

## 2 Real Sector

Pakistan's economy posted a promising recovery during the year, with real GDP growth provisionally estimated to be 3.9 percent for FY21. This performance was achieved despite the ongoing Covid pandemic, which had played a part in restricting GDP growth to -0.5 percent last year. The rebound in FY21 growth mainly owed to a turnaround in the industry and services sectors. Within industry, the growth in food, automobile, textile, and construction-allied segments of large-scale manufacturing stood out. Moreover, while agriculture sector growth registered an overall slowdown compared to last year, wheat, rice and maize achieved historic production levels during FY21. Vibrancy in the commodity-producing sector spilled over to the services sector, most notably in the wholesale and retail trade subsector. Similarly, provincial surveys for Punjab and Sindh reported growth in industrial employment, which appeared to be broadly on the recovery path towards pre-Covid levels.

### 2.1 Economic Growth

Pakistan's economy posted GDP growth of 3.9 percent during FY21, which represented a recovery following the Covid-induced contraction a year earlier (**Table 2.1**). The growth was broad-based, with the agriculture, industry and services sectors expanding by 2.8 percent, 3.6 percent, and 4.4 percent respectively. The economic turnaround was enabled by the supportive policies of the government and central bank, which mitigated the health and economic fall-out of Covid on the economy.

The agriculture sector recorded growth of 2.8 percent during FY21, compared to 3.3 percent a year earlier. Almost all important crops performed better than last year. Specifically, during *Rabi* FY21, wheat production grew by 8.1 percent compared to a year earlier, as subsidies on inputs and an increase in the minimum support price contributed to the increase in cultivated area of wheat.<sup>1</sup> Moreover, after accounting for *Rabi* season cultivation, the maize crop grew by 7.4 percent over the full year, driven primarily by an improvement in its

yield. The latest estimates of crop production during the review period added on to the strong performance of rice and sugarcane during *Kharif* FY21. However, there was a notable decline in cotton, whose provisional estimates were revised further downward to around 7 million bales – i.e. a 22.8 percent decline in production compared to last year. This

**GDP and its Components** **Table 2.1**  
growth in percent

	FY20 <sup>R</sup>	FY21 <sup>P</sup>
Agriculture	3.3	2.8
Industry	-3.8	3.6
Services	-0.6	4.4
<b>GDP</b>	<b>-0.5</b>	<b>3.9</b>

P: provisional R: revised

Source: Pakistan Bureau of Statistics

represents the lowest level of cotton production since FY85, attributed to a continuing fall in cultivated area and depressed yields due to exceptionally heavy monsoon rains and pest attacks.<sup>2</sup> Meanwhile, the livestock sector grew by 3.1 percent during FY21, compared to 2.1 percent a year earlier. This could mainly be traced to a recovery in the poultry sub-sector, which had been hit hard by the

<sup>1</sup> The *Rabi* FY21 season corresponds with the Oct-Mar FY21 period.

<sup>2</sup> For reference, cotton production in FY85 was 5.9 million bales. (Source: MNFSR)

strict lockdowns from March 2020 onwards during the first wave of Covid, but gradually recovered in FY21 as the government shifted to smart lockdowns.

The industrial sector grew by 3.6 percent during FY21, compared to a decline of 3.8 percent last year. Within industry, Large Scale Manufacturing (LSM) rebounded sharply in the review period, growing by 9.0 percent during Jul-Mar FY21 compared to a contraction of 5.1 percent in the comparable period last year. LSM growth was driven by food, cement, textile and automobile sectors. Within the food group, better harvest of the sugarcane crop led to expansion in sugar output. The construction-allied industries of cement and steel performed well on the back of targeted fiscal and monetary incentives. Vibrancy in automobile sector was due to entry of new players, pent up demand of last year, subsidy on tractors, stability in exchange rate, low interest rates, and improved rural incomes, which contributed to a revival in demand for automobiles and led to output growth in the sector.<sup>3</sup> The textile sector also grew notably during the review period, amid a rebound in the cotton textile segment. By contrast, the electricity and gas sub-sector posted a sharp decline during FY21 compared to last year, mainly on account of a reduced allocation of subsidies to

DISCOs.<sup>4</sup> It is worth highlighting that the quantum of electricity generation during Jul-Mar FY21 was, however, higher compared to Jul-Mar FY20.<sup>5</sup>

The positive performance of the commodity-producing sectors provided the impetus for a 4.4 percent growth in the services sector, compared to a 0.6 percent contraction last year. Specifically, there was a notable turnaround in *wholesale and retail trade* growth due to an increase in overall economic activity and imports, whereas *finance and insurance* and *general government services* also picked up the pace compared to a year earlier. Although, *transport, storage, and communication* activities recorded marginally negative growth, the magnitude of contraction was smaller than the one observed in FY20.

Meanwhile, employment within the industrial sectors of Sindh and Punjab continued to recover during Jul-Feb FY21.<sup>6</sup> The impetus mainly came from industries related to food-processing and cigarette manufacturing, while automobile and cotton textile also contributed positively to employment growth; these developments were broadly in line with the LSM growth observed for these sectors. The February 2021 wave of SBP's Business Confidence Survey also showed an improvement in the

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<sup>3</sup> Rural incomes have improved during FY21, mainly on the back of higher agriculture income, foreign earnings, and record workers' remittances. Agriculture income constitutes about 26 percent of total monthly rural household income, while the share of foreign remittances in rural monthly household income is 5.8 percent (compared to 4.0 percent for urban households). (Source: Household Integrated Economic Survey (HIES) 2018-19)

<sup>4</sup> Source: PBS Press Release for National Accounts Committee meeting held on 21st May, 2021, available at: [www.pbs.gov.pk/sites/default/files//press\\_releases/2021/Press%20Release%20103rd%20NAC.pdf](http://www.pbs.gov.pk/sites/default/files//press_releases/2021/Press%20Release%20103rd%20NAC.pdf)

<sup>5</sup> Specifically, gross generation of electricity (excluding K-Electric's) rose from 88,173 GWh during Jul-Mar FY20 to 92,372 GWh during Jul-Mar FY21. (Source: NEPRA)

<sup>6</sup> Source: Bureau of Statistics Punjab and Bureau of Statistics Sindh

Overview of Crop Performance - FY21<sup>P</sup>

Table 2.2

area in 000 hectares; production in 000 tons/bales for cotton; growth in percent

	Area				Production			
	FY20 Achieved	FY21 Target	FY21 Achieved	Growth over last year	FY20 Achieved	FY21 Target	FY21 Achieved	Growth over last year
<b>Important Crops</b>								
Wheat	8,804.7	9,214.0	9,177.6	4.2	25,247.6	27,000	27,283.4	8.1
Rice	3,033.9	2,953.0	3,335.1	9.9	7,413.7	8,000	8,419.3	13.6
Cotton	2,517.3	2,310.0	2,078.9	-17.4	9,148	10,900	7,063.90	-22.8
Maize	1,404.2	1,335.0	1,417.8	1.0	7,883	6,700	8464.9	7.4
Sugarcane	1,039.8	1,175.0	1,165.0	12.0	66,379.6	69,500	81,009.3	22.0
<b>Minor Crops (Selected)**</b>								
Gram	943.9	988.2	872.7	-7.5	497.6	540	251.2	-49.5
Moong	172.9	179.4	231.4	33.7	125.9	140	204.5	62.4
Potatoes	185.4	187.6	234.4	26.4	4552.7	4,700	4681.0	2.8
Onion	148.2	159.1	153.8	3.8	2,122.0	2,100	2099.8	-1.0
Tomatoes	57.8	49.9	59.0	2.1	594.2	500	670.5	12.8

P: Provisional

Source: MNFSR; PBS

current employment index for the industry and services sectors. However, future employment expectations, as captured by SBP's Consumer Confidence Survey, deteriorated in the March 2021 survey iteration, due to the beginning of the third Covid wave and subsequent restrictions to subdue it.

## 2.2 Agriculture

In overall terms, the crop sector performed better during FY21, with four out of five important crops achieving greater output compared to a year earlier (**Table 2.2**). In fact, provisional estimates suggest that maize, rice, and wheat reached historic high levels of production, while sugarcane also posted its second highest output on record.<sup>7</sup> Specifically, provisional estimates available during Q3-FY21 indicated that wheat production grew by 8.1 percent compared to last year, on the back of an increase in area under cultivation and

improvement in yield. This outcome was also facilitated by policy support for the wheat crop.

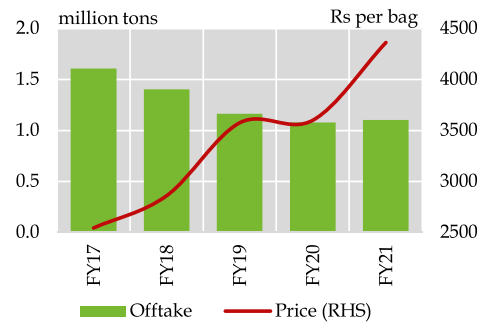
### Inputs

For the *Rabi* season, the government's policy support consisted of subsidies for fertilizer, fungicides and weedicides, and an increase in the support price of wheat. Specifically, DAP, phosphate, and potassic fertilizer received a subsidy of Rs 1,000 per 50 kg bag, while weedicides and fungicides received a per-acre subsidy of Rs 250 and Rs 150 respectively. Moreover, in November 2020, the Economic Coordination Committee (ECC) recommended an increase in the minimum support price (MSP) of wheat from Rs 1,400 per 40 kg bag in FY20 to Rs 1,650 per 40 kg bag for the current season; subsequently, in April 2021, the ECC recommended a further increase in the wheat MSP to Rs 1,800 per 40 kg bag.

<sup>7</sup> Sugarcane touched its record peak production of 83.3 million tons in FY18.

**DAP Offtake and Price during Oct-Mar**

**Figure 2.1a**



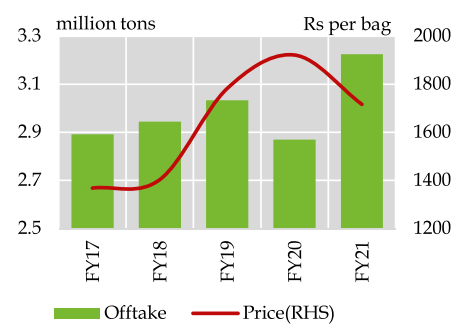
Source: National Fertilizer Development Center

The subsidy on DAP contributed to a 2.3 percent increase in its offtake during Oct-Mar FY21 compared to a year earlier (Figure 2.1a). However, the impact of the subsidy was diluted by an increase in the price of DAP. Given that the majority of domestically available DAP is imported, its price tends to follow the trend in global price of the commodity, which rose by 49 percent, on average, between Oct-Mar FY21.<sup>8</sup> The rapid increase in the global price of DAP somewhat restricted its offtake during the review period.

By contrast, urea prices had declined by 10.7 percent during Oct-Mar FY21 following a reduction in the Gas Infrastructure Development Cess (GIDC), which contributed to its higher offtake.<sup>9</sup> Ultimately, even though urea did not receive subsidy, its offtake increased by 12.4 percent during Oct-Mar FY21 (Figure 2.1b).

**Urea Offtake and Price during Oct-Mar**

**Figure 2.1b**



Meanwhile, agriculture credit disbursements were 4.6 percent higher during Jul-Mar FY21 compared to a year earlier (Table 2.3). That said, the pace of disbursements picked-up during Q3-FY21, showing an increase of 13.1 percent. The farm sector witnessed growth in production loans associated with working capital needs in the third quarter. In addition, there was also a pick-up in long-term loans for development purposes.

In the non-farm sector, the increase in disbursements to the poultry sector stood out during Q3-FY21 compared to last year. Previously, supply-side losses incurred by producers during the strict Covid lockdowns appeared to be holding back credit off-take in H1-FY21. This pattern changed in the third quarter, with higher Q3-FY21 disbursements suggesting that there was recovery in the demand for poultry items during the review period.

<sup>8</sup> Global DAP prices rose due to a combination of demand and supply factors. On one hand, demand was strong due to healthy farm incomes and government support schemes in major crop-growing regions. On the other hand, the disruption in fertilizer trade (mainly triggered by countervailing duties placed by the US on fertilizer imports from Morocco and Russia) weakened the supply side. (Source: The World Bank)

<sup>9</sup> In January 2020, the ECC decided to waive Rs 400 off the GIDC to make cheaper fertilizer available to farmers. Urea prices subsequently moderated from February 2020 onwards.

**Agriculture Credit Disbursements** Table 2.3  
billion Rupees

	Q3		Jul-Mar	
	FY20	FY21	FY20	FY21
<b>Farm sector</b>				
A. Production	151.5	162.8	430.9	452.4
B. Development	6.2	15.9	28.7	55.6
C. Total farm sector (A+B)	157.7	178.7	459.6	508.0
<b>Non-farm sector</b>				
Livestock/dairy	77.8	89.3	236.7	250.1
Poultry	50.7	56.0	177.9	158.0
Other	11.6	12.9	38.0	37.7
D. Total non-farm sector	140.1	158.2	452.6	445.8
<b>Total agriculture credit (C+D)</b>	<b>297.8</b>	<b>336.9</b>	<b>912.2</b>	<b>953.8</b>

Source: State Bank of Pakistan

This was consistent with fewer lockdowns restrictions in Jan-Feb 2021 pertaining to outdoor dining and gatherings, which eventually gave way to stricter SOPs later in March 2021.<sup>10</sup>

In terms of irrigation requirements, water availability was better during the *Rabi* FY21 season compared to last year, despite being short of the average system usage. Specifically, rim station inflows of 21.1 million acre feet (MAF) during Oct-Mar FY21 were around 10 percent short of the pre-*Rabi* forecast of 23.4 MAF.<sup>11</sup> After accounting for storage releases, system losses, and minor involuntary escape downstream of Kotri barrage, the total

canal withdrawals amounted to 31.2 MAF, i.e. nearly 15 percent short of the average system usage of 36.7 MAF.<sup>12</sup> An IRSA advisory committee expressed satisfaction with the overall canal withdrawals, since they deviated slightly from the 10 percent shortfall which had been anticipated prior to the *Rabi* season and were deemed to be manageable with the utilization of efficient water management practices.<sup>13</sup>

## Wheat

Wheat production hit a historic high of 27.3 million tons during *Rabi* FY21, achieving 8.1 percent growth compared to last year (Table 2.4). This stemmed from a 4.2 percent increase in area under cultivation of wheat, while the yield also improved by 3.7 percent compared to last year. The increase in area was particularly noticeable in Punjab (i.e around 230 thousand hectares greater than last year), the province which accounts for nearly three-fourths of wheat production, on average. As mentioned earlier, policy support on inputs and the increase in minimum support price played a part in encouraging growers to dedicate more area to the wheat crop.

Nonetheless, despite production exceeding its annual target and hitting a record high, a concurrent increase in estimated annual

<sup>10</sup> While the prices of poultry items had risen during Q2-FY21, this may not be a reliable indicator of a pickup in poultry demand in light of the Competition Commission of Pakistan's (CCP's) enquiry result made public in May 2021 that cartelization and price coordination among poultry feed mills to raise prices contributed to the increase in prices of chicken and eggs. (Source: CCP Press release dated 7 May, 2021)

<sup>11</sup> Rim station inflows comprise of inflows from Indus, Kabul, Jhelum, Chenab, and an Eastern Rivers component

<sup>12</sup> The average system usage is calculated on the basis of sub-clause 14b of the Water Apportionment Accord of 1991; relevant excerpt: 'The record of actual average system uses for the period 1977-82, would form the guide line (sic) for developing a future regulation pattern'.

<sup>13</sup> Source: IRSA press release dated 1 October 2020.

**Performance of Wheat Crop<sup>p</sup>****Table 2.4**

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

	Area			Production			Yield		
	FY20	FY21 Target	FY21	FY20	FY21 Target	FY21	FY20	FY21 Target	FY21
Punjab	6,515.3	6,555.78	6746	19,401.1	20,000	20,900	2,977.8	3,050.7	3,098.1
Sindh	1,134.2	1,214.03	1,202.6	3,846.1	4,000	3,995.5	3,391.0	3,294.8	3,322.4
KP	727.3	890.292	770.9	1,130.4	1700	1,235.7	1,554.2	1,909.5	1,602.9
Balochistan	427.9	566.549	458.2	607.2	1300	1,162.1	1,419.0	2,294.6	2,536.2
<b>Pakistan</b>	<b>8,804.7</b>	<b>9,226.7</b>	<b>9,177.6</b>	<b>25,247.5</b>	<b>27,000</b>	<b>27,293.4</b>	<b>2,867.5</b>	<b>2,926.3</b>	<b>2,973.9</b>
<b>Growth YoY</b>			<b>4.2</b>						<b>3.7</b>

p: provisional

Source: MNFSR

wheat consumption created a demand-supply gap. Specifically, after adjusting for 0.324 million metric tons (MMT) of leftover stocks, there was around 27.6 MMT of wheat available at the start of the food year (namely 1<sup>st</sup> May, 2020). Meanwhile, annual wheat consumption was estimated to be 29.5 MMT in 2021 (Table 2.5). Thus, the shortfall for the upcoming food year would have to be bridged through imported wheat.

**Maize**

Maize production posted 7.4 percent growth during FY21 compared to last year (Table 2.6). The increase was primarily achieved on the back of an increase in the maize yield in Punjab. The maize yield in Punjab has grown encouragingly over the past 17 years dating back to 2004-05, when the province's yield grew by 70.7 percent (Figure 2.2). The improvement in maize yield over time can partially be traced to the use of high-yielding imported hybrid seed varieties. For the FY21 season as well, imported seed accounted for around 85

**Annual Wheat Consumption****Table 2.5****Estimates**

in million metric ton

Province/Areas	2020	2021
Punjab	13.5	14.0
Sindh	5.8	6.0
KP	4.3	4.5
Balochistan	1.5	1.5
Gilgit Baltistan	0.2	0.2
AJK	0.3	0.3
<b>Sub-total</b>	<b>25.4</b>	<b>26.4</b>
Seed Requirement	1.2	1.2
Utility Stores Corporation	0.4	0.4
Poultry/Wastage	0.3	0.3
Pakistan Army	0.2	0.2
Strategic Reserves	0.0	1.0
<b>Grand Total:</b>	<b>27.5</b>	<b>29.5</b>

Source: MNFSR Working Paper for 16<sup>th</sup> Meeting of the Federal Committee on Agriculture (8<sup>th</sup> April, 2021)

percent of the available maize seed. This indicates a certain dependence on imported seed, and also implies a gap in the domestic capacity of local seed companies to meet the maize seed requirement.<sup>14</sup>

Previously, the development of hybrid maize seeds received support from mega initiatives like the Agricultural Innovation

<sup>14</sup> It is worth mentioning that among the 55 varieties of hybrid maize seeds approved by the Variety Evaluation Committee (VEC) of the Pakistan Agriculture Research Council (PARC) in October 2020, only two of the varieties were developed by public sector institutes, namely Maize & Millets Research Institute (MMRI) Yousafwala and University of Faisalabad. (Source: PARC)

Performance of Maize Crop<sup>p</sup>

Table 2.6

area in 000 hectares (ha); production in 000 metric tons; yield in kg/ha; change in percent

	Area			Production			Yield		
	2019-20	2020-21	Change	2019-20	2020-21	Change	2019-20	2020-21	Change
Punjab	944.9	948.6	0.4	6,994.7	7,565.0	8.2	7,402.6	7,974.9	7.7
KP	452.5	460.7	1.8	881.6	891.0	1.1	1,948.3	1,934.0	-0.7
Balochistan	2.7	4.4	63.0	2.7	4.6	70.4	1,000.0	1,045.5	4.5
Sindh	3.9	4.2	7.7	4.0	4.2	5.0	1,025.6	1,000.0	-2.5
<b>Pakistan</b>	<b>1,404.20</b>	<b>1,417.80</b>	<b>1.0</b>	<b>7,883.0</b>	<b>8,464.9</b>	<b>7.4</b>	<b>5,613.9</b>	<b>5,970.4</b>	<b>6.4</b>

p: provisional

Source: MNFSR

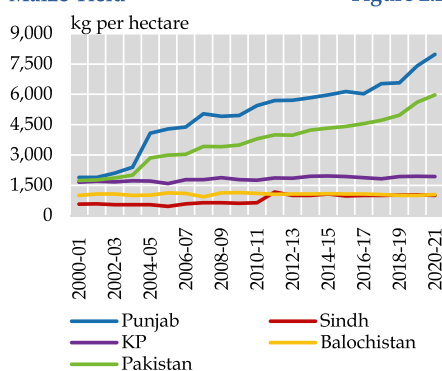
Program (AIP), which remained active for around seven years till 2020. A joint endeavor of public and private sector stakeholders, the AIP supported the testing of over 3,000 maize products in Pakistan, culminating in the identification of 60 new maize hybrids and varieties.<sup>15,16</sup> Such public-private collaboration allows high-yielding seed varieties to be developed, scaled, and deployed rapidly, and the

results have spoken for themselves in the case of improving maize yields.

In addition, the Punjab government has also facilitated maize growers in upgrading their technology and farming practices. This includes the promotion of drip irrigation (rather than flood irrigation) for maize cultivation, as part of the Punjab Irrigated Agriculture Productivity Improvement Project (PIPIP); the use of drip irrigation was reported to increase yields by as much as 20 percent compared to flood irrigation, while also generating significant savings in terms of water and fertilizer application.<sup>17</sup> Another example was the promotion of the cob picker, as part of the 'Enhancing Technology-Based Agriculture and Marketing in Rural Punjab' project. The cob picker is a machine which enables more efficient harvesting of maize compared to traditional methods and also improves the yield prospects of the next season's crop yield.<sup>18</sup>

## Maize Yield

Figure 2.2



Source: MNFSR

<sup>15</sup> The key AIP stakeholders included the PARC, the International Maize and Wheat Improvement Center (CIMMYT), and the U.S. Agency for International Development (USAID)

<sup>16</sup> Source: News items titled 'International program ushers in a new era of maize farming in Pakistan', dated 30 June, 2020, extracted from CIMMYT, available at: [www.cimmyt.org](http://www.cimmyt.org)

<sup>17</sup> Source: PIPIP feature story titled 'Transforming Traditional to Innovative Farming', released by the Government of the Punjab, Agriculture Department.

<sup>18</sup> Source: CABI blog titled 'Pakistan's maize farmers get to grips with mechanized technology aimed at improving productivity', dated 23 Oct, 2020.

## 2.3 Industrial Sector

Provisional estimates point to industrial sector making a quick recovery during FY21 compared to FY20. Against contraction of 3.8 percent last year, the sector saw expansion of 3.6 percent in FY21 (Table 2.7).

The performance can primarily be attributed to two factors: (i) ease in lockdown conditions across the country, and (ii) conducive economic policies. Complete lockdowns had hurt the economy in Q4-FY20 and offset the gains made earlier in the year. The country was still in the grip of first wave of Covid when FY21 started. As more information became available about the virus and measures to mitigate it, the government resorted to smart lockdowns to combat Covid with lesser disruption to economic activity. The balancing act proved pivotal as industrial sector made a quick recovery even in subsequent second and third waves of Covid.

The smart lockdowns were complemented by targeted fiscal support and highly accommodative monetary policy. For the fiscal part, government announced special packages for various sectors of the economy. In particular, construction sector, due to its labor-intensive nature, was targeted with incentives for real estate developers. This led to expansion in construction and its allied industries. Aiding the government in its efforts to revive the economy, the SBP decreased its policy rate and announced various temporary schemes such as facilitation of

new investment under TERF, support for the health sector under RFCC, loan extension and restructuring, and SBP Rozgar scheme, amongst various other measures.<sup>19</sup> Proactive steps by the government and the SBP to encourage more inflows through formal channels also helped attract record inflows of workers' remittances, which drove up demand.

Within the industrial sector, the manufacturing subsector was the primary contributor to growth in FY21. In particular, the LSM sector rebounded sharply and surpassed its average FY17-19 level (Figure 2.3). Meanwhile small-scale industries returned to their normal growth path after last year's disruptions.

On the other hand, two subsectors remained below-par during FY21. Energy sector suffered double-digit contraction, mainly due to lower allocation of subsidies by the government to DISCOs, low increase in output and higher proportional increase in intermediate consumption.<sup>20</sup> Another sector that saw its output shrink

**Industrial Sector Growth** **Table 2.7**  
percent

	FY20 <sup>R</sup>	FY21 <sup>P</sup>
<b>Industrial Sector</b>	<b>-3.8</b>	<b>3.6</b>
Mining and Quarrying	-8.3	-6.5
Manufacturing	-7.4	8.7
Large Scale	-10.1	9.3
Small Scale	1.5	8.3
Slaughtering	4.1	3.9
EG&D and GD*	22.4	-23.0
Construction	5.5	8.3

R: revised, P: provisional

\*Electricity gen. & distribution & gas distribution

Source: Pakistan Bureau of Statistics

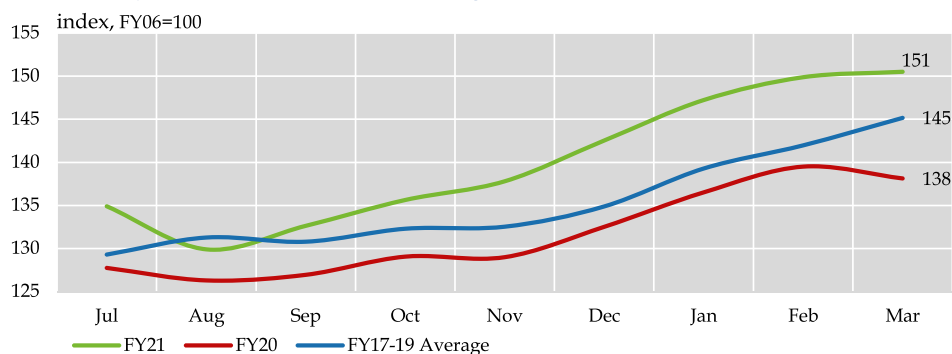
<sup>19</sup> For more information on measures taken by the SBP to counter Covid, available at: [www.sbp.org.pk/covid/index.html](http://www.sbp.org.pk/covid/index.html)

<sup>20</sup> Source: PBS press release for National Accounts Committee meeting held on 21<sup>st</sup> May, 2021.



## LSM - Monthly Quantum Index of Manufacturing

Figure 2.3



Source: Pakistan Bureau of Statistics

during FY21 was mining and quarrying. Assuming the trend witnessed in Q1-FY21 when output of crude oil and natural gas fell compared to last year, the loss in output of mining and quarrying sector during FY21 may be traced to decline in extraction of these commodities.

### Large Scale Manufacturing (LSM)<sup>21</sup>

Output of the LSM sector grew by 9.0 percent during Jul-Mar FY21 in contrast to 5.1 percent contraction last year (Table 2.8). Base effect (as a result of strict lockdowns in Mar-Jun FY20) was one of the key reasons for variability of growth between the two periods. A conducive policy environment, comprising targeted fiscal support and highly accommodative monetary policy, also played a key role in the rebound. Fiscal measures such as tax relief and low-cost housing schemes stimulated demand for labor-intensive construction sector. Cement and steel industries benefited directly from these schemes. Monetary stimulus, especially in the form of low interest rates and

temporary relief measures, also facilitated recovery in the LSM sector. In addition, the market-based exchange rate continued to support external trade-oriented industries such as automobiles and textiles. The automobile sector benefited from stable exchange rate as well as from lower imports of used vehicles. Growth in textile was aided by strong foreign demand (see Chapter 5).

On quarterly basis, the production expanded by 11.5 percent during Q3-FY21 compared to 9.1 percent decline last year. The stark contrast of performances in the two periods (Q3-FY21 versus Q3-FY20) can be traced to the varying nature of the lockdowns amid Covid.

### Textile

Output of the textile sector expanded by 5.9 percent during Jul-Mar FY21 compared to contraction of 2.6 percent last year. Cotton textile segment witnessed a rebound during Jul-Mar FY21. When compared to production numbers during the same

<sup>21</sup> The analysis in this section is based on actual data up to March 2021. Therefore, the numbers reported in this section may not tally with those presented in Table 2.7, which are annual estimates.

## LSM Growth

Table 2.8

percent, YoY

	wt.	Jul-Mar		Q1		Q2		Q3	
		FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
LSM	70.3	-5.1	9.0	-5.5	4.5	0.1	10.4	-9.1	11.5
Textile	20.9	-2.6	5.9	0.2	2.2	0.5	2.9	-8.4	13.1
Cotton Yarn	13	-3.0	3.2	0.2	0.1	0.0	0.1	-9.0	9.9
Cotton Cloth	7.2	-2.8	3.0	0.1	-0.1	0.3	0.0	-8.8	9.7
Jute Goods	0.3	8.2	1.7	-14.8	10.7	3.5	-5.8	37.6	2.2
Food	12.4	-1.7	11.7	-9.0	13.4	16.7	25.0	-7.1	3.5
Sugar	3.5	-1.7	16.7	NA	NA	97.1	72.1	-14.3	0.4
Cigarettes	2.1	-31.5	17.8	-34.5	31.2	-24.3	0.9	-35.4	23.8
Vegetable Ghee	1.1	5.8	-3.4	2.0	-5.6	8.8	-0.9	6.8	-3.7
Cooking Oil	2.2	9.3	-0.1	0.0	3.2	13.9	-0.2	14.0	-2.9
Soft Drinks	0.9	-7.3	6.7	-14.1	7.6	-0.4	-9.4	-3.2	21.4
POL	5.5	-17.5	12.7	-14.5	2.4	-5.9	7.0	-32.0	33.8
Steel	5.4	-8.0	1.7	-17.0	-8.1	-6.8	6.0	2.0	7.2
Non-Metallic Minerals	5.4	1.9	24.3	-0.9	22.2	6.3	18.3	-0.2	33.2
Cement	5.3	1.8	25.1	-1.4	22.8	6.3	19.2	0.0	34.1
Automobile	4.6	-37.7	23.4	-34.6	-5.8	-40.1	31.1	-38.6	49.8
Jeeps and Cars	2.8	-47.7	24.7	-38.6	-21.1	-54.6	42.6	-50.4	67.4
Fertilizer	4.4	5.8	5.7	15.9	2.0	-5.1	13.3	7.9	1.9
Pharmaceutical	3.6	-5.3	12.6	-11.9	14.4	-0.7	12.0	-3.6	11.6
Paper	2.3	4.3	-0.6	-1.3	-2.2	16.0	-3.2	-1.2	3.7
Electronics	2	-15.6	-20.8	11.0	-20.4	-15.7	-21.4	-34.2	-20.6
Chemicals	1.7	11.3	11.7	4.9	10.5	14.7	10.7	14.6	13.8
Caustic Soda	0.4	45.5	7.9	35.0	2.5	60.5	5.1	42.2	17.1
Leather Products	0.9	6.5	-38.3	6.3	-44.5	16.0	-41.0	-2.1	-29.1

Source: Pakistan Bureau of Statistics

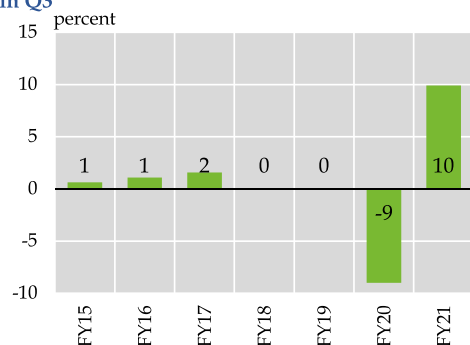
period last year, cotton yarn and cotton cloth registered growth of 3.2 and 3.0 percent in the Jul-Mar FY21. Almost all the gains in the cotton textiles were made during Q3-FY21, as yarn and cloth production rose by 9.9 and 9.7 percent, respectively, compared to last year (**Figure 2.4 a, b**).

That said, when comparing the production estimates with the lockdown-free Q3-FY19, the growth in Q3-FY21 at 3.7 percent is more subdued. The rebound in textile sector seems to be partly related to the base effect which in turn was caused by the Covid-induced lockdowns in FY20. The

cotton-textile sector effectively managed to recover the production losses.

Other factors that hampered growth of the cotton-textile sector during Jul-Mar FY21 could also be traced to shrinkage in area under cotton production and lower yields. As a result of domestic shortfall, the industrial units increased their reliance on imported raw material. Quantum of raw cotton imports jumped by 84.8 percent during Jul-Mar FY21 and with three months left to go in FY21, import of raw cotton is likely to increase further. One silver lining for the textile producers is that the unit values of imported raw material remained on almost the same level as last

**Growth in Cotton Yarn Production in Q3** Figure 2.4a



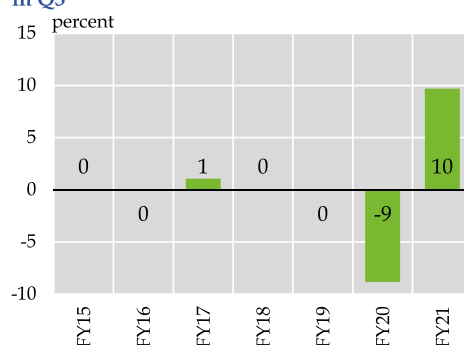
Source: Pakistan Bureau of Statistics

year, which may have prevented the cost of production from escalating.

### Food

The food sector witnessed output expansion of 11.7 percent during Jul-Mar FY21 compared to contraction of 1.7 percent in the previous period. Increase in sugar production was the primary contributor of this performance, while wheat-milling industry also contributed to the overall increase in output of the food-group. The increase in wheat-milling sector may be attributed to increase in the number of reporting firms in Punjab, as has been highlighted previously in the SBP's Second Quarterly Report on the State of Pakistan's Economy for FY21. Tobacco manufacturing also registered an upturn owing largely to the state's crackdown on illicit and counterfeit tobacco trade.<sup>22</sup> Another important factor was the two-tier

**Growth in Cotton Cloth Production in Q3** Figure 2.4b



tax structure that was carried forward from last year, which helped prop-up production in the formal tobacco industry.

### Sugar

Sugar production increased by 16.7 percent during Jul-Mar FY21 compared to 1.7 percent decline last year. One of the factors in this year's improved performance was early start of the crushing season. This is evident from looking at Q2-FY21 versus Q3-FY21 production numbers. Whereas in the former period, 72.1 percent growth was recorded over last year, the situation in latter period showed stagnancy as marginal growth of 0.4 percent was seen over last year (Figure 2.5).

### POL

The petroleum sector rebounded sharply to register growth of 12.7 percent during Jul-

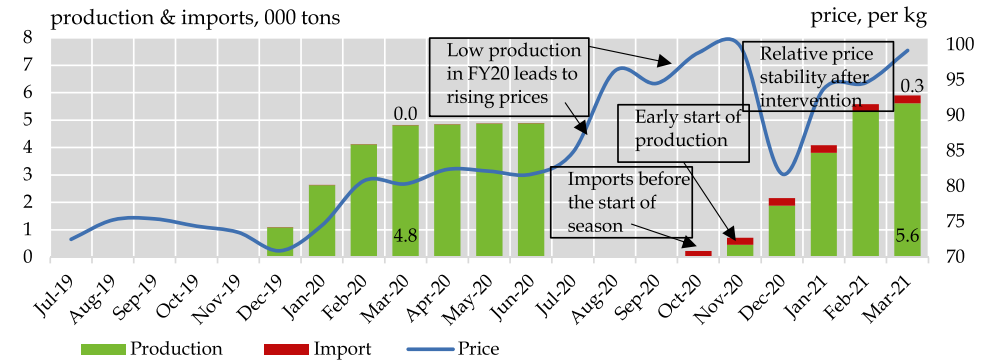
<sup>22</sup> February, 2021 crackdown against counterfeit, non-duty paid and smuggled cigarette. (Source: [www.fbr.gov.pk/pr/crackdown-against-counterfeit-non-duty-paid-a/152846](http://www.fbr.gov.pk/pr/crackdown-against-counterfeit-non-duty-paid-a/152846))

March 5, 2021 - FBR continues crackdown against smuggled non-duty paid cigarettes. (Source: [www.fbr.gov.pk/pr/fbr-continues-crackdown-against-smuggled-non-/152880](http://www.fbr.gov.pk/pr/fbr-continues-crackdown-against-smuggled-non-/152880))

March 30, 2021 - FBR continues crackdown against smuggled non-duty paid cigarettes. (Source: [www.fbr.gov.pk/pr/fbr-continues-crackdown-against-smuggled-non-/152926](http://www.fbr.gov.pk/pr/fbr-continues-crackdown-against-smuggled-non-/152926))

Sugar Industry - Cumulative Production, Cumulative Imports and Price Trend

Figure 2.5



Source: Pakistan Bureau of Statistics

Mar FY21 compared to 17.5 percent contraction last year. Even compared to Jul-Feb period last year, when the Covid situation had not started to impact activities, the improvement is quite visible in FY21, i.e. 7.7 percent growth in Jul-Feb FY21 against contraction of 13.6 percent during Jul-Feb FY20.

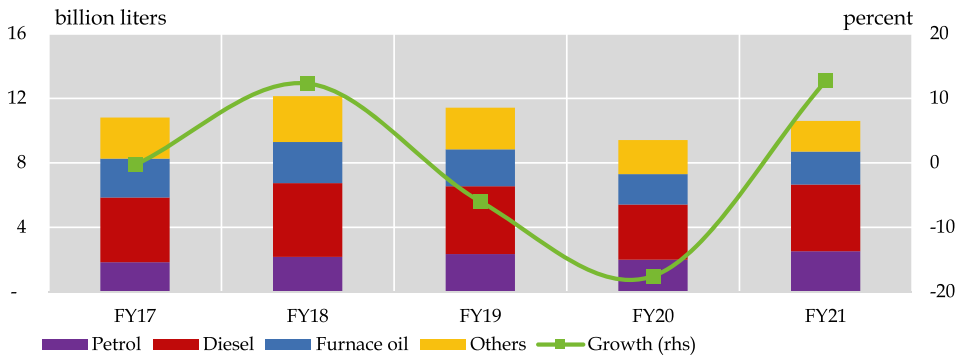
The Jul-Mar FY21 growth can largely be attributed to an increase in production of petrol, diesel, and furnace oil (Figure 2.6). Rebound in overall economic activity had a positive impact on transportation activities, which in turn led to increase in demand for

POL products. Surge in automobile sales, especially in the wake of low-interest rates, further facilitated transportation activities in the country.

In the past few years, regulatory changes had played an important part in keeping growth of POL sector in check - for instance, curbs on furnace oil for electricity generation. However, as the government relaxed its restrictions on power generation from furnace oil during Jul-Mar FY21 owing to surge in demand, the POL industry increased production of the commodity.

Product-wise Production and Overall Growth of POL Products

Figure 2.6



Source: Pakistan Bureau of Statistics

## Automobile

The automobile sector improved from sharp contraction (37.7 percent) last year, to double digit growth (23.4 percent) during Jul-Mar FY21. The sector gathered the pace during the review period, which is evident from quarterly breakdown of growth rate (Table 2.8). The increase in economic activities had a positive effect almost across the board; cars (24.7), motorcycles (20.3), LCVs (30.2) and tractors (57.5) all witnessed double-digit growth (Figure 2.7). Multiple factors played a part in this performance. Low interest rates, relative stability in automobile prices, and introduction of new models facilitated growth in the automobile sector.

The impact of the low interest environment is evident from increase in consumer financing for purchase of vehicles to the tune of Rs 73.6 billion during Jul-Mar FY21 compared to Rs 3.2 billion last year. Almost 40 percent of these loans were disbursed in Q3-FY21 alone.

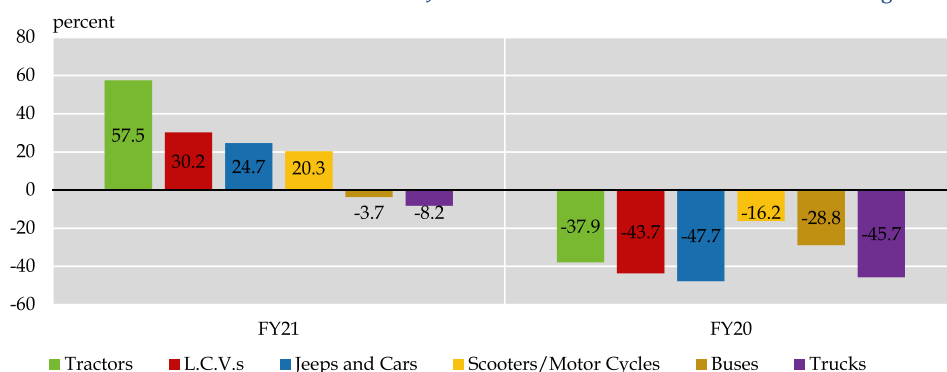
Stability in vehicle prices during the period also had a role in propping-up automobile production. For instance, car prices, which had jumped by 20.8 percent during FY20, rose by 3.4 percent during Jul-Mar FY21.<sup>23</sup> Stability in exchange rate played a part in keeping the pricing from escalating during the review period.

Under the Automotive Development Policy 2016-21, various new auto-assemblers had invested resources in the automotive industry. In order to attract consumers, the new entrants introduced vehicles with new features and also focused on SUVs, which previously had relatively little penetration in the country compared to sedans or hatchbacks. This strategy attracted high-end consumers and, with sales picking up, new entrants have started to gain some foothold in the domestic market.

Apart from the aforementioned factors, government incentive packages to revive the economy from negative shock of Covid also had a positive impact on the automobile sector. Demand for tractors

Automobile Sector - Product wise Growth in Jul-Mar

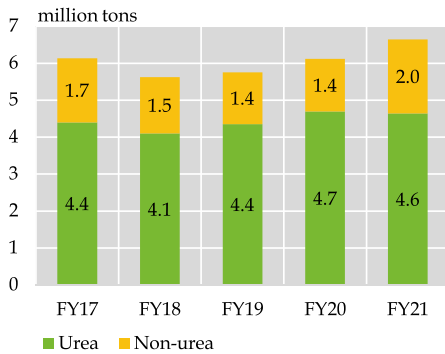
Figure 2.7



Source: Pakistan Bureau of Statistics

<sup>23</sup> Data source: Pakistan Bureau of Statistics

**Fertilizer Production in Jul-Mar** **Figure 2.8**



Source: National Fertilizer Development Center

received a boost from the pickup in construction sector activities, in addition to the sales-tax subsidy. Whereas, the 2-3 wheelers' growth can be attributed to pent-up demand due to strict lockdowns during the first domestic wave of Covid. Anecdotal evidence suggests that an increase in agriculture production leads to an increased demand for motorcycles. This, coupled with record workers' remittance inflows during Jul-Mar FY21, may have contributed to the recovery in this segment.

Moreover, the growth of the automobile sector may still be underreported as official production numbers for a few entrants are either not readily available or released with a long lag. The growth of the sector would have been even higher if the numbers of some new entrants – that have gained market share especially in the SUV category – were being reported in the industrial sector dataset.

### Fertilizer

Fertilizer sector production rose by 5.7 percent during Jul-Mar FY21 compared to

5.8 percent growth in same period last year. The deceleration can be explained by drop in output of urea. On a positive note, this year's growth owed largely to expansion in output of non-urea products (Figure 2.8).

Urea output declined slightly by 1.2 percent during the Jul-Mar FY21 compared to 7.8 percent growth in the same period last year. Production activities at the large urea producing plants slowed down in Q3-FY21 as production contracted by 4.9 percent compared to 23.0 percent growth during same quarter last year. The decline in urea production was compensated to some extent by a rebound in the small-scale producers; however, it was not enough to avert the loss in production from the larger plants. Consequently, the overall urea production fell by 1.6 percent during Q3-FY21 compared to 7.8 percent growth in same quarter last year.

Non-urea fertilizer products saw growth of 40.8 percent in Jul-Mar FY21 compared to marginal growth of 1.4 percent last year. Production of fertilizers such as NP and CAN continued to expand during Q3-FY21. The output of NP and CAN underwent expansion of 68.3 percent and 64.0 percent during Jul-Mar FY21, respectively. One of the primary producers of these fertilizer products remained operational during the Jul-Mar FY21 period whereas last year it started its operations in January 2020, which explains the sharp increase in production of the commodities.

### Construction Allied Industry

Facilitated by the government's construction package, the construction allied industrial sector continued to grow. Specifically, the industries of cement and

steel grew by 25.1 and 1.7 percent, respectively, during Jul-Mar FY21. The rebound in steel was particularly impressive, given that it had contracted by 8.0 percent in the same period last year. The robust performance of the construction sector was largely owed to the pickup in private sector activity. Moreover, even though the government decreased development expenditures by Rs 83.7 billion during Jul-Mar FY21 compared to last year, its construction package coupled with various other incentives for the industrial sector aided growth in the construction sector. Despite the dip in development spending, public expenditure on large infrastructure projects, such as dams and highways, continued to drive demand for construction allied industries.

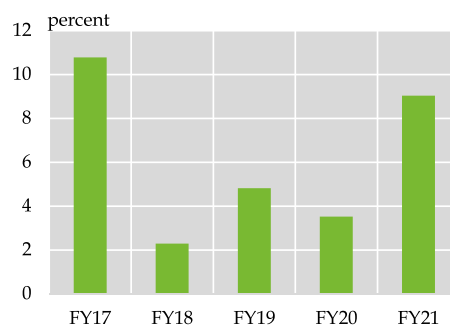
The SBP also facilitated growth in the construction allied industry through several measures that especially targeted housing for low-income group.<sup>24</sup> These efforts drove the offtake of Rs 2.2 billion for construction financing in Q3-FY21. In addition, consumer financing for housing saw disbursements of Rs 13.8 billion during Jul-Mar FY21 compared to net retirements of Rs 5.6 billion last year. The impact of stimuli can be gauged from the rise in the prices of residential properties. According to Zameen.com – a website that tracks price trends in the real estate sector – prices, on average, have surged during Jul-Mar FY21 compared to last year. It was also the highest growth in the past 3 years (**Figure 2.9**).

## Cement

Domestic demand for cement remained robust in the wake of Prime Minister’s construction package, Naya Pakistan Housing Scheme, and large infrastructure projects. Another factor that also aided output growth was the decrease in FED on cement for FY21. The duty was reduced from Rs 2 per kilogram to Rs 1.5 per kilogram, which resulted in decreasing the price of 50 kg cement bag by Rs 25.

Large cement producers anticipating further growth have indicated plans to expand further. In the last round of expansion, the capacity rose from around 45 million tons to 69 million tons per annum.<sup>25</sup> The proposed new investments are expected to stretch the capacity to slightly under 100 million tons per annum by around FY23, according to anecdotal evidence.<sup>26</sup>

**Growth in Prices of Residential Property in Jul-Mar** Figure 2.9



Source: Zameen.com

<sup>24</sup> For details on measures taken by the government and SBP, see the SBP’s Second Quarterly Report for FY21.

<sup>25</sup> Source: All Pakistan Cement Manufacturers Association (APCMA)

<sup>26</sup> Report in Dawn newspaper titled ‘Cement makers to expand production capacity by 40pc’, dated 9<sup>th</sup> May, 2021.

The cement industry saw double-digit production growth in each of the past three quarters. Cement dispatches saw some changes over the course of the review period. Whereas, growth in Q1-FY21 was primarily driven by exports that changed in Q3-FY21 when domestic dispatches became the driving force. The share of domestic sales to total sales increased to 85.6 percent in Q3-FY21 compared to 79.8 percent in Q1-FY21.

Exports of cement increased by 10.8 percent in Jul-Mar FY21 compared to 25.6 percent growth last year. The clinker exports to China led to overall increase in cement exports during the review period. However, cement exports to Afghanistan decelerated largely due to Covid-related border closures.

### Steel

The steel sector also benefited from the pickup in activities in the construction sector. The recovery in steel production, especially in the construction-oriented long steel segment, gained further traction. Production of billets expanded by 37.0 percent during Jul Mar-FY21 compared to decline of 13.0 percent last year. Moreover, demand for long steel remained strong in the presence of incentives for the construction industry. However, the flat steel segment contracted by 22.5 percent during the Jul-Mar FY21, in addition to its 4.2 percent decline witnessed in the same period last year, as demand for steel from electronics and telecom sector dried up.

The price of iron bars has surged recently, which can largely be traced to increase in domestic demand. Despite decrease in unit values of imported scrap – a key input in

local steel processing industry – price pressures originating from demand side kept the prices elevated (**Figure 2.10**). The increased demand for steel is also evident from the import data, which reveals that the quantum of both scrap and finished steel products saw a sharp increase during Jul-Mar FY21 compared to last year.

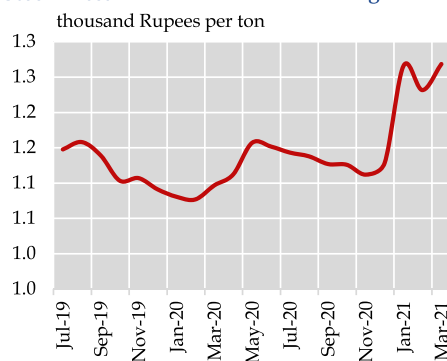
### 2.4 Services

The services sector also posted a rebound, growing by 4.4 percent during FY21 compared to contraction of 0.6 percent last year, according to provisional estimates. The performance of the sector is linked to the performance of the commodity producing sectors; since the latter recorded a positive performance during the fiscal year, the impact trickled down to the services sector as well (**Table 2.9**). The major impetus came from *wholesale and retail trade* and *finance and insurance* segments.

The *wholesale and retail trade* segment witnessed an impressive growth of 8.4 percent during FY21 – the highest growth since FY06. Along with base effect, the segment benefitted from (i) robust

#### Steel Prices

Figure 2.10



Source: Pakistan Bureau of Statistics



performance of LSM; (ii) rise in import quantum; and (iii) healthy agriculture production. The increase in activity in this segment was further evident from Google mobility data. The visits to ‘grocery and pharmacy’ and ‘retail and recreation’ segments were up by 41 percent and 14 percent by end-March 2021 from their baseline (pre-Covid) position (**Figure 2.11**).

The performance of *finance and insurance* subsector was also remarkable, as it recorded growth of 7.8 percent in FY21 compared to growth of 1.1 percent witnessed in FY20. This was mainly due to rise in deposits and loans of banking industry. Specifically, deposits and net advances grew by 16.4 percent and 2.2 percent, respectively in end-March 2021, compared to the same period last year. Moreover, profit after tax of commercial banks rose by 31.3 percent in Jul-Mar FY21, compared to the same period last year. The significant growth in bank’s profitability can be attributed to higher net interest income. Furthermore, the profitability indicators of banking industry, such as return on assets (ROA) and return on equity (ROE), also improved during Jul-Mar FY21, compared to the same period last year.<sup>27</sup>

In contrast, the *transport, storage and communication* subsector continued to observe contraction during FY21 on the back of slack performance in the transport sector. However, the magnitude of contraction was smaller than the one seen

**Performance of the Services Sector Table 2.9**  
percent

	Share in GDP-FY21	Growth	
		FY20 <sup>R</sup>	FY21 <sup>P</sup>
Wholesale & retail trade	18.9	-3.9	8.4
Transport, storage & commerce	12.2	-3.8	-0.6
Finance & insurance	3.7	1.1	7.8
Housing services	7.0	4.0	4.0
General gov. services	8.2	1.0	2.2
Other private services	11.8	4.6	4.6
<b>Services</b>	<b>61.6</b>	<b>-0.6</b>	<b>4.4</b>

r: revised. p: provisional

Source: Pakistan Bureau of Statistics

in FY20. The second and third wave of Covid and subsequent limited inter and intra-city mobility had a negative bearing on transport sector.<sup>28</sup> Particularly, the Q3-FY21 period appeared to be challenging for PIA, as the national flag carrier booked gross losses of Rs 3.6 billion on account of Covid restrictions.<sup>29</sup>

In the communication subsector, however, the demand for internet services continued to rise, as remote-working (**Figure 2.11**) and online-education arrangements remained in place due to Covid. This demand led to increase in cellular teledensity to 84.6 percent as of end-March 2021 from 80 percent as of March 2020; similarly, broadband users in the country increased from 82.7 million as of March 2020 to 98.0 million as of end-March 2021. However, Pakistan still lags behind regional economies in terms of an inclusive

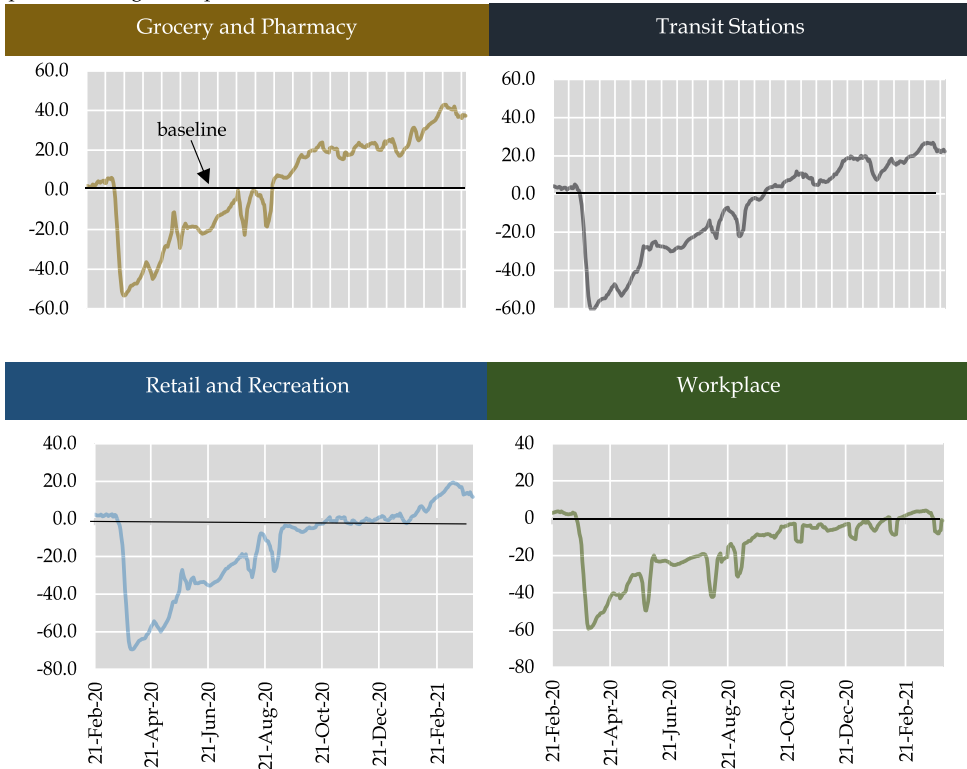
<sup>27</sup> As of end-March 2021, the ROA and ROE of banking industry were 1.5 percent and 21.0 percent compared to 1.4 percent and 18.9 percent same period last year, respectively.

<sup>28</sup> The inter-city transport was allowed to operate at 50 percent capacity, while Pakistan Railway service was operated at 70 percent of its capacity. (Source: NCOC, dated: March 22, 2021)

<sup>29</sup> Due to pandemic and strict border closure PIA’s key routes (KSA, Gulf, Malaysia and UK) were largely affected. (Source: PIA first quarterly report 2021)

**Google Mobility Changes in Pakistan (7-day moving average)**  
percent change, compared to baseline\*

**Figure 2.11**



\*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

internet and mobile connectivity environment (**Box 2.1**).

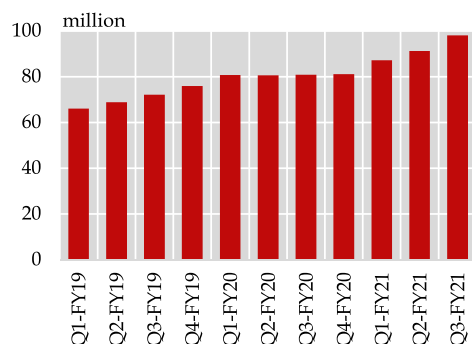
The *other private services* subsector grew by 4.6 percent during FY21. Within *other private services*, the exports of information and communications technology (ICT) related services witnessed a growth of 43.6

percent, YoY, and reached to US\$ 1.5 billion during Jul-Mar FY21. The country’s IT services firms continue to make deeper inroads into the global market, utilizing the growth in demand amid the pandemic for a wide range of IT services (**Chapter 5**).

**Box 2.1: The State of Internet Inclusiveness in Pakistan**

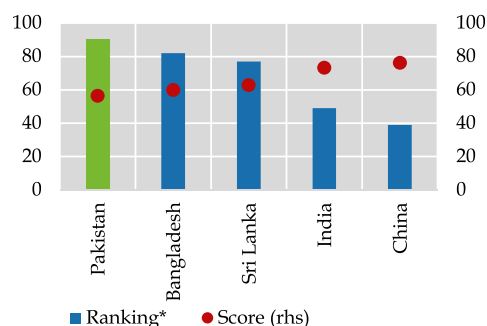
After the onset of Covid and subsequent imposition of lockdowns, the usage of internet has become more essential than ever before. Like other countries, in Pakistan virtual meetings, online shopping and entertainment, digital financial services and events have taken center stage. The surge in demand for

### 3G and 4G Subscriber in Pakistan



Source: PTA

### Figure 2.1.1 Inclusive Internet Index Ranking Figure 2.1.2



\*Ranking out of 120 countries. Importance in descending order

Source: The Economist Intelligence Unit Report, 2021

internet related services led to exponential increase in the 3G/4G and broadband subscriptions in the country (Figure 2.1.1). However, the cross-country analysis shows that Pakistan lags behind other regional economies in terms of internet inclusiveness (Figure 2.1.2).

The Economist Intelligence Unit's Inclusive Internet Index 2021 report ranked Pakistan 90<sup>th</sup> in overall terms (bottom quartile of the index) amongst the 120 countries surveyed (Figure 2.1.3). The index examines the performance of the country in four dimensions; namely, *availability*, *affordability*, *relevance* and *readiness*.

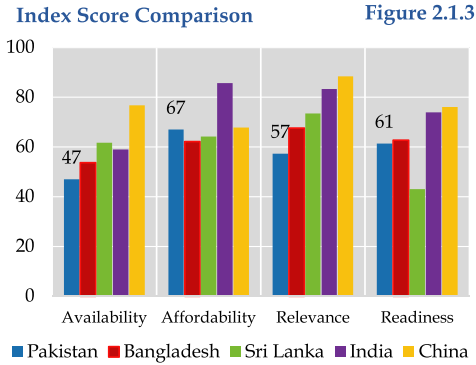
On the *availability* front – under which countries are compared against the inclusive indicators pertaining to level of internet usage, quality and scale of internet infrastructure and electricity necessary to support internet connectivity – Pakistan is ranked 97<sup>th</sup> in overall terms. This is mainly due to its dull performance in the internet usage and gender gap in internet access. As noted in the SBP's FY20 Annual Report, inadequate level of literacy and digital skills are prime factors behind the low smartphone and internet usage levels in the country.<sup>30</sup> Moreover, about a quarter of the population does not know how to use the internet, while around half does not consider it as a useful or interesting activity.<sup>31</sup> In addition, there exists a disparity between number of male and female internet users in Pakistan. According to GSMA, cultural barriers appear to be hindering gender equality more broadly.<sup>32</sup>

Under the *affordability* dimension – which examines the cost of access to internet relative to per capita income and the level of competition in the Internet marketplace – Pakistan was placed in the 67<sup>th</sup> position. This relatively better ranking is attributed to strong competition between the wireless internet providers. However, on the cost side, country scored low on the back of higher cost of smartphones and mobile phone pre-and-postpaid tariffs.

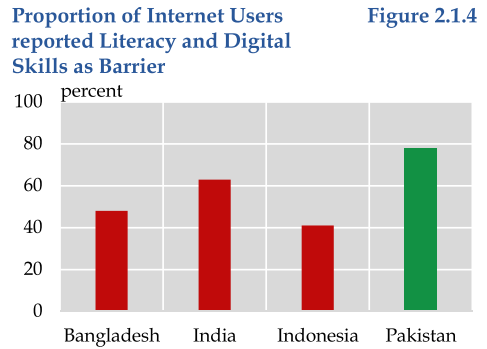
<sup>30</sup> Special Section: Covid-19 and the Need to Boost Digital Connectivity in Pakistan, State Bank of Pakistan Annual Report 2019-2020

<sup>31</sup> Pakistan Social and Living Standards Measurement, Household Integrated Economic Survey (HIES) 2018-19 Report

<sup>32</sup> According to GSMA "The Mobile Gender Gap Report 2020", in Pakistan, family disapproval is the main factor preventing 29 percent of sampled female non-users of mobile internet from getting online, compared to only 2 percent of men.



Source: The Economist Intelligence Unit Report, 2021



Source: GSMA Intelligence Consumers in Focus Survey 2019

On the *readiness* front – which examines the capacity to access the internet, including skills, cultural acceptance, and supporting policy – a low level of internet literacy left the country trailing behind its counterparts. Lack of literacy and digital skills appeared to be major perceived barrier to mobile internet adoption among mobile users aware of mobile internet (Figure 2.1.4).

Lastly, the *relevance* parameter measures the extent of local and relevant content available online to the public. It can be taken as an indicator of ease and usefulness of internet access in a country. The non-availability of public sector open data policy and e-government services in local language relegated Pakistan to 91<sup>st</sup> position out of 120 countries in the rankings.

In the next stage of its development, Pakistan’s performance on the availability and readiness components is likely to improve. The continued focus of the government on National Financial Literacy Program (NFLP) and Digital Pakistan Policy 2018 will facilitate progress in these parameters. Meanwhile, Mobile Device Manufacturing Policy 2020 may aid affordability by reducing the cost of smartphones in the country via encouraging local production; it is expected to accelerate the transition from low-end smartphones (such as 2G) to more advanced equipment. While the policy focus is a welcome development, more efforts would be needed to integrate the rural society in the digital world. As such, infrastructure developments – particularly in those areas where operators have less incentive to invest – and subsidized access (offering Wi-Fi in public spaces) are required to improve the performance of Pakistan in terms of internet inclusiveness.

## 2.5 Labor Market

The employment growth for the large-scale manufacturing sector of Sindh and Punjab in Jul-Feb FY21 stood at 1.1 percent in comparison to 0.6 in the Jul-Feb FY20.<sup>33</sup> Despite the challenges on account of the

pandemic, measures like smart lockdowns and work from home along with targeted fiscal support and highly accommodative monetary policy helped maintain employment growth. The current employment trend from SBP’s Business Confidence Survey (BCS) also improved in

<sup>33</sup> The growth is calculated excluding steel industry because of variation in its data due to government’s decision to privatize Pakistan Steel Mills. For more information, see Chapter 2 of the SBP’s Second Quarterly Report on The State of Pakistan’s Economy.

the February 2021 wave with marginal deterioration in the future employment expectations. Further, the future unemployment index from SBP's Consumer Confidence Survey (CCS) also showed improvement in household confidence regarding employment between November 2020 and January 2021 surveys.

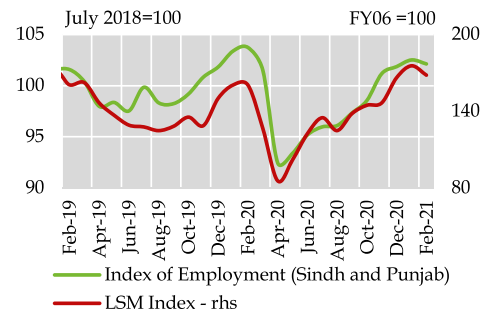
However, in the March 2021 survey of CCS, there was a 3.6 percent increase in future unemployment expectations compared with January 2021, which is in line with the third wave of Covid in the country. This indicates that employment situation has improved in Q3-FY21. However, future employment expectations suggest a slowdown in coming months, possibly due to concomitant Covid wave.

As for wages, there was 6.5 percent growth in the *construction sector wage-rate index* in Jul-Mar FY21. Meanwhile, increase in the earnings of the household servants and mechanics decelerated in the current quarter in comparison to the previous quarter. The growth in doctor clinic fees was at constant 16.0 percent in Q2-FY21 and in Q3-FY21, indicating increasing income for doctors.

## Employment

Employment index for LSM sector of Sindh and Punjab continued to increase for Jul-Feb FY21 period (**Figure 2.12**). The growth was driven by 9.8 percent increase in employment for the sugar industry in Jul-Feb FY21. This is in line with increase in sugar production for the same period, which can be traced back to better harvest of the sugarcane crop. In addition, employment in cotton textile also grew by 0.9 percent in Jul-Feb FY21, in comparison to 4.2 percent contraction in the last fiscal

**Combined Sindh and Punjab Industrial Employment and LSM** **Figure 2.12**



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

year.

At the provincial level, data indicates that employment growth in Punjab's LSM sector for Jul-Feb FY21 was 1.3 percent in contrast to negative 2.6 percent in the same period last year. The growth was largely driven by food, drinks and tobacco category, in Jul-Feb FY21 the growth for the category was 9.6 percent, whereas, in the last period it was negative 6.0 percent. Within the category, employment growth for sugar and wheat milling stands out. Employment in wheat milling recorded 17.8 percent growth in Jul-Feb FY21 in comparison to 2 percent growth in FY20. This was mainly because Bureau of Statistics Punjab increased the reported number of wheat milling units from 692 to 738 in July 2020.

However, it is important to note that quarterly trend for the province shows deceleration in the employment growth for the current quarter. The growth for the first two months of Q3-FY21 was 0.1 percent in comparison to 2.9 percent in Q2-FY21. Moreover, looking at February 2021 data there is a contraction of 0.3 percent,

which also explains the fall in overall employment index as Punjab makes up 70 percent of the total employment index data. (Figure 2.13a).

The deceleration in growth for Punjab between Q2-FY21 and Q3-FY21 is explained by the timing of the sugar-crushing season. In FY21, the employment increased due to pick-up in crushing activities in the sugar industry started in November 2020; in contrast, the similar increase in FY20 started in December 2019 due to late crushing in the last fiscal year, hence causing an uptick in YoY growth in Q2-FY21 and the slower growth in Q3-FY21.

Another reason for decelerated growth in the employment sector of Punjab in the current quarter is slower employment growth in cigarette manufacturing (Table 2.10). In the first two months of Q3-FY21, employment in cigarette manufacturing grew only by 0.5 percent; however, in Q2-FY21 the growth was 3.2 percent.

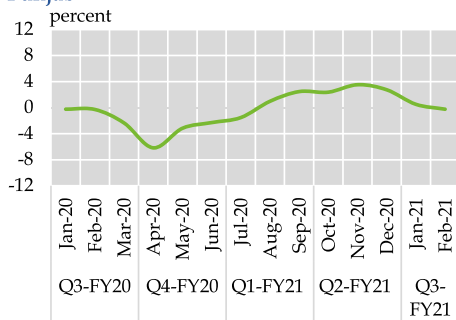
Sector-wise Employment Growth Table 2.10

	Jul-Feb		Jan-Feb	
	FY20	FY21	FY20	FY21
<b>Punjab</b>				
Vegetable Ghee	19.0	2.2	23.4	-2.0
Wheat Milling	2.0	17.8	4.6	19.0
Sugar	-13.6	16.1	0.1	-0.6
Cigarettes	18.6	4.1	16.7	0.5
Cotton Textiles	-3.9	1.9	-3.2	2.3
Cement	0.3	-3.8	-3.0	5.4
<b>Sindh</b>				
Sugar	-3.1	-8.3	3.4	4.5
Pharmaceutical	-35.4	6.3	-35.3	6.8
Fertilizer	-	1.6	-	0.6
Cement	-11.3	9.1	-14.3	9.4
Steel Products	-9.6	-98.5	-9.7	-97.5
Automobile	-	7.4	-	13.1

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

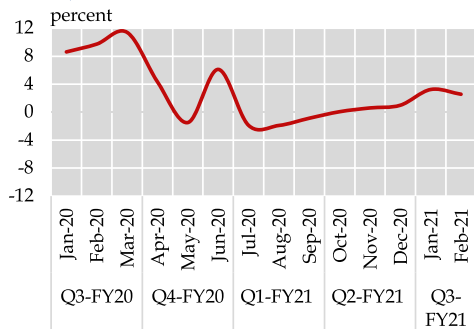
The employment in large scale manufacturing sector of Sindh posted a growth of 2.9 percent in Q3-FY21 which is higher than the 0.5 percent growth in Q2-FY21 (Figure 2.13b).<sup>34</sup> It is mainly driven by 13.1 percent employment growth in automobile for the same period. Moreover, employment in cement, in line with its production in the province, posted a

YoY Employment Growth for Punjab Figure 2.13a



Source: Bureau of Statistics, Punjab

Employment Growth for Sindh, YoY Figure 2.13b



Source: Bureau of Statistics, Sindh

<sup>34</sup> The growth is calculated excluding steel industry.

growth of 9.4 percent in the period.

The SBP's BCS showed improvement in the current employment index (past 6 months) for the industrial sector between December 2020 and February 2021 (**Figures 2.14a,b**). This indicates that employment numbers improved in December-January FY21; the same is evident from industrial employment numbers for the province of Sindh and Punjab. However, the expected employment index (next six months) slightly deteriorated between December 2020 and February 2021.

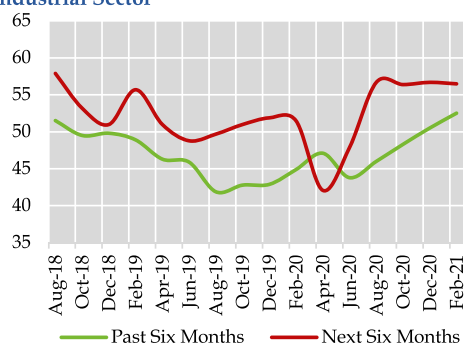
In addition, BCS shows that businesses in the services sector also reported an increase in the employment numbers in the February 2021 wave. This correlates with the waning effects of the second Covid

wave during the January-February period. The expected employment index remained the same for the services sector between December 2020 and February 2021 waves.

The trend depicted in BCS can also be noticed in the SBP's CCS.<sup>35</sup> As part of the Expected Economic Conditions index in CCS, participants are asked about their unemployment expectations over the next six months. Between the November 2020 and January 2021 wave, the future unemployment index fell, indicating increasing optimism in household expectations about employment (**Figure 2.15**). However, in March 2021, with advent of third Covid wave, the survey participants' confidence about future employment decreased.<sup>36</sup>

**BCS Employment Index for Industrial Sector**

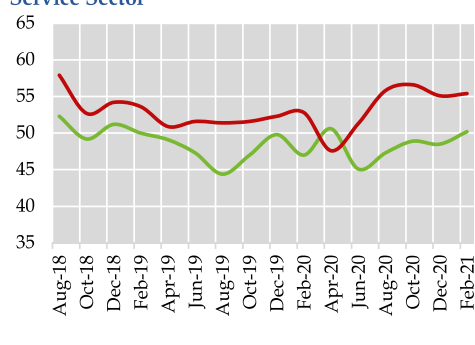
**Figure 2.14a**



Source: State Bank of Pakistan

**BCS Employment Index for Service Sector**

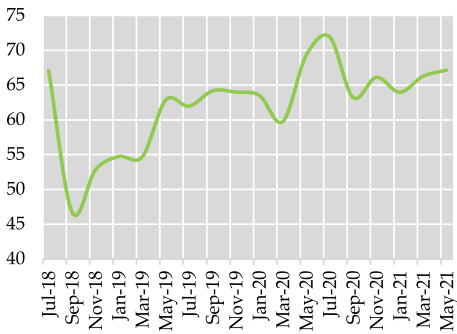
**Figure 2.14b**



<sup>35</sup> The survey is conducted by State Bank of Pakistan and Institute of Business Administration (IBA), Karachi. It is a telephonic survey with approximately 1,670 households as participants.

<sup>36</sup> The results portrayed by the SBP's CCS are reinforced by a Consumer Confidence Survey published by Dun and Bradstreet Pakistan (D&B) and Gallup Pakistan. The findings of Gallup's survey show around 19 percent decrease in future net indicator of unemployment between Q2-FY21 and Q3-FY21. This indicates an increase in pessimism amongst the households regarding employment opportunities in the future. In Gallup's Q3-FY21 survey, more than 53 percent of approximately 1,600 participants were of the opinion that unemployment will increase in the coming months. This deterioration in confidence is due to the third wave of Covid and subsequent restrictions to control it.

**Future Unemployment Index (Next Six Months)- SBP CCS** **Figure 2.15**



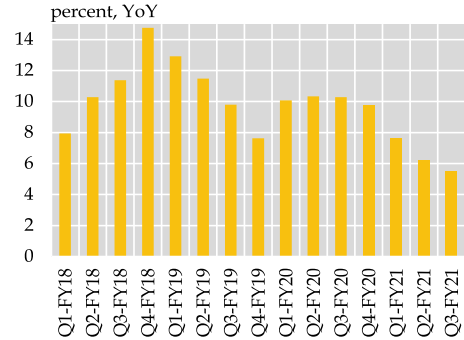
Source: State Bank of Pakistan

**Wages**

The wage-rate index for the construction sector taken from Consumer Price Index (CPI) dataset shows a growth of 6.5 percent for the Jul-Mar FY21 period, lower than the 10.2 percent observed in Jul-Mar FY20. In Q3-FY21 the growth stood at 5.5 percent, slightly lower than 6.2 percent in the last quarter (**Figure 2.16**). The wage rate in construction has constantly decelerated since the rise of Covid in March 2020, meaning the wages are increasing but the rate of increase is slowing down.

Upon exploring per-day wages for the professions closely related to the construction sector, namely unskilled labor and mason, the same trend could be observed (**Figure 2.17**). Initially, the lockdowns and resultant slowdown in the construction activity was responsible for the slowed growth in wages. However, as evident by the growth in construction-allied industries, the construction sector is picking up the pace in the country. In March 2021, growth in per-day wages of masons and unskilled labor hints towards acceleration and if the activities in the

**Growth in Construction Sector Wages** **Figure 2.16**

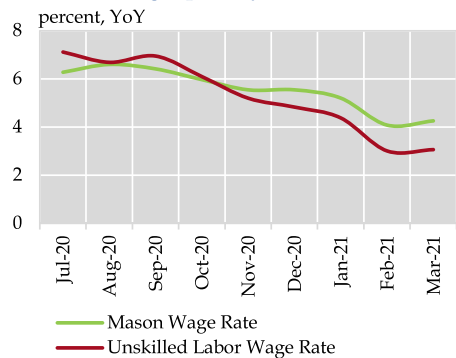


Source: Pakistan Bureau of Statistics

domestic construction sector continue to grow, the trend in wages for the construction sector may change in Q4-FY21.

Apart from wages for construction, CPI also includes indices for some occupations in the services sector. This data reveals that the earnings of household servants and mechanics portrayed slower growth in Q3-FY21 when compared to Q2-FY21 (**Figure 2.18**). The growth in household servants' salaries saw a major decrease between Q3-FY20 and Q4-FY20. This is the

**Growth in Wages per Day** **Figure 2.17**



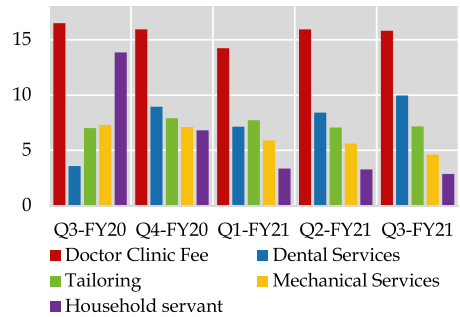
Source: Pakistan Bureau of Statistics



period when uncertainty due to Covid in the country increased. On the other hand, earnings of doctors (based on doctor clinic fee index reported in CPI) show the highest and consistent growth amongst the reported sectors. In Jul-Mar FY20, *doctor clinic fee* grew by 15.9 percent, followed by 15.3 percent growth in Jul-Mar FY21. This is due to the high demand for medical services because of the prevailing pandemic.

**Growth in Earnings for Occupations in Service Sector**

**Figure 2.18**



Source: Pakistan Bureau of Statistics