OVERVIEW OF THE ECONOMY

Global Economic Review

The global economy is experiencing the accumulative effects of the severe and relentless shocks - especially, the lingering ongoing Russia-Ukraine war, the ever-worsening impacts of climate change, the long-reaching after-effects of the COVID-19 pandemic, the escalating monetary tightening, and growing policy challenges - have driven many countries perilously close to crisis. Several economies are currently experiencing the highest-ever inflation due to strong consumer demand, persistent supply disruptions, and surging commodity prices. To achieve price stability and maintain stable expectations, central banks have responded with sharp policy tightening to bring inflation closer to their targets. The tentative early signs of a soft landing for the global economy at the beginning of 2023, which included ease in inflation and stable growth, have faded due to continual high inflation and recent turbulence in the financial sector.

The International Monetary Fund (IMF) has forecasted global growth at 2.8 percent in 2023 and expected to see a modest recovery to 3.0 percent next year. The risks associated with the outlook are highly skewed towards the downside, with more chances of a sharp economic slowdown. In an alternative scenario, with a more stressed financial sector, there is a possibility of deceleration of global growth to about 2.5 percent in 2023. IMF foresees the growth to remain around 3.0 percent over the next five years. The baseline forecast of 3.0 percent until 2028 makes it the lowest medium-term growth projection since 1990 and is quite below the average of 3.8 percent from the two previous decades. The weak global outlook indicates the need for tight policy stances to combat inflation, the fallout from deteriorating financial conditions, and growing geo-economic polarization.

The sharply shrinking global financial conditions could have an intense impact on credit conditions and public finances, particularly in emerging markets and developing economies. It would result in large capital outflows, a high-risk premium, an appreciation in the dollar, and major declines in global economic activity amid lower confidence, household spending, and investment. In such severe circumstances, there is a possibility of stagnant per-capita income. The world is, therefore, entering a phase where economic growth remains slow in comparison to historical standards, financial risks have risen, and yet inflation has not decisively turned the corner.

The sharp contraction of global monetary policy since early 2022 has intensified fiscal and debt vulnerabilities and resultantly constrained fiscal space in many countries, especially in sub-Saharan Africa, Latin America, the Caribbean, and South Asia. The borrowing costs have sharply increased, and the strong dollar has pushed up the debt-servicing burden of dollar-denominated debt. Financing constraints have been limiting the ability of governments to invest in education, health, sustainable infrastructure, energy transition and acceleration of progress towards sustainable development while pushing the growing number of countries into near debt default.

With continued uncertainty, policymakers are focusing on preserving macroeconomic stability through tight monetary and fiscal policies while being mindful of the risks associated with financial stability. At the same time, they are accelerating structural reforms to strengthen potential growth and enhance resilience, inclusion, and social safety net. In the near term, when fiscal space permits, countries should prioritize targeted and temporary support to protect the most vulnerable from still-high food and energy prices with cash transfers. In emerging markets, fiscal consolidation is necessary to continue to be anchored on a downward debt path, supported by revenue mobilization and expenditure containment measures, while strengthening social protection. In low-income, fragile, and conflict-affected countries or states, the lack of fiscal space to protect the vulnerable needs the support of the international community and global cooperation.

Pakistan Economic Review

The geopolitical situation, difficult financial environment, and high inflationary pressures have all had a substantial impact on the prospects for global growth. All these factors posed significant economic risks for Pakistan's economy as well. Devastating floods and political unrest further aggravated the situation. Thus, FY2023 has been a challenging year for Pakistan's economy. In FY2022, Pakistan’s economy witnessed a high growth rate of 6.1 percent, however, it was unsustainable as it was largely driven by domestic demand, which was stimulated by expansionary fiscal policy and ended up with a high fiscal and current account deficit. Subsequently, the economy signaled excessive demand and overheating.

At the beginning of the FY2023, the economy confronted four major challenges that posed threats to Pakistan's socio-economic growth. These challenges include regaining sustainable macroeconomic stability, reducing poverty, fiscal consolidation, and addressing weaknesses in the external account. The overall vision of the government is to achieve high and sustainable GDP growth with price stability over the medium term. The government is committed to implementing home-grown macroeconomic and structural reforms for creating job opportunities and reducing the poverty. The government is trying to rebuild confidence of investors by addressing macroeconomic imbalances through an optimal policy mix. At the same time, it is protecting poor people through adequately funded social safety nets and targeted subsidies.

Pakistan received an unprecedented episode of torrential rains followed by flash flooding in July - August 2022 that affected 33 million people. Importantly, Sindh and Balochistan received six and seven times more rain than normal, respectively. With flood basins saturated with water, the natural drainage system was overwhelmed, and a vast area of rich farmland and human settlements was flooded, and the consequences were disastrous. The floods submerged one-third of the country in water, more than 1,700 people were dead and 8 million were displaced. An estimated 8.4 - 9.1 million more people could be forced into poverty as a direct consequence of this catastrophic. The losses amounted to 4.8 percent of GDP. The recovery and reconstruction needs are projected at 1.6 times the budgeted national development expenditure for FY2023.

The present government came into power in April 2022 with a broad-based agenda for moving towards sustainable macroeconomic stabilization which is primarily focused on rationalization of expenditures, removing unproductive subsidies to reduce burden on the budget; significant cuts in expenditures to reduce the budgetary deficit; increasing the tax and non-tax revenue of the government; and a tight monetary policy to fight inflation. The government has improved the Benazir Income Support Programme (BISP) and other programmes to enhance transparency so that the poor and vulnerable groups may be protected. Public-private partnerships have been encouraged as private investments are the main source of funding for economic development. The importance of sound governance, managerial and systemic mechanisms were also emphasized to ensure that the social sector investments remain cost-effective; thus, focusing on output-oriented service delivery.

These measures along with recent trends in most macroeconomic variables suggest that the disciplined implementation of the macroeconomic stabilization program has started paying dividends in current fiscal year. The efforts contributed to containing the fiscal deficit at 3.6 percent of GDP during the first three quarters of FY2023, a decrease from the 3.9 percent of GDP recorded in the corresponding period last year. Likewise, in July-March FY2023, the primary balance achieved a surplus of Rs 503.8 billion (0.6 percent of GDP), against the deficit of Rs 447.2 billion (-0.7 percent of GDP) experienced last year, attributed to a slowdown in the growth of non-markup expenditures. The current account turned to a surplus of US$ 750 million in March 2023 and US$18 million in April 2023 marking the first monthly current account surplus since 2020. The current account deficit is likely to decelerate from as high as US$ 17.5 billion in FY2022 to around US$ 3.7 billion by the end of the out-going fiscal year. However, Pakistan's economy still faces pressures from an uncertain global security situation, higher inflation driven by a spike in food prices, the bewildering stock market, perceptible contraction in large-scale manufacturing, lower than anticipated foreign inflows, and burgeoning absolute financing requirements. Resultantly, abatement of inflationary pressure remained persistent and depicting price stubbornness.

Executive Summary

Growth and Investment: The severe macroeconomic imbalances, flood damages, domestic supply shocks, and international economic slowdown have dampened the economic growth to just 0.29 percent in FY2023. Following the budget announcement in June 2022, positive economic expectations and the performance of key indicators resulted in the government projecting GDP growth of approximately 5.0 percent in FY2023. However, the economy lost momentum in the first quarter of the ongoing fiscal year due to the severe downturn in the global economy and flash floods of July-August 2022 and as a result the economy suffered from significant domestic supply disruptions. The flood damage is estimated at Rs 3.2 trillion (US$14.9 billion), the loss to GDP at Rs 3.3 trillion (US$15.2 billion), and recorded need for rehabilitation of damages at Rs 3.5 trillion (US$16.3 billion). On the international front, the prolonged Russia-Ukraine conflict adversely affected global growth and inflation remained unexpectedly high.

In FY2023, Pakistan's GDP grew by 0.29 percent, with 1.55 percent growth in agriculture, -2.94 percent in industrial sector, and 0.86 percent in services sector. The GDP at current market prices recorded Rs 84,658 billion, showing a 27.10 percent growth over the previous year Rs 66,624 billion (US$ 341 billion). The per capita income decreased from US$ 1765 to US$ 1568 in FY2023. This deceleration was attributed to the significant depreciation of PKR and the contraction in economic activity. For FY2023, the Investment-to-GDP ratio stood at 13.6 percent as compared to 15.6 percent in FY2022. The estimates of Gross Fixed Capital Formation (GFCF) stood at Rs 10093.5 billion showing an increase of 8.1 percent compared to FY2022. The industry-wise disaggregation of GFCF by the general government suggests an increase of 17.7 percent, 89.2 percent, and 5.9 percent in public administration & social security, education, and human health & social work, respectively.

Agriculture: Pakistan faced a heavy monsoon spell in July-August 2022 which damaged two main sub-sectors, i.e., crops and livestock. Moreover, the damage in the agriculture sector had a spillover effect on the industry and allied services sectors. As a result, domestic production remained below the required levels, raising the prices of all essential food items to a historic high. The total damage in the agriculture sector amounts to approximately Rs 800 billion (US$ 3.725 billion). Restoring the livelihoods of smallholder farmers and livestock keepers was urgent and time-sensitive for meeting the upcoming Rabi cropping season 2022-23 and preventing further losses to livestock assets and production. To meet the domestic demand for food items, the government took up the matter immediately and allowed the import of essential food items on a fast-track basis from neighboring countries. The Rabi 2022-23 remained challenging for the peasants of Sindh and Balochistan, particularly being the most flood-affected areas. To lessen the miseries of flood affectees and revival of the agriculture sector, the government announced Kissan Package-2022.

Despite the flash floods in 2022, damage to Kharif crops, and the high base effect of last year's growth of 4.27 percent, the agriculture sector recorded a growth of 1.55 percent during

FY2023. The decline in important crops stood at 3.20 percent. Two important crops, i.e., cotton and rice, were badly damaged by the floods. A decline of 41.0 percent was observed in cotton which resulted in the production of 4.910 million bales as compared to 8.329 million bales last year. Similarly, rice witnessed a decline of 21.5 percent in production standing at 7.322 million tonnes as compared to 9.323 million tonnes last year. The loss in important crops to some extent has been compensated by growth in the production of wheat (5.4 percent), sugarcane (2.8 percent), and maize (6.9 percent). The production of wheat, sugarcane, and maize stood at 27.634 million tonnes, 91.111 million tonnes, and 10.183 million tonnes, respectively, compared to 26.209 million tonnes, 88.651 million tonnes, and 9.525 million tonnes last year. An increase of 0.23 percent has been witnessed in other crops due to an increase in oil seed production by 53.15 percent. Cotton Ginning, having a share of 0.97 percent in agriculture and 0.22 percent in GDP has declined by 23.1 percent due to a decrease in cotton production.

Livestock, having a share of 62.68 percent in agriculture and 14.36 percent in GDP, grew at 3.78 percent compared to 2.25 percent during last year. The fishing sector, having a share of 1.39 percent in agriculture value addition and 0.32 percent in GDP, grew at 1.44 percent compared to 0.35 percent during last year. The forestry sector, having a share of 2.23 percent in agriculture value addition and 0.51 percent in GDP, grew at 3.93 percent against 4.07 percent last year due to an increase in Timber production. Water availability during Kharif 2022 declined to 43.3 million-acre feet (MAF) from 65.1 MAF compared to Kharif 2021. Rabi season 2022-23 water availability stood at 29.4 MAF, recording an increase of 7 percent over Rabi 2021-22.

Overall domestic production of fertilizers during FY2023 (July-March) decreased by 8.3 percent over the same period of FY2022. In addition, the import of fertilizer also decreased by 26.2 percent, therefore, the total availability of fertilizer decreased by 11.2 percent during FY2023 (July-March). The total offtake of fertilizer nutrients witnessed a decrease of 15 percent. The reduction in fertilizers offtake is due to the high prices of Phosphatic and Potash fertilizers in the international/domestic market. Punjab’s share in urea offtake is 67.7 percent, followed by Sindh (24.4 percent), KP (4.4 percent), and Balochistan (3.5 percent). Subsidy in the form of cheap natural gas and the budgeted subsidy was given on RLNG for two urea plants and imported urea by the government during FY2023.

During FY2023 (July-March), the agriculture lending financial institutions have disbursed Rs 1,222 billion, which is 67.2 percent of the overall annual target and 27.5 percent higher than Rs 958.3 billion disbursed during the same period last year. Furthermore, the outstanding portfolio of agricultural loans has increased by Rs 80.2 billion and reached Rs 712.9 billion at the end of March 2023 compared to Rs 632.7 billion at the end of March 2022, witnessing 12.7 percent growth. In terms of outreach, the number of outstanding borrowers reached 3.04 million in March 2023.

Manufacturing and Mining: The proliferation of risks, including the global economic slowdown and flood damages, coupled with the SBP's restrictive policies such as high-interest rates, import restrictions, and the closure of LCs to correct the balance of payments and control inflation, has created headwinds for businesses, consumer confidence, and investment. Thus, the industry weighed down by various domestic and external factors leading to a slowdown in its performance in FY2023. LSM remained on the negative side, at negative 8.11 percent during July-March FY2023 against the growth of 10.61 percent in the corresponding period last year. The four sectors witnessing growth include Wearing apparel, Leather Products, Furniture, and others (Football).

The mining and quarrying sector remained negative at 4.4 percent during July-March FY2023 against the dip of 7.0 percent last year. The development of the mining sector has been hindered by inadequate infrastructure, lacking technology, and insufficient financial resources. Production of major minerals such as coal, dolomite, barium sulphate, limestone, rock salt, and ocher witnessed a growth of 17.6 percent, 42.2 percent, 53.6 percent, 10.6 percent, 12.4 percent, and 15.4 percent respectively during July-March FY2023. However, some witnessed negative growth such as natural gas 9.3 percent, crude oil 10.2 percent, chromite 12.6 percent, magnesite 50.0 percent, gypsum 5.0 percent, sulphur 25.0 percent, soapstone 43.2 percent, and iron ore 51.6 percent.

Fiscal Development: The government is committed to reducing the fiscal deficit to ensure fiscal sustainability and macroeconomic stability. There are two major challenges, i.e., the first is to support vulnerable segments of society; and secondly, the difficult task of meeting expenditures on rising interest payments. For this purpose, the budget of the outgoing fiscal year outlined a strategy for fiscal consolidation. It entailed reducing unnecessary spending and improving tax revenues. These efforts helped in containing the fiscal deficit to 3.6 percent of GDP during the first three quarters of FY2023 against 3.9 percent of GDP recorded in the same period of last year. Similarly, the primary balance posted a surplus of Rs 503.8 billion (0.6 percent of GDP) during July-March FY2023 against a deficit of Rs 447.2 billion (-0.7 percent of GDP) last year owing to a slowdown in the growth of non-markup expenditures.

Total revenues increased by 18.1 percent in July-March FY2023 against the growth of 17.7 percent in the same period last year. Both tax and non-tax collection contributed to an increase in overall revenues. Tax revenues (federal and provincial) witnessed a growth of 16.5 percent on the back of a significant rise in FBR tax collection despite various economic challenges at the domestic and global levels. Non-tax revenues grew by 25.5 percent in July-March FY2023 on the back of higher receipts from petroleum levy, markup (PSEs and others), royalties on oil/gas, and passport fee.

The growth in total expenditures reduced to 18.7 percent in July-March FY2023 from a 27.0 percent increase observed in the same period of last year. Within total expenditures, current expenditures increased grew by 25.3 percent primarily driven by a 69.1 percent growth in markup payments as compared to a 0.7 percent increase in the same period of FY2022. In contrast, non-markup current expenditures grew by 7.7 percent during July-March FY2023 against the substantial increase of 32.1 percent in the comparable period last year. The restricted growth during July-March FY2023 has been observed mainly due to the decline in expenditures on subsidies and grants and is consistent with the government's efforts to ensure fiscal consolidation.

FBR net provisional tax collection increased by 16.1 percent to Rs 5,637.9 billion against Rs 4,855.7 billion in a similar period last year. In the wake of a challenging economic environment, current performance indicates effective implementation of administrative and enforcement measures.

The fiscal consolidation efforts are on track and reaping the benefits in terms of better fiscal accounts during the first nine months of the current fiscal year. It is therefore expected that FY2023 would observe a considerable decline in fiscal deficit as compared to last year. In addition, the efforts to improve financial planning through PFM reforms will provide additional impetus to the government's efforts to further reduce the fiscal deficit over the medium term.

Money and Credit: The economy faces many headwinds on account of rising government borrowing costs and capital outflows which exacerbated fiscal and balance of payment pressures. To control persistent inflationary pressures and external sector imbalances, SBP continued with monetary tightening and the policy rate cumulatively increased by 725 bps during July-April FY2023.

During July-March FY2023, broad money (M2) witnessed an increase of Rs 1,193.7 billion (growth of 4.3 percent) as compared to Rs 698.4 billion (growth of 2.9 percent) during the same period last year. Within M2, the Net Foreign Assets (NFA) of the banking system decreased by Rs 2,060.6 billion as compared to a decline of Rs 1,197.7 billion last year. On the other hand, the Net Domestic Assets (NDA) of the banking sector increased by Rs 3,254.2 billion as compared to Rs 1,896.2 billion during the same period last year.

During July - March FY2023, private sector credit increased by Rs 302.3 billion as compared to Rs 1,199.3 during the same period of last year. On average, it has posted a growth of 3.3 percent as compared to a growth of 15.7 percent last year. Slow domestic economic activities discouraged private sector credit offtake during July-March FY2023. The contraction of loans has been observed in both the working capital and fixed investment loans during the period under review. Accordingly, working capital loans reached Rs 113.4 billion during July-March FY2023 against Rs 608.7 billion during the same period last year. On the other hand, fixed investment loans decreased to Rs 147.5 billion against Rs 333.1 billion last year.

Capital Markets and Corporate Sector: The performance of major international stock markets remained volatile during the outgoing fiscal year, mainly due to global financial conditions. During July-March FY2023, the Morgan Stanley Capital International Emerging Market (MSCI-EM) Index declined by 1.0 percent, which is an index of 24 emerging stock markets. An increase has been observed in the S&P 500 of the US (8.6%), CAC 40 of France (23.6%), BSE Sensex 30 of India (11.3%), PSEi Composite of the Philippines (5.6%) and FTSE Straits Times of Singapore (5.1%). Contrarily, the Shanghai Composite of China, VN30 Index of Vietnam, Hang Seng of Hong Kong, and Kuala Lumpur Composite Index of Malaysia declined by 3.7 percent, 14.0 percent, 6.7 percent, and 1.5 percent, respectively.

The KSE-100 index registered a decline from 41,540.8 points to 40,000.8 points from 30 June 2022 to 31st March 2023. The Index closed at its highest point of 43,676.6 on 17th August 2022, whereas its lowest closing point was 38,342.2 on 17 January 2023. As of 31st March 2023, the number of listed companies stood at 526, with a market capitalization of Rs 6,108 billion. During July-March FY2023, corporations raised Rs 99.0 billion by issuing 20 debt securities. While 117 previous corporate debt securities worth Rs 826.6 billion remain outstanding. Moreover, during July-March FY2023, 2.96 million lots of various commodities futures contracts including gold, crude oil, and US equity indices worth Rs 3.49 trillion were traded on Pakistan Mercantile Exchange Limited.

Inflation: The CPI inflation for the period July-April FY2023 was recorded at 28.2 percent as against 11.0 percent during the same period last year. The other inflationary indicators like Sensitive Price Indicator (SPI) recorded at 31.7 percent as against 16.9 percent last year. The Wholesale Price Index (WPI) recorded at 34.0 percent in July-April FY2023 compared to 22.9 percent same period last year. The inflationary pressures are emanating from weaker exchange rates, supply disruptions created by flood damages, higher global food prices, and broader tariff reforms for both electricity and fuels. The government is taking administrative actions, policy reforms, and relief measures to control the prices of essential items. The government is committed to maintain the strategic reserves of wheat, sugar, and pulses. District Price Control Committees are also monitoring the prices of essential items to ensure their availability at reasonable prices.

Global inflationary pressure intensified during recent years while during the last couple of months, the global supply chain has shown little improvement. The international commodity price outlook is favorable, which may offset the negative impact of currency depreciation. In addition, the better crop outlook due to timely measures, i.e., Kissan Package, expected political stability, and the stable exchange rate would help to achieve price stability. The inflation rate in the medium term, i.e., FY2024 and FY2025 will be normalized due to the high base effect as well as improvement in the agriculture sector, expected favorable global and domestic environments.

Trade and Payments: The balance of payments position during July-March FY2023 remained under pressure mainly due to adverse global shocks and domestic developments. The international commodity prices are still above the pre-pandemic level, having weighed on the external account. Moreover, the tightening of the global financial environment has made it difficult for emerging markets like Pakistan to access international financial markets. Consequently, Pakistan's foreign exchange reserves and exchange rate came under pressure. Furthermore, the devastating flood in July-August 2022 has further aggravated the gloomy economic conditions.

The current account deficit (CAD) contained by 76 percent and was recorded at US$ 3.3 billion during July-April FY2023, against a deficit of US$ 13.7 billion in the same period last year. The improvement in CAD was on the back of a substantial decline in imports by 23 percent in July-April FY2023. Despite a contained CAD and lower materialization of multilateral inflows, SBP's foreign exchange reserves witnessed a decline mainly on the account of amortization of official loans and liabilities during July-April FY2023 and reached a level of US$ 4.5 billion by the end of April 2023. Due to the external account pressure on the foreign exchange markets, the average monthly PKR against USD depreciated by 27.8 percent during July-April FY2023.

Public Debt: Total public debt was recorded at Rs 59,247 billion at end-March 2023. Domestic debt was recorded at Rs 35,076 billion while external public debt was recorded at Rs 24,171 billion or US$ 85.2 billion.

The public debt portfolio witnessed various positive developments during July-March FY2023, some of which are highlighted as follows:

- Within domestic debt, the government relied on long-term domestic debt securities for financing its fiscal deficit and repayment of debt maturities.
- The Government repaid Rs 310 billion against its debt owed to the SBP. The cumulative debt retirement against SBP debt stood at Rs 2.0 trillion since July 2019.
- In addition to the existing 5-year Ijara Sukuk instrument, the government introduced 3-year and 1-year Ijara Sukuk instruments in January 2023 and February 2023 respectively. The target is to diversify shariah compliant instrument base and give more options to investors with an appetite for Islamic investments. The government successfully issued Shariah- Compliant Sukuk instruments amounting to around Rs 401 billion.
- Within external debt, inflows from multilateral sources and foreign commercial banks remained major sources of gross external inflows. Under the 7th and 8th review of the IMF programme, US$ 1,166 million was disbursed, while US$ 1,500 million was received from Asian Development Bank under the 'Building Resilience with Active Countercyclical Expenditures (BRACE) programme. Asian Infrastructure Investment Bank (AIIB) co-financed the BRACE program to the tune of $ 500 million. In addition, $ 1,900 million in loans from commercial banks were also refinanced.
- The government rolled over US$ 3,000 million in deposits each from China and Saudi Arabia which were utilized towards budgetary support.
- Saudi oil facility amounting to around US$ 900 million was utilized (around US$ 100 million each month).
- The government repaid international commercial loans to the tune of US$ 5,541 million, out of which US$ 4,541 million were bank loans, whereas US$ 1,000 million was international Sukuk maturity.

The government's strategy to reduce its debt burden to a sustainable level includes a commitment to run primary budget surpluses, maintain low and stable inflation, promote measures that support long-term sustainable economic growth, and follow an exchange rate regime based on economic fundamentals. Additionally, the government is also committed to ensuring fiscal discipline through revenue mobilization and expenditure rationalization and maintaining debt sustainability over the medium term.

Education: According to Labor Force Survey 2020-21, literacy rate at national level remained 62.8 percent**.** The literacy rate has increased in all provinces, Punjab (66.1 percent to 66.3 percent), Sindh (61.6 percent to 61.8 percent), Khyber Pakhtunkhwa (52.4 percent to 55.1

percent), and Balochistan (53.9 percent to 54.5 percent) in the current year. There are 247 universities in the country with 57,204 thousand teachers in both public and private sectors functional in 2020-21, while 35.14 percent of faculty members are Ph.D., degree holders. During FY2023, the government allocated Rs 44.71 billion to HEC for the implementation of 154 development projects (138 ongoing & 16 new approved projects) of Public Sector Universities/HEIs.

In the first phase of the National Curriculum of Pakistan, the Single National Curriculum (SNC) for Grade Pre-I-V has been developed and textbooks have also been prepared. Moreover, the work on Teacher Training Modules (TTMs) and Assessment Framework is also developed. To enhance national harmony, peace, stability, and socio-economic development in the country, Madaris are facilitated and getting affiliated with the Board of Intermediate and Secondary Education as well as the Board of Technical Education for SSC / HSSC and in technical and vocational education examinations for the Madaris' students. Different measures are taken up at the federal and provincial levels to raise the standards of education in terms of quality education. The present government is putting its efforts and resources into the education sector with an aim to introduce a uniform curriculum, capacity building of teachers, establishment, renovation, and up-gradation of schools and colleges, mainstreaming of religious education, skill development, and promoting awareness.

Health and Nutrition: The government is particularly focused on ensuring quality and equitable access to health and nutrition services for the people. The country has stayed committed to meeting global targets of good health and well-being under the third Sustainable Development Goal (SDG). The performance of various health and nutrition indicators and targets shows a mixed picture. The government has also been trying to enhance financial allocations to the health sector to improve service delivery. The PSDP allocation for the health sector during FY2023 was 2.8 percent of the total development budget and 0.05 percent of GDP. Initiatives such as efforts to develop Integrated Disease Surveillance Response System (IDSRS) will help the government in effectively dealing with public health emergencies in the future. The Extended Programme for Immunization (EPI) and TB Control Programme have also been effective as can be witnessed by the increase in treatment coverage under both programmes. The government has also intensified its efforts to ensure nutrition security in the country, as the formulation of a Multi-sectoral National Nutrition Policy (MS-NNP) has been initiated with the support of nutrition partners. This policy aims to mainstream nutrition in national socio-economic development plans and improve the country's nutrition status.

Population, Labour Force, and Employment: Pakistan is the 5th most populous country in the world. According to the National Institute of Population Studies (NIPS), the estimated population of Pakistan is 229.22 million in 2022 of which 84.69 million reside in urban areas, whereas 144.53 million live in rural areas and the population density is 287 per Km. Pakistan's rapidly growing population means an increasing demand for food, schools, health facilities, jobs, and infrastructure, and it put pressure on the government for providing these services at an equal pace. The government is trying to overcome the issue of high population growth and fertility rate through different programmes like media campaigns, the establishment of Family Welfare Centers (FWCs), Reproductive Health Services Centers (RHSCs), and Mobile Services Units**.**

The Population and Housing Census is a vital national exercise linked with the provision of data for key policy-making matters. PBS is conducting the first-ever digital Population and Housing Census in 2023.

Pakistan has a large labour force that stands among the top 10 largest labour forces in the world. According to Labour Force Survey (LFS) 2020-21 employed Labour force increased to 67.25 million in FY2021 as compared to 64.03 million in FY2019. The government has launched different programmes under the umbrella of the "Prime Minister's Youth Development Programme" for improving employment opportunities for youth. These programmes are expected to promote the norm of job creation rather than job seeking in youth and will increase the chances of better employment opportunities not only in the domestic market but also in the international market.

Transport and Communication: Modern transportation and communication infrastructure plays a pivotal role in attracting investments and achieving economic development in a country. Recognizing the significance of the transport and communication sector's contribution to economic growth, the government is actively pursuing the development of infrastructural facilities aimed at enhancing market access both within the country and across borders. The efforts in this regard are focused on building road, rail, and sea transportation linkages, reviving railways as a socially and financially viable organization, increasing the road density in rural and urban areas, equipping the ports and airports with modern cargo handling techniques, and improving the operational capacity according to the requirement of a growing economy. The PIA, Pakistan Railways, NHA, PNSC, Port Qasim Authority, Karachi Port, and communication sector players such as Pakistan Post and PBC has played a critical role in meeting the infrastructure needs of the country during FY2023. The work on CPEC has also been revived to foster regional connectivity and various infrastructure projects are underway.

Energy: Demand for energy increases due to the expansion of economic activities, population growth, and rapid technological change. However, energy supply bottlenecks and reliance on imported fossil fuels can be critical for the economic outlook of any country. With this context, the government has envisioned optimizing the utilization of indigenous energy sources including hydel, solar, wind, and thar-coal. During the outgoing fiscal year, the government approved the Framework Guidelines for Fast Track Solar Initiatives 2022 to promote and develop cost-effective local renewable energy sources. Primarily, this framework covers Solar PV Energy Substitution for Expensive Imported Fossil Fuels, Solar PV Generation on 11 kV Feeders, and Public Buildings Solarization. Furthermore, after dealing with the electricity demand-supply gap, the government, in 2016, imposed a moratorium on new imported fuel-based power projects.

The Russia-Ukraine war has destabilized the global economies with more devastating consequences on the energy market. However, the government's vision is expected to improve the domestic energy outlook significantly. With three Thar coal-based power plants added during the current fiscal year, their total installed capacity has reached 3,300 MW. Furthermore, the installed capacity of six nuclear power plants is 3,560 MW. As such, from July-March FY2023, the total installed capacity and generation of electricity stood at 41,050 MW and 94,121 GWh, respectively. During July-March FY2023, the installed capacity of hydel, nuclear, renewable, and thermal sources stands at 25.8, 8.7, 6.8, and 58.7 percent, respectively. On the other hand, electricity generation from hydel, nuclear, renewables, and thermal remained at 28.6, 21, 4.2, and 46.2 percent, respectively. Moreover, out of the total electricity consumption of 77,745 GWh, household, Industrial, agriculture, and commercial sectors consumed 47.2, 28.0, 8.1, and 7.8, respectively.

The total demand for petroleum products remained at 13.1 million tonnes (declined by 21.9 percent), whereas the transport sector alone consumes about 78.5 percent of petroleum products. As such, the outgoing fiscal year mainly witnessed a decrease in demand for motor spirit, high-speed diesel, and furnace oil, comprising about 95 percent of total demand. To meet this demand, petroleum products, and crude oil imports remained at 6,118.3 thousand MT and 5858.4 thousand tonnes, respectively. On the other hand, the natural gas consumption amounted to around 3,267 MMCFD from July-March FY2023, which included 626 MMCFD RLNG. From total coal consumption of 15,416.5 thousand tonnes, power, brick kilns, and cement/other sectors consume 47.3, 21.5, and 31.1 percent, respectively.

Information Technology and Telecommunication: Information Technology has become a crucial facilitator in the development of a knowledge society and knowledge economy, playing a significant role in economic progress. The government is actively pursuing the 'Digital Pakistan Vision' to promote a digital economy, leading to economic prosperity and empowerment of citizens. It aims to enhance the quality of life and economic well-being of people by ensuring affordable, accessible, and high-quality IT services for all. According to Kearney's Global Services Location Index (2021), Pakistan ranked second globally as the most financially attractive location for offshore outsourcing of IT and ITeS, As of March 2023, there are 5,109 registered IT and ITeS companies under the Pakistan Software Export Board (PSEB), representing exporters. During the July-March period of FY2023, IT exports amounted to US$ 1.94 billion, slightly lower than the previous year's US$ 1.95 billion during the same period. IT exports constitute the largest proportion (35.1 percent) of all services sector exports. In the first three-quarters of FY2023, Pakistani freelancers contributed to foreign exchange earnings through remittances, with IT earning US$ 156.9 million and non-IT earning US$ 112.9 million, totaling US$ 269.8 million. During the same period, PSEB added seven Special Technology Parks (STPs) to enhance infrastructure facilities across various cities in Pakistan, while IGNITE established eight National Incubation Centers (NICs) in different cities, supporting startups and women entrepreneurs. So far, NICs have successfully incubated over 660 startups out of 1,317 creating more than 126,000 jobs, attracting investments worth Rs 15.43 billion (US$ 74 million) and generating combined revenue of Rs 9.13 billion. As of March 2023, the total telecom subscriptions in Pakistan, including mobile and fixed lines, reached 197 million, with a teledensity of 83.2 percent. The telecom sector contributed approximately Rs 139 billion (Provisional) to the national exchequer during July-December FY2023. The future economic transformation of Pakistan relies on harnessing the potential of the IT and telecom sectors. To achieve this, key initiatives of the government include the establishment of special technology zones, expansion of broadband and 5G networks, promotion of e-commerce and e-governance platforms, enhancement of cybersecurity and data protection measures, and facilitation of foreign investment and collaboration.

Social Protection: BISP, a targeted unconditional cash transfer programme, is being implemented by focusing on poor women with long-term objectives including the fulfillment of SDGs, i.e., eradicating extreme chronic poverty and empowerment of women. The government of Pakistan provided Rs 400 billion to the BISP to execute the Social Protection programmes during FY2023. BISP is currently disbursing payments to around 9.00 million beneficiaries under Benazir Kafaalat Programme. During July-March FY2023, Rs 128.90 billion have been disbursed under this programme. BISP has disbursed Rs 69 billion to 2.76 million families in flood-affected areas to help them recover their financial losses.

BISP is also implementing a Wheat Seed Subsidy programme for eligible farmers to reach 185,928 farmers with a disbursement amount of Rs 5000/- per acre according to their verified area. Till 31 March 2023, an amount of Rs 2.94 billion has been disbursed to 122,687 farmers out of a targeted 185,928 farmers. Under Benazir Taleemi Wazaif Programme, 11.8 million children have been enrolled so far whereas 3.0 million children have been enrolled during July-March FY2023. So far, Rs 63.3 billion have been disbursed since inception of the Programme out of which Rs 23.4 billion have been disbursed during July-March FY2023.

Pakistan Poverty Alleviation Fund (PPAF) is continuing to support communities by providing access to improve infrastructure, energy, health, education, livelihoods, finance, and developing resilience to disasters. PPAF disbursed an amount of Rs 1.6 billion during July-March FY2023 through its Partner Organizations in 149 districts across the country. Pakistan Baitul Mal (PBM) is providing financial assistance to the destitute, widows, orphans, invalid, infirm, and other needy persons at the district level. For FY2023, Rs 6.04 billion is provided to PBM for its core projects/schemes.

During July-March, FY2023, expenditures amounting to Rs 2.94 billion were incurred on

16,231 scholarship cases, while Rs 691.51 million was disbursed as marriage grants of Rs 200,000 per worker benefiting 4,377 workers' families. The WWF has also disbursed Rs 780.96 million as a death grant of Rs 600,000 per worker – covering 1,425 cases of mishaps all over the country. During July-March FY2023, an amount of Rs 35.27 billion has been disbursed by EOBI.

The social protection system of Pakistan is having enormous potential to handle poverty and vulnerability issues and it is imperative to improve coordination between different agencies. It is important to establish a national social protection framework to synthesize federal and provincial initiatives, and to avoid duplication and wastage of resources.

Climate Change: Climate change poses serious challenges to social, environmental, and developmental activities, and leads to migration within and across national borders. The effects of global climate change in Pakistan are already evident in the form of the growing frequency of droughts, floods, erratic weather behavior, changes in agricultural patterns, reduction in freshwater supply, and the loss of biodiversity. Forest, biodiversity, and wildlife resources have also suffered from the adverse effects of climate change. Besides, these resources are under tremendous pressure owing to changes in land use and habitat destruction. Due to population increase, the consumption of fuelwood and timber extraction has increased.

Pakistan is currently facing extremely high levels of air pollution with some urban areas reaching hazardous pollution levels across the year. National Clean Air Policy (NCAP) was launched in March 2023. The objective of this policy is to improve air quality in the country by reducing pollution. Pakistan presented an idea of the Loss and Damages Fund during COP 27 and later pushed for a consensus agreement on it, which was successfully adopted. The establishment of the fund reflects Pakistan's ability to not only speak and deliver for itself but also raise the voice for developing countries at the international level. Pakistan's representation as the Chair of the G-77 and China has marked the country's important position at the international negotiations and Pakistan's presence at COP-27 was greatly recognized and appreciated globally.