2 Real Sector

An accommodative monetary policy environment, targeted fiscal support and the adoption of smart lockdowns to contain the Covid-19 crisis led to a pick-up in economic activity during H1-FY21. The nascent recovery observed in the first quarter of the fiscal year became more tangible in the second quarter. Within industry, the growth in food processing and construction-allied segments of large-scale manufacturing stood out. In agriculture, the preliminary data for the Rabi season related to inputs and area sown for the wheat crop is encouraging. The services sector benefitted from the buoyancy in the commodity-producing sectors, with proxy indicators reflecting an overall improvement. Similarly, provincial industrial surveys reported a growth in manufacturing employment, which appeared to be broadly on course to recovery towards the pre-Covid levels.

2.1 Economic Growth

Halfway through FY21, the economy was on track to return to its pre-Covid trajectory. For industry, this was evident from the pick-up in large-scale manufacturing (LSM) activity and a recovery in the manufacturing sector's employment numbers to pre-Covid levels in Punjab and Sindh. In agriculture, meanwhile, most of the *Kharif* crops remained on course to perform better than last year. And the services sector's prospects, based on proxy indicators, were also promising as compared to the last quarter of FY20.

It is worth mentioning that the country went through the second wave of the pandemic during Q2-FY21, which posted a challenge for the economic recovery. Nonetheless, the government fine-tuned its lockdown approach, in line with the evolving needs. Specifically, after limiting the spread of the virus during the first wave using strict lockdowns, the government later shifted towards smart and micro lockdowns to allow economic activity to pick up at a prudent pace. Moreover, it rolled out packages for the construction and agriculture sectors as an added stimulus, and also expedited the processing of sales-tax refunds to export-oriented sectors.

For its part, the central bank has also remained proactive since March 2020. The SBP lowered its policy rate by 625 basis points in a short span of time to hasten the economic recovery. Investment and production activities were also supported by the concessional short- and long-term financing schemes, including the Temporary Economic Refinance Facility (TERF), and by the enhancement of limits under the Export Finance Scheme (EFS). Also, the SBP's Rozgar Scheme provided timely liquidity support to help protect millions of jobs.

These coordinated measures facilitated the economic recovery, which began in Q1-FY21 and strengthened in Q2. The rebound in the industrial sector was noteworthy, as the LSM posted its highest growth since FY14 on the back of an improvement in food processing and construction-allied industries. The food processing industry, driven by expansions in the output of sugar, tobacco and wheat milling sub-sectors, posted an impressive growth during the period. Meanwhile, the construction package announced by the government during the peak-Covid period to spur rapid recovery in the sector, also had a positive impact. In addition, the export-oriented industries, in particular textiles, performed well in response to the coordinated policy measures taken by the government and the SBP. At the same time, the automobile sector picked momentum as the year progressed, and its output growth turned positive in Q2-FY21.

In the agriculture sector, most of the *Kharif* crops, except for cotton, have surpassed last year's production level, due to an increase in the area under cultivation. On the flipside, the estimates of cotton production were revised further downward to 7.7 million bales, which can be traced to its lowest area under cultivation since FY82, as well as a decline in yields. For the *Rabi* crops in general and wheat in particular, the government put in place a comprehensive package – comprising subsidies for fertilizer, fungicides and weedicides, together with an increase in the support price of wheat. Preliminary data captures an increase in the area under wheat cultivation in Punjab – which typically accounts for nearly three-fourths of wheat production in the country – and suggests that the policy initiatives are likely to support the crop sector growth further.

In turn, better outcomes in the commodity-producing sector and an increase in international trade had positive spillovers for the services sector, especially the *wholesale and retail trade* and *transport* segments. Specifically, growth in commercial vehicle sales and POL sales for the transport sector implies that transportation-related services are reviving. Meanwhile, the increase in internet usage highlights the improvement in the telecom sector, and is also facilitating work-from-home (WfH) arrangements across the sectors.

The employment numbers in the manufacturing industry started showing signs of improvement during the review period, when compared with the dip witnessed during the earlier strict lockdowns. Gauging from the employment data for the manufacturing sectors of Punjab and Sindh, the labor market is approaching the pre-Covid levels in the two provinces despite the second wave of the pandemic; this development was primarily facilitated by the shift to smart lockdowns. In the December 2020 wave of the SBP's Business Confidence Survey, the employment index remained stable, after showing recovery in the October 2020 iteration where it had risen above the pre-Covid level. Furthermore, there was a reported increase in the wages of pharmaceutical, fertilizer, cotton textile, and cigarette manufacturing workers in Punjab.

2.2 Agriculture

The preliminary outlook for the *Rabi* season was largely positive during the review period. On the input side, the prospects of wheat – the major crop of the season – received a boost from subsidies on inputs and an increase in the support price. In addition, the irrigation water supply and the timing of rains remained broadly favorable. Moreover, the agriculture credit disbursements picked up during Q2-FY21 from last year, mainly reflecting the increase in farm sector loans availed for development purposes, such as the development of cold storage facilities.

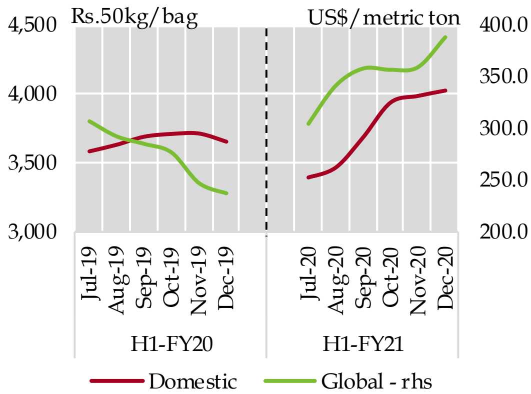
Inputs

On the input side, the policy support for the agriculture sector in the second quarter came from the Prime Minister's package for *Rabi* crops, especially wheat. The package's salient provisions included a subsidy of Rs 1,000 per 50 kg bag of fertilizer (DAP, phosphate and potassic), as well as a per-acre subsidy of Rs 250 on weedicides and Rs 150 on fungicides. In addition to the package, the Economic Coordination Committee (ECC) raised the minimum support price (MSP) of wheat from Rs 1,400 per 40 kg bag last year to Rs 1,650 per 40 kg for the current season.[1]

The subsidy on DAP fertilizer had a positive impact on its offtake. The average domestic price of DAP during H1-FY21 (excluding subsidy) was 2.3 percent higher compared to the same period last year. This occurred since DAP is primarily imported, and its domestic price is sensitive to variations in the global DAP price, which witnessed an uptick during H1-FY21 (**Figure 2.1**).

Nonetheless, the subsidy on DAP, which was distributed directly to the growers, lifted its offtake above last year's level.[2] Specifically, DAP offtake during H1-FY21

DAP Prices **Figure 2.1**



Source: NFDC; World Bank

clocked in at around 1.57 million tons, which was 13 percent higher than the 1.39 million tons last year.

In case of urea, prices had moderated since February 2020 after the ECC's January 2020 decision to waive Rs 400 off the Gas Infrastructure Development Cess (GIDC) in order to make cheaper fertilizer available to farmers. Subsequently, urea prices remained 14.6 percent lower during H1-FY21 on YoY basis, which facilitated the offtake of 3.4 million tons of the fertilizer during the period.[3]

On the financing side, the total disbursement of agriculture credit was marginally higher during H1-FY21 from last year (**Table 2.1**). During Q2-FY21 specifically, the improvement came from higher

[1] Source: Finance Division press release no. 396, dated November 6, 2020.
[2] In Punjab, the subsidy was distributed through vouchers inside the fertilizer bags. Registered farmers could avail the subsidy by sending the hidden voucher numbers, along with their 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, without affecting the market price of the DAP fertilizer.
[3] Specifically, urea offtake for H1-FY21 was 3.368 million tonnes, which was 0.8 percent higher compared to the 3.340 million tonnes offtake recorded in H1-FY20.

Agriculture Credit Disbursements **Table 2.1**

billion Rupees

	Q1-FY20	Q1-FY21	Q2-FY20	Q2-FY21P	H1-FY20	H1-FY21P
Farm sector						
A. Production	103.8	113.9	175.6	175.7	279.4	289.6
B. Development	9.3	5.6	13.2	34.1	22.5	39.7
of which:						
i. High quality seed processing	1.1	1.0	5.8	5.0	6.9	6.0
ii. Cold storage	0.8	1.0	0.5	1.9	1.3	2.9
iii. Tractor	0.7	0.6	0.8	1.0	1.5	1.6
C. Total farm sector (A+B)	113.1	119.5	188.8	209.8	301.9	329.3
Non-farm sector						
Livestock/dairy	77.8	71.2	81.1	89.6	158.9	160.8
Poultry	64.3	49.5	62.9	52.5	127.2	102
Other	8.1	14.4	18.3	10.4	26.4	24.8
D. Total non-farm sector	150.2	135.1	162.3	152.5	312.5	287.6
Total agri (C+D)	263.3	254.7	351.1	362.3	614.4	617

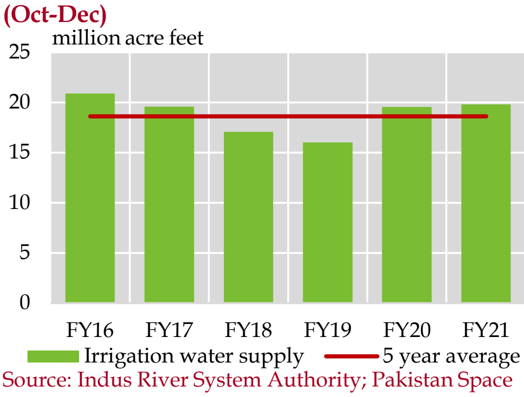
p=provisional

Source: State Bank of Pakistan

disbursement of development loans to the farm sector. Within this sub-segment, there was an increase in loans availed for development of cold storages, which especially help preserve perishable items and thereby limit the associated losses and price volatility. By contrast, while the Rs 5.0 billion uptake of credit by high-quality seed processing firms was relatively lower during Q2-FY21 on YoY basis, it was still a significant amount in absolute terms. This is important, because seed processing firms have an important role to play in the availability of quality, certified seeds, since gaps in the availability of quality seeds tend to be associated with low crop yields.

Meanwhile, in the non-farm sector, the disbursement of credit to the poultry segment remained lower during H1-FY21. During Q1-FY21, this was partially attributed to the lower demand for poultry products, given the reduced frequency and scale of weddings in marriage halls and large public gatherings in the wake of Covid-19.[4] However, while the demand recovered somewhat in the subsequent quarter, the level of credit availed by the

Irrigation Water Supply in Q2 (Oct-Dec) **Figure 2.2**



Source: Indus River System Authority; Pakistan Space and Upper Atmosphere Research Commission (SUPARCO)

[4] The lower demand was reflected in the poultry segment's YoY deflation of 14.5 percent during Q1-FY21, compared to 44.4 percent inflation during Q1-FY20.

Cotton Crop Estimates **Table 2.2**

		FY21		Growth (percent)	
	FY20	**Target**	**FY21 ***	**FY20**	**FY21**
Area ('000 hectares)					
Punjab	1,879.6	1,600.0	1,546.0	-0.4	-17.7
Sindh	598.7	640.0	615.0	33.6	2.7
Pakistan	2,517.0	2,310.0	2,217.9	6.1	-11.9
Production ('000 bales)					
Punjab	6,306.6	6,000.0	4,900.0	-7.6	-22.3
Sindh	2,746.0	4,600.0	2,500.0	-6.5	-9.0
Pakistan	9,149.0	10,897.5	7,700.0	-7.2	-15.8
Yield (kg/hectares)					
Punjab	570.7	637.8	539.1	-7.2	-5.5
Sindh	780.1	1222.5	691.4	-30	-11.4
Pakistan	618.3	802.4	590.5	-12.6	-4.5

* second estimates for production

Source: Ministry of National Food Security and Research

poultry segment remained lower during Q2-FY21 on YoY basis. Supply-side factors dominated on this occasion, given that poultry farmers had suffered losses during the lockdowns, and were relatively more cautious about availing credit.[5]

In terms of water availability, irrigation water supply during Q2-FY21 was marginally higher over the same period last year, as well as the Q2 average of the previous five years (**Figure 2.2**). Meanwhile, in rainfed wheat-producing regions, the spells of rain broadly occurred at timely intervals during Q2-FY21, which bode well for the prospects of wheat output.[6]

Output

Cotton: Second estimates

The second estimates for the cotton crop indicate that its output was the lowest on record since FY86 (**Table 2.2**).[7] The decline was pronounced in Punjab, where the output fell by around 22 percent from last season to 4.9 million bales.

As documented in more detail in the SBP's First Quarterly Report for FY21, the area under cotton – at 2.2 million hectares – was the lowest on record since FY82. The diversion of area away from cotton cultivation over time is a symptom of the crop's declining competitiveness relative to

[5] Anecdotal evidence suggests that around 30 to 35 percent of poultry farms remained closed in the last few months of 2020.

[6] Source: SUPARCO 'Pakistan: Satellite-based Crop Monitoring System' Bulletin, Volume XI, Issue 01, Serial No. 121, January 2021.

[7] There is a possibility of further downward revision of the cotton estimates, given that the cotton arrivals in factories had amounted to around 5.6 million bales as of March 15, 2021, which were nearly 34 percent lower than arrivals of 8.6 million bales as of March 15, 2020 (source: Pakistan Cotton Ginners' Association, Arrival Report, dated March 18, 2021).

Targets for Wheat Crop **Table 2.3**

area in thousand hectares, production in thousand MT, growth in percent

	FY20 Achievement		FY21 Target		Targeted growth	
	Area	Production	Area	Production	Area	Production
Punjab	6,515.0	19,402.0	6,560.0	20,000.0	0.7	3.1
Sindh	1,115.0	3,852.0	1,200.0	4,000.0	7.6	3.8
KP	760.0	1,130.0	900.0	1,700.0	18.4	50.4
Balochistan	417.0	865.0	550.0	1,300.0	31.9	50.3
Pakistan	**8,807.0**	**25,249.0**	**9,210.0**	**27,000.0**	4.6	6.9

Source: MNFSR

competing crops, such as sugarcane and rice. Meanwhile, yields continued to fall in both the main cotton-growing provinces of Punjab and Sindh, with severe monsoon rains having an outsized impact on the yields during *Kharif* FY21.

Rabi season

Wheat

Keeping in view the below-target production of wheat last year, and the subsequent need to import the commodity to plug shortages and subdue escalating prices, the targets for the FY21 *Rabi* season envisioned an increase in both the area and the production of the crop (**Table 2.3**). In growth terms, much of the increase in the area under wheat cultivation was expected to come from KP (18.4 percent) and Balochistan (31.9 percent), with the increase in Punjab – the dominant wheat-growing region – envisaged at a relatively modest 0.7 percent.

However, in Punjab, the estimated area under wheat cultivation has surpassed its target, with an increase of around 3.5 percent during *Rabi* FY21 from a year earlier (**Table 2.4**). While the data on area sown in other provinces remained forthcoming, its growth in Punjab is encouraging, since the province accounts for nearly three-fourths of wheat production in the country.[8] Moreover, within the province, the growth in the area under cultivation was broad-based, with eight out of nine divisions reporting growth over last year. The increase in wheat area was mainly attributed to the policy support via the increase in support price and availability of subsidized inputs.

First Estimate of Area for Wheat Crop in Punjab **Table 2.4**

thousand hectares

Division	2019-20	2020-21	Growth
Bahawalpur	995.9	1,024.6	2.9
DG Khan	1,020.2	966.4	-5.3
Gujranwala	868.0	939.3	8.2
Faisalabad	715.5	785.9	9.8
Multan	730.0	758.4	3.9
Sargodha	730.0	735.7	0.8
Rawalpindi	615.1	630.9	2.6
Lahore	498.2	517.6	3.9
Sahiwal	342.4	387.3	13.1
Punjab	**6,515.3**	**6,746.0**	**3.5**

Source: Crop Reporting Service, Government of the Punjab

[8] Specifically, the area dedicated to wheat in Punjab accounted for 75 percent of the total wheat area of Pakistan during FY11 to FY20, while the province's wheat output accounted for 76 percent of the country's wheat production during the same period.

Minor Crops (*Rabi*) **Table 2.5**

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

	FY20 Output		FY21 Target		Targeted growth (%)*	
	Area	Production	Area	Production	Area	Production
Potatoes	177	4,428	191.6	4,871	8.2	10.0
Onion	148.17	2,122.0	165.0	2,220	11.4	4.6
Gram	943.8	497.6	989.0	560	4.8	12.5
Tomatoes	40.1	445.7	51.9	625	29.6	40.2

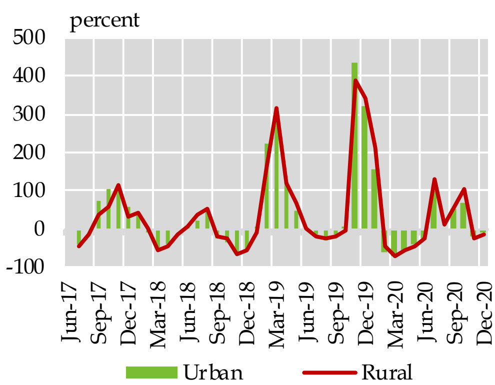
* FY21 target/FY20 output

Source: Ministry of National Food Security and Research

Minor Crops

Among the minor crops, the targets for the tomato crop for the FY21 *Rabi* season underscored the emphasis on scaling up its domestic production. Specifically, an increase of 29.6 percent in terms of area, and 40.2 percent in terms of production, was targeted for the current season (**Table 2.5**). The envisioned increase in production may help in the management of demand and supply gaps, which have contributed to the volatility in tomato prices, especially since FY19 (**Figure 2.3**).

Tomatoes (YoY Inflation) **Figure 2.3**



Source: Pakistan Bureau of Statistics

For the gram crop, the first estimates of area under cultivation in Punjab showed a decline of 6.7 percent from last year. This may pose a challenge to the achievement of gram's overall targets for the year, given that Punjab accounted for around 90 percent of the area and 87 percent of the country's production of gram during the last season.

Livestock

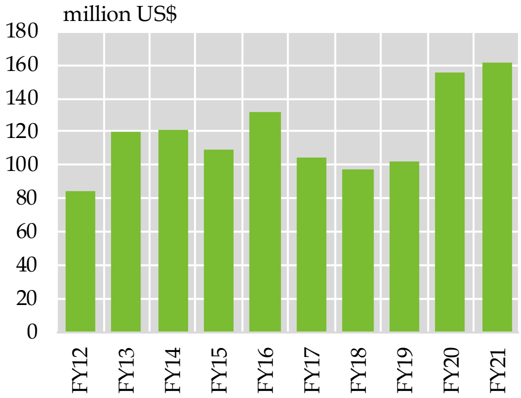
The livestock sector represented 60.6 percent of value addition in agriculture and 11.7 percent of GDP in FY20, and contributed around 3.0 percent to the total export earnings; livestock production also engages nearly 8 million rural households, making it an important sector in terms of employment outcomes.[9]

The promising rise in the exports of meat and meat preparations is an indicator of the pickup in livestock production. Specifically, Pakistan's annual meat exports have doubled over the last decade, from US$ 152.4 million in FY11 to US$ 304.2 million in FY20. More recently, in H1-FY21, exports of meat and meat preparations have grown by 3.6 percent to US$ 161.5 million from US$ 155.8 million in H1-FY20 (**Figure 2.4**).

[9] Pakistan Economic Survey, 2019-20.

Therefore, at the half-way mark of the fiscal year, it appears that this segment is on track to improve on its performance observed during last year.

Meat Exports, H1 (Jul-Dec) **Figure 2.4**



Source: Pakistan of Bureau of Statistics

As highlighted in earlier SBP reports as well, a livestock census is due, given that the production is currently being estimated based on intercensus growth rates of the Livestock Census 1996 and 2006. On this note, the Mouza (village) Census 2020 has been completed recently, according to the Pakistan Bureau of Statistics (PBS). The findings of this census are anticipated to feed into the sampling frame of an Integrated Agricultural Census, which would then capture the current growth trends in the livestock population.[10]

2.3 Large-Scale Manufacturing

The LSM grew by 7.6 percent in H1-FY21, as compared to a contraction of 2.7 percent during the same period last year (**Table 2.6**). The contrasting performance is reflective of the difference in the policy environment during the two periods. In H1-FY20, the growth in the industrial sector was restrained largely owing to the necessary stabilization policies that had been implemented to put the economy on a sustainable growth trajectory. By contrast, accommodative monetary policy, targeted fiscal intervention and related support packages in H1-FY21 to counter the impact of Covid-19, helped speed up the economic recovery. As a result, most of the industries in the LSM picked up pace in H1-FY21. **Figure 2.5** highlights the growth dynamics within the LSM sector with a frequency distribution chart. Industries posting growth greater than 10 percent have increased from 17 in H1-FY20 to 26 in H1-FY21. Meanwhile, industries witnessing double-digit contraction decreased to 22 in H1-FY21 from 27 last year.

When compared with H2-FY20, when the manufacturing sector was adversely affected by the strict lockdowns, the revival in the LSM in H1-FY21 came with a transition towards smart lockdowns and the continuation of the conducive policy environment. The smart lockdowns proved to be effective in countering the adverse impacts of the second wave of the pandemic in Q2-FY21.

On QoQ basis, the LSM growth accelerated towards the end of Q2-FY21, which can largely be attributed to the impact of

[10] In its previous iteration, the Mouza Census of 2008 was followed by an Agriculture Census in 2010, i.e. within two years.

LSM Growth **Table 2.6**

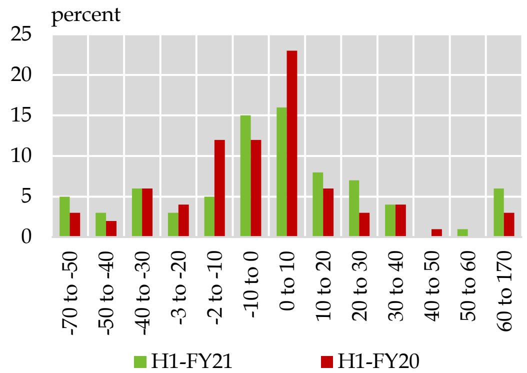
percent, YoY

	wt.	H1		Q1		Q2	
		FY20	FY21	FY20	FY21	FY20	FY21
LSM	70.3	-2.7	7.6	-5.5	4.5	0.1	10.4
Textile	20.9	0.3	2.6	0.2	2.2	0.5	2.9
Cotton Yarn	13	0.1	0.1	0.2	0.1	0.0	0.1
Cotton Cloth	7.2	0.2	-0.1	0.1	-0.1	0.3	0.0
Jute Goods	0.3	-5.3	1.3	-14.8	10.7	3.5	-5.8
Food	12.4	4.5	20.2	-9.0	13.4	16.7	25.0
Sugar	3.5	97.1	72.1	N/A	N/A	97.1	72.1
Cigarettes	2.1	-29.2	14.6	-34.5	31.2	-24.3	0.9
Vegetable Ghee	1.1	5.4	-3.2	2.0	-5.6	8.8	-0.9
Cooking Oil	2.2	7.0	1.4	0.0	3.2	13.9	-0.2
Soft Drinks	0.9	-8.9	0.6	-14.1	7.6	-0.4	-9.4
POL	5.5	-10.3	5.0	-14.5	2.7	-5.9	7.2
Steel	5.4	-12.3	-1.2	-17.0	-8.1	-6.8	6.0
Non-Metallic Minerals	5.4	2.9	20.1	-0.9	22.2	6.3	18.3
Cement	5.3	2.7	20.8	-1.4	22.8	6.3	19.2
Automobile	4.6	-37.2	11.2	-34.6	-5.7	-40.1	31.2
Jeeps and Cars	2.8	-46.4	5.1	-38.6	-21.1	-54.6	42.6
Fertilizer	4.4	4.9	7.4	15.9	2.0	-5.1	13.3
Pharmaceutical	3.6	-6.2	13.1	-11.9	14.4	-0.7	12.0
Paper	2.3	7.2	-2.7	-1.3	-2.2	16.0	-3.2
Electronics	2	-3.3	-20.9	11.0	-20.4	-15.7	-21.4
Chemicals	1.7	9.8	10.6	4.9	10.5	14.7	10.7
Caustic Soda	0.4	47.1	3.8	35.0	2.5	60.5	5.1
Leather Products	0.9	11.2	-42.7	6.3	-44.5	16.0	-41.0

Source: Pakistan Bureau of Statistics

favorable economic policies. While some of these measures were taken in the preceding quarters, the impact of the initiatives became more visible in Q2-FY21. In particular, the support package for the construction industry, coupled with the energy bill relief provided to the industries,[11] started to show results, as LSM output expanded by 10.4 percent in Q2-FY21 – the highest quarterly growth since Q4-FY07. Importantly, the increase in production was broad-based, as 9 out of 15 industries posted growth in the

Frequency Distribution of LSM Growth **Figure 2.5**

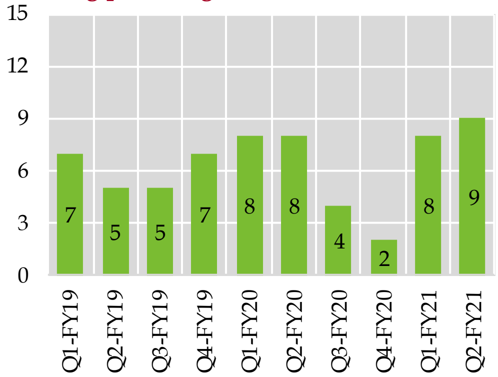


Source: Pakistan Bureau of Statistics

[11] Source: Ministry of Energy, Power Division (https://www.mowp.gov.pk)

quarter, as compared to 8 in the preceding quarter (**Figure 2.6**).

Number of LSM Industries showing positive growth **Figure 2.6**



Source: Pakistan Bureau of Statistics

The impetus to growth mainly came from the construction-allied and food processing industries. Initiatives for the construction industry resulted in the highest-ever cement production in H1-FY21, and a recovery in the production levels of steel sector. Meanwhile, the sugar industry benefited from an early start of sugarcane crushing and higher indicative prices of the raw materials. The output of the automobile and petroleum industries also expanded in H1-FY21 after contracting during the same period of the past two years.

Construction-allied Industry

The incentive package led to a further growth in the output of the construction-allied industry (see **Table 2.7** for the list of incentives provided under various schemes). Accordingly, cement and steel industries performed well despite public development expenditures registering a dip during H1-FY21. Higher output of cement and flat-steel may be explained by a pickup in construction activities in the private sector.

The increase in the private sector housing projects in urban areas can be attributed largely to the Prime Minister's construction package. Under the incentive package, 348 real estate developers had already registered 389 projects worth Rs 157 billion by November 2020.[12] Meanwhile, the increase in quantum imports of steel scrap by 30 percent during H1-FY21, compared to a decline of 20.4 percent during the same period last year, shows the pickup in demand from the real estate builders and developers.

The SBP complemented the efforts of the government through multiple measures. These included: (i) mandatory targets for banks to increase construction financing to at least 5 percent of total private sector credit by December 2020; (ii) introduction of incentive/penalty mechanism for achievement/failure of meeting the mandatory housing finance targets; (iii) facilitation of mark-up subsidy of Rs 36.0 billion for affordable housing scheme; (iv) risk coverage of up to 40 percent under the Credit Guarantee Scheme; and (v) new regulatory incentives to promote low-cost housing finance.[13]

[12] Source: Federal Board of Revenue (fbr.gov.pk/pr/pms-construction-package-in-full-swing-fbr/152640)
[13] The SBP revised the prudential regulations for housing finance by relaxing the limits on liquid securities/another residential property of the borrower to meet the prescribed 15 percent equity

Incentives for the Construction Industry **Table 2.7**

Fixed Tax Regime	New fixed tax regime (optional) for builders and developers for the sale or purchase of new projects, instead of net income basis 90 percent temporary reduction in the fixed tax rate
Exemption of Withholding Tax	Exemption of withholding tax for the builders and developers on purchase of building materials (except cement and steel)
Relaxation in Withholding Tax for buyers	Withholding tax rate is reduced from 10 percent to 5 percent for buyers of property
Exemption of Capital Gains Tax	Capital gains received by an individual on the sale of residential property (personal/family) house or flat, have been exempted from income tax
Promotion of Housing Finance	Mark up subsidy, ranging from 3 percent to 9 percent, based on multiple loan tiers (Rs 2 million to Rs 10 million) for a maximum of 10 years, is allowed for houses/flats up to 250 square yards/2,000 square feet The SBP's mandatory target for banks to ensure that the financing for housing and construction of buildings shall be at least 5 percent of their domestic private sector credit by December, 2021.[14]
New Pakistan Housing Scheme	Subsidy of Rs 0.3 million for the first new 100,000 homes
Amnesty for Investors	Investors in the construction industry would not be required to declare source of funds for new projects

Source: Federal Board of Revenue

Resultantly, the demand for credit for construction reached 26.8 billion in Q2-FY21, up from Rs 3.2 billion in Q1-FY21. Moreover, housing loans increased by Rs 6.4 billion during H1-FY21 against net retirements of Rs 3.3 billion during the same period last year.

Cement

The cement sector continued to perform well, as its output rose sharply by 20.8 percent in H1-FY21 compared to a 2.7 percent growth last year. According to the All Pakistan Cement Manufacturers Association (APCMA) data, the YoY increase in the domestic sales and exports was 15.9 and 14.6 percent, respectively (**Figure 2.7**). For cement exports, this level represented a six-year high.

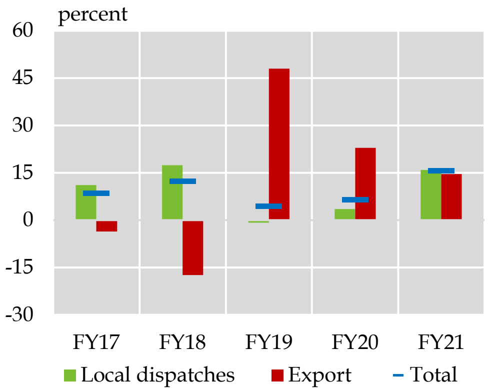
The growth was predominantly driven by domestic demand. The increase in domestic offtake accounted for 83.5 percent of the overall growth, whereas last year its contribution stood at 46.0 percent. Almost 73 percent of all dispatches in the North

contribution of the borrower. Moreover, the SBP's regulatory restrictions were also relaxed through a change in the definition of low-cost housing and also the Debt Burden Ratio under low-cost housing finance. Source: circular numbers 12 and 13 of 2020, Infrastructure Housing and SME Finance Department, State Bank of Pakistan.

[14] For further details, see State Bank of Pakistan, Infrastructure, Housing & SME Finance Department, Circular No. 03 of 2021, dated March 25, 2021 (https://www.sbp.org.pk/smefd/circulars/2021/C3.htm)

were made for the local market; this represented a growth in domestic sales in the region by 16.1 percent in H1-FY21 against 11.7 percent last year. Offtake in the South also increased by 14.0 percent, in contrast to a 27.4 percent dip last year.

Cement Offtake **Figure 2.7**



Source: APCMA

Average cement prices, however, fell by 3.1 percent in H1-FY21 on YoY basis. This was partly attributed to a reduction in FED on several types of cement in the Budget 2020-21 in the wake of the Covid-19 outbreak.[15] In addition, the fall in cement price was also linked to the decrease in price of coal, which is an input in cement production. International price of coal declined 11.2 percent during H1-FY21 on YoY basis.[16] As a result, the domestic producers may have been forced to pass on the benefit of lower input price to the consumers.

On the export front, the quantum increase in sales came solely from the South region, where the dispatches grew by 28.7 percent in H1-FY21, as compared to 41.9 percent last year. Export growth in cement and clinker exports remained strong due to demand from non-traditional destinations, such as China and Sri Lanka. China's renewed focus on infrastructure developments to revive its economy in the aftermath of Covid-19 led to an increased reliance on imported cement products. Meanwhile, demand for cement in Sri Lanka largely emanated from an Asian Infrastructure Investment Bank (AIIB) financed development project. In contrast to South, the producers in the North saw their exports of cement and clinker decline by 14.7 percent in H1-FY21, after a 3.8 percent contraction observed during the same period last year.

Steel

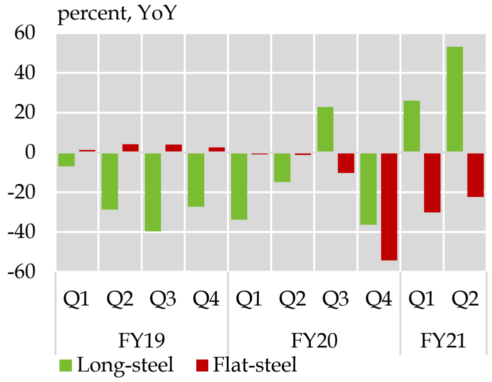
While the steel sector was unable to register a growth in H1-FY21, its contraction narrowed significantly as the year progressed. Meanwhile, analysis of the sector on a quarterly basis reveals that the output of the sector grew by 6.0 percent in Q2-FY21 against a decline of 6.8 percent in the same period last year. However, this rebound in Q2-FY21 was not enough to offset the decline in the preceding quarter, which resulted in a slight overall contraction during the first half of the fiscal year.

Demand for billets, primarily used in the construction industry, remained strong. This led to a 39.1 percent expansion in the

[15] Specifically, the FED on Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements was reduced in the Budget 2020-21 from Rs 2.0/kg to Rs 1.75/kg.
[16] Source: Bloomberg

output during H1-FY21 compared to a contraction of 25.9 percent in same period last year. On the other hand, the demand for flat steel products remained subdued owing to a drop in the production of appliances in the country. However, robust demand from the automobile sector compensated for some of the losses from the appliances segment. The increase in demand from the vehicle industry aided in narrowing the contraction in the flat steel production from 30.1 percent in the preceding quarter to 22.4 percent in Q2-FY21 (**Figure 2.8**).

Long vs Flat Steel Production Growth **Figure 2.8**



Source: Pakistan Bureau of Statistics

Food

The highest contribution to the LSM growth during H1-FY21 came from the food processing industry; its output expanded 20.2 percent in the period, against a growth of 4.5 percent recorded last year. Compared to the preceding quarter, the sector gained further traction, as it posted a QoQ growth of 56.1 percent in Q2-FY21. The increase in the output is largely attributed to the performance of tobacco, wheat milling, and sugar industries.

The production of the tobacco industry expanded by 14.6 percent in H1-FY21, against a contraction of 29.2 percent during the same period last year. The decision to keep last year's duty structure intact, along with the continued drive against illicit and counterfeit tobacco products, helped scale up its production.[17] That said, the growth decelerated in Q2, largely because the Q1 growth was very high due to the base effect.[18]

Meanwhile, the wheat milling industry contributed 1.2 percent to the overall LSM growth. The sharp increase in the output appears to be coming from an increase in the number of reporting units in the *Monthly Survey of Industrial Production & Employment in the Punjab* from 686 units in June 2019 to 738 units in August 2020.

The production of edible oils, on the other hand, remained subdued during H1-FY21; ghee saw a contraction of 3.2 percent whereas output of vegetable oil grew by 1.4 percent during the period on YoY basis. A significant jump in the price of a key input, palm oil, slowed down the operations of the edible oil processing firms. The decline in global palm oil stocks amid supply disruptions in major producing countries caused the global price of the commodity to jump by 34.9 percent YoY during Q2-FY21.[19]

[17] Source: Federal Board of Revenue (fbr.gov.pk/pr/fbr-intensifies-operations-against-illicit-an/152654)
[18] Tobacco production had contracted by 34.5 percent YoY in Q1-FY20 due to an increase in the FED.
[19] Source: Commodity Markets, The World Bank

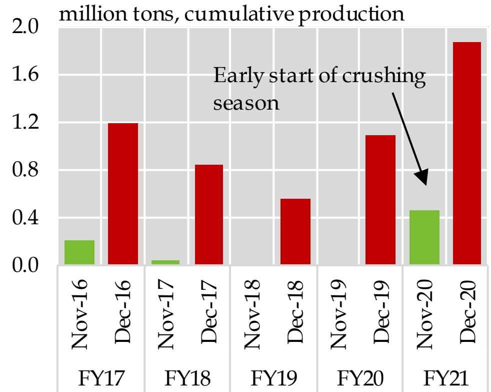
As a result, domestic edible oil processing industry (small firms in particular) opted to import lower volumes. Specifically, the import volumes of palm oil fell by 17.4 percent during Q2-FY21 on YoY basis.

Edible oil prices in the domestic market also increased, in line with the rise in the cost of the raw material, which may have also adversely affected the market. The price of ghee and vegetable oil increased by 16.0 and 10.7 percent, respectively, during Q2-FY21 on YoY basis. Higher cost and lower revenues may have also led to the erosion of profit margins of the industry, according to anecdotal evidence.

Sugar

The sugar industry's output expanded by 72.1 percent during H1-FY21, after growing by 97.1 percent during the same period last year. The industry's output received a boost from the earlier start of the crushing season in FY21 as compared to last year (**Figure 2.9**). The provincial governments ordered the sugar mills to start crushing earlier to overcome domestic scarcity and alleviate the need for imports. In addition, sugar production was also helped by a 12.3 percent growth in sugarcane production, a Rs 10 per 40 kg increase in the indicative price of sugarcane (to Rs 200 per 40 kg for the FY21 season), as well as declining domestic sugar stocks and a sharp increase in sugar prices in the country. These factors encouraged millers to increase the production volumes.

Sugar Production **Figure 2.9**



Source: Pakistan Bureau of Statistics

According to the United States Department of Agriculture (USDA), Pakistan's sugar stocks fell to their lowest level since FY13 at the beginning of the current season.[20] Consequently, the price of sugar began to rise in the domestic market, increasing substantially by 21.7 percent on average in H1-FY21. Lower stocks and higher prices, in turn, necessitated the import of the commodity to meet the excess demand. It was the first time in almost ten years that the country imported any noticeable quantity of sugar.[21]

Automobile

The automobile sector's production increased by 11.2 percent during H1-FY21, after declining by 37.2 percent in the same period last year. The largely broad-based turnaround in production was achieved in the second quarter – the first time the sector

[20] Source: Foreign Agricultural Service, United States Department of Agriculture (USDA)
[21] Compared to the average imports of US$ 6.1 million during FY11 to FY20, the H1-FY21 imports of sugar stood at US$ 126.6 million.

Automobile Sector Production, H1 **Table 2.8**

				Growth (in percent)		
	FY19	**FY20**	**FY21**	***FY19***	***FY20***	***FY21***
All Cars	103,883	57,151	58,374	*7.9*	*-45.0*	*2.1*
Cars <800 cc	22,298	24,707	12,734	*-5.1*	*10.8*	*-48.5*
Cars between 800-1000 cc	29,108	13,470	12,037	*13.5*	*-53.7*	*-10.6*
Cars >1000cc	52,477	18,974	33,603	*11.3*	*-63.8*	*77.1*
Sports Utility Vehicles	3,926	2,094	4,107	*-44.2*	*-46.7*	*96.1*
Light Commercial Vehicles	22,198	11,525	12,465	*-15.9*	*-48.1*	*8.2*
Trucks	3,751	1,747	1,557	*-16.9*	*-53.4*	*-10.9*
Buses	515	326	281	*25.9*	*-36.7*	*-13.8*
Tractors	25,969	16,671	23,237	*-20.4*	*-35.8*	*39.4*
Motorbikes	914,860	809,607	949,750	*-2.8*	*-11.5*	*17.3*

Source: PAMA

posted a positive growth after registering contraction in the past 9 quarters.

The *car and jeep* segment was the major contributor towards this growth in Q2-FY21. Multiple factors, including decrease in interest rates, stable exchange rate, and an increase in competition due to new entrants, had a positive impact on this segment. Lower interest rates contributed to an increase in vehicle financing to Rs 45.3 billion in H1-FY21, against a marginal retirement of Rs 166 million in H1-FY20. The stability of exchange rate also facilitated the output of the automobile sector, as it kept the costs of imported components in check. Meanwhile, the models introduced by new entrants in the market generated interest, especially in the *car and jeep* segment. That said, the growth of the automobile industry may have been underreported in the last few quarters, as the production data from some of these new players has not yet been made part of the LSM index.

The *two- and three-wheelers* witnessed a significant growth in FY21. In fact, the overall output of the automobile industry was primarily driven by this segment (**Table 2.8**). This growth can be attributed to the pent-up demand; increased remittance inflows; and an increase in rural economic activity.

Another category which saw a revival during H1-FY21 was tractors. The output of the segment registered a double-digit growth. This expansion can be attributed to multiple factors. First, the provision of subsidy of Rs 1.5 billion against sales tax for locally manufactured tractors by the government supported the tractor market.[22] This was further aided by low-interest rates, which led to an increase of Rs 0.2 billion in agricultural credit offtake during Q2-FY21. The pickup in economic activities (especially

[22] Source: Federal Board of Revenue (https://download1.fbr.gov.pk/SROs/20201123131159336222SRO1248OF2020DATED23.11.2020--TRACTORSUBSIDY.pdf)

in the construction sector) may also have contributed to increased demand, as tractors are used in excavation as well as the transport of building materials and agriculture commodities.

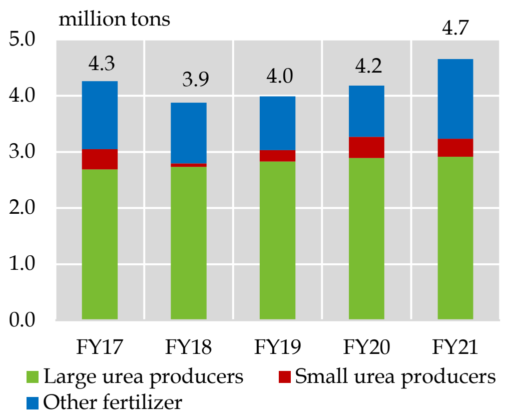
Fertilizer

The growth in the fertilizer industry accelerated to 7.4 percent in H1-FY21 from an increase of 4.9 percent during the same period last year. The output was driven by non-urea fertilizers, as urea production registered a marginal decline (**Figures 2.10a and 2.10b**).

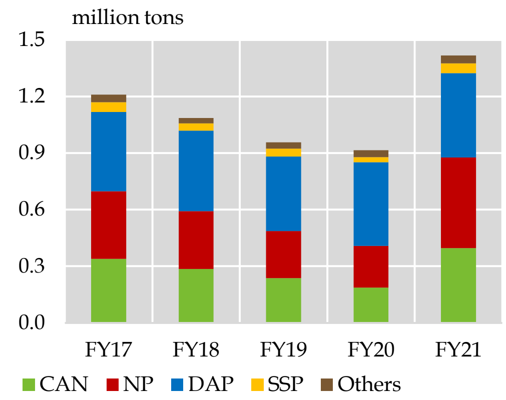
Driven by 117.6 percent and 112.0 percent YoY increases in the production of Nitro Phospate (NP) and Calcium Ammonium Nitrate (CAN) products, respectively, the non-urea fertilizer production rose by 54.8 percent during H1-FY21, after declining by 4.4 percent during the same period last year.

By contrast, urea output remained subdued during H1-FY21, as it witnessed a contraction of 1.0 percent compared to a growth of 7.8 percent last year. The lower production owed largely to a deceleration in the output of larger urea units and a significant decline in the output of smaller urea units. The growth in the production of larger units slowed down to 0.6 percent in H1-FY21 from 2.3 percent last year. All the large producers were operating nearly at full capacity, making the marginal growth in output understandable. On the other hand, production at smaller LNG-based urea plants underwent a double-digit contraction of 13.8 percent during H1-FY21, against an

Overall Fertilizer Production H1 — Figure 2.10a



Fertilizer Production (except urea) H1 — Figure 2.10b



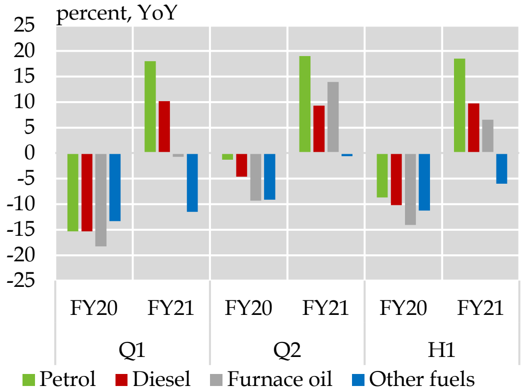
Source: NFDC

84.2 percent expansion last year. Disruption in gas supplies to these units resulted in the below-par production during H1-FY21; in contrast, no major gas shortages were seen last year.

POL

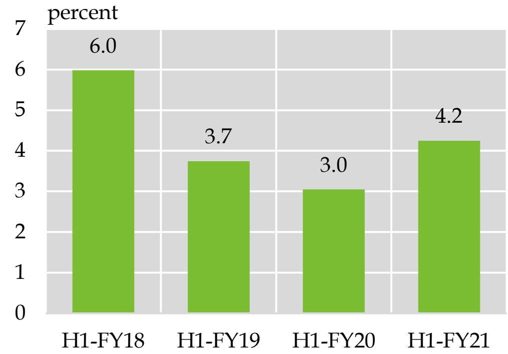
The output of the petroleum industry grew by 5.0 percent in H1-FY21, against a 10.3 percent decline during the same period last year. The production of petrol, diesel, and furnace oil in H1-FY21 grew by 18.5 percent, 9.7 percent, and 6.5 percent, respectively,

Petroleum Production Q1 vs Q2 **Figure 2.11**



Source: Pakistan Bureau of Statistics

Share of Furnace Oil in Electricity Generation **Figure 2.12**



Source: NEPRA

compared to the declines of 8.7 percent, 10.2 percent, and 14.1 percent last year. Together, these three products account for almost 80 percent of the total output of the POL industry. The increase in transportation activities and robust sales of automobiles explain the growth in production of these items.

While the production of petrol and diesel increased overall in H1-FY21, the acceleration in the overall POL production from Q1-FY21 to Q2-FY21 (**Figure 2.11**) can largely be traced to furnace oil. Its production jumped by 13.9 percent in Q2, against a 0.7 percent contraction in the preceding quarter. Lifting of restrictions on utilizing furnace oil for electricity generation in the wake of gas shortages supported the recovery in this segment. This is also evident from an increase in furnace oil's share in the power generation mix and a simultaneous drop in the share of gas during the review period (**Figure 2.12**).

The transition towards Euro-5 standard fuel and curbs on furnace oil for electricity production has created a challenging situation for the refineries,[23] and has contributed to the 47.6 percent growth in import volumes of POL products during H1-FY21; the second-highest imports of petroleum products ever recorded (behind only H1-FY17).

Textile

The textile sector's production in H1-FY21 posted a notable growth of 2.6 percent compared to a marginal growth of 0.3 percent in H1-FY20. It was the highest recorded growth in H1 since FY14. The impetus to growth came primarily from the woolen segment, whereas growth of cotton-based textile products remained muted. As with the wheat milling segment, the increase in the number of reporting firms has pushed up the growth in this segment.

[23] Impact of Euro-5 fuel regulations on the POL industry is highlighted in Chapter 2 of the SBP's First Quarterly Report on the State of Pakistan's Economy 2020-21.

Meanwhile, cotton yarn and cloth production remained subdued during H1-FY21. One factor that has dragged the segment's growth prospects in FY21 is the below-par domestic cotton output. Scarcity of locally produced cotton has forced the relatively costlier imports of raw cotton in H1-FY21, which surged in quantum terms by almost six times from their last year's level. In addition, the imports of yarn also surged by 11.7 percent, as the exporters were to some extent compelled to rely on imported inputs to meet their export orders. To keep the domestic textile industry competitive, and to promote textile exports, the government had exempted additional customs duty on raw cotton imports, which aided growth in the exports of high value-added textile items.

2.4 Services

The leading indicators of the services sector continued to show improvement during H1-FY21. In particular, the growth in LSM and expansion in imports led to a pick up in the activities of the *wholesale and retail trade* segment (**Table 2.9)**. Bank lending to wholesale and retail traders also witnessed a sharp recovery, with a net increase in lending of Rs 30.2 billion in H1-FY21 compared to the net retirements of Rs 35.7 billion in the corresponding period of last year. The lending was largely concentrated in petroleum and fertilizer sectors, which availed credit to meet the increase in demand for POL and fertilizer products.

Within the transport segment, the demand for commercial vehicles rose by 24.4 percent in H1-FY21 as compared to a contraction of

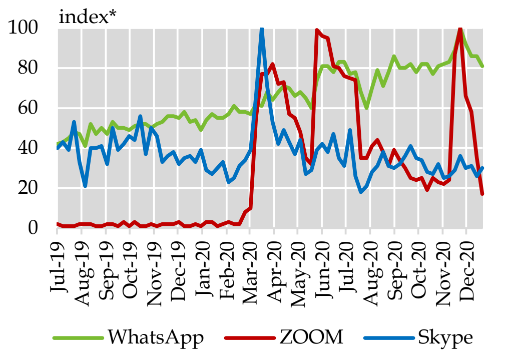
Selected Services Sector Indicators in H1 **Table 2.9**

	FY20	FY21
Wholesale and Retail Trade		
Sectoral credit off take*- flow (billion Rs)	-35.7	30.2
Petroleum products[1]	1.2	17.6
Fertilizer and Agro.	6.5	10.3
Other	-43.4	2.3
Imports (billion US$)[a]	23.2	24.5
LSM (YoY growth)	-2.7	7.6
Agriculture credit (disbursements – Rs bn)	877.7	871.6
Transport, Storage and Communication		
POL sales to transport sector (million MT)	6.9	7.7
o/w Road transport	6.8	7.6
Railways	0.09	0.06
Commercial vehicle sales (units)	11,488	14,295
Cellular teledensity (%)	78.2	82.3
Broadband users (million)	78	93
Finance and Insurance		
Assets (billion Rs)*	21,991	25,124
Deposits (billion Rs)*	15,953	18,519
ROA** (percent)	0.8	1.0
ROE** (percent)	11.3	13.8
Profit** (billion Rs)	88	118
Infection ratio (percent)	8.6	9.2
Other Private Services		
Net ICT exports (million US$)	486.9	668.3
General Government Services		
Expenses on general govt. & defense***	749.2	682.0

Note: Values in brackets are sectoral shares in GDP, as of FY20.
[a] PBS data
[1] Solid, liquid, gaseous fuels and related products
* Stocks, as of end-December 2020 ** After tax *** Includes only current expenditure of government
Source: SBP, [a] PBS, OCAC, PAMA, PTA and MoF

53.0 percent last year. As mentioned earlier, the increase in vehicle sales also contributed to the rise in fuel consumption during the review period (**Table 2.9**). The pickup in economic activities after the ease in

Interest in Video Conferencing Apps in Pakistan **Figure 2.13**



* Index score represents search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.
Source: Google Trends

lockdowns also had a positive impact on the transport sector.

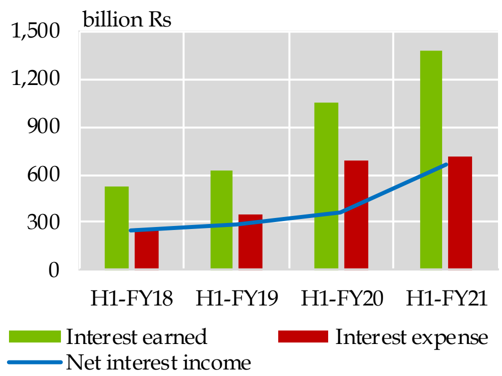
Meanwhile, in the communication sub-segment, the demand for internet services continued to rise, as the start of the second wave of Covid-19 necessitated continued implementation of remote-working and online-education arrangements. This shift has given a considerable boost to the usage of video conferencing apps such as Zoom, WhatsApp and Skype in Pakistan (**Figure 2.13**). The significant rise in demand for such apps has also led to a commensurate increase in cellular teledensity and the number of broadband users in the country (**Table 2.9**).

Likewise, in the *other private services*, the net ICT exports rose by 33.3 percent to US$ 649.2 million in H1-FY21, compared to US$ 486.9 million in the same period last year. Within ICT services, the growth mostly originated from software- and hardware-related services, including software exports and consultation services related to both software and hardware installation and operation. As in the communication sector services, the rise in global demand for computing services, such as cloud computing, network security, and software consultancy, led to an increase in ICT exports (for details, see **Chapter 5**).

The general government expenditures, meanwhile, witnessed an overall contraction during H1-FY21 on YoY basis. A decline in defense and pension expenditures was also observed during the review period (**Chapter 4**).

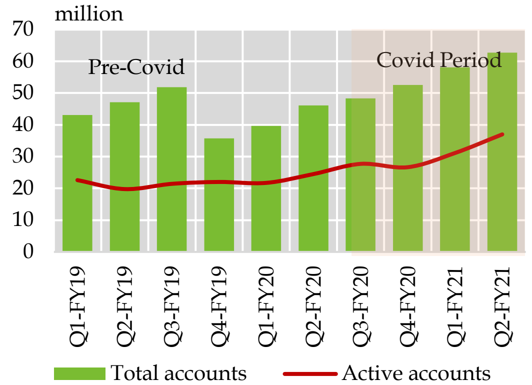
In the *finance and insurance* segment, the banking sector posted a healthy YoY improvement during H1-FY21. The profit after tax of the banking sector grew by 34 percent to Rs 118.0 billion in H1-FY21, from Rs 88.0 billion last year. Profitability indicators, such as return on assets (ROA) and return on equity (ROE), also improved

Interest Income and Expense of Scheduled Banks **Figure 2.14**

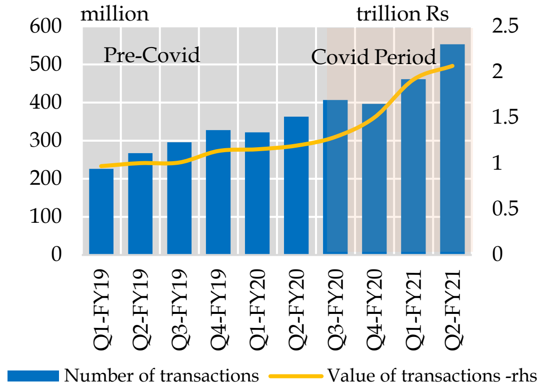


Source: State Bank of Pakistan

Number of Branchless Banking (BB) Accounts **Figure 2.15a**



Transactions via Branchless Banking Accounts **Figure 2.15b**



Source: State Bank of Pakistan

over the same period. The rise in profits of the banking sector was primarily driven by an increase in the net interest income and capital gains on government securities arising from the lowering of interest rates (**Figure 2.14**).

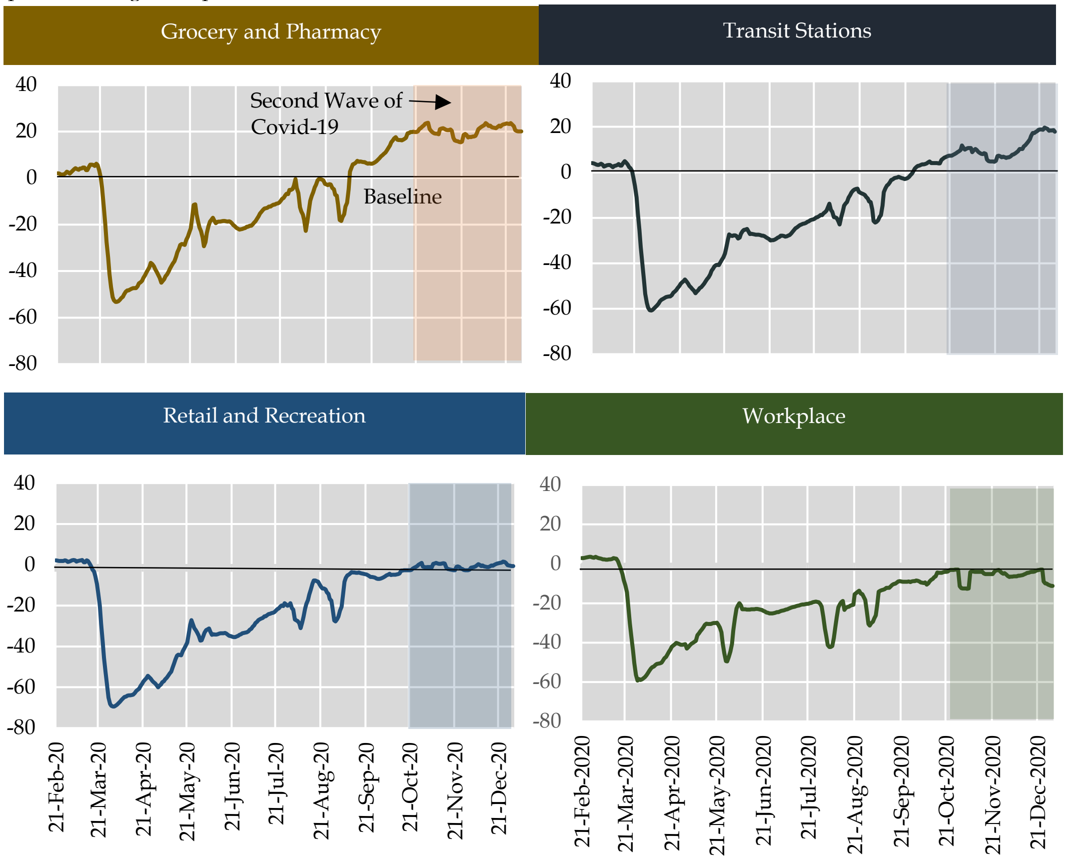
Meanwhile, within the banking sector, branchless banking (BB) witnessed expansion during the Covid-19 period in terms of both the number of accounts (**Figure 2.15a**) and the volume of transactions (**Figure 2.15b**). This considerable increase in the use of BB accounts could be traced back to multiple factors. First, the mobility restrictions to contain the spread of Covid-19 induced people to switch to digital channels. Second, many BB service providers and commercial banks integrated online shopping services (purchase of airtime, data bundle, bills, fee payments, salary transfer and money transfer) within the m-wallet apps, which may have further reinforced this digital transition.

Furthermore, in order to push digital payments and to reduce the risk of Covid-19 spread due to biometric verification, the SBP took several measures to encourage increased usage of digital banking services. For instance, the central bank allowed BB customers to withdraw/deposit cash up to Rs 25,000 per month, up from Rs 15,000 previously for level 0 accounts, without biometric verification.[24] Moreover, the Authorized Financial Institutions (AFIs) were instructed to waive service charges on fund transfers through m-wallet accounts.[25] Further, with the objective to promote digital payments and increase financial inclusion in the country, the SBP has

[24] Level 0 is a basic m-wallet account for individuals with low Know Your Customer (KYC) requirements and transaction limits.
[25] BPRD Circular Letter No. 10 of 2020, "Measures to Combat COVID 19 Pandemic – Branchless Banking Operations", March 26, 2020. These measures were further extended till December 31, 2020 via BPRD Circular Letter No. 33 of 2020.

Google Mobility Changes in Pakistan (7-Days MA) **Figure 2.16**

percent change, compared to baseline*



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

Source: Covid-19 Community Mobility Report

recently introduced the country's first instant payment system, "Raast". This system is aimed at providing instantaneous payments with low transaction costs for individuals, businesses and government entities.[26]

Besides these indicators, the Google mobility data, which provides insights into mobility in four segments that are closely associated with the services sector, points toward continuing improvement in the country (**Figure 2.16**).[27] Disaggregated analysis shows that by end-December 2020, mobility

[26] For more details on Raast, visit https://www.sbp.org.pk/dfs/Raast.html.

[27] Google mobility indicators are being shared since mid-February 2020, when the Covid-19 crisis turned into a pandemic. As such, comparable numbers for H1-FY20 (Jun 2019-Dec 2020) are not available.

in two out of four segments, *grocery and pharmacy* and *transit stations*, had risen above the pre-lockdown levels. The government's smart lockdown policy exempted the vendors of essential food items, pharmacies and grocery shops from closure. The *grocery and pharmacy* segment covers visits to grocery markets, food warehouses, farmers markets, food shops, drug stores, and pharmacies; this largely explains the marked improvement in this mobility segment.

Multiple factors evidently led to an improvement in the number of visits to *transit stations*, which covers visits to places like public transport hubs, bus stops, train stations, and sea ports. Easing of Covid-19 restrictions benefited this segment, reflecting the rise in inter-city and inter-provincial travelling and resumption of tourism services. Moreover, the increase in POL sales (**Table 2.9**) also indicates a broader recovery in the transportation sector, with a spillover impact on activity at transit stations.

Further, the mobility in the *retail and recreation* and *workplace* was close to the pre-lockdown level.[28] The slower pace of recovery in the *retail and recreation* segment was due to restrictions imposed on recreational places, such as restaurants, cafes, shopping centers, museums, libraries, and movie theaters amid the second wave of the pandemic. Specifically, restaurants were instructed to close their indoor dining facilities and were asked to serve food in open areas and/or offer takeaway options. The decrease in seating capacity for some restaurants may have led to people ordering food online rather than visiting the restaurants. In addition, the government instructed the public and private companies to enhance work-from-home arrangements, which resulted in lower visits to workplaces, as evident from Google mobility data.

2.5 Labor Market

The recovery in employment continued in H1-FY21, in line with the positive gains in LSM and the services sector. Employment data for the manufacturing sector of Punjab and Sindh displayed continued improvement, while the SBP's Business Confidence Survey (BCS) results also reinforced the pattern displayed by manufacturing employment data with an increasing trend for employment index in the industrial sector. The BCS further revealed that the employment index for the services sector also carried on an upward trend for October 2020 wave, with a slight hint of downward movement in December 2020. The growth in wages for the construction industry also remained positive, with a nominal decrease in the magnitude of growth in Q2-FY21 when compared to Q1-FY21. It is worth mentioning that there is spare capacity in the economy, and activity in general remains below pre-Covid levels.

[28] The visits to grocery stores, pharmacies, and transit stations, were up by 25 percent, 19 percent and 4 percent, respectively. Meanwhile, mobility in the workplace segment was down by 7 percent compared to the baseline (pre-Covid).

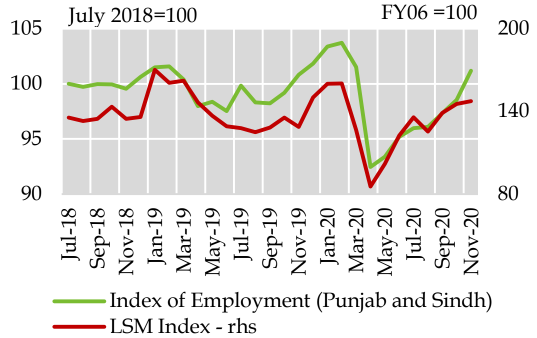
Employment

The employment index for Sindh and Punjab, based on the data from Monthly Survey of Industrial Production and Employment on the manufacturing sector, shows that the trend for employment continued to improve for the first two months of Q2-FY21 (**Figure 2.17**). Overall employment growth also turned positive and stood at 0.9 percent for Jul-Nov FY21, in contrast to a contraction of 0.3 percent for Jul-Nov FY20.[29] The same results are depicted in the Special Survey for Evaluating Socio-Economic Impact of COVID-19 published by the PBS (**Box 2.1**).[30]

On the provincial level, the data indicates an increase in employment numbers for the province of Punjab. For Jul-Nov FY21, employment in Punjab grew by 1.6 percent, in contrast to a 3.9 percent contraction in the same period of the preceding fiscal year (**Figure 2.18a**). Moreover, the growth in the first two months of Q2-FY21 was 2.3 percent higher over Q1-FY21. This is due to the increasing level of activity in the industrial sector of Punjab, which grew by 3.8 percent in Q1-FY21 and 5.0 percent during Oct-Nov FY21.

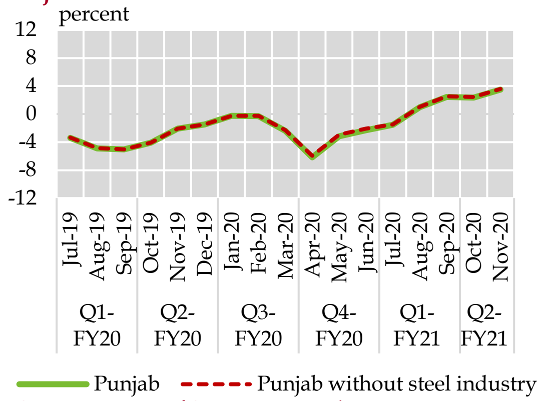
In Sindh, the manufacturing sector's employment growth was negative during

Combined Sindh and Punjab Industrial Employment and LSM Index **Figure 2.17**



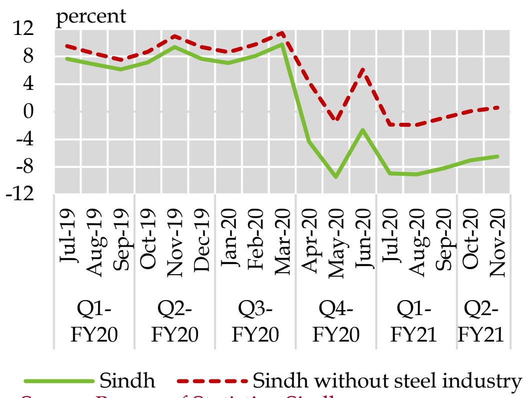
Source: Bureau of Statistics, Punjab and Bureau of Statistics, Sindh

YoY Employment Growth For Punjab **Figure 2.18a**



Source: Bureau of Statistics, Punjab

YoY Employment Growth For Sindh **Figure 2.18b**



Source: Bureau of Statistics, Sindh

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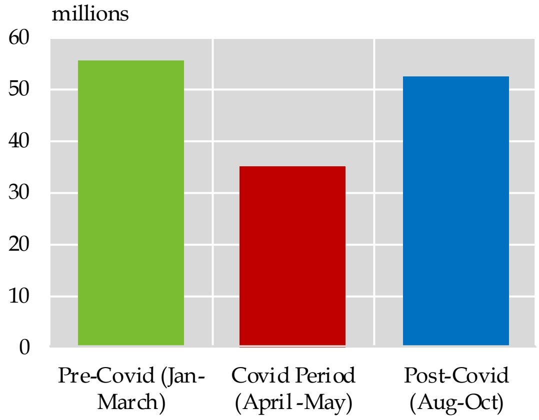
[29] Growth is calculated by excluding the data for the steel industry.
[30] Source: https://www.pbs.gov.pk/content/special-survey-evaluating-impact-covid-19

the review period. Nonetheless, it is important to note two points here. First, the magnitude of contraction has constantly decreased since the start of FY21. Second, the negative growth is explained by the loss in employment in the steel industry, which constitutes around 8 percent of the total employment reported for the province. The data for the steel industry was not recorded for the months of April-September 2020, and when the reporting resumed, it depicted a negative 97.5 percent growth for the Oct-Nov FY21 period. The reason behind this reduction could be the layoffs in the Pakistan Steel Mills (PSM),[31] which accounted for the majority of the steel industry data, available in the monthly industrial survey. Excluding the data for steel industry, employment for Sindh shows an increase of 0.3 percent during the first two months of Q2-FY21 (**Figure 2.18b**).

Box 2.1: Special Survey on Evaluating the Impact of Covid-19

In an interview-based survey of 6,000 households, the PBS ascertained the impact of Covid-19 at national and provincial level. It reflects upon the working situation of individuals before and after the lockdown, and identifies the most affected industries and occupations. The survey reveals that the total employment was at 55.7 million workers before the imposition of lockdowns, and fell to 35 million when the constraints on movement were at their peak – a decrease of 37 percent. However, since then, with ease in restrictions and gradual restoration of economic activity, total employment recovered to 52.5 million (**Figure 2.1.1**). The PBS survey further shows that along with the employment loss, around 6.7 million employees experienced a fall in their income as well.

Total Employed **Figure 2.1.1**



Source: Pakistan Bureau of Statistics

The survey also presents the distribution of affected workers by industry. It shows that employment in the construction sector was most affected due to the lockdowns: 59 percent of the working population involved in the sector faced jobs losses, and 21 percent experienced reduction in their income. The survey reveals that employment in the construction sector had not made full recovery by October 2020.

Source: Pakistan Bureau of Statistics (2020). *Special Survey for Evaluating Socio-Economic Impact of COVID-19 on Wellbeing of People.* Islamabad: Pakistan Bureau of Statistics

[31] Source: (PR No. 428) and (PR No. 405), Ministry of Finance (https://www.finance.gov.pk/press_releases.html)

From a sectoral standpoint, cotton textile, which showed a negative employment growth during Jul-Nov FY20, recorded a 0.4 percent growth during Jul-Nov FY21 (**Table 2.10**). The pace of growth also improved between Q1-FY21 and Q2-FY21, in line with the pickup in the textile sector growth in the LSM index. Cotton textile constitutes around 50 percent of the total employment reported for Punjab and Sindh in the Monthly Survey of Industrial Production and Employment; therefore, the improvement in the overall employment numbers is being primarily driven by the growth in this sector. Employment in the sugar industry, meanwhile, also depicted a growth of 12.6 percent; this was mainly due to an early start of the crushing season in the country.

In addition to cotton and sugar, employment in the automobile and pharmaceutical sectors recorded growth during Jul-Nov FY21. The positive developments are consistent with the growth in output of these industries: output of the pharmaceutical and automobile sectors grew by 12.9 and 6.0 percent respectively in the same period. Furthermore, employment in the wheat milling segment also picked up pace in Punjab during the period.[32] The YoY employment growth was 0.7 percent in Jul-Nov FY20, which rose to 17.1 percent in Jul-Nov FY21. However, the primary reason for this jump was the increase in the number of reporting mills in the dataset.

The employment indices taken from the SBP's BCS reinforce the trends depicted from the industrial data of Sindh and Punjab. In the December 2020 wave of the survey, 50.5 percent of the industrial units reported an increase in employment for the past six months compared to 46.0 percent in the August 2020 wave. Moreover, the recent wave indicates that industrial firms are optimistic about the future increase in employment as well (**Figure 2.19a**). This may be explained by the positive growth depicted in the LSM sector.

YoY Employment Growth for Sectors **Table 2.10**

	Jul-Nov	
	FY20	**FY21**
Sugar	-17.7	12.6
Wheat milling	0.7	17.1
Edible oil	6.4	9.3
Cigarettes	18.7	5.8
Automobile	-	3.9
Pharmaceuticals	-17.3	4.8
Leather tanning	1.1	3.6
Fertilizers	2.6	1.4
Cotton textiles	-4.2	0.4
Petroleum products	-1.7	-7.8
Steel bars/angles	-9.3	-89.4

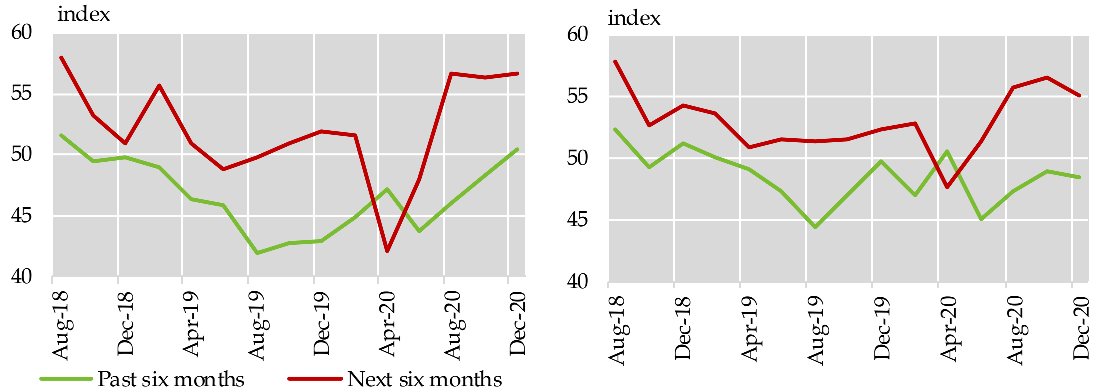
Source: Bureau of Statistics, Punjab and Bureau of Statistics, Sindh

In addition, the BCS reveals that there was a marginal decrease of 0.4 percent point in the current employment index for the services sector in the December 2020 wave, indicating no significant shift in employment for the underlying period. The future employment index showed that a majority of businesses (55.1 percent) expected employment to increase in the

[32] Employment data for wheat milling and cigarette industries is not reported for Sindh.

BCS Employment Index for Industries **Figure 2.19a**

BCS Employment Index for Services **Figure 2.19b**



Source: State Bank of Pakistan

future. However, a gradual deterioration in the confidence about the future of employment in the services sector can be observed between October and December 2020 (**Figure 2.19b**). One reason could be the second wave of Covid-19 in the country. However, the future employment index (next six months) is still visibly higher than the April 2020 level, which was the first wave period. This is mainly because, rather than imposing a complete lockdown, the government tackled the second wave by imposing smart and micro lockdowns. Moreover, with the prospective availability of vaccination, unpredictability surrounding the pandemic has somewhat reduced.

Wages

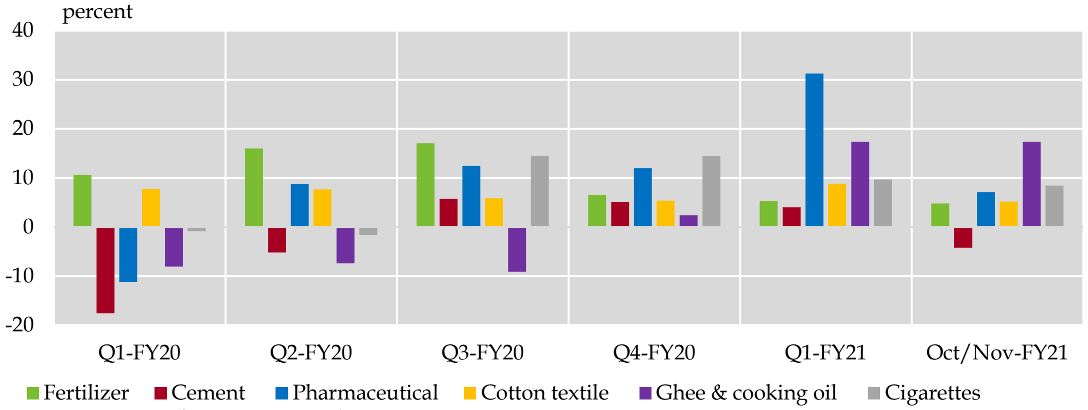
The data for wages from the Monthly Survey of Industrial Production and Employment for Punjab shows an overall growth for the reported sectors.[33] The salaries for workers in the pharmaceutical industry increased by 31.3 percent in Q1-FY21, followed by 7.1 percent growth in Oct-Nov FY21. This can be attributed to a surge in demand for medical supplies because of the ongoing pandemic, which in turn led to an increase in the demand for labour in the industry. Wages in the fertilizer, cotton textile and cigarette manufacturing industries also increased during the Jul-Nov period (**Figure 2.20**). However, cement industry wages, after exhibiting a growth of 4.0 percent in Q1-FY21, posted a negative growth in the first two months of the second quarter.[34]

The wage-rate index for the construction sector taken from the national CPI dataset of PBS shows that YoY growth in wages for

[33] The wages are reported for the fertilizer, cement, pharmaceutical, cotton, ghee & cooking oil, and tobacco industries.

[34] Negative growth in wages for the cement industry is due to the base effect: the wages for the Oct-Nov 2020 period were the highest since February 2020.

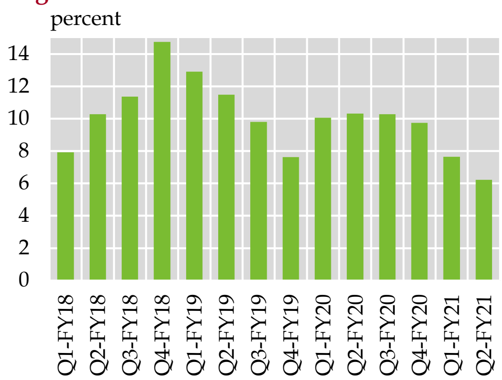
YoY Growth in Wages for Punjab **Figure 2.20**



Source: Bureau of Statistics, Punjab

H1-FY21 was 6.9 percent.[35] However, despite the constant increase in nominal wages of the construction workers, the growth in wages has decelerated since Q4-FY20, the period with lockdown restrictions (**Figure 2.21**). This could be due to the excess labour supply, including the forced repatriation of migrant workers due to Covid-19.[36]

Growth in Construction Sector Wages **Figure 2.21**



Source: Pakistan Bureau of Statistics

Support to employment, in addition to smart lockdowns, accommodative monetary policy, and targeted fiscal measures, came from the SBP's concessionary schemes. For employment protection, the Refinance Scheme for Wages to Prevent Layoffs (also known as the SBP Rozgar Scheme) focused on helping businesses pay their wage bills. Under the scheme, the SBP received applications from 3,494 businesses comprising 1.9 million employees. Around 85 percent of the applications were approved with an average approval time of 25 days, which allowed businesses to receive the funds in time. Under the scheme, Rs 238.2 billion for 2,959 business units, including 1,337 SMEs, was approved, which prevented the layoffs of almost 1.7

[35] The index represents the average of urban and rural construction wage rates reported in the Consumer Price Index (published by Pakistan Bureau of Statistics).
[36] For more information, refer to Box 6.1: Covid-19 and Forced Repatriation of Migrants in Pakistan: Government's Strategy and Challenges Ahead in the SBP's FY20 Annual Report on the State of Pakistan's Economy.

Refinance Scheme for Wages to Prevent Layoffs (SBP Rozgar Scheme) **Table 2.11**

	Requested				Approved			
	Amount (Billion)	Employees (Thousand)	Total Business Units	No. of SMEs	Amount (Billion)	Employees (Thousand)	Total Business Units	SME
Apr-20	76.3	527	775	238	16.2	115	124	32
May-20	36.3	356	682	351	42.3	366	584	224
Jun-20	18.7	131	537	353	21.4	220	529	280
Jul-20	96.3	557	624	208	51.0	275	461	217
Aug-20	27.3	186	389	187	64.4	397	509	174
Sep-20	21.3	174	473	290	29.9	218	455	248
Oct-20	0.1	1	14	8	12.7	103	290	161
Nov-20	-	-	-	-	0.3	2	7	1
Total	276.2	1,932	3,494	1,635	238.2	1,696	2,959	1,337

Source: State Bank of Pakistan

million employees (**Table 2.11**). The impact could be larger due to spillovers to the upstream and downstream industries.

Importantly, the number of SME applicants started to increase from May 2020 onwards, when the government announced the risk sharing facility for SMEs. It is important to note that small enterprises around the world remained more susceptible to the Covid shock.[37] The requirement of collateral limited their borrowing capacity, exacerbating their liquidity position. Owing to that, the SBP allowed SMEs to avail the Rozgar Scheme against corporate guarantees, and it went further to encourage the commercial banks to provide clean exposure to SMEs (without any collateral) for up to Rs 5 million.

[37] Source: OECD (https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/)