2

Real Sector

Domestic economic activity witnessed a moderate recovery in H1-FY24. The recovery is spearheaded by agriculture sector, especially crops and livestock. In particular, production of cotton and rice increased substantially on the back of favorable weather conditions and improved input availability. Large scale manufacturing (LSM) output also posted a lower contraction during H1-FY24, with slight increase in production recorded in Q2-FY24. Nonetheless, continued tight financial conditions, increase in power tariffs and fuel prices together with political uncertainty continued to hamper industrial activities in the country. Services sector showed mixed performance. Wholesale & retail trade improved in line with expansion in commodity producing sectors, while growth in other sub-sectors remained subdued. The labor market data showed slight deterioration in industrial employment during H1-FY24.

2 Real Sector

2.1 Economic Growth

Economic activity has moderately recovered in H1-FY24. The real GDP recorded increase in the first two quarters of FY24, after showing contractions in the last two quarters of FY23**.** The recovery was led by agriculture, having spill-over effects on manufacturing and services sectors. The growth though decelerated in Q2 compared to Q1, the composition somewhat improved with LSM also contributing positively in Q2-FY24 **(Table 2.1)**.

The agriculture growth is spearheaded by important crops. More specifically, production of cotton and rice, has rebounded, while area under cultivation of wheat, an important *Rabi* crop, is estimated to have increased over last year.

In view of better soil quality after floods, agriculture production was expected to improve in H1-FY24. In addition, timely announcement of Minimum Support Price (MSP) together with better input availability (seed and fertilizer) and higher credit disbursement to agriculture further boosted crop output.

In cumulative terms, LSM showed lower contraction during H1-FY24 compared to the same period last year. In fact, LSM output recorded increase in Nov-Dec 2023 on both YoY and MoM bases. Further**,** more sectors contributed positively to the LSM growth in H1-FY24 compared to H1-FY23, when wearing apparel majorly contributed to overall LSM output (**Figure 2.1**).[1] Relaxation in import restrictions, together with lower international commodity prices, and improved availability of raw materials mainly explain bottoming out in LSM output. These trends are also corroborated by improvement in business and consumer confidence towards the end of H1-Y24.

Nevertheless, a confluence of global and domestic factors continued to weigh on industrial activity. Especially, continuation of tight monetary policy stance in most economies and a slower global GDP growth supressed demand for traditional Pakistani exports **(see Chapter 5)**. On domestic side, high inflationary environment, amidst costlier energy, higher nominal wages, contractionary monetary policy, fiscal consolidation, and

GDP Growth — Table 2.1

YoY, Percent

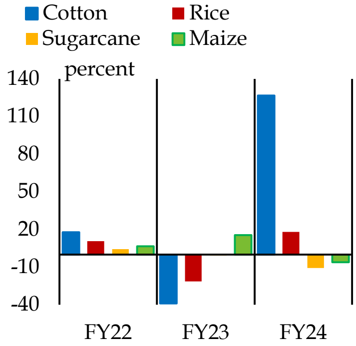
Sector	FY23						FY24		
	Q1	**Q2**	**Q3**	**Q4**	**H1***	**H2***	**Q1**	**Q2**	**H1***
Agriculture	0.2	3.5	3.9	1.5	1.8	2.7	8.6	5.0	6.8
Important crops	-11.5	9.3	9.1	-8.5	0.2	0.8	31.5	8.1	17.2
Industrial	-1.9	0.8	-3.6	-9.7	-0.6	-6.7	-0.2	-0.8	-0.5
LSM	-1.3	-1.9	-14.5	-19.6	-1.6	-16.9	-0.9	0.5	-0.2
Services	2.3	2.2	-1.0	-3.0	2.2	-2.0	0.9	0.01	0.5
GDP	**1.0**	**2.2**	**-0.4**	**-3.3**	**1.6**	**-1.9**	**2.5**	**1.0**	**1.7**

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: Pakistan Bureau of Statistics

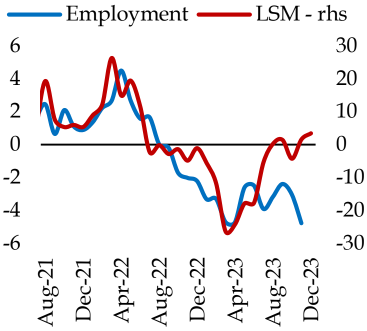
[1] LSM output excluding wearing apparel shows a lower contraction of 2.7 percent during H1-FY24, compared to 8.0 percent in the same period last year.

Growth in Production of Major *Kharif* Crops — Figure 2.1a



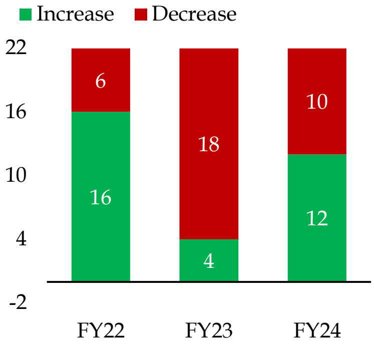
Source: Federal Committee on Agriculture

Punjab: YoY Growth in Industrial Employment and LSM — Figure 2.1b



Sources: Pakistan Bureau of Statistics and Punjab Bureau of Statistics

Number of Sectors in LSM Showing Increase and Decrease in Production — Figure 2.1c



Source: Pakistan Bureau of Statistics

political instability remained major factors constraining the industrial activity.

The available labor market data depicted deterioration in industrial employment, both in the provinces of Punjab and Sindh, during H1-FY24 compared to the same period of FY23.[2] The SBP business and consumer confidence surveys also showed slight decline in sentiments about employment in both services and industrial sectors during H1-FY24. The wage indices in CPI, mainly personal grooming, doctor fee, mechanical services, rose significantly during the current review period.

Rebound in agriculture and some improvement in manufacturing had knock on impact on the performance of services, especially *wholesale and retail trade*, *transport and storage*, and *hoteling restaurant* services. Sustaining this moderate agriculture-led recovery in economic activities, nevertheless, requires increased contribution from the industry and services sectors. While the availability of imported raw materials has improved, it is important to develop domestic supply chain to reduce reliance on imported raw materials and technology. Further, there is a need to enhance labor productivity through investment in skill development. Similarly, more focus is needed to increase crop yields through better water management and developing high-yielding climate resistant seed varieties.

2.2 Agriculture

Agriculture output rebounded, with 6.8 percent growth in H1-FY24 compared to 1.8 percent in last year **(Table 2.2)**. The growth was also broad-based, with major contribution coming from important crops and livestock. Among the important crops, production of cotton and rice increased considerably, with former leading to a notable increase in ginning activity as well. Production of sugarcane slightly declined, with losing some area to cotton. Favorable weather conditions alongside greater input

[2] Data for Punjab and Sindh is for Jul-Nov and Jul-Oct, respectively

Growth in GVA of Agriculture Sector **Table 2.2**

percent

	FY23						FY24		
	Q1	Q2	Q3	Q4	H1*	H2*	Q1	Q2	H1*
Agriculture sector	**0.2**	**3.5**	**3.9**	**1.5**	**1.8**	**2.7**	**8.6**	**5.0**	**6.8**
Crops	-7.7	4.5	3.2	-5.2	-1.1	-0.8	17.7	6.2	11.1
Important crops	-11.5	9.3	9.1	-8.5	0.2	0.8	31.5	8.1	17.2
Other crops	-1.2	-0.4	-1.0	-1.2	-0.7	-1.1	0.3	-0.3	0.0
Cotton ginning	-22.4	-30.2	-26.8	-10.6	-26.4	-19.1	25.8	53.6	39.1
Livestock	4.0	2.3	3.9	4.4	3.2	4.1	4.4	4.3	4.4
Forestry	13.3	15.8	15.4	12.4	14.6	13.9	7.2	3.6	5.4
Fishing	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.8	0.7

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: Pakistan Bureau of Statistics

availability supported the overall better performance of the crops.[3]

The reported increase in area under wheat is likely to provide further boost to crop production in FY24. Adequate soil moisture at the time of sowing is also supportive for the upcoming wheat crop.[4] However, concerns about fertilizer affordability due to high prices and its reported hoarding can be an issue.[5] Nonetheless, current situation indicates optimistic outlook for wheat and other *Rabi* crops.

Inputs

Seed

Availability of certified seed exceeded the requirement in the case of rice and moong. However, there was shortage of seeds in case of cotton and maize during H1-FY24 **(Table 2.3)**. These shortages were managed through informal sources such as seeds saved from the previous harvest by farmers and uncertified seeds sold by seed companies and input market dealers.[6] Due to this and other perennial structural issues, Pakistan lags behind other economies in terms of yield, despite being among the top producers of certain crops **(Figure 2.2)**.

For instance, USA ranks lower than Pakistan in terms of production of sugarcane but higher in terms of yield.[7]

Seed Availability for *Kharif* Crops **Table 2.3**

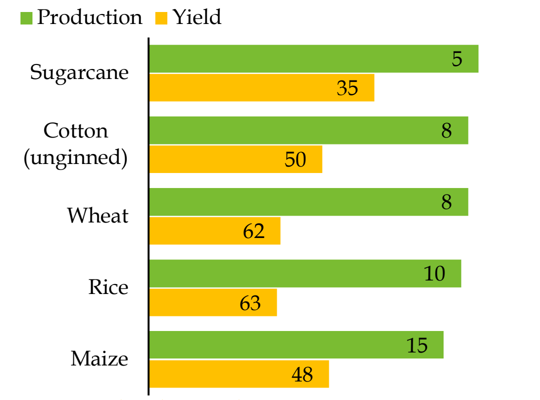
Crop	FY23		FY24*	
	Availability (000'MT)	% of Req.	Availability (000' MT)	% of Req.
Paddy	67.3	148	52.0	114
Maize	28.0	85	24.7	75
Moong	5.2	93	6.9	122
Cotton	42.2	84	17.7	35

* Provisional

Source: FCA Working Paper - *Kharif* Season 2023-24

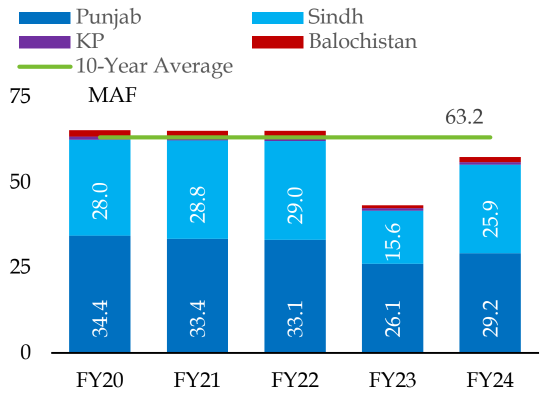
[3] However, compared to FY22, only cotton and maize witnessed a rise in production.
[4] Source: FAO - GIEWS Country Brief, The Islamic Republic of Pakistan, November 14, 2023.
[5] District administration to take immediate action against fertilizer hoarders on Prime Minister's instructions. Source: moib.gov.pk/News/58995
[6] SBP Staff Note 02/22, Investigating Pakistan's Seed Industry Dynamics, June 2022.
[7] USA ranks 9th and 17th in sugarcane production and yield respectively. Source: FAO Stats, 2022

Pakistan's Ranking in Terms of Crop Production and Yield **Figure 2.2**



Source: Food and Agriculture Organization - 2022

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



Source: Indus River System Authority

China, on the other hand, ranks higher than Pakistan in terms of both production and yield of rice and cotton.[8]

Water Availability

Water availability remained at par with the requirements of *Kharif* crops. Rainfall was close to or above the average for most parts of the season except August 2023, which was the second driest August in the last sixty-three years.[9] This dry spell came soon after June 2023, which was the second wettest June in the last sixty-three years.[10] These extreme rainfall patterns within a year can be traced to climate change.

In line with the rainfall patterns, water releases for irrigation, though higher during H1-FY24 compared to H1-FY23, were still lower than the average over the past ten years (**Figure 2.3).** In fact, FY23 required lower release of irrigation water due to heavy floods.

Fertilizer

Fertilizer offtake also improved in *Kharif* FY24 as compared to the previous year. Urea offtake increased by 5.8 percent despite the increase in prices **(Figure 2.4a)**. DAP offtake also increased by 54.2 percent, which may be attributed to drop in prices **(Figure 2.4b).** As Pakistan relies on DAP imports to meet its domestic requirements, fall in international prices translated into a reduction of 7.1 percent in domestic DAP prices.[11, 12]

In the international market, fertilizer prices have eased from their peak in May 2022 **(Figure 2.5)**. The decrease in international

[8] China ranks 1st in cotton seed production and yield, and 1st and 11th in the production and yield of rice. Source: FAO Stats, 2022

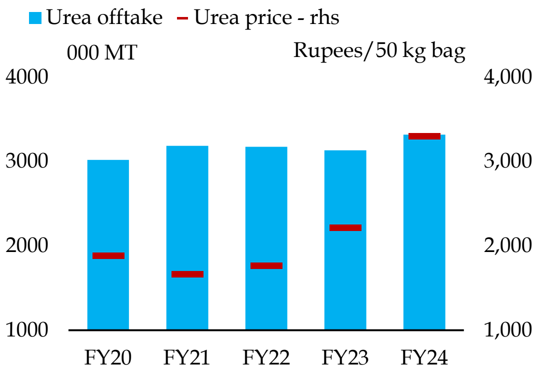
[9] Source: Pakistan Monthly Climate Summary April 2023 – September 2023, Pakistan Meteorological Department

[10] June 2023 witnessed a severe tropical biparjoy affecting the region for about twelve days

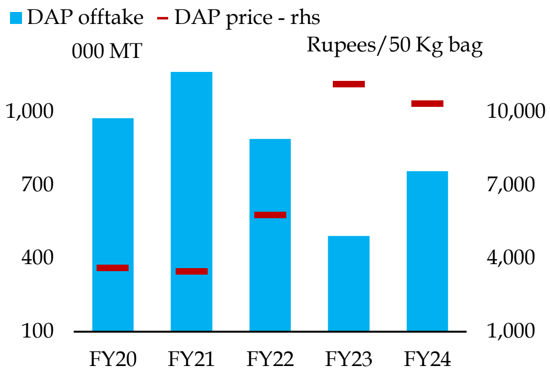
[11] During *Kharif* FY24, DAP import stood 117,400 MT (NFDC).

[12] The average price of DAP during *Kharif* 2023 was Rs 11,128 per 50kg/bag as compared to Rs 10,342 per 50kg/bag for the same period this year (PBS).

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



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



Sources: National Fertilizer Development Centre and Pakistan Bureau of Statistics

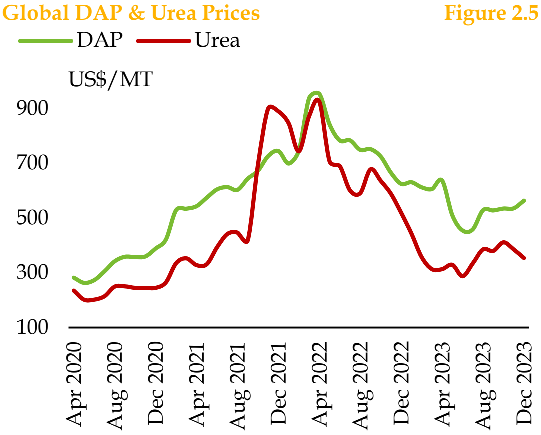
prices was on the back of lower demand owing to eroding affordability.[13] In effect, the global fertilizer industry is still constrained by supply side shocks from Russia-Ukraine conflict besides restrictions on exports by China and Morocco, and further escalation in natural gas prices due to Middle-East conflict.[14]

Agriculture Credit Disbursements

Keeping in view the rising input prices, the target for agriculture credit disbursements was increased by 23.7 percent to Rs 2,250 billion in FY24. In line with that, disbursements increased by 31.3 percent in H1-FY24, achieving about 49.1 percent of the annual target.[15] Most of the loans were disbursed for crop production, followed by livestock/dairy in non-farm sector and poultry **(Table 2.4).**

There was also significant increase in disbursements for purchase of tractors (farm sector - development). This is also reflected in tractor sales, which surged by 103.3 percent during H1-FY24, pointing towards increased agricultural activity as well as mechanization in the sector.[16]

Global DAP & Urea Prices **Figure 2.5**



Source: World Bank

[13] DAP usage fell in various regions notably in Asia where affordability was the main driver. Source: World Bank Report – Commodity markets outlook, October 2023.
[14] Source: World Bank Report – Commodity markets outlook, October 2023.
[15] Source: SBP, Agriculture Credit & Financial Inclusion Department: Targets, disbursements, recoveries & outstanding during July-December 2023.
[16] Sale of tractor more than doubled to 23,411 units in H1 FY24 as compared to 11,513 units in H1 FY23 (source: PAMA – Production and Sales Data of Vehicles)

Agriculture Credit Disbursements in H1

Table 2.4

billion Rupees, percent

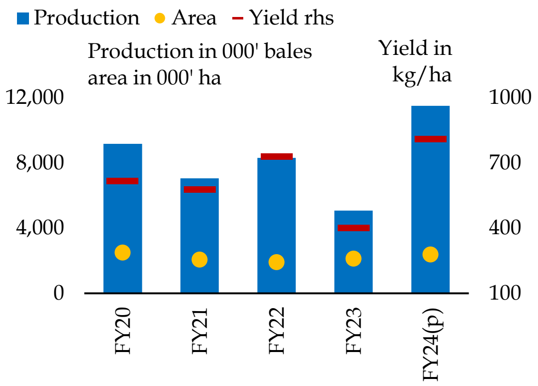
	FY23		FY24	
	Amount	Growth	Amount	Growth
Farm sector				
A. Production	419.7	42.4	545.8	30.0
B. Development	25.3	1.6	58.9	132.8
Tractor	2.3	-50.0	*27.8*	1109.3
C. Total farm sector (A+B)	**445.0**	39.2	**604.7**	35.9
Non - farm sector				
D. Livestock/dairy	222.1	39.9	270.5	21.8
E. Poultry	140.9	35.1	173.5	23.2
F. Other	34.4	50.2	57.1	66.0
G. Total non-farm sector	**397.4**	23.7	**501.2**	26.1
Total agriculture	**842.4**	**31.5**	**1105.8**	**31.3**

Source: State Bank of Pakistan

SBP's financing schemes such as Prime Minister's kissan package, crop loan insurance scheme, livestock insurance scheme for borrowers, and use of electronic warehouse receipt facilitated farmers in meeting their financing needs. In addition, 'champion bank model' accelerated penetration in the underserved regions, through increasing awareness, formulating specialized lending programs, and addressing the challenges faced by local farmers.[17] In order to enhance awareness regarding various agriculture credit schemes, Agriculture Finance Literacy Program (AFLP) of SBP conducted a series of five workshops in H1-FY24.[18]

Cotton Crop

Figure 2.6



Sources: Federal Committee on Agriculture Working Paper and Pakistan Bureau of Statistics

Outputs

Cotton

Provisional estimates show a sizeable increase in cotton production in FY24, after suffering substantial losses due to floods in FY23. Both the increase in area under cultivation (12.2 percent), and yield (122.7 percent) contributed to 126.6 percent increase in cotton production **(Figure 2.6)**.[19]

Importantly, cotton area, production and yield were 4, 24, and 20 percent higher compared to their respective 5-year averages (FY18-22, to control for FY23

[17] Source: SBP press release RD/M&PRD/PR/01/2022-74, June 15, 2022
[18] Source: SBP press release (ECD/M&PRD/PR/01/2023-84), September 18, 2023
[19] Working Paper, 21st meeting of Federal Committee on Agriculture (FCA) – *Rabi* Season 2023 -24, MNFSR

floods). This overall improvement can be linked to better quality of pest resilient seeds, favorable weather conditions, and announcement of attractive support price before the start of sowing season. [20,21]

Cotton arrivals at 8.2 million bales as of January 1, 2024, though still considerably higher than last year, are reported to be less than the provisional estimates.[22] This can be linked to lower output in Punjab as per SUPARCO estimates, mainly due to whitefly attacks and uneven rainfall patterns.[23] Sindh, on the other hand, exceeded the target supported primarily by increase in area under cultivation and better environmental conditions—dry weather during the picking season and lower pest attacks.

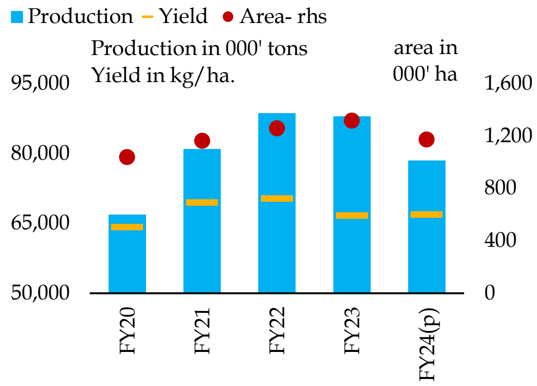
Sugarcane

Sugarcane production fell by 10.7 percent in FY24 as compared to a slight decrease of 0.8 percent in FY23 **(Figure 2.7)**. This can be explained by an almost matching fall in area under cultivation, despite a marginal increase of 0.3 percent in yields.

In FY23, farmers had substituted cotton with sugarcane because of higher returns.[24] In FY24, however, the situation reversed in favor of cotton and area under cultivation

Sugarcane Crop

Figure 2.7



Sources: Federal Committee on Agriculture Working Paper and Pakistan Bureau of Statistics

of sugarcane decreased in both Punjab and Sindh despite increase in support prices.[25]

Rice

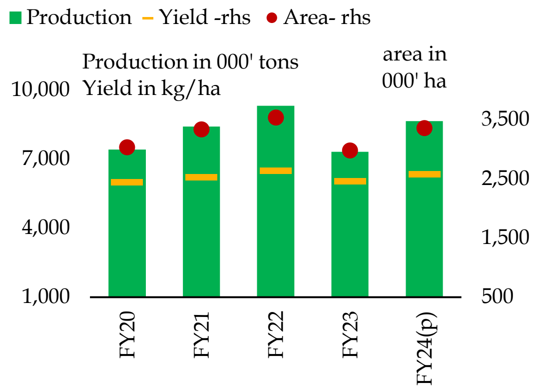
Provisional estimates for FY24 indicate substantial increase in rice production, after suffering large flood-related losses in FY23 **(Figure 2.8)**. The rise in rice production was on account of increased area under cultivation, supported by higher rice prices, favorable monsoon rains, and better export prospects since last year (**see Chapter 5**).

Maize

Production of maize rose by 3.0 percent with increase in area under cultivation by

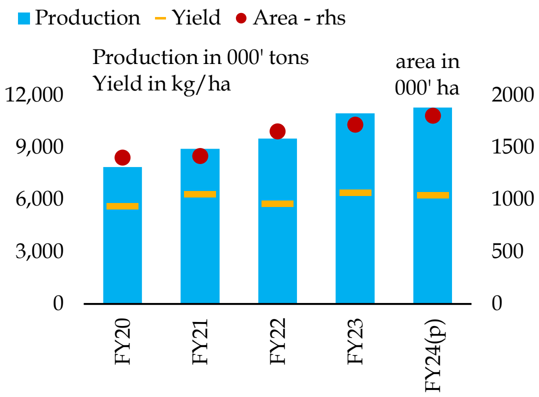
[20] Better quality of pest resilient seeds was used in Punjab and Sindh. Source: Monthly Economic Update and Outlook, August 2023, Finance Division, Economic Advisor's Wing, Government of Pakistan.
[21] Ministry of Finance (PR No. 325 - March 14, 2023), ECC approved the proposal of MNFSR and fixed the intervention price of cotton (Phutti) at Rs 8,500/40Kg for this year's sowing season.
[22] Cotton Arrivals, Pakistan Cotton Ginners' Association: Multan
[23] Source: SUPARCO, PAK-SCMS Bulletin, January 1, 2024. Area under cultivation and production for Punjab is 1.39 million ha. and 5.07 million bales respectively in contrast to the 1.7 million ha and 7.0 million bales as per provisional estimates in FCA working paper.
[24] Source: The State of Pakistan Economy, Half Year Report 2022-23: SBP, Karachi.
[25] Support price in Sindh and Punjab increased from Rs 302/40Kg and Rs 300/40Kg (Source: PBS) to Rs 425/40Kg and Rs 400/40Kg (Source: SUPARCO) respectively.

Rice Crop **Figure 2.8**



Sources: Federal Committee on Agriculture Working Paper and Pakistan Bureau of Statistics

Maize Crop **Figure 2.9**



Sources: Federal Committee on Agriculture Working Paper - Minutes and Pakistan Bureau of Statistics

5.0 percent in FY24 **(Figure 2.9).**[26, 27] Moreover, maize production in FY24 is 16.8 percent higher than the average during the past five years, reflecting increased sowing area and high yields.[28] Besides domestic consumption, export of maize also increased in H1-FY24 **(see Chapter 5)**.

Wheat

Wheat production is targeted at 30 MMT for FY24 (**Table 2.5).** The area under cultivation of wheat is reported to have increased by 6.7 percent in FY24, surpassing the target by 1.8 percent.[29, 30] However, dry spell in December 2024 could have negative impact on its yield.[31] Nonetheless, considering the situation during the sowing season in terms of weather conditions, soil moisture, input availability, and the sown area in various provinces, outlook of wheat is promising barring any unexpected bad weather at the time of harvest

Despite good crop outcomes, the country lacks self-sufficiency in wheat and has to rely on imports to meet rising consumption needs.[32] Government maintained the minimum support price (MSP) at Rs 3,900/40Kg for FY24

Wheat Targets for FY24 **Table 2.5**

area in million ha; production in million MT

Country/ Province	Area		Production	
	FY23	FY24 (T)	FY23	FY24 (T)
Punjab	6.5	7.7	21.2	23.0
Sindh	1.2	1.3	3.9	4.0
KPK	0.8	0.6	1.5	1.8
Balochistan	0.5	0.4	1.5	1.2
Pakistan	**9.0**	**10.0**	**28.2**	**30.0**

Source: Federal Committee on Agriculture, Crop Reporting Service

[26] Source: Minutes of the 21st Meeting of FCA for *Rabi* season (2023-24), MNFSR.
[27] As reported in minutes of the 21st Meeting of FCA for *Rabi* season (2023-24), MNFSR. Whereas, maize production increased by 5.7 percent according to the QNA release 2023-24 Q2 by PBS.
[28] Maize production in FY24 exceeds the five-year average by 1.5 million tons
[29] Source: Pakistan Bureau of Statistics, QNA release 2023-24 Q2.
[30] Source: Government of Pakistan, Finance Division, Monthly Economic Update and Outlook, January 2024.
[31] Rainfall in December 2023 was 92 percent below average. Source: Pakistan Meteorological Department
[32] Estimated shortfall for FY24, keeping in view the increasing national requirement (32.21 MMT) is 2.4 MMT.

considering average farmer's cost of production.[33] The MSP policy of the government has played an important role in encouraging production of various important crops including wheat. However, it entails the use of the government funds by the procuring agencies. **Box 2.1** briefly reviews different country practices to draw useful lessons to further improve the current MSP policy.

Box 2.1: MSP Mechanism in Pakistan – Lessons from international best practices

MSP is a form of market intervention in which governments sets a minimum price for agricultural produce to incentivize farmers to grow more of a certain crop in order to achieve self-sufficiency and food security, ensure smooth supply, and keep prices stable in domestic market. The minimum price is set considering cost of production such as land rent and input costs – fertilizers, pesticides, seeds, water, labor, machinery rates, fuel charges, etc. as well as demand and supply dynamics. However, MSP becomes an added fiscal burden in resource constrained developing countries.

Governments, in both developing and advanced economies, use various approaches to support farmers depending upon the needs and dynamics of their respective countries. In Pakistan, wheat is procured by the government at MSP while cotton and sugarcane are mostly supported through indicative MSP. The government also undertakes purchase and sale of key commodities to ensure equillibrium between demand and supply and maintain buffer stocks.

International Experiences

Countries such as India, Bangladesh, and China have MSP mechanism for important crops similar to Pakistan. India use MSP for numerous *Kharif and Rabi* crops including paddy, maize, soybean, cotton, wheat, barley, and gram.[34] Bangladesh announces MSP for paddy at the harvest time and procures it through Public Food Grain Distribution System (PFGDS). China, procures and announces support prices for wheat and rice based on production cost and market conditions before the crops are sown.[35] On the other hand, in addition to announcing support prices for selected agricultural commodities, the South African government provides a support of 30 and 5 percent of gross receipts of sugar and wheat respectively.[36] Whereas, the Kenyan government sets a floor price for wheat at which private traders and millers are required to buy domestics produce before they can import at a preferential tariff.[37]

In USA, government has several support programs in place for their farmers such as commodity loan program, farm storage facility, honey recourse loan program, market loss assistance payment etc.[38] In commodity loan program, a hybrid approach is used by issuing 'loan rates' for selected commodities such as wheat, corn, and oilseeds.[39] Farmers can avail financing on the basis of these 'loan rates' by pledging their crop as a collateral. At maturity, farmers can either sell their crops in the market (if the market price

[33] Ministry of Finance (PR No. 510 – December 30, 2023), ECC maintained last year's intervention price of Rs 3,900/40Kg for wheat. Average farmer's cost of production of 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.pdf (api.gov.pk)
[34] Press Release – June 7, 2023. Source: Press Information Bureau (PIB), India.
[35] Source: The State Council, The people's Republic of China (english.www.gov.cn)
[36] Source OECD: Reforming Agriculture Policy for Climate Change Mitigation.
[37] Source: USDA Annual Grain and Feed Report, March 2022. Referenced wheat policy is periodically approved by the government and is expected to remain operational in MY23.
[38] https://www.usda.gov/topics/trade/price-support
[39] National Average Loan Rates 2023. Source: USDA

is higher than the 'loan rate') and repay the loan or deliver the commodity (pledged as the collateral) to as full settlement on maturity in case the market prices is lower than the 'loan rate'. [40]

What Pakistan can learn from different country experiences?

Pakistan can restructure MSP mechanism mainly by prioritizing staple crops, especially wheat, and increasing the role of private sector in the procurement and supply management of other crops. Pakistan can draw useful lessons from international best practices and implement strategies such as loan rates for key crops. This can serve a dual purpose of providing farmers with financing and reducing their reliance on expensive loans from informal lenders, and simultaneously establishing a floor price for these crops. Such a system grants autonomy to farmers in terms of repaying their loan; either by selling their crops in the open market or by delivering pledged crops to the government procurement agency. In the long-run, government needs to slowly step back from direct procurement and play its role in monitoring demand and supply gaps and encouraging private sector to play its role in procurement and storage. Government may maintain strategic stock primarily for exigencies and extreme shortages.

Other Crops

Production of other *Kharif* crops (moong, mash, and chilli), which were severely affected by last year's floods, posted decent increases in FY24 **(Table 2.6)**. Nonetheless, the production levels of other *Kharif crops* remained lower than FY22—a flood-wise relatively normal year.

Furthermore, production of potato, a high yielding *Rabi* cash crop, is mainly concentrated in Punjab which accounted for 99 percent of the total production in FY23. Considering a surplus produce last year, a lower target was set for this year. Target set for other *Rabi* crops are given in **Table 2.7.**

Other *Kharif* Crops **Table 2.6**

area in 000 hectares; production in 000 tons

Crops	Area			Production		
	FY22	FY23	FY24*	FY22	FY23	FY24*
Moong	302	218	198	264	135	144
Mash	8	7	7	6	4	5
Chili	58	54	55	144	119	122

*Provisional

Sources: Federal Committee on Agriculture Working Paper and Pakistan Bureau of Statistics

2.3 Industry

The industrial production recorded contraction for the fourth consecutive quarter in Q2-FY24 **(Table 2.8)**. Subdued domestic demand and decline in Pakistan's traditional textile exports along with costlier energy were the major factors constraining industrial activity during H1-FY24.

Nonetheless, LSM output recovered in Q2-FY24, rising by 0.5 percent after showing declines in the previous five quarters, since Q1-FY23. This substantially reduced contraction in LSM during H1-FY24 compared to previous year. Improved availability of imported raw materials and

Other *Rabi* Crops **Table 2.7**

production in 000 tons, growth in percent

Crop	Production		Growth
	FY23	FY24 (T)	
Onion	1844	2543	37.9
Tomato	621	653	5.2
Potato	8184	6331	-22.7
Gram	244	588	141.4
Lentil	5	10	104.3

Source: Federal Committee on Agriculture Working Paper

[40] Source: Commodity Credit Corporation, USDA

Growth in GVA of Industrial Sector **Table 2.8**

percent

	FY23						FY24		
	Q1	Q2	Q3	Q4	H1*	H2*	Q1	Q2	H1*
Overall	**-1.9**	**0.8**	**-3.6**	**-9.7**	**-0.6**	**-6.7**	**-0.2**	**-0.8**	**-0.5**
Mining & quarrying	**-17.7**	**-1.3**	**6.7**	**1.0**	**-10.0**	**3.8**	**7.8**	**-4.2**	**1.6**
Manufacturing	**1.1**	**0.7**	**-9.2**	**-12.4**	**0.9**	**-10.7**	**2.0**	**2.9**	**2.5**
Large scale	-1.3	-1.9	-14.5	-19.6	-1.6	-16.9	-0.9	0.5	-0.2
Small scale	8.6	8.9	9.3	9.8	8.7	9.5	10.4	10.1	10.3
Slaughtering	6.1	6.2	6.4	6.9	6.2	6.7	7.5	7.3	7.4
Electricity, gas and water supply	**-2.1**	**13.2**	**35.8**	**7.6**	**3.0**	**18.3**	**-12.7**	**1.5**	**-7.4**
Construction	**-3.6**	**-4.9**	**-5.8**	**-22.2**	**-4.4**	**-14.0**	**0.7**	**-17.6**	**-9.3**

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: Pakistan Bureau of Statistics

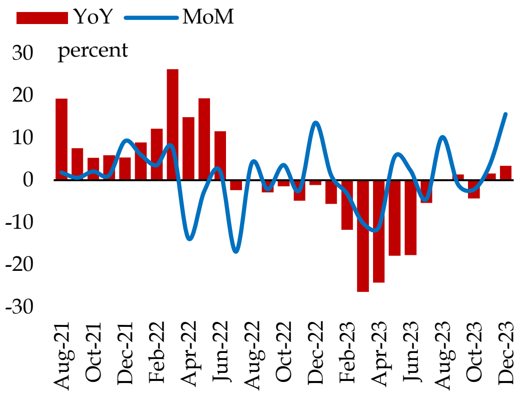
rebound in production of cotton and rice were the key supporting factors.

Large-Scale Manufacturing (LSM)[41]

LSM recorded a lower contraction of 0.4 percent during H1-FY24 compared to a decline of 2.1 percent in the corresponding period of last year **(Table 2.9)**. Monthly data shows LSM grew on both YoY and MoM basis in November and December 2023 **(Figure 2.10)**. Also, the contraction was relatively less broad-based, as 12 out of 22 sectors registered positive growth in H1-FY24 compared to only 4 sectors in the corresponding period of last year **(Figure 2.11)**.

The major drag to LSM growth came from textile, automobile, and furniture; whereas cumulative LSM growth excluding furniture. Specifically, after excluding furniture, the LSM shows 0.4 percent growth during H1-FY24 compared to 1.5 percent decline in the same period last year.[42] Food, beverages, petroleum, pharmaceuticals and wearing apparel contributed positively. The output of these sectors collectively rose by 11.4 percent during H1-FY24 compared to a 7.6 percent fall in the same period last year. Excluding these sectors, the contraction in LSM increases to 10.0 percent during H1-FY24 compared to 8.8 percent decline in the same period last year **(Figure 2.12)**.

Growth in Quantum Index of Manufacturing (QIM) **Figure 2.10**



Source: Pakistan Bureau of Statistics

[41] The section is based on PBS Quantum Index Numbers of Large Scale Manufacturing Industries (QIM)
[42] The furniture sector is excluded because of a large (-ve) contribution in LSM growth in current period despite its small share.

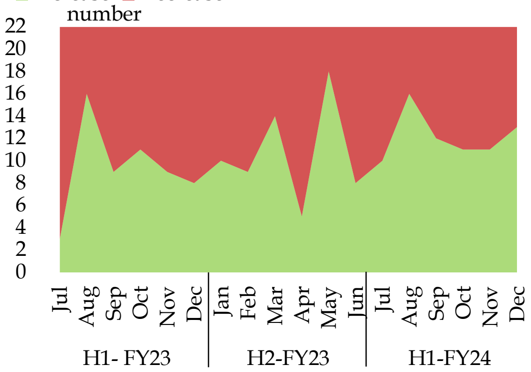
Cumulative Growth and Contribution of Major LSM Sectors during H1 — Table 2.9

Manufacturing Sector	Weight	Growth (percent)		Contribution	
		FY23	FY24	FY23	FY24
LSM	**78.4**	**-2.1**	**-0.4**	**-2.1**	**-0.4**
of which					
Food	10.7	-2.9	5.1	-0.4	0.8
Beverages	3.8	-8.2	3.1	-0.4	0.1
Tobacco	2.1	-23.5	-36.7	-0.6	-0.7
Textile	18.2	-13.1	-11.0	-2.8	-2.0
Wearing apparel	6.1	67.9	15.1	5.9	2.3
Coke & petroleum	6.7	-11.1	8.4	-0.8	0.5
Chemicals	6.5	-1.1	3.8	-0.1	0.3
Pharmaceuticals	5.2	-21.6	31.8	-1.2	1.4
Non-metallic minerals	5.0	-11.7	1.2	-0.9	0.1
Iron & steel	3.4	-2.1	-1.4	-0.1	-0.1
Electrical equipment	2.0	-5.1	-10.9	-0.2	-0.4
Automobiles	3.1	-30.2	-52.9	-1.4	-1.7
Furniture	0.5	102.3	-37.3	1.4	-1.0
Other manufacturing	0.3	52.9	8.2	0.2	0.0

Source: Quantum Index Numbers of LSM for December, 2023, Pakistan Bureau of Statistics

This indication of bottoming out of LSM output largely reflects improved availability of raw materials for domestic and imported inputs. On the other hand, higher interest rates amid inflationary pressures kept the domestic demand subdued. Similarly, adjustments in domestic energy prices has partly offset the impact of ease in global commodity prices on cost of production.

Sectors Showing Increase and Decrease in Production — Figure 2.11

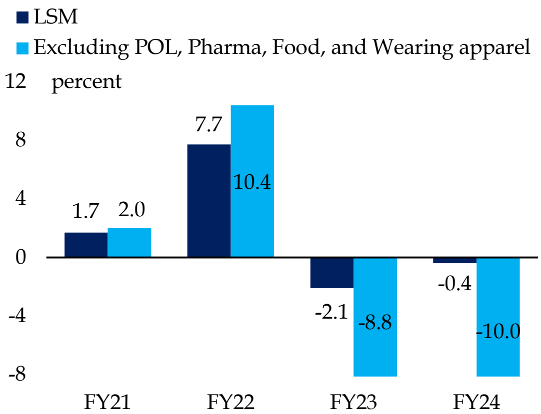


Source: Pakistan Bureau of Statistics

Textile

Output of textiles, the largest component of LSM, declined by 11.0 percent during H1-FY24, compared to 13.1 percent contraction in the corresponding period last year. The decline was led by yarn and cloth sub-sectors that mainly remained suppressed due to rising input costs (**Table 2.10**).

Cumulative Growth in H1 — Figure 2.12



Source: Pakistan Bureau of Statistics

Textile and Wearing Apparel during H1 **Table 2.10**

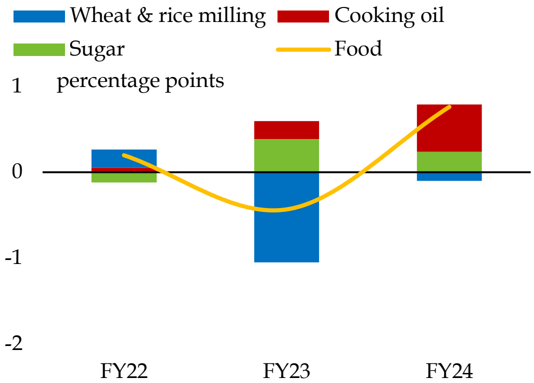
		Cumulative Production (million MT)			Growth (percent)	
	wt.	FY22	FY23	FY24	FY23	FY24
Yarn	**8.9**	1.7	1.5	1.2	-14.2	-18.2
Cloth*	**7.3**	525.3	487.5	435.0	-7.2	-10.8
Jute goods	**0.3**	0.03	0.03	0.02	5.6	-33.4
Woolen & carpet yarn	0.1	0.00	0.01	0.01	95.6	40.5
Woolen blankets**	**0.9**	46.0	20.7	23.7	-54.9	14.4
Wearing apparel***	**6.1**	21.7	36.5	42.0	67.9	15.1

*million Sq. M, **000 Nos, ***million Dozen

Source: Pakistan Bureau of Statistics

The pace of increase in production of wearing apparel slowed to 15.1 percent during H1-FY24 compared to 67.9 percent in the same period last year. This deceleration may be attributed to decrease in export volume of readymade garments by 6.8 percent duringH1FY24, against 89.7 percent increase in the same period last year. Decrease in unit value of exports in the face of weak external demand for textile and wearing apparel and intensified competition from China, was the main reason for reduction in production.[43] Increase in power tariffs, after elimination of energy subsidies for the export-oriented sectors, expensive imported raw materials and phasing out of EFS besides high interest rates were some other factors affecting textile output. [44]

Contribution to Cumulative Growth in Food Production during H1 **Figure 2.13**



Source: Pakistan Bureau of Statistics

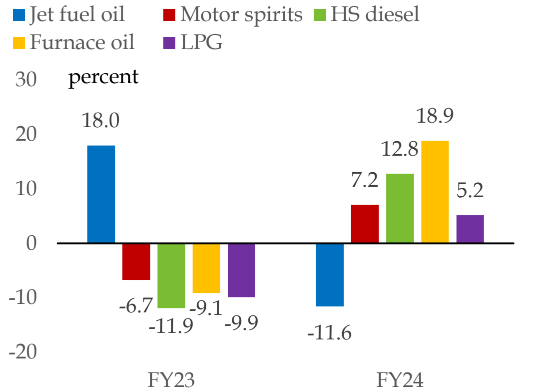
Food

Food, the second largest LSM group, witnessed 5.1 percent increase in output during H1-FY24 against 2.9 percent decline in the corresponding period last year. The growth in H1-FY24 was primarily driven by 25.5 percent increase in cooking oil production, supported by lower international palm oil prices **(Figure 2.13)**.

The contraction in wheat and rice milling was also significantly lower during H1-FY24, which was primarily due to better crop harvests.[45] Moreover, despite lower output and delay in start of sugarcane crushing, sugar production increased by

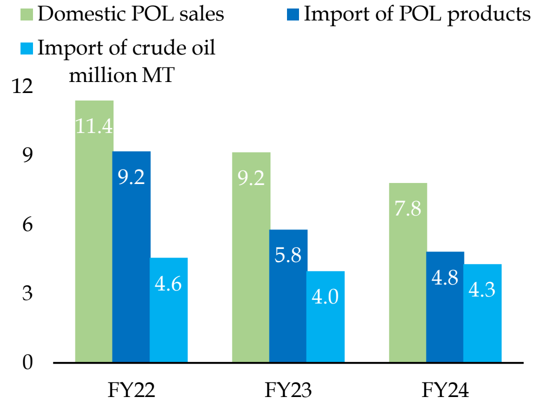
[43] Owing to greater caution amidst potential US recession and lowering already burdensome inventories by the retailors, cotton products imports of USA, the largest importer, in calendar year 2023 were the second lowest in over 20 years. (Source: United States Department of agriculture).
[44] Power tariff increased from cents 9/kWh to 14 cents which is higher than average prevalent for export sectors in regional economies.
[45] Rice exports surged by 48.3 percent during H1-FY24 compared to 18.2 percent decline in the same period last year.

Growth in Output of POL Products in H1 Figure: 2.14



Source: Pakistan Bureau of Statistics

Imports and Sale of Petroleum Products in H1 Figure 2.15



Source: Oil Companies Advisory Council and PBS

7.8 percent during H1-FY24. Higher sucrose recovery rate is reported as the main factor leading to increase in sugar production during H1-FY24.

Coke and Petroleum

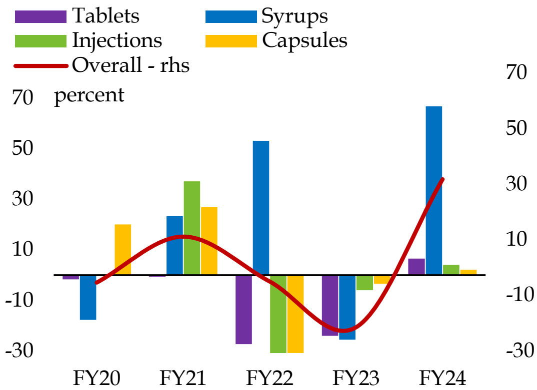
Petroleum refining picked up despite a decline in domestic sales. The production of petroleum products increased by 8.4 percent during H1-FY24, against a reduction of 11.1 percent in the same period last year. Production of POL products except for jet fuel and lubricating oil, increased compared to last year **(Figure 2.14).**

This increase, notwithstanding a decline in sales, is mainly attributed to a significant decrease in import volumes of POL products, as also reflected in higher volume of crude imports **(Figure 2.15)**.[46,47] In addition, rise in export volume of finished products, especially to UAE, also supported increase in production of petroleum products (see **Chapter 5)**.[48]

Pharmaceuticals

Production of pharmaceuticals increased by 31.8 percent during H1-FY24, against a reduction of 21.6 percent in the corresponding period of last year (**Figure**

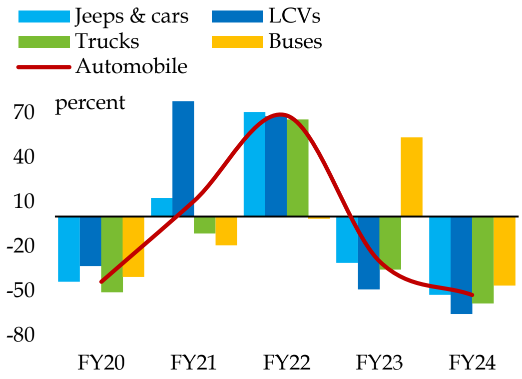
Growth in Production of Medicinal Products in H1 Figure 2.16



Source: Pakistan Bureau of Statistics

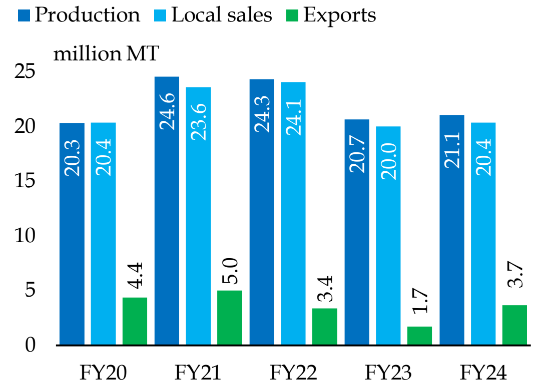
[46] The persistently high prices of petrol, diesel and furnace oil contributed to the sluggish sale of petroleum products.
[47] Volume of crude imports rose by 7.5 during H1-FY24 Compared to 12.7 percent decline in the same period last year.
[48] POL sale and imports of POL products decreased by 14.5 and 16.7 percent respectively, during H1-FY24. Whereas, POL exports to UAE increased to $ 145.0 million during H1-FY24 from $ 11.1 million in H1-FY23.

Growth in Automobiles Production in H1 Figure 2.17



Source: Pakistan Bureau of Statistics

Cement Production and Dispatches in H1 Figure 2.18



Sources: Pakistan Bureau of Statistics and APCMA

2.16). The upturn in pharmaceutical production mainly owes to increased availability of imported medicinal raw materials amid relative exchange rate stability, especially in Q2-FY24.[49] In addition, Drug Regulation Authority of Pakistan (DRAP) allowed upward adjustment in retail prices of both general and essential medicines, contributing to surge in pharmaceutical production.[50]

Automobile

Continuing the declining trend, the automobile production plummeted further by 52.9 percent during H1-FY24, after declining by 28.8 percent in the same period last year. The decline was also broad-based (**Figure 2.17**). The automobile industry has been grappling with multiple challenges. Slow economic activity, increased borrowing cost, and higher prices are some of the factors restraining automobile demand.[51,52]

As per data released by Pakistan Automobile Manufacturing Association (PAMA), the auto sales slumped by 35.6 percent in the current review period compared with 40.4 percent decrease in the same period last year. Sector-specific import constraints leading to reduction in imports of Completely Knocked Down (CKD) and Semi Knocked Down (SKD) automobile kits, also exacerbated the drop in automobiles production during the review period.

Construction - Allied Industries

As shown in **Table 2.8**, construction registered higher contraction in H1-FY24

[49] Quantum imports of medicinal products expanded by 67.0 percent during H1-FY24 compared to 37.2 percent contraction in the same period last year.
[50] Drugs and medicine prices increased by 31.6 percent during H1-FY24 from 14.1 percent in the same period last year.
[51] Motor vehicles prices increased by 24.7 percent during H1-FY24 on top of 31.1 percent in the same period last year. Similarly, fuel price went up by 22.1 percent on top of 70.5 percent in the last year.
[52] There was a net retirement of Rs 42.5 billion against cars loans during H1-FY24 compared to the retirement of Rs 30.4 billion in the same period last year.

Growth in GVA of Services Sector **Table 2.11**

percent

	FY23						FY24		
	Q1	Q2	Q3	Q4	H1*	H2*	Q1	Q2	H1*
Services sector	**2.3**	**2.2**	**-1.0**	**-3.0**	**2.2**	**-2.0**	**0.9**	**0.01**	**0.5**
Wholesale & retail trade	0.3	0.8	-6.5	-10.1	0.6	-8.2	2.7	2.1	2.4
Transport & storage	3.7	3.3	4.2	1.9	3.5	3.1	1.2	1.1	1.2
Accommodation and food services activities (hotels & restaurants)	4.0	4.0	4.2	4.4	4.0	4.3	4.7	4.6	4.6
Information and communication	-1.6	2.5	-3.6	-7.5	0.5	-5.5	2.4	-5.4	-1.7
Finance & insurance activities	1.0	-1.6	-12.4	-18.5	-0.3	-15.6	-2.9	-11.1	-7.0
Real estate activities (ownership of dwellings)	3.6	3.6	3.7	3.9	3.6	3.8	4.2	4.1	4.1
Public administration and social security (general government)	-5.5	-8.7	-10.4	-10.9	-7.1	-10.7	-16.7	-16.2	-16.4
Education	10.5	10.0	9.8	9.6	10.2	9.7	-0.9	-0.8	-0.9
Human health and social work activities	10.8	11.2	10.8	9.5	11.0	10.2	-1.1	-2.5	-1.8
Other private services	5.3	5.2	5.1	4.5	5.2	4.8	4.0	3.6	3.8

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: Pakistan Bureau of Statistics

relative to H1-FY23. The higher financial cost, reduced real incomes and decrease in federal Public Sector Development Programme (PSDP) continued to weigh on construction activities. In addition, tight monetary conditions and political uncertainty also affected construction activities and house building finance during H1-FY24.

Cement

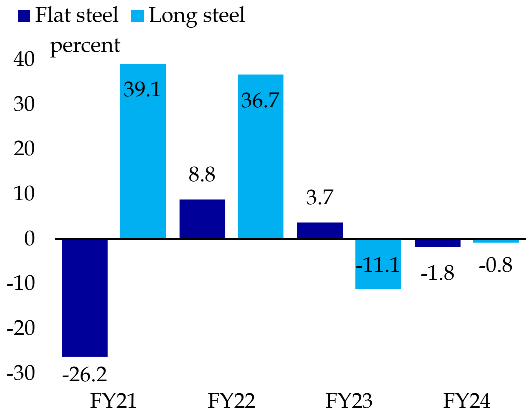
Cement production rose slightly by 1.9 percent during H1-FY24, mainly ascribed to higher export volume followed by uptick in domestic sales in latter months (**Figure 2.18).** Cement demand in the country's export destinations, mainly Afghanistan, Bangladesh, Hong Kong, Germany and Ghana, almost doubled to 3.7 MMT during H1-FY24 (see **Chapter 5**). Also, domestic dispatches slightly increased by 1.7 percent in current period. However, subdued domestic demand and rise in coal prices somewhat dented cement production.

Steel

Steel production contracted by 1.4 percent in H1-FY24, compared to a contraction of 2.1 percent in the corresponding period last year. Production of Flat and long steel declined by 1.8 and 0.8 percent, respectively, during H1-FY24 (**Figure 2.19**). The sluggish demand from complementary industries including automobile, electrical equipment, heavy machineries & equipment, sewing and sugarcane machines led to subdued utilization of flat steel during H1-FY24.[53]

[53] The production of electrical equipment, heavy machineries & equipment, sewing and sugarcane machines contracted by 10.9, 58.7, 31.9 and 27.3 percent respectively, during the review period.

Growth in Steel Products in H1 **Figure 2.19**



Source: Pakistan Bureau of Statistics

Similarly, the decline in production of long steel industry was due to noticeable expansion in imports of finished steel products besides muted growth in import of scrap. Also, transportation difficulties after implementation of axle load limits may have negatively impacted the sector by raising cost of transportation.[54]

2.4 Services

Notwithstanding robust agriculture growth and a moderate recovery in LSM during Q2-FY24, services sector grew by only 0.5 percent in H1-FY24 compared to 2.2 percent in same period last year. The growth in services sector fell almost flat in Q2, after a modest recovery in Q1-FY24 from contractions in the preceding two quarters. Performance within the services sector, however, remained mixed.

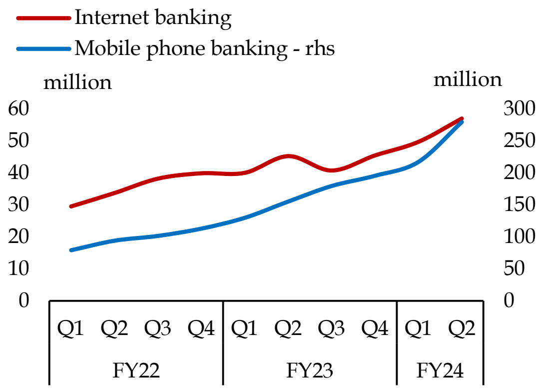
Wholesale and retail trade, real estate, transport and storage, hotels and restaurants and *other private services* recorded increased, while other major sub-sectors saw decline. (**Table 2.11**).

Wholesale and retail trade services grew by 2.4 percent during H1-FY24, in line with the recovery in agriculture and manufacturing. The improved performance is also supported by higher sales of non-financial firms.[55]
Transport and storage services grew at a slower pace in H1-FY24 compared to the same period last year. This slowdown can be associated with reduced use of air transport, and decline in sales of commercial vehicles and POL sales to transport sector.[56, 57]

Information and communication services showed contraction in H1-FY24 compared to slight increase in the corresponding period of last year. This is despite 5.6 percent increase in broadband users during H1-FY24.[58] Furthermore, internet and mobile banking transactions also continued to gain momentum, indicating the growing reliance on digital services **(Figure 2.20)**. The decline in communication services is mainly explained by surge in sector prices in Q2-FY24. The deflator for the sector increased by 9.3 percent in Q2 compared to the same period last year.[59]

[54] The axle load regime was enforced from November 15, 2023. The axle load system may have also impacted industries such as cement and food, etc.
[55] Source: Financial Statement Analysis of Non-Financial Companies Listed at Pakistan Stock Exchange, September 30, 2023 (sbp.org.pk).
[56] Source: Pakistan Automotive Manufacturers Association.
[57] Source: Oil Companies Advisory Council.
[58] Source: Telecom Indicators, PTA.
[59] Source: Pakistan Bureau of Statistics, QNA release 2023-24 Q2.

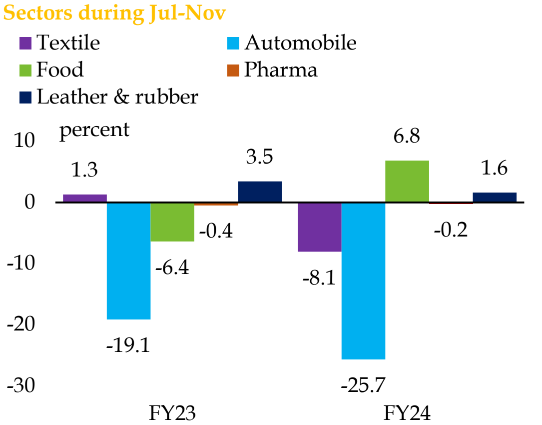
Volume of Internet Banking and Mobile Banking Transactions **Figure 2.20**



Source: State Bank of Pakistan

Finance and insurance services also contracted in H1-FY24, continuing the trend for the fifth quarter. This can be due to lower credit to private sector and increase in deposits of banking industry.[60] Likewise, *general government services,* fell further in H1-FY24. Whereas, *real estate activities* and *accommodation and food service activities,* retained their growth.

Punjab: Employment Growth in Major Sectors during Jul-Nov **Figure 2.21**



Source: Punjab Bureau of Statistics

2.5 Labor Market

In line with indication of bottoming out in LSM output, the SBP surveys revealed some improvement in employment during November and December 2023. However, the sentiments regarding job creation for the next six months remained relatively less optimistic. However, the labor market data showed deterioration in employment during H1-FY24 compared to the same period last year.

Punjab

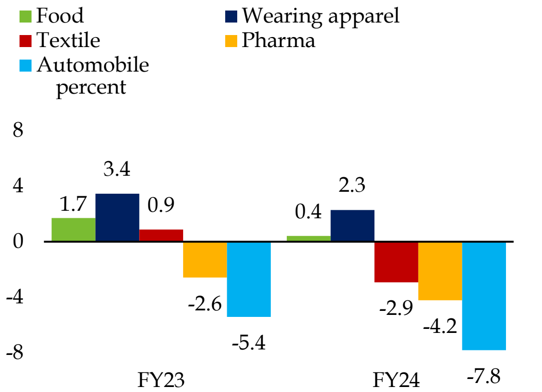
The industrial employment in Punjab deteriorated during Jul-Nov FY24 compared to the same period last year. A fall of 8.1 percent in textile sector employment, the largest employer, led the overall contraction in industrial employment in Punjab during Jul-Nov FY24. Employment in automobile industry, in particular, declined by 25.7 percent **(Figure 2.21)**.

Food industry, on the other hand, registered 6.8 percent increase in employment during Jul-Nov FY24 against 6.4 percent contraction in the corresponding period last year. The employment growth in food sector was largely contributed by sugar, vegetable ghee, and dairy sub-sectors. Similarly, the petroleum, leather, rubber & plastic, and paper & paper board sectors reported marginal increase in the overall industrial employment during the review period.

[60] Although banks' profitability increased during this period, the value addition by this sector showed contraction. In fact, value addition in finance & insurance is computed by using a method called Financial Intermediation Services Indirectly Measured (FISIM) by PBS, which may not necessarily reflect the actual profitability of financial institutions.

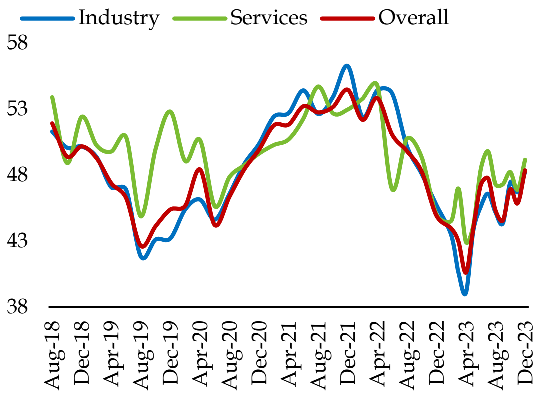
Real Sector

Sindh: Employment Growth in Major Sectors during Jul-Oct **Figure 2.22**



Source: Sindh Bureau of Statistics

Business Confidence Survey: Employment Indices **Figure 2.23**



Source: State Bank of Pakistan

Sindh

According to the latest data on Monthly Industrial Production and Employment Survey (MIPE), industrial employment in Sindh contracted by 0.8 percent during Jul-Oct FY24. Automotive, textile, and pharmaceutical industries mostly contributed to decline in employment in Sindh. Whereas, wearing apparel and food industries made new hiring during Jul-Oct FY24.

The employment in automobile industry in Sindh declined by 7.8 percent during Jul-Oct FY24 compared to 5.4 percent in the same period last year **(Figure 2.22)**. Likewise, employment in textile and petroleum sectors decreased. On the other hand, employment in beverages and wood industries improved by 34.3 and 1.6 percent respectively during Jul-Oct FY24.

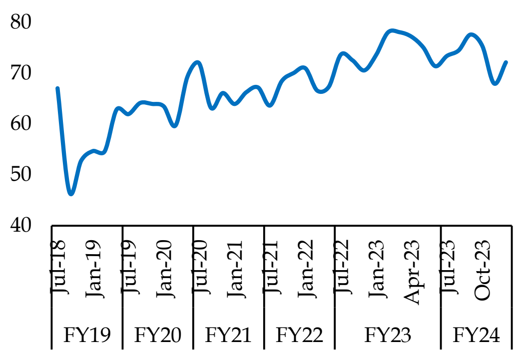
Factors such as lackluster export performance of textile industry, and significant decline in automobile sales caused reduction in employment generation in Sindh and Punjab during the current review period.

Business Confidence Survey

Despite improvement since November 2023, overall business confidence in H1-FY24 slightly weakened compared to last year. Trends in the SBP's Business Confidence Survey (BCS) show that perceptions of businesses about both overall and industrial employment for the past six months deteriorated in H1-FY24. The respondents were, nevertheless, moderately optimistic about employment in the services sector **(Figure 2.23)**. On average, 46.5 percent of respondents were positive about overall job creation for the past six months, down from 48.5 in the same time last year.

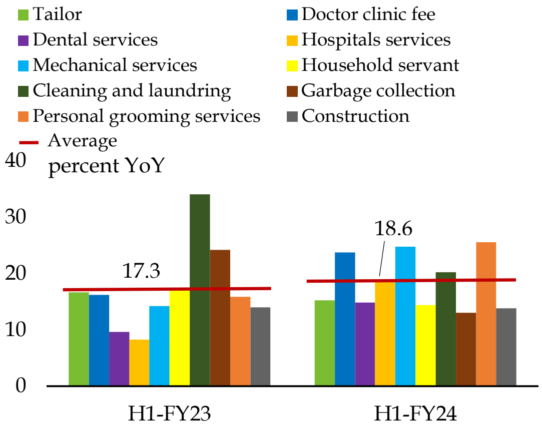
Similarly, the diffusion index for employment in manufacturing sector declined during H1-FY24 for the past as well as next six months compared to the same period last year. On the other hand, the diffusion index for employment generation in the services sector remained

Consumer Confidence Surveys: Unemployment Index (Next Six Months) **Figure 2.24**



Source: State Bank of Pakistan

Growth in Wages of Services Sector **Figure 2.25**



Source: Pakistan Bureau of Statistics

almost same. However, the index for expected jobs creation in the services sector increased slightly to 53.6 percent during H1-FY24 from 52.5 percent in the corresponding period of last year.

Consumer Confidence Survey

The results of SBP Consumer Confidence Surveys (CCS) conducted during H1-FY24 show that on the average 73.5 percent of the respondents had anticipated a rise in overall unemployment for the coming six months, marginally increased from 72.6 percent in the corresponding period of last year **(Figure 2.24)**.

Wages

The CPI data shows upward momentum in wages during H1-FY24. Specifically, the average wages surged by18.6 percent during the current period on top of 17.3 percent in the same period last year **(Figure 2.25)**.

Detailed data shows that the wages of all categories of services maintained an upward trend. The wages increased for personal grooming services (25.6 percent), mechanical services (24.8 percent) and doctor fee (23.8 percent) during H1-FY24. Similarly, remuneration of cleaning & laundering services, hospital services and dental services also increased.