2 Economic Growth

As a result of policy-induced contractionary measures, flood damages and lower demand in the global markets, the economy experienced sharp slowdown during H1-FY23. In the agriculture sector, Kharif crops, such as rice, cotton and sugarcane reported production losses due to floods. The manufacturing industry faced broad-based contraction as eighteen out of twenty-two sectors registered negative growth. Textile, the largest component, followed by automobile, pharmaceutical, non-metallic minerals, petroleum, and construction-allied sectors majorly contributed in bringing about the decline in the large-scale manufacturing industry. Whereas, continuing their growth momentum, wearing apparel and furniture sectors lessened the magnitude of overall LSM contraction during H1-FY23. The services sector also corresponded to the reduction in agriculture and manufacturing production and remained subdued during the current review period. Moreover, the labor market data for industrial and services sectors, together with SBP Business Confidence Survey and Consumer Confidence Survey, all corroborated decrease in employment during the current review period.

2.1 Economic Growth

The growth momentum of the last two years was disrupted during H1-FY23. Both global and domestic factors played their part. The Russia Ukraine conflict, supply chain disruptions, high energy and raw material prices, monetary tightening by advanced economies, while leading to global downturn, also adversely impacted prices of raw materials and partly demand for Pakistan exports. In Pakistan, the situation was exacerbated by heavy flooding, supply chain disruptions, along with political uncertainty. The policy induced measures aimed at demand and import compression led to moderation in the manufacturing activity.

For agriculture, the H1-FY23 was particularly challenging largely owing to climate externalities. Pakistan witnessed a drought like situation in the beginning of the Kharif season (April 2022) followed by record monsoon rains, which resulted in heavy floods throughout the country. In addition, the high global gas prices caused higher fertilizer costs leading to suppressed fertilizer offtake during the review period. Consequently, important crops, such as, rice and cotton sustained production losses, as compared to last year. Within the important crops, rice suffered the most, as the intensity of flood damages was the highest in the rice crop zone. After rice, cotton reported the most losses (**Table 2.1**). Sugarcane reported relatively lower losses due to its resilience to flooding. Moreover, pulses such as moong and maash, along with chillies also witnessed a decline in production mainly due to a decrease in area under cultivation.

Affected Area - Major Crops **Table 2.1**

square km

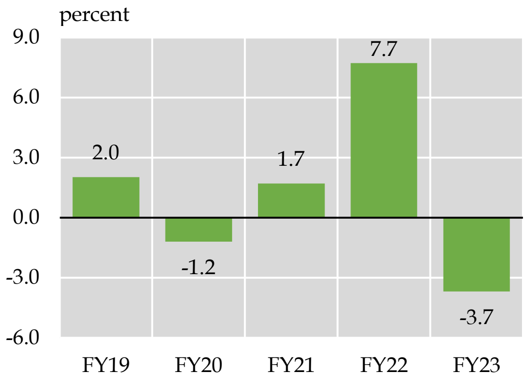
	Cultivated	Flooded Area	
		Total	Percent
Rice			
Sindh	11,900	7,043	59
Punjab	32,703	4,877	15
Cotton			
Sindh	7,637	1,048	14
Punjab	5,979	177	3
Sugarcane			
Sindh	3,016	361	12
Punjab	23,475	639	3

Note: Geospatial flood impact analysis conducted by FAO, August 01-31, 2022

Source: Food & Agriculture Organization

Large-Scale Manufacturing (LSM) was particularly affected by demand compression policies and measures as it experienced a sizeable contraction during H1-FY23 compared to a noteworthy growth in the same period last year (**Figure 2.1**). The downturn remained broad-based as eighteen out of twenty-two sectors registered contraction in their production in the current

LSM Growth in H1 **Figure 2.1**



Source: Pakistan Bureau of Statistics

review period. Textile, the largest component, remained the major drag. Following textile, automobile, pharmaceutical, construction-allied and food were other notable sectors to experience downturn in the manufacturing industry. Two noteworthy exceptions were wearing apparel and furniture industries which, owing to their product specific demand abroad, grew exceptionally high; partially offsetting the magnitude of contraction in LSM.

Losses in the agriculture sector and the contraction in the manufacturing sector had spillover impacts in the services sector during H1-FY23. Activities in the *wholesale and retail* trade sector slowed down, mirroring the contraction in commodity producing sector, along with the decline in imports. Furthermore, in line with the decreased economic activity, damages to infrastructure and increase in petroleum prices, activities in the transport sector also slowed down. *Food and accommodation* sector was negatively impacted by the disruption in tourist activities, caused by floods. Infrastructural damages to educational institutes and health facilities disrupted health and education services.

On the other hand, *banking and insurance* sector benefitted from the growth in assets of the banking sector. Similarly, indicators for *information and telecommunication* also showed a continuation of increased activity and profitability of the sector.

Contraction in manufacturing sector was also reflected in the labor market as employment in both industrial and services sectors registered a downturn. The latest SBP Business Confidence Survey (BCS) and Consumer Confidence Survey (CCS), also exhibited deterioration in sentiments about job creation in the labor markets for the past as well as in the next six months.

The widespread flash floods also affected the economic activity during H1-FY23. The impact was not confined to agriculture only, and was spilled over to the manufacturing and services sectors as well. In this backdrop, **Box 2.1** outlines recent floods damages and calls for developing a strategy for mitigating the risk emanating from climate change.

Box 2.1: FY23 Flood Losses - Latest Assessment[1]

The long spell of unprecedented monsoon rains and the subsequent flash floods in FY23, caused widespread devastation in Pakistan at a time when the country was grappling with various macroeconomic challenges. The floods inundated about 94 districts, mostly in the provinces of Balochistan, Sindh, and Khyber Pakhtunkhwa (KP), including 19 out of 25 poorest districts in the country. In the aftermath of these historic floods, millions of people, crops, livestock, essential infrastructure and human settlements stood severely affected.

More than 33 million people (approximately 15 percent population) were affected by the catastrophic floods with more than 1700 causalities recorded. The infrastructure of the country including 2.3 million houses, 13 thousand kilometers of roads, and more than 400 bridges, also sustained extensive damages due to which accessibility and connectivity to several flood-hit areas for rescue and relief operations was disrupted (**Table 2.1.1**). As per the latest estimates, the extreme floods and ensuing large-scale destruction witnessed by the country, has resulted in overall economic losses amounting to US$ 30 billion.[2]

Cumulative Losses in Floods[3] **Table 2.1.1**

roads in km; other indicators in number

Province/Region	Roads	Bridges	Houses	Livestock	Affected Population
Sindh	8,389	165	1,885,029	436,435	14,563,770
Balochistan	2,222	58	241,659	500,000	9,182,616
Punjab	877	15	67,981	205,106	4,844,253
KP	1,575	107	91,464	21,328	4,350,490
GB	33	61	1,793	609	51,500
AJ&K	19	33	555	792	53,700
Total	**13,115**	**439**	**2,288,481**	**1,164,270**	**33,046,329**

Source: National Disaster Management Authority

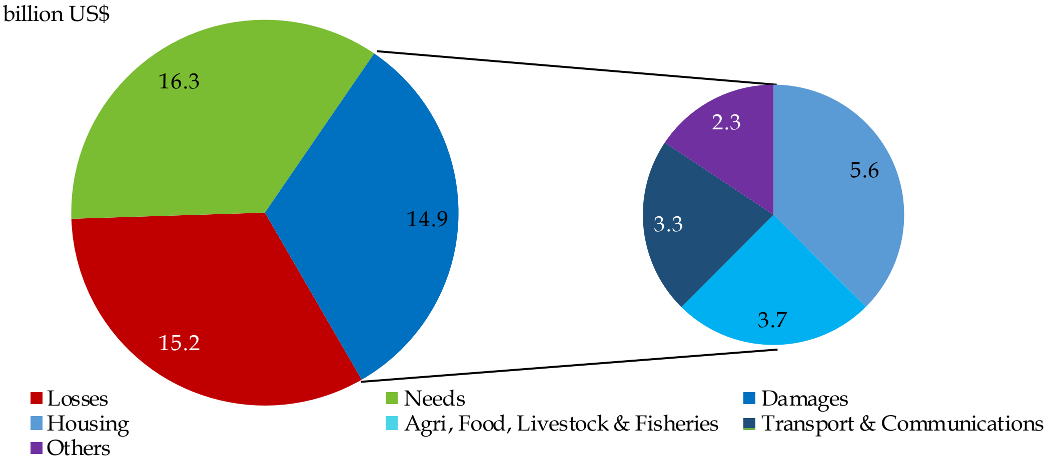
The record flooding undermined the growth prospects in all sectors of the economy. Specifically, the agriculture sector witnessed pronounced losses, emerging from damages to crops and livestock, which have led to slowdown in industry and services sector through various channels. Moreover, this has also raised concerns about food security situation in the country, necessitating import of food grains to meet the supply-demand gap. The estimates indicated adverse effects of heavy rainfalls on the production of important *kharif* crops. The flood inundation was the highest in the rice crop zone, followed by sugarcane and cotton. The loss in rice production took its toll on the exportable surplus, resulting in decline in the rice export volumes in the first half of FY23 as compared to same period last year. As a result of prolonged rainfall and water logging in major cotton producing areas, crop production remained prone to severe damages and recorded a 24.6 percent decline during H1-FY23. Thus, the availability of cotton to factories has already declined by 18 percent, compared to the previous year as of 15th September, 2022.[4] Moreover, the floods also impacted the area cultivated under the relatively resilient sugarcane crop; however, the decline in production remained contained as compared to other crops. The damages caused by floods also spilled over to *rabi* crops vis-à-vis delayed planting of wheat and oil seeds etc.

In the same vein, the livestock sector, that contributes almost 60 percent to the agriculture sector, remained highly vulnerable to floods. The significant loss of livestock caused shortages of meat, milk and other dairy products. This, along with the shortages of other perishable food commodities such as onions and tomatoes exacerbated food inflation.

The losses to crops, livestock and other rural infrastructure undermined the rural incomes, and had a dampening impact on domestic demand. Similarly, raw material shortages and supply chain disruptions affected various industries including textile, sugar, and leather.

The reduction in the output of agriculture and large-scale industry also impacted the services sector. Specifically, the growth in wholesale and retail services slowed down amid downturn in commodity producing sectors. The trade and transportation activities faced headwinds due to destruction of roads and bridges, causing disruptions in supply chains. Moreover, health and education services were affected by floods and recorded significant damages.

Flood Damages, Losses and Needs **Figure 2.1.1**



Source: Ministry of Planning, Development and Special Initiavtives

As reported by the Post Disaster Needs Assessment by Ministry of Planning, Development & Special Initiatives, the total damage caused by floods is estimated at PKR 3.2 trillion (US$14.9 billion), total loss at PKR 3.3 trillion (US$15.2 billion), and total needs at PKR 3.5 trillion (US$16.3 billion). Total damage and loss, together, account for the effects of the crisis. Whereas, total needs (for recovery and reconstruction) are estimated in terms of costs of replacement according to current prices and include a premium linked to building-back-better principles. Among the sectors that were mostly affected by the damage are housing at PKR 1.2 trillion (US$5.6 billion); agriculture, food, livestock, and fisheries at PKR 800 billion (US$3.7 billion); and transport and communications at PKR 701 billion (US$3.3 billion). The transport and communications sector has the highest reconstruction and recovery needs at PKR 1.1 trillion (US$5.0 billion); followed by agriculture, food, livestock, and fisheries at PKR 854 billion (US$4.0 billion), and housing at PKR 592 billion (US$2.8 billion) (**Figure 2.1.1**).

The changing rainfall patterns and the concomitant occurrence of extreme weather events in Pakistan, have increased the vulnerability of the country to climate change. It is likely that the area affected by floods in Pakistan is likely to increase in future on the back of more intense rainfalls and rapidly melting glaciers.[5] In this backdrop, Pakistan has to develop and adopt a multipronged strategy to meet the rising challenge of climate change.

[1]Based on NDMA and Post-Disaster Need Assessment by Ministry of Planning, Development & Special Initiatives
[2]Post-Disaster Need Assessment by Ministry of Planning, Development & Special Initiatives; www.pc.gov.pk/uploads/downloads/PDNA-2022.pdf
[3]NDMA Monsoon SITREP # 158 (June 14 – November 18, 2022); cms.ndma.gov.pk/storage/app/public/situation-reports/November2022/N2n1eEarMt6q6Rb8ZYwn.pdf
[4]Pakistan Central Cotton Committee (PCCC) "Consolidated statement of cotton arrivals in factories of Pakistan", 15th September 2022
[5]World Bank Group (WBG) and the Asian Development Bank (ADB) "Climate Risk Country Profile: Pakistan", 2022

2.2 Agriculture

In H1-FY23, agriculture sector faced headwinds owing to country wide torrential floods. The heavy monsoon rainfall during the months of June, July and August submerged almost one third of the country, thus resulting in severe crop losses.[1]

The 2022 floods coincided with the Kharif season. Consequently, all important Kharif crops sustained damages. Within the important crops, compared to last year, rice reported the highest losses, as flood inundation was the highest in rice producing zones followed by cotton. Sugarcane and maize reported relatively lower losses. Damages to important crops and livestock, along with supply chain disruptions caused food shortages and worsened the food security situation by limiting the affordability and availability of food.[2,3] The damages were more pronounced in the province of Sindh (**Table 2.2**).[4]

Flood - Highest Impacted Districts **Table 2.2**

square km

District	Affected Area	Percent of Total Area
Flood Extent in Sindh		
Kambar Shahdad Kot	3,339	60%
Badin	2,853	43%
Dadu	2,278	28%
Jacobabad	2,261	84%
Sujawal	1847	21%
Sindh	**25, 440**	**18%**
Flood Extent in Punjab		
Rajanpur	1,666	13%
Dera ghazi Khan	1,013	9%
Sheikhupura	901	25%
Sialkot	824	27%
Bahawalpur	823	3%
Punjab	**12,820**	**6%**

Note: Geospatial flood impact analysis conducted by FAO, August 01-31, 2022

Source: Food & Agriculture Organization

On the input side, unprecedented monsoon rainfall adversely impacted production of important crops. Moreover, Fertilizer offtake was dampened by high prices. To facilitate recovery, the government channeled its support through the Kissan package by enhancing credit disbursements and providing subsidized loans to farmers in flood affected areas. To provide support to subsistence and landless farmers three schemes were launched: markup waiver scheme for subsistence farmers, GoP markup subsidy scheme and interest free loans for landless farmers.

Inputs

Water Availability

Heavy rainfall resulted in flash floods

The weather conditions remained unfavorable during Kharif season as a drought like situation was followed by heavy rains that caused flooding. In terms of water availability, the Kharif season began by witnessing the second driest month since 1961 – as national rainfall for the month of

[1] Source: Ministry of Planning Development and Special Initiatives (2022). Pakistan Floods 2022: Post Disaster Need Assessment Supplemental Report. Islamabad: Ministry of Planning Development and Special Initiatives.

[2] As per post disaster needs assessment, around one million livestock are estimated to have perished.

[3] As per PBS, urban food inflation was higher at 30 percent in H1-FY23 as compared to 10.6 percent in H1-FY22

[4] The province accounts for 16, 42, 23, and 31 percent production of wheat, rice, cotton and sugarcane respectively. Source: International Centre for Integrated Mountain Development and Pakistan Agricultural Research Council (2022). The 2022 Pakistan Floods: Assessment of Crop Losses in Sindh Province Using Satellite Data. Kathmandu: ICIMOD and Islamabad: PARC

April was 74 percent, largely below normal.[5, 6] However, this situation changed in the following months as the national rainfall during July remained 180 percent higher than average. Rainfall in Sindh was significantly above normal during the month of August and remained the highest in the last 62 years (**Figure 2.2**).[7]

In line with the rainfall patterns, irrigation water availability remained lower in the start of the season. However, towards the end of the season lesser irrigation water flows were required due to the heavy monsoon rainfalls and floods.[8] Overall, irrigation water supplies remained lower than last year. **(Figure 2.3)**.

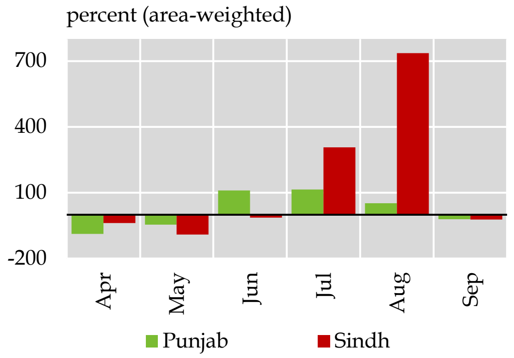
Fertilizer

Fertilizer offtake shrank due to higher prices

During H1-FY23, fertilizer offtake remained much lower for kharif compared to last year. Urea along with DAP offtake contracted by 1.3 and 44.7 percent respectively, as compared to last year. **(Figure 2.4a and 2.4b)**.The decline in fertilizer offtake can be attributed to lower demand from farmers as agricultural land remained inundated during Kharif.

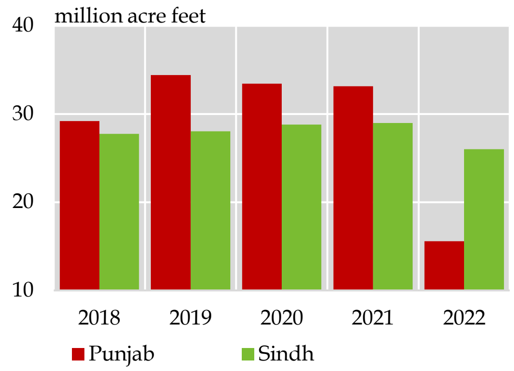
Moreover, as Pakistan relies mostly on imported supply of DAP, hence, domestic prices move in tandem with the global prices. A confluence of factors, such as, production cutbacks in ammonia and supply disruptions from Russia-Ukraine conflict increased the prices (**Figure 2.5**). Furthermore**,** the availability of DAP also remained strained as China imposed a ban on DAP exports during the review period, resulting in considerably lower imports of DAP from China (**Figure 2.6)**.[9]

Departure of Rainfall from Normal* during *Kharif* 2023 **Figure 2.2**



* Normal refers to area-weighted rainfall during 1981-2010
Source: Pakistan Meteorological Department

Irrigation Water Releases during *Kharif* (Apr-Sep) **Figure 2.3**



Source: Indus River System Authority

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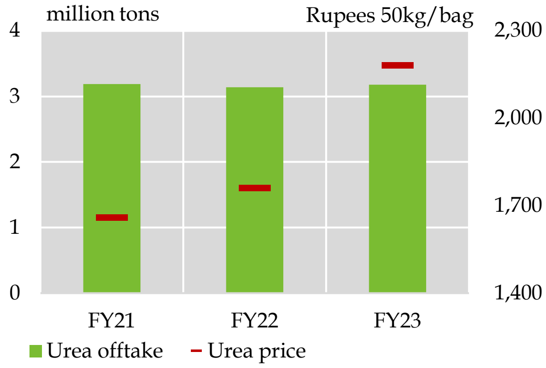
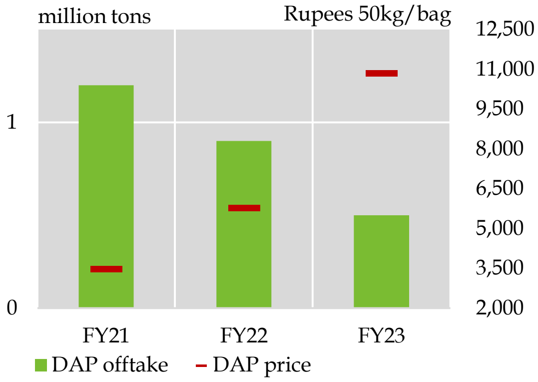
[5] During Kharif sowing season begins from April-June and is harvested during October-December. Source: Pakistan Economic Survey 2017-18
[6] Source: Pakistan's Monthly Climate Summary April 2022, Pakistan Meteorological Department
[7] As per estimates by Pakistan Meteorological Department, August was recorded the wettest month since 1961.
[8] Source: SUPARCO Crop Situation and Forecast Report, Volume XII (Issue 10), September 2022
[9] Pakistan imports most of its DAP fertilizer from China. Source: CPFTA Import Analysis, Trade Development Authority of Pakistan, 2022

Urea Offtake and Price During *Kharif* (Apr-Sep) **Figure 2.4a**



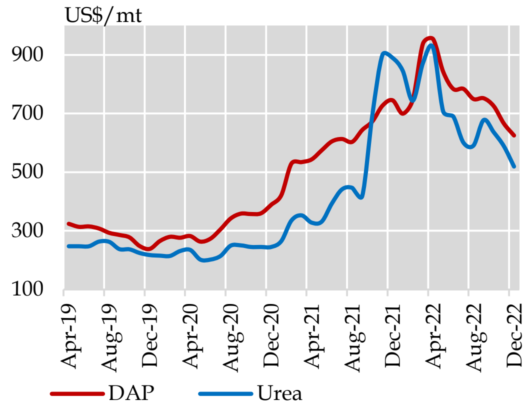
Source: National Fertilizer Development Centre

DAP Offtake and Price During *Kharif* (Apr-Sep) **Figure 2.4b**



The prices of urea also increased due to the increasing cost of production but the offtake did not witness a significant decline, as urea still remained relatively affordable compared to DAP. To encourage production, subsidy disbursements to fertilizer sector increased to Rs 6.7 billion in H1-FY23, up from Rs 6 billion in H1-FY22.

Global DAP & Urea Prices **Figure 2.5**



Source: World Bank

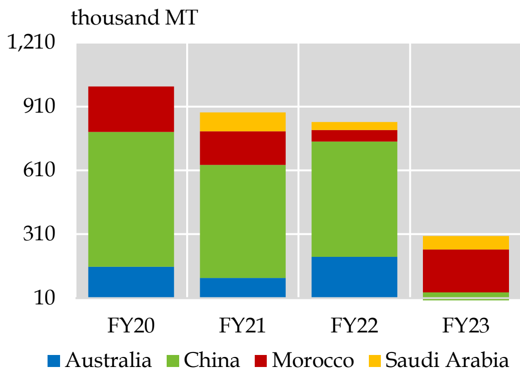
Agriculture Credit Disbursements

Agriculture credit disbursements expanded to keep up the high cost of production

Agriculture credit disbursements for H1-FY23 expanded by 31 percent - to Rs 842 billion in H1-FY23 as compared to 640.8 billion during the same period last year. Majority of the disbursements were production loans for the farm sector, followed by the livestock and poultry segment in the Non-farm sector **(Table 2.3)**.

In the aftermath of floods, an increase in the production loans was a consequence of the rising cost of production, as well as the tight liquidity condition of the farmers. Loans during Q2-FY23 remained higher as compared to Q1-FY23, factoring in the

Source-wise DAP Imports to Pakistan **Figure 2.6**



Source: Pakistan Bureau of Statistics

Agriculture Credit Disbursements **Table 2.3**

billion Rupees

	Q1-FY22	Q2-FY22	H1-FY22	Q1-FY23	Q2-FY23	H1-FY23
Farm sector						
A. Production	136.3	158.4	294.7	188.6	231.1	419.7
B. Development	8.1	16.8	24.9	8.4	16.9	25.3
Tractor	*1.7*	*2.9*	*4.6*	*0.9*	*1.4*	*2.3*
C. Total farm sector (A+B)	**144.4**	**175.2**	**319.6**	**197**	**248**	**445**
Non-farm sector						
D. Livestock/dairy	76.3	82.4	158.7	94.3	103	197.3
E. Poultry	48.5	55.5	104.3	65.7	68.8	134.5
F. Other	8.9	14	22.9	15.1	16	31.1
G. Total non-farm sector	147.5	173.7	321.2	186.7	210.8	397.5
Total agriculture (C+G)	**291.9**	**348.9**	**640.8**	**383.8**	**458.6**	**842.4**

Source: State Bank of Pakistan

impact of flood related losses. In the non-farm sector, poultry sector disbursements increased by 28.8 percent mainly due to the rising cost of inputs such as poultry feed.

To encourage production and keep up with the rising cost of inputs, SBP revised the indicative credit limits for important crops in August 2022 (**Table 2.4**). Schemes launched by the State Bank of Pakistan, such as, the scoring model and champion banks also helped ensure adequate provision of credit to

Per Acre Indicative Agriculture Credit Limits for Crops **Table 2.4**

Rupees per acre

Crop	Existing (Jan 2022)	Revised (Aug 2022)
Wheat	60,000	100,000
Cotton	70,000	95,000
Rice	75000	102,000
Sugarcane	105,000	142,000
Maize (Hybrid)	78,000	106,000
Maize	65,000	88,000

Source: State Bank of Pakistan

farmers. To assist farmers in the flood affected areas, GoP introduced the Kissan Package which enabled restructuring and rescheduling of agricultural loans.[10]

Under the Kisaan Package, markup waiver scheme for subsistence farmers, GoP markup subsidy scheme for agriculture sector was announced. In addition, interest free loans and risk sharing schemes for farmers in affected flood areas were launched, to facilitate the revival of agriculture sector.[11]

Output

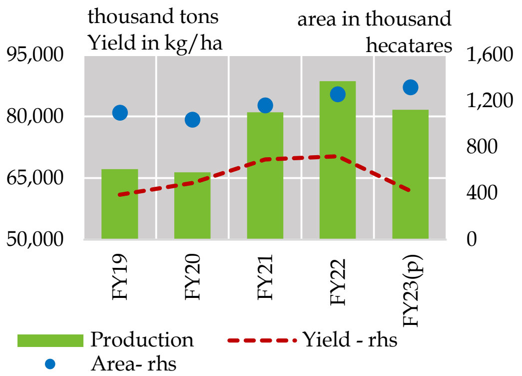
Sugarcane

Sugarcane remained relatively resilient to floods

After a bumper sugarcane crop in FY22 of 88.6 million tons, sugarcane production for FY23 is estimated to be at 81.6 million - 7.9 percent lower than last year **(Figure 2.7).** The

[10] Source: State Bank of Pakistan Press Release dated December 22, 2022
[11] Source: AC&MFD Circular No. 03 of 2022, State Bank of Pakistan

Area and Production of Sugarcane **Figure 2.7**



Source: Federal Committee on Agriculture (MNFSR), and Pakistan Bureau of Statistics

area under sugarcane crop witnessed an increase, as farmers continued to substitute cotton crop with sugarcane, due to better returns.[12]

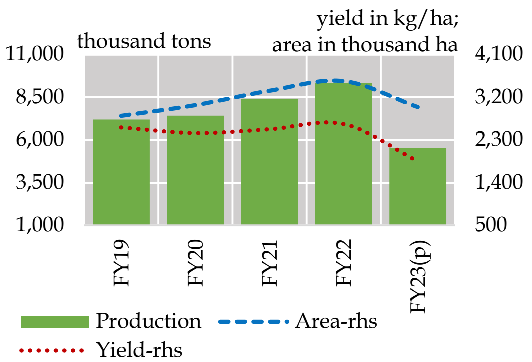
However, despite an increase in area during FY23, production of sugarcane crop declined because of the damage caused by floods. The decline is comparatively lower than other crops as the sugarcane is fairly resilient to flooding. In Sindh, floods damaged 12 percent of the area cultivated under sugarcane, but the estimated damages were lower than cotton and rice, as sugarcane is mostly grown in the northeastern districts, where flood inundation remained relatively lower.[13]

Rice

Rice crop suffered the most damages due to floods

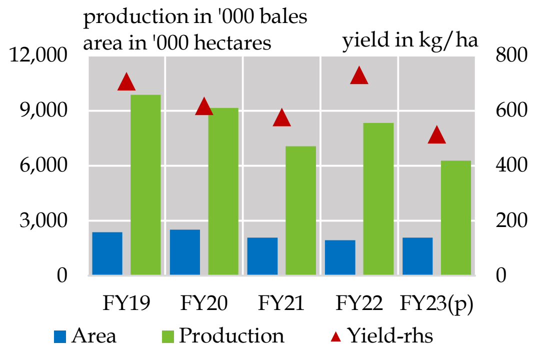
Production of rice crop declined by 40 percent as compared to last year **(Figure 2.8).** Rice crop faced headwinds as major rice producing areas in Punjab and Sindh remained flooded prior to harvest.[14] The damages were mainly concentrated in Sindh, which contributes almost 42 percent of the total rice production of the country. In Sindh, production went down by 88 percent, as the main rice producing districts, such as,

Area, Yield and production of Rice **Figure 2.8**



Source: Federal Committee on Agrictltire (MNFSR), and Pakistan Bureau of Statistics

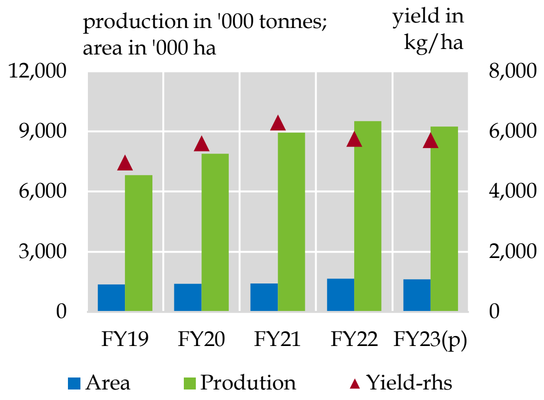
Production, Yield and Area of Cotton **Figure 2.9**



Source: Federal Committee on Agrictltire (MNFSR), & Pakistan Bureau of Statistics

[12] For more details see SBP Annual Report on the State of Pakistan's Economy 2021-22
[13] The 2022 Pakistan Floods: Assessment of Crop Losses in Sindh Province Using Satellite Data. Kathmandu: ICIMOD and Islamabad: PARC
[14] Source: A Rapid Geospatial Impact Analysis of Floods in Pakistan (2022), Food and Agriculture Organization

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



Source: Federal Committee on Agricutlture (MNFSR) & Pakistan Bureau of Statistics

Badin and Kambarshahdad Kot remained inundated.[15] Moreover, rice production in Punjab declined by 14 percent due to floods. The production losses has also negatively affected rice exports (see **Chapter 5 External Sector**).

Cotton

Production of cotton crop declined due to unfavorable weather conditions

The estimated cotton production stood at 6.3 million bales in FY23 as compared to 8.3 million bales last year – exhibiting a decline of 25 percent **(Figure 2.9)**. Cotton production reported losses due to floods, as almost 14 percent of area cultivated under cotton was damaged in Sindh.

Cotton sustained pressures since the beginning of the season due to lower water availability and heat stress. Later in the season, floods compounded the adverse impacts. In the aftermath of floods, high humidity proved conducive to pest attacks, such as pink bollworm.[16] In line with the trend, cotton arrivals have also decreased significantly. As reported by Pakistan Central Cotton Committee (PCCC), cotton arrivals declined by almost 40 percent in December 2022, adversely impacting the textile sector and undermining cotton exports.

Maize

Maize crop suffered the least damages

Maize production for FY23 was estimated to be 9.2 million tons, as compared to 9.5 million tons last year- reflecting a flood related decrease of almost 3 percent over last year **(Figure 2.10)**. Among important crops, maize production for Kharif FY23 suffered the least damages, as most maize producing areas were not impacted by floods. Maize is a multipurpose crop, and has gained popularity in the last two decades, due to its vast usage for food, feed and fodder.[17]

Wheat

For *Rabi* FY23, the wheat production target was set at 28.4 MMT from an area of 9.3 million hectares (**Table 2.5**) by the government. The wheat production target for Punjab has been fixed at 21 million tons, while Sindh's target has been fixed at 4 million tons. To encourage farmers, Punjab and Sindh governments have fixed Minimum Support Price (MSP) of Rs. 3000

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[15] Source: The 2022 Pakistan Floods: Assessment of Crop Losses in Sindh Province Using Satellite Data. Kathmandu: ICIMOD and Islamabad: PARC

[16] Source: SUPARCO Crop Situation and Forecast Report, Volume XII (Issue 10), September 2022

[17] Source: Pakistan Economic Survey 2020-2021

Wheat Crop **Table 2.5**

area in million hectares; production in million MT

	Area		Production	
	FY22	FY23(T)	FY22	FY23(T)
Punjab	6.6	6.7	20.0	21.0
Sindh	1.2	1.1	3.8	4.0
KP	0.8	0.9	1.4	1.8
Baluchistan	0.5	0.5	1.2	1.6
Pakistan	**9.1**	**9.3**	**26.4**	**28.4**

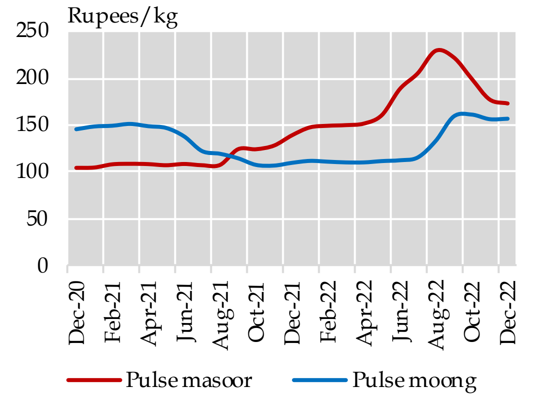
T: target

Source: Federal Committee on Agriculture, Pakistan Bureau of Statistics

and 4000 per 40 kg respectively to encourage wheat production.[18]

As wheat is a widely used staple in the local diet, considerable demand and supply gaps exist. As of FY23 demand for wheat consumption is estimated to be at 30.79 million metric tons, as per estimates by MNFSR – whereas, in last year, production stood at 26.4 million metric tons – showing a shortfall of almost 3 million metric tons from the consumption requirements. To meet this shortfall Pakistan has been importing wheat for the last two years. In FY21 wheat imports stood at 3.6 million tons, whereas in FY22, 2.2 million tons of wheat was imported.

Prices of Moong and Maash **Figure 2.11**



Source: Pakistan Bureau of Statistics

Minor Crops

Production of minor crops declined, resulting in higher prices

During FY23, production of kharif minor crops such as moong, mash and chillies also declined by 30 percent, 36 percent and 54 percent respectively as compared to last year mainly due to a decline in area under cultivation. Area declined due to heavy rains during the sowing season. In the aftermath of floods, their prices remained elevated (**Figure 2.11**)

Within minor crops, the FY23 Rabi season targets for onion and tomatoes look for an increase in the area and production. Furthermore, target for potato crop is set lower than its output for FY22, as its bumper production resulted in surplus. Targets for area and production of gram are also enhanced to meet the growing demand for pulses. The increase was particularly significant in gram as its area and production is targeted to increase by 14 and 75 percent respectively (**Table 2.6**).

2.3 Large-scale Manufacturing

LSM contracted by 3.7 percent during H1-FY23 down from an expansion of 7.7 percent in the corresponding period last year. This reflects the impact of tight monetary conditions, lower PSDP spending, imports compression measures, and increase in power tariffs and fuel prices along with lower demand in the domestic as well as global markets.

[18] Source: www.senate.gov.pk

Minor Crops (*Rabi*) **Table 2.6**

area in '000 hectares; production in '000 tons; growth in percent

	FY22 Output		FY23 Target		Growth	
	Area	Production	Area	Production	Area	Production
Potatoes	313	7,937	238	6,029	-23.9	-24.0
Onion	141	2,108	162	2,422	14.9	14.9
Gram	867	319	989	560	14.1	75.5
Tomatoes	50.3	586	50	622	-0.6	6.1

Sources: Federal Committee on Agriculture (MNFSR) and Pakistan Bureau of Statistics

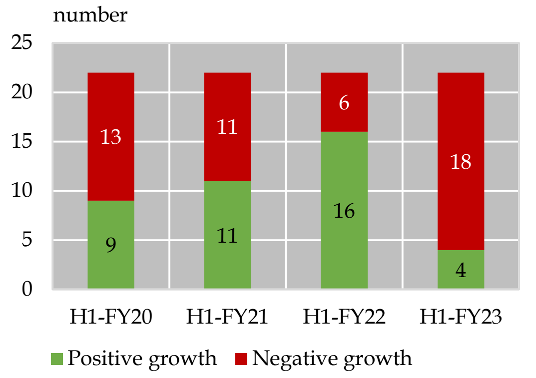
With a few notable exceptions, the LSM observed a broad-based downturn during H1-FY23, with 18 out of 22 sectors witnessing contraction, compared to 6 sectors in the same time last year and an average of 12 sectors in the corresponding period of the previous three years **(Figure 2.12).**

Despite decline in exports, the export-oriented sectors tracked by LSM index, supported the manufacturing industry during H1-FY23. Segregating the exports-oriented sectors, the magnitude of contraction worsened to 9.9 percent during H1-FY23 against an expansion of 6.1 percent in the corresponding period last year (**Figure 2.13**).[19]

The cumulative contraction in LSM can be attributed to textile followed by automobiles, pharmaceuticals, non-metallic mineral products, and coke & petroleum products (**Table 2.7**). Whereas, the wearing apparel and furniture industries continued their growth momentum, which lessened the magnitude of the LSM decline.

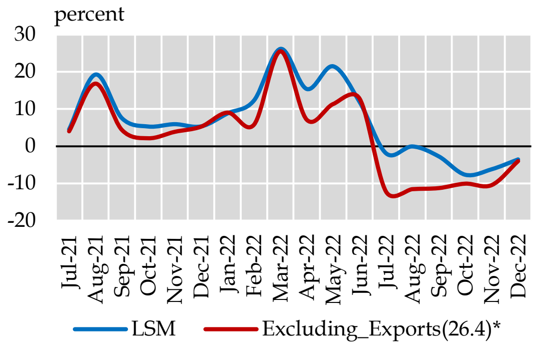
Textile followed by automobile, the largest contributors, contracted by 13.1 and 30.2 percent, respectively, during H1-FY23, against an expansion of 3.5 and 68.2 percent in the same period last year. Moreover, a sizable portion of the overall decline in LSM was also contributed by the decline in pharmaceutical, non-metallic, and petroleum

Positive and Negative Growth Sectors in LSM **Figure 2.12**



Source: Pakistan Bureau of Statistics

Growth in LSM and LSM--Excluding Export-Oriented Sectors **Figure 2.13**



*weight in parentheses

Source: Pakistan Bureau of Statistics

[19] The tentative export-oriented sectors include textile, wearing apparel, furniture, and leather products together with football and electric fans as the sub-sectors.

Growth and Contribution of Major LSM Sectors **Table 2.7**

percent

		Growth		Contribution	
Sectors	**wt.**	**H1-FY22**	**H1-FY23**	**H1-FY22**	**H1-FY23**
LSM	**78.4**	**7.7**	**-3.7**	**7.7**	**-3.7**
Food	10.7	1.2	-2.6	0.2	-0.4
Beverages	3.8	5.0	-8.3	0.2	-0.4
Tobacco	2.1	21.6	-23.5	0.5	-0.6
Textile	18.2	3.5	-13.1	0.8	-2.8
Yarn	*8.9*	*0.8*	*-14.2*	*0.02*	*-1.4*
Cloth	*7.3*	*0.3*	*-7.2*	*0.01*	*-0.6*
Wearing apparel	6.1	20.4	46.6	1.6	4.1
Paper & board	1.6	17.3	-2.8	0.4	-0.1
Coke & petroleum products	6.7	0.7	-11.1	0.1	-0.8
Chemical products	6.5	3.3	-1.1	0.3	-0.1
Pharmaceutical products	5.2	-5.0	-21.6	-0.3	-1.2
Non-metallic mineral products	5.0	1.8	-11.7	0.1	-0.9
Iron & steel products	3.4	18.4	-2.1	0.8	-0.1
Electrical equipment	2.0	-3.8	-1.0	-0.2	0.0
Automobiles	3.1	68.2	-30.2	2.0	-1.4
Furniture	0.5	569.1	105.5	1.2	1.4

Source: Pakistan Bureau of Statistics

output. Meanwhile, on the back of product-specific external demand, the wearing apparel and furniture sectors expanded by 46.6 and 105.5 percent during H1-FY23. Consequent to the administrative increase in tariffs and fuel prices, the overall inputs cost as reflected from Wholesale Price Index (WPI) surged from 21.5 percent in the same period last year to 34.1 percent in the current review period. Similarly, the rising financial cost owing to tight monetary conditions led the decline in demand for bank borrowing by the manufacturing sector from Rs 674 billion in the last year to Rs 502.5 billion during the current review period.[20]

Moreover, amid insufficient foreign exchange inflows and escalating pressure on foreign exchange reserves and exchange rate, the temporary restrictions on importing raw materials also impeded the manufacturing activities during the current period. Lower demand owing to spike in energy prices in the global markets, together with China's Covid policy of zero-tolerance reduced the country's exports during H1-FY23.[21]

Textile

Exports reduction coupled with flood damages dragged down the textile industry

Textile sector, the largest component of manufacturing industry, registered a contraction of 13.1 percent during H1-FY23 compared to an expansion of 3.5 percent in the corresponding period last year. The production of yarn, cloth and woolen blankets, representing 94 percent of textile sector, contracted by 14.2, 7.2 and 55.0

[20] In addition to 675 bps increase during FY22, the SBP raised policy rate by 225 bps during H1-FY23.
[21] The Baltic Dry Index (BDI) measuring demand for commodities and raw material saw 56.0 percent decrease during H1-FY23.

Production of Textile and Wearing Apparel Industry **Table 2.8**

quantity in million MT; growth in percent

	Weight	Cumulative Quantity			Growth	
		H1-FY21	H1-FY22	H1-FY23	H1-FY22	H1-FY23
Yarn	8.9	1.7	1.7	1.5	0.8	-14.2
Cloth*	7.3	523.8	525.3	487.5	0.3	-7.2
Jute goods	0.3	0.03	0.03	0.03	-9.7	5.6
Woolen blankets**	0.9	32.4	46.0	20.7	41.8	-54.9
Wearing apparel***	6.1	18.0	21.7	31.8	20.4	46.6

*million square meters, **millions, ***million dozen

Source: Pakistan Bureau of Statistics

percent, respectively during H1-FY23 against a growth of 0.8, 0.3 and 41.8 percent in the same time last year (**Table 2.8**). As reported by PCCC, owing to flood damages, cotton arrivals decreased significantly which, had adverse effects on the production of overall textile sector.

Following the China's zero-Covid policy and consequent reduction in demand undermined the textile demand from the export sector. Specifically, the quantum exports of cotton yarn and cotton fabric fell by 42.5 and 25.4 percent during H1-FY23, respectively. In addition, exports of bedwear and towels declined by 26.3 and 16.5 percent, respectively. Moreover, sharp rise in electricity tariffs and fuel prices, together with tight monetary condition also remained the important factors leading to contraction in the textile sector.

In addition to 675 bps increase in FY22, further hike of 225 bps in the policy rate in H1-FY23 along with SBP announcement of linking Export Financing Scheme (EFS) and Long-term Financing Facility (LTFF) to the policy rate also resulted into upsurge in the borrowing cost of textile sector.[22] Afterward, manifesting the downturn in textile production, the working capital loans to the textile sector saw reduction to Rs 137.3 billion during H1-FY23 from Rs 260.1 billion in the same period last year.[23]

Wearing Apparel

On the back of garments exports, wearing apparel continued its growth momentum

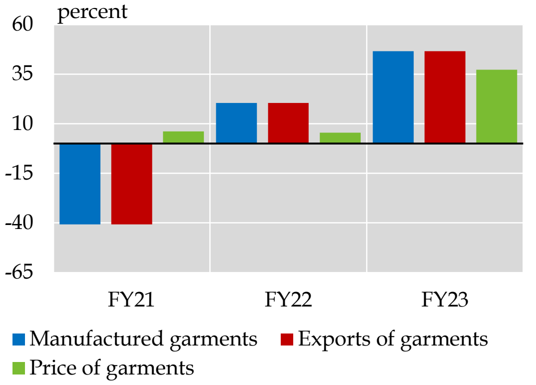
Maintaining its growth momentum, the production of wearing apparel sector recorded an expansion of 46.6 percent during H1-FY23, compared to a growth of 20.4 percent in the same period last year (**Figure 2.14**). The sector benefited from higher exports volumes largely owing to higher demand in traditional market and shifting orders from China to Pakistan (see **Chapter 5 - External Sector**).[24] This was despite a sharp increase in input prices, reflected from 37.2 percent increase in WPI of the wearing apparel sector during H1-FY23 compared to 5.5 percent in the same period last year. To cope with the rising cost, the sector expanded

[22] Source: IH&SMEFD Circular No. 6, 7, 11 and 13 of 2022.

[23] The textile sector, under the EFS and LTFF, retired Rs 18.8 billion and Rs 2.1 billion respectively during H1-FY23 compared with borrowing of Rs 67.9 billion and Rs 64.6 billion in the same period last year.

[24] It is pertinent to mention that unlike spectacular growth in volume, the exports of wearing apparel in terms of US dollars expanded only by 0.1 percent during the current review period.

Growth in Exports, Production & Prices of Garment Sector in H1 **Figure 2.14**



Source: Pakistan Bureau of Statistics

borrowing for working capital during H1-FY23.

Food

Significant growth in sugar sub-sector moderated the decline in food sector.

Food sector, the second largest component of LSM, shrank by 2.6 percent during H1-FY23, against an expansion of 1.2 percent in the same period last year. The reduction in wheat & rice milling remained the prime reason leading to the decline of overall food sector during H1-FY23 (**Figure 2.15**). Owing to flash floods, the rice crop sustained damages hence, its production and exports cutback by 40.0 and 23.0 percent respectively.

Despite a delayed sugarcane crushing, the production of sugar sub-sector posted healthy growth of 14.7 percent during H1-FY23 compared to 4.0 percent decline in the corresponding period last year.[25] As a result, the overall decline of food industry was moderated during the period. Similarly, the output in cooking oil and vegetable ghee subsector contributed positively during the current review period. The increase in the output of cooking oil and vegetable was attributed to rise in imports of soyabean and palm oil during H1-FY23.

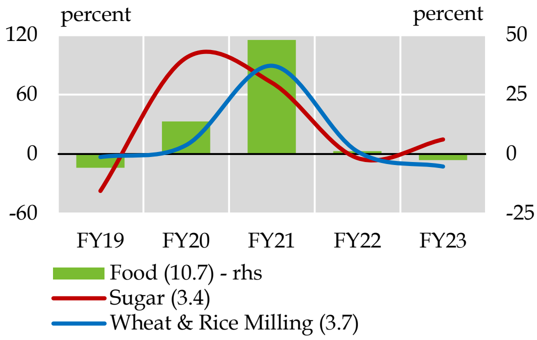
Coke & petroleum

Spike in prices and lower demand dwindled the production in petroleum sector

Petroleum sector also witnessed a decline of 11.1 percent during H1-FY23, compared to an expansion of 0.7 percent in the same period last year. With the exception of increase in jet fuel oil, all sub-sectors of petroleum industry recorded considerable reduction.

Subsequent to the administrative increase in fuel prices and higher depreciation of PKR, the lower demand for petroleum products weighed on refining activity. According to Oil Companies Advisory council (OCAC), the sale of petroleum products plummeted by 20.6 percent during H1-FY23.

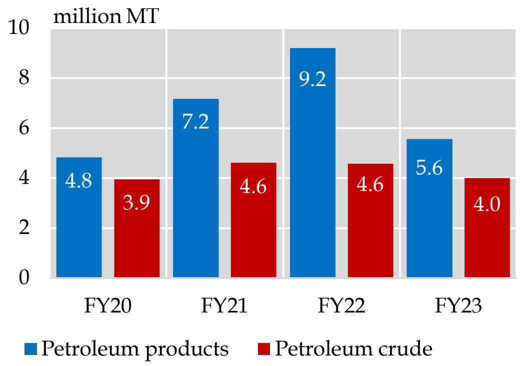
Growth of Selected Food Sector Components in H1* **Figure 2.15**



* The QIM weight of the Food sector and selected sub-sectors is given in parentheses.
Source: Pakistan Bureau of Statistics

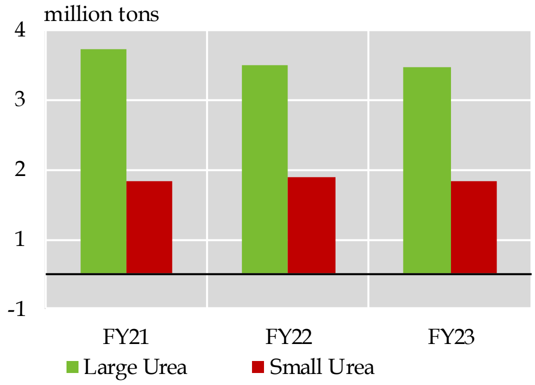
[25] The reported deadlock between the government and millers over exports of sugar delayed sugarcane crushing.

Import Volume of Petroleum Products in H1 **Figure 2.16**



Source: Pakistan Bureau of Statistics

Urea Production by Large & Small Units in H1 **Figure 2.17**



Source: Pakistan Bureau of Statistics

Furthermore, the international oil prices surged, on the average to 94 US$ per barrel during H1-FY23 from 76 US$ per barrel in the corresponding period last year, which further dented demand.[26] As a result, import quantum of petroleum products and crude dropped down by 39.6 and 12.5 percent respectively (**Figure 2.16**).[27]

Fertilizer

The fertilizer sector recorded contraction of 2.0 percent during H1-FY23, compared to a decline of 4.5 percent in the same period last year. Urea production fell by 2.0 percent during H1-FY23, compared to a 4.0 percent contraction in the same period last year (**Figure 2.17**). Moreover, the imported fertilizer declined by 21.3 percent which was restricted to 0.7 million metric tons during H1-FY23 against 0.9 million metric tons in the same period last year.

Lower demand from flood affected agriculture land, prolonged turnarounds of fertilizer companies, disruption in gas supply and escalated gas prices were the main factors responsible for reduction in urea production during the review period.

Pharmaceuticals

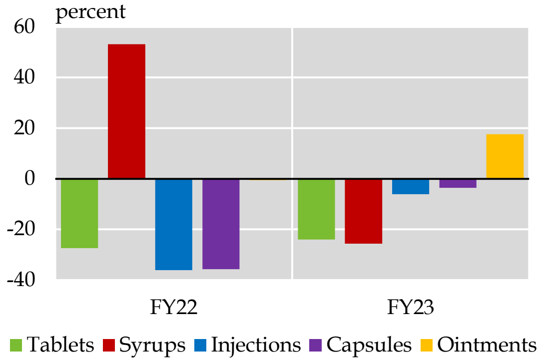
Both domestic and global factors caused notable decrease in pharmaceutical industry

The pharmaceutical sector experienced a decline of 21.6 percent during H1-FY23, compared to 5.0 percent decrease in the same period last year. Tablets output, having more than 50 percent share in the pharmaceuticals, fell by 24.0 percent in H1-FY23 compared to a contraction of 27.4 percent in the same period last year (**Figure 2.18).** Moreover, the quantum of imported medicinal products also registered 12.8

[26] In H1-FY23, the average price of Brent oil and Arab light rose from 76.4 and 77.1 dollars per barrel, respectively, to 93.0 and 98.1 US dollars per barrel. Source: IMF Commodity Prices, accessed from Bloomberg

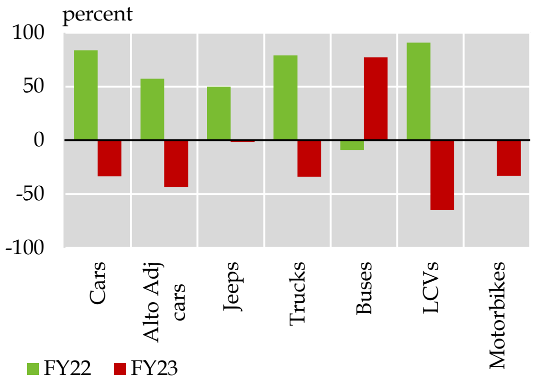
[27] It is important to mention that even though the import quantum of petroleum products and crude respectively dwindled by 39.6 and 12.5 percent, however, owing to the price impact, the value of petroleum products in terms of US dollars decreased only by 17 percent. Whereas, the import value of crude increased by 15.2 percent.

Growth in production of Medicinal products in H1 **Figure 2.18**



Source: Pakistan Bureau of Statistics

Growth in Production of Automobile Sector in H1 **Figure 2.19**



Source: Pakistan Automotive Manufacturers Association

percent decline during H1-FY23 against a growth of 150.0 percent in the same period last year.

Primarily, heavy reliance on imported raw materials, the escalated prices of medicinal raw materials and substantial depreciation of PKR led to contraction in pharmaceutical production during H1-FY23. The regulated nature of medicine prices remained another constraint.

Automobile

Inflationary pressure and tight policy regulations resulted into considerable fall in production of automobile sector

The automobile industry also posted 30.2 percent contraction during H1-FY23, compared to 68.2 percent growth in the same period last year (**Figure 2.19**). The reduction in production of automotive industry can be attributed to both supply and demand side factors. The primary reason on demand side was customers cutback demand owing to surge in cars and fuel prices. As reported by PAMA, the auto sale plummeted by 40.0 percent in the current review period (**Figure 2.20**). Another factor attributable to demand side is the SBP tightening prudential requirements for auto loans (see **Chapter 3 - Monetary Policy and Inflation**).

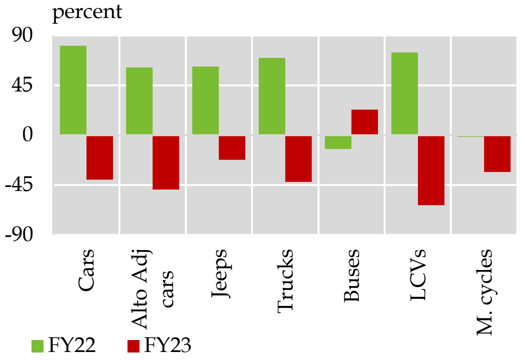
On the supply side, policy-induced import restrictions and significant depreciation of PKR also contributed in imports reduction of completely knocked down (CKD) and semi knocked down (SKD) automobile kits during the review period **(Figure 2.21)**.

Construction-allied industries

Dampened demand in local and global markets weighed down construction-allied industries

With a limited fiscal space, the government discontinued almost all subsidized lending schemes including *Mera Pakistan Mera Ghar* from the start of the current financial year. Resultantly, the flow of house building finance shrank to retirement of Rs 1.0 billion during H1-FY23 from Rs 52.7 billion uptick in the same period last year. The growth in PSDP spending also decelerated to 4.5 percent during H1-FY23 from 40.2 percent in the same period of last fiscal year, which led

Growth in Sale Automotbile Products in H1 **Figure 2.20**



Source: Pakistan Automotive Manufacturers Association

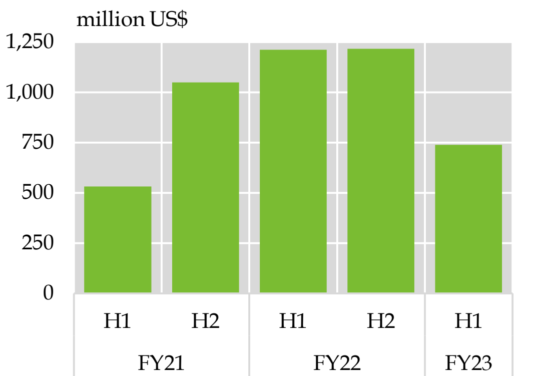
to slowed down activity on large-scale infrastructure projects.

Cement

Downtrend in construction activity translated to lower cement production

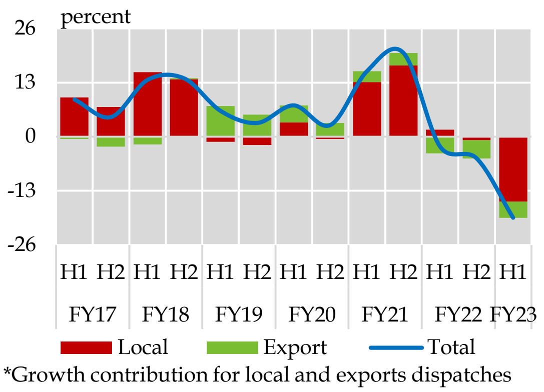
The output in cement sector contracted by 15.1 percent during H1-FY23, compared to 0.92 percent decline in the same period last year. According to All Pakistan Cement Manufacturing Association (APCMA), the decrease in cement production was mainly attributed to lower construction demand as

Imports of CKD/SKD of Automobile Kits **Figure 2.21**



Source: Pakistan Bureau of Statistics

Growth of Cement Dispatches* **Figure 2.22**



*Growth contribution for local and exports dispatches

Source: All Pakistan Cement Manufecturars Association

reflected from 16.9 percent reduction in domestic dispatches during H1-FY23, compared to an expansion of 2.0 percent in the same period last year (**Figure 2.22).**

Furthermore, subdued cement demand in the country's export destinations also brought down cement output. As reported by APCMA, volume of cement exports to countries other than Afghanistan declined by 49.0 percent during the current review period in comparison with 32.5 percent growth in same period last year (**Figure 2.22**).

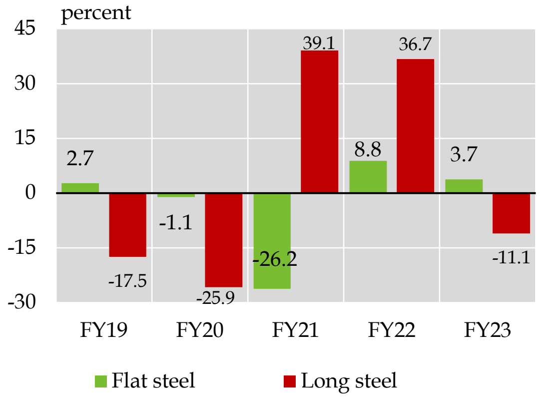
Apart from devastating flood, the soaring imported coal price owing to Russia-Ukraine war, import constraints on spare parts, tight monetary conditions and lower PSDP spending together with inflationary pressure were the main factors causing lower demand and production of cement during the review period.

Steel

Global supply chain disruptions Slowed down steel production

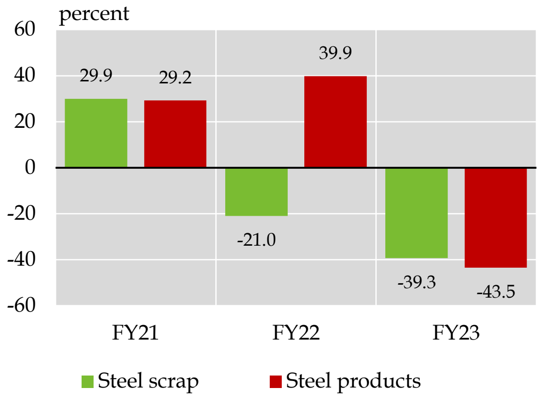
The steel sector observed 2.1 percent decline during H1-FY23 as opposed to an expansion

Growth in Steel Sector in H1 **Figure 2.23**



Source: Pakistan Bureau of Statistics

Growth in Imports of Steel in H1 **Figure 2.24**



Source: Pakistan Bureau of Statistics

of 18.4 percent in the same period last year (**Figure 2.23**). The decline in steel was mainly attributed to long steel, which fell by 11.1 percent during H1-FY23 compared to significant growth of 36.7 and 39.1 percent, in the same period last two years, respectively.

Imported scraps, the basic raw material of steel production, posted 39.3 percent reduction during H1-FY23 compared to 21.0 percent in the corresponding period last year (**Figure 2.24**). Import constraints on raw material, depreciation of PKR, and rising energy cost along with payments of demurrages on containers carrying steel scrap were attributed as the main factors causing lower production in steel industry. Moreover, as per industry sources, most steel companies saw decline in volumes due to floods in the first two months of H1-FY23.

2.4 Services

The indicators for services sector show a slowdown in activities during H1-FY23, mainly due to the contraction in commodity producing sectors. Within the services sector, the indicators *for wholesale and retail* trade show a slight slowdown in the sector.

This slowdown can be majorly attributed to the damages caused by floods, which had adversely impacted the production of important crops – cotton, sugarcane and rice. Other than agriculture, growth in the industrial sector also moderated as evident by the decline in the growth of LSM. Moreover, imports also declined by 18 percent during the H1-FY23, as compared to an expansion of almost 51 percent in the same period last year.

In line with the slowdown in the *wholesale and retail* sector, credit to the sector reported retirement instead of more borrowing. This was majorly driven by the *non-specialized wholesale trade*, which registered retirement of almost Rs 5.7 billion. Another significant reason for this slowdown was the deceleration in borrowing from *the wholesale of solid, liquid and gaseous fuels and related products*, as the demand for fuel remain subdued during H1-FY22

In the *transport and storage sector*, during H1-FY23 POL sales to the transport sector declined by 19 percent as major infrastructure – roads and bridges - sustained damages due to floods **(Table 2.9)**. In

Damages to Infrastructure **Table 2.9**
roads in km; bridges in number

Province	Roads	Bridges
Balochistan	2,222	58
Punjab	877	15
KP	1,575	107
Sindh	8,389	165
Total	**13,115**	**439**

*Cumulative damages from June 14, 2022 to November 11, 2022

Source: National Disaster Management Authority

Damages and Losses in Selected Sectors **Table 2.10**
billion Rupees

Sectors	Damages	Losses
Health	23	7
Education	120	47
Transport & Communications	701	60
Tourism	2	20

Source: Pakistan Floods 2022 Post Disaster Need Assessment Supplemental Report (Government of Pakistan)

addition, demand was also dampened by the increase in prices of petroleum products. Furthermore, sales of commercial vehicles also showed a decline due to lower economic activity. These trends are indicative of an overall weakening in the transport sector. Infrastructure damages also impacted the food and accommodation sector by lowering tourism in the flood affected areas as access to major tourist spots remained suspended during most part of H1-FY23.

Unlike other measures, the indicators for *information and telecommunication* point towards a continuation in the increasing trend of both tele-density and broadband subscribers. This increase reflects the higher profitability of the telecommunication sector along with an increased reliance on the locally manufactured cellular devices.[28]

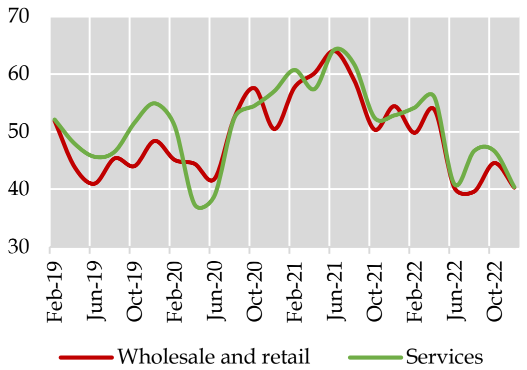
The 2022 floods also caused significant damages to health and education services (**Table 2.10**). At least 6,225 education institutions were assessed as fully damaged, whereas, almost 10,980 education institutes were categorized as partially damaged, causing a disruption of teaching services. These damages affected some 94 thousand teachers and 2.6 million enrolled students.

Within school education, primary schools sustained the highest damage, with an 80 percent share of all damaged institutions.[29] Other than education, 13 percent of the health facilities were damaged, which in turn disrupted health service delivery.[30] This downturn in the services sector is also manifested in the business confidence survey, which reflects the prevalent business sentiment, conducted by State Bank of Pakistan. The results for H1-FY23 indicate a decline in the business confidence (**Figure 2.25)**.

In the banking sector, assets registered an increase of 19 percent. The increase in assets was primarily led by investments and advances (**Figure 2.26**). Moreover, high interest rates also led to increased profitability (**Table 2.11**).

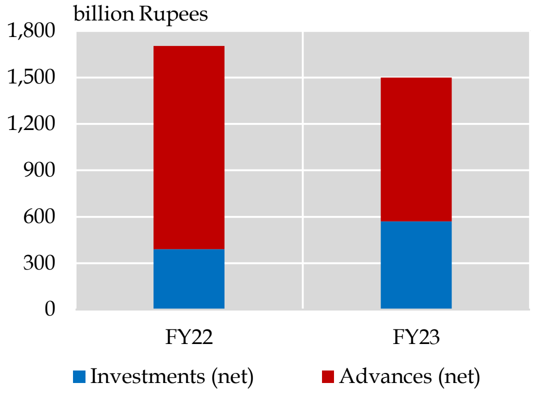
[28] Source: Pakistan telecommunication authority (available at: https://www.pta.gov.pk/en/media-center/single-media/telecom-revenues-rise-to-pkr-694-billion-in-2022-pta-annual-report-110123)
[29] Source: Ministry of Planning Development and Special Initiatives (2022). Pakistan Floods 2022: Post Disaster Need Assessment Supplemental Report. Islamabad: Ministry of Planning Development and Special Initiatives
[30] ibid.

Services and Wholesale and Retail Sector Confidence Index **Figure 2.25**



Source: State Bank of Pakistan

Composition of Assets in H1 **Figure 2.26**



Source: State Bank of Pakistan

2.5 Labor Market

Following the decline in LSM, the industrial employment in both Punjab and Sindh experienced downtrend (**Figure 2.27**). In Pakistan, the combined Punjab and Sindh employment reduced by 0.8 percent during Jul-Nov FY23 from expansion of 4.4 percent in the corresponding period last year. The labor market data, reported by Punjab Bureau of Statistics (PBOS) and Sindh Bureau of Statistics (SBOS), showed decline in employment in both industrial and services sectors during Jul-Nov FY23 compared to the

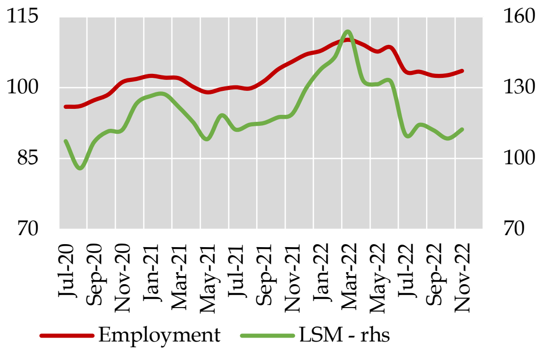
Services Sector Indicators **Table 2.11**

	H1-FY22	H1-FY23
Wholesale and Retail Trade		
Sectoral credit off take- flow (billion Rupees)	55.4	-2.8
Imports (billion US Dollars)	40.8	31
Growth (percent)	*66*	*-23*
LSM (YoY growth in percent)	7.7	-3.7
Agriculture credit disbursements (billion Rupees)	640.8	842
Transport and Storage		
POL sales to transport sector (growth)	11.2	-19.3
Teledensity (percent)	87.1	87.9
Broadband users (million)	109.6	124
Finance and Insurance Activities**		
Assets (billion Rupees)***	30,058	35,795
Deposits (billion Rupees)***	21,719	23,461.4
ROA after tax (percent)	0.96	1.01
ROE after tax (percent)	14	16.9
Profit after tax (billion Rupees)	141.3	210
Infection ratio (end of Dec-2022)	7.9	7.3
General Government Services		
Expenses - general govt & defense^ (billion Rupees)	730.4	865.5

Banking sector only * Stocks, as of end-December 2022 ^Only federal government

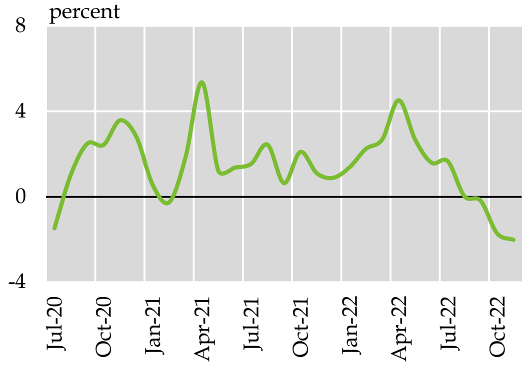
Sources: State Bank of Pakistan, Pakistan Bureau of Statistics, Oil Companies Advisory Council, Pakistan Automotive Manufacturers Association, and Ministry of Finance

Industrial Employment* and LSM Indices in H1 **Figure 2.27**



*Punjab and Sindh combined
Source: PBS, PBOS and SBOS

YoY Employment Growth in Punjab **Figure 2.28**



Source: Punjab Bureau of Statistics

same period last year. In addition, the SBP-IBA BCS and CCS surveys also revealed deterioration in employment sentiments during the current review period.

Besides employment in services and industrial sectors, the gender wise segregation of employment over the years reveals that labor force participation of men remain higher than women across all professions in Pakistan, as reported by PBS in the latest labor force survey 2021-2022. **Box 2.2** briefly analyzes the trends and patterns of female labor force participation in Pakistan.

The industrial sector laid-off workers as output decreased and employment levels in both Punjab and Sindh declined during the current review period. At the same time, SBP-BCS exhibited downturn in sentiments towards employment creation in both industrial and services sectors during H1-FY23. Likewise, deterioration in perceptions about job growth was witnessed in SBP Consumer Confidence Survey (CCS) for the next six months.

Punjab

As measured by the industrial employment index, the overall manufacturing sector laid-off workers in Punjab during H1-FY23 compared to last year **(Figure 2.28)**. Reported in the Monthly Survey of Industrial Production & Employment in Punjab, jobs creation declined by 0.8 percent during the H1- FY23 compared to 1.4 percent growth in same period last year.

The decline in employment in industrial sector of Punjab was predominantly driven by significant lay-offs in the automobile industry, which dwindled by 21.0 percent during H1-FY23 against a growth of 0.3 percent in the same period last year. The significant decline in employment in the automotive sector corresponded to its production, as evidenced by the industry's output index, which fell by 59.0 percent during H1-FY23 compared to the same period last year.

Similarly, being the second largest sector, employment in food Drinks & Tobacco

Sector-wise Employment Growth in Punjab **Table 2.12**

	H1-FY22	H1-FY23
Food drinks & tobacco	0.6	-6.4
Textiles	1.0	1.3
Leather rubber & plastic	15.6	3.5
Paper & paper board	2.4	1.2
Chemicals & petroleum	-0.7	-0.7
Non-metallic & mineral	5.4	-2.0
Engineering products	0.7	0.6
Automobile	0.4	-19.1

Source: Punjab Bureau of Statistics

industry, was pushed down by dairy and sugar sub-sectors, where employment decreased by 18.5 and 9.2 percent respectively, during H1-FY23 compared with 13.5 and 2.8 percent in the corresponding period last year (**Table 2.12**).[31, 32] Moreover, cement sector also followed the negative trend and laid-off 8.8 percent of its workers in H1-FY23 against an extension of 6.3 percent in the last year.

Unlike other sectors, textile industry, being the largest sector, expanded by 0.3 percent during H1-FY23 compared to 0.9 percent growth last year. The registered growth in employment level of overall textile sector was mainly contributed by jute textile sub-sectors during the current review period. The increase in employment in textile sector can be ascribed to the expansion in textile output in Punjab. According to the Punjab Bureau of Statistics (PBOS), the cumulative output, as measured by its LSM index, for cotton and woolen textile increased by 0.3 and 10.2 percent respectively, during H1-FY23.

Following the textile industry, Employment in the leather Rubber & plastic sector, though decelerated, recorded an expansion by 3.6 percent during H1-FY23 compared with 15.2 percent in the corresponding period last year. The growth in this sector was attributed to footwear sub-sector; which contributed by hiring 12,387 workers on the average during the current period compared with 11,781 persons in the same period last year. This was in line with rise in footwear production, which had expanded to 16.1 million pairs during H1-FY23 from 14.4 million pairs in the corresponding period of last year.

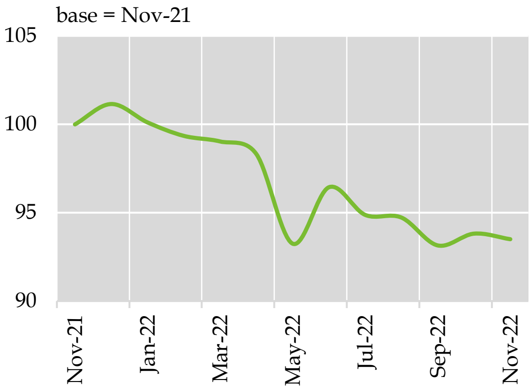
Sindh

Reported by Sindh Bureau of Statistics (SBOS), the latest data from Monthly Industrial Production and Employment Survey (MIPE) revealed that growth in the overall employment in manufacturing sector in Sindh contracted by 3.0 percent during July-Nov, 2022 compared with 6.2 percent growth in the same period last year (**Figure 2.29**) .[33]

Beverages, leather tanning, beverages, textile, and automotive sectors mainly drove the deceleration in employment during the current review period. Whereas, wearing

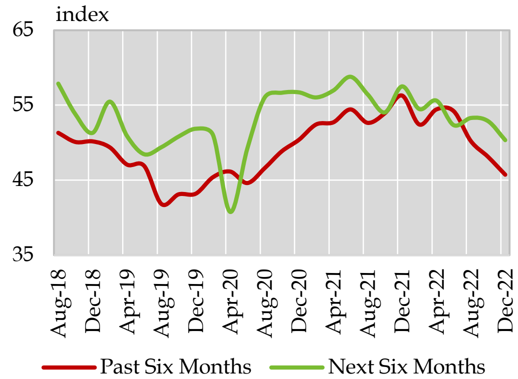
[31] Due to row over permission to export sugar, the sugar mills in Punjab delayed the sugarcane crushing during the current review period.
[32] During H1-FY23, most of the food sub-sectors registered output expansion; however, the Punjab LSM index for sugar, wheat milling and cigarettes decreased by 16.7, 14.1 and 19.1 percent respectively.
[33] It is important to note that due to change in the base year, sectors and sub-sectors, reported by Sindh Bureau of Statistics, the recent employment data tables from November 2021 are no more comparable to the earlier tables. Hence, the growth in employment was calculated for Jun-Nov 2021 and Jun-Nov 2022.

Employment Index in Sindh **Figure 2.29**



Source: Sindh Bureau of Statistics

BCS Employment Diffusion Index for Industrial Sector **Figure 2.30**



Source: State Bank of Pakistan

apparel and steel industries recorded improvement in their employment.

Food sector being the second largest manufacturing sector, laid-off 0.5 percent more workers during Jul-Nov FY23 as opposed to hiring 23.6 percent in same period last year. The employment situation in textile sector deteriorated by 3.4 percent during Jul-Nov FY23, against a worthwhile contribution of 17.9 percent in jobs generation in the last year.

The automobile industry lost 3.9 percent more workers during the Jun-Nov 2022 period. Restrictions on imports of raw material through temporary measures and the inflationary pressure leading to lower demand in the local markets can be attributed as the main factors behind reduction in output and employment in automobile industry during the current review period.

SBP Confidence Surveys

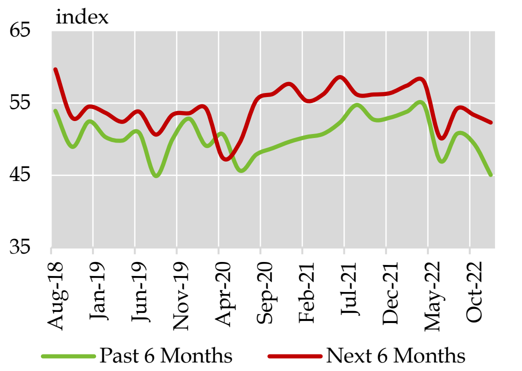
The latest data from SBP Business Confidence Survey (BCS) conducted in December 2022 exhibited deterioration in perceptions about overall employment generation during the past and future six months. According to the survey, on average 52.2 percent of respondents were optimistic about job growth during the next six months, down from 55.8 over the same time last year. (**Figure 2.30)** The data, reported in various surveys, also manifested that on average the diffusion index regarding employment in manufacturing sector dropped to 48.0 and 52.2 respectively for the past and future six months during H1-FY23 from 54.3 and 56.0 in the corresponding period last year.

Similarly, the perception index about employment generation in the services sector on the average deteriorated to 48.4 and 53.3 for the past and future six month respectively during the current review period from 53.5 and 56.2 in the same period last year **(Figure 2.31).**

Consumer Confidence Survey

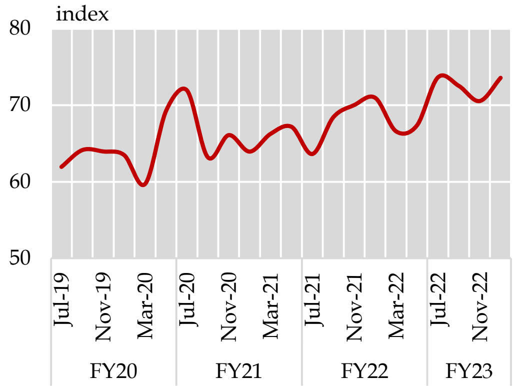
Moreover, the outcome of the SBP Consumer Confidence Survey (CCS) highlighted deteriorating expectations about the domestic labor market. The recent round of poll, conducted in January 2023, revealed

BCS Employment Diffusion Index for Services Sector **Figure 2.31**



Source: State Bank of Pakistan

Future Unemployment Index for Next Six Months -SBP CCS **Figure 2.32**



Source: State Bank of Pakistan

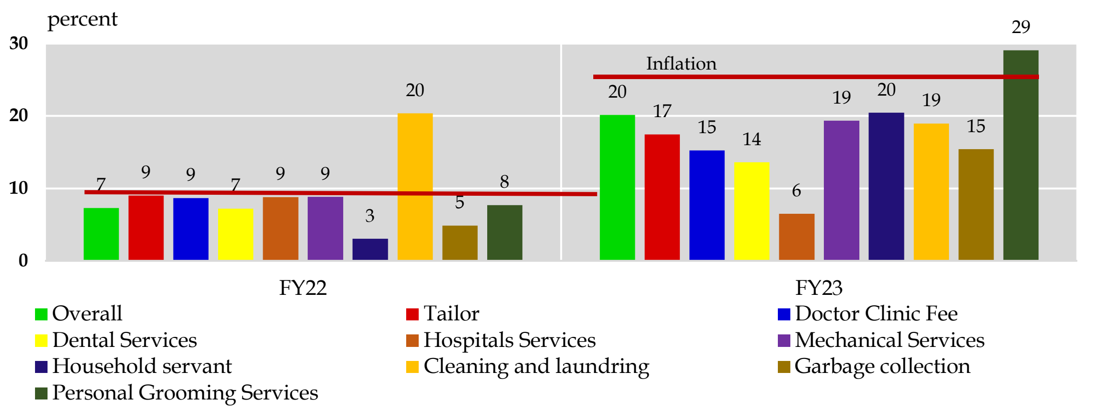
that 72.6 percent of respondents had anticipated a rise in overall unemployment over the following six months, compared to 68.3 percent during the same time last year. (**Figure 2.32**)

Aligned with the declining trend in LSM, the Punjab and Sindh employment surveys along with SBP surveys for employment generation in the past six months revealed deterioration in labor market during H1-FY23 from the corresponding period last year. Moreover, the SBP surveys also reported pessimistic expectations regarding jobs creation in the next six months.

Wages

The most recent wage indices released by the Pakistan Bureau of Statistics (PBS) show upward trend in overall wages, which on the average increased by 20.0 percent during H1-FY23 compared to a rise of 7 percent at the same time last year. The growth in wages can be attributed to the surge in inflation which escalated to 25.0 percent on the average during the current review period from 9.8 in the corresponding period last year. (**Figure 2.33**)

Growth in Wages of Services Sector in H1 **Figure 2.33**



Source: Pakistan Bureau of Statistics

During H1-FY23, with exception of hospital services, all categories of wages registered significant rise from the same time last year. Wages of personal grooming services recorded an expansion by 29.0 percent against an increase of 8.0 percent in the last year. Similarly, remuneration of remaining categories of services sector on average doubled during the current review period.

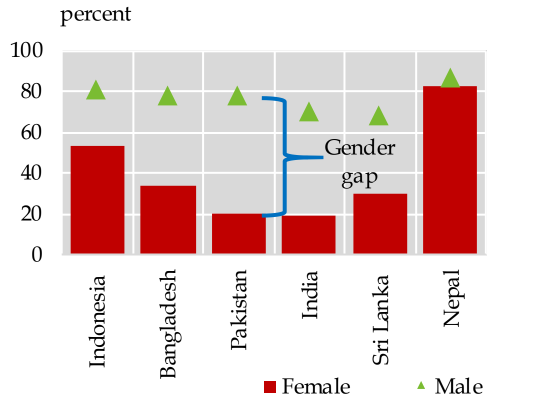
Box 2.2: Trends and Patterns in Female Labor Force Participation in Pakistan

Female labor force participation (FLFP) is a major driver of growth, as women constitute almost half of the working age population, their absence from the labor force results in significant productivity losses. This box aims to briefly discuss the trends and patterns of female labor force employment in Pakistan and explore the barriers restricting entry to the labor force.

In Pakistan, gender gap in the labor force is one of the highest in South Asia

Globally, the proportion of men participating in the labor force is higher than women - the global labor force participation rate for women is almost 50 percent, whereas for men it is almost 80 percent.[34]

Male and Female Labour Force **Figure 2.2.1**



Source: World Bank

In line with the global trends, in Pakistan, the FLFP is considerably lower than that of men. The findings from the labor force survey 2020-2021 suggests that almost 44.9 percent of the overall population is in the labor force, out of which, men comprise 67.9 percent, whereas the female labor force participation (FLFP) is only 21.4 percent. Over the time, female labor force participation has increased but despite this increase, Pakistan's female labor force participation is still one of the lowest among peer economies (**Figure 2.2.1**).[35]

Other regional countries like Bangladesh and Indonesia have made significant progress in terms of increasing FLFP. Consider the example of Bangladesh, where female labor force participation is estimated to be 37 percent, the growth in FLFP has mainly occurred on the back of expanding ready-made garment sector.[36] This development has played a crucial role in their economy and helped boost exports. Bangladesh has managed to create more paid job opportunities as compared to Pakistan resulting in a higher FLFP.[37] Another reason for a higher FLFP in Bangladesh is lower education gaps between men and women.[38]

[34] Source: World Bank, 2022

[35] In 2005, FLFP was at 11 percent, whereas, in 2022 it is reported to be at 21.5 percent

[36] Source: World Bank (2019). *Female labor force participation in Bangladesh, what do we know? How can we address it in operations?* Washington D.C: World Bank

[37] Source: World Bank (2022). *From Swimming in Sand to High and Sustainable Growth.* Washington D.C: World Bank

[38] As per BBS labor force survey, 2016-17, In Bangladesh, 66 percent of men and 63 percent of women have competed at least primary education. In Pakistan, as compared to 52 percent of working age men only 35 percent of working age women in Pakistan have completed primary education or above.

***Females in the labor force face a lack of occupational diversity*[39]**

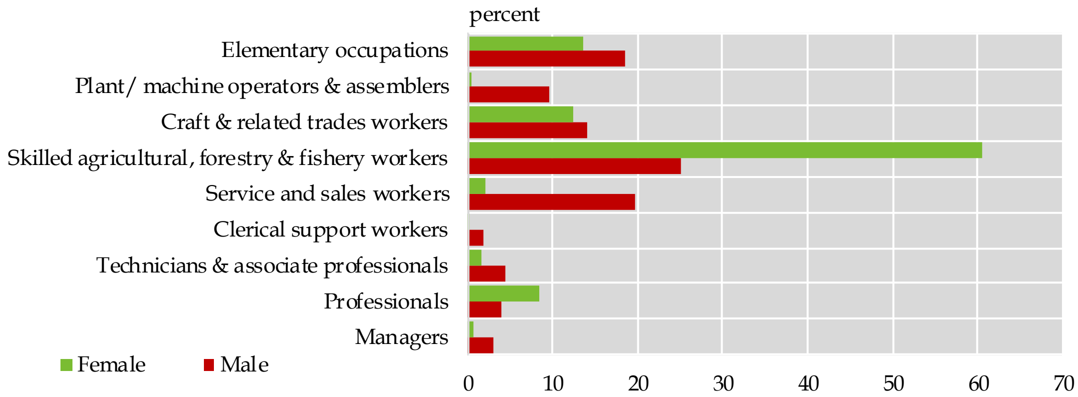
Most of the women are employed in the agriculture **(Figure 2.2.2**) and non-agriculture informal sector. Women associated with agriculture are mostly involved in the harvesting of crops, farm maintenance, rice nursery transplantation and the most of activities related to the livestock.

An analysis of the composition of employment in Pakistan reveals that at lower levels of education, urban men are mostly engaged in construction and services, whereas, most urban women are engaged in jobs in the textile and apparel sector or employed as domestic help . However, at higher levels of education, the education sector features as the largest employer for urban women, whereas, urban men work across a varied number of service-oriented jobs, in addition to being employed in the education sector. In rural areas, broadly speaking, occupational choices are limited for both men and women, but the limitations seem to be more pronounced for women than for men in rural areas too.

Wholesale and retail, and community and social services are the key sectors of employment for women in the informal non-agriculture sector. Other than that, as per LFS 2020-2021 almost 29.7 percent of the Females are employed as home based workers.[40] Despite the home-based workers making a significant economic contribution to the economy, they remain vulnerable to exploitation, longer working hours and lower wages because of a lack of formal contractual agreements.[41]

Moreover, according to the Global Wage Report 2018-19 (ILO), on average, women in Pakistan earn 34 percent less than men. However, the average wages of women have grown over time but still remain lower than men (**Figure 2.2.3**). In addition to lower wages, women remain underrepresented in Managerial positions too. As per LFS 2020-2021, only 5.7 percent of employed women hold managerial positions.

Distribution By Various Occupational Groups, 2022 **Figure 2.2.2**



Source: Labour Force Survey

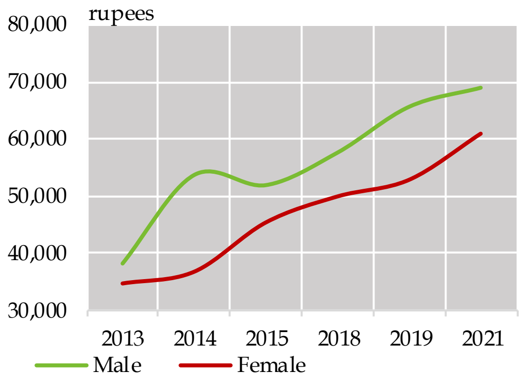
[39] This section borrows heavily from: World Bank (2022). *From Swimming in Sand to High and Sustainable Growth.* Washington D.C: World Bank

[40] Home Based Workers (HBWs) refer to the category of workers, who are employed in the informal sector and work mostly within their homes or surrounding areas.

[41] Source: International Labor Organization (2017). *Pakistan's Hidden Workers, Wages and Conditions of Home-Based Workers and the Informal Economy*. Geneva. International Labor Organization.

Education and Safe transit options are major drivers of female labor force participation

Average Wages Over Time (Managers) Figure 2.2.3



Source: Labour Force Survey

Women continue to be missing from the labor market due to a number of barriers. The most important is low educational attainment. Participation in the labor force increases as education levels rise.[42] The gap between male and female education needs to be bridged to ensure equal labor force participation. Another major driver of female labor force participation is access to safe transit options. Women are more likely to accept a job offer if it provides transportation. Reducing mobility constraints has a positive impact on job searching for women, including women who are not searching for jobs to begin with.

Women's respond positively to women-only modes of transport, suggesting that safety and social acceptability are key constraints.[43] The monetary and social and personal costs involved with transport to travel are formidable and should be taken into consideration in planning interventions. Another important driver of FLFP is digital connectivity. Despite improvement, digital connectivity gaps are still widely prevalent as Pakistani women are 49 percent less likely than men to use mobile internet and only one percent of the female internet users reported to use it for work.[44] Bridging connectivity gaps is crucial for enhancing FLFP.

In conclusion, absence of women from the labor market on this scale not only deprives women of economic opportunities but also translates into lower productivity and lost growth potential for countries. As per estimates, closing the FLFP gap can generate 19.3 million jobs and boost Pakistan's GDP by almost 23 percent.[45] Some key reform areas to focus on are availability of safe transportation for women, better documentation of the economy and increasing educational attainment. Legislation to protect workers lacking legal coverage will impact female labor force participation favorably.[46]

[42] Institute of Labor Economics (2022). *Returns to Education and Female Participation.* University of Bonn. Bonn.
[43] Asian Development Bank (2022). *Women's Mobility and Labor Supply: Experimental Evidence from Pakistan*. Mandaluyong, Philippines: Asian Development Bank Working Paper No. 655
[44] Groupe Speciale Mobile Association (2021). *Addressing the Mobile Gender Gap in Pakistan.* London: Groupe Speciale Mobile Association
[45] Source: World Bank (2022). *From Swimming in Sand to High and Sustainable Growth.* Washington D.C: World Bank.
[46] World Bank's report titled, "Supporting legal reforms to increase women's workforce participation in Pakistan" dated July 08, 2022.