2

Economic Growth

Real GDP moderately grew in FY24 after a slight contraction in the previous year. The agriculture sector led the recovery with bumper harvest of major crops. Increase in area under cultivation, improved yields, conducive weather conditions, and better availability of inputs all supported the higher crop production. The services sector also made a notable contribution, while industry posted contraction for the second consecutive year. The stabilisation policies, together with lingering structural issues, continued to restrain the industrial activities. Nonetheless, output of large scale manufacturing posted a slight increase, after a sharp decline in FY23, with improved availability of both domestic and imported raw materials. The industrial employment also closely followed the trends in LSM. Moreover, business and consumer sentiments about employment prospects somewhat improved. However, investment declined for the second consecutive year, falling to the lowest level, in FY24. This does not bode well for achieving higher growth and creating employment opportunities in the economy over the medium-term.

2 Economic Growth

2.1 GDP Growth

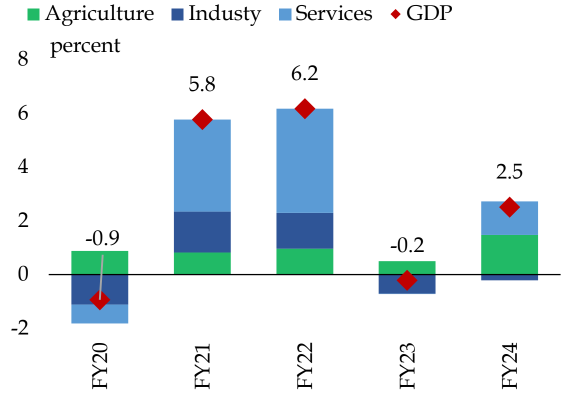
Pakistan's real economic activity moderately recovered in FY24, after a slight contraction in the previous year (**Table 2.1**). The recovery was led by agriculture, followed by the services sector. The industry, however, showed a slight decline (**Figure 2.1**). While agriculture production benefited from post-flood diluvial soil enrichment and other supporting factors, the decline in industry reflects the impact of continued contractionary macroeconomic policies, high inflation, domestic economic uncertainty, and tight global financial conditions.

The growth in agriculture sector was mainly driven by record harvest of wheat and rice, together with significant increase in cotton production. While both the area under cultivation and yields improved, the major impetus came from favourable weather conditions, better availability of irrigation water, greater use of certified seeds and fertilizer, and increased credit disbursements to the agriculture sector.

A significant contraction in *electricity generation, gas & water supply* mainly underpinned the decline in industry. The sharp increase in power tariffs and gradual shifting of domestic and industrial users to off-grid solar power that dampened electricity consumption, and lower subsides contributed to a notable decline in value addition by the sector. Moreover, *construction sub-sector* also contributed negatively during FY24 due to deceleration in development spending and increased construction cost amid tight monetary policy and fiscal consolidation. However, Large Scale Manufacturing (LSM) saw a slight recovery in FY24 after showing a large decline in FY23.

Better availability of raw materials, supported by increase in agriculture production, relaxation in import restrictions and lower global commodity prices, were the key contributors to the nascent recovery in LSM during FY24. Nevertheless, a host of factors continued to weigh on manufacturing activity, including elevated input

Contribution to GDP Growth - Supply Side — Figure 2.1



Source: Pakistan Bureau of Statistics

GDP Growth — Table 2.1

percent

	FY23[R]					FY24[P]					Contribution to GDP Growth*	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY23[R]	FY24[P]
GDP	**1.5**	**2.5**	**-1.1**	**-3.6**	**-0.2**	**2.7**	**2.0**	**2.4**	**3.1**	**2.5**	**-0.2**	**2.5**
Agriculture	0.0	3.3	3.9	1.7	2.2	8.6	6.1	3.9	6.8	6.4	0.5	1.5
Important crops	-11.8	9.1	9.2	-7.9	0.5	30.2	14.0	2.0	27.0	17.0	0.0	0.7
Industry	-0.2	1.7	-6.6	-9.2	-3.7	-2.7	-1.2	2.8	-3.6	-1.1	-0.7	-0.2
LSM	-1.3	-1.9	-14.5	-19.5	-9.8	-0.6	-0.7	1.6	4.2	1.1	-0.9	0.1
Services	2.7	2.4	-1.2	-3.7	0.0	2.0	1.3	1.6	3.7	2.2	0.0	1.3

R: Revised, P: Provisional

*may not necessarily match due to rounding-off

Source: Pakistan Bureau of Statistics

Composition of Aggregate Demand **Table 2.2**

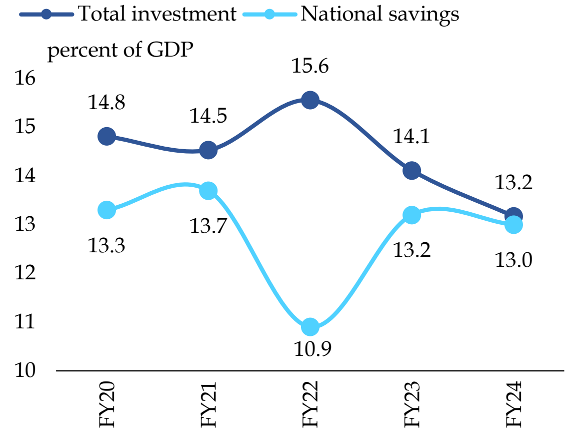
as percent of GDP

	FY20	FY21	FY22	FY23	FY24
Total consumption	93.3	94.4	96.4	93.5	93.4
Household*	81.5	83.5	85.9	83.2	84.6
Government	11.8	10.9	10.5	10.3	8.7
Investment	14.8	14.5	15.6	14.1	13.2
Net exports	-8.1	-8.9	-12.0	-7.6	-6.5
Exports	9.3	9.1	10.5	10.5	10.4
Imports	17.4	18.0	22.5	18.1	16.9
Memorandum item					
National Savings	13.3	13.7	10.9	13.2	13.0

*including non-profit institutions serving households

Sources: Pakistan Economic Survey 2023-24; Pakistan Bureau of Statistics

Saving-Investment Gap **Figure 2.2**



Source: Pakistan Bureau of Statistics

costs, particularly due to increase in energy prices; subdued domestic demand amidst inflationary pressures; and high cost of borrowing.

The improved performance of services sector mainly reflects the spillover from robust agriculture production, and slight recovery in LSM. The major contribution to the services sector growth came from *wholesale and retail trade, other private services* and *education*. The value addition by *finance and insurance* and *general government* services, however, contracted for the second consecutive year in FY24.

The labor market developments, as depicted by industrial employment, mirrored the trends observed in manufacturing activity. This is also evident from a slight improvement in both business and consumer sentiments about current and future employment generation. The wages, on the other hand, improved albeit at a slower pace than the previous year.

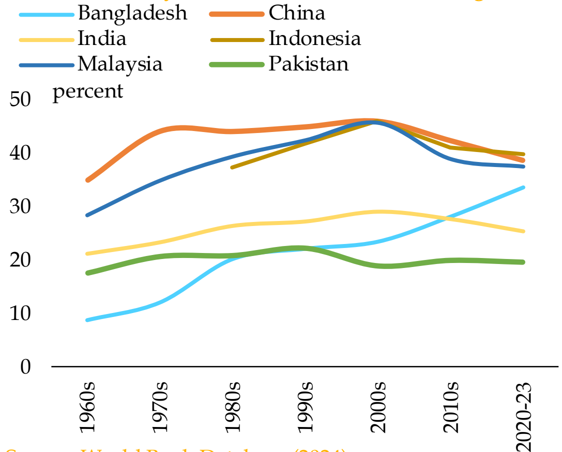
The demand-side measure of GDP shows that consumption expenditure, notwithstanding slower growth, continued to dominate with over 90 percent share in GDP. On the other hand, investment declined for the second consecutive year, falling to the lowest level of 13.2 percent of GDP in FY24 **(Table 2.2)**. This, despite a slight decrease in savings, has resulted in the saving-investment gap to almost disappear (**Figure 2.2**). However, these trends do not bode well for medium to long-term growth trajectory and employment generation for want of expansion in the country's productive capacity.

The experiences of advanced and leading emerging economies suggest that accelerated economic growth cannot be achieved without substantially increasing savings and investment.[1] In fact, low and stagnant investment stifles economic expansion, especially by limiting the pace of industrialization.

As shown in **Figure 2.3,** share of industry in Pakistan's GDP is not only the lowest in the region, it has also been trending downward in recent years. This is in contrast to the experiences of regional economies such as China, where a sustained increase in investment from 25.6 percent of GDP during 1960s to 43.1 percent in 2022, pushed the share of industry from around 35.0 percent during 1960s to around 40 percent of GDP in 2022. In this backdrop, increasing investment is crucial for revitalizing the industrial sector for a sustainable and inclusive growth in Pakistan. This, however, hinges on economy-wide reforms, including but not limited to reducing political uncertainty, improving security situation, strengthening rule of law, creating competition

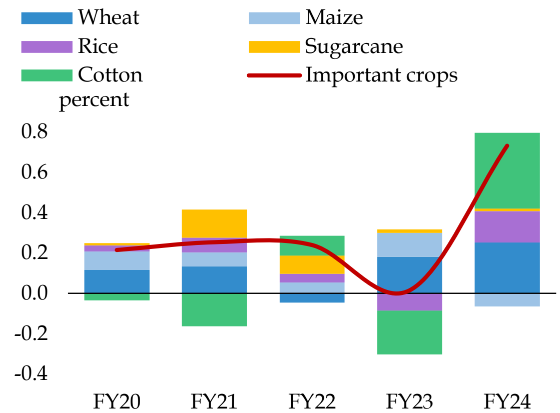
[1] ADB (2020). Asia's Journey to Prosperity, Policy, Market, and Technology over 50 Years, Asian Development Bank

Share of Industry in GDP **Figure 2.3**



Source: World Bank Database (2024)

Contribution of Important Crops to GDP Growth **Figure 2.4**



Source: Pakistan Economic Survey 2023-24

through deregulation and privatisation of SOEs, reducing cost of doing business and creating overall conducive business environment.

2.2 Agriculture

Agriculture growth accelerated in FY24, after remaining subdued in the previous year due to flood-related damages (**Table 2.3). This** acceleration in growth was led by record production of wheat and rice, and rebound in cotton, offsetting the decline in maize and sugarcane production **(Figure 2.4).**

The production of cotton and rice rebounded in the backdrop of flood-related damages in FY23. Both the increase in area under cultivation and improved yields contributed to high crop production. Higher prices in the previous year as well as timely policy interventions like announcement of support prices, especially for cotton, encouraged farmers to expand area under important crops. Whereas, favourable weather conditions and better availability of inputs including seed, fertilizer, water, and credit improved crop yields. In addition, enhanced agriculture credit disbursement target, and *Kissan* package[2] also supported the agriculture output. Although water availability met requirements, irregular rainfall patterns, caused by climate change, remained a source of concern.

Growth in Agriculture Sector **Table 2.3**

percent

	FY23^R					FY24^P					Contribution	
	Q1	**Q2**	**Q3**	**Q4**	**Year**	**Q1**	**Q2**	**Q3**	**Q4**	**Year**	**FY23^R**	**FY24^P**
Agriculture	**0.0**	**3.3**	**3.9**	**1.7**	**2.2**	**8.6**	**6.1**	**3.9**	**6.8**	**6.4**	**2.2**	**6.4**
Crops	-8.2	4.0	3.1	-4.7	-1.2	16.0	9.6	2.6	14.0	10.3	-0.4	3.5
Important crops	-11.8	9.1	9.2	-7.9	0.5	30.2	14.0	2.0	27.0	17.0	0.1	3.2
Other crops	-2.1	-1.3	-1.5	-0.6	-1.4	-2.0	-1.0	-0.4	-1.5	-1.2	-0.2	-0.2
Cotton ginning	-22.4	-30.2	-26.9	-10.7	-22.8	25.7	53.4	61.8	49.4	47.2	-0.3	0.5
Livestock	4.0	2.4	3.9	4.3	3.7	5.3	3.7	4.8	4.0	4.5	2.3	2.8
Forestry	14.2	18.5	18.7	15.1	16.6	8.3	3.7	0.9	-0.4	3.0	0.4	0.1
Fishing	0.6	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.9	0.8	0.0	0.0

R: Revised, P: Provisional

Source: Pakistan Bureau of Statistics

[2] *Kissan* Package offered subsidies and technological advancements to support agriculture. Source: Pakistan Economic Survey 2023-24, MoF

Inputs

Seed

The availability of quality seeds in Pakistan has remained a persistent issue. Use of hybrid maize seeds has been a successful domestic example of obtaining substantial gains in yield. During FY24, the use of better quality seeds for rice, pest-resilient varieties for cotton, and certified seeds for wheat helped in attaining better yields.

The farmers' access to certified seeds increased for maize and wheat during FY24, however, it remained short of requirements for all major crops except for paddy/rice (**Table 2.4**).[3] In *Rabi* FY24, the availability of certified seeds for wheat increased, commensurate with the increase in area under cultivation. The seed shortages are typically met via seeds acquired through informal sources, which are of low quality and prone to pest attacks, consequently hampering the agricultural productivity.[4]

Seed Availability and Requirement **Table 2.4**

availability in 000' MT

	FY23		FY24	
	Avail.	**% of Req.**	**Avail.**	**% of Req.**
Paddy	67.3	147.5	57.1	125.1
Maize	28.0	84.9	32.2	97.4
Cotton	42.2	84.2	25.4	50.8
Wheat*	511.4	46.4	529.1	46.3

*FY24 numbers are provisional

Source: Federal Seed Certification and Registration Department

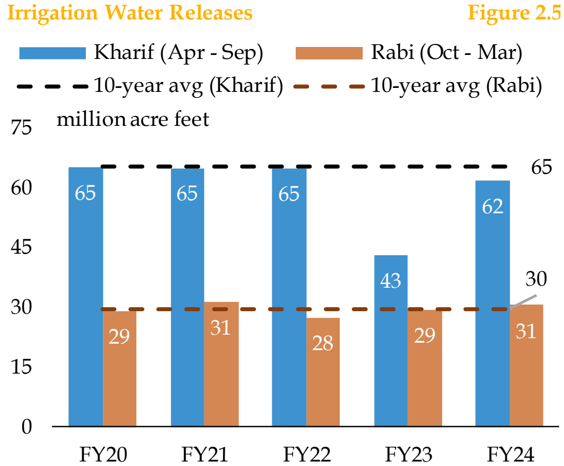
Water

Flow of canal water remained generally satisfactory during FY24. The overall canal withdrawals were greater than the previous year, when the floods had reduced the requirement for irrigation purpose **(Figure 2.5)**. Season-wise breakdown indicates the flow of irrigation water during *Kharif* FY24 was 42.9 percent higher than the previous year. These releases, conforming to the rainfall patterns, were lower than 10-year average before the flood year.[5] However, rainfall patterns were irregular, an increasing manifestation of climate change in Pakistan during FY24.

Rainfall remained above average or close to the average for the most part of the *Kharif* season except for a dry spell in August 2023, which came after June 2023 that was second wettest June in the last sixty-three years.[6] Likewise, weather was dry and cold in December and most of January, whereas March experienced above normal rainfall, accompanied by hailstorms and gusts, damaging the standing crops in some regions.[7]

Another worrying element of climate change in Pakistan is the accelerated melting of the Himalayas Karakoram Hindukush (HKH) glaciers – a major upstream source of water for Indus basin irrigation system. In this context, **Box 2.1** briefly highlights the issue, its implication for Pakistan, and possible remedial measures.

Irrigation Water Releases **Figure 2.5**



Source: Indus River System Authority

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[3] Specifically, the certified seed availability exceeded for paddy by 25.1 percent, but fell short by 2.6 and 49.2 percent for maize and cotton, respectively. In *Rabi* FY24, the availability of certified seeds for wheat increased, commensurate with the increase in area under cultivation.

[4] Evaluation of Seed Industry: Way Forward. Pakistan Institute of Development Economics, 2024.

[5] Average irrigation water flows during *Kharif* FY13-22 were 65 million acre feet. Source: IRSA

[6] Source: Pakistan Monthly Climate Summary, issues from April to September 2023, Pakistan Meteorological Department

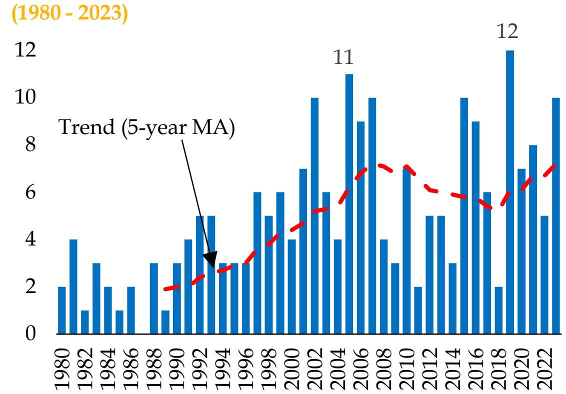
[7] Source: Pakistan Monthly Climate Summary, issues from October 2023 to March 2024, Pakistan Meteorological Department

Box 2.1: Climate Change and Accelerated Melting of Glaciers in Pakistan

Climate change is one of the most pressing global issues, profoundly affecting the earth and its inhabitants.[1] Pakistan ranks very high among the countries most vulnerable to climate change, despite contributing only 0.9 percent of the total global greenhouse gas emissions.[2] As per Germanwatch's, long-term climate risk index focusing on extreme weather events such as floods, storms, and heatwaves, Pakistan is the *eighth* most affected country.[3]

The country is increasingly experiencing extreme weather events such as flash floods, prolonged dry spells followed by irregular rainfall patterns, and frequent heatwaves **(Figure 2.1.1)**. The situation is expected to worsen in the coming years. World Bank (WB) forecasts 18 to 20 percent GDP loss to be caused by climate change in Pakistan by 2050.[4] Floods alone are estimated to cost around US$ 3.3 billion per year in Pakistan depending upon intensity and frequency.[5] For example, floods in 2022 caused an estimated loss of around US$ 15.2 billion.[6]

Number of Natural Disasters in Pakistan (1980 - 2023) Figure 2.1.1



Note: Disasters include floods, cyclones, extreme temperature, and droughts

Source: Financial Risk Statement 2024 - 25, MoF

Another climate event gradually unfolding in the northern parts of Pakistan is the accelerated melting of glaciers that can greatly worsen the flood situation and water availability. These rapidly melting glaciers may not only disrupt the life and agricultural activities in the northern region, but also have wider implications for downstream agriculture sector of the country. Specifically, global warming between 1.5 to 2°C may cause the glaciers in the Himalayas Karakoram Hindukush (HKH) mountain ranges to lose around 30 to 50 percent of their volume by 2100.[7]

To put this in perspective, Pakistan is home to over seven thousand glaciers. As per projections, expected increase in temperature in Pakistan is likely to surpass the world average, with a 1.4 to 3.7°C rise by the 2060s and 6°C by 2090s, possibly increasing snowmelt from glaciers.[8] Due to rising temperature, these glaciers in HKH region are already melting at a faster rate, leading to formation of around three thousand glacial lakes. Out of these, thirty-three lakes are prone to glacial lake outburst flood (GLOF)—massive releases of millions of cubic meters of water in case of a breach.[9]Attabad lake, created because of earthquake induced land-sliding, is an important example of a lake that is at risk of bursting due to increased flow from accelerated glaciers melting.[10]

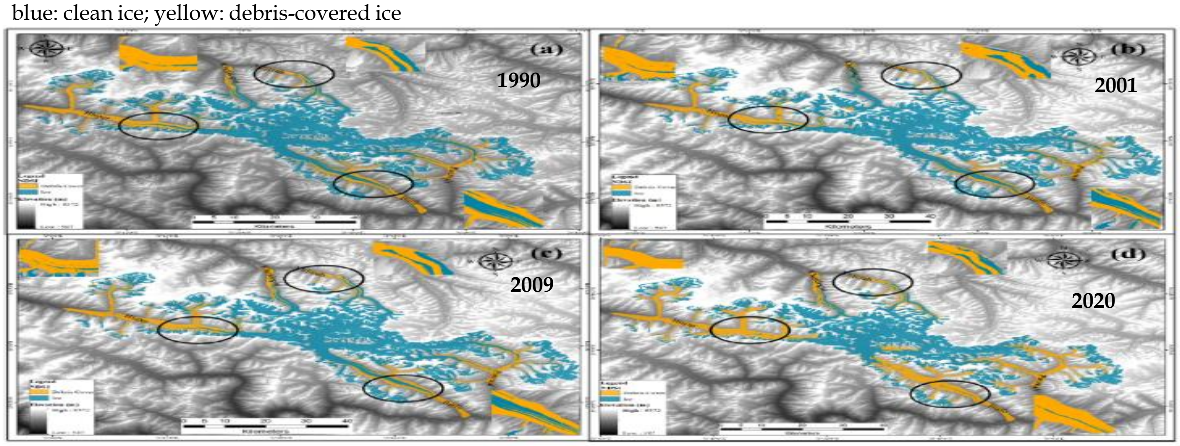
As evident from **Figure 2.1.2**, the glacier mass is visibly decelerating over the years. The blue portion signifying the clean ice, has significantly decreased in 2020 as compared to 1990, whereas, the yellow portion indicating debris covered ice formed as a result of melting glaciers has increased.[11]

Glaciers/snowmelt from HKH mountain ranges is the main source of water supply in Indus Basin Irrigation System, which irrigates millions of hectares of agricultural land in Pakistan.[12] However, glaciers in these mountain ranges have melted at a 65 percent faster pace than anticipated during 2011-2022.[13] Besides floods, this could also deplete water resources in the longer run pushing Pakistan further towards water stress and scarcity. As per WB forecast, the water shortages could lead to an overall decline in GDP by more than 4.6 percent per year and the delayed climate action can cause a 7-8 percent decrease in the agriculture sector by 2030 in Pakistan.[14] Furthermore, the western Himalayas glaciers are anticipated to retreat over the next fifty years, initially increasing the Indus River System's water supply, but as these glacial reservoirs deplete, flows may decrease by a substantial 30 to 40 percent in next fifty years.[15]

To prepare and delay the impact, Pakistan has taken certain initiatives such as a collaborative project with United Nations Development Program (UNDP) with the objective to identify and manage risks related to GLOF events.[16] The fiscal risk statement FY25 of Pakistan, released by MoF, has called for a holistic approach with a combination of proactive planning, diversified funding sources, and targeted policy interventions for managing climate issues. These

Glacier Inventory of Central Karakoram National Park (CKNP)* **Figure 2.1.2**

blue: clean ice; yellow: debris-covered ice



*adopted from Moazzam et al. (2022)

efforts are suggested to include: incentives for renewable energy projects, encouraging climate-resilient agricultural practices, budget allocations for disaster preparedness and response, exploring collaboration with international organizations and donors, and combining climate and disaster risk management mechanism. Notwithstanding these efforts, Pakistan currently ranks 30th on Climate Change Performance Index(CCPI), enlisting it among medium performers despite being amongst the most vulnerable.[17] Considering that global efforts on climate action across all fronts are also lagging, the situation calls for implementing the agreed interventions, domestically and globally, such as minimizing carbon emissions by transitioning from fossil fuels to renewable energy sources.[18]

Other measures could include sustainable use of land by protecting glacial watersheds while minimizing human influence in areas saturated with glaciers, developing water management strategies including storage and distribution to manage the changes in water supply as the glaciers recede, and regulating tourism and ensuring sustainable mountaineering practices to prevent damages to glaciers, and exploring innovative technologies such as artificial glaciers and ice sheets to slowdown the glacial melting.[19]

References

[1] There is a sixty-six percent probability that annual average near surface level global temperature will be more than 1.5°C between 2023-27. Whereas, a 98 percent likelihood that at least one of the next five years will be warmest on record. Source: World Meteorological Organization
[2] Source: Ministry of Finance (2024), Pakistan Economic Survey 2023-24. Islamabad: MoF.
[3] Eckstein, D., Künzel, V., & Schäfer, L. (2021). The global climate risk index 2021. Bonn: Germanwatch.
[4] Source: WB Group, Pakistan – Country, Climate, and Development Report, November 2022.
[5] Source: Government of Pakistan, Updated Nationally Determined Contributions, 2021.
[6] Source: Ministry of Finance (2024), Pakistan Economic Survey 2023-24. Annex III: Pakistan Floods 2022 Impact Assessment.
[7] ICIMOD. (2023). Water, ice, society, and ecosystems in the Hindu Kush Himalaya: An outlook. (P. Wester, S. Chaudhary, N. Chettri, M. Jackson, A. Maharjan, S. Nepal, & J. F. Steiner [Eds.]). ICIMOD. https://doi.org/10.53055/ICIMOD.1028
[7] Source: Ministry of Finance (2024), Pakistan Economic Survey 2023-24. Islamabad: MoF.
[9] Source: UNDP, Scaling-up of Glacial Lake Outburst Flood (GLOF) risk reduction in Nothern Pakistan.
[10] Noor, S., Mahmood, S., & Habib, W. (2024). Risk Assessment of Attabad lake Outburst Flooding using integrated Hydrological and Geo-Spatial Approach. Advanced Geomatics, 4(1), 57-67.
[11] Moazzam, M. F. U., Bae, J., & Lee, B. G. (2022). Impact of Climate Change on Spatio-Temporal Distribution of Glaciers in Western Karakoram Region since 1990: A Case Study of Central Karakoram National Park. Water, 14(19), 2968.
[12] Simons, G. W. H., et al. "A novel method to quantify consumed fractions and non-consumptive use of irrigation water: Application to the Indus Basin Irrigation System of Pakistan." Agricultural Water Management 236 (2020): 106174.
[13] Source: International Centre for Integrated Mountain Development (ICIMOD), Nepal.
[14] Source: WB Group, Pakistan – Country, Climate, and Development Report, November 2022.
[15] Source: Asian Development Bank, Climate Change Profile of Pakistan, 2017.
[16] Source: Scaling-up of Glacial Lake Outburst Flood (GLOF) risk reduction in Northern Pakistan | UNDP (undp.org)
[17] Source: Ranking, Climate Change Performance Index (ccpi.org).

[18] Source: United Nations Framework Convention on Climate Change (UNFCC), COP28: What was achieved and What Happens Next?, November – December 2023.
[19] Saidakbarovich, M. M., & Ogli, R. B. D. S. (2023). Glacier Melting: Control and Mitigation Strategies. Western European Journal of Linguistics and Education, 1(3), 26-33.

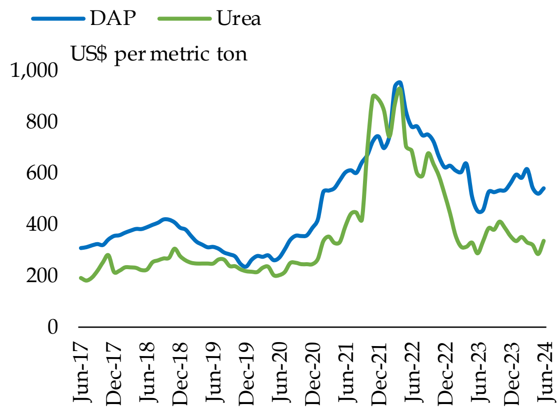
Fertilizer

Fertilizer offtake, despite higher prices, increased during FY24, compared to the previous year.[8] The increase largely emanated from better crop situation and expansion in area under cultivation **(Figures 2.6a and 2.6b).**

The urea offtake increased by 5.8 and 1.6 percent during *Kharif* and *Rabi* FY24; whereas DAP offtake increased by 54.2 and 21.7 percent, respectively. However, in comparison to 10-year average, DAP offtake remained lower during *Kharif* FY24, due to historically high prices.[9]

While fertilizer prices decreased in international market in FY24 from their peak in FY22 **(Figure 2.7)**, the domestic prices remained higher. The decline in international fertilizer prices was initially due to lower demand because of erosion in farmers' affordability, and latter due to a reduction in global prices of raw materials, primarily gas.[10,11]

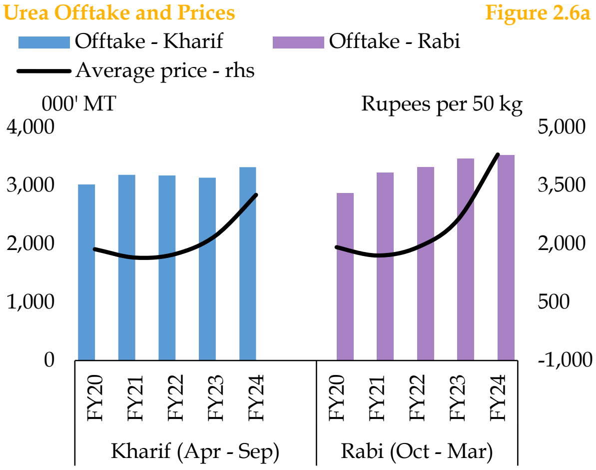
Global Urea and DAP Prices — Figure 2.7



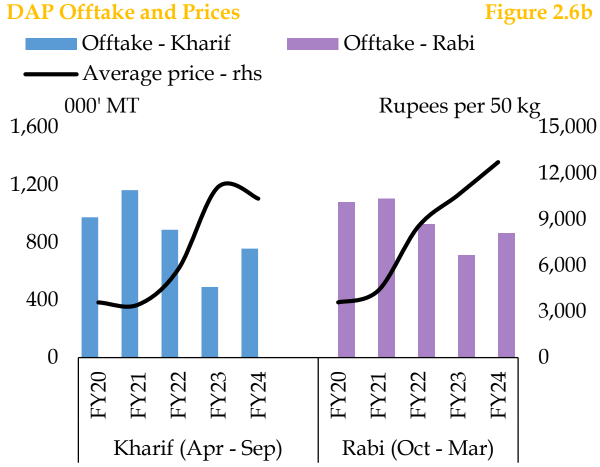
Source: World Bank

Given that DAP is largely imported, the decline in international DAP prices during *Kharif* FY24 was reflected in reduced domestic prices as well. However, the international DAP prices increased in Q3-FY24 mainly due to export restrictions by China and Russia on phosphate and ammonia,

Urea Offtake and Prices — Figure 2.6a



DAP Offtake and Prices — Figure 2.6b



Source: National Fertilizer Development Centre

[8] Efforts are being made in collaboration with provincial governments to eliminate hoarding. Source: PR No. 259, Press Information Department, GoP April 2024.
[9] Average DAP offtake during *Kharif* FY13-FY22 was 792.8 thousand tons, whereas it was 757.0 thousand tons in FY24. Source: NFDC
[10] Source: WB – Commodity markets outlook, October 2023
[11] Source: WB – Commodity markets outlook, April 2024

Economic Growth

Agricultural Credit Disbursement **Table 2.5**

billion Rupees

	FY22	FY23	FY24
Farm Sector (Production)			
All crops	374.7	438.8	483.0
Horticulture	34.4	36.6	45.4
Corporate farming	57.0	110.6	156.4
Others	220.8	331.1	392.8
Subtotal	**686.9**	**917.1**	**1,077.6**
Farm Sector (Development)			
Tractor	10.7	10.9	48.3
Farm machinery	0.7	2.5	6.6
Tube well	0.5	1.7	9.5
Sprinkle and trickle irrigation	0.0	-	0.3
Others	30.1	34.7	69.2
Subtotal	**42.0**	**49.7**	**133.9**
Non-Farm Sector (Working Capital)			
Livestock/Dairy	349.0	394.7	485.9
Poultry	222.9	261.0	313.8
Others	48.4	70.4	131.0
Subtotal	**620.3**	**726.0**	**930.7**
Non-Farm Sector (Fixed Investment)			
Livestock/Dairy	41.2	58.8	42.3
Poultry	19.9	15.4	21.3
Others	8.7	8.9	9.9
Subtotal	**69.7**	**83.1**	**73.5**
Grand Total	**1,418.9**	**1,776.0**	**2,215.7**

Source: State Bank of Pakistan

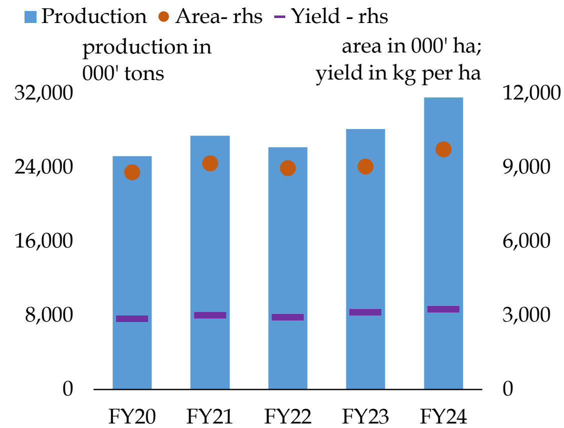
respectively.[12] This increased the domestic prices by 20.2 percent in *Rabi*.[13]

Agriculture Credit Disbursement

Credit disbursement to the agriculture rose by 24.8 percent during FY24 **(Table 2.5)**. The increase was in line with upward revision in the target set by the SBP to Rs 2,250 billion in wake of rising input costs.[14] Besides, SBP increased efforts to raise awareness about various financing schemes among the farming community.[15] Livestock/dairy and crops remained the largest borrowers. Loans for purchase of tractors, under farm sector development, increased significantly, which is also reflected by 47.0 percent growth in tractor sales during FY24.[16]

The major chunk of farm sector developmental loans falls under the 'others' category, which almost doubled in FY24. These loans include borrowings for cold storage, farm transportation, fruits orchids, silos, green houses, tunnel farming, land improvement, high quality seed processing units, and disbursement to NGOs for farm development. In addition, *Kissan* Package, crop loan insurance, and electronic warehouse receipt and livestock insurance schemes for borrowers also contributed to higher loan disbursement.[17]

Wheat Crop **Figure 2.8**



Source: Pakistan Bureau of Statistics

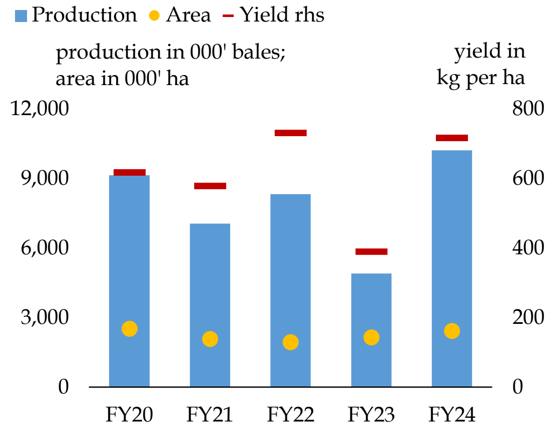
Output

Wheat

Wheat crop witnessed a record harvest of 31.6 million tons in FY24, compared to 28.2 million tons in FY23 **(Figure 2.8).** This increase in production came from a combination of increase in area under cultivation and better yields. This

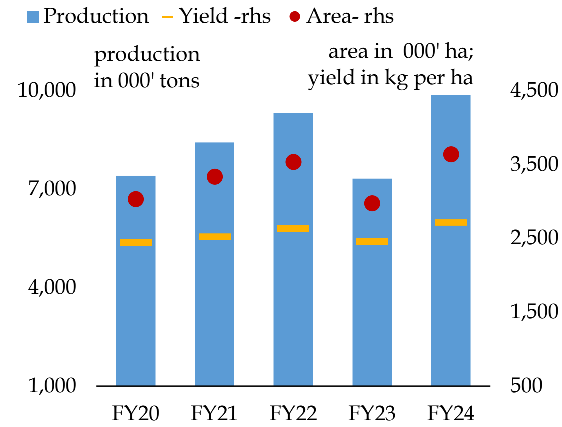
[12] Ibid.
[13] The average price of DAP during *Rabi* 2024 (Oct-Mar) was Rs 12,736 per 50kg compared to Rs 10,599 during *Rabi* 2023. Source: PBS.
[14] As per Agriculture Market Information System, the cost of production increased by 51.7, 46.5, 61.2, and 42.0 percent for cotton, maize, sugarcane, and wheat respectively in FY24.
[15] Source: SBP press release (ECD/M&PRD/PR/01/2023-84), September 18, 2023
[16] Source: PAMA, Production and Sales Report
[17] Markup Waiver Scheme, GoP Markup Subsidy Scheme, Markup Subsidy, Interest Free Loans and Risk Sharing Scheme for Landless Farmers, and Risk Sharing Scheme for Farm Mechanization. Source: AC&MFD Circular No. 03 and 04 of 2022, SBP

Cotton Crop **Figure 2.9**



Source: Pakistan Bureau of Statistics

Rice Crop **Figure 2.10**



Source: Pakistan Bureau of Statistics

could be linked to greater use of fertilizer and quality seeds amid adequate availability of irrigation water.[18] Use of rust-resistant seeds combined with less rainfall during *Rabi* lowered the incidence of the rust disease during FY24 crop.[19] Moroever, the government maintained MSP for FY24 at Rs 3,900/40 Kg, which was sufficient to cover the cost of production.[20,21] Rainfall patterns in *Rabi* FY24 were, however, erratic. A dry spell in December 2023 continuing till the third week of January 2024 induced drought-like conditions in rain-fed areas.[22] Though, rains at the end of January compensated for this dry spell, the rains in March accompanied by hailstorms and gust damaged the crop in a few areas.[23] Nevertheless, better input utilization and higher yields helped achieve the record harvest.

Cotton

Cotton output rebounded in FY24, after experiencing sizeable damages from floods in the previous year. Both increase in area under cultivation and yield contributed to higher cotton production (**Figure 2.9**). A timely announcement of the support prices in March 2023, well before the sowing season, incentivized farmers to allocate more area for cotton cultivation.[24] Further, the use of pest-resilient seeds, favorable weather conditions and flood-induced regeneration of soil, resulted in improved yield.[25]

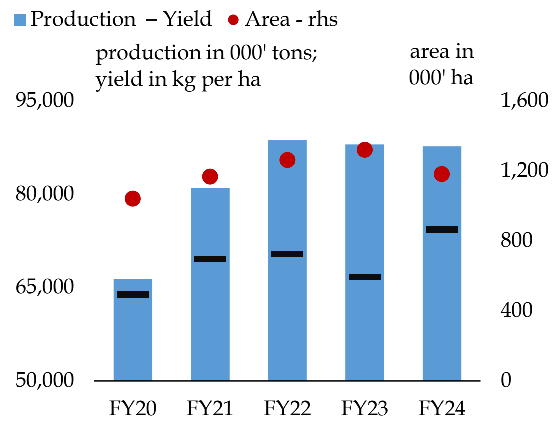
Even though cotton production increased to 10.2 million bales in FY24 from 4.9 million bales in FY23, it fell short of the target for the year. The shortfall can be linked to lower than targeted yield in Punjab, that suffered from whitefly attacks and uneven rain patterns.[26] In Sindh, dry weather during picking season and lower pest attacks benefitted the crop.

Rice

Rice crop witnessed a record production of 9.9 million tons in FY24 **(Figure 2.10)**. This was an

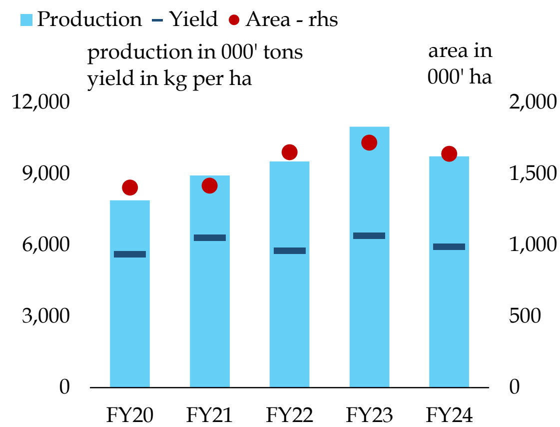
[18] Farmers have used certified seeds for 46 percent of wheat crop in FY24. Source: USDA, Grain and Feed Annual Report, April 2024.
[19] Source: USDA, Grain and Feed Annual Report, April 2024.
[20] Source: Ministry of Finance (PR No. 510 – December 30, 2023)
[21] Cost of production of an average farmer for wheat in FY24 is estimated to be Rs 3,303.5/40Kg and 3,075.2/40Kg in Punjab and Sindh respectively. Source: Wheat Policy Analysis for 2023-24 Crop.
[22] Source: Monthly Agromat Bulletin, National Agromat Centre, Pakistan Meteorological Department, Vol:12-2023 and Vol: 01-2024, December 2023 and January 2024.
[23] Source: Monthly Agromat Bulletin, National Agromat Centre, Pakistan Meteorological Department, Vol:03-2024, March 2024.
[24] ECC fixed the intervention price of cotton (Phutti) at Rs 8,500/40Kg. Source: Ministry of Finance (PR No. 325 - March 14, 2023),
[25] Source: Monthly Economic Update and Outlook, August 2023, Finance Division, Economic Advisor’s Wing, Government of Pakistan.
[26] Source: PAK SCMS Bulletin, SUPARCO, volume XIII, Issue 10, Serial No. 154, October 2023

Sugarcane Crop — **Figure 2.11**



Source: Pakistan Bureau of Statistics

Maize Crop — **Figure 2.12**



Source: Pakistan Bureau of Statistics

outcome of a combination of 22.2 percent increase in the area under cultivation and a 10.3 percent rise in yield. Higher prices and better export prospects remained the major reasons behind the increase in area under cultivation, while favourable monsoon rains and use of new high-yielding non-basmati varieties boosted yield.[27] Moreover, rice output has been trending upward for the past few years reflecting greater profitability and export potential. The FY24 also marked a milestone in terms of rice exports **(see Chapter 6).**

Sugarcane

Production of sugarcane fell slightly by 0.4 percent in FY24, primarily due to 10.5 percent decline in the area under cultivation, while yields improved by an impressive 11.3 percent **(Figure 2.11)**. The decline in area under cultivation, despite an increase in support price, was on account of shift to other competing crops like cotton and rice.[28]

Maize

Maize production declined by 11.3 percent as both area and yield fell in FY24 (**Figure 2.12).** Moreover, maize prices also declined because of lower demand emanating from poultry feed.[29, 30] Consequently, farmers shifted to more profitable options in FY24 such as cotton and rice, contrasting the trend of past decade.

Other Crops

The output of *other* crops slightly declined in FY24. This was mainly because of lower area under cultivation, as farmers switched area under cultivation to more profitable important crops. The production of gram and green fodder witnessed a fall for the second consecutive year due to both lower yields and decline in area under cultivation (**Table 2.6**). However, production of *Kharif* pulses, particularly moong and mash, rebounded in FY24. This was despite a fall in area under cultivation, which points towards better yields.

Production of oilseed saw a significant increase in FY24, primarily on account of better yields as the area under cultivation declined. This is an important development in the context of dependence of domestic cooking oil and ghee industry on imported raw materials. The growing import volumes have motivated policy efforts to

[27] Source: USDA, Grain and Feed Annual Report, April 2024.
[28] Indicative price for sugarcane increased to Rs 400/40Kg in KPK and Punjab in FY24 from Rs 300/40Kg in FY23. Whereas, in Sindh the price increased to Rs 425/40Kg in FY24 from Rs 302/40 Kg in FY23. Source: Pakistan Bureau of Statistics.
[29] Source: USDA, Grain and Feed Annual Report, April 2024.
[30] Price of maize decreased by 6.7 percent in FY24 in comparison to FY23. Source: Pakistan Bureau of Statistics.

Other Crops **Table 2.6**

area in 000' hectares (ha); production in 000' tons; growth in percent

	Area		Growth		Production		Growth	
	FY23R	FY24P	FY23	FY24	FY23R	FY24P	FY23	FY24
Chilli	47.9	49.6	-17.7	3.6	109.6	120.6	-23.9	10.0
Bajra	240.6	237.8	6.2	-1.2	256.4	294.4	13.3	14.8
Gram	842.7	797.0	-2.2	-5.4	243.6	209.1	-22.9	-14.2
Potato	340.6	338.7	8.4	-0.5	8,319.8	8,434.4	4.8	1.4
Moong	217.9	201.0	-27.8	-7.7	135.0	153.4	-48.8	13.6
Oilseeds	2848.6	2819.0	21.5	-1.0	2,245.0	2,728.0	-18.9	21.5
Onion	135.5	142.7	-3.8	5.3	1,843.5	2,304.2	-10.6	25.0
Mash	7.0	7.0	-13.4	0.0	4.2	5.6	-30.7	31.9
Green fodder	3,830.7	3,598.2	0.3	-6.1	190,020.5	176,881.3	-1.9	-6.9

R: Revised, P: Provisional

Sources: Pakistan Economic Survey 2023-24, Pakistan Bureau of Statistics

reduce country's reliance on imported oilseed. To this end, the National Oilseed Enhancement Program (FY20–24) has been encouraging growers by providing subsidies on seeds, inputs, and machinery.[31]

Livestock

The value addition by livestock grew by 4.5 percent in FY24, compared to 3.7 percent in FY23. Major impetus came from poultry, which, despite challenges, registered steady growth (**Table 2.7**).[32] Main challenges faced by the poultry sector include lower feed quality, disease outbreaks, a ban on GE soybean import – an important component of feed - and higher operational cost.[33]

Poultry Products **Table 2.7**

million numbers

	FY22	FY23	FY24
Day old chicks	1,651	1,813	1,991
Poultry birds	1,725	1,887	2,065
Eggs	22,512	23,819	25,212
Poultry meat*	1,977	2,160	2,362

*000' tons

Source: Pakistan Economic Survey 2023-24

Meanwhile, milk production increased to 70.1 million tons in FY24, up from 67.9 million tons last year.[34] Moreover, meat production has increased in recent years in response to a steady rise in its export. Within the meat production, beef holds the major share followed by poultry, while mutton falls far behind in terms of annual production.[35]

2.3 Industry

The industrial GDP saw a lower contraction of 1.1 percent in FY24, compared to a decline of 3.7 percent in FY23. This improvement mainly came from a slight recovery in mining & quarrying and manufacturing (**Table 2.8**). Specifically, LSM production posted increase in H2-FY24, after a consistent decline in the previous one and half years. Nevertheless, the overall industrial activities remained constrained by subdued domestic demand amid tight monetary policy stance and fiscal consolidation, higher input costs and increase in wages.

In view of the key role of manufacturing as main driver of industrial growth, the recovery in manufacturing is an encouraging development

[31] Source: Ministry of National Food Security and Research, Pakistan Oilseed Development, National Oilseeds Enhancement Program.
[32] Poultry birds and meat registered a growth of 9.4 percent each in FY24. Source: Pakistan Economic Survey 2023-24
[33] Source: Ministry of Finance (2024), Pakistan Economic Survey 2023-24. Islamabad: MoF.
[34] Ibid.
[35] Out of total meat production of 5.8 million tons in FY24, beef amounts for 45.3 percent followed by 40.6 percent share of poultry, whereas, mutton accounts for remaining 14.1 percent. Source: Pakistan Economic Survey 2023-24.

Growth in Industrial Production **Table 2.8**

percent

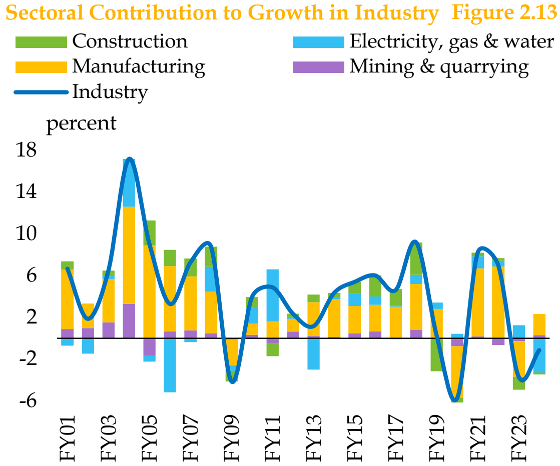
	FY23R					FY24P					Contribution	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY23R	FY24P
Industry	**-0.2**	**1.7**	**-6.6**	**-9.2**	**-3.7**	**-2.7**	**-1.2**	**2.8**	**-3.6**	**-1.1**	**-3.7**	**-1.1**
Mining & quarrying	-17.6	-1.1	6.9	1.2	-3.2	15.4	4.3	0.6	-5.3	3.5	-0.3	0.3
Manufacturing	1.1	0.7	-9.2	-12.3	-5.3	2.3	2.1	3.4	4.8	3.1	-3.4	2.0
Large scale	-1.3	-1.9	-14.5	-19.5	-9.8	-0.6	-0.7	1.6	4.2	1.1	-4.8	0.5
Small scale	8.6	8.9	9.3	9.9	9.2	10.5	10.2	8.9	6.8	9.1	1.0	1.1
Slaughtering	6.1	6.2	6.5	6.9	6.5	7.5	7.4	6.6	5.1	6.6	0.4	0.5
Electricity, gas & water supply	8.3	24.0	0.5	9.1	9.9	-32.7	-21.2	17.2	-35.5	-23.1	1.2	-3.3
Construction	-4.8	-5.9	-5.6	-20.5	-9.2	8.0	-3.3	-9.0	-0.5	-1.5	-1.2	-0.2

R: Revised, P: Provisional

Source: Pakistan Bureau of Statistics

(**Figure 2.13**). The LSM recorded a slight increase in FY24 after showing a large contraction of about 10 percent in FY23. Looking at the monthly trends, LSM output gradually recovered to post an increase in the last three months of FY24, after recording contraction for 21 consecutive months.

Sectoral Contribution to Growth in Industry **Figure 2.13**



Source: Pakistan Bureau of Statistics

This slow and gradual recovery in LSM is attributable to both demand and supply side challenges. Domestic demand remained contained amid continued contractionary policies and high inflation, which further eroded consumers' purchasing power. On the supply side, while the availability of raw materials improved with the ease in import restrictions and a decline in international commodity prices, input costs increased substantially on account of adjustments in energy prices. Moreover, political uncertainty also affected the industrial activity.

Nonetheless, the growth in manufacturing in recent years has remained well below the long-term average. In this context, **Box 2.2** discusses impediments and constraints based on WB Enterprise Surveys, underlying the performance of manufacturing in Pakistan.

Box 2.2: Obstacles to Manufacturing Activities in Pakistan: Evidence from World Bank Enterprise Surveys (WBES)

The WBES, provide insights into different factors influencing businesses environment, including access to finance, access to land, political instability, electricity supplies, courts, and trade regulations. These surveys are conducted with different time lags across different countries. The survey lists down fifteen selected impediments for seeking firms' view on the biggest obstacle they face at that point in time.

For Pakistan, the surveys are available for 2007, 2013 and 2022. The latest survey identifies political instability as the most cited factor constraining business activity, followed by access to finance, tax rate, electricity shortfall, corruption, crimes, and tax administration (**Table 2.2.1**). However, a difference between the initial two surveys and the latest one is that the responses have highlighted more factors, reducing the skewness of responses substantially from fewer to a more boarder spectrum of factors. For example, electricity remained the top ranked obstacle in 2007 and 2013, with 73.4 percent and 46.7 percent responses, but has ranked down to number 5 in the latest survey with around 10 percent responses. On the flip side, customs and trade regulations, for example, has gained more prominence when compared to the 0.7 percent and 1.4 percent responses in the last two surveys, which is also the case in almost all other factors as well.

A possible interpretation could be that: factors like electricity shortfall and corruption were so intense at the time of the 2007 and 2013 surveys that they overshadowed the possible interplay of other factors. Nonetheless, a more important aspect is that other elements have gained notable weight indicating that the issues have intensified over time, both in terms of magnitude and manifestation.

A comparison of the findings of the latest surveys for Pakistan, South Asia, and the rest of the world reveals almost similar situation. For instance, firms in Pakistan and South Asia rank precisely similar factors as the top five obstacles, except for the difference in ranking sequence due to little deviation in the scale of responses. However, the combined response of 73.0 percent for the top five factors in Pakistan is relatively higher compared to 63.0 percent in South Asia and 61 percent for all economies. This signifies the intensity of these factors in Pakistan compared to the South Asian region.

These findings offer an opportunity to formulate evidence-based policy to nurture a resilient industrial sectors in the country. The highlighted issues are structural in nature and can only be addressed through close coordination and cooperation among various stakeholders. Political instability is the leading constraint in the latest survey with possible adverse implications for economic growth, investment and business confidence. To overcome this challenge, it is imperative to ensure policy consistency in the country over the medium to long run. Similarly, access to finance, another major challenge, calls for enhancing financial inclusion and literacy. To this end, for instance, jointly designing entrepreneurial literacy programs, tackling informal credit channels, and reducing the role of few big borrowers could help businesses, especially SMEs, to have better access to financing. Last but not the least, fiscal and taxation reforms aiming at improving tax administration are critical for harmonization of tax policies and rates as well as facilitation across national and sub-national governments.

World Bank Enterprise Surveys for Pakistan **Table 2.2.1**

Biggest Obstacle	Pakistan						South Asia		All Economies	
	2022		2013		2007					
	Rank	% firms	Rank	% firms	Rank	% firms	Rank	% firms	Rank	% firms
Political instability	1	25.9	3	9.4	7	0.9	2	16.6	4	11.2
Access to Finance	2	14.6	8	2.4	4	3.7	1	16.9	1	15.8
Tax rates	3	11.8	6	4.4	5	3.1	3	11.0	2	12.4
Corruption	4	10.4	2	19.1	2	9.3	5	9.0	7	6.5
Electricity	5	10.2	1	46.7	1	73.4	4	9.3	6	7.4
Access to land	6	7.3	14	0.2	6	1.9	7	5.9	13	3.2
Customs and trade regulations	7	6.6	10	1.4	9	0.7	8	5.6	9	3.7
Business licensing and permits	8	3.1	12	0.4	15	0.0	12	2.5	14	3.0
Labor regulations	9	2.9	11	0.9	14	0.1	9	4.8	8	3.9
Transportation	10	2.1	7	3.3	10	0.6	10	4.1	11	3.6
Inadequately educated workforce	11	1.8	9	1.5	12	0.5	11	3.6	3	11.2
Informal sector	12	1.6	15	0	13	0.3	6	6.6	5	10.3
Courts	13	0.7	13	0.3	11	0.5	15	0.3	15	0.8
Crimes	14	0.5	4	5.5	3	4.3	13	2.0	12	3.5
Tax administration	15	0.4	5	4.5	8	0.8	14	1.4	10	3.6

Source: World Bank

Mining and Quarrying

Mining and quarrying recovered sharply from the contraction of previous year. This growth was led by higher extraction of coal, gypsum, limestone, iron ore and marble (**Table 2.9**).[36] The increase in production of these minerals mainly reflects activity in the allied industries. For example, increasing use of domestic coal in power generation, gypsum in case of fertilizer, limestone for cement, and iron ore for steel production. The increase in coal production, in particular, partially compensated for the decline in gas production due to continuous depletion of existing reserves and limited new explorations.[37, 38]

Production of Important Minerals **Table 2.9**

production in 000' MT; growth in percent

	Production		Growth	
	FY23	FY24	FY23	FY24
Coal	15,069.8	20,319.3	55.7	34.8
Natural gas*	1,189.5	1,140.6	-9.0	-4.1
Crude oil**	25.4	25.8	-9.7	1.8
Chromite	155.6	213.0	-20.2	36.9
Magnesite	5.0	6.7	-15.8	34.4
Dolomite	544.3	532.7	11.7	-2.1
Gypsum	1,639.7	2,094.9	-29.5	27.8
Lime stone	58,941.3	63,628.9	1.0	8.0
Rock salt	2,907.4	3,212.4	7.0	10.5
Sulphur	11.7	9.3	-28.2	-20.3
Barytes	141.0	125.6	10.5	-10.9
Iron ore	377.0	617.8	-47.4	63.9
Soap stone	164.2	212.3	-45.5	29.3
Marble	5,714.4	7,041.3	-13.8	23.2
Ocher	92.0	69.2	1.4	-24.8

*production in 000' MMCFT

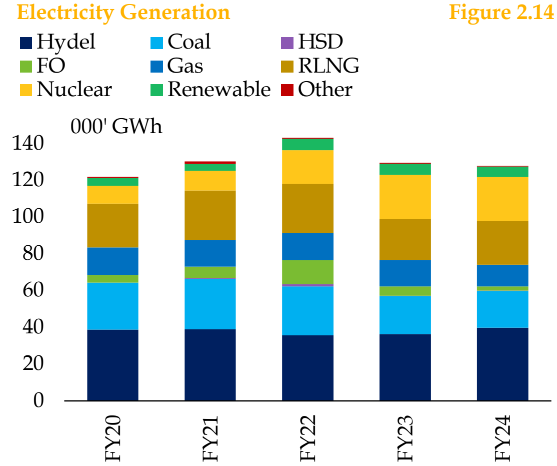
**production in million barrels

Source: Pakistan Bureau of Statistics

Electricity, Gas and Water supply

The electricity, gas and water supply, on the contrary, witnessed a contraction in FY24, dragging the industrial growth by 3.3 percentage points. This contraction was largely due to decline in electricity generation amid low demand (**Figure 2.14**), as well as reduced gas distribution during FY24.

Electricity Generation **Figure 2.14**



Sources: NEPRA; SBP Easy Data

Subdued domestic demand, amid households and businesses increasingly shifting to solar, as anecdotal evidence suggests, has likely decreased the reliance on system generated electricity. Moreover, reduction in government subsidies partly explains the contraction.[39]

In a bid to attain cost efficiency, the use of domestic energy sources has been gradually increasing. Importantly, the share of green fuels such as hydel, natural gas, renewables, has increased substantially.[40] Nonetheless, use of coal offers a tradeoff to choose between short-term cost

[36] FDI in mining and quarrying increased to US$ 103.1 million in FY24, compared to a net outflow of US$ 220.3 million in FY23.

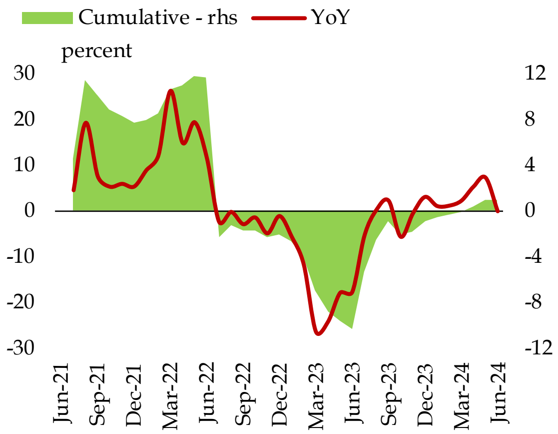
[37] Gas reserves in Pakistan depleted from 1,458,936 million CFt in FY18 to 1,189,515 million CFt in FY23. Source: Pakistan Energy Year Book, 2023.

[38] Gas supplies are accounted for in the calculation of value-added in electricity, gas and water supply, while its production is part of value-added of 'mining and quarrying' (Source: Pakistan Bureau of Statistics, National Accounts of Pakistan, 2015-16 Base Year).

[39] While calculating GVA of electricity, subsidies are treated as income of the power generation and distribution companies. As government reduced subsidies during FY24, the GVA and thus the value addition by electricity declined.

[40] Hydel holds the highest share (31.1 percent), followed by natural gas (27.8 percent) and coal (15.7 percent) in electricity generation in FY24. The use of renewable source, including solar, wind and bagasse, was only 4.5 percent.

Growth in Quantum Index of LSM Figure 2.15



Source: Pakistan Bureau of Statistics

Number of LSM Groups Showing Increase and Decrease in Production Figure 2.16

Source: Pakistan Bureau of Statistics

efficiency versus limiting environmental concerns in medium to long-term.

Construction

The value addition by construction sub-sector declined by 1.5 percent in FY24, lower than the decline of 9.2 percent in FY23. High borrowing cost in the wake of tight monetary policy; deceleration in development spending; and declining but still high domestic uncertainty have been the main factors constraining construction activities during the last two years. In addition, escalating cost of construction materials amid increase in taxes/duties and wages also weighed on construction activities.[41]

Manufacturing

Manufacturing grew by 3.1 percent during FY24, against a sharp contraction in the previous year. The growth was mainly due to LSM, which posted a slight increase in FY24 against a sharp contraction in the previous year.

Large Scale Manufacturing[42]

The LSM grew by 0.9 percent during FY24 against a sharp contraction of 10.3 percent in FY23 **(Table 2.10).** Monthly data shows that the LSM output steadily improved during FY24, after showing contraction throughout FY23 **(Figure 2.15)**. Almost half of the LSM groups with 48 percent weight in the index saw an increase in production during FY24 **(Figure 2.16).**

The recovery in LSM output is mainly attributable to improved availability of raw materials in FY24. However, heightened uncertainty and increased cost of inputs, despite a decline in imported input prices, slowed the pace of recovery. The continued contractionary policies and subdued consumer demand amid squeezed consumers' real income given high inflation were the major factors constraining domestic demand.

The LSM performance is also reflected by improved business confidence, including the Purchasing Managers Index (PMI). The business confidence index (BCI) has substantially improved since May 2023 (**Figure 2.17**). Moreover, businesses' assessment of capacity utilization also improved during FY24.

Food, beverages and tobacco

Production of food group increased by 1.7 percent in FY24, compared to a contraction of 7.1 percent in FY23. The growth was relatively broad-based as four out of six categories, led by cooking oil,

[41] The average price of cement and steel products, increased by 16.7 percent and 11.2 percent respectively in FY24, compared to 34.7 percent and 25.1 percent in the same period last year.
[42] This section is based on disaggregated data released by the PBS in August 2024.

Cumulative Growth of LSM Sectors **Table 2.10**

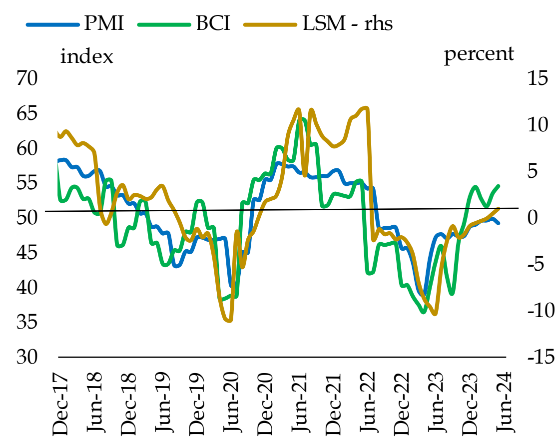
	Weight	Growth		Contribution	
		FY23	FY24	FY23	FY24
LSM	78.4	-10.3	0.9	-10.3	0.9
of which					
Food	10.7	-7.1	1.7	-1.2	0.3
Beverages	3.8	-6.6	-2.1	-0.3	-0.1
Tobacco	2.1	-28.4	-23.0	-0.7	-0.4
Textile	18.2	-18.7	-5.2	-3.7	-0.9
Wearing apparel	6.1	25.7	8.2	2.7	1.2
Leather products	1.2	1.5	5.7	0.0	0.0
Wood products	0.2	-59.8	11.8	0.0	0.0
Paper & board	1.6	-8.6	-0.4	-0.2	0.0
Coke & petroleum	6.7	-13.4	9.8	-0.9	0.6
Chemicals	6.5	-6.9	5.3	-0.5	0.4
Pharmaceuticals	5.2	-28.8	15.7	-1.8	0.8
Rubber	0.2	-3.8	-1.5	0.0	0.0
Non-metallic mineral	5.0	-12.1	-5.3	-0.8	-0.4
Iron & steel	3.4	-5.1	-4.4	-0.2	-0.2
Fabricated metal	0.4	-16.1	-7.8	-0.1	0.0
Computer, electronics, optical	0.0	-30.3	-12.4	0.0	0.0
Electrical equipment	2.0	-15.4	-9.5	-0.5	-0.3
Machinery and equipment	0.4	-45.3	45.5	-0.3	0.2
Automobiles	3.1	-50.0	-25.0	-2.2	-0.6
Other transport equipment	0.7	-40.8	-4.0	-0.3	0.0
Furniture	0.5	46.5	15.0	0.7	0.4
Other manufacturing	0.3	20.6	7.6	0.1	0.0

Source: Pakistan Bureau of Statistics

registered increase in production (**Figure 2.18**). The growth in cooking oil mainly emanated from low international palm oil prices.[43] Increase in sugar production by 1.3 percent, despite the decline in sugarcane output and delayed start of crushing, reflects high sucrose recovery rate during FY24. Wheat and rice milling, representing around 34 percent of the food group, improved (showing lower contraction) on the back of record wheat and rice production

The production of beverages and tobacco declined for the second consecutive year in FY24. Anecdotal evidence suggests that the decline in production of beverages is mainly due to reduced demand amid boycotts. In case of tobacco, it is the

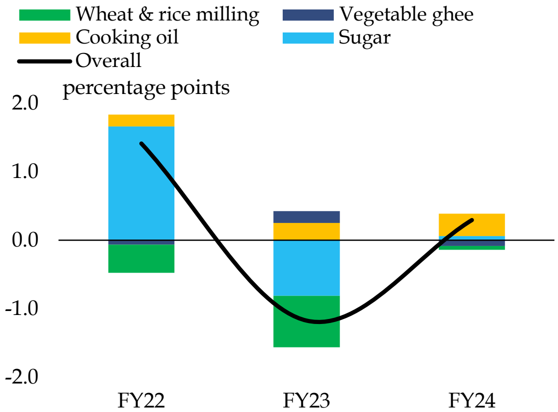
LSM Growth and Purchasing Managers Index **Figure 2.17**



Sources: State Bank of Pakistan; Pakistan Bureau of Statistics

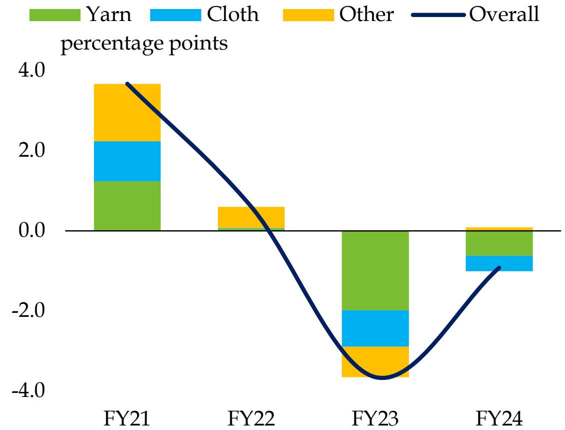
[43] On average, the international palm oil prices declined to US$ 860.8 per MT in FY24, compared to US$ 949 per MT in FY23 and US$ 1404 per MT in FY22. Source: World Bank.

Contribution to Growth in Food Production Figure 2.18



Source: Pakistan Bureau of Statistics

Contribution to Growth in Textile Figure 2.19



Source: Pakistan Bureau of Statistics

increase in federal excise duty over the last couple of years that may have led to under reporting of the production.

Textile

The output of textiles declined by 5.2 percent in FY24, much lower compared to the decline of 18.7 percent in FY23. This bottoming out in textile output was somewhat supported by increase in export volumes, especially of cotton yarn, hosiery, bed-wear, and towels, during FY24 (**Figure 2.19**).[44] The recovery in production notwithstanding higher export volumes and increased availability of raw materials (**Chapter 6**), was somewhat constrained by high input costs.

Higher interest rates and withdrawal of energy subsidy for export oriented industries have particularly increased the overall cost of production. Moreover, the minimum wage was increased by 28.0 percent to Rs 32,000 per month, adding to the cost of production.

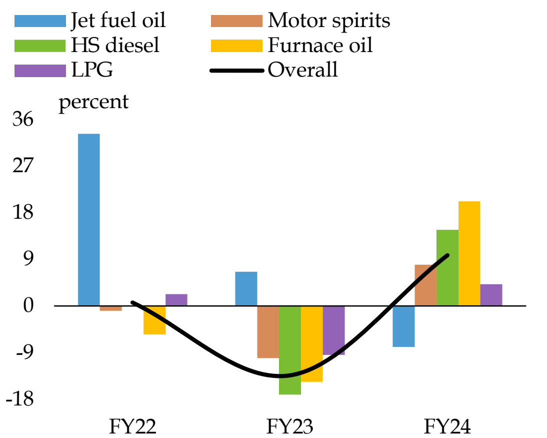
Petroleum Products

Production of petroleum products rebounded, registering 9.8 percent growth in FY24 compared to the contraction of 13.4 percent in the previous year (**Figure 2.20).** The increase in production of POL products, despite sluggish domestic sales, can be attributed to decline in imports of POL products as well as government's decision to allow export of furnace oil (**Chapter 6)**.[45,46]

Pharmaceuticals

The production of pharmaceuticals grew sharply by 15.7 percent in FY24, against a substantial decline of 28.8 percent in the previous year. Production of syrups and tablets, constituting

Growth in Output of POL Products Figure 2.20

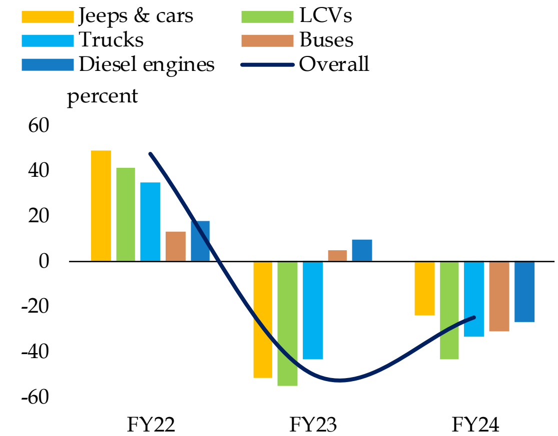


Source: Pakistan Bureau of Statistics

[44] Yarn and cloth, with 8.9 percent and 7.3 percent weights, form around 90 percent of the total textile weight.
[45] The import volume of POL products in FY24, declined by 12.9 percent, while crude increased by 11.8 percent.
[46] It is worth mentioning that domestic refineries have a build-in capacity to produce furnace oil. However, given reduced demand from power sector, the refineries were left with excess furnace oil. Allowing export of surplus furnace oil has cleared way for increased capacity utilization by the refineries.

Growth in Automobile Production

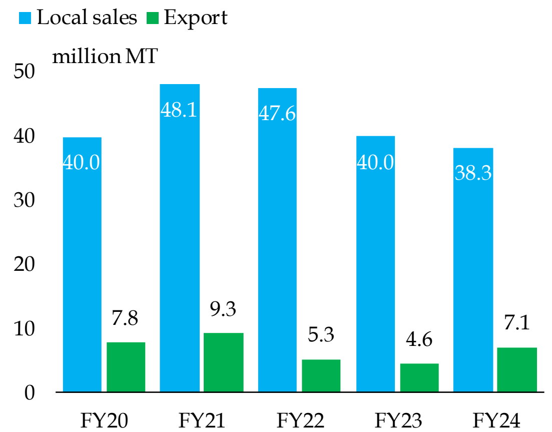
Figure 2.21



Source: Pakistan Bureau of Statistics

Cement Dispatches

Figure 2.22



Sources: Pakistan Bureau of Statistics; APCMA

around 84 percent of the pharma production, remained the principal product lines contributing almost entirely to the growth.

A number of factors supported production of pharmaceuticals during FY24. These include, increased availability of raw materials, deregulation of drugs' prices by DRAP amidst rising cost of imported raw materials,[47] and increase in exports.[48]

Automobile

Production of automobile continued to remain lackluster, showing a decline of 25.0 percent during FY24 compared to a decline of 50.0 percent in the previous year. The decline was broad-based as all categories registered double digit decline, with biggest decline in the production of LCVs, cars and jeeps (**Figure 2.21**).

The auto industry has been facing multiple challenges since the start of FY23, including issues in the availability of raw materials and lack of consumer demand amid economic slowdown, higher vehicle prices, and increased cost of financing. Except for the production and sales of tractors, other categories of vehicles show a marked decline in the number of units produced and sold in FY24 - the lowest volumes recorded after FY20, a year affected by Covid-19.[49, 50]

Construction-allied Industries

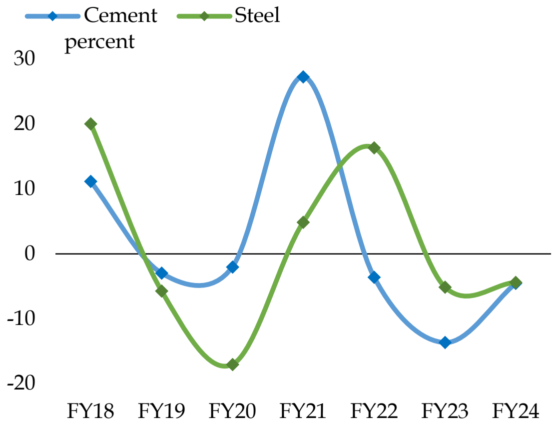
In line with the performance of construction sector, the output of allied industries also remained subdued during FY24. Production of cement and steel, the two key construction materials, posted decline in FY24. Besides lacklustre construction activities, hike in energy prices also discouraged the production of these energy-intensive industries.

Cement

Production of cement declined by 4.5 percent in FY24, significantly lower than 13.7 percent in FY23. The decline was largely due to fall in domestic cement dispatches, which could be associated with rising prices (**Figure 2.22**). Export of cement, on the other hand, experienced a

[47] In February 2024, the federal government allowed pharmaceutical companies to set prices of around 146 medicines, which are not included in the National Essential Medicine List.
[48] The export of pharmaceutical products increased during FY24, mainly to the African countries. While FDI in the *Pharmaceuticals and OTC Products* has increased from US$ 7.3 million in FY23 to US$ 38.0 million in FY24.
[49] In LSM data, the production of tractors is classified under *machinery and equipment*.
[50] Credit disbursement for purchase of farm tractors under the farm sector development has increased to Rs 48.3 billion in FY24, compared to Rs 10.9 billion in FY23.

Growth in Cement and Steel Production **Figure 2.23**



Source: Pakistan Bureau of Statistics

notable increase from 4.6 million MT in FY23 to 7.1 million MT in FY24 (**Chapter 6**).

Steel

Steel production declined by 4.4 percent during FY24, compared to a contraction of 5.1 percent last year (**Figure 2.23**). The decline is mainly attributed to weak demand amid higher steel prices. Moreover, subdued production in the complementary industries such as automobile, heavy machinery and equipment, sewing, and sugarcane machinery also weighed on the production in the steel industry, especially on the production of flat steel.

2.4 Services

In line with the increase in agriculture production and a slight recovery in LSM, the services sector grew by 2.2 percent, after remaining flat in FY23 **(Table 2.11).** The growth was mainly driven by *wholesale and retail trade, other private services* and *education*. However, *general government* and *finance and insurance*, posted contraction largely due to high inflation and stabilisation measures.

Wholesale and retail trade, the largest component of services sector, posted a sub-average increase with major impetus coming from recovery in important crops, LSM, and increased import volumes. However, lacklustre LSM performance, high borrowing costs, and sharp increase in energy prices partially offset the positive spillover from higher agriculture output.

Transport and storage expanded by 1.9 percent in FY24, mainly due to positive value addition by railways, water transport, and postal services **(Table 2.12)**. Improvement in overall trade, exports and imports, handled by ports and

Growth in Services Sector **Table 2.11**

percent

	FY23^R					FY24^P					Contribution	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY23^R	FY24^P
Services sector	**2.7**	**2.4**	**-1.2**	**-3.7**	**0.0**	**2.0**	**1.3**	**1.6**	**3.7**	**2.2**	**0.0**	**2.2**
Wholesale & retail trade	0.2	0.7	-6.4	-9.8	-4.0	3.4	2.6	2.9	4.8	3.4	-1.3	1.1
Transport & storage	3.6	4.4	5.3	1.9	3.8	2.4	2.2	0.9	2.1	1.9	0.7	0.3
Accommodation and food services activities (hotels & restaurants)	3.9	4.0	4.1	4.3	4.1	4.7	4.6	4.1	3.2	4.1	0.1	0.1
Information and communication	-0.3	4.4	-1.5	-5.5	-0.7	4.0	-4.5	-5.6	7.9	0.3	0.0	0.0
Finance & insurance activities	0.2	-3.5	-13.8	-21.8	-10.0	-15.9	-15.2	-7.4	-2.5	-10.7	-0.3	-0.3
Real estate activities	3.6	3.6	3.7	4.0	3.7	4.2	4.2	3.7	2.9	3.7	0.4	0.4
Public administration and social security (general government)	4.5	-3.1	-11.1	-17.0	-7.0	-10.0	-10.5	-7.6	-0.2	-7.3	-0.6	-0.6
Education	5.7	5.2	4.9	4.7	5.1	8.1	8.3	8.7	9.0	8.5	0.2	0.4
Human health and social work activities	8.5	9.0	9.1	8.8	8.8	5.6	5.1	5.6	5.9	5.6	0.2	0.2
Other private services	4.5	4.3	4.2	3.9	4.2	3.9	3.8	3.3	3.4	3.6	0.6	0.5

R: revised, P: provisional

Source: Pakistan Bureau of Statistics

Growth in Transport and Storage **Table 2.12**

percent

	FY23	FY24
Railways	27.2	10.3
Water transport	-23.7	15.2
Air transport	27.3	4.4
Road transport	4.3	1.2
Postal services	-11.9	14.8
Pipeline transport	-18.9	-7.4
Storage	-4.1	3.4

Source: Pakistan Bureau of Statistics

container terminals mainly explains the increase in water transport. Growth in road transport, on the other hand, remained weak as indicated by declining trend in auto sales. This is also reflected in reduced POL sales to the transport sector **(Figure 2.24)**.

The value addition by *information and communication* services grew in FY24 against a contraction in the previous year. Increase in mobile cellular and broadband subscribers amid increasing use of digital financial services partly explains this increase **(Figure 2.25)**.[51]

On the contrary, *finance and insurance* activities

Growth in Finance and Insurance **Table 2.13**

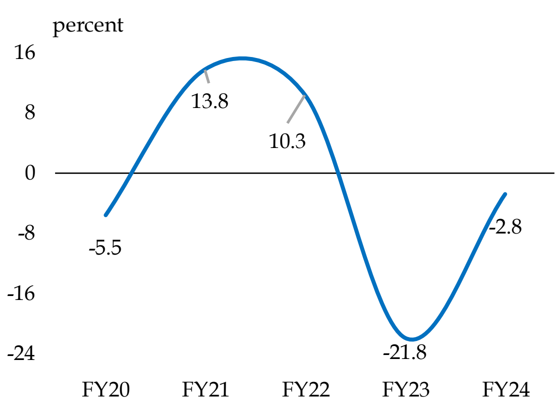
percent

	FY23	FY24
Central banking	-10.3	-22.8
Other monetary intermediation	-12.9	-6.8
Scheduled banks	-12.7	-7.3
Non-scheduled banks	-25.1	23.2
Insurance, reinsurance, and pension funding	60.3	-58.2
Other financial services	-12.5	-20.7
Auxiliary activities	-19.5	8.1

Source: Pakistan Bureau of Statistics

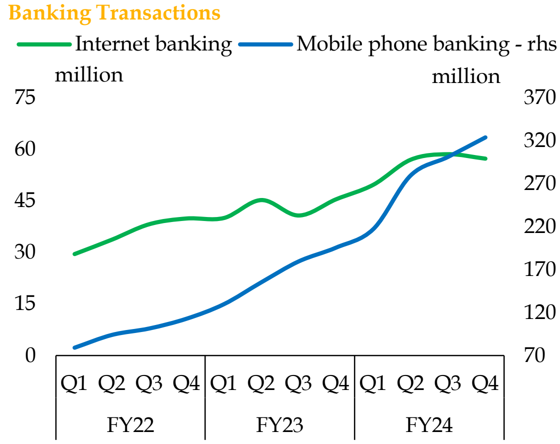
continued to deteriorate for the second year in FY24 **(Table 2.13)**. The sector was impacted by high interest rates and inflation.[52] Even though the profitability of scheduled banks increased, the value addition turned negative due to relatively sharper increase in deposits than in advances during FY24.[53, 54] Further, majority of the investments were in government securities, that are not included in value addition, as these provide minimum risks and higher returns due to lucrative interest rates.[55] In addition, the output of insurance companies, which had a healthy growth in FY23, declined in FY24 possibly due to reduced incomes amidst high inflation.

Growth in POL Sales to the Transport Sector **Figure 2.24**



Source: Oil Companies Advisory Council

Volume of Internet Banking and Mobile Banking Transactions **Figure 2.25**



Source: State Bank of Pakistan

[51] Cellular subscribers increased to 192.5 million in FY24 from 190.9 million in FY23, whereas, broadband subscribers increased to 138.3 million in FY24 from 127.6 million in FY23. Source: Pakistan Telecommunication Authority

[52] Policy rate remained all time high at 22.0 percent for most part of FY24. It was reduced by 150 basis points in June 2024. Source: SBP.

[53] Source: SBP (2024), Quarterly Compendium: Statistics of Banking System.

[54] Value addition in finance & insurance is computed using FISIM method by PBS, which may not necessarily reflect the actual profitability of financial institutions.

[55] Ibid.

The *general government services* continued to show contraction, albeit at slower pace. This is in line with fiscal consolidation achieved during FY24 (**Chapter 4**).[56] Other services such as *accommodation and food services, real estate activities,* and *other private services* maintained their FY23 growth momentum into FY24 as well. While, *education* grew substantially in line with 23.7 percent increase in provincial spending on education in FY24.[57]

2.5 Labor Market

Reflecting the performance of LSM during FY24, the sentiments about employment prospects, captured through the business confidence survey (BCS) and consumer confidence survey (CCS) also somewhat improved. On the other hand, the employment data showed relatively lower deterioration in industrial employment, mainly originating from automobile and textile.

Punjab

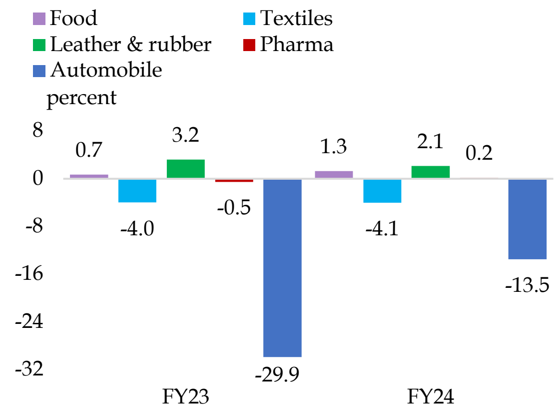
Employment in Punjab declined by 1.8 percent in FY24, compared to a decline of 2.2 percent last year. The decline was driven by lower employment in major industries, including textile – the leading employer, and automobile (**Figure 2.26)**. The employment in leather and rubber industries increased but at a slightly slower pace. However, employment in food and pharmaceuticals registered a notable improvement, largely in line with the production trends in these sectors.

Within the food, vegetable ghee and cooking oil, dairy products, and soft drinks remained the major contributors to growth in employment.

Sindh[58]

Employment in Sindh, has declined by 1.4 percent during Jul-Dec FY24. Overall, 8 out of 18 industries showed increase in employment,

Punjab: Employment Growth in Major Sectors **Figure 2.26**



Source: Punjab Bureau of Statistics

compared to 12 industries during the corresponding period of the previous year. The major drag came from textiles, pharmaceutical and automobiles. While food and wearing apparel provided substantial support to employment in Sindh, these remained relatively restrained compared to last year.

However, employment improved in other key industries, especially in beverages and rubber & plastic industries recording 34.0 and 24.5 percent growth respectively during Jul-Dec FY24.

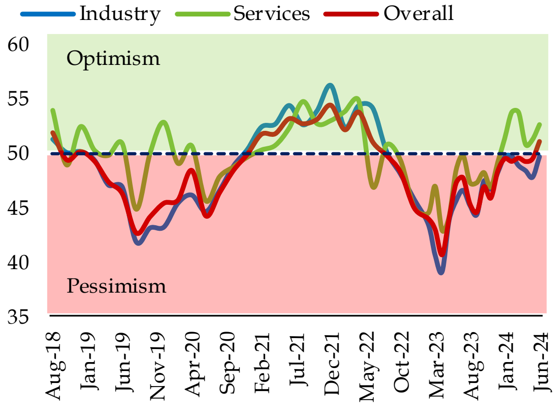
Business Confidence Survey

The overall business confidence in the country, on average, has improved with 48.1 percent of the respondents in the SBP Business Confidence Survey (BCS) showing optimism about employment generation over the past six months' horizon, compared to 45.9 percent in FY23 **(Figure 2.27)**. This improvement manifests across activities in the services as well as industrial sectors.

The index of job creation in the past six months in the services sector increased to 50.2 in FY24 from 46.6 in the previous year. The index for employment in the manufacturing also improved, though slightly below the optimistic level, at 47.7

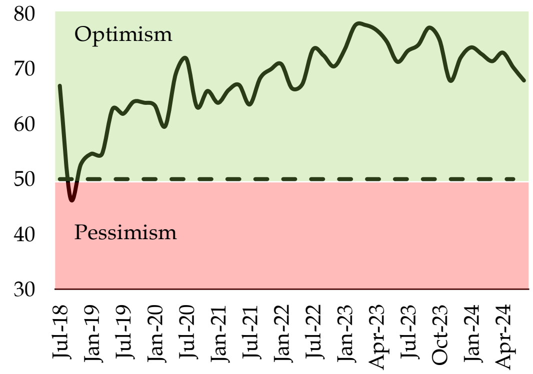
[56] Source: Ministry of Planning Development and Special Initiatives (2024), Annual Plan 2024-25.
[57] Source: Provincial Fiscal Operations, Ministry of Finance (2024).
[58] The employment data for Sindh is for Jul-Dec FY24.

Business Confidence Surveys: Employment Indices **Figure 2..27**



Source: State Bank of Pakistan

Consumer Confidence Surveys: Unemployment Index (Next Six Months) **Figure 2.28**



Source: State Bank of Pakistan

in FY24, up from 45.6 in FY23. The index about the future job creation in services and manufacturing also showed notable improvement indicating better job prospects.

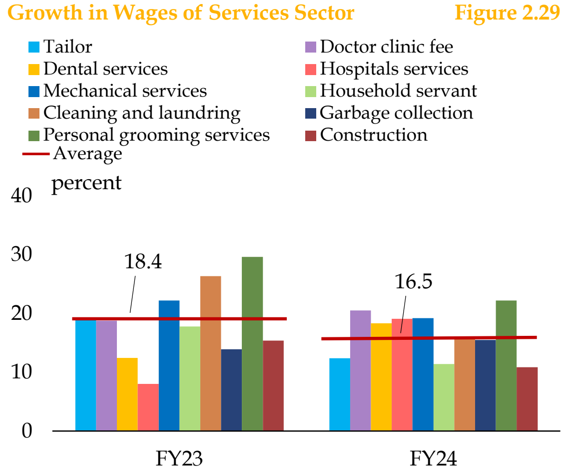
Consumer Confidence Survey

According to the SBP Consumer Confidence Survey (CCS), consumer confidence regarding the prospects of job creation over the next six months was slightly less optimistic in FY24 compared to last year. On average, the consumer confidence index has declined to 72.6 in FY24, compared to 74.4 in FY23. Similarly, according to the June 2024 wave of CCS, consumers were relatively less optimistic about job creation as 68.0 percent of respondents showed positive response compared to 71.4 percent in June 2023 (**Figure 2.28)**.

Wages

Growth in the wages of different services portrays a mixed picture in FY24. According to CPI, the pace of increase in wages across different occupations has slightly slowed down compared to FY23 (**Figure 2.29)**. Specifically, growth in the wages of most of the medical related services and waste collection has accelerated, while in other services, including tailoring, mechanical services construction and personal grooming, growth has decelerated in FY24.

Growth in Wages of Services Sector **Figure 2.29**



Source: Pakistan Bureau of Statistics