# 2 Real Sector

*The economy experienced broad-based growth during H1-FY22. In the agriculture sector, the production of important Kharif crops such as cotton, rice, and sugarcane was better than last year; however, indicators of the crop sector in Rabi season point to some reduction in area for wheat. Within industry, the large-scale manufacturing activity was upbeat during H1-FY22 compared to the same period last year, as sectors such as automobiles, wearing apparel, and steel posted robust growth. However, some moderation in LSM growth and high frequency demand indicators such as cement dispatches and POL sales was noted in Q2. The decent overall performance of the commodity-producing sector during H1-FY22 provided the impetus for services sector growth, as reflected in proxy indicators such as import growth and sales of FMCG firms, commercial vehicles, and POL products. The labor market also showed signs of strengthening, as more employees were hired across industries and the business community remained optimistic about employment prospects.*

## 2.1 Economic Growth

The available information on the real sector indicates that the growth momentum gained in FY21 was carried forward into H1-FY22. In agriculture, the crop sector performance was better than last year, with record output expected for rice, sugarcane and maize. In the industrial sector, Large Scale Manufacturing (LSM) activities sustained their positive trajectory, with some slowdown evident in Q2. The performance of the commodity producing sector, along with a rise in imports, had a favorable impact on the services sector. Meanwhile, the SBP's Business Confidence Survey reflected an overall optimism in the labor market, in the wake of increase in the number of industrial workers and growth in wages during the review period.

In the agriculture sector, *Kharif* crops (cotton, rice and sugarcane) were estimated to beat last year's production levels. The growth in rice and sugarcane was primarily driven by an increase in the area under cultivation. Cotton production increased on the back of improvement in yield. Unlike *Kharif* season, the first half of Rabi season was marred by several issues. On the input front, farmers faced a shortage of irrigation water and elevated input prices of fertilizer, electricity and diesel. Moreover, below normal rainfall during the sowing period further complicated the situation during Q2-FY22. As a result, the cultivation area of wheat (the major crop of *Rabi* season) declined compared to last year.

LSM grew by 7.5 percent during H1-FY22, compared to 1.5 percent in the same period last year. This occurred against the backdrop of elevated demand during the review period, with supportive policies contributing to sectoral growth. Specifically, the automobile sector benefitted from tax relief and accommodative monetary policy for the greater part of the review period, which drove up the demand for automobiles.[1] The textile sector capitalized on concessionary financing schemes (such as TERF and LTFF) to scale up its output. The value-added segment of the textile sector grew notably, as evident from the ramped-up production of the wearing apparel subsector, in response to strong external demand for readymade garments. Meanwhile, the steel sector witnessed positive spillovers from incentives

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[1] Specifically, the MPC maintained the policy rate at 7 percent in July 2021, before raising it by 25 basis points (bps) on September 20; 150 bps on November 19; and 100 bps on December 14. Thus, the rate was cumulatively raised by 275 basis points to 9.75 percent during the review period.

given for construction and housing activities, as well as higher PSDP spending during H1-FY22 compared to the same period last year.

Positive growth in agriculture during the *Kharif* season and in LSM had a favorable impact on services sector activities during H1-FY22. The wholesale and retail sector benefited from these developments, coupled with significant rise in imports. Activity in the transport sector also picked up, as evident from commercial vehicle and POL sales. Indicators of finance and insurance and real estate activities also suggested growth in these sectors.

In line with pickup in other sectors of the economy, there were more job opportunities for the labor force during H1-FY22. Proxy indicators such as industrial employment, SBP Confidence Surveys, and wage rate data indicate positive trends in the labor market. Employment in the industrial sector grew in both Sindh and Punjab during H1-FY22. The increased optimism about the job market was more evident in the industrial sector than the services sector, according to the SBP's Business Confidence Survey. Moreover, relatively better growth in wages of industrial sector employees was recorded compared to the services sector.

In addition to these developments, the Pakistan Bureau of Statistics (PBS) released national accounts data for the past 5 years on the new FY16 base. Based on new estimates the economy grew by 5.6 percent during FY21, compared to a 1.0 percent contraction in the preceding year (**Box 2.1**).

**Box 2.1: Rebasing of National Income Accounts (NIA)**

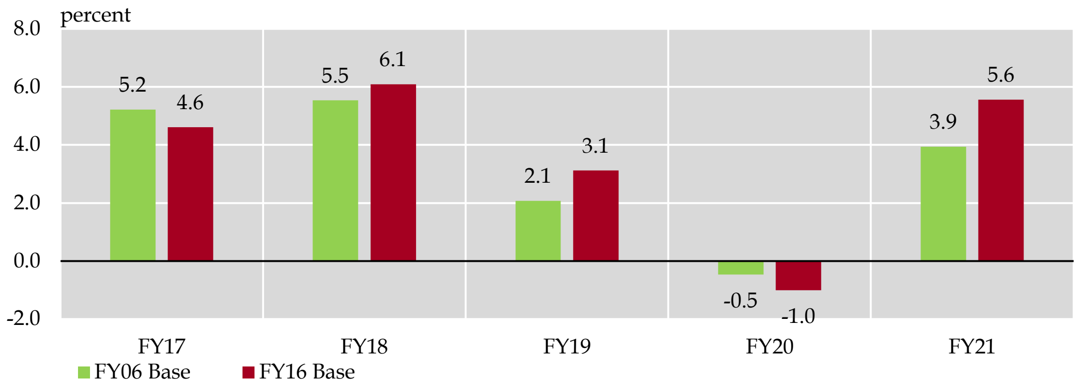
The PBS published revised estimates of NIA, which included comprehensive revisions in addition to the regular revisions. While regular revisions are made on an annual basis[2], the major revisions are carried out at the time of change of base year for the compilation of NIA. [3] These comprehensive revisions are necessary to accommodate transition in the underlying economic activity emerging from change in the number of goods produced/services rendered and the number of production units and service providers. Since the last re-basing of NIA estimates on 2005-06, which was introduced in FY13, the level of economic activity has undergone a significant expansion as reflected by an average 0.4 percent increase in real GDP growth during FY17-21.

In its latest revision, PBS had changed the base year from FY06 to FY16, resulting in revision of economic growth figures for the past 5 years (**Figure 2.1.1**). For the rebasing exercise and to improve coverage of the economy, PBS conducted various censuses, surveys and studies: Census of Manufacturing Industries, Census of Electricity, Census of Exploration Companies; Rent Survey, Household Integrated Income, and Consumption Survey, Survey on Small & Household Manufacturing Industries and Survey on Other Private Services.

[2] At the time of collation of NIA which is end-March, data for Q4 (April-June) is estimated. As the data for Q4 becomes available, the PBS revises its NIA dataset to reflect actual economic activity.

[3] The Governing Council of PBS issued a policy directive to rebase the NIA after every 10 years in 2013.

**Growth Rate Comparison: Old Base vs New Base** **Figure 2.1.1**




Source: Pakistan Bureau of Statistics

In the agriculture sector, the contribution of plant nurseries, honey bees, cotton ginning, forestry and fishing was re-assessed through studies. For the industrial sector, the coverage of LSM was enhanced and new industries such as water supply, sea salt and hydro IPP were included.[4] In the services sector, accommodation and food services (hotels and restaurants), information and communication industries and education, human health & social work activities were estimated separately in the rebased accounts.

**Sectoral Shares and Real GDP Growth** **Table 2.1.1**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **FY16 Base** | | | | | | | |
| | **percent share in real GDP** | | | **Growth rate (percent)** | | **Growth Contribution (percent)** | |
| | **FY19** | **FY20** | **FY21** | **FY20** | **FY21** | **FY20** | **FY21** |
| Agriculture | 22.4 | 23.5 | 23.1 | 3.9 | 3.5 | 0.87 | 0.82 |
| Industry | 19.5 | 18.5 | 18.9 | -5.8 | 7.8 | -1.13 | 1.44 |
| Services | 58.1 | 57.9 | 58.0 | -1.3 | 5.7 | -0.76 | 3.30 |
| **Real GDP** | **100** | **100** | **100** | **-1.0** | **5.6** | **-1.0** | **5.6** |
| **FY06 Base** | | | | | | | |
| | **percent share in real GDP** | | | **Growth rate (percent)** | | **Growth Contribution (percent)** | |
| | **FY19** | **FY20** | **FY21** | **FY20** | **FY21** | **FY20** | **FY21** |
| Agriculture | 18.7 | 19.4 | 19.2 | 3.3 | 2.8 | 0.6 | 0.5 |
| Industry | 19.9 | 19.2 | 19.1 | -3.8 | 3.6 | -0.7 | 0.7 |
| Services | 61.4 | 61.4 | 61.7 | -0.6 | 4.4 | -0.3 | 2.7 |
| **Real GDP** | **100** | **100** | **100** | **-0.5** | **3.9** | **-0.5** | **3.9** |

**Source: PBS**

[4] For LSM, PBS used information from 23,712 manufacturing establishments. Previously 112 items with a total weight of 70.3 percent of value added were covered in the QIM index on FY06 base. This has now been revised to include 123 items having a total weight of 78.4 percent in the FY16 rebased QIM. In addition, wearing apparel, towel, furniture and football have been added to the computation of rebased QIM.

As a result of this comprehensive revision, the contribution of the share of agriculture, industry and services in GDP has changed. While the contribution of agriculture and services increased, the share of industry declined in the rebased NIA. **Table 2.1.1** shows this trend after the change in reference period.

The comprehensive revision in NIA as a result of change in base year is a timely development. The inclusion of several new sectors increases the coverage and accuracy of GDP estimates. This also facilitates policy decisions on sector specific issues and analysis of short-term and medium-term dynamics of these sectors. That said, there is still room for further improvement in subsequent base-year revisions. New livestock and small-scale industry censuses would further enhance the accuracy of the NIA.

## 2.2 Agriculture

After a promising *Kharif* season, the crop sector faced some headwinds in the *Rabi* season. Area under wheat cultivation declined compared to last year's crop in both Sindh and Punjab. The major reasons for the decline in area are: insufficient water availability, high cost of production, and late harvesting of the sugarcane.

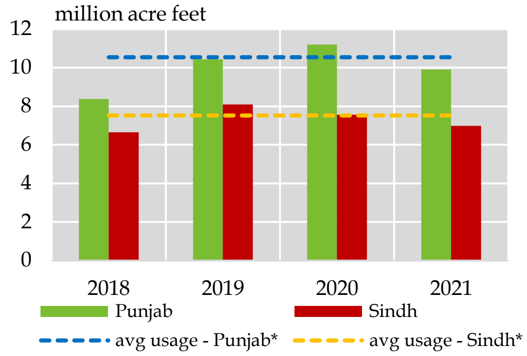
On the input side, canal water availability was lower than last year during the sowing period. Moreover, the application of fertilizer also remained lower during the review period. On the other hand, credit disbursements to agriculture increased by 3.9 percent during H1-FY22 compared to last year, mainly due to higher borrowing in the non-farm sector.

### *Inputs*

Irrigation water shortage was witnessed during the first half of Rabi FY22. The cumulative canal water withdrawals in Punjab and Sindh, which together account for more than 85 percent of the area under wheat, stood at 16.9 million acre feet (MAF), showing a decline of 10 percent compared to the previous year. Moreover, the irrigation water releases in Punjab and Sindh were also lower than the long-term average (**Figure 2.1**). This could be due to lower rainfall recorded in 2021 compared to last year.[5]

With regard to fertilizer application, the offtake of urea and DAP contracted by 7.7 percent and 14.1 percent respectively in Q2-FY22, compared to the same period last year (**Figure 2.2**). The decline in DAP offtake was primarily due to a significant increase in its price on the back of surge in international prices (**Figure 2.3**). Specifically, the price of 50kg bag of DAP almost doubled to Rs. 7,760 in Q2-FY22, as opposed to Rs. 3,982 recorded in the previous year.

**Irrigation Water Releases during *Rabi* (Oct-Dec)** **Figure 2.1**

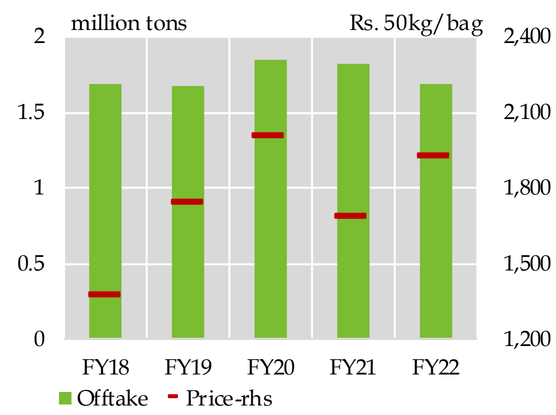



* Ten-year average system usage

Source: Indus River System Authority

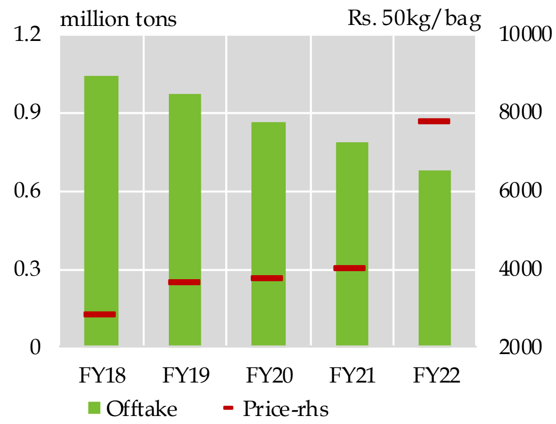
[5] During 2021, national annual average rainfall was 242.3 mm, 18.6 percent below *average*. (Source: State of Pakistan's Climate in 2021, Pakistan Meteorological Department, Government of Pakistan.)

**Urea Offtake and Price during Q2** **Figure 2.2a**




Source: National Fertilizer Development Centre

**DAP Offtake and Price during Q2** **Figure 2.2b**



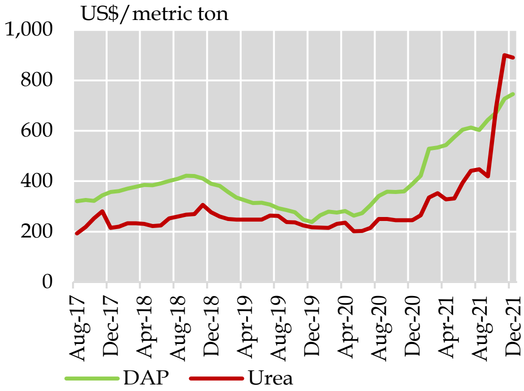

In case of urea, a host of factors resulted in lower offtake during the review period. The decline in urea production during Q1-FY22 led to lower availability in Q2-FY22.[6] Specifically, the current *Rabi* season started with the opening inventory of 0.1 MMT as opposed to 0.5 MMT in the last year. Moreover, during Q2-FY22 the total availability of urea was 2.0 MMT against the 3.4 MMT in Q2-FY21.[7]

In addition, due to global supply shortage, international prices of urea jumped significantly in the latter half of 2021 (**Figure 2.3**). This created substantial price differential between local and international markets. The differential resulted in hoarding[8] and smuggling of urea to neighboring countries, which further squeezed supply of urea locally and pushed the secondary market prices upward.[9,10] Given the short supply, prices in the secondary market increased considerably, making application of urea costlier for growers.

The support to the farmers came through Agriculture Emergency Program. In order to increase the yield of wheat crop, a subsidy of Rs. 250/acre (up to five acre of land) on the use of pesticides/herbicides was provided to the farmers.[11] Moreover, one million bags of

[6] This mainly stemmed from temporary suspension for plant maintenance and the curtailment of gas supply to two small-scale fertilizer plants.
[7] Source: MNFSR
[8] Punjab Government to Crackdown on Fertilizers' Hoarders, date Nov 11, 2021, available at: www.punjab.gov.pk/node/4660, accessed on April 20, 2022.
[9] Source: 'Pakistan Customs, (FBR) foils an attempt of smuggling of urea fertilizers to Afghanistan worth Rs 7.2 million', available at: www.fbr.gov.pk/pakistan-customs-fbr-foils-an-attempt-of-smuggling-of-urea-fertilizers-to-afghanistan-worth-rs-7/173311, accessed on April 20, 2022
[10] According to market sources, the farmers were getting urea at Rs 2,200-2,600 against retention price of 1,725/bag for the manufacturers.
[11] In Punjab, the subsidy was distributed through vouchers inside the pesticides/herbicides packs. Registered farmers could avail the subsidy by sending the hidden voucher numbers, along with their

**Global Urea and DAP Prices** **Figure 2.3**




Source: World Bank

approved varieties of wheat seeds were also provided at a subsidy of Rs. 1,200 per bag.[12]

Overall credit disbursements to agriculture grew by 3.9 percent in H1-FY22 (**Table 2.1**). This was mainly due to higher credit offtake by the non-farm sector, as disbursements to livestock and poultry grew by 9.8 percent and 14.9 percent in H1-FY22 compared to the same period last year. The increase was mainly attributed to rise in prices of raw materials such as poultry feed (**Figure 2.4**).[13]

However, credit disbursements to the farm sector contracted by 2.9 percent during H1-FY22 compared to the same period last year, as production-related loans declined by 4.0 percent. Nonetheless, loans for the purchase of tractors grew during the review period, as farmers benefitted from the *Kamyab Jawan Kamyab Kisan Tractor Loan Scheme* launched by the government in January 2021.

## *Output*

### Wheat

For *Rabi* FY22, the government set the wheat production target of 28.9 MMT from an area of 9.2 million hectares (**Table 2.2**). The achievement of this target largely depends on better yield, as the targeted area was set

**Agriculture Credit Disbursements** **Table 2.1**

billion Rupees

| | Q1-FY21 | Q1-FY22 | Q2-FY21 | Q2-FY22 | H1-FY21 | H1-FY22 |
|---|---|---|---|---|---|---|
| **Farm sector** | | | | | | |
| **A. Production** | 113.8 | 136.3 | 193.2 | 158.4 | 307 | 294.7 |
| **B. Development** | 5.6 | 8.1 | 16.7 | 16.8 | 22.3 | 24.9 |
| **Tractor** | 0.6 | 1.7 | 1.0 | 2.9 | 1.6 | 4.6 |
| **C. Total farm sector (A+B)** | 119.4 | 144.4 | 209.9 | 175.2 | 329.3 | 319.6 |
| **Non-farm sector** | | | | | | |
| **Livestock/dairy** | 71.2 | 81.7 | 89.6 | 94.9 | 160.8 | 176.6 |
| **Poultry** | 49.5 | 55.3 | 52.5 | 61.9 | 102 | 117.2 |
| **Other** | 14.4 | 10.5 | 10.4 | 17.1 | 24.8 | 27.6 |
| **D. Total non-farm sector** | 135.1 | 147.5 | 152.5 | 173.7 | 287.6 | 321.2 |
| **Total agri (C+D)** | **254.5** | **291.9** | **362.4** | **348.9** | **616.9** | **640.8** |

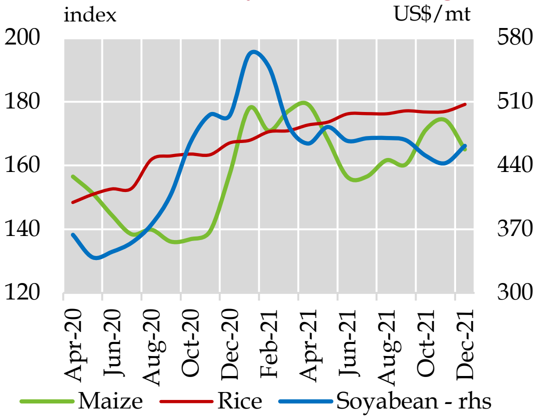
Source: State Bank of Pakistan

CNIC, to a short code and collect the subsidy from the designated branchless banking operators. In this way, the benefit of the subsidy was passed on directly to the growers. (Source: Agriculture Department, Government of Punjab)

12 Agriculture Department, Government of Punjab.

13 In the poultry sector the largest component within direct costs is raw material comprising almost 71 percent of the total manufacturing cost. (source: PACRA)

**Inputs Prices of Poultry Feed** **Figure 2.4**




Source: Pakistan Bureau of Statistics and World Bank

almost similar to last year's achieved level of 9.1 million hectares.

The initial estimates suggest that area sown in Punjab and Sindh was lower than the area cultivation recorded in the previous *Rabi* season (**Table 2.3**). Specifically, the area under crop in both provinces declined by 2.6 percent compared to last year. One reason for the decrease in the area was the shortage of canal water (**Figure 2.1**). Moreover, rain-fed areas also witnessed dry spell during the sowing months, making conditions relatively challenging for wheat growers (**Figure 2.5**).[14]

Another factor for low cultivation, particularly in Punjab, could be the lower wheat support price relative to cost. The federal government announced wheat support price of Rs 1,950 per maund (40 kg) for the Rabi FY22.[15] The new price is Rs 150

**Wheat Crop** **Table 2.2**

area in million hectares, production in million MT

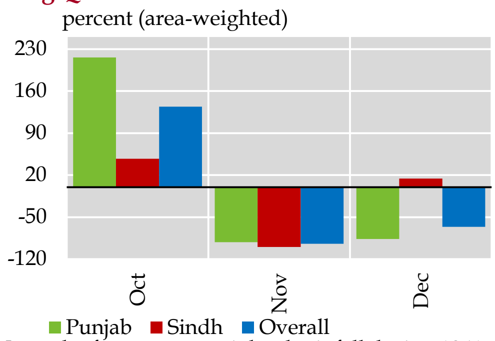
| | Area | | Production | |
|---|---|---|---|---|
| | FY21 | FY22$^T$ | FY21 | FY22$^T$ |
| Punjab | 6.7 | 6.6 | 20.9 | 21.9 |
| Sindh | 1.2 | 1.2 | 4.0 | 4.2 |
| KP | 0.8 | 0.9 | 1.2 | 1.5 |
| Baluchistan | 0.5 | 0.6 | 1.2 | 1.2 |
| **Pakistan** | **9.18** | **9.21** | **27.3** | **28.9** |

T: target

Source: FCA, PBS

more than the last year's support price of Rs 1,800; however, farmers raised concerns that the announced price was insufficient to meet rising input prices of fertilizer, electricity, and diesel.[16] Lastly, delay in harvesting of sugarcane in Sindh resulted in less sowing of wheat crop as compared to last year.[17]

**Departure of Rainfall from Normal* during Q2 -FY22** **Figure 2.5**




* Normal refers to area-weighted rainfall during 1961-2010 (base)

Source: Pakistan Meteorological Department

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

[15] The Government of Sindh, in contrast, announced wheat support price of Rs 2,200 per maund (40 kg) for Rabi FY22.

[16] Grain and Feed update, report number PK2021-0018, Date: January 04, 2022. United States department of Agriculture (USDA)

[17] Source: Crop reporting center, Government of Sindh

**Estimates of Area for Wheat Crop in Punjab and Sindh** **Table 2.3**

thousand hectares

| Punjab | | | | Sindh | | | |
|---|---|---|---|---|---|---|---|
| **Division** | **FY21** | **FY22*** | **Growth** | **Division** | **FY21** | **FY22*** | **Growth** |
| Bahawalpur | 1,024.6 | 997.9 | -2.6 | Sanghar | 110.9 | 112.7 | 1.6 |
| DG Khan | 966.4 | 947.4 | -2.0 | Naushehro feroze | 107.9 | 110.4 | 2.3 |
| Gujranwala | 939.3 | 970.4 | 3.3 | Ghotki | 111.8 | 108.8 | -2.7 |
| Faisalabad | 785.9 | 728.4 | -7.3 | Khairpur | 106.7 | 106.8 | 0.1 |
| Multan | 758.4 | 737.7 | -2.7 | Benzirabad | 92.5 | 90.3 | -2.4 |
| Sargodha | 735.7 | 714.7 | -2.9 | Dadu | 83.7 | 79.1 | -5.5 |
| Rawalpindi | 630.9 | 603.4 | -4.4 | Mirpurkhas | 64.1 | 64.5 | 0.6 |
| Lahore | 517.6 | 520.0 | 0.5 | Shahdadkot | 55.9 | 56.1 | 0.4 |
| Sahiwal | 387.3 | 339.9 | -12.2 | Others | 565.1 | 449.7 | -20.4 |
| **Punjab** | **6,746.0** | **6,559.8** | **-2.8** | **Sindh** | **1,202.5** | **1,178.3** | **-2.0** |

*: First estimates

Source: Crop Reporting Services, Government of Punjab and Government of Sindh

Given the decline in cultivation area, achievement of targeted wheat production would mainly depend on the better yields. The use of approved varieties of wheat seeds on area of 10 million acres in Punjab may prove instrumental in achieving the higher yield. In addition, under the National Program for Enhancing Profitability through Productivity Enhancement of Wheat, modern agricultural machinery is being provided on 50 percent subsidy to farmers which may also aid to get higher yield.[18] [19]

## Minor Crops

Within minor crops, the FY22 *Rabi* season targets envisioned increase in both area and production for onion, gram and tomatoes. Specifically, for the onion crop production is targeted to grow by 15 percent to 2.4 million tons from an area of 162 thousand hectares during *Rabi* FY22. Likewise, tomatoes production is set to 622 thousand tons for *Rabi* FY22, showing an increase of 5.1 percent against the last year production of 592

**Minor Crops (*Rabi*)** **Table 2.4**

Area in '000 Hectares; production in '000 Tons; growth in percent

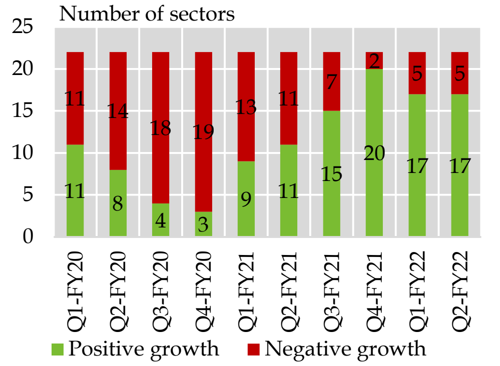
| | FY21 Output | | FY22 Target | | Growth | |
|---|---|---|---|---|---|---|
| | **Area** | **Production** | **Area** | **Production** | **Area** | **Production** |
| Potatoes | 234.4 | 4,681 | 226.1 | 6,029 | -3.5 | 28.8 |
| Onion | 153.8 | 2,099.8 | 162 | 2,422 | 5.3 | 15.3 |
| Gram | 872.7 | 251.2 | 989 | 560 | 13.3 | 122.9 |
| Tomatoes | 50.2 | 591.9 | 52 | 622 | 3.6 | 5.1 |

Sources: Ministry of National Food Security and Research; FCA and PBS

[18] Source: 'Punjab Government is Taking All Possible Steps to Provide Resources to Farmers for Wheat Cultivation', Press release dated 3-Nov-2021. available at www.punjab.gov.pk/node/4646, accessed on April 15, 2022

[19] According to SUPARCO wheat condition in irrigated areas is generally better for timely sown however late sown areas have shown stressed growth. (Source: PAK-SCMS bulletin, Volume XII, Issue 02, Serial No. 134 1-February 2022)

**Positive & Negative Growth Sectors in LSM** **Figure 2.6**




Source: PBS

thousand tons. While for potatoes the target is to achieve higher production by enhancing the yield **(Table 2.4**).

For potatoes, the initial estimates of area under cultivation in Punjab indicated significant increase of 35.8 percent from last year.[20] The growth in the acreage could be traced back to rise in the international demand for potatoes which is incentivizing growers to dedicate more area to crop and earn better profits.[21,22] Given that the province accounts for more than 80 percent of potatoes production, the harvest for current year is likely to exceed target, leaving surplus quantity for export.

Meanwhile, the area for gram crop in Punjab observed decline of 6.6 percent compared to last year. The decrease in the gram was more significant in the southern part of Punjab, as farmers in these areas switched to potatoes cultivation.

## 2.3 Large-Scale Manufacturing[23]

Large-scale manufacturing (LSM) grew by 7.5 percent during H1-FY22, compared to 1.5 percent in the same period last year (**Table 2.5**). The pickup was evident across both quarters of H1-FY22 of ongoing fiscal year. Specifically, 17 out of 22 sectors posted positive growth during Q1-FY22 and Q2-FY22, compared to 9 sectors in Q1-FY21 and 11 sectors in Q2-FY21 respectively (**Figure 2.6)** In particular, the automobile sector and wearing apparel sector (a new addition to LSM – **Box 2.2**) made the most notable contributions.

The base effect also accentuated LSM growth during the review period, with growth of 18.8 percent reported for August 2021 compared to a decline of 9.4 percent in August 2020 (**Figure 2.7**).[24] As a result, LSM growth during Q1 suggested a significant rebound compared to the same period last year. However, in Q2 growth was moderate in comparison to the first quarter.

[20] Source: Crop reporting center, Government of Punjab
[21] During H1-FY22 the potatoes export (in quantum terms) witnessed growth of 13.4 percent compared to same period last year. Moreover, in FY21 Pakistan exported 395.2 million kg potatoes compared to 364.8 million kg during FY20, showing YoY growth of 8.4 percent. (Source: PBS)
[22] Vegetables and Pulses Outlook: November 2021, Economic Research Service, VGS-367, USDA.
[23] The analysis of LSM is based on the provisional QIM data for base year 2015-16 up to January 2022, released by the PBS in March 2022. Previously, for the SBP's First Quarterly Report on the State of Pakistan's Economy, the analysis had been made on the QIM data for base year 2005-06 available at the time.
[24] For reference, the August 2020 LSM decline was mainly attributed to factors such as heavy monsoon downpour and subsequent flooding, particularly in the industrial hub of Karachi.

**LSM Growth** **Table 2.5**

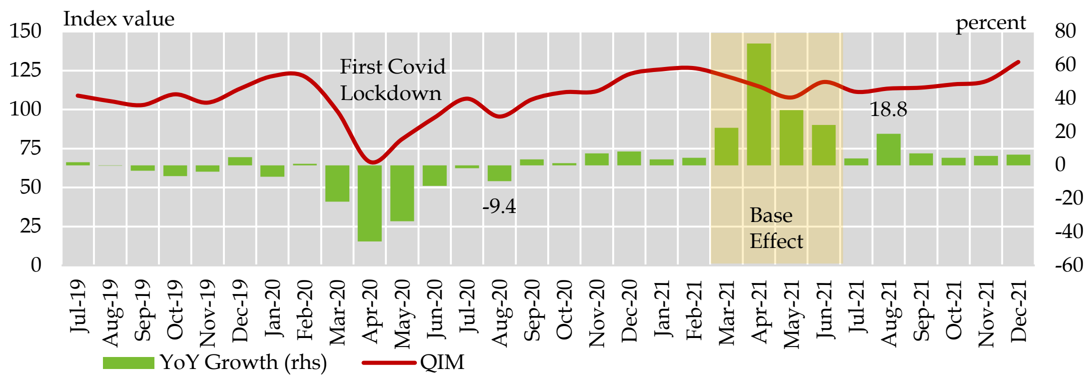
percent, YoY

| | wt. | H1 | | Q1 | | Q2 | |
|---|---|---|---|---|---|---|---|
| | | FY21 | FY22 | FY21 | FY22 | FY21 | FY22 |
| **LSM** | **78.4** | **1.5** | **7.5** | **-2.6** | **9.7** | **5.5** | **5.5** |
| of which: | | | | | | | |
| Textile | 18.2 | 4.0 | 3.4 | -1.9 | 6.5 | 10.1 | 0.6 |
| Food | 10.7 | 48.0 | 1.3 | 46.8 | 3.0 | 48.7 | 0.3 |
| Coke & Petroleum products | 6.7 | 3.9 | 0.7 | 1.5 | 6.1 | 6.3 | -4.2 |
| Chemicals | 6.5 | 9.4 | 3.3 | 5.4 | 1.5 | 13.5 | 4.9 |
| Chemical products | 2.5 | 12.6 | 16.9 | 11.8 | 17.8 | 13.3 | 16.2 |
| Fertilizers | 3.9 | 7.6 | -4.5 | 2.2 | -7.3 | 13.6 | -1.7 |
| Wearing Apparel | 6.1 | -40.8 | 20.5 | -44.8 | 20.3 | -36.7 | 20.6 |
| Pharmaceuticals | 5.2 | 11.1 | -5.0 | 13.1 | 4.7 | 9.4 | -13.9 |
| Non-Metallic Mineral products | 5.0 | 14.8 | 1.8 | 17.7 | 1.2 | 12.4 | 2.3 |
| Beverages | 3.8 | -4.2 | 4.5 | -2.3 | 6.0 | -6.7 | 2.3 |
| Iron and Steel products | 3.4 | -12.1 | 18.4 | -17.6 | 18.7 | -6.5 | 18.1 |
| Automobiles | 3.1 | 3.4 | 69.4 | -20.5 | 86.0 | 36.3 | 56.0 |
| Tobacco | 2.1 | 14.6 | 21.6 | 31.2 | 16.7 | 0.9 | 26.9 |
| Electrical Equipment | 2.0 | -17.4 | -2.6 | -15.5 | -3.7 | -19.7 | -1.2 |
| Paper & Board | 1.6 | -2.7 | 8.3 | -2.2 | 11.3 | -3.2 | 5.5 |
| Leather products | 1.2 | -42.4 | 6.1 | -44.5 | 13.5 | -40.5 | -0.1 |

Source: PBS

The positive impetus of LSM was enabled by growth-inducing policies. The automobile sector benefitted from supportive fiscal and monetary policies. These included lower taxes and accommodative monetary policy environment; the latter being particularly applicable during Q1-FY22. Similarly, the wearing apparel sector availed the concessionary financing schemes of the SBP such as TERF and LTFF, which was reflected

**Monthly Quantum Index of Manufacturing (QIM)** **Figure 2.7**




Source: Pakistan Bureau of Statistics

in the elevated growth and export of readymade garments. The steel sector's output also rebounded from last year, benefitting from the incentives provided to the construction sector and higher PSDP spending during H1-FY22 compared to the same period last year.

**Box 2.2: The Expanded Coverage and Impact of Rebased QIM**

The Quantum Index of LSM (QIM) allows the changes in LSM to be measured on a monthly and cumulative basis. The PBS has recently rebased the QIM using the Census of Manufacturing Industries (CMI), 2015-16. A key objective of the rebasing exercise is that it captures the structural changes that inevitably take place in the manufacturing sector, as new types of industries emerge while others shrink in size and relative importance. Previously, the QIM was being computed from a total of 112 items with cumulative weight of 70.3 percent, derived from CMI 2005-06. After rebasing, the coverage of items has been expanded to 123, while the index weight has increased to 78.4 percent.

**Items Included in Rebased QIM** **Table 2.2.1**

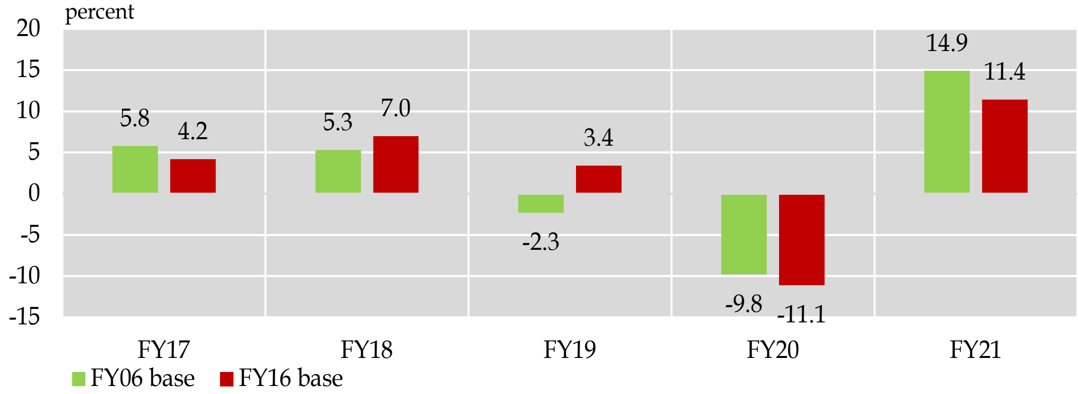
| Name of item | Old Weight | New Weight | Change |
|---|---|---|---|
| *New Items* | | | |
| **Garments** | - | 6.08 | - |
| **Terry towels & Bath robes** | - | 0.59 | - |
| **Furniture** | - | 0.51 | - |
| **Footballs** | - | 0.32 | - |
| *Adjusted Categories after Addition of* ***New Items (in Bold)*** | | | |
| Wheat & **Rice Milling** | 1.01 | 3.66 | 2.65 |
| Sugar, **Bakery products and Chocolate & sugar confectionery** | 3.54 | 3.43 | -0.12 |
| Juices, syrups, & squashes, and **preserved milk** | 0.20 | 2.21 | 2.01 |
| Soft drinks and **Mineral waters** | 0.90 | 1.63 | 0.73 |
| **Corrugated paper/ paperboard containers** weight has been added to: Paper and Paper products | 2.31 | 1.63 | -0.69 |
| Electric Motors (including **Insulated wire & cable**) | 0.71 | 0.43 | -0.28 |
| **Pesticides**: Weight has been distributed to Fertilizers | | n/a | |
| **Parts & accessories for motor vehicles**: Weight has been distributed to Automobiles | | n/a | |

Source: PBS

Among the new items in the QIM, a notable addition is garments within the new category of *wearing apparel*, with a weight of 6.08 percent (**Table 2.2.1**). The PBS has used the export quantum of wearing apparel/ready-made garments, towels, furniture, and footballs as a proxy for LSM production.[25] This would allow the rebased QIM growth to be more representative. For industries like textiles in particular, the LSM growth estimated from 2005-06 base (largely capturing the low-value added segment) had at times been at odds with the growth in textile sector exports, particularly of value added items. The rebased QIM would help address this discrepancy.

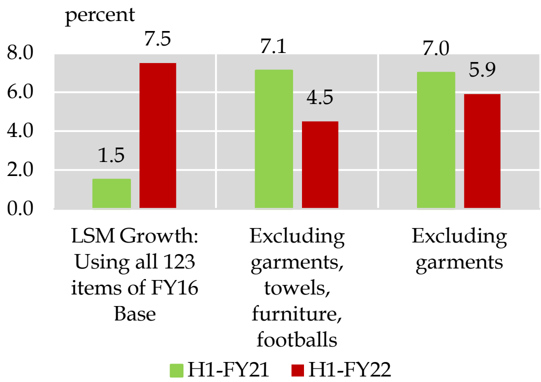
[25] Other items, whose weight has been added to existing categories, include: bakery products and chocolate and sugar confectionary; rice milling; mineral water; preserved milk; corrugated paper/paperboard containers; pesticides; insulated wire and cable; and parts and accessories for motor vehicles.

**Growth Rate of Annual QIM** **Figure 2.2.1**




Source: PBS

**Impact of New Items on LSM Growth** **Figure 2.2.2**




Source: PBS

The coverage has also been improved by utilizing a new frame. The previous CMI was conducted using the frame of Labour and Industries departments, which was incomplete for some categories. By contrast, the Business Register of PBS utilized for CMI 2015-16, from which weights were ultimately derived for the QIM, is based on a broader array of administrative sources, such as the Securities and Exchange Commission of Pakistan, (SECP), Federal Board of Revenue (FBR), Employees' Old-Age Benefits Institution (EOBI), Pakistan Stock Exchange (PSX), and provincial labor and industries departments. As a result, the number of manufacturing establishments covered by 2015-16 CMI grew to 42,578, compared to 8,680 such establishments covered in 2005-06 – a nearly five-fold increase. Moreover, a substantial amount of data would now be collected from Balochistan as well as from Islamabad Capital Territory (ICT) based industries to update the QIM, as reflected in the province wise sample design of QIM. The PBS regional office Rawalpindi will collect data from ICT, whereas the Provincial Bureau of Statistics, Balochistan and Regional Office Karachi PBS will collect data from Balochistan.

Using the new base, the growth rate of LSM is higher in two of the past 5 years, namely FY18 and FY19 (**Figure 2.2.1**). However, the growth during FY21 is relatively lower using the new base. Rather, the rebasing suggests that the decline in LSM during FY20 – triggered by the initial, strict Covid lockdown – was sharper than previously estimated; similarly, the recovery during FY21 was somewhat lower compared to the estimates previously computed with the old QIM base.

Moreover, the impact of rebasing is evident from the performance of LSM during the current review period as well. Excluding the four new categories introduced in the rebased index – namely garments, towels, furniture, and footballs – changes the LSM growth significantly. Specifically, LSM then shows a slowdown, from 7.1 percent growth in H1-FY21 to 4.5 percent growth during H1-FY22 (**Figure 2.2.2**). In fact, one heavy weight item of garments alone changes the picture significantly, given that it is proxied by the export quantum of readymade garments, which saw a sharp reversal during the two periods. [26]

## *Automobile Industry*

The automobile sector posted 69.4 percent growth during H1-FY22, compared to 3.4 percent in the same period last year. Tax relief measures for the automobile sector adopted in the FY22 Budget, an accommodative monetary policy maintained for most of Q1-FY22, broader pick-up in economic activities, workers' remittances, and improved farm incomes were among the primary factors driving the sector's growth during H1-FY22. Specifically, regarding tax relief in the Budget, the government reduced the federal excise duty (FED) on vehicles up to 3,000cc by 2.5 percent, cut the general sales tax for vehicles up to 1,000cc to 12.5 percent from 17.0 percent, and also allowed locally manufactured cars of 850cc or less to be exempted from value-added tax (VAT).

Furthermore, the accommodative monetary policy environment contributed to a flow of Rs 45.5 billion in auto loans during H1-FY22, compared to Rs 45.3 billion in the same period last year.[27]

Within automobiles, car and jeep production responded favorably to the policy support. Specifically, the production of cars and jeeps grew by 72.4 percent during H1-FY22 compared to 5.1 percent growth in the same period last year, with significant expansion in the production of cars during both quarters of the current fiscal year (**Table 2.6**).

The positive momentum generated by aforementioned factors overshadowed the headwinds created by other policy measures and developments during the review period. Specifically, the SBP introduced restrictions

**Automobile Sector Production** **Table 2.6**

Number of automobiles; YoY growth in percent

| | | | | | *Growth* | |
|---|---|---|---|---|---|---|
| | FY21 | | FY22 | | FY22 | |
| | Q1 | Q2 | Q1 | Q2 | Q1 | Q2 |
| **All Cars** | **27,574** | **34,467** | **51,752** | **55,490** | **87.7** | **61.0** |
| <800 cc | 5,789 | 10,612 | 15,792 | 19,645 | 172.8 | 85.1 |
| between 800-1000 cc | 5,335 | 6,702 | 13,698 | 9,615 | 156.8 | 43.5 |
| >1000cc | 16,450 | 17,153 | 22,262 | 26,230 | 35.3 | 52.9 |
| **Jeeps/SUVs** | **1,655** | **2,452** | **3,653** | **3,137** | **120.7** | **27.9** |
| Light commercial vehicles | 3,708 | 5,090 | 6,790 | 7,426 | 83.1 | 45.9 |
| Trucks | 769 | 788 | 1,516 | 1,271 | 97.1 | 61.3 |
| Buses | 125 | 156 | 116 | 140 | (7.2) | (10.3) |
| Tractors | 11,258 | 12,129 | 12,533 | 14,412 | 11.3 | 18.8 |
| Two/three wheelers | 449,306 | 500,444 | 452,648 | 486,875 | 0.7 | (2.7) |

Source: PAMA

[26] In quantum terms, the exports of readymade garments grew by 20.4 percent during H1-FY22, compared to a 40.8 percent decline in the same period last year.
[27] Auto financing was more upbeat during Q1-FY22, before monetary tightening and revision of prudential regulations led to a moderation in Q2-FY22. For details, see **Chapter 3.**

on car financing from September 2021 to curb imports.[28] The policy rate was also increased by a cumulative 275 basis points between September to December 2021, raising, inter alia, the cost of auto financing. Moreover, the exchange rate depreciated by 10.7 percent during H1-FY22, while elevated raw material prices and freight charges pushed up manufacturing costs. These developments played a part in the automobile manufacturers' decision to raise prices during the review period, while the global semiconductor chip shortage also contributed to delayed deliveries of some models during H1-FY22.

Nonetheless, automobile demand and production remained robust. This was evident from the surge in imports of completely knocked down (CKD) and semi-knocked down (SKD) automobile kits during the review period (**Figure 2.8**).

## *Construction-allied Industry*

The construction-allied sectors continued to benefit from the government's incentive package, as well as the promotion of the Mera Pakistan Mera Ghar scheme. The SBP augmented these efforts by prescribing mandatory targets for banks for the housing and construction finance in July 2020.[29] Resultantly, the flow of house building finance rose to Rs 40.2 billion during H1-FY22, compared to Rs 6.4 billion in the same period last year. Finally, PSDP spending grew by 40.2 percent during H1-FY22 compared to a decline of 11.8 percent in the corresponding period last year, which tends to contribute to construction activity on large scale infrastructure projects.

### Cement

The cement sector's output grew by 1.8 percent during H1-FY22, compared to 14.8 percent in the comparable period last year.

According to APCMA data, total cement dispatches declined by 4.1 percent during H1-FY22, compared to growth of 15.7 percent during H1-FY21. This mainly stemmed from a 32.5 percent decline in the quantum of cement exports during the current period amid elevated freight costs and reduced demand from Afghanistan, compared to a 14.7 percent increase last year.[30,31] In fact, following positive contributions to overall growth of dispatches in 7 consecutive quarters from H2-FY18 to H2-FY21, the negative contribution of exports in the current fiscal year was the steepest since H1-FY16 (**Figure 2.9**).

On the other hand, local cement dispatches grew by 1.9 percent during H1-FY22,

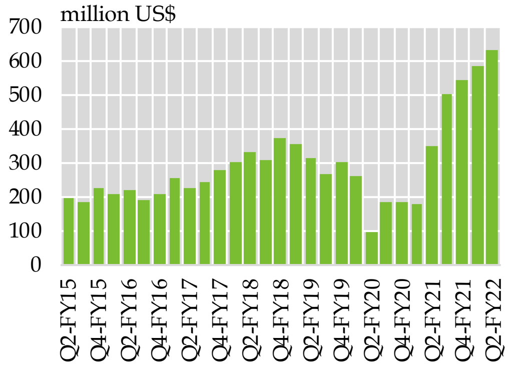
28 For details, see the SBP's press release titled 'State Bank of Pakistan revises Prudential Regulation for Consumer Financing to moderate import and demand growth', dated September 23, 2021.

29 For details, see SBP circular: IH&SMEFD Circular No. 10 of 2020 of 15 July 2020 and subsequent circulars on the subject.

30 To put the impact of freight rates on cement exports into perspective, the Baltic Dry Index (BDI) – which tracks the price of transporting dry bulk cargo such as cement on bulk freighters – recorded an increase of 103.8 percent during H1-FY22, compared to a decline of 19.9 percent in the same period last year. This included a peak index value of 5,670 touched on 7th October 2021 – the highest level since September 2008. By extension, the surge in bulk freight rates is mainly attributed to a reopening of economies after the initial Covid-19 shock and lockdowns, which had caused the BDI to crash to 393 in mid-May 2020.

31 Specifically, cement exports to Afghanistan declined by 54.1 percent to 543,888 MT during H1-FY22, compared to 1,185,566 MT in the same period last year

**Quarterly Imports of CKD/SKD Automobile** **Figure 2.8**




Source: PBS

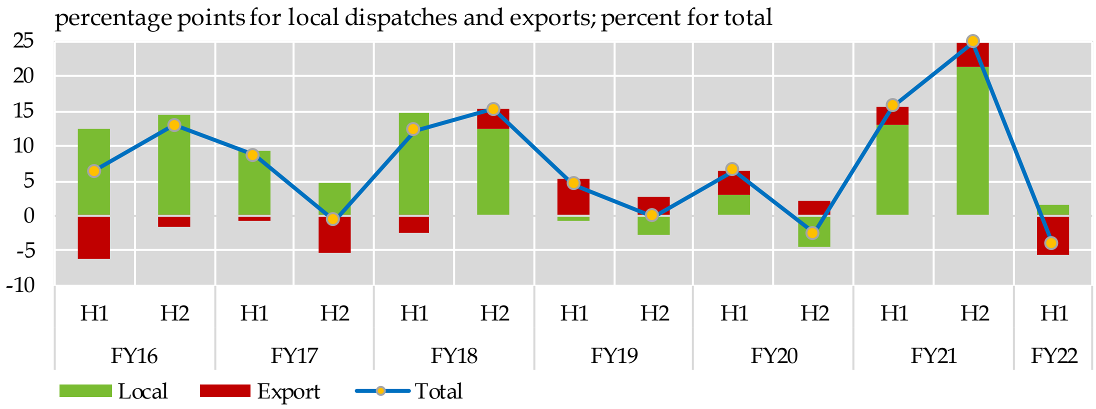
compared to 15.9 percent in the same period last year. Within this, local dispatches to the South rebounded from a 13 percent decline during H1-FY21 to 15.2 percent growth in the current period. The rebound was aided by construction activities for development projects, such as the Karachi Transformation Plan (KTP).[32] [33]By contrast, dispatches to the North witnessed a 0.3 percent decline during the half-yearly review period compared to 20.6 percent growth last year.

The slowdown in local dispatches was partly attributed to a significant increase in domestic cement prices. Specifically, the price of a 50 kg bag of cement rose by 21.3 percent in urban areas and 25.8 percent in rural areas during H1-FY22, compared to declines of 3.1 percent and 1.8 percent in the same period last year. The rising global prices of inputs such as coal coupled with exchange rate depreciation contributed to the upward pressure on cement prices.

## Steel

The steel sector witnessed 18.4 percent growth during H1-FY22, compared to 12.1 percent decline in the same period last year.

**Contribution to Growth of Cement Dispatches** **Figure 2.9**

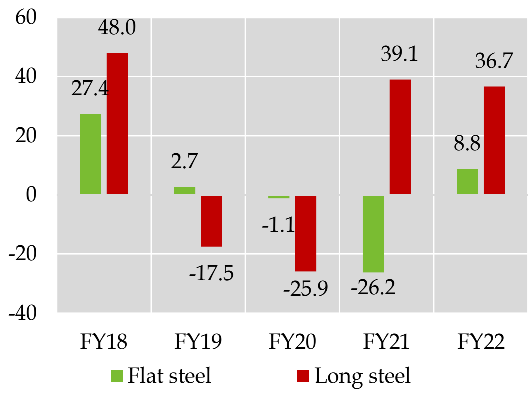



Source: APCMA

[32] The KTP consists of large scale development projects such as Karachi Circular Railway and Greater Karachi Bulk Water Supply which would be developed over a period of three years, as well as fast-tracked revival of rivers and nullahs and development of roads and expressways scheduled for completion by June 2022. Source: Planning Commission, Annual Plan 2021-22.

[33] Some notable water sector development projects in the South mentioned in the Annual Plan 2021-22 include: Nai Gaj Dam, Sindh; Naulong Dam and Winder Dam, Balochistan; Rainee Canal, Sindh; and projects under the Southern Balochistan Package.

**Growth in Steel Sector in H1** **Figure 2.10**




Source: PBS

The increase in steel production is partially a response to demand side factors. The demand for flat steel is attributed to robust growth of sectors such as automobiles (discussed earlier) and domestic appliances. Within appliances, the manufacture of refrigerators, deep freezers, and air conditioners grew by 41.5 percent, 13.8 percent, and 79.6 percent during H1-FY22, compared to 28.3 percent, -8.7 percent, and 32.3 percent last year, respectively. As a result, flat steel registered growth of 8.8 percent during H1-FY22, compared to a decline of 26.2 percent in the same period last year (**Figure 2.10**).

Meanwhile, the demand for long steel is associated with higher PSDP spending and infrastructure development, including dams (as mentioned earlier). Steel manufacturers had positioned themselves to meet the anticipated demand and have continued to undertake capacity expansion.[34] Moreover, anecdotal evidence suggests that the large, graded steel manufacturers have recently been able to capture some market share from smaller firms by, inter alia, branding their graded rebars as superior products. Resultantly, the long steel segment posted 36.7 percent growth during H1-FY22, compared to 39.1 percent expansion in the same period last year.

### *Fertilizer Industry*

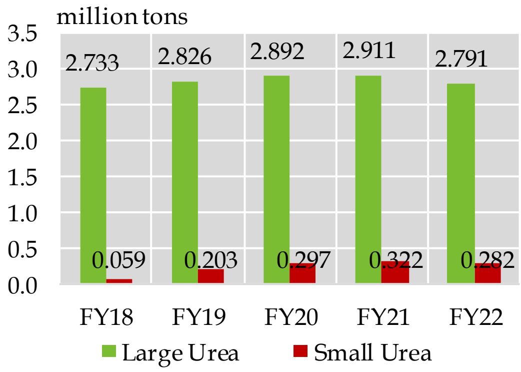
The fertilizer sector registered a decline of 4.5 percent during H1-FY22, compared to an expansion of 7.6 percent in the same period last year.

Urea production declined by 5.0 percent during H1-FY22, compared to a 1.0 percent contraction in the same period last year, according to NFDC data. For large urea producers, this mainly stemmed from temporary suspension for plant maintenance and upgrades; as a result, their production amounted to 2.8 million tons during H1-FY22, compared to 2.9 million tons in the same period last year (**Figure 2.11**). On the other hand, the production of small urea producers was affected by disrupted gas supply, particularly during Q1-FY22. This contributed to a 12.6 percent decline in their output, from 322,158 tons during H1-FY21 to 281,714 tons in the current period.

Meanwhile, production of fertilizers other than urea declined by 2.8 percent during H1-FY22, compared to growth of 54.8 percent in the same period last year.[35] Within this sub-

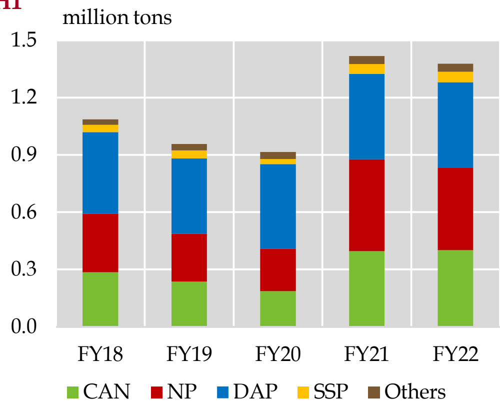
[34] Recent developments on capacity expansion include Agha Steels MicroMillDanieli (MiDa) plant and Mughal Steel's BMR of girder-rerolling mill. Source: Company financial reports for six months period ending 31 December 2021.
[35] Fertilizers other than urea produced domestically include Diammonium Phosphate (DAP), Calcium Ammonium Nitrate (CAN), Nitro Phosphate (NP), Single Superphosphate (SSP), and NPK fertilizer.

**Urea Production by Large & Small Units, H1** **Figure 2.11**




Source: National Fertilizer Development Centre

**Fertilizer Production (except urea) H1** **Figure 2.12**




Source: NFDC

group, there was a marginal decline in production of NP fertilizer during H1-FY22 compared to the same period last year (**Figure 2.12).**

## *Wearing Apparel*

The production of wearing apparel grew by 20.5 percent during H1-FY22, compared to a decline of -40.8 percent in the same period last year. This sector is a new addition to the LSM coverage, following the rebasing of the QIM.

The notable rebound in wearing apparel production is primarily attributed to strong demand in Pakistan's export destinations (see **Chapter 5,** discussion on exports of textile sector). Specifically, in value terms, the exports of readymade garments grew by 23.1 percent in H1-FY22, compared to 5.5 percent growth in the same period last year.

The development is also consistent with the expansions underway in the textile sector as the industry looks to achieve its US$ 21 billion export target for FY22. Specifically, the imports of textile machinery amounted to US$ 436.4 million during H1-FY22, which represented a historic high on half-yearly basis.[36] Furthermore, textile firms have also taken benefit of SBP's concessionary financing schemes to undertake fixed investment (see **Chapter 3,** discussion on credit to private sector).

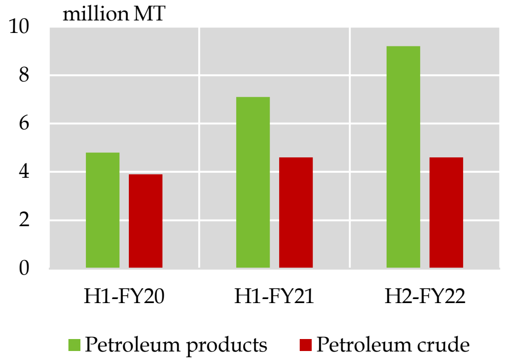
## *POL*

The POL sector's growth slowed down to 0.7 percent during H1-FY22, compared to expansion of 3.9 percent in the same period last year.

This can mainly be attributed to greater import of refined petroleum products relative to import of crude for domestic refining. Specifically, the import quantum of petroleum products grew by 29 percent to 9.2 million MT during H1-FY22, compared to 7.1 million MT in the same period last year **(Figure 2.13)**. At the same time, quantum imports of petroleum crude declined by 0.7

[36] For reference, the last time textile machinery imports crossed the US$ 400 million mark on half-yearly basis was back in H1-FY06, when they touched US$ 417.9 million.

**Import Quantum of Petroleum Items** **Figure 2.13**




Source: PBS

percent during H1-FY22 compared to last year.

The increased import of refined products is linked to capacity issues. A number of oil refineries are still catching up to changing market dynamics and regulatory measures which require them to upgrade their plants and reconfigure production in favor of Euro-V compliant fuels and away from furnace oil.[37]

Moreover, furnace oil (FO) production was affected by lower demand, particularly from IPPs during Q2-FY22. With IPPs refraining from buying FO from refineries, the latter faced an excess build-up of stocks, and some refineries suspended operations in the face of limited storage capacity.[38] As a result, furnace oil production declined by 14.8 percent during Q2-FY22, compared to growth of 13.9 percent in the same period last year.

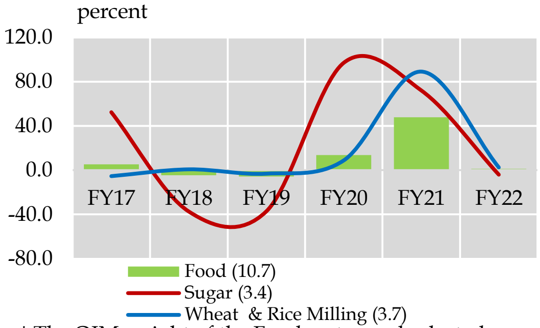
Another probable factor is that importing petrol from China has become lucrative for OMCs following its exemption from customs duty under the revised China Pakistan Free Trade Agreement (CPFTA). This would help explain why quantum imports of motor spirit from China recorded a more than five-fold increase, from 0.3 million metric tons (MMT) during H1-FY21 to 1.6 MMT during H1-FY22.[39, 40]

### *Food*

The food sector grew by 1.3 percent during H1-FY22, compared to 48.0 percent in the same period last year. Growth in the wheat and rice milling sub-sector had driven up overall food sector growth during H1-FY21, owing to an increase in the number of reporting units in the LSM survey **(Figure 2.14)**. By contrast, this growth was more subdued during the current review period. Moreover, growth in the sugar subsector – the second largest component of the food sector in terms of weight – declined by 4.0 percent during H1-FY22, compared to 72.1 percent growth in the same period last year. This was mainly attributed to the relatively late start of the sugarcane crushing season

[37] For background, see Box 2.1 (Introduction of Ultra-Low-Sulfur-Fuel (ULSF) and its Implications for Domestic Automotive and Petroleum Industries) in the SBP's First Quarterly Report for FY21.
[38] For instance, Pakistan Refinery Limited (PRL) was shut down for 16 days in December 2021 due to reduced demand for high sulphur furnace oil since November 2021. Source: Pakistan Refinery Limited Half Yearly Report for December 2021.
[39] The share of motor spirit imports from China also increased significantly, from 7 percent during H1-FY21 to 33 percent during H1-FY22.
[40] The sharp increase prompted the government to initiate a probe in January 2022 into the potential misuse of the CPFTA for petroleum imports, with anecdotal evidence suggesting that some stakeholders might have engaged in questionable transfer pricing or over-invoicing.

**Growth of Selected Food Sector Components*** **Figure 2.14**




* The QIM weight of the Food sector and selected subsectors is given in parentheses

Source: PBS

during the review period compared to last year.

## 2.4 Services

The indicators for the services sector showed expansion in activities during H1-FY22 (**Table 2.7**). A significant increase in imports coupled with decent growth in the commodity producing sector is indicative of a positive effect on wholesale and retail trade. The transport sector also benefited from the increase in economic activity during the period. Moreover, indicators of banking sector and communication sector point to growth in these industries.

The proxy indicators of the *wholesale and* retail trade segment point to growth in the sector. This was achieved on the back of improvement in the crop sector output during *Kharif* FY22. Record output of cash crops – rice and sugarcane – and increase in cotton production indicates strong growth in crop sector during *Kharif* FY22. In the industrial sector, LSM sector growth remained robust, driven mainly by automobile, steel and wearing apparel industries. In addition, the flow of private sector credit to the sector rose sharply during the period to Rs 55.4 billion in H1-FY22 compared to Rs 30.2 billion last year. Meanwhile, growth in revenues of FMCG (fast moving consumer goods) firms remained robust during H1-FY22. Sales of FMCG firms rose by 19.9 percent during H1-FY22 compared to 20.3 percent growth last year.[41]

The *transport and storage* sector indicators also suggest an uptick in growth. Increase in sales of vehicles, such as trucks and tractors, show that commercial activities picked up during H1-FY22 compared to last year. This was further evidenced by increase in quantum of petroleum sales for road transport, which increased by 11.2 percent during H1-FY22 compared to last year. Similarly, sales of petroleum products to aviation and railways also expanded by 46.4 and 9.4 percent respectively during H1-FY22 compared to last year. The increase in domestic energy sales to aviation industry was more noticeable for private sector airlines, as evident from a 74.9 percent jump during H1-FY22 compared to last year's sales.

Within the *information and communication* sector, demand for cellular services remained robust during H1-FY22. This may be attributed to increased reliance on remote-working under smart lockdowns, online education, and continued rise of e-commerce in the country. Inclusion of Pakistan to the seller list of Amazon, a leading global e-commerce firm, may have also played a positive role in aiding the e-commerce

[41] Based on a sample of 23 FMCG firms in the country.

**Services Sector Indicators** **Table 2.7**

| | FY21 | | | FY22 | | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | H1 | Q1 | Q2 | H1 |
| **Wholesale and Retail Trade** | | | | | | |
| Sectoral credit off take*- flow (billion Rs) | 17.7 | 12.5 | 30.2 | 21.5 | 33.9 | 55.4 |
| Imports (billion US$ ) [a] | 11.3 | 13.2 | 24.5 | 18.7 | 22.1 | 40.8 |
| *Growth* | *0.8* | *9.8* | *5.4* | *65.8* | *68.0* | *67.0* |
| LSM (YoY growth) | -2.6 | 5.5 | 1.5 | 9.7 | 5.6 | 7.5 |
| Agriculture credit (disbursements – Rs bln) | 254.6 | 362.3 | 616.9 | 291.9 | 348.9 | 640.8 |
| FMCG sales (YoY growth) | 22.7 | 18.0 | 20.3 | 21.0 | 18.8 | 19.9 |
| **Transport & Storage** | | | | | | |
| POL sales to transport sector (million MT) | 3.7 | 4.1 | 7.9 | 4.4 | 4.4 | 8.8 |
| *Growth* | *7.9* | *10.2* | *9.1* | *17.0* | *6.0* | *11.2* |
| Commercial vehicle sales (units) | 6,618 | 7,677 | 14,295 | 12,330 | 11,272 | 23,602 |
| *Growth* | *32.4* | *18.3* | *24.4* | *86.3* | *46.8* | *65.1* |
| Teledensity (%) | 79.6 | 82.3 | 82.3 | 86.2 | 87.1 | 87.1 |
| Broadband users (million) | 87.0 | 93.0 | 93.0 | 107.6 | 109.6* | 109.6* |
| **Finance and Insurance Activities**** | | | | | | |
| Assets (billion Rs)*** | 23,808 | 25,124 | 25,124 | 28,790 | 30,058 | 30,058 |
| Deposits (billion Rs)*** | 17,543 | 18,519 | 18,519 | 20,516 | 21,720 | 21,720 |
| ROA (percent) | 1.1 | 1.0 | 1.0 | 0.9 | 1.0 | 1.0 |
| ROE (percent) | 14.8 | 13.8 | 13.8 | 13.7 | 14.1 | 14.1 |
| Profit after tax (billion Rs) | 68.7 | 49.6 | 118.3 | 68.7 | 72.7 | 141.4 |
| Infection ratio | 9.9 | 9.2 | 9.2 | 8.8 | 7.9 | 7.9 |
| **General Government Services** | | | | | | |
| Expenses-general govt & defense**** (billion Rs.) | 313.4 | 368.6 | 682.0 | 351.2 | 379.2 | 730.4 |

*Data for Nov 2021 **Banking sector only ***Stocks, as of end-December 2021 ****Only federal government

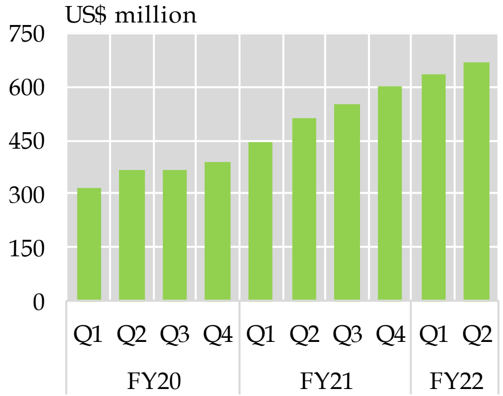
Source: SBP, [a] PBS, OCAC, PAMA, PTA and MoF

industry.[42,43] The indicators of telecom industry, such as teledensity and number of subscribers, also highlight positive trends in the sector. Further evidence of increased activity in this sector can be seen from ICT exports, which increased to US$ 1.3 billion during H1-FY22 compared to US$ 1.0 billion last year (**Figure 2.15**). This was largely on the back of export of software and software consultancy services.

The *finance and insurance* sector performance as proxied by indicators presented in **Table 2.7** suggests growth in the industry. The profit of the financial sector rose by 46.6 percent to Rs 72.7 billion during H1-FY22. The profits rose as a result of lower provisioning/debt write-off expense and increase in non-interest income during the period. In addition, the infection ratio, which had grown previously in the midst of Covid-

[42] Source: Ministry of Commerce
[43] Trade Development Authority of Pakistan (TDAP) and Small and Medium Enterprise Development Authority (SMEDA) started offering training courses to interested individuals and businesses in becoming a seller on Amazon.

**ICT Exports** **Figure 2.15**




Source: State Bank of Pakistan

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


Source: Zameen.com

induced monetary stress, continued to decline during H1-FY22.

The price index of residential property from Zameen.com suggests that the activity in *real sector services* picked up considerably during H1-FY22. Average property prices rose on average by 25.4 percent during H1-FY22 as opposed to 7.1 percent last year. This increase in price of residential property was more than the overall inflation during the period (**Figure 2.16**). There were both supply side and demand side factors at play that led to escalation in prices. Increase in prices of building materials – such as cement, steel, aluminum, sanitaryware, etc were, however, partially offset by incentives offered by the government to real estate developers. Depreciation of PKR and increase in the global commodity prices were the major factors behind rise in cost. Prices of construction inputs rose by 11.4 percent YoY in December 2021 compared to 3.7 percent last year.[44]

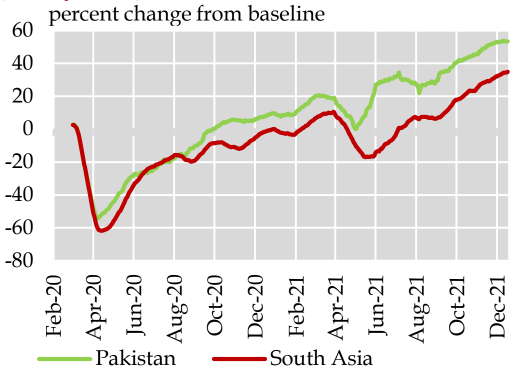
Increased access to mortgage under the *SBP's Mera Pakistan Mera Ghar* scheme coupled with relatively low mark-up rates also aided in demand for property which in turn also caused prices to rise. It is evident from increase in house building finance which rose to Rs 40.2 billion during H1-FY22, compared to Rs 6.4 billion in the same period last year.

On the demand side, easy access to bank credit, low interest rates (especially during Q1-FY21), spillover of healthy economic growth during FY21 and higher inflow of remittances filtered into domestic demand for real estate. Moreover, real estate consumers view investment in the sector as a store of value and alternative investment in times of high inflation and this phenomenon may also have contributed to increase in demand.

Google community mobility indicators also suggest growth in the services sector during H1-FY22 compared to last year. Visits to grocery-and pharmacy-stores, retail-and-recreation, transit-stations, and workplaces increased. The performance of Pakistan was

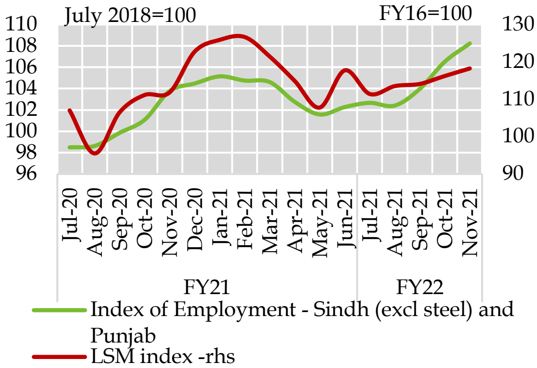
[44] Source: PBS

**Google Mobility Changes in Pakistan vis-a-vis South Asia (30-days MA)** **Figure 2.17**




Source: Covid-19 Community Mobility Report

**Combined Punjab and Sindh Industrial Employment and** **Figure 2.18**




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

relatively better than South Asia's regional average, and this may have also helped generate activity in the services segment (**Figure 2.17**).

## 2.5 Labor Market

Indicators of the labor market in Pakistan point to growth during H1-FY22. This upward trend was gauged on the basis of industrial employment data, SBP surveys, and PBS wage/fees data. The industrial sector hired more workers in both Punjab and Sindh as output expanded. Meanwhile, SBP Business Confidence Survey (BCS) highlighted relative improvement in sentiments towards employment creation during H1-FY22; however, deterioration in perceptions about job growth was witnessed in SBP Consumer Confidence Survey (CCS) during the period. The wages of construction sector laborers and fees charged by various professionals in the services sector point to growth, albeit the growth in wages and fees charged was varied.

### *Industrial Employment*

As measured by the index of industrial employment for the provinces of Punjab and Sindh, employment rose by 4.3 percent during Jul-Nov FY22 compared to 2.6 percent last year (**Figure 2.18**). Sindh accounted for significantly more hiring during the period with pharmaceutical sector contributing with major share towards the overall growth. Cotton textile industry was another noteworthy contributor to job growth, with both the regions hiring more workers.

#### Punjab

Overall, industrial sector hired more workers in Punjab during H1-FY22 compared to last year (**Table 2.8**). Employment in the sector, as gauged through *Monthly Survey of Industrial Production & Employment*, increased by 1.6 percent during the Jul-Nov period compared to 1.5 percent last year.
This growth was predominantly driven by export-oriented industries.
Demand for workers in the textile and wheat milling industry remained robust during the period, albeit at a slower pace. On the other

hand, job creation in leather footwear and cement rebounded sharply in H1-FY22. Meanwhile, though sugarcane crop output is likely to be better than last year, the upstream sugar mills hired less workers during H1-FY22.

Increase in workers in the textile industry reflects the expansion in output of the sector that grew by 4.3 percent during Jul-Nov FY22 compared to 2.8 percent growth last year. Moreover, increase in exports of wearing apparel and in its production also had a positive impact on the downstream textile and ginning sectors, which may also have contributed to increase in job openings in the sector.

Employment in the leather industry rebounded sharply during Jul-Nov FY22. The jump was notable in the footwear sub-category as average number of employees registered an increase of 2,044 compared to a decrease of 1,550 workers last year. This coincides with increase in footwear production which expanded by 19.4 percent during Jul-Nov FY22 compared to a decline of 43.5 percent last year.

The decrease in employment in sugar industry in the province can be attributed to late start of crushing season in FY22. This led to less seasonal workers being hired by the mills. This was in contrast to last season when the Punjab government's drive to urge sugar mills to start crushing earlier may have contributed to job creation during the period.

## Sindh

Latest data on industrial employment in Sindh shows that the firms hired 11.9 percent more workers during Jul-Nov FY22 compared to 0.6 percent layoffs last year. The impetus to growth came largely from the pharmaceutical sector that hired more staff to meet both the domestic and foreign demand for its products (**Table 2.8**).

**Average Number of Industrial Workers Hired /Fired during Jul-Nov** — **Table 2.8**

| | FY21 | FY22 |
|---|---|---|
| **Punjab** | **4,290** | **4,423** |
| Cotton textiles | 2,150 | 1,434 |
| Wheat milling | 1,282 | 1,265 |
| Sugar | 5,267 | -900 |
| Leather footwear | -1,550 | 2,044 |
| Cement | -607 | 447 |
| Pharmaceutical | 264 | 19 |
| Automobile | 1 | 5 |
| **Sindh*** | **-955** | **13,152** |
| Cotton textiles | -1,326 | 3,797 |
| Sugar | -1,621 | 3,732 |
| Leather tanning | 728 | 92 |
| Cement | 448 | -2,493 |
| Pharmaceutical | 411 | 9,791 |
| Automobile | 796 | -4,054 |

*Excluding the steel industry

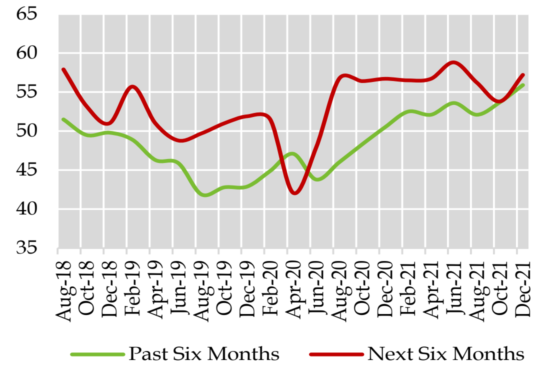
Source: Bureau of Statistics, Punjab and Bureau of Statistics, Sindh

Similar to Punjab, the textile sector also played a part in employment growth during Jul-Nov FY22 period. Meanwhile, the automobile and cement industry lost more workers during the Jul-Nov FY22 period. In the former case, two factors may be at play: lower localization of parts, and shortage of semiconductor chips. In the case of cement, a decrease in foreign demand, owing partly to an increase in freight costs, hampered growth of the cement producers in the south, which led to layoffs in the province.

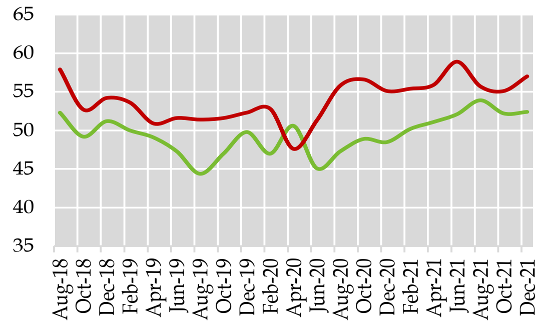
### *SBP Confidence Surveys*

The results of the SBP-BCS conducted in January 2022 point to optimism in the past and future perceptions, whereas the outcome

**BCS Employment Index for Industrial Sector** **Figure 2.19a**




**BCS Employment Index for Service Sector** **Figure 2.19b**



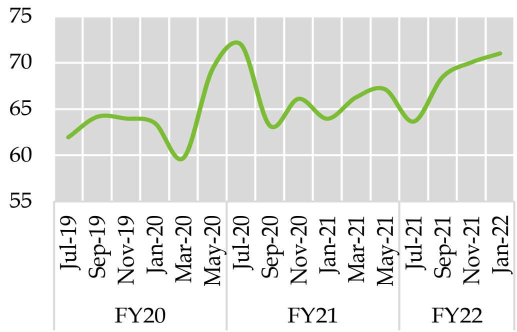

Source: State Bank of Pakistan

of the SBP-CCS highlighted deteriorating expectations about the domestic labor market.[45] After witnessing deterioration in the August 2021 and October 2021 rounds of the bimonthly BCS when the country was going through its 4th Covid wave, future expectations about the domestic labor market improved markedly in the subsequent December 2021 cycle (**Figures 2.19a & b**). Meanwhile, perceptions about the past 6 months worsened only in August 2021, whereas in the following rounds the businesses were optimistic about employment creation.

In terms of sectoral analysis of the SBP-BCS, businesses in the manufacturing sector were more optimistic about employment growth than the services sector. Perceptions about the job market remained broadly optimistic in H1-FY22 rounds of the BCS for the industrial sector. However, the services sector showed mixed trend, as perceptions about employment remained rather dull as gauged by past 6-month diffusion index while the businesses were more optimistic about job openings in the next 6 months.

On the other hand, the result of the CCS, capturing the responses of consumers, about the prospects about job market were not favorable (**Figure 2.20**). Consumers were not optimistic about employment creation in the

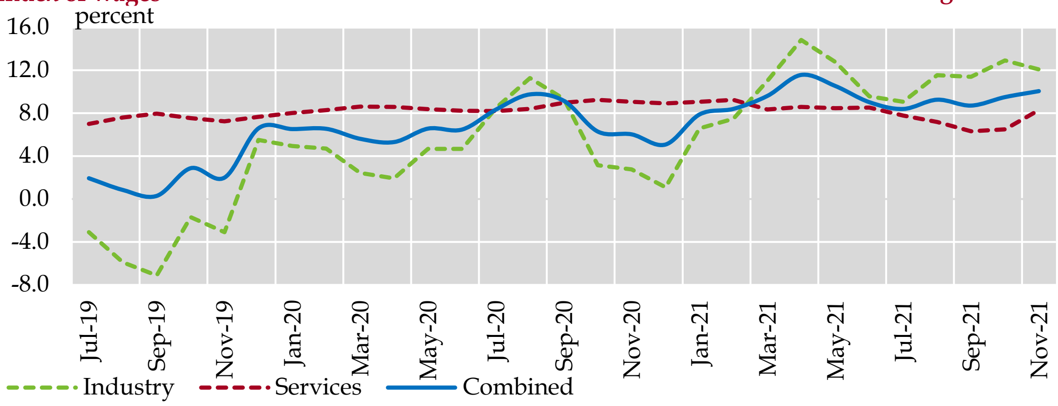
**Future Unemployment Index (Next Six Months) - SBP CCS** **Figure 2.20**




Source: SBP

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

**Index of wages** **Figure 2.21**




Source: Pakistan Bureau of Statistics, Bureau of Statistics -Punjab

country as future unemployment index continued to climb. [46]

## *Wages*

As estimated by index, domestic wages showed an increasing trend during Jul-Nov FY22.[47] On average, the overall remuneration rose by 9.2 percent during the Jul-Nov FY22 period compared to 7.9 percent growth last year (**Figure 2.21**). That said, salaries in the industrial sector rose more than in services. Whereas the growth in wages is apparently impressive, analysis of real wage shows that the purchasing power of the domestic workforce had declined slightly over the past 4 years.

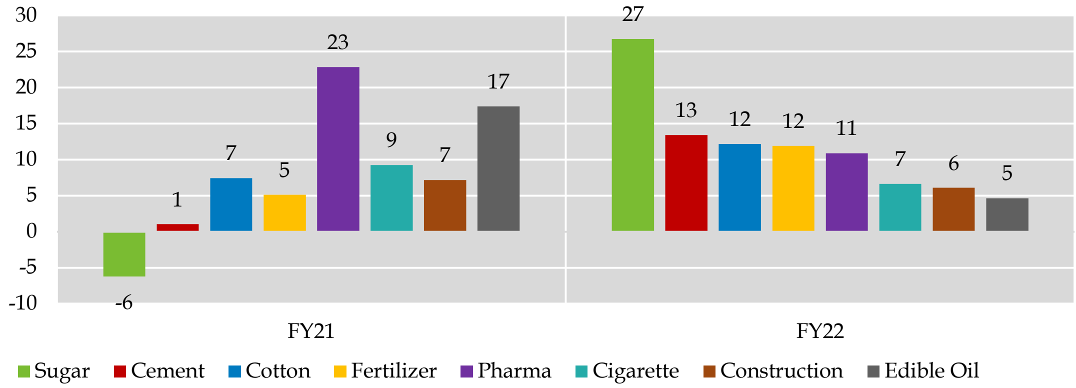
Wages in the industrial sector increased by 11.4 percent during Jul-Nov FY22 compared to 7.0 percent last year. Analysis of industries covered shows that impetus to growth came

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

[47] For monthly analysis of wages in Pakistan, an indicative nominal wage rate index is calculated based on available data on wages in the industrial and services sector. For the industrial sector, data on wages in some LSM sectors was available for Punjab (Cotton, Edible Oil, Cement, Fertilizer, Pharma, Sugar and Cigarette) from Monthly Survey of Industrial Production and Employment in the Punjab, a Bureau of Statistics publication. For the construction sector (part of industrial sector) and services sector wages (Tailoring, doctor clinic fee, dental services, hospitals services, mechanical services, household servant, cleaning and laundering, garbage collection, personal grooming services), monthly price survey data released by PBS was used. The wages of these 17 sub-groups were used to form a wage index using FY16 as the base year, which is the same for CPI. For the general price level, CPI is the most comprehensive index available on a monthly frequency.

**Growth in Wages of Industrial Sector**

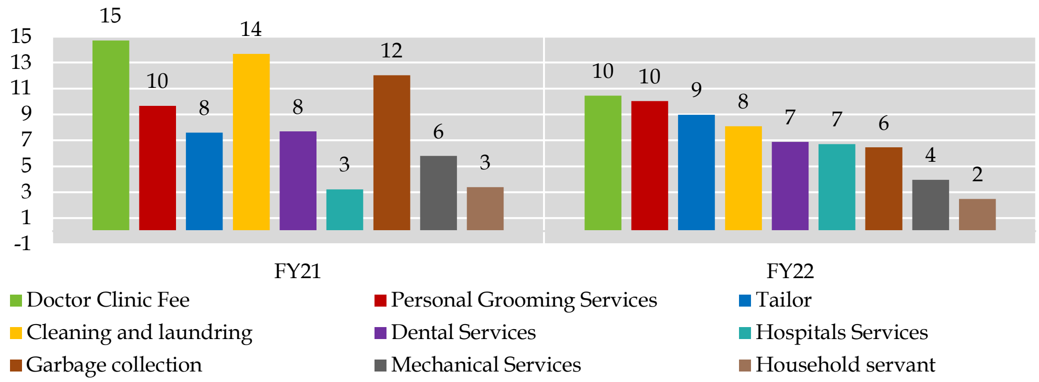
**Figure 2.22**




Source: Pakistan Bureau of Statistics, Bureau of Statistics -Punjab

**Growth in Wages of Services Sector**

**Figure 2.23**




Source: Pakistan Bureau of Statistics

from sugar, cotton, pharmaceutical and cement industries, whereas growth in the edible oil, fertilizer, construction and cigarette industries was rather subdued (**Figure 2.22**).

Available wage rate data for various occupations in the services sectors suggests that growth remained lackluster during Jul-Nov FY22. The index of services sector remuneration rose by 7.2 percent during the period compared to 8.8 percent growth last year. Fees charged by doctors, personal grooming services and tailors were higher than those charged by mechanics and household servants (**Figure 2.23**).