many other countries,[139] maintenance of digitalized administrative data is not mandated by law, nor does the law specifically stipulate sharing administrative data between various statistical agencies. The statistical legislation also does not

[134] Statistics Canada[c]; Statistics Denmark
[135] L. Rivas, J. Crowley (2018)
[136] PBS (2020); Sources: Sindh Board of Revenue; Punjab Board of Revenue
[137] PBS[g]
[138] PBS[h]
[139] L.Rivas, J. Crowley (2018)

cover the impact of digitization, Big Data, or rules for statistical audit that are needed to ensure data quality at the time of using administrative and commercial data for official statistics. Instead of covering the whole statistical infrastructure of a country, the law mostly focuses on the country's central statistical agency.

Fourth, while the GSR 2011 has explicit provisions to ensure secrecy and confidentiality of statistics,[140] including responses of survey respondents, and other statistical information, the overall legislative framework lacks supporting framework such as Code of Practice, and other supporting legal framework such as data sharing laws. This is important because confidentiality is critical to successful data sharing practices. Successful data sharing relies on supporting legislative frameworks, such as data protection laws, and codes of practice, that spell out acts and abstinences in various areas including data and cyber security, anonymization of data, compatibility of ICT systems, data standardization, protocols of practice and onward sharing. It is important that these elements are grounded in law rather than in MoUs between the NSO and administrative bodies; failing which public confidence, particularly in tax authorities, may erode.[141]

## Demand side of NSS

The demand for official statistics is an important enabler of improvements in statistics and the NSS. Lack of adequate demand for official statistics and a robust statistical system (**Box 7.1)**, especially from public and private sector stakeholders within the domestic economy leads to inadequate statistical output, further leading to resource constraints and weak statistical systems.[142]

It is in recognition of this widely accepted notion that the NSOs of most countries have Users Councils and undertake user satisfaction surveys to gauge and understand user demand, identify gaps and improve data quality.[143] In Pakistan, as discussed in preceding sections, Users Councils are inactive whereas user satisfaction surveys are irregular. At the same time, the demand for official statistics does not appear to be robust.

There are three main drivers of demand for official statistics: the public sector for policymaking; academia, think tanks and other research clusters; and the private sector, particularly trade organisations. In Pakistan's public sector, there is both weak demand and a weak environment of evidence-based policymaking, especially at the sub-national level, coupled with a range of constraints, such as inadequate financial resources, lack of research skills and ability to identify and approach information and evidence producers. This hinders public sector's demand and use of official statistics.[144]

The research clusters on the other hand, including universities and think tanks, are effected by the lack of independent research and are largely inspired by internal deliberations instead of evidence-based discourse. This is suppressing a culture of formal research and monitoring mechanisms. Moreover, the number of think tanks and policy research institutes is not commensurate with the complexity of policy needs. Most such organisations rely almost entirely on international donor funding rather than funding by domestic public and private sector that rarely commissions evidence-based policy research.[145]

[140] Section 28, General Statistics (Reorganization) Act 2011 (as amended up to February 2022)
[141] L.Rivas & J. Crowley (2018)
[142] World Bank, (2022); G. Eele (n.d)
[143] UNECE (2018)
[144] K. Ahmed, et al (2021); Z. Haq, A. Hafeez, et al (2017); N. Haque, et al (2020)
[145] N. Haque, et al (2020); A. Naveed, A. Suleri (2022)

**Box 7.1: NSS in the National Reform Agenda**

From the perspective of NSS reforms, a review of literature on Pakistan's economy suggests that despite its widely accepted importance, the NSS is not only under researched but also not a part of policy reform discourse. Save for brief recommendations for autonomy of the NSO and the need for quarterly GDP,[1] the need for NSS reforms does not feature in the long list of economic policy and governance reforms proposed in a flurry of recent publications on Pakistan's economic reform agenda. This includes the Charters of Economy proposed by various policy research and advocacy organisations.[2]

Except for passing reference to evidence-based policymaking and restructuring towards greater autonomy of the then (federal) bureau of statistics in the country's Vision 2030 and Framework for Economic Growth, a reformed NSS that meets the requirements of a modern 21st century economy is not envisioned in the recent visionary frameworks.[3] Moreover, unlike various reform commissions and plans for taxation, agriculture, ease of doing business, government institutions, and economic governance, the NSS in Pakistan has not been comprehensively assessed for laying the foundations for continuous and system-wide improvements in the country's statistical system. To this end, the National Strategy for the Development of Statistics (NSDS) 2021-2030 prepared by the PBS, is a step in the right direction.

The NSDS 2021-2030 lays out a road map for the development of official statistics in the country including areas of coordination, capacity building of statistical practitioners in the NSS, and improvements in data collection. However, the NSDS does not spell out detailed assessments of the challenge of coordination, state of provincial bureaus of statistics, independence of NSO, legal framework, and administrative data.[4]

Undertaking detailed assessments of wide-ranging aspects of the NSS and reform proposals thereof are challenging tasks for an NSO that is mainly engaged in the collection of various types of statistics, census and surveys, and other ancillary core duties. In recognition of this, when India embarked on statistical reforms in 2000, it formed a National Statistical Commission with representation of key stakeholders across the country. Its terms of reference and final reports contained detailed assessments and recommendations on a host of areas relating to the NSS, including legislative framework, IT needs, statistical audit, administrative data systems, human resource development, and a subnational statistics system. It also included assessments and recommendations on specific data deficiencies across nine broad categories of statistics including corporate sector statistics, national accounts, and infrastructure statistics.[5]

Similarly, given the complex nature of administrative data across different layers of government and types of infrastructure, when the US undertook an assessment of its administrative data in 2016, it passed a law to form a Commission on Evidence-Based Policymaking. The commission had fifteen members, three each to be appointed by the president, speaker and minority leader of house of representatives, and majority and minority leader of senate. The commission's TORs included comprehensive study of data inventory, data infrastructure, database security, and statistical protocols, such as data sharing, institutionalization of randomized controlled trials, optimal institutional arrangement, linkages across various administrative data series, and integration thereof.[6]

[1] H. A. Pasha (2021); S. Sherani (2017)
[2] A. Zaidi (2015); The Pakistan Business Council (2020); N. U. Haque, S. Hussein (2022); PRIME Institute (2023); World Bank (2019); I. Husain (2018); V. Ahmed (2019); R. Amjad, S. J. Burki (2015)
[3] Planning Commission (2007); PIDE (2020); Ministry of Planning and Development
[4] PBS (2020).
[5] Ministry of Statistics and Programme Implementation, Government of India, (2001)
[6] US Congress

The state of trade organisations is also similar. Amid an absence of effective platforms for public-private dialogue, trade organisations in the country have weak organisational capacity and a culture of providing research-based policy advocacy and market complimenting services, such as estimating market size of the sector they represent and other sectoral data, or conducting various types of surveys of their members.[146] This also reflects in the fact that the private sector is not found to be sufficiently responsive to various surveys by PBS and PBoS amid an

[146] State Bank of Pakistan (2022)

absence of effective legal support against non-response,[147] and that only a few trade organisations compile and report the monthly production data of their sector, which as discussed earlier is an integral part of high frequency economic indicators globally.[148]

## 7.5 Final Remarks

Official statistics serve as the foundation for evidence-based policymaking and informed decision making by policymakers, households and businesses. They also act as indicators of economic and social progress, enabling the assessment of policy interventions and their outcomes. In a developing economy like Pakistan, where the need for evidence-based reforms and policy interventions are imminent across various sectors, the timely availability of reliable statistics becomes even more crucial. However, amid changing economic structures, digitalization, and an increase in frequency of natural calamities, the current state of availability, timeliness and reliability of statistics on essential subjects does not bode well for reform outcomes, policy diagnoses, investment decisions by new entrants and prospective international investors, as well as tax collection efforts.

Despite the importance of statistics for policy reforms, a detailed diagnostic study on the challenges of the NSS and the statistical ecosystem has been absent in Pakistan. This contrasts with comprehensive studies on statistics undertaken in other countries, and also with domestic reform commissions on other areas; for example, several agriculture and tax reform commissions. The NSDS 2021-30 highlight important areas for improvement and presents a broad roadmap for development. However, it does not undertake detailed assessment of challenges in coordination, the role of provincial bureaus, involvement of the private sector, a strategy to leverage administrative data, and creating a demand for statistics. Similarly, the discourse on NSS seems inconspicuous in Pakistan as gauged by a review of recent prominent books and other publications, the various Charters of Economy, and the Vision documents aimed at planning the country's future course of economic direction.

The output of Pakistan's NSS, which comprises official statistics, falls short in comparison to both best practices and peer economies in the region. Data on crucial subjects, such as quarterly and provincial GDP, unemployment, wages, and small and medium enterprises, is either absent, insufficient in frequency, or lacks comprehensive coverage. This can be attributed in part to the lack of vertical and horizontal coordination within the NSS. This hinders efforts to standardize, harmonize, and integrate the statistical system, leading to duplication and impeding the comparability of statistics. Furthermore, unlike international best practices and UNFPOS principles on independence, the country's NSO has mostly been placed as an attached department of different ministries throughout the country's history.

Globally, the administrative data, which offers relatively cost-effective, accurate, and detailed information at a micro level, is increasingly being adopted, along with its integration with surveys and censuses and other conventional statistical sources. However, in Pakistan, the utilization of administrative data remains limited. To capitalize on its benefits, it is imperative to enhance and integrate local registries and improve the CRVS system in the country.

Furthermore, beyond the NSS, there are deficiencies within the broader statistical ecosystem. The demand for data that can drive and steer the NSS, originating from its users which include the research community, private

[147] PBS (2020); and National Accounts of Pakistan, 2015-2016 Base Year

[148] Example of trade organisations that self-report sectoral output data on monthly basis include: Pakistan Automotive Manufacturers Association, All Pakistan Textile Mills Association, All Pakistan Cement Manufacturers Association, Pakistan Sugar Mills Association, and Oil Companies Adviser Council.

and public organisations, academia, and the media, is limited. Similarly, despite the growing digitalization that has generated a multitude of data sets, the coordination between official and non-government/private statistical producers as well as the NSS and its users is found to be weak.

In light of these findings, a comprehensive assessment of the statistical ecosystem is necessary, encompassing a review of institutional, legal, policy, technology, and infrastructure gaps, along with unique aspects of key statistics. Such a study may necessitate the involvement of stakeholders from the entire statistical ecosystem and can serve as foundation for subsequent reforms in the ecosystem.

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## Annexure A: Data Explanatory Notes

**1) GDP:** In case of an ongoing year, for which actual GDP data is yet not available, SBP uses the GDP target given in the Annual Plan by the Planning Commission in order to calculate the ratios of different variables with GDP, e.g., fiscal deficit, public debt, current account balance, trade balance, etc. SBP does not use its own projections of GDP to calculate these ratios in order to ensure consistency, as these projections may vary across different quarters of the year, with changing economic conditions. Moreover, different analysts may have their own projections; if everyone uses a unique projected GDP as the denominator, the debate on economic issues would become very confusing. Hence, the use of a common number helps in meaningful debate on economic issues, and the number given by the Planning Commission better serves this purpose.

**2) Inflation:** There are three numbers that are usually used for measuring inflation: (i) period average inflation; (ii) YoY or *yearly* inflation; and (iii) MoM or *monthly* inflation. Period average inflation refers to the percent change of the *average* CPI (national, urban, or rural) from July to a given month of the year over the corresponding period last year. YoY inflation is percent change in the CPI of a given month over the same month last year; and monthly inflation is percent change of CPI of a given month over the previous month. The formulae for these definitions of inflation are given below:

$$\text{Period average inflation } (\pi_{Ht}) = \left( \frac{\sum_{i=0}^{t-1} I_{t-i}}{\sum_{i=0}^{t-1} I_{t-12-i}} - 1 \right) \times 100$$

$$\text{YoY inflation } (\pi_{YoYt}) = \left( \frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

$$\text{Monthly inflation } (\pi_{MoMt}) = \left( \frac{I_t}{I_{t-1}} - 1 \right) \times 100$$

Where $I_t$ is consumer price index in $t^{th}$ month of a year. The CPI can be national, urban or rural. For detailed information on the methodology, please see: www.pbs.gov.pk/content/methodology-2

**3) Change in debt stock vs financing of fiscal deficit:** The change in the stock of gross public debt does not correspond with the fiscal financing data provided by the Ministry of Finance. This is because of multiple factors, including: (i) The stock of debt takes into account the gross value of government borrowing, whereas financing is calculated by adjusting the government borrowing with its deposits held with the banking system; (ii) changes in the stock of debt also occur due to movements in exchange rates, both PKR and other currencies against US Dollar, which affect the rupee value of external debt.

**4) Government borrowing:** Government borrowing from the banking system has different forms and every form has its own features and implications, as discussed here:

(a) Government borrowing for budgetary support:

*Borrowing from State Bank*[1]*:* The federal government may borrow directly from SBP either through the "Ways and Means Advance" channel or through the purchase (by SBP) of Market Related Treasury Bills (MRTBs). Ways and Means Advance allows government to borrow up to Rs 100 million at a time in a year at an interest rate of 4 percent per annum; higher amounts are realized through the purchase of 6-month MTBs by SBP at the weighted average yield determined in the most recent fortnightly auction of treasury bills.

Provincial governments and the Government of Azad Jammu & Kashmir (AJK) may also borrow directly from SBP by raising their debtor balances (overdrafts) within limits defined for them. The interest rate charged on the borrowings is the three month average yield of 6-month MTBs. If the overdraft limits are breached, the provinces are penalized by charging an incremental rate of 4 percent per annum. However, the Federal Government has taken over from the State Bank of Pakistan (SBP) the business of direct credit to provincial governments on 29th June 2020. In this regard, the federal government has executed tripartite agreements with four provincial governments and SBP (as executer) for extension of Ways and Means loans on account of Federal Government Central Account No.I (non-food) on 29th June 2020.

*Borrowing from scheduled banks*: This is mainly through (i) fortnightly auction of 3, 6 and 12-month Market Treasury Bills (MTBs); (ii) monthly auction of 3, 5, 10, 15, 20 and 30 year fixed rate Pakistan Investment Bonds (PIBs); (iii) fortnightly auctions of 2, 3, 5, 10 year floating rate PIBs; (iv) Sukuk and (v) Bai Muajjal of Sukuk (on deferred payment basis). However, provincial governments are not allowed to borrow from scheduled banks.

(b) Commodity finance:

Both federal and provincial governments borrow from scheduled banks to finance their purchases of commodities e.g., wheat, sugar, etc. The proceeds from the sale of these commodities are subsequently used to retire commodity borrowing.

**5) Differences in different data sources:** SBP data for a number of variables, such as government borrowing, foreign trade, etc – often do not match with the information provided by MoF and PBS. This is because of differences in data definitions, coverage, etc. Some of the typical cases have been given below.

(a) **Financing of budget deficit (numbers reported by MoF vs SBP):** There is often a discrepancy in the financing numbers provided by MoF in its quarterly tables of fiscal operations and those reported by SBP in its monetary survey. This is because MoF reports government bank borrowing on a cash basis, while SBP's monetary survey is compiled on an accrual basis, i.e., by taking into account accrued interest payments on T-bills.

(b) **Foreign trade (SBP vs PBS):** The trade figures reported by SBP in the *balance of payments* do not match with the information provided by the Pakistan Bureau of Statistics. This is because the trade statistics compiled by SBP are based on banking data, which depends on the actual receipt and payment of foreign exchange, whereas the PBS records data on the physical movement of goods (customs record).

[1] This was applicable before the amendments in the SBP Act in January 2022. According to Section 9C (1) of the SBP Act (as amended up to 28 January, 2022), the SBP "shall not extend any direct credits to or guarantee any obligations of the Government, or any government owned entity or any other public entity."

## List of Abbreviations

**A**

| | |
|---|---|
| ADB | Asian Development Bank |
| ADR | Advances-to-Deposit Ratio |
| ADR | Alternative Dispute Resolution |
| AEs | Advanced Economies |
| AIIB | Asian Infrastructure Investment Bank |
| AJK | Azad Jammu and Kashmir |
| AML/CFT | Anti-Money Laundering and Combating the Financing of Terrorism |
| APCMA | All Pakistan Cement Manufacturers Association |
| APCMA | All Pakistan Cement Manufacturers Association |
| APTMA | All Pakistan Textile Mills Association |
| ARPU | Average Revenue Per User |
| ATL | Active Taxpayer List |

**B**

| | |
|---|---|
| BCS | Business Confidence Survey |
| BE | Budget Estimates |
| BEOE | Bureau of Emigration and Overseas Employment |
| BIS | Bank for International Settlement |
| BISP | Benazir Income Support Program |
| BPS | Basic Pay Scale |
| BOI | Board of Investment |
| BoP | Balance of Payment |
| BPRD | Banking Policy and Regulations Department |
| BSC | Behbood Savings Certificate |
| BZU | Bahauddin Zakariya University |
| BSGI | Black Sea Grain Initiative |

**C**

| | |
|---|---|
| CAD | Current Account Deficit |
| CBU | Completely Built Unit |
| CCT | Conditional Cash Transfer |
| CCS | Consumer Confidence Survey |

| | |
|---|---|
| CDS | Credit Default Swap |
| CHIPS | Creating Helpful Incentives to Produce Semiconductors |
| CIF | Cost, Insurance and Freight |
| CKD | Completely Knocked Down |
| CMR | Cash Margin Requirement |
| CORD | Center for Organisation Research and Design |
| CPEC | China Pakistan Economic Corridor |
| CPI | Consumer Price Index |
| CRVS | Civil Registration and Vital Statistics |
| CVT | Capital Value Tax |
| CY | Calendar Year |

**D**

| | |
|---|---|
| DAP | Di-ammonium Phosphate |
| Dep | Depreciation |
| DFIs | Development Financial Institutions |
| DISCOs | Distribution Companies |
| DSC | Defense Savings Certificate |
| DSSI | Debt Service Suspension Initiative |

**E**

| | |
|---|---|
| EAD | Economic Affairs Division |
| EDS | External Debt Servicing |
| EE | Export Earnings |
| EFF | Extended Fund Facility |
| EFS | Export Finance Scheme |
| e-GDDS | Enhanced General Data Dissemination System |
| EM | Emerging Market |
| EMDEs | Emerging Market and Developing Economies |
| EPD | Exchange Policy Department |
| EPU | Economic Policy Uncertainty |
| EU | European Union |
| EUR | Euro |

**F**

| | |
|---|---|
| FAO | Food and Agriculture Organisation |

| | |
|---|---|
| FBR | Federal Bureau of Revenue |
| FCA | Fuel Charge Adjustment |
| FD/KA&GB | Federally Administered/Kashmir Affairs and Gilgit Baltistan |
| FDI | Foreign Direct Investment |
| FED | Federal Excise Duty |
| FEE | Foreign Exchange Earnings |
| FIFA | Fédération Internationale de Football Association |
| FMCGs | Fast-moving Consumer Goods |
| FOB | Free on Board |
| FPI | Foreign Portfolio Investment |
| FRDLA | Fiscal Responsibility and Debt Limitation Act |
| FRR | Fixed Rental Rate (Sukuk) |
| FX | Foreign Exchange |

**G**

| | |
|---|---|
| GC | Governing Council |
| GCC | Gulf Cooperation Council |
| GDP | Gross Domestic Product |
| GED | Gross External Disbursements |
| GFC | Global Financial Crisis |
| GFCF | Gross Fixed Capital Formation |
| GFSM | Government Finance Statistics Manual |
| GoP | Government of Pakistan |
| GPS | Global Positioning System |
| GSBPM | Generic Statistical Business Process Model |
| GSIB | Global Systemically Important Bank |
| GSP | Generalized Scheme of Preferences |
| GSR | General Statistics Reorganization |
| GST | General Sales Tax |
| GVA | Gross Value Added |

**H**

| | |
|---|---|
| HEC | Higher Education Commission |
| HFEI | High-Frequency Economic Indicators |
| HIES | Household Intergraded Economic Survey |

| | |
|---|---|
| HOBC | High Octane Blending Component |
| HS | Harmonized System |
| HVA | High Value Added |

**I**

| | |
|---|---|
| IBIs | Islamic Banking Institutions |
| IBRD | International Bank for Reconstruction and Development |
| ICT | Information Communication and Technology |
| IDA | International Development Association |
| IDB | Islamic Development Bank |
| IDI | Integrated Data Infrastructure |
| IFEM | Inland Freight Equalization Margin |
| IFL | Interest-Free Loan |
| IH&SMEFD | Infrastructure Housing and SME Finance Department |
| IMF | International Monetary Fund |
| IPPs | Independent Power Producers |
| IPR | Intellectual Property Rights |
| ISP | Industrial Support Package |
| IT | Information Technology |
| ITU | International Telecommunication Union |
| IVR | Interactive Voice Response |

**J**

| | |
|---|---|
| JP-1 | Jet Propellant-1 |
| JP-8 | Jet Propellant-8 |

**K**

| | |
|---|---|
| KSA | Kingdom of Saudi Arabia |
| KPK | Khyber Pakhtunkhwa |

**L**

| | |
|---|---|
| LBD | Longitudinal Business Database |
| LCs | Letter of Credits |
| LCVs | Light Commercial Vehicles |
| LFS | Labour Force Survey |
| LIBOR | London Interbank Offered Rate |
| LMICs | Low and Middle-income Countries |

| | |
|---|---|
| LNG | Liquefied Natural Gas |
| LPG | Liquefied Petroleum Gas |
| LSM | Large Scale Manufacturing |
| LT | Long Term |
| LTFF | Long Term Financing Facility |

**M**

| | |
|---|---|
| MDGs | Millennium Development Goals |
| MDM | Mobile Device Manufacturing |
| MMBTU | Metric Million British Thermal Unit |
| MNCs | Multinational companies |
| MoC | Ministry of Commerce |
| MoF | Ministry of Finance |
| MoPDSI | Ministry of Planning Development and Special Initiatives |
| MoU | Memorandum of Understanding |
| MPC | Monetary Policy Committee |
| MSCI | Morgan Stanley Capital International |
| MSP | Minimum Support Price |
| MT | Metric Tons |
| MTO | Money Transfer Operators |

**N**

| | |
|---|---|
| NADRA | National Database and Registration Authority |
| NASTP | National Aerospace and Technology Park |
| NBFIs | Non-bank Financial Institutions |
| NBS | National Bureau of Statistics |
| NCPI | National Consumer Price Index |
| NCCPL | National Clearing Company of Pakistan Limited |
| NDA | Net Domestic Assets |
| NDMA | National Disaster Management Authority |
| NEER | Nominal Effective Exchange Rate |
| NEPRA | National Electric Power Regulatory Authority |
| NFA | Net Foreign Assets |
| NFNE | Non-Food Non-Energy |
| NFPSEs | Non-Financial Public Sector Enterprises |

| | |
|---|---|
| NHA | National Highway Authority |
| NPCs | Naya Pakistan Certificates |
| NPISH | Non-Profit Institutions Serving Households |
| NPLs | Non-performing Loans |
| NSDS | National Strategies for the Development of Statistics |
| NSS | National Statistical System (Chapter 7) |
| NSS | National Savings Scheme (Chapter 5) |
| NSER | National Socioeconomic Registry |
| NSO | National Statistical Office |
| NSTR | National Sales Tax Return |
| NTDC | National Transmission and Despatch Company |
| NTR | Non Tax Revenue |

**O**

| | |
|---|---|
| OCAC | Oil Companies Advisory Council |
| OEC | Overseas Employment Corporation |
| OECD | Organisation for Economic Co-operation and Development |
| ODA | Official Development Assistance |
| ODIN | Open Data Inventory |
| OGRA | Oil and Gas Regulatory Authority |
| OMCs | Oil Marketing Companies |
| OMOs | Open Market Operations |
| ONR | Overnight Rate |
| OPOS | Other Producers of Official Statistics |
| o/w | Of which |

**P**

| | |
|---|---|
| PAMA | Pakistan Automotive Manufacturers Association |
| PARIS21 | Partnership in Statistics for Development in the 21st Century |
| PBA | Pensioners Benefit Account |
| PBS | Pakistan Bureau of Statistics |
| PBoS | Punjab Bureau of Statistics |
| PD | Primary Dealers |
| PDL | Petroleum Development Levy |
| PE | Price Effect |

| | |
|---|---|
| PED | Public External Debt |
| PEDL | Public External Debt and Liabilities |
| PEPCO | Pakistan Electric Power Company |
| PFLs | Floating-rate PIBs |
| PFM | Public Financial Management |
| PIA | Pakistan International Airlines |
| PIBs | Pakistan Investment Bonds |
| PIDE | Pakistan Institute of Development Economics |
| PKR | Pakistan Rupee |
| PKRV | Pakistan Revaluation |
| POL | Petroleum, Oil, and Lubricants |
| PRs | Prudential Regulations |
| PPAF | Pakistan Poverty Alleviation Fund |
| PPI | Producer Price Index |
| PSDP | Public Sector Development Programme |
| PSEs | Public Sector Enterprises |
| PSLM | Pakistan Social and Living Standards Measurement |
| PSO | Pakistan State Oil |
| PSX | Pakistan Stock Exchange |
| PTA | Pakistan Telecommunications Authority |

**Q**

| | |
|---|---|
| QIM | Quantum Index of Manufacturing |
| QoQ | Quarter on Quarter |

**R**

| | |
|---|---|
| R&D | Research and Development |
| RCET | Regionally Competitive Energy Tariffs |
| REER | Real Effective Exchange Rate |
| RFO | Residual Fuel Oil |
| rhs | Right-hand Side |
| RIC | Regular Income Certificates |
| RLNG | Regasified Liquefied Natural Gas |
| RPI | Relative Price Index |

**S**

| | |
|---|---|
| SBA | Stand-By Arrangement |
| SBOS | Sindh Bureau of Statistics |
| SBP | State Bank of Pakistan |
| SC | Statistics Canada |
| SCMS | Satellite-based Crop Monitoring System |
| SDDS | Special Data Dissemination Standard |
| SDGs | Sustainable Development Goals |
| SDPI | Sustainable Development Policy Institute |
| SDR | Special Drawing Right |
| SECP | Security Exchange Commission of Pakistan |
| SFD | Saudi Fund for Development |
| SIFC | Special Investment Facilitation Council |
| SITA | Sarwa Islamic Term Account |
| SKD | Semi Knocked Down |
| SME | Small and Medium Enterprises |
| SNA | System of National Accounts |
| SOFR | Secured Overnight Financing Rate |
| SPI | Statistical Performance Indicators |
| SRO | Statutory Regulatory Order |
| SSA | Special Savings Account |
| SSC | Special Savings Certificate |
| SST | Sindh Sales Tax |
| ST | Short Term |
| STP | Special Technology Parks |
| STPED | Short Term Public External Debt |
| STSC | Short Term Savings Certificate |
| SUPARCO | Space and Upper Atmosphere Research Commission |
| SWAPS | Synchronized Withholding Administration and Payment System |

**T**

| | |
|---|---|
| TCP | Trading Corporation of Pakistan |
| TEDL | Total External Debt and Liabilities |
| TERF | Temporary Economic Refinance Facility |
| ToR | Terms of Reference |

**U**

| | |
|---|---|
| UAE | United Arab Emirates |
| UCT | Unconditional Cash Transfer |
| UET | University of Engineering & Technology |
| UK | United Kingdom |
| UKSA | United Kingdom Statistics Authority |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNFPOS | United Nations Fundamental Principles of Official Statistics |
| US/USA | United States of America |
| USD/ US$ | United States Dollar |
| USDA | United States Department of Agriculture |

**V**

| | |
|---|---|
| VE | Volume Effect |
| VRR | Variable Rental Rate (Sukuk) |

**W**

| | |
|---|---|
| WALR | Weighted Average Lending Rate |
| WAPDA | Water and Power Development Authority |
| WB | World Bank |
| WHT | Withholding Tax |

**Y**

| | |
|---|---|
| YoY | Year-over-Year |