Chapter 2
Economic Growth

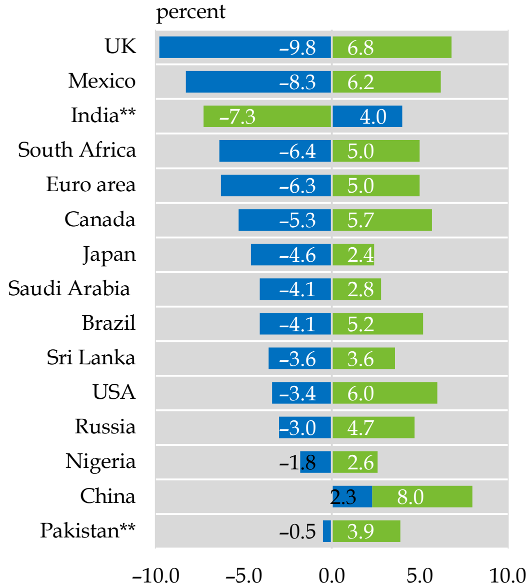
Pakistan's economy posted an impressive recovery from the initial shock of the Covid pandemic. After a real GDP contraction of 0.5 percent in FY20, the economy grew by 3.9 percent in FY21. The performance was all the more remarkable since it was achieved in spite of multiple waves of the virus. The policymakers responded judiciously to the emerging challenges throughout the year. The response included a prudent approach to virus containment and the rollout of vaccines; smart lockdowns; an accommodative monetary policy environment and liquidity support through the SBP's multiple refinance schemes; and targeted fiscal support by the government in the form of no new taxes, energy and construction packages, faster refunds for exporters, and social safety spending via the Ehsaas Emergency Cash program. Collectively, these measures were instrumental in the economic recovery of FY21, which was led by a turnaround in the industrial and services sectors. Specifically, within industry, the food, automobile, textile, and construction-allied sectors of large-scale manufacturing were stand-out performers. In the agriculture sector, an increase in the minimum support price of wheat, and subsidies extended through the Rabi and Kharif packages, played a part in pushing the wheat, rice, and maize production to record high levels. The services sector was spurred on by the performance of the commodity-producing sector, with a particularly notable rebound in wholesale and retail trade. Finally, the recovery in the labor market is ongoing, based on available industrial employment data and trends in the SBP's Business Confidence and Consumer Confidence surveys.

2.1 GDP Growth

Pakistan's economy recovered strongly in FY21 despite the uncertainty and challenges posed by the ongoing pandemic. Last year, the government had opted for a strict lockdown, for a limited period like most of the rest of the world, and the economy contracted by 0.5 percent in the immediate wake of the unprecedented health emergency created by Covid. The transition to smart lockdowns later on to deal with subsequent Covid waves enabled economic activities to rebound sharply in FY21 (**Table 2.1**). Moreover, the highly accommodative monetary policy, liquidity support channeled through the SBP's wide-ranging measures to combat Covid, and targeted fiscal support (in the form of no new taxes, energy and construction packages, faster refunds to exporters, and social protection via the Ehsaas Emergency Cash program), helped in minimizing the economic fall-out of the pandemic. These measures, complemented by packages for the agriculture sector and the recent vaccination drive, facilitated the economic recovery.

As a result of these measures, real GDP growth surpassed the government's target of 2.1 percent for FY21. Moreover, as **Figure 2.1** illustrates, Pakistan's economy fared well compared to other countries during the pandemic. While most of the countries observed sharp contractions in their output in 2020, the downturn in the domestic economy (-0.5 percent) was relatively modest. In FY21, Pakistan's real GDP growth rebounded to 3.9 percent. The varying base effects across the economies partially determined the extent of the rebound in FY21. A number of countries which are projected to post relatively high economic growth during 2021 – such as the United Kingdom, Canada, Mexico and South Africa - had seen sharp contractions in 2020. On a two year basis, Pakistan's growth of 3.9 percent through the Covid shock places it at the top end of most comparable emerging markets.

Economic Growth of Selected Economies 2020 vs 2021* **Figure 2.1**



*Projections for 2021 on calendar year basis
**Fiscal year basis

Source: IMF, World Economic Outlook October 2021

Real GDP Growth Rates, 2005-06 constant basic prices **Table 2.1**

Growth and sectoral shares in percent; contribution to GDP growth in percentage points

	Growth		Contribution to GDP Growth		Sectoral Share	
	FY20^R	FY21^P	FY20^R	FY21^P	FY20^R	FY21^P
Agriculture	3.3	2.8	0.6	0.5	19.4	19.2
Industry	-3.8	3.6	-0.7	0.7	19.2	19.1
Services	-0.6	4.4	-0.4	2.7	61.4	61.7
GDP Growth Rate	**-0.5**	**3.9**				

P: Provisional, R: Revised

Source: Pakistan Economic Survey 2020-21

From the demand side, GDP growth was primarily driven by consumption and public sector investment during FY21. A multi-decade analysis highlights that Pakistan needs to bring its investment to GDP ratio at par with regional economies to achieve more sustainable growth (**Box 2.1**).

On the supply side, broad-based growth was witnessed across all the sectors in FY21. The industrial sector, driven mainly by large-scale manufacturing (LSM), posted a notable recovery on the back of resumption in business activities, which generally continued without major disruptions despite subsequent waves of Covid. Foreign demand for textile products and domestic demand for construction-allied material, automobiles and petroleum products, were major drivers of the LSM growth during the year. The ability of these industries to meet the consumer demand was facilitated by the temporary fiscal and monetary support measures, such as the construction and energy packages, low interest rates, and the SBP's Temporary Economic Refinance Facility (TERF).

Despite some deceleration compared to last year, the agriculture sector achieved its annual target of 2.8 percent growth during FY21. The government extended support to the sector through subsidies on inputs and increases in the minimum support price of wheat and sugarcane crops. Resultantly, almost all the important crops surpassed their targets: wheat, rice and maize delivered record high output, whereas sugarcane output was the second highest on record. However, the cotton crop was a notable exception, as the secular decline in its cultivated area was exacerbated by a fall in yield. Meanwhile, the livestock sector grew by 3.1 percent during FY21, compared to 2.1 percent last year. Within livestock, the poultry sector's performance – which had been severely affected in FY20 due to the strict Covid lockdowns and restrictions on large gatherings– improved notably during FY21 amid the ease in restrictions on gatherings and smart lockdowns.

In line with the positive performance of the commodity-producing sectors, services sector also rebounded and grew 4.4 percent during FY21, as compared to a contraction of 0.6 percent a year earlier. The major stimulus came from a turnaround in *wholesale and retail trade* sub-sector, which made a 1.5 percentage point contribution to real GDP growth during FY21 (**Table 2.1**). *Wholesale and retail trade* mainly grew on the back of the increase in domestic economic activities, and the increase in imports. The *finance and insurance* segment benefited from the growth in deposits and increase in advances by the banking sector. In contrast, the value-addition from the *transport, storage and communication* segment continued to contract during FY21, on account of the subdued performance of communications, air transport, and railways sub-segments. However, the upturn in value-addition in road transport – which carries the largest share in this segment – helped contain the magnitude of contraction of the *transport, storage and communication* segment.

The labor market recovered during FY21, based on employment data for the manufacturing sectors of Punjab and Sindh. The overall employment in both provinces grew by 2.4 percent during FY21. The improvement primarily owed to the resumption in economic activities, and was further facilitated by the targeted fiscal support and accommodative monetary policy. The SBP's Business Confidence Surveys (BCS) and the future unemployment index from the Consumer Confidence Surveys (CCS) also indicate that the labor market continued to improve throughout FY21. Similarly, sector-wise data from the Monthly Survey of Industrial Production and Employment for wages in Punjab witnessed a broad-based growth for the reported sectors.

Box 2.1: Repercussions of a Downward Trend in Investment on Economic Growth and Productivity

Investment as percentage of GDP in Pakistan is not only low, but has been in a state of long-term decline; this has ramifications for sustainable long-term growth.[1] Pakistan has not been able to sustain prolonged periods of economic growth and has faced frequent boom-bust cycles.[2] The declining long-term economic growth has adversely affected the country's ability to absorb its burgeoning labor force.[3] The repeating pattern can be attributed to a lack of investment in technology, and in human and physical capital, stock that has curtailed the productive capacity while also making its economy prone to shocks.

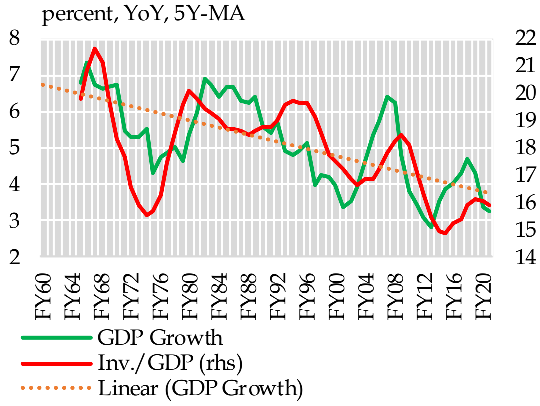
Growth and Investment **Table 2.1.1**

	Bangladesh	China	India	Pakistan
Economic growth (percent YoY)				
1980s	3.5	9.7	5.7	6.9
1990s	4.7	10	5.8	4
2000s	5.6	10.4	6.3	4.5
2010s	6.8	7.7	6.7	4
Investment-to-GDP Ratio				
1980s	16.1	35.6	22.4	18.6
1990s	19.4	37.3	26.7	18.7
2000s	25.3	39.5	34.3	17.7
2010s	29.1	44.8	34.2	15.5

Source: World Development indicators, World Bank

Figure 2.1.1 illustrates that the downward trend in the investment-to-GDP is closely associated with declining long-term economic growth. A comparison with other regional countries, such as China, India and Bangladesh, shows that higher investment is linked with higher economic growth **(Table 2.1.1)**. Another observation is that an increase in the investment-to-GDP ratio accelerates the GDP growth. Bangladesh is an interesting reference point in this aspect. Its investment-to-GDP ratio and economic growth were both lower than those of Pakistan in the 1980s. However, as its investment rose sharply over the years, its GDP growth almost doubled, in contrast to Pakistan's experience.

Investment and Real GDP Growth **Figure 2.1.1**



Source: World Bank

The slow pace of economic development in Pakistan is a source of concern. Assuming Chinese economy continues to grow by the same rate (7.7 percent), it will double its output in the next 10-years. On the other hand, it will take over 17 years for Pakistan (at 4.0 percent growth rate) to achieve that feat. This slow pace of growth will further widen Pakistan's income gap with peer countries.

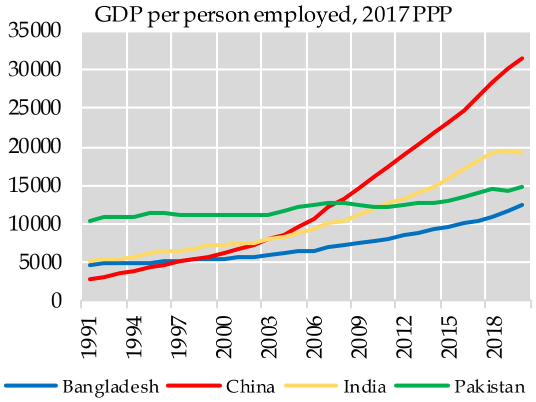
Another indicator of long-term growth is labor productivity, which in turn is affected by the level of human capital and capital investment in the country. Labor productivity is approximated by output per worker by the World Bank. Comparison with the reviewed set of countries accentuates Pakistan's lagging performance (**Figure 2.1.2**). Despite leading other countries in labor productivity till the mid-2000s, Pakistan witnessed an almost stagnation in labor productivity over the next decade. In contrast, both China and India recorded notable improvements on this front, indicating that they are

[1] For an extensive discussion on factors hampering investment in Pakistan, see Chapter 7, *Factors constraining Investments in Pakistan: Beyond the Macroeconomics* in the SBP's FY19 Annual Report on the State of the Economy.
[2] J.R. Calix, T.G. Srinivasan and M. Waheed (2012). *What do we know about Growth Patterns in Pakistan?* World Bank Policy Paper Series on Pakistan PK 05/12. Washington, DC: World Bank.
[3] According to Planning Commission (2011), the economy needs to grow at 7 percent to absorb the youngsters entering the labor force. Similarly, the World Bank (2018) estimated that Pakistan would need to create 1.4 million jobs every year to keep its employment rate constant. This pace of job creation would be possible when the real GDP growth exceeds 6 percent per annum. Source: Planning Commission (2011). *Pakistan: Framework for Economic Growth.* Islamabad: Planning Commission; World Bank (2018). *South Asia Economic Focus, Spring 2018: Jobless Growth?* Washington DC: World Bank.

more efficiently utilizing their resources than Pakistan.[4] Meanwhile, Bangladesh is catching up fast as well. Low productivity over a prolonged period has adverse implications for achieving progress on living standards, public and private debt, social protection systems, and the ability of macroeconomic policies to respond to future shocks.[5]

Pakistan has recently made some inroads in improving its investment climate. Installed electricity generation has almost doubled over the past decade.[6] That said, efforts must be made to boost labor productivity in the country. Investments in productivity would help smoothen the economic cycles and enable sustained long-term economic growth.

Output per Worker **Figure 2.1.2**



Source: World Bank

2.2 Agriculture

On the back of policy support, coupled with favorable weather conditions for important crops such as wheat and sugarcane, the agriculture sector met its growth target of 2.8 percent for FY21 (**Table 2.2**). The *Rabi* and *Kharif* support packages offered subsidies on various inputs, such as fertilizers and pesticides, whereas the Minimum Support Price (MSP) for wheat and sugarcane was also revised upward during the year. These measures helped increase wheat, rice and maize output to achieve record levels, whereas sugarcane output achieved its second highest level. The outlier was cotton, whose overall area under cultivation dipped to 2.1 million hectares – its lowest level since FY80.

Moreover, the cotton yield was adversely affected by the severe monsoon rains during the year. The *other crops* category also faced a collective slowdown, and similar to last year, was unable to make a positive contribution to GDP growth (**Table 2.3**). Within *other crops*, the gram production - the largest variety of pulses grown in the country – nearly halved over FY20, largely due to insufficient rainfall in the Thal region.

Agriculture: Sectoral Growth **Table 2.2**

percent

	FY19	FY20 R	FY21 T	FY21 P
Agriculture	0.6	3.3	2.8	2.8
Crops	-5.0	5.5	-	2.5
Important crops	-7.7	5.2	1.9	4.7
Other crops	2.6	8.1	1.5	1.4
Cotton ginning	-12.7	-4.8	0.9	-15.6
Livestock	3.8	2.1	3.5	3.1
Forestry	7.3	3.6	2.1	1.4
Fishing	0.8	0.6	1.5	0.7

R: Revised, T: Target, P: Provisional

Source: PBS; Planning Commission

Contribution to Real GDP Growth and Share of Agriculture in GDP **Table 2.3**

percentage points for contribution; percent for share

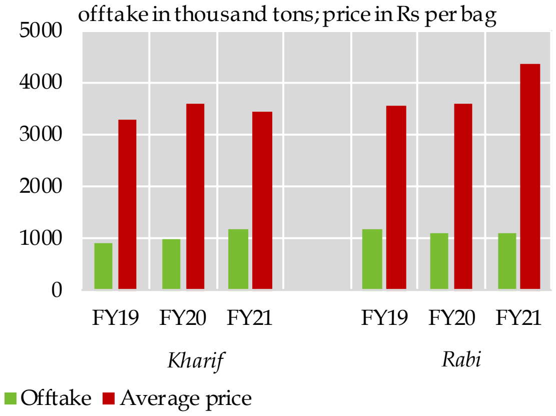
	Contribution		Share	
	FY20 R	FY21 P	FY20 R	FY21 P
Agriculture	0.6	0.5	19.4	19.2
Crops	0.4	0.2	7.0	6.9
Important crops	0.2	0.2	4.3	4.3
Other crops	0.2	0.0	2.3	2.2
Cotton ginning	0.0	-0.1	0.4	0.3
Livestock	0.2	0.4	11.6	11.5
Forestry	0.0	0.0	0.4	0.4
Fishing	0.0	0.0	0.4	0.4

P: Provisional, R: Revised

Source: Pakistan Bureau of Statistics

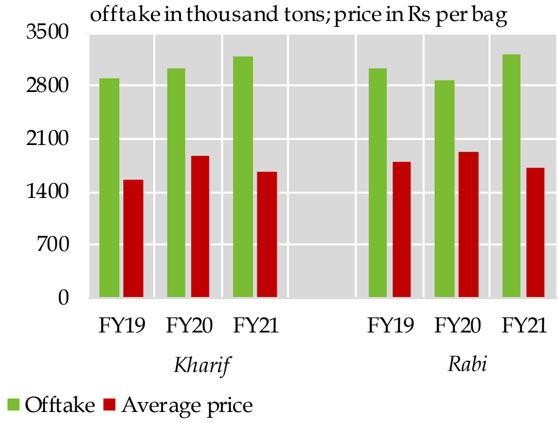
[4] Source: US Bureau of Labor Statistics (www.bls.gov/k12/productivity-101/content/why-is-productivity-important/).
[5] G. Adler, R. Duval, D. Furceri, S.K. Celik, K. Koloskova and M. P. Ribeiro (2017). *Gone with the Headwinds: Global Productivity*. IMF Staff Discussion Note SDN/17/04. Washington, D.C.: IMF.
[6] Ministry of Finance (2021). *Pakistan Economic Survey 2020-21*. Islamabad: MoF.

Season-wise DAP Offtake & Price **Figure 2.2a**



Source: National Fertilizer Development Center

Season-wise Urea Offtake & Price **Figure 2.2b**



Meanwhile, the livestock sector grew by 3.1 percent during FY21, and its contribution to GDP growth also doubled over last year. This recovery was partly attributed to better performance by the poultry sector amid the ease in lockdown conditions.

Inputs

The government's support for the agriculture sector was channeled through two major packages in FY21. The first agriculture package was approved in May 2020 to support the *Kharif* crops, whereas the second agriculture package, approved in October 2020, helped improved the prospects of *Rabi* crops, especially wheat. The wheat crop also benefitted from upward revisions in its MSP, from Rs 1,400 per 40kg bag last season to Rs 1,650 in November 2020, and then further to Rs 1,800 in April 2021.

Fertilizer

A common element of both agriculture packages was the emphasis on fertilizer subsidies. Specifically, the *Kharif* package included a subsidy of Rs 925 per bag on DAP and Rs 243 per bag on urea.[7] Similarly, the *Rabi* package included Rs 1,000 per bag subsidy on DAP.[8] The DAP offtake after growing 19.4 percent during *Kharif*, could only grow 2.3 percent during the *Rabi* season (**Figure 2.2a**). The *Rabi* offtake was dampened by the sharp increase in the commodity's global prices. Specifically, during October-March FY21, global DAP prices rose by 49 percent, and contributed to the 21 percent increase in the domestic DAP price on YoY basis. This constrained the farmers' ability to purchase and apply the input, despite the subsidized rates.

Meanwhile, the offtake of urea was 5.5 percent higher during *Kharif* and 12.4 percent higher during *Rabi* respectively (**Figure 2.2b**). Urea prices, which had moderated since February 2020 after the January 2020 decision of the Economic Coordination Committee (ECC) to reduce the Gas Infrastructure Development Cess (GIDC), remained lower during FY21 on YoY basis, enabling higher offtake of the commodity during the review period.

Agriculture Credit

Agriculture credit disbursements rose to Rs 1,365.9 billion during FY21, compared to from Rs 1,214.7 billion last year (**Table 2.4**). There was a noteworthy acceleration in disbursements to the farm sector, spurred in large part by an increase in production-related loans, especially for crops. This could be partly explained by the record production of the three important crops and the second-

[7] Source: Ministry of Finance press release no. 308, dated May, 13, 2020.
[8] Source: Ministry of Finance press release no. 391, dated October, 29, 2020.

Agriculture Credit Disbursements **Table 2.4**

billion rupees; growth in percent

	FY19	FY20	FY21	Growth FY20	Growth FY21
I. Farm sector (i+ii)	**592.7**	**637.9**	**758.2**	**7.6**	**18.9**
i. Production	553.1	594.3	711.8	7.4	19.8
o/w					
All crops	241.2	215.3	458.9	-10.7	113.1
ii. Development	39.6	43.6	46.4	10.1	6.4
High quality seed processing unit	14.1	14.6	18.5	3.5	26.7
Tractor	4.3	2.5	4.4	-41.9	76.0
II. Non-farm sector (iii+iv)	**581.3**	**576.8**	**607.6**	**-0.8**	**5.3**
iii. Working capital	553.2	538.9	552.5	-2.6	2.5
Livestock/dairy	268.5	279	319.7	3.9	14.6
Poultry	150.6	209.9	192.8	39.4	-8.1
iv. Fixed investment	28.1	37.9	55.1	34.9	45.4
Livestock/dairy	20.5	14.5	22.7	-29.3	56.6
Poultry	2.8	16.1	24.0	475.0	49.1
Total Agriculture(I+ II)	**1,174.0**	**1,214.7**	**1,365.9**	**3.5**	**12.4**

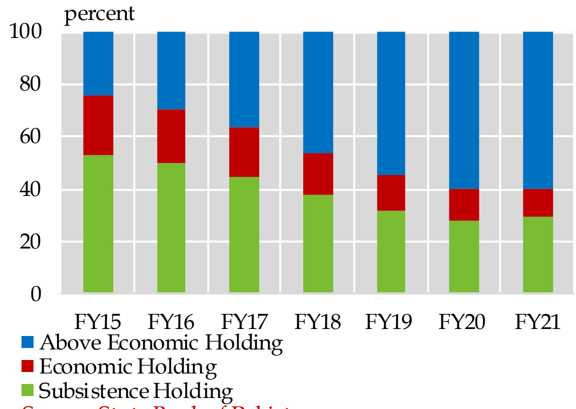
Source: State Bank of Pakistan

highest production of sugarcane; the favorable production dynamics increased the working capital needs of the farmers.

Meanwhile, disbursements to the non-farm sector recovered from the dip witnessed last year. There was a pick-up in working capital disbursements to the livestock/dairy subsector. For the poultry sector, working capital loan disbursements declined by 8.1 percent to Rs 192.8 billion during FY21, from Rs 209.9 billion last year. This could be reconciled with the relatively subdued demand for financing when Covid waves were at their peaks at different times of the year. However, fixed investment in the poultry sector was encouraging for the second year in a row, suggesting that the poultry producers did not anticipate an enduring drag on demand in the medium-to-long term.

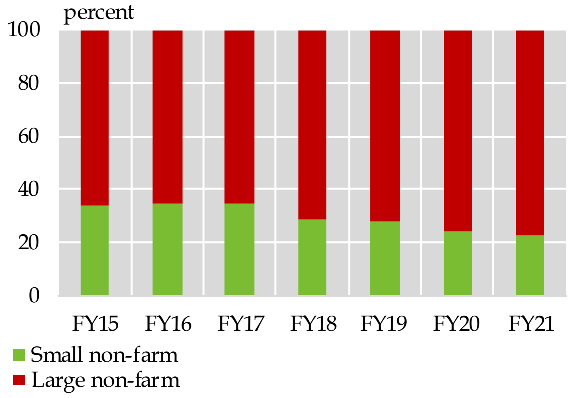
Despite the challenges posed by the pandemic, the financial institutions collectively achieved 91 percent of their assigned agricultural disbursement target of Rs 1,500 billion for FY21. Specifically, the commercial banks, Islamic Banking Institutions (IBIs), Zarai Taraqiati Bank Limited (ZTBL), and the Punjab Provincial Cooperative Bank Limited (PPCBL) collectively disbursed Rs 1,210.6

Farm sector: Holding-wise share in Agri Credit Disbursement **Figure 2.3a**



Source: State Bank of Pakistan

Non-Farm sector: Size-wise share in Agri Credit Disbursement **Figure 2.3b**



billion, or 94.8 percent, against their assigned targets of Rs 1,277.0 billion.

However, the microfinance lending institutions missed their targeted credit disbursements by a considerable margin for the second year in a row, with the disbursements achieving 76 percent and 73 percent of their targets in FY20 and FY21 respectively, against 99 percent in FY19. Microfinance institutions and rural support programs, as a group, achieved 73 percent and 57 percent of their target in FY20 and FY21, compared to 97 percent in FY19. This performance is primarily attributed to the impact of Covid on the microfinance sector, particularly due the lockdowns.[9] [10]

Notwithstanding the overall 12.4 percent growth in agriculture credit disbursements over last year, the composition of lending remained skewed towards larger borrowers (**Figure 2.3a and 2.3b**[11]). This applied to borrowers with small (subsistence) holdings in the farm sector, as well as small-sized enterprises in the non-farm sector. It implies that financial institutions need to collectively expedite their efforts to reach out to small farmers, as part of the broader agenda of the National Financial Inclusion Strategy (NFIS).

Actual Surface Water Availability **Table 2.5**

million acre feet

	Kharif	Rabi	Total
FY16	65.5	32.9	98.4
FY17	71.4	29.7	101.1
FY18	70.0	24.2	94.2
FY19	59.6	24.8	84.4
FY20	65.2	29.2	94.4
FY16-FY20 avg.	*66.3*	*28.2*	*94.5*
FY21	65.1	31.2	96.3

Source: Pakistan Bureau of Statistics

Water

In terms of water input, surface water availability was around 2 percent higher compared to last year, as well as the five-year average for FY16 to FY20 (**Table 2.5**).[12] Season-wise breakdown reveals that availability was 6.8 percent higher during the FY21 *Rabi* season, whereas surface water availability in *Kharif* FY21 remained at a similar level as last year.[13]

Also, heavy monsoon rains during Q1-FY21 pushed the level of recorded rainfall well beyond normal (**Figure 2.4**). As discussed subsequently, this rainfall significantly dampened the cotton yield, particularly in Sindh. By contrast, there was a relatively dry spell during Q3-FY21, the latter part of the Rabi season, which was favorable from the viewpoint of wheat harvest.

[9] In surveys with microfinance stakeholders a week after the first lockdown was imposed in March 2020, Malik et. al (2020) found that the week-on-week sales and household income of microenterprises fell by about 90 percent; similarly, loan officers expected repayment rates to plunge from 98 percent and 81 percent in February and March to 34 percent in April 2020. While agriculture and livestock were not part of the sample in this paper, similar challenges may have affected the agri-related microfinance segment as well. (K. Malik, M. Meki, J. Morduch, T. Ogden, S. Quinn, and F. Said (2020). "COVID-19 and the Future of Microfinance: Evidence and Insights from Pakistan", *Oxford Review of Economic Policy, 36* (Supplement 1), S138-S168.

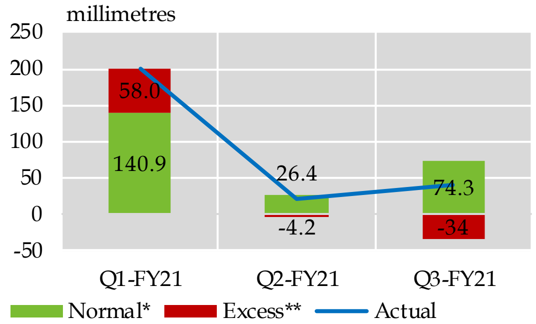
[10] Agriculture credit extended by the microfinance sector (including microfinance banks, microfinance institutions, and the rural support programs) amounted to Rs 155 billion in FY21, compared to Rs 168.2 billion last year. Meanwhile, total microfinance disbursement to all sectors (including agriculture) amounted to Rs 404.8 billion in FY21, up from Rs 384.1 billion last year. Therefore, around 38 percent of microfinance disbursements during FY21 were channeled to the agriculture sector, down from 44 percent in FY20.

[11] For definitions of holding-wise and size-wise categories, see the report on Indicative Credit Limits and Eligible Items for Agri. Financing 2020, enclosed with the SBP Agriculture Credit & Microfinance Department's Circular No. 1 of 2020: www.sbp.org.pk/acd/2020/C1.htm

[12] Surface water refers to any body of water above ground, and includes rivers and reservoirs. The Indus River is the main source of surface water in the country.

[13] Kharif corresponds with April-September and Rabi with October-March.

Rainfall recorded in Jul-Mar FY21 Figure 2.4



* Normal level is defined as the period average from 1961-2010. ** Negative number represents a shortfall compared to 'normal'
Source: Pakistan Meteorological Department

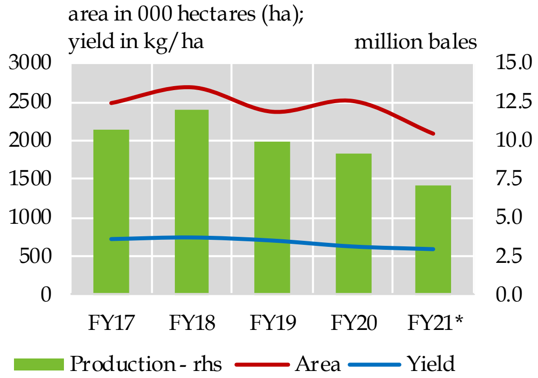
Output

Cotton

Cotton production, at nearly 7.1 million bales, was the lowest since FY85, while its cultivated area of around 2.1 million hectares was the lowest since FY80 (**Figure 2.5**). The area under cotton has witnessed a secular decline over the past decade, shrinking on-average from nearly 3 million hectares between FY92 to FY11 to around 2.7 million hectares between FY12 to FY21. During FY21 as well, growers continued to favor competing crops like sugarcane and rice, instead of cotton.[14]

The cotton yield in FY21 was also adversely affected by heavy monsoon rains. To put this into context, the review period witnessed the wettest August for Sindh in the past 60 years, as the rainfall received by the province was 363 percent above the normal average for this month.[15] This caused widespread damages to the standing crops; specifically, the rains and flash floods completely damaged around 27 percent of the cotton crop grown in Sindh. In Punjab as well, around 3,251 hectares of the crop area was badly affected by excess rain.[16]

Area, Production & Yield of Cotton Figure 2.5



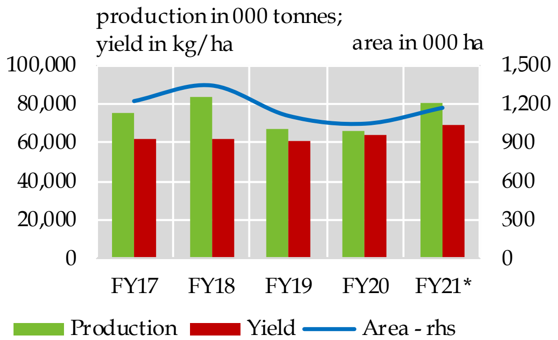
* provisional
Source: Pakistan Bureau of Statistics

Sugarcane

Sugarcane production increased by 22 percent over last year, and amounted to 81 million tons (**Figure 2.6**). The impressive performance was attributed to a 12 percent increase in the cultivated area, motivated in part by an increase in the MSP by Rs 10 to Rs 200 per 40 kg in Punjab, and Rs 202 per 40kg in Sindh.

There was also 8.9 percent increase in the yield, attributed mainly to better crop management and favorable weather conditions. Yield-enhancement efforts have

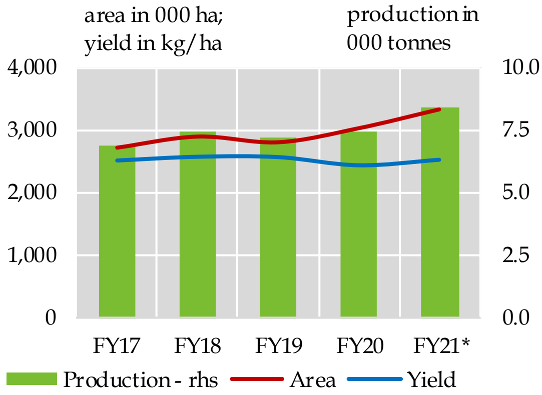
Area, Production & Yield of Sugarcane Figure 2.6



* provisional
Source: Pakistan Bureau of Statistics

[14] For more details on the secular decline in cotton area, see the SBP's FY20 Annual Report on The State of Pakistan's Economy.
[15] Pakistan Meteorological Department (2020). *Pakistan's Monthly Climate Summary, August 2020*. Karachi: Pakistan Meteorological Department
[16] Pakistan Cotton Grower, 2020, Central Cotton Research Institute Multan, Vol.3, No. 3.

Area, Production & Yield of Rice **Figure 2.7**



* provisional

Source: Pakistan Bureau of Statistics

received support from the government's five-year 'National Program for Enhancing Profitability through Increasing Productivity of Sugarcane', launched in FY20. The program includes provision of subsidized chisel ploughs, sugarcane planters and granular pesticide applicators for farmers, as well as demonstration plots to make the growers aware of how to utilize technology and adopt modern farming practices.[17]

Rice

The rice crop achieved record production of 8.4 million tons in FY21, which was 13.6 percent greater than last year **(Figure 2.7)**. This was mainly achieved on the back of a 9.9 percent increase in area under cultivation during FY21, compared to 8 percent increase last year. The increase in the cultivated area is mainly attributed to favorable prospects of the country's rice exports, in terms of both unit prices and quantum demand.

The performance of the rice crop was particularly impressive in Punjab, which accounted for 63 percent of the FY21 output (**Table 2.6**). The cultivated area of rice grew by 18.0 percent in Punjab, whereas yields in the province grew 8.4 percent. To increase rice yields, the Punjab government launched a five-year 'National Program for Enhancing Profitability through Increasing Productivity of Rice' set to be executed between FY20 to FY24 at a total cost of nearly Rs 10 billion. The project includes provision of subsidized machinery, certified seeds and weedicides on cost-sharing basis, along with efforts to promote judicious use of pesticides.[18]

Wheat

Wheat production grew 8.9 percent and reached a record level of 27.5 million tons in FY21 (**Figure 2.8a**). The crop's cultivated area grew by 4.2 percent from last year, as growers were incentivized by the increase in the minimum support price.[19] The wheat yield also increased by 4.5 percent during the year (**Figure 2.8b**). Favorable weather conditions,

Average yield of rice crop in selected districts of Punjab* **Table 2.6**

Kg/hectare; growth in percent

	Basmati			Non-Basmati		
	FY20	FY21	Growth	FY20	FY21	Growth
Punjab	**1,952**	**2,145**	**9.9**	**2,452**	**2,462**	**0.4**
of which:						
Okara	1,975	2,343	18.6	2,951	3,299	11.8
Bahawalnagar	2,082	2,438	17.1	2,368	3,028	27.9
Pakpattan	2,008	2,343	16.7	2,798	3,212	14.8
Jhang	2,028	2,225	9.7	2,322	2,665	14.8
Mandi Bahauddin	1,901	2,052	7.9	2,420	2,440	0.8

* These are the top-five rice producing districts in Punjab for FY21, based on provisional data

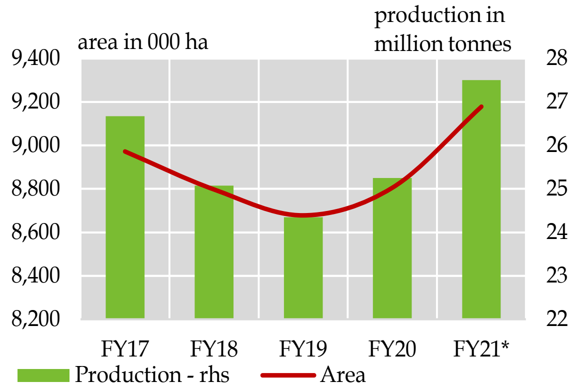
Source: Crop Reporting Service, Punjab

[17] Directorate General Agriculture, Extension and Adaptive Research, Punjab

[18] Directorate General Agriculture, Extension and Adaptive Research, Punjab: (www.ext.agripunjab.gov.pk/rice_project)

[19] Specifically, the ECC recommended an increase in the minimum support price of wheat to Rs 1,800 per 40 kg bag in April 2021, from Rs 1,400 per 40 kg bag in FY20.

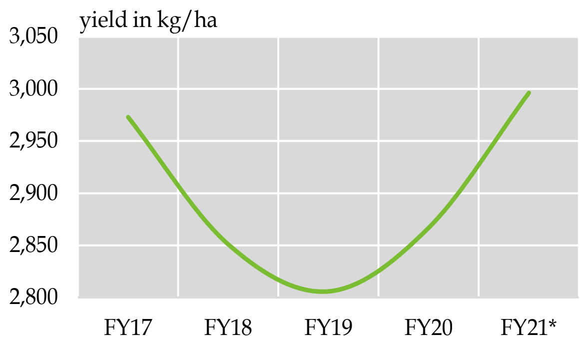
Area and Production of Wheat **Figure 2.8a**



* provisional

Source: Pakistan Bureau of Statistics

Yield of Wheat **Figure 2.8b**



relatively contained onset of wheat rust disease, and healthy offtake and application of urea fertilizer, contributed to the improved yield.[20]

Despite the record production though, the government decided to supplement the domestic procurement with imports to maintain strategic reserves. Part of the rationale was that the annual wheat consumption was estimated to have increased by around 2 million metric tons (MMT) since last year, to 29.5 MMT in 2021.[21] Consequently, in addition to the official procurement target of 6.3 million tons, the government also fixed the import requirement at 3 MMT, so that sufficient wheat stocks would be available for release during FY22.

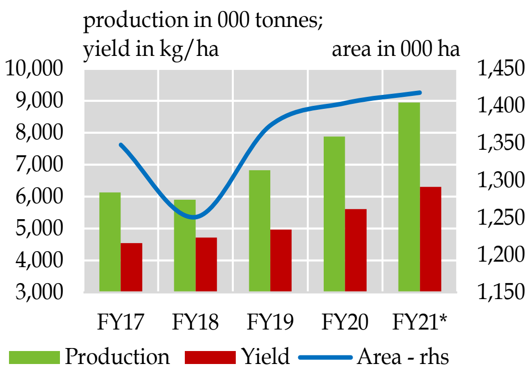
The government's procurement drive has shown an improvement in the last two years. Specifically, following an underwhelming effort in FY19 when only 64.5 percent of the 6.25 MMT procurement target was met, the procurement drive for FY20 achieved 80.0 percent of its 8.25 MMT target. During FY21 as well, around 93.8 percent of the 6.3 MMT procurement target had been achieved by mid-September 2021.[22]

Maize

Maize production increased by 13.4 percent to 8.9 million tons during FY21 (**Figure 2.9**), primarily due to a 12.3 percent increase in yield, along with a 1 percent growth in its cultivated area.

Specifically, yields in Punjab – which accounted for 89.4 percent of the overall maize production in FY21 – improved by 7.7 percent in the year. Yields in the province have been rising since 2004-05, partly due to the use of high-yielding imported seed varieties. The

Area, Production & Yield of Maize **Figure 2.9**



* provisional

Source: Pakistan Bureau of Statistics

[20] USDA Grain and Feed Annual Report, dated June, 24, 2021.

[21] MNFSR (Working Paper of the Federal Committee on Agriculture for Kharif 2021-22).

[22] MNFSR.

Performance of Selected Pulses Crops^P **Table 2.7**

area in 000 hectares; production in 000 metric tons; yield in kg/hectare

	Area			Production			Yield		
	FY20	FY21^T	FY21^P	FY20	FY21^T	FY21^P	FY20	FY21^T	FY21^P
Gram	943.9	983.0	872.7	497.6	525.5	261.2	527.5	534.6	299.0
Moong	172.9	180.7	231.1	125.9	140.0	204.5	728.2	774.8	884.9
Mash	13.9	17.0	11.0	6.5	10.3	7.0	467.6	605.9	636.4

P: Provisional, T:target

Sources: MNFSR; PBS

Performance of Gram Crop in selected divisions of Punjab^P **Table 2.8**

	Area		Production		Yield	
	000 hectares		000 tons		kgs/hectare	
	FY20	FY21	FY20	FY21	FY20	FY21
Punjab	850.3	793.6	430	164	505.7	206.7
o/w:						
Bhakkar	385.5	390.9	188.8	64.8	489.6	165.7
Khushab	207.2	178.3	100.1	36.6	483.1	205.3
Layyah	119.0	105.2	61.8	29.1	519.3	276.6
Jhang	95.9	85.0	49.1	9.8	511.9	115.5

P: Provisional

Source: Crop Reporting Service, Punjab

Punjab Agriculture Department has also been promoting the use of better farming practices and upgraded technology, such as drip irrigation and cob pickers.[23]

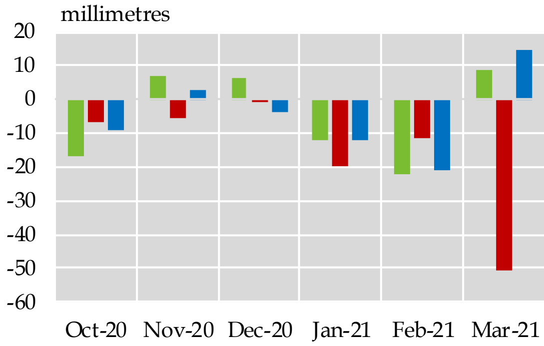
Pulses

Among pulses, the gram (chickpea) crop is the most widely produced in Pakistan. However, gram production fell by nearly half in FY21 to 261,000 tons, from 498,000 tons last year (**Table 2.7**). This was mainly due to a sharp 43 percent drop in yield.

Around 90 percent of the cultivated area for gram is located in Punjab. Furthermore, the bulk of cultivation in the province consists of unirrigated, subsistence cultivation in the Thal desert region, including in districts such as Bhakkar, Khushab, Layyah and Jhang (**Table 2.8**).

The yield can be highly dependent on the amount of rainfall received during the *Rabi* season (October to March). In this regard, the Bhakkar, Layyah and Jhang districts received significantly lower rainfall compared to their long-term average; this contributed to significant declines in the gram yield in these districts as compared to last year, by around 66 percent, 47 percent, and 77 percent respectively (**Figure 2.10**).

Rainfall, Departure from Long-term Avg* **Fig 2.10**



* 2009-21 for Bhakkar; 2016-21 for Layyah; and 2003-21 for Jhang

Bhakkar Layyah Jhang

Source: Pakistan Meteorological Department

Livestock

The livestock sector grew by 3.1 percent during FY21, against the growth of 2.1 percent recorded last year (**Table 2.9**). The impetus mainly came from the poultry sub-sector, which rebounded strongly from the Covid-induced slump in FY20. While the demand and prices of poultry products fell considerably during March to May 2020 amid the strict lockdown, the subsequent shift to smart lockdowns supported the poultry sub-sector. Resultantly, the contribution of livestock to GDP growth also doubled from 0.2 percentage points in FY20 to 0.4 percentage points in FY21.

[23] For more details, see the SBP's Second Quarterly Report for FY21 on the State of Pakistan's Economy.

Gross Value Added (GVA) of Livestock Sector **Table 2.9**

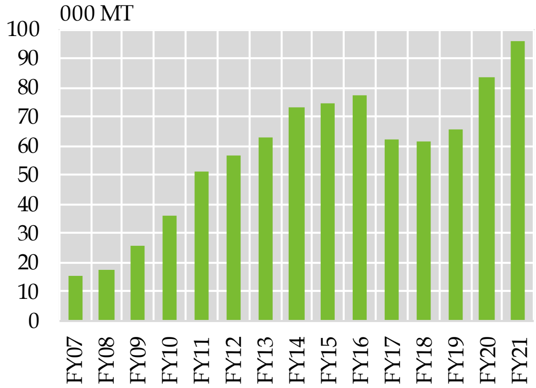
million Rupees; growth in percent

			Growth	
	FY20R	FY21P	FY20R	FY21P
A. Gross output	1,776,473	1,848,642	3.0	4.1
Animals sold for slaughtering	403,468	415,242	2.9	2.9
Natural growth/regeneration	252,460	260,040	3.0	3.0
Livestock products	924,696	952,522	3.0	3.0
Milk	796,050	821,677	3.2	3.2
Others	128,646	130,845	1.6	1.7
Poultry products	195,849	220,838	3.5	12.8
B. Intermediate consumption	315,886	343,970	7.2	8.9
C. Gross value added (A-B)	1,460,587	1,504,671	2.2	3.0
D. Other GVA*	7,929	8,928	-8.0	12.6
E. Total GVA (C+D)	1,468,517	1,513,599	2.1	3.1

R: revised; P: provisional, * hunting and husbandry

Source: Pakistan Bureau of Statistics

Quantum Exports of Meat and Meat Preparations **Figure 2.11**



Source: Pakistan Bureau of Statistics

Within livestock, meat production increased from 4.7 million tonnes in FY20 to nearly 5.0 million tonnes in FY21, according to the Pakistan Economic Survey 2020-21. While the data for meat production is estimated through the somewhat dated inter-census growth rate of the Livestock Census 1996 and 2006, the elevated quantum of meat exports also supports the view that production has generally outpaced the domestic consumption requirements in the past decade (**Figure 2.11**). Future prospects of the sector are also encouraging. For instance, 81 percent of additional beef production globally is projected to come from developing countries by 2029, especially from Pakistan, Argentina, Brazil, China, Turkey, and Sub-Saharan African countries, according to an OECD-FAO report.[24]

Meanwhile, milk production rose from 61.7 million tonnes in FY20 to 63.7 million tonnes in FY21, according to estimates in the Pakistan Economic Survey2020-21. This sub-segment mainly comprises buffalo milk (38.4 million tonnes) and cow milk (23.4 million tonnes), while the remainder consists of goat, camel and sheep milk.

The country's yield of fresh buffalo milk is comparable to several regional peers (**Table 2.10**). However, Pakistan's standing in terms of fresh cow milk indicates some room for improvement. Cattle farming in the country is largely of subsistence nature, dominated by households owning between 1 to 4 cattle.[25] Moreover, the majority of smallholder dairy farms use relatively low-quality fodder and less efficient herd management practices as compared to progressive dairy farmers.[26] By comparison, for example, China has posted significant improvement in its cow milk yield, due to the adoption of modern milking facilities and feed

[24] OECD-FAO Agricultural Outlook 2020-2029.
[25] Pakistan Livestock Census, 2006.
[26] A. Burki and M. Khan (2019). *Economic Impact of Pakistan's Dairy Sector: Lessons for Building Sustainable Value.* Lahore: LUMS.

Average Milk Yield **Table 2.10**

kg per animal/day

	Buffalo			Cow		
	1990	**2019**	**Δ***	**1990**	**2019**	**Δ***
Iran	3.1	7.8	4.6	2.6	9.9	7.3
Pakistan	4.6	6.3	1.7	2.3	4.0	1.7
India	3.1	5.6	2.5	2.0	4.7	2.6
Egypt	2.6	3.6	1.0	2.6	3.8	1.2
Turkey	2.5	2.7	0.2	3.7	8.7	5.0
Nepal	2.2	2.4	0.2	1.0	2.0	1.0
Sri Lanka	1.3	2.2	0.9	1.5	3.2	1.6
China	1.2	1.4	0.2	4.3	15.5	11.2

* Change between 1990 and 2019

Source: FAO

management techniques by large-scale dairy farms, which accounted for around 70 percent of dairy farms in China in 2020.[27]

Forestry and Fishing[28]

The forestry sector grew by 1.4 percent during FY21 compared to 3.6 percent last year, while the fishing sector posted growth of 0.7 percent, against 0.6 percent in FY20. As given in **Table 2.3** previously, the contribution of forestry and fishing sectors to real GDP growth, according to official estimates, is negligible. Nonetheless, these sectors have room to grow and contribute to the national output.

The forestry sector's negligible contribution to GDP growth is partly because several non-timber forest products (NTFP) and non-tangible environmental and ecological benefits are unaccounted for in the methodology adopted by the PBS to compute national output. Specifically, the PBS methodology covers: "production of round wood for the forest-based manufacturing industries… as well as the extraction and gathering of wild-growing non-wood forest products. Besides, the production of timber forestry activities results in products that undergo little processing, such as fire wood, charcoal, wood chips and round wood used in unprocessed forms."[29]

This definition misses other NTFPs found in Pakistan, including medicinal, aromatic and culinary herbs, resin, oils, honey, silk, mushrooms, pine nuts, pistachio nuts, etc. Moreover, the data also needs to be collected at more regular intervals. Detailed national level forestry data was last collected during the preparation of the Forestry Sector Master Plan (FSMP) in 1992; subsequent data has mainly been generated by making adjustments to the FSMP data. Therefore, a fresh exercise of the scale of 1992 FSMP needs to be conducted to update the data and facilitate planning and monitoring of forestry developments.

Pakistan is a forest-deficient country, with only 5 percent of its area under forest cover as of FY21.[30] To put this into perspective, the UN recommends forest cover equivalent to 12 percent of a country's land area. However, forestry management efforts in the country have recently picked up. The 'One Billion Tree Tsunami' afforestation project in KP succeeded in planting 1.18 billion trees between 2014-2017.[31] Subsequently, the federal government launched the four-year Ten Billion Tree Tsunami in 2019, which has already achieved an important milestone of one billion trees planted as of May 2021. Such mega initiatives can help bring about significant environmental and ecological benefits, and contribute to sustainable growth of the forestry sector.

Meanwhile, the fishing sector has displayed an encouraging potential to generate FX earnings for the country, with exports of fish and fish preparations averaging US 420.9 million during FY17-FY21 (**Figure 2.12**). The sector

[27] USDA (2020). *China: Dairy and Products Annual*. Washington D.C: USDA.

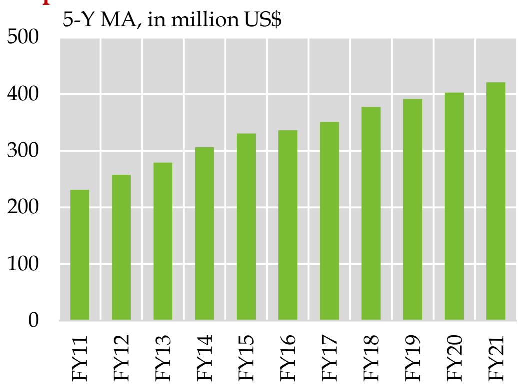
[28] The analysis of forestry sector utilizes insights from the following source document on several occasions: FAO (2019). *Forestry Sector Review: Pakistan*.

[29] PBS (2013). *National Accounts of Pakistan, Change of base from 1999-2000 to 2005-06.*

[30] Pakistan Economic Survey 2020-21.

[31] UNESCO.

Exports of Fish and Fish Preparations **Figure 2.12**



Source: Pakistan Bureau of Statistics

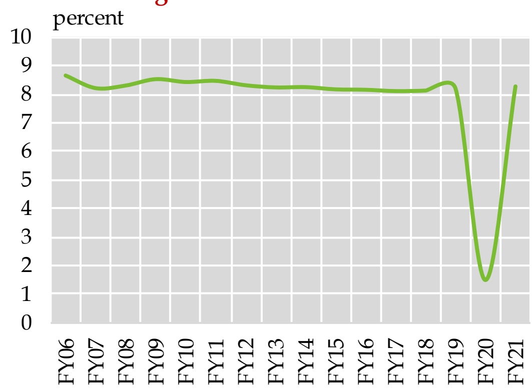
comprises both marine and inland fishing (based in rivers, lakes and dams). The government is emphasizing better extension services and greater value addition, such as the development of trout and shrimp farming in the country.[32]

2.3 Industry

The industrial sector recovered during FY21, growing by 3.6 percent, against a decline of 3.8 percent last year (**Table 2.11**). While other sub-industries also contributed, the LSM sector's expansion drove the overall industrial performance during FY21. Pakistan's manufacturing sector performed either better or at-par with other regional economies, mainly owing to the temporary relief packages introduced by the fiscal and monetary authorities to speed-up the recovery after the Covid outbreak. The construction package provided major support to the construction-allied industries of cement and steel, which recorded double-digit production increases during the year.

Meanwhile, the small-scale manufacturing sector, which was especially impacted by the pandemic last year, returned to its long-term growth trajectory in FY21 (**Figure 2.13**). The approval and subsequent implementation of the National SME Policy Action Plan 2020 and

Growth in Small-Scale Manufacturing **Figure 2.13**



Source: Pakistan Bureau of Statistics

the SMEDA one-window initiative, which reduced the compliance burden for businesses -especially the small enterprises – may have contributed to this recovery.[33] In contrast, *electricity generation and gas distribution* witnessed sharp declines in FY21, despite an increase in electricity production. This can mainly be traced to reduced allocation of subsidies by the government to the distribution companies (DISCOs), and the higher proportional increase in intermediate consumption as compared to output.[34]

The construction industry also expanded by 8.3 percent in FY21 compared to 5.5 percent last year. The construction industry, along with its allied industries of cement and steel in

Industrial Sector Growth **Table 2.11**

percent YoY

	FY17	FY18	FY19	FY20	FY21
Industrial Sector	**4.6**	**4.6**	**-1.6**	**-3.8**	**3.6**
Mining and Quarrying	-0.6	7.8	1.2	-8.3	-6.5
Manufacturing	5.8	5.4	-0.7	-7.4	8.7
LSM	5.6	5.1	-2.6	-10.1	9.3
SME	8.1	8.2	8.2	1.5	8.3
Slaughtering	3.6	3.5	3.5	4.1	3.9
Elect gen dist & gas distribution	-2.7	-17.2	13.6	22.4	-23.0
Construction	9.0	10.8	-15.5	5.5	8.3

Source: Pakistan Bureau of Statistics

32 Pakistan Economic Survey 2020-21, and Engro press release dated July 16, 2021.
33 Ministry of Finance (2021). *Pakistan Economic Survey 2020-21*. Islamabad: MoF
34 Pakistan Bureau of Statistics press release on National Accounts Committee Meeting, dated May 21, 2021.

the LSM, received support from the government through several incentives. Announcement of construction package reduced the cost for both buyers and sellers through tax reductions, while amnesty for real estate developers and Naya Pakistan Housing Scheme (also known as *Mera Pakistan Mera Ghar (MPMG)* Scheme) aided growth in this sector. SBP also played its part by reducing mark-up rates and introduction of mandatory targets for banks to ensure lending to the construction sector.[35] In addition to increase in general government expenditures, spending by the private sector on construction activities boosted growth in this segment. Significant inflow of remittances in FY21 in Pakistan may also help explain the growth in this industry.

LSM[36]

The LSM sector rebounded sharply with 14.9 percent growth in FY21, compared to decline of 9.8 percent in the previous period (**Table 2.12**). The major push came from textile, construction-allied, automobile sectors and food-beverage-&-tobacco sector. The incentives introduced after the first Covid wave aided these industries. The textile sector was one of the beneficiaries of the energy package and the SBP's concessionary finance schemes, which lowered its cost of production. The market-based exchange rate also helped the export-oriented textile industry.

Meanwhile, the increase in capacity of the construction-allied industry the past few years facilitated the rebound, as the industry was well-placed to meet the surge in demand in

LSM Growth **Table 2.12**

percent, YoY

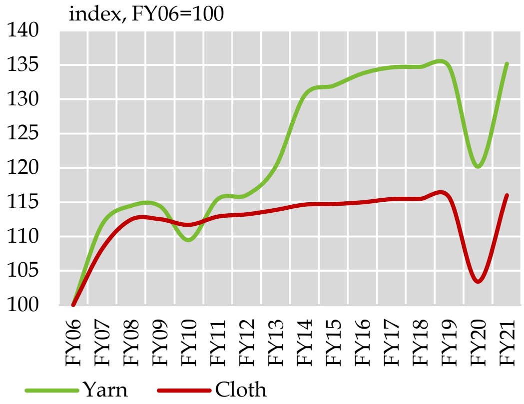
	wt.	FY20				FY21				FY20	FY21
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
LSM	70.3	-5.5	0.1	-9.1	-24.6	4.5	10.4	11.5	38.2	-9.8	14.9
Textile	20.9	0.2	0.5	-8.4	-33.8	2.2	2.9	13.1	56.9	-10.4	15.3
Cotton yarn	13	0.2	0.0	-9.0	-34.5	0.1	0.1	9.9	53.9	-10.8	12.5
Cotton cloth	7.2	0.1	0.3	-8.8	-34.3	-0.1	0.0	9.7	53.1	-10.7	12.2
Jute goods	0.3	-14.8	3.5	37.6	-31.3	10.7	-5.8	2.2	29.6	-3.1	7.3
Food	12.4	-9.0	16.7	-7.1	-2.3	13.6	25.0	3.4	8.2	-1.8	11.0
Sugar	3.5	N/A	97.1	-14.3	-82.1	N/A	72.1	0.4	16.5	-7.2	16.7
Cigarettes	2.1	-34.5	-24.3	-35.4	6.5	31.2	0.9	23.8	-3.8	-24.1	11.9
Vegetable ghee	1.1	2.0	8.8	6.8	0.5	-4.2	-0.9	-3.4	4.2	4.5	-1.1
Cooking oil	2.2	0.0	13.9	14.0	7.3	3.4	-0.2	-2.9	13.8	8.8	3.4
Soft drinks	0.9	-14.1	-0.4	-3.2	-3.5	7.7	-9.4	21.4	9.3	-6.1	7.5
POL	5.5	-14.5	-5.9	-32.0	-27.8	2.4	7.0	33.8	36.5	-20.1	18.1
Steel	5.4	-17.0	-6.8	2.0	-47.1	-8.1	6.0	7.2	92.2	-17.4	15.6
Non-metallic minerals	5.4	-0.9	6.3	-0.2	-13.6	22.2	18.3	33.2	34.5	-2.2	26.7
Cement	5.3	-1.4	6.3	0.0	-12.8	22.8	19.2	34.1	34.5	-2.0	27.3
Automobile	4.6	-34.6	-40.1	-38.6	-70.5	-5.9	31.1	49.6	271.5	-44.6	51.1
Jeeps and cars	2.8	-38.6	-54.6	-50.4	-85.4	-21.1	42.6	67.4	712.3	-54.8	66.6
Fertilizer	4.4	15.9	-5.1	7.9	0.4	2.0	13.3	1.9	11.8	4.4	7.2
Pharmaceutical	3.6	-11.9	-0.7	-3.6	5.6	14.4	12.0	11.6	10.5	-2.7	12.0
Paper	2.3	-1.3	16.0	-1.2	-11.9	-2.2	-3.2	3.7	18.0	0.4	3.4
Electronics	2	11.0	-15.7	-34.2	-72.7	-20.4	-21.4	-20.3	109.1	-33.3	-4.2
Chemicals	1.7	4.9	14.7	14.6	-14.3	10.6	10.7	17.2	44.1	4.9	19.3
Caustic soda	0.4	35.0	60.5	42.2	18.4	2.5	5.1	17.1	42.1	38.8	15.1
Leather products	0.9	6.3	16.0	-2.1	-55.4	-44.5	-41.0	-29.4	57.8	-9.1	-26.4

Source: Pakistan Bureau of Statistics

[35] SBP's Report on the State of Pakistan's Economy for Q2-FY21.

[36] The analysis of LSM sector is based on data released by the Pakistan Bureau of Statistics' Quantum Index of LSM Industries for August 2021. The LSM numbers in the National Accounts data for the calculation of GDP and overall industrial sector were based on provisional estimates at the time, which was March 2021.

Cotton Yarn and Cloth Production **Figure 2.14**



Source: Pakistan Bureau of Statistics

the wake of the government's construction package. The growth in production of food processing industry was driven primarily by increase in sugar output, in the wake of the bumper sugarcane harvest. The automobile industry also recovered from constrained output over the past two years, on the back of the introduction of new models, pent-up demand from delayed purchases last year (amid the lockdowns) and low interest rates

On the other hand, the export-oriented leather sector was not able to return to growth despite the fiscal and monetary incentives offered. The introduction of low-priced alternatives, such as synthetic leather, have reduced the global appetite for leather products and resulted in lower exports of the sector.[37]

Textiles

The production of the textile sector rose by 15.3 percent during FY21, compared to a contraction of 10.4 percent last year. Most of this growth was recorded during H2-FY21, as the cotton textile industry remained largely operational during this period in contrast to last year, when mobility restrictions had hampered production activities. The export-oriented high value-added textile industry performed quite strongly during the year on the back of the policy support and by capturing textile export orders from some competitor countries (**Chapter 6**).

Meanwhile, the production of cotton yarn and cloth witnessed double-digit growth during FY21 and the production level was the highest on record since the LSM was rebased in FY06 (**Figure 2.14**). The impressive production was achieved despite the country's lowest cotton output since FY85. Record high imports of raw cotton were instrumental in meeting the shortfall in the domestic market. igh growth in production of primary textile goods, such as yarn and cloth, also facilitated the growth in the upstream textile sector, including knitwear and readymade garments.

Construction-allied Industries

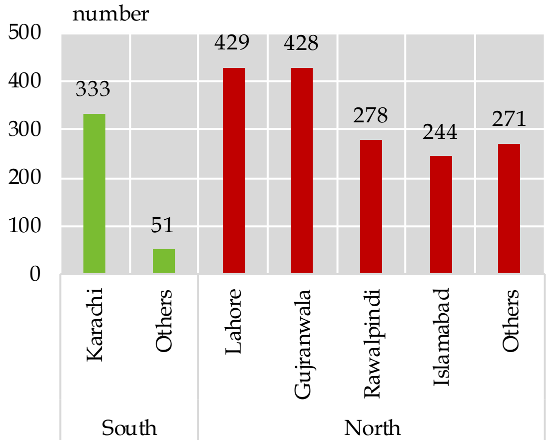
The output of the construction-allied industries expanded sharply, in line with the construction sector activities. The demand for products in this segment was enhanced by monetary and fiscal stimuli which drove growth in cement and steel industries. Cement production witnessed a sharp increase, whereas the output of the steel industry also rose by double digits, after declining consistently over the past two years.

Incentivized by the construction package, the private sector played a key role in revitalizing the construction industry. According to the FBR, more than 2,100 housing projects, both large and small, got registered to be included in the package. Real estate developers, especially in the north of the country, were the major beneficiaries of the package, as evident from **Figure 2.15.** With September 2023 set as the deadline for the completion of the projects, anecdotal evidence suggests that real estate developers are hastening their efforts to meet the requirements.

The higher development spending by the government also played a part in aiding the construction sector activities (**Chapter 4**). Overall development expenditure was 7.2 percent higher in FY21 compared to last year. The public sector's demand for cement and steel remained robust due to the increase in

[37] SOMO (2021). *Leather Products from Pakistan: Trends in Production and Trade*. Amsterdam: SOMO.

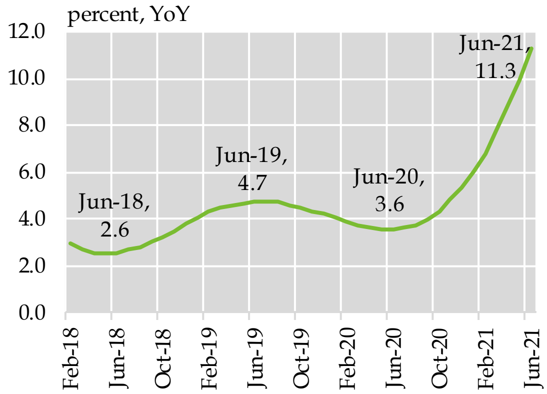
Number of Projects Registered Under PM's Construction Package* **Figure 2.15**



*Updated July 28, 2021

Source: Federal Board of Revenue

Growth in Prices of Real Estate **Figure 2.16**



Source: Zameen.com

spending on large infrastructure projects, such as Bhasha and Dasu dams. This is in line with the trend of development expenditures as PSDP spending was largely concentrated in infrastructure development).

Furthermore, the SBP also contributed to the construction-allied industry's growth through multiple measures. Specifically, the SBP promoted housing and construction finance for the low-income group, and set mandatory targets for banks to increase their lending to this group. These measures contributed to an increase of Rs 101 billion in housing and construction finance loans during FY21 to Rs 249 billion by end-June 2021, from Rs 148 billion last year. Moreover, consumer financing for housing saw a surge in net disbursement of Rs 23.8 billion in FY21 in contrast to net retirements of Rs 12.8 billion the year before.

In addition to these incentives, substantial increase in remittances (**Chapter 6**) during FY21 fueled activities in the real estate development sector which further increased demand for cement and steel. A recent study by PIDE suggests that remittances have a positive impact on new housing demand as they increase the purchasing power of households. In addition, remittances also improve the room per person ratio in Pakistan, which is indicative of larger capacity of houses built by expatriates.[38]

The impact of the coordinated fiscal and monetary measures on the construction sector can be approximated through the price trends of properties in the country. According to Zameen.com, average prices of residential property have been rising since the start of the year, which also coincides with the implementation of the construction package (**Figure 2.16**).

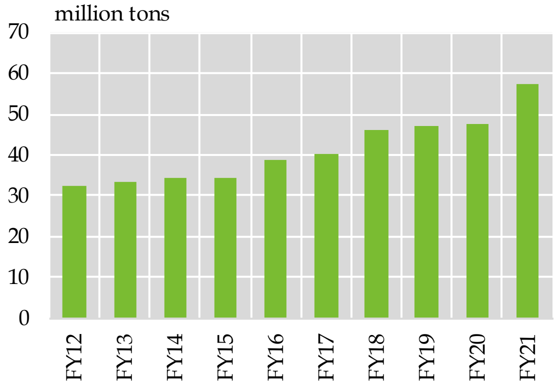
Cement

Aided by capacity expansions over the past few years, the cement industry responded to the increase in demand for the commodity by setting the record for output, which grew by 27.3 percent during FY21 (**Figure 2.17a, b**). The monetary and fiscal stimuli, along with the lowering of FED on cement, facilitated the growth in FY21. The duty was reduced from Rs 2 per kilogram last year to Rs 1.5, which reduced the price of 50 kilogram cement bag by Rs 25.

According to the All Pakistan Cement Manufacturers Association (APCMA), domestic offtake was the driving force behind

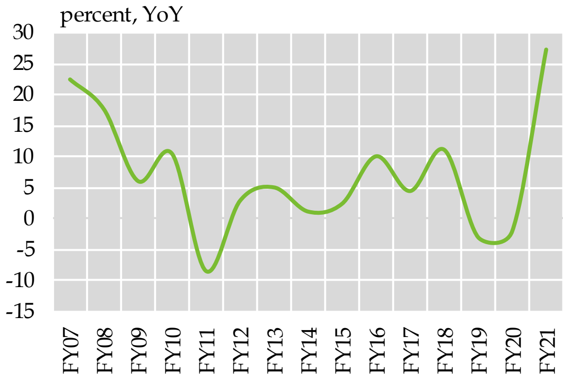
[38] A. Ahmed, N. Iqbal, and G. Mustafa (2020). *Measuring the Impact of Remittances on Housing Demand: Evidence from Large Cities in Pakistan*. PIDE Working Papers No. 2020:10, Islamabad: PIDE.

Cement Offtake **Figure 2.17a**



Source: All Pakistan Cement Manufacturers Association

Cement Production Growth **Figure 2.17b**



Source: Pakistan Bureau of Statistics

the production increase, as it contributed 17.1 percent to overall growth of 20.1 percent during FY21, which stood in contrast to last year when it had dragged growth down by 0.8 percent out of overall growth of 2.0 percent. Cement producers in the north and south saw their local dispatches increase by 18.2 percent and 33.7 percent, respectively (**Table 2.13**). Since large public infrastructure projects and majority of the private sector projects under the approved construction package were undertaken in the north, the cement producers in that region gained more benefit.

Cement Dispatches **Table 2.13**

	Dispatches (million tons)					
	North		**South**		**Combined**	
	Local	**Export**	**Local**	**Export**	**Local**	**Export**
FY17	29.1	3.1	6.5	1.5	35.7	4.7
FY18	34.0	3.1	7.2	1.7	41.1	4.7
FY19	32.4	2.5	8.0	4.0	40.3	6.5
FY20	34.3	2.0	5.6	5.9	40.0	7.8
FY21	40.6	2.6	7.5	6.7	48.1	9.3
	Dispatches Growth (percent)					
	North		**South**		**Combined**	
	Local	**Export**	**Local**	**Export**	**Local**	**Export**
FY17	7.7	-18.2	9.5	-25.1	8.0	-20.6
FY18	16.6	-2.2	10.3	10.0	15.4	1.8
FY19	-4.7	-18.0	11.2	140.9	-1.9	37.8
FY20	6.1	-22.1	-29.4	46.5	-0.9	20.0
FY21	18.2	30.2	33.7	14.8	20.4	18.7

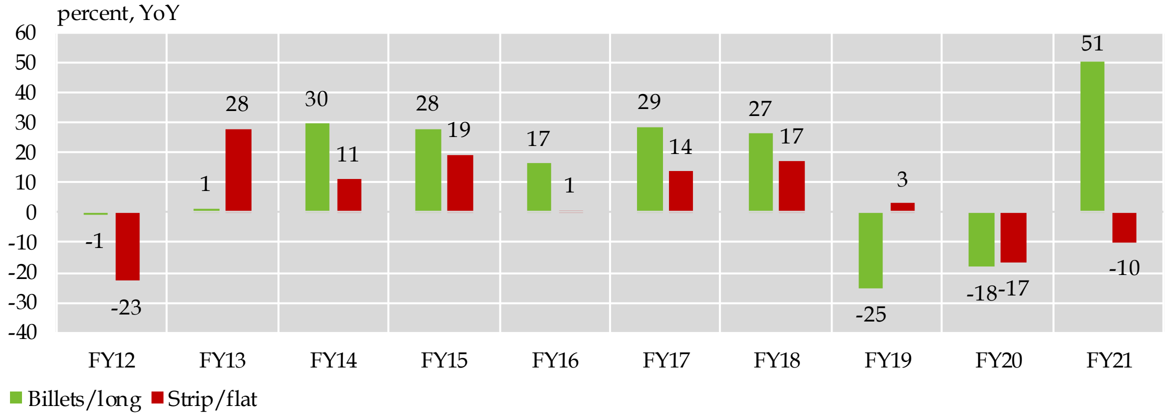
Source: APCMA

On the export side, shipments decelerated marginally to 18.7 percent in FY21 compared to 20.0 percent last year, as per APCMA data. This can largely be attributed to Covid-related closure of the Pakistan-Afghan border during H2-FY21; however, in subsequent periods, cement exports picked up sharply, especially in H2-FY21. As trade restrictions between Afghanistan and Pakistan eased during FY21, cement shipments to the neighboring country rose by 33.7 percent, compared to 9.6 percent growth last year. Exports to non-traditional destinations, such as China, also grew during FY21. China's focus on protecting its environment and infrastructure development to revive its economic growth amid the pandemic led to increased dependence on imported cement.

Steel

Driven by the production of long-steel products, the output of the steel industry expanded by 15.6 percent during FY21, compared to double digit decline in each of the past two years. The rebound in industry can be traced to an increase in construction activities in the country. This is evident from long-steel production, which is a primary building material for the construction sector. Its output increased by 51.0 percent compared

Steel Production Growth **Figure 2.18**



Source: Pakistan Bureau of Statistics

to significant decline of 18.3 percent last year (**Figure 2.18**).

Unlike cement, Pakistan is not self-sufficient in steel and hence relies on imports to plug the domestic shortfall. Imports of intermediate steel scrap and finished products registered increase of 20.6 and 24.6 percent respectively in FY21. Similar to domestic pattern where growth in production is largely tilted in favor of long-steel products, the import growth in steel was mainly driven by bars for the construction sector. The price of iron bars increased sharply, especially during H2-FY21, owing to an increase in domestic demand as well as higher unit value of imported steel products.

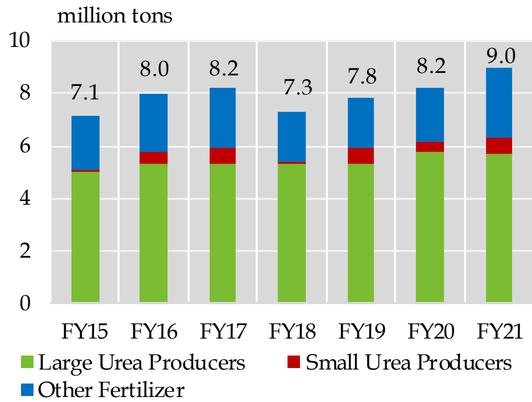
The output of flat steel decreased during FY21, as demand for the commodity from various industries waned. In particular, the drop in demand for electronic appliances resulted in lackluster growth for this segment. In addition, saturation in the telecommunications sector also contributed to depressed demand for the flat-steel industry. While the recent revival in the automotive industry offset some of the drag, it was not enough to catapult the flat steel production into growth.

Fertilizer

The fertilizer sector's output accelerated to 7.2 percent during FY21 from 4.4 percent a year earlier. According to the National Fertilizer Development Center (NFDC), the production of non-urea fertilizer expanded sharply by 30.8 percent during FY21, against 9.8 percent growth last year. This resulted in record production of these commodities and increased its share in overall production from 25.1 percent last year to 30.1 percent in FY21. On the other hand, urea production decelerated from 4.1 percent a year earlier to 2.0 percent in FY21. Slight dip in production of large urea plants was more than offset by the expansion in output of smaller units (**Figure 2.19**).

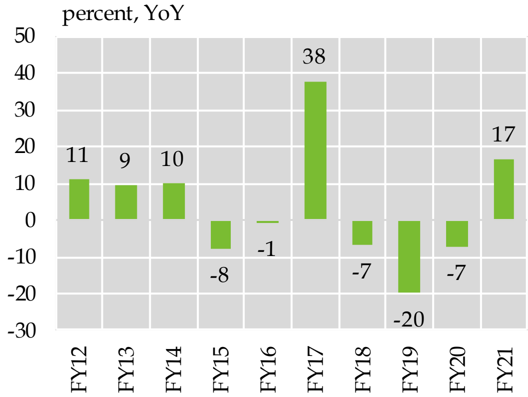
The production of non-urea fertilizers, such as nitro-phosphate (NP) and calcium-ammonium-nitrate (CAN) continued to increase. After growing 31.3 and 20.4 percent in FY20, the output of NP and CAN rose by 41.7 and 45.3 percent in FY21 respectively. The higher growth is explained by a large

Fertilizer Production **Figure 2.19**



Source: National Fertilizer Development Center

Sugar Production Growth **Figure 2.20**



Source: Pakistan Bureau of Statistics

producer of NP and CAN remaining operational throughout FY21 whereas it was operational for 6 out of 12 months last year. Moreover, it also indicates the extent of demand for non-urea fertilizer, as growers have become more aware of using cheaper substitutes while also ensuring optimal nutrient mix to extract maximum output from their farms.

Meanwhile, the deceleration in urea production – an output dip of 1.8 percent in FY21 compared to growth of 8.4 percent last year – was predominantly a result of below-par production of the large fertilizer units. The data breakdown shows that urea production had slowed down during H2-FY21. This slowdown can be attributed to the government's sales tax registration drive for downstream fertilizer dealers, which adversely affected offtake of the larger urea firms, particularly during H2. The performance of the smaller units contrasted with the larger units: the output of this segment grew 59.0 percent in FY21, after declining 34.4 percent last year.

Food

The food processing industry's output increased 11.0 percent in FY21, after declining 1.8 percent last year. This growth was largely due to an expansion in the sugar output, closely followed by that of the wheat-flour milling sector. The noteworthy growth in the latter can be attributed to the increase in the number of reporting units in the *Monthly Survey of Industrial Production & Employment in the Punjab* from 686 units in FY20 to 738 units in FY21. The tobacco industry's contribution to LSM growth was also noticeable, with 11.9 percent expansion recorded during FY21. The local industry was a beneficiary of the government's drive against illicit and counterfeit tobacco products, and was able to increase its production to meet the demand previously being met via products in the informal sector.

Sugar

The second-highest output of sugarcane crop facilitated recovery in the upstream sugar industry, as sugar production swelled from 4.9 million tons to 5.7 million tons – a 16.7 percent increase in FY21 (**Figure 2.20**). The abundant supply of sugarcane prompted the government to order the sugar mills to start the crushing season earlier than usual, which helped reduce the need to import sugar. Resultantly, this measure prevented sugar prices from rising further. Another factor that helped the industry stage a recovery was the Rs 10 increase in the price of sugarcane per 40 kg to Rs 200 per 40 kg, which incentivized the sugarcane growers to supply their produce to sugar mills.[39]

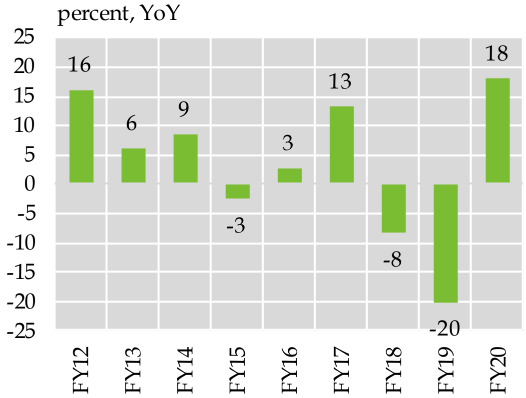
Petroleum

The petroleum sector was one of the major beneficiaries of the ease in mobility restrictions, as evident from the increase in output of petrol and diesel products. The growth in these categories led to an overall increase in the output of 18.1 percent in FY21, against a double digit decline last year (**Figure 2.21**).

The rebound in overall economic activities during FY21 had a spillover impact on the petroleum sector's production. As indicated

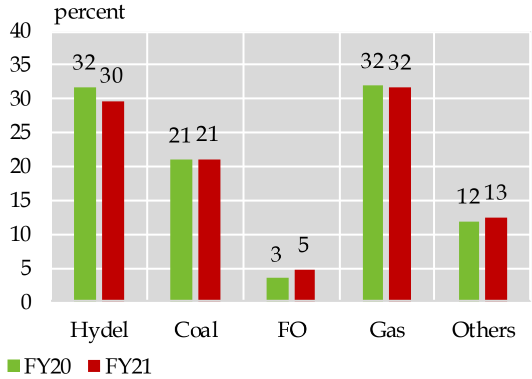
[39] The government of Sindh increased indicative price of sugarcane by Rs 10 to Rs 202 per 40 kilogram.

POL Production Growth **Figure 2.21**



Source: Pakistan Bureau of Statistics

Electricity Generation From Different Sources **Figure 2.22**



Source: National Electric Power Regulatory Authority

by mobility indicators, the transport and wholesale and retail trade activities returned to pre-Covid levels. Furthermore, the sharp rise in the import of energy products was also indicative of the revival of activities in the transportation sector. In addition, the increase in the number of vehicles on roads also helped increase the demand for petroleum products. Main transportation fuels, petrol and diesel, witnessed significant growth during the review period.

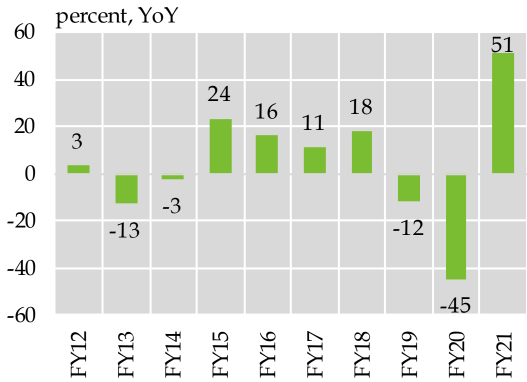
Meanwhile, furnace oil production increased by 14.7 percent in FY21, after declining 22.6 percent last year. The lifting of restrictions on utilizing furnace oil for electricity generation in FY21 in the wake of gas shortages supported the recovery in this segment (**Figure 2.22**).

Automobile

The automotive sector recovered from the significant dip of 44.6 percent in FY20 to double-digit growth of 51.1 percent in FY21 (**Figure 2.23**). It is worth noting that the growth number is underreported, as official production estimates for some new entrants are not entirely captured by LSM data.[40] The automotive sector continued to gain momentum throughout the year. Several factors played a key role in this rebound: ease in mobility restrictions, low interest rates, and the introduction of new car models. In FY20, the automotive sector had been subdued initially due to the stabilization measures, and subsequently due to the strict lockdowns during the first wave of Covid-19.

The low interest rates were pivotal in raising the demand for automobile sector, as evident by the sizable increase in auto finance: in FY21, outstanding auto loans increased by Rs 97.0 billion compared to increase of Rs 4.3

Automobile Production Growth **Figure 2.23**



Source: Pakistan Bureau of Statistics

[40] According to estimates by brokerage houses, the total car and jeep production numbers are 15 to 25 percent higher than the numbers reported in the LSM data. Furthermore, anecdotal evidence suggests that Kia Motors- one of the new entrants- is selling 1,500-2,000 locally produced vehicles per month in the country, whereas these figures are not reflected in the LSM production side data. Currently, this data is not included in the data set of the PAMA.

Automobile Sector Production **Table 2.14**

	Units produced			Growth (in percent)		
	FY19	FY20	FY21	FY19	FY20	FY21
All Cars	103,883	57,151	58,374	7.9	-45	2.1
Cars <800 cc	22,298	24,707	12,734	-5.1	10.8	-48.5
Cars between 800-1000 cc	29,108	13,470	12,037	13.5	-53.7	-10.6
Cars >1000cc	52,477	18,974	33,603	11.3	-63.8	77.1
Sports Utility Vehicles	3,926	2,094	4,107	-44.2	-46.7	96.1
Light Commercial Vehicles	22,198	11,525	12,465	-15.9	-48.1	8.2
Trucks	3,751	1,747	1,557	-16.9	-53.4	-10.9
Buses	515	326	281	25.9	-36.7	-13.8
Tractors	25,969	16,671	23,237	-20.4	-35.8	39.4
Motorbikes	1,766,423	1,370,417	1,902,415	-8.4	-22.4	38.8

Source: Pakistan Automotive Manufacturers Association

billion last year. The bulk of this surge in outstanding loans was recorded in H2-FY21.

In addition, increased competition -especially in the car and jeep segment -attracted customers (**Table 2.14**). Under the incentives for auto assemblers under the Automotive Development Policy 2016-21, the producers introduced new models in the market, which drew buyer interest due to their features and competitive pricing. The compact SUV sector in particular garnered significant interest, as there was previously a gap in the domestic market for these cars. Moreover, the domestic availability of vehicles in this segment also reduced the need to import these types of cars, as was the case previously.

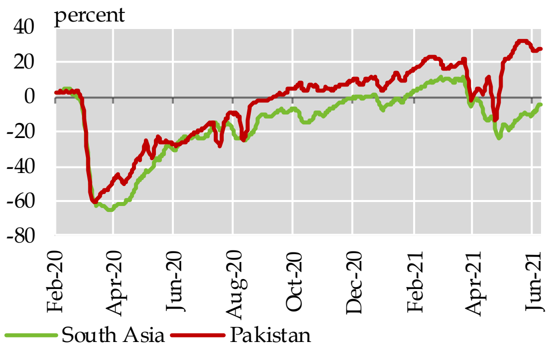
Anecdotal evidence suggests that the increase in rural incomes is closely associated with the rise in sales of 2-wheelers and tractors. On the back of improved agricultural output and the higher remittance inflows, a rebound in these two segments of the automobile industry was noted. Two/three-wheeler and tractor production increased by 36.5 and 54.8 percent in FY21, after declining by 26.3 and 34.7 percent last year.

2.4 Services

The services sector grew by 4.4 percent during FY21, in contrast to the contraction of 0.6 percent last year. In FY20, the slowdown in the industrial sector and imports coupled with outbreak of Covid in the second half and the consequent complete lockdowns, had a deep impact on the services sector. However, recognizing the implications of the complete lockdowns on the economy and livelihoods, the government resorted to the policy of smart and micro lockdowns to contain the spread of Covid in FY21. This policy proved pivotal, as the services sector made a rebound in FY21, despite the emergence of multiple waves of the pandemic. Importantly, the government's early adoption of smart lockdowns aided the services sector to recover sooner than other South Asian economies, as gauged through the Google Mobility statistics (**Figure 2.24**).

Along with the smart lockdowns, targeted fiscal support (including the construction package) and accommodative monetary policy (reduction in policy rate, and the SBP's refinance schemes) played an important role in reviving the commodity-producing sectors. Since the performance of the services sector is

Google Mobility Changes in Pakistan vis-a-vis South Asia (7-Days MA) **Figure 2.24**



Source: Covid-19 Community Mobility Report closely associated with the commodity-producing sectors, the rebound in the latter spilled over into the services sector as well.

The stimulus to the sector mainly came from *wholesale and retail trade* which grew by 8.4 percent during FY21, as compared to a contraction of 3.9 percent last year (**Table 2.15**). The *finance and insurance* segment rose 7.8 percent on the back of strong performance of the banking sector, coupled with healthy growth in the insurance sector. Meanwhile, *transport, storage and communication* continued to contract, although the magnitude of the contraction decreased.

Services Sector **Table 2.15**

percent

	Share in GDP	Cont. to GDP	Growth	
	FY21		FY20^R	FY21^P
Wholesale & retail trade	18.8	1.5	-3.9	8.4
Transport, storage & communication	12.2	-0.1	-3.8	-0.6
Finance & insurance	3.7	0.3	1.1	7.8
Housing services	7	0.3	4	4
General gov. services	8.2	0.2	1	2.2
Other private services	11.8	0.5	4.6	4.6
Services	**61.6**	**2.7**	**-0.6**	**4.4**

R: Revised, P: Provisional

Source: Pakistan Bureau of Statistics

Wholesale and Retail Trade

Wholesale and retail trade posted growth of 8.4 percent during FY21 – the highest growth since FY06. Along with the base effect, the segment gained traction on the back of strong LSM growth, better agriculture harvest, and increase in imports. During FY21, Pakistan's import bill grew by 26.6 percent to US$ 56.4 billion, from US$ 44.6 billion last year. The growth in imports was mainly due to higher demand for consumer necessities, such as food items (including wheat and sugar) and medicines (including Covid-19 vaccines). Moreover, the rise in import of raw materials, such as edible oil and raw cotton (and other textile inputs) contributed to the increase in imports (**Chapter 6**).

The rise in the activity in this segment was also reflected in Google Mobility data (**Figure 2.25**). For instance, as the government moved towards smart lockdowns and eased the mobility restrictions,[41] the mobility in four segments -namely grocery and pharmacy, retail and recreation, workplace, and transit stations (segments closely related to services sector) - started to pick up and reached above the pre-Covid position by end of Q1-FY21 and remained at an elevated level during Q2 and Q3. In Q4, the mobility fell abruptly, in the wake of the third wave and subsequent tighter mobility restrictions, specifically around the Eid-ul-Fitr holidays.[42] However, this appeared to be short-lived, as activities bounced back following the easing of restrictions after the Eid holidays. By the end of FY21, the visits to grocery and pharmacy, retail and recreation, workplace and transit stations were up by 48 percent, 23 percent, 11 percent and 27 percent compared to decline of 14 percent, 26 percent, 24 percent and 25 percent in June 2020 against the baseline position (pre-Covid) period.

Finance and Insurance

In case of *finance and insurance,* acceleration in gross value addition from commercial banks – the segment with highest share - augmented the sub-sector's growth to 7.8 percent in FY21, compared to 1.1 percent growth in last year (**Table 2.16**). The healthy growth in the flows of deposits and increase in advances facilitated growth in the banking sector.

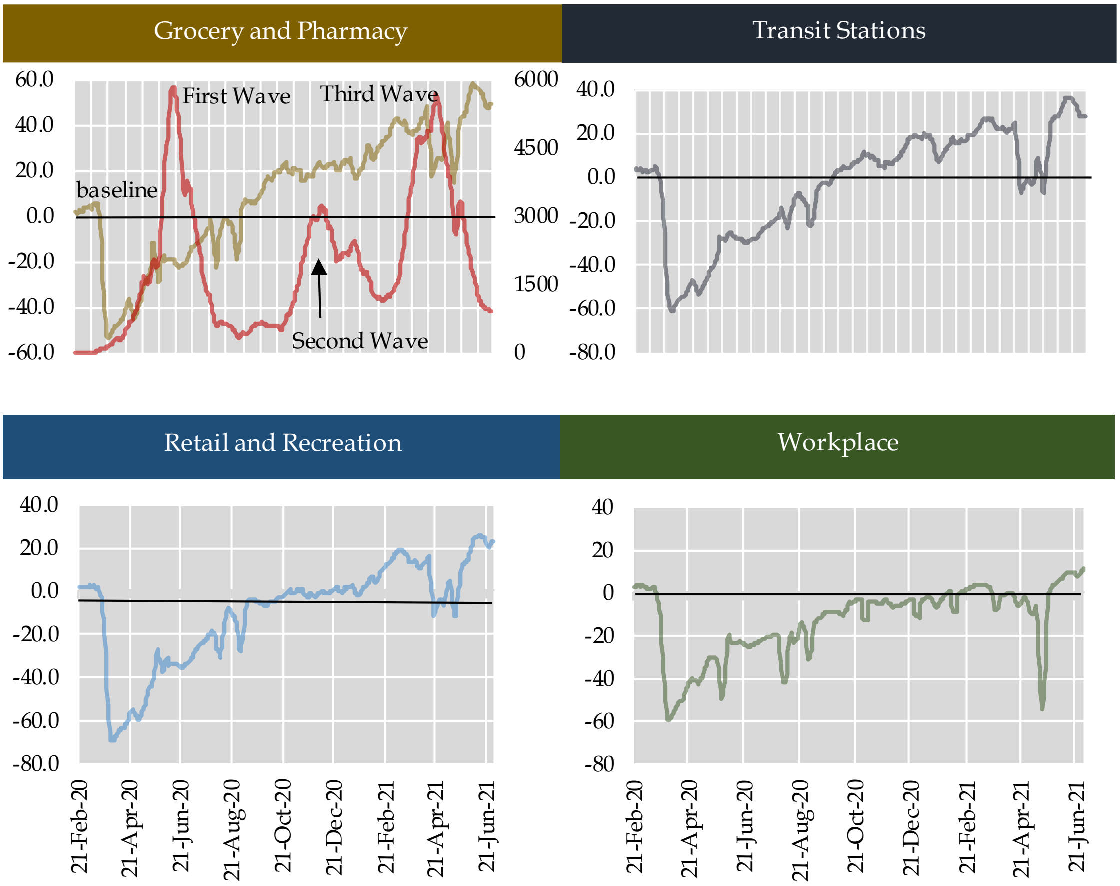
Specifically, deposits and net advances grew by 17.5 percent and 9.2 percent respectively during FY21. The rise in banking deposits could be due to multiple factors. People may

[41] Under the smart lockdown policy, the Covid restrictions are implemented in a targeted manner on specific hotspots, with a view to contain the spread of virus. Moreover, the essential markets and shops, including grocery stores and pharmacies, are allowed to remain open.

[42] Ministry of Interior letter dated April 27, 2021, titled "Decision on discussion points – National Command and Operations Centre".

Google Mobility Changes in Pakistan (7-Days MA) **Figure 2.25**

percent change, compared to baseline*



*The baseline (pre-Covid) is the median value for the 5- week period (Jan 3–Feb 6, 2020). the negative value represent acitvity is down while positive value represent activity is up from the baseline.

Source: Covid-19 Community Mobility Report and WHO

GVA Finance and Insurance Sector **Table 2.16**

in percent

	Share in FY21	Growth	
		FY20R	FY21P
Other monetary intermediation	85.7	2.2	4.8
Scheduled banks	79.3	1.4	3.1
Non-scheduled banks	6.4	16.7	31.6
Insurance, reinsurance and pension funds	4.8	-21	45.3
Activities auxiliary to financial services	7.0	-4.2	49.3
Central banking	1.7	18	-16.7
Other financial services	0.8	1.3	-14.4
Finance and insurance	**100**	**1.1**	**7.8**

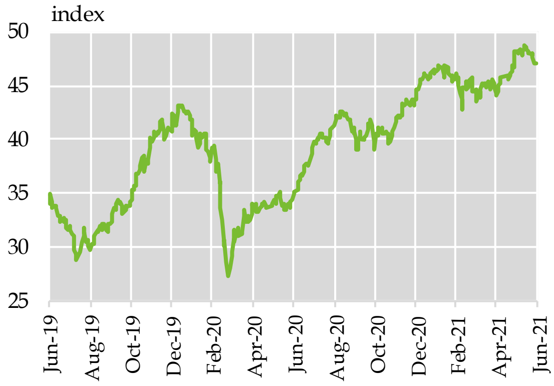
P: Provisional, R: Revised

Source: Pakistan Bureau of Statistics

have remained cautious about utilizing their savings to ward off against uncertain income flows following the emergence of multiple Covid waves and subsequent restrictions on non-essential business activities. The healthy inflow of workers' remittances also lifted the bank’s deposits. Lastly, the liquidity support provided by the SBP to businesses in the wake of pandemic may have also resulted in expansion in banks’ deposits.[43] In case of advances, the pick-up in economic activity, coupled with low interest rates, were major factors.

[43] Chapter 3.1: The Banking Sector, Financial Stability Review 2020, State Bank of Pakistan. (www.sbp.org.pk/FSR/2020/Chp-3.1.pdf)

Performance of Pakistan Stock Exchange (PSX)- KSE 100 index **Figure 2.26**



Source: Pakistan Stock Exchange

Furthermore, the profit after tax of commercial banks rose by 12.8 percent in FY21. The cut in the policy rate during March-June 2020 resulted in lower funding costs on deposits due to the immediate repricing of savings deposits.[44] On the other hand, banks' interest earnings were buoyed by the rise in the volume of investments in government securities as well as the lag in the repricing of loans.[45] [46]

The performance of *insurance, reinsurance and pension funds* was also notable, as it grew by 45.3 percent during FY21, compared to a contraction of 21 percent last year. During FY20, the business operations of the insurance companies were disrupted due to Covid-related restrictions, as the insurance distribution channels were unable to reach out to clients amid limited retail activities. However, with the lifting of the complete lockdowns and the recovery in the economic activity, the insurance industry also rebounded.[47]

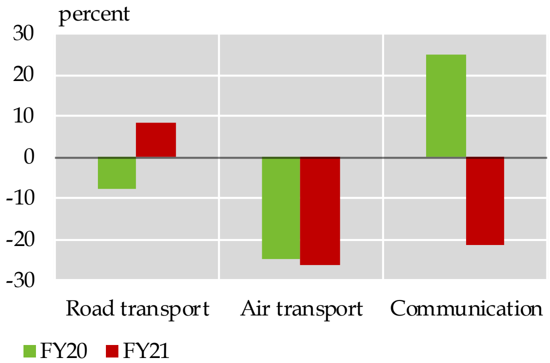
Similarly, the *activities auxiliary to financial services* sub-segment recorded growth of 49.9 percent in FY21 against a decline of 4.2 percent last year. Under this category, the GVA of non-depository financial institutions such as brokerage houses and asset management companies is reported. The recovery in this segment can be traced to the strong rebound in the Pakistan Stock Exchange (PSX), which contributed to the growth in the value of equity funds (**Figure 2.26**).

On other hand, the GVA of central banking contracted by 16.7 percent in FY21, mainly due to the sharp decline in SBP profits. The decrase in profits reflects the impact of lower interest rates and a decline in the government's debt stock with the SBP (**Chapter 3**).

Transport, Storage and Communication

The value-addition from *transport, storage and communication* segment continued to contract during FY21, on account of dull performance of the communication, air transport, and railways sub-segments. Nevertheless, the upturn in value-addition in road transport - carrying the largest share in this segment -

Transport, Storage and Communication - GVA of Top-3 Segments **Figure 2.27**



Source: Pakistan Economic Survey 2020-21

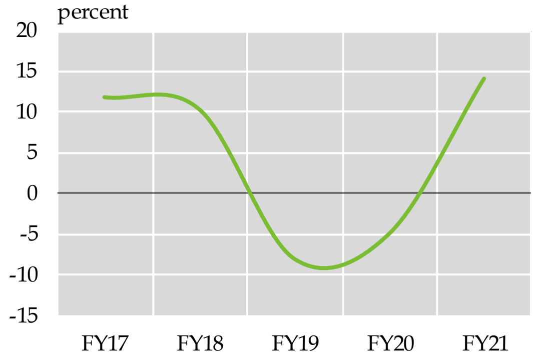
44 According to BPRD Circular No. 07 of 2013, in the wake of change in policy rate, re-pricing of saving deposits is applicable with effect from 1st day of the subsequent month. (www.sbp.org.pk/bprd/2013/C7.htm)

45 The loans are repriced as per the frequency set in the loan agreement between the bank and the borrower.

46 Section A: Performance and Risk Analysis of Banking Sector. Financial Stability Review – 2020, State Bank of Pakistan (www.sbp.org.pk/FSR/2020/Chp-3.1.pdf).

47 Chapter 5.3: Insurance and Takaful Companies, Financial Stability Review 2020, State Bank of Pakistan. (www.sbp.org.pk/FSR/2020/Chp-5.3.pdf)

Growth in POL Sales in Transport Sector* **Figure 2.28**



*MS and HSD

Source: Oil Companies Advisory Council

helped contain the magnitude of contraction (**Table 2.17**).

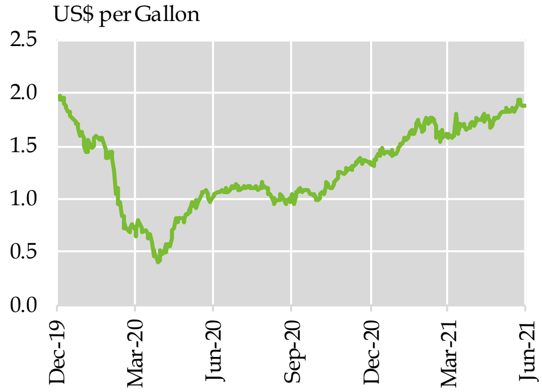
The easing of the Covid restrictions and the economic rebound evidently benefited the road transport segment with the rise in inter-city and inter-provincial travelling and resumption of tourism services (**Figure 2.27**). Importantly, anecdotal evidence suggests that due to cross-border restrictions, people who used to travel abroad reverted to domestic destinations for tourism.[48] The increase in road transport activities could be observed from the surge in sales of petroleum products (**Figure 2.28**). In addition, cargo handling activities at various Pakistani ports also picked up. For instance, the total cargo handling (export and import) increased by 13.0 percent in FY21 compared to last year.

Category-wise Share in Transport, Storage and Communication Segment **Table 2.17**

	FY20	FY21
Road transport	68.1	74.2
Communication	19.9	15.8
Air transport	5.4	4.0
Water transport	3.5	2.8
Storage	2.5	2.8
Railways	0.5	0.3
Pipeline transport	0.1	0.2

Source: Pakistan Economic Survey 2020-21

Jet Fuel Prices **Figure 2.29**



Source: Federal Reserve Economic Data

On the other hand, the Covid-induced restrictions on air travel continued to impact the aviation industry. Particularly, FY21 appeared to be more challenging for PIA, as its performance indicators displayed a weak picture (**Table 2.18**). Multiple factors appear to have played a role in dragging down the performance of national flag carrier. First, the Covid outbreak resulted in challenging operational environment for aviation industry around the globe, and PIA was no exception to this situation. Due to the decline in demand for international travel, PIA's key revenue generating routes, such as the Middle East, UK and Malaysia, were affected.[49]

Second, Saudi Arabia's decision to ban travelers from abroad on performing Hajj also impacted PIA's revenue stream, since PIA caters to most of the Pakistani pilgrims. Moreover, in July 2020, the European Union Aviation Safety Agency (EASA) suspended PIA operations to fly to the bloc amid safety concerns, which also dragged down the airline's performance indicators.[50] Lastly, rising jet fuel prices further squeezed the national flag carrier's profits as fuel is one of the key expenses for airlines (**Figure 2.29**).

[48] Taking advantage of rise in domestic tourism and to further promote it, PIA started directs flight to Skardu and Gilgit from different parts of Pakistan, such as Faisalabad, Lahore and Karachi.

[49] PIA first quarterly report 2021

[50] European Union Aviation Safety Agency (EASA), letter ref. ares (2020)3421274 - 30/06/2020, subject "Suspension of Third Country Operator Authorization no. EASA.TCO.PAK-0001.01".

PIA Performance Indicators **Table 2.18**

Indicators	Units	2018	2019	2020
PIA fleet	No. of planes	32	32	30
Available seat	mil Kms	18,081	18,372	8,902
Passenger load factor	in percent	77.3	81.3	74.5
Distance flown	000 Kms	70,089	70,515	38,114
Revenue hours flown	Hours	110,050	110,640	58,519
Revenue per passengers carried	000 nos.	5,203	5,290	2,541
Revenue passengers	mil Kms	13,975	14,938	6,629
Revenue load factor	in percent	58.4	58.6	51.3
Operating Revenue	Rs mil	100,051	146,097	94,683
Operating Expenses	Rs mil	170,447	160,037	102,912

Source: Pakistan International Airlines and Pakistan Economic Survey 2020-21

Similarly, the restriction on Pakistan Railways to operate at 70 percent of capacity, coupled with the risk-averse behavior amid Covid transmission concerns, resulted in a decline in the number of rail passengers, which in turn lowered the railway's gross earnings (**Table 2.19**).

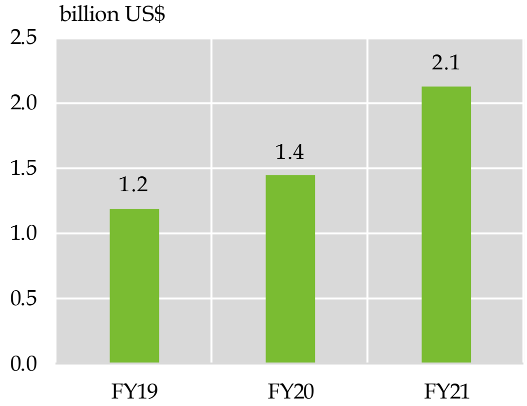
The communication subsector contracted during FY21, despite the improvement in telecom indicators. Overall, telecom industry recorded decline in revenue stream by 4.1 percent to Rs 541.4 billion in FY21, despite a significant increase in the country's cellular teledensity and broadband subscription. [51] [52] According to the Pakistan Telecommunication Authority (PTA) Annual Report 2020, telecom operators had cut prices to facilitate the public, which resulted in lower revenues.[53] Moreover, it was also reported that many high value enterprise users such as schools, universities, hotels, restaurants, and offices - requested a temporary suspension of services, rebates, discounts, or payment holidays, amid liquidity challenges due to Covid.[54]

Performance of Pakistan Railways (Jul-Feb) **Table 2.19**

in million	FY20	FY21	Percentage Change
No. of Passenger Carried	39.4	18.1	-54
Freight carried Tons	5.3	5.25	-0.9
Freight Tons Kms	5,266.0	5,229.4	-0.7
Gross Earning	36,916.8	30,966.1	-16.1

Source: Pakistan Economic Survey 2020-21

Pakistan's Export of ICT Services **Figure 2.30**



Source: State Bank of Pakistan

Other Private Services

The *other private services* subsector grew by 4.6 percent during FY21. The sector comprises diverse economic activities, such as computer-related activities, professional, scientific and technical activities, and education, health, recreation, cultural and sports activities. The subsector *professional, scientific and technical activities*, which accounts for almost 61.0 percent share in this segment, grew 5.6 percent during FY21. On the other hand, recreation, cultural and sports activities contracted 21.0 percent, owing to closures of recreational places, hotels, wedding halls and marquees, and suspension of sports events.[55]

[51] By end-June 2021, the cellular teledensity and broadband subscription penetration rose to historic levels of 84.1 percent and 46.9 percent, respectively.
[52] Pakistan Economic Survey 2020-21.
[53] One of the leading Norwegian telecom operators in Pakistan observed decrease in the average revenue per user (ARPU) from Rs 192 in 2019 to Rs 175 in 2020.
[54] N. Veligura, K.K. Chan, F. van Ingen, and G. Cufre (2020). *COVID-19's Impact on the Global Telecommunications Industry*. Washington DC: IFC
[55] Pakistan Economic Survey 2020-21

Within computer-related activities, the exports of information and communications technology (ICT) related services grew by 47.4 percent on YoY basis and reached to US$ 2.1 billion during FY21 (**Figure 2.30**). The country's IT firms continued to benefit from the rise in global demand amid pandemic for a wide range of IT services. This was further supported by incentives given by the government under the Digital Pakistan Policy. These incentives included zero income tax on IT and Information Technology enabled services (ITeS) exports till June 2025, tax breaks for the Pakistan Software Export Board (PSEB) registered IT start-ups for three years, up to 100 percent foreign ownership of IT and ITeS companies, up to 100 percent repatriation of profits for foreign IT and ITeS investors, and tax holiday for venture capital funds till 2024.[56]

2.5 Labor Market

In overall terms, the available indicators pertaining to labor market exhibited broad-based improvement during FY21. The combined index of industrial employment of Punjab and Sindh points toward recovery, though it is still below pre-Covid levels.[57]

The employment data for LSM sector of Punjab and Sindh also displayed a positive momentum. The overall employment for both provinces grew by 2.4 percent during FY21.[58] The improvement in the overall industrial employment situation owes primarily to resumption in the economic activities after the ease in lockdowns, as well as to the policy support.

On the fiscal front, the government incentivized labor-intensive industries such as construction and allied manufacturing sectors. The increased activity in these sectors also provided a push to cement sector. Specifically, the production of cement in Sindh and Punjab increased by 37.3 percent in FY21, compared to a contraction of 2.1 percent in FY20. This could have also contributed to employment generation in cement sector, which grew by 2.7 percent during FY21, in contrast to a contraction of 5.4 percent last year.

The SBP also played a key role in minimizing the economic disruptions caused by the pandemic. For the labor market specifically, the SBP implemented a temporary "Refinance Scheme for Wages to Prevent Layoffs" (Rozgar Scheme) to assist businesses in paying their employees. The scheme helped prevent layoffs of almost 1.7 million employees. The employment trends gauged through the SBP's Business Confidence Survey (BCS) and future unemployment index from Consumer Confidence Survey (CCS) also indicate that the labor market continued to improve throughout FY21.

Employment

Prior to the onset of Covid, the seasonal employment pattern was visible, however as strict lockdown was enforced from March 2020 onwards during the first wave of Covid, employment numbers plummeted more than usual. Since Q1-FY21, the government transitioned towards smart lockdowns and allowed the resumption of industrial activities, which in turn led to a recovery in the labor market, with minimum disruption to the economy during subsequent Covid waves. As a result, the combined index for employment (Sindh and Punjab) for industrial sector shows a rebound in the labor market in FY21 (**Figure 2.31**).

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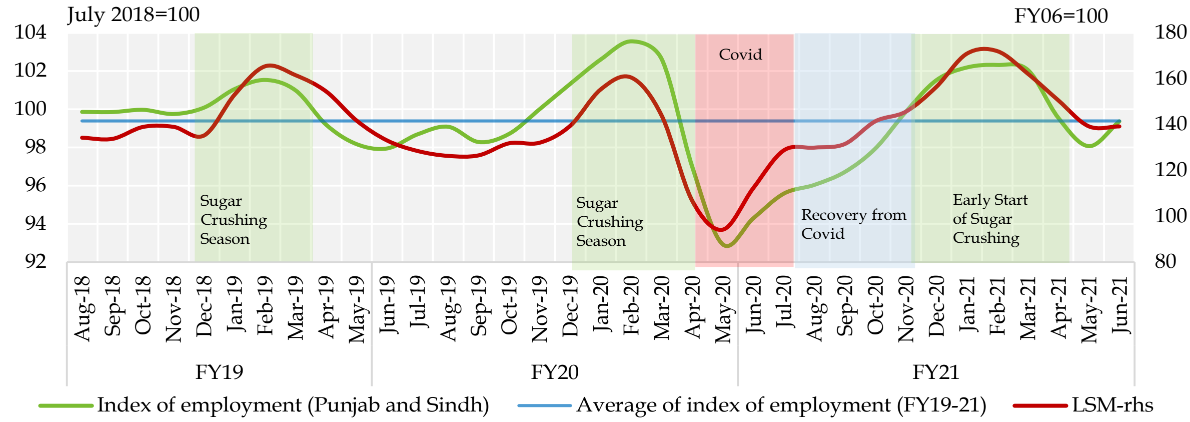
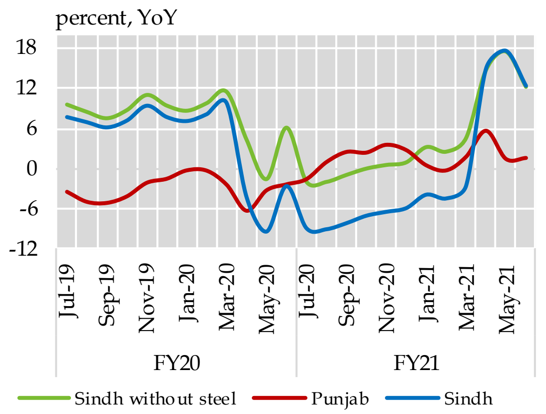
[56] Ministry of Information Technology and Telecommunication (www.moitt.gov.pk/NewsDetail/ZGNkZjdhYjAtMmMyZi00NDRiLWFhOTItYjhiMjIzZDZlOGFm)
[57] In every Monthly Survey of Industrial Production and Employment (MIPE), there are a few non-reporting firms, for which the data is estimated based on past trend. In FY20, non-reporting firms could be higher due to Covid-related lockdowns and work-from-home arrangements.
[58] The growth is calculated excluding steel industry data for Sindh province, because variation in it due to government decision to privatize Pakistan Steel Mills.

Combined Punjab and Sindh Industrial Employment and LSM Indices (2 month MA) **Figure 2.31**



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

Employment Growth for Punjab and Sindh **Figure 2.32**



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

Sector-wise Employment Growth **Table 2.20**

	No. of reported firms	FY20	FY21
Punjab			
Vegetable Ghee	50	18.4	2.2
Wheat Milling	738	3.6	18.1
Sugar	44	-6.1	4.0
Cigarettes	3	15.8	2.8
Cotton Textiles	285	-3.8	1.9
Automobile	1	0.0	0.3
Cement	12	-1.1	-1.0
Sindh			
Sugar	26	-6.0	-3.1
Pharmaceutical	78	-35.4	43.6
Fertilizer	3	-	0.3
Cement	11	-12.3	9.3
Steel Products	2	-31.3	-97.5
Automobile	17	-	7.7

Source: Bureau of Statistics (Punjab and Sindh)

Punjab

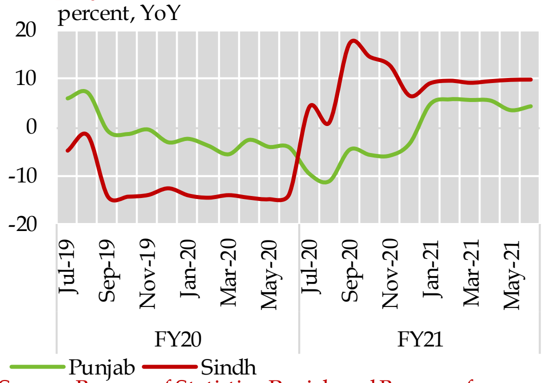
At the provincial level, employment in Punjab witnessed growth of 1.7 percent during FY21 in contrast to contraction of 3.0 percent last year (**Figure 2.32**). The growth was mainly driven by food, drinks and tobacco, followed by textiles (**Table 2.20**). These two categories together make up about 80 percent of the reported industrial employment.

Within the food category, growth in sugar and wheat milling stood out. The higher sugar production on the back of better harvest may explain the increase in the labor employment in this sector. The upward revision in the number of reporting units for wheat mills in the Punjab Bureau of Statistics dataset, from 692 to 738, during FY21 may have played a part in the higher employment numbers. Within textiles, the growth in employment of cotton textile rose by 1.9 percent during FY21, against a contraction of 3.8 percent last year.

In the engineering products segment, the employment in the motorcycle sector rose by 12.2 percent in FY21. The higher demand for two wheelers on the back of increase in agricultural income, coupled with the growth in workers' remittances, led to the growth in employment in this sub-segment.

The employment in the cement industry in Punjab declined 1.1 percent during FY21. It is important to note here that initially the growth in cement dispatches was mainly driven by

Growth in Industrial Cement Employment **Figure 2.33**



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

exports, which is mostly catered by the south region. This is reflected in Sindh's industrial cement employment in Q1-FY21, which increased significantly. With recovery in domestic cement demand the growth in employment numbers in Punjab improved as well (**Figure 2.33**).

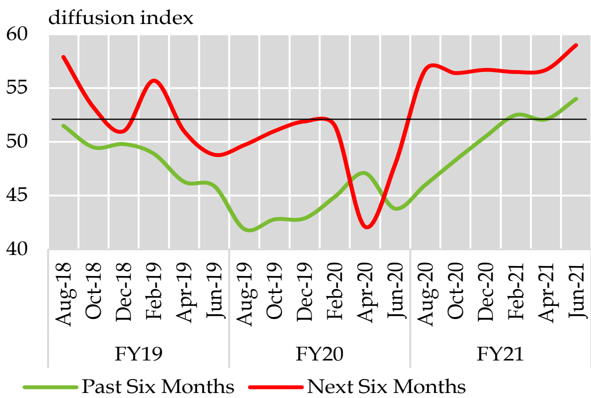
Sindh

The industrial labor market of Sindh grew 4.1 percent during FY21, compared to the 7.8 percent growth in FY20 (**Figure 2.31**). It is important to note here that in July 2019, the Bureau of Statistics Sindh had updated the list of industrial units in some sectors such as tea, paper and board, fertilizer, sewing machines and automobiles, in its Monthly Survey of Industrial Production and Employment (MIPE). This may have resulted in the substitution of sick units with operational plants. Moreover, the process of reporting was further strengthened to avoid underreporting of employment in the firms. Because of these measures, the number of employees in these five sectors jumped in July 2019. In this backdrop, the deceleration in the employment numbers in these sectors of the manufacturing industry can be attributed to the one-time adjustment in data.

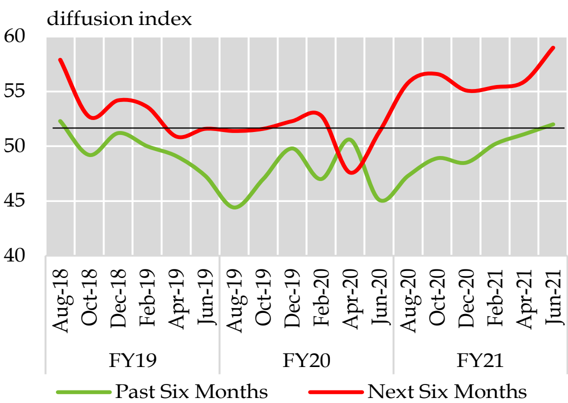
During FY21, the growth in employment in Sindh was driven by automobiles, cement and pharmaceuticals sectors. Specifically, employment in the automobile sector grew by 7.7 percent in FY21 amid increase in the sector's production activities during the year. The growth in employment in this sector in Sindh relative to Punjab was mainly due to the concentration of automobile assembling plants in Karachi: there are 17 automobile firms in Sindh's MIPE dataset, whereas there is just one assembling unit in Punjab's MIPE data. Similar to the automobile sector, higher cement production also led to an increase in employment in the sector.

In the pharmaceutical sector, the employment grew by a substantial 43.6 percent in FY21 compared to contraction of 35.4 percent last year. Importantly, growth was more noticeable during Q4-FY21, which primarily contributed to the higher YoY growth in overall Sindh's industrial labor market. The employment in the pharmaceutical sector gained traction mainly on the back of surge in

BCS Employment Index for Industrial Sector **Figure 2.34a**



BCS Employment Index for Services Sector **Figure 2.34b**



Source: State Bank of Pakistan

demand for medical supplies, such as tablets, capsules and injections, due to the ongoing pandemic. Moreover, the start of the vaccination drive may also be generating additional demand for these products.[59]

BCS Employment Index

The improvement in the industrial labor market was also reflected in the SBP's BCS FY21 waves. The BCS employment index (past six months) for the industrial sector was consistently declining since FY19 due to slowdown in economic activities. The diffusion index (DI) took a steep fall in the June 2020 wave amidst the Covid outbreak.[60] Conversely, perceptions about the labor market continued to improve throughout FY21. In fact, the DI rose above 50 in the February 2021 wave for the first time since August 2018; this further reflected the strengthening of perceptions for industrial labor employment (**Figure 2.34a**).

Similarly, the BCS employment index for the services sector also indicated an increase in employment expectations during FY21 (**Figure 2.34b**). This is clearly in line with the recovery in the services sector and the positive trends in the Google Mobility statistics (**Figure 2.25**).

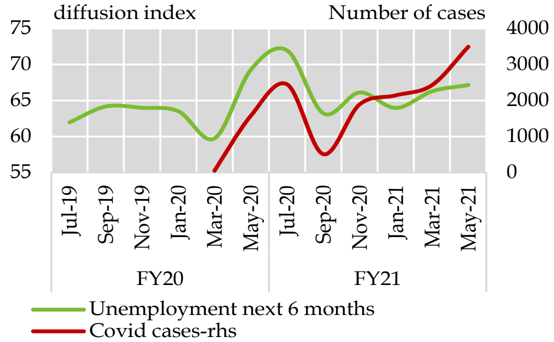
In the latest wave of June 2021, the DI stood at 52 points for past six months. And for the next six months, it rose by 3 points to 59, displaying businesses' optimistic expectations about future employment situation in the country. This could be due to the easing of uncertainty amid the rollout of vaccines, coupled with the continuation of economic activities during the subsequent waves of Covid.

The trends depicted in the BCS can also be noticed in the SBP's Consumer Confidence Survey (CCS).[61] As part of the Expected Economic Conditions index in the CCS (similar to BCS), participants are asked about their unemployment expectations over the next six months. During FY21, household expectations about future unemployment coincided with the ongoing Covid waves, indicating that households largely anchored their expectation regarding employment with variability of pandemic (**Figure 2.35**).

Wages

Sector-wise data for wages from the Monthly Survey of Industrial Production Employment for Punjab witnessed a broad-based growth for the reported sectors (**Figure 2.36**). The growth in wages was more noticeable in the pharmaceutical sector. The pandemic was largely responsible for pushing the wages upward, due to the rise in demand for medical equipment and supplies. The vibrancy in construction activities also had a positive impact on wages in the cement industry: the industry recorded a 4.7 percent growth in wages compared to a contraction of 5.7 percent year earlier.

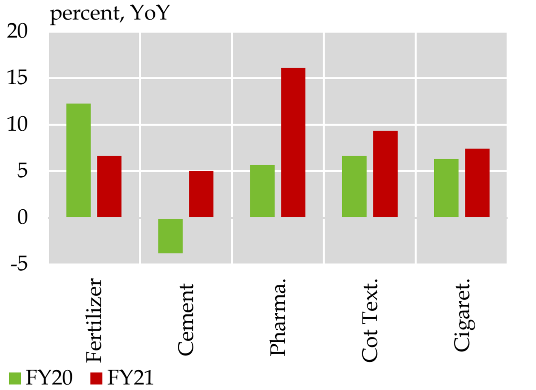
Future Unemployment Index (Next Six Months) -SBP CCS and Covid Cases in Pakistan **Figure 2.35**



Source: State Bank of Pakistan; World Health Organization

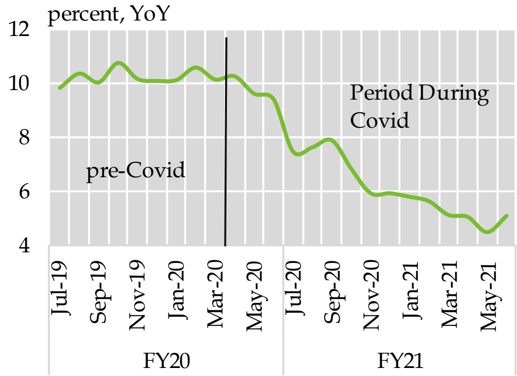
[59] The production of injections in Sindh increased by 23.2 percent in FY21, compared to a decline of 3.0 percent last year.
[60] The Diffusion Index shows the general tendency of respondents about a certain aspect of a particular survey. The diffusion index ranges from the minimum value of 0 to the maximum value of 100 that is a value of 50 is indicative of neutrality, 0 indicates no confidence and 100 indicates extreme confidence.
[61] The survey is conducted by SBP and IBA, Karachi. It is a telephonic survey with approximately 1,670 households as participants.

Sector-Wise per Employee Growth in Wages for Punjab **Figure 2.36**



Source: Bureau of Statistics, Punjab

Growth in Construction Sector Wages **Figure 2.37**

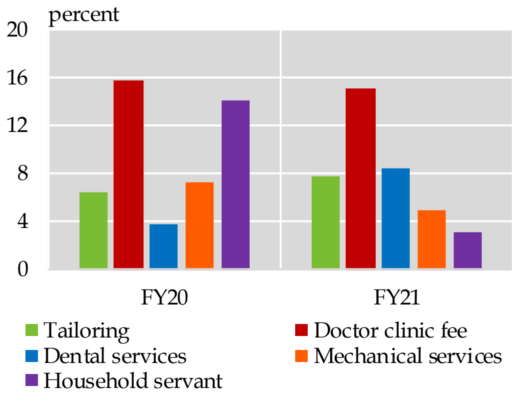


Source: Pakistan Bureau of Statistics

The dataset for the construction wage rate index obtained from the consumer price index (CPI) shows a growth of 6.1 percent during FY21, lower than the 10.1 percent growth recorded in FY20. Notably, the deceleration in growth started from March 2020 onwards, coinciding with the Covid outbreak (**Figure 2.37**). The slowdown in wage growth could be attributed to the creation of excess labor supply - especially in the unskilled category. The profound impact of Covid on these workers was primarily related to the nature of their work.[62] Moreover, according to the Bureau of Emigration and Overseas Employment (BEOE), the number of people going abroad for work declined by 64.0 percent to 224,705 in 2020 from 625,338 in 2019. Along with this decline, there was also some return migration, especially from the Gulf countries, which could have also contributed to the increase in labor supply in Pakistan.[63]

Apart from wages for construction, the CPI also includes indices for some occupations in the services sector (**Figure 2.38**). The dataset reveals that the earnings of household servants showed slower growth in FY21 compared to last year: their wages grew by 3.1 percent in FY21, against 14.2 percent in FY20. The pandemic may have been the reason of deceleration in household servants' wages. Anecdotal evidence suggests that many domestic household workers either did not receive any income or were paid less amid the financial crunch faced by their employers due to Covid. In contrast, the earnings of doctors and dentists (based on doctor clinic fee index reported in CPI) showed the highest and most consistent growth amongst the reported

Growth in Earnings for Occupation in Services **Figure 2.38**

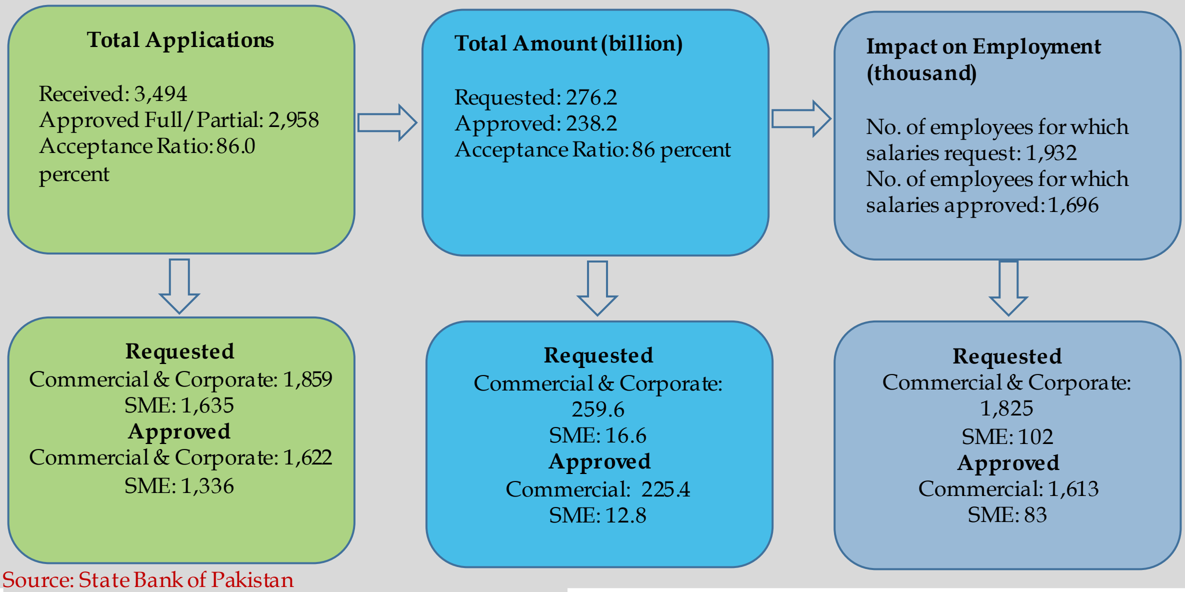


Source: Pakistan Bureau of Statistics

[62] According to a survey conducted by the PBS to evaluate the impact of Covid-19 on the wellbeing of people, construction workers were hit worst by the shock, as almost 80 percent of workers either lost their jobs or faced a decrease in their incomes; they were followed by workers in the manufacturing sector, where 72 percent faced either job loss or decrease in income.

[63] SBP's Annual report on the State of Pakistan's Economy for FY20. Box 6.1: Covid-19 and Forced Repatriation of Migrants in Pakistan: Government's Strategy and Challenges Ahead.

Refinance Scheme for Wages to Prevent Layoffs (SBP Rozgar Scheme) Apr-Nov 2020 **Figure 2.39**



Source: State Bank of Pakistan

segments. This may be due to the high demand for medical services because of the pandemic.

Fiscal and Monetary Support for Employment

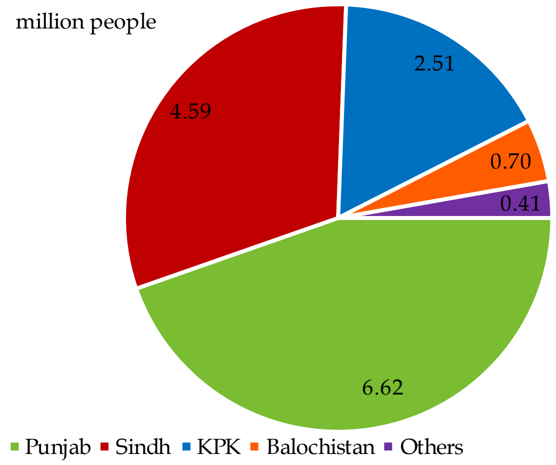
The labor markets across the globe were adversely affected in early 2020 by the containment measures to reduce the spread of Covid. Policymakers leveraged various tools to counter the adverse impact on jobs, including temporary employment protection schemes. In the Asia-Pacific region alone, 26 out of 37 economies introduced new schemes or adjusted an existing employment protection scheme in response to the crisis.[64] Similarly in Pakistan -beside fiscal support of cash allowance scheme for daily wage earners- the SBP announced the Refinance Scheme for Wages to Prevent Layoffs (also known as the SBP Rozgar Scheme) to support businesses in paying their workers and thereby supporting continued employment in the challenging economic environment. [65]
Under the scheme, the SBP received applications from 3,494 businesses by end November 2020, covering 1.9 million employees. The number of commercial applications stood at 1,859, while the remaining applications were from SMEs. Around 86 percent of the applications were approved, with an average approval time of 25 days, which allowed businesses to receive the funds in time. Moreover, Rs 238.2 billion for 2,993 (full/partial) business units, including 1,337 SMEs, was approved, which prevented the layoffs of almost 1.7 million employees (**Figure 2.39**).

On the fiscal side, the government launched the Ehsaas Emergency Cash (EEC) assistance program to support the daily wage earners from the recessionary impact of Covid. Under this program, the government disbursed around Rs 180 billion as one-time emergency cash transfer to 14.8 million beneficiaries by September 30, 2020. Province-wise data shows that most of the beneficiaries were from Punjab-given its large population size- followed by Sindh, KP and Balochistan (**Figure 2.40a and 2.40b**). Given the joint

[64] Research Brief "Covid-19 and employment protection policies: A quantitative analysis of the Asia-Pacific region" ILO, July 2021. (www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms_810842.pdf)
[65] www.sbp.org.pk/COVID/Rozgar.html

Province-Wise Beneficiaries under Ehsaas Emergency Cash Program **Figure 2.40a**

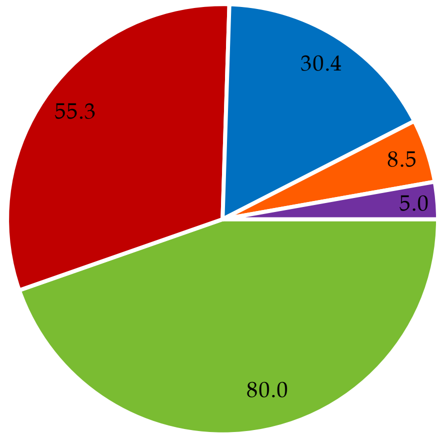
million people



Source:Poverty Alleviation & Social Safety Division

Province-Wise Cash Disbursement **Figure 2.40b**

billion Rs



family social structure in Pakistan, this one-time emergency cash support program is estimated to have helped over 100 million people, or half the country's population, from the impact of pandemic.[66]

[66] Chapter 15: Social Protection, Pakistan Economic Survey 2020-21, Ministry of Finance. (www.finance.gov.pk/survey/chapters_21/15-Social%20Protection.pdf)