**Government of Pakistan**
**Planning Commission**
**Ministry of Planning, Development and Special Initiatives**
(International Trade & Finance Section)

## External Sector Performance Report for Jul-Dec FY21 (January-2021)

Balance of payments position has improved during Jul-Dec FY21. The first two quarters of the current fiscal year witnessed current account surpluses due to increased inflow of workers' remittances. FDI rebounded while FPI and overall financial account witnessed healthy inflows. Current account surplus resulted in net addition in SBP's liquid foreign exchange reserves.

### Current Account Balance

The current account witnessed surplus of US$ 1,131 million improving by 155.7 percent during Jul-Dec FY21 against deficit of US$ 2,032 million in the same period of FY20. Moreover, current account balance registered a change from deficit of -1.5 percent of GDP to surplus of 0.8 percent of GDP during the period under reference. The trade deficit widened by around 17.0 percent during Jul-Dec FY21 and stood around US$ 11,404 million compared to US$ 9,743 million in Jul-Dec FY20. There is an increase of 4.8 percent in imports compared to 4.8 percent decline in exports during Jul-Dec FY21 compared to the same period of FY20.. The surplus in current account deficit during Jul-Dec FY21 is primarily attributed to the inflow of workers' remittances (Table-1).

**Table-1: Review of Balance of Payments (US$ Million)**

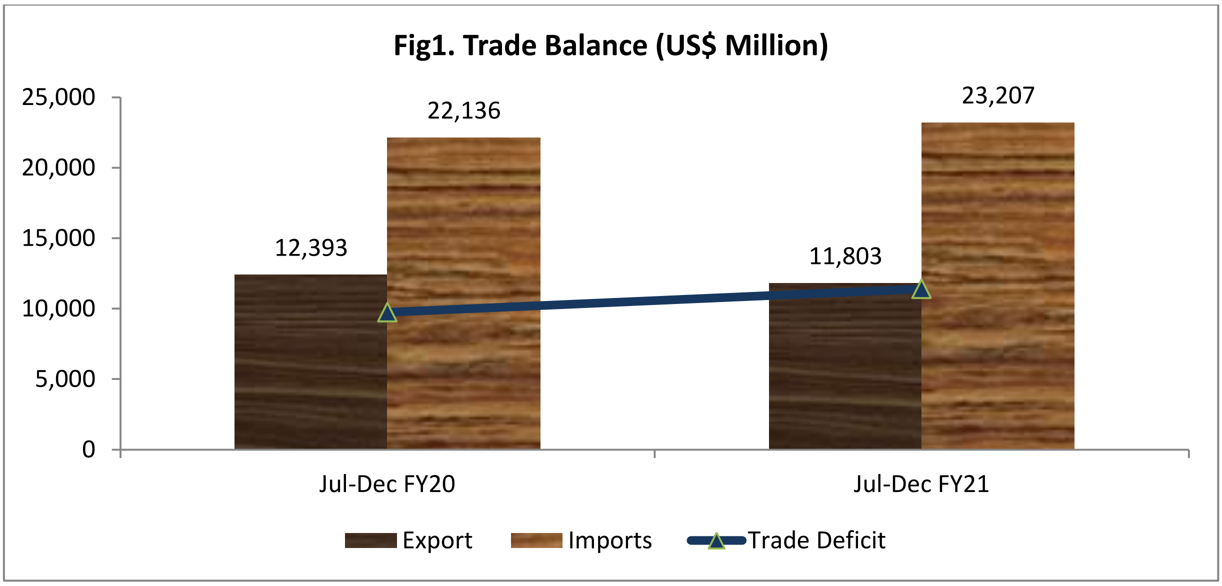
| Items | Dec | | % Change | Jul – Dec | | % Change |
|---|---|---|---|---|---|---|
| | 2019 | 2020 | | FY20 | FY21 | |
| **1. Current Account Balance** | **-287** | **-662** | **-130.7** | **-2,032** | **1,131** | **155.7** |
| a. Balance on Trade in Goods | **-1,683** | **-2,768** | **-64.5** | **-9,743** | **-11,404** | **-17.0** |
| Exports of Goods (FOB) | 2,108 | 2,251 | 6.8 | 12,393 | 11,803 | -4.8 |
| Imports of Goods (FOB) | 3,791 | 5,019 | 32.4 | 22,136 | 23,207 | 4.8 |
| b. Balance on Trade in Services | **-204** | **-128** | **37.3** | **-1,697** | **-977** | **42.4** |
| Exports of Services | 551 | 628 | 14.0 | 2,835 | 2,844 | 0.3 |
| Imports of Services | 755 | 756 | 0.1 | 4,532 | 3,821 | -15.7 |
| c. Balance on Primary Income | **-682** | **-549** | **19.5** | **-3,151** | **-2,730** | **13.4** |
| d. Balance on Secondary Income | **2,282** | **2,783** | **22.0** | **12,559** | **16,242** | **29.3** |
| *Of which: Workers Remittances* | *2,097* | *2,437* | 16.2 | *11,371* | *14,203* | 24.9 |
| **2. Capital Account Balance** | *39* | *30* | -23.1 | *198* | *132* | -33.3 |
| **3. Financial Account** | **-2,363** | **-1,258** | **46.8** | **-5,606** | **-49** | **99.1** |
| Of which: | | | | | | |
| a. Direct Investment | -494 | -194 | 60.7 | -1,314 | -901 | 31.4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| b. Portfolio Investment | 686 | -9 | -101.3 | -584 | 443 | 175.9 |
| General Government | 3,011 | 1,001 | -66.8 | 4,291 | 3,029 | -29.4 |
| Disbursement | 3,212 | 1,160 | -63.9 | 7,096 | 4,563 | -35.7 |
| Amortization | 205 | 237 | 15.6 | 2,826 | 2,675 | -5.3 |
| **Reserves and Related Items** | **2,319** | **678** | **---** | **4,354** | **1,279** | **---** |
| *CAB (As % of GDP)* | -1.3 | -2.8 | --- | -1.5 | 0.8 | --- |

*Source: State Bank of Pakistan*

### a. Trade Account

The trade deficit widened by around 17 percent during Jul-Dec FY21 and stood at US$ 11,404 million as compared to US$ 9,743 million in Jul-Dec FY20. This was mainly driven by decline in exports caused primarily because of economic slowdown due to Covid-19 pandemic.




*Source: State Bank of Pakistan*

### Exports

Exports witnessed decline of 4.8 percent and stood at US$ 11,803 million during Jul-Dec FY21 compared to US$ 12,393 million in the corresponding period of last fiscal year. Although exports have declined however they slightly recovered from the negative impact of Covid-19 pandemic.

Exports receipts of all food and petroleum witnessed a decline for Jul-Dec FY21 as compared to corresponding period last year while textile and other manufacturer group witnessed increase during the period under reference. The price and quantum effects of selected export items show mixed trends (Table-2).

**Table-2: Percent Changes and Price & Quantum Effects of Selected Export Items**

| Commodities | % Change in | | | | (US$ Million) |
|---|---|---|---|---|---|
| | Unit price | Quantity | Price Effect | Quantum Effect | Total Effect |
| Rice | 4.2 | -10.5 | 39 | -108 | -70 |
| Fruits | -16.7 | 22.2 | -45 | 49 | 4 |
| Cotton Yarn | -7.3 | -20.5 | -32 | -112 | -143 |
| Cotton Cloth | 57.7 | -41.5 | 342 | -421 | -78 |
| Knitwear | -20.8 | 47.2 | -486 | 748 | 263 |
| Bed wear | 20.3 | -3.3 | 235 | -39 | 196 |
| Readymade Garments | 79.9 | -41.3 | 662 | -583 | 78 |
| Footballs | 14.6 | -32.8 | 8 | -27 | -19 |
| Leather Garments | -3.7 | 0.6 | -6 | 8 | 2 |
| Pharmaceutical Products | -6.1 | 31.6 | -9 | 35 | 27 |
| Cement | -13.8 | 1.6 | -23 | 20 | -2 |

*Source: Pakistan Bureau of Statistics*

Textile sector's exports receipts of value-added products like bed wear and readymade garments etc. increased during the period due to increase prices however their export quantity declined. There is significant increase in export receipts of fruits, tobacco, oil seeds, nuts and kernals, meat and meat preparations and all other food items. An increase has been registered in export receipts of pharmaceutical products. Due to lockdowns in most of the countries production has been halted and prices of some of the commodities went up at international level especially for some of the textile sector's products.

Overall output of Large Scale Manufacturing (LSM) has considerably rebound during July-Nov 2020 both on month-on-month and year-on-year basis by 14.4 percent and 7.4 percent respectively. Because of gradual easing of lockdown and opening up of production in the country, growth in almost all of the sectors has turned into positive i.e. textile, food, pharmaceuticals, chemicals, automobiles etc. There is need to tap this opportunity of demand shift from different countries facing lockdown towards Pakistan and moreover, consistent efforts are required to achieve growth and gain benefits out of competitiveness achieved from depreciation of rupee.

## Imports

Imports increased from US$ 22,136 million in Jul-Dec FY20 to US$ 23,207 million during Jul-Dec FY21, showing an increase of 4.8 percent. The import bill of few groups i.e. food, machinery, transport, textile, metal group and miscellaneous has increased. On the

contrary, import bill of petroleum groups showed a decline. The price and quantum effects of selected import items show mixed trends (Table-3).

**Table-3: Percent Changes and Price & Quantum Effects of Selected Import Items**

| Commodities | % Change in | | | | (US$ Million) |
|---|---|---|---|---|---|
| | Unit price | Quantity | Price Effect | Quantum Effect | Total Effect |
| Tea | -6.9 | 34.1 | -21 | 78 | 57 |
| Palm oil | 22.8 | 7.5 | 206 | 63 | 269 |
| Pulses | 3.7 | 12.9 | 10 | 32 | 42 |
| Petroleum Products | -43.2 | 47.4 | -1,652 | 1,229 | -422 |
| Petroleum Crude | -35.0 | 14.8 | -711 | 263 | -448 |
| Raw Cotton | -8.5 | 568.8 | -50 | 495 | 445 |
| Synthetic Fiber | -24.4 | 66.3 | -91 | 149 | 58 |
| Synthetic & Artificial Silk Yarn | -26.3 | 59.4 | -114 | 162 | 48 |
| Fertilizer Manufactured | -2.2 | -23.2 | -7 | -100 | -108 |
| Plastic Materials | -13.7 | 36.8 | -177 | 348 | 171 |
| Iron and Steel Scrap | -9.5 | 30.0 | -99 | 242 | 143 |
| Iron and Steel | -12.0 | 27.8 | -117 | 212 | 95 |

*Source: Pakistan Bureau of Statistics*

The imports of all the groups maintained an increasing trend on month on month basis mainly due to recovery of the textile sector and allied industries after Covid-19 pandemic.

**b. Services Account**

The deficit of trade in services declined by around 42.4 percent and stood at US$ 977 million during Jul-Dec FY21 compared to US$ 1,697million in the same period of FY20. Export of services witnessed a rise of 0.3 percent and stood at US$ 2,844 million while imports of services declined by 15.7 percent and stood at US$ 3,821 million during Jul-Dec FY21.

There is decline in exports of transport, travel, construction, personal, cultural & recreational, maintenance & repair and government goods and services i.e. logistic support. However, export of, insurance & pension, charges for the use of intellectual property, financial services, telecommunication, computer & information services increased during the period.

Similarly, imports of transport, travel, construction, insurance & pension, personal, cultural & recreational services and government goods and services i.e. logistic support declined whereas import of maintenance and repair, financial, charges for the use of

intellectual property, telecommunication, computer & information, and other business services increased.

### Balance on Secondary Income - Remittances

Workers' remittances have provided much needed support to external sector of the economy especially, over the last few years. Inflow of remittances sustained positive growth during Jul-Dec FY21 and stood above the total exports receipts of the country during the period. Workers' remittances recorded inflows of US$ 14,203 million during Jul-Dec FY21 against US$ 11,371 million in the same period of FY20, thus registering an enormous increase of 24.9 percent.

The increase in inflows can be attributed to supportive policy measures taken by the State Bank and the Government of Pakistan which include reducing the threshold for eligible transactions from US$ 200 to US$ 100 under the Reimbursement of Telegraphic Transfer (TT) Charges Scheme, an increased push towards adoption of digital channels, and targeted marketing campaigns to promote formal channels for sending remittances.

### Foreign Direct Investment

Foreign Direct Investment being non-debt creating financial inflows, supports the balance of payments. Net foreign direct investment declined during first six months of FY21 compared to the corresponding period of FY20. China remained the major contributor and power sector attracted the larger share of inflows.

During Jul-Dec FY21, net FDI stood at US$ 952.6 million registering a decrease of 29.8 percent compared to US$ 1,357 million recorded in Jul-Dec FY20. On month-on-month basis, net FDI decreased by 18.5 percent from US$ 302.8 million inflows during November 2020 to US$ 246.7 million in December 2020. Net inflow of foreign direct investment during December 2020 remained below the FY20 monthly average of US$ 273.8 million.

China replaced Netherlands during Dec FY21 and became the major contributor with US$ 53.7 million with 27.7 percent share in total FDI. Netherlands was the major contributor in Nov FY21 however due to net outflows during November 2020, Netherlands' investment share declined to 6.3 percent as compared to last month. Hongkong remained the second largest contributor with 15.9 percent share. The other major contributors are Netherlands, United Kingdom and United States with shares of 6.3%, 6.8% and 14.3% respectively.

During Jul-Dec FY21, power sector attracted more inflows with the share of 45.9% of total FDI inflows. The other recipient sectors include communications (7.5%), electrical machinery (3.9%), oil & gas exploration (8.7%) and construction (2.1%). Investment in power sector witnessed a net inflow of US$ 869.8 million during Jul-Dec FY21 compared to the net inflow of US$ 138 million recorded in the corresponding period of FY20. In power sector, investment in coal registered net inflow of US$ 252.2 million.

**Foreign Exchange Reserves and Exchange Rate:**

The Average exchange rate during December 2020 remained at Rs. 169.4, compared to Rs. 167.1 during December 2019 depicting a depreciation of Rupee by 1.3 percent. FDI witnessed net inflows whereas FPI recorded net outflows. Moreover, due to large net acquisition of financial assets and lesser net liabilities, other investment also witnessed outflows. As a result of these developments, financial account recorded slight inflows during the period. Current account surplus of US$ 1,131 million, capital inflows of US$ 132 million and financial outflows of US$ 49 million resulted into addition of US$ 1,279 million in SBP's liquid foreign exchange reserves during Jul-Dec FY21. The year on year basis change shows that net reserves with SBP increased by 18.3 percent and stood at US$ 13.4 billion by the end of December 2020 compared to 11.3 billion for the same period of corresponding year.

**Conclusions:**

The overall external account position improved during Jul-Dec FY21. The first six months of the fiscal year witnessed current account surplus primarily due to increased inflow of workers' remittances. Current account surplus resulted in net addition in SBP's liquid foreign exchange reserves.

- Although global economic slowdown and lockdown at home contributed to the overall deterioration in the exports performance however they started recovering from the negative impact of Covid-19 pandemic. Some of our major export items recorded double digit proportionate increase, including Textile sector.
- Large Scale Manufacturing (LSM) has slightly rebounded during Dec 2020 because of gradual easing of lockdown and opening up of production in the country. There is need to tap this opportunity of demand shift from different countries facing lockdown towards Pakistan.
- The imports increased owing to revival of textile and construction industry and low prices of commodities at international level,

- Inflow of remittances sustained positive growth and recorded historical inflows despite global economic slowdown and layoffs. They stood above the total exports receipts of the country.
- FDI rebounded to record significant net inflows primarily from China and in power sector.