
Overview of the Economy

Global Economic Review

Unprecedented global crisis caused by the outbreak COVID-19 pandemic in early 2020 had led to equally unprecedented worldwide measures to protect lives and livelihoods. Governments and Central banks engaged in accommodative fiscal and monetary policy measures to protect the population from an economic meltdown. The imposed mobility and other necessary restrictive measures took a huge toll on social and economic prosperity. Nevertheless, a recession in 2020 could not be avoided due to the suspension of economic activities and resultant negative growth.

In 2021 vaccination programs, although unevenly spread among world regions, allowed to gradually relax economic restrictions. In the meantime, economic policies continued to support the strong economic revival across the globe that resulted in economic growth exceeding potential output growth in 2021. Supply-demand imbalances became apparent exacerbated by supply chain disruption and bottlenecks in the transport sector. International commodity prices responded abruptly to the economic rebound accelerated inflation in most parts of the world.

In early 2022, the Russian-Ukraine conflict elevated global commodity prices, fueled inflation and domestic inflation rates further. Threats from high inflation, rising interest rates, lingering supply constraints, and mounting uncertainties affected the global economic forecasts. The impact of war has revised the global growth forecast downward by 0.8 and 0.2 percentage points to 3.6 percent in both 2022 and 2023. The projection for economic growth of European Economies has been revised downwards by 1.1 percentage points to 2.8 percent. Similarly, the outlook for advanced and emerging economies also revised downwards by 0.6 and 1.0 percentage points, respectively. In the medium-term, the outlook is revised downwards for all groups, except commodity exporters who are benefitting from the surge in energy and food prices.

Central Banks around the world responded well to the overheated economies and reversed the expansionary monetary policy. Fed and other central banks raised the policy rate to slow the economy enough to tame inflation. On the fiscal side, policy space was already eroded in many countries by the pandemic. The surge in commodity prices and the increase in global interest rates will further reduce fiscal space, especially for oil and food-importing economies. The withdrawal of extraordinary fiscal support was projected to continue because of the overheated economies, shrinking fiscal space, and

growing budget deficits. Clear communication and forward guidance on the outlook for monetary policy and greater support from the treasury will be essential to minimize the risk of disruptive adjustments and to ensure that medium and long-term inflation expectations remain well-anchored.

The weakening growth prospects, provision of relief to the vulnerable population, and supportive measures by governments will widen fiscal deficits. Several economies will need to consolidate their fiscal balances. This should not impede governments from providing well-targeted support for vulnerable populations, especially in the presence of high energy and food prices.

Summing up, the recurring economic crisis allowed governments across the globe to develop a strategic response to the crisis. The changing economic landscape brought a paradigm shift in economic policymaking. The focus has been shifted to knowledge-based and service economies where investment in human capital is of equal importance as an investment in machinery, equipment, and buildings.

Pakistan Economic Review

Though economy recovered from the pandemic (a 0.94 percent drop in FY2020) and maintained V-Shaped recovery by posting real GDP growth of 5.97 percent in the fiscal year 2022. This high growth, however, is unsustainable and has resulted in financial and macroeconomic imbalances.

Historically, Pakistan's economy had shown periodic 'boom-bust' growth cycles. The reasons for such volatile growth cycles include the wide-ranging economic challenges like shrinking fiscal space, exchange rate pressure, mounting current account deficit, inflation, energy sector bottlenecks, and the absence of a supportive environment for the private sector.

Political instability in the country also led to a huge increase in economic uncertainty. Uncertainty at individual, firm, and government levels is negatively affecting the economy. Political stability can reduce uncertainty by making clear policy statements to build the trust of domestic as well as foreign investors and the business community.

The coordinated monetary-fiscal policy approach after the COVID-19 outbreak has succeeded in reviving the real economic activity. Specifically, the fiscal-monetary stimulus packages have a cascading effect on growth through a revival in private investment. In addition, the accommodative monetary policy stance in FY2021, focused on the revival of the construction industry and mandatory housing finance targets by the SBP, together with the rebound in external demand has set the stage for stronger growth momentum in FY2022.

Further, growth momentum was observed on account of broad-based expansion in large-scale manufacturing (LSM) and improved crop production. However, the economy also started to show signs of excess demand and overheating through an increase in the import volume of capital and consumer goods, energy, and non-energy imports.

On the external front, the exports grew remarkable on account of policy supports provided-including regionally competitive energy tariff rates, Export Facilitation Scheme 2021, enhancement in coverage and loan limits under LTFF, Changes in FX regulations to facilitate exports, the launch of an e-Tijarat portal and tariff rationalized in various sectors in line with objectives of National Tariff Policy 2019-2024. In addition to this, STPF 2020-25 has been prepared to enhance the export competitiveness of Pakistan through a framework of interventions having an impact across the value chains. Furthermore, textile policy 2020-25 has also been approved to fully utilize the potential of home-grown cotton augmented by man-made fibers and filaments to boost value-added exports. Moreover, at the international level, World Trade Organization (WTO) has undertaken the Trade Policy Review (TPR) for Pakistan to achieve transparency and a better understanding of trade policies and practices.

However, a surge in global commodity prices is exerting pressure on imports by significantly pushing up import payments. Resultantly, the sizeable trade deficit of US\$ 32.9 billion during July-April FY2022 was partially financed by significant workers' remittances. Thus, in the period under discussion, the current account posted a deficit of US\$ 13.8 billion compared to a deficit of US\$ 0.5 billion during the same period last year. The widening of the current account deficit together with a build-up in inflationary pressures in the backdrop of the geopolitical situation (especially the Russia-Ukraine conflict) has created significant challenges for sustainable economic growth. In addition, the recent emergence of domestic conditions (including political instability) is eroding business confidence. Thus, all in all, inflationary and external sector pressures have created macroeconomic imbalances in the economy.

To counter inflationary pressure and for sustainable economic recovery, SBP moved to monetary policy normalization in September 2021. Policy Rate increased by cumulative 675 bps between September-April, FY2022.

The CPI inflation for the period July-May FY2022 was recorded at 11.3 percent as against 8.8 percent during the same period last year. The pressures on headline inflation can fairly be attributed to adjustments in prices of electricity and gas, a significant increase in the non-perishable food prices, exchange rate depreciation along with a rapid increase in global fuel and commodity prices.

Shocks to the economy caused significant damage to Pakistan's public finances. In response, the Government formulated and implemented various policy initiatives which improved fiscal outcomes, especially on the revenue side. FBR has initiated various policy and administrative measures to facilitate the taxpayers to mobilize domestic resources and generate sufficient revenue without hurting growth momentum. FBR tax collection witnessed a substantial growth of 28.5 percent during July-April FY2022. However, higher grants and huge subsidies kept the expenditure side under intense pressure. The fiscal deficit increased to 3.8 percent of GDP in July-March FY2022 against 3.0 percent of GDP during the same period last year. Similarly, the primary balance posted a deficit of Rs 447.2 billion.

In the medium term, comprehensive measures are needed to strengthen and reliability of overall economic performance to reinvigorate the economy, spur growth, maintain

price stability, provide jobs to the youth and rebuild the key infrastructure of the country. This will also require fiscal adjustments, and reforms in almost every sector of the economy to lay the foundation for higher, inclusive, and sustainable economic growth.

Executive Summary

1. Growth and Investment

In FY2022, the real GDP growth remained at 5.97 percent. However, underlying macroeconomic imbalances and associated domestic and international risks have dampened celebrations. The economy of Pakistan rebounded from the pandemic (0.94 percent contraction in FY2020) and continued to post a V-Shaped economic recovery which is higher than the 5.74 percent recorded last year (FY2021).

This high growth, however, is also accompanied by external and internal imbalances, as has been the case historically with Pakistan's economy. However, external circumstances also played a critical role this time. These circumstances have placed almost all economies of the world in shambles. A highly transmissible Omicron variety, changes in Afghanistan's government after the withdrawal of US troops sparked and the Russian-Ukraine conflict started in Feb 2022, all of these have upended the global economic picture. Financial and commodity markets have felt shockwaves. Thus, energy and food prices have surged rapidly and threaten to remain further elevated. The exceedingly uncertain outcome of the crisis is another challenge for developing economies, particularly for Pakistan.

Pakistan's economy has shown a strong recovery after being depressed due to the pandemic which resulted in lockdown. For FY2022, real GDP (GVA at basic prices 2015-16) posted a growth of 5.97 percent on account of 4.40 percent growth in Agriculture, 7.19 percent growth in the Industrial sector, and 6.19 percent growth in the Services sector. This growth is slightly above the growth of 5.74 percent recorded for FY2021.

For FY2022, GDP at current market prices stands at Rs 66,950 billion showed a growth of 20.0 percent over last year (Rs 55,796 billion). In the dollar term, it remained at US\$ 383 billion. Gross National Income (GNI) is also used for measuring and tracking a nation's wealth which is calculated by adding Net Primary Income (NPI) to GDP (MP). Regarding per capita income in terms of dollar, there was a rebound seen in FY2021 which continued in FY2022. In FY2022, per capita income was recorded at US\$1,798 which reflects an improvement in prosperity due to the fact that economic growth per person improved.

The Gross Fixed Capital Formation (GFCF) for FY2022 was recorded at Rs 8,992 billion against Rs 7,217 billion in FY2021, thus, posting a growth of 24.6 percent. The GFCF is comprised of Private, Public, and General governments. The GFCF in the private sector during FY2021 is estimated at Rs 6,704 billion against Rs 5,557 billion in FY2021, showing an increase of 20.6 percent. On the basis of data reported by PBS, GFCF in Public sector remained at Rs 481 billion during FY2022 compared to Rs 419 billion last year, registering an increase of 14.9 percent. The overall provisional GFCF in General Government services for FY2022 has been recorded at Rs 1808 billion compared to

Rs 1241 billion during FY2021, posting a growth of 45.6 percent. This time, PBS has also provided industry-wise disaggregation of GFCF of General Government. The data suggests that there was a 48, 34, and 25 percent increase in Public Administration & Social Security, Education, and Human Health & Social Work, respectively.

2. Agriculture

During FY2022, the agriculture sector recorded a remarkable growth of 4.40 percent and surpassed the target of 3.5 percent and last year's growth of 3.48 percent. This growth is mainly driven by high yields, attractive output prices and supportive government policies, better availability of certified seeds, pesticides, and agriculture credit.

The crops sector outperformed and posted a growth of 6.58 percent during FY2022 against 5.96 percent last year. At the sub-sector level, important crops, other crops, and cotton ginning depicted a significant growth of 7.24 percent, 5.44 percent, and 9.19 percent, respectively, against last year's growth of 5.83 percent, 8.27 percent, and -13.08 percent. The growth in production of important crops namely cotton, rice, sugarcane, and maize are estimated at 17.9 percent, 10.7 percent, 9.4 percent, and 19.0 percent, respectively. The cotton crop increased from 7.1 million bales reported last year to 8.3 million bales during 2021-22; rice production increased from 8.4 million tonnes to 9.3 million tonnes; sugarcane production increased from 81.0 million tonnes to 88.7 million tonnes; maize production increased from 8.9 million tonnes to 10.6 million tonnes respectively, while wheat production decreased from 27.5 million tonnes to 26.4 million tonnes. Other crops having a share of 13.86 percent in agriculture value addition and 3.14 percent in GDP, grew by 5.44 percent on the back of an increase in the production of pulses (29.82 percent), oilseeds (24.75 percent), vegetables (11.52 percent), fruits (1.53 percent) and fodders (0.36 percent).

Livestock having a share of 61.89 percent in agriculture and 14.04 percent in GDP, recorded a growth of 3.26 percent in 2021-22 compared to 2.38 percent during the same period last year. The fishing sector having a share of 1.39 percent in agriculture value addition and 0.32 percent in GDP grew at 0.35 percent compared to a growth of 0.73 percent in the same period last year. The forestry sector having a share of 2.14 percent in agriculture value addition and 0.49 percent in GDP posted a positive growth of 6.13 percent against the negative growth of 0.45 percent last year.

Water availability during Kharif 2021 was recorded at 65.1 million-acre feet (MAF) compared to 65.1 MAF of Kharif 2020. Rabi season 2021-22 stood at 27.4 MAF, showing a decrease of 12 percent over Rabi 2020-21.

The domestic production of fertilizers during FY2022 (July-March) increased by 1.9 percent over the same period of last year. This increase in domestic production of fertilizer is mainly due to the running of two LNG-based plants, FatimaFert and Agritech Limited, from September 2021 to March 2022. Although the import of fertilizer decreased by 6.2 percent, however, the total availability of fertilizer slightly increased by 0.5 percent. There was a decrease in the total offtake of fertilizer nutrients by 3.6 percent.

During July-March FY2022, total tractor production reached 41,871 compared to 36,900 produced last year, a 13.5 percent higher than the same period last year.

During FY2022 (July-March), banks disbursed Rs 958.3 billion which is 56.4 percent of the overall annual target and 0.5 percent higher than the disbursement of Rs 953.7 billion made during the same period last year. Further, the outstanding portfolio of agricultural loans has increased by Rs 30.9 billion i.e., from Rs 601.8 billion to Rs 632.7 billion at end of March 2022 as compared to the same period last year. In terms of outreach, the number of outstanding borrowers reached 3.2 million in March 2022.

During FY2022 (July-March), total fish production was recorded at 696.0 thousand MT (marine: 468 thousand MT and inland: 228 thousand MT) witnessing an increase of 0.8 percent over the same period of last year's fish production of 690.6 thousand MT (marine: 465.2 thousand MT and inland: 225.4 thousand MT).

3. Manufacturing and Mining

The performance of Large-Scale Manufacturing (LSM) stood tremendous with 10.4 percent growth during July-March FY2022 as compared to growth of 4.2 percent same period last year. The prudent measures and continuous support along with rising global demand, easy access to credit, and partially subsidized energy supplies bode well in boosting the business sentiments and achieving higher growth of LSM.

On a year-on-year (y-o-y) basis, LSM grew by 26.6 percent in March FY2022 against 22.5 percent growth in the same month last year. However, on a month-on-month (m-o-m) basis LSM marked the growth of 8.2 percent in March 2022 against 3.7 percent in February 2022.

Out of 22 subsectors, 17 posted growth during July-March FY2022. The performance was broad-based on the back of strong growth of high weighted sectors such as Textile, Food, Wearing Apparel, Chemicals, Automobile, Tobacco, Iron & Steel Products along with Furniture, Wood Products, and Footballs.

The Mining and Quarrying sector remained negative at 4.47 percent during July-March FY2022 as against the growth of 1.21 percent last year. This sector is lagging behind despite huge potential, due to interconnected and cross-cutting issues like poor regulatory framework, insufficient infrastructure at mines sites, outdated technology installed, semi-skilled labor, low financial support, and lack of marketing. Production of major minerals such as Coal, Natural Gas, Chromite, Crude Oil, and Barytes witnessed a growth of 8.34, 3.45, 25.7, 4.48, and 162.5 percent, respectively. However, some witnessed negative growth during the period under review such as Magnesite 52.3 percent, Gypsum 36.9 percent, Lime stone 33.3 percent, Ocher 25.5, Rock Salt 24.2 percent, and Marble 22.9 percent.

4. Fiscal Development

Currently, the fiscal policy at the global level is functioning in a highly volatile environment and Pakistan is no exception. The conflict between Russia and Ukraine has potentially serious economic consequences for Pakistan's economy as it has exacerbated

difficult policy choices for the country. Thus, controlling inflation, strengthening the economic recovery, supporting the vulnerable, and rebuilding fiscal buffers, all became significantly important.

The conflict and resultantly its impact on higher international commodities prices especially energy and food brought a plethora of challenges to Pakistan's economy. To offset the impact of increasing oil prices, tax relief to the masses was provided in the shape of a reduction in the petroleum development levy (PDL) and the elimination of the sales tax on all POL products. These measures, combined with energy subsidies, have posed significant risks to fiscal sustainability in an already constrained fiscal environment.

Despite a significant rise in tax collection, higher current and development expenditures widened the fiscal deficit to 3.8 percent of GDP during July-March FY2022 against 3.0 percent in the previous period. Similarly, the primary balance posted a deficit of Rs 447.2 billion against a surplus of Rs 451.8 billion. On the expenditure side, total spending witnessed a sharp increase of 27.0 percent in July-March FY2022 against the contained growth of 4.2 percent in the same period of last year. Higher development and non-markup current spending contributed to an increase in total expenditures during the year.

Total revenues increased by 17.7 percent in July-March FY2022 against 6.5 percent in the same period of last year. A significant increase in tax collection was a key factor in boosting revenue growth, which more than offset the decline in non-tax revenues during the review period. During the first nine months of the current fiscal year, total tax collection (federal & provincial) grew by 28.1 percent, while non-tax revenues fell by 14.3 percent.

FBR outperformed the revenue target during the first ten months of FY2022. During July-April, FY2022, FBR has been able to collect Rs 4,855.8 billion (provisional) net tax revenues reflecting a growth of 28.5 percent. However, tax relief measures have impacted revenue collection by approximately Rs 73 billion during the month of April 2022.

5. Money and Credit

SBP had started to tighten its monetary policy stance from September 2021 after keeping the policy rate unchanged at 7 percent in all the MPC meetings held in FY2021. The monetary policy in Pakistan shifted direction in Q1-FY2022 in accordance with the changing economic outlook owing to a recovery in domestic demand, higher commodity prices, and persistent inflationary pressures. Consequently, the policy rate had increased by a cumulative 275 bps to 9.75 percent during consecutive three monetary policy decisions, within a span of three months.

Accordingly, the MPC in an unscheduled meeting on April 7, 2022, raised the policy rate by 250 basis points. The MPC was of the view that this action would help to safeguard external sector and price stability. During the monetary policy decision held on 23rd May 2022, the MPC decided to raise the policy rate by 150 basis points to 13.75 percent. The

decision was based on the outcome of provisional growth estimates for FY2022 more than the target, showing excess aggregate demand, elevated external sector pressure, and a higher inflation outlook due to domestic and international factors.

During the period 01st July-29th April FY2022, broad money (M2) has increased by Rs 1,457.2 billion (growth of 6.0 percent) as compared with Rs 1,632.7 billion (growth of 7.8 percent) during the comparable period of last year. Contained growth in M2 mainly due to negative Net Foreign Assets (NFA) of the banking system, which has been contracted by Rs 1,327.7 billion as compared to an expansion of Rs 980.6 billion last year. This was contained due to pressure on the external front on account of high international commodity prices and expansion in domestic activities, transfers pressure on import bill, and current account deficit. Conversely, the Net Domestic Assets (NDA) of the banking sector observed an expansion of Rs 2,784.8 billion against Rs 652.1 billion last year. The expansion in NDA on account of significant expansion in private sector credit increased lending to Public Sector Enterprises (PSEs) and lending to government commodity procurement agencies.

Private sector credit witnessed an unprecedented expansion of Rs 1,312.9 billion during the period 1st July-29th April, FY2022 compared to Rs 454.4 billion during the same period last year, posting significant growth of 189 percent in flow terms. On a positive note, credit demand increased both for fixed investment and working capital loans. Businesses took advantage of SBP concessionary financing schemes, particularly TERF. As a result, fixed investment loans witnessed a significant expansion of Rs 333.1 billion during July-March, FY2022 as compared to Rs 137.0 billion during the same period last year. Similarly, working capital loans observed an expansion of Rs 608.7 billion during July-March, FY2022 as compared to an expansion of Rs 110.8 billion during the same period last year. This expansion is a signal for both continuation and expansion of economic activities, as evident from the significant economic growth of 5.97 percent in FY2022.

6. Capital Markets & Corporate Sector

The world stock indices started on a positive note during the current fiscal year. However, due to the geopolitical tensions especially the Russia-Ukraine war plummeted the global indices in the month of February and March 2022.

Pakistan stock market's performance has posted a boom-and-bust situation during the first nine months of the current fiscal year. During July-March FY2022, the benchmark KSE-100 index declined from 47,356 points to 44,929 points. During the period under review, the index closed at its highest level of 48,112 points on August 23, 2021. As of March 31, 2022, the total number of listed companies on the Pakistan Stock Exchange (PSX) stood at 532, with a total market capitalization of Rs 7,583 billion.

The major development of this year in the equity market is the issuance of Initial Public Offerings (IPOs). During July-March FY2022, five companies issued shares through a public offering on the main board of PSX (Citi Pharma limited, Pakistan Aluminium Beverages Cans Limited, Airlink Communications Limited, Octopus Digital Limited, and Adamjee Life Assurance Company Limited), while two companies were listed on the

newly introduced Growth Enterprise Market (GEM) Board (Pak Agro Packaging Limited and Universal Network Systems Limited).

During July-March FY2022, corporations raised Rs 121.5 billion by issuing 32 debt securities, while 102 previous corporate debt securities worth Rs 749.82 billion remain outstanding. Moreover, during July-March FY2022, 2.31 million lots of various commodities futures contracts including gold, crude oil, and US equity indices worth Rs 2.65 trillion were traded on Pakistan Mercantile Exchange Limited.

7. Inflation

The CPI inflation for the period July-May FY2022 recorded at 11.3 percent as against 8.8 percent during the same period last year. The other inflationary indicators like Sensitive Price Indicator (SPI) recorded at 16.7 percent as against 13.5 percent last year. Wholesale Price Index (WPI) recorded at 23.6 percent in July-May FY2022 compared to 8.4 percent same period last year.

The pressures on headline inflation can fairly be attributed to adjustment in prices of electricity and gas, a significant increase in the non-perishable food prices, exchange rate depreciation along with rapid increase in global fuel and commodity prices.

However, there is also significant uncertainty around the outlook for international commodity prices as well which had been exacerbated by the Russia-Ukraine conflict. The government made best efforts to ensure smooth supply of essential domestic goods through vigilant monitoring of prices both at provincial and Federal level.

8. Trade and Payment

As COVID-19 disrupted economic activity worldwide. However, many policy measures were initiated to support export-oriented industries and facilitate these firms to increase export earnings.

During July-April FY2022, goods exports grew by 27.6 percent to US\$ 26.8 billion, whereas services exports grew by 18.2 percent to US\$ 5.8 billion. Around two-thirds of the increase came from the textile sector, especially from the high value-added segment. Pakistan's textile exporters capitalized on the policy support available-including the Export Facilitation Scheme 2021, SBP's concessionary refinances schemes for working capital and fixed investment, and the regionally competitive energy tariffs and managed to ship higher volumes to key destinations (such as the US, UK, and EU). Higher cotton prices also helped increase the export unit prices of both low and high-value-added textile products. Apart from textiles, rice exports also rebounded during July-April FY2022, mainly on the back of the non-basmati variety.

Despite the encouraging export performance, the country's imports have also risen significantly. The broad-based surge in global commodity prices, COVID-19 vaccine imports, and demand-side pressures, all contributed to the rising imports. Resultantly, the trade deficit grew by 49.6 percent to US\$ 32.9 billion which is historically high. Remittances, which always supported in easing out the pressure of trade deficit of both goods and services, recorded at US\$ 26.1 billion during July-April FY2022 and posted a

growth of 7.6 percent. This ever-highest level of workers' remittances still not sufficient to offset the trade deficit. Thus, the current account deficit was recorded at US\$ 13.8 billion during the period under discussion. Further, the low performance of the Financial Account during the period not only resulted in the depletion of foreign reserves but also brought the exchange rate under pressure. The interbank PKR-USD exchange rate depreciated 15.1 percent during July-April FY2022. The SBP's FX reserves also came under pressure from Q2 onwards, dropping from US\$5.9 billion during the review period to US\$ 10.5 billion by end-April 2022.

9. Public Debt

Total public debt was recorded at Rs 44,366 billion at end-March 2022. Domestic debt was recorded at Rs 28,076 billion, while external public debt was recorded at Rs 16,290 billion or US\$ 88.8 billion at end-March 2022.

The public debt portfolio witnessed various positive developments during the first nine months of the ongoing fiscal year (July-March FY2022), some of them are highlighted as follows:

- ⦿ Within domestic debt, the Government relied entirely on long-term domestic debt securities for the financing of its fiscal deficit and repayment of debt maturities. In fact, the Government retired/repaid a portion of Treasury Bills amounting to Rs 1.5 trillion which led to a reduction of short-term maturities in-line with the Government's commitment to reduce its Gross Financing Needs.
- ⦿ The Government repaid Rs 569 billion against SBP debt. Cumulative debt retirement against SBP debt stood at Rs 2.3 trillion from July 2019 to March 2022.
- ⦿ The Government successfully issued Shariah Compliant Sukuk instruments amounting to around Rs 1.1 trillion, in line with the target specified in the Medium Term Debt Management Strategy of Pakistan (2019/20 - 2022/23), to increase the share of Shariah-compliant securities within domestic debt stock;
- ⦿ Debt from multilateral and bilateral sources cumulatively constituted around 79 percent of the external public debt portfolio at end-March 2022. A set of reforms initiated by the Government to improve the economy has brought strong support from multilateral development partners. This is expected to strengthen confidence and catalyze additional support from development partners in the coming years which will also help in reducing the pressure on domestic sources.
- ⦿ Within external debt, inflows from multilateral and bilateral development partners remained major sources of funding. In addition, Pakistan successfully raised US\$ 1 billion in July 2021 through multi-tranche tap issuance of 5, 10 and 30-year Eurobonds. These bonds were issued at a premium.
- ⦿ In January 2022, the Government of Pakistan successfully raised US\$ 1 billion through the issuance of International Sukuk under the 'Trust Certificate Issuance Program'. This was the first time that the Government has issued International Sukuk with 7 Year maturity and at a market-clearing price i.e., zero issuance premium. The

transaction was a success as healthy participation was witnessed from Middle Eastern and European investors and the books were oversubscribed 2.7 times.

- Government repaid US\$ 1 billion against maturing International Sukuks in October 2021.
- Government utilized IMF allocated SDR equivalent to Rs 475 billion to support its budgetary operations.

Total interest servicing was recorded at Rs 2,118 billion during the first nine months of the current fiscal year against its annual budgeted estimate of Rs 3,060 billion. Out of this total, domestic interest payments were Rs 1,897 billion and constituted around 90 percent of total interest servicing during the first nine months of the current fiscal, which is mainly attributable to a higher volume of domestic debt in the total public debt portfolio.

Pakistan's strategy to reduce its debt burden to a sustainable level includes a commitment to run primary surpluses, maintain low and stable inflation, promote measures that support higher long-term economic growth and follow an exchange rate regime-based on economic fundamentals. With a narrower fiscal deficit, public debt is projected to enter a firm downward path, while the Government's efforts to improve maturity structure will enhance public debt sustainability.

10. Education

Pakistan is committed to transform its education system into a high-quality global market demand-driven system in accordance with Goal 4 of Sustainable Development Goals (SDGs) which pertains to the quality of education. The progress achieved by Pakistan so far on Goal 4 of the SDGs is as under:

- Primary, Lower, and Upper Secondary Education Completion Rate stood at 67 percent, 47 percent, and 23 percent, respectively, depicting higher Primary attendance than Lower and Upper Secondary levels.
- Parity Indices at Literacy, Youth Literacy, Primary, and Secondary are 0.71, 0.82, 0.88, and 0.89, respectively.
- Participation rate in organized learning (one year before the official primary entry age), by sex is 19 percent showing a low level of consideration of Pre-Primary Education.
- Percentage of population in a given age group achieving at least an affixed level of proficiency in functional; (a) literacy and (b) numeracy skills is 60 percent.

Various initiatives have been taken at federal and provincial levels to raise the standards of education in terms of quality education as part of our commitment to accomplish Goal 4 of SDGs. These initiatives include: i) enhancing access to education by establishing new schools, ii) upgrading the existing schools, iii) improving the learning environment by providing basic educational facilities, iv) digitization of educational institutions, v) enhancing the resilience of educational institutions to cater for unforeseen situations, vi) promoting distance learning, capacity building of teacher, and vii) improving hiring

of teachers, particularly hiring of science teachers to address the issues of science education, etc.

A Single National Curriculum (SNC) has been introduced to minimize disparity in the country's education system where three main education systems are in place, i.e., Public schools, Private schools, and Deeni madaris. SNC is aimed at providing equal learning opportunities to all segments of society and will provide equal opportunity for learning and help the students and parents in case of inter provincial mobility.

The overall education situation based on the key indicators, such as enrolments, number of institutions, and teachers has shown a significant improvement. The total number of enrolments during 2019-20 was recorded at 55.7 million as compared to 53.1 million during 2018-19, which shows an increase of 4.9 percent. It is estimated to increase to 58.5 million during 2020-21. The number of institutions recorded at 277.5 thousand during 2019-20 as compared to 271.8 thousand during 2018-19. However, the number of institutions is estimated to increase to 283.7 thousand in 2020-21. Similarly, there were 1.83 million teachers in 2019-20 as compared to 1.79 million last year. The number of teachers is estimated to increase to 1.89 million during 2020-21.

During 2021-22, PSLM Survey was not conducted due to the upcoming Population & Housing Census 2022. However, according to Labour Force Survey 2020-21, literacy rate trends show 62.8 percent in 2020-21 (as compared to 62.4 percent in 2018-19), more in males (from 73.0 percent to 73.4 percent) than females (from 51.5 percent to 51.9 percent). Area-wise analysis suggests literacy increases in both rural (53.7 percent to 54.0 percent) and urban (76.1 percent to 77.3 percent). The male-female disparity seems to be narrowing down with time span. The literacy rate has gone up 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).

Cumulative education expenditures by Federal and Provincial Governments in FY2021 remained at 1.77 percent of GDP (revised estimates). Expenditures on education-related expenditures during FY2021 witnessed an increase of 9.7 percent, reaching Rs 988 billion from Rs 901 billion.

11. Health and Nutrition

Considering, good health is essential for human progress and wellbeing, the Government remained committed to improve the health status of the population through the provision of Universal Health Coverage (UHC) to all segment of the society. To this end, the Sehat Sahulat Card was launched for reducing health inequality in the country and ameliorate the well-being of all, is a step towards achieving UHC. In 2022, the Government also expanded health infrastructure by increasing the number of hospitals, Rural Health Units (RHUs), Basic Health Units (BHUs), doctors, dentists, and dispensaries to meet the growing health services demand. However, COVID-19 had disrupted the major strides in the health sector as the resources were shifted to contain the spread of the fourth and fifth waves of the pandemic. It was a threat to the health

system, lives, and livelihood which was successfully contained by the Government through timely procurement and a massive vaccination drive.

12. 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 224.78 million in 2021 of which 82.83 million reside in urban areas whereas 141.96 million live in rural areas and the population density is 282 per Km.

Pakistan has a large labour force that stands among the top 10 largest labour forces in the world. According to the latest Labour Force Survey FY2021, the labour force increased from 65.5 million in FY2018 to 71.76 million in FY2021 and the number of employed persons increased from 61.71 million to 67.25 million during the same period. The unemployment rate decreased from 6.9 percent in FY2019 to 6.3 percent in FY2021. Overall employment to population ratio is 42.1 percent and this ratio is higher in male (64.1 percent) as compared to female (19.4 percent) in FY2021.

According to LFS FY2021, the share of employment in the agriculture sector decreased from 39.2 percent in FY2019 to 37.4 percent in FY2021. The share of employment in the construction sector has increased from 8.0 percent in FY2019 to 9.5 percent in FY2021. This increase shows that job opportunities are being created in the country. The wholesale and retail trade sector has shown 14.4 percent employment in FY2021.

Pakistan has some of the greatest demographic opportunities for development in the world as the growing youth population enters adulthood. The demographic dividend can only be achieved with adequate investments in the education and skills of youth, harvesting the fruits of long-term human capital development. The Government has started different programmes for improving employment opportunities for youth such as "Youth Entrepreneurship Scheme" and "Hunermand Programme-Skills for All".

13. Transport and communications

Presently, Pakistan has 48 national highways, motorways, and strategic roads with a total length of 14,480 Km. In the first quarter of 2022, PIA has added two airbuses A320 fleets. Pakistan Railways comprised a total of 466 Locomotives for a 7,791 Km route length. During FY2022, PEMRA issued 265 Licenses for FM Radio and 4,152 Cable TV Licenses. In addition to this, there are 9,522 post offices across Pakistan.

CPEC is a flagship and most actively implemented project of the Belt & Road Initiative (BRI) where Pakistan and China have successfully launched 56 projects on the ground. Out of these projects, 26 projects worth approximately US\$17 billion have been completed so far and 30 projects worth US\$8.5 billion are under construction. The Government is taking benefit of Pakistan's strategic location and has focused on developing an efficient and well-integrated transport and communication system by connecting remote regions of the country into one road one Asia chain. With the help of CPEC, roads and railways infrastructure will integrate Pakistan with the regional countries which will help in generating economic and business activities by integrating its markets with Central Asia, the Middle East, and other parts of the world.

14. Energy

The latest available data indicates that the import bill of oil increased to US\$ 17.03 billion during July-April FY2022 compared to US\$8.69 billion during the same period last year, showing increase of 95 percent. Crude oil imports rose by 75.34 percent in value and 1.4 percent in quantity. Similarly, liquefied natural gas witnessed an increase of 82.90 percent in value while liquefied petroleum gas imports also jumped by 39.86 percent during July-April FY2022. During July-February FY2022, 75.64 percent of gas is domestically produced while 24.36 percent of gas is being imported. Coal is also used for electricity generation in Pakistan. Currently, the overall electricity generation from coal has reached 5280 MW. Thar coal is contributing 1,320 MW, while imported coal's contribution to electricity generation is 3,960 MW which is around 75 percent of the total electricity generation from coal in the country.

The Government is also committed to the global agenda of SDGs goal 7 and investing in renewable and alternate sources of energy to cater to Pakistan's growing energy demand. Pakistan is rich in hydropower and has the enormous potential to generate electricity from water. Currently, the Hydro installed capacity is 10,251 MW which is around 25 percent of the total installed capacity. Pakistan has also wind corridors. The contribution of Wind to the total installed capacity is 4.8 percent and currently stood at 1,985 MW. The potential for solar power in Pakistan is also high. The installed capacity of solar is 600 MW which is around 1.4 percent of the total installed capacity. Pakistan is also producing energy from nuclear technology whose contribution is increasing gradually. Last year, the gross capacity of the nuclear power plants was 2,530 MW which supplied about 7,076 million units of electricity to the national grid during July-March FY2021. The gross capacity of nuclear power plants has increased by 39 percent and it stood at 3,530 MW.

15. Social Protection

The COVID-19 pandemic has significantly increased poverty and inequality globally, causing a substantial reversal in progress toward global SDGs. According to the latest estimates provided by the United Nations Department of Economic and Social Affairs in the report **"The World Economic Situation and Prospects 2022"**, progress in reducing extreme poverty has been set back by several years in most countries. An unprecedented 85 million more people entered extreme poverty in 2020 globally.

BISP is currently disbursing payments to around 5.7 million regular beneficiaries under its Ehsaas Kafaalat Programme. During FY2022, the number of regular beneficiaries has been enhanced to 8.0 million. BISP in coordination with Finance Division and World Bank has developed an institutional mechanism as well as a proposal to increase the cash assistance under Kafaalat @ Rs 166.33/- per month or Rs 500/- per quarter w.e.f 1st January 2022 has been approved by the Federal Cabinet.

The second phase of the Ehsaas Emergency Cash Programme (ECAP-II) has been launched in June 2021. As of 30-03-2022, an amount of Rs 30.18 billion has been disbursed to 2.50 million additional beneficiaries (other than UCT beneficiaries)

@ Rs 12,000/- per beneficiaries to ever-married women of the eligible families having valid CNIC.

Under Ehsaas Taleemi Wazaif Programme, 6.52 million children have been enrolled and 25 billion have been paid so far. During FY2022, 3.22 million children have been enrolled and Rs 5.0 billion have been disbursed.

Ehsaas undergraduate scholarship programme, 1,38,133 scholarships were awarded to deserving students, and Rs 13.2 billion were disbursed during FY2020 and FY2021. For FY2022, Rs 9.5 billion was allocated, 122,000 applications have been received and its screening process will soon begin.

50 Ehsaas Nashonuma Centres across 14 districts are being established countrywide at the district and tehsil level to provide health services and conditional cash transfers under two years old; Rs 1500/- for a boy child and mother, and Rs 2000/- for a girl child mainly to prevent children from stunting growth issue. So far, 99,190 beneficiaries have been enrolled and Rs 310.81 million has been disbursed till March FY2022.

Pakistan Poverty Alleviation Fund (PPAF) also helps in micro-credit, water, health, education, and livelihood. Since its inception in April 2000 till March 2022, PPAF has disbursed approximately Rs 237.56 billion to its Partner Organizations (POs) in 147 districts across the country. A total of 8.4 million microcredit loans have been disbursed with 60 percent loans to women and 80 percent financing extended to rural areas.

During July-March FY2022, PPAF disbursed Rs 2,112.70 million to its POs for various programmes funded by Donors and PPAF's own resources.

Pakistan Baitul Mal (PBM) is providing financial assistance to the destitute, widows, orphans, and other needy persons at the district level. During FY2022, Rs 6.505 billion has been allocated to PBM for its core projects/schemes.

Workers Welfare Fund (WWF) during July-March, FY2022, disbursed Rs 1.43 billion on 15,004 scholarship cases, while Rs 244.07 million was utilized as marriage grants @ Rs 200,000 per worker, benefitting 1819 workers' families. The WWF has also disbursed Rs 420.4 million as a death grant @Rs 600,000 per worker covering 804 cases of mishaps all over the country.

EOBI provides monetary benefits to old age workers through various programmes such as Old Age Pension, Invalidity Pension, Survivors Pension, and Old Age Grant. EOBI has registered 9,429,281 employees. During FY2022, EOBI registered 307,296 new employees. During July-March FY2021, an amount of Rs 33.54 billion has been disbursed by EOBI.

16. Climate Change

In Pakistan, environmental degradation and climate change are adversely affecting the economy, livelihood of the poor, and sustainable development. On the one hand, a growing population, unplanned urban expansion, and decidedly dependence on natural resources puts immense pressure on the environment that triggering climate change.

The existing meager forest resources are crucial to environmental stability in Pakistan, which appeals for serious interventions supported by a commitment to adequate financial flows to improve and enhance the overall forestry, wildlife, and biodiversity sector. However, the TBTP is helping to restore the ailing ecosystems and it will improve natural capital as well. The programme is being implemented by the Provincial Forest and Wildlife Departments through MoCC on a 50 percent cost-sharing basis except for AJ&K and GB which are 100 percent funded by the Federal Government through PSDP. The programme has achieved 579.093 million plants during July-March FY2022 and cumulatively has attained 1,586.18 million plants till March 2022.
